



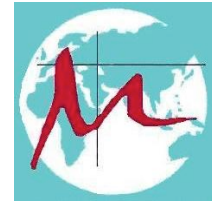
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The Global Economic Crisis and its Impact on Civil Society Organizations

Executive Summary¹

of a study by Eva-Maria Hanfstaengl

New York, 29 January 2010

The food, environmental and economic crises have challenged civil society organizations (CSOs) and the communities they serve. A broad-based survey was undertaken in 2009, financially supported by the United Nations Secretariat, that measured the impact of the crises on the operating capacity of CSOs around the world and their expectations as they look ahead. This study examines the current situation of CSOs as indicated by responses from 640 civil society organizations worldwide. It also asks what strategies they are undertaking to cope with a drop in revenue and how they plan to strengthen social-service delivery capacities of CSOs during crisis periods.

¹ The full study is available at <http://ngosocdev.wordpress.com/>

A number of civil society organizations (CSOs) have reported substantial reductions in their funding in the wake of the global financial and economic crisis, and they are concerned that this threatens their ability to deliver the services and activities that are required. Seeking to understand better the global scope of this problem, the United Nations Secretariat initiated a study that was guided by a CSO Steering Committee, which included two members of the NGO Committee for Social Development (Marianists International and the Sisters of Charity Federation), as well as the Friedrich Ebert Stiftung (FES) and the UN Non-Governmental Liaison Service. Thus, a global survey was undertaken in the fall 2009 on the impact of the inter-related environmental, financial and economic crises on CSOs and the constituencies they serve. This briefing paper extracts from that study (available at <http://ngosocdev.wordpress.com/>) to highlight limitations facing non-governmental organizations as providers of social services for development and the essential role of state institutions.

Efforts to disseminate the survey around the world resulted in a wide *regional coverage* of CSO experiences and views: Of the 640 CSOs that responded to the survey, 33% were from Africa, 23% were from Asia, including China, 16% were from Western Europe, 13% from the US and Canada, 9% Latin America, 3% Eastern Europe, 2% Japan, Australia, New Zealand, and 1% Ukraine and Russia. They provide a wide range of services. With regard to development programs, most of the responding CSOs work primarily in the areas of education (309), gender (296) poverty eradication (285), human rights (254) and health care (236). Other areas of work are environment (185), assisting persons with disabilities (148) and agriculture (170).² 73% of the respondent CSOs indicated that they provide programme support and social services. 53% of CSOs engage also in advocacy work and campaigning.

The *size* of the organizations that took part in this survey differs widely. Some are small, unincorporated, voluntary organizations with very small budgets. At the other extreme, a few CSOs had substantial budgets of over a million USD, including development programmes. The majority of responding organizations, however, have a budget between 2,000 to 500,000 USD.

Decline of resources of civil society organizations during the crises

As might be expected, there has been a variety of experiences in resource flows to CSOs, with many seeing increases although even more CSOs suffered declines. More precisely, 146 CSOs reported increases in their budgets in 2008, falling to 111 in 2009. Most CSOs, however, have confronted reductions: 153 CSOs reported budget decreases in 2008, 214 in 2009 and 160 CSOs expect reductions in 2010. Moreover, although CSOs may be able to temporarily maintain their budgetary outlays in the face of falling contributions, budgets will necessarily respond to changes in funding inflows. It is thus important to understand which types of contributions have been negatively impacted by the crisis. Reductions were reported from individual contributors, private foundations, international institutions and governments, although not necessarily by all categories at once: Whereas 378 responses still indicated an increase from 2008 onwards, a bigger number of 582 responses saw a decrease in the different categories of funding: 147 responses saw a decline in direct personal contributions, 104 CSOs experienced reductions by private foundations, 95 by international institutions, 87 by governments and 71 by corporations.

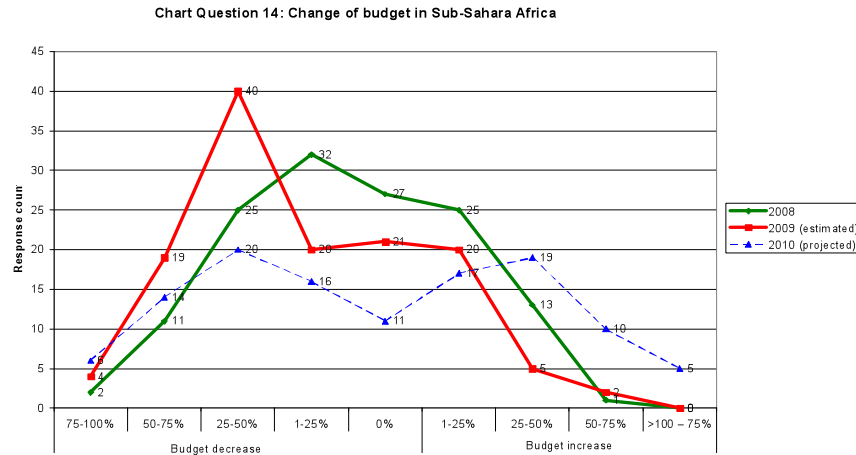
Regional differences in the impact of the global crises on CSOs

Regions saw different changes in overall funds flowing into CSOs during the crisis period. CSOs that have a more diversified structure of funding, as in the United States, Canada and Western Europe, are better able to withstand the negative consequences of the financial crisis on their supporters. CSOs that rely relatively heavily on corporate giving and private foundations have been most challenged to maintain their services, as many of these donors have been directly affected by the financial crisis. Particularly negative results have

² Here, multiple answers were possible, meaning that CSOs work in more than one sector.

been noted for CSOs in some smaller European countries and in Sub-Saharan Africa.

Sub-Saharan Africa



In Sub-Saharan Africa a significant majority of CSOs participating in the survey reported budgets cuts in 2008 and 2009. Most CSOs reported a drop in receipts from the private sources of funds, including from private foundations and corporations. The same can be observed for grants from international institutions and governments. Big reductions are coming from corporate donors.

The hope for increases of funding, as expressed by several CSOs in Africa, will probably not materialize. The World Bank and International Monetary Fund (IMF) forecast that, despite all poverty reduction efforts, 353 million Sub-Saharan Africans will still be extremely poor in 2015.³ The need for substantially more social spending in the region, including by CSOs, is clear.

Asia

CSOs in Asia show a slightly different structure of revenues. They are less dependent on international institutions, instead getting support mainly from individual donations and private foundations. Had Asia's earlier economic growth rates continued, the number of people living in extreme poverty in 2009 would have been about 82 million fewer than it is, according to the UN Secretariat.⁴ This may be set against the total number of extremely poor people in the region, which the World Bank and IMF estimate at 734 million in 2009. This number of people in extreme poverty is about 11% higher than it might have been without the crises. In this regard, the conjunctural impact on poverty seems to have been greater thus far in Asia than Africa. The overall poverty rate in Asia, however, has fallen to about 21% of the population, as economic growth has been consistently strong in China, India and a number of other countries in the region. Indeed, the World Bank and IMF forecast the number of extremely poor people will fall to 520 million by 2015. This more dynamic economic situation seems to be reflected in the budgets that CSOs from the region participating in the survey reported in 2008 and 2009. While many CSOs reported a decline in budgets, as elsewhere, the majority still managed to increase their spending and thus their activities in both years.

Latin America and the Caribbean

The poverty impact of the current crisis in Latin America and the Caribbean seems to have been closer to the Asian than African experience. Responding CSOs from Latin America and the Caribbean rely mostly on

³ World Bank and IMF, *Global Monitoring Report, 2009*, table 1.6.

⁴ Unless otherwise indicated, this and subsequent estimates for 2009 and forecasts for 2010 are drawn from United Nations, *World Economic Situation and Prospects, 2010*.

individual donors, international institutions and governments. The number of people in extreme poverty could have been 4 million less than it was (40.3 million), implying 10% more extremely poor people than might otherwise have been expected in 2009.⁵ But only 7% of the population in this region falls into the category of extreme poverty. While it is unacceptable that 33 million people in the region are forecast to be extremely poor in 2015, the World Bank and IMF expect that the region as a whole will achieve the MDG goal of halving poverty. This notwithstanding, it appears that the majority of the responding CSOs in the region were hampered from playing as strong a role in social support as they might have, as their budgets suffered decreases since 2008.

Developed countries

CSOs from Western European countries and from the US and Canada are also less dependent on international institutions and show quite a diversified structure of revenue, receiving funds mainly from personal contributions, governments and private foundations.

In *Europe*, only CSOs in a few smaller countries have so far experienced a reduction in contributions due to the economic crises. In general, it appears that Western European CSOs have relatively less volatile funding than their Sub-Saharan counterparts, which might reflect generally larger and longer established organizations and funding relations in Europe. Some CSOs also serve as a channel for disbursement of official development assistance (ODA). Most donor governments in the EU remain committed so far to achieving the UN target of spending 0.7 per cent of gross national income (GNI) as ODA by 2015, with many adopting intermediate targets also as ratios to GNI. However, there is a danger that if economic recession in 2010 causes a fall in GNI, aid budgets could also be reduced, maintaining the ODA/GNI ratio. Such an approach would be especially disruptive to aid-receiving countries – not to mention CSOs – that count on significant ODA support for their programmes. Many CSOs in the EU therefore fear reductions in the upcoming 1 to 2 years.

CSOs in *Australia and New Zealand* seem only slightly negatively effected so far. Also, most responding CSOs in the *US and Canada* did not yet see an overall negative impact of the crisis on their budgets. However, a significant portion of the disbursements of US CSOs are supported by foundations. While flows in the short-term are often parts of programs agreed in earlier years, many foundations have been hit hard by the financial crisis. As long as these foundations do not make major changes in the allocations to different categories of grantees, these negative trends could have a direct impact on the recipient CSOs in 2010 and 2011. US government funding increased in 2008 and increased slightly in 2009. CSOs that receive US government funding were therefore in a less dire situation. Some US CSOs even reported a doubling of funds due to rising support from the US government. Nevertheless, some of them warned that it is too early to say if this tendency will endure. “At the end of the day governments will have to balance their books, so it is too early to tell.” Also, with high unemployment rates, individuals' disposable income is less likely to come to charities and non-profit organizations.

Revenue decline confronts an increased demand for services

The data confirm that 2008 and 2009 marked a special challenge for CSOs worldwide. Most of the responding CSOs reported budget decreases in those years that were threatening to compromise their ability to deliver services and activities. Civil society organizations around the world that participated in this study reported that most government proposals to deal with the global crisis did not sufficiently address their social consequences, such as rising inequalities, increased food insecurity and volatile energy and commodity prices. The CSOs themselves are faced with the challenge of stepping into this gap, as the revenue decline comes at the same time as demand for services is increasing, requiring more, not less, funding. CSOs report that the amount and scope of requests for support by the constituencies and partners of civil society organizations is

⁵ Estimates in this paragraph also draw on references above.

growing. More than half of the responding CSOs reported that demand for services has already risen substantially. One major purpose of this survey was to find out if the scope of requests by the constituencies and partners of civil society organizations changed due to the global crises. This hypothesis is largely confirmed by the results of the survey: CSOs project for the next two years further increases in requests for emergency relief, as well as for support to provide basic social services.

CSO strategies to cope with the drop of revenues

In sum, most humanitarian and development CSOs have had to cope with a financial strain and reacted with a series of strategies. To stretch resources, 80% of the organizations have developed better collaborative networks with other CSOs, especially those locally based. 78% started additional fundraising campaigns, exploring the remaining or new opportunities in their countries or within their constituencies. As a result, competition between NGOs for funding is rising. CSOs extended their use of Internet tools. Some CSOs report cutbacks in their administration cost, staff and aid programmes. Most of them however intensified their advocacy work to “reform the system of sporadic aid.”

In *Western Europe*, 63% of the responding CSOs have so far been able to adapt to a tighter resources constraint. There is a clear effort reported by many of the responding CSOs in Europe and the US and Canada to cut back on administrative cost, rather than on programme costs. Many of them are reducing staff travel and other expenses that streamline the programmes. In addition, many CSOs started to develop specific strategies in order to obtain a more secure funding stream. Some CSOs are trying to receive more funds from wealthy individuals; others use traditional strategies like greater diligence in managing funds, diversification and improved financial management systems.

In *Latin American and Caribbean countries* a bit more than half of the respondents reported that they had to narrow their scope of work. Also in *Asian countries*, 58% of CSOs had to narrow their scope of work and reduce their number of staff.

This situation is worse in *African countries*. A much higher number of the respondents (72%) had to narrow their scope of work and to substantially reduce their number of staff (64%). Therefore, a high percentage of CSOs (82%) in Sub-Saharan Africa started new fundraising campaigns and are seeking networking with other locally-based CSOs. Nevertheless, most of them do not expect their strategies to cope with the financial shortfall to be sufficient to meet the challenges.

CSO comments reflected serious constraints on any further narrowing down of their work. For example, one respondent said it now employs one coordinator to do the work formerly done by three. Another reported it would “rely on students to replace our teachers.” A third CSO reported: “We still are only 2 full time and 4 part time staff working with 1,655 children on a weekly basis in 70 different villages around our municipal area. The work load has increased but we have not been able to increase staff... the crisis hasn’t made it any easier for us... We could not further adapt because we were running at optimal efficiency prior to the crisis.” One CSO regretted, “We have closed two educational centres for children in peripheral zones, as well as nutrition centres. We are reducing our aid to children who have left nursery school and entered elementary school, giving priority to early education.” Another one said, “There are fewer students that we are able to support, which means [we pose] more requirements for accepting them in programmes.”

Recommendations

CSOs participating in the survey endorsed a number of proposals for reform at national and international level that would boost development and poverty eradication efforts. A large number of CSOs (397) responded to the multiple choice questions on this topic and many submitted their own proposals. These recommendations summarized below are meant to be a strategy for addressing the failures of societies and governments to adequately protect the vulnerable and promote human development. The proposals also show that CSOs

recognize that for all their efforts, they are relatively small actors in social development. Only governments can act on the scale required. The economic crisis is impeding the public provision of social services and is also weakening pension systems in many countries that have such systems.

Improving social safety nets and income support for the poorest

A high percentage, about 80% of the respondents, thinks that a high priority should be given to introducing more efficient measures to fight corruption, reduce opportunities for tax evasion and recover illicit financial flows. To mobilize the required financial resources for social safety nets in developing countries, CSOs see the need for more progressive and redistributive national tax systems, utilizing a broad and equitable tax base, and targeting those most able to pay. They think that earnings from capital transactions and resource extraction should be taxed more heavily than earnings from labour.

Direct government income support is needed to help reduce poverty. Again, 80% of the responding CSOs strongly favoured the introduction of basic income grants for the poorest and most vulnerable at national level that would provide a minimum income for each citizen that allows him or her to participate in society at least at a minimum level. The money of people not in need or not in poverty would be recovered through adjustments in the tax system. Other valuable proposals supported by CSOs are the establishment of a global pension fund and the ILO's Decent Work Agenda⁶ and Global Jobs Pact, which is aimed at generating jobs and providing protection to working people and their families.⁷

Stepping up development cooperation and innovative resources

The global crises threaten to reverse critical gains made towards reducing poverty and hunger and achieving the Millennium Development Goals (MDGs). Lower income countries need additional financial assistance to protect essential social expenditures and prevent further erosion of progress made in reducing poverty. CSOs thus called on donor governments to increase official development assistance (ODA). 74% of the responses see it as the highest priority that donor governments meet and increase their existing official development aid commitments. Also, almost three quarters of the responses strongly recommend that more development aid be channelled through CSOs on the ground, in particular in countries in which CSOs have faced public corruption and policy indifference.

As the financing gap is large, especially when consideration is given to the additional funding that is urgently required for meeting the adaptation and mitigation challenges of climate change. As a result, the discussion and exploration of new and innovative financing mechanisms is gaining momentum, as was reflected in the answers to the questionnaire and the majority (55%) of the responding CSOs think that donor governments should therefore step up their official development assistance and develop additional and innovative sources of financing, such as the air ticket levy, transfers to developing countries for carbon credits or imposing a financial transaction tax to finance global public goods.

A “UN Charter for a sustainable and socially oriented market economy”

Leaders at the Group of 20 (G20) Summit in London in 2009 had recommended developing a charter on sustainable economic activity. The elements of such a charter are not clearly defined yet and remain under discussion within the G20. In any case, the crises demonstrate the urgent need for the establishment of such an overall normative framework of global governance, which could establish principles for the world economy and for mechanisms of international cooperation in response to shared economic vulnerabilities. It is no surprise therefore, that almost three quarters of the CSOs (73%) see an urgent need for the establishment of

⁶ www.ilo.org/global/About_the_ILO/Mainpillars/WhatIsDecentWork/lang--en/index.htm

⁷ ILO June 2009: www.ilo.org/global/What_we_do/Officialmeetings/ilc/ILCSessions/98thSession/texts/lang--en/docName--WCMS_115076/index.htm

such an overall normative framework of global governance. They pointed out the need to bring into financial, trade and development discussions the central social commitments and human rights obligations that could otherwise be lost.

The need for automatic counter-crisis support

The current situation demonstrates that the ability of CSOs to mobilize private resources weakens during a crisis just when the need for their services rises. Individual donors around the world have been less able than before to step up their assistance. Similarly, private foundations faced reduced capacity to deliver funds as their own assets declined substantially in value. The food and environmental crises as well as the 2008-2009 financial crisis have shown clearly that in this increasingly interdependent and globalizing world, difficult situations can happen in the different regions of the world at more or less the same time. In order to avoid unbearable social cost and increasing poverty, there is a need for “counter-cyclical” action. The central conclusion of the study summarized here has been that civil society organizations cannot do it by themselves with their usual sources of private and personal funding. Therefore, governments and international institutions need to step in with additional financial support for the social activities of CSOs during global crises. The question arises whether there is a way to institutionalize automatic or semi-automatic financial support to fund necessary social programmes of CSOs during global crises.

The Chief Executives Board of the UN System proposed the establishment of a “*Social Protection Floor*”. Such a protection floor, in a system-wide approach, could protect affected people during crises and thereafter. It would assure physical and financial access to essential public services, such as water, sanitation, health and education. It would also provide a set of essential social transfers to the poor and vulnerable to provide a minimum income and secure access to essential social services.

The question remains how to provide additional finance for social protection of the poor and for governments to manage the crisis. The most promising option discussed at this moment and favoured by the majority of responding CSOs for such additional funds is the *Financial Transaction Tax* (FTT) which would be established by national governments to tax transactions within their jurisdictions in all kinds of financial assets: shares, bonds, securities and derivatives. It is expected that a tax rate of just 0.1% would yield globally 734.8 billion USD. For Europe the figure would be 321.3 billion USD and for North America 313.6 billion USD.⁸

While it is encouraging that this and other approaches are under international discussion, there is no answer yet to the question of how to assure immediate and sufficient support during crisis periods for affected civil society organizations and the people they serve at the grass-roots level. Given the high degree of global economic and financial integration, global crises may occur with increasing frequency. It must therefore be a high priority on the political agenda to take all necessary steps to slow and adapt to climate change, avoid another food crisis and prevent new financial crises. Should those crises happen again or the current ones continue, the world community should be better prepared, and – as an immediate short-term measure – at least provide the financial means, including supporting CSOs that can help address the harm that threatens society’s poorest and most vulnerable members.

Mobilizing **stable and predictable** funds for achieving the Millennium Development Goals and other social development goals requires a sense of political urgency. The huge resources quickly mobilized for the financial rescues in the major developed economies show what is possible. It remains to treat social development challenges in the same way.

⁸ Stephan Schulmeister, Margit Schratzenstaller, Oliver Picek (2008): A General Financial Transaction Tax. Motives, Revenues, Feasibility and Effects. Vienna