



Commonwealth Secretariat Discussion Paper

6

Number 6 • September 2009

The Commonwealth and the Economic Crisis

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Published by the Commonwealth Secretariat
Editor: Joan Ross Frankson
Designer: Rob Norridge

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ISBN: 978-0-85092-911-9 (print)
ISBN: 978-1-84859-054-0 (electronic)

ISSN: 2072-2022

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Pall Mall
London SW1Y 5HX
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Nature of the Crisis

It is well known that the current global economic crisis originated in the United States housing market and spread through the financial systems of the US and Western Europe. The crisis has had an impact across the globe and especially for the poorest. In developing countries the initial concern was that the crisis would be transmitted from the advanced countries through the financial sectors. In fact, the greater effects have been on businesses and households as demand for goods and services from abroad slowed, negatively impacting employment and livelihoods.

No Commonwealth country has escaped the current crisis. Global growth has been set back. In the Commonwealth's smaller, poorer and most vulnerable developing countries, this has been accompanied by sharp reductions in exports, workers' remittances and access to finance; triggered declining fiscal revenues; increased demands for social service provision and the maintenance of social safety nets; and substantially increased levels of unemployment. The following examples offer a snapshot of these impacts:

- GDP has declined in the advanced economies most affected by the financial

crisis for the first time since the Second World War. In developing countries, the World Bank notes that average projected GDP growth is now about a quarter of its projected level before the crisis. For these countries, the Bank estimates that growth will decline to 1.6 per cent in 2009, from an average of 8.1 per cent in 2006–2007. In Sub-Saharan Africa, the worst affected region, growth is projected to slow to 1.7 per cent in 2009 from 6.7 per cent in 2006–2007.

Fact Box 1: What do the most affected countries have in common?

Our analysis shows that the following factors are present in the worst affected countries:

- Little or no reserves
- Little or no access to international capital markets
- No fiscal space
- A strong reliance on primary commodity exports
- Weak financial systems
- Weak social safety nets.

- Declining global demand has severely curtailed global trade volumes and has brought to a close several years of consistent increases in commodity prices. Global trade levels have declined to their lowest level in 80 years. Declining exports and falling export prices have dealt a devastating double blow to the smaller, poorer economies in the Commonwealth. The combined impact on developing countries has been severe, with export revenues sharply contracting, employment in export sectors declining substantially and government's fiscal revenues, an important part of which is sourced from trade related excise duties, reducing significantly. The smallest and most vulnerable Commonwealth countries are especially exposed to the slowdown in demand from the advanced countries, which could eliminate any prospect that living standards in these countries will rise in the short term.

The smallest, most vulnerable Commonwealth countries are especially exposed to the slowdown in global demand

- Declining global output has also impacted the level of workers' remittances from abroad, on which households in many developing countries are reliant. In many countries remittances have sharply deteriorated, reducing household income and contributing further to the fall in aggregate foreign exchange inflows. For unskilled workers, in particular, declining remittances have been accompanied by rising

unemployment in cases where workers abroad have been retrenched and returned to their home countries to seek new employment.

- The global crisis has reduced access to finance across all Commonwealth developing countries. There has been concern that official development assistance (ODA) will come under threat, as major bilateral contributors, who profoundly affected by the global crisis, experience substantial domestic fiscal pressure. Foreign direct investment (FDI), particularly equity capital, as well as commercial bank lending to developing countries and emerging markets have declined significantly as foreign investors and banks have sought to reduce their risk exposures. Trade finance has similarly deteriorated, further compounding the slowdown in trade volumes. The collective impact of declining commercial bank lending, substantially reduced access to trade credits and uncertain access to concessional financial resources has curtailed possibilities for developing countries to obtain external finance.

Fact Box 2:

Falling Foreign Direct Investment

- According to [UNCTAD \(2009\)](#), FDI inflows to developing countries fell by 15 per cent in 2008.
- The [World Bank \(2009a\)](#) projects a 30 per cent fall in FDI flows to developing countries in 2009, while the [IMF \(2009c\)](#) expects a sharp slowdown of FDI to about a half of all low-income countries.
- Reduced access accompanied by increasing demands for fiscal spending to address the economic and social consequences of the crisis,

has led to the emergence of a large and persistent financing gap. The World Bank estimates that the crisis has created a financing gap for developing countries of between US\$270 and US\$700 billion. This excludes trade finance and represents the additional amount needed for developing countries to address the impact of the crisis and to maintain expenditure at pre-crisis levels.

