MITIGATING THE EFFECTS OF THE GLOBAL FINANCIAL CRISIS IN ZIMBABWE: THE ALTERNATIVE STRATEGIES FOR THE NON-GOVERNMENTAL ORGANISATIONS

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ABSTRACT

The goal of this paper is to conduct an in-depth discussion on the effects of the global financial crisis and the viable mitigating strategies for Zimbabwean NGOs. Zimbabwe, like many countries in Africa, requires aid for developmental purposes. The amount of aid to Zimbabwe is dwindling largely because the main sources of foreign aid are countries in the global north that have been affected by the global financial crisis. The underlying hypothesis guiding this article is that even with the global financial crisis, Zimbabwean NGOs are sustainable if the organizations are able to review their policy frameworks involving the engagement of the ‘grassroots’ and devising workable alternatives for development and strengthening accountability of resources. The paper suggests various policy alternatives which could benefit Zimbabwean NGOs and other stakeholders.

Keywords: Development, Financial Crisis, NGOs, Zimbabwe

JEL Classifications: F35, G01, G15, G18, G19

1. INTRODUCTION

The global financial crisis has affected so many nations like the USA, Britain, France, Spain, Canada and Asian countries including China, Japan and those in Africa. The financial crisis was first felt in the developed countries and is moving to developing countries like Zimbabwe, though at a slower pace than in the North. In developing countries the effects of global financial crisis are being felt heavily only now although the crisis started in 2007. The global financial crisis has affected countries in different ways. Most African countries are in need of aid to alleviate poverty and bring sustainable development to their economies.

The current global financial crisis which started in earnest in 2007 has its roots in the sub-prime mortgage business, in which US banks gave high-risk loans to people with poor credit histories. These and other loans, bonds or assets were bundled into portfolios - Collateralised Debt Obligations (CDOs) - and were sold on to investors globally. Between 2004 and 2006 US interest rates rose from 1% to 5.35%, triggering a slowdown in the US housing market. Homeowners, many of whom could only barely afford their mortgage payments when interest rates were low, began to default on their mortgages. Default rates on sub-prime loans - high risk loans to clients with poor or no credit histories - rose to record levels. The impact of these defaults were felt across the financial system as many of the mortgages had been bundled up and sold on to banks and investors (www.bbc.co.uk). This global financial crisis has not only...
affected developed countries but developing countries, and though they were slower to feel the pinch, they are now the hardest hit. What is important therefore is to analyse the alternatives available for Zimbabwean Non-Governmental Organisations (NGOs) in the global financial crisis, since they play a critical role in development.

2. LITERATURE REVIEW

The global financial crisis really began to show its effects in the middle of 2007 and into 2008. Around the globe stock markets fell, as large financial institutions collapsed. The impact was such that the wealthy nations were forced to come up with rescue packages to bail out their financial institutions. The Global financial crisis affected everyone, as it is threatening the survival and livelihoods of poor people. The implication is that development aid to Africa has therefore been affected by the global financial crisis. Moyo (2009:16) describes aid as “the sum total of both concessional loans and grants.” For Abbas and Niyiragira (2009) development aid is “a system of external support, taking multiple forms, that assists a recipient government in achieving its integrated development plan”. Given the above definitions it is apparent that aid is critical to the development of African nations because of the underdeveloped nature of their economies and societies. The situation has been worsened by the global financial crisis that has reduced the amount of aid for Africa.

It is also critical to outline the meaning of development as this helps to underpin the role of aid in relation to development. Development is a holistic process that implies the definition of its political objectives and their articulation such as the democratization of society and emancipation of individuals, affirmation of the nation, as well as power and autonomy of these in the global system, (Abbas and Niyiragira, 2009). Sherwood (2003:165) describes societal development as “the progress that all people make throughout their existence in developing social structures, regulating both internal and external relationships and working towards economic and other improvements in their lives”. Development is therefore about social, political, economic and legal transformation as it touches on every aspect of human life and their survival therein.

