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The Economic and Financial Crises in CEE and CIS Gender Perspectives and Policy Choices*

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ABSTRACT

This paper looks at the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), where economies have been most dramatically hit by the global crisis and its impact is likely to be most long-lasting, especially among poor and vulnerable groups. Using poverty as the main axis, it looks at aspects of economic and social development in countries at similar poverty levels to identify the degree of fiscal space in each, as well as the different policy choices made. The paper argues that despite such economic fundamentals as increasing external debt, worsening current account imbalances, and demands for a balanced budget, governments have policy choices to make about how to protect different groups, especially the most vulnerable—including women.

Keywords: Economic Crisis; Gender; Policy Response; Pro-poor Macro Policies; Gender; Policy Space; Central and Eastern Europe; Commonwealth of Independent States

JEL Classifications: B5, E6, E61

INTRODUCTION

Over the last three decades, through a series of UN meetings and their follow-up review conferences (including the 4th World Conference on Women in 1995, the Financing for Development Conference in 2002, and, most recently, the High Level Conference on the Global Financial and Economic Conference and its Impact on Development), governments, national and international organizations, and women's rights advocates have placed gender equality squarely on the human development agenda. They have committed to take actions to promote gender equality and women's empowerment in areas such as education, healthcare, and employment opportunities, as well as in critical areas of well-being such as infant and maternal mortality. Through engaging in these processes, women's rights and gender-equality advocates have become increasingly aware of the need to investigate national and global macroeconomic policies with respect to gender-related outcomes.

Integrating gender equality into macroeconomic policy priorities is critical not only to ensure that women equally realize the right to food, health, education, and decent work, but also because, as the World Bank (2006a) has shown, eliminating the gender gap in socioeconomic opportunities means improved well-being for families and communities, as well as better performing economies.

The importance of engaging in macroeconomic policy debate has become especially clear since the onset of the world financial and economic crisis in 2008. What began as a monetary and financial crisis rapidly became a global human development and human rights crisis, seriously impeding progress towards national development goals and creating enormous health and welfare challenges (OHCHR 2009; WHO 2009; UN 2009a; AI 2009). As forecasted by a European Commission report job markets and public finances are weak and likely to stay weak and vulnerable to external and internal shocks despite economic growth in 2009 (EC 2009a). This assessment was confirmed by a World Bank report in October 2009, which stated that the "pace of recovery is expected to be slow and, for quite some time, insufficient to decrease unemployment," adding that poverty could increase significantly in a number of developing economies where real GDP per capita is contracting in 2009 "for the first time in a decade" (WB 2009a: 115). Thus, it is likely that the social impact of the crisis will continue to be felt for many years to come.

The global economic downturn has seriously impacted the economies of many countries and devastated the lives of millions of people, not just women. However, some countries and groups have been affected more than others. This paper looks at the countries of central and eastern Europe (CEE) and the Commonwealth of Independent States (CIS),

where economies have been most dramatically hit by the global crisis and where its impact is likely to be most long-lasting, especially on poor and vulnerable groups. Using poverty as the main axis, it looks at aspects of economic and social development in countries at similar poverty levels to identify the degree of fiscal space in each, as well as the different policy choices made. It argues that despite such economic fundamentals as increasing external debt, worsening current account imbalances, and demands for balanced budgets, governments have policy choices to make about how to protect different groups, especially the most vulnerable.

THE IMPACT OF THE FINANCIAL CRISIS IN CEE AND CIS

Table 1 presents selected economic indicators for ten regions, including the CEE and CIS. It shows that the contraction of GDP for countries in CIS in 2009 is estimated to be -6.7 percent on average, the highest in the world, while that in the CEE is estimated to be -5, the third highest after Japan.[1] Furthermore, in the CEE region, net financial inflows are expected to decrease from USD 154.7 billion in 2008 to only USD 6.4 billion in 2009. The outlook is not much better for the CIS region; the reversal of net financial inflows, which has reached USD -97.4 billion, is projected to continue in 2009 with USD -98.5 billion.

The World Bank (2009) estimates that in 2009, almost 40 percent of the 480 million people living in the CEE/CIS region remained poor or vulnerable; this number is expected to rise throughout the region by about 5 million people for every 1 percent decline in GDP. The International Labour Organization (ILO 2009a) estimates that as many as 58 million people may lose their jobs in 2009, a number that may increase by an additional 10 million by the end of 2010. Already unemployment has increased by 60 percent in Turkey, 50 percent in Baltic countries, and about 30 percent elsewhere.[2] CIS and non-EU countries in southeastern Europe have experienced massive layoffs in both the public and private sector; between March 2008 and March 2009, for example, youth unemployment increased more than threefold in Estonia and twofold in Lithuania (World Bank 2009).

Most countries in the region experienced a sharp economic decline in 2009—including Armenia, Moldova, Romania, the Russian Federation, Ukraine, and particularly the high-growth Baltic states of Lithuania, Latvia, and Estonia, which are now experiencing

[1] This study utilizes World Bank, IMF, and UN data, as well as national statistics, therefore, it should be expected that there may be inconsistencies between the national and global statistics.
[2] See http://www.world.xorte.com/60,Global-Crisis-Hits-Home-in-Emerging-Europe-and-Central-Asia,10687.html

double-digit contractions (see table 3). The IMF (2009) estimates that between October 2008 and April 2009, central and eastern European exports were down 35 percent. Output in this region is projected to fall by 5 percent in 2009 and to recover only modestly in 2010, growing by 1.6 percent. In 2009, growth was expected to decline by close to 5 percent in the European area, and countries such as Bulgaria, Romania, and the Baltic states are likely to experience particularly sharp recessions (Velculescu 2009). The significant slowdown in economic growth, coupled with the near-exhaustion of major privatization opportunities in southern European countries, has already led to significant reductions in foreign investment flows to the region (see table 1).

One of the reasons why the global economic crisis has had such a dramatic effect on economic output in countries in the CEE/CIS region is because of their dependence on international trade, foreign direct investment (FDIs), and remittances. However, even if world trade recovers, the decline in terms of trade for the region will make the recovery very sluggish, particularly for CIS countries, where the expected change in terms of trade in 2009 is -20.5, the highest in the world.

Another reason why the impact of the crisis was so great in the CEE/CIS region is that it came at a time when the region had just begun to recover from the shocks of the transition reforms (dubbed "shock therapy") and the subsequent financial crisis of 1998. The national economic systems and the regional economic, financial, and banking systems were still quite fragile and remained dependent on Western support and markets, as well as access to Western capital and know-how. CEE countries especially had become highly integrated into the global economy and the global financial structures, leaving them uniquely vulnerable to the breakdown of the financial and banking system.

IMF estimates show that real GDP will increase for most countries in 2010, while for the CEE/CIS region this is not likely to happen until 2014 (IMF 2009). Even where GDP does get back to precrisis levels, employment is likely to be stagnant for a long time to come—some jobs will never come back.

As economic analysts frequently point out, jobs do not bounce back as fast as other macroeconomic indicators. Thailand and the Philippines for example, took a decade to reach their precrisis unemployment levels (Buvinic 2009). To put it more starkly, in the absence of public education, a child who is of school age this year will be 17 and illiterate by the time her parents could afford to send her to school in 2019. Unfortunately, unlike other macro variables, lost years in human life are irreversible, making it critical to address the human costs of the crisis. The first step is making those costs visible.

In the CIS/CEE region especially, the global financial and economic crisis will exacerbate already alarming increases in poverty and inequality, most recently owing to the 2007–08 crisis in food and energy security, which also hit the region. Economic downturns generally affect women more than they do men, owing to the way they are integrated into the labor market and their more limited access to social benefits, such as pensions, social security, or unemployment compensation, as well as their greater responsibilities for household survival strategies (Dokmanovic 2008). While attention tends to focus on the job losses in construction and the auto industry, where men are predominant, sectors in which women predominate, such as agriculture and export-oriented assembly industries, have also been hard hit. Previous crises have shown that household and social tensions increase during periods of economic hardship, often resulting in increased social and domestic violence (Carmona 2009; Knowles, Pernia, and Racelis 1999).

Box 1: Lessons from the Russian Financial Crisis

The 1998 Russian financial crisis showed clearly how severely the economic downturn can hit poor and vulnerable groups of the population, especially women. In that case, economic destabilization went hand-in-hand with the sudden devaluation of the ruble, the collapse or near collapse of several large banks and financial institutions, and a sharp decline in exports and export revenues.

In order to stabilize the economy, the government tightened budget spending and froze or cut many social welfare programs. The inability of the Kremlin to put together a coherent stabilization plan led to a sharp decline in public service spending, significantly undermining the quality of the healthcare and social welfare. Average public sector wages shrank to about USD 58 per month and pensions to about USD 20 per month due to the near 30% devaluation of the ruble. Payment of wages and welfare benefits were delayed for many months. The official unemployment rate reached 14.2%, the highest ever officially reported in Russia, and the number of people living below the poverty line reached one-third of the population. The economy recovered within two years, but the general population continued to endure its effects. Some local media outlets reported that many pensioners, single mothers, and unemployed women went hungry for weeks and even months as food prices jumped by 100%.

All of this makes clear that in the absence of a proactive strategy by women's groups, government officials did not heed the needs or protect the rights of women. It illustrates the need for rights-based and gender-responsive actions, as well as public-private and government-NGO partnerships in developing policy responses. It also highlights the importance of local and community-based monitoring initiatives, which would be able to evaluate the efficiency of local governments in providing social services and identifying the most vulnerable groups.

Sources: Pastor, Gonzalo C., and Damjanovic, Tatiana, Russian Financial Crisis and its Consequences for Central Asia. IMF Working Paper No. 01/169. Washington DC: IMF, 2001. IMF. Russian Federation--Recent Economic Developments. IMF Staff Country Report No. 99/100. Washington DC.

Caught between a rock and a hard place, many developing countries cut their budgets in line with the austerity programs of international financial institutions (IFIs) such as the World Bank and International Monetary Fund (IMF) in order to stabilize their economies. In response to the global downturn, many of these countries, including those with financial support from IFIs, have implemented anticrisis measures of various kinds, including economic stimulus packages. However, the fiscal policy responses differ widely among the countries, as do the outcomes from a human development and gender equality perspective.

The following section examines the overall macroeconomic environment, financial fragility, and relevant human development dimensions of countries in the CEE/CIS region. The third section discusses in detail the most vulnerable groups in these countries and lays out possible human and gendered effects of the crisis and of the responses to it. The last section takes account of our analysis and concludes with policy recommendations.

THE CEE/CIS REGION: ECONOMIC AND SOCIAL OVERVIEW

In order to capture the impact of the economic crisis and of policies to address it on different groups, we have categorized countries in the region in terms of the prevalence of poverty as measured by the percentage of their populations living under the poverty line. Using the poverty level as our unit of analysis also highlights the gender-specific differences in the way in which poverty is experienced. As various authors have shown, as more and more women have entered the paid labor force over the last three decades, they have done so in highly unequal ways, occupying the least secure and well-paid sectors. Moreover, at the same time as women are contributing a greater share of household resources, their control of these resources has not necessarily increased, while their unpaid caregiving responsibilities have, in most cases, not decreased. For those who experience it, “feminized poverty” is less about an increase in income poverty relative to men as about an increase in other aspects of poverty, including time poverty, that limit women’s ability to realize their human potential to a greater extent than is true of men. It also has a long-lasting impact on future generations (see, e.g., Kabeer [1996]; UNIFEM [2000 and 2005]; Chant [2006 and 2008]).

Table 2 presents the key macroeconomic indicators for countries in the CEE and CIS region using World Bank and IMF data. It shows that poverty does not discriminate according to size of the country, level of per capita income, or geographical location The high poverty group includes countries which are resource rich, such as Russia (with a total real GDP of USD 1.3 trillion_, as well as those that are resource poor, such as Montenegro

(with a total real GDP of USD 3.9 billion). Nor is poverty a feature of income per capita. Ukraine has almost three times less income per capita (USD 3,069) than the Russian Federation (USD 9,079), but they both have same proportion of their populations who are poor and vulnerable (45%). Another example is between Poland with USD 11,143 and a poverty rate of 20.6 percent, and Lithuania with USD 11,522 income per capita but a much higher poverty rate of 36 percent.

