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Social development: implementation of the outcome of the World Summit for Social Development and of the twenty-fourth special session of the General Assembly

Comprehensive study on the impact of the converging world crises on social development

Summary

The present study has been prepared pursuant to General Assembly resolution 64/135 on the implementation of the outcome of the World Summit for Social Development and of the twenty-fourth special session of the General Assembly. It analyses the impact of the converging food and energy crises and the global financial and economic crisis on social development and recommends policy measures that focus on people, social protection and sustainable growth with resilience.

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I. Introduction

1. The series of global crises during the period 2007-2009 have had a profound impact on social and economic development. In much of the developing world, national development efforts are sagging under the weight of the food and energy crisis and the compounding effects of the global financial and economic crisis. In particular, prospects for reducing poverty,[1] hunger, malnutrition, unemployment, inequality and social exclusion have been undermined. While millions of people in developed economies have lost good jobs, pensions, life savings and homes, the people living in poverty in the developing world have been subjected to disproportionate erosions in their well-being even though they did not contribute to the causes of the crises and are the least able to bear the costs of any major shock.

2. Since the financial crisis disrupted some of the most sustained rates of economic growth developing countries have seen in decades, it will not be possible for these countries to regain the lost ground even when their economies eventually rebound. Girls who were forced to drop out of school or to delay school entry will not make up for the lost years. Young people entering a job market with declining employment opportunities will remain unemployed for long periods of time. Children who were stunted or malnourished as a result of the food crisis will not be able to reverse the debilitating long-term effects of these conditions on their physical and mental development, and the deaths of thousands of infants as a result of hunger and malnutrition could have been averted.

II. The crises: causes and the vulnerability of developing countries

3. The financial crisis and the food crisis are two sides of the same coin. Both crises share the same origins: spectacular failings in unregulated free markets. Owing to globalization and deregulation, the linkage between the global food supply system and financial markets ensured that instability in one could destabilize the other. The coordination of macroeconomic policies across countries, however, was insufficient. There were also major failures to regulate, supervise and monitor financial markets. In fact, regulatory frameworks failed to prevent irresponsible and excessive speculative behaviour in derivatives by major banking and investment institutions. Access to easy money culminated in an asset price bubble in the United States of America that eventually burst, sending a financial tsunami throughout the world.

4. Likewise, the food and energy crises were a consequence of unsustainability and the precarious nature of inequities in the global supply and distribution of food that were exacerbated by excessive speculation in agricultural commodities by major financial firms.[2] Developing countries also neglected investing in agriculture

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[1] According to the *United Nations Millennium Development Goals Report 2010*, the overall poverty rate is still expected to fall to 15 per cent by 2015. This translates into around 920 million people living under the international poverty line — half the number in 1990. However, the effects of the global financial crisis are likely to persist: poverty rates will be slightly higher in 2015 and even beyond than they would have been had the world economy grown steadily at its pre-crisis pace.

[2] J. Gosh, "The unnatural coupling: food and global finance", *Journal of Agrarian Change*, 10, 72-86 (2010).

and turned to the world market to buy cheap food as a result of structural adjustment programmes, trade liberalization and a significant drop in official development assistance for agricultural development. Indeed, spikes in food and energy prices were not owing to a global production failure or a shortage of supply of any major food crops. To the contrary, global food production had actually increased over the last decade even on a per capita basis.[3]

5. Following financial deregulation in the United States in the 1980s, big banks began to play a major role on futures markets. This role increased sharply following the collapse of the sub-prime housing market as investors sought safe places to put their investments. The inflow of investment capital from hedge funds and large institutional investors into commodity futures is estimated to be in the hundreds of billions of dollars. The betting on price movements by these new traders resulted in excessive speculation in commodities. This drove up futures prices of major staple food crops, creating a food price bubble. Similar speculative behaviour also filtered through to energy futures contracts, pushing up the price of oil. These increases put further pressure on the price of agricultural commodities through increased production and transport costs. Consequently, these price movements affected many poor countries that depend on food imports.

6. The role of excessive speculative behaviour in futures markets compounded the impact of other factors associated with supply constraints. These constraints include the diversion of food commodities to the production of biofuels and biodiesel, the diversion of agricultural land to the production of biofuel crops, lower levels of investments in the agricultural sector and in rural infrastructure, and the effects of extreme weather events caused by climate change such as droughts, floods and hurricanes.

7. The impact of higher food and fuel prices were not uniform across regions and within regions. They were felt much more in Africa and South Asia because those regions were already facing long-term problems in agriculture. In the case of Africa, the situation was acute because of the abandonment of the food security commitments in the last two to three decades as they liberalized their economies as part of structural adjustment programmes. This neglect transformed the region from a net food exporter into a net food importer. Agricultural development in these countries has been further undermined by continued agricultural subsidies in developed countries that have rendered agricultural products from poor countries uncompetitive even in their own local markets.

8. Although developing countries managed their economies and many held high levels of foreign exchange reserves, and did not promote bad lending practices, they were embroiled in these crises. The actual impact of the crises was modulated by each individual country's vulnerability to external shocks. African countries were confronted with deteriorating terms of trade, collapsing demand for exports, reduced capital flows, lower remittances, and declines in tourism.[4] Some of these countries had over the years created lucrative niche markets in advanced economies for products such as flowers, fruits, vegetables and textiles. The severe contraction in

[3] D. M. Anderson, "A question of governance: to protect agribusiness profits or the right to food?", Agribusiness Action Initiatives (2009).

[4] Organization for Economic Cooperation and Development (OECD), African Development Bank, and Economic Commission for Africa, *African Economic Outlook 2010*: Public Resource Mobilization and Aid. OECD: Paris, 2010.

demand in advanced markets resulted in sharp drops in export revenues. These setbacks slashed the continent's gross domestic product (GDP) growth by half from its decade long 5 per cent level to 2.5 per cent in 2009.

9. For Latin America, the main transmission channel was through trade shocks and reduced remittances, while Asia was affected by portfolio capital, remittances and trade. However, Asia continued to experience strong growth as a result of continued growth in China and India. On the other hand, growth in Eastern Europe and Central Asia almost collapsed. Overall, countries that were economically diverse fared much better than those relying on single-commodity exports or a narrow foreign exchange earnings source, such as tourism or remittances.

10. Increased external and internal debt burden, higher cost of international borrowing, and declines in export and local revenues diminished the fiscal space available to most poor countries. These countries could not afford counter-cyclical macroeconomic policies that had played a major role in reviving demand and curtailing job losses in advanced economies and middle-income countries. Lack of access to external sources of capital slowed down critical investments in public and private infrastructure projects, hindering sustained growth and employment creation.