The global financial crisis has become a “development emergency”. As the world enters a period of slower economic growth which has a strong negative impact on developing countries, there is greater need for resource transfer from the developed world to the developing world, (www.un.org/new). Moyo (2009:10) assets that, “the origins of large-scale aid can be traced to the establishment of the Bretton Woods system in 1944. The tale of aid begins in the first three weeks of July 1944, at a meeting held at the Mount Washington Hotel in Bretton Woods, New Hampshire, USA. The British government administered grants for infrastructure projects across poorer countries. Aid transfers in these early periods were as much about donor legacies as they were about political control over the colonial domain”. Moyo therefore, recognizes the fact that the world economic system is asymmetrical, as it is made up of the haves and the have nots. Those with resources dominate those with little or limited resources. The situation was rather worsened by the colonial system which saw the so called developed nations exploiting resources from the global south. Unfortunately decades after colonialism, the North is still in charge of global resources or how they are managed. This therefore has a great effect if a global financial crisis hits the North since these effects will cascade down to the developing nations. Furthermore, the effects will not only be felt on resources but the power dynamics as well.

Non-governmental organizations undertake their activities in developing countries either directly or indirectly. Fowler (1991:10) notes direct intervention as involving the actual execution of a development activity in the South by the Northern NGOs. Examples of those agencies directly involved in development aid in Zimbabwe are CARE International, World
Vision and Plan International, Action Aid, and Save the Children U.K. Organizations involved indirectly in the South do so by assisting in funding local organizations often referred to as ‘partner organizations’, for example Christian Aid, CAFOD and SCIAF are just a few such examples. Therefore there is no doubt that Africa is now feeling the heat since some major NGOs originate from or have their resource base in developed countries. The global financial crisis has limited the capacity of both the NGOs involved directly and those that are indirectly funded through partner organisations.

Generally, aid can be classified into various categories depending on the purposes for which it is being given. Moyo (2009:7) distinguishes between three types of aid namely; humanitarian or emergency aid, which is mobilized and dispensed in response to catastrophes, for example, aid response to the 2010 Haiti earthquake and the Asian Tsunami in 2004. The second type is charity-based aid, which is disbursed by charitable organizations to institutions or people on the grounds that they are less privileged. The third type is systematic aid which are payments made directly to governments either through government to government transfers or transferred through multilateral financial institutions such as the World Bank and the International Monetary Fund (IMF).

Since the 1980s, there has been a considerable growth in the numbers and influence of NGOs, particularly northern NGOs engaged in poverty – alleviation and development in Africa, (Riddel, 1992). The global financial crisis has impacted on all NGOs, big and small, local and international without exception thereby impacting negatively on development. Notably, for some NGOs, the impact has been immediate, while for others the real impact will only be known in the coming months or year to come.

Scholars like Moyo (2009:76) argue that aid in Africa has not worked precisely because it has not been constructed with the idea of promoting growth. Aid has been constructed in a politically driven way and therefore, reduces savings and investments. For Moyo (2009:76), aid chokes off trade and also aid nurtures dependency syndrome in Africa. This author argues that aid does not alleviate systemic poverty but it actually increases it, creating humanitarian disaster for most parts of the developing world. Ake (1988:136) agrees with Moyo as he argues that donors design their own programs and strategies often, if not usually, without reference to the objective needs and priorities of the recipient country. Brown et al (2007) further points out that the conditions that international lenders impose in return for their assistance undermines national sovereignty. However from the writer’s point of view, the issue is not about total aid cut but it should be about how the conditions and construction of aid should be negotiated and more importantly, about how deep, and how rigid they should be. A time limit needs to be defined after which the assistance is withdrawn and society must take over. This will ensure the sustainability of programmes and projects.

