Overseas Development Institute

The global financial crisis and developing countries

Phase 2 synthesis

Dirk Willem te Velde, Medani M. Ahmed, Getnet Alemu, Lawrence Bategeka, Massimiliano Calí, Carlos Castel-Branco, Frank Chansa, Shouro Dasgupta, Marta Foresti, M. Hangi, Lutangu Ingombe, Ashiq Iqbal, Hossein Jalilian, Luis Carlos Jemio, François Kabuya Kalala, Jodie Keane, Jane Kennan, Towfiqul Islam Khan, H.B. Lunogelo, Isabella Massa, A. Mbilinyi, Dale Mudenda, Francis M. Mwega, Manenga Ndulo, Osvaldo Nina, Rodério Ossemane, Mustafizur Rahman, Glenda Reyes, Sarah Ssewanyana, Leni Wild and others

Working Paper 316

Results of ODI research presented in preliminary form for discussion and critical comment

Working Paper 316

The global financial crisis and developing countries

Phase 2 synthesis[1]

March 2010

Overseas Development Institute
111 Westminster Bridge Road
London SE7 1JD
www.odi.org.uk

1 This paper is part of a wider research project coordinated by the Overseas Development Institute (ODI) London. We are grateful to the UK Department for International Development (DFID) and the Swedish International Development Cooperation Agency (Sida) for support, however the views expressed are those of the authors and they do not necessarily reflect the views of DFID, Sida or ODI.

ISBN 978 1 907288 22 7
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917

Contents

Figures, tables and boxes iv
Acknowledgements v
Acronyms vi
Executive summary vi

1. Introduction 1
2. The effects of the global financial crisis: Key transmission mechanisms 3
   2.1 Private capital flows 3
   2.2 Trade and sector effects 9
   2.3 Remittances and migration 19
   2.4 Aid 22
   2.5 Summary: BoP effects 22
3. Growth and development effects 24
   3.1 National-level growth, investment and employment 24
   3.2 Fiscal effects 25
   3.3 Poverty and distributional effects 26
4. Policy responses 28
   4.1 Macroeconomic policies to manage the impact of the crisis 28
   4.2 Social policies to respond to the impact of the crisis 28
   4.3 Economy-wide and sectoral structural policies for getting the country out of the crisis 29
   4.4 Institutional context and constraints of policymaking 29
5. The impact of the crisis: What have we learned? 31
   5.1 Crisis-resilient growth 32
   5.2 Fiscal stance 33
   5.3 Promoting flexible institutions 34
   5.4 Promoting diversification 34
   5.5 Did exposure to emerging markets help low-income countries weather the effects of the global financial crisis? 35

References 37
Annex 1: Text tables 38

Figures, tables and boxes

Figure 1: Mapping out the effects of the global crisis and policy responses 2
Figure 2: Zambia net foreign portfolio inflows, 2008-2009 (US$ millions) 4
Figure 3: Nairobi Stock Exchange 20 Share Index, Mar-Sep 2009 5
Figure 4: Lusaka Stock Exchange All Share Index, 2008-2009 5
Figure 5: Cambodia FDI inflows, 1992-2009 6
Figure 6: Zambia selected financial soundness indicators, Jun 2008-Sep 2009 (%) 8
Figure 7: Zambia banks' profitability indicators, Jun 2008-Sep 2009 (%) 8
Figure 8: Trade balance in Zambia, 2008-2009 (US$ millions) 14
Figure 9: Inflationary trends in Bangladesh, 2006-2009 (%) 17
Figure 10: Bolivian exchange rate developments, 2004-2009 (% change) 18
Figure 11: Riel/US dollar, 2007-2009 (year-on-year % change) 18
Figure 12: Remittance inflows in Bangladesh – the exception 19
Figure 13: Remittance inflows to Ethiopia, 2006-2009 (year-on-year % change) 21
Figure 14: Number of persons going abroad for work from Bangladesh, 2007-2009 21
Figure 15: International reserves in DRC, Jan 2008-Mar 2009 (in US$ end of the month) 23
Figure 16: 2009 real GDP growth forecasts (difference between IMF Oct 2009 forecasts and IMF Oct 2008 forecasts) 24
Figure 17: Cambodia real GDP growth, 1998-2010 (projected) (annual % change) 24
Figure 18: Countries with stronger growth rates in 2008 suffered a greater fall in 2009 25
Figure 19: Key components of vulnerability (= exposure – resilience) 32

Table 1: Private capital inflows in 2008 and 2009 affected during the global financial crisis in case studies 3
Table 2: Selected countries – domestic banking systems affected by crisis in 2008 and 2009 8
Table 3: Openness indicators 9
Table 4: Main exports and markets 10
Table 5: Cut flower exports to the EU, 2000-2009 11
Table 6: Leguminous vegetable exports to the EU, 2000-2009 12
Table 7: EU cut flower imports, 2008-2009 12
Table 8: Commodity price developments, 2006-Jan 2010 13
Table 9: Ethiopian coffee exports, 2007-2009 14
Table 10: Mining licences granted for mining activities in Tanzania, 2007-2009 16
Table 11: Kenyan imports c.i.f., 2007-2009 (US$ millions) 17
Table 12: Exchange rate and foreign exchange reserves in Kenya, 2008-2009 17
Table 13: Summary data on effects on remittances 20
Table 14: Expected poverty effects of the global financial crisis in 2009 27
Table 15: Relation of the case study countries to large emerging countries 35
Table A1: The global financial crisis and aid flows – evidence at the country level 38
Table A2: Balance of payments in case study countries 40
Table A3: Growth and sectoral effects 43
Table A4: Government revenue in 11 case studies 49
Table A5: Employment and poverty effects 53
Table A6: Policy responses to the crisis 57

Box 1: Changing market shares in US and EU markets 11
Box 2: Commodity dependence and budgeting (Sudan, Bolivia) 25

Acknowledgements

A team of 40 researchers from the Overseas Development Institute (ODI) and 10 developing countries embarked on a unique monitoring study on the effects of the global financial crisis over the period January-March 2009. They found that some effects had already become visible when the G-20 leaders met in London on 2 April 2009, but worse conditions were thought to be underway. The monitoring work has been updated (Phase 2) over the period July-December 2009 for 11 countries. The country studies and methodology are available from www.odi.org.uk/projects/details.asp?id=1041&amp.

The project inception meeting was held in London on 7 September 2009. The country teams held workshops during October-December 2009, in Ethiopia, Zambia, Tanzania, Kenya and Bolivia. Preliminary findings were also discussed in Nairobi (African Economic Research Consortium (AERC) meeting), Washington, London and Stockholm. We are grateful for the comments received from participants.

We thank Loretta Curtin and Mahalia Rimmer for administrative work and for building the financial crisis network, and Khrisma Nayee and Lilia Stantcheva for research assistance. Roo Griffiths and Joanna Fottrell performed the considerable task of editing and laying out all the country papers.

We are grateful to the UK Department for International Development (DFID) and the Swedish International Development Cooperation Agency (Sida) for their support to Phase 2 of the monitoring work. In particular, we would like to thank Alan Winters, Lucia Hanmer, Sidney Augustin, Alan Whitworth, Johan Kiessling and Lisa Roman for comments and suggestions on the project as a whole. We are also very grateful to Sheila Page for her helpful comments.

Last, but not least, we would like to thank the researchers in each country study, without whom there would not have been such a detailed record and narrative of how the crisis affected these countries.

Contributors to the country case studies include:

Bangladesh: Professor Mustafizur Rahman, Md. Ashiq Iqbal, Towfiqul Islam Khan and Shouro Dasgupta, Centre for Policy Dialogue (CPD) *funded by DFID.* Contributors: Mr. Tapas Kumar Paul, Mr. Ashiqun Nabi, and Hasanuzzaman.
Bolivia: Luis Carlos Jemio and Osvaldo Nina, Institute for Advanced Development Studies (INESAD) *funded by Sida.*
Cambodia: Dr. Hossein Jalilian and Glenda Reyes, Cambodia Development Resource Institute (CDRI) *funded by DFID.* Contributor: Mr. Saing Chan Hang.
Democratic Republic of Congo: Professor François Kabuya Kalala, Université de Kinshasa, with Danny Cassimon, Institut Voor Ontwikkelingsbeleid en-Beheer, Antwerpen *funded by DFID.*
Kenya: Professor Francis M. Mwega, University of Nairobi *funded by DFID.*
Mozambique: Carlos Castel-Branco and Rodério Ossemane, Institute for Social and Economic Studies (IESE) *funded by DFID.*
Ethiopia: Dr. Getnet Alemu, Addis Ababa University *funded by Sida.*
Sudan: Medani M. Ahmed, University of Khartoum *funded by Sida.*
Tanzania: Dr. H.B. Lunogelo, A. Mbilinyi and M. Hangi, Economic and Social Research Foundation (ESRF) *funded by Sida.*
Uganda: Sarah Ssewanyana and Lawrence Bategeka, Economic Policy Research Centre (EPRC) *funded by Sida.*
Zambia: Manenga Ndulo, Dale Mudenda, Lutangu Ingombe and Frank Chansa, University of Zambia *funded by Sida.*

For futher information, please contact ODI Research Fellow Dirk Willem te Velde (dw.tevelde@odi.org.uk).

Acronyms

ADB	Asian Development Bank
ADP	Annual Development Plan (Bangladesh)
AERC	African Economic Research Consortium
AfDB	African Development Bank
BIS	Bank for International Settlements
BoP	Balance of Payments
BRIC	Brazil, Russia, India, China
CAR	Capital Adequacy Ratio
CDRI	Cambodia Development Resource Institute
CPD	Centre for Policy Dialogue (Bangladesh)
DAC	Development Assistance Committee (OECD)
DFID	UK Department for International Development
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Commission
EITI	Extractive Industries Transparency Initiative
EIU	Economist Intelligence Unit
EPRC	Economic Policy Research Centre (Uganda)
ESF	Exogenous Shocks Facility
ESRF	Economic and Social Research Foundation (Tanzania)
EU	European Union
FDI	Foreign Direct Investment
f.o.b.	Free on Board
FY	Fiscal Year
GDP	Gross Domestic Product
IDA	International Development Association
IESE	Institute for Social and Economic Studies (Mozambique)
IFI	International Financial Institution
ILO	International Labour Organization
IMF	International Monetary Fund
INESAD	Institute for Advanced Development Studies (Bolivia)
IPO	Initial Public Offering
ITC	International Trade Centre
MDTF	Multi-Donor Trust Fund
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
NPL	Non-performing Loan
NSE	Nairobi Stock Exchange
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
RDB	Regional Development Bank
RMG	Readymade Garments
ROA	Return on Assets
ROE	Return on Equity
SDR	Special Drawing Rights
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium-Sized Enterprises
UK	United Kingdom
UN	United Nations
US	United States
USITC	US International Trade Commission
VAT	Value-Added Tax
WDI	World Development Indicators (World Bank)
y-o-y	Year-on-Year

Executive summary

When the global financial crisis broke out in earnest in September 2008, it quickly became clear that developing countries would also be affected, but that the impacts would vary markedly. The Overseas Development Institute (ODI) coordinated a multi-country study over January-March 2009 involving developing country teams in 10 countries. This showed that, while the transmission mechanisms were similar in each (trade, private capital flows, remittances, aid), the effects varied by country, and much was not yet visible. As such, further country-specific monitoring was required. Most findings suggested that, as a result of time lags, the worst effects were yet to come. This synthesis of the effects of the global financial crisis on developing countries updates the description of the economic and social situation during the course of the crisis in 11 countries.

The synthesis includes a series of easy-to-read comparative tables of how the 11 countries have been affected. Below we summarise some key facts.

Portfolio flows were hit particularly hard by the crisis in late 2008 and early 2009 which points to the fact there *was* (global) financial contagion effect: a flight to safety everywhere. In Bangladesh, $159 million worth of portfolio investment was withdrawn in FY 2008/09. The Nairobi Stock Exchange (NSE) 20 Share Index had declined by 46% by February 2009 compared to the previous year. In Sudan, portfolio investment fell from $30.5 million in 2007 to -$33.4 million in 2008. In Zambia, portfolio investment in equities and government securities have been adversely affected by the global crisis and the resulting fall in copper prices over 2008. Net flows truned negative in 2008 and remained to until at least September 2009.

However, there have been some signs of a recovery since the second quarter of 2009. In Bangladesh, portfolio investment outflows reduced to $25 million in July-August of FY2009/10. In Kenya, the NSE 20 Share Index recovered by 17.5% between March and June 2009, even though it slumped again by 8.8% in the period July-September 2009 In Zambia, the net position in portfolio investment slowly improved from April-July 2009, but reversed again in August. The All Share Index rose from 2143.4 points at the end of the first quarter of 2009 to 2615.8 points at the end of August 2009. Stock market capitalisation increased by 22% from April-August 2009. In Tanzania, total stock market turnover increased by 228% between Q2 and Q3 of 2009.

FDI long regarded as resilient to the crisis fell dramatically in several countries. In Cambodia, net FDI inflows fell by 50% in 2009, hitting in particular the garment and tourism sectors. In Bolivia, FDI flows reduced sharply in the fourth quarter of 2008 and this pattern continued in the first two quarters of 2009. In DRC, FDI decreased sharply from $1713 million in 2008 to $374 million in 2009. Uganda experienced a drop in FDI by 6.2% in 2007/08-2008/09. In Ethiopia, FDI flows declined by 31% from Q2 of 2008 to Q1 of 2009. The Tanzania Investment Centre recorded a drop of about 30% in the value of new investments during the first half of 2009 compared with the same period in 2008.

Banking stresses *did* become visible in low income countries. In Tanzania, the average capital adequacy ratio (CAR) stood well above its benchmark. In Kenya, the CAR stood well above the minimum required. However, the NPLs/assets ratio, which had declined significantly in 2008, increased from 3.4% in August 2008 to 3.7% in August 2009. The non-performing loans (NPLs) to total assets ratio almost doubled in Zambia, from 7% in the first quarter of 2009 to 13% in the third quarter of 2009.

Remittances grew substantially up to 2008 in all case studies (for which there were data), but the crisis led to a decline or greatly reduced growth in remittances during the second half of 2008 (Bolivia, Kenya, Uganda) and/or at the beginning of 2009 (Bangladesh, Bolivia, Ethiopia). Remittances in Bolivia were down by 8% in first three quarters of 2009 compared to the same period last year. Bangladesh was the only country for which remittances have continued to grow throughout the period (22% in FY 2008/9 compared to a year ago), although at a lower rate than in the pre-crisis period.

Trade declines were visible in a wide range of sectors. Garment export values in Cambodia were down by 19% for the first nine months of 2009 compared with the same period in 2008; volumes over the same period declined by about 16%. In the case of Ethiopia, declines in wholesale market prices for cut flowers in the Netherlands meant that the country earned only 47% of a projected $280 million from flower exports in FY2008/09, which resulted in the inability of some producers to service debts to the Development Bank of Ethiopia. Between January and August 2009, Kenyan horticultural exports declined by 35% in volume terms compared with the same period in 2008. There was a reported 10% decline in the number of tourists arriving in mainland Tanzania in January to April 2009 compared with January to April 2008. Consequently, the revenue obtained from arrivals declined to $302.1 million in the period January to April 2009 compared with $388.2 million for the same period in 2008. Oil accounts for more than 95% of Sudan's total exports. As a result of reduced oil prices on world markets, it was projected the total value of Sudan's exports would decline from $12.9 billion in 2008 to $5.3 billion in 2009. In Mozambique, the value of exports of goods between January and September 2009 fell by 37% compared with the same period in 2008

Reserves in some countries had become dangerously low. By end of February 2009, gross official reserves in DRC had plunged to a level of $33 million, the equivalent of less than 1 day of imports. IMF support (ESF) helped to raise the reserves to nearly 2 weeks of imports.

The growth effects are highly varied. Cambodia saw a double digit growth rate reduce to zero in 2009. Kenya has had a low growth rate of 2% last year, compared to 7% in 2007, although other crises play a role as well. Uganda, Zambia and Tanzania saw their growth rate reduce by much less.

Employment effects due to the crisis were mostly apparent in garment and mining sectors. At least 25,000-30,000 garments workers lost their jobs in the last eight months of 2009 in Bangladesh. Cambodia lost 102,527 jobs (either permanently or temporarily) over the period since September 2009, or one-third of the garment employment. Zambia lost 10,000 out of 30,000 jobs although some lost ground has been made up. Three quarters of artisanal miners in DRC, or some 18,000, lost their jobs (dominated mainly by Chinese small scale enterprises). 44 out of 75 mining companies in Katanga had closed by March 2009 after the fall in mineral prices.

However, overall, with a few exceptions effects were manageable on a macro scale. For example, despite a weakening current account, and severe effects in Zambian mining, the economy grew at 6.2% per annum. There is also positive news from the crisis. Remittances to Bangladesh increased markedly throughout the crisis. Tanzania's gold exports saw prices increase while prices of oil imports fell. Aid has continued to increase in most countries

Emerging markets helped low income countries during the crisis. China is an important or the most important donor in Cambodia and Sudan, and is becoming important in Kenya, and it played a key role during the crisis in these countries. At the China–Africa summit in November 2009, China's Premier pledged $10 billion in new low-cost loans to Africa over the next three years, double the commitment made in the 2006 summit. China is a key export destination for Sudan, Zambia and DRC, although it is a competitor in third markets for garments from Bangladesh and Cambodia. China is a key (private) investor in Cambodia, DRC, Sudan and Zambia. The economic position of other emerging countries (Brazil, Russia, India, China) is also important for low-income countries. Brazil imports gas from Bolivia, South Africa is responsible for remittances to and exports from Mozambique and Russia is an emerging destination for Cambodian garments, Tanzanian tea and Ethiopian flowers. India has links in most countries: Sudan (financing deficit); Tanzania and Mozambique (cashew nuts imports) and Zambia (FDI).

In the rest of this executive summary, we focus on the key implications of the research:

- The effects are larger and smaller than expected depending on the underlying perspective one takes. Compared with original suggestions that developing countries would somehow be shielded from the financial crisis, the effects are likely to be very large, with some 50-100 million new poor people. But the effects on average are manageable (e.g., on the basis of recent International Monetary Fund (IMF) data and forecasts, **sub-Saharan African gross domestic product (GDP) will have lost 7% by the end of 2010 compared with forecasts pre-crisis, or some US$84 billion**), with some outliers (Cambodia and certain oil and mineral exporters, such as the Democratic Republic of Congo (DRC), which needed external support). For individual countries, this is not very large compared with previous domestic shocks, although the global nature and scale of this shock have been unprecedented since the Great Depression in the 1930s.
- While all countries are being affected by the financial crisis, it should immediately be added that **the impact is highly varied**, from very small or no macro effects in some countries (even though disaggregated effects at sector level and in some groups may be visible) to very large effects in others.
- Financial transmission mechanisms to low-income countries initially appeared limited, and attention quickly focused on the real (trade and remittance) transmission mechanisms; however, **it is now clear that bank lending, stock market contagion and worsening banking systems did propagate the crisis**. One lesson is that some low-income countries are more integrated financially than is often thought.
- Another myth expelled by the crisis is that foreign direct investment (FDI) is always resilient in crises (or more resilient than other flows). In fact, **FDI fell significantly** in countries such as the DRC (even before security problems occurred), Cambodia and Bolivia. In some other countries, such as Uganda and Kenya, portfolio flows changed quickly.
- While certain types of openness have left countries more exposed to crisis, this may not always have meant increased vulnerability, as some countries have also become more resilient (e.g. Tanzania and Bolivia through good macroeconomic management, including using mineral resources to build up reserves). It is important that countries **promote crisis-resilient growth**, as in this way they are better prepared for recovery.
- In particular, **diversification (products and destinations) is important** for growth and resilience to crises. This should be promoted and could draw more attention than has previously been the case – of course in a market-friendly way, so that new policy interventions are not completely delinked from private sector needs. It may also be important to diversify sources of capital flows, such as FDI inflows. For example, Chinese FDI is now making up for some of the losses in mining in Zambia.
- **Good macroeconomic management** allows more scope for policy responses later. This requires good institutions in managing finances.
- Indeed, the crisis highlights that **flexible institutions** are important in dealing with crises. There are examples of task forces that led to policy responses to the crisis in Bangladesh, Tanzania and Mauritius, and these were set in a more institutionalised way.
- This global financial crisis has increased the importance of **links between emerging markets and low-income countries**.
- **Policy responses in many country case studies were well designed** (even though in the previous phase we asked why there had been no responses): they used fiscal, financial and monetary policies to address short-run economic management (fiscal policies constrained by resources; monetary policies lagged owing to previous inflationary pressures), and they did not engage in major policy reversals. In fact, so-called 'doing business' reforms continued.
- Protectionism did not affect the case study countries much, and **trade finance was not mentioned as a binding constraint to trade**.

1. Introduction

When the global financial crisis broke out in earnest in September 2008, it quickly became clear that developing countries would also be affected, but that the impacts would vary markedly. The Overseas Development Institute (ODI) coordinated a multi-country study over January-March 2009 involving developing country teams in 10 countries. This showed that, while the transmission mechanisms were similar in each (trade, private capital flows, remittances, aid), the effects varied by country, and much was not yet visible. As such, further country-specific monitoring was required. Most findings suggested that, as a result of time lags, the worst effects were yet to come. This paper provides an update on the effects of the global financial crisis on developing countries by updating the description of the economic and social situation during the course of the crisis in 11 countries.

Phase 2 of the country case studies, which ran from July-December 2009, aimed to:

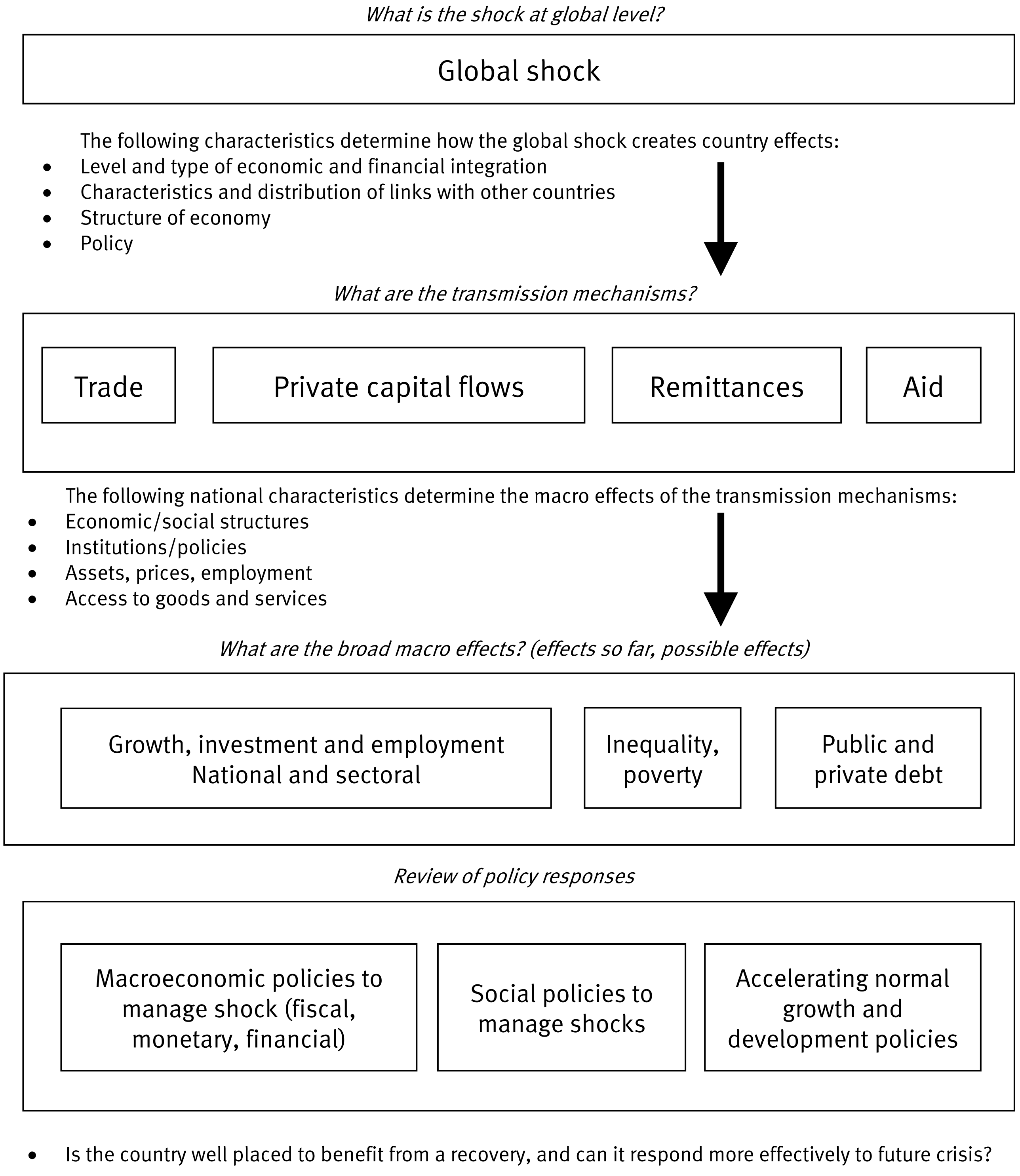
- Update information on the effects of the global financial crisis, based on the methodology developed in Phase 1, by examining the following transmission belts: private financial flows (splitting out portfolio flows, foreign direct investment (FDI) and international bank lending); trade (imports and exports); remittances; and aid.
- Update information on economic (growth) and social (employment and poverty) effects.
- Continue to monitor policy responses.

