



ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Committee on Macroeconomic Policy, Poverty Reduction and Inclusive Development

First session
24-26 November 2009
Bangkok

**IMPACT OF THE ECONOMIC CRISIS ON POVERTY AND INCLUSIVE
DEVELOPMENT: POLICY RESPONSES AND OPTIONS**

(Item 5 of the provisional agenda)

Note by the secretariat

SUMMARY

The global financial and economic crisis threatens to roll back the development gains of the last decade and may hasten a human tragedy in many parts of the developing world, including the Asia-Pacific region. As a result of the crisis, more than 26 million job losses are possible in the region, with many millions more people slipping into underemployment and various forms of unstable and vulnerable employment. Moreover, it is projected that, in 2009, between 65 million and 85 million more people will remain in poverty in the region due to the crisis. The people most at risk are the poor, women workers in the manufacturing sector, the youngest and oldest populations, and low-skilled migrants. The crisis is expected to derail progress in the region towards achieving the Millennium Development Goals.

A comprehensive and well-coordinated approach at the national, regional and global levels is needed to address the human cost of the crisis. At the national level, the composition of stimulus packages should be designed to spread the larger benefits to the poor and most vulnerable. In order to deal with current, as well as future crises, there is a need for (a) the development of the physical infrastructure, particularly in rural areas, (b) investment in education, health and other social sectors, and, above all, (c) the development of comprehensive social protection systems.

At the regional level, there is much to be gained by exchanging information on various experiences regarding the impact of the crisis and by forging mechanisms for technical cooperation and the coordination of initiatives for maximum gains. For policymaking purposes, it may also be useful to examine at the regional level the possibility of evolving a commonly shared perspective on what needs to be done to expedite the recovery with inclusive development. South-South cooperation can be an effective tool to enhance the financial and technical assistance for countries in need in the region and this should be promoted. At the global level, developed countries and other donors should ensure the smooth flow of official development assistance, particularly to the least developed countries, landlocked developing countries and small island developing States, so that the socioeconomic development of the recipient countries remains uninterrupted.

Member countries may wish to share their experiences on the impact of the crisis, and the Committee may wish to provide guidance on policy options to mitigate the adverse impact on poverty reduction, inclusive development and the achievement of the Millennium Development Goals.

CONTENTS

	<i>Page</i>
Introduction.....	2
I. OVERVIEW OF THE POVERTY SITUATION AND SOCIAL DEVELOPMENT.....	3
II. IMPACT OF THE ECONOMIC CRISIS ON POVERTY AND INCLUSIVE DEVELOPMENT.....	6
A. Unemployment and income poverty	6
B. Social sectors.....	7
C. Overseas workers' remittances.....	8
D. Official development assistance.....	9
III. POLICY OPTIONS TO CONTAIN THE ADVERSE IMPACT OF THE ECONOMIC CRISIS ON POVERTY REDUCTION AND INCLUSIVE DEVELOPMENT.....	9
A. Pro-poor stimulus packages	10
B. Investment in education and health.....	11
C. Strengthening social protection systems	12
D. Maintaining ODA flows.....	14
E. Measures to address falling remittances.....	14
IV. CONCLUSIONS AND RECOMMENDATIONS.....	14

Introduction

1. The global financial and economic crisis threatens to roll back the development gains of the last decade and may hasten a human tragedy in many parts of the developing world, including the Asia-Pacific region. The implications for the poor and most vulnerable are pervasive and could have dramatic and lasting adverse consequences. It is usually the poor and the disempowered who suffer the most and are the slowest to recover from economic crises. Evidence from past economic crises also supports the view that the poorest, especially the unskilled, the young, the old and female workers, are particularly vulnerable to the economic downturn. Failing to support such vulnerable groups could endanger the long-term growth and poverty reduction prospects of developing countries in the region. Therefore, the main challenge for policymakers now is to achieve a quick recovery with a focus on the poor and the most vulnerable in order to prevent the economic crisis from becoming a human crisis.

2. The objectives of the present document are to assess the impact of the financial and economic crisis on the lives of the poor and most vulnerable, to review policy responses, to offer policy options to protect the poor and vulnerable populations from the adverse impact of the crisis, and to promote inclusive development. The present document has been structured in the following way: section I provides an overview of the poverty situation and social development in developing countries in the region by reviewing poverty trends and some social indicators in the region; in section II, various channels through which the global financial and economic crisis is influencing poverty and inclusive development are explored and the impact of the crisis is assessed; in section III, the policy responses

being used by countries to contain the adverse impact of the crisis on the poor and vulnerable are analysed. In addition, the discussion includes policy options that can help to deal with the crisis and to promote inclusive development. The concluding section contains a summary of suggested policy options to protect the poor and most vulnerable and to promote inclusive development and the achievement of the Millennium Development Goals.

I. OVERVIEW OF THE POVERTY SITUATION AND SOCIAL DEVELOPMENT

3. The available data on various indicators to assess the poverty situation and social development are limited to years before the onset of the current global financial and economic crisis. Therefore, the objective of this section is to give a broad picture of the poverty situation and social development, as well as progress made over time prior to the current crisis.

