

SOCIAL DEVELOPMENT BULLETIN

Impact of the FINANCIAL CRISIS on SOCIAL DEVELOPMENT



Volume 2 Issue 5

Foreword

It is now over a year since the failure or near-failure of three leading global financial institutions triggered off a financial crisis. This financial crisis rapidly developed into a global economic crisis with serious social consequences. The United Nations system provided a swift response to the crisis through several initiatives, including the United Nations Conference on the World Financial and Economic Crisis, held in New York from 1 to 3 June 2009.

of the main One outcomes of that conference was a general recognition that future "endeavours must be guided by the need to address the human costs of the crisis". As another article in this Bulletin points out, the United Nations conference also called for urgent measures to counter the impact of the crisis on the most vulnerable populations.

The major social impacts

of the crisis on vulnerable populations include rapid increases in unemployment, poverty and declining remittances to developing countries; and reduced ability to maintain social safety nets and provide essential social services. These worrying developments are likely to have an adverse impact on the achievement of poverty-related Millennium Development Goals (MDGs).

This Bulletin shows that countries in Western Asia have suffered the economic and social consequences of the crisis in different ways, even if gross domestic growth product (GDP) rates have dropped in most countries as a result of the crisis. It is estimated that, in developing countries, a drop of 1 per cent in GDP triggers a two per cent increase in poverty. The human cost of the crisis is vividly captured in the voice of a return migrant worker further on.

While ESCWA member countries have responded to the crisis through different types of financial and economic measures, there is an urgent need for all countries to expand social protection to minimize its impacts on lower income groups. Social protection is critical for three reasons: (i) it contributes to reduce poverty and increase consumption of the poor; (ii) it builds human capital and social resilience to deal with future crises; and (iii) it gives vulnerable populations a greater stake in the fruits of economic development and thus promotes greater social cohesion.

The Social Development Division of ESCWA will contribute to those regional responses by hosting a major expert group meeting on "The Global Financial and Economic Crisis: The Social Impact and Response in ESCWA Countries", in Beirut on 8 December 2009. The

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meeting will examine how the global crisis has affected social development in different countries of the region, focusing on the themes of employment and livelihoods; poverty-related MDGs; and social protection systems.

The social impact of the crisis on ESCWA member countries

Member countries of the ESCWA region and the Arab world at large have found themselves caught up nowadays in a global financial, economic and social crisis that is spreading and evolving quickly. Far from being a transient emergency,

the crisis threatens to have a profound impact, and to undermine the hard won development gains of the past few years.

From a global perspective, the crisis is the worst since the Great Depression,

but it would be simplistic to assume that all regions and all countries have been affected in the same way or to the same degree of severity. The extent to which countries in the ESCWA region have experienced the impact of the crisis is a function of a variety of





The social impact of the crisis on ESCWA member countries (Cont.)

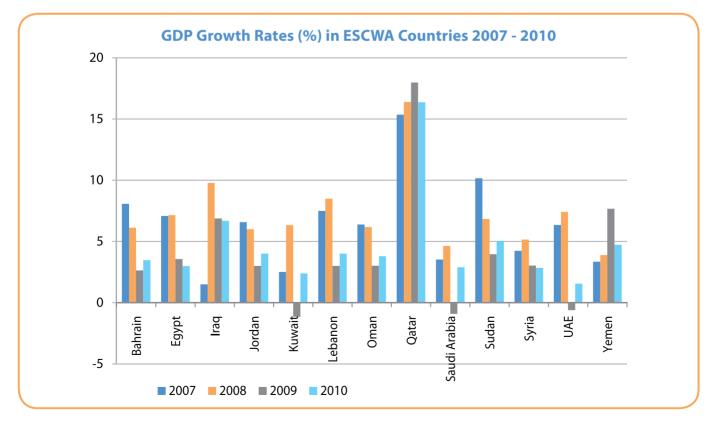
economic, political, social and historical factors. How they weather the effects of the crisis on their populations will also depend in large part on their policy responses, institutional capacity and room for manoeuvre.