The World Bank (2005) identified purchasing power parity (PPP) USD 4.30 a day as the vulnerability threshold for the region, below which people are seen as at risk of becoming poor during a global downturn. Since the CEE and CIS region is experiencing its worst economic crisis since the fall of the Soviet Union, we have adopted the (rounded off) figure of PPP USD 4 a day as the regional poverty and vulnerability threshold. We also concur with Reddy and Pogge (2005: 4) that "poverty estimates influence assessments of the seriousness of the problem, and the regions to which these resources should be directed."

The selection of USD 4 a day as the poverty line reflects two additional considerations. First, while the global poverty line used since the beginning of 2009 is USD 2.15, this does not reflect even the average extent of poverty in this region due to additional material needs for protection from the cold climate.[3] The 1985 calculation of PPP USD 2 as the global poverty line was done on the basis of 33 countries, none in the CIS/CEE region (Reddy and Pogge 2005).[4] In addition, while national poverty lines may best capture living conditions for a given country, these vary from country to country, making it necessary to choose a single line that is comparable across all countries.

However, using PPP USD 4 a day as the regional poverty line has some limitations, one of which is underestimating the numbers for some countries while overestimating them for others. As mentioned by the World Bank report, in some countries (such as Uzbekistan) the poverty rate is underestimated because of price controls in the 1990s and in others (such as Georgia) it is overestimated owing to hyperinflation around 1993. We recognize the limitations of using a 2004 poverty line, as poverty rates are likely to have changed in some countries, but these are the same limitations facing any study that uses statistics: we use the latest available numbers.

In the CEE/CIS region, countries with poverty rates of 60 percent or higher are categorized in the extreme poverty group (Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan), those with poverty rates of 40–60 percent in the high

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[3] The poverty rate calculation in the ILO study is based on PPP USD 1 a day.

[4] The World Bank revised these numbers in 2001, using the 1993 PPP exchange rates. The PPP rates were again updated for the region in 1996 (World Bank 2005).

poverty group (Turkey, Kazakhstan, Romania, Albania, Russian Federation, Ukraine, Montenegro, Serbia, Bulgaria), those with rates below 40 percent but higher than 15 percent in the intermediate poverty group (Belarus, Bosnia and Herzegovina, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Uzbekistan), and those with poverty rates below 15 percent in the low poverty group (Czech Republic, Croatia, Slovakia, Slovenia).

Table 2 shows that with the exception of the Baltics (Lithuania, Latvia, Estonia), in 2008 most countries were performing very well in terms of real GDP growth; the poorest group of countries had grown the fastest with an average of 7.7 percent as opposed to 4.9 percent growth rate for the high poverty group, 2.5 percent for the medium poverty group, and 3.8 percent for the low poverty group. However, these high growth rates reversed after the financial crisis hit (see table 3). Most of the economies in the region have shrunk, especially countries such as Armenia, Lithuania, Ukraine, and Estonia, which registered negative growth rates ranging between 14 and 19 percent. Despite the global downturn, a few economies are still growing, including Uzbekistan (7%), Turkmenistan (4%), Azerbaijan (8%), Tajikistan (2%), Kyrgyzstan (1.5%), Albania (0.7%), and Poland (1%).

A high level of indebtedness in almost all of the CEE/CIS countries has a negative impact on the financial and economic outlook of the region as a whole, severely constraining the ability of all countries to respond to crisis. In 2009, more than USD 283 billion in total short-term debt came due and meeting the repayment obligations on these debts has been a challenging task for a number of countries (World Bank 2009). As of February 2009, Belarus, Bulgaria, and Latvia held insufficient international reserves to cover debt coming due. Kazakhstan, FYR Macedonia, Moldova, Poland, Romania, and Bulgaria had short-term debt levels above 50 percent of their reserves. Net capital outflows forced many of the countries to sign standby agreements (SBAs) with the IMF, which will be discussed in greater detail in the following section.

After the crisis hit, the degree of financial fragility increased for most, if not all, countries in the region. Based on the numbers in the IMF *World Economic Outlook* of October 2009, Armenia, Azerbaijan, and Tajikistan had experienced significant deterioration in their current account balances. Azerbaijan's current account surplus of 36 percent of GDP is expected to decline to 20 percent of GDP, whereas Tajikistan's current account deficit is expected to increase from -8 percent to -14 percent (see table 3). In most other countries, current account balances are expected to improve (IMF 2009).

There are varying degrees of financial fragility for different countries within different poverty groups. From the initial financial indicators presented in table 4, we can say that the

average current account deficit for 2008 for extreme poverty countries is 2 percent of GDP with foreign reserves averaging 5 percent of their GDP. External debt stocks to gross national income (GNI) are 34 percent, of which 17 percent is short term (see table 4).

Countries in the high poverty group have much higher current account deficits, averaging 11.2 percent of GDP with an average external debt stocks to GNI ratio of 54 percent, and a slightly lower ratio of short-term debt in external debt (22.2%). The medium poverty group has an average of 8 percent current account deficit to GDP, an average of 54 percent external debt to GNI ratio, and 33 percent of external debt is short term. It is only in the low poverty group that one can see significant differences, with an average 6 percent current account deficit, and an average of only 10 percent of short-term debt to external debt ratio.

What does seem to correlate with poverty is the structure of the economy, in that countries with lower levels of poverty have a lower share of employment in agriculture. The average share of employment in agriculture for the extreme poverty group is 42 percent, vis-à-vis 19 percent for the high poverty group, 11 percent for the medium poverty group, and 8 percent for the low poverty group (see table 2).

POVERTY, EMPLOYMENT, AND HUMAN DEVELOPMENT

The data in table 2 provide a clear message about the link between unemployment and poverty, showing that in countries with lower poverty rates, unemployment declines along with the rate of poverty. In countries with extreme poverty, official precrisis unemployment rates averaged 14 percent, a rate that falls approximately 2 percentage points as the poverty category improves, with the exception of the lowest poverty group, for which the average unemployment rate was 6 percent (down as much as 4 percentage points).[5]

The nature of employment is also important. In 2007, about 53 percent of women workers were located in part-time, temporary, or other forms of informal employment, compared to about 49 percent of male workers. Over a third of the female workforce (36%) were among the working poor compared to 30 percent of the male workforce (ILO 2009b).

Informal work is characterized by little or no job security or social protection, often harmful working conditions, and generally inferior pay—all of which put informal employees "at risk" during economic downturns, and likely to be missed by policy

[5] There are some important exceptions, including Turkey, which has a 10% official unemployment rate and a 58% poverty rate. This compares with Bosnia and Herzegovina, which has a high unemployment rate (36%), but a relatively low poverty rate (35%).

responses, such as extended unemployment insurance. Few women in the CEE/CIS region are in high productivity–high pay industry occupations; in 2008, only 18.8 percent of women worked in industry compared to 26.6 percent of men. Sectors in which women work in large numbers are those where labor productivity is hard to measure, namely, services and agriculture. Labor productivity is particularly low in agriculture, owing to scarcity of arable land and abundance of labor (Sen 1981; Eastwood, Lipton, and Newell 2004).

Globally, women's employment in wage and salaried jobs has increased over the last several decades, rising to 45.5 percent of the female labor force in 2007 from 41.8 percent in 1997. At the same time, the increase in women's self-employment, or own-account employment, grew faster, rising from 22.6 percent of the female labor force in 1997 to 28 percent in 2007 (ILO 2009b). In the new millennium, the difference in the quality of new jobs for women and men is particularly striking: from 2000 to 2006 approximately two-thirds of all new jobs for men were in the wage and salaried category; for women, more than two-thirds of all the new jobs were in the contributing family worker category (ILO 2009b).

The situation is worse in developing countries, especially in Asia and Africa, where up to 80 percent of women workers are in vulnerable employment, mostly as unpaid family workers or as own-account workers. While this is not so pronounced in the CEE/CIS region, where full-time employment was once standard and there is greater social protection, some of the high-growth sectors of the last decade, such as textiles, have been fuelled largely by women's home-based informal work (ILO 2009b).

Women in developing countries have also been hard hit by the crisis—not only because of increased unemployment and declining incomes, but also because of the increased burden of unpaid work they are obliged to pick up. Economic downturns frequently lead to public spending cuts and increased user fees, at times on top of earlier privatization initiatives. This not only results in fewer public sector jobs, but also shifts the burden of care away from government-provided services towards households. Feminist economists have pointed out that while paid work is visible and largely recognized, unpaid work, such as household caregiving or unpaid work in family enterprises, is neither visible nor recognized, as it takes place out of the market, and is therefore not counted in national income accounts (Folbre 2001; Elson 1995; Elson and Cagatay 1999).

These shifts also often increase the wage gap. A study of wages in Turkey showed that while men get higher wages in private rather than public sector jobs, women tend to get higher wages in public rather than private sector jobs (Tansel 1999). Thus the privatization of sectors that employ mostly women (such as education and healthcare) generally has a

serious negative impact on women's paid labor compensation, as well as increasing women's burden of unpaid labor.

"Economic freedom, self-determination or... co-determination in resource distribution within the family is highest when women earn wages and salaries or are employers, lower when they are own-account workers and lowest when they are contributing family workers" (ILO 2009b: 11).

Countries also vary widely in terms of levels of social spending and human development outcomes. Table 5 presents data on human development indicators for countries in this group. One of the most striking links it shows is that negative outcomes, such as maternal mortality and infant mortality, increase significantly with increased poverty. In the extreme-poverty group, for every 1,000 live births, an average of 45 babies die, compared to 23 in the high-poverty group, 14 in the medium-poverty group, and 5 in the low-poverty group. The same pattern is even more pronounced for maternal mortality rates; for every 100,000 live births, women in extreme-poverty countries are 16 times more likely to die in childbirth as those in low-poverty countries (94.14 versus 5.75).

It should be added that there does not seem to be a consistent relationship between the ratio of public spending on health as a percentage of GDP and human development outcomes. For example, in both Tajikistan and Romania, the share of GDP spent on public health is 3 percent, while the outcomes in terms of maternal mortality are very different (170 deaths in Tajikistan and 24 in Romania). Even considering the total real GDP of their economies and taking their populations into consideration (22 million Romanians and roughly 7 million Tajiks), this raises questions about the importance of the quality of health care and how and where resources are used.

Another variable that correlates with increased poverty in the region is increased inequality (see table 5). Poorer countries are more unequal in terms of per capita consumption than are richer countries. Thus, the poor are subject not only to abject poverty, but also to relative poverty, resulting in high levels of out-migration, particularly among women. This is likely to deepen as migrant workers have been among the first to lose jobs in receiving countries and many have already returned, joining the ranks of the unemployed.

One phenomenon in all the countries in the region is the persistent gender pay gap, as illustrated by the ratio of female-to-male earned income. It is interesting to note that in Turkey, one of the middle-income countries in the region, female earnings constitute only 26 percent of male earnings.

POLICY RESPONSES ACROSS FOUR POVERTY GROUPS IN THE CEE/CIS

This section examines countries in each of the four poverty groups that, despite similar economic constraints, appear to have adopted very different policy responses. While it is important to note that the details of these responses are taken primarily from government statements, IMF agreements, World Bank publications, and the like, and that there is little information about the extent to which they are actually being implemented, they nevertheless reflect different political priorities and the influence of different constituencies—including governments, the private sector, international financial institutions, and, to some extent, civil society—in shaping these priorities. To assess the way in which these policy measures are likely to affect different groups, the paper first asks: Who are the poor in these countries?

Extreme Poverty Group

In managing the transition to market economies, countries in the extreme poverty group—namely, Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikistan, and Turkmenistan—have taken a variety of different courses. Some, such as Turkmenistan and Tajikistan, have been slow to undertake market-oriented reforms, maintaining firm control over their economic development; others, like Georgia have introduced these reforms in a stop-and-go way, while still others, like Azerbaijan, are considered to have taken a course of intermediate reforms.

Among this group of countries, not only has the pace of transition varied, so too has the economic resource base on which they have conducted reforms. Azerbaijan is a resource-rich country whose export earnings allowed it to expand its economy and to achieve an impressive rate of economic growth before the crisis. The smallest and poorest countries (Armenia, Kyrgyzstan, Moldova, Tajikistan), in which (with the exception of Tajikistan) reforms are quite advanced, have been struggling to attract sustained foreign investment, a key part of their national development strategies.