Figure 1 illustrates the main building blocks of the methodology used:

- The global shock;
- Transmission mechanisms at country level;
- Effects on growth, investment, sectors, poverty and inequality at country level;
- Domestic policy responses.

This synthesis is accompanied by a methodology paper.

Figure 1: Mapping out the effects of the global crisis and policy responses



2. The effects of the global financial crisis: key transmission mechanisms

The country case studies describe what happened to key transmission mechanisms during the global financial crisis in 2008 and 2009. Often, this is a before/after comparison. Sometimes, a deeper analysis has been provided, but we should acknowledge the difficulties in estimating the effects of the global financial crisis with so few data, when many of the case study countries have also been hit by other crises, such as high food and fuel prices or political crises and conflict.

The sections below discuss the transmission mechanisms.

2.1 Private capital flows

The country case studies distinguish among three different categories of capital flows: portfolio investment,[2] FDI and international bank lending. The evidence on these three components suggests that:

1. Portfolio investment flows experienced dramatic drops and sometimes shifted to large net outflows in 2008 and early 2009, but in a few countries (Bangladesh, Kenya, Zambia, Tanzania) they seem to have started to rebound slowly since the second quarter of 2009.
2. FDI, which was expected to be more resilient than other private capital flows to the adverse shocks of the crisis, experienced sharp declines in Cambodia, Bolivia, the Democratic Republic of Congo (DRC), Uganda, Ethiopia and Sudan from mid-2008 and over 2009.
3. There is little evidence of a drop in international bank lending up to 2009 in the country case studies.

Table 1 summarises the types of private capital flows through which the crisis affected the selected countries under study in 2008 and 2009.

Table 1: Private capital inflows in 2008 and 2009 affected during the global financial crisis in case studies

	FDI		Portfolio investment		International bank lending	
	2008	2009	2008	2009	2008	2009
Bangladesh	No	Yes	Yes	Yes*	No	
Bolivia	Yes	Yes	Yes	Yes	No	
Cambodia	Yes	Yes	N/A	N/A	No	
DRC	No	Yes	Yes			
Ethiopia	Yes	Yes	N/A	N/A		
Kenya	No	No	Yes	Yes*	No	No
Mozambique	No	No				
Sudan	No	Yes	Yes		No	No
Tanzania	No	No	No	Yes*	No	No
Uganda	No	Yes	Yes		No	
Zambia	No	No	Yes	Yes*	No	

Notes: 'Yes' if given private capital flows were transmission mechanisms of the crisis in a given country; 'No' otherwise. *Denotes signs of recovery since 2009Q2. Empty cells mean information has not been provided.
Source: Based on country case studies.

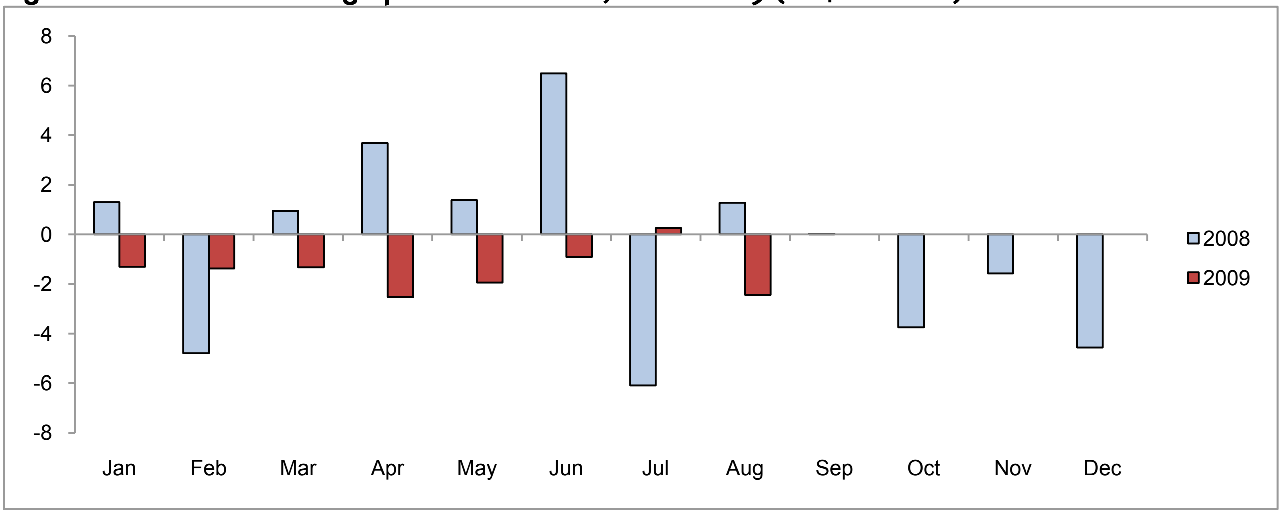
2.1.1 Portfolio investment

Portfolio flows were hit particularly hard by the crisis over 2008 and early 2009.

2 Portfolio investment includes portfolio equity flows and bonds flows.

- In Bangladesh, $159 million worth of portfolio investment was withdrawn in FY 2008/09.[3]
- In Bolivia, portfolio investment dropped sharply in Q4 of 2008 and continued to decline in the first two quarters of 2009.
- In Kenya, net portfolio equity flows declined significantly in June 2008, when they experienced an outflow worth $48 million. This fall coincided with the collapse of the Nairobi Stock Exchange (NSE) 20 Share Index which, by the end of February 2009, had declined by 46% in comparison with the previous year. The declining trend of the price-to-earnings ratio, from 19.8 at the beginning of 2008 to an average value of 9.3 in March 2009, further points to a significant decline in investor confidence in the Kenya equity market. In 2009, several initial public offerings (IPOs) were postponed. On the other hand, bond flows appear to have been more resilient to the crisis, thanks to the support provided by local investors and the reduced withholding tax charged on interest income earned from long-term bonds, agreed in the government 2009/10 budget. In 2009, several bond issues were oversubscribed. For example, a 12-year KSh18.5 billion bond issued by the government to finance projects in energy, roads, water and sewerage was oversubscribed by 45%.
- In DRC, share prices of mining companies collapsed in the latter part of 2008.
- In Sudan, portfolio investment fell from $30.5 million in 2007 to -$33.4 million in 2008. Mainly portfolio equity flows to Sudan were hit, while share prices of the few companies and banks registered in both Sudanese and Gulf State stock markets collapsed. Sudanese stock market capitalisation (in local currency) contracted by about 16% between 2007 and 2008.
- In Zambia, portfolio investment in equities and government securities have been adversely affected by the global crisis and the resulting fall in copper prices over 2008. Net flows were still negative for most months of data available in 2009 (see Figure 2).

Figure 2: Zambia net foreign portfolio inflows, 2008-2009 (US$ millions)



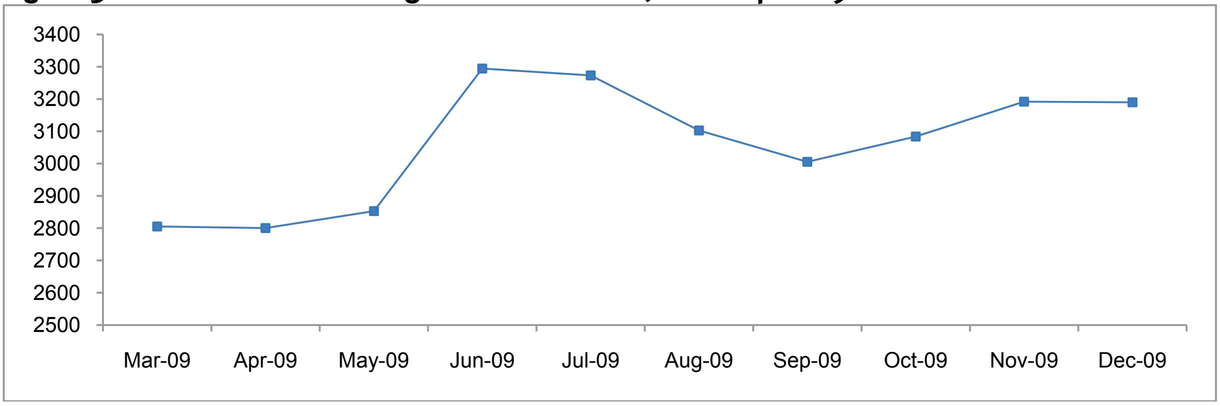
Source: Zambia case study.

However, since the second quarter of 2009, in some countries the first signs have appeared of a slow rebound in portfolio flows, consistent with the improvement in financial conditions in developed countries and emerging markets and the consequent reduced uncertainty and increased confidence.

- In Bangladesh, portfolio investment outflows reduced to $25 million in July-August of FY2009/10.
- In Kenya, the NSE 20 Share Index recovered by 17.5% between March and June 2009, even though it slumped again by 8.8% in the period July-September 2009 (see Figure 3).

3 The fiscal year in Bangladesh runs from 1 July to 30 June. A withdrawal of $159 million is more than the total amount of portfolio inflows ($154 million) to Bangladesh during FY2006/07 and FY2007/08.

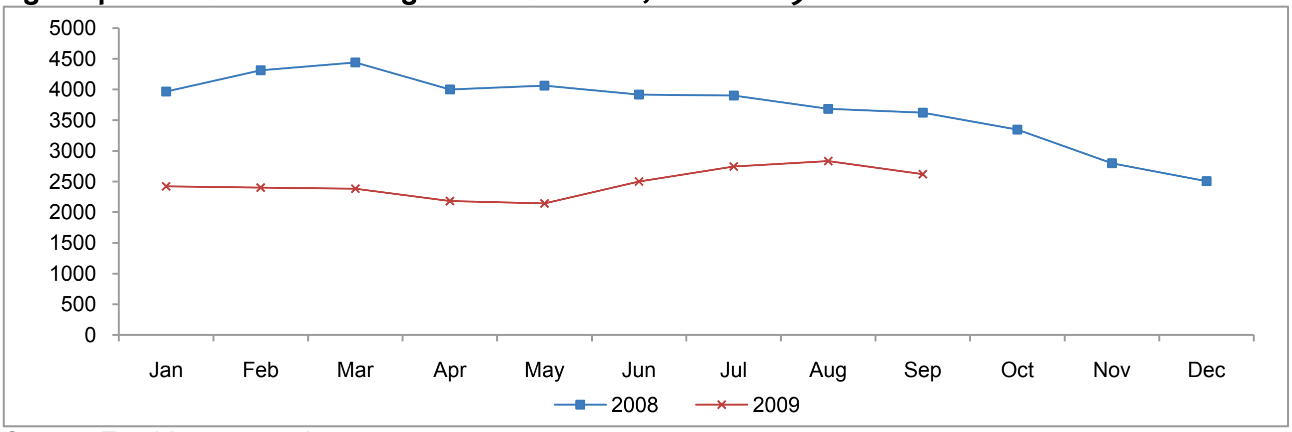
Figure 3: Nairobi Stock Exchange 20 Share Index, Mar-Sep 2009



Source: Kenya case study.

- In Zambia, the net position in portfolio investment slowly improved from April-July 2009, but reversed again in August (see Figure 2 above). The All Share Index rose from 2143.4 points at the end of the first quarter of 2009 to 2615.8 points at the end of August 2009, and is expected to continue to increase, mainly thanks to the recent upsurge in copper prices (see Figure 4 below). Stock market capitalisation increased by 22% from April-August 2009, even though it remained far below the historical high of $7779 million in June 2008, and stock market turnover is also expected to increase in the last quarter of 2009.
- In Tanzania, total turnover increased by 228% between Q2 and Q3 of 2009.

Figure 4: Lusaka Stock Exchange All Share Index, 2008-2009

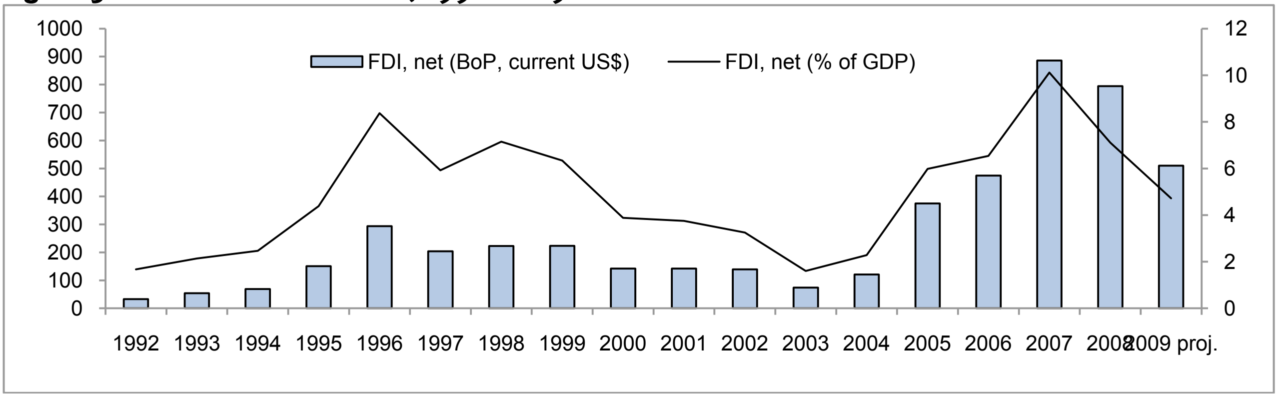


Source: Zambia case study.

2.1.2 Foreign direct investment

FDI inflows to developing countries were expected to be more resilient to the crisis shocks than other types of private capital flows and, in 2008, notwithstanding the world economic recession, they continued to grow, even though at a much slower rate than in the previous year. However, FDI to the developing world is likely to have fallen for the first year in the decade to 2009. The case studies highlight that a decline in FDI was already visible in a number of countries beginning in mid-2008, and this downward trend continued in 2009. In Cambodia, net FDI inflows experienced a significant drop in mid-2008 and are estimated to have fallen by 50% in 2009, hitting in particular the garment and tourism sectors (see Figure 5). In Bolivia, FDI flows reduced sharply in the fourth quarter of 2008 and this pattern continued in the first two quarters of 2009.

Figure 5: Cambodia FDI inflows, 1992-2009



Note: BoP = balance of payments. GDP = gross domestic product.
Source: Cambodia case study.

Some African countries have experienced sharp declines in FDI. In DRC, FDI decreased sharply to $374 million in 2009 from $1713 million in 2008. Uganda experienced a drop of 6.2% in 2007/08-2008/09. In Ethiopia, flows declined progressively from Q2 of 2008 to Q1 of 2009, when they were down by 31%, but seem to have rebounded in Q2 of that year. In Sudan, FDI is expected to decline in 2009 given adverse effects of the crisis on many key Arab investors, who have seen significant losses, especially in US and European stock markets, as well as declining oil revenues.

Nevertheless, there are still a number of countries where FDI inflows have continued to increase despite the crisis. This is the case, for example, for Kenya and Zambia. In the latter, however, because of the crisis, there was a switch in the direction of FDI flows, from the mining, energy and manufacturing sectors to the real estate, manufacturing and services sectors. Moreover, in Tanzania, despite the increase in FDI, a few planned investments were cancelled and postponed[4] in 2009, and the Tanzania Investment Centre recorded a drop of about 30% in the value of new investments during the first half of 2009 compared with the same period in 2008. In Mozambique, FDI increased significantly in January-September 2009, but a number of investment projects have been withdrawn or postponed, especially in the industry and tourism sectors.[5]

2.1.3 International bank lending

Data from the Bank for International Settlements (BIS) Consolidated Banking Statistics point to a drop of more than 13% in international banks' claims to developing countries in March 2009 compared with June 2008, when they reached their highest level. From March 2009 up to September 2009 there were modest signs of a slight recovery.

The case studies indicate that some countries were likely to be particularly exposed to a drop in international bank lending, since they were characterised by a high degree of foreign-owned banks. In Kenya, for example, financial reforms have encouraged foreign banks to enter and expand banking operations, so that in 2007 there were 11 foreign banks, which represented a quarter of all banks and accounted for about 40% of commercial banks' core capital. Nevertheless, there seems to be no evidence that the share of foreign banks changed in 2008 and 2009 because of the crisis or that foreign parent banks withdrew funds in Kenya in order to offset losses in home countries. It must be said that data from BIS do indicate such effects for African countries.

4 The Tanzania case study reports that a $3.5 billion investment plan in aluminium smelting, a $165 million nickel mining project, a Canadian investment in telecoms and a $250 million Swedish investment in ethanol were scaled down in 2009.
5 The Mozambique case study reports that the Corridor Sands titanium project in Chibuto, worth $700 million, was postponed. The iron company Arcelor Mitall suspended production in April 2009 and cancelled its expansion project. The Highland African Mining company suspended activities in May 2009, laying off 314 workers. In the tourism sector, nine touristic complexes have been affected by demand reduction, resulting in 106 workers losing their jobs.

On the other hand, there are countries where banks' ownership structure or country regulations meant that effects on international bank lending were limited, for example Sudan and Zambia.

2.1.4 Domestic banking systems

The country case studies also examined domestic banking systems, looking at how vulnerable these are to the crisis shocks and to what extent they have been affected by the crisis so far.

The Tanzania, Kenya and Cambodia case studies reported that their domestic banking systems had remained relatively sound in the face of the crisis, even though signs of strain became evident in 2008 and in particular in 2009, especially in Cambodia.

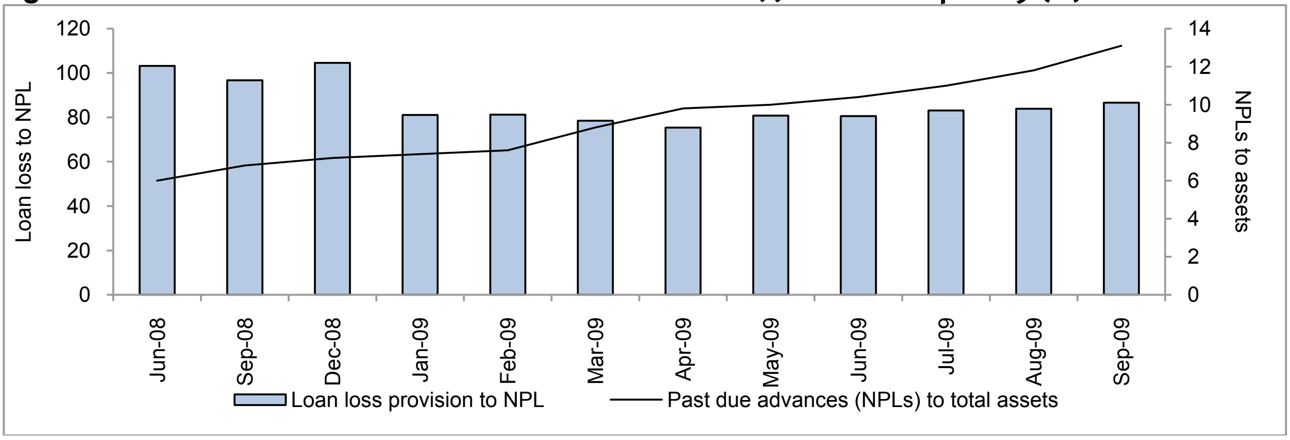
- In Tanzania, banks' profitability increased in 2009. The average capital adequacy ratio (CAR) stood well above its benchmark, and the gross non-performing loans (NPLs) ratio was well below the international standard. Moreover, bank lending to the private sector grew by about 27% during 2009 up to September.
- In Kenya, CARs stood well above the minimum required. However, the NPLs/assets ratio, which had declined significantly in 2008, increased from 3.4% in August 2008 to 3.7% in August 2009. Banks' profitability as measured by return on assets (ROA) decreased slightly, from 4.11% in 2007 to 4.03% in 2008.
- In Cambodia, liquidity ratios improved from 81% at end-2008 to 93% in August 2009, and CARs rose as well. Nevertheless, NPLs as a share of total loans increased from 3.7% at end-December 2008 to 5.9% in August 2009,[6] and are expected to reach a level of 10% by end-2009. Moreover, compared with 2008, growth of private sector credit was 4% by August 2009 on a year-on-year basis (which is low compared with previous years).

On the other hand, a number of country case studies stressed that the domestic banking sector was exposed to the shocks and was affected significantly by the crisis, especially in 2009.

- In Bolivia, bank lending increased at a slower rate in 2009 compared with the previous year, increasing the gap between total lending volumes and deposits.
- In Sudan, the ratio of NPLs to gross loans was high and the CAR declined sharply from 23% in 2007 to 11% in 2008.
- In DRC, banking finance dried up as a result of the crisis through weaker commodity prices.
- In Zambia, the banking sector was adversely affected by the crisis in 2009 because of its linkages with the tourism, mining and agriculture sectors. The NPLs to total assets ratio almost doubled, from 7% in the first quarter of 2009 to 13% in the third quarter of 2009. The loan loss provision to NPL ratio declined from 100% in December 2008 to 85% in September 2009 (Figure 6). Banks' profitability collapsed: the return on equity (ROE) significantly declined in the last two quarters of 2008 and continued to fall, from 24% in January 2009 to 20% in September 2009. ROA declined from 4% to 1.4% during the same period (Figure 7). The CAR also dropped from 19% in September 2008 to 16% in February 2009, but then increased continuously up to 20% in September 2009, probably pointing to a first sign of recovery in the banking system. Finally, in 2009 credit conditions became tighter and banks reduced their lending to households as well as sectors perceived to be risky, such as medium and small-scale enterprises, agriculture and manufacturing.

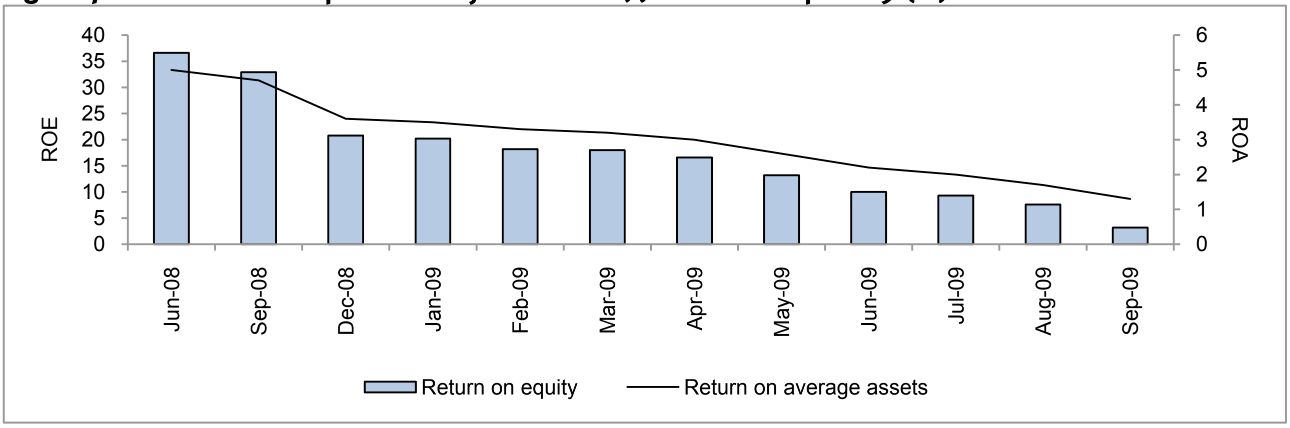
6 Note, however, that this is still a low level considering the past rapid expansion experienced by credit in Cambodia.

Figure 6: Zambia selected financial soundness indicators, Jun 2008-Sep 2009 (%)



Source: Zambia case study.

Figure 7: Zambia banks' profitability indicators, Jun 2008-Sep 2009 (%)



Source: Zambia case study.

Table 2 shows which countries have seen their domestic banking sectors become affected by the global economic and financial crisis over 2008 and 2009.

Table 2: Selected countries – domestic banking systems affected by crisis in 2008 and 2009

	2008	2009
Bangladesh		
Bolivia	No	Yes
Cambodia	No	No*
DRC		Yes
Ethiopia		
Kenya	No*	No*
Mozambique		
Sudan	Yes	Yes
Tanzania	No	No
Uganda		
Zambia	No	Yes

Notes: 'No' countries are classified as those with weak domestic banking systems and/or which experienced a deterioration in some of their banks' financial soundness indicators because of the crisis; 'Yes' countries are classified as those with sound domestic banking systems and/or which experienced an improvement in some of their banks' financial soundness indicators despite the crisis. *Denotes first signs of strain. Empty cells mean that information has not been provided.
Source: Based on country case studies.

2.2 Trade and sector effects

The case studies identify trade shocks transmitted through price and/or volume effects.[7] We expect countries more open to trade and finance to be more severely affected – recent data substantiate this for Cambodia. No country reported difficulties in trade finance, which Baldwin and Evenett (2009) initially claimed contributed to the October 2008collapse in global trade,[8] or an increase in protectionism in destination markets. We know now that trade finance did not play an major role.

However, demand continues to be weaker in some markets for some producers compared with others within the same product category: there is a clear export performance difference between Ethiopia and Kenya in horticulture and Bangladesh and Cambodia in garments. Commodity prices have yet to recover to pre-crisis peaks for some products, and investments in the minerals sector have been postponed (DRC, Zambia and Tanzania), with resultant employments effects.

