



Overseas Development
Institute

*Enabling Growth and
Promoting Equity
in the Global Financial Crisis*

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Overview

- Conference aims
- Why growth and equity?
- Issues for discussion and debate
 - Inclusive growth
 - Exclusion, discrimination and exploitation
 - Risk and vulnerability
 - Global financial crisis (cross cutting)
- Concluding points



Conference aims

- To bring together policy makers, practitioners and researchers to share ideas, examine critical growth-equity issues and develop policy and programmatic priorities
- Conference question:
 - What should governments prioritise (and how should the international development community support these priorities) to enable growth and promote equity during, and following, the global financial crisis?

Why growth and equity?

- Meeting point of two often divergent debates, pursued by separate professional groups
 - Growth economists
 - Poverty analysts and social development experts
- Both traditions have value and should contribute to policy debates
- Also differences in ideology/ world view
- Nexus between growth and equity is critical
 - Economic growth is not an end in itself, but a means to an end which involves
 - enhanced well-being, particularly of poor people
 - greater equity within (and between) societies
 - Economic growth and improved equity = necessary but not sufficient
 - Together, set the conditions for short and long term improvements in
 - efficiency across the national economy
 - well-being for all social groups



Conference themes

- Inclusive growth
- Exclusion, discrimination and exploitation
- Risk and vulnerability
- Global financial crisis (cross cutting)



Inclusive growth: Questions

1. What is likely to happen to the interaction between growth and equity in the context of the current financial crisis?
2. What policies should be prioritised to enable equitable and inclusive growth?
3. Sequencing and trade-offs are implicit in this prioritisation. What are they? And are they politically feasible?



Exclusion, discrimination and exploitation: Questions

1. How are people excluded, discriminated against and exploited in key markets and services?
2. How can policies make access to key markets and services equitable?
3. What are the implications of the financial crisis for exclusion, discrimination and exploitation in key markets and services?



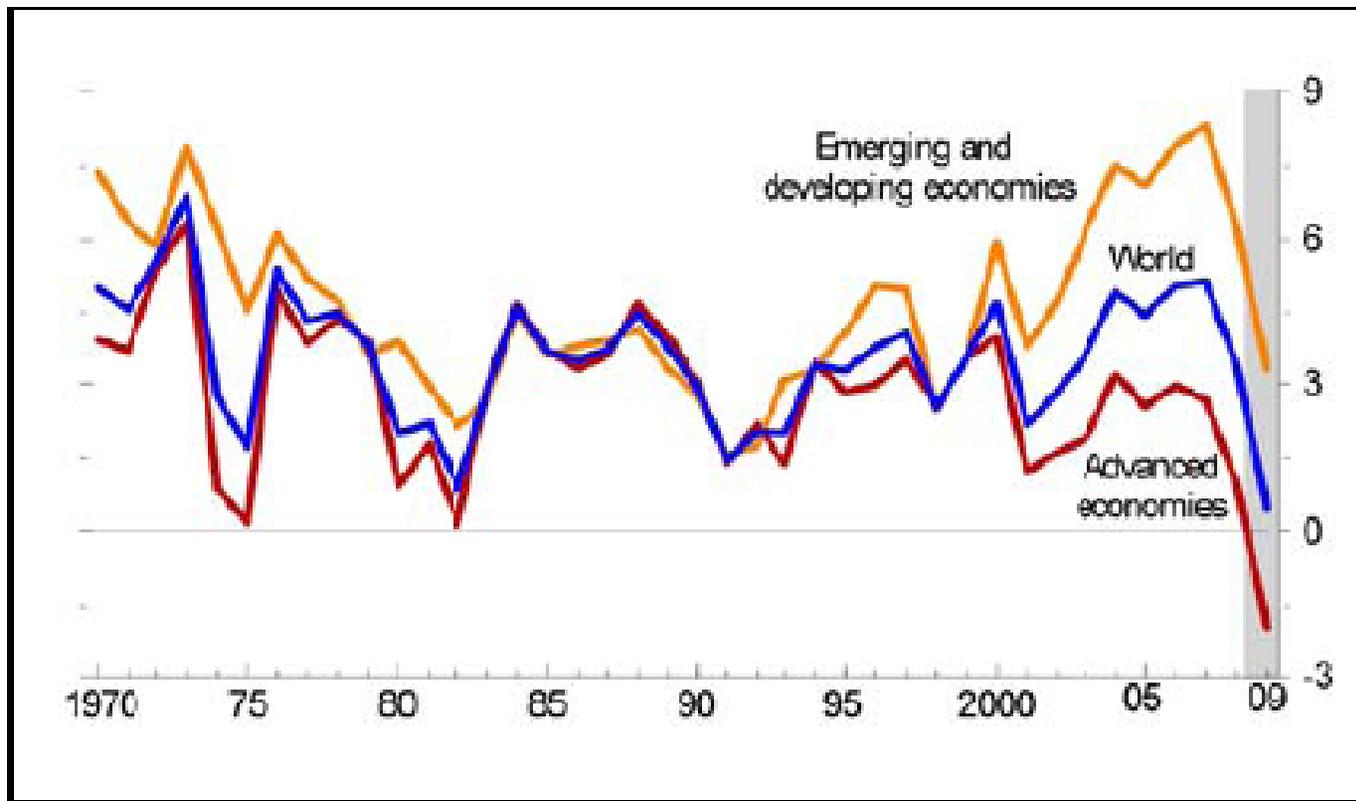
Risk and vulnerability: Questions

1. How do risk, vulnerability and coping affect poor people's ability and capacities to engage in growth processes?
2. What do we know about the impact of the global financial crisis on the South?
3. What are the likely short, medium and long term implications of the global financial crisis for inclusive growth and equity in the South?

Global financial crisis (1)

What is happening?

- Economic growth stalled in many countries in the North and the South



Global financial crisis (2)

Which countries will be most affected?

- Nature, severity and duration of impact will vary *between* and *within* countries
- Sharpest effects in the most globalised developing countries
- Those most affected will be:
 - Exporters
 - to crisis-affected countries
 - of price affected products (e.g. with high income elasticities)
 - Tourism dependant (Cambodia – bookings 40% down)
 - Remittance dependant (Kenya est. 40% drop, Mexico 4%)
 - FDI dependent
 - Current account financed by portfolio and DFI finance
 - High current account deficit
 - High government deficits
 - Sophisticated stock markets
 - Weakly regulated banking sectors
 - High share of foreign-owned banks
 - Aid dependant (e.g. UK aid to Mozambique - sterling depreciation)
- Duration and severity will depend on exposure, structure of economy and society and policy response

Global financial crisis (3)

What is happening in developing countries?

- Will be widely felt
- Time-lagged effects - in some cases
- **Growth slow-down**
 - 7.9% in 2007
 - 6.3% in 2008
 - 4.5% in 2009 (World Bank, December 2008)
- **Output losses**
 - > US\$ 50 billion in Africa
 - c. US\$ 353 billion in developing countries (2008-09)
- **International financial resources** to developing countries down a quarter (c. US\$ 300 billion)

Global financial crisis (4)

Impact?

- Impact of macro shocks communicated through economy by a range of transmission channels:
 - Taxes and transfers
 - Prices
 - Zambia is facing a 40% fall in copper price
 - Assets
 - Investment
 - Employment
 - Around 20 m. migrant workers have returned to the rural countryside after failing to find work in China's cities
 - More than 200 m. workers could be pushed into extreme poverty - most in developing countries (ILO)
 - Access to goods and services



Global financial crisis (5)

Distributional impact?

- Short and long run impact on
 - Manufacturing capacity
 - Structure of the economy
 - Pattern of government expenditure
 - Functioning of domestic markets
 - Livelihoods (resilience & coping)
 - Consumption and well-being

Global financial crisis (6)

Possible policy response?

- Urgent *versus* long-term?
 - Monetary and fiscal policies
 - Aid and trade policies
 - Sectoral interventions
 - Finance sector
 - Agriculture (trading and domestic)
 - Manufacturing and value added
 - Attention to major transmission channels
 - Maintaining well-being
 - Livelihoods and employment
 - Access to goods and services – markets, service delivery, ability to pay
 - Consumption – incomes, transfers (remittances, traditional safety nets, social protection)
- What policy instruments?
- One medium term solution: building equity in transmission channels
- Effective policies and programmes can trigger a virtuous cycle by
 - supporting inclusive growth
 - enhancing resilience
 - reducing exclusion

Concluding points

- Crisis is putting whole economies around the world under pressure
- Magnitude and distribution of impact will depend on structure of economies, the nature of their links with other economies, the structure of their societies – and effectiveness of policy responses
- What policy tools are likely to be the most effective, in what contexts?
 - efficiency/ equity trade-offs?
 - sequencing?
- Southern governments' ability to respond to the crisis will be challenged by
 - reduced aid flows
 - reduced value of their foreign exchange holdings
 - fiscal tightening
- Difficult decisions will have to be made, likely to depend on
 - political economy considerations
 - nature of the developmental state
 - state-citizen contract
 - fiscal space