

CURRENT ECONOMIC CRISES & ITS IMPACT

AN OPPORTUNITY FOR LEGAL EMPOWERMENT OF THE POOR IN THE PACIFIC



Dr. Asif Chida

**Trade & Private Sector Development Consultant
UNDP Pacific Centre, Fiji**

Email: asif.chiba@undp.org

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Key Focus of this Presentation

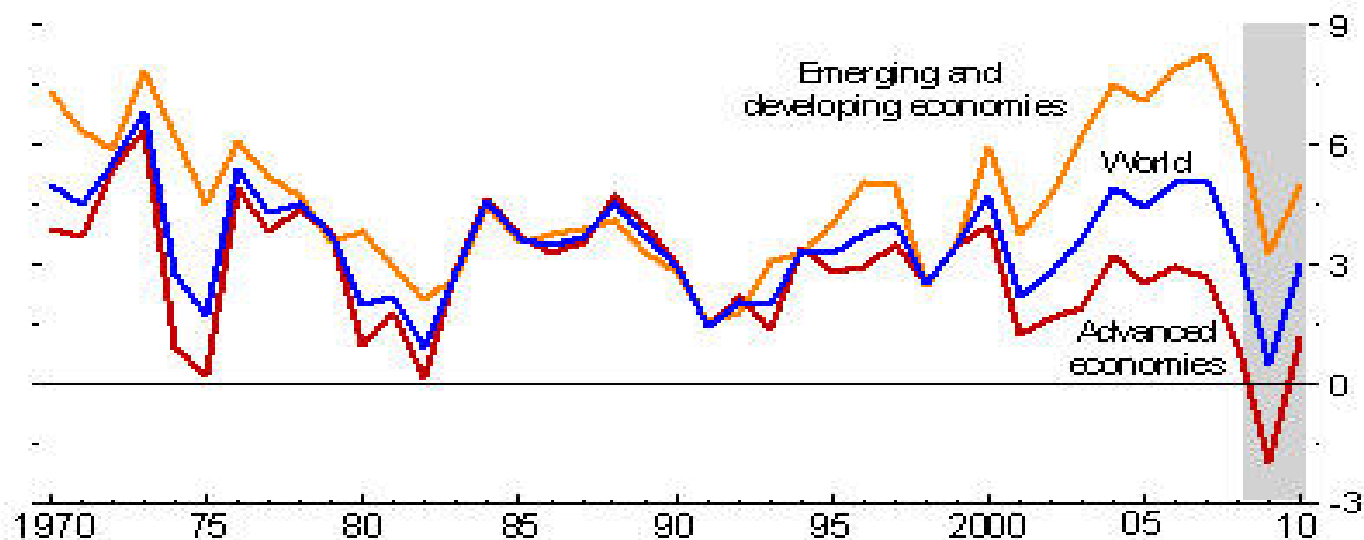
- Introduction
- Current Economic Crises & Its Global Impact
- Global meltdown: How is it affecting the Pacific
- Current crises & its impact on the poor
- Legal Empowerment of the poor: What does it mean?
- LEP in the context of current crises
- LEP- from Business perspective
- The Way Forward
- Key Policy Messages
- Conclusions

The Current Economic Crisis & its Global Impact

- The world output (GDP) will contract by -.6% in 2009, compared to 3.8% growth in global output in 2007
- The advanced economies are expected to contract by 2 percent in 2009 – the largest contraction since the Great Depression
- Growth in emerging and developing economies is expected to slow sharply from 6¼ percent in 2008 to less than 3¼ percent in 2009
- World trade volume is projected to decline - for the first time since 1982. Global Trade will shrink by 9%; exports in poorer countries to drop by 2-3% , Developed countries trade will fall by 10% (WTO). compared to 7.2% growth in trade volume in 2007
- Imports by advanced economies will contract by 3.1%
- Global FDI flow went down by 21% in 2008 and is likely to decline further in 2009
- Private capital flows are expected to drop from \$1 trillion in 2007 to \$530 billion in 2009
- Remittances to developing countries – “ will fall to USD 290 billion in 2009, from the last year's high of USD 305 billion. A decline by 6% -8% in 2009: WB
- Some 43 countries are "highly vulnerable" to the effects of the crisis

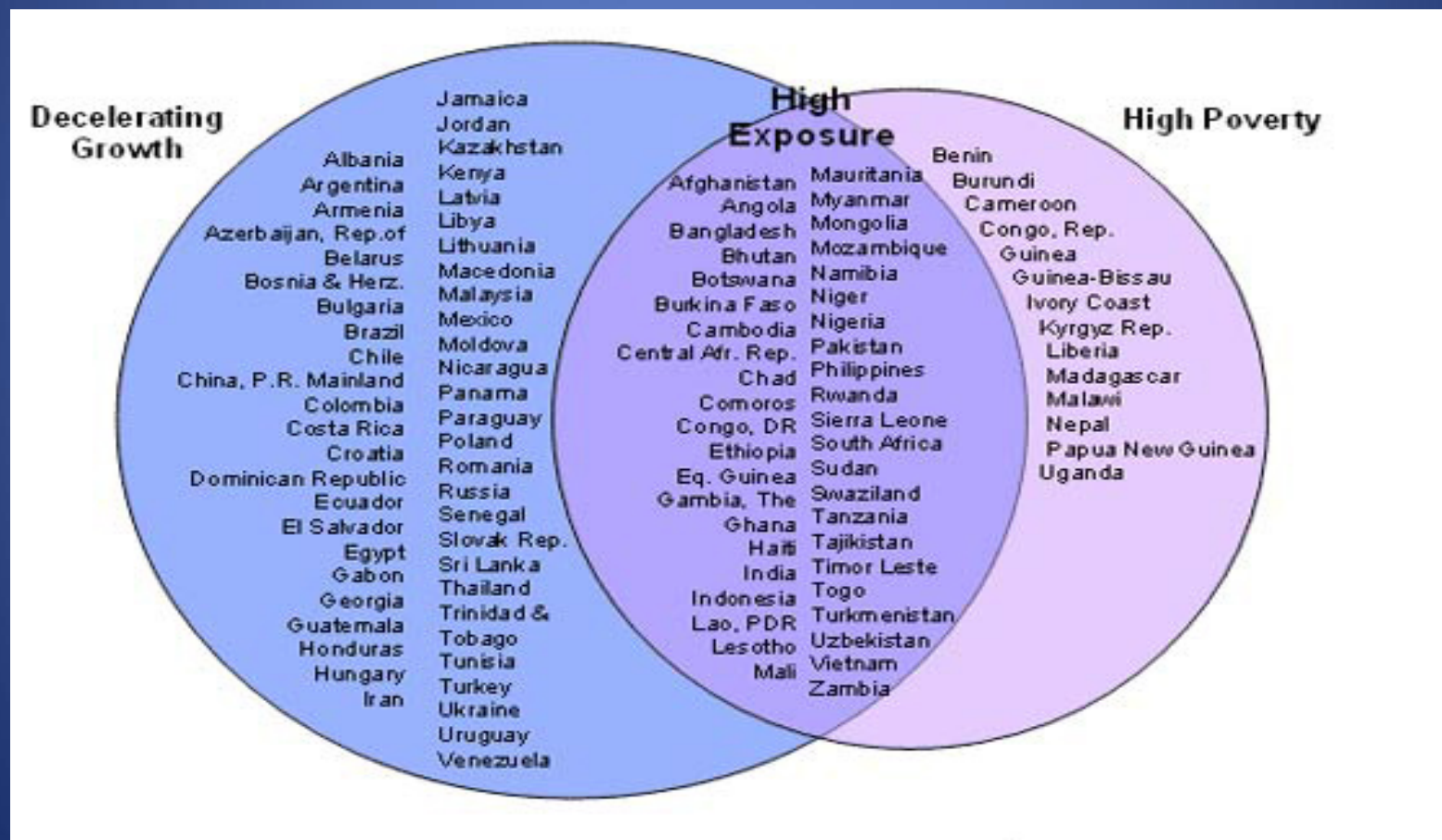
Global GDP Growth in 2009

Figure 1. GDP Growth
(Percent change)



Source: IMF staff estimates.

The Current Economic Crises: 43 Vulnerable Countries



The Current Economic Crises and its Impact on the Poor



- The World Bank estimates that an additional 53 million people will be trapped in poverty as the current crisis unfolds - each 1 percent drop in growth could trap another 20 million in poverty
- According to ILO estimates, the global unemployment rate could rise to 7.1 per cent (from 5.7% in 2007), adding another 50 million to the pool of unemployed
- The number of working poor – people who are unable to earn enough to lift themselves and their families above the US\$2 per person, per day, poverty line, may increase by 200 million, mostly in developing economies, to 1.4 billion, or 45 per cent of all the world's employed
- Sub-Saharan Africa and South Asia will continue to stand out as regions with extremely harsh labour market conditions and with the highest shares of working poor of all regions - job loss, possible reduction in wages, poorer work condition are likely outcomes
- Between 200,000 and 400,000 more babies could die each year between now and 2015 if the crisis persists

Current Economic Crises and its impact on the Pacific



- tourism numbers and revenues decline;
- offshore demand for labour falls (seafarers are no longer needed as merchant ships are laid-up, fruit pickers and farm workers are no longer needed as workers in host countries take these jobs themselves);
- unemployment increases in domestic economies and amongst Pacific Islanders in host-countries;
- remittances decline,
- financial market returns to Trust Funds and SWFs decline,
- government budgets become tighter then the Pacific economies and households will be severely squeezed on all fronts.

Current Economic Crises and its impact on the Pacific



- Low economic growths in Cook Islands, Tonga, Samoa, Fiji
- Five Pacific Economies (FSM, RMI, Kiribati, Palau & Tuvalu) have substantial public savings off-shore (trust/reserve funds)
- Collapse of commodity market has affected PNG, Solomon Islands & East-Timore
- Northern Pacific Economies will be the first to be affected in Tourism because of link with Asia/US decline followed by Southern economies; Fiji and Vanuatu will weaken based on ANZ economies
- Stability of HDI & HPI likely to be affected
- Decrease on donor funds, key programs likely to be affected
- Economies with deepest structural weaknesses, particularly on the fiscal side, may well bear the largest impacts

Preliminary Assessment of Vulnerability to the Global Economic and Financial Crisis*

source: Assessment by staff of the Asian Development Bank and Pacific Centre of the United Nations Development Programme

Strength/weakness	COO	FIJ	FSM	KIR	NAU	PAL	PNG	RMI	SAM	SOL	TIM	TON	TUV	VAN
Cushion provided by the commodity price boom							√				√			
Capacity for anti-cyclical fiscal policy							√				√			
Very high aid flows			√		√			√		√			√	
'Tourism' sensitive	x	x				x			x			x		x
Remittance sensitive		x		x					x			x	x	
Shock to offshore investments			x	x		x		x					x	
Immediately pressing structural issues		x	x		x			x		x				
Very weak fiscal position			x					x		x			x	
Over-extended banking sector												x	x	
Vulnerable balance of payments		x								x				
Direct link to world industrial demand							x		x	x				
Weak/no monetary policy	x		x	x	x	x		x			x		x	
Poor are highly vulnerable		x		x			x			x	x			x
'Vulnerability' score	-2	-5	-3	-4	-1	-3	0	-3	-3	-4	0	-3	-4	-2

Legal Empowerment of the Poor

What Does it Mean?

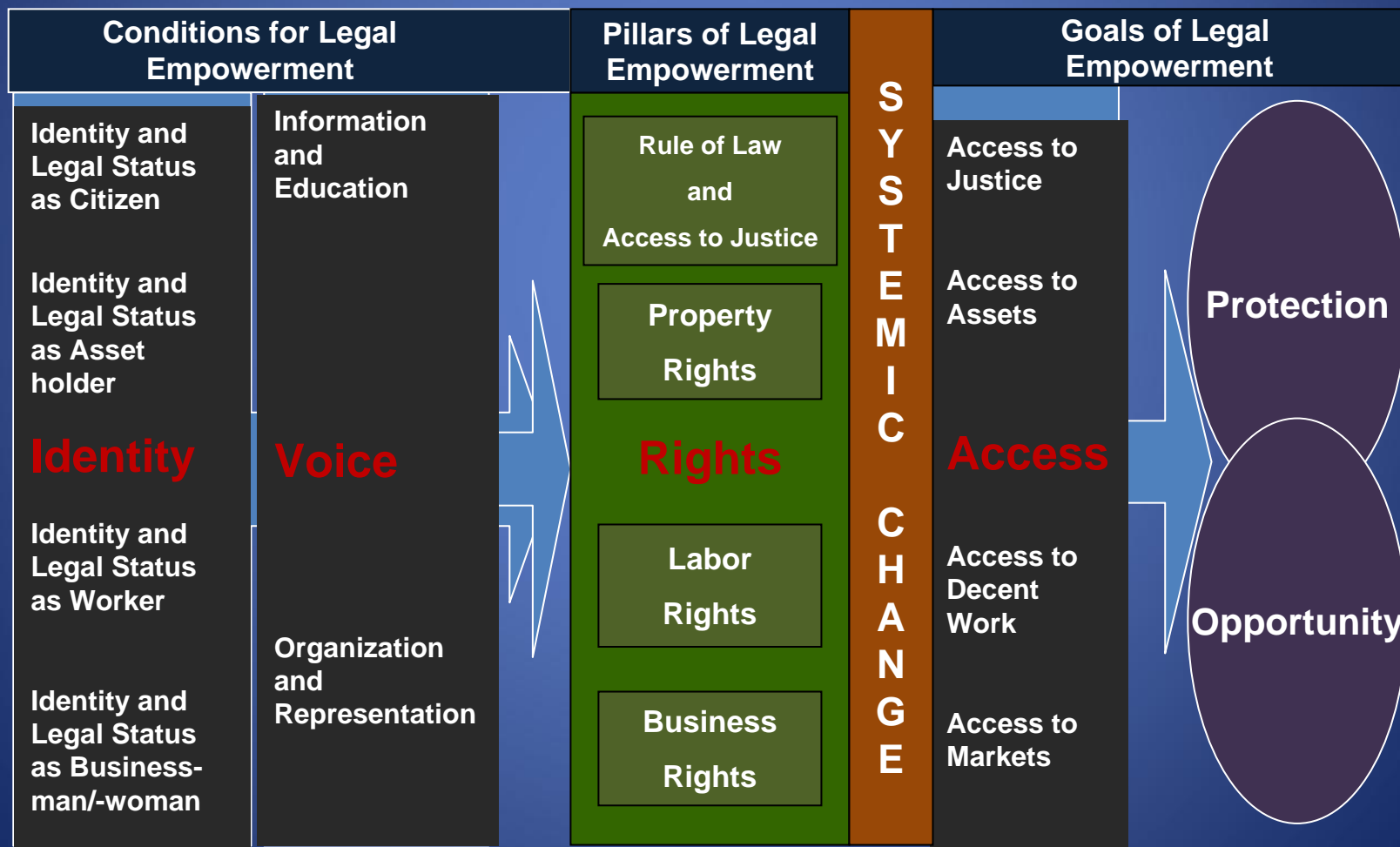


- Legal empowerment of the poor (LEP) seeks to make the law work for everyone to provide equal economic opportunities to all
- It is an agenda of inclusive development that presents a unique focus on key livelihood rights - property, labour, entrepreneurial rights and access to justice – to prevent legal exclusion and foster economic growth, poverty reduction and human development
- Legal empowerment of the poor is an end in itself as a human rights agenda but also a means to an end
- It is a necessary condition for poverty eradication
- The current economic crisis threatens the very existence of the poor and the legal empowerment agenda can help reduce their vulnerability during the crisis and build resilience against future shocks

Goal: Sustainable Livelihoods

- **LIVELIHOODS** of people are based on assets (such as land), activities (business or labor) and entitlements (protections, freedoms, opportunities)
- **SUSTAINABILITY**: economic efficiency, ecological integrity, social equity, resilience (capacity to cope with and recover from shocks and stresses)
- **VULNERABILITY** is the inability to cope with and recover from shocks and stresses to the livelihood system
- **EMPOWERMENT** is the process through which people gain greater control over their lives and livelihoods
- **LEGAL EMPOWERMENT** is the process through which threats are reduced, protection is increased and opportunities are enhanced by use of the law

The Concept of Legal Empowerment



Property Rights in the Context of Current Economic Crises

- The right to own, use and dispose of property, without fear of extortion and bribery, is a *sine qua non* for entrepreneurship and economic development
- Poor often find it difficult to exercise their property rights, use their properties as collateral and enjoy their full economic benefit
- The current economic crisis will threaten the security of tenure of millions of working poor as they will face destitution, liquidation, forced eviction, land grabbing and so on
- Strong, non-discriminatory and enforceable property rights can protect the poor, especially during the current financial crisis, protect entrepreneurship and self-employment and facilitate early recovery

Labour Rights in the Context of Current Economic Crises



- The right to work and to decent wages, without discrimination, prejudice and harassment, is a prerequisite for a well-functioning market, and by extension, of a healthy society
- Labor rights are a critical determinant for productivity growth, capital accumulation and human development
- With rising unemployment, wages are likely to fall, working conditions to deteriorate and labour rights to be violated, with short-term impact on consumption and long-term consequence on human development
- Labour rights and decent wages must be protected to minimize the adverse impacts of the current economic crisis

Business Rights in the Context of Current Economic Crises



- Most of the world's poor entrepreneurs operate in the informal economy and are particularly vulnerable to corruption and abuse of power
- Laws regulating small businesses are often cumbersome, ineffective and biased against the poor
- Ensuring their right to vend and run small businesses and their access to credit and services – electricity, water, sanitation – can be an invaluable step towards economic development and poverty reduction
- Small and micro-entrepreneurs are often the backbone of an economy and protecting their rights, and increasing support for them, will be critical to boost aggregate demand and speed up recovery from the current economic crisis



Access to Justice in the Context of Current Economic Crises

- The current economic crisis is likely to unleash ‘economic cannibalism’, with the poor being the hardest hit
- The economic downturn will increase the demand for justice among the poor, especially to protect their property, jobs, working conditions and their right to do business without the fear of extortion
- The current crisis presents an unique opportunity, and a moral imperative, to expand the access to justice for the poor and legally empower them to survive the current downturn
- Legal empowerment of the poor can be an effective policy response to the current economic crisis, especially to protect the poor and the vulnerable

Approaching LE – from a business* perspective?

Is to focus on how to provide broad access to legal tools, instruments and organisational forms suited to the informal businesses

And

enhance their opportunities for growth so that businesses of the poor can combine labour, technology and investment in order to raise own productivity, limit risk exposure, and use their assets to access credit and capital.

Why Businesses Need Legal Empowerment?

- Inappropriate Design Of The Legal/Regulatory Environment (Biased Towards Larger Enterprises)
- Lack Of Implementation Of Legal/Regulatory Environment
- Biased Implementation Of Legal/Regulatory Environment (In Favor Of Larger Enterprises)
- Resistance By Market Competitors And Other Stakeholders
- Lack Of Knowledge Or Access To Legal/Regulatory Environment
- Lack Of Legal Rights
- Lack Of Bargaining Power
- Lack Of Representation And Voice

Issues to be addressed

- 1 How the poor can be legally empowered and poverty reduced by allowing informal businesses to have easy access to legal tools and organisational forms.
- 2 How the entrepreneurial innovation and creativity found in the informal economy can be channelled, so that poor face fewer barriers to a sustained involvement in the formal economic system.
- 3 Examine local financial capacity, and incentives for lenders and equity providers to expand access to credit and capital for individuals and enterprises owned or operated by the informal businesses to help their transition to the formal economy.

How LE can help Businesses

- Strengthening Governance from supply side (capacity building) and demand side (supporting local or community driven initiatives)
- Reforming and Transforming Institutions (inclusion, cohesion and accountability)
- Making laws (e.g. Alternative Dispute Resolution) work for the informal businesses, and
- Rights (knowledge and understanding of rights, asserting and enforcing rights collectively)

LEP Agenda and its Linkages with Businesses



LEP AGENDA	Linkages with Businesses
Access to Justice and Rule of Law	a) Designing and developing of legal tools for empowering informal businesses. b) Examine the efficacy of above tools.
Property Rights	a) Land security and business security b) Stable address helps informal businesses in its business identity, and access to finance and clients.
Labour Rights	a) Strong links identified between right to employment and business opportunities. b) Capacity for informal businesses to provide better protections and provisions for their workers. c) “Work Deficit”: Labour productivity, Occupational health and safety, Social security, etc.
Road Maps For Implementation Of Reforms: Implementation Strategies, Including Toolkits And Indices	a) Coordinate in developing a reform “toolkit” for policy makers focussing on legal, institutional, regulatory, operational and financial reforms.

LEP: Making it Happen

Issues for further discussions

- **Need for a Common Definition at National/Local Level**
 - i) Do we need to define informal business (es) generically, or do we have a definition that can be adopted?
 - ii) Who are the constituents of businesses in the informal sector?
- **Informality to Formality – The Empowerment Process**
 - i) Towards a new approach to formalization
 - Addressing common legal deficits and barriers
 - Developing a framework of indicators
 - ii) Providing legal tools for empowerment
 - Identifying and developing a set of concrete legal tools
 - Explaining and illustrating the efficacy of tools

Making it Happen

Issues for further discussions (cont)



- **Institutionalizing the empowerment process**
 - i) Conceptual framework
 - ii) Institutional mechanism
 - clear, secure and transferable property rights
 - secure and enforceable contracts
 - conflict resolution
- **Policy framework for inclusiveness**
 - Entry and Exit Mechanisms
 - Operation and expansion mechanisms
 - Extra –national dimensions of business constraints

LEP – Making it Happen

Issues for further discussions (cont)



- **Financial Institutions / Financial Instruments**
 - i) Banking for the poor with appropriate financial portfolios
 - ii) Financial tools that make easy access to credit, capital and equity
 - iii) The missing middle of investment –money gaps

- **Other Key issues include:**
 - Gender Issues
 - Environmental Issues
 - Sustainability Issues
 - Benchmarking good/successful practices in the informal businesses

Business Dimensions of LE

- The Way Forward



OBJECTIVES	OUTPUTS
1. Promoting a new approach to formalization that addresses common legal deficits and barriers faced by the informal businesses.	Framework of analysis with a set of indicators and examples.
2 Providing Legal tools to empower informal businesses.	A priority set of concrete legal tools explaining and illustrating the efficacy of tools.
3. Fostering member-based organizations and the representative voice of Informal businesses	a) Report documenting successful practices in the organization and representation of informal businesses b) Identification of new opportunities for legal and institutional reforms in support of the organization and representation of informal businesses.
4. Fostering innovative financial instruments and institutions for the transition from informal to formal businesses	a) A study of capital markets available to informal businesses b) Recommendations for policies to fill in gaps that exist in the informal businesses.
5. Provide a Global assessment of successes and failures in legal empowerment of informal businesses. -----	A comprehensive report documenting across the globe on lessons learned on legal empowerment in the informal businesses -----
6. Galvanize national and international support for the legal empowerment of informal businesses.	a) Identify an international institution to host informal businesses in order to sustain initiatives b) Guidelines for a set of national and international consultations to disseminate the outcomes LEP dialogue

How to legally empower business



KEY POLICY MESSAGES

- i) Adopt an inclusive and integrated approach to economic development such that there is legal recognition and empowerment of the businesses of the poor.

- ii) Engage in evidence based reform

iii) The right to participate in the market -Recognition and correction of the bias in existing commercial policies, regulations, laws, and procedures favoring larger firms/enterprises

- Extension of government incentives and procurements to the smallest enterprises
- Facilitation as appropriate of backward and forward linkages on fair terms between larger and smaller firms
- Promotion of market access and fair trade for smaller firms and enterprises
- Adequate and relevant retraining, life-long learning, and other support to Trade & labour mobility (Seasonal Workers)



iv) Legal empowerment entails making laws and regulations appropriate and relevant to the realities of the businesses of the poor, specifically, it implies:

- A competent and independent judiciary applying the law equally and evenly on all members of the community. Essential are education of the legal profession; full publication and dissemination of legal texts including judicial decisions.
- Transparent and coherent laws including laws for the protection and facilitation of business
- Enforcement officers who apply the law uniformly to all.
- Significant effort to reduce grand corruption and, ultimately, to reinforce social norms that constrain petty corruption.

vi) Private – Public Partnership

vii) Informality to Formality: Need for value based change process



The Agenda for Legal Empowerment of the Poor and UNDP

- The CLEP presented its final report, *Making the Law Work for Everyone*, in June 2008, GA adopted the recommendations in Dec 2008
- UNDP has taken on itself the task to implement the key recommendations of the Commission
- With a legal empowerment core team in BDP, UNDP is developing a global programme for legal empowerment of the poor, which will strengthen its current work in this area and will generate political commitment and resources to strengthen the key livelihood rights of the poor
- UNDP PC planning to host a sub-regional dialogue on LEP in the Pacific -June/July 2009

In Conclusion

The opposite of poverty is not wealth it is justice. The objective...is to create a more just society, not necessarily a wealthier one. And the great question is how do we do this?

Leonardo Boff
Franciscan Theologian, Brazil