11. The economic crisis has also affected debt sustainability in developing countries. It is estimated that some $3 trillion of external sovereign debt, together with well over $1 trillion of external private-sector debt, matured in 2009. The drop in growth is expected to undermine the ability of poor countries to service these debt obligations.[5] In the long run, delaying debt payments will be costly for poor countries. Many will likely fall further behind in financing poverty reduction programmes.

III. Policy responses to the crises

12. Many industrialized countries responded to the financial and economic crisis by implementing expansionary fiscal and monetary policies. These stimulus measures were designed to prevent the collapse of the overleveraged financial industry, improve the flow of credit, boost demand and provide a limited set of social safety nets for vulnerable groups. These unprecedented efforts have yielded good results.[6] They have revived growth, improved the flow of credit and prevented the collapse of financial systems. They have also boosted the resources available to international financial institutions that are meant to address the impact of the crises on middle- and low-income countries.

13. To reduce the social impact of the crises within their own boundaries, most industrialized countries devoted significant proportions of their stimulus resources to strengthening social safety nets. For example, the United States devoted 39 per cent of its stimulus package to social protection, France 16 per cent, Germany 25 per cent and Finland 43 per cent.[7] While growth is returning, the social impact of

[5] United Nations Conference on Trade and Development (UNCTAD), The impact of the financial and economic crisis on debt sustainability in developing countries. UNCTAD Secretariat Note (Sept. 2009).

[6] The G-20 Toronto Summit Declaration, 26-27 June 2010.

[7] Y. Zhang, N. Thelen, and A. Rao, "Social protection in fiscal stimulus packages: some evidence", United Nations Development Programme/Official Development Assistance Working Paper (2009).

the crisis is still being felt across the developed world. In particular, levels of unemployment remain very high, particularly among youth and other social groups. The flow of credit in the real economy has also been sluggish, hence the slow pace of job creation. Worsening fiscal deficits and public debt also threaten growth and are likely to lead to deep cuts in salaries, pensions and the provision of essential social services.

14. Developing countries, where financially feasible, also adopted crisis mitigation strategies. Some countries were able to adopt these measures owing to improved internal conditions that were borne out of the harsh lessons from previous crises. For example, a good number of countries accumulated foreign currency reserves as a self-insurance device, a lesson learned from the 1997-1998 Asian financial crisis.

15. In Asia and in the Pacific region, several countries provided job training programmes to unemployed persons and laid off employees. Thailand targeted new graduates, while Bangladesh focused on laid off returning migrant workers. Viet Nam offered loans to the nation's poorest at preferential rates to encourage trade and production in rural areas. China expanded the coverage of its anti-poverty programmes, while Pakistan launched the Benazir Income Support Programme covering 6 million to 7 million poor households.

16. Employment guarantee schemes also gained popularity in many countries in response to rising unemployment levels. These programmes usually target the unemployed and women. In South Africa and India, for example, large numbers of people were recruited to work on public infrastructure projects.

17. In Latin America, the existence of conditional cash transfer programmes and higher social spending on social protection programmes ensured that the region was better prepared to respond to and mitigate some of the adverse effects of the current crises. Today, conditional cash transfer programmes reach more than 22 million families in 17 countries.[8] Governments also took additional steps to protect the poor and indigent from the global recession. Argentina expanded welfare payments to 3.5 million children through the Universal Child Allowance programme.

18. In sub-Saharan Africa, many countries tried to ease the burden of these crises on the most disadvantaged and vulnerable members of society by increasing spending on pre-existing social safety net programmes and on new ones. Ethiopia introduced wheat subsidies to ease the impact of inflation on the urban poor and the vulnerable rural population. Senegal created a cash transfer programme for mothers and young children, while Namibia and South Africa enhanced support grants for the elderly and children and increased spending in health and low-income housing. South Africa spent 56 per cent of its stimulus package on social protection. Interventions in Ghana, Kenya and Nigeria included food distributions to vulnerable groups, school feeding programmes and cash transfers.[9] However, restrictions on incurring further external debt constrained the ability of countries that benefited from international debt relief efforts to implement broad fiscal stimulus measures.[10]

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[8] Economic Commission for Latin America and the Caribbean (ECLAC), "Social Panorama of Latin America 2009", briefing paper, ECLAC (Santiago, 2009).

[9] Overseas Development Institute, "The global financial crisis and developing countries: Phase 2 synthesis", Working Paper 316 (2010).

[10] A. Arieff, M. A. Weiss, and V. C. Jones, "The global economic crisis: impact on sub-Saharan Africa and global policy responses", Congressional Research Service Report for Congress, R40778 (2010).

19. In the Middle East and North Africa, subsidising the price of basic food, protecting wages in some sectors, and improving access to education and health services were some of the most popular responses. Countries such as Turkey, Egypt, Saudi Arabia and Morocco also adopted fiscal stimulus measures that were designed to create jobs through investments in infrastructure projects.[11]

20. The United Nations Secretary-General established the Task Force on the Global Food Security Crisis in April 2008, composed of the heads of specialized agencies, funds and programmes, the Bretton Woods institutions, and relevant parts of the Secretariat of the United Nations.

21. The Food and Agriculture Organization of the United Nations (FAO) convened a high-level conference on world food security in June 2008, in Rome. The conference called upon the international community to increase assistance for developing countries, particularly those affected by high food prices. The World Summit on Food Security also convened in Rome in November 2009 and adopted programmes of action to achieve food security.

22. In July 2009, the Group of Eight (G-8) Summit launched the L'Aquila Food Security Initiative and pledged $20 billion over three years in support of comprehensive, country-led and coordinated responses to food insecurity. In January 2010, the World Bank established a multilateral financing mechanism to allow the targeting and delivery of additional funding to public and private entities to support national and regional strategic plans for agriculture and food security in poor countries.

IV. Social impacts

23. Although the lack of real time data on household welfare is hindering efforts to track and assess the full impact of the converging global crises on social development, there is broad consensus that these crises have undermined progress towards the attainment of internationally agreed development goals, including the Millennium Development Goals.

A. Poverty

24. Developing countries as a group registered a remarkable decline in poverty before the crises. The number of people living on less than $1.25 a day declined from 1.9 billion in 1981 to 1.4 billion in 2005. However, the global recession has slowed down and in some cases undermined poverty eradication efforts in some parts of the developing world.