What countries in this group have in common, in addition to high levels of poverty, is that they have become highly dependent on migration outflows, which have had a stabilizing effect on their labor markets and provided remittances that added substantially to their currency reserves. Tajikistan and Moldova in particular have very high ratios of remittances to GDP, at 45.5 percent and 38.3 percent, respectively.

All of these countries have also adopted various anticrisis measures in response to the crisis. Among them, only Turkmenistan is funding these measures from domestic resources.

Kyrgyzstan has been able to draw on financial support from the Russian Federation, as well as its own resources. In addition, since December 2008, Kyrgyzstan has had an 18-month IMF Exogenous Shock Facility (ESF) in the amount of USD$100 million.[6] The others—Armenia, Georgia, Moldova, and Tajikistan—are financing their packages with loans from international financial institutions, including the World Bank, Asian Development Bank, and the European Bank for Reconstruction and Development (EBRD), as well as the IMF.

Despite their high levels of poverty, most of these countries are adopting measures to address the crisis and it is important to see the extent to which they have tried to protect poor and vulnerable groups.

Who Are the Poor?

Table 6 presents poverty, education, and employment data for each of the countries in the extreme poverty group. Column 1 shows the share of poor people among all rural or urban dwellers. The rest of the columns show the structure of poverty—the percentages indicate which group constitutes the highest share of poverty among all people in poverty. In extremely poor countries, the majority of people in poverty are rural people, working people, and retired people. This does not mean that unemployed people are not poor, but rather that the majority are the working poor.

Within the extreme poverty group, where, on average, 76 percent of the population live in poverty, it is reasonable to assume that the poor are located in all sectors—agriculture, manufacturing, services—and include both native and migrant households in both urban and rural areas.

Looking first at Moldova, a small resource-poor country with a population of 3.8 million, we see it has a poverty rate of 65 percent and its economy is projected to contract by 9 percent in 2009 (see table 3). In 2008, Moldova had a current account deficit of 17 percent of its GDP. Currency reserves diminished by 35 percent from December 2008 to April 2009, and may totally diminish in the face of declining exports and remittances (Social Watch 2009).

In terms of employment, people in wage work constitute 33 percent of people in poverty, while retired people make up another 31 percent (see table 6). Women's unemployment in Moldova is extremely high (23.6%) compared to the total official

[6] Current ESF in Kyrgyz Republic is in response to declining foreign finance in Kazak-owned banks, as well as easing the impacts of a recent earthquake, and helping with the electricity needs, which has become challenging as a result of falling water levels in the Toktogul reservoir, which provides 90% of all electricity (CEPR 2009a).

unemployment rate (7.3%) in 2007. Thirty-three percent of employment is in agriculture and the poverty rate in rural areas is 87 percent. In 2008, Moldova's per capita GDP was USD 1,200 with a total real GDP of USD 4.4 billion (see table 2). The proportion of poor female-headed households is one of the highest in the group as well (37%), primarily due to the extremely high female unemployment rate for the country (see table 6).

Not surprisingly, remittances represent a major share of the country's GDP; in 2008 they constituted 38 percent of total GDP, one of the highest in the world. Studies have shown that remittances apparently reduce poverty in all regions (Lucas 2004; Adams 2005; World Bank 2006b). The same is true in Moldova, where they significantly contribute to household income, especially in households with children, where they are used in basic consumption items such as food and clothing.

Women migrant workers comprise 56 percent of Moldovan migrant workers and contribute significantly to the economy. Most are from rural areas, aged between 30 and 40 years and are (or have been) married and have children. About 60 percent of women stay in the countries of destination longer than one and one-half years. Migrant women who are in receiving countries illegally face an increased risk of morbidity, but are unable to access healthcare or other services. Their illegal status enhances their dependence on their employer, increasing the risk of sexual abuse (Eurostep 2009).

In the face of increasing hardship as a result of the global economic crisis, the government applied to the IMF to finance a range of stimulus measures, none of which are gender sensitive or designed to protect vulnerable groups. On the contrary, in order to improve its current account imbalance, the government has kept the "zero quota" of corporate income tax that was introduced in 2008. As an IMF working paper points out, declines in corporate income tax rates in the region have raised concern, as it results in tax competition and a race to the bottom to attract foreign investment (Piatkowski and Jarmuzek 2008).

A more serious concern noted in the study is that reduced tax revenues on the corporate side may force countries to either reduce public spending or increase other discretionary taxes, as happened in Moldova. The government has introduced a fixed income tax of 15 percent for individuals and increased the value-added tax (VAT) by 2 percent from its previous level of 20 percent (Social Watch 2009).

Responding to IMF conditions, the measures the government has taken so far seem to increase poverty and inequality without much probability of success in attracting foreign

investment, given the fragility of its economy and the ongoing political turmoil resulting from economic instability.

Armenia is another small, resource-poor country where the highest proportion of the poor is in the economically nonactive working age category. Given an extremely high official unemployment rate of 36 percent, Armenia is somewhat different than other countries in the region. Like Moldova, however, Armenia has been affected by the crisis through a decline in remittances and capital inflows, especially from Russia, and was further hit by the collapse of commodity prices (CEPR 2009a). Armenia's economy has now shrunk significantly, from 6.8 percent real GDP growth in 2008 to -15.6 percent in 2009 (see tables 2 and 3).

The IMF plays a crucial role in shaping macroeconomic policy in the countries to which it lends money. The Structural Adjustment Programs (SAP) that were introduced in the region in the 1990s facilitated the transition to a market-oriented economy based on trade liberalization, free capital flows, financial deregulation, privatization, reduced state social spending, and the replacement of the ideal of "public goods" with that of "individual responsibility." The IMF Standby Agreements and other forms of lending tend to focus on fiscal consolidation, banking reform, and restoring financial stability.

As a result of the crisis, Armenia turned to the IMF, requesting a substitution of their ongoing Poverty Reduction and Growth Facility (PRGF) with a large Standby Agreement special drawing rights (SDR) 165.6 million (or around USD 258 million) (CEPR 2009ibid.). In Moldova, this agreement came with the condition that the government correct its fiscal imbalances. During the Poverty Reduction and Growth Facility (PRGF) reviews, IMF staff advised Armenian authorities to remove already planned fiscal stimulus for 2008 and 2009, and to tighten monetary policy (CEPR 2009a). However, the Armenian government adopted a very different fiscal policy than that advised by the IMF and took different policy responses than did many other countries, such as Serbia and Czech Republic, which will be discussed in the following pages. It taxed luxury consumption goods of tobacco and imported alcohol, which not only have been shown to have negative social impacts, such as increasing the probability of nicotine-related illnesses and domestic violence, but are also considered to be consumed mostly by men (Koohi-Kamali 2008). Thus, whether or not it did so intentionally, the Armenian government has implemented a tax rate that favors female income earners. Contrary to the advice of the IMF, it reportedly also decided to raise tariffs on certain imports in order to improve its current account balance (CEPR 2009a).

A third country, Tajikistan, is also financing its economic stimulus package with loans from external sources, which in this case are extensive. On April 21, 2009, the government signed a three-year, USD 116 million arrangement under the PGRF with the IMF. The PRGF loan, together with grants to the budget from the Asian Development Bank, the European Union, and the World Bank, will help Tajikistan meet its financing needs.

Tajikistan earns a majority of its export revenues through aluminum and cotton. A World Bank report on the cotton sector estimated that 56 percent of arable land is under cotton cultivation (World Bank 2004). The cotton sector employs a majority of the rural labor force, and cotton fiber exports comprise one-fifth of total export revenues, which makes it the second largest export commodity after aluminum. The global economic downturn has weakened the Tajik economy by reducing global demand for its major export commodities. Moreover, 45 percent of the country's real GDP comes via remittances, also one of the world's highest. As a result, the crisis has been transmitted to the economy primarily through declining exports and remittances, which have declined 30 percent (CEPR 2009a). Since onset of the crisis, the Tajik somoni has depreciated by about 30 percent against the U.S. dollar and real GDP growth is expected to slow to 2 percent compared with 8 percent in 2008 (CEPR 2009a; IMF 2009a).

The poverty rate is extremely high in Tajikistan, with 85 percent of its population deprived of basic necessities. Rural poverty is higher than urban poverty and children under 16 constitute the majority (76%) of the poor (see table 6). Arable land is scarce; it constitutes only 3 percent of the country's total land, and, thus, developments in the agricultural sector have significant impacts on the livelihood of the majority (World Bank 2004). Given that 56 percent of all arable land is devoted to cotton, most of the rural poor are cotton farmers.

Box 2. Cotton Farming in Tajikistan

For Farhod, as for other Tajik farmers, the problems began from his first days as an independent farmer three years ago, when the local collective farm, which dated from the Soviet era, was broken up. He was allotted, but does not own, 40 acres of land and a $5,000 debt carried over automatically from the farm's arrears. Each year most of his profits go to working off the debt, which was assumed by a cotton trading company. The company maintains a monopoly over all cotton trade in the Shaartuz region and sells Farhod his supplies on credit—at inflated prices, he said—and then buys his production at below market prices.

Under this system the farmers are perpetually strapped, as they never see any cash. Farhod and others say that what little they earn goes for food and other essentials, but since they have no money in hand, they are forced to buy from the trading company at inflated prices. "They pay us, but only 14 months later when they sell the cotton," Farhod said. "Each year the debts get bigger and bigger."

Source: http://www.nytimes.com/2008/10/15/world/asia/15tajik.html

With substantial IFI financial support to stabilize its economy, Tajikistan has undertaken some major reforms. Its economic stimulus plan aims to alleviate the impact of the crisis on the population by increasing spending on education and health (particularly primary healthcare) by 1.5 percent of GDP in 2009, along with cash transfers to households. Given the high maternal mortality rate—170 women per 100,000 live births—this could have major benefits for women.

The Tajik government has also announced its intention to reform the agricultural sector by addressing the cotton sector debt overhang and introducing a market-based financing mechanism to raise the sector's growth potential. Its letter of intent notes that government will move to a private-sector-led financing mechanism, where farmers will have the ability to use land-use rights, not simply land ownership, as collateral. In the meantime, it will also open credit channels to noncotton growing farmers and allow banks to extend credit access to the whole agricultural sector, which would also motivate farmers to switch from cotton to other crops (Tajikistan Government, dated 3/31/2009). Crop switching may also have positive effects on food security in the region, since with easier access to credit for all agricultural crops, farmers may choose to grow food crops.

Kyrgyzstan is a low-income, landlocked country with a population of 5.3 million people (World Bank 2008). Its major export items are gold, agricultural products, textiles, and energy products. Its official unemployment rate is the lowest (5%) among the extreme poverty group, largely due to out-migration. The country experienced robust growth in real GDP in 2008 (7.6%), but this is estimated to drop to 1.5 percent in 2009 (see tables 2 and 3).

The poverty rate in Kyrgyzstan is 73 percent and 37 percent of people living in poverty are self-employed. According to the Pan-European Regional Council, before the crisis, the sewing industry in Kyrgyzstan had been experiencing a boom, its exports primarily going to the Russian market. After the crisis, Moscow's largest market, Cherkizovskij, closed, resulting in a reported 25 percent decline in orders to the Kyrgyzstan sewing industry. In 2001, there were 20,000 people working in light industry, expanding to 200,000 in 2008. Now about 15,000 Kyrgyz workers sell their goods in Russian markets; 80 percent are self-employed. Sewing "sweat shops" are located everywhere in country—in old factories, garages, private houses, and warehouses. In 2008–09, 1,245 workers were organized and 45 new organizations established.[7]

Based on the government's letter of intent to the IMF in 2009, the impact of the crisis on Kyrgyzstan is due primarily to the economic slowdown in Russia and Kazakhstan, which resulted in reduced trade and remittance flows. It is anticipated that the slowdown in economic activity will create fiscal and current account imbalances that will spill over to 2010. However, Kyrgyzstan is receiving USD 450 million in budget support from the Russian Federation, of which it intends to use USD 165 million during 2009. Kyrgyzstan is planning to allocate these funds to both capital investment and social spending. Even though not stated clearly, the letter of intent suggests that capital spending priorities will be given to medium-term projects and social spending will be focusing mostly on poverty reduction through direct cash transfers. It also notes that the government has increased pensions to offset inflation (CEPR 2009a).

