

Briefing Paper #11

The Economic Crisis and its Impact on Developing Countries



solidar

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SOLIDAR is a European network of 53 NGOs working to advance social justice in Europe and worldwide.

SOLIDAR lobbies the EU and international institutions in three primary areas: social affairs, international cooperation and education.

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Photo from Soweto

Photo of Social worker with lady

INTRODUCTION

In 2009 some 59 million people could lose their jobs, whilst 200 million will be added to the ranks of the 1.3 billion of those working but living on less than \$2 per day. Some 53 million could be driven into absolute poverty, on top of the 135-150 million that were already pushed there in 2007-08 due to the rise in food and fuel prices. Given the unprecedented scale of the crisis, SOLIDAR calls on European governments to engage in an urgent revision of the global economic system, ensuring that decades of profit-driven growth ideology is replaced by a people and environment- centered economy.

But first let's put this current crisis into a context: before the fall of Lehman Brothers and the jitters on Wall Street, the developing world was already suffering from a massive lack of affordable food and fuel. In addition, the challenges of climate change, HIV/AIDS and the attainment of almost all of the Millennium Development Goals were already combining to make an urgent revision of our economic modus operandi a necessity. The latest financial crisis, its impact on the real economies of developing and developed countries alike and the strain this will put on aid budgets have transformed this from an urgent task to an urgent necessity.

In June 2009 the World Bank updated its outlook for the global economy. Justin Lin, Chief Economist for the World Bank, commented on the findings: *"extraordinary measures by governments around the world have helped save the global financial system from complete collapse, but the economic recession in the real sectors persists"*. This highlights that a real political commitment is required to effectively eliminate poverty and inequality and bring about social and economic justice, for men and women, all around the world.

In SOLIDAR's eyes, a real political commitment from world leaders is a package that fundamentally re-orientes the economy towards a reduction in poverty and inequality, that stimulates decent employment, re-distributes wealth and ensures social protection for all and reinforces human and labour rights so that people throughout the globe can live a life in peace and dignity.

Together we can be a force for change!

Conny Reuter

Secretary General SOLIDAR

I. Impact on developing countries – what we know so far

The following are some key facts and figures which sketch the outline of how the crisis is already impacting on developing countries:

Developing countries face a \$270-700 billion financing gap as a result of the financial crisis (World Bank)

Foreign direct investment has decreased by 20% in 2008 (UN)

The collapse of commodity prices and exports has meant that many developing country economies face significant decreases in export revenue. This is particularly dangerous for low income countries since export revenue share of their Gross Domestic Product (GDP) has been steadily increasing from the 1990s to reach almost a third of their GDP in 2007 (IMF)

Private capital flows to emerging economies are expected to drop by \$US165 billion as banks restrain lending (World Bank)

Remittances, which easily outstrip ODA are also drying up, with migrant workers losing jobs or not being able to afford to send as much money home. Early evidence suggests those most hard hit are European Neighbourhood Countries and Latin American countries.

In 2009 some 50 million people are expected to lose their jobs, with another 200 million joining the already 1.3 billion (43% of the global workforce) in extreme poverty, ie people who work but earn \$2 per day (ILO)

Some 53 million people could be driven into poverty in developing countries, on top of the 135-150 million driven into poverty by the rise in food and fuel prices over the 2007-2008 period (World Bank)

The Overseas Development Institute recently released the initial results of research in ten developing countries [unique monitoring study](#): Bangladesh, Benin, Bolivia, Cambodia, Ghana, Kenya, Indonesia, Nigeria, Uganda and Zambia.

The research found¹:

- Portfolio investment flows experienced a dramatic drop in 2008 in most countries, resulting in some large net outflows and a significant drop in equity markets in 2008 and into 2009. There is evidence of the increased tightening of credit conditions for bank lending in Cambodia, Ghana and Zambia. Foreign Direct Investment (FDI) has been affected less, but this varies across countries. The financial contagion is not, however, the severest of the shocks revealed in the results so far.
- The real shock facing the 10 countries reviewed is far worse: export values are falling. Indonesian exports of electronic products (which account for 15% of total exports) fell by 25% in value between January 2008 and 2009. In Cambodia, garment export values at the beginning of this year had dropped alarmingly from a monthly average of \$250 million in 2008 to just \$100 million in January 2009.
- In Kenya, remittances were down 27% in January 2009, compared to January 2008, after a year of volatility.
- Aid to Uganda fell in 2008.
- In Bangladesh, emigration fell by 38.8% between February 2008 and February 2009.
- Growth predictions have had to be revised significantly in all ten countries. Cambodian growth, for example, is set

¹ Source: [ODI, The financial crisis and developing countries](#)

to decline from more than 10% in 2007 to close to zero in 2009.