25. The impact of the economic crisis on poverty across countries depends largely on how changes in private financial flows, trade, exchange rates, remittances, official development assistance and services affect growth. In most cases, a fall in GDP per capita is associated with an increase in poverty. A one percentage point

[11] N. Jones, C. Harper, S. Pantuliano, S. Pavanello, K. Kyunghoon, S. Mitra and K. Chalcraft, "Impact of the economic crisis and food and fuel price volatility on children and women in the Middle East and North Africa region". Overseas Development Institute, Working Paper 310 (2009).

decline in developing countries' mean GDP growth is estimated to lead to an increase in poverty head count by 2 per cent.[12]

26. The severe decline in GDP growth in developing regions pushed or trapped large numbers of people in poverty. Some of those pushed into poverty owing to the disappearance of jobs in certain sectors may remain trapped even if growth resumes. The Department of Economic and Social Affairs of the United Nations Secretariat estimates that between 47 million and 84 million more people remained poor or fell into poverty in 2009 in developing countries and economies in transition than would have been the case had pre-crisis growth trajectories continued. The World Bank puts the number of people that will have been pushed into poverty by the economic meltdown at 64 million by the end of 2010. The Bank also contends that global poverty rates will continue to decline despite the crisis, reaching 15 per cent by 2015, and not the 14.1 per cent that was expected in the absence of the crisis.[13] These increases are coming on top of the 130-155 million people who became poor as a result of the food and energy crisis.

27. The sharp rise in the number of poor is partly accounted for by the large number of people who live too close to the poverty line and remain overly vulnerable to external shocks. The sudden income shock caused by job losses and declines in labour market earnings easily pushed these vulnerable individuals into poverty. The sharp food price rises also had similar impacts on the purchasing power of the poor and vulnerable, which not only pushed more people into poverty, but also increased the depth of poverty. The urban poor and low-income households headed by single parents, children and the very old were particularly at high risk. The lack of universal social protection in developing countries also implies that the vulnerable population is likely to continue growing as recovery efforts remain weak. In some countries, existing safety net programmes generally target the chronically poor and were not designed to absorb large numbers of people who suddenly joined the ranks of the working poor or who lost jobs.

28. The economic crisis has also diminished the incomes and assets of individuals and households. In general, inequality tends to decline in the aftermath of a financial crisis when average wages for the richest fall by more than the average drop in wages.[14] However, the current recession has impacted the incomes and wealth of middle and low-income households as well as through weaker economic activity, relative price changes and fiscal austerity measures targeting cuts in education and health spending.[15]

29. A study assessing the poverty and distributional effects of the current global financial crisis in Bangladesh, Mexico and the Philippines found that while poverty increased by over a million because of the crisis, its impact on income distribution was relatively large in the middle-income part of the income distribution. In Mexico and the Philippines, 15 to 20 per cent of households in the fourth and seventh

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[12] International Monetary Fund (IMF), "The implications of the global financial crisis for low-income countries", IMF (Washington, D.C., 2009).

[13] World Bank and International Monetary Fund, *Global Monitoring Report 2010: The MDGs after the Crisis*, World Bank (Washington, D.C., 2010).

[14] C. Dhéret and F. Zuleeg, "Impact of the economic crisis: greater income equality but less well-being?", European Policy Centre, Policy Brief (May 2010).

[15] E. Baldacci, L. de Mello and G. Inchauste, "Financial crises, poverty, and income distribution", Finance and Development, 39 (2002).

income deciles were pushed into a lower income decile owing to income loss. In Bangladesh, 10 per cent of households in this group were also pushed into a lower income category. In Mexico, the poorest 20 per cent suffered an income loss of about 8 per cent.[16] Thus, a significant fall in the incomes of households in the lowest income groups is likely to push more people deeper into poverty.

B. Hunger and food security

30. The number of hungry people has been rising since the mid-1990s, reaching a new historic high of 1.02 billion worldwide in 2009. Another 2 billion people suffer from micronutrient deficiencies. Hunger has been more severe in Asia and the Pacific, where 642 million of the world's undernourished reside. With an estimated 265 million hungry people, sub-Saharan Africa has the largest prevalence of undernourishment relative to its population size.[17] The number of hungry people also went up in the Middle East and North Africa and Latin America and the Caribbean by 13.5 per cent and 12.8 per cent, respectively. Children were also severely impacted: 129 million were underweight and another 195 million below the age of 5 were stunted.

31. The world does not have more hungry people today because of massive food shortages. There is enough food in the world. However, many poor people and vulnerable households were exposed to a price shock between 2006 and 2008 that marked an end to the era of cheap food. Beginning 2006, international prices of basic agricultural commodities increased sharply, reaching their highest level in nearly 30 years during the first three months of 2008. They then declined until December 2008, but have since remained at higher levels than they were before (see fig. 1).

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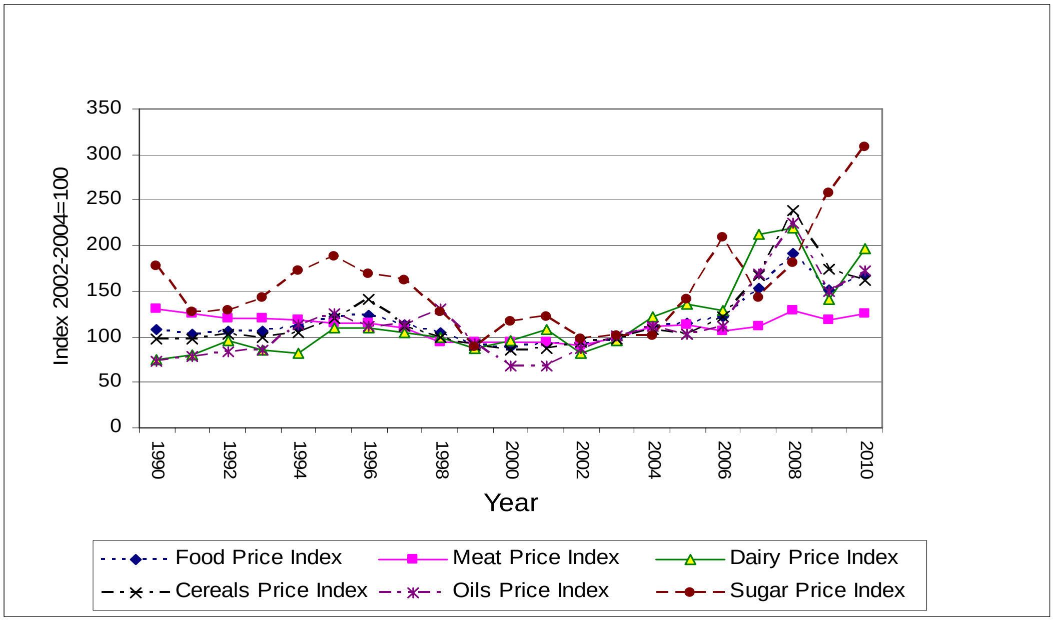
[16] B. Habib, A. Narayan, S. Olivieri, and C. Sanchez-Paramo, "The impact of the financial crisis on poverty and income distribution: insights from simulations in selected countries (2010)" http://www.voxeu.org/index.php?q=node/4905.