4. Recently, the international poverty line in terms of purchasing power parity (PPP) dollar has been revised to \$1.25 (2005 PPP prices) per capita a day.¹ Based on the revised poverty line and poverty estimates prepared by the World Bank, about 950 million people in Asia and the Pacific were living in poverty in 2005. In other words, more than two thirds of the world's poor were housed in this region. Of the 24 countries in the region for which data are available from both the 1990s and the 2000s, 20 were successful in reducing poverty at varying rates.² Of the various subregions, the incidence of poverty is comparably much higher in South and South-West Asia. However, the incidence of poverty in this subregion decreased from 47 per cent in 1990 to 35.5 per cent in 2005. East and North-East Asia witnessed a sharp decline, from 60 per cent to 16 per cent, over the same period, largely due to the good performance of China. Poverty reduction in South-East Asia was also quite substantial: from 39 per cent to 19 per cent. North and Central Asia is the subregion with the lowest poverty level, but it witnessed an increase in poverty over the period: from 2.9 per cent to 6.6 per cent. This subregion contains transitional economies that have undergone major structural changes since the 1990s.

5. Many countries have their own national poverty lines, and poverty estimates based on those lend a better picture of the poverty situation in those countries. However, poverty estimates based on national poverty lines are not comparable across countries due to differences in the definition and measurement of poverty lines. These poverty estimates can be used to see changes in poverty over time. However, it is extremely difficult to obtain consistent poverty estimates for individual countries over a longer period due to changes over time in the definition of the poverty line and in the methodologies. Therefore, for the sake of consistency, the available poverty estimates based on national poverty lines for more recent years are analysed in the present document (table 1). Among the most populous countries, China was able to reduce poverty from 7.1 per cent in 1995 to 2.8 per cent in 2004. The poverty level in India, based on the country's own national poverty line, decreased from 36 per cent in 1994 to 27.5 per cent in 2005. While the poverty level in Pakistan increased between 1999 and 2001, it dropped sharply afterwards. Bangladesh and Nepal also saw a significant decrease in the incidence of poverty.

6. Being one of the countries most severely hit by the Asian economic crisis of 1997, Indonesia witnessed an increase in poverty immediately after the crisis but continued on a path of poverty reduction afterwards. As a result, poverty fell marginally, from 17.6 per cent in 1996 to 16.7 per cent in 2004. Thailand, the

¹ For details, see ESCAP, *Statistical Yearbook for Asia and the Pacific 2008* (United Nations publication, Sales No. E.09.II.F.1).

² ESCAP, *Statistical Yearbook for Asia and the Pacific 2008* (United Nations publication, Sales No. E.09.II.F.1).

Philippines and, to a lesser extent, Malaysia also witnessed an increase in poverty in the wake of the Asian economic crisis of 1997.³ However, these countries were subsequently able to resume on a path of poverty reduction. Viet Nam achieved a major success by reducing the poverty level from 58.2 per cent in 1993 to 28.9 per cent in 2003. The incidence of poverty in some Pacific island countries (Fiji, Papua New Guinea and Samoa) increased over time. During the 1990s, most Central Asian countries saw an upsurge in poverty levels as their economies were passing through the initial phases of transition from centrally planned to market economies. However, all of those countries were able to achieve success in poverty reduction in subsequent years. For example, in Kazakhstan, the poverty rate fell from 34.6 per cent in 1996 to 15.4 per cent in 2002.

Table 1. Percentage of the population below the national poverty line in selected countries

<i>Country</i>	<i>Period</i>	<i>First year</i>	<i>Second year</i>	<i>Final year</i>
Armenia	(1995, 1999, 2001)	54.7	55.1	50.9
Azerbaijan	(1995, .. , 2001)	68.1	..	49.6
Bangladesh	(1992, 2000, 2005)	58.8	48.9	40.0
Cambodia	(1994, 1997, 2004)	47.0	36.1	35.0
China	(1995, 1998, 2004)	7.1	4.6	2.8
Fiji	(1996, .. , 2007)	25.5	..	34.3
India	(1994, .. , 2005)	36.0	..	27.5
Indonesia	(1996, 1999, 2004)	17.6	28.1	16.7
Kazakhstan	(1996, 2001, 2002)	34.6	17.6	15.4
Kyrgyzstan	(1997, 2001, 2005)	51.0	47.6	43.1
Lao People's Democratic Republic	(1993, 1998, 2003)	45.0	38.6	33.0
Malaysia	(1993, 1998, 2004)	13.4	8.5	5.7
Mongolia	(1995, 1998, 2002)	36.3	35.6	36.1
Nepal	(1996, .. , 2004)	41.8	..	30.9
Pakistan	(1999, 2001, 2006)	30.6	34.5	22.3
Papua New Guinea	(1990, .. , 2002)	24.0	..	39.6
Philippines	(1994, 2000, 2003)	40.6	34.0	30.4
Samoa	(1997, .. , 2004)	15.0	..	20.3
Sri Lanka	(1996, 2002, 2007)	28.8	22.7	15.2
Tajikistan	(1999, .. , 2003)	74.9	..	44.4
Thailand	(2002, 2004, 2006)	14.9	11.2	9.5
Viet Nam	(1993, 1998, 2003)	58.2	37.4	28.9

Sources: ESCAP, *Statistical Yearbook for Asia and the Pacific 2008* (United Nations publication, Sales No. E.09.II.F.1); World Bank, *World Development Indicators 2009*, online database; and national sources.

7. The success in reducing income inequality in Asia and the Pacific, however, has been limited. While the incidence of poverty has decreased, income inequality as measured by the Gini coefficient has increased in many countries in recent years. Between 1993 and 2004 or 2005 (depending on the country), the value of the Gini coefficient increased from 0.41 to 0.47 in China, from 0.33 to 0.37 in India, and from 0.34 to 0.40 in Indonesia.⁴ Similarly, income inequality increased in Bangladesh, Cambodia, Nepal, Pakistan, the Philippines, Sri Lanka and Viet Nam. On the other

³ ESCAP, *Economic and Social Survey of Asia and the Pacific 2002: Economic Prospects: Preparing for Recovery*, table III.4 (United Nations publication, Sales No. E.02.II.F.25).

