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Economic and Social Commission for Western Asia (ESCWA)

Expert Group Meeting on the Global Financial & Economic Crisis:
The Social Impact and Response in ESCWA countries
Beirut, 8 December 2009

CONCEPT NOTE

I- The Global Economic Crisis in the ESCWA Region

Countries of the ESCWA region find themselves today caught up in a global financial, economic and social crisis that is spreading and evolving at a fast pace. By mid-2009 it has become clear that this crisis is not a transient emergency, and that the economies of the region are not immune to its impact. The crisis is further compounded by the repercussions of the world food crisis of 2008 and the fluctuations in oil prices in 2008 and 2009.

From a global perspective, the crisis is the worst since the Great Depression, and it threatens to have far-reaching and long-lasting repercussions on development. Of course different regions and different categories of countries face different sets of challenges. Due to a variety of economic, political, social, and historical factors, different clusters of countries in the ESCWA region, such as GCC oil-exporters, non-GCC oil-exporters, middle-income countries, and least developed countries, will experience the crisis differently and their ability to respond and weather the effects on their populations will vary.

Many experts and leading UN officials predict that the Arab region will be the least affected by the crisis, albeit with marked differences between countries¹. But despite the better overall relative assessment and the aggregate economic and financial variables, not all indicators are rosy. The crisis is affecting the region through three indirect channels: (a) the collapse of oil prices which results in shrinking revenue for oil exporters; (b) the contraction in global demand and trade which is lowering exports, tourism and remittances; and (c) the international credit crunch which has affected capital inflows and investments, and lowered asset prices.² Real GDP growth rates for most countries in the region are expected to be slashed. Among the six GCC countries real GDP growth will drop from 5.8 percent in 2008 to 1.1 percent in 2009.

“The crisis threatens to have calamitous human and development consequences. Millions of people all over the world are losing their jobs, their income, their savings and their homes.”

- Outcome Document, UN
World Conference on the
Crisis, June 2009

Non-GCC oil-exporting countries like Syria, Yemen and Sudan will also be particularly badly hit by the fall in oil prices due to the absence of reserves and long-term investments to cushion the drop. Yemen's Central Bank has reported that oil revenues dropped to \$803 million in the first seven months of 2009,

compared to \$3.1 billion during the same period in 2008³. In Sudan, where the Government depends on oil revenue for more than 90 percent of its budget, the drop in world prices will have significant impact on development⁴. According to some estimates, GDP growth in Sudan and Yemen may drop by as much as 7 percent.

"The achievement of the MDGs is at risk. Poverty and hunger are increasing and major reversals in hard won gains will likely be seen. Employment has declined sharply in many countries and is likely to decline further throughout 2009. The purchasing power and quality of life are being eroded for the majority. Children, women, the working poor and people already at a disadvantage will be hit first. Migrants and refugees will be under pressure for further displacement. Social frustration, tensions and instability are on the increase."
- Chair HLCP, 25 March 2009

Middle-income economies such as Egypt, Lebanon and Jordan will be affected by a reduction in trade, remittances, tourism and FDI. Real GDP growth among this group of countries is expected to fall to between 3 and 4 percent in 2009 from 6.6 percent in 2008⁵. This downturn is expected to lead to growing unemployment and under-employment, rising rates of poverty and possibly social instability.

So far, the response of Governments of the ESCWA region to the global crisis are varied and reflect their different economic structures, social and political context, budgetary and fiscal space as well as institutional capacity. Drawing on reserves accumulated before the crisis, countries of the GCC have reacted more quickly to the crisis, putting in place rescue packages and allocating significant resources to bolster economic performance. Middle-income and Least Developed Countries on the other hand have been more constrained in their response due to limited fiscal space and weak institutions. In both cases, most governments have responded exclusively with financial and economic solutions, with little attention paid to the crisis' social and gender dimensions.

II- Employment and the Labour Market

Primarily, the crisis affects people and their livelihoods through employment and work, incomes and earnings, prices and services. Unemployment levels in the region are already among the highest in the world. Although unemployment rates had declined slightly from 11 percent in 1998 to 9.4 percent in 2008, they are expected to rise again as a direct result of the crisis. The International Labour Organization predicts that the Arab world will lose five million jobs in 2009. In oil exporting countries, migrant workers will bear the brunt of the layoffs. As the oil economies of the GCC shrink, many migrant workers are expected to return to their home countries. The impact will be felt most severely among Southeast and East Asian labour exporting countries, but Arab labour exporting countries will not be immune. According to some estimates, up to 20 percent of individuals in the Arab world are dependent on money transfers from migrants, as a form of informal social protection system. In Lebanon for example, thirty percent of the country's labour force resides in the Gulf region and remittances account for approximately 27 percent of the country's current account receipts, the highest such share in the region compared to 19% for Jordan, and 13% for Egypt.⁶ In real terms, Egyptian migrant remittances reached \$5.9 billion in 2007, the highest in the region followed by Lebanon (\$5.5 bn), Jordan (\$2.9 bn), and Yemen (\$1.3 bn)⁷. Because of their role in supporting incomes and livelihoods, any drop could have social repercussions.

Women and youth are vulnerable groups, whose already weakened position in the labour market and in society at large prior to the crisis is likely to place them at a disadvantage. Unemployment among youth in the Middle East is estimated at around 25 percent, compared to a world average of 14 percent. This alarming figure is expected to escalate even further as youth find it more difficult to find jobs. Similarly, gender differentials in unemployment rates are significant. Rates among women are consistently higher in nearly all countries of the region. Women are often regarded as a flexible reserve, to be absorbed into the labour

market in upturns and expelled in downturns. They are also over-represented among informal and temporary employment, contract labour and home workers, and tend to earn lower wages than their male counterparts.⁸

In addition to unemployment and job losses, the crisis has also impacted wages, with some countries putting a freeze or cap on any increases. In Egypt, public sector employees who had been promised a 30 percent raise will only receive an 11 percent “social pay” raise. According to government officials, decreasing state revenue has meant that the government does not have sufficient funds to honor its pledge.

III- Poverty

Even before the crisis, several countries in the region were already struggling with high rates of poverty and unable to meet the MDGs. In Sudan, for example, as much as 75 percent of the population lives on less than \$1 a day. In Yemen, nearly 35 percent of the population is considered “low income” and more than 45% live on less than \$2 per day. Egypt’s Finance Minister acknowledged that the crisis has already affected the hard won gains in the fight against poverty. One reason for the vulnerability of large numbers of people to the crisis is that in addition to poverty, a large proportion of the population in the region lives on the poverty threshold, just above the poverty line. In other words, even small reductions in income or increases in the price of basic goods and services can result in significant numbers being plunged into poverty. According to one study raising the poverty line from \$2 a day to \$3 a day would lead to a doubling in the number of people living in poverty in the countries of the Arab region.⁹

“Five years ago, the poor represented 20 percent of the population. Just before the crisis we had managed to get this number down to about 15.5 to 16 percent and we were making progress...Poverty rates have gone up from 15.5-16 percent to maybe 18.5 now”.

- Boutros Ghali,
Egypt’s Finance Minister, May 2009

“If you hurt women’s incomes, everything unravels.”

- Barbara Stocking
OXFAM Director

Economic crises and recessions affect women and men differently. The lives of poor women and their families risk being made even more precarious by the crisis. International organizations, including the UN and OXFAM have warned that the knock-on effects of the crisis could have devastating long-term effects on development.¹⁰ A reduction in women’s incomes will likely lead to higher rates of malnutrition, lower levels of schooling for girls, and possibly even a surge in infant mortality¹¹.

IV- Social Protection

Both formal and informal social protection mechanisms are likely to come under increasing pressure as a result of the crisis. Many countries in the region, especially countries outside the GCC, do not have comprehensive social security systems for their citizens, and vulnerable populations are often at risk especially during times of crisis and economic shock. Although many countries have large social expenditures, these expenditures are often inefficient, unsustainable, of low quality and limited coverage. In Egypt, for example, public social expenditure reaches up to 20% of GDP, but remains inefficient often benefiting higher and middle classes disproportionately.¹² In addition, social insurance schemes and pensions which are themselves weak, are largely limited to workers in the formal sector with little or no insurance for informal sector workers. As the economic downturn takes hold, countries of the region, particularly those with limited fiscal space will be hard pressed to maintain and increase public social expenditures. At a time when social protection for vulnerable groups is at its most needed, governments may not be up to the challenge.

V- The Expert Group Meeting

ESCWA's Social Development Division (SDD) is preparing to hold a regional meeting of experts on 8 December 2009 to review the social impact of the global financial and economic crisis on the countries of the region. The Expert Group Meeting (EGM) comes in response to the call by the General Assembly in its resolution A/RES/63/277 to hold regional consultations, and follows from the UN Conference on the World Financial and Economic Crisis and its Impact on Development held in New York between 24 - 26 June 2009¹³ and its resulting Outcome Document.

The meeting will bring together regional and international experts, practitioners, and UN agency representatives to explore the short, medium and long-term social impact of the crisis on the countries of the ESCWA region. The meeting will seek to understand how the global crisis affects social development in the different countries in the region, focusing on issues of employment and livelihoods, poverty and the MDGs, and social protection systems. The meeting will look ahead at different policy options and recommendations.

In this framework, the EGM will have two specific objectives:

1. To better understand the social impact of the crisis on the different categories of countries in the region, and in particular to explore how the crisis has affected employment, poverty, social protection.
2. To explore policy and programme responses to ameliorate the effects of the crisis on the region's poor and marginalized groups, and identify a set of recommendations for member countries and ESCWA as a step towards elaborating a socially-responsive national and regional agenda.

Endnotes:

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- ¹ IMF Survey Magazine: [Middle East North Africa Weathering Crisis](#), 10 May 2009
- ² IMF, Regional Economic Outlook, [Middle East and Central Asia](#), May 2009
- ³ Yemen News Agency, [Yemen's Oil Revenue Witness Sharply Decrease](#), 9 September 2009
- ⁴ EIU, [Sudan Country Report](#), June 2009
- ⁵ UN, The Global Economic and Financial Crisis: Regional Impacts, Responses and Solutions 2009
- ⁶ Byblos Bank Group, Lebanon This Week, [Issue 110](#), April 2009
- ⁷ World Bank, [Migration and Remittance Factsheet](#)
- ⁸ Tzannatos, Zafiris & Kaur, Iqbal, "[Women in the MENA Labour Market](#)", in [Women and Globalization in the Arab Middle East](#) (2003).
- ⁹ ANND & Christian Aid, [Facing Challenges of Poverty, Unemployment, and Inequalities in the Arab region – Do Policy Choices of Arab Governments Still Hold After the Crisis?](#), June 2009
- ¹⁰ Emmet, Bethan, OXFAM, [Paying the Price for the Economic Crisis](#), June 2009
- ¹¹ The Guardian Weekly, 17 April 2009
- ¹² AbdelSamad, Ziad, [Social Protection in the Arab region](#), 2007
- ¹³ <http://www.un.org/ga/econcrisissummit/>