[17] Food and Agriculture Organization of the United Nations, *More People Than Ever Are Victims of Hunger*, FAO (Rome, 2009).

Figure 1
Annual FAO food price indices (2002-2004=100)



Source: http://www.fao.org/fileadmin/templates/worldfood/Reports_and_docs/Food_price_indices_data.xls.

32. Food prices at the country level have remained volatile owing to the persistence of imperfect markets, the demand for biofuels and several supply side constraints such as rising costs of farm inputs, lack of credit and falling soil productivity. The price of a basic food basket has also been affected by exchange rate fluctuations. In countries where the United States dollar has gone up, the prices of food commodities have gone up owing to higher import costs.

33. A multi-country study tracking how much consumers paid for food found that basic food prices had increased in all countries (see table 1). These local estimates are consistent with national and global estimates of food prices. These trends indicate that food will remain economically inaccessible to people living in poverty and other vulnerable groups. Higher food prices have forced households to eat less meat, dairy products, vegetables, processed foods and fruits and, instead, to depend heavily on cereals, fats and oils. Although such staple foods provide energy, they are inadequate in terms of essential proteins and micronutrients such as vitamins and minerals. Therefore, the food crisis led to deficiencies in diet quality, which negatively impacted poor people, the young, the infirm and other vulnerable groups.

Table 1
Local food prices in selected countries

Bangladesh (rural — in taka)	**February 2009**	**2007-2008**	**2006**
Rice (kg)	23/24	36	18/20
Red lentils (kg)	100	112	80/85
Diesel per litre	45	50-58	38-40
Indonesia (rural — in rupiah)	**February 2009**	**August 2008**	**February 2008**
Rice (litre)	4 250	3 750	4 000
Fresh fish (large)	35 000	12 500	12 500
Cooking oil (litre)	8 600	8 250	5 500
Sugar (kg)	8 500	6 250	5 000
Indonesia (urban)			
Rice (litre)	4 000-5 000	3 000-3 500	3 000
Cooking oil (kg)	8 000-9 000	6 500	5 000
Eggs (kg)	13 000-14 000	13 000	14 000
Kenya (rural — in Kenya shilling)	**February 2009**	**2008**	**2007**
Maize flour (2 kg)	140	75	50
Rice (1 kg)	80	60	60
Water (20 litres)	2	1.5	1
Paraffin (250 ml)	35	25	20
Beans (250 g)	30	15	10
Kenya (urban)			
Maize flour (2 kg)	120	72	40
Water (20 litres)	3	2	1
Zambia (rural — in kwacha)	**January 2009**	**May 2008**	**January 2008**
Mealie meal (25 kg)	55 600	44 900	34 400
Kapenta (sardines/kg)	45 500	66 700	50 000
Beans (kg)	11 400	12 500	8 300
Zambia (urban)			
Mealie meal (25 kg)	53 800	44 900	34 400
Vegetables (kg)	7 500	3 500	3 200
Beef (mixed cut/kg)	17 400	17 900	16 600
Jamaica (urban, in Jamaican dollar)	**2008/2009**	**2007/2008**	
Rice (large bag)	800	300	—
Bread	180	80	—
Mackerel	60	40	—
Cabbage	80	35	—

Source: Institute of Development Studies, “Accounts of crisis: poor people’s experiences of the food, fuel and financial crises in five countries: report on a pilot study in Bangladesh, Indonesia, Jamaica, Kenya and Zambia”, Institute of Development Studies (2009).

34. As food and energy crisis pushed the urban and rural poor into deeper poverty and food insecurity, massive public protests erupted in more than 30 countries.[18] The number of people in need of emergency food aid also shot up, especially in low-income food deficit countries. To stabilize the situation, many Governments made short-term policy interventions that included modifications of biofuel policies to reduce pressure on food supplies, releasing government-held stocks of grains to domestic markets, reducing or suspending import tariffs and imposing export barriers. The Russian Federation, Ukraine and several Central Asian countries introduced retail price controls on basic food products such as bread, milk, eggs and cooking oil. Other policy interventions directly targeted the most vulnerable members of society. Chile made a one-off cash bonus payment to the poorest 40 per cent, India increased food subsidies, South Africa increased spending on the food package programme and Namibia implemented a food distribution programme targeting poor and vulnerable households.

35. Notwithstanding such policy measures, an estimated 75 million additional people became undernourished worldwide as a result of the food crisis. The financial and economic crisis added another 100 million to the number of undernourished.[19] Together, the food and economic crises have pushed the number of hungry in the world over the 1 billion mark in 2009.

36. Although much of the global attention has been on the impact of the food and energy crises on developing countries, poor and vulnerable groups in more developed countries also suffered. Declines in food expenditures by middle- and low-income households have forced children and adults to eat less frequently and less diverse and nutrient rich foods.[20] The recent spike in chronic mild undernutrition among the poor and other social groups in high-income countries is largely attributed to declines in household incomes as a result of the global economic recession. In particular, people who remain out of work or have exhausted their savings increasingly find themselves having to rely on local food banks. For many of these new poor, this is the first time in their lives that they have had to rely on public assistance. The United States Department of Agriculture reported that in 2008 there were 49.1 million people living in food insecure households, as compared to 36.2 million in 2007.

C. Employment

37. The deepest economic downturn in the post-war era has led to severe job losses in both developed and developing countries. The number of the unemployed reached a peak of 212 million at the beginning of 2010 (see fig. 2). Even prior to the onset of the global recession, many countries were suffering from “jobless growth”. Although the rising tide of joblessness is beginning to ebb in some major

[18] Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development (IFAD) and World Food Programme (WFP), “High food prices: impact and recommendations for actions”, paper prepared by FAO, IFAD and WFP for the meeting of the Chief Executives Board for Coordination on 28 and 29 April 2008.

[19] Food and Agriculture Organization of the United Nations, Twenty-seventh FAO Regional Conference for Europe (May 2010).

[20] M. Nord, “Food Spending Declined and Food Insecurity Increased for Middle-Income and Low-Income Households from 2000 to 2007”, Economic Information Bulletin No. 61, United States Department of Agriculture (Washington, D.C., 2009).

economies, overall, unemployment levels continue to be high, as GDP growth in most economies has not yet translated into significant job growth.

