ENDPOVERTY 2015 millennium campaign

www.endpoverty2015.org

UN Millennium Campaign Policy Overview for the G20 meeting

The global economy is likely to shrink this year for the first time since World War II , with growth at least 5 percentage points below potential. Forecasts suggest that global industrial production by the middle of 2009 could be as much as 15 percent lower than levels in 2008. World trade is on track in 2009 to record its largest decline in 80 years, with the sharpest losses in East Asia. As financing available to developing countries is likely to deteriorate sharply; it is estimated that developing countries face an economic contraction of between **$**270-$700 billion as commodity prices continue to decline, global trade collapses, trade finance and private capital flows dry up and remittances drop.

The financial crisis further threatens the livelihoods of the poorest as it is estimated that decreased economic growth in poor countries will force an additional 53 million people to live on less than $2 a day this year, a rise in absolute poverty that is additional to the 130-155 million increase in 2008 caused by soaring food and fuel prices. Also, it is estimated that in 2008, higher food prices may have increased the number of children suffering permanent cognitive and physical injury due to malnutrition by 44 million. Many of the countries most exposed to rising global food and fuel prices are those with high pre-existing levels of malnutrition. Burundi, Madagascar, Niger, Timor Leste and Yemen are among the ten most affected countries for both stunting and wasting indicators. All of these countries experienced double-digit food inflation in 2007-08.

The poor face a double crisis; high costs of basic necessities on which they spend the majority of their income, and economic stagnation that threatens their livelihoods. Thus even though the economic slowdown will ease pressure on food and energy prices, it has much larger adverse implications for the poor. A global slowdown in consumer demand means unemployment will rise along with a likely fall in total household income and as a result, purchasing power will be weakened meaning reduced ability to afford basic necessities such as food. This poses a major obstacle to the achievement of MDGs in the majority of poor countries in Africa and Asia and poses challenges that are even more critical than the large increase in food prices that started before the onset of the global financial crisis.

New estimates suggest the fight against extreme poverty could be put back by up to three years, with the number of people being forced to live on less than $1 a day growing by millions every week. The UN Millennium Campaign therefore calls on the G20 to take urgent action to avert this looming global catastrophe and in so doing address the special needs of the poorest countries and people in on the planet.

The economic crisis is affecting both rich and poor countries, but it is evident that the world's poorest countries will suffer the most. For most of them this latest crisis has already erased vast sums of capital, has shaken confidence in investments and has called into question the systems that govern global finance. It is therefore essential that any discussion or decision on how to deal with this growing financial crisis has both the interests and inputs of poor countries at its centre.

Arguably all three crises; food, fuel and financial, point to a deeper structural malaise – that we plainly do not have the right global institutions and governance structures to model and manage our newly globalized world into the twenty first century and all its novel challenges. The Millennium Campaign is therefore calling for a "broader inclusion" of the voices of the South in the dialogue and decision-making process, in particular inclusion of those most affected by the crisis, in any discussions on the reform of the International Financial Institutions.

The economic crisis will not only have immediate effects but will also have long-term implications for developing countries. As a result of the financial crisis, GNI (Gross National Income) levels are expected to decrease significantly in donor countries. If aid commitments remain the same, the dollar value of 2010 ODA (Overseas Development Assistance) is estimated to fall by at least $4.5 billion because of declining GNI. But ODA could fall even more. If GNI continues to decline as projected and donor countries continue their current trend of cutting back on aid commitments, then ODA could fall by as much as $37 billion.

Many of the poorest countries are heavily dependent on aid; mostly in the form of concessionary flows, these declines will put them under increased pressure as donor countries try to address their own fiscal challenges. Thus developing countries will have fewer resources at their disposal but at the same time, will need to maintain or increase expenditures for social safety nets, human development and infrastructure.

This global crisis needs a global solution and it is important that global plans to overcome it; create jobs and avoid social and political unrest are agreed upon soon. To help emerging market economies and poor countries restore growth, the G20 governments "*recognised the urgent need*" to mobilise IMF and World Bank capital "to finance countercyclical spending, bank recapitalisation and social support". The solution to ending poverty and putting in place safety nets for people in crisis hit countries however, is only seen as more IMF and World Bank lending but these loans may accelerate the debt spiral and not tackle the roots of the problem. We therefore call on G20 members to explore other financial mechanisms that will not expound the debt burden on poor countries.

The Campaign welcomes emerging strategies to protect the poor from the devastating effects of the crisis, such as the international 'rapid response' fund , supported by a Global Poverty Alert System' proposed by the UK or the Vulnerability Fund proposed by the World Bank. However we emphasise that financing for the poorest and most vulnerable must also be incorporated into the various stimulus packages already being created and a harmonization of these different strategies and efforts be prioritized to ensure that the most vulnerable groups are targeted and reached. As a minimum, developing countries should not be excluded, as is the case with "lend local" and "spend local" conditions in bail out – and stimulus packages.

At the same time the Millennium Campaign is calling on governments of poor countries to put in place effective economic reforms including support for efficient domestic resource mobilization in the light of dwindling aid resources; and target pro-poor expenditure, to deal with the crisis. Efficient domestic resource mobilization strategies, fair and effective tax systems, improved governance systems, transparency, accountability, inclusive governance, improved quality and efficiency of the public sector for improved service delivery, must be put in place.

Furthermore, we must recognize that though economies have gone global, politics remain primarily national. The sense of powerlessness during these critical times can force countries to embrace protectionism- a tendency which will we believe prove counterproductive. The global economy is almost in a state of severe recession and political pressures for import protection to protect employment are surfacing with increasing intensity around the world. Raising trade barriers merely compounds recessionary forces and risks pushing the world economy into prolonged contraction.

The G20 Finance Ministers meeting announced the expansion of membership of the Financial Stability Forum (FSF), as well as membership expansion of several standard setting bodies such as the Basel Committee on Banking Supervision (BCBS), the International Accounting Standards Board (IASB), and the International Organisation of Securities Commissions (IOSCO). Although this is a step in the right direction, the majority of countries affected are still not represented in these bodies nor are any reforms under way to strengthen the transparency and accountability of these institutions. Therefore there are no signs of a fundamental change in the financial architecture.

Policy Demands

G20 leaders must:

- Provide additional resources for poor countries deal with the crisis but caution not to let the solution become the problem; resources provided must come without harmful conditionalities and/or increase indebtedness

- Restructured international financial institutions must be more representative with poor countries having a greater voice.

- The economic crisis should not be used as an excuse for rich countries to renege on their aid commitments to poor countries, which are already bearing the brunt of the financial crisis. OECD member countries of the G20 must reaffirm their previous commitments to allocate 0.7% of their GNI for development assistance, establish transparent, time-bound calendars for the disbursement of funds.

- G20 leaders are being reminded of their pledge for a moratorium on protectionism made on 15 November 2008 and are being called upon to develop structures for effective monitoring and supervision to prevent further protectionism.