⁴ Asian Development Bank, *Key Indicators for Asia and the Pacific 2008* (Manila, Asian Development Bank, 2008).

hand, a relatively small number of countries (Kazakhstan, Malaysia and Thailand) experienced some decrease in income inequality. The reduction in poverty over time would have been larger had countries been able to prevent their income distributions from becoming worse by adopting pro-poor growth policies. The major challenge for the countries of the region, therefore, is not only to accelerate economic growth rates but to make growth more inclusive and to accelerate the pace of poverty reduction.

8. Poverty is a multidimensional concept. It includes both income and non-income aspects, and many of the latter are better captured through social indicators. All the countries in the region have made progress, though at varying rates in terms of social indicators, such as educational and health outcomes, access to safe drinking water and improved sanitation. Although adult literacy is nearly universal in a large number of countries, the least developed countries and many countries in South and South-West Asia need to intensify their efforts to improve their literacy rates. For this to happen, besides instituting adult literacy programmes, it is critical to boost enrolment rates at the primary level, particularly of female students. It is equally important to design policies to ensure that students complete their primary education.

9. In terms of health, most countries in the region have made considerable progress in raising life expectancy at birth over the past few decades. Improvements in nutrition, health facilities and education are some of the main factors responsible for the increase in life expectancy. Several countries were able to increase life expectancy by more than 10 years. For example, a child born in Cambodia today can expect to live 59 years, 19 years longer than one born in 1980. Life expectancy in Bangladesh increased from 49 years in 1980 to 63 years in 2006. The increase in life expectancy was more visible in countries that had low rates to begin with. Despite the closing of gaps over time, differences in life expectancies across developing countries in the region remain large.

10. With regard to access to water and sanitation, the proportion of the population with access to improved drinking water sources increased in Asia and the Pacific from 74 per cent in 1990 to 88 per cent in 2006 (table 2). However, the least developed countries and landlocked developing countries still have access rates of about 70 per cent, while the Pacific island countries lag very much behind, with a rate of 49 per cent.⁵ Access to sanitation has improved significantly in all countries in the region, but the regional average of 55 per cent is low. The situation in the South and South-West Asian subregion is even worse: only 35 per cent of the population have access to improved sanitation.

Table 2. Population with access to improved water sources and sanitation

	<i>(Percentage)</i>			
	<i>Water</i>		<i>Sanitation</i>	
	<i>1990</i>	<i>2006</i>	<i>1990</i>	<i>2006</i>
East and North-East Asia	70	89	53	68
South-East Asia	73	86	49	67
South and South-West Asia	75	87	24	35
North and Central Asia	92	94	89	89
Pacific island countries	50	49	52	52
Asia and the Pacific	74	88	44	55

Source: ESCAP, *Statistical Yearbook for Asia and the Pacific 2008* (United Nations publication, Sales No. E.09.II.F.1).

⁵ ESCAP, *Statistical Yearbook for Asia and the Pacific 2008* (United Nations publications, Sales No. E.09.II.F.1).

II. IMPACT OF THE ECONOMIC CRISIS ON POVERTY AND INCLUSIVE DEVELOPMENT

11. The above review clearly shows that many countries in the region have made good progress in reducing poverty and promoting social development. However, poverty levels are still quite high in most countries. The numerical values of other social indicators exhibit a similar picture. The current global financial and economic crisis will definitely slow the progress in reducing poverty, and in some cases poverty levels could start rising. There are many other human costs of the crisis as well. The Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development summarizes some of the major human costs of the crisis: "...an increase in the already unacceptable number of poor and vulnerable, particularly women and children, who suffer and die of hunger, malnutrition and preventable or curable disease; a rise in unemployment; the reduction in access to education and health services; and the current inadequacy of social protection in many countries."⁶ In the present section, an attempt is made to analyse some of these human costs and their sources with a perspective from the Asia-Pacific region.

A. Unemployment and income poverty

12. The crisis has been affecting people's lives in various ways. As a result of the economic slowdown, the main impact has come from the loss of employment opportunities. The latest unemployment projections prepared by the International Labour Organization indicate that 26.3 million job losses are possible in the Asia-Pacific region due to the crisis.⁷ The greatest impact on employment is being felt in the export manufacturing sector, including the garment, electronics and auto industries, all of which constitute a large part of many East and South-East Asian economies. Such sectors as tourism, finance, services and real estate have also been hit hard by the current crisis. Since official unemployment rates in South Asian countries are generally low due to the prevalence of a large informal sector and a heavy dependence on the agricultural sector, the number of job losses due to the crisis is expected to be lower in this subregion than in others.

13. Aggregate unemployment figures tend to mask the extent and depth of the problem. The poor, women labourers in the manufacturing sector, the youngest and the oldest populations, and socially excluded groups are among the worst sufferers of job losses. Communities or groups that face discrimination and social exclusion in relation to access to productive resources, decent work and social security are highly vulnerable to the negative impacts of the crisis. Such groups include indigenous communities, ethnic minorities, persons with disabilities, and populations displaced due to conflict, large development projects, environmental degradation or disasters. During an economic downturn, the low-skilled, and in particular low-skilled migrants, are among the first to be laid off because they are concentrated in vulnerable sectors, such as construction or tourism, and often hold only temporary jobs.

14. In developing countries, women are more likely to be in vulnerable employment situations than men. In many of the sectors hit hardest by the current crisis, the majority of employees are women. For example, women make up 60 to 90 per cent of the labour force in the clothing sector, especially at the labour-intensive stage of the supply chain, and they are also a major presence in the new tertiary outsourced services sector, such as call centres and financial services. It is expected that women, who dominate employment in export manufacturing (for instance, in Bangladesh, Malaysia, the Philippines, Thailand and Viet Nam), will suffer direct

⁶ General Assembly resolution 63/303, annex.

⁷ Gyorgy Sziraczki, Phu Huynh and Steven Kapsos, *The Global Economic Crisis: Labour Market Impacts and Policies for Recovery in Asia*, ILO Asia-Pacific Working Paper Series (Bangkok, International Labour Organization, 2009).

employment losses from the contraction in industrial countries' demand for developing country exports. Women in the region also constitute a major share of temporary and low-skilled workers; they are considered to be a flexible workforce and are easily dismissed from their jobs during economic downturns. With fewer opportunities for wage work, girls and women may end up being trafficked through a promise of a job or by being pushed or forced into prostitution and other forms of extreme exploitation. The International Labour Organization estimates that an additional 9 million women could lose their jobs due to the crisis.

15. As rapid economic growth has played a major role in the reduction of poverty in Asia and the Pacific, the current crisis and growth slowdown are worrisome. At present, not only are workers losing their jobs due to the crisis but also employment opportunities are being lost due to slower economic growth. Fewer employment opportunities will make it difficult to absorb an expanding labour force in most developing countries and will aggravate the unemployment situation. Those fortunate enough to retain their jobs may see cuts in their real wages and incomes. Workers may be forced to work fewer hours and may even face cuts in their nominal wages. Moreover, unemployed workers, particularly the unskilled ones, will be forced to seek employment in the informal sector and in the agricultural sector, which will adversely affect productivity and income in those sectors. Even when growth resumes, it may take some time for workers to return to more productive activities. All of these factors will reduce the pace of poverty reduction in the region.

16. Empirical work on the linkages between poverty and per capita income clearly brings out a negative relationship between the two.⁸ Based on previous and current empirical work of the ESCAP secretariat, the elasticity of income poverty with respect to gross domestic product (GDP) per capita lies between -0.85 and -1.15 for the region as a whole. A reduction in poverty is therefore dependent on economic growth, and slower growth will also reduce the momentum in poverty reduction. Based on the above elasticity estimates, it is projected that, due to the economic crisis, between 65 million and 85 million more people will remain in poverty (defined in terms of one dollar PPP a day) in Asia and the Pacific in 2009.⁹ The Department of Economic and Social Affairs of the United Nations projects that between 73 million and 103 million more people could remain in or fall into poverty worldwide in 2009 compared with the expected developments under pre-crisis growth trends, with most of this setback being felt in Asia (A/CONF.214/4, para. 29).

B. Social sectors

17. Developing countries in the Asia-Pacific region have made significant gains in improving educational and health outcomes. Although there has been sustained progress towards reaching the Millennium Development Goals related to education, the current economic crisis threatens this progress by reducing the ability of both households and governments to invest in education. If, as a result of the crisis, government revenues fall sharply, there could be cuts in government spending, including cuts in public funding for school repairs and school inputs. This could have a negative impact on the quality of education. New enrolments are at risk, and young children from poor families, particularly girls, may be pressed to drop out of school to

⁸ See, for example, ESCAP, *A Future within Reach 2008* (United Nations publication, Sales No. E.08.II.F.15) and ESCAP, *Growth with Equity: Policy Lessons from the Experiences of Selected Asian Countries* (United Nations publication, Sales No. E.00.II.F.14).

⁹ Starting with 950 million poor in the region in 2005, each elasticity figure in combination with GDP growth per capita has been used to generate poverty numbers for subsequent years. In one scenario, the GDP growth of 8 per cent attained in recent years was assumed to continue into 2008 and 2009. In an alternative scenario, the actual GDP growth of 5.8 per cent in 2008 and the projected growth of 3 per cent in 2009 were used to generate poverty estimates. The difference between poverty estimates in the two scenarios is the potential loss in poverty reduction. The two numbers associated with potential loss of poverty reduction in the text correspond to the two elasticity figures.

work more hours at home or take outside jobs. Past experience shows that, once students drop out for longer than 12 months, it proves extremely difficult to coax them back.¹⁰ Millennium Development Goal 2 is to achieve universal primary education, which is taken to mean six years of schooling, so meeting the 2015 deadline of the target for this Goal involves full enrolment by 2010 at the latest. This target will be missed unless some rapid actions are taken.

18. During an economic crisis, reduced incomes and financial resources constrain families and governments from investing in health outcomes. In previous economic crises, government expenditures on health declined in real per capita terms, as was the case in Indonesia and Thailand during the Asian economic crisis of the late 1990s.¹¹ Even where health was prioritized within the overall budget, real health spending per capita still fell as overall government expenditures declined. Countries with a heavy reliance on foreign aid for health expenditures may suffer even more due to potential decreases in donor allocations. In many cases, a reduction in government expenditures on health primarily affected non-salary and investment expenditures, and had a negative impact on the quality of care as access to drugs and other commodities declined in public facilities. Women and children usually bear the brunt of the impact on health outcomes, and such crises mean longer work hours and a heavier workload for women.

19. A major factor that further exacerbates the plight of the poor and vulnerable in Asia and the Pacific is the lack of sufficient social protection systems.¹² During an economic crisis, the poor are forced to resort to coping mechanisms, which are often harmful, including reducing meals, eating less nutritious foods, taking children out of school, selling livestock and other assets, or borrowing money to feed their families. If the economic crisis persists and no actions are taken to protect the poor, it can turn into a social crisis. Economic hardships can lead to emotional distress, a rise in crime, declining health and the disintegration of families.

C. Overseas workers' remittances

20. Many countries in the region have large numbers of their workforce employed abroad, and workers' remittances are substantial and have been rising sharply in recent years. India, with an estimated \$30 billion in remittance inflows in 2008, maintained the top position globally among developing countries.¹³ At the same time, Bangladesh, China, Pakistan and the Philippines were also among the top 10 remittance-recipient developing countries in the world. In terms of the share of GDP, smaller economies from the region, including Tajikistan (45 per cent) and Tonga (35 per cent), were among the top 10 recipients in 2007. In recent years, the flow of remittances to the Asian and Pacific region recorded double digit growth. Although the experience from previous crises shows that remittances are the most stable of financial flows, the global economic crisis is expected to moderate the growth in remittances, and even these remittances may fall in many countries. Remittances to the region as a whole are projected to register a negative growth between 4 and 8 per cent in 2009 compared to an estimated positive growth of over 15 per cent in 2008.¹⁴

¹⁰ World Bank, *Averting a Human Crisis during the Global Downturn* (Washington D.C., World Bank, 2009), accessed from www.uniteforchildren.org/files/world_bank.pdf.

¹¹ Ibid.

¹² ESCAP, "Strengthening social protection systems in Asia and Pacific in the aftermath of the global financial crisis", *Macroeconomic Policy Brief*, No. 3 (June 2009).

¹³ Dilip Ratha, Sanket Mohapatra and Zhimei Xu, "Outlook for remittance flows 2008-2010: growth expected to moderate significantly, but flows to remain resilient", *Migration and Development Brief*, No. 8 (Washington D.C., World Bank, 11 November 2008).

¹⁴ Dilip Ratha and Sanket Mohapatra, "Revised outlook for remittance flows 2009-2011: remittances expected to fall by 5 to 8 percent in 2009" *Migration and Development Brief*, No. 9 (Washington D.C., World Bank, 23 March 2009).

21. For some countries, particularly South Asian countries, the major part of remittance inflows originate from the oil-rich countries of the Gulf Cooperation Council (GCC). In recent years, this group of countries accounted for more than 60 per cent and 50 per cent of the remittance inflows for Bangladesh and Pakistan, respectively. Past experience shows resilience in the outflow of remittances from the GCC countries, even during volatile oil price periods. Many of these countries are trying to develop their infrastructure as a long-term development strategy, for which funding is available from the large reserves accumulated over the years. Therefore, laying off migrant workers in large numbers is unlikely. It is useful to note that, in fiscal year 2009, remittances to Bangladesh (\$9.7 billion) and Pakistan (\$7.8 billion) went up by 20 per cent or more compared with fiscal year 2008. If oil prices plummet and remain low for a long period, and this is accompanied by a severe global economic slowdown, workers' remittances from the GCC countries will also fall.

22. Remittances are also a major source of livelihood for Pacific islanders. Though remittances have been resilient to economic changes in the past, many Pacific island countries are seeing reductions during the current crisis as employment growth has slowed in Australia, New Zealand and the United States of America.

23. The expected fall in remittances to many countries will cause severe hardships for the people and economies of those countries. Remittances are a major source of livelihood for the large recipient population, particularly poor households. The expenditures resulting from these remittances generate economic activity and provide many people in local economies with job opportunities. In recent years, the multiplier effect resulting from remittances has been contributing to the economic expansion of many recipient countries. With reduced capital inflows, any reduction in remittances will not only negatively impact economic growth but also create difficulties for the balance of payments in recipient countries. In sum, a fall in remittances will reduce the income of recipient families, contribute to higher unemployment and aggravate the problems of poverty.

D. Official development assistance

24. The financial and economic crisis could lead to a reduced flow of official development assistance (ODA) from developed countries to Asia-Pacific developing countries and make ODA flows less predictable, with adverse effects on the long-term growth and poverty reduction prospects of the countries of the region. Although ODA has fallen over time, it is still an important source of funding for development in many developing countries, particularly those with special needs. In Asia and the Pacific in 2006, ODA amounted to 6 per cent of the gross national income (GNI) of the least developed countries, 3.7 per cent of the GNI of landlocked developing countries and 9 per cent of the GNI of small island developing States, compared to 0.3 per cent of the GNI of all developing economies in the region.¹⁵ For many of the countries with special needs, there are few external financing alternatives to ODA when they are faced with crisis-related reductions in exports, workers' remittances and fiscal revenues.

III. POLICY OPTIONS TO CONTAIN THE ADVERSE IMPACT OF THE ECONOMIC CRISIS ON POVERTY REDUCTION AND INCLUSIVE DEVELOPMENT

25. Many countries in the region have introduced various measures to contain the adverse impact of the financial and economic crisis on poverty reduction and inclusive development. Based on a review of those measures, as well as analytical

¹⁵ ESCAP, *Statistical Yearbook for Asia and the Pacific 2008* (United Nations publication, Sales No. E.09.II.F.1).

work on the subject being done by the ESCAP secretariat and various organizations at the regional and global levels, a set of policy options are proposed below to assist the poor and most vulnerable during these difficult times.

A. Pro-poor stimulus packages

26. Many countries have introduced stimulus packages to restore economic growth. On the monetary policy side, these stimulus packages have focused on strengthening the financial sector and lowering interest rates. On the fiscal policy side, government expenditures were enhanced and taxes were cut to boost domestic demand and generate employment. The development of the physical infrastructure (such as roads and highways, mass transit systems, railways, airports and power grids) was the top priority in most of the stimulus packages. Depending on their needs and priorities, countries allocated additional resources for education, skills training, health, social safety net programmes, low-income housing, subsidies on food and public utilities, rural development, the development of small and medium-sized enterprises (SMEs), and incentives for exports, including additional resources for trade financing. Ecological and environmental protection featured prominently in the stimulus packages of the Republic of Korea and of China. For further details of these stimulus packages, see E/ESCAP/CMP/1. The present analysis is focused on how these stimulus packages can be used to restore economic growth, with larger benefits spreading to the poor and most vulnerable.

27. While the size of a stimulus package is important for restoring economic growth, its composition is essential for promoting pro-poor growth. Stimulus packages provide an opportunity to reform economic policies and should not be used as quick fixes alone. Moreover, they should take into account the needs and special circumstances of each country and be implemented in a transparent and efficient manner to win the full support and ownership of the masses. As mentioned earlier, the major component of most stimulus packages is the development of the physical infrastructure. Such development has not kept pace with the rapid economic growth in the region, and the long overdue physical infrastructure projects should be started. However, these projects should be labour-intensive and extend to rural areas, where poverty is more widespread. There may be a delay in the appearance of the benefits of such projects for the public, but if the projects can be streamlined and implemented quickly, they can help to generate employment.

28. Social sectors are often neglected during an economic crisis and may even face cuts in expenditure allocation. Therefore, more resources from stimulus packages should be devoted to improving social services, such as education, health and sanitation, in countries severely lacking such services. Countries should use this opportunity to strengthen their social safety net programmes. The issues of investment in education and health and the strengthening of social protection systems are addressed in detail in section III (B) of the present document.

29. Tax breaks can help in stimulating the growth of targeted sectors and individuals. However, individuals who benefit from tax cuts may not spend their tax savings due to the fear of a prolonged recession.¹⁶ People with taxable incomes do need help during difficult economic times, but stimulus packages should focus more on the poor and vulnerable. Stimulus packages must have targeted programmes for the benefit of the poor and most vulnerable so that they can cope with the consequences of the crisis. The stimulus package introduced by the Government of

¹⁶ For more details on this point and other desirable features of fiscal stimulus packages, see the Dhaka Outcome Document, adopted at the Regional High-level Workshop on Strengthening the Response to the Global Financial Crisis in Asia-Pacific: the Role of Monetary, Fiscal and External Debt Policies, Dhaka, 27-30 July 2009, accessed from www.unescap.org/pdd/calendar/strengthening_responses/strengthening_responses_July09.asp.

Thailand in early 2009 contained a one-time cash transfer payment for low-salaried public- and private-sector employees. Such a measure can be repeated if the economic crisis continues.

30. Those countries that are able to maintain or enhance the skills of their workforces during the crisis will be in a better position to take advantage of new opportunities once the recovery begins. Therefore, developing countries should use growth stimulus spending to support skills development programmes and train or retrain laid-off workers and young people for the future. The retraining of workers who had been laid off, particularly the youth, will enhance their flexibility in obtaining alternative employment in the future.

31. Agriculture is the main livelihood of the poor and still provides employment for 60 per cent of the working population in Asia and the Pacific. Unless the decades of neglect of the agricultural sector are addressed, the persistent poverty and widening inequality in the region will continue.¹⁷ In addition, this silent crisis in the agricultural sector would continue, with grave repercussions on food security. While several stimulus packages have earmarked resources for the agricultural sector and rural development, greater emphasis appears to be on non-agricultural sectors. Therefore, more resources should be devoted to the agricultural sector and to providing social services in rural areas to enhance its productivity.

32. Because of their employment generation potential, SMEs should be supported through stimulus packages. During the crisis, large numbers of displaced workers, particularly women, will be moving to the informal sector. Supportive measures, such as the provision of microcredit loans and skills training, should be taken to help such people to earn their livelihood.

33. In the last decade, microcredit schemes have made huge inroads in allowing the poorest sectors of the population to have access to small loans, and several major banks have also begun to provide these services. Microcredit is a lifeline for many poor, particularly women, and it needs special protection during economic crises. Some countries have taken steps in their fiscal stimulus packages to protect and increase funding for those institutions providing microcredit loans. But more needs to be done. Monetary authorities, for example, could ensure that (a) State-owned banks provide uninterrupted financing for microcredit schemes and institutions, and (b) commercial banks that receive liquidity support from the central bank maintain present levels of funding for microcredit schemes.

34. Stimulus packages need resources that many developing countries, particularly countries with special needs, may not possess. While many such countries already have large budget deficits, there is no universal rule or theory to prescribe what is a safe limit to a country's fiscal deficit. It may vary from country to country, but fast-growing economies in general have more fiscal space than stagnant economies. Moreover, good macroeconomic management and low inflationary expectations also contribute to enhancing fiscal space. Therefore, the issues of macroeconomic stability should be kept in view while formulating stimulus packages. Outside help may be essential for many developing countries.

B. Investment in education and health

35. Despite the economic crisis, gains in the education and health sectors in the developing countries of the region should be protected through prioritized efforts and investments. In cases where cutbacks in education and health spending become

¹⁷ ESCAP, *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity* (United Nations publication, Sales No. E.08.II.F.7).

absolutely necessary, Governments should protect those expenditures that are the most critical to maintaining a certain level of education and health services. Programmes to protect the poor and most vulnerable should be a priority. Regarding education, the children of the poor, particularly girls, are more likely to leave school than other students, and it may not be possible to educate them after months or years outside the schooling system. To improve health services, it is critical to address malnutrition and infant and maternal mortality. Basic health care, including maternal health care, should be ensured for all.

36. The poor can be provided with cash transfers if they have regular health check-ups and vaccinations and keep their children in school.¹⁸ In several countries, such conditional cash transfer programmes have been shown to be an effective way to encourage poor households to invest in their health and in their children's education. To mitigate the adverse impact of the crisis on health and education, conditional cash transfer programmes for the poor are therefore important. Cash transfers would also help in assuring adequate nutritional security for vulnerable groups, which will have a positive impact on educational and health outcomes. School feeding programmes are important for keeping students in school and enabling them to focus on learning tasks, especially in places where poverty routinely forces students to come to school hungry.

37. Despite the risks to progress in education and health, the crisis may offer an opportunity to undertake reforms to improve the performance of the educational and health systems over the long term. More stringent fiscal constraints provide the rationale and potentially the political support for implementing long-term reforms to enhance the efficiency of the systems. While adequate resources are essential for attaining goals in education and health, the efficiency with which these resources are used is also crucial. More efficient utilization of resources can offset some of the effects of diminished resources.

C. Strengthening social protection systems

38. The coverage of social protection programmes in the Asia-Pacific region is generally low.¹⁹ Countries in the region therefore had to rely on emergency measures to respond to the previous crises, including the Asian economic crisis of 1997 and the fuel and food crises of 2008. This is also true for the current global economic and financial crisis. A longer-term policy response is required to avoid reliance on ad hoc emergency measures, and this response requires the development of ex ante and comprehensive social protection systems to deal with the current as well as future crises. Countries with adequate social protection systems can quickly scale up existing programmes to respond to crises, thus imparting an automaticity that has a faster macroeconomic stabilization effect than a discretionary policy.

39. There are various ways to build and strengthen social protection systems. Therefore, the specific details of such systems will vary across countries depending on their specific needs, the existing social infrastructure and vulnerability patterns, and their technical and fiscal capacity to administer the different types of programmes. However, a minimum floor of social security benefits for all citizens should include:

- (a) Guaranteed universal access to essential health services;
- (b) Guaranteed income security for all children through family and/or child benefits;

¹⁸ World Bank, *Averting a Human Crisis during the Global Downturn* (Washington D.C., World Bank, 2009), accessed from www.uniteforchildren.org/files/world_bank.pdf.

¹⁹ ESCAP, "Strengthening social protection systems in Asia and Pacific in the aftermath of the global financial crisis", *Macroeconomic Policy Brief*, No. 3 (June 2009).

(c) Guaranteed access to basic means-tested or self-targeted social assistance for the poor and the unemployed;

(d) Guaranteed income security through basic pensions for people in old age and people living with disabilities.

40. Various social safety net interventions can strengthen a social protection system. These include (a) cash transfers of various kinds (unconditional or conditional transfers that are targeted on the basis of poverty, unemployment benefits, family allowances or social pensions), (b) various in-kind transfers, especially school feeding programmes, (c) public works jobs and (d) the waiving of fees for essential health, education or utility services.

41. In recent years, there has been much interest in the implementation of means-tested and self-targeted social assistance programmes for the poor in the Asia-Pacific region. In a self-targeted programme, benefits to participants are limited and only the very poor would be inclined to join such programmes. A good example of this is the National Rural Employment Guarantee Act (NREGA) of the Government of India, which provides adult members of any rural household willing to do unskilled manual work at the statutory minimum wage with a legal guarantee for 100 days of employment during every financial year. NREGA participants work in projects related to water conservation, flood control, irrigation and land development, among others. In a means-tested programme, the first step is to identify persons deserving of assistance. In the Philippines, such a programme, namely the Pantawid Pamilyang Pilipino Program (4Ps), provides poor households with 500 pesos a month for their health needs and a 300-peso educational subsidy for each child up to 14 years of age. In return, beneficiaries are required to have certain health check-ups and the children are required to attend school. In Pakistan, under the Benazir Income Support Programme, poor families are provided with monthly cash benefits.

42. Due to the low coverage of social safety net programmes, public expenditures should be reprioritized in order that such programmes can be adequately financed, especially due to the current strains on government budgets. The reallocation of spending can be an important source of financing for an enhanced safety net package. Moreover, significant efficiency gains within the existing safety net system can be realized. Where countries have many small programmes, each unable to fully reach economies of scale or efficiency, often with overlapping goals or target populations, their reforms, including combining some smaller programmes, can yield better results within a similar overall budget.

43. Governments also need to develop capacity to design and implement social safety nets in order to provide a cushion for the large number of people affected by crises. Such capacities are needed at all levels of government, including local-level governments that are generally responsible for implementing the programmes. As various government departments and agencies are involved, effective coordination mechanisms are needed to enhance the impact of the measures undertaken. This requires setting up institutional capacity that can be utilized in times of need. Building effective targeting and payment mechanisms, accountability systems, and monitoring and evaluation systems for safety net programmes requires a medium-term safety net strategy.

44. While unemployment insurance can protect workers for some time, such schemes require huge financial resources and can raise production costs. Moreover, it is difficult to introduce such schemes in most developing countries because they have large informal sectors. Despite these difficulties, feasibility studies for self-financing unemployment insurance schemes may be undertaken since formulating and implementing such schemes can take much time.

45. Strengthening social protection systems in countries in the region can help to reduce overdependence on an export-led growth strategy by rebalancing growth towards domestic demand. Private savings rates are high in many countries, partly as a precaution to meet necessities related to health and education, as well as retirement. Therefore, the provision of social protection, including health and education services and retirement pensions, would minimize the need for significant private savings. This would raise domestic demand and help in rebalancing growth away from exports.

D. Maintaining ODA flows

46. It is important that donor countries maintain their aid levels, as reducing development aid at this time could be very costly, especially for countries that are striving to achieve their development goals during this period of economic crisis. At the same time, donors must allocate aid in such a way as to advance the development goals of the recipient countries most effectively. Developing countries should also ensure that bilateral and multilateral assistance is efficiently utilized and directed into priority areas, such as strengthening social systems. There is also a need to follow up on the agreements reached at the G-20 summit held in London in April 2009 to ensure that ODA commitments made are being honoured. It is important that donor countries implement other previous commitments as well.

E. Measures to address falling remittances

47. Falling workers' remittances will have an adverse economic and social impact on the recipient developing economies. Host countries should avoid taking measures that force migrant workers to return to their home countries. Moreover, any exploitation of migrant workers, particularly women and unskilled workers, should be prevented and their access to social services should be enhanced. In some countries, remittances are received through informal channels. It is important that formal channels (for example, the banking system) for receiving remittances be made more efficient and cost-effective so that remittances are correctly accounted for and put to proper and productive use. The Governments of countries with large overseas workforces should also plan to assist returning workers through domestic employment creation programmes, skills training and the strengthening of social safety nets.

IV. CONCLUSIONS AND RECOMMENDATIONS

48. As a result of the global financial and economic crisis, more than 26 million job losses are possible in Asia and the Pacific. Moreover, it is projected that between 65 million and 85 million more people will remain in poverty in the region in 2009 due to the crisis. The people most at risk are the poor, women workers in the manufacturing sector, the youngest and oldest populations, and low-skilled migrants. The crisis is expected to derail the region's progress towards achieving the Millennium Development Goals, which include eradicating extreme poverty and hunger, achieving universal primary education, and combating HIV/AIDS, malaria and other diseases. The adverse consequences of the crisis are expected to be more extreme for the least developed countries, landlocked developing countries and small island developing States.

49. A comprehensive and well-coordinated approach at the national, regional and global levels is needed to address the human cost of the crisis. At the national level, a number of measures can be taken depending on the needs and special circumstances of each country. Many countries have introduced stimulus packages, and the composition of these packages should be designed to spread the larger benefits to the poor and most vulnerable. The development of the physical infrastructure should not

be restricted to urban areas; it should also reach rural areas, where most of the poor live. Agriculture is the main source of livelihood in rural areas, and the problems of poverty cannot be addressed without enhancing the productivity of the agricultural sector. Due to their employment generation potential, SMEs should be supported. Investment in education, health and other social sectors can be the most rewarding for all segments of society, particularly women and children. Most importantly, the development of comprehensive social protection systems is needed to deal with current as well as future crises. Countries with adequate social protection systems can quickly scale up existing programmes to respond to crises.

50. At the regional level, various forums can facilitate the sharing of experiences on the effectiveness of measures being employed to deal with the adverse impact of the crisis. Asia and the Pacific is a vast region and countries in the region therefore differ in their needs and technical capabilities. There is much to be gained by exchanging information on various experiences regarding the impact of the crisis and by forging mechanisms for technical cooperation and the coordination of initiatives for maximum gains. For policymaking purposes, it may also be useful to examine at the regional level the possibility of developing a commonly shared perspective on what needs to be done to expedite the recovery with inclusive development. The ESCAP secretariat is already helping countries in the region to achieve these goals and plans to intensify its efforts.

51. Pursuant to Commission resolution 65/1 on the implementation of the Bali Outcome Document in addressing the food, fuel and financial crises, the secretariat will carry out capacity-building activities to assist members and associate members, particularly the least developed countries, landlocked developing countries and small island developing States, in implementing key recommendations contained in the Bali Outcome Document (E/ESCAP/65/15/Add.1). The secretariat will also assist in mitigating the impact of the economic crisis through research, workshops, seminars and the provision of expert services. The focus of the current session of the Committee on addressing the adverse impact of the crisis is in line with the provisions of resolution 65/1. The secretariat will analyse in much greater depth the impact of the financial crisis and suggest policy options to mitigate the adverse impact of the crisis in the *Economic and Social Survey of Asia and the Pacific* to be published in 2010.

52. Pursuant to the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development, ESCAP will continue to take full advantage of its advocacy role to promote the recovery and development of developing countries, especially the most vulnerable among them.

53. South-South cooperation can be an effective tool in enhancing financial and technical assistance for countries in need in the region and it should therefore be promoted. Where possible, triangular development cooperation, in which developed and developing countries work together, can provide much needed additional resources to implement development programmes. The advantages of both South-South cooperation and triangular development cooperation within the region become even greater, including their cost-effectiveness, their role in the transfer of skills and expertise within the region, their capacity development and their transfer of appropriate technology. Due to the severity of the financial crisis in the developed world, regional cooperation should be extended to both financial and economic sectors.

54. Many developing countries, particularly the least developed countries, depend on ODA flows to accelerate progress in achieving their development goals. Moreover, due to a lack of fiscal space, these countries are unable to launch stimulus packages to restore their economic growth. At the same time, in the face of the

financial and economic crisis, it is feared that the flow of resources, particularly ODA, to developing countries may fall. Therefore, at the global level, developed countries and other donors should ensure smooth flows of ODA, particularly to the least developed countries and countries with special needs, in order that the socioeconomic development of the recipient countries remains uninterrupted. Overseas workers' remittances have played a major role in socio-economic development, particularly poverty reduction, in recipient countries. Therefore, the global community should ensure that the crisis does not lead to a backlash against migrants in host countries, as this would harm the economic recovery and development in their home countries.

55. Member countries may wish to share their experiences on the impact of the crisis, and the Committee may wish to provide guidance on policy options to mitigate the adverse impact on poverty reduction, inclusive development and the achievement of the Millennium Development Goals.

.