“Aid packages by the richer and developed nations are not given whole heartedly hence such aid is always doomed to fail”, Waltz (1979). It is argued that aid is not meant to assist the poorer and developing nations to get out of their sorry state. According to the precepts of the dependency theory, the status quo should always be such that poorer nations will always depend on the richer nations (Waltz, 1979:147). He further argues that in dependency theory, the developed nations actively keep developing nations in a subservient position, often through “economic force” by instituting sanctions, or by prescribing free trade policies attached to loans granted by the World Bank or IMF.

Another significant factor that has catalysed the expansion of NGO involvement in development is the anti-state intervention nature of structural adjustment policy measures (SAPs). Under SAPs governments of developing countries were forced to withdraw from some socio-economic spheres of involvement due to governmental budget constraints, and the capitalist ideological views that development programmes should not be totally controlled by donor and recipient governmental agencies, Schneider (1998). The effect of such an ideological shift was that it
increased the formation and set up of NGOs in African countries in general and in Zimbabwe in particular.

Guo Jiading cited in Ghali (2002) provides two principles in relation to the operation of NGOs in developing nations. The first principle is that, economic assistance should not depend on any condition of political nature. The second principal is based on equality and mutual advantages, as well as non-interference in internal affairs. Jiading (ibid) further argues that, “China provides a modest amount of assistance to other developing countries that need it. In so doing, we never intervene in the internal affairs of the States concerned, and we assist them in the choice of their own political system and of the way they want to develop”. Such a scenario provides that there will be no impartiality and bias in the dealings of NGOs towards other members of the community they will be operating in or the Government.

Even though Moyo (2009) and other many authors argue that aid is dead and that it does not work, other authors like Calderisi (2007) argue that “around the world, successful countries are those that have chosen the right policies for their own reasons and seen foreign aid as a compliment to their own efforts rather than as a bribe for undertaking difficult reforms”. Cutting aid may not be the best response as it has helped poor countries to develop provided the funds are managed and budgeted well. Calderisi (2007) is of the view that Western powers that focus on raising the living standards of the poorest countries would help everyone. This point is supported by Wolfensohn (2002) who notes that, “foreign aid is increasingly a catalyst for change, and it is helping to create conditions in which poor people are able to raise their incomes and to live longer, healthier, and more productive lives”. Essentially therefore, aid will most likely help enhance the economic and social lives of people within a nation but the key to this development is that, there should be greater accountability on the part of the recipient government in the management of the donor funds.

Aid has helped to improve the livelihoods of poor countries by embracing the elimination of poverty and increasing health and education among these nations. Although aid is a necessary tool to assist poor countries in terms of development, in many countries donors underestimate the importance of government and institutional reforms. As Calderisi (2007) notes “little advancement takes place unless reforms are fully owned by the government, so an external agent like the world bank cannot and should not take primary credit for the typical reform, successful development assistance requires partnership with other agencies including civil society, NGOs and others, both domestic and external, for effective development assistance”. McNeill (1981) alleges that NGOs offer opportunities of alleviating the problem of absorptive capacity which is the most serious in the poorest countries. In light of this, there is a need for complementary of action between governments and donor agencies or NGOs in order to foster development.

Poor countries however, should not over rely on aid as aid seems to make poor nations poorer for example the situation in Somalia. Governments may end up neglecting their role of providing frameworks for development because of over reliance on aid. Abid Hussain cited in Ghali (2002) suggest that, “Aid assistance should not lead to dependence. There have indeed been cases where the beneficiaries of aid have become increasingly dependent on support from outside”. Because there are some donors who offer aid with some underlying political motives this kind of assistance becomes an extension of their domestic politics by other means. Recipient countries should therefore, be extremely cautious about these donors and should strive to keep out such donors.