38. There are also large numbers of unemployed workers who temporarily ceased looking for work or are working part-time. And in developing countries, a large proportion of the labour force was forced to resort to vulnerable employment in the informal sector because they cannot afford to be unemployed. Therefore, although recovery in output is under way in most countries, the outlook for job growth is mixed at best as evidenced by diverging trends across and within regions and countries. Past experience shows that jobs recovery lags GDP recovery on average by four to five years.

39. As a result of extraordinary government stimulus measures, unemployment rates in the 16-nation euro zone and the United States have stabilized close to 10 per cent. In terms of job losses, the financial crisis led to a loss of nearly 8 million jobs in the United States alone. In the 27-nation European Union, an estimated 23.1 million people were unemployed.[21] Many of these jobs will not be recreated even if these economies improve. Job recovery efforts in the European Union are likely to be further weakened by the ongoing debt crisis.

40. In transition countries, unemployment rates are still rising. In low-income countries, job prospects for the unemployed and the working poor remain bleak as the pace of job creation lags behind the fast pace of growth of new entrants to the labour market. Since 2008, the ranks of the working poor have increased by 100 million people.[22] Levels of youth unemployment have also continued to increase, reaching 24.7 and 18.5 per cent in Spain and Ireland, respectively, in 2009.[23]

41. The sharp increase in vulnerable employment is accounted for by the impact of the global crisis on both the formal and informal sectors in developing countries. Many small firms in the informal economy that employ large numbers of women and children have been adversely affected by decreased demand, falling prices and fluctuations in exchange rates. As a result, large numbers of informal workers have also lost their jobs. Others have seen greater informalization of their employment contracts. In Indonesia, for example, estimates of home-based garment workers who lost their jobs as a result of the crisis range from 65,200 to 200,000.[24]

42. A study covering urban informal sector workers in South Africa, Malawi, Kenya, Peru, Thailand, Indonesia, Pakistan, India, Colombia and Chile also recorded large declines in the number of home-based workers contracted by producers and suppliers linked to various global supply chains.[25] Other informal workers such as street vendors and waste pickers also experienced sharp declines in local and international demand and selling prices. Eighty-five per cent of waste

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[21] Eurostat, “Euro area unemployment rate at 10.0%, EU27 at 9.6%”, May, Eurostat News Release, Euro Indicators, 97/2010 — 2 July 2010.

[22] International Labour Organization (ILO), Global Employment Trends, January 2010.

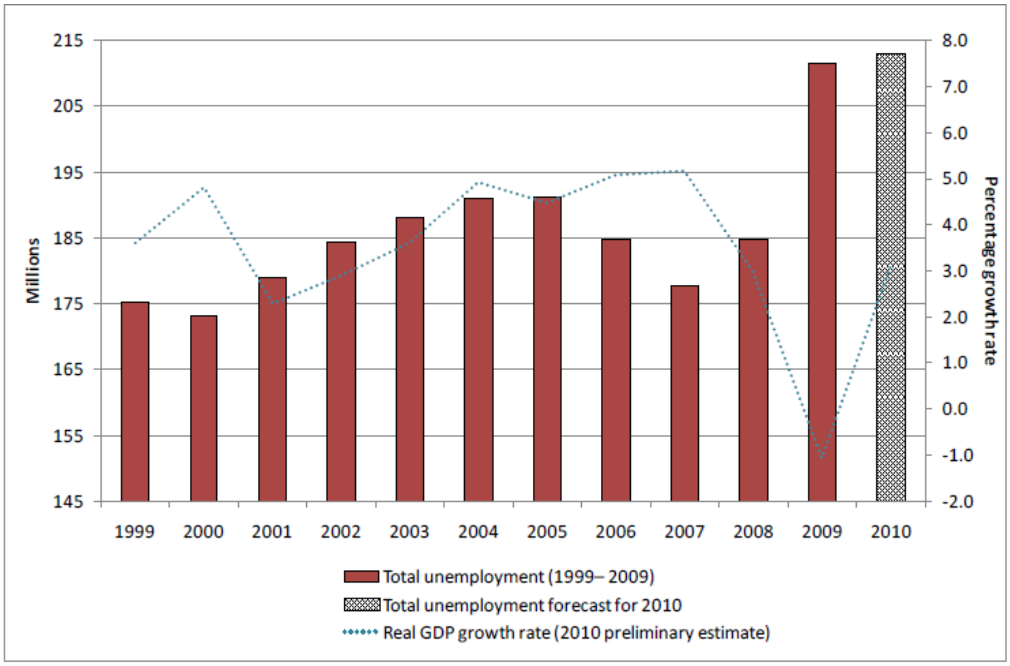
[23] Scarpetta, S., Sonnet, A. and Manfredi, T., “Rising youth unemployment during the crisis: how to prevent negative long-term consequences on a generation?”, OECD Social, Employment and Migration Working Papers, No. 106, OECD (Paris, 2010).

[24] Green, D., King, R., and Miller-Dawkins, M., “The global economic crisis and developing countries: impact and response: working draft for consultation”, Oxfam Research Report, Oxfam International (2010).

[25] Horn, Z. E., “No cushion to fall back on: the global economic crisis and informal workers, Inclusive Cities Study”, Women in Informal Employment: Globalizing and Organizing (2009).

pickers and 62 per cent of street vendors reported a decrease in volume of trade/work between January and June 2009. Unlike unemployed workers in developed countries, these workers are not covered by any social protection schemes. Hence their livelihoods are more precarious and the crisis may have pushed them deeper into extreme poverty.

Figure 2
Global unemployment and GDP trends (1999-2010)



Note: 2009 and 2010 are preliminary estimates.

Source: ILO: *Global Employment Trends* (Geneva, Jan. 2010); IMF: *World Economic Outlook* (Washington, DC, Oct. 2009).

43. As a result of these trends, employment levels seen before the crisis may not return until several years after the world economy and global trade have fully recovered. According to the International Monetary Fund (IMF) World Economic Outlook, there is a chance that unemployment could lag a year and half behind economic recovery. The International Labour Organization (ILO) has also estimated that the countercyclical policy responses by the Group of Twenty (G-20) will have saved or created 21 million jobs in G-20 countries in 2010.[26] These policies have in large measure mitigated the haemorrhaging of job loses. They have also eased the pain of the recession through the provision and the expansion of unemployment benefits. However, in low-income countries, similar policies were not implemented because of constrained fiscal space.