The case studies suggest a differentiated impact across countries and within countries, across firms, in terms of: susceptibility to reduced consumer demand in crisis-affected markets (elasticities across product categories matter); and the ability to absorb the trade shock in terms of the nature of production (role of backward linkages, dependence on FDI), as well as concomitant actions taken by competitors (such as exchange rate depreciations). We present the key findings below.

2.2.1 Trade openness

The countries vary in terms of dependence on trade, openness to trade and finance and exchange rate management. Cambodia, Bolivia, Mozambique, Zambia, Uganda, Kenya and DRC are more at 'open' compared with Ethiopia, Sudan, Tanzania and Bangladesh (Table 3). However, all exhibit high dependence on a few commodities (accounting for 35% to 90% of total exports) or, in Cambodia and Bangladesh, a single product group: garments (knit and woven) (Table 4). All countries also have high dependence on a single market: the European Union (EU), US or China.

Table 3: Openness indicators

	Cambodia (2007)	Bolivia (2008)	Mozambique (2008)	Zambia (2008)	Uganda (2007)	Kenya (2007)	DRC (2008)	Ethiopia (2008)	Sudan (2008)	Tanzania (2006)	Bangladesh (2007)
Trade openness ratio[a]	0.7	0.41	0.37	0.36	0.27	0.3	0.28	0.2	0.22	0.25	0.25
Ito-Chinn Financial Openness Index[b]	1.27	1.22	-1.13	2.54	2.54	1.18	-	-1.13	-0.8	-1.13	-1.13
Exchange rate regime[c]	Man. float	Peg	Man. float	Indp. float	Man. float	Man. float	Indp. float	Peg	Man. float	Man. float	Fixed peg

Notes: a = Trade openness ratio calculated as a proportion of GDP (sum of imports and exports divided by two, then by GDP). The closer to 1 the more open to trade is the economy. b = Financial Openness Index is taken from Ito and Chinn (2007) calculated based on the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions – a higher value indicates greater financial openness. c = Based on *de facto* classification of exchange rate regimes and monetary policy frameworks IMF as of 31 April 2008.
Source: Data from World Development Indicators (WDI) for most recent year unless otherwise indicated.

7 The inventory effect arguably has more relevance for capital-intensive goods than low-skilled manufactures and traditional commodities. For firms in tightly integrated production networks, a sudden stop in final demand is expected to reverberate quickly, as firms run down their inventories to adjust to persistent changes in their market; this inventory effect magnifies demand shocks and is principally to blame for the initial collapse of trade in manufactures from September 2008 to June 2009 (Escaith, 2009).

8 The debate on the reasons for the unprecedented decline in global trade flows continues, however, the role of trade finance is being somewhat more downplayed (not least given the various types). Baldwin (in Beattie, 2010) notes that a fall in demand driven by the postponing of consumption was the chief cause of the decline in global trade flows from October 2008, in response to an expectations shock; others point out that increases in global trade to incomes elasticities since the 1980s amplified the recessionary impact on trade flows (Freund, 2009).

Table 4: Main exports and markets

Country	Main exports[a]	Share of total exports[b]	Major export market(s)[c]	Share of total exports[d]
Cambodia	Garments	83.2%	USA Hong Kong EU	49.7% 20.5% 20.2%
Sudan	Petroleum oils	89.7%	China	78.0%
Bangladesh	Garments	71.5%	EU USA	50.6% 26.8%
DRC	Cobalt and copper ores, diamonds	57.4%	EU China	39.7% 34.0%
Mozambique	Aluminium	58.7%	EU (Unspecified)	26.7% (46.0%)
Zambia	Copper	68.8%	(Unspecified)	44.5%
Bolivia	Natural gas	48.2%	Brazil	37.0%
Ethiopia	Coffee, sesame seeds	51.9%	EU	34.3%
Kenya	Tea, coffee, cut flowers, vegetables	36.8%	EU	28.7%
Uganda	Coffee, fish,	34.7%	EU	26.1%
Tanzania	Gold, fish, precious metal ores	50.0%	EU	21.9%

Notes: a = Determined at HS chapter level, but the descriptions shown are of the predominant export(s) within the chapters identified rather than necessarily of the chapters themselves. b = Share of total exports accounted for by the HS chapters into which the main exports in the previous column fall in the most recent three years for which data available: i.e. 2005-2007 own data for Bangladesh, Bolivia, Tanzania; 2005-2008 (excluding 2007) own data for Sudan; 2006-2008 own data for Ethiopia, Kenya, Mozambique, Uganda, Zambia; 2006-2008 mirror data for Cambodia, DRC. c = Any market accounting for 20% or more of total export value. d = For the same years as given in note (b), except for Cambodia, for which the share in this column is based on 2002-2004 own data.
Source: International Trade Centre (ITC) calculations based on UN ComTrade data, obtained from ITC Trade Map (on 5 January 2010).

2.2.2 Garments

Cambodia and Bangladesh both exhibit high dependence on readymade garment (RMG) exports (see Table 4). Phase 1 project outputs showed that Bangladesh had managed to increase its exports to the US since October 2008, whereas Cambodia's share had declined. This was also the case in the EU market. However, more recent data show that Bangladesh is now experiencing a decline in demand for its products in the US market; this suggests a lagged impact of reduced demand as well as increased competition from larger players such as China.

Bangladesh's RMG exports destined for the US market fell by almost one-third in value terms between January and October 2009, compared with the same period in 2008.[9] However, the EU is a far more important market for Bangladesh: in 2008/09 around 58.5% of total RMG exports from Bangladesh were destined for the EU.[10] RMG exports (in value terms) from Bangladesh have continued to grow in the EU market and were up 12% in July 2009 compared with July 2008, compared with increases of 5% in the same period for Chinese and Cambodian products.[11]

Cambodia's decline in garment exports continues to be steep. Data presented in the Cambodia case study suggest that export values were down by 19% for the first nine months of 2009 compared with the same period in 2008; volumes over the same period declined by about 16%. Exports (on a month-on-month basis) have fallen consistently since November 2008, and the decline continues to be steep: -24% growth in exports destined to the US in April 2009 compared with March 2009. Most recently reported import data from the US suggest that this decline is continuing. The Cambodian case study

9 According to the Bangladesh case study, a decomposition analysis of export growth dynamics (totals) reveals that most of the growth in 2008 to 2009 was achieved by means of an increase of volumes supplied at lower prices, the resultant impact being lower profit margins for exporters.
10 Compared with approximately 25% in Cambodia, which has a much higher dependence on the US market.
11 Calculated on the basis of HS61 and HS62.

also suggested underlying competitive issues contributing to the steep decline – e.g. the expiry of US/EU import safeguards against Chinese imports.

According to the Bangladesh case study, the continued decline in garment imports into the US market has been accompanied by changes in market shares among suppliers (see Box 1). Although Cambodia has clearly experienced a decline in the value of its exports to the US market, this decline has been less severe for Bangladesh and China, which has gained market share. Reductions in export volumes and values and changes in market share among producers are less apparent in the EU market. In general, in both markets, year-on-year seasonal variation is high, making it difficult to distinguish a clear declining trend at this time.

Box 1: Changing market shares in US and EU markets

China's share of the US market increased by almost 5% between January and September 2009; Bangladesh's increased marginally by almost 1%; Cambodia's declined by around 0.5% despite a 25% reduction in export values, which indicates the gravity of reduced demand in the US market. Competitors have not been able to make dramatic gains in market share because the market is contracting. As in the US market, China is by far the leading source of RMG in the EU market, and managed to increase its share in both 2008 and 2009. However, Bangladesh also managed to increase its market share in both years, and by a larger percentage in 2009 than China (1.3% compared with China's 0.4%).

Share and rank of suppliers in the EU market

	2007	2008	2009 (to Sep)	Rank 2009
China	37.7	42.6	43.0	1
Turkey	15.4	13.2	12.3	2
Bangladesh	7.6	8.0	9.3	3
India	6.6	6.6	8.0	4
Tunisia	4.4	4.3	4.1	5
Morocco	4.4	4.0	3.6	6

Source: Eurostat (2009); as reported in Bangladesh case study.

2.2.3 Horticulture and cut flower exporters

Kenya accounted for just over 40% of EU imports of leguminous vegetables in value terms (23% in volume terms) in 2008, and just over 40% of imports of cut flowers in both volume and value terms. In comparison, Ethiopia accounted for around 1% of EU imports of leguminous vegetables, and around 10% of cut flowers (in both volume and value terms in each case). It has experienced rapid growth in cut flower exports destined for the EU in recent years (see Table 5).[12] This trend continued into 2009: exports of cut flowers (both volume and values) in the first 10 months of 2009 had already surpassed their annual total for 2008.[13]

Table 5: Cut flower exports to the EU, 2000-2009

	Ethiopia		Kenya		Tanzania		Zambia	
	1000kg	€m	1000kg	€m	1000kg	€m	1000kg	€m
2000	220	0.6	40,725	154.4	2252	8.5	3412	18.5
2001	233	1.0	43,808	178.9	2374	10.0	3303	18.4
2002	256	1.4	49,118	198.0	2106	8.3	3855	21.9
2003	672	3.3	54,958	209.5	1662	6.2	3128	17.2
2004	1382	5.2	67,680	236.4	1379	5.0	3070	14.0
2005	3546	9.7	77,731	267.1	1538	5.4	3201	13.4
2006	7903	21.8	88,077	313.6	1878	5.9	2951	12.4
2007	15,274	39.1	90,891	322.6	2850	10.9	3554	16.1
2008	21,931	67.5	95,729	370.4	3008	11.4	3263	17.2
Jan-Oct 2009	23,550	74.9	75,798	283.0	1913	8.6	2383	13.2

Note: Calculated on the basis of HS0603. *Source*: Eurostat.

12 It has the lowest unit value for both product categories compared with Kenya, Tanzania and Zambia.

13 Exports of leguminous vegetables for the first nine months of 2009 surpassed their total annual value as of 2008, but not volume.

Table 6: Leguminous vegetable exports to the EU, 2000-2009

	Ethiopia		Kenya		Tanzania		Zambia	
	1000kg	€m	1000kg	€m	1000kg	€m	1000kg	€m
2000	3581	6.0	30,692	94.4	47	0.2	3382	7.1
2001	3155	5.2	25,831	74.3	308	1.0	4716	9.5
2002	2070	3.7	26,037	75.6	375	1.3	2663	5.0
2003	2837	4.3	29,605	81.7	250	0.8	2581	3.9
2004	3555	5.2	37,603	106.7	1286	4.8	3159	9.2
2005	4576	6.9	41,037	121.7	1470	6.1	2754	9.4
2006	4723	12.5	45,805	146.0	1149	4.0	2134	8.9
2007	3405	7.1	49,778	157.3	535	1.8	2412	10.0
2008	3412	5.0	51,505	155.8	623	2.0	2384	8.5
2009	3385	7.0	38,424	109.6	512	1.6	1345	5.6

Note: Calculated on the basis of HS0708.
Source: Eurostat.

In the case of Ethiopia, declines in wholesale market prices for cut flowers in the Netherlands meant that the country earned only 47% of a projected $280 million from flower exports in FY2008/09,[14] which resulted in the inability of some producers to service debts to the Development Bank of Ethiopia.

Between January and August 2009, Kenyan horticultural exports declined by 35% in volume terms compared with the same period in 2008. This is attributed mainly to a decline in cut flower exports. More than half of the over 200 flower exporters registered in Kenya are reported to be on the verge of closing; smaller farms are being especially hard hit as a result of reduced market opportunities and earnings, increasing costs of production and diminishing water supplies. Compared with Ethiopia, a slowdown in Kenya's cut flower exports is clear. But the slowdown in the EU market for cut flower imports has been less severe than that reported by Kenyan exporters (see Table 7). This indicates a more varied impact across producers than aggregate export figures are able to reveal.

Table 7: EU cut flower imports, 2008-2009

	Extra-EU27		Kenya		Ethiopia	
	1000kg	€m	1000kg	€m	1000kg	€m
Jan-Aug 2008	150,264	594	63,998	247	14,494	44
Jan-Aug 2009	146,791	583	60,670	230	18,448	59
% change (2009/2008)	-2%	-2%	-5%	-7%	27%	35%
Jan-Oct 2008	188,408	751	49,409	307	18,106	55
Jan-Oct 2009	184,754	727	75,798	283	23,550	75
% change (2009/2008)	-2%	-3%	-5%	-8%	30%	37%

Note: Calculated on the basis of HS0603.
Source: Eurostat.

2.2.4 Tourism

There was a reported 10% decline in the number of tourists arriving in mainland Tanzania in January to April 2009 compared with January to April 2008.[15] Consequently, the revenue obtained from arrivals declined to $302.1 million in the period January to April 2009 compared with $388.2 million for the same period in 2008. There was a sharp drop in tourist arrivals in Zambia too.

In Kenya, the tourism sector suffered a series of major blows during 2008, including post-election violence and increased oil prices, in addition to the impacts of the global financial crisis. Tourist

14 The Ethiopian case study notes that a single rose stem from a farm in Ethiopia was sold for, on average, €0.13 in 2008/09. The same item is now sold for €0.11 in EU markets, a 15% decline in prices. In peak seasons, the price for a stem used to be on average €1, but in 2009 prices were unable to exceed €0.20.
15 214,733 registered tourists arrivals in January-April 2009 compared with 238,139 for the same period in 2008.

arrivals declined by 33.9% and dollar earnings from arrivals by 19.9% in 2008 compared with 2007. There was some recovery in 2009:[16] between January and September 2009, tourist arrivals increased by 38.7% compared with the same period in 2008; by November 2009, tourism arrivals and earnings were up 90% from 2008.[17] Visa charges were reduced between 2008 and 2009, from $50 to $25, and fees for children were waived.

2.2.5 Commodities

Following the precipitous drop in commodity prices after October 2008, commodities exported by the countries in this study experienced an increase in prices: by January 2010, the prices of copper and gold exceeded pre-crisis levels by some margin (Table 8).

Table 8: Commodity price developments, 2006-Jan 2010

	Crude oil, avg, spot	Natural gas, US	Coffee, Arabica	Coffee, Robusta	Tea, Mombasa auctions	Aluminium	Copper	Gold
	$/bbl	$/mmbtu	¢/kg	¢/kg	¢/kg	$/mt	$/mt	$/toz
2006	64	7	252	149	195	2570	6722	604
2007	71	7	272	191	166	2638	7118	697
2008	97	9	308	232	222	2573	6956	872
2009	62	4	317	164	252	1665	5150	973
Jan-09	44	5	283	182	219	1413	3221	859
Feb-09	42	5	285	177	212	1330	3315	943
Mar-09	47	4	283	168	212	1336	3750	924
Apr-09	50	3	297	167	221	1421	4407	890
May-09	58	4	333	167	222	1460	4569	929
Jun-09	69	4	330	163	241	1574	5014	946
Jul-09	65	3	311	158	267	1668	5216	934
Aug-09	72	3	330	160	280	1934	6165	949
Sep-09	68	3	327	163	297	1834	6196	997
Oct-09	74	4	341	162	261	1879	6288	1043
Nov-09	78	4	336	153	286	1949	6676	1127
Dec-09	75	5	349	154	298	2180	6982	1135
Jan-10	77	6	350	154	285	2235	7386	1118

Source: World Bank Commodity Price Data (Pink Sheet), various issues.

Soft commodity exporters (e.g. goods that are hard to stock or reduce in consumption)

Kenya is the world's largest exporter of black teas.[18] Between January and September 2009, tea output declined by 12% compared with the same period in 2008 – the lowest output in five years. This is attributed in part to a failure to use fertiliser in 2008 and 2009 because of its high cost. The Kenyan Tea Development Agency has only recently resumed importing fertiliser following its suspension because of high prices. Kenya's income from tea exports increased by 17% in the first half of 2009 compared with the same period in 2008.[19] Volatility in tea prices and subsequent impacts on outputs have had major implications for poverty, given that the sector is dominated by small-scale growers. Tea institutions are currently lobbying for tea to be classified as a food item for domestic consumption in order to exempt it from VAT and therefore spur local demand.

In Uganda, coffee export earnings fell in 2009 compared with 2008. Coffee prices slumped by 20% in the third quarter of 2008/09 compared with the same period in 2007/08; coffee volume slumped by 5.4% during the same period.

16 This suggests that post-election violence has had more of an impact on arrival numbers than the crisis.
17This is attributed to aggressive marketing by the Kenya Tourist Board in customary source markets such as Europe.
18 Tea accounts for 4% of GDP and 14% of agricultural GDP.
19 KSh30.8 billion compared with KSh26.3 billion.

In Ethiopia, coffee is the single most important export commodity, and responsible for declines in total export values since 2009: the unit value of coffee exports has declined since the highs of 2008 as a result of price declines on world markets and volumes sold (see Table 9).

Table 9: Ethiopian coffee exports, 2007-2009

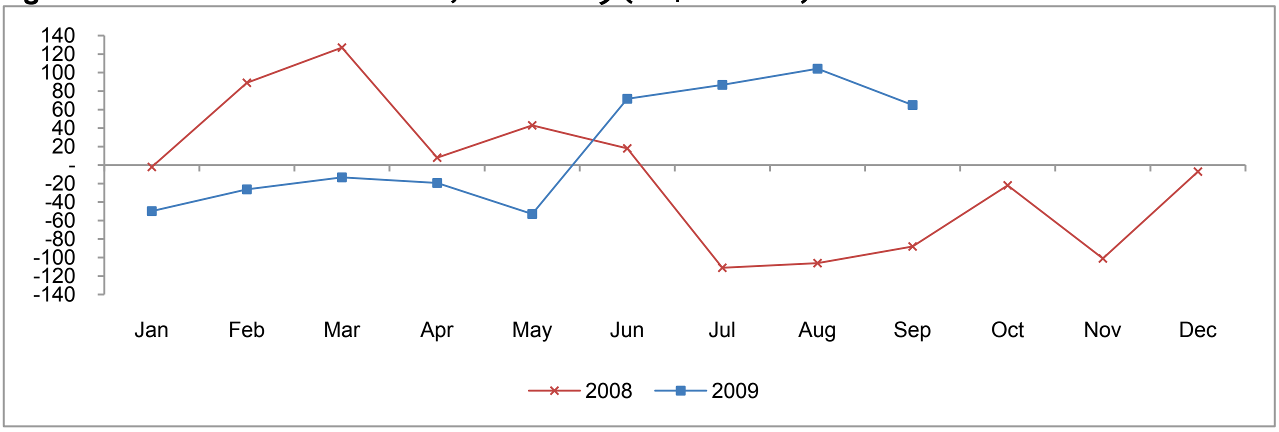
		Coffee		
		Value	Volume	Price ($/kg)
2007	Q1	110.67	42.62	2.60
	Q2	154.66	62.24	2.48
	Q3	92.38	33.96	2.72
	Q4	52.56	17.87	2.94
2008	Q1	191.90	61.08	3.14
	Q2	187.65	57.84	3.24
	Q3	133.29	44.00	3.03
	Q4	41.71	15.19	2.75
2009	Q1	75.91	28.41	2.67
	Q2	124.96	46.40	2.69
	Q3	104.70	35.32	2.96

Note: Ethiopia's financial year runs from 8-7 July.
Source: Ethiopia case study.

Hard commodity exporters (e.g. products that can easily be stocked)

Copper is the main source of foreign exchange for Zambia and accounts for 68-82% (depending on the source and year) of total foreign exchange earnings. The improvement in the trade balance for Zambia by the second and third quarters of 2009 was driven by an improvement of copper and other commodity prices on international markets. A trade surplus was recorded in May 2009, the first since July 2008 (see Figure 8).

Figure 8: Trade balance in Zambia, 2008-2009 (US$ millions)



Source: Zambia case study.

The price of copper almost doubled from $3221/mt in January 2009 to $6196/mt in September 2009 (see Table 8). The rise in copper prices coincided with an increase in copper production and the opening of a major new mine in December 2008 in Zambia after the peak of the crisis in 2008.

The global financial crisis contributed to a collapse in the share price of DRC mining companies in the latter part of 2008, making it impossible for them to finance investments with rights issues, at the same time as banking finance dried up.[20] The main casualty of lower international copper prices is artisanal mining: it is reported that 73.5% of mining jobs were lost between December 2008 and April 2009 in Katanga province.[21] Since March 2009, some of the mining companies that had previously

20 The mining sector in DRC contributes between 70% and 80% of total export earnings and around 8% of GDP.
21 As of January 2009, 46 mining companies had closed (63% of total registered) and 19 companies had scaled down their operations (25%).

scaled down operations have subsequently reopened. However, despite the upturn in prices since the second quarter of 2009, production has not yet reached pre-crisis levels.[22] The trade balance for DRC is projected to shift from a surplus of about 1% of GDP in 2008 to a deficit of about 15% in 2009.

Zambia and DRC are two economies with a lot of common traits, e.g. undiversified production and export basis and high land to labour ratios. In particular, their high dependence on the mining sector implies that the main effect of the crisis on both economies is via the trade channel (via international demand for their major minerals). However, the impact of the crisis on the mining sector (and thus the general impact of the crisis) has been different in the two countries. The most visible difference in result is that in DRC the sector has shed hundreds of thousands of jobs while in Zambia only 8500 miners have lost their jobs so far.

Moving beyond the case study, this difference may reflect different production structures in the two sectors: Zambian mining is dominated by copper, which is capital intensive, with a few large international firms making up the bulk of it. These firms have been able to rely on their own capital to limit the extent to which they have had to cut back their operations. And now that the copper price is increasing they are starting to rehire workers (1500 miners in the past few months). Mining in DRC is more labour intensive, because of the types of minerals mined in the country (e.g. diamonds, coltan, gold), combined with the insecure conditions in the country (especially in the areas where minerals are concentrated). This has resulted in a composition of the sector largely skewed towards micro enterprises and individual workers who do the digging and the transformation process informally and with very little capital. The traders rather than the workers are able to appropriate most of the value in the supply chain in the country, as they set the price to be paid to the workers. This implies that, in times of crisis, the effects of a drop in the international price are particularly painful for workers and small informal firms, as they cannot use any precautionary savings to withstand the hard times. In Katanga province, which relies on diamond production, over 70% of miners lost their jobs (around 20,000 in that province alone). Considering that each of them is likely to have four to five dependants on average, and that goods and services are sourced locally, the effects on the local economy have been dramatic.

On top of the crisis, DRC also experienced a security shock in 2009, with the intensification of fighting in the Kivu region (one of the richest mining areas). This has further reduced mining intensity there and has forced the government to step up military expenditures, with pressure on inflation and on the interest rate.

There are lessons from these different responses to the crisis. Poor security and governance can seriously aggravate any shock hitting the economy, as in DRC. Relatively good macroeconomic management along with a relatively stable social and political environment have played a role in making Zambia fairly resilient to the crisis.

The crisis has also exposed some important challenges that mining-dependent countries still face, primarily those relating to fiscal policy. For instance, before 2008 Zambia had one of the lowest mineral tax regimes in the world, which prevented it from benefiting significantly from booming copper prices through enhanced public revenues. Major reforms were introduced early in 2008, but many of these were reversed in 2009 in response to job losses in the mines following the sharp fall in copper prices in mid 2008. Tax policy for the mining sector is possibly a second order problem in DRC, given the gravity of the other issues facing the country, including security and lack of a formal sector. However, tax policy is something that mining-dependent countries need to be cautious about in order to maximise the benefits of natural resources wealth and to be prepared for swings in international demand for minerals.

22 Sectoral activity in the extractive industries was still declining as of the second quarter of 2009 (-3.7% quarter on quarter), although at a slower rate compared with the first quarter of 2009 (-6.7%) and the last quarter of 2008 (-11%).

Oil accounts for more than 95% of Sudan's total exports. As a result of reduced oil prices on world markets, it is projected that the total value of Sudan's exports will decline from $12.9 billion in 2008 to a record low of $5.3 billion in 2009.

In Mozambique, it is reported that the value of exports of goods between January and September 2009 fell by 37% compared with the same period in 2008.[23] This reduction was mainly the result of a 50% fall in the price of aluminium, which accounted for 72% of the decline.[24] As export values have fallen much more than import values, this has resulted in a considerable deterioration of the trade balance. It should be said, however, that changes in the trade balance in Mozambique have little direct relation with development, given that the trade balance is dominated by mega projects.

In Tanzania, the mining sector has been affected by recent world price declines. The price of diamonds fell by 26% between September 2008 and April 2009: from $8870 to $6608 per carat. In comparison, gold has benefited from price increases, given its use as a principal financial asset. The crisis affected tanzanite mining companies and small-scale miners most severely, owing to a 50% decline in the price of tanzanite in world markets since 2009. Investment in Tanzania's mining sector was forecast to decrease by more than 50% in 2009 – from $90 million to $40 million – as indicated by recent declines in requests for mining licences. Only 15 licences were granted between January and April 2009, compared with 76 for the same period in 2008 (Table 10).

Table 10: Mining licences granted for mining activities in Tanzania, 2007-2009

	2007	2008	2009 (Jan-Apr)
Prospecting licences with reconnaissance	155	224	15
Prospecting licences	607	1169	72
Special mining licences	1	0	0
Mining licenses	28	69	9
Primary mining licenses	1863	3573	678

Source: Tanzania case study.