To avoid over reliance of aid, alternatives to aid should be used as principles for development. Abbas and Niyiragira (2009) suggest that development demands a diversified system of production, social infrastructures like quality education and good health, diversification and industrialization will demand the construction of forms of adequate regional cooperation. Rural and agricultural development must be at the center of the definition of
strategy for another development, questioning the globalization of production and finally understanding external relations. Moyo (2009) states that the alternatives to fund economic development across poor countries and if implemented in the most efficient way will reduce Africa’s dependency on Aid. The alternatives to aid are predicated on transparency, elimination of rampant corruption, and through their development provide the life-blood through which Africa’s social capital and economies can grow. The views discussed in this paragraph will be further elaborated in the latter paragraphs of this article as they form its subject matter.

3. THE EXTENT OF THE PROBLEM

In April 2007, New Century Financial, which specializes in sub-prime mortgages, filed for Chapter 11 bankruptcy protection and cut half of its workforce. As it sold on many of its debts to other banks, the collapse in the sub-prime market began to have an impact at banks around the world. Investment bank Bear Stearns told investors they will get little, if any, of the money invested in two of its hedge funds after rival banks refused to help it bail them out. On 9 August 2007, Investment bank BNP Paribas told investors that they will not be able to take money out of two of its funds because it could not value the assets in them, owing to a "complete evaporation of liquidity" in the market. This was the clearest sign yet that banks were refusing to do business with each other. In 2007, the European Central Bank injected 95bn Euros (£63bn) into the banking market to try to improve liquidity. It added further 108.7bn Euros over the next few days. The US Federal Reserve, the Bank of Canada and the Bank of Japan also began to intervene (www.bbc.co.uk).

Swiss bank UBS was the world’s first top-flight bank to announce losses - $3.4bn - from sub-prime related investments. The chairman and chief executive of the bank stepped down. Later, banking giant Citigroup unveiled a sub-prime related loss of $3.1bn. A fortnight on, Citigroup was forced to write down a further $5.9bn. Within six months, its stated losses amounted to $40bn. On October 30 Merrill Lynch’s chief resigned after the investment bank unveiled a $7.9bn exposure to bad debt (www.bbc.co.uk).

The Global financial crisis has since spread to the whole of Europe and is now affecting other regions such as East Asia and Africa just to name a few. China is a major economic power and holds huge amounts of foreign exchange reserves. Several Chinese industries, particularly the export sector, have been hit hard by the crisis, and millions of workers have been reportedly laid off. China’s economy is heavily dependent on global trade and investment flows. In 2007, China overtook the United States to become the world’s second largest merchandise exporter after the European Union (EU). China’s net exports (exports minus imports) contributed to one-third of its GDP growth in 2007. China’s exports of goods and services as a share of GDP rose from 9.1% in 1985 to 37.8% in 2008. The Chinese government estimates that the foreign trade sector employs more than 80 million people, of which 28 million works in foreign-invested enterprises Morrison (2009). Although China is a major economic power, it has not been immune to the Global financial crisis given its heavy reliance trade and foreign investments. This is because the countries that China trades with have been hit by the global financial crisis so trade has slowed down. According to the official calculations, the Chinese government in January 2009 estimated that 20 million migrant workers alone lost their jobs in 2008 because of the global financial slowdown. A survey by the Hong Kong Federation of Industries (HKFI) published in October 2008 found that, of the 70 000 firms in China owned by their members, 20 percent were either out of business or being phased out (Overholt, 2010). The global financial crisis has seen a new order in the world with China becoming a big power house in Asia and America.

The global financial recession has seriously affected Africa in so many ways including a decline in global trade, drop in investment, falling remittances from overseas workers and
possible cuts in foreign aid. The global financial crunch is heavily felt in African countries as these countries are developing countries and most of them still heavily rely on foreign aid. The drop in foreign aid has affected progress in development and the livelihoods of so many people. For example in Zimbabwe, some NGOs have closed down or have actually cut down on salaries and number of employees. This has not spared the projects that were underway, some of which have actually been stopped, which has affected the huge number of people who were relying on aid as most people are out of jobs and living in poverty.