- There are significant job losses. Cambodia has already lost 51,000 garment jobs lost in recent months, and 15,000 jobs in construction.
- Zambia lost 8,100 (25%) of its 30,000 mining jobs in 2008.
- Economic policy responses to the global financial crisis vary widely, from 'business as usual' to more pro-active approaches. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia), or even implementing a fiscal stimulus (Indonesia). But others have responded with only very small monetary policy steps, and not much else (e.g. Kenya or Uganda).
- There is also a wide range of social policy responses in the 10 countries. These range from significant reductions in overall social sector allocations

(Nigeria and Zambia) to countries where, with donor support, social protection provision is being extended rapidly from a low base (Cambodia), to others where an already well developed system is being expanded to respond to increased need (Indonesia). The scale of the social protection response may be determined by the extent of revenue contraction, the ability of the government to access resources to finance the fiscal deficit, and the pre-existence of a social protection system.

- The institutional context for policy responses varies. The research has found that some countries (e.g. Kenya, Ghana, Bangladesh, Nigeria) have established crisis task forces that may help them to respond to the crisis.

II. Impact on development aid (ODA)

The recently released AidWatch report² is a timely reminder of the impact the crisis has had on rich government intentions to fulfill commitments they made at the UN in 1979, and re-affirmed in 2002 under the so-called Monterrey Consensus (called the Financing for Development process) to give 0.7% of Gross National Income in aid (Overseas Development Assistance). Already many were falling behind schedule in delivering, but the crisis has thrown this into sharp relief, with many countries cutting aid budgets already and others signaling their intention to do so. At a time when aid is needed more than ever, this is a worrying trend.

According to AidWatch figures:

- In 2008, Europe provided 0.40% of its gross national income (GNI) in aid. Although this is an increase of €4bn, in reality, a further €20bn is necessary over the next two years in order to meet its targets.
- If current trends continue, a maximum of only 10 countries will meet their 2010 aid commitments (Luxembourg, the Netherlands, Spain, UK, Finland, Lithuania, Cyprus, Sweden, Denmark and Ireland). This means that Europe is way off-track on providing 0.7% of GNI in aid by 2015.
- Since December last year four European governments: Italy, Ireland, Latvia and Estonia have cut their aid. Amongst the EU-15, Austria recorded the biggest decrease. However, progress towards the European target of 0.51% by 2010 was negligible amongst many others in the EU-15. Greece has lowered its target for 2010 to 0.35% GNI.
- Half of the EU-12 decreased their aid levels and a further two did not register

any improvements on last year's figures. Amongst the new Member States, Bulgaria and Malta are by far the worst performers, with decreases of 27%. Hot on their heels were Estonia, which dropped by 19%, Poland by 10%, Hungary 9%, and the Czech Republic by 1%.

- Aid volumes will also decline as a proportion of shrinking European economies. Even if we assume that EU donors will meet their aid targets, the impact of the economic downturn on European economies will reduce the amount of aid they deliver by €12bn between 2008 and 2010. This is because EU targets are expressed as a proportion of national income, and therefore the real volume of aid will diminish in line with the shrinking size of European economies.
- Official figures also conceal significant amounts of "inflated aid". Out of the €50bn that European governments provided as aid in 2008, almost €5bn is debt cancellation, €2bn student costs and close to €1bn refugee costs. When these figures are discounted, European aid for 2008 amounted to only 0.34% of collective GNI, a long way from the 2010 target of 0.56%.
- Even more worrying is the appearance in recent documents of the EU and the G8 of the so-called "ODA+" agenda. Prior to their EU Development Directorate Generals meeting in February this year, a questionnaire was sent to the Member States in advance of the meeting. It aimed to build the ODA+ figure for each member state. In addition to traditional ODA, it includes frontloading of ODA disbursements, export related transactions, investment related transactions, non ODA migration related support to developing countries, non ODA peace and security related support to developing countries, non ODA research/innovation programmes