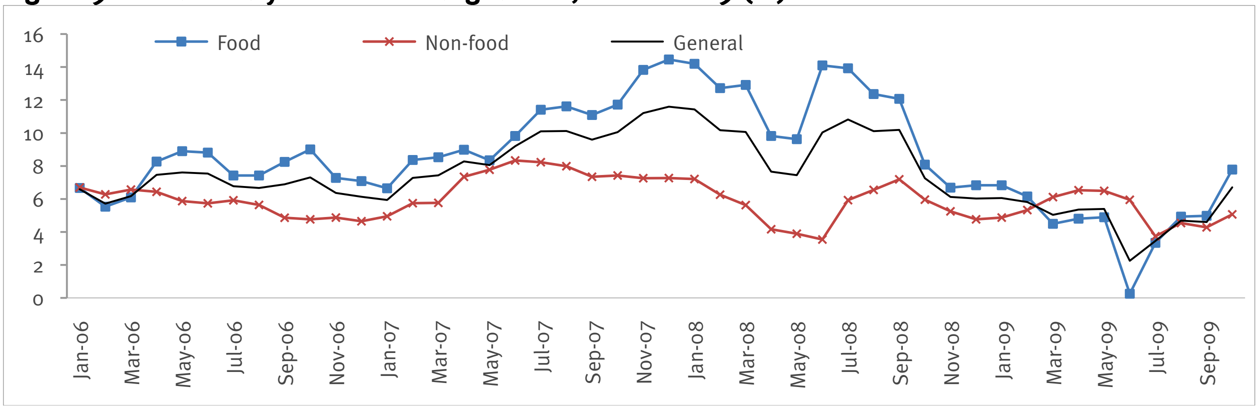
In Bolivia, mineral prices experienced a large drop during 2008Q4 (by 53.8%), although they subsequently picked up by 10.1% during 2009Q1 and by 55.5% during 2009Q2. Overall, the value of Bolivia's mining exports fell by 18.5% during the period September 2008 to October 2009.

2.2.6 Imports

The value of imports has fallen in a few countries as a result of a drop in import prices. In Zambia, imported inflation as a result of the global fuel price increases of 2008 was relieved somewhat during 2009. This is the result of exchange rate appreciation, further to an increase in the price of copper, which reduced pass-through effects; inflation declined from 16% after January 2009 to reach 12.3% as of October 2009. In Bangladesh – a net food and fuel importer, where global food prices drive inflationary trends – it is reported that imported food price inflation has fallen since October 2008 and reached a low of 2.3% in June 2009 (although since then has started to rise).[25]

23 From $2045 million in January to September 2008 to $1285 million in Jan-Sep 2009.
24 A reduction in export values for other products in Jan-Sep 2009 compared with Jan-Sep 2008 is also reported: prawns (-66.7%), sugar (-39%), cotton (-47.8%), cashews (-64.4%), tobacco (-14%), gas (-29%) and wood (-37.5%).
25 At the same time, food inflation in Bangladesh reached its all time low (0.3%).

Figure 9: Inflationary trends in Bangladesh, 2006-2009 (%)



Source: Bangladesh case study.

Kenya's current account deficit was considered marginally sustainable pre-crisis.[26] As shown by Table 11, while oil imports are down more than 25% as of August 2009 compared with August 2008 in value terms, imports of other capital goods (machinery, transport and equipment) are up.

Table 11: Kenyan imports c.i.f., 2007-2009 (US$ millions)

	Year to Dec 2007	2008 Q1	2008 Q2	2008 Q3	2008 Q4	Year 2008	Year to Aug 2008	Year to Aug 2009	% change Aug 08/09
Oil	1919	692	739	1081	540	3051	**2869**	**2142**	**-25.3**
Chemicals	1156	359	363	384	339	1446	**1358**	**1363**	**0.4**
Manufactured goods	1435	357	379	409	445	1589	**1521**	**1471**	**-3.3**
Machinery & transport equip.	2800	709	666	862	825	3063	**2888**	**3043**	**5.4**
Other	1752	471	434	439	582	1925	**2033**	**2334**	**14.8**
Total	9062	2588	2582	3174	2730	11074	**10670**	**10299**	**-3.5**

Source: Kenya case study.

2.2.7 Exchange rate developments

Kenya's real effective exchange rate appreciated by 10% between June 2008 and September 2009; foreign exchange reserves declined from almost five months of import cover as of 15 January 2008 to 3.3 months of import cover as of 15 January 2009, below the statutory minimum of 4 months of import cover. The valuation losses were partially caused by the appreciation of the US dollar against major currencies. However, following an increased allocation of special drawing rights (SDRs) by the International Monetary Fund (IMF), borrowing from the IMF under its Exogenous Shocks Facility (ESF) in May 2009 and purchases by the central bank from the domestic interbank market, foreign exchange reserves subsequently increased to 4.1 months as of September 2009 (Table 12).

Table 12: Exchange rate and foreign exchange reserves in Kenya, 2008-2009

	2008				2009					
	Jul	Aug	Sep	Dec	Apr	May	Jun	Jul	Aug	Sep
KSh per US$	66.70	67.68	71.41	78.04		77.66	77.85	76.75	76.37	75.60
Gross forex reserves (US$m)	5616	5287	5012	4641	4620	4370	4822	4830	4810	5235
Months of import cover	4.4	4.2	3.9	3.4	3.3	3.3	3.6	3.6	3.6	4.1

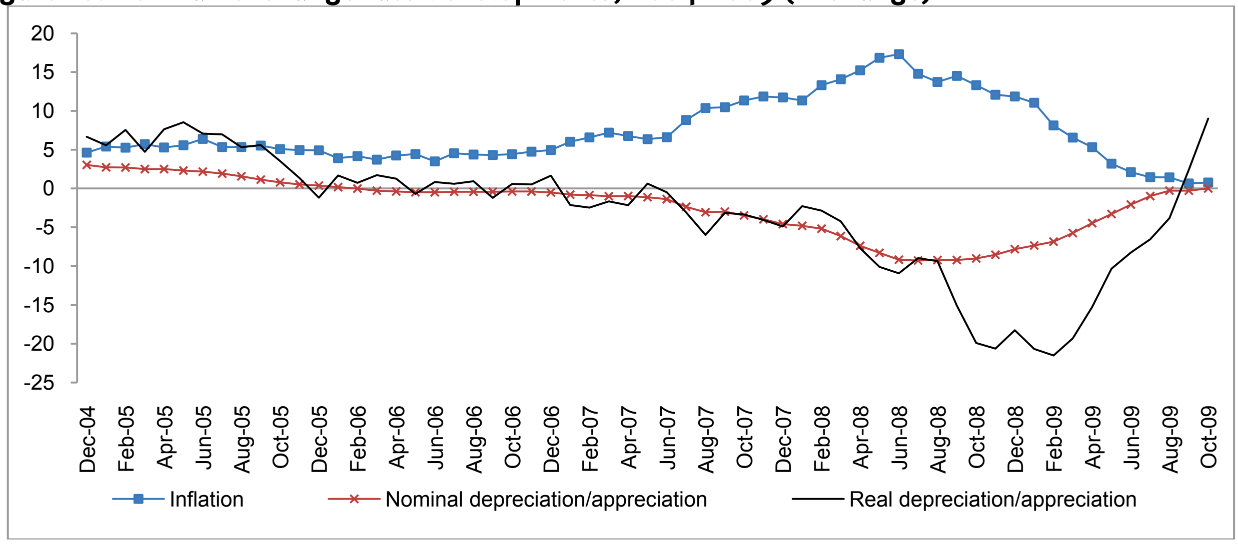
Source: Kenya case study.

26 As a result of the food and fuel price crisis, the current account deficit increased from $1.10 billion in 2007 to $2.12 billion in 2008, attributed mainly to increases in the cost of oil imports. Moreover, capital outflows caused a depreciation of the Kenyan shilling as well as a running down of foreign exchange reserves. The oil bill increased from $739 million in 2008Q2 to $1081 million in 2008Q3 but significantly declined to $540 million in 2008Q4 as a result of the fall in international oil prices.

The Bank of Tanzania responded to increased demand for foreign exchange after October 2008 by intervening in the market to stabilise the value of the Tanzanian shilling. Despite these interventions, its value against the US dollar had depreciated by 12.9% in September 2009 compared with September 2008. Nevertheless, the shilling has been maintained within a narrow band against the US dollar further to interventions by the Tanzanian central bank.

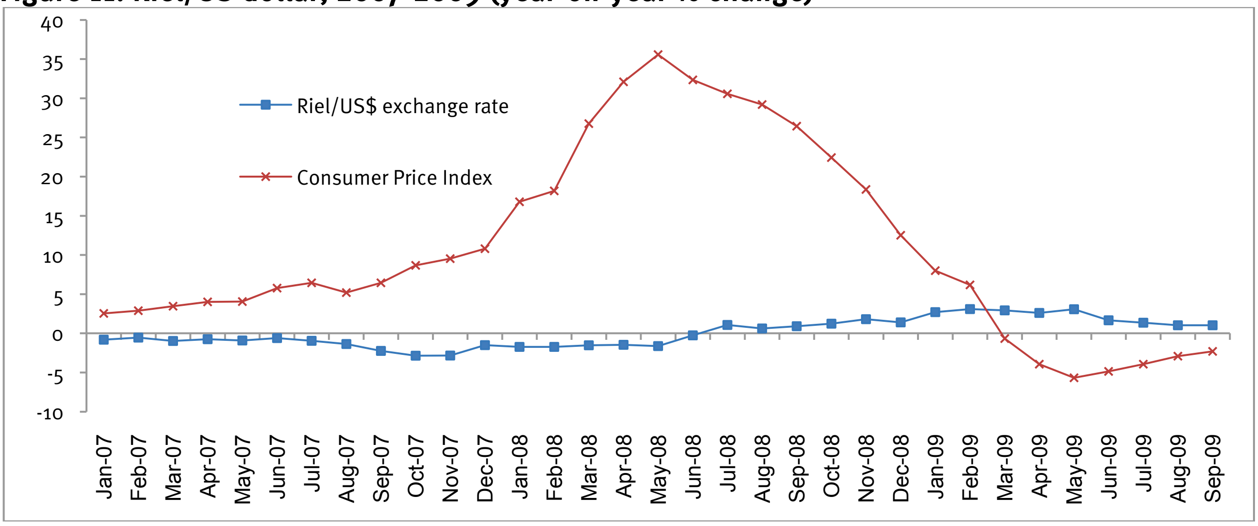
By the second half of 2008 and going into 2009, inflationary pressures reduced sharply in Bolivia. The central bank subsequently discontinued its policy of allowing the exchange rate to appreciate and targeted a rate of Bs.7.07 per US dollar. In Cambodia, the riel strengthened against the US dollar in mid-2008 but has since subsided (inflationary pressures have also abated as a result of declines in global fuel prices). It is reported that serious nominal exchange rate fluctuations have been averted by interventions by the National Bank of Cambodia, but that these interventions have also been costly in terms of reserves and deposits.[27]

Figure 10: Bolivian exchange rate developments, 2004-2009 (% change)



Source: Bolivia case study.

Figure 11: Riel/US dollar, 2007-2009 (year-on-year % change)



Source: Cambodia case study.

27 It has been argued that the exchange rate must be allowed to assume a greater role in facilitating adjustments in the current account position and interventions limited to preventing serious volatility. However, there is a trade-off, given Cambodia's high dependence on the US market for its major exports (garments).

Bangladesh Bank has periodically been purchasing (and selling) US dollars from the open market to keep the taka-dollar exchange rate stable.[28] However, the weakening dollar against major currencies such as the euro, Japanese yen and Indian rupee throughout 2009 has meant some depreciation of the taka against those currencies.[29] It is reported that Bangladeshi exporters to the EU suffered because of an appreciation of the taka against the euro in the early months of 2009 (January-March);[30] moreover, depreciations of the Indian and Pakistani rupee and the Vietnamese dong, and China's inability to let the yuan depreciate, have generally undermined Bangladesh's competitiveness in its major markets for apparels (EU and US).

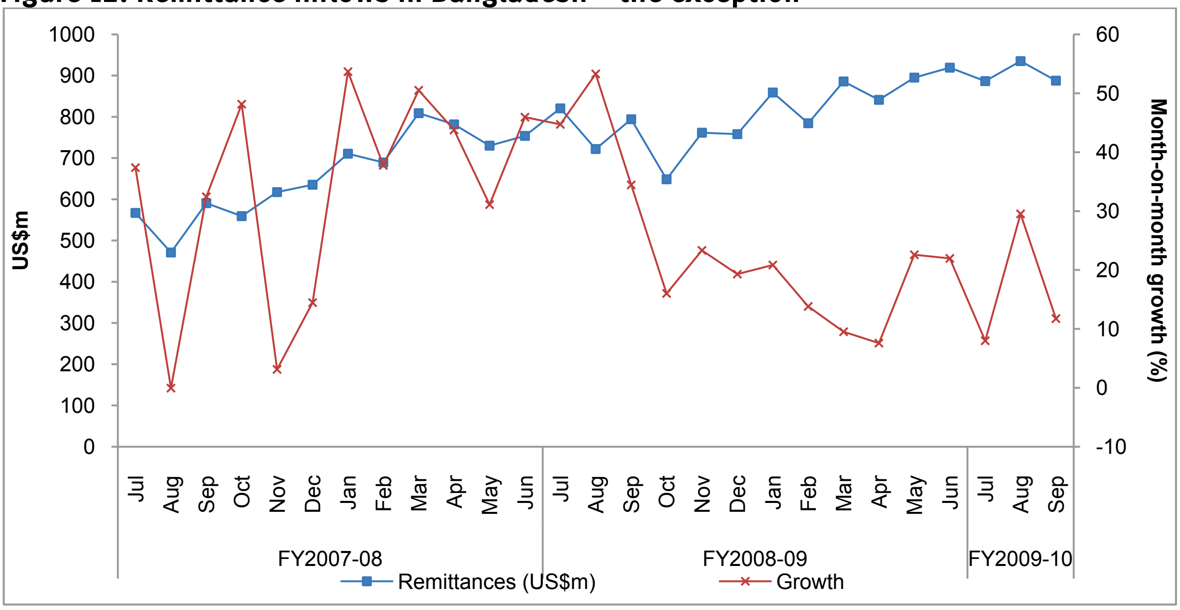
2.3 Remittances and migration

2.3.1 Remittances

Remittances are an important source of external capital for many low-income countries. The first phase of the monitoring exercise suggested that the majority of the countries studied were experiencing the first signs of impact after the second half of 2008. This was the case particularly in Africa. Growth in remittances slowed in the last quarter of 2008 and first quarter of 2009 for all case studies. The most recent data indicate that remittances started to recover in the second quarter of 2009. This will probably mean that remittance inflows in 2009 will be close to those in 2008 or even higher in most countries analysed.

Table 13 provides a more complete picture of the evidence so far of remittances before and during the crisis. In all of 11 countries that have data going back a few years, remittances grew substantially up to 2008. For instance, in Ethiopia inflows increased 14-fold between 1998 and 2008, and in Bolivia they increased by six times between 2004 and 2007. This growth has made remittances an important source of revenues for the countries in the sample: they generally account for between 1% and 5% of GDP, with Bangladesh (11%) and Bolivia (7%) the highest. The crisis generally halted or greatly reduced growth in the second half of 2008 (Bolivia, Kenya, Uganda) and/or at the beginning of 2009 (Bangladesh, Bolivia, Ethiopia). Bangladesh has been the only country for which remittances have continued to grow throughout the period, although at a lower rate than in the pre-crisis period (Figure 12).

Figure 12: Remittance inflows in Bangladesh – the exception



Source: Bangladesh case study.

28 They have been successful: the taka-dollar exchange rate has remained around the same in the past two years.

29 China, the major competitor of Bangladesh in the EU and US market (particularly for RMG), kept its currency pegged against the US dollar. Consequently, the yuan depreciated by 6.2% against the euro. Between 1 January and 11 November 2009, the taka depreciated by 6.3% against the euro, 5.4% against the Indian rupee and 0.2% against the yen and appreciated only marginally against the US dollar by 0.3%.

30 Bangladeshi exporters also suffered when the taka appreciated against the euro in 2008. Exporters in Bangladesh are generally reluctant to take forward coverage since the taka has a track record of generally depreciating against major currencies.

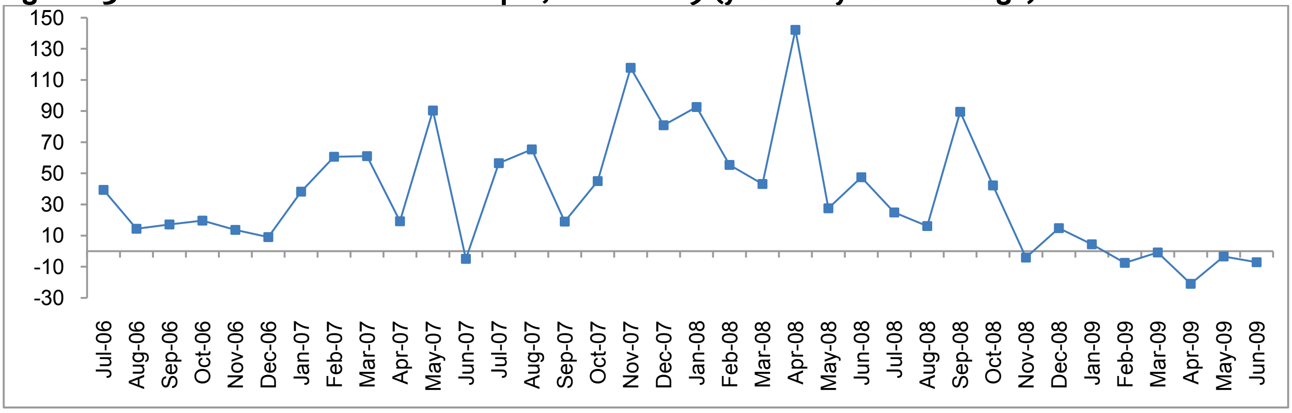
Table 13: Summary data on effects on remittances

	Remit 2007 (US$m)	Rem. 2008 (US$m)	Rem./ GDP 2008	Long-term change	Change from start of crisis (Sep 2008)	Recent months
Bangladesh	5978	7915	10%	From 4% of GDP in 2000/01 to 11% in 2008/09	Growth 22.4% in 2008/09 vs. year before	Jul-Oct 2009 21.2% growth vs. year before
Bolivia	1040	1,089	7%	6-fold increase 2004-07	Down by 8.5% in 2008Q4 and by 11.9% in 2009Q1	Partial recovery in 2009Q2 (7.4%)
Cambodia	353	Drop 8% vs. 2007	3.4%			
DRC	81	212			Expected decline to $135m in 2009	
Ethiopia		947	2.9%	14-fold increase since 1998	2-15% monthly drop first months of 2009	
Kenya	574	611	2.7%	Doubled 2004-2008	Decline in May 2008-Jan 2009. First 9 months 2009 3% drop vs. year before	Upward trend from Feb 2009
Mozambique	99	99	1.3%		No marked change	
Sudan	1769 (World Bank)	1850 (World Bank)	3.7%	Trebled 2000-2008		
Tanzania	14 (World Bank)	15 (World Bank)	0.1%			
Uganda	546	746	6%		2008/09Q4 down by 11.4% vs. year before	Increase in 2009/10Q1
Zambia	59	68	0.7%		Increase in 2009 except in Q1	Expected 20% incr. 2009 vs. 2008

Source: Case studies.

The slowdown in remittances halted in many countries by 2009Q2. In Kenya, monthly inflows started to grow consistently again from February 2009 after a declining trend in the preceding eight months. In Bolivia, the (partial) recovery began in the second quarter 2009, whereas Uganda had already experienced an increase in remittance inflows again in the first quarter of 2009. Ethiopia appears to be the only country with no signs of recovery yet up to June 2009 (Figure 13). The recovery is generally mild and remittances are expected to decline in 2009 relative to 2008 in DRC, Ethiopia, Bolivia and Cambodia. Zambia and Bangladesh represent the exceptions, with substantial increases in remittances expected in Bangladesh even in 2009 (over 2008).

Figure 13: Remittance inflows to Ethiopia, 2006-2009 (year-on-year % change)



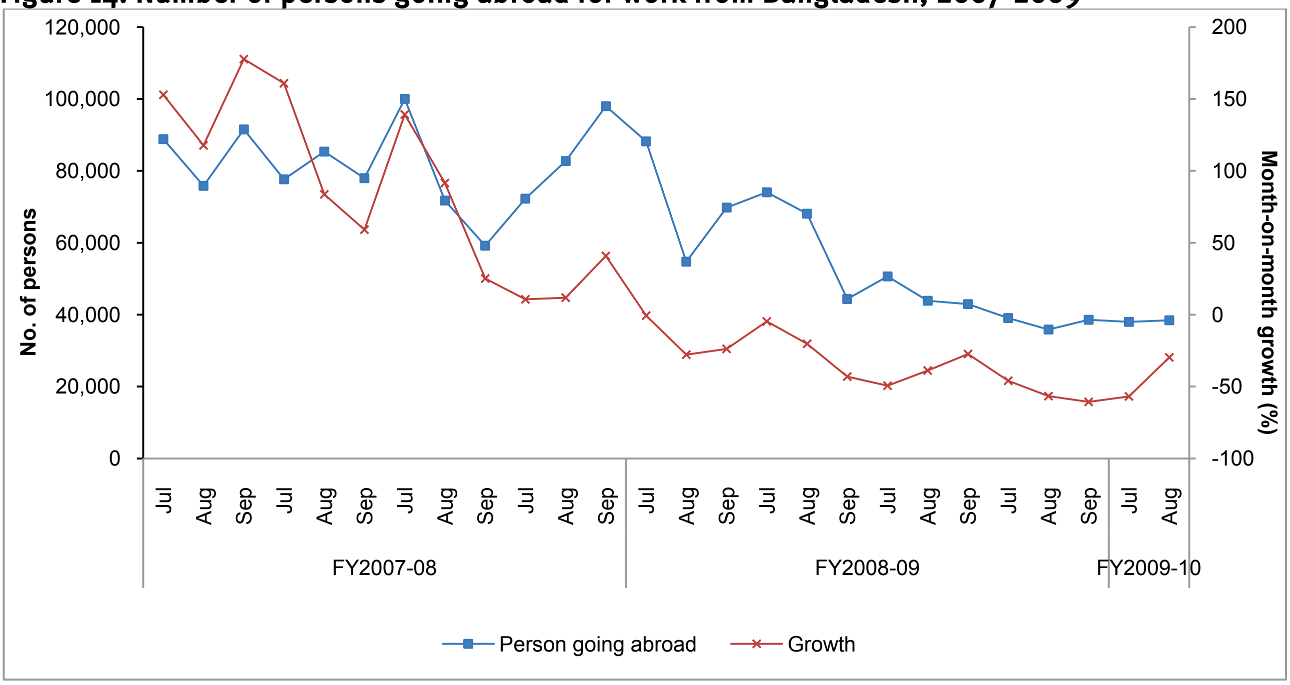
Source: Ethiopia case study.

2.3.2 Migration

Changes in migration underpin such patterns of remittances. Wherever such flows have not modified the stock of emigrants from these countries, remittance inflows are likely to recover more quickly.

In the absence of systematic data, however, it is harder to gather proper evidence on migration flows and return migration than in the case of remittances. Only the Asian countries in the case studies present recent evidence on emigration and return. In particular, Bangladesh experienced a strong reduction of 33.7% in the number of persons going abroad for work in FY2008/09 (over the previous fiscal year). And the trend continued during the first two months of FY2009/10, recording a fall of 46.5% (Figure 14). These trends occurred in the context of increasingly tight conditions in the main destination countries. For instance, 12,000 Bangladeshi workers were retrenched in Malaysia and 20,000 in Sudan; the Maldives halted hiring Bangladeshi workers. Similarly, Thailand and Malaysia, the top two destination countries for Cambodian migrant workers, officially closed their doors to new inflows. It is still uncertain whether and when these flows will start to grow again but this will have important implications for the future growth of remittance flows.

Figure 14: Number of persons going abroad for work from Bangladesh, 2007-2009



Source: Bangladesh case study.

2.4 Aid

While both Phase 1 and 2 indicated no major pullout of aid, it is likely that there is some impact still to come. More positively, the international system (e.g. IMF, regional development banks – RDBs) has responded quickly. It is possible to distinguish between bilateral aid responses and responses in relation to the international system, including the international financial institutions (IFIs).

Multilaterals have been very active in responding to the crisis. The IMF has increased its lending to low-income countries from $1.2 billion in 2008 to an expected $4 billion in 2009 and 2010. Conditionalities have decreased and the content of these has changed.

The country studies show:

- Recent (2007-2008) declines in aid to Uganda and Bangladesh and recent increases in DRC and Cambodia;
- Some crisis pullouts (e.g. of Irish assistance) but no measurable effects so far, although several studies express fear of a decline (e.g. Mozambique, which is one of the most aid-dependent countries);
- Generally, development aid at the country level determined by other factors such as political stability (peace and stability in DRC/Sudan) or political allies (China in Cambodia);
- A visible increase in IMF activity (DRC, SDR increase in countries such as Zambia, ESF in Ethiopia) as well as World Bank activity (DRC, Mozambique, although in some countries Regional RDBs played a more significant role (e.g. Asian Development Bank (ADB) in Bangladesh and Cambodia);
- In some countries, such as Mozambique, a World Bank response that seems to be a result more of the food price crisis than of the financial crisis.

The expectations on aid seems more subdued (te Velde and Massa, 2009) although recent Organisation for Economic Co-operation and Development (OECD) reports show that aid continued to increase (albeit at a slower level compared with commitments). However, it is entirely possible that global pressures and actual country experience differ for the following reasons:

- Global cuts in aid might be compared with the baseline of sharply increasing aid flows, hence aid at country level might still grow.
- The evidence reported at the country level reflects plans made some time ago, perhaps before the crisis.
- There have been cuts, especially in countries not covered by our selection.