Although they differ in their projections, all analysts agree that real GDP growth rates in the region will be cut. Some Gulf Cooperation Council (GCC) countries such as the United Arab Emirates, Kuwait and Saudi Arabia may be the hardest hit, as their economies face a dramatic drop in the price of oil, a contraction in global demand and trade and an international credit crunch that has affected capital inflows and investments. But it is the populations in the middle-income countries and low-income countries that may be most at risk with even small shocks sending thousands of families into poverty. Indeed, the crisis will likely disproportionately affect the poorest and most vulnerable groups – those who are least responsible for the crisis, and least able to ward against it.

Primarily, the crisis affects people and their livelihoods through employment, income, prices and services. Layoffs, hiring freezes and wage caps will quickly have a trickledown effect on people's purchasing power and quality of life. Already among the highest in the world, unemployment levels are widely expected to rise again as a result of the crisis. The International Labour Organization predicts that the Arab region will lose five million jobs in 2009. Because of their already weakened position, women and youth will be even more highly represented among the unemployed.



© Photo uploaded on <u>Flickr.com</u> by Farfahinne, October 2007.



Source: Estimates by the IMF, World Economic Outlook Database, April 2009. Note: Constant prices in national currencies.



With a precarious situation to start, the crisis will only exacerbate poverty and further put the achievement of the MDGs at risk. Least developed countries of the region, namely the Sudan and Yemen already have soaring poverty rates reaching as high as 75 per cent and 45 per cent respectively. Crisis countries such as Iraq and Palestine also suffer from low levels of human development and high levels of vulnerability. One reason for the vulnerability of large numbers of people is that in addition to poverty, a large proportion of the population lives on the poverty threshold, just above the poverty line. In other words, even small reductions in income or increases in the price of basic goods and services can result in significant numbers being plunged into poverty. The erosion of income and livelihoods will also have an adverse impact on access to education and healthcare which in turn can have far reaching negative consequences for future human resources and capacity development.

Both formal and informal social protection mechanisms are likely to come under increasing pressure as a result of the crisis. Many countries in the region, especially those outside the GCC, do not have comprehensive social security systems for their citizens. High rates of social expenditure in several countries are not only unsustainable, but also poorly targeted, often disproportionately benefiting middle upper income brackets. Furthermore. the existing social insurance schemes and pensions, which are often structurally weak, are largely limited to workers in the formal sector with little or no insurance for informal sector workers. As the economic downturn takes hold, countries in the region, particularly those with limited fiscal space will be hard pressed to maintain, let alone increase, public social expenditure. At a time when social protection for vulnerable groups is at its most needed, governments may find themselves faltering.

"Poverty and hunger are increasing and major reversals in hard won gains will likely be seen. Employment has declined sharply in many countries and is likely to decline further throughout 2009. The purchasing power and quality of life are being eroded for the majority. Children, women, the working poor and people already at a disadvantage will be hit first. Migrants and refugees will be under pressure for further displacement. Social frustration, tensions and instability are on the increase."

Chair HLCP, 25 March 2009

Response to the crisis in the region



So far, the response of Governments of the ESCWA region to the global crisis are varied and reflect their different economic structures, social and political context, budgetary and fiscal space as well as institutional capacity. Most Governments have responded primarily with financial and economic

solutions, with inadequate attention being paid to the social impacts of the crisis. Drawing on reserves accumulated before the crisis, oilexporting countries of the GCC have reacted more quickly to the crisis, putting in place rescue packages and allocating significant resources to bolster economic performance. Middle and low income countries of the region have been more constrained in their response due in part to limited fiscal space and weak institutions.

In Egypt, for example, the Government has increased expenditure on infrastructural improvement as a means to expand employment, while at the same time holding back on social pay increases to the public sector and seeking to decrease subsidies. In

Bahrain, the Government's National Insurance Scheme is generating some interest as an insurance for all workers, national and foreign alike. Financed by the contributions from workers, employers and the Government, the scheme provides unemployment compensation as well as training, job matching and career guidance.

A review of the policies and programmes that have been adopted in response to past financial crises provides important lessons for consideration by governments. The literature is nearly unanimous in advocating for greater social spending and social protection in times of crisis. The Asian financial crisis showed that countries that implemented a comprehensive social agenda



Response to the crisis in the region (Cont.)