² The AidWatch report is made by CONCORD, the European Confederation of Development NGOs, of which SOLIDAR is a member.

benefitting developing countries, non ODA related climate change activities, guarantees to the banking sector, innovative financing mechanisms, Clean Development Mechanism... Through effective lobbying, the ODA+ measurement was dropped by the

European Commission but it has come back in the form of the “whole of Union” approach. This is described in greater detail in the section on EU processes.

III. Institutional responses: opportunities and threats

G20: The structure

Meeting for the first time in November 2008, the heads of G20 governments met again in London in April. The G20 countries include Argentina, Australia, Brazil, Britain, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the US and the European Union. Hailed by many as a revolution in global governance compared to the outdated G7, the G20 is still nevertheless a self-selected club of rich and emerging economies, in which the voice of the poor and most vulnerable is not likely to be heard, nor is it open to civil society in a formal sense, in a way that the United Nations is.

Overall, many have argued that the G20 is not a legitimate body to resolve this systemic crisis and that it is the UN that should be given the mandate to deal with these issues, given that the crisis itself is a result of the uneven distribution of wealth and power. Others say the UN is not equipped to deal with such issues and that the G20 represents 90 per cent of the world population and 90 per cent of its GDP. It does however exclude almost every African country apart from South Africa, and many smaller and poorer countries elsewhere.

As a result there is currently a tension between the G20, and the UN processes happening in parallel (described below). The G20 also has no formal secretariat, hence no resources, and is led by Finance Ministries, which presents another challenge, since they are often not the most pro-development and social spending friendly.

G20: The outcomes of the last summit

It was in itself a massive victory for campaigners (mostly ones in the UK, with involvement of SOLIDAR members) that forced the question of development on the agenda at the April Summit. The summit did not “refund the financial system” as was promised, but there was some progress on

important questions such as tax, extra money for developing countries channeled through the International Financial Institutions (IFIs), and some attention paid to jobs, decent work and social protection.

The key commitments include:

- \$1.1 trillion extra money for the IFIs, comprising of \$250 billion in IMF Special Drawing Rights; \$500 billion new contributions by governments to the IMF; \$250 billion in trade finance; \$100 billion extra via multilateral development banks and around \$6 billion or so for low-income countries to be funded by IMF gold sales. Of this money only \$50 billion is clearly earmarked for low-income countries.

The UN is asked to “establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable.

Some of the low-income country money will be channeled through the World Bank’s Vulnerability Fund

- There is language on tax evasion and tax havens, but most of the major tax havens, including European ones, will escape censure as will companies which practice other forms of tax evasion.
- The secretive Financial Stability Forum will be strengthened and renamed the Financial Stability Board, with new members including all G20 members, Spain and the European Commission – there are no or few developing country representatives on this forum or they have little say, and there is only ‘dialogue’ with business, not any with civil society organisations.
- The communication states that IFI “mandates and governance must be reformed to reflect changes in the world economy”, but there is no detail on this. The IMF quota reform already agreed last year is re-announced and a further one pledged “by 2011”. The World Bank should propose further ways to change its governance “by 2010”.

- Importantly for SOLIDAR, the G20 agreed "to support those affected by the crisis, by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit, and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the ILO, working with other relevant organizations, to assess the actions taken and those required for the future."

This implication of the ILO in a monitoring role is an important break from the past where only the Bretton Woods Institutions were involved. There is however little detail of how they intend to build fair and family-friendly labour markets, whilst much of the funding for social protection will go through the World Bank's Vulnerability Fund, which is a matter of great concern given the failure of World Bank policies in this area.

Disappointingly, the G20 like almost every other forum of developed and emerging economies reiterated their support for free trade and committed themselves to the finalisation of the Doha round, despite the fact that trade liberalisation is one of the main causes of the crisis, due to the deregulation of the financial sector, and one of the main reasons why developing countries in particular are unable to cope with it due to reduced revenues from tariffs and over-dependence on exports for revenue.