In addition to increased social protection through cash transfers, the government announced it will consider increasing revenue through a strengthened tax administration, along with some changes in the tax rates. According to the CEPR (2009a) report on IMF Standby Agreements in the region, the government is expected to decrease the VAT rate from 20 percent to 12 percent, while at the same time introducing a new property tax and other tax increases, as yet undefined.

To some extent, Kyrgyzstan has recognized the importance of increasing social spending for vulnerable groups and introducing more progressive tax schemes. According to CEPR, the Social Fund expenditures are expected to rise from 5.4 percent of GDP in 2008 to 5.9 percent in 2009. However, the report also notes that the government is scheduled to drop the public-sector wage bill from 7.2 percent in 2008 to 6.7 percent in 2009. Considering that

[7] Available at: http:// perc.ituc-csi.org/spip?article280.

the second largest group of poor people after the self-employed are those who are wage employees, the wage reduction may have significant negative impacts on the poor.

It is interesting to contrast the choices of different national governments in the same poverty group. Moldova and Armenia, both small, resource poor economies that are highly reliant on remittances, Moldova afflicted by political instability, Armenia by extremely high unemployment rates, both constrained by IFIs, yet choosing different policies, while Tajikistan and Kyrgyzstan, both rural economies with high dependence on remittances, have been responding differently as well. As the latter relies less on IFI funds and is also burdened by higher external debt stocks, it has been adopting gender-sensitive policy responses that extend to its most vulnerable populations. However, Tajikistan has been implementing propoor policies as well, but in the Tajik case, it is important to emphasize the positive role of IFIs in working with the government to improve people's lives by increasing social spending and supporting the government's efforts to restructure its financial and agricultural sectors to assist the most vulnerable.

HIGH-POVERTY GROUP

As with the extreme poverty group, countries in the high poverty group (Albania, Bulgaria, Montenegro, Kazakhstan, Romania, the Russian Federation, Serbia, Turkey, Ukraine) differ in terms of their resources and degree of integration to the global economy. Russia and Kazakhstan are resource-rich countries with impressive growth rates. Bulgaria and Romania are the only EU member countries in the high-poverty group, while Albania, Montenegro, and Serbia are all prospective EU members.

Among the high poverty group, those who relied on external funds (wholly or partially) for their economic stimulus packages are Romania (USD 17.1 billion from the IMF), Ukraine (USD 16.4 billion from the IMF), and Serbia (USD 4.53 billion from the IMF). EU assistance to its CEE member countries is mainly devoted to helping businesses deal with the crisis (EC 2009a). Under the EU Instrument for Pre-Accession Assistance (IPA), Serbia received general budget support to ease the economic and social consequences of the crisis for citizens.

Who Are the Poor?

One of the most significant differences between the high-poverty group and the extreme-poverty group is the prevalence of poverty among female-headed households, who

disproportionately represent the poor in Ukraine and particularly in the Russian Federation (68%). Rural-urban poverty differences are also more pronounced than in the extreme poverty group (see table 7). Education would seem to be a good target of expanded public spending in this group, as the general pattern suggests that a large share (in some cases, the majority) of the poor have only a basic education.

Kazakhstan is a resource rich country that produces natural gas and crude oil, and also exports textiles and agricultural products, particularly wheat and livestock. Kazakhstan's economy grew at a rate of 3.2 percent in 2008 and is estimated to contract by 2 percent in 2009 (see tables 2 and 3).

The country has a poverty rate of 56.7 percent, with a higher rural poverty ratio of 67 percent as opposed to 55 percent for urban poverty. Similar to Kyrgyzstan, self-employment is a high-poverty-risk occupation, as 27 percent of all people living in poverty are in this category, closely followed by wage employees, who constitute 25 percent of all the poor.

However, women have a disadvantage in rural Kazakhstan as rural markets are segregated; being a woman worker not only reduces the chance of finding employment, but also results in lower wages compared to men (World Bank 2004). Also, due to the large size of the country, poverty has a spatial dimension in Kazakhstan; earnings are much lower in rural areas such as Akmola, North Kazakhstan, and East Kazakhstan, where infant and maternal mortality rates are also very high (World Bank 2004).

One of the largest emerging economies along with Russia, Kazakhstan has, through two successive rounds, dedicated resources amounting to 10 percent of GDP to its emergency stimulus package (ESP) (Deutch Bank Research 2009) In September 2009, the Asian Development Bank provided USD 500 million to support construction projects in the country. Even though a significant portion of the funds were intended to be used for banking sector liquidity, aid for the real estate sector in Kazakhstan will also constitute a prominent share (DBR 2009). The government has also been providing funds to small and medium enterprises at low interest rates and this is supported by the government's monetary policy: the central bank has cut interest rates to ease the credit crunch.

While Kazakhstan had the highest external debt to GNI ratio (104) in the group (second highest in the entire study), it also seems to be the only country that has implemented policies towards protecting women and the most vulnerable groups (see box 3).

Box 3. Social Protection Component in the Economic Stimulus Package (ESP) in Kazakhstan

The government of Kazakhstan introduced the ESP in November 2008, allocating about 10 billion US dollars (1,500 billion tenge), or about 5.5 percent of the national budget.

The social protection component of the ESP in Kazakhstan includes: regular monitoring of sectors facing risk of mass layoffs; measures to provide jobs, training opportunities and social support to redundant workers; providing employment for the most vulnerable groups, particularly single mothers, families with more than three children, and people close to retirement age; creating a social insurance scheme to support recently laid-off workers; and creating 348,000 new jobs in 2009–10 through support to about 6,000 projects.

Source: Kazakhstan's Government Continues Helping Citizens and Businesses in Time of Crisis. http://search.globescope.com/kazakhstan/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=186&cntnt01returnid=72

According to a statement by the Kazakh prime minister (November 24, 2008), the government will increase the size of pensions, wages, and student scholarships by 25 percent in 2009 and 2010. The prime minister also noted that in 2010, government will increase state social allowances and special state allowances by 9 percent a year; increase monthly child allowances for children under one-year old by 250 percent; and increase one-time state-funded child allowances for the birth of the fourth child and every next child by 50 percent. He further stated that the government will preserve jobs at large energy and resource extracting companies even in the case of production cuts and will generate employment in conjunction with the municipalities of Astana and Almaty through an infrastructure project called "100 schools and 100 hospitals."

One country, Turkey, is different than other countries in the high poverty group in many ways, except its rate of high poverty (58%). Turkey has not been undergoing market transition and is not an agrarian economy in terms of agriculture's contribution to GDP (11.5%), although the share of employment in this sector is still very high (24%) (State Planning Organization 2009).

Turkey is a middle-income country with per capita income of USD 8,984 and is the second largest economy in this study after the Russian Federation. A 2005 poverty study by the State Statistics Institute showed that rural poverty has been growing the fastest in the region, with 37 percent of those employed in agriculture living in poverty (State Institute of Statistics 2006b). The rural face of poverty increased following the adoption of the Agricultural Reform Implementation Programme in 2001; designed to reduce the role of

government in agriculture by substituting government subsidies with direct cash income transfers to farmers, the program was phased out in 2008 (Unal 2009).

Another feature of Turkey is its extremely low female labor force participation rate (28%) and a big gap in male and female earned income (SIS 2009a). Despite this low total, the average rural female labor participation rate is extremely high, at approximately 75 percent (SIS 2009b). The majority of women (76 percent) who work in agriculture are unpaid family workers (SIS 2009c) and the sector is becoming more feminized as a result of male out-migration from rural areas in search of jobs, which is prevalent in many other parts of the developing world.[8]

The Turkish economy has been negatively affected by the global downturn, with real GDP growth declining from 0.9 percent in 2008 to -6.5 percent in 2009 (see tables 2 and 3). Its current account deficit is low, with only 5.7 percent of GDP in 2008, and is projected to be only 1.9 percent in 2009 (see tables 3 and 4). Moreover, the impact on employment has been tremendous: official unemployment increased from 10 percent in 2008 to 15 percent in 2009.

To mitigate the impact of rising unemployment, the government extended unemployment compensation to workers with reduced hours from three to six months under the Reduced Working Hours Fund and increased the amount of the fund by 50 percent. It also took over 5 percent of the social security premium paid by employers. Anticrisis measures also included reduced VAT on household durables and a lowered real estate tax.

In the face of widespread poverty and rising unemployment, Romania has used its limited policy space to extend a degree of protection to Roma people (see box 4).

[8] See Deere (2008) for further discussion on the feminization of agriculture.

Box 4. Romania and Roma People

Romania has been experiencing the negative impacts of the economic crisis through its decreasing exports (-25%) and reversal of capital flows, which started in 2003 as a result of increased integration of European economies. The official unemployment rate is currently 5.7%, affecting some 500,000 people, almost half of which are women. In January 2009, the government announced that companies hiring unemployed persons, sole supporters of families, or persons over 50 years old would receive subsidies for a period up to 12 months in order to cover half of the salaries. The subsidies would also be used to support employment of Roma, and of those, due to education and low skills, have a lower competitive edge in the labor market. For people unemployed over two years, subsidies would cover 75 percent of salary up to 24 months. The scheme, which is worth a total of EUR 133 million, is 85 percent funded by the European Commission. Of this, 29 million is allocated for employment in rural areas. In March 2009, the government also decided to extend the unemployment insurance for three months, while employers and employees will be exempted for three months from paying social insurance contributions during temporary suspension of activities.

Source: Social Watch (2009)

Before the crisis, Serbia had a high current account deficit (-17%), but a very favorable term structure in its external debt stocks (10%) compared to many countries examined here. As a result of reversals of capital inflows, the national currency has dropped 25 percent compared to the euro in a short time, which prompted the government to seek external assistance from IFIs (Social Watch 2009). In January 2009, Serbia signed a 15-month USD 530.3 million Standby Agreement to maintain economic and financial stability; a few months later, it signed another Standby Agreement worth USD 4 billion. In addition, it signed a World Bank loan worth USD 400 million for the development of private and financial sectors on October 5, 2009.[9]

Currently at 42 percent, poverty in Serbia is most common among retired people (39%), as well as among the Roma (World Bank 2003). In its letter of intent to the IMF, the government emphasized its willingness to follow a conservative fiscal policy, not using the funds unless absolutely necessary, agreed to adjust public sector wages by the projected inflation rate, and freeze nonessential public sector hiring (CEPR 2009a). When advised to increase taxes, however, the government refused.[10]

In February 2009, the government adopted an ESP that included some propoor measures, such as employer hiring incentives in order to increase jobs for the more

[9] Serbian Government. (October 5, 2009). “World Bank to approve $400 million loan to Serbia”. Retrieved October 7, 2009. Available at: http://www.srbija.gov.rs/vesti/vest.php?id=59469

[10] Serbian Government (September 1, 2009). “Government reaches agreement with IMF”. Retrieved September 2, 2009. Available at: http://www.srbija.gov.rs/vesti/vest.php?id=58485

vulnerable groups. It announced that jobs for Roma people, older people (aged 45–50), and people who have been unemployed for at least two years would be subsidized up to USD 2,200 (Social Watch 2009). In March it announced a temporary salary and pension tax of 6 percent for those who earned more than USD 170. However, widespread protests resulted in its being revoked overnight and replaced by freezing salaries in state administration. Social mobilization spearheaded by trade unions was critical to this shift (Social Watch 2009).

At the same time the government is took steps to cut spending on education, healthcare, and pension funds, and postponed implementation of the General Collective Bargaining Contract that covers all workers, allowing employers not to pay worker benefits and compensation (Social Watch 2009).[11] These steps were mostly due to the IMF's emphasis of fiscal restraint by reducing the public wage bill and its insistence on liberalizing the markets through privatization (CEPR 2009a).

MEDIUM POVERTY GROUP

Five of the countries in this group are EU members—Estonia, Hungary, Latvia, Lithuania, Poland—and two are prospective EU members—Bosnia and Herzegovina and FYR Macedonia (see table 8).

After September 2008 and the freezing of world financial markets, CEE countries found themselves with little or no access to finance. In October 2008, Hungary applied to the IMF for emergency support. The IMF responded with new Standby Agreements to four countries: Hungary (USD 15.7 billion), Latvia (USD 2.35 billion), Belarus (USD 2.46 billion), and Bosnia and Herzegovina (USD 1.52 billion). Poland received USD 20.58 billion under the Flexible Credit Line,[12] with an additional USD 2.55 loan by the World Bank.