"If we have learned anything from past crises, it is that we must act fast and then sustain our response to minimize potentially devastating consequences. The necessary decisive response to this crisis will be possible only if we have an equally decisive understanding of who has been affected and how. Knowledge is power, and we must leverage that knowledge to secure the welfare of our peoples."

Ban Ki Moon UN Secretary General and increased their social spending fared significantly better both in terms of mitigating rising poverty and unemployment and in terms of the speed with which they recovered from the crisis. By contrast, countries that relied more on traditional and informal networks were less effective and continued to suffer from high rates of unemployment and poverty years after the crisis. These experiences demonstrate that in crisis conditions, social protection and assistance paid to unemployed workers and other vulnerable individuals act as social and economic stabilizers. "They prevent people from falling into poverty, protect the health and welfare of vulnerable groups, reduce the likelihood of social unrest and make an important contribution to limiting the fall in aggregate demand, thereby curtailing

the potential depth of the recession." (United Nations Chief Executives Board, 23 March 2009.)

Policymakers in the region face significant challenges to secure economic stability and sustainable development. But today's crisis also presents countries of the region with a window of opportunity for progressive social protection initiatives and the promotion of innovative patterns of inclusive and job-rich growth. Not only is it important to mitigate the immediate effects of the crisis, but policy responses should also seek to correct pre-existing imbalances such as income inequality and economic insecurity.

Voice of a return migrant worker

Like thousands of migrant workers who had sought employment in the Gulf, Ahmad (not his real name) is today facing an uncertain future. A young Palestinian civil engineer, Ahmad left the Nahr El-Bared Refugee Camp in northern Lebanon in 2006 in search for better employment opportunities. For two years, Ahmad worked as an assistant civil engineer in a large construction company in Dubai. Everything was going well. He was promoted, he was sending money back home and he had begun to prepare for his fiancée to join him.

With the onset of the financial crisis in 2008, employees in the company were informed that due to losses and defaulted payments, they would not be receiving the regular bonuses or incremental salary increases. Other benefits were also cut. Making ends meet in the Emirate became more



© Photo uploaded on Flickr.com by Farfahinne, October 2007.

difficult. Within a few months, several employees were forced to take unpaid vacations for indefinite periods of time.

Ahmadsays,"itwasawayforthecompany to get rid of us without being obliged to pay us any compensation".



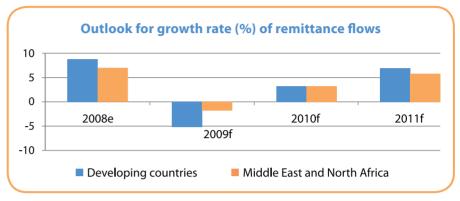
"Now I'm back to the same atmosphere and the same closed doors".

Ahmad continued to work at the company, but was not paid any wages for over three months. Unable to continue, Ahmad resigned. He found another job in Abu Dhabi, but after only three days on the job, he says the employer informed him that they no longer had a position for him.

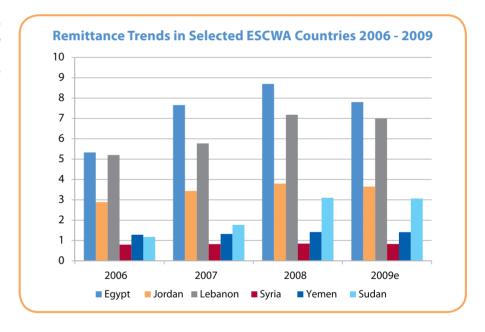
In April 2009, Ahmad packed his belongings and returned to Nahr El-Bared to work in a family owned business. "As a young man, I was eager to build my future on solid foundations, but now I'm back to the same atmosphere and the same closed doors". But Ahmad is not discouraged. He says he is one of the lucky ones, and considers that having a family business to go back to is a luxury most migrant workers do not have. He says he will wait for this global crisis to blow over, and then begin to look for other job opportunities abroad.

Source: World Bank Migration and Remittances Brief, #11
Notes: e = estimate for 2009

Although the region is expected to fare better than other developing countries, it is nonetheless expected to experience a significant drop in remittances in 2009.