- The crisis could increase unemployment substantially. The latest Global Employment Trends (GET) report issued by the International Labour Office (ILO 2009a) suggests that the global unemployment rate will rise to 6.1 per cent in 2009 compared to 5.7 per cent in 2007, increasing the number of unemployed by 18 million people in 2009, in comparison with 2007. In a worst-case scenario, the global unemployment rate could rise to 7.1 per cent and result in an increase in the global number of unemployed by more than 50 million people. Women have been hit hard by the crisis. The ILO (2009b) warned that depending on the depth and trajectory of the economic crisis, the number of unemployed women could increase by 22 million in 2009. Young people are at the greatest risk of losing their jobs as they have the least experience, and with diminished prospects for new employment, new entrants, particularly graduates, are likely to wait longer to enter employment. The crisis has also had a detrimental impact on youth development, by curbing the establishment and development of small and micro enterprises. Many of these can be categorised as 'youth enterprises' based on the length of time in operation and the relatively young age of the management and/or owners. In the economic downturn, with very little to provide as collateral for their long-term capital and short-term financing requirements, these

enterprises have comprised the majority of credit-starved businesses. Historical data suggests that as many as 80 per cent of all such enterprises fail within the first two years. The proportion is expected to increase as a consequence of the crisis.

What are the implications?

The crisis has become unprecedented in its scale and its reach at a global level. The implications are most significant and adverse for small and vulnerable countries, many of which are Commonwealth members. For them recovery will take far longer than in the larger economies with greater and easier access to sources of capital and to the global trading system. For the substantial majority of these vulnerable countries, the downturn is more a profound economic and social crisis and far less a crisis either emanating in or impacting upon their financial sectors.

An end in sight?

The crisis has depressed investor and consumer confidence in both advanced industrial and developing countries. Some signs have recently emerged of an end to the recession in some of the advanced economies most affected by the crisis. But it is not clear whether these signs point to a sustained recovery in these countries. The duration of the crisis will be far more pronounced in developing countries, which have had no fiscal space to stave off the first round effects of the crisis and where the crisis has undermined institutional resilience and capacity, and significantly increased poverty.

Fact Box 3: Negative or Zero Growth

According to the IMF (2009c), 26 Commonwealth members will experience either negative or zero growth in 2009.

What is being done about it?

Every government worldwide is concerned to help its economy recover, and multilateral agencies are also fully engaged. For developing countries the World Bank, International Monetary Fund (IMF) and regional development banks are key among these agencies because of the significant resources at their disposal.

The Commonwealth Response

The crisis changes the context in which the Commonwealth's ongoing work takes place and will shape its efforts to support its membership in meeting the challenges they face. The crisis has signalled a shift in the way in which the global economy is managed. The need for international co-operation and understanding across a wide front is clearer than ever. While it does not have the technical or financial resources of larger international

agreed a US\$1.1 trillion rescue package to bolster the ailing global economy. Before this meeting Commonwealth Secretary-General Kamalesh Sharma called on leaders not to forget the 'G172', that is, the 90 per cent of the world's countries that were not at the table. 'It is our hope that the G20 addresses the challenges of more than its own "magic circle",' he said in a joint statement with Abdou Diouf, Secretary-General of the Organisation Internationale de la Francophonie.

Using its international presence to call for an inclusive solution to a global problem, the Commonwealth provides a platform for countries to come together and make their voices heard. For example, following the November 2007 biennial summit of Commonwealth Heads of Government in Uganda, which called for reform of international institutions, 11 leaders met at the Commonwealth's headquarters in London, in June 2008, to outline guiding principles for reform. These guiding principles include an equal voice and fair representation for all countries, and that institutions must be transparent and accountable to their membership as well as the wider public. This was among the first occasions that the call for reform was made and it has been picked up and taken forward by the international community.

As well as advocacy on behalf of its entire membership, the Commonwealth continues to help countries build stronger and more equitable structures to provide for long-term resilience against any future economic and other threats from an increasingly globalised world.

In terms of debt management, the Commonwealth Secretariat's Debt Recording and Management System has been assisting countries record and manage their external and domestic debt for nearly 25 years. Over 60 countries and territories, including some non-member nations such as Afghanistan and China, have utilised this

The Commonwealth makes a distinctive contribution to the debate through the diversity of its membership

organisations or the regional efforts to help countries affected by the global downturn, the Commonwealth is well placed to make a distinctive contribution to this debate. Through the diversity of its membership—which ranges from the largest to the smallest countries in the world—the Commonwealth works to ensure inclusiveness so that all countries are fairly represented in decision-making that affects them.

This was the case when leaders from the world's G20 countries met in London in April 2009 and

system to record, monitor and analyse their positions on external debt totalling more than US\$500 billion. As a result of Commonwealth support in debt relief and debt management a number of Commonwealth countries are better able to weather the current crisis than would otherwise have been the case.

The Commonwealth provides a platform for countries to come together and make their voices heard

The Commonwealth helps countries formulate, negotiate and implement their trade policies. Steps include placing trade experts in government ministries and regional organisations to help African, Caribbean and Pacific countries to integrate into the global trading system. These and other efforts are pre-emptive; looking ahead to unknown challenges as well as dealing with present ones.

In addition, the Commonwealth is contributing to alleviating the crisis by offering countries the practical help they need to respond to the crisis, including advice in the design of any programme to reduce government expenditure in the face of the crisis.

It is these activities—advocating inclusiveness and forward thinking, as well as reinforcing the practical response of governments to their citizens—on which the Commonwealth must continue to focus during this economic crisis.

The Response of the International Community

Multilateral agencies are better equipped than the Commonwealth to respond to the crisis, in terms of human and financial resources as well as by mandate.

World Bank Group

The World Bank has responded quickly and substantially with both new funding and extensive analysis. A series of new funds and financing instruments have been created, utilising the Bank's existing capital base.

The Bank has organised its crisis response in three thematic areas: protecting the most vulnerable against the fallout of the crisis; maintaining long-term infrastructure investment programmes; and sustaining the potential for private sector-led economic growth and employment creation, particularly through small enterprises and micro-finance. The thematic areas have been supported by three separate financing mechanisms: a Vulnerability Financing Facility (VFF), an Infrastructure Recovery and Assets (INFRA) platform and a private sector initiative led by the International Finance Corporation.

Through the VFF and INFRA mechanisms, upwards of US\$2 billion is being made available to eligible countries. Over half of that amount has already been allocated, including to a number of Commonwealth countries. For example, in Sierra Leone, 119 cash-for-work projects have been approved, providing 42,000 days of employment for more than 5,300 people. To meet the long-term needs of developing countries, the joint World Bank/International Finance Corporation's infrastructure facility will provide more than US\$55 billion to infrastructure projects in developing countries over the next three years, including many Commonwealth member countries.

In addition to its financial resources the World Bank has also produced extensive analysis on the impact of the crisis in developing countries. This analytical work, including a recent [global](#)

monitoring report produced jointly with the International Monetary Fund (World Bank/IMF 2009), provides a detailed outline of the impact of the crisis in developing countries and the basis for a response by others. See also, in References below, World Bank 2009a and 2009b.

The Commonwealth should continue to advocate for inclusiveness and the practical response of governments to their citizens

International Monetary Fund

The IMF has responded to the crisis in several ways. This includes significant adjustments to its lending instruments; agreement to substantially increase the resources available in its lending operations; and a wide range of analytical work on the crisis and on responses in regions and member countries (IMF 2009a, 2009b, 2009c, 2009d).

Regional development banks

The regional development banks have emerged as an important part of the global crisis response. These banks are close to their clients and able to adapt flexibly in the face of changed circumstances. For Commonwealth members, three are particularly important.

The Caribbean Development Bank (CDB) has increased its loans and grants substantially from US\$210 million in 2007 to US\$347 million in 2008. The less developed countries of the Caribbean Community (CARICOM), including the members of

the Organisation of Eastern Caribbean States (OECS), received approximately 37 per cent of the value of these facilities in 2008. The CDB has played a major role in providing support for fiscal budgets to Commonwealth member countries, notably to Belize and St Kitts and Nevis; and made allocations for natural disaster relief and rehabilitation to five countries: Belize, Dominica, Haiti, Jamaica and the Turks and Caicos Islands. Looking forward the CDB has worked with the Inter-American Development Bank, to respond further to the economic crisis by establishing a regional credit facility with a fast-track disbursing mechanism for the region's member countries.

The African Development Bank (AfDB) has responded comprehensively to the crisis in the continent. To combat the effects, the AfDB has proposed an emergency liquidity facility of US\$1.5 billion to provide financial support, introduced a new US\$500 million trade finance line of credit and is considering committing a further US\$500 million to global trade finance liquidity programmes. The bank is also contributing to funds to support agribusiness and micro-finance, and is co-ordinating a platform for co-financing projects in Africa through the African Financing Partnership (Overseas Development Institute 2009).

The Asian Development Bank (ADB) has seen its capital doubled as result of the crisis and has increased its non-concessional lending from US\$17 billion before the crisis to US\$26 billion subsequently. This has included lending through a new counter cyclical facility, set up explicitly to respond to the loss of liquidity in private capital markets, which will lend up to US\$3 billion. In addition, the bank is being provided with the resources to allow for a 30 per cent increase of its lending to the poorest members. In common with the other regional development banks, the ADB is strengthening its support for the full range of activities in the private sector, infrastructure development and trade.

What Next?

The Commonwealth has a robust, ongoing, demand-driven and extensive programme of work in its member countries. It is a programme built on the Commonwealth's close, trusted relationship with its members and refined by many years of support to the most vulnerable Commonwealth countries, with the least resources, which are bearing the brunt of the long-term consequences of the current crisis.

This programme will continue, adapting where necessary to the specific challenges brought on by the crisis and constantly refining as members bring forward new requests for support. Two important events in the final quarter of 2009—the Commonwealth Finance Ministers Meeting in Cyprus, in early-October, and the Commonwealth Heads of Government Meeting in Trinidad and Tobago, in late-November—are expected to give new momentum to the Commonwealth's efforts to support member countries during the crisis.

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