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## COMPLEX GLOBAL SHOCKS AND THE NEW CHALLENGES FOR CIVIL SOCIETY

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### Summary

Recent events have crystallised a view that the speed with which economic shocks are transmitted around the world has accelerated, that these shocks are increasingly multiple in source and impact, and that the risk of future shocks of this global, complex nature is high. In mid-2010 we find ourselves in a world in which public sector spending is shrinking in rich and aid donor countries, while need grows among people living in poverty in both developed or rich and developing or poor countries, in a context of economic uncertainty and volatility. We also find ourselves in a world in which there remains an empty space for new understandings of how the world economy does – and should – work, even while the emerging institutions of global governance are giving rise to concerns about its undemocratic and non-participative nature. Drawing on grounded accounts of what it means for people living in poverty to be part of a global economy at this time, this paper sets out four challenges for civil society: the need to a) breach its own boundaries, to address cross-cutting issues at their source; b) amplify the voice of those directly affected; c) influence a fairer policy response at local, national and global levels; and d) fertilise debate, to grow new understandings of how the global economy should work, and for whom.

## **1. Introduction: how the new global risk context is setting new challenges for civil society**

Events surrounding the global financial crash of 2008 have crystallised a view that the speed with which economic shocks are transmitted around the world has accelerated; that the shocks are increasingly complex in nature; and that they are not going away any time soon.<sup>2</sup> It has been a topsy-turvy kind of global crisis: poorer countries have demonstrated more macroeconomic resilience than richer countries, leading some to view it as a rich country crisis;<sup>3</sup> financial meltdown has dominated the headlines, yet millions of people have been hit far harder by the relatively silent crisis of food and fuel inflation;<sup>4</sup> the financial sector is in recovery mode globally, while the public sector, which financed its recovery, looks set for a protracted period of downturn.

In mid-2010 we are increasingly aware that the worst may not be over: the global economy looks vulnerable to the dreaded 'double dip' recession in the wake of the sovereign debt crisis in the Eurozone and the fragile recovery elsewhere. In terms of how people's lives and wellbeing have been affected, evidence is still only beginning to emerge.<sup>5</sup> But for many people who were living in poverty even before the crises struck, whether in developed or developing countries, and whether or not their macroeconomic indicators suggest they have weathered the crisis well, the second half of the 'noughties' seems to have been a tough time. There is evidence that this has been a period of belt-tightening, rising and volatile prices of essentials, stress, uncertainty and overwork, and deeper impoverishment.<sup>6</sup>

For some people, and not only the global intelligentsia and opinion formers, this was a moment of potential, in which a global re-evaluation of the practices and values that underpinned both the flourishing and the collapse of the global financial system. It is not clear to what extent such a re-evaluation has, in fact, taken place. For those of us who think of ourselves as progressive, leftist, liberal, radical, pro-poor, cultural critics, pro-social justice or in other ways oriented towards a more equitable and democratic world system, the moment has slipped through our fingers. Within development, if the crises prised open any spaces in which to rethink the rules and systems that govern the world economy, these seem to have been quickly closed down.<sup>7</sup> In social protection, poverty reduction and related policy areas, there was much talk early on of 'crisis as an opportunity' to encourage national governments to invest in establishing the social protection systems that are so plainly needed. There are few signs that this has happened so far.<sup>8</sup> The fiscal space afforded by aid flows is narrowing as rich countries feel less generous towards others in a more austere era of deficit consolidation. Not much is known of the political reckonings going on in developing countries around social protection. Yet it is a safe bet that social protection prescriptions from less generous aid donors whose own domestic policies look weak and failing will be more easily kicked

aside now than five years ago. And if the intellectual or activist left have come up with new ideas or theories or ways of explaining the world at a time of global economic meltdown, they have been extremely quiet about it. What looked like a golden opportunity to advance new, people-centred, egalitarian and empowering ideas about how to run the world has, it seems, dissipated.

At the same time, we have become increasingly aware of the significance of global governance in setting and policing the regulatory framework for the global economy, most recently with respect to financial flows. Yet as at least one leading scholar of civil society and global governance has noted, the G20 and the related institutions of global governance that have come to the fore in the last two years are non-participative organisations, in which faceless ‘sherpas’ and finance ministry officials take critical national policy decisions that have global policy consequences.<sup>9</sup>

To summarise, we are in a period of:

- shrinking public sector spending in rich and aid donor countries
- growing need among the poor in both developed and developing countries, in contexts of low economic growth and declining in public social spending
- an unfilled space for new understandings of how the world economy does – or should – work, and
- rising concerns about the undemocratic and non-participative nature of emerging institutions of global governance.

There is clearly room here for civil society to act. But what new challenges do these new understandings of the rising risk of global economic shocks pose for civil society? This brief paper sets out to explore some of these challenges for civil society, in an effort to support thinking about the civil society response. To do so, it grounds the discussion in some recent firsthand evidence about how people have been experiencing these shocks, as a corrective to any possible complacency that poor people have somehow been shielded from these shocks.<sup>10</sup> This section looks at how these shocks have transmitted through to everyday life and local economies, and at how people and institutions have responded. From this, it identifies four sets of challenges for civil society that arise from the global risk context: 1) the complex, multi-sectoral nature of the risks faced by people, communities and countries; 2) the inherent challenges of monitoring the impacts of complex, fast-moving shocks; and 3) the spaces in which responses to global shocks have been mounted, which include both the supra-national at the top, and the highly localised on the ground; and 4) the space for alternative perspectives on how the global economy should be working, and for whom. These challenges represent new opportunities for civil society to engage around issues of global concern.

## **2. How have recent global economic shocks affected people's lives and wellbeing?**

This section draws on original research into the impacts of the food, fuel and financial crises in twelve communities in six developing countries, between 2009 and 2010. In early 2009 researchers carried out community-level inquiry into how poor people in Bangladesh, Indonesia, Jamaica, Kenya and Zambia were experiencing the initial impacts of the global downturn. One year later the researchers revisited the original locations in Bangladesh, Indonesia, Kenya and Zambia, and included two new communities in Yemen. The research approach was participatory and qualitative, working with one rural and one urban community in each country.<sup>11</sup> The research was funded by the UK Department for International Development, and partners in each country led the research, with support from IDS.

### ***Findings from the early impacts of the crises: the 2009 research***

A key finding of the 2009 research was that even as the global financial crisis was beginning to strike developing countries, many communities were reeling from the effects of the food and fuel crises. Food prices had not come down everywhere, nor by enough to bring them down to pre-2008 levels. The research found that global crises were being compounded locally by adverse climate conditions locally (drought in Kenya and Jamaica, localised flooding in Indonesia, cyclone and floods in Bangladesh, heavy rains in Zambia) and difficult political transitions (post-election violence in Kenya, a caretaker interregnum in Bangladesh); these additional factors were contributing to uncertainty around agricultural production and local economic decline. Compound, complex crises were found to be interacting with each other, making it difficult to disentangle their impacts on people's lives.

These local accounts of how the crises were being experienced offered some of the earliest insights into how the food, fuel and financial crises were unfolding in poor developing countries. The situation was different everywhere, but everywhere were signs of strain. Many people were trying hard to adapt their livelihoods. There was support from within communities, as well as some valued government and faith-based support. But many people were reporting not being able to make ends meet: managing food, health and educational needs was proving to be a struggle, and not only for the very poorest; many middle class people were also reported to be finding the high prices difficult to cope with. For some, particularly children, there were impacts that looked set to be irreversible, because they were dropping out of school to earn or because their parents could not afford fees, books, or breakfast. As this article discusses in more detail, the ties that bind communities together were showing signs of unravelling, as people were getting together to save or celebrate less than they used to. While there was evidence of neighbourly support, some believed this was declining. In all five countries, people believed crime rates had risen. From the worst-hit communities were reports that children and the elderly were being abandoned by people no longer able to

cope. In terms of social protection, people reported that some government programmes were working well. The most widely heard complaints included that these covered too few people with too little support to make a difference. Other schemes were not reaching the poorest. And much assistance – including from religious institutions and NGOs – was considered to be unpredictable or even to be declining.

***Adapting to crisis: eroded resilience, amidst an inflationary recovery***

Compared to the 2009 research, the palpable sense of crisis had receded by early 2010. One reason was the early signs of recovery, which came as a relief to those hit directly by the global financial crisis. Another was that there had been a process of adaptation in the intervening year, with people apparently becoming accustomed to harder work for lower returns, eating less well, attending school more erratically, and so on. For many of the participants in this research, everyday life had stabilised by 2010, but at a lower level of wellbeing than pre-food crisis. For many of the poorest, the ‘crisis’ had in any case been experienced as normal – merely an exacerbated version of the everyday crises of poverty.

Communities on the frontline of the global economy showed signs of recovery, particularly as more jobs were available in export industries, with knock-on effects for local economies. Compared to early 2009, people whose livelihoods were more globally integrated seemed more optimistic, less stressed, more secure, and materially better-off. There were also some signs of improvement in communities more detached from the financial crisis and its recovery, and slight indications of increased prosperity and stability as a result.

The worst of the global food price spike seemed to be over in 2010, but even then, in Yemen, Kenya and Zambia, the cost of essentials remained close to its highest levels. In Bangladesh and Indonesia, they remained high compared to 2006, but considerably lower than their 2008 peaks. Wages had risen for some people, but this was mainly found in the formal sector, and nowhere did we find that poor people were reporting that wage adjustments were compensating for inflation. With respect to working conditions and the effort required to make a living, there were few people who were not materially worse off than before the crises.

As in the 2009 research, there were signs of livelihood diversification. But by 2010, there were also reports that increased informal sector competition was driving down profits. Women were entering new areas of paid work or self-employment, even in the traditional Islamic communities in Sana’a, Yemen. In most re-visited communities pressure on household food security had eased somewhat: many people were still eating a less diverse diet in smaller quantities, but there was less skipping of meals. There were also slight improvements in healthcare access, and less evidence of stress and household conflict, apart from in the Kenyan sites, where conflicts around gender roles had worsened. There were fewer accounts of school dropout than in 2009, and an emphasis on trying to keep children in school across the communities. However,

attendance seemed to have become more erratic, suggesting that educational impacts may only show up in the future.

### ***Modest positive impacts of social protection***

Familiar problems with safety net programmes were confirmed by analyses of what was working on the ground: as in 2009, errors of inclusion and exclusion were widely reported. People welcomed interventions aligned with their own strategies for coping, such as school feeding programmes. By contrast, food-for-work programmes barely supported survival in contexts of under-nourishment. With the informal sector 'cushioning' much of the blow of the crises, the gap in social protection for informal sector workers emerges as a critical policy concern, supported by a large body of new evidence that this sector has absorbed – and to a significant extent, hidden – much of the impact on the poor and vulnerable, particularly women. Yet there were few signs of support to strengthen this capacity to effectively absorb shocks.

The full impact of the downturn on revenues, growth, ODA, budget deficits, and capacity and commitments to social protection provision will become clearer in the next year. Impacts on social sector spending merit close monitoring over this period, as governments may face powerful political imperatives to be seen to be acting, precisely when their fiscal scope is narrowing.

### ***Local institutions and civil society***

One aspect of the research findings that is of importance to note in this context is that few formal civil society organisations were found to be playing a significant role in supporting people in coping with the strains of these shocks. Development NGOs were criticised by a number of people for not helping when they were most needed, and there were signs that some were even being forced to withdraw services over the period of the crisis. As the research was very small in scale, these findings cannot be taken as representative, but they do point to the limitations of aid-funded NGOs in responding rapidly to shocks of this nature.

By contrast, traditional institutions of civil society such as church or Islamic institutions were frequently cited as important sources of support, and as having responded in a timely manner. While there were some concerns about the exclusionary nature of such institutions – in Nairobi, non-Muslims were critical about mosque assistance going to Muslims only, for instance – it seemed clear that these were institutions that were positioned and able to respond fast when needed. More informal and customary sources of solidarity and support were felt to have been eroded, as the food price crisis had affected all classes of the communities, so that even the better-off members of society were facing a struggle to get by and were unable to support their poorer neighbours. There was a strong sense that communities and families were turning inwards, focusing ever more narrowly on their most immediate members, undermining wider social solidarity. In the communities with significant formal sector workers in export industry, there were signs that organised labour was mobilising to resist renewed

pressure to increase the flexibility of labour as the recovery began to increase demand for export production.

### ***No return to the status quo ante***

The crises have produced some enduring changes. The nutritional impacts of protracted periods of lower quality diets are well known. Social cohesion may have weakened overall since the start of the food crisis, but evidence from 2010 suggests that in many places, social relations were being repaired to some extent. In others, notably in Kenya, where food security remains a serious concern, social fragmentation and family breakdown appeared to have worsened over the last year.

The crisis has also reshaped power relations in some contexts, through a renegotiation of the terms of engagement between state and economy. Abandoned taxes on copper in Zambia and increased labour flexibilisation in Indonesia offer causes for concern that the crises has meant a relative deterioration of the position of the poor in relation to the powerful. For Bangladesh garment workers, by contrast, serious labour unrest started with the onset of the food price crisis and peaked as the global financial crisis struck the industry; workers there believe their colleagues' militancy has helped force more responsiveness by employers and better working conditions. While powerful groups have been among the 'winners' and the less powerful the 'losers' from this crisis in some contexts, this may not be the case everywhere.

## **3. Conclusions: the implications and challenges for civil society**

The evidence from the ground indicates that the new global risk context is one of complex, compound shocks. These are not limited to a single sector or issue, and are fast-moving and diverse in their impacts. The first challenge for civil society in this context is that it renders sectoral or single-issue specialisms less relevant: the nature of the shocks differs greatly according to country context, and to the interaction of climate, political and more localised conditions with the global economic shocks emanating from commodity price volatility and financial crises. It seems likely that a robust civil society response to future global shocks will require a coordination of actors across different areas of expertise and with wide-ranging regional, organisational and advocacy capacities, similar to emergency response work, but on a more global and multi-level scale.

A second and related challenge is that the complex and compound nature of these shocks undermines efforts to monitor and track impacts, and therefore to engage in successful policy advocacy on tackling the poverty impacts of these shocks. To date, efforts to highlight the impacts on people living in poverty have not had an important or noticeable impact on aid and global governance decision-making around crisis response. Efforts to assess the social impact, including that by IDS, have been minuscule in coverage (and therefore weakly credible), as well as typically de-linked from the

important policy spaces. By contrast, the case for direct support to big business interests has been highly successful, crowding out considerations of direct support to small businesses or the informal sector, let alone to social protection measures that might support consumer demand directly.

Yet civil society organisations with their networks of partners on the ground, across local and global contexts, and with lobbying capacities in policy spaces are also uniquely well-positioned to monitor and track the impacts of these crises. Their advantages and capacities in this area include:

- Speed and trust: pre-existing relationships in communities enable rapid, participatory research in fast-changing contexts
- Capacity to build on existing knowledge: Pre-existing knowledge of local conditions that enable understanding of impact and attribution of cause and likely effect
- Coverage and reach: networks across local-global divides enable local experiences to be transmitted to global audiences
- Credibility: evidence generated by the large NGOs with established brands and wide public recognition are likely to enjoy credibility with both the public and policymakers.

A new opportunity for civil society engagement in monitoring crises exists in the form of the new platform, UN Global Pulse. This seeks to deploy new technologies and global partnerships to provide fast global monitoring coverage of crisis impacts and vulnerabilities, in this context of rising global risks.

The third challenge for civil society is the level of crisis response. The NGO response at the local level to the recent crises has evidently been hit hard by the fact that, as the recent survey of 640 CSOs found, many have themselves been hit hard by funding cuts, and have had to scale down activities, lose staff, and engage in new fundraising activities,<sup>12</sup> with the problem apparently most severe for CSOs in African countries. Dependence on voluntary contributions and aid flows look ever more precarious in the context of global downturn, signalling the (perennial) need for more sustainable sources of financing.

Part of this challenge is that the policy level that now matters is above nation-states, with the growing mismatch between global problems and the sites in which they are to be addressed giving rise to the crises of efficiency, legitimacy, identity and equity identified by Manuel Castells.<sup>13</sup> The G20 has come to the fore primarily as a result of the recent shocks. It is to date substantially without consultative or participative function, and decision-making appears to be opaque yet ad hoc. The emergence of the G20 could be seen as an opportunity for civil society engagement in that it is clearly the highest level of global governance at which global shocks are being managed. At the same time, the widening of the G8 membership to include large middle income or developing

countries may offer openings for national civil society groupings in some of the BRIC countries.

What will civil society say once it successfully negotiates entry into this new global public sphere? It is not clear what new ideas have emerged for fairer and more sustainable ways of managing the global economy to work better for people. The present moment represents an opportunity to raise alternatives, but this has yet to be grasped, or the space filled with powerful new understandings of global economy. As part of the Reimagining Development Project at the Institute of Development Studies, colleagues have been exploring alternative ideas about the economy and development. Surprisingly few appear to have emerged to date as important new narratives of how the world does and should work. Yet a number of arguments familiar from the so-called Washington Consensus have gained – or regained - authority in the recovery period. The best example is the view that the recent economic resilience of developing countries owed to their previous fiscal prudence.

A period of fiscal consolidation is now beginning across the rich world, the burden of which - it seems a safe bet – will be borne by poorer people and women, and not only within those developed countries. With the era of the spending state over, at least for now, the space for civil society to intervene to influence public spending in favour of powerless and vulnerable groups is narrowing. Where, then, should debates meaningfully focus? There are many issues about which entirely fresh thinking seems warranted. One obvious answer to this author is that civil society could stimulate a wide debate around a core question: how to harness markets to work for people (rather than the other way around)?

## Notes

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<sup>2</sup> See, for example, Evans, A., Jones, B. and Steven, D. (2010). 'Confronting the Long Crisis of Globalization', Brookings/CIC report.

<sup>3</sup> I recently met a business leader in Bangladesh who asked, 'Why is it that when Korea has a crisis, it is an Asian Crisis, but when America has a crisis, it's a Global Crisis?'

<sup>4</sup> See Tiwari, S. and Zaman, H. (2010). 'The Impact of Economic Shocks on Global Undernourishment'. *World Bank Policy Research Working Paper* 5215. Washington DC: World Bank

<sup>5</sup> Global Pulse (2010) *Voices of the Vulnerable: Recovery from the Ground Up*. New York: United Nations Secretary General's Office/Global Pulse (<http://www.unglobalpulse.org/sites/all/files/reports/Voices-of-the-Vulnerable.pdf>).

<sup>6</sup> This evidence is drawn from primary research into the social impacts of the crisis in which one of the authors has been involved in developing countries (funded by the UK Department for International Development), and in the UK (funded by the Joseph Rowntree Foundation). It also includes an increasing body of evidence from colleagues in international NGOs and multilateral organisations, in particular Oxfam, UNICEF and the Social Development department of the World Bank. A useful source for this material is the Crisis Watch website ([www.ids.ac.uk/go/crisiswatch](http://www.ids.ac.uk/go/crisiswatch)), an information initiative funded by the UK Department for International Development and the IDS Reimagining Development project.

<sup>7</sup> In its most recent review of the Millennium Development Goals, for example, the World Bank concludes that it was precisely macroeconomic 'prudence' and economic openness that enabled many developing countries to weather the global storm so effectively. See World Bank (2010). 'Global Monitoring Report 2010: The MDGs after the Crisis'. Washington DC: World Bank.

<sup>8</sup> See McCord, A. (2010). 'The impact of the global financial crisis on social protection in developing countries' *International Social Security Review*, Vol. 63, 31-45.

<sup>9</sup> See Scholte, J. A. (2010). 'Global Governance and UK Poverty', paper prepared for the Joseph Rowntree Foundation. London: mimeo.

<sup>10</sup> See, for example, *The Economist*, 'Emerging markets and recession', December 30 2009.

<sup>11</sup> The two rounds of research are reported on in Hossain, N. *et al* (2009). 'Accounts of Crisis: Poor People's Experiences of the Food, Fuel and Financial Crises in Five Countries', mimeo, Brighton: Institute of Development Studies, UK; and Hossain, N., Fillaili, R., Lubaale, G., Mulumbi, M., and Rashid, M. (2010). 'Social Impacts of Crisis: Findings from community-level research in five developing countries'. Mimeo. Brighton: Institute of Development Studies ([www.ids.ac.uk/go/news/now-available-the-social-impact-of-crisis-one-year-on-reports](http://www.ids.ac.uk/go/news/now-available-the-social-impact-of-crisis-one-year-on-reports)).

<sup>12</sup> See Hanfstaengl, E-M. (2010). 'Impact of the Global Economic Crises on Civil Society Organizations'. New York: NGO Committee for Social Development (<http://ngosocdev.wordpress.com/2010/01/28/174/>).

<sup>13</sup> Castells, M. (2008). 'The New Public Sphere: Global Civil Society, Communication Networks, and Global Governance'. *The ANNALS of the American Academy of Political and Social Science* 2008 616: 78.