Source: World Bank Development Indicators. Notes: e=estimate; f=forecast.



Interview with HE Georges Corm

Georges Corm is a senior economist and historian. He was former Minister of Finance in Lebanon (1999-2000). Below are extracts of an interview with him on 18 September 2009.

Q: How has the crisis affected the economies and people of the region?

A: The impact of the crisis was

much smaller than in the other parts of the world. This is because the region, except for the oil sector, is not globalized. In the oil-exporting Gulf countries, the one that was badly affected was Dubai, and marginally Kuwait. But there is no crisis in Saudi Arabia or Qatar. In other countries of the region, the crisis has been marginal, and it's been business as usual.

"You have to completely change the way you see the process of development."

Q: How do you explain this?

A: It's because we are not part of the globalized economy. Maybe Korea, China, India, Taiwan – the big exporters – they are affected, but in the region, our economic performance is



Interview with HE Georges Corm (Cont.)

low, we are marginal in the global economy, and the banking sector, for the most part, has not invested heavily in foreign markets. If we have economic stability it is because we have stagnant economies. We are not in the process of becoming highly productive countries with full employment.

The problem is, if I judge the crisis by western economic orthodoxy, management macroeconomic the Arab countries for the past 20 years was really good, and has created macroeconomic stability, has liberalized, privatized and given to the private sector what it needs. We had more foreign direct investment, while public finances and fiscal deficits were under control almost everywhere, so really it is very good – A or A plus. But the shortcoming is not there. Governments in the region often focus on the interests of businessmen, and the agenda of international financial organizations, ignoring the real needs of their own people. Another problem is the structure of income distribution in our countries. In the last 30, 40 years it has gone mad; an accumulation of wealth of incredible size is in very few hands, and then, the rest of the population. But the problem is that the wave of neo-liberalism has given so much attention to modernizing laws and institutions and liberalizing this and that, but has never looked at the real economy. Take Morocco and Tunisia for example. They have almost as good institutions and legislation as in Europe, yet the real economy has not drastically changed. It would be naïve to assume that if we create liberalized market institutions things will be fine. On the contrary it creates unemployment and it accelerates concentration of wealth.

Q: What can you tell us about the effects on employment and labour?

A: Of course, the first category that has been affected is the migrants into the region, Asian labour more than the Arabs. This is because in the final analysis, it is the construction sector in certain parts of the Gulf that has been most affected. Arab blue collar workers are needed; they have the language and the skills. Arab migrants in Europe and the United States have also been affected. Migrant remittances have declined in the Maghreb countries, because most of their migrants are in Europe and particularly in Spain where the economic crisis is quite sharp.

To properly analyse this, you must take country by country, but in general if you have an increase in unemployment you absorb it through family solidarity, migrant remittances; there are mechanisms. You have compensation factors. In Tunisia for example, the number of Libyan and Arab tourists has increased, so that maybe employment in the service sector has gone up. Lebanon has taken advantage of the crisis with a lot of influx of money. But this does not necessarily mean that Lebanon is in a better condition. Poverty is as high as usual. There may be positive indicators in the modern sector such as real estate, tourism, banking and financial sectors, but ordinary people's lives are marginally affected. I do not expect any dramatic change in an already bad situation. What you might have, which is a by-product of unemployment among younger populations is people becoming more religious, more radical, and attracted by extremist ideologies. This has been a trend in the region for the past 30 or 40 years.

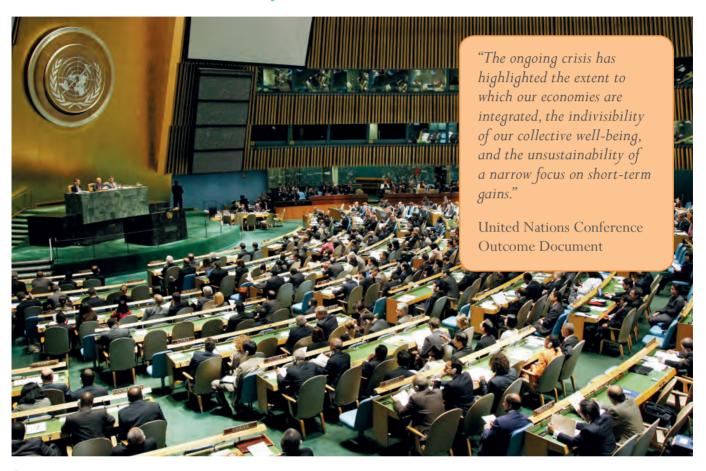
Q: What about the ability of social protection schemes to cushion any negative social effects?



A: We cannot compare the Arab Southern Mediterranean countries with the rest of the Gulf region where welfare systems are much more comprehensive for their nationals, than for imported labour; even demographically, there is a big difference. In many of the non-Gulf countries the problem is that social protection schemes cover 20 to 35 per cent of the population. Rural populations are out, the informal sector is out, and even in the formal sectors, many employers do not always respect the social security laws. You have to completely change the way you see the process of development. Governments must re-align their focus on the real economy, paying attention to the needs of their own people in rural areas and in slums around the region. As long as we have this very rigid structure of managing the country, whereby you manage to please the international community but you do not manage to see your people or include them in an efficient production process, we will continue to lag behind. We need a full mental revolution. Let us hope that the crisis will help shift people's approach and thinking.



General Assembly discusses the crisis



©UN Photo by Paulo Filgueiras, June 2009.

Between 24 and 26 June 2009, the United Nations convened an extraordinary General Assembly to assess the impact of the economic crisis on developing countries and to identify emergency and long-term responses. The United Nations Conference on the Crisis brought together government leaders from around the world and resulted in member States taking the first steps towards making the Assembly, or the G-192, the main forum for the discussion of world financial and economic issues. The meeting, which was hailed by the President of the General Assembly as a "major achievement", culminated with the adoption of a comprehensive Outcome Document detailing the causes and impacts of the crisis and outlining possible responses and actions to be taken. The Outcome Document was endorsed by General Assembly Resolution 63/330 dated 13 July 2009.

The Outcome Document called for urgent action to be taken to counter the impact of the crisis on the most vulnerable populations, stressing that the response must focus on creating jobs, increasing prosperity, strengthening access to health and education, correcting imbalances, designing and implementing environmentally sound socially sustainable development paths and having a strong gender perspective. It defined four specific lines of action:

- Make the stimulus work for all;
- Contain the effects of the crisis and improve future global resilience;
- Improve regulation and monitoring;
- ▶ Reform the international financial and economic system and architecture.

An ad-hoc, open-ended working group has now been established to follow up on the issues contained in the Outcome of the Conference.

For more information on the United Nations Conference please visit: www.un.org/ga/econcrisissummit/.



United Nations Economic and Social Commission for Western Asia

Expert Group Meeting on The Global Financial & Economic Crisis:

The Social Impact and Response in ESCWA Member Countries



The Social Development Division (SDD) of the Economic and Social Commission for Western Asia (ESCWA) is preparing to hold a regional meeting of experts on 8 December 2009 to review the social impact of the global financial and economic crisis on the countries of the region. The expert group meeting comes in response to the call by the General Assembly in its resolution A/RES/63/277 to hold regional consultations and follows from the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development (New York, 24-26 June 2009) and its resulting Outcome Document.

The meeting will bring together senior regional and international experts, practitioners and United Nations agency representatives to explore the short, medium and long-term social impact of the crisis on ESCWA member countries. The meeting will seek to understand how the global crisis affects social development in the countries of the region, focusing on issues of employment and

livelihood, poverty and the Millennium Development Goals, and social protection systems. The meeting will look ahead by considering a broad selection of potential policy options and recommendations.

Within this framework, the expert group meeting will have two specific objectives:

- ► To better understand the social impact of the crisis on the different types of country in the region and, in particular, to explore how the crisis has affected employment, poverty and social protection.
- ➤ To explore policy and programme responses to attenuate the effects of the crisis on poor and marginalized groups in the region, and identify a set of recommendations for member countries and the Commission as a step towards elaborating a socially-responsive national and regional agenda. ■

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