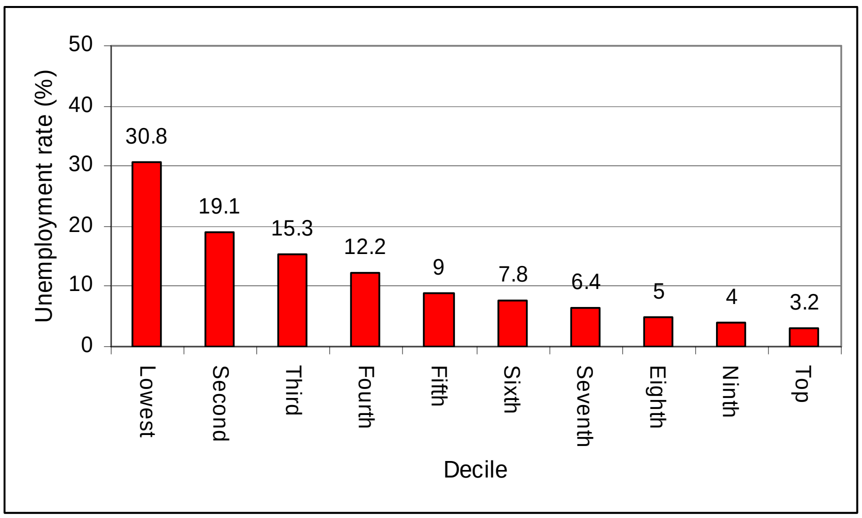
44. While global unemployment trends provide a broad view of the social impact of the recession, these trends do not adequately reflect the differential impact of the

[26] International Labour Organization, "Accelerating a job-rich recovery in G-20 countries: building on experience", an ILO report, with substantive contributions from OECD, to the meeting of G-20 Labour and Employment Ministers, 20-21 April 2010, Washington, D.C.

crisis across social groups. For instance, while the unemployment rate in the United States was 9.7 per cent in May 2010, the rate was even higher among blacks (15.5 per cent) and hispanics (12.4 per cent). Steeper rises in joblessness were also experienced by younger and less educated workers.[27]

Box 1
United States unemployment rates by household income distribution, fourth quarter, 2009

In the United States, unemployment rates fell steeply with increases in household income. Workers in the bottom 10 per cent had an unemployment rate of nearly 31 per cent as compared to 3.2 per cent among workers in the top household income bracket. Hence, low-income workers faced a true labour market depression.



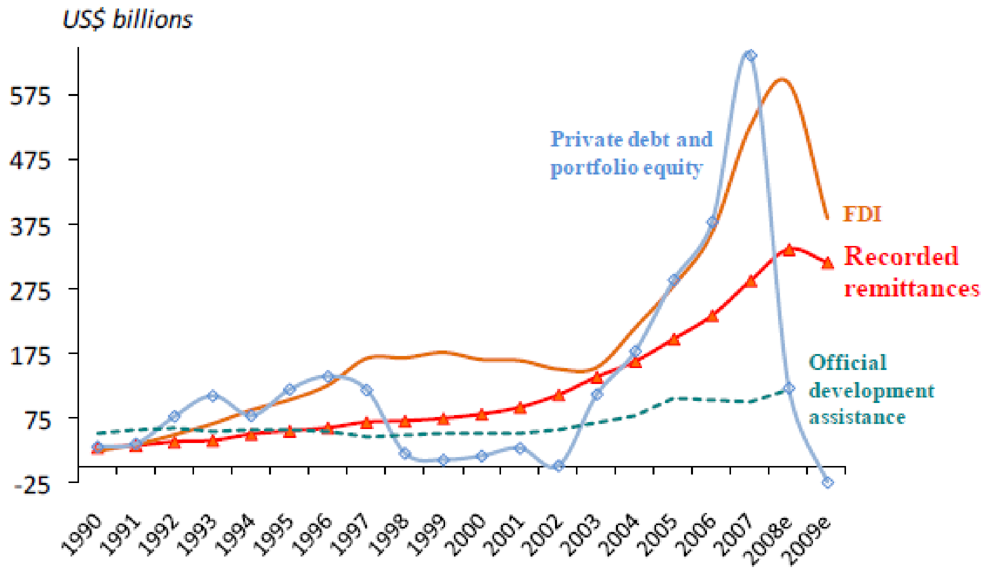
Source: Sum, A. and Khatiwada, I., “The labor market impacts of the Great Recession of 2007-2009 on workers across income groups” (2010) (http://www.spotlightonpoverty.org/ExclusiveCommentary.aspx?id=12f13dec-535a-4586-872a-8abf5dc1c80d).

D. Remittances

45. Totalling $336 billion in 2008, almost three times the amount of annual official development assistance flowing to developing countries, remittance flows have become an important source of income support to sustain consumption of families and of investment finance in many developing countries. Remittances constitute a big share of GDP for many low-income countries. Remittances constituted 50 per cent of GDP in Tajikistan and more than 20 per cent of GDP in the Kyrgyz Republic, Lesotho and Haiti.

[27] Elsby, M., Hobijn, B. and Sahin, A., “The labour market in the Great Recession”, prepared for Brookings Panel on Economic Activity, 18-19 March 2010.

Figure 3
Importance of remittance flows to developing countries



Source: World Bank Migration & Remittances team and Global Development Finance database.

46. However, the early fears that the global recession would lead to a massive slump in remittances have not materialized. World Bank data indicate that remittance flows to most countries have been largely resilient (see fig. 3). However, this apparent resilience may be due to exchange rate movements. As the United States dollar depreciates, the United States dollar valuation of remittances records a rise for a given amount of host or remittance-sending country currencies. Nonetheless, officially recorded remittance flows to developing countries dropped by nearly 6 per cent from $336 billion in 2008 to $316 billion in 2009.[28] However, the resumption of output growth in advanced economies and major emerging economies will likely result in a 6.2 per cent increase in remittance flows to developing countries in 2010 and 7.1 per cent in 2011.

47. Remittances, even if declining somewhat, may provide a buffer and a form of social insurance to households in recipient countries. Nonetheless, in most cases this will not be a good substitute for the lack of adequate social protection.

48. It should be noted that the impact of the global recession on remittance flows varies across regions. Remittance flows to Latin America, the Middle East and North Africa and Europe and Central Asia declined by 12 per cent, 8 per cent and 21 per cent, respectively, in 2009 as a result of the global economic crisis. The inflow of workers' remittances from the Gulf Cooperation Council countries to Western Asia declined from $22.7 billion in 2008 to $18.9 billion in 2009.[29] This

[28] Ratha, Dilip, Sanket Mohapatra, and Ani Silwal, "Outlook for remittance flows 2010-11", Migration and Development Brief 12, Development Prospects Group, World Bank (2010).

[29] Economic and Social Commission for Western Asia, *Report of the Expert Group Meeting on the Global Financial and Economic Crisis: The Social Impact and Response in ESCWA Countries* (E/ESCWA/SDD/2009, 11 December 2009).

sharp decline is expected to have an adverse impact on efforts to reduce poverty and unemployment in countries such as Jordan and Lebanon, where remittances account for a high share of GDP.[30] Remittance flows to sub-Saharan Africa also fell by 3 per cent in 2009. However, for South Asia and East Asia, overall remittance flows increased in 2009, although at a slower pace than in the pre-crisis period[28] while remittance flows to the EU-10 countries slowed in 2008 as a result of the reverse migration of workers from Poland, Romania and Baltic States who were working in other parts of the European Union.

E. Health

49. Although most countries have not undertaken surveys to assess the impact of the current crises on populations and health outcomes, evidence from past crises suggest that there are many reasons to believe that today's converging crises will have long-term consequences on the delivery of public health services and on health outcomes. The food and energy crises have impacted health outcomes through their effects on hunger and malnutrition, particularly among infants and children. Poor and unhealthy diets have become more widespread during the current crisis.[31] In developing countries, the nutritional consequences for the urban poor and net food purchasers in rural areas have also been severe. Society-wide nutritional deficiencies do not bode well for economic development. Studies have estimated that countries may lose 2 to 3 per cent of their gross domestic product from deficiencies in such key nutrients as iron, iodine and zinc.[32] This is because malnutrition has a deleterious effect on survival, health and the developmental potential of children.

50. The global crises have also interrupted hard-won progress to reduce child mortality, improve access to life-saving drugs, and treat and prevent tuberculosis, malaria and neglected tropical diseases. Some recent studies have revealed that both child and maternal mortality rates have been declining in the developing world. Mortality in children under the age of five has declined worldwide, from 12.5 million in 1990 to 8.8 million in 2008. Preliminary data also show signs of progress in reducing maternal mortality.[33] However, the progress has been slow and not sufficient to achieve the Millennium Development Goal 5 target of reducing the maternal mortality ratio by three quarters by 2015. The global crises have the potential to slow down the progress even further, as general nutritional levels decline with the fall in household income and spikes in food prices, as well as declines in public health expenditure.

51. The World Bank estimates that 55,000 infants and 260,000 children under the age of five might die in 2015 as a result of the global recession. An additional 100 million more people might continue to be without clean water, increasing the likelihood of dying from preventable water-borne diseases. In Asia, the current

[30] Arab Labour Organization (ALO) and International Organization for Migration (IMO), Intra-regional Labour Mobility in the Arab World, ALO/IOM (Cairo, 2010).

[31] Lock, K., Stuckler, D., Charlesworth, K., and McKee, M. "Potential causes and health effects of rising global food prices", *British Medical Journal*, 339: 269-272 (2009).

[32] Alderman, H., "Linkages between poverty reduction strategies and child nutrition: An Asian perspective", *Economic and Political Weekly* 40:4837-4842 (2005).

[33] United Nations, *The Millennium Development Goals Report 2010*, United Nations (New York, 2010).

crisis could increase rates of maternal anaemia by 10 to 20 per cent and the prevalence of low birth weight by as much as 5 to 10 per cent. Rates of stunting among children could increase by 3 to 7 per cent and wasting by 8 to 16 per cent.[34]

52. The economic crisis has also impacted health outcomes through its impact on key determinants of health, such as employment status, income, educational level, nutrition, shelter and access to clean water. National governments have cut public health budgets in real terms. In addition, aid for health flows may have declined. For instance, official development assistance (ODA) from the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) fell in current United States dollars from $122.3 billion in 2008 to $119.6 billion in 2009.[13] This decline impacts child immunization programmes, the purchase of essential drugs and the staffing of public health facilities. Declines in public expenditures on rural roads and clinics further imply that the rural poor will face even greater barriers accessing primary health-care services.

53. The crisis has also led to currency fluctuations. Countries whose currencies have been devalued now face higher import costs for life-saving medicines. Costs of medicine rose in Africa, Europe and Central Asia by as much as 30 per cent.[35] Such increases directly affect the provision of life-saving drugs to people living with HIV/AIDS and tuberculosis. And in industrialized countries with ageing populations, the costs of providing essential drugs have also gone up.

54. Diminished household incomes often result in some households to either avoid or delay medical care. Economic hard times often lead to adverse health outcomes such as psychiatric disorders, depression, anxiety, substance abuse and anti-social behaviour. Research in the United States has shown that low educated workers are at greatest risk of ill health when unemployment rises during recessions.[36] Findings from European Union countries have also shown that rapid and large rises in unemployment are often associated with short-term increases in suicides among working age men and women as well as in homicides. A 1 per cent increase in unemployment was associated with a 0.79 per cent rise in suicides and homicides.[37] And in Japan[38] and the United Kingdom of Great Britain and Northern Ireland,[39] suicides and mental distress have gone up during the current crisis.

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[34] United Nations Children's Fund, "Impact of the economic crisis on children", Conference Report, 6-7 January 2009, Singapore.

[35] World Health Organization, "Impact of financial crisis on health: a truly global solution is needed", WHO Director-General Dr. Margaret Chan (2009).

[36] Edwards, R., "Who is hurt by procyclical mortality?", *Social Science and Medicine*, vol. 67:2051-2058 (2008).

[37] Stuckler, D., Basu, S., Suhrcke, M., Coutts, A., and McKee, M. "The public health effect of economic crises and alternative policy responses in Europe: an empirical analysis", *The Lancet*, vol. 374: 315-323 (2009).

[38] Ryall. J., "Japanese suicides rise as world recession hits country's businessmen" (2009) (http://www.telegraph.co.uk/news/worldnews/asia/japan/5273786/Japanese-suicides-rise-as-world-recession-hits-countrys-businessmen.html).

[39] Medical News Today, "Samaritans report 25% increase in calls as financial crisis hits, UK" (2008) (http://www.medicalnewstoday.com/articles/123937.php).

F. Education

55. Prior to the crises, developing countries had made considerable progress towards achieving universal primary education. Since 1999, the number of children not attending school fell by 33 million. In addition, many countries have crossed the 90 per cent enrolment threshold since 2000.[40] However, more than 72 million children of primary school age remain out of school while dropout rates continue to be a major concern in several countries. Problems such as gender discrimination, income inequalities, exclusion and lack of access to educational facilities account for the persistence of these undesirable educational outcomes.

56. The combination of slower economic growth, rising poverty and budget pressures could erode the gains of the past decade. Education systems across sub-Saharan Africa could be deprived of around $4.6 billion per year in public spending in 2009 and 2010 as a direct result of the crisis.[41] Furthermore, the World Bank estimates that 350,000 more students might fail to complete primary school in 2015 as a result of the crisis. For those countries that eliminated school fees, the crisis may not have affected school enrolment and dropout. However, school quality may have suffered owing to cuts in the provision of essential school supplies such as books and the recruitment and retention of teachers.

57. A survey of 43 countries conducted by Education International on the impact of the global economic crisis on education reveals that the impact on education has largely been felt in countries in Europe, North America and some Asian countries. Although the impact of the crisis was marginal in other parts of the world, it was still unfolding in others at the time of the survey.[42] In poor countries and those emerging from conflicts, isolating the effects of the financial crisis has not been easy since the educational systems in these countries were already facing numerous challenges.

58. The main effects of the global economic slowdown on education are being transmitted through lower government budget allocations to education. Aid commitments to education have recently stagnated, after years of increase.[41] The impacts of ODA flows on education are not yet apparent in many developing countries. However, declines in international aid have affected some countries, such as Nicaragua, forcing parents to take children out of school.[43]

59. In developing countries with a large and growing proportion of school age children, the decline in government revenues might slow down the pace of expanding access to schools, building more classrooms, and training and hiring teachers. Efforts to improve the quality of education at all levels may also suffer. There are also concerns that rising levels of unemployment and higher food costs may worsen household economic conditions, adversely affecting the ability of middle- and low-

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[40] United Nations Educational, Scientific and Cultural Organization, *Education for All Global Monitoring Report 2009*, UNESCO (Paris).

[41] United Nations Educational, Scientific and Cultural Organization, *Education for All Global Monitoring Report 2010: Reaching the marginalized*, UNESCO (Paris).

[42] Education International, "The global economic crisis and its impact on education" (http://download.eiie.org/Docs/WebDepot/Report_of_the_EI_Survey_on_the_Impact_of_the_Global_Economic_Crisis_on_Education_en.pdf).

[43] José Adán Silva, "Nicaragua: universal primary education still far off", Inter Press Service (1 April 2009) (http://ipsnews.net/news.asp?idnews=46354).

income households to pay for goods and services, including education. Affected households may have been forced to keep their children out of school. Older children from poor families may have been withdrawn from school to contribute to family income by working in vulnerable employment or on family farms.

60. The impact of the economic crisis on education has also been severe in industrialized countries as a result of declines in public taxation levels. In North America there has been a hiring freeze at most colleges and universities and cuts in salaries, benefits and other operating costs.[44] Many state governments in the United States have slashed funding for schools, resulting in teacher layoffs and the elimination of some programmes.[45] The financial crisis may have made higher education financially out of reach for low-income families. A survey conducted by Educational International also shows that the global recession has resulted in new cuts in education across Europe. These cuts include reductions in payroll and administrative and capital costs.

G. Social integration

61. Recessions are generally bad news for social groups on the margins of the labour force or mainstream society. Therefore, the goals of achieving social cohesion and integration within and across societies may have been made much more difficult as a result of the impact of the converging global crises. In particular, persistent long-term unemployment among the youth and other social groups will make it much more difficult to integrate these groups into society. Increased competition for public services at a time when deep cuts are being made in education, health care, public transport, childcare and labour market training programmes might also undermine efforts to integrate excluded and marginalized groups. The provision of these services has been at the core of Europe's social welfare models. However, as Governments across Europe have begun to focus on reducing budget deficits, the austerity measures being adopted may undermine the social policies and the social welfare models that have been central to fostering social integration across the region.

62. In developing countries, diminished government revenues, coupled with poorly resourced and inefficient public service sectors, will make it much more difficult to address vertical and horizontal inequalities. Marginalized groups that often face higher administrative and geographic barriers in accessing public services and infrastructure might see the limited access they may have further diminish as Governments reduce social expenditures and investments in public infrastructure. The loss of jobs may have increased the risk that the working poor become increasingly disconnected from the minimum social services they may have been eligible to receive in the formal sector.

63. Social tensions also tend to rise during crisis owing to a heightened sense of competition for declining jobs and public resources. As noted earlier, higher food prices led to massive public protests in more than 30 countries. Animosity against migrants may rise as employment prospects become scarce.

[44] http://indiabudget.nic.in/ub2009-10(I)/ubmain.htm.

[45] National Education Association, "Impact of economic crisis on education reports from selected states" (http://www.nea.org/home/30145.htm).

V. Conclusions and recommendations

64. The converging global crises have slowed down the pace of poverty reduction and worsened food security in poor countries. Gains made in the past decade towards decent work have also been undermined while the goal of social integration has become more elusive.

65. While the food and energy crisis and the global economic crisis will pass, their impact on social development will linger. As the experience from previous crises have shown, recovering lost ground in the fight against poverty and hunger can take several years even if economic growth is reestablished relatively quickly after a crisis.

66. Moreover, periodic crises of this nature will occur again. Their impacts will likely be compounded by the effects of ongoing climate change and other emerging threats. Therefore countries need to think boldly about the most effective ways to prevent the outbreak of crises, and if they do occur, countries should be able to manage them better with effective policies and interventions, such as countercyclical macroeconomic policies, employment guarantee schemes, cash transfers and universal social protection. This will require greater international cooperation on a wide range of issues ranging from global financial and economic governance to climate change. It will also require that Governments and their development partners continue their efforts to tackle the root causes of poverty and deprivation in all its forms.

67. Of equally greater significance will be the need to protect all vulnerable members of society through the provision of universal social protection to pursue development policies that enhance social integration. Addressing high levels of unemployment among the youth and other marginalized groups should get a high priority if these groups are not to lose contact with the formal labour market. This will require interventions that improve the skills and competitiveness of young people and women. Success in these areas will depend on the fiscal and policy space that is available to developing countries.

68. Furthermore, national development policies and strategies should be reoriented with focus on people, sustainable growth and structural change. In the short-term, key policy considerations should be geared towards ensuring sustained economic recovery, the provision of emergency food and nutrition assistance to those in need, boosting rural productivity, and creating decent jobs through investments in green technologies and expansion of public infrastructure.

69. National governments and their development partners should increase public and private investments in agriculture. Such investments will boost agricultural productivity, generate export revenues and alleviate poverty and hunger by lowering the real cost of food and increasing real incomes among small holder farmers.

70. In addition to rethinking development strategies, there is an urgent need for a new global economic and financial architecture that is better equipped to address systemic risks domestically and internationally. This will require reforming the way financial firms operate and enhancing global cooperation.