Opportunities and threats of the G20 process

The G20 has as members a number of "progressive governments", some of whom are close to civil society, offering an opportunity for our advocacy to be taken seriously. A number of those governments (South Africa, Brazil, Australia) are close to the trade union movements in particular, putting SOLIDAR in a particularly good position vis-a-vis advocacy (and

remembering the close links we already have either on our own or through allies with governments in Germany, UK, and a few others). These opportunities were seized at the April 1 summit, resulting in clear references to decent work, social protection, green jobs and the ILO itself in the final declaration. However, as mentioned earlier the details are sketchy and unless we intensify our efforts we could end up with yet another principled declaration without any concrete impact.

The enlargement to the G20 also brings with a number of governments not well known for their support for civil society (China, Saudi Arabia, South Korea, Turkey). It is likely that as the governments keep meeting under the G20 auspices, these countries will raise their voices against some of the initiatives we would like to see pursued, particularly regarding transparency and rights-based development. This problem is of course also not new (within the EU itself there are many countries which are not so CSO friendly) but the collective approach to decision-making and formal consultation processes provide some space.

One of the big winners out of the G20 is the International Monetary Fund. Given its role in creating the crisis and the fact there have not been real signs of reform, it is worrying that they will be once again put in charge after the failure of their policies. There has been some (albeit minor) changes to the IMF structure and the G20 declaration does call for more reform. In particular, if enough pressure was placed by the EU, US and China there could be some significant movement in IMF governance. However, given that some 40 countries are facing a debt crisis, it is a big concern that once again people will be forced to suffer the consequences of social austerity programs to repay debt they were forced to get into through no fault of their own.

UN process

Under the Financing For Development (FFD process), which was due to meet in December 2008 long before the crisis emerged, the UN set out a plan for dealing both with the short-term effects of the crisis and with some of the systemic issues that

are hampering development. SOLIDAR participated in this process late last year and, along with others, was successful in advocating for language on decent work and tax havens to be a part of the outcome document, as well as a range of other issues.

The key issue of the conference was the resistance by some countries, notably the outgoing US administration to allow the UN system to take the lead in the discussions around the creation of a new global financial and economic system. A compromise was reached which has resulted in the preparations currently ongoing for the [UN Conference on the World Financial and Economic Crisis and Its Impact on Development](#). At the same time the UN General Assembly had set up a “Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System”, chaired by Prof. Joseph Stiglitz, in order to provide recommendations and inputs into the conference. They released a draft report in March which was discussed at the UN General Assembly from 25-27 of March. In January this year, SOLIDAR submitted written input into the Commission’s scope of inquiry, which was later incorporated in the civil society submission to the [Inquiry](#).

Some of the principal relevant recommendations of the draft Stiglitz Commission report are:

New policy actions

- Industrialised countries should dedicate 1% of their stimulus packages to offset the impact of the financial crisis to developing countries (in addition to traditional official development assistance commitments).
- Immediate creation of a new credit facility. If it is established quickly enough, it could be a means of disbursing the necessary funding. The governance of the new facility should be more reflective of democratic principles, with strong representation of developing countries and those countries contributing to the facility. These governance arrangements could provide

lessons for reforming existing institutions.

- Those schemes should avoid conditionalities (which induce “procyclical” policies which many countries are still required to pursue by the IMF even as these policies contribute to the crisis).
- Explore a variety of mechanisms of innovative financing for development, including international taxes (carbon tax and financial services tax).
- On trade issues, the Commission notes that many bilateral and multilateral trade agreements contain commitments that circumscribe the ability of countries to respond to the current crisis with appropriate regulatory, structural and macroeconomic reforms and reform packages. Developing countries need policy frameworks that can help protect them from regulatory and macroeconomic failures in systemically significant countries.
- It notes that development dimension of a successful completion of the Doha trade round is unclear and calls for a “true development round” to create an international trade regime which truly promotes growth in developing countries. The long recognised principle of special and differential treatment for developing countries must be preserved.

