

## **Losing the gains: How the crisis will impact human development in the region**

*Balázs Horváth, Andrey Ivanov and Mihail Peleah, with Michaela Pospíšilová*

While the global economy may be showing signs of recovery, questions about the impact of the crisis on Central Europe, the Western Balkans, and the former Soviet Union remain. As GDP falls, what are the effects on poverty, life expectancy, health, and other development measures?

We provide answers by analyzing historically observed changes in income (per-capita GDP in purchasing-power-parity terms) and selected development indicators during the past two decades in the region. The results convey a sobering message about the effects of the global economic crisis for human development in the region as a whole. Critically, the impact unfolds over several years, and its cumulative size is likely to be substantial. A significant share of the development progress made since the late 1990s is in danger of being lost.

### **The results**

The long-term impact on income poverty is particularly significant. When defined as the share of the population living on less than US\$5/day, poverty is likely to worsen markedly across the entire region for at least a few years. The results suggest that the numbers of people living below this level could rise from below 30 percent of the region's total population to some 40 percent between 2010 and 2014—implying that at least 50 million people could be thrown into poverty as a result of the crisis.

When defined as the share of the population living on less than US\$2.50/day, the results suggest that the numbers of people living below the poverty line could rise from 7 percent to almost 15 percent across the region.

The results for life expectancy indicate that the crisis could reduce the average life expectancy for men in the region by nearly six months.

### **Policy response**

The global crisis underscores the role of the state as an economic actor. Our results highlight the significance of this role for human development. Striking the appropriate balance between giving the state 'too small' and 'too large' a role is not easy, but critical.

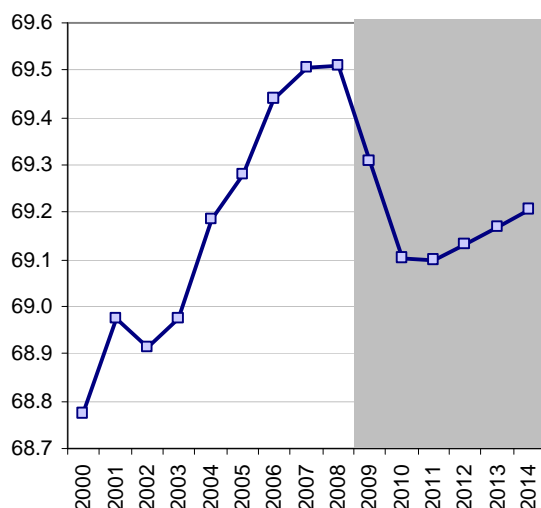
In many countries, the immediate policy reaction to the crisis—boosted by public expectations—has been efforts to create jobs. But governments should resist the temptation of 'taking over' the task of employment generation from the private sector. While public employment schemes can cushion job losses, their economic impact is mainly short-term unless they are linked to other objectives better suited for the government. One set of such objectives relates to facilitating private sector job creation and overall productivity growth, notably improving infrastructure.

A substantial part of the direct anti-crisis interventions should occur at the level of local governments. But in order to discharge this function, local governments need to identify opportunities, formulate responses, and improve their implementation capacity. This requires the involvement of communities in joint projects, starting from joint discussions on local problems and reaching consensus on urgent priorities.

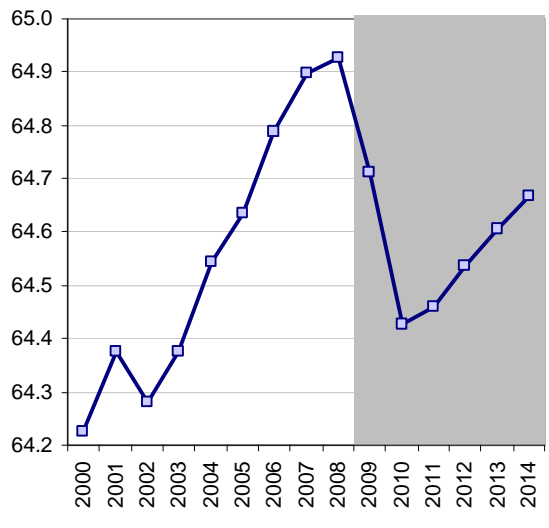
UNDP can provide essential micro-level projects that are critical to the success of macroeconomic policies and large sectoral projects. This can help central government policies—often supported by the IMF and the World Bank—gain traction in regions away from the capital and large cities. UNDP can also help to reach and involve vulnerable or marginalized population groups. UNDP can coordinate donor activity, to help make the most of scarce development funds. Finally, since governments’ thinking in the crisis may be dominated by immediate concerns, UNDP can help retain a focus on critical long-term issues.

*The authors work in the UNDP Bratislava Regional Centre. Balázs Horváth is Poverty Reduction Practice Leader, Andrey Ivanov is Human Development Policy Adviser, Mihail Peleah is Research Officer, and Michaela Pospíšilová was Research Associate in the Office of the Senior Economist when this article was written. The full version of this article appeared in the December issue of Development and Transition. To read the full article, please visit [www.developmentandtransition.net](http://www.developmentandtransition.net).*

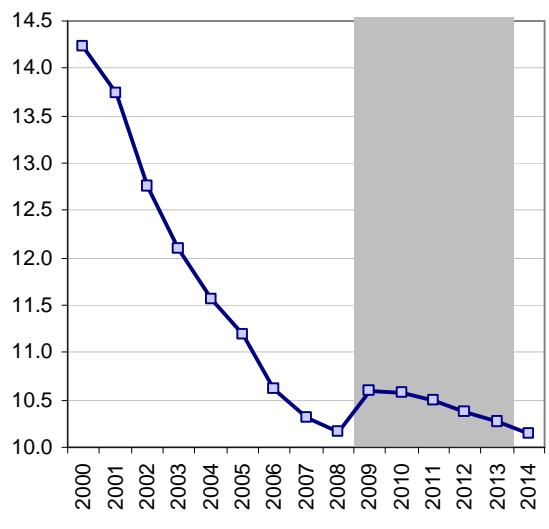
Life expectancy at birth, men and women, in years



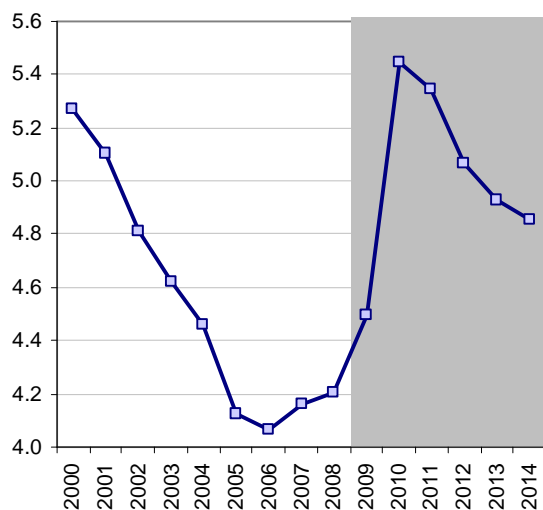
Life expectancy at birth, men, in years



Infant mortality rate (per 1,000 live births)

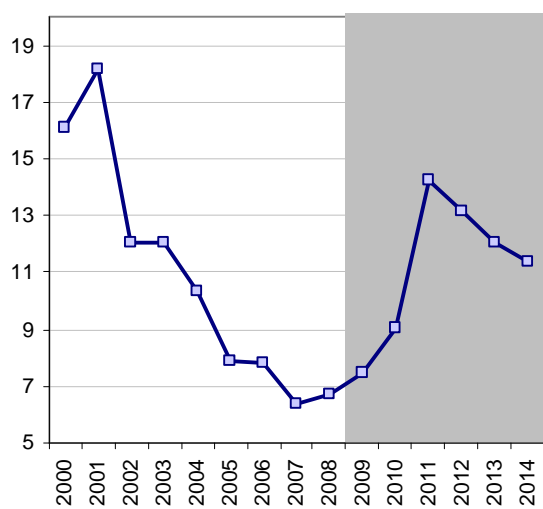


### Homicide rate (per 100,000 population)



### Regional income poverty rates (%)

At the US\$2.50/day threshold



At the US\$5/day threshold