For a summary of aid flows at country level during the financial crisis, see Table A1 in Annex 1.

2.5 Summary: BoP effects

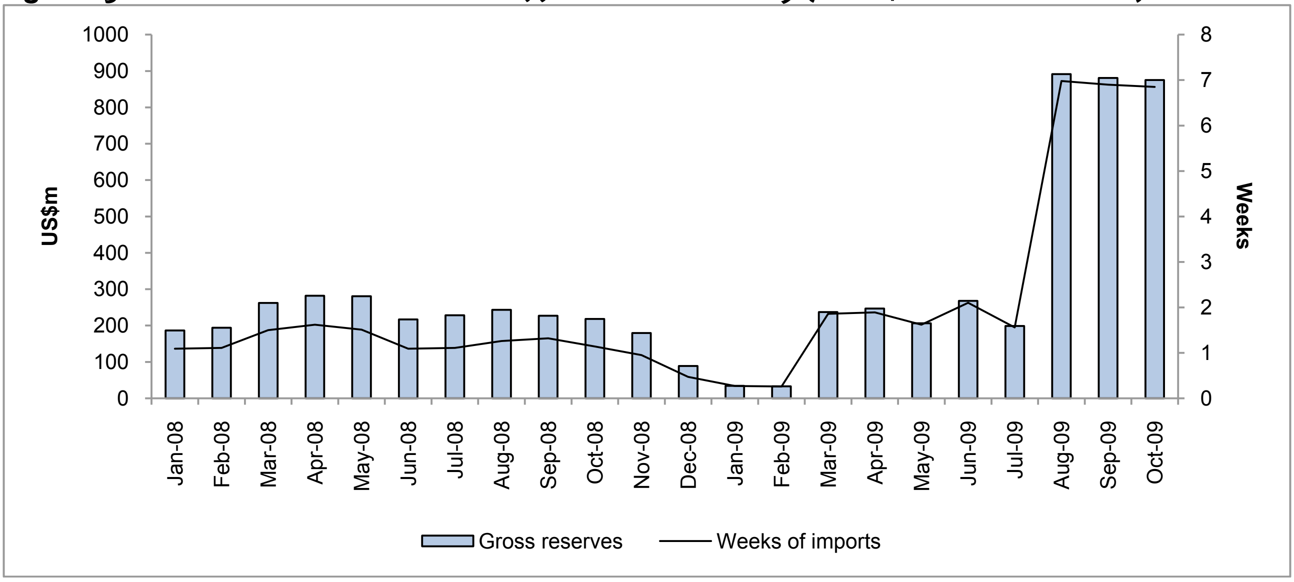
This section summarises BoP effects: how do all the effects come together? Data on the current account of the BoP suggest a highly varied picture in recent years. During the global financial crisis:

- The current account was badly affected negatively (DRC, Kenya, Sudan) by $1-2 billion.
- In Cambodia, Mozambique and Zambia the current account was in surplus but turned (or was expected to be) negative in 2009.
- In Bolivia, the current account had a large surplus, which was dropping in 2009.
- The current account became more positive (Uganda) or less negative (Tanzania) because the terms of trade improved.

The global financial crisis led to a number of high risk situations with respect to reserves. For example, in DRC, by February 2009 gross official reserves had fallen to the equivalent of less than 1 day of imports. The IMF granted $195 million under the Rapid Access Component of the ESF, which increased the level of gross official reserves to $237 million, or 1.9 weeks of imports (Figure 15).

The BoP affected the exchange rate. During 2009, Bolivia, Kenya and Cambodia appreciated in real effective terms and Bangladesh, DRC, Uganda, Tanzania and Mozambique depreciated in real terms (although Uganda appreciated later). Sudan was pegged to the euro. Zambia depreciated and then appreciated, mirroring the copper price

Figure 15: International reserves in DRC, Jan 2008-Mar 2009 (in US$ end of the month)



Source: DRC case study.

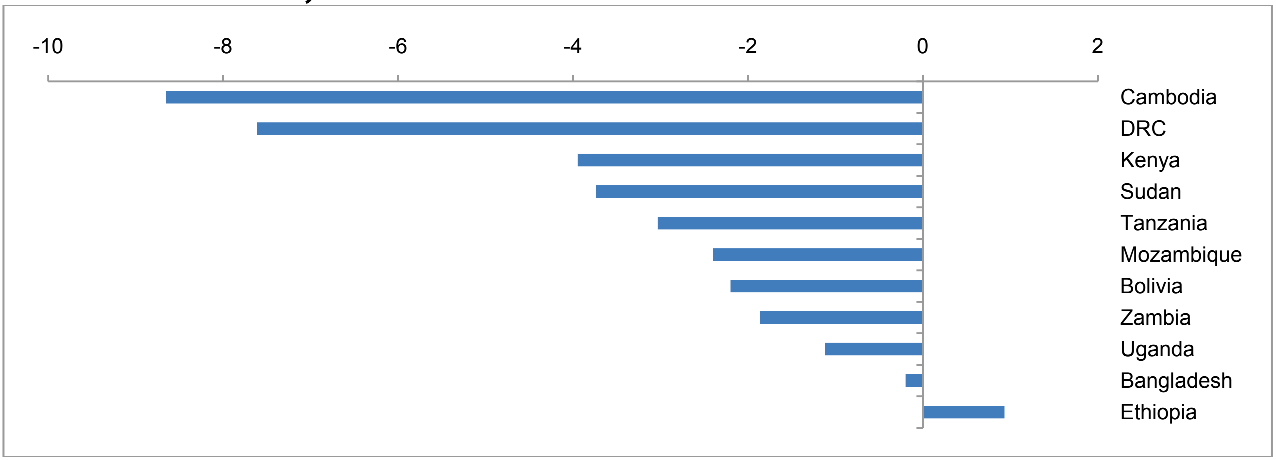
For a summary of the BoP situation in case study countries, see Table A2 in Annex 1.

3. Growth and development effects

3.1 National-level growth, investment and employment

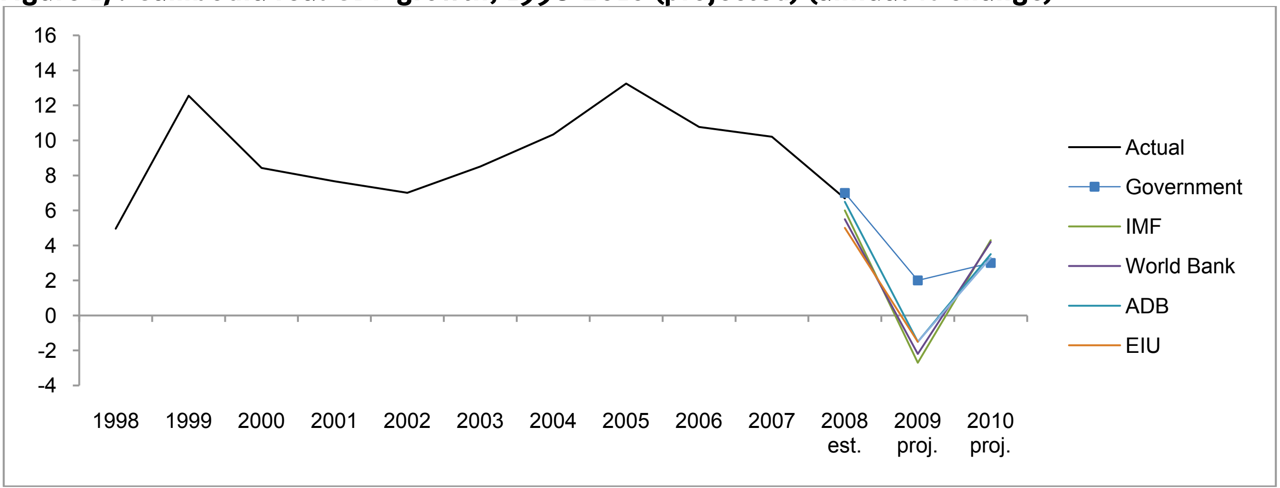
The crisis has had different growth effects in different countries. One indication is the difference in growth forecasts for 2009 made in 2008 and at the end of 2009 (Figure 16). Cambodia, dependent on external sectors and struck by various crises (conflict and financial), has been affected most (estimates of close to 8% loss in GDP as a result of the crisis). This is followed by Kenya, which has also been affected by drought and a political crisis. Sudan and DRC have been affected because of oil and mining prices and large drops in capital inflows. There are also a number of countries that have been affected in specific sectors such as Tanzania, Mozambique, Bolivia and Zambia, but in the macro sense they have remained fine. Uganda, Bangladesh and Ethiopia have hardly been affected for various reasons.

Figure 16: 2009 real GDP growth forecasts (difference between IMF Oct 2009 forecasts and IMF Oct 2008 forecasts)



Source: IMF data.

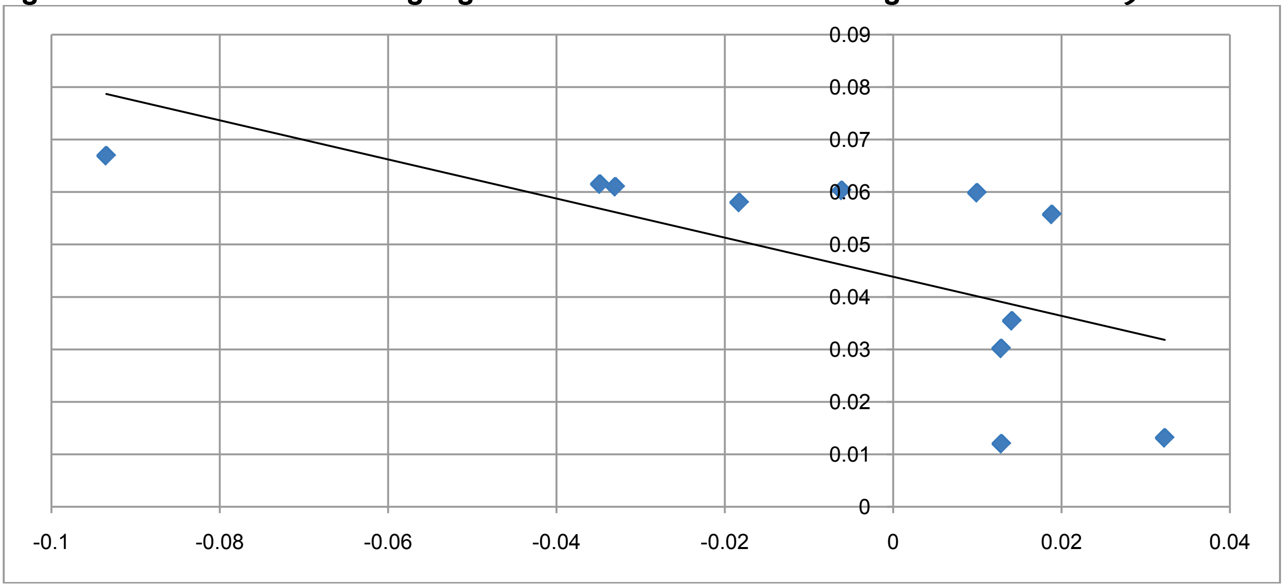
Figure 17: Cambodia real GDP growth, 1998-2010 (projected) (annual % change)



Notes: EIU = Economist Intelligence Unit.
Source: Cambodia case study.

Fast-growing economies (in 2008) also suffered the largest drop in 2009.

Figure 18: Countries with stronger growth rates in 2008 suffered a greater fall in 2009



Source: Own calculations.

For a summary of growth and sectoral effects in case study countries, see Table A3 in Annex 1.

3.2 Fiscal effects

Table A4 in Annex 1 provides information on what happened to fiscal positions during the crisis. A summary is as follows:

- Receipts from import duties and VAT are in decline in many countries, which reinforces the need for direct tax revenues (Bangladesh, Ethiopia).
- The crisis worsened the tax intake in Zambia, and anticipated increases in the mining tax intake by the government did not occur.
- The 2009 budget in Sudan suffered a 50% reduction from the expected budget revenue because of the sharp decline in oil prices, from $147 to $47 a barrel.
- On the other hand, fiscal policy was used as countercyclical policy in Bolivia and Tanzania.

Box 2: Commodity dependence and budgeting (Sudan, Bolivia)

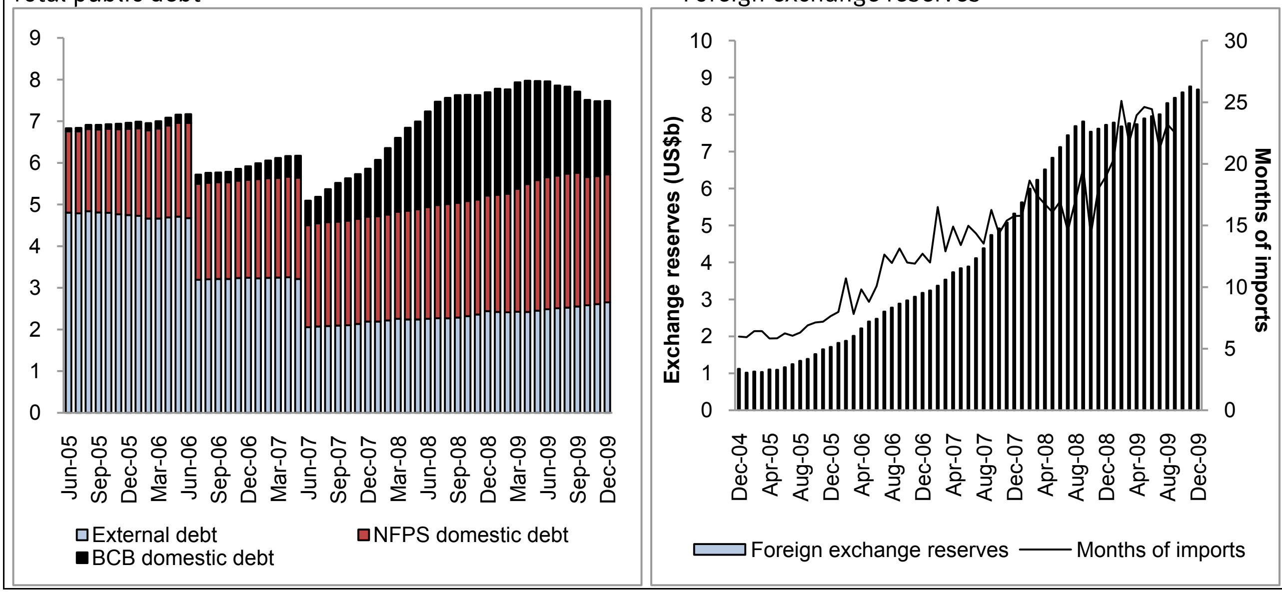
It is important to compare budgeting practices across countries whose budgets rely on commodity prices (e.g. Sudan and Bolivia), with respect to the impact of the global financial crisis. Sudan had to react to falling revenues while Bolivia could eat into its reserves.

In Sudan, the sharp decline in oil revenues meant a critical choice: to cut down current spending and/or to delay spending on development projects. In both cases, prioritisation of outlays became important. As a result of the decline in oil revenues, the 2009 budget faced enormous pressure to meet its current and development expenditure commitments. It concentrates on meeting critical current spending on wages and salaries and other strategic recurrent spending items. The first quarterly report on the 2009 budget indicated that actual oil revenues were only 50% of budgeted figures. As a result, actual expenditures were sharply reduced from the 2008 level, with a serious deviation from budgeted targets. The government had to revise spending priorities for some social and development projects in the face of this.

Bolivia, on the other hand, has seen a significant increase in government incomes in recent years, which to a great extent is the result of a large increase in hydrocarbon tax revenues. The share of hydrocarbon taxes in total tax revenues increased from 11% in 2004 to 33% in 2008. At the same time, debt levels were kept under control. The continuous current account surpluses witnessed previous to the global crisis brought about an impressive increase in the stock of foreign exchange reserves held by the Central Bank of Bolivia, rising from $1.1 billion at the end of 2004 to $7.8 billion in September 2008.

Reserves and debt in Bolivia (US$ billions)

Total public debt | Foreign exchange reserves



Sources: Sudan and Bolivia case studies.

3.3 Poverty and distributional effects

The transmission mechanisms affect firms and households through a number of key transmission channels, including taxes and transfers (public and private transfers and taxation, including targeted transfers, subsidies, taxes, levies, remittances, etc); prices (changes in consumption and production prices, wages, salaries and interest rates); assets (value of and access to and/or control of assets, including physical, natural, human, social and financial assets); and employment (formal and informal employment, including self-employment and employment in household enterprises; other aspects include security, status, workloads and gender issues.) Investment (changed capital flows, imports and export opportunities) will affect fixed capital investment and access to goods and services.

Loss of employment[31] is one feature of the global financial crisis in the case studies. For example:

- There have been massive losses of formal jobs in Cambodian garments and construction since the start of the crisis, while jobs and hours of work decreased by 30-50% in hotels. There has been a 1-4 percentage point change in the poverty headcount over 2007-2010. At least 93 garment and shoe factories closed permanently in the first 11 months of 2009, with reported job losses of at least 38,190. The temporary suspension of operations in a further 60 factories is also affecting 35,337 jobs. It is reported that around 102,527 jobs have been affected (either permanently or temporarily); this equates to around one-third of the 'pre-crisis' workforce. It is believed that a further 30,000 to 50,000 jobs in the garment industry are also at risk.
- Poverty headcount ratios have increased by 2-3 percentage points in Kenya compared with what otherwise would have been the case (without the crisis).
- In Zambia, some 10,000 workers in the mining sector lost their jobs in 2008. In DRC this was close to 200,000.
- There will have been some more poverty in Bolivia in 2009 owing to declining incomes, but changes are expected to be small and the level of poverty is still much lower than in 2005.
- In Bangladesh, available evidence does discuss a large number of RMG factories being shut down as a result of the crisis. Out of 4939 RMG factories, 270 were listed as 'sick' prior to the

31 It is possible to use the same framework as for poverty. The International Labour Organization (ILO) has estimated employment elasticities with respect to growth and we take the average over 1991-2003: Nigeria, 1.11; Ghana, 0.77; Zambia, 0.20; Cambodia, 0.37; Benin, 0.87; Bangladesh, 0.31; Bolivia, 1.26; Uganda, 0.34; Kenya, 1.96; Indonesia, 0.24.

global recession, whereas 100 garment factories were at risk because of the adverse impact of global recession (survey results).[32] It has been estimated that at least 25,000-30,000 thousand RMG workers lost their jobs in the last eight months of 2009.

Table 14 shows the expected increase in the number of poor in 2009 as a result of expected GDP changes resulting from the crisis, by taking changes in GDP forecasts and multiplying these by the number of poor people and poverty elasticity with respect to growth.

Table 14: Expected poverty effects of the global financial crisis in 2009

Country	Mar 2009 forecast for 2009 – IMF Spring 2008 GDP projections for 2009	Poverty elasticity with respect to growth (case studies or literature)	Household poverty count, % (latest year, WDI)	Population, millions in 2007 (WDI)	Poverty increase, '000s: change in growth rates *(times) elasticity,* household poverty count
Bangladesh	-0.2	0.38	40	158.6	482
Bolivia	-2.2	0.2	65.20	9.5	273
Cambodia	-8.6	1	35	14.4	4334
Kenya	-4.0	0.74	52	37.5	5772
Uganda	-1.1	2	37.70	30.9	2562.8
Zambia	-1.9	0.2	68	11.9	307.5

Sources: Own calculations based in part on Phase 1 and 2 country case studies.

Table A5 in Annex 1 summarises employment and poverty effects in the case study countries.

32 However, 149 RMG factories have entered the industry during this period.

4. Policy responses

4.1 Macroeconomic policies to manage the impact of the crisis

Countries have responded well in terms of short-term macroeconomic management policies (including monetary and banking policies and fiscal policies). By March 2009, countries in Phase 1 (including Kenya, Bolivia, Cambodia and Bangladesh) had already put in place macroeconomic and financial policies to manage the crisis:

- The Central Bank of Kenya lowered the cash reserve ratio from 6% to 5% and the central bank rate from 9% to 8.25% in order to lower interest rates and enhance credit supply in the economy.
- In Bolivia, the 2009 national budget included a 20.6% increase in public investment and a 12% rise in public servants' wages and salaries
- Cambodia had produced an expansionary budget.
- Central Bank of Bangladesh reserves were safeguarded through withdrawal from risky investments and transfer to reliable central bank accounts, and private sector financial institutions were advised to protect their respective deposits.

Table A6 in Annex 1 suggests countries undertook further actions:

- Foreign exchange/reserve build-ups in DRC in April 2009;
- Ethiopia devaluing its currency twice in 2009;
- Lowering of the cash ratio in Kenya and a significantly expansionary budget in 2009 (6% of GDP deficit in FY2009/10 compared with 2% the year before);
- A fiscal loosening in Mozambique for 2009;
- A fiscal stimulus in Tanzania (government deficit at 1.6% for FY 2009/10) and a relaxed monetary policy;
- Zambia increasing its borrowing to 3% of GDP from the planned 1.9% in 2009.

The evidence suggests that the case study countries did engage in macroeconomic management after some initial wait-and-see instances. This is good news.

4.2 Social policies to respond to the impact of the crisis

While the crisis has not resulted in major social protection policy revisions, or a large-scale expansion of social protection provision in most countries, a number of pre-existing programmes have been extended and new programmes introduced, albeit on a modest scale:

- Putting in place or using safety nets and cash transfers for households affected by the global financial crisis (or other recent crises);
- Putting in place safety nets for households affected by the global financial crisis (or other recent crises);
- Changing allocations for social sectors, such as education and health.

Phase 1 studies suggested that the major types of interventions selected were food subsidies and rationing (Indonesia and Bangladesh); food distributions for vulnerable groups and school feeding programmes (Cambodia, Indonesia, Bangladesh, Ghana, Kenya and Nigeria); in-kind transfers offering fertiliser (Kenya); cash transfers (Ghana); education scholarships and subsidies (Cambodia and Ghana); and public works programmes (Cambodia, Indonesia, Bangladesh).

4.3 Economy-wide and sectoral structural policies for getting the country out of the crisis

There are limits to what can be done through short-term economic and social management, which is unlikely to deal with structural challenges. Growth-enhancing policies are one way to get a country out of the crisis. For example, a fiscal stimulus may bring spending and hence growth forward, but a change in business conditions might lead to faster investment, which might raise growth now and in the future.

In our research, structural policies can include:

- Trade policies (tariffs, subsidies);
- Tax policies (e.g. corporate taxes, investment incentives);
- Competition policies;
- Industrial policies (e.g. export processing zones, technology and research and development);
- Business policies;
- Investment climate and administrative procedures;
- Human resource policies.

Such policies can be implemented economy-wide (e.g. competition policy) or at sector level (e.g. a new skills centre for garments).

The evidence in Table A6 in Annex 1 suggests that structural growth policies were changed during the global financial crisis:

- Apart from Sudan, which increased its duties on imported luxuries, there was no evidence that countries became more protectionist.
- Tanzania reduced its tax rates (VAT from 20% to 18%; reduction in income taxes), Bangladesh reduced its corporation tax (from 45% to 42.5%) and VAT was raised in Sudan to make up for the financing shortfall.
- Increases in budget to promote exports of tourism occurred in Tanzania.

Thus, the case studies indicate that some structural policies were designed, on the whole there were few new policies as a result of the crisis and very few were put on hold. Again, this is good news, as countries kept up their pro-investment reforms.

4.4 Institutional context and constraints of policymaking

Some countries have better state–business relations and institutional setups to respond to crisis. The global financial crisis has led to the setup of crisis task forces in some countries.

Several country studies (Kenya, Sudan, Zambia, DRC and Ethiopia) refer to the specific institutional arrangements adopted in each country as part of the policy response to the crisis. In general, these are coordination mechanisms to ensure communication and consultation among key government departments (e.g. prime minister's offices and ministries of finance) and with other key institutions such as central banks. In some cases, such as Sudan and Zambia, broader consultative mechanisms or processes have been put in place, involving ministries and other public and private stakeholders.

There are some similarities among the case studies in terms of suggestions that governments were initially slow to respond to the crisis (Sudan, Kenya and Ethiopia) or that the initial responses were devised as short-term emergency measures (Zambia, Bolivia and Cambodia). Government capacity is part of the explanation for this, particularly in countries confronted by multiple crisis and challenges, like DRC. Other explanations include divergence of views within government (e.g. between the Prime

Minister's Office and the Ministry of Finance in Kenya) and rent seeking that reduces fiscal space and financial reserves (e.g. Cambodia).

A small number of papers examine the intersections between the crisis and other external or internal shocks such as the food crisis and internal insecurity (e.g. Kenya, DRC and Zambia). Others analyse in some detail the impact of the crisis in specific sectors, including some reference to sectoral governance issues (e.g. oil in Bolivia and Sudan; garments in Cambodia). The Cambodia report refers explicitly to issues of competing priorities in government spending in light of the crisis, which led to controversies over a proposed increase of the defence budget in 2010.

Governance problems and capacity constraints are mentioned by almost all reports as challenges for taking forward effective policy responses to the crisis, especially in the long term. However, even when some analysis on these issues is provided (e.g. Bolivia, Sudan, Ethiopia) it does not appear to be taken into account in the detailed analysis of the sectoral policy responses.

