

# Protecting the world's poor from the ravages of recession



The worldwide economic slump threatens to hit poor and unstable countries very hard, warns **Pär Stenbäck**, Finland's former Foreign Affairs minister. But job losses among migrant workers who send \$300bn home in remittances every year could be a devastating blow

One thing we can be sure of is that the worldwide economic slump is going to have unforeseen foreign policy and security consequences. These may well change the international landscape and profoundly affect policymaking.

The first and obvious result of the recession is that many donor governments have been trimming their 2009 foreign aid programmes. Not all, of course, as some will stay loyal to their earlier promises, Norway this year will even reach the 1% of gross national income (GNI) mark. In the U.S., President Barack Obama had before taking office promised a doubling of foreign assistance from \$25bn to \$50bn, but since then his Vice-President Joe Biden has warned that this commitment will probably be achieved more slowly in light of the economic downturn.

Here, in Finland, our aid decreased by 62% during the severe economic crisis we

encountered in the early 1990s; it was so severe that Finns still call it "The Depression". And Japan's overseas aid declined by 44% when the country hit hard times. The signs are, then, that the worldwide nature of the present slump could bring with it a cut in official development aid (ODA) of 30%. This is the prediction of a Washington think-tank.

The second challenge to world security and stability is one that could render useless years of strenuous effort devoted to building-up UN peacekeeping operations. It is easy to predict that donor governments will be taking a careful look at the ever-growing expenditure on UN's 14 peacekeeping operations around the world. The total bill for all UN operations in the 12 months up to mid-2008 amounted to \$6,7bn, about twice the yearly figure 15 years ago. Will governments stay loyal to their commitments for the next few years? One can only imagine the consequences

when operations that already spread thin are cut in sensitive areas. It is important as well to keep in mind that the Rwandan genocide was preceded by a similar lack of enthusiasm for giving financial support to the UN mission there. Recent events in Congo and elsewhere would suggest there is no room for complacency.

The third and probably most threatening challenge comes from the private sector, and indeed from private citizens. By far the biggest transfer of assets from rich countries to the developing world takes place through the remittances home of migrant workers. Yet surprisingly few decision-makers are aware of this. In 2006, around 150m migrants sent home some \$300bn to their families in developing countries (IFAD study). The number of transactions is huge, with 1.5bn remittances estimated in a single year. Most remittances are for sums of only \$100-\$300, and they normally go towards immediate household consumption.

The value of all official development assistance (ODA) in 2006 was \$126bn, less than half the value of private remittances, even though it includes assistance from OECD and non-OECD countries as well as from China.

If the global remittances network is seriously hurt by the recession, it will throw millions of already poor people into greater poverty. That's what will happen if migrants lose their jobs in richer host countries and are forced to return home to their country of origin. The possible impact can be gauged by looking at where the total \$300bn in remittances are distributed. In 2006, poorer

countries in Europe benefitted to the tune of about \$50bn, Africa gets \$38bn, Latin America and the Caribbean \$68, the near East \$24. Asia is the major beneficiary with \$113bn. All in all, 57 countries each received \$1bn or more in remittances, with some countries dependent on this income flow for economic survival. Cape Verde received 34% of its GDP this way, Eritrea 38% and Burundi 23%. In Asia, Afghanistan 30% and Tajikistan 38%, while in Europe Moldova received 31% of its GDP from external sources.

A number of these countries are either in conflict or are fragile states, so a diminishing flow of remittances will aggravate their instability, and may well increase the flow of migration to other countries.

The reality is that many third world countries are dependent on income from their citizens abroad, so what needs to be done if the recession starts to hit migrant workers? An estimated 10% of the world's population are reckoned to benefit from remittances, so ensuring that they keep on coming should be a real concern to the aid community in donor countries. To some it may seem a shadowy subterranean world that is not part of the official aid machinery, but the livelihoods of around 150m migrant workers around the world are now totally dependent on market forces. Governments in Europe and elsewhere should take a careful look at what other forces will be at work if and when migrant workers are sent home. These are the same governments that are already spending tax money on direct foreign aid. Should they consider tax breaks that could entice employers to keep their workers on the payroll, as this would

probably be a much more efficient way to support these poor countries?

A second look should also be taken at money transactions that take place between wealthy and poor countries. Transaction costs often cut away a considerable proportion of remittances that are already small. Governments might well be able to intervene here as the political atmosphere is increasingly conducive to intervention in the banking sector. Aid mechanisms could also

be used to create safe and cheap channels for financial remittances, especially in cases where private money cannot easily reach remote rural areas in Africa or Asia where a migrant worker's family may find itself in dire straits.

A look should also be taken at the restrictive regulations introduced after 9/11. These demands for more effective control mechanisms placed an extra burden on remittance operators. They were introduced

## MATTERS OF OPINION

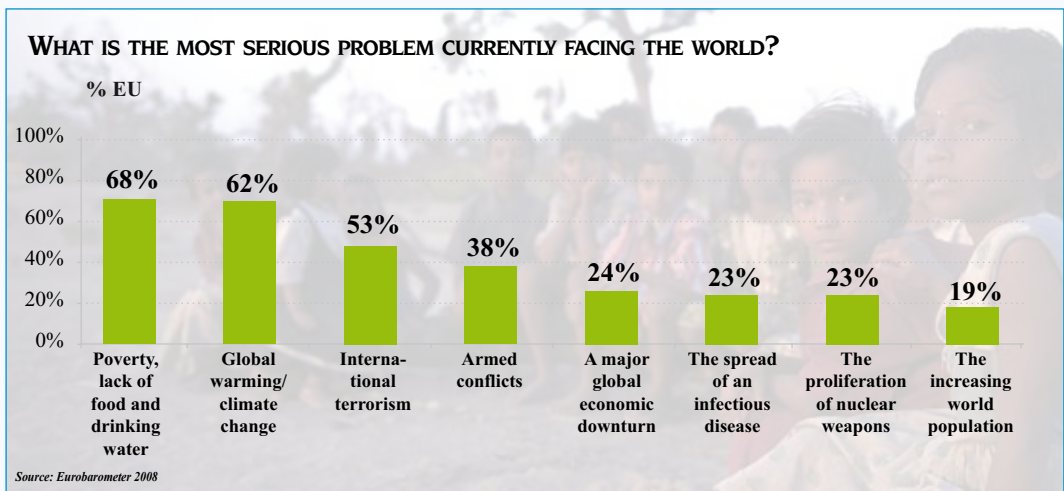
### How Europeans rank global problems

Europeans believe that poverty, together with a lack of food and drinking water, is the most serious problem facing the world. In a Eurobarometer survey, two-thirds of the respondents in the 27 EU member states and the candidate countries Turkey, Macedonia and Croatia, chose poverty as the most serious global threat.

The richer EU countries, such as Germany, the Netherlands, France and Sweden, all named poverty as the most serious problem. Global warming was

a strong second choice (62%), with the northern countries like Finland, Estonia and Latvia being particularly worried.

Women tended to be more concerned about poverty, and men about global warming. These issues are connected: the United Nations Environmental Programme, and other agencies, have pointed out that losses of agricultural land as a result of climate change will increase poverty.



in the name of fighting terror, and while it's hard to say if this has actually prevented acts of terrorism, it has certainly pushed remittance costs higher. If nothing else, the fight against terror and its financing means that governments and financial institutions have extensive data on the flow of money across borders, and this data should be put to good use, by helping people send money to their relatives more easily.

Sending money to some countries is now allowed only through formal banking channels, and this has created virtual monopolies while also preventing remittance money from reaching rural areas where banks don't operate. In West Africa, a simple money transfer operator now handles 70% of official payments and also imposes exclusivity on the banks. Allowing more informal financial institutions to channel foreign payments would ease the money flow to remote regions. Cooperatives, credit unions and new forms of microfinancing could form networks that would ensure greater accessibility.

Restrictive legal practices are in force in some countries that exclude migrants from using official banking systems unless they have the necessary legal status. More positively, other countries have taken steps to make remittance transfers possible via mobile phones.

The sheer size of these remittances, and their importance in keeping so many

millions of people above the poverty line, means there is a strong case for institutions like the European Union to take a careful look at the remittance system. In these times of financial and economic downturn, an improved system could help alleviate the burdens heaped on innocent victims of the slump. A review could look into restrictive practices that the EU could abolish, and ask whether EU assistance should be adapted to the needs of this informal yet crucially important aid network. Perhaps the EU already has a policy in place; so, it should let the member states know more about it, and ask them to contribute to funding it.

*Europe's migrant workers are vital to the well-being of hundreds of millions of people in some of the world's poorest countries. Protecting their livelihoods should be a policy priority for the aid community*

Maintaining a flow of private investment towards developing countries will clearly be important once the recession begins to bite, and these investments will inevitably slow down during the next few years. So ensuring that employment of migrant workers does not suffer disproportionately will be even more important: Europe's migrant workers are vital to the well-being of hundreds of millions of people in some of the world's poorest countries. Protecting their livelihoods should be a policy priority for the aid community. □

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*Pär Stenbäck is a former Finnish Minister of Foreign Affairs and a former Secretary General of the International Federation of Red Cross and Red Crescent Societies. He is an Executive Board Member of the International Crisis Group. [par@stenback.fi](mailto:par@stenback.fi)*