While Africa accounts for less than 2% of global trade, many African economies depend on trade on commodity exports, whose prices on the world market have declined drastically due to the global financial crisis. The price slump in oil and many mineral commodities, combined with decreased external demand, dealt a severe blow to the region: oil and other mineral fuels represented 68% of African exports to the world by value in 2008; ores, slag and ash about 14%; and precious stones about 4%.27 African countries are thus exporting less on average, and at lower prices, than a year ago (http://allafrica.com/africa, 2008).

Consequently, there was a substantial drop in NGO funding as respective donors began to cut down their contributions (IRIN, 2009). In response, NGOs were forced to scale down both programmes and staff as their income streams flattened. Fundraising experts of some of the world’s top NGOs focused on a slowdown in 2009 programming growth because of the squeeze. Predictions made by some of the major NGO programme funders (Oxfam GB, Save the Children UK and World Vision USA) indicate that between them, they account for an annual income of US$3.1 billion (Ariff et al, 2009). There is now tighter global credit and investor risk thus weakening the balance sheets of financial institutions and companies.

The economic structure of the least developed countries, as well as that of the emerging markets, dictates that these countries are affected by the developments in the markets of developed countries. For instance, it is established that Lesotho’s export of clothing and textiles is largely dependent on the level of economic activity in the US markets. This is the case for the entire region’s exports, regardless of the level of development. Thus as a result of the impact of the financial crisis on economies of developed countries, demand for regional products has plummeted, forcing the manufacturing industry, especially the export sector, to retrench workers IMF (2010). With the United States and the rest of the world, export volumes in most African countries have declined resulting in reduced production and loss of jobs for most people.

3.1 THE IMPLICATIONS FOR ZIMBABWEAN NGOs

It is certainly clear that that the donors’ funds are drying up. Donors from the North rely heavily from their governments, banks, multinational corporations, other companies and individuals for funds to finance their development projects in developing countries. Funders (especially endowment-based foundations paid for by Ford, Mott, Kellogg and others) will be affected as less money will be available from investments and endowments for distribution. Greece has a 350 billion Euro debt. The jobless rate in Greece is at 15.9% up from 14.2 in 2008. This is destabilizing the whole of Europe. France’s three biggest banks are at risk of a credit downgrade because of exposure of Greek debt. Shares in Credit Agricole, Societe Generale and BNP Paribas lost more than 4% after Moody’s said it may downgrade them due to their exposure to Greece. Shares in Franco-Belgian lender Dexia fell as much as 10%. Shares of Portugal’s BCP have lost 8% as in June 2011, (www.bbc.co.uk).

Some of the biggest NGOs in Zimbabwe are retrenching staff or revising programs as their income streams flatten because of the global financial crisis. Oxfam GB, Save the Children UK and World Vision USA said programme growth will slow as a result of the squeeze. Some of the biggest reductions are coming from corporate donors in the financial sector. Robert
Zachritz, World Vision’s Director of Advocacy and Government Relations in Washington DC said that “Growth from corporations won’t be as much so we won’t be scaling up our programme as we’d want to do” (www.irinnews.org).

The World Bank has estimated that due to financial pressures on donor agencies, about 100 million people face poverty because of escalating food and energy prices. The Group of 24 (G24) developing nations stated towards the close of 2008 that part of the problem is that wealthy nations are not meeting aid pledges. G24 chair, Jean-Claude Masangu Mulongo, Governor of the Central Bank of the Democratic Republic of Congo, stressed that, “developed countries have the means to deal with the problem, but we who are developing countries, or emerging countries, could collapse under the weight of such a crisis”. The head of the United Nations’ AIDS agency (UNAIDS), Peter Piot, recently commented that millions of people with HIV & AIDS face death if donors cut funding even for six months due to the current financial crisis. The fear of possible funding cuts for developing nations has reverberated across the African continent (www.ngopulse.org).

European nations such as Ireland, Portugal, