



The Global Financial Crisis in Colombia and the ICPD Agenda

The Global Financial Crisis in Colombia and the ICPD Agenda

RIVAF RESEARCH PROJECT – 2010/2011

UNFPA COLOMBIA

7/14/2011

In December 2009, the Rapid Impact and Vulnerability Analysis Fund (RIVAF) was launched by the United Nations as part of the Global Pulse Initiative, to support innovative, real-time data collection and analysis to help develop a better understanding of how vulnerable populations cope with impacts of global crises. RIVAF was generously funded by the United Kingdom's Department for International Development (DfID), and the Government of Sweden with UNFPA co-financing; this study was made possible due to this generous contribution.

1. Abstract

Colombian economy was not isolated from the events of the global economy and its evolution has been similar to the regional one. There was a rapid decline on GDP, but also a rapid recovery, while social indicators have been slower to react, both on the contraction and the recovery and are not yet fully reflected by statistical data.

National Government income was not heavily affected during the crisis, partially because of the privatization of public assets and **nor did the general public budget or the allocation of resources to health and education**. But a long standing financial crisis on the health sector has forced the government to push forward reform proposals that might endanger the access to appropriate quality services for the population.

There was no GDP contraction but an economic slowdown. While GDP grew 6.9% in 2007, 2008 growth was 3.5% and 2009 resulted in a pale 1.5%. The trend was reverted in 2010, when the economy grew 4.3% and preliminary data for 2011-1Q indicate a 5,1% expansion with regards to the 2010-1Q. The quick slowdown had a direct impact on unemployment. Strong economic result in the years prior to the crisis brought a historic achievement for Colombia: In November 2007, for the first time in more than decade, Colombia experienced a one digit unemployment rate (9,8%). From that point on, **unemployment rate grew** to a maximum of 13% in February 2010. 2011 unemployment rates are lower and consistent with GDP growth and it is expected to return to one digit rates by 2011-4Q. However, the increasing unemployment during **the crisis hit women more than men, specially the youth**. According to own estimates, 214.000 women left the labor market during the fourth 2008-4Q, most of them between 18 and 26 years.

The adverse results in GDP and unemployment, together with high inflation, **slowed down advances in poverty reduction** and **pushed downwards net household incomes**. In the meantime and as a result of the severity of the crisis in the most developed countries, international migration and remittances dynamics were altered. Available information suggests the **negative net migration rate decreased**, with smaller numbers

of Colombians joining abroad communities and **decreasing but unsteady flows of remittances**.

It is well established that **remittances are being used in a large extent for covering basics needs** (food, shelter, utilities), and savings are rather an uncommon use. Because of this, remittances play a key role in keeping many families above poverty line and its suspension means immediate impoverishment.

In the context of structural disparities regarding the benefits of development and economic growth, **the negative impacts of the crisis were unequally felt**. Due to its heavy dependence on remittances, **Eje Cafetero region took the most direct impact of the international crisis** in Colombia. The in depth research in that region unveiled some powerful side effect that might not be evident when analyzing statistical data at a national level. Those effects, observed at a household scale, range from **increased problematic family split-ups**, and the loss of familiar investment due to **increased overdue in mortgage payments to rising risks of early school dropouts** and the **suspension of prime quality medical insurances**.

Perhaps the most visible effect of the crisis in Eje Cafetero is the higher unemployment and sub employment rates as a consequence of the **massive entrances of former inactive population into the labor market in search for a job to replace remittances no longer available**. Many of those entering the labor market used to play the role of caregivers for children and elders.

Some of those dynamics must have negatively impacted some sexual and reproductive health indicators in the region. For instance **the reduction of adolescent fertility in the 2005-2010 period was smaller in Eje Cafetero** than other regions with similar settings and **Infant and child mortality rates didn't improved** during the period. The bad setting should be considered more critical because of the demographic moment Colombia is going through. **The crisis hit the country while the demographic window is reaching its final stage**, decreasing the opportunities for work, education and health of the youth and thus, **hampering the chances of the country to fully convert the demographic window into a demographic bonus**.

2. Introduction

Recent years witnessed the transformation of a localized crisis in the U.S. mortgage market during late 2007 into a global financial crisis by mid 2008 and a global recession during 2009. With an astonishing speed the world witnessed the deepness of global interdependence of financial markets and real economies, as well as the weaknesses in the regulations for financial stakeholders in the more developed markets.

The severity of the crisis became clear to the eyes of the world in March 2009 when the World Bank announced that for the first time since the end of World War II the world would observe a contraction of global gross domestic product¹. Latest estimates² indicate that the contraction reached 2.2% in 2009 worldwide, with 3.4% in high income countries and a slowdown in developing countries, which rose from 5.7% growth in 2008 to just 2.0% in 2009.

Although the crisis can be traced back to U.S. financial markets, its impact was transmitted to the economies of other countries with a speed and intensity according to differential levels of integration and interdependence of the markets. Except for some emerging economies with especial conditions and those most isolated from the global economic system, all regions and countries experienced downturns in their economic growth or even outputs contraction.

After six years of sustained growth in Latin America and the Caribbean, especially leveraged by the strong performance of international commodity markets, the international crisis hit the region, reversing the positive trend. According to ECLAC "The region (...) was not isolated from the negative impacts of these events and the GDP of the region began to slow in the third quarter of 2008, with negative changes in early

¹ World Bank. *Global Economic Prospects 2009. Forecast Update: March 30, 2009.*

² World Bank. *Global Economic Prospects. January 2011. Navigating strong currents. 2011. Page 4.*

2009. Although by the second half [of 2008] some clear signs of recovery were seen, for this year [2009] is estimated a fall in the level of regional activity which will be located between 1.5% and 2%, which would mean a decline in per capita income of about 3%³

The negative impact of these factors had direct implications on the progress made during the run up to the crisis in key social areas for the well-being: "i) regional unemployment has reached 8.5% in mid-2009 as estimated by the ECLAC / ILO, after having fallen from 11% in 2003 to 7.5% in 2008; ii) a detriment in the quality of employment and increased informality is expected; iii) consequently, increased poverty, having fallen from 44% to 34% in the period 2002-2007; iv) income inequality is likely to increase, and v) reduction of remittances also affect low-income households and lower-middle"⁴

However, there is some consensus that the region has implemented relatively effective anti-cyclical action, largely thanks to the benefits generated by the growth period that preceded the crisis: "this crisis encounters the region better prepared than in the past and today, about two years after the start of the financial turmoil, it is clear that the nature of impact and response capacity of the countries is quite different from what was common to observe in the episodes that followed the debt crisis of the eighties until the early years of this decade"⁵

Although the end of 2009 signaled an upturn in the trend towards recovery, continued by a strong 3.9% real GDP growth estimated for the world in 2010⁶, global and regional economy is still far from restoring its pre-crisis dynamism. Three unfolding events will have negative impacts on the road to sustainable recovery: the crisis on the sovereign debt of European countries; the growing political turmoil in the Arab world and the consequent rise in oil prices; and most recently, the earthquake and tsunami in Japan with all the consequences it may bring to the third biggest economy in the world.

³ ECLAC. Panorama social de América Latina 2009. Abril de 2010. Page 50.

⁴ ECLAC. Serie Población y Desarrollo No. 89. Los derechos concedidos: crisis económica mundial y migración internacional. Page 10.

⁵ Kacef, Osvaldo y Juan Pablo Jiménez (comps.) (2009), Políticas macroeconómicas en tiempos de crisis: opciones y perspectivas, colección Documentos de Proyecto, N° 275 (LC/W.275), Santiago, CEPAL. Page 9.

⁶ World Bank. Global Economic Prospects. January 2011. Navigating strong currents. 2011. Page 4.

Aiming to track the specific impacts of this crisis so far, four coordinated research exercises were made by the consultants of the project: a) Socioeconomic impacts of the international crisis in Colombia; b) International Migration and Remittances in the context of the crisis; c) SRH, Gender and its inter-linkages with migration and remittances in Eje Cafetero region; d) The youth and the international crisis. Each consultant handed over a final report that was later edited to ensure continuity in the argumentation and an appropriate extent.

3. The international crisis and its impacts on Colombian Economy 2008-2010

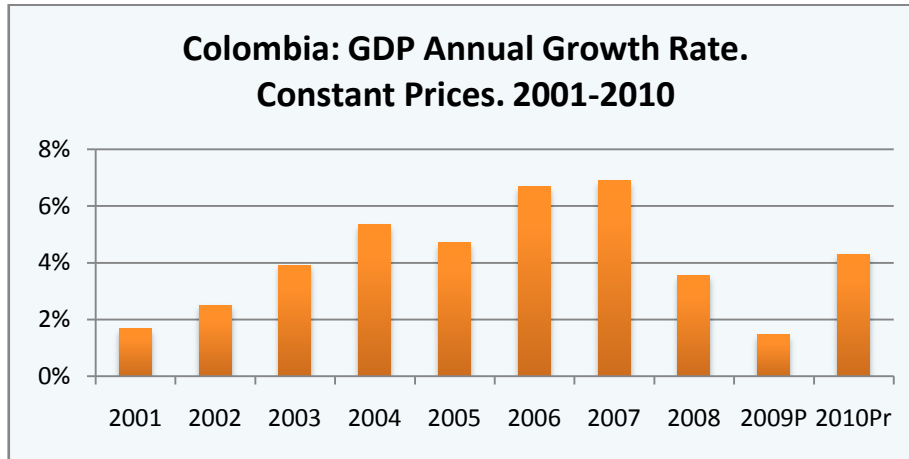
Colombian economy was not isolated from the events of the global economy. Since 2002 the country experienced economic growth as well as low inflation and interest rates, as most of the countries in the region. The resulting climate of confidence stimulated investment, especially foreign direct investment, leveraged mainly by the favorable evolution of commodities markets. Between 2002 and 2007, GDP growth rate averaged above 5% annually, pushing poverty rate to fall from 54 per cent to 46 per cent and the extreme poverty from 22 to 12 per cent.

GDP growth for 2008-1Q revealed the first contraction in four years. It is rather difficult to establish if this change in the trend was a consequence of the international crisis, but from that moment on the overall economic growth started its slowdown. By 2009-1Q the adverse impacts of the crisis had become more evident, especially in the labor market and poverty reduction effectiveness. It was clear by that time that the crisis will strengthen the challenges for the achievement of the Millennium Development Goals (MDG) in the country.

According to the Colombian Central Bank (Banco de la República) Reports to the Congress, most of the slowdown in Colombian economy was due to internal and regional factors, rather than the international crisis: “The international crisis hit Colombian economy in a moment when the economic dynamism was already decreasing, after four years of rapid growth. This slowdown is the result of a restrictive monetary policy, the impact of the rise in the prices of basic goods to both producers and consumers, and the restrictions imposed by some commercial partners [Venezuela and Ecuador]”⁷. Whether the role of the international crisis was underestimated in the analysis of the central bank

⁷ Banco de la República. Informe al Congreso. Julio de 2009. Page 36.

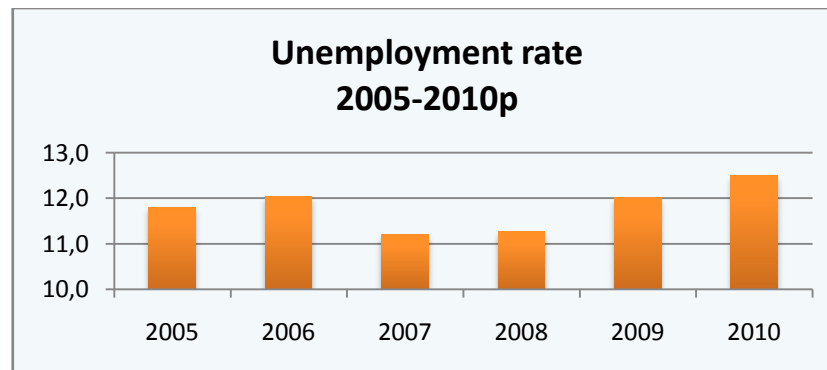
or not, the economic dynamism decreased, especially since the first quarter of 2008 and with most severity during the last quarter of the same year. Growth rate decreased from a maximum of 6,9% in 2007 to a minimum of 1,5% in 2009, as a consequence of the poor results in the areas of exports, financial markets, and remittances.



Source: DANE – National Accounts Office.

^P Provisional data- ^{Pr} Preliminary data.

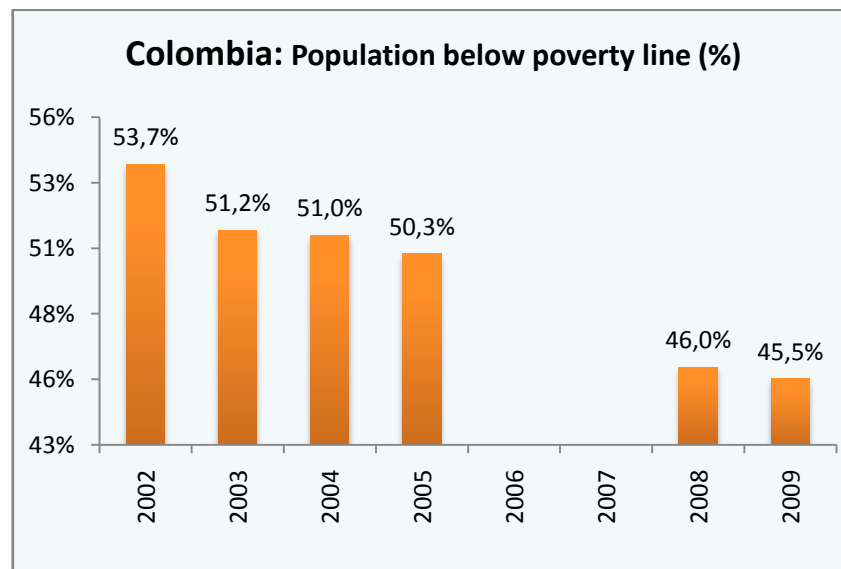
One of the main impacts of the slower growth rates was the increased unemployment rates. During the growth period 2003-2007 the unemployment rate gradually decreased, reaching its minimum in 2007, but its trend changed in 2008 and has been increasing ever since.



Source: DANE – Integrated Household survey. Data for 2010 is preliminary.

In deep analysis of the components of the labor market has shown that during recent years the Labor Force Participation Rate (LFPR) has been increasing constantly and the gender gap has reduced in about 5%. However, the increasing unemployment of last years has hit women more than men. According to our estimates, 214.000 women left the labor market during the fourth quarter of 2008, most of them between 18 and 26 years. This gender gap is more visible when looking at the unemployment rate increase between 2008 and 2009: while male unemployment increased by 2.3%, female unemployment increased by 5.9%.

In terms of poverty, its incidence has been decreasing all along the decade but the speed of the reduction fell during the years of the crisis. Due to methodological problems with the survey used to estimate poverty, calculations for 2006 and 2007 are not available.



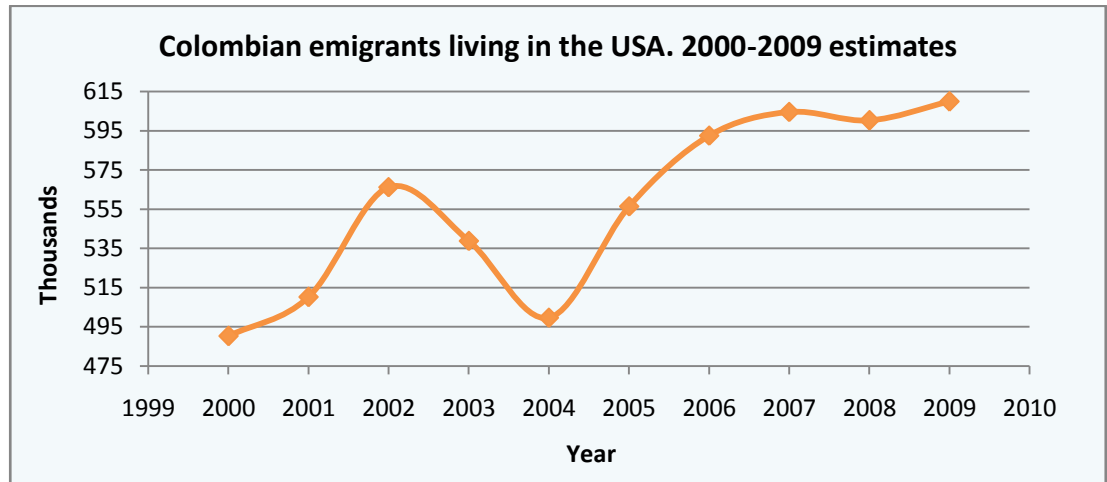
Source: National Planning Department (DNP) – Mission for the splice of data series on employment, poverty and inequality. April 2010 (DNP Website)

4. Migration and Remittances

Although most of those negative trends can be explained by the economic slowdown, it is certain that the dynamics of international migration and remittances have a huge impact, especially in the labor market. During the past couple of decades, Colombia experienced strong flows of international emigration and increased importance of remittances in domestic economy. The National Statistics Office (DANE) estimated that aprox. 3.5 million of nationals were living abroad by 2005, and the remittances accounted for nearly 3% of the GDP. Regardless of the fact that this proportion is much higher in other countries, especially in Central America (i.e. Honduras (21%), El Salvador (16%), and Guatemala (12%)), remittances in Colombia play a key role for the well-being of many families and its reduction implies several hampers for development and poverty reduction. In the context of the international crisis, the amount of remittances received by the country has been falling and it was expected that net migration rate from 2008 on, will reveal a change of the pattern, with increased numbers of emigrants returning and less nationals leaving the country⁸. Data collected and analyzed indicates a change in the dynamic of emigration, but sources available are not representative for the expected amount of Colombians living abroad. Only two of the destinies of Colombian emigration were found to have enough updated and reliable information: USA and Spain.

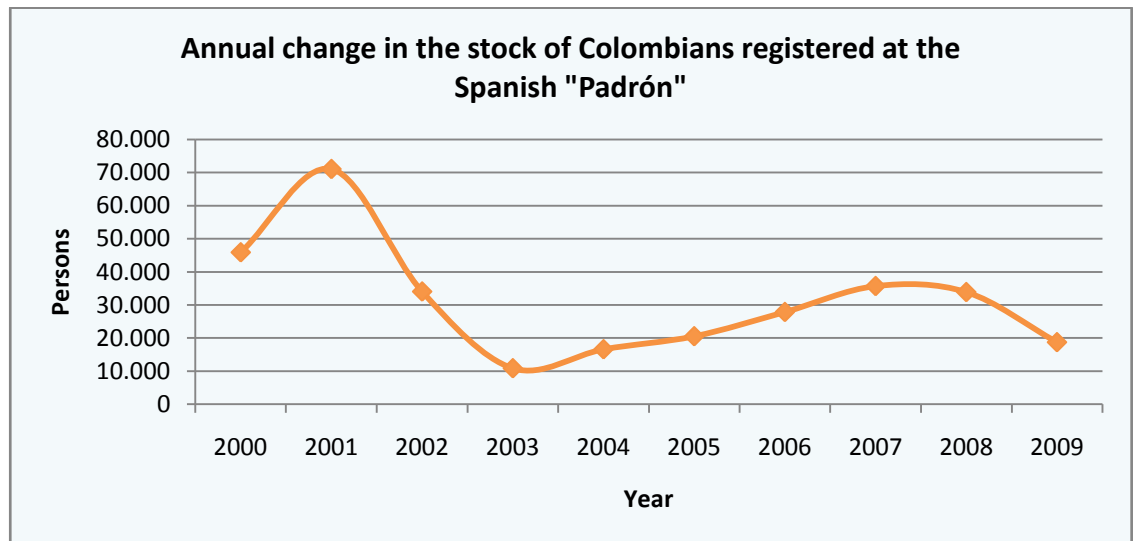
In the case of the USA there is soft change in the tendency, especially for 2008, in what would be too much early response to the crisis, especially if it is considered that between 2008 and 2009 the stock increases, while the financial crisis was evolving into a complete economic recession in the USA. This progression is not coherent with the initial expectations.

⁸ This work hypothesis was tested and failed to be probed. See annex referred to the estimation of stocks and flows of migrants during the years of the crisis for a detailed description.



Source: U.S. Census Bureau. American Community Survey (ACS).

In the case of Spain, the evolution seems to be much more as expected, with a clear deceleration on the influx of migrants since 2007-2008 period. In both cases, the results for 2010 will shed light on the evolution, particularly because that data will show the effects of 2009, the worst year of the crisis. In the meantime, it is important to consider that several strategies are being used by those living abroad to avoid returning to Colombia. For as long as those strategies keep working they will not return.

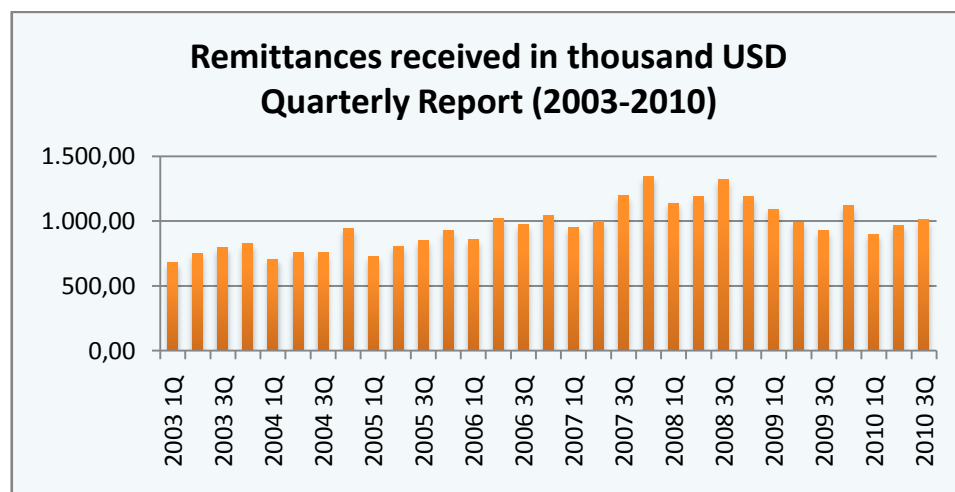


Source: Spanish National Statistics Institute (INE). Statistic of residential change.

Although the expected massive return is not taking place, the impact of the international crisis is magnified by the fact that two out of the three main destinations for Colombians living abroad are the USA and Spain, countries that were remarkably hit by the crisis.

Several studies have inquired into the effects of the international crisis on the remittances. Alicia Lynch (2010) proposes that 2009 was an especially rough year for those sending remittances and those receiving them, mainly as a consequence of the crisis in Spain and the Euro-Dolar exchange rate. According to Bank of Spain, remittances from Spain to Colombia dropped by 9.7% between 2008 and 2009, further deepening the trend coming from 2008, when remittances fell 7.2% in comparison to 2007. In the context of the region, Colombia was one of the three countries with the biggest dropdown in remittances received between May 2009 and May 2010. (12,8%)⁹

A quarterly analysis of all remittances received by Colombia results in a very similar pattern like the one of those coming from Spain exclusively, dropping from the fourth quarter of 2008 for five consecutive quarters, although there were signs of recovery by the end of 2009. For 2010, the most recent data and projections show a strong decrease during the first months, and a slow recovery for the rest of the year.



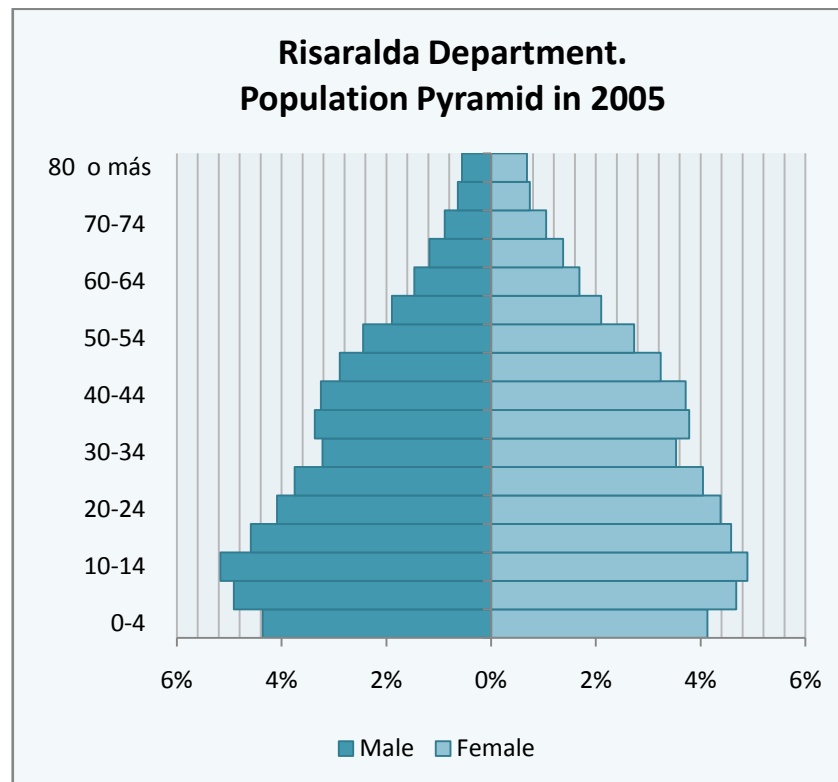
Source: Colombian Central Bank (Banco de la República). Statistical Series – Remittances.

⁹ Banco de la República. Informe al Congreso. Julio de 2009.

5. Case study: SRH, Gender and its inter-linkages with migration and remittances in Eje Cafetero

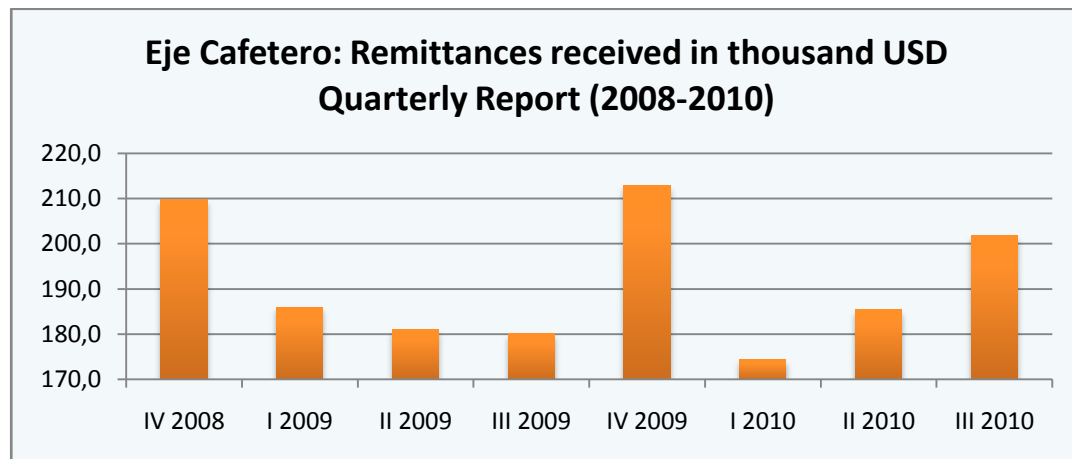
The term “Eje Cafetero” refers to a region that has been historically recognized as the main producer of coffee in the country. With a population of nearly 2.5 millions, distributed over 13.873 sq. km, Eje Cafetero represent only 1.22% of the national territory but its population equals 5.4% of the total population. Due to historical and cultural factors, a longstanding tradition of international migration has been present in the region and nowadays Eje Cafetero has the highest proportion in the country of households with members living abroad (6.3% according to 2005 National Census).

As in most of the cases, international emigration is selective in Eje Cafetero. Most of the emigrants are in between 25-35 years, coming from low and middle income families, high school or graduate degree and traveling alone mainly for economic reasons. Recent studies estimate the stock of emigrants in around 650.000 that represent nearly 25% of current population. This trend has have effects that are even visible when looking at the population pyramids of the region:



Source: DANE. 2005 Population and Housing Census.

Consequently, remittances have been considered to be the most direct “produce” of international emigration for origin communities. Between October 2008 and September 2010, Eje Cafetero received remittances for a total amount of 1.5 billion USD, which is about 8% of the regional GDP or some 300USD per capita each year. In the context of the international crisis, the evolution of the remittances received by Eje Cafetero is similar to the one of the nation as a whole.



Regarding the characteristics of the people sending and receiving remittances and the usage of those, data from 2004 surveys highlights:

- The average amount of remittances in each transfer is 394 USD, 53% of the times sent at least once in a month and in 68% of the cases the remittances have been sent for at least two years.
- 43% of the people sending remittances reside in US and 42% in Spain, 52% of them are women and 68% emigrated from 2000 on.
- 73% of the people receiving remittances are women, 81% are either parents or siblings and 60% are members of households with four or more members.
- When asked about what use is being given to remittances, the most common responses are: groceries shopping and utilities payments (61%), education (26%), health expenses (23%) and repay of personal debts (18%). Only 5% percent answered that a portion of the remittances are for savings.

According to these characteristics, it's rather clear that remittances are being used in a large extent for covering basics needs (food, shelter, utilities), and savings are rather an uncommon use of those. Because of this, remittances play a key role in keeping many families above poverty line. Some econometric simulations dating 2005 estimated that if remittances where not considered as part of households incomes, poverty rate would increase in around 5% in the region, but this value may be higher nowadays as the importance of remittances has been growing ever since.

Rising unemployment rates in the US and Spain and the consequent reduction of remittances have had a clear impact on unemployment rates and other key development indicators in Eje Cafetero. In Pereira, the biggest city in the region, unemployment rates have gone as high as 20%, and the rates are much higher for women and youth.

It has been extensively documented that the detriment in socioeconomic conditions increases the risk of GVB and harmful practices regarding SRH. It was found¹⁰ that under current circumstances Eje Cafetero is experiencing several negative situations, such as:

- Increased incidence of familiar split-ups, as many families are sending back their kids while the parents decide to hold on in destination and wait for the situation to improve.
- Increased overdue in mortgages payments and sale of properties formerly being paid with remittances, leading to informal arrangements of co-habitation with other relatives and non relatives. Acquiring housing with mortgages was the preferred option to capitalize part of the remittances. This form of saving has shown to be most inadequate in times of crisis.
- Decreased school enrollment in both private and public institutions. Increased need for students to enter the labor market while still at school to compensate the lack of remittances.
- Families have to suspend prime medical insurances and complementary medical services and rely on the public healthcare system, with the consequent loss of privileges. Most of the households that used to pay for prime medical insurances count elders, pregnant women and children in their members.
- Higher unemployment and sub employment rates as a consequence of the massive entrances of former inactive population into the labor market in search for a job to replace remittances no longer available. Many of those entering the labor market used to play the role of caregivers for children and elders.

Emigration has long been considered to be the main strategy to escape poverty (or to pursue a higher socio-economic status, as many of the migrants are not in poverty)

¹⁰ Most of the data regarding GVB and SRH is outdated or event inexistent. Data and evidence was collected by RIVAF project with qualitative approach.

and its negative side effects when local conditions were unfavorable, but nowadays it seem to be not the best options. Declining number of visa requests may be indicating either the decrease interest to emigrate, or even an increase in non regular emigration as migration policies and laws became more restrictive with the international crisis.

6. The youth and the crisis

The international crisis and the national economic slowdown have reached Colombia in a crucial moment. Due to the continuous decrease in fertility rates during past decades, the country is now in the final period of the demographic window, and it is well known that this unique moment presents exceptional conditions for rapid economic growth and development. According to population projections, the age dependency ratio will hit its lowest level in 2019 and then will start to rise as population ageing becomes the dominant pattern. In order to turn the demographic window into demographic dividend a wide set of conditions is needed and most of those conditions are harder to accomplish while an economic slowdown is occurring.

Full access to high quality education, a broad range of employment opportunities, adequate health care and services and guarantees for social and political participation are key elements needed to take full advantage of the demographic situation, but under current situation those are conditions hardly achievable.

Although recent years have seen sustained improvements in terms of education, there is still a lot to be done. By 2008% the number of students attending high school was around 1.5 millions, which represents only 34% of the potential number of students. Only 84.347 students obtained a professional degree during the same year and the number of post-graduate degrees is below 27.000. 60% of those graduates and postgraduates came from private institutions and it is likely that in a situation where household incomes are falling, costing private education becomes a big burden for families.

In terms of employment, the situation is even more complicated. Unemployment rate for young people doubles the national average and due to recent flexibilization of the labor legislation the conditions are not optimal. For instance, the vast majority of employees are responsible for the payments of total social security contributions with no

cost-sharing from employers. The economic slowdown has decreased the pace at which the economy is generating new jobs, though reducing demand, while the number of people joining the labor markets it's growing rapidly, increasing the offer.

Regardless of the international crisis and the relative stability of public budget, the health sector has been undergoing financial troubles in the past years and the trend is that this situation is worsening as the time goes by. Access and quality of health services depends on the capacity of each individual to pay for differential health plans. Regardless of the fact that there has been improvements on the availability of special health services for young people, especially in the areas of SRH, the economic slowdown might adversely affect the access to services and supplies not covered by health plans young people to¹¹.

In this context, further efforts must be made to guarantee a successful transit from the demographic window to the demographic dividend, goal that is even difficult to achieve in the context of the international crisis.

¹¹ Datasets from the DHS 2010 became available once the consultant had finished his contract. The results of the survey will be included as much as possible, but only when data has already been processed and tabulated.