New institutions

- In the short-term, a mechanism with the United Nations system—drawing on the successful example of the Intergovernmental Panel on Climate Change (IPCC)—could be created to offer consultancy to the UN General Assembly, the UN Economic and Social Council (ECOSOC) and other international organizations to enhance capacity for sound decision making and constructive policy dialogue on issues of global economic and financial architecture and coherent international policy and action.
- In the longer term, creation of a Global Economic Coordination Council at

Heads of State and Government level – a level equivalent to the General Assembly and the Security Council. This Council could promote accountability of all international economic organisations, identify gaps and help set the agenda for global economic and financial reforms. Representation would be based on the constituency system, ensuring that all continents and major economies are represented, as a democratically representative alternative to the G20. It would be supported intellectually by the above-mentioned International Panel.

- Fundamental governance reform of the Bretton Woods institutions, including introduction of double or multiple majority voting in the IMF.

Opportunities and threats

The Stiglitz recommendations provide a good basis for the fundamental reforms of the global economic system. The report was well received by the UN General Assembly President and by the G77 (a grouping of developing countries). Its authors include amongst others the German Development Cooperation Minister, Ms. Heidemarie Wieczorek-Zeul. The report provides a good basis for joint advocacy between a range of actors (governments, NGOs, social movements, trade unions).

Not surprisingly, the Stiglitz report has received a less warm welcome from EU and other developed-country governments. They do not see the UN playing a role in reforming global governance beyond issues affecting developing countries and are resistant to many of the recommendations, particularly on trade and other non-financial issues. As a result, they do not wish to see some of the stronger recommendations incorporated and are threatening to pull political support for the entire conference process. Not achieving agreement would undermine the UN even further.

The Stiglitz report also recommends the creation of a Global Economic Council, which could supersede some of the current UN structures perceived to be incapable of dealing with the economic crisis and get around the arguments that negotiating amongst a group of 192 countries by

creating a smaller yet representative and accountable body. On the other hand, the Council could also suffer from the same legitimacy issues if it becomes bogged down in the same politicking that has made the United Nation's Economic and Social Council (ECOSOC) impotent.

The EU approach: Some concerns

A few days after the G20 Summit, the European Commission issued its April Package, an annual review of how the EU is delivering against its Monterrey Consensus Commitments. This year, in view of the crisis, the communication also included an overarching document on "Helping developing countries face the crisis". This communication was then used as the basis for the discussion with Member States at the General External Affairs and Relations Council. The GEARC conclusions then served as the basis upon which the EU will engage in the UN June Conference.

Summary of measures

Most of the measures announced are essentially prepayments, but which will only be a stopgap solution if the Member States fail to keep their promises to increase ODA. To take immediate action, the Commission will anticipate its aid payments in the total amount of €4.3 billion in 2009, i.e. 21% of the European Development Fund 2008-2013 for the African, Caribbean and Pacific (ACP) states. This sum includes €3 billion as budget support and €800 million (of €1 billion) under the food facility adopted in December to help farmers from poor countries. The remaining €500 million will finance social safety spending in the most vulnerable countries. In addition, to support economic activity, the EC will double its contribution to the Infrastructure Trust Fund for Africa, adding €200 million more in 2009 and 2010. This money should provide leverage for the implementation of 2.5€ billion in low-interest loans for infrastructure development (transport, water, energy and telecommunication).

Aid volumes

The communication promises no new money, and does not comment on the fact that some EU member states have in fact

made cuts to their ODA already, making it likely that the 0.56% of Gross National Income (GNI) target that the EU as a whole is meant to contribute to ODA by 2010 will not be met. Given that all other sources of developing country income are steeply declining, aid as the only predictable and stable source of funds becomes paramount in this situation. Ensuring that at a bare minimum our governments meet their targets is therefore crucial. So far, both in the Communication and the GEARC conclusion there is the reiteration of only the collective target, and no mention of individual commitments. This is because the collective target is easier to hide behind, and those countries who do not intend to meet their commitments prefer not to be singled out. In addition by “frontloading” ie bringing forward the funding there is a serious risk that money will not be available in later years.

Whole of Union approach

In light of the potential of falling aid levels, the EU wants to portray as much as possible that it is helping developing countries deal with the crisis through other sources. With this in mind the communication speaks of a “whole of union approach” which would take into account private sector resources, and potentially other things such as export credits, investment guarantees and technical transfers, none of which have automatically a positive impact on development. The approach only looks at the “positive” financial flow contributions without emphasising Policy Coherence for Development, a process by which the EU is supposed to be looking at how its other policies such as those on trade, agriculture and climate change, negatively affect development. A similar concept, that of “whole of country”, is currently being discussed by the G8, with Italy in particular pushing for this re-definition of aid. We are concerned that if implemented, this will leave less and less genuine aid going to developing countries.

European Investment Bank

The EC is clearly largely still set on its agenda of pushing for economic growth through spending on infrastructure, despite this clearly being proven to not lead to re-distribution of income or poverty alleviation.

Within this framework, the European Investment Bank, a body with no accountability to the EU and whose purpose is not poverty reduction has been given more powers. In fact they are the main channel for the implementation of the majority of the initiatives announced in the communication, including climate change adaptation funds.

Cushioning social impact

Whilst the EC recognises the importance of investing in social safety nets, boosting employment and investing in agriculture, there is no new money committed to any of the initiatives. More worryingly, it seems that the bulk of the money will be channeled through the EIB (infrastructure investment, particularly through the EU-Africa infrastructure funds), the World Bank and the regional development banks. Some of the money for social protection will go through providing more budget support the EU’s own FLEX mechanism. The investment in agriculture will go through the 1 billion euro food facility, only a small proportion of which is dedicated to supporting small scale agriculture and much of it is channeled through loans in the form of export credit guarantees. Again stimulating trade and investment, with the now seemingly obligatory commitment to finalising the Doha round and investment in aid for trade is reiterated, despite the overwhelming evidence of negative impacts of trade liberalisation on both employment and social protection.

Taxation reform

The Communication and the GEARC conclusions focus heavily on the need for developing countries to reform their own taxation systems, without giving enough emphasis to ensuring that EU governments recognising the role of the EU’s own tax havens and unfair tax practices on development. The GEARC conclusions support the agreement reached at the G20 summit, but those conclusions as mentioned above do not call for automatic disclosure of information nor for country-by-country reporting accounting standards, meaning that in fact very little will change.

Reform of global institutions

Given that much of the money will be channeled through existing global institutions both the communication and the GEARC conclusions are not very concrete on the question of global governance reform. There is mention of the need to reform the quota formula to calculate the voting weight of the shareholders of the IFIs, but there is no mention of the need for EU governments to consolidate their representation within these institutions to free-up space for developing countries. It is widely envisaged that the EU Member States will agree on their position vis-a-vis the reform of the IFIs at the June Council meeting. However, there is no mention of removing harmful IFI conditionality.

Climate change

There is hardly any mention of climate change nor of the necessity for the EU to find additional funding for climate change adaptation to put on the table in the lead up to the Copenhagen conference.

Aid effectiveness

The EU says that it will improve its aid effectiveness based on the principles of Paris but the conclusions contain little that is concrete in terms of implementing commitments. The GEARC conclusions do encourage Member States to implement the Paris Declaration and the Accra Agenda for Action (agreed at the Accra conference in 2008). Whilst all the AAA priorities are mentioned most of the focus is on division of labour to the detriment of other crucial aspects of the aid effectiveness commitments. In reality this means little progress is promised on reducing conditionality, ensuring better democratic ownership of aid; reducing tied aid; increasing use of country systems and improving predictability.

ILO response and ongoing processes

The ILO has been playing a leading role in both forecasting the effects of the crisis on decent work, in particular employment, social protection, women and migrants as well as putting forward and implementing solutions through its programs.

They have launched *Global Job Crisis Observatory* [Global Job Crisis Observatory](#) that provides information on the crisis by region, by subject (employment promotion, gender, labour migration). It also includes events, feature stories and the ILO response.

In addition, this year's International Labour Conference is set to develop a Global Jobs Pact. Being held from 3–19 June 2009 in Geneva, the conference is an opportunity for ensuring that the social dimension for the crisis is not forgotten. SOLIDAR is accredited to the conference and will be engaged in the work of the committee of the whole, responsible for the drafting of the outcome document. The Pact will be based on a report by the ILO's International Institute for Labour Studies entitled [The Financial and Economic Crisis: A Decent Work Response](#). The various policies that will be discussed including expanding social protection and protecting pensions; targeted support to vulnerable groups and sectors, such as youth; investment in the development of worker skills to prepare for recovery; strengthening of employment services; support to enterprises, particularly small and medium-sized enterprises (SMEs); public investment in infrastructure, through emergency public works with labour intensive techniques; incentives and investments in energy efficient technologies and "green jobs"; socially responsible restructuring of enterprises and sectors; and strengthened collective bargaining arrangements to facilitate negotiated wage settlements, especially regarding low paid workers, aimed at sustaining real incomes and thus consumer demand.