Countries in this group, too, have taken different measures to mitigate effects in the social sphere. Hungary, for example, has continued to pursue further fiscal tightening by serious cuts in allocation for social services, and cutting social benefits and the number of jobs in the public sector, including healthcare and education. Poland and Bosnia and Herzegovina, on the other hand, have developed more beneficial social welfare packages targeting the most vulnerable, whereas Latvia could do nothing for the reasons we will elaborate in this section.

[11] Accepting the call to unite in times of crisis, Serbian trade unions agreed to the postponement (Social Watch 2009).

[12] In March 2009, the IMF introduced the new Flexible Credit Line for crisis prevention or resolution for countries with strong economic fundamentals and institutional policy frameworks. See: http://www.imf.org/external/np/pdr/fac/2009/032409.htm

Who Are the Poor?

As table 8 shows, poverty in these countries primarily affects people in rural areas, especially adults in the 17–65 age group, although in Hungary most of those living in poverty are below age 16. In Lithuania, Latvia, Estonia, and Belarus a disproportionate number of poor households are female. Education appears to be linked to the incidence of poverty: in Latvia, Lithuania, Poland, and FYR Macedonia, those who have only primary basic education constitute a disproportionate number of the poor, 55 percent, 49 percent, 49 percent, and 63 percent, respectively.

Poor people in this group occupy diverse positions in the labor market. In Lithuania, 19 percent are either self-employed or retired, whereas in Belarus and Estonia 44 percent and 35 percent of people in poverty, respectively, are in wage employment. In Latvia, unemployment seems to be more common among the poor (31%), although earning a wage does not guarantee freedom from poverty, as 21 percent of all the poor are in wage employment. In Poland, unemployed persons constitute 29 percent of the poor. In FYR Macedonia, almost half of the poor are not economically active.

The three Baltic countries—Latvia, Lithuania, and Estonia—are the only ones that showed negative real GDP growth rates in 2008 (see table 1). What is even more alarming is that for 2009, the IMF estimates double-digit contractions in their economies.[13] In all three countries, real GDP growth was spectacular in the three years before 2008—in Latvia, 8.7 percent, 12.2 percent, and 10 percent (IMF 2009a). A question to ask here is what accounts for such a dramatic reversal?

Some analysts have argued that the reason for the collapse of the Baltic countries (including Latvia) was the nature of the transition to a market economy: specifically, financial liberalization that happened too fast and was out of line with the economy's productive capacity and competitiveness, resulting in greater regional and social inequality, financial fragility resulting from large flows of foreign investment, and unsustainable current account deficits resulting from fast-growing private and public debt (see Tiits et al. [2008]). In 2006, Latvia's trade deficits reached 20 percent of GDP. Its gross external-debt-to-GDP ratio rose from 114.7 percent in 2006 to 150 percent in 2007, falling to 134 percent in 2008 (CEPR 2009b). However, domestically fueled consumption growth based on foreign borrowing collapses when high levels of debt lead to expectations of loan defaults, as has happened in Latvia and other CEE countries.

On December 23, 2008, Latvia signed a 27-month, USD 2.35 billion Standby Agreement with the IMF. It also received funds from the EU (USD 4.3 billion) and Nordic countries (USD 2.5 billion) among others (CEPR 2009b). Due to its high external debt, the government agreed to EU demands that it adopt a pegged exchange rate (in which the value of domestic currency is pegged to a foreign currency or a basket of foreign currencies).

Pegged exchange rate regimes can help simplify trade transactions between major trading partners, especially when trust in the currency of one of the partners has deteriorated, which was the case with Latvia. At the same time, they reduce the capacity of the state to adopt an independent monetary policy to deal with macroeconomic instability because domestic money supply depends on foreign reserves. The central bank has to keep a certain level of foreign reserves to protect the peg, which limits its ability to withstand capital outflows and declining foreign reserves. This could mean a shrinking money supply, which, in turn, affects the real economy. An option in the face of declining foreign reserves is currency devaluation to improve current account imbalances. However, this is not feasible in Latvia, as a large proportion of consumer debt is denominated in foreign currency. Since countercyclical fiscal policy is restricted by the large public debt, Latvia is left with little room to breathe, let alone move.

While it is true that Latvia could have contained these difficulties had it used its policy space to intervene quickly in its domestic markets to prevent excessive consumer borrowing and stabilize its economy (Tiits et al. 2008), it is also important to note that the IMF Standby Agreements have followed the usual procyclical recipe of cuts in government spending and prioritizing financial stability by maintaining the currency peg (CEPR 2009b), limiting Latvia's ability to protect its citizens from the impact of the crisis going forward.

LOW POVERTY GROUP

Among the low poverty group (Croatia, Czech Republic, Slovakia, and Slovenia), Slovakia, Slovenia, and Czech Republic are EU members, and Croatia is a prospective EU member.

All of the countries in the low poverty group are financially sound according to macroeconomic indicators. Slovakia, Slovenia, Croatia, and the Czech Republic had real GDP growth rates of 6.4 percent, 3.5 percent, 2.4 percent, and 2.7 percent, respectively (see table 2). In 2008, before the crisis hit, the four had an average of 6.13 percent current account deficit compared to GDP, as well as positive net capital inflows, low inflation rates, (3–4%) and, with the exception of Croatia, relatively low unemployment rates. Real per

capita GDP in all four was above USD 13,000 in 2008. Croatia had a high external-debt-stock-to-GNI ratio, but the term structure was favorable with only 10 percent to be paid in the short term (see table 4).

Who Are the Poor?

According to a World Bank study in 2007, poverty in Croatia is linked to people's labor market position: people in poverty comprise mostly unemployed, economically inactive, and retired people. Additional correlates are household size (more than 4 people) and educational attainment (below secondary school). The study also notes that female-headed households are more likely to be poor than male-headed households. Considering that one-third of Croatia's population lives in female-headed households, this poses a significant problem. Particularly in households where the head of the household is 65 years or more, the poverty incidence increases to 26 percent as opposed to 12 percent and 30 percent in urban and rural areas, respectively.

Another important dimension of poverty in Croatia is the lack of social mobility; poverty is stable over the life cycle and begins to rise sharply after 55 (World Bank 2007).

In both the Czech Republic and the Slovak Republic, where poverty rates are very low, poverty is more common among the socially excluded, notably the Roma people. The vulnerability of Roma people during economic downturns is particularly acute, as they have no access to social safety nets.

There are 250,000 Roma living in the Czech Republic and more than 120,000 in Slovakia. Not all Roma are socially excluded, but a 2009 Social Watch report states that 80,000 of 250,000 Roma in the Czech Republic were trapped in some 300 socially excluded communities, while in Slovakia, Roma live in poor conditions with little or no access to basic services such as water and electricity.

Another feature of countries in the low poverty group is their higher spending on health and education, followed by relatively positive health outcomes with significantly lower maternal and infant mortality rates compared to other countries in the study (see table 5). The countries are also similar in terms of their export to import ratios (close to 1). In 2009, the IMF has estimated negative real growth rates for all of them, averaging around a contraction of 4.7 percent of GDP.

Despite the similarities in economic outlook, from a human development standpoint, these countries responded to the economic crisis in very different ways. Croatia, which has the highest official unemployment rate of all four countries, received World Bank and

EBRD loans to finance its economic stimulus package. Among the measures it has taken to balance its budget are the imposition of user fees on healthcare (including antenatal care) and a 6 percent reduction in the public sector wage bill. State budget expenditure on capital investment has also been cut, while tax measures include a VAT increase from 22 to 23 percent and an additional payroll tax of 2 percent for salaries, pension, and capital gains equal or below USD 618 and 4 percent above USD 1,236 (Darvas 2009).

Slovakia, which is home to major automotive industry plants for Kia, Peugeot, and Volkswagen, is under the EC Temporary Scheme that provides member states with funds to implement measures to cope with the present economic crisis. Slovakia has implemented propoor, countercyclical policies in response to the crisis and has accelerated public infrastructure projects and taken steps towards progressive taxation by reducing the tax rates for the low-income employees. In addition to tax breaks to businesses, the government is also trying to stimulate the economy through speeding up payments and reducing business bureaucratic procedures.

The commitment of the Slovak government to protecting its population against the negative impact of the crisis included building cooperation among all social groups. A crisis committee has been formed—made up of representatives from the government, central bank, commercial banks, trade unions, employers, municipalities, and parliamentary opposition—to analyze the impacts of, and offer solutions to, the crisis (Social Watch 2009). On the other hand, despite the inclusion of a wide range of organizations and interest groups in this committee, there are no targeted efforts to improve the conditions of its most vulnerable constituency, the Roma people.

The economic stimulus package adopted by the Czech Republic, which is not dependent on external borrowing to finance it, is mixed. It includes some procyclical policies, which are neither propoor nor gender-sensitive, including reducing budgetary allocations and downsizing public sector employment, as well as privatizing parts of the healthcare sector. Privatizing healthcare at this economically challenging time is bound to hurt the poorest households for whom access to public healthcare is essential. It also has important negative implications for women, as noted earlier, through lost jobs, widened gender wage gap, and increased unpaid work.

Another measure the government has implemented is the introduction of a regressive tax reform, including decreasing the tax rates for the wealthier groups while increasing the VAT (Social Watch 2009). Some propoor measures have been implemented as well, including higher welfare benefits for the unemployed, better protection of workers in

bankrupt firms, and larger tax deductions for families with children. There were also some attempts to include its most vulnerable population, the Roma, but efforts were not followed up.

In January 2008 the Agency for Social Inclusion in Roma localities opened its doors with a mandate to raise Roma standards of living and facilitate their inclusion in Czech society. The main vehicle for this was meant to be through funding for immediate purchases of services. However, the government ordered the agency to establish a framework for cooperation with interested parties in each region before ordering any services. The staff spent the entire year on this task, after which an internal audit concluded that the agency's approach violated Cabinet policies.

Overall, it appears that the differences between Slovak and Czech policies stem from the presence of different voices in the political decision-making process. In Slovakia, all of those who were part of the policy response discussions appear to have benefited from state's policies, in contrast to the Roma people, who were not part of the conversation.

CONCLUSIONS

The World Bank warns that the global economic and financial crisis could push another 53 million people into poverty in 2009—on top of the 100 million impoverished by the food and energy crises in 2008. The financial crisis has had a particularly devastating effect on the CEE and CIS region, with an estimated 35 million people expected to be pushed into poverty in 2009. The Financing for Development and Aid Effectiveness agendas, along with the promotion of the Millennium Development Goals (MDGs), are designed to assist countries in mobilizing resources and using them more effectively for development. At the same time, international finance institutions and donor and partner governments, including those hardest hit by the economic downturn, risk basing recovery on the same models of growth and investment that have been accompanied by increasing inequality, nationally and globally, and led to the current crisis (see Antonopoulos [2009]; Seguino [2009]).

As this study shows, governments with the same macroeconomic fundamentals and similarly limited fiscal space nevertheless adopt different policy mixes, which also differentially impact different groups of people. In addition, the IFIs, whose prescriptions have to a large extent shaped the degree of fiscal space in which governments can operate, have responded to appeals for standby lending from countries in the region in very different ways.

In the case of Kazakhstan and Kyrgyzstan, the provision by both governments of cash transfers to poor families with children will go some way towards mitigating the impact of the crisis on vulnerable groups, including poor women and children. As a result of sustained social spending on health and education, the human costs of the financial crisis are likely to be very different in these countries than they are in Moldova, which is addressing its current account imbalances by taxing the poor on the same basis as the rich, or in the Czech Republic, which has cut spending on education, privatized parts of its healthcare system, and introduced new user fees for healthcare.

Serbia has embraced foreign borrowing in response to the crisis, along with a freeze on wages in the state administration, cuts in public spending, and public sector reform. By contrast, Armenia has so far been trying to improve its current account imbalance through increased tariffs, which the IMF advised against. In some countries, notably the Slovak Republic, propoor policies have been adopted and could be further strengthened by extending them to the socially excluded groups and populations, such as the Roma people, who are rarely, if ever, included in policy discussions.

This paper has emphasized that low-income working people in the region have been most seriously affected by the global downturn, perhaps especially the lower middle class, many of whom have lost not only jobs, but also a large part of their assets. To be effective, fiscal policies to counter the impact of the crisis must be informed by an awareness of who these groups are, where they live, what sectors they work in, what kind of households they live in, and so on, since the outcomes of policies depend on careful targeting. There is a need for an effective policy monitoring process, in which women's organizations and national women's machineries, supported by UN and donor partners, can play a meaningful role.

Some countries need very specific attention to very specific issues; for example Moldova and Tajikistan, for which remittances constitute a large source of foreign reserves and for which worker out-migration represents a large share of employment opportunities. Protection of migrant-worker rights requires international collaboration both on the sending and receiving side of the migrant labor stream. Further, considering that most of the migrant workers and their families come from rural areas, the home countries need to increase spending on rural social and physical infrastructure projects and rural employment programs, along the lines of India's government-subsidized National Rural Employment Guarantee (NREG).

Some countries, for example, Tajikistan and Kyrgyzstan, have very particular problems, such as the monopoly of the agricultural sector by cotton farmers in Tajikistan and

high poverty rates among people engaged in small and medium enterprises in both countries. As in many cases, these particular problems may hide particular opportunities. For example, since the majority of poor farmers in Tajikistan are producing cotton, locked into what amounts to debt servitude, policies designed to eliminate the virtual monopoly of large farmers over the sector and encourage greater agricultural diversification are likely to be cost-effective in dealing with poverty. In collaboration with the international community, Tajikistan is taking steps towards that end, although the failure of developed countries to eliminate their agricultural subsidies is likely continue to frustrate their efforts. To some extent Tajikistan's decisions during the transition years, including not to invest in agricultural modernization and to implement big cuts in social spending, have limited the country's options in dealing with the impact of the crisis.

It is important to ease poverty through short-term programs—such as cash transfers and child allowances—as in Kazakhstan and Kyrgyzstan. A longer-term solution, however, is to decrease poverty through public-private cooperation in employment generation and social protection systems, in which private enterprises should take a greater corporate social responsibility. Moreover, short-term measures should not contradict longer-term development strategies and should be designed as steps towards such strategies.

Generating meaningful and long-term employment opportunities and pursuing policies to accomplish this purpose is an important aspect of decreasing the human cost of the global downturn. Kazakhstan has been implementing public sector employment programs through infrastructure projects (schools and hospitals). Other countries have been giving incentives to private businesses to generate employment; Serbia and Romania for example, have been providing incentives to businesses when they hire workers who are socially and economically excluded, like the Roma people or structurally unemployed people with longer periods of unemployment history. However, without creating a healthy economic environment, these measures are unlikely to have any positive impact, as companies still prioritize cost reduction and layoffs in order to survive the crisis.

It is also important to note that all policies have gendered impacts. While infrastructure construction tends to provide jobs primarily for men, the kinds of infrastructure constructed, including schools, clinics, rural markets, and even roads to reach these new facilities also benefit women, including those who will work in them. To increase women's access to decent work and livelihood opportunities, as well as avoid the repeated reliance on women's unpaid labor to manage household survival strategies, it is crucial to investigate how each aspect of the response will impact on women and ensure gender-

specific targeted investments, either through public spending or incentives to private businesses. It is also important to link new employment opportunities to education and skills training in order to enable women to compete for these jobs equally with men.

In most countries, including CIS and CEE countries, women's groups and national women's machineries have not been involved in the process of developing policy responses to the crisis, including economic stimulus packages, making it particularly important that they investigate their provisions and monitor their outcomes.

Finally, it should be noted that the analysis of the gender-specific impact of the crisis and of policy responses in CIS/CEE was heavily constrained by the lack of sex-disaggregated data. Such data is essential to be able to design gender-differentiated policies that can address the needs of women and men adequately.

RECOMMENDATIONS

This analysis of how poor and vulnerable citizens are faring in the context of the economic and financial crisis identifies partial policy responses and indicators that need to be taken into account in designing responses to ensure that these groups are not put at further risk, with setbacks to national development that will be very difficult to reverse.

Gender equality and women's empowerment are essential in order to achieve equitable and effective development and to foster a vibrant economy. The financial and economic crisis should not be an excuse for countries to backtrack on commitments to gender equality and poverty reduction. The governments are obliged to fully respect and implement their commitments that derive from the Convention on Elimination of Discrimination against Women (CEDAW), the Beijing Declaration and Platform for Action, and other international human rights documents. It is essential that anticrisis policy responses, stimulus packages, and other measures take into account differentiated impacts based on gender (including through gender-responsive budgeting) and that both immediate and long-term measures respond to the needs of women as well as men.

The recommendations below focus primarily on gender equality priorities that need to be targeted in responding to the crisis, while appendix A, "Towards a Broader Policy Response," explores the kind of economic restructuring needed to make that possible.

Expansionary fiscal policy must be countercyclical. Progressive tax systems that compensate for gender biases in revenue collection should be developed along with

measures to enhance tax revenues, including more equitable and efficient tax collection, reducing tax evasion and broadening the tax base.

Economic stimulus packages should place a priority on job creation and/or retention through employment guarantee programs, not only in the private sector, but also in the public sector where so many women are still employed. Enforcement of minimum wage regulations and adoption and implementation of equal pay for equal work policies should also be part of the policy response mix.

Public spending measures should support gender-sensitive investments in social, as well as physical, infrastructure and include measures to support vulnerable groups, such as migrant women.

Support to individuals should especially target individuals in low-income households; in addition to supporting those who manage household resources, who are generally women, such measures are most effective as poor and low-income individuals have a higher per capita consumption rate.

Declining incomes and cuts in public spending have increased the burden on women's unpaid labor to fill the gaps in household maintenance and food security, in child and elder care, and education. Taking into account their absorptive capacities, greater attention should also be paid to the needs of low-income caregivers. Support to individuals should include measures to support formal, informal, and unpaid care givers, such as including them in unemployment benefits.

Rising unemployment rates particularly affect migrant workers, half of whom are women. Joint initiatives between countries of origin and destination are necessary to assure protection of the rights of migrant workers and their families. Unemployment schemes in countries of origin and destination should extend to migrants and return migrants who have lost their jobs. Regional coordinated responses are necessary in the countries of CIS, where migration and trade routes underline interdependence of the countries.

Once undone, progress on development goals cannot easily be recovered without considerable reinvestment and political recommitment. Human development is a long-term investment carrying high long-term individual and social returns. Countries in the CEE/CIS region have experienced major setbacks in social indicators such as health and education and many of them face the same development challenges as poor and low-income countries. Donor coordination and support to the most vulnerable populations across the countries, but especially the most financially fragile, are essential, including through well-resourced multidonor initiatives.

Bilateral and multilateral donor agencies must increase commitments to development assistance that promotes gender equality and women's empowerment, through both gender mainstreaming and targeted activities, and strengthen mechanisms to effectively measure resources allocated to incorporating gender perspectives in all areas of development assistance. Indicators for gender-sensitive stimulus packages need to be developed, tracked, and monitored.

Given their central role in providing needed finance, it is also important to ensure that the IFIs take gender perspectives into account in loan approvals, debt servicing, and debt relief equality. All onerous debts should be reviewed and cancelled, as they burden national economies and their capacity to overcome the crisis. By allowing more policy space to countries hard hit by the crisis, IFIs would contribute to their economic recovery.

These policies and their implementation can only be assured when decisions are made in a transparent and inclusive manner, with monitoring mechanisms in place. Nationally owned and driven initiatives are essential to assure that policies respond to the real needs of the country and the most vulnerable populations within them. This requires sustained advocacy and informed demands by gender equality advocates and women's groups. Support to women's organizing should be matched by strengthened investments in national institutions, including national women's machineries, to assure policies are gendered and monitored. In addition, the women's machineries need to be better positioned in policy and budget formulation and crisis response processes, as well as public finance management, to assure that needs of women are adequately addressed.

As is often stated, crises also provide opportunities. It is important that the measures undertaken are not only consistent with long-term measures but also set a direction that addresses long-term structural problems of the economy (A Global Jobs Pact is one of the UN Joint Initiatives to respond to the crisis). This requires tackling labor market segregation and creating decent work for women distributed across rural and urban settings and different social groups.

For countries with a heavy economic concentration in the rural sector, long-term planning also means a rebalancing of the sectors and investment, especially private and foreign direct investments, in industrial policy to reduce the commodity dependence and broaden the employment base for women.

Agricultural and trade policies should be formulated and implemented with the goal of assuring food security. Ownership of land and productive assets by both men and women needs to be protected to prevent deepening of poverty. In countries that are predominantly

rural and where agriculture is a major source of employment (especially for women), special attention should be given to the classification of unemployment and the eligibility for support that take into account female farmers and agricultural workers. For countries with high farmer indebtedness, special funds and financing mechanisms need to be put in place to address the problem of agricultural debt. Financial sector reform should ensure that small producers can access credit and microcredit from formal institutions.

APPENDIX A

Towards a Broader Policy Response

Barbara Adams and Karen Judd

The review of policy responses to the economic and financial crises in central and eastern Europe (CEE) and the Commonwealth of Independent States (CIS) compares countries across different levels of poverty to see the extent to which these responses protect their most vulnerable populations, including poor women, rural women, and those excluded from economic and political life. In so doing, it highlighted policies that advance national and global commitments to gender equality, such as those made in the Beijing Platform for Action in 1995.

Women's work in the household and community constitutes an unpaid "care economy" that has traditionally been the de facto shock absorber in economic downturns, filling the gaps caused by falling household income and cuts in public services. In the CEE and CIS region, its absorption capacity was hard squeezed even before the financial and economic crisis, given the shock therapy measures of the transition and the ongoing impact of the food and fuel crises. With the onset of the financial and economic crisis, it has now reached a breaking point. A recent World Bank (2009c) study points to the multiple impacts the crisis has had on households in the region and indicates concern that "compared to previous crises, the scope for households to engage in traditional coping mechanisms is more limited."

The review of these multiple impacts on and within households, and of policy measures to address them, makes clear that effective and sustainable policy responses must focus on three broad and interrelated objectives, each of which has gender dimensions:

1. Establishing a social protection floor, with coverage for all segments of the population, including poor and vulnerable groups, as well as those socially excluded.
The UN Joint Crisis Initiatives paper points to increasing examples of the role of social protection in reducing poverty in Africa, Latin America, and Asia, with much quicker results than from economic trickle-down policies, and notes that for a low-income country, even a basic social security system can make the difference in whether poverty reduction goals are

achieved. Findings from an ILO study of seven African and five Asian countries indicate that social security systems not only should but could be established affordably (ILO 2008).

While almost all countries provide some form of social security, few provide a basic social protection floor for all citizens, including the vast majority of the working poor. A recent report by the Organisation for Economic Co-operation and Development (OECD) found that 1.8 billion people, or more than half of the global labor force, are working without a formal labor contract or social security, compared to 1.2 billion with formal contracts and social security protection. While this has not been so serious in the CEE/CIS region, where a large proportion of the population continues to work in public sector jobs that include social security protection, the pressure on countries to "reform" pension systems and reduce payments to retirees has increased as a condition of loan packages, particularly in CEE countries, which have relatively large shares of elderly and retired people in their populations.

2. Prioritizing job creation and retention, as well as decent work opportunities as the drivers of sustainable recovery. Studies have found that investments in employment-intensive areas are greater than consumer tax cuts, across-the-board-spending increases, or hiring subsidies to firms. Effective measures include public employment programs and specific programs for vulnerable groups, including women, youth, and migrant workers. Additional measures can include employment guarantees, minimum wage legislation, and the protection of workers' rights, as well as provision of affordable childcare and social services to reduce women's unpaid work. Investment in new technologies, including green technology, should also be accompanied by information and skills training targeted to women to enable them to compete equally with men for the new job opportunities.

3. Targeting public investment to social as well as physical infrastructure that can enable women to contribute more productively to the economy and reduce their time poverty, especially in rural areas. Investing in women is, as the World Bank says, "smart economics." Such investment, some of which is already starting in the region, would include the construction of schools, hospitals and clinics, especially in rural areas, as well as construction and repair of farm-to-market roads, rural storage facilities, irrigation systems, portable water systems, and other farm projects that will further poverty reduction, provide long term advantages to large numbers of women in agriculture, and opportunities for migrant workers returning to rural areas. The UN Green Economy Initiative calls for

infrastructure investment to reduce the threat of food, water, energy, and environmental crises, which have disproportionate impacts on the poor, especially poor women. As the ILO points out, "priorities should not only be on infrastructure projects which create jobs in the short term but social investments in care services which reduce the pressure on women performing unpaid work" (ILO 2009b).

How can these policies be pursued in the context of the economic and financial crisis?
As the review of impact of the crisis in CEE and CIS reports, net financial inflows, including remittances and foreign direct investment, are decreasing in most countries in the region, economic growth has declined, and exports are down. In 2009, the rate of growth of GDP in the CIS is projected to be -6.7 percent, the world's largest decline, while that in the CEE is estimated to be -5 percent, the third largest decline. This contraction in economic growth, coupled with declining demand for exports and the near-exhaustion of major privatization opportunities, has also led to significant reductions in foreign investment. The number of unemployed people in the CIS and non-EU countries of the CEE could reach as much as 21.7 million in 2008, an increase of 35 percent over 2008.

Poverty in both the CIS and CEE was already increasing as a result of the food and energy crisis in 2007–08 and has been predicted to increase by 5 million people for every 1 percent decline in GDP. This is likely to affect women particularly, owing to the unequal way they are integrated into the labor market and their more limited access to social benefits, such as social security, pensions, and unemployment benefits. As GDP declines, cuts in public spending not only result in added job losses for women, but also greatly increase the unpaid labor needed to make up for the loss of public services, particularly in education and health care.

The impact of the crisis has put pressure on the policy and fiscal space of all countries, depending on the vulnerability of the economy and the multiple ways the crisis is being transmitted to it. Countries in CEE/CIS countries vary widely in terms of their structural vulnerability, ranging from heavily indebted/speedily integrating economies to poor, commodity-based economies that are dependent on external assistance for social investment. Their options in the current situation vary accordingly. For example:

1. New and prospective EU member countries have pursued polices of opening their economies to further their integration into a larger market. As the credit market froze in developed countries, they experienced a dramatic drop in demand for their exports and

declining investment flows, creating pressure on their currencies and interest rates, in some cases resulting in a destabilizing increase in indebtedness.

2. Poor, primarily agricultural economies with high levels of out-migration have increasingly relied on remittances, which in recent years have contributed more to the economy than foreign investment; in Tajikistan for example the ratio of remittances to GDP was 45.5 percent and in Moldova it is 38.3 percent. The sharp drop in remittances—which the World Bank estimates may up to 15 percent in central Asia in 2009—has seriously strained household coping strategies. The influx of returning migrant workers without jobs adds to the pressure on the informal economy and further reduces the already meager earnings it provides.

3. Resource-rich countries such as Azerbaijan, Russia, and Kazakhstan, while experiencing a drop in demand, have been buffered by continuing demand and foreign currency earnings. These countries are now facing critical decisions on how to use and protect policy space.

All countries in the region face the challenge of how to raise and manage revenues needed to expand fiscal policy in the face of rising deficits and increasing external debt. While a sustainable economy ultimately depends on effective domestic resource mobilization, including more efficient and equitable tax policies, almost all countries in the region rely on external resources to some extent, either as grants or loans. According to Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC), official development assistance (ODA) flows to the poorest countries in the region are low compared to other regions; a priority for these countries is to secure increased support from the international community to strengthen national capacities for implementation of their social protection and poverty reduction policies.

Many countries have loan agreements with the IMF, most of them put in place during the last year in response to the financial crisis. In negotiating these agreements, it is important that both national governments and the IMF place a higher priority on social policy objectives, including job creation and social protection. One striking characteristic of many countries in the region before the financial crisis was their degree of indebtedness. This has been worsened by factors beyond their control, yet they lack a debt workout mechanism for addressing the problem. Both debtor and creditor countries urgently need to put in place an international framework to solve the debt problem.

Within the CEE and CIS region the review of policy responses has shown that, in many cases, countries are developing stimulus packages and targeting infrastructure, social safety nets, and cash transfers. However, the safety-net measures in particular tend to be short term and piecemeal, providing a temporary cushion to help households weather the current crisis, but leaving them just as vulnerable to the next one. Moreover, for the most part they are not consistent with tax policy, which continues to rely primarily on consumption taxes that disproportionately hurt the poor. Examination reveals that anticrisis measures in most countries are largely blind to the gender-specific impacts of the crisis and the gender-specific responses needed to promote recovery that can provide the basis for more equitable and sustainable development.

Therefore, once resources have been secured, economic policymakers need to focus on three things. First of all, they need to ensure greater coherence in fiscal policy, making sure revenue gathering and tax policies are in line with expenditures. Expenditures should be aligned with the broad policy objectives of putting in place a social protection floor, investing in socially beneficial infrastructure, and creating decent work opportunities. This means that the tax burden cannot continue to fall on the poor, but must target high-income groups and corporations. Policies such as tax holidays and tax concessions to firms, which have been shown to have little influence on corporate decisions to locate, should be phased out.

Second, policymakers need to align short-term responses with long-term directions. Currently there is a risk that the design of anticrisis measures is responding to a cyclical problem rather than a structural one. Addressing the structural economic problems involves not only rebalancing the financial and productive sectors of the economy, but also greater attention to macroeconomic stabilizers, including support to job security and universal social protection.

Moreover, as the UN World Survey on the Role of Women in Development points out, economic policymakers need to recognize and fully address the links between economic and social policies, the formal and informal economy, and paid and unpaid work.

Throughout the world, but especially in the CIS and CEE, for the last 20 years, economic policy choice has been presented as predetermined—balancing and managing different constituencies is left to the art of politics. Such an approach inevitably bows to the more powerful, both within and outside national borders. The weight and severity of the crisis requires a rethinking of policy responses, some of which have contributed to the crisis itself. It provides the opportunity for a change in direction for an alignment of policy choices that position the economy in the service of the public good and healthy societies.

APPENDIX B

TABLE 1: REGIONAL COMPARISON OF ECONOMIC INDICATORS								
Region	Annual Real GDP Growth (%)		Net Financial Flows (billions of US)[a]		Current Account Balance (billions of dollars)		Terms of Trade (annual % change)	
	2008	2009	2008	2009	2008	2009	2008	2009
United States	0.4	-2.7	n/a	n/a	-706.1	-369.8	-2.2	2.6
Euro Area	0.7	-4.2	n/a	n/a	-92.7	-82.1		
Japan	-0.7	-5.4	n/a	n/a	157.1	96.9		
Other Advanced Economies	1.2	-2.7	n/a	n/a	108.5	93.3		
Africa	5.2	1.7	28.5	21	32.4	-37.1	11.3	-17.1
Central and Eastern Europe	3.0	-5.0	154.7	6.4	-155.2	-48.4	-2.1	3.8
Commonwealth of Independent States	5.5	-6.7	-97.4	-98.5	108.1	48	18.2	-20.5
Developing Asia	7.6	6.2	35.7	-54.3	423.9	381.5	-2	2.3
Middle East	5.4	2.0	-58.9	48	345.3	42.8	14.4	-18.9
Western Hemisphere	4.2	-2.5	67	24.8	-29.9	-31.3	3.1	-6.8

Source: IMF World Economic Outlook Database (October 2009)

a: Net financial flows comprise net direct investment, net portfolio investment, and other net official and private financial flows, and changes in reserves

TABLE 2: MACROECONOMIC INDICATORS

	Country	Poverty headcount ratio at $4 a day (PPP) (% of population) (2000-2004)	GDP (current US$ in millions)	GDP per capita (current US$)	Inflation (2008)	Real GDP Growth Rate (2008)	Unemp. rate (%)	Female Unemp. rate (%)	Employment in agriculture (%)
EXTREME POVERTY	Azerbaijan	85.9	33,050	3,581	15.4	11.6	8.5	1.6	39.0
	Tajikistan	84.7	3,712	552	11.8	7.9	10	10	..
	Armenia	80.5	9,204	2,996	5.2	6.8	36.4	14.3	46.0
	Turkmenistan	79.4	12,926	2,604	8.9	10.5	7	7	..
	Kyrgyz Republic	72.5	3,745	715	20.1	7.6	5.0	5.6	36.0
	Moldova	64.7	4,402	1,200	7.3	7.2	7.3	23.6	33.0
	Georgia	61.9	10,175	2,313	5.5	2.1	13.0	13.0	53.0
	Average	75.7	11,031	1,994	10.6	7.7	14.0	11.6	41.4
HIGH POVERTY	Turkey	58.0	655,881	8,984	10.1	0.9	10[b]	..	26.0
	Kazakhstan	56.7	104,853	6,772	9.5	3.2	8	9.3	..
	Romania	54.8	165,976	7,703	6.3	7.1	6.0	6.0	30.0
	Albania	48.0	10,831	3,458	2.2	6.8	..	17.5	
	Russian Federation	45.3	1,290,082	9,079	13.3	5.6	21.0	21.0	9.0
	Ukraine	44.7	142,719	3,069	22.3	2.1	7.2	..	17.0
	Montenegro	42a	3,846	6,194	9.0	7.5	10.0	10.3	..
	Serbia	42a	40,122	5,435	8.6	5.4	13.0	12.7	21.0
	Bulgaria	39.9	39,549	5,163	7.2	6.0	9	7.3	8.0
	Average	49.6	272,651.2	6,206.3	9.8	5.0	11.4	12.0	18.5
MEDIUM POVERTY	Lithuania	36.0	38,894	11,522	8.5	-4.6	36.0	37	10.0
	Bosnia and Herzegovina	35.0	15,144	4,008	3.8	5.5	31	35	..
	Estonia	33.2	20,959	15,621	7.0	-3.6	6	3.9	5.0
	Latvia	26.3	28,766	12,638	10.4	-4.6	4.0	4.3	10.0
	Macedonia, FYR	22.0	7,927	3,891	4.1	4.9	4.0	4.0	18.0
	Poland	20.6	424,790	11,143	3.3	4.9	5.0	5.4	15.0
	Uzbekistan	16.9	223,111	830	14.4	9.0	..	..	..
	Hungary	15.9	138,757	13,799	3.5	0.6	..	8.7	5.0
	Belarus	15.6	45,276	4,667	13.3	10.0	1.5	2.4	..
	Average	24.6	104,847.0	8,679.9	7.6	2.5	10.1	4.8	10.5
LOW POVERTY	Slovak Republic	11.4	74,972	13,891	4.4	6.4	6.0	6.0	4.0
	Croatia	10.0	58,558	13,201	2.8	2.4	11	11.0	13.0
	Czech Republic	1.0	173,958	16,833	3.6	2.7	7	6.7	4.0
	Slovenia	-	47,182	23,379	2.1	3.5	..	8.5	10.0
	Average	5.6	88,667.5	16,826.0	3.2	3.8	6.0	8.1	7.8

Source: With the exception of Inflation rate and real GDP growth rate, all the data is from the World Bank .

Inflation rate, and real GDP growth rate data is from IMF (World Economic Outlook October 2009 Statistics)

All World Bank data, unless noted refers to the latest available data from 2006, 2007, or 2008

a: Combined poverty rate for Serbia and Montegegro

b: Turkey's unemployment rate is from State Statistics Institute, 2008.