5. The impact of the crisis: What have we learned?

This synthesis includes a series of easy-to-read comparative tables. The key implications with regard to the effects of the global financial crisis on developing countries include the following:

- The effects are larger and smaller than expected depending on the underlying perspective one takes. Compared with original suggestions that developing countries would somehow be shielded from the financial crisis, the effects are likely to be very large, with some 50-100 million new poor people. But the effects on average are manageable (e.g., on the basis of recent IMF data and forecasts, sub-Saharan African GDP will have lost 7% by the end of 2010 compared with forecasts pre-crisis, or some US$84 billion[33]), with some outliers (Cambodia and certain oil and mineral exporters, such as DRC, which needed external support), For individual countries, this is not very large compared with previous domestic shocks, although the global nature and scale of this shock have been unprecedented since the Great Depression in the 1930s.
- While all countries are being affected by the financial crisis, it should immediately be added that the impact is highly varied, from very small or no macro effects in some countries (even though disaggregated effects at sector level and in some groups may be visible) to very large effects in others.
- Financial transmission mechanisms to low-income countries initially appeared limited, and attention quickly focused on the real (trade and remittance) transmission mechanisms; however, it is now clear that bank lending, stock market contagion and worsening banking systems did propagate the crisis. One lesson is that some low-income countries are more integrated financially than is often thought.
- Another myth expelled by the crisis is that FDI is always resilient in crises (or more resilient than other flows). In fact, FDI fell significantly in countries such as DRC (even before security problems occurred), Cambodia and Bolivia. In some other countries, such as Uganda and Kenya, portfolio flows changed quickly.
- While certain types of openness have left countries more exposed to crisis, this may not always have meant increased vulnerability, as some countries have also become more resilient (e.g. Tanzania and Bolivia through good macroeconomic management, including using mineral resources to build up reserves). It is important that countries promote crisis-resilient growth, as in this way they are better prepared for recovery.
- In particular, diversification (products and destinations) is important for growth and resilience to crises. This should be promoted and could draw more attention than has previously been the case – of course in a market-friendly way, so that policy is not completely delinked from policies. It is also important to diversify sources of capital flows, such as FDI inflows. For example, Chinese FDI is now making up for some of the losses in mining in Zambia.
- Good macroeconomic management allows more scope for policy responses later. This requires good institutions in managing finances.
- Indeed, the crisis highlights that flexible institutions are important in dealing with crises. There are examples of task forces that led to policy responses to the crisis in Bangladesh, Tanzania and Mauritius, and these were set in a more institutionalised way.
- This global financial crisis has increased the importance of links between emerging markets and low-income countries.
- Policy responses in many country case studies were well designed (even though in the previous phase we asked why that there had been no responses): they used fiscal, financial and monetary policies to address short-run economic management (fiscal policies constrained by resources; monetary policies lagged owing to previous inflationary pressures), and they did not engage in major policy reversals. In fact, so-called 'doing business' reforms continued.

---

[33] This is based on comparing GDP outcomes and IMF forecasts made in February 2010, with IMF forecasts fo the period 2008-2010 made in July 2008.

- Protectionism did not affect the case study countries much, and trade finance was not mentioned as a binding constraint to trade.

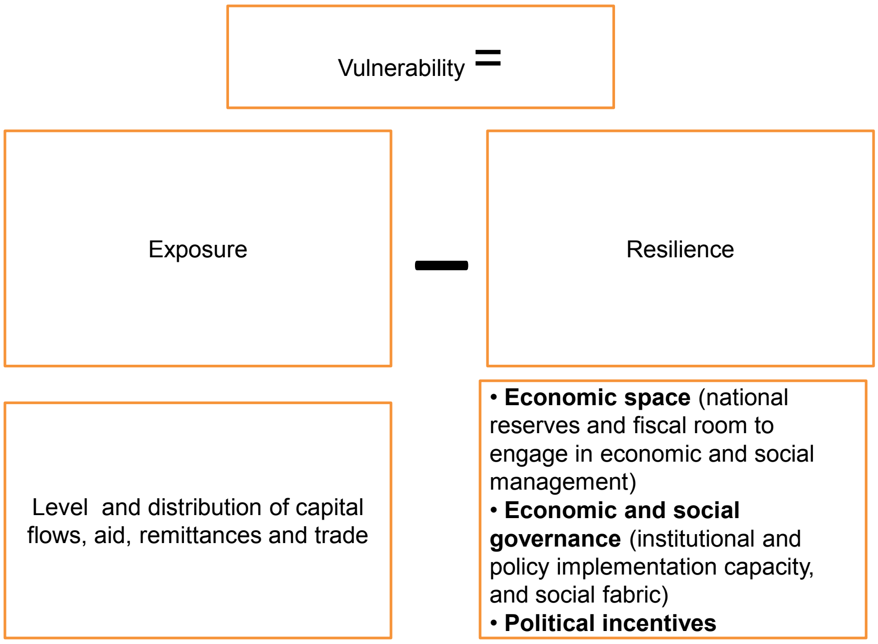
Below we elaborate on these issues beyond the actual findings from the case studies.

5.1 Crisis-resilient growth

Growth, which is crucial for development, is vulnerable to crises, with harmful long-term consequences for development. Vulnerability to crises increases with exposure, but declines with resilience. Exposure is correlated with growth, so growth involves an increase in vulnerability *ceteris paribus*. Shocks can have long-term effects on growth (as discussed by recent IMF and World Bank publications in the case of the global financial crisis), and therefore it is often efficient to reduce vulnerability, not by reducing exposure (although this might be a second best approach), as this hampers opportunities to grow, but by increasing resilience against crises. Thus, resilience has to increase more than growth in order to reduce vulnerability. We call this crisis-resilient growth. There may also be some reverse circularity in that countries that are doing better generally may also be better at handling crisis, with better institutions and better macro management.

Vulnerability equals exposure minus resilience. Exposure is often measured in terms of openness to trade, migration and capital flows. Resilience comprises economic space (e.g. fiscal room) and structures, institutional capacity and social cohesion

Figure 19: Key components of vulnerability (= exposure – resilience)



The country case methodology suggested that countries were exposed through financial and real channels. Countries with sophisticated, globalised banking sectors/stock markets or with a high share of foreign-owned banks and foreign assets and dependent on external capital flows (e.g. FDI, portfolio) were more exposed. On the real side, the most exposed countries were those

- With a significant share of exports to crisis-hit advanced economies;
- With concentrated exports in a few commodities or exporting commodities whose prices have dropped or products and services with high income elasticity of demand (e.g. tourism); or
- Heavily dependent on remittances and aid.

But it was also clear that some countries were likely to be more resilient, especially those:

- That had insured themselves against crises, e.g. countries with a current account surplus with few pressures on exchange rates and inflation rates, with high external reserves, low government deficits and healthy fiscal balances and low debts; or
- With strong policy implementation capacity and strong institutions (e.g. effective state business relations) or with social protection nets.

What have we learned from the global financial crisis on vulnerability, exposure and resilience and the promotion of crisis-resilient growth?

Countries that benefitted from globalisation and that recently grew faster have also been hit harder (e.g. Cambodia, DRC and Kenya versus Bangladesh). Concentrated export markets are more vulnerable (e.g. Cambodia), while those countries diversified into regional/agriculture markets did better (e.g. Uganda). Exporters of 'stockables' (DRC/Sudan copper, oil, etc) were affected more than exporters of 'non-stockables', but may also be expected to recover most (with no further de-stocking) given that demand and prices might recover quickly. Financially, more open countries were affected more (FDI, equity, bank lending), and countries dependent on remittances from developed countries or from informal migrants are probably affected more (Cambodia, Uganda, Bolivia compared with Bangladesh) than others (remittances from developing countries or formal channels).

But resilient countries did better than would be suggested by their exposure rates. In some cases, this depends on the nature of the fiscal structure. Countries with fiscal resources dependent on extractive industries or trade have been affected more than countries with a more diversified source of fiscal revenues. Countries with sufficient reserves and low debts were able to respond counter-cyclically, with less need for the IMF; for example, Bolivia and Tanzania were able to take a fiscal stimulus but DRC and Sudan were not. The latter countries were helped by the IMF (i.e. buying in externally imposed resilience). Countries with political willingness, capacity and good institutions were better able to respond (e.g. Tanzania). Countries that actively engaged in diversification, whether of products or markets, were also more resilient (e.g. in Mauritius tourism fell but information and communications technology grew; Kenya found that intra-East African Community (EAC) trade fell less than extra-EAC trade).

5.2 Fiscal stance

Several G-20 countries experienced budget deficits of more than 10% of GDP in 2009 in implementing large stimulus packages. This contrasts with Ethiopia, where the IMF required the government to reduce its deficit from 2.7% of GDP to zero in order to qualify for a $50 million loan in February 2009 under the ESF. There is now a debate on the timing and level of spending cuts, although in practice it is the area of spending that matters. If there is a net growth effect it is worth investing economically, although in practice social issues will also play a role and limitations in finance will also limit investment.

While the IMF has allowed more space for some governments (Kenya, Mozambique) to increase their deficits during the crisis, by around 2% of GDP, there had been pressure to reduce it. African countries need to engage in structural spending, e.g. infrastructure, so they should be able to use the space as long as it is sustainable to take on the debt (although this does not mean an indiscriminate approach to taking on debt). In several cases, deficits can lead to high debt levels and the challenge now is in how quickly countries can restore macroeconomic balances for them to be able to respond to the next crisis.

5.3 Promoting flexible institutions

To respond to the challenges of the global financial crisis and to be able to make the right policy decisions, it is important to have the right institutional framework. Research suggests that only the most institutionalised (in the formal or informal sense) countries act in an effective way (Sen and te Velde, 2009) to address market and coordination failures in development. The examples of Tanzania and Mauritius (te Velde et al., 2010) and Bangladesh show that task forces set up to deal with the crisis and with sufficient high-level participation can help prepare an appropriate response. Of course, task forces that are not set in an institutionalised setting are not helpful, as was probably the case in DRC.

5.4 Promoting diversification[34]

There needs to be a more active approach to openness and trade and finance diversification, not only because of general development concerns but also to make growth more crisis resilient and reduce exposure to the shock (e.g. regional exports in Uganda boosted by regional integration policy as well road building; information and communication technology exports in Mauritius boosted by active government investment; and foreign vs. local sources of lending) and promote domestic resource mobilisation.

One important issue in promoting trade diversification is the type. It seems more difficult to change the sectoral specialisation of a country than its trading partners. In this context, diversifying the destination for exports is a strategy with a high return in times of crisis. However, two important caveats are in order here.

First, for those countries exporting commodities, and minerals and fuel in particular, diversifying export markets is not a solution, as exports are to world markets and the export value in the short term depends on the price, which is internationally set. Obviously, in the medium to long run the export is also a function of supply capacity (e.g. capital invested in new oil explorations or to expand the area under coffee production). But even that is often ultimately driven by international prices. The crisis has shown once again how vulnerable mineral and oil markets can be to demand shocks. Therefore, countries need to build resilience to these types of shock. Not all exporters are equally able to diversify. For instance, the most feasible option for mineral and oil exporters is probably sectoral rather than market diversification. Although booming mineral export sectors are often a problem for sectoral diversification owing to 'Dutch-disease' type effects, this does not need to be the case. The example of Chile, where the copper booms have been accompanied by the development of successful non-traditional export sectors, is illustrative in this respect. It underlines the importance of managing the response to swings in commodity prices in a careful way, extracting resources from the mineral sector during boom times to manage less lenient times. As noted by Calì and te Velde (2007), if enough windfall revenues are channelled into the public sector, there will be the option of creating a trust fund to save for periods of adverse terms of trade and to take some pressure off the currency (along the lines of the Chilean experience). This would also have the effect of not constraining the growth of other sectors during mineral boom times.

Second, in the case of manufactured exports, a great many low-income countries (including least-development and African, Caribbean and Pacific countries) have often been successful only via preferential schemes such as the 'Everything but Arms' initiative in the EU and the African Growth and Opportunity Act in the US. Exploiting this preferential market access to become more competitive internationally in the preference receiving sector is key to facilitating the market diversification process.

34 The recommendation of promoting trade diversification is by no means new (e.g. Hewitt and Page, 2001), although this crisis has reminded us about its importance once again.

5.5 Did exposure to emerging markets help low-income countries weather the effects of the global financial crisis?

The country case studies show that emerging markets increasingly affect growth prospects in low-income countries. There are direct links, such as through aid, trade, remittances and global capital flows, and indirect linkages through commodity prices and competition in third markets. Emerging markets also contribute to global public goods such as climate change and governance.

Table 15 summarises information from the case studies. It shows that:

- China is an important or the most important donor in Cambodia and Sudan, and is becoming important in Kenya. It played a key role during the crisis in these countries. At the China–Africa summit in November 2009, China's Premier pledged $10 billion in new low-cost loans to Africa over the next three years, double the commitment made in the 2006 summit.
- China is a key export destination for Sudan, Zambia and DRC, but it is a competitor in third markets for garments from Bangladesh and Cambodia.
- China is a key investor in Cambodia, DRC, Sudan and Zambia
- The economic situation of other BRICs countries (Brazil, Russia, India, China) is also important for low-income countries. Brazil imports gas from Bolivia, South Africa is responsible for remittances to and exports from Mozambique and Russia is an emerging destination for Cambodian garments, Tanzanian tea and Ethiopian flowers. India has links in most countries: Sudan (financing deficit); Tanzania and Mozambique (cashew nuts imports) and Zambia (FDI).

Strong growth in emerging markets helped low-income countries during the boom time. it is also helping low-income countries overcome the worst effects of the crisis. With strong growth in China and India, demand for and prices of copper have boosted exports from DRC and Zambia. China and India have helped finance (through aid and through FDI) development finance shortfalls arising out of the crisis. Their continued strong performance is now helping to boost other trade. On the other hand, the large fiscal stimuli in China for infrastructure that benefited exporters meant that cheaper garment exports were in direct competition with Bangladeshi and Cambodian exports.

Table 15: Relation of the case study countries to large emerging countries (aid, trade, remittances, FDI)

Bolivia	**Trade:** Hydrocarbon sector grew rapidly until 2004 when export volumes of natural gas to *Brazil* reached the levels established by export contracts – then growth rates reduced; the hydrocarbon sector grew at annual average rate of 6.5% between 2005 and 2008. In 2009, gas exports started to fall (-12%) because *Brazl* imported less owing to lower demand as a result of the global financial crisis. Total export volume dropped 3.6% in the first three quarters of 2009, accounted for by the 25% drop in hydrocarbon export volumes.
Cambodia	**Aid:** Cambodia is highly aid dependent, especially for social interventions and capital expenditures. *China*, now Cambodia's top donor, increased financing, topping up its 2008 aid pledge of $260 million with an additional $593 million for various infrastructure projects. **Trade:** On the other hand, Cambodia is losing ground to *China* in the garment industry after safeguards imposed against Chinese garments were removed through the Agreement on Textiles and Clothing. Total clothing export values have fallen consistently since November 2008, reaching a low of -24% in April 2009. *Russia*, on the other hand, offers potential for market diversification in the garment industry.
DRC	**FDI:** Artisanal production and small-scale mining are the most important segments of the mining sector, which contributes between 70% and 80% of export earnings and 8% of GDP. Diggers, especially in the heterogenite artisanal mines of Katanga province, are employed mostly by *Chinese* companies, **Trade:** a big portion is exported through Zambia to *South Africa*, *China*, *India* and Malaysia.

Sudan	**Aid:** After accumulating huge external debts of more than $34 billion in 2008, Sudan was forced to ask for non-concessional development aid from regional development Arab funds and from *China* and *India* to finance the external deficit. **Trade:** Oil exports have shifted from Sudan's traditional markets in Europe, the US and the Middle East to Asian countries (*China*, Japan, Indonesia, *India*, *South Korea*, Thailand and Malaysia). Asian countries' share in Sudan's exports increased from 44% in 2000 to more than 90% in 2008. **FDI:** FDI grew at an annual average of 82.3% in 2000-2005 (mainly from *China*, Malaysia and *India*). FDI has been directed mainly towards the oil sector (more than 80%), with the remaining share going to agriculture, construction and transportation.
Tanzania	**Aid:** Financial houses, such as Exim Bank and Access Bank, have received special grants from *India* to help cushion the effects of the crisis by extending special credit to agriculture, value addition and other businesses. **FDI:** While the UK is the major source of investment in Tanzania, Kenya, *South Africa* and *India* also contribute. Tanzania received $695.5 million in FDI in 2008 compared with $653 million in 2007, an increase of 6.4%. **Trade:** Price of tea (Mombasa auction) rose from $1.71 per kg in July 2007 to $2.24 per kg in July 2009 owing to strong demand from *Russia*, the Middle East and Pakistan.
Zambia	**FDI:** Increase in FDI inflows in Zambia during the past eight years, from $121.7 million in 2000 to $939 in 2008. Among the main sources of FDI are *China*, *India*, *South Africa* and Canada. Recent Chinese FDI may make up for some of the employment losses resulting from mine closures elsewhere. During the third quarter of 2008, there were nine foreign-owned and four domestically owned banks. Between January and November 2009, three new subsidiaries of foreign banks invested in Zambia. Parent foreign banks come from the UK, the US, *South Africa*, Zimbabwe, *China* and Nigeria. Subsidiaries of foreign banks from the UK and *South Africa* dominate assets, loans and deposits. **Trade:** Copper has retained its position as the largest source of foreign exchange. Most copper, and its associated products, is destined for *China* and Europe.
Bangladesh	**Trade:** Bangladesh competes with *China* in exporting apparel items to the US. China, the largest exporter in the US market, sustained and even managed to improve its share in the (shrinking) market during the recessionary period. China's market share increased by more than 5.0% in 2009 (data available up to September 2009) (compared with 2007), to 43% in the third quarter of 2009. Bangladesh's market share of apparel items also increased, although marginally, by 1.5% in 2009 from 2007. Against this, Bangladesh's share in the US market has reduced to about 4.9%, testifying to the lagged response. **Aid:** Bangladesh is currently negotiating with *China* for enhanced aid support.
Mozambique	**Trade:** The fact that 68% of Mozambican exports go to the EU (59%) and to *South African* (9%) markets, which have been severely impacted by the crisis, helps explain why exports have declined sharply. Other main destinations for national exports are Zimbabwe, *China* (mostly timber), Malawi (mostly tobacco) and *India* (mostly cashew nuts). Sectors showing remarkable growth in the first three quarters of 2009 compared with the same period in 2008 were water and electricity (9.4%), mostly because of expansion in exports of gas and electricity to *South Africa*, and construction (10.7%), mainly because of public expenditure on infrastructure and investment in megaprojects. **Remittances:** Inflows of workers' remittances and employees' compensation come mainly from the salaries of Mozambican migrant workers in the *South African* mines. These have represented less than 1% of GDP in the past five years. More recently, outflows of remittances related to FDI have increased.
Ethiopia	**Trade:** To enhance its reserves, the government of Ethiopia implemented a foreign currency-denominated diaspora bond and currency swap arrangement with *China*. The government is trying to diversify the market for flowers. To offset declining sales of flowers in the Netherlands, its main market, the government is aiming to attract buyers from Dubai, *Asia*, Scandinavia, *Russia* and the US
Kenya	**Aid:** *China* is a significant provider of infrastructure assistance. Loans and grants from China became significant after 2002, when a new government was elected, when China's share in total aid moved above 1%, with the share increasing to 8.25% by 2005.

References

Beattie, A. (2010) 'Rapid Global Trade Recovery Continues'. *The Financial Times* 1 March.

Baldwin, D. and S. Evenett (2009) 'Don't Let Murky Protectionism Stall a Global Recovery'. www.voxeu.org/index.php?q=node/3206.

Calì, M., with S. Dell'Erba, (2009) *The Global Financial Crisis and Remittances: What Past Evidence Suggests*. Working Paper 303. London, UK: ODI.

Calì, M. and D.W. te Velde (2007) *Is Zambia Contracting Dutch disease?* Working Paper 279. London: ODI.

Docquier, F. and H. Rapoport (2004) *Skilled Migration: The Perspective of Developing Countries*. Policy Research Working Paper 3382. Washington, DC: World Bank.

Eichengreen, K. O'Rourke, B. (2009) 'A Tale of Two Depressions'. www.voxeu.org/index.php?q=node/3421.

Escaith, H. (2009) 'Trade Collapse, Trade Relapse and Global Production Networks: Supply Chains in the Great Recession'. Conference Paper for OECD Roundtable on Globalisation and Global Value Chains. Paris, 28 October.

Freund, C. (2009) 'The Trade Response to Global Downturns', www.voxeu.org/index.php?q=node/4276.

International Monetary Fund (2009) 'The Implications of the Global Financial Crisis for Low-income Countries'. Washington, DC: IMF.

Ito., H. and M. Chinn (2007) 'A New Measure of Financial Openness'. http://web.pdx.edu/~ito/.

Page, S. and A. Hewitt (2001) *World Commodity Prices: Still a Problem for Developing Countries*. London: ODI.

Sen, K. and D.W. te Velde (2009) 'State Business Relations and Economic Growth in Sub-Saharan Africa'. *Journal of Development Studies* 45(8): 1267-1283.

te Velde, D.W. (2009) 'The Global Financial Crisis and Developing Countries: An Update of the Monitoring Work'. London, UK: ODI.

te Velde, D.W. with C. Ackah, O. Ajakaiye, E. Aryeetey, D. Bhattacharya, M. Calì, T. Fakiyesi, A.G. Fulbert, H. Jalilian, L.C. Jemio, J. Keane, J. Kennan, I. Massa, A. McCord, M. Meyn, M. Ndulo, M. Rahman, I. Setiati, H. Soesastro, S. Ssewanyana, M. Vandemoortele and others (2009) *The Global Financial Crisis and Developing Countries: Synthesis of the Findings of 10 Country Case Studies*. Working Paper 306. London, UK: ODI.

te Velde, D.W. and I. Massa (2009) 'Donor Responses to the Global Financial Crisis: A Stock Take'. London: ODI.

Annex 1: Text tables

Table A1: The global financial crisis and aid flows – evidence at the country level

	Recent trends in aid	Aid in 2009	Was there any support from World Bank/IMF programmes or loans?
Bangladesh	In FY2008/09 a total amount of $1726.9 million was disbursed. This was approximately $335 million (15%) less than the amount disbursed over the previous fiscal year.	Figures for July-August FY2009/10 are also on the downside, indicating a decline of 90.3% in net foreign aid disbursement, with gross disbursement falling substantially from $315.2 million in FY2008/09 (July-August) to $22.3 million in FY2009/10 (July-August). The ADB earlier announced it was going to increase the annual assistance package to Bangladesh by 33% to $800 million annually during FY2009/11.	SDR allocation by **IMF:** On 1 September 2009, Bangladesh received $735 million from the G-20-supported general allocation (total equivalent to $250 billion to boost global liquidity). Large commitments by the **World Bank** and **ADB**
Bolivia			
Cambodia	$1 billion was pledged in late 2008 for 2009.	There has been no known cutback in total aid commitment. Rather, total committed aid increased. China topped up its aid pledge back in 2008 of about $260 million with an additional $593 million funding for various infrastructure projects of the government.	
DRC	Aid level in 2008 was much higher than in 2007 at around $1022 million.		DRC was one of the first two countries benefiting from the **World Bank** International Development Association (IDA) Financial Crisis Response Fast Track Facility. $100 million was approved to assist the country on three aspects to combat the crisis: 1) $58 million reserved to ensure the availability of critical imported goods; 2) $16 million to protect the functioning of essential social services; 3) $26 million for maintenance of basic utility services. The European Commission (**EC**) launched a new initiative on 8 April 2009, announcing €500 million, to be disbursed in budgetary support to those countries most hit by the crisis –DRC will be one of the recipients. The African Development Bank (**AfDB**) has set aside $95 million similar to that of the World Bank with different components, assisting the country with a mix of BoP support for the import of essential goods and budgetary support to ensure essential services.

Ethiopia	Aid flows into Ethiopia increased steadily from 2007-2009.	The Ethiopians are expecting a general decrease in aid flows.	Most country assistance strategies were prepared and signed before the crisis and are still in force. The government managed to obtain $240.6 million since August 2009 under the high access component of the ESF. The government also obtained a significant increase in aid from the **World Bank** (mainly IDA) in 2009Q2.
Kenya	The OECD Development Assistance Committee (DAC) database shows a substantial decline in foreign aid to the country in 2008. Kenya received only $64.1 million in 2008 (compared with $1131.1 million in 2007).		The principal source of multilateral loans has been the **World Bank**, which has pledged to fund 82 projects in the country in 2009.
Mozambique		For 2010, donors have announced a reduction in the budget support component of aid, which will result in a reduction of aid coverage of the budget.	The **IMF** has provided $176 million of support to the BoP under the ESF and SDR 283 million to build external reserves. The **World Bank** disbursed $110 million in 2009, initially allocated for 2010.
Sudan	Aid increased from $47 million in 2005 to $52 million in 2008.	$4.8 billion was pledged in support of humanitarian, recovery and development efforts in the whole country for the period 2008-2011. The funds will partly be managed by the Multi-Donor Trust Fund (MDTF) administration under guidance of the World Bank (which will receive $650 million) and partly by the newly created Sudan Recovery Fund, which will be managed by the UN. But overall foreign aid is expected to decline.	For the period 2005-2011, donor commitments were covered by the Oslo agreements. This will be managed by the **World Bank**. Total aid commitments (under Oslo 1 and 2) amounted to $839.4 million (of which $246 million – 29% – is for the north and $593.4 million – 71% – for the south).The actual amount of these commitments received was $784.8 million: the north got $260.9 million – 33.2% - and the south $523.9 million – 66.8%.
Tanzania			
Uganda	There has been a decline in aid to Uganda since 2006/07; aid declined from $426.60 million in 2007/08 to $401.96 million in 2008/09 (5.8%).	There is no indication of cutbacks on assistance as a result of the crisis.	
Zambia	Generally, aid flows have not been affected by the global financial crisis. Donor pledges towards both the 2009 and 2010 national budgets have not been revised.		Following the G-20 London Summit, the **IMF** authorised the provision of a one-time allocation of general SDRs to supplement foreign exchange reserves. A total of $628 million was provided to government by 2009Q3.

Table A2: Balance of payments in case study countries

	Current account balance – trends up to Y2008 (US$m)	Current account – Y2009 in (US$m)	Exchange rate developments: effects?
Bangladesh			Bangladesh Bank has been periodically purchasing (and selling) US dollars from the open market to keep the taka-dollar exchange rate stable. Because of the weakening dollar against major currencies such as the euro, Japanese yen and Indian rupee throughout 2009, the taka remaining stable against the dollar implied some depreciation of the taka against those currencies. Between 1 January and 11 November 2009, the taka depreciated by 6.3% against the euro, 5.4% against the rupee and 0.2% against the yen and appreciated only marginally against the dollar by 0.3%.
Bolivia	Increased exports and remittances witnessed in recent years caused the current account balance to exhibit continuous and increasing surpluses, which went up from a quarterly average of $84.3 million in 2004 to $503 million in 2008, representing a six-fold increase for that period.	Starting from 2008Q4 and during 2009Q1 and Q2, the current account surplus dropped to $384 million, to $160 million and to $227 million.	During the crisis, the central bank decided to peg the exchange rate. The Boliviano was appreciated vis-à-vis the US dollar at an annual rate that in July 2008 was 9.8%. A high inflation rate and the nominal appreciation of the exchange rate caused the real exchange rate to appreciate at an annual rate which in February 2009 was 21.5%. In the second half of 2008 and during 2009, the central bank discontinued its policy of exchange rate appreciations and pegged the exchange rate at a level of Bs.7.07 per dollar.
Cambodia		The BoP is expected to turn negative despite a narrower current account.	While the riel/US dollar exchange rate also exhibited stability over time, with central bank interventions reversing short-term volatilities, there have been short periods of strengthening and weakening of the riel against the dollar over the period of the crisis, which have plausibly affected the competitiveness of Cambodian exports and costs of imports. In terms of real effective exchange rate, that of the country saw significant appreciation.
DRC	IMF current account figures 2007: -$153 million, which increased to -$1743 million in 2008.	Projections for 2009: -$2658 million.	Large government borrowing from the central bank induced a depletion of gross official reserves, accelerated the depreciation of the franc against the US dollar and led the inflation rate to increase. For the whole of 2008, inflation reached 27.6%. The gliding inflation rate, counting April 2008 to end-March 2009, even reached 50% according to most recent IMF estimates. Inflation for 2009 is projected at 27%, identical to the inflation level reached in the first four months of 2009.

Kenya	With the crisis accompanied by reduced exports and a large imports bill (e.g. of food and oil), the current account deficit has widened, continuing an earlier trend. The current account deficit, for example, rose from $1.10 billion in 2007 to $2.12 billion in 2008, attributed mainly to the huge increase in the value of oil imports of $1.12 billion. The oil bill increased from $739 million in 2008Q2 to $1081 million in 2008Q3 but significantly declined to $540 million in 2008Q4 as a result of the fall in international oil prices. This increased imbalance in the context of reduced capital inflows has caused a depreciation of the shilling as well as a running down of foreign exchange reserves.	The current account deficit increased further from $1470 million in the year to August 2008 to $2388 in the year to August 2009 as a result of reduced current transfers.	In 2008, the shilling depreciated by 22.6% against the US dollar and by 15.6% since July 2008 as capital outflows increased. Between January and September 2009, the shilling appreciated by 3.1%. According to the central bank, the real effective exchange rate appreciated by 2.6% between June 2008 and June 2009, reflecting higher inflation in Kenya relative to inflation in trading partner countries, and by 10.0% between June 2008 and September 2009, according to the IMF.
Mozambique	January-September 2008: -$567.3 million.	January-September 2009: -$561.1. Therefore, there was a variance of -1.1%.	The reduction in imported inflation, resulting from the fall in import prices and the fuel price subsidy, opened space for the correction of the overvalued currency without putting strong pressures on inflation. Therefore, from January to September, the currency depreciated 10% against the US dollar and 16% in real effective terms while accumulated inflation until October was 1.4% with an expected annual rate of 3.5%.
Sudan	On the other hand, the current account deficit is expected to increase to an average of $2.9 billion (5.5% of GDP in 2009-2010). The current account balance as a percentage of GDP was projected by the AfDB before the crisis to amount to -6.73% in 2009 and -6.8% in 2010. After the crisis, projections amounted to -13.83% in 2009 and -15.86% in 2010.		The government pegged local currency to the euro; the euro depreciated owing to deep recession, which led to further depreciation of the local currency, which in turn did not make Sudanese non-oil exports more competitive, because of incapacity and structural rigidities in the economy.

Tanzania	The current account deficit narrowed to $2060.7 million from a deficit of $2950.4 million recorded in the same period in 2008.		The value of the shilling depreciated by 12.9% by September 2009 to an average of Tsh1308.9 from Tsh1159.5 in September 2008. This fall was attributed to increased demand for foreign exchange in 2009, partly because of speculative gains and partly because of reduced foreign earnings relative to import requirements demand. However, the value of the shilling has been maintained within a narrow band against the US dollar in line with the sustained supply of foreign currency in the market by the Bank of Tanzania. The annual exchange rate averaged Tsh1317.4 per dollar in 2009 compared with an annual average of Tsh1195.8 in 2008, a depreciation of 10.2%.
Uganda	During 2008/09Q2, the BoP slipped to a deficit of $229.5 million from $205.92 million in the same period in 2007/08 – largely explained by poor performance of the export sector. During 2008/09Q3, Uganda's BoP registered a surplus of $193.35 million and improved further to $260.41 million in Q4. Notably, the year-on-year Q4 BoP increased from $260.41 million in 2008/09 compared with $62.37 million in the same period in 2007/08.		The shilling depreciated and reached a peak in May 2009. The strengthening of the shilling is noted since that time, almost reaching its level in October 2008. On a quarterly basis, the shilling weakened by 17.4% in 2008/09Q3 compared with the same period in FY2007/08 and it continued to weaken in Q4, by 24.5%.
Zambia	As a result of economic crisis, the BoP current account moved from a surplus of $85 million (2008Q2) to a deficit of $260 million (2009Q1) and $90.1 million (2009Q2) before moving back into surplus during 2009Q3 following the rebound in copper prices.		There is a strong correlation between the exchange rate and copper prices. Between October 2008 and April 2009, the kwacha depreciated from K4044 to K5660 per dollar. This represents a monthly average of 5% and 40% depreciation during the period. It has appreciated steadily since May 2009.

Table A3: Growth and sectoral effects

	Growth rate 2008	Growth rate 2009	What sectors slowed down?	What sectors are growing?
Bangladesh		Depressed global economic situation has led to lower domestic investment, eventually leading to lower than projected GDP growth in FY2008/09 from a targeted 6.5%: 5.9% growth was achieved.	The *leather industry* was particularly affected, with its export figure declining by 37.6%. *Exports of tea, agricultural products* and *frozen foods* were also significantly affected.	*Knit and woven* RMG have maintained impressive growth rates, alongside positive levels for chemical, footwear and home textiles. During FY2008/09, the quantum index of production of medium and large-scale manufacturing industries registered a growth of 7.4%. Major primary product groups recorded a relatively low production growth of 0.8%; however, higher growth of apparels meant that export-oriented manufacturing industry recorded a modest 10.6% growth during the same period. During FY 2009/10Q1 only *export of electronics* managed to record substantial positive growth, of 54.8%.
Bolivia	GDP growth went up to 6.3%. Negative effects on growth had been already felt in 2008Q4, when quarterly growth dropped to 4%, after a period in which the economy was growing at rates close to 7% i.e. during the first three quarters of that year.	Lower growth rates witnessed in 2009. In 2010, the economy is expected to grow by 3.2%, a rate slightly lower than that expected for Latin America as a whole.	Lower growth rates witnessed in 2009 were basically the result of the highly negative growth rate exhibited by *hydrocarbons* (-13.7%), because of lower demand for natural gas from Brazil and Argentina.	Growth is positively influenced by the significant recovery of the *mining sector*, as a result of export price increases occurring during 2009 in international markets. *Construction* was another sector that presented a high growth rate during 2009, owing to the boost in public investment and to larger investment in private residential construction.
Cambodia	After growing at an annual average of 9.3% in 1998-2007, output growth slipped to an estimated 6.8% in 2008.	Official growth was forecast to be 6%. This was soon revised – the IMF, World Bank and ADB downgraded their 2009 growth estimates to -2.7%, -2.2% and -1.5%, respectively.	Cambodia's *garment sector* endured a sudden sharp contraction by almost 30% in 2008Q4. Cambodia's *tourism sector* visibly decelerated, suspending its double-digit average growth of the past decade. In 2008, it grew at significantly less than the 2007 growth of 10.3% and the decade average of about 13%. 2008Q4 particularly marked the start of the	*Agriculture* has been able to overcome the erratic growth pattern that it featured in earlier years with stable growth of about 5%.

			slowdown as year-on-year growth of tourist arrivals turned consistently negative, which carried on into 2009Q1. The *construction sector* also succumbed hard to the impact of the crisis via the investment channel and to the effects of the bursting of the domestic real estate bubble. Available data suggest that the sector's growth receded to 5.8% in 2008 from 6.7% in 2007, although another estimate placed 2008 growth at only 3%. For 2009, a double-digit contraction in the sector is expected.	
DRC	The projected rate of growth in 2008 was 10% then scaled down to 6%.	Estimated rate of growth of real GDP at 2.7% in 2009.	The *mining sector* has been forced to adjust by scaling down production, closing some companies and curtailing jobs. Sectors such as *construction and transportation* – which are linked to it – suffered downturn too.	Growth was also maintained in the *agriculture sector* with a contribution to growth of 18.8%.
Ethiopia	The average growth rate in the period 2005/06-2007/08 was 11%.	For 2008/09 the government expected growth of 11.2%, while IMF and World Bank projections are much lower, at 7.5% and 6%, respectively. For 2009/10, both the IMF and the Bank forecast growth of 7%.	The crisis is affecting the *flower sector* through a contraction in demand, especially from European countries, which are the main buyers, and declining prices. Ethiopia is expecting to earn only 60% of a projected $280 million from flower exports in the year 2008/09.	

Kenya	In 2008, the growth rate declined to 2.1%.	In 2009Q1, the growth rate was 4%, declining to 2.1% in Q2. The government expects the economy to grow at 3.9% in 2009. AIG Investment, on the other hand, downgraded Kenya's economic growth prospects from the 3% it had forecast late in 2008 to 2%. Other analysts predict that the economy will grow by 2.5% in 2009, hindered by poor rains and the crisis.	The recent performance of Kenya's *coffee exports*, which fell (with some recovery in 2007 and a decline in 2008), was partially offset by changes in the shilling price of coffee.	From a major decline in 2008, the *tourism sector* experienced some recovery in 2009. According to some estimates, by November 2009, tourism arrivals and earnings were up 90% from 2008. *Tea exports* increased by 5.4% and earnings by 36.2% in 2008. Despite a production shortfall in 2009, earnings from tea exports increased by 17% in the first half of 2009 owing to increased tea prices. *Horticultural exports* increased by 4.5% and earnings by 24.6% in 2008. Between January and August 2009, horticultural output declined, attributed mainly to a decline in flower production, which dropped 30% by October 2009, with exports moving in the same direction. Volume of *coffee exports* declined by 24.5% in 2008, with coffee earnings roughly unchanged. Coffee production peaked at 130,000mt in the 1988/89 crop year, systematically declining since then. Less than 54,000mt of exports were expected in 2009.
Mozambique	6.8% GDP growth rate in 2008.	While the government projects a 2009 annual growth rate of 5.8%, the IMF projects a 4.5% growth rate. Government quarterly data show that real GDP grew by 5.9%, 6.1% and 6.5% in Q1, Q2 and Q3 of 2009, respectively.	Output of the manufacturing industry contracted slightly, by 0.1%.	In January-September 2009, *agriculture* showed remarkable growth thanks to a good harvesting season, evidencing that the sector is more vulnerable to climate than to factors related to the global economic crisis. Production in this sector grew by 11.7% in the first three quarters, and has been the main driver of the overall economic growth. *Industry* has also grown, mostly because of mining, which grew by 6.7%. *Other sectors* showing remarkable growth in Q1-Q3 of 2009 compared with the same period of 2008 were water and electricity (9.4%), mostly because of expansion of exports of gas and electricity to South Africa, and construction (10.7%).

Sudan	The AfDB revised its projections downwards and is expecting a GDP growth rate of 8.4% in 2008 and 5% in 2009.	According to the Central Bank of Sudan, the real GDP growth rate is estimated at 4.9% in 2009 and around 5% in 2010. The World Bank projected a GDP growth rate of 7.7% in 2009, 7.5% in 2010 and 5.5% in 2012. The EIU forecasts that real GDP growth will shrink to an average of 3.1% in 2009-2010. The IMF projected a GDP rate of growth equal to 4% in 2009 and 5% in 2010.	According to the World Bank, *oil prices* are projected to decline to 52% in 2009 from an estimated $97 per barrel in 2008, where the oil exports terms of trade will deteriorate by an estimated 44.8%. The gloomy projection extends to lower demand for the Sudan *non-oil products* (namely, livestock, gum Arabic, sesame, and other agricultural commodities), and the IMF has projected that Sudan will need 10 years to return to its export performance before 2008.	
Tanzania		Before the crisis, the economy was projected to increase by 8% in 2009; as a result of the crisis, economic growth was projected to grow at 5-6% for year 2009/10.	*Traditional crops* faced a -0.2% change in growth in 2007/08-2008/09, *minerals and gemstones* -3.9% and *non-traditional goods* -4.2%. Demand for *Tanzanian cotton products* also declined in the world market leading to a domestic market crisis, as international prices fell by 40%, leading to a pile-up of unsold cotton stock in warehouses. As a consequence of reduced business profitability and individual incomes, there are already indications that domestic revenue collection in FY2009/10 will experience a 10% shortfall of its 4.73 trillion shilling ($3.53 billion) target. The *leather industry* has been affected by the crisis: between September 2008 and July 2009 the	The gold sector fared better.

			prices of different types of livestock leather declined from $1500 to $500 per ton for salt leather and from $1100 to $350 per ton for ghafi leather. Additionally, the *tourism industry* generated Tsh41.6 billion in 2008, which is less than the anticipated revenue of at least Tsh49.9 billion. The *price of diamonds* was also affected, recording a decrease of 26%, i.e. from $8870 per carat in September 2008 to $6608 per carat in April 2009.	
Uganda			*Coffee export* earnings continued to drop during the year, with earnings reaching $336.39 million down from $348.63 million in 2007/08 (-3.5 %). The regional *fish trade* registered a significant decline. Fish exports within the region on a year-to-year basis in 2008/09Q4 declined by 37%. The corresponding figure for the fish trade with the rest of the world was 34.6%.	The *agricultural* sector grew almost three-fold in 2008/09 relative to 2007/08. The growth in the forestry sub-sector enabled agriculture to register this positive growth despite a sharp decline in the cash crop sub-sector from 9% in 2007/08 to 5.6% in 2008/09. The food crop sub-sector registered a marginal increase in real growth from 2.4-2.9% in 2007/08 and 2008/09, respectively. Within the industry sector, manufacturing grew from 7.3% in 2007/08 to 9% in 2008/09.
Zambia		The growth rate was slower than the projected 7% per annum for the Fifth National Development Plan. According to the Central Statistical Office, if copper prices continue to increase, growth could even increase to 6.3% during 2009 (and this has	*Mining*: In 2009Q2 production and export of copper were higher than during the same period in 2008.The increased output could be explained by the increased copper prices, the reopening of closed mines and the opening of the Lumwana copper mine. This recovery has been the major driver of the surging recovery in Zambia. *Manufacturing*: The sector has been	*Agriculture:* Agricultural units producing exportable products such as soya beans and cotton were adversely affected by lower export prices, but overall the sector performed fairly well and is expected to grow by 5.2% during 2009 because of good rainfall in the 2008/09 season. However, the sector is still faced with major infrastructural and marketing problems and, because of its undiversified nature, is unlikely to be a cushion for external shocks.

		now been confirmed by the IMF).	adversely affected because of the rise of the cost of imported inputs owing to the depreciation of the kwacha. This is especially severe given the high import dependence of production in the sector. *Tourism*: The sector may decline from 2008Q4 to 2009Q1, although it is variable (88,066 passengers arrived in 2009Q1, increasing to 102,918 in 2009Q3).	

Table A4: Government revenue in 11 case studies

	Has the fiscal deficit widened in the most recent year of data (report data)	Has there been an increase in government expenditure? How much and in which areas?	Has there been a decrease in tax take? Which taxes and how much?
Bangladesh	Bangladesh's budget deficit has been under control in recent times, amounting to 3.3% of GDP in FY2008/09. In the face of the deepening impact of the crisis, the government had to opt for a higher deficit that could create some inflationary pressure if the budgetary expenditure targets are realised at the end of the fiscal year.	With the onslaught of the crisis, the government attempted to go for greater resourced generation at domestic levels to reduce the expected higher deficit.	In July-September FY2009/10, revenue earnings of the government from import-related duties declined (-2.7%) compared with the same period of FY2008/09. VAT at import stage recorded -8.7% growth, while import duties also decreased by (-2.3%). Supplementary duty achieved impressive 20.3% growth, which somewhat offset the decline from other sources. This was mainly thanks to the proposed new duty structure announced in the budget for FY2009/10. The crisis has reinforced the need for greater emphasis on direct taxes as a source for domestic revenue mobilisation in Bangladesh. Direct taxes account for only 21% of total revenue earnings (FY2008/09).
Bolivia	Government's total revenues increased by 57.8% in real terms between 2004 and 2008. During the same period, expenditures rose by 29.2%.With the outbreak of the crisis, revenues tended to decrease, because of reduced prices of oil and natural gas which brought down fiscal revenues dependent on the hydrocarbon rent. During the first quarter of 2009, Bolivia exhibited external and fiscal surpluses of 2.2% and 2.25% of GDP, respectively. The fiscal balance exhibited a surplus, despite a drop in fiscal revenues and an expansion in expenditures.	Because of fiscal and revenue surpluses, government resorted to fiscal policy to conduct countercyclical policies, in order to offset the negative effects of the crisis on activity and employment. Three types of bonuses were created as a means of transferring resources to the poorest. The fiscal cost of these amounts to $363.9 million (2.27% of GDP) and comprises: 1) *Renta Dignidad*, a transfer to elderly people totalling $267.2 million (1.7% of GDP); 2) *Bono Juancito Pinto*, a transfer to school children totalling $27.7 million (0.2% of GDP); and 3) *Bono Juana Azurduy*, a transfer to pregnant women totalling $69 million (0.22% of GDP).	The share of hydrocarbon taxes in total tax revenues increased from 10.8% in 2004 to 32.5% in 2008. However, since the outbreak of the crisis, there has been a reduction in hydrocarbon export revenues and the fiscal balance surplus has tended to reduce.

DRC	The widening of the current account deficit to about 11% of GDP, which stemmed from the slowdown in exports, was countered by the almost 80% increase in FDI inflows and expansion of the net foreign assets of commercial banks.	Falling export prices in late 2008 contributed, together with a surge in public spending to tackle the escalating conflict in the Kivu region, to weakening macroeconomic performance. Thus, the higher spending and the slowdown in export revenue resulted in large government borrowing from the central bank. The crisis reduced revenues, mainly those from mining and from oil producers, but most importantly security and humanitarian problems in the east of the country put an enormous pressure on the expenditure side. These evolutions led to fiscal deficits starting from September onwards, with a gap of $134 million over the last months of 2008.	
Ethiopia	Government revenue fell from 16.1% of GDP in 2003/04 to 12.7% of GDP in 2006/07 to 12.2% of GDP in 2008/09.	Government expenditures fell from 23.7% in 2003/04 to 17.6% in 2008/09. Given that, in the past three years poverty-targeted expenditures accounted about 63% of total government expenditure, it is likely that any adverse effect of the financial crisis on government expenditure will have a serious implication on poverty.	The crisis is likely to have adversely affected government revenues through a reduction in import duties and taxes, which represented: 56% of tax revenues and 40% of total revenue in 2007/08, and in income taxes as well.
Mozambique	No, as fiscal revenues grew at 9.5% (15.1% in 2008).		No, VAT was collected from internal operations, being its single most important component, growing at 15.3% (9.4% in 2008). The biggest reduction in the growth rate was registered on the VAT from external operations, which grew by 0.6% (21.2% in 2008).

Sudan	Central government's budget depends strictly on oil revenues, which in 2007 represented about 64% of total revenues. The crisis caused an enormous reduction in budget revenue (50%) because of the sharp decline in oil prices from $147 to $47 a barrel. The result was variability of 20-35% in the spending of various government units. This led to a widening of the fiscal deficit. The World Bank predicts that the ratio of government revenues to GDP will decline from: 22.8% in 2008 to 20% in 2010 and 18% in 2012. The IMF has also provided some even lower projections for the revenues and similar projections for expenditures as a percent of GDP in 2010. The revenue ratio to GDP will drop to 16% by the end of 2009 and is projected to decline to 16.6% in 2010, whereas expenditures are projected to decline to 19.8% in 2010.	Also, expenditures will decline from 23% in 2008 to 19.3% in 2009 and reach even lower levels in 2010.	There was an increase in tax take: expected impacts on stock and financial markets were very low owing to the lack of direct links to international markets and absence of foreign investors in the Sudanese market. The Government of National Unity responded to the decline in oil revenues by swiftly increasing VAT, from 10% to 15% in 2007 and to 20% on telecommunications in 2008, also introducing a development tax of 5% and scaling up customs duties on imported cars and luxuries.
Tanzania	Not really: government registered a shortfall of about Tsh151 billion against its revenue projection. The shortfall is attributed to indirect taxes and international trade revenue, in particular import duty, petroleum duty. Domestic revenue performed poorly compared with international revenues in 2008/09 relative to 2007/08 – largely from low domestic demand especially for beers, cement and airtime. Towards the end of 2008/09Q4, the trend seems to have reversed, with domestic revenues increasing by on a year-to-year		Tax revenue collection during the first three quarters of 2009 was 11.4% of GDP compared with 10.8% of GDP during the corresponding period in 2008. Total revenue collection was 91.5% of budget projections. Good performance was recorded in taxes of local goods whereby revenue collection was 21.6% higher compared with the corresponding period of FY2007/08.

	basis by 44% in nominal terms. PAYE increased by 45.9% and 36.3% for indirect taxes in the same period. Government continued to reform the tax system to modernise, broaden and enhance domestic revenue collection, even though its expenditure in 2008/09 was below budget estimates. Recurrent expenditure was 94.6% of estimates and development expenditure was 74.5%. Total government expenditure during 2008/09 was 17.3% of GDP, out of which recurrent expenditure was 11.7% of GDP.		
Zambia	The crisis compounded the fact that overall tax revenue has been declining relative to GDP in recent years. This averaged around 18% between 2005 and 2007. It dropped to 15.6 % in 2009 and is likely to remain at that level during 2010.	The mines have continued to contribute little revenue, and corporate income tax and tariff revenues have declined because of the crisis. Government has been unable to proceed with planned increases in public expenditure because the anticipated substantial increase in mining tax evaporated following the crisis. The upsurge in copper prices in 2009 put in question the government's hasty decision to remove the windfall tax.	Government attempts to reform the mining tax regime were undermined by fears of further mining job losses following falling copper prices in 2008.

Table A5: Employment and poverty effects

	Employment effects	Poverty effects	Other (e.g. rural–urban, gender)
Bangladesh	The resilience of the economy during FY2008/09 contributed towards containing the adverse impacts on the employment situation. Relatively high growth of agriculture had a positive impact from the labour absorption perspective. Growth of employment opportunities in industry is expected to slow down; only 0.4 million job opportunities were expected to be created in FY2008/09. According to the projection, unemployment will increase marginally to 3.7% in FY2009/10. The declining trend in underemployment visible since 2002-2003 would possibly slow down in FY2009/10. This indicates that global recession may not impose rapid job cuts, as experienced by many developed countries, but would entail adverse implications for labour market composition in Bangladesh.	Poverty continued to decline between 2005 and 2007, in keeping with past trends, with a reversal of the trend in 2008 because of the subsequent commodity price hike, particularly of rice. According to World Bank estimates, the proportion of people living below the poverty line, which was expected to drop from 40% to 32% between 2005 and 2008, was likely to be about 38%.	Agriculture attained an impressive 4.6% growth during this period. With the majority of the population making their livelihoods from agriculture, poverty impacts during the crisis period could thus be limited. However, the slowdown in economic growth, declining exports and sluggish investment in more recent times could lead to a reduced pace of poverty reduction in 2010.
Bolivia	The rate of unemployment in 2007 reached 7.7% of the labour force. The fall in metal export prices witnessed at the end of 2008 caused a drop in activity and employment in the mining sector, but this trend tended to reverse in 2009, and activity growth and employment tended to recover.	In 2007, poverty incidence was as high as 60.1% and extreme poverty incidence was 37.7%. The fall in remittances was limited. Although household incomes reduced in 2009 because of the crisis, levels are considerably higher than income levels in 2005, prior to the export boom.	
Cambodia	The continued slowdown in the garment sector reportedly led to the permanent shutdown of at least 93 garment and shoe factories in the first 11 months of 2009. This in turn has led to job losses of at least 38,190. It is estimated that about 25,000 construction workers had lost their jobs as of April 2009. Meanwhile, the tourist workforce is estimated to have contracted by 2.3% in 2009. Reported results of a survey of 72 hotels indicate that 30% to 50% of jobs had been shed at 12 hotels, with working hours	An additional one to four percentage points in the poverty headcount between 2007 and 2010 is expected. The poverty rate will decline from about 45% in 1994 to about 30% in 2007. 8 of the 10 surveyed worker categories have experienced a significant fall in real daily earnings, although declines have occurred during different periods.	Between May and August 2009, the debt burden resulting from deterioration in incomes, exhaustion of savings and other factors seemed to have been exacerbated. Not only has the crisis caused sharp declines in remittance transfers to rural households, it has also set off 'reverse remittances', or remittances sent from rural households to members working in the cities, particularly in garment factories. There has been a general reduction in job

	decreasing also by 30% to 50% at the remaining surveyed hotels.		availability in both urban and rural areas (of approximately 30-40% over the past six months as per the May 2009 survey). This trend has been more pronounced in the garment, construction and rural rice farming sectors.
DRC	Things looked much worse with the outbreak of the global crisis, since not all laid-off informal workers in the mining sector have had a chance to compensate elsewhere for the loss of the nominal wage of $100.	Looking at price changes of the items that enter in the Consumer Price Index calculation might give some idea on the proportion to which different groups of actors adjust the price of goods or services they offer. In inflationary situations, the losers are those who cannot protect their purchasing power, for example by the indexation of nominal wages and salaries or by holding foreign currency, which is a widely spread practice in DRC. Someone enjoying a pay of $100 would have lost 85.2% of his or her purchasing power between January and September 2009, given historical exchange rate depreciation and inflation.	Together, the surge in security spending and the steep drop in export earnings have weakened the fiscal position of the government – thus paving the way for exchange rate depreciation and inflation.
Ethiopia		Pre-crisis, the magnitude of poverty elasticity with respect to growth reached -1.7 in 2005, from -1.3 in 2000. The Poverty Headcount Index declined to 38.7% in 2005 from 45.5% in 1996. The Poverty Gap Index declined to 8.3% in 2005 from 12.9% in 1996. The Poverty Severity Index also declined to 2.7% in 2005 from 5.1% in 1996. The crisis has led to an increase in the number of people in poverty of 634,000, people who otherwise would have exited poverty.	It has been observed that remittance inflows to Ethiopia dipped immediately after the crisis hit. This decline, in addition to its effect on the economy through foreign exchange availability, has a direct and severe adverse impact on households that depend on remittances for their regular household expenses. The study found that remittances cushion urban households from ever-deepening poverty and vulnerability to recurrent shocks and help vulnerable households to smooth their consumption.

Kenya	7 million Kenyan adults are engaged in pastoral, non-commercial agricultural pursuits. A further 9.5 million are employed or in self-employment. Of these, 9.5 million in employment, 1.9 million are engaged in the informal sector and about 0.5 million are employed by the public sector (in teaching, civil service and parastatals). While the crisis itself may not have any effects, the other problems that have affected Kenya in the past two years are likely to affect those employed outside the informal and public sectors, in commercial agriculture, manufacturing and tourism, who interact directly with the global financial system.	The impact of reduced growth is to increase the headcount poverty ratio, which had reduced from 56% in 2000 to 46% in 2006 by 2% to 3%, this in turn affecting other human indicators.	Child mortality, primary school enrolments and life expectancy, for instance, rise during growth reductions but barely fall during accelerations, although there is no evidence yet that this has happened in Kenya.
Sudan	Some reports estimate that unemployment was at 18.7% in 2002, with the population below the poverty line at 40%. The total labour force was estimated at 11.92 million, with the labour force in agriculture at around 80%, industry 7% and services 13%.	For the whole of Sudan, poverty incidence increased from 51.6% in 1968 to 91.1% in 1993.	As a result of the crisis, the Government of Southern Sudan (which in its budget was 98% dependent on oil revenues) ordered a 10% salary cut for senior officials and a clampdown on hotel costs of officials without their own house. This caused serious political tensions among salaried workers (who constitute more than 80% of current spending) and fostered insecurity and social and tribal conflicts.
Tanzania	The information available indicates that a number of sectors have been negatively affected. These include mining, agriculture and tourism. Following the crisis, some multinational companies decided either to close their businesses operations or to scale down their business investments.	The fall in investment, loss of jobs, reduction in demand for agricultural products and minerals and decline in international tourist arrivals will worsen the country's poverty status. One can extrapolate the impact from loss of export revenue, leading to reduced profitability, job cuts, reduced purchasing power and lack of ability of individuals to cater for their basic needs.	The financial crisis also affected decisions to review the minimum wage, such that a proposal by the Trade Union Congress of Tanzania to set a $315 minimum wage was considered untenable by other stakeholders. The crisis also made it hard for the Tanzanian government to increase salaries for public servants in 2009/10 as in past years.

Uganda		In an impact evaluation of the Northern Uganda Social Action Fund, strong growth in agriculture as a result of a return to peace in the region was seen as greatly contributing towards a significant reduction in income poverty. It is using this evidence that one would conjecture a reduction in poverty.	No major budget cuts are evident in the social sectors and tax has remained unchanged.
Zambia	The poverty situation is exacerbated by a lack of effective social protection in the country. Just before the crisis, the government started to devise a social protection system for the country. The global financial crisis had almost stalled this but progress is now apparent.	Despite increased growth in the pre-crisis period, poverty remains a major concern in Zambia. The situation did not improve during 2009. The slowdown in the growth rate and accompanying fiscal effects reduced government expenditure on the social sectors and poverty reduction programmes.	The crisis is more likely to affect urban and peri-urban populations than rural households. This is because rural households depend more on agriculture for their livelihoods, with little connection to global markets.

Table A6: Policy responses to the crisis

	Macroeconomic	Social	Structural
Bangladesh	Bangladesh Bank withdrew about 90% of its total investment from international banks perceived to be at risk. Bangladesh has pursued a policy of keeping the exchange rate stable vis-à-vis the US dollar even during the crisis. The government eventually came up with an Annual Development Plan (ADP). The total size of the ADP for FY2009/10 has been fixed at Tk30,500 crore ($4.4 billion), which would be over 55% higher than the implemented ADP of FY2008/09. In the first stimulus package, Tk1500 crore ($21.4 million) was allocated for agriculture, Tk600 crore ($8.6 million) for the power sector, Tk500 crore ($7.1 million) for re-capitalisation of agriculture loans and Tk374 crore ($5.3 million) for social safety net programmes. The first stimulus package also put more money into the Small and Medium Enterprises (SME) Fund, whose capital was raised from Tk 500 crore ($71.4 million) to Tk600 crore ($85.7 million). The second package has a provision of Tk5000 crore ($714.3 million) for the budget in FY2009/10. The third package is dedicated solely to the apparel sector.	*Social safety net programmes:* The government has created three funds with the seed money of Tk1000 crore ($144.8 million) to provide refinancing facilities to SMEs against loans disbursed by commercial banks and financial institutions. At least 15% of this was earmarked for women entrepreneurs at interest of 10%. The allocation for social empowerment was also increased from Tk2484.0 crore ($359 million) to Tk3007 crore ($435 million), which was 2.64% of the total budget and 0.44% of GDP. The two employment creation programmes (Employment Generation for the Hardcore Poor and National Service Programme) were also created as part of safety net programmes.	In the budget for FY2009/10 the corporate tax rate for financial institutions were brought down to 42.5% from 45%. It is estimated that, in doing so, the government will incur a revenue loss of about Tk550 crore ($78.6 million) in the current fiscal year. A number of tax measures were also taken for the cottage industries. The cottage industries are currently exempted from VAT and instead are required to pay a turnover tax at a rate of 4%, which has a positive impact on cost of production. In the budget for FY2009/10, eligibility for exemption from VAT for cottage industries has been widened by covering relatively larger cottage units.
Bolivia	During the first 11 months, deposits in the financial system increased by 20.5%. On the other hand, lending by the financial system went up, but by only 6.2%. As a result, financial entities accumulated large liquidity reserves. Public external debt, which had been significantly reduced in previous years as a result	The government created various bonuses that were transferred to the population, as a means of boosting private consumption and thus aggregate demand. However, the government has not taken policies aimed at creating jobs that are sustainable in the	

	of various debt relief initiatives, grew despite the continuous fiscal balance. Finally, inflation has been brought down, with year-on-year inflation in Nov at only 0.6%. Activity slowed and the rate of growth of GDP in the first half of 2009 was 3.2%	long term. Among such job-creating policies are creation of a more favourable investment climate, which will promote private investment, and a focus on labour-intensive export products and the opening up of larger foreign markets for labour-intensive manufacturing exports.	
Cambodia	The central bank slashed the reserve requirement from 16% to 12% to help inject more liquidity into the system as well as: removing the cap on real estate lending to stem the effects of the bubble burst; creating an overdraft facility (though backed by a limited amount) to help solvent banks struggling with temporary liquidity shortages; issuing a tougher regulation on asset classification and provisioning to diagnose more accurately the NPL situation and ensure banks are in a better position to cover potential losses; toughening regulation on reporting of major exposures to better assess credit risk concentration; and strengthening regular and targeted, off- and on-site surveillance. To accommodate greater spending, the budget deficit was allowed to expand to the target 4.3% or so of GDP in 2009. It is projected that the government will overshoot this target by about 2.4 percentage points by end this year. Short-term remedial measures implemented by the government to sustain its attractiveness to FDI to the extent feasible came in the form of tax breaks in the garment and agriculture sectors or eased travel for the benefit of the tourism industry.	There has been a lack of intensification of social safety net provision over the period of the crisis.	Several measures were implemented by the government to harness the performance of the sector over the period of the crisis: the establishment of the Agriculture Support and Development Fund and the granting of a three-year tax holiday for agricultural investment projects as well as of zero tariffs on importing agricultural materials.

DRC	In March 2009, the government initiated a rescue plan to tackle the effects of the crisis on the national economy. Its resource envelope is estimated at $695.0 million, with $325.0 million for actions in the short run. Faced by the crisis, the 2009 budget was revised. The budget, based on a macroeconomic framework of a 5.8% growth rate and an exchange rate of FCFA585 per dollar anticipated revenues of FCFA2.9 billion. In the execution of its budget, the government, in agreement with the IMF, focuses on a number of key short-term measures to maintain a fiscal equilibrium and economic stability: 1) the budget should be executed on cash basis, targeting zero government borrowing from the central bank, to avoid exchange rate depreciation and inflation spirals; 2) spending should be redirected to activities that would prop up domestic demand. After receiving the exceptional ESF BoP support from the IMF, the central bank announced on 13 April 2009 that it would again start selling foreign exchange, hoping to make the local currency recover some of its lost value. The bank also increased its policy rate in three steps to absorb the excess liquidity. The sale of treasury bills is a final intervention used by the central bank.	By 2010, the government envisages the formulation of a new poverty reduction strategy paper (PRSP). To avoid the limited alignment of the first PRSP to the annual budget of government, the new strategy should be more prioritised and be clearly linked to Medium-Term Expenditure Frameworks (MTEFs) that are annually translated into budgets. To accelerate growth, most interviewees agreed the focus of the new strategy should be on large-scale investment in the agriculture sector and an improvement of the overall business environment.	

Ethiopia	Initial wait-and-see strategy. But, since July 2007, the national bank has shifted its policy from *monetary* easing to monetary tightening. On the *financial* side, the regulation of banking, insurance and microfinance businesses was strengthened. The bank reduced exposures in the international financial market by collecting and transferring maturing funds available in commercial banks to central banks such as Federal Reserve, Bank of England and Deutsche Bundesbank. On the *fiscal* side, the objective was to maintain the budget deficit at a sustainable level through enhanced revenue collection and reduction of lower priority expenditure. Accordingly, the government decided not to borrow domestically from the banking system on a net basis in 2008/09 compared with domestic borrowing of 2.7% of GDP in 2007/08. Expenditure for priority sectors such as health, education and infrastructure recorded a 24.3% increase, while non-priority expenditure showed growth of 15.6%. Moreover, the government committed to closely follow the activities of public enterprises and reduce their domestic borrowing to 4-8 billion birr (no more than 2.5% of GDP) in 2008/09. Finally, the outreach of the VAT system was expanded to cover more traders and sectors, and an effort was made to collect long overdue tax arrears in 2008/09. To achieve greater *exchange rate* flexibility, the birr was depreciated by 10% vis-à-vis the US dollar on 13 January 2009, and by end-June had depreciated by some 16% since September 2008. The government also tried to crack down parallel foreign exchange market operators. Reserves were aimed to be increased to $1.6 billion (8-10 weeks of imports of goods and non-factor services) through limited foreign exchange sales by the bank in the inter-bank foreign exchange market and by putting in place	Measures have been taken to minimise the adverse household effects of domestically generated inflationary pressure but there are no specific social measures taken to respond to the crisis. The government has extended the loan repayment schedule for 42 flower producer exporters to two-three years to enable them to cope with sluggish demand in the flower market. Moreover, it is trying to diversify the market for flowers by attracting buyers from Dubai, Asia, Scandinavia, Russia and the US. To overcome ongoing food security and foreign exchange shortage problems, the government is taking supply-enhancing policies and reforming the product market into an organised form. It is inviting FDI in the agricultural sector, and has established Africa's first commodity exchange to enhance market-oriented agriculture in the economy. It has also taken a firm stand not to affect the deposit interest rate further despite pressures from professionals at home and abroad.	

	foreign exchange rationing practices. Moreover, the government has implemented a foreign currency-denominated diaspora bond and currency swap arrangement with China, and there is still the possibility to enhance currency swap arrangements with China, Japan and Italy.		
Kenya	In the 2009/10 fiscal year, the government adopted an expansionary fiscal stance. A budget deficit of KSh109 billion (about 6% of GDP) is envisaged, with concerns that heavy borrowing will crowd out lending to the private sector. According to the central bank, the KSh109 billion that the government intended to raise from the domestic market would not hurt the economy. Among some of the monetary policies implemented, the bank lowered the cash ratio from 6% to 5% and the central bank rate from 9% to 8.25% in order to lower interest rates and enhance credit supply in the economy, although some observers contended that these actions were not enough to significantly achieve these objectives. On 22 July 2009, the cash ratio was further reduced from 5% to 4.5%, releasing about KSh5 billion for banks to lend; while the central bank rate was reduced from 8% to 7.75% and further to 7% in November 2009. In October 2009, the government successfully issued a 12-year KSh18.5 billion bond at a rate of return of 14.5% to finance projects in energy, roads, water and sewerage. The issue was oversubscribed by 45% attracting a total of KSh27 billion against a target of KSh18.5 billion. In order to encourage investment in long-term treasury bonds and promote the development of the bond market, the government in the 2009/10 budget reduced the withholding tax charged on interest income earned from long-term bonds from	To enhance the recovery, the Ministry of Tourism has called on the treasury to give it 5% of what the tourism sector generated in 2007 for its promotion and marketing. The government had already reduced visa charges from $50 to $25 and waived visa fees for children. The government initiated the KSh15 billion Kazi Kwa Vijana programme in March 2009. This is dove-tailed into the Economic Stimulus Programme and aims to create 300,000 jobs for youth by December 2009. The Ministry of Gender, Children and Social Development announced that people aged over 65 not on any pension would be paid a monthly stipend of KSh1000 from the state. The ministry would cater for payments from its budget and was only waiting for district commissioners to provide the number of beneficiaries, estimated at 1.026 million, about 2.5% of the population. A social welfare programme involving cash transfer to targeted orphans and vulnerable children was also set to be strengthened in some 50 districts. The Cash Transfer Programme for Orphans and Vulnerable Children, which had been running on a pilot basis, was then disbursing payments to households with orphans and vulnerable children through the Postal Corporation of Kenya.	.

	15% to 10%. The central bank was to implement this policy from 12 June 2009, subject to the condition that the bonds are not issued for infrastructure financing (already exempt from tax) and the tenor of the bonds is 10 years and above. To increase confidence in the stock market, the authorities have increased the minimum capital requirements for stockbrokers from KSh5 to KSh50 million and for investment banks from KSh50 to KSh250 million effective from December 2010.	The budget for core poverty programmes has expanded significantly over time. In nominal terms, only KSh20.3 million or 7.6% of actual expenditure was approved in 2000/1. About KSh78 billion or 16% of total expenditure was approved for these programmes in 2007/08, although only 67% had been spent or committed by September 2008. In 2008/09, this component of the budget was reduced to KSh62.9 billion.	
Mozambique	Fiscal policy in 2009 was loosened for a higher primary deficit. Bank borrowing was allowed to increase but this was barely used because the World Bank advanced a disbursement of $110 million and the reduction in government revenues was smaller than initially expected. Government also cut expenditures in non-priority areas, although that in the Office of the President and on defence and security increased. In the financial sector, the central bank is pressing ahead to strengthen its monetary policy instruments and operations, with a view to possible moving away from reserve money targeting towards inflation targeting in the medium term. Strengthening financial intermediation and banking sector supervision are key. To this end, supported by technical assistance, the bank will finalise an action plan to implement the recommendations of the 2009 Financial Sector Assessment Programme Update and develop a financial sector contingency plan.	Government social interventions related to the crisis were mostly confined to preventing a higher level of redundancies in the workforce. For example, government negotiated with some companies to limit the number of workers made redundant.	At the fiscal level, the government is implementing reforms in revenue administration and public financial management to shore up the government´s medium-term fiscal strategy and to mitigate fiscal risks. The government, in consultation with the World Bank, has identified specific measures that it intends to put on a fast track and implement by end- 2010. This aims to improve the business environment, raise growth potential, diversify exports and stimulate new investment. A key priority is to improve public management of natural resources, with a view to increasing the benefits spilling over to the domestic economy, strengthening transparency and limiting budgetary liabilities. The government sees full membership in the Extractive Industries Transparency Initiative as critical for these objectives. Following its acceptance as an EITI candidate country in May 2009, the creation of an EITI Secretariat will help carry reform forward.

Sudan	To deal with the sharp decline in oil revenues, VAT was raised from 10% to 15% in 2007 and to 20% on telecommunications in 2008, a development tax of 5% was introduced and customs on imported new cars and other imported luxuries were substantially scaled up. Internal borrowing through the sales of more Musharaka Certificates was also expanded, and deficit financing was used to meet spending needs. Faced with sharp decline in foreign currency reserves, the Central Bank of Sudan imposed tough restriction on transfer of foreign currency abroad through banks and/or via foreign currency exchange bureaus (the maximum amount for external transfer is $1400 per person per day). The bank also set a limit on the amount of foreign currency allowed for travel abroad purposes. The banking system has been reformed since 2008 by improving banking supervision, restructuring and raising banks capital, and dealing with the problem of a high NPL ratio. The Ministry of Finance and National Economy formed a joint technical committee with representatives from the central bank, with the aim of examining any possible effects of the crisis on the economy and advising the government with possible policy options to mitigate the effects. It has been stated that a new monetary, credit and economic policies need to be adopted in 2010 with the objectives, among others, to diversify exports and stop depending on single exportable commodity (oil); remove barriers to investment and simplify administrative and procedural requirements to inventors; remove any contradiction in policies and procedures between federal and state laws regarding foreign investment; and to reform and strengthen the financial sector.	In order to achieve food security, encouraging private investments in agriculture and the launching of a productive agricultural development plan, within the context of an overall development of agri-business value chain strategy, will be the real challenge in the long run for the country.	

Tanzania	Inflation has been accelerating since 2006 and averaged 11.3% in 2009. As a result, the Bank of Tanzania revised its medium-term inflation objective upward in 2008 from 5% to 7%. The government set aside Tsh1.7 trillion (about $1.3 billion) as an economic stimulus package, among which over Tsh200 billion ($152.67 million) was set aside to aid local banks in separate programmes from credit financing to traders, cooperative societies and large-scale farmers who were falling behind on loan payments during FY2009/10. Although the country will get an additional $220 million as part of the fiscal stimulus package from the G-20 to fight off the world economic crisis, the amount, which was injected into the 2009/10 national budget, was equivalent to 1% of the country's GDP. Parts of the package: Fiscal space: To fill the gap in revenue caused by the crisis, the government accommodated in the budget for FY2009/10 net domestic financing, equivalent to 1.2% of GDP in 2008/9 and 1.6% of GDP in 2009/10. Reduce the tax rate: Such as the VAT rate from 20% to 18% and income tax of selected categories from 30% to 25%. An accommodating monetary policy: The bank has relaxed its monetary policy stance beginning 2008/09Q4 to facilitate bank financing of the privates sector. Reduced the penal rate for central bank standby facilities (the lombard facility and the discount rate): To allow easy and cheaper access by the banks to resources from the central bank. Bridging the foreign exchange gap: A loan amounting to $36 million from the IMF under the ESF to fill the gap in the BoP caused by the decline in exports was approved by the IMF Board.	Improving food distribution to curb food shortages: government has provided a cushion against the impact by allocating Tsh20 billion in the FY2009/10 budget to ensure food availability at a reasonable cost. The funds were provided in the October 2009 expenditure ceiling and will be used to purchase maize. Social programmes before the crisis: Needless to say, the government has maintained its commitment to continue supporting special social schemes through programmes under the Presidential Trust Fund, the Tanzania Social Action Fund, the special presidential development fund (known as Mabilioni ya Kikwete) and agricultural input subsidy funds for fertiliser seeds and farm implements.	The government responded by working closely with the Tanzania Tourist Board and the private sector in promoting Tanzania as a tourist destination. This included marketing all the tourist attraction in overseas media and urging industrial operators to improve their services and promote domestic tourism.

Uganda	The country has not changed its policy on determination of exchange rates, which have been market determined since liberalisation of the foreign exchange market in 1993; the central bank intervenes in the foreign exchange market only to smooth perceived short-run exchange rate fluctuations. The fiscal authorities are expected to achieve that objective through budgetary measures (revenue, expenditure and financing measures). During the crisis period, the country maintained its target on the fiscal deficit – to reduce the deficit to below 5% of GDP. Broadly, like monetary policy, fiscal policy in Uganda remained largely conservative during the crisis period, with no expressed policy to increase the size of the fiscal deficit.	Because of the crisis, the expectation was that funding to social sectors could suffer as revenues declined. Contrary to this expectation, tax revenue performance continued to do well, remaining broadly within targets. Spending on social sectors was accordingly not reduced on account of poor revenue performance as had been anticipated. Before the crisis, government had plans to address horizontal inequality through the Peace and Reconciliation Development Programme and the Northern Uganda Social Action Fund II. Most importantly, implementation of these programmes has gone ahead as planned; any delays in implementation cannot be attributed to shortfalls in revenue. The implementation has been facilitated with relative peace in this part of the country since 2008.	During 2009/10, Uganda adopted further revenue and expenditure measures that were geared towards reducing the cost of doing business and encouraging private sector investment in priority sectors. One notable expenditure measure geared to reducing the cost of doing business was a significant increase in the budget for public sector infrastructure, mainly for power generation and construction of roads. Others include encouraging investment in agriculture for production through instituting a credit guarantee scheme. Government put in the budget a Ush30 billion guarantee to banks that would lend for agricultural production. Tax refunds to registered businesses that invest in construction of hotels are in place, as are tax refunds for registered businesses that import education materials.
Zambia	In 2008, the government pursued a limited expansionary fiscal policy that would restrict the budget deficit to no more than 3% of GDP. The expansionary stimuli were targeted at government spending on infrastructure, health and education. Government also increased its borrowing to 3% of GDP from the planned 1.9% in 2009. It has continued to pursue a prudent and tight monetary policy with the aim of reducing the inflation rate to below 10% and maintaining overall macroeconomic stability. The government stuck to its flexible market-determined exchange rate policy in 2009. However, the Bank of Zambia has from time to time intervened in the market to smooth fluctuations in the exchange rate to maintain stability but also as a result of public pressure.	Government policy on poverty reduction during the crisis seems to consist mainly in the protection of key social expenditures in education and health. Interviews with directors of some non-governmental organisations (NGOs) revealed that they have taken a cautious approach to the expansion of their activities as they were not guaranteed increased funding. Others observed that some of their funders have decided to scale down their activities and in some cases cannot renew their partnerships with local NGOs on account of funding uncertainties.	Government facilitated the reopening of some mines that were closed by undertaking to liquidate debts left by former mine owners. There were no growth-enhancing structural and institutional reforms. There is no evidence of any drive to diversify the economy. There has been no effort to introduce governance reforms in the mining sector.

	To improve the fiscal mining regime, the government removed the windfall tax in early 2009 as a response to the crisis, but this reduced revenues.		

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
UK

Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
Email: publications@odi.org.uk
Website: www.odi.org.uk

ISBN 978 1 907288 22 7
Working Paper (Print) ISSN 1759 2909
ODI Working Papers (Online) ISSN 1759 2917