IV. Effects of crisis on development organisations and climate

As well as the potential for policy change at both national and international level, there are some key challenges emerging as a result of the crisis affecting our organisations and the context in which we work. The obvious challenge is the fact with the recession hitting many developed countries hard, arguments for maintaining and increasing ODA levels could be met with resistance from the general population. Anecdotal evidence however suggests that this is not necessarily the case. In the UK for example, it seems that years of campaigning have created the public context in which arguments about why aid is more important than ever are understood and supported by the public. In addition, whilst predicting that revenues from direct donations will decrease, some organisations have been able to maintain the same level of funding. CONCORD is in the process of gathering data from its membership about the effects of the crisis on various organisations, both network organisations like SOLIDAR and national platforms. That information will be available in the next few months.

Some initial effects at the national level being reported are:

- Declines in income (both direct donations and from governments and foundations cutting aid budgets)
- Many organisations are restructuring and making staff redundant
- Operating in a politically more difficult environment, with development issues being off the national agenda
- The effectiveness and efficiency of NGOs as development actors being increasingly questioned
- Development ministries being squeezed out of decision-making and unable to influence their Finance ministries
- The countries within the EU which have been hit the hardest are undoubtedly the New member States. For some national development platforms, it is very likely

that they will be forced to shut their offices. CONCORD recently wrote to President Barroso seeking the EC's financial help for these organisations.

- On the Brussels level, our impression is that with the crisis institutions such as the European Parliament Development Committee and the EP itself have felt they can challenge the Commission a lot more. At the same time, the "Whole of Union" approach is a dangerous shift and attempt by the Commission to turn away from solidarity as the main driver of development policy (which is arguable in any case but is a part of the discourse), to treating it as a tool to tackle global challenges. Migration often comes up in meetings with DG Development with increased migration flows used by them as a defensive argument for why aid levels should be maintained.

In a CONCORD meeting with CODEV (the Council of Development Ministers from the EU Member States) representatives from member States raised the issue of public support for development being crucial and there being many actors calling for cuts in development spending in order to prioritise measures targeting local populations, including the poor and vulnerable. This presents us with the challenge of ensuring that we put forward a coherent agenda which does not pitch the necessity of providing support for those affected by the crisis in the heart of Europe against providing the same support to those outside of Europe. At the same meeting, development ministries expressed frustration at the lack of information and coherence between their work and that of the finance ministers and head of states. There is a clear need to tackle this question at the national level by ensuring that our advocacy efforts are targeted at all relevant parts of government.

Given that after the EU elections there will be a new European Parliament, with new Development, Human Rights and Trade Committees as well as a new Commission, there is an opportunity to engage with new actors. There is also a danger that the new EP will be more right wing. Some MEPs have commented that they fear a “Bush” era in the new EP.

V. Resources

- [Institute of Development Studies: The Global Financial Crisis, Developing Countries and Policy Responses \(March 2009\)](#)
- [April 1 G20 communiqué](#)
- [New Internationalist – Put People First – G20 Special Edition](#)
- [ILO response to the G20 Summit](#)
- [Re-thinking finance – country positions for the G20](#)
- [SOLIDAR response to the G20 Summit](#)
- [UN Financing for Development Doha Outcome Document](#)
- [EU Communication: Supporting developing countries in coping with the crisis \(April 2009\)](#)
- [SOLIDAR response to the European Commission's April Package](#)
- [For a new economic and social model – LET'S PUT FINANCE IN ITS PLACE!](#)
- [AidWatch report: Lighten the Load](#)
- [The World in Crisis: Securing Economies and Resources for Poor Countries – Manifesto for the Czech Presidency of the European Union](#)
- [Getting the World to Work – Global Union Strategies for Recovery](#)