TABLE 3: MACROECONOMIC INDICATORS (2009)

	Country	Poverty headcount ratio at $4 a day (PPP) (% of population) (2000-2004)	Real GDP Growth Rate (2009)	Inflation (2009)	Current Account Balance (2009) (% of GDP)
EXTREME POVERTY	Azerbaijan	85.9	7.5	4.5	19.6
	Tajikistan	84.7	2.0	11.8	-13.7
	Armenia	80.5	-15.6	4.5	-13.7
	Turkmenistan	79.4	4.0	4.1	17.8
	Kyrgyz Republic	72.5	1.5	5.0	-7.8
	Moldova	64.7	-9.0	5.0	-11.8
	Georgia	61.9	-4.0	3.0	-16.3
	Average	75.7	-1.9	5.4	-3.7
HIGH POVERTY	Turkey	58.0	-6.5	5.8	-1.9
	Kazakhstan	56.7	-2.0	7.1	-2.0
	Romania	54.8	-8.5	4.3	-5.5
	Albania	48.0	0.7	1.8	-11.5
	Russian Federation	45.3	-7.5	11.0	3.6
	Ukraine	44.7	-14.0	14.0	0.4
	Montenegro	42.0	-4.0	-1.0	-16.0
	Serbia	42.0	-4.0	10.0	-9.1
	Bulgaria	39.9	-6.5	1.5	-11.4
	Average	47.9	-5.8	6.1	-5.9
MEDIUM POVERTY	Lithuania	36.0	-18.5	-0.3	1.0
	Bosnia and Herzegovina	35.0	-3.0	0.8	-9.1
	Estonia	33.2	-14.0	-1.5	1.9
	Latvia	26.3	-18.0	-1.7	4.5
	Macedonia, FYR	22.0	-2.5	-1.0	-10.6
	Poland	20.6	1.0	3.0	-2.2
	Uzbekistan	16.9	7.0	10.2	7.2
	Hungary	15.9	-6.7	6.1	-2.9
	Belarus	15.6	-1.2	11.0	-9.6
	Average	24.6	-6.2	3.0	-2.2
LOW POVERTY	Slovak Republic	11.4	-4.7	1.5	-8.0
	Croatia	10.0	-5.2	3.0	-6.1
	Czech Republic	1.0	-4.3	0.5	-2.1
	Slovenia	0.0	-4.7	1.0	-3.0
	Average	5.6	-4.7	1.5	-4.8

Source: With the Exception of Poverty Head Count Ratio, all data is from IMF World Economic Outlook Database (October 2009). Poverty Head Count Ratio is from World Bank

TABLE 4: FINANCIAL FRAGILITY

	Country	Export/ Import Ratio	Reserves/ GDP	Foreign direct investment, net inflows (% of GDP)	Current account balance (% of GDP) (2008)	External debt stocks (% of GNI)	Ratio of Remittances (% of GDP)	Short-term debt (% of total external debt)	Total debt service (% of GNI)
EXTREME POVERTY	Azerbaijan	1.54	7.7	(14.0)	35.5	12.0	4.4	34.0	1.0
	Tajikistan	0.46		10.0	(7.9)	34.0	45.5	6.0	2.0
	Armenia	0.63	5.5	8.0	(11.5)	30.0	9.0	16.0	2.0
	Turkmenistan			6.0	18.7	6.0		13.0	2.0
	Kyrgyz Republic		3.4	6.0	(8.2)	65.0	19.0	3.0	5.0
	Moldova	0.59	3.3	11.0	(17.7)	66.0	38.3	34.0	7.0
	Georgia	0.58	7.5	17.0	(22.7)	22.0	6.8	11.0	2.0
	Average	0.76	5.5	6.3	(2.0)	33.6	20.5	16.7	3.0
HIGH POVERTY	Turkey	0.79	8.9	3.0	(5.7)	39.0	0.2	17.0	8.0
	Kazakhstan	0.90	6.6	10.0	5.1	104.0	0.2	12.0	30.0
	Romania	0.64	4.5	6.0	(12.4)	52.0	5.6	36.0	7.0
	Albania	0.57	5.1	4.0	(14.1)	25.0	10.1	30.0	1.0
	Russian Federation	1.22	2.8	4.0	6.1	29.0	0.3	21.0	3.0
	Ukraine	0.88	4.5	7.0	(7.2)	53.0	3.9	31.0	8.0
	Montenegro		5.3	23.0	(29.6)	34.0		-	2.0
	Serbia	0.55	2.9	8.0	(17.3)	68.0		10.0	8.0
	Bulgaria	0.72	2.4	23.0	(25.5)	84.0	5.7	43.0	11.0
	Average	0.79	4.8	9.8	(11.2)	54.2	3.7	22.2	8.7
MEDIUM POVERTY	Lithuania	0.76	5.1	5.0	(11.6)	..	3.8	..	..
	Bosnia and Herzegovina	0.61	3.3	14.0	(14.7)	41.0		26.0	4.0
	Estonia	0.81	6.4	13.0	(9.3)	..	2.3	..	..
	Latvia	0.66	5.2	8.0	(12.6)	150.0	2.1	42.0	35.0
	Macedonia, FYR	0.73	3.8	4.0	(13.1)	49.0	3.6	32.0	9.0
	Poland	0.87	6.7	5.0	(5.5)	48.0	2.6	31.0	12.0
	Uzbekistan			1.0	12.8	17.0		5.0	4.0
	Hungary	0.94	5.8	27.0	(8.4)	..	0.3	..	..
	Belarus	0.90	11.5	4.0	(8.4)	21.0	0.8	63.0	2.0
	Average	0.78	6.0	9.0	(7.9)	54.3	2.2	33.2	11.0
LOW POVERTY	Slovak Republic	0.95	4.2	4.0	(6.5)	..		..	..
	Croatia	0.82	4.3	8.0	(9.4)	98.0	2.9	10.0	16.0
	Czech Republic	0.97	5.0	5.0	(3.1)	..	0.8	..	..
	Slovenia	0.95	48.2	3.0	(5.5)	..	0.7	..	..
	Average	0.92	15.4	5.0	(6.1)	98.0	1.5	10.0	16.0

Source: With the exception of current account balance, all the data is from the World Bank .

Data for current account balance is from IMF (World Economic Outlook October 2009 Statistics)

All World Bank data, unless noted refers to the latest available data from 2006, 2007, or 2008

	TABLE 5: SOCIAL SPENDING / GENDER INDICATORS							
	Country	Health expenditure public (% of GDP)	Education expenditure public (% of GDP)	Maternal mortality ratio (modeled estimate, per 100,000 live births) (2005)	Infant Mortality Rate (per 1000 live births) (2005)	Ratio of Female Migrants (2005)	Ratio of Female/ Male Earned Income (2007)	GINI index (UNDP Estimate 1992-2007)
EXTREME POVERTY	Azerbaijan	1.00	3	82	74	57	0.44	36.5
	Tajikistan	3.00	3	170	59	57	0.65	43.2
	Armenia	2.00	3	39	26	58.9	0.57	33.8
	Turkmenistan	4.00	..	130		57	0.65	28.1
	Kyrgyz Republic	4.00	5	150	58	58.2	0.55	35.7
	Moldova	6.00	8	22	14	56	0.73	..
	Georgia	2.00	3	66	41	57	0.38	40.4
	Average	3.14	4	94.14	45.33	57.30	0.57	36.28
HIGH POVERTY	Turkey	3.00	4	44	26	52	0.26	40.8
	Kazakhstan	3.00	3	140	63	54	0.68	30.3
	Romania	3.00	2	24	16	52.1	0.68	39.9
	Albania	2.00	3	92	16	53.1	0.54	33
	Russian Federation	6.00	3	28	14	57.8	0.64	..
	Ukraine	2.00	5	18	13	57.2	0.59	36.8
	Montenegro	4.00	..	..		60.9	0.58	34.9
	Serbia	5.00	4	..		56.1	0.59	25.8
	Bulgaria	4.00	4	11	12	57.9	0.68	29.2
	Average	3.56	4	51.00	22.86	55.68	0.58	33.84
MEDIUM POVERTY	Lithuania	6.00	5	11	7	56.6	0.7	39
	Bosnia and Herzegovina	5.00	..	3	13	49.8	0.61	35.8
	Estonia	4.00	5	25	6	59.6	0.65	36
	Latvia	4.00	5	10	9	59	0.67	35.8
	Macedonia, FYR	4.00	4	10	15	58.3	0.49	35.6
	Poland	3.00	5	8	6	59	0.59	31.5
	Uzbekistan	..	..	24	57	57	0.64	..
	Hungary	2.00	5	6	7	56.1	0.75	33.9
	Belarus	5.00	5	18	10	54.2	0.63	29.7
	Average	4.13	5	12.78	14.44	56.62	0.64	34.66
LOW POVERTY	Slovak Republic	6.00	4	6	7	56	0.58	31.2
	Croatia	7.00	5	7	6	53	0.67	29
	Czech Republic	6.00	5	4	3	53.8	0.57	25.8
	Slovenia	1.00	6	6	3	46.8	0.61	32.6
	Average	5.00	5	5.75	4.75	52.40	0.61	29.65

Source for health and education expenditure from the World Bank for the years 2006-2008

Source for ratio of female migrants: United Nations 2009: "Trends in Total Migrant Stock: The 2008 Revision." New York: Department of Social and Economic Affairs.

Source for Infant mortality rate: United Nations Development Program (UNDP) 2007-08 Report

Source for share of remittances to GDP: Human Development Report 2009 pp. 159-162

TABLE 6: EXTREME POVERTY GROUP: WHO ARE THE POOR?

Countries	Urban/ rural % poverty	HHH (male/ female)	Demographic structure (age group)	Education level	Labour market position*
Azerbaijan	70% R, 69%U	58%M	57% (17-65)	47% SG	46% WE
Tajikistan	97% R, 93%U	82% M	76% (<16)	58% SG	34% Ret, 31% WE
Kyrgyzstan	93% R, 98%U	79% M	55%(17-65)	56% SG	37% SE, 24% WE
Moldova	87% R, 81%U	63%M	60% (17-65)	40% SG	33% WE, 31% Ret
Georgia	89%R, 81%U	69%M	62% (17-65)	45% SG	38% SE
Turkmenistan	n/a	n/a	n/a	n/a	n/a
Armenia	96%R, 90%R	73%M	63% (17-65)	49% SG	20% Ret, WE, Inactive WA

Note: SG: Secondary General Education; WE: Wage Employment: Ret: Retired, SE: Self Employed; WA: Working Age

With the exception of the first column, poverty rate calculations are based on USD 2.15/day. First column: $4.30/ day

Source: WB Poverty Inequality Report 2005. All data either 2002 or 2003

TABLE 7: HIGH POVERTY GROUP: WHO ARE THE POOR?

Country	Urban/ rural (% poverty	Poor HHH (male/ female)	Demographic profile of poor	Education	Labor market position
Kazakhstan	55%U, 67%R	63%M	59% (17-65)	45%SG	27% SE, 25% WE
Romania	45%U, 72%R	76%M	59% (17-65)	39% PB	29% SE, 25% WE
Albania	66% U, 75%R	91%M	52% (17-65)	77% PB	41% SE
Russian Fed.	37%U, 53%R	68% F	63% (17-65)	46% SG, 38% SS	53% WE
Ukraine	20%U, 28%R	58% F	57% (17-65)	35% PB	36% Student, 34% WE
Montenegro and Serbia	35%U, 51%R	64% M	55% (17-65)	41% NE	31% Ret
Bulgaria	31%U, 36%R	72%M	63% (17-65)	39% PB	41% UE
Turkey	52% U, 67%R	88%M	49% (17-65)	60% PB	39% Ret, 37% SE

Note: PB: Primary Basic, NE: No Education/ Illiterate, SG: Secondary General Education category,

We: Wage Employment, Ret: Retired, SE: Self Employed, Inactive WA: Inactive Working Age

Source: WB Poverty Inequality Report 2005. All data either 2002 or 2003

TABLE 8: MEDIUM POVERTY GROUP: WHO ARE THE POOR?

Country	Urban/rural (% of poverty)	Poor HHH (male/ female)	Demographic profile of poor	Education	Labor market position
Lithuania	15%U, 42%R	51%M	56% (17-65)	49%PB	19% SE,19% Ret.
Bosnia	38%U,33%R	77%M	60% (17-65)	46%SG	47% Inact. WA
Estonia	24% U, 28%R	56% F	63% (17-65)	43% SS	35% WE
Latvia	12%U,27%R	65% F	61% (17-65)	55% PB	31% UE, 21% WE
Macedonia	24%U, 25%R	87%M	60% (17-65)	63% PB	47% Inact. WA
Poland	22%U, 22%R	58%M	55% (17-65)	49% PB, 46% SS	29% UE
Uzbekistan	73%U, 93%R	83%M	55% (17-65)	59%SG	N/A
Hungary	10% U, 16%R	95%M	66% (<16)	35% NE, 28% SS	27% SE
Belarus	23%U,18%R	59% F	57% (17-65)	35%SS	44% WE

Note: PB: Primary Basic, NE: No Education/ Illiterate, SG: Secondary General Education category, We: Wage Employment, Ret: Retired, SE: Self Employed, Inactive WA: Inactive Working Age

Source: WB Poverty Inequality Report 2005. All data either 2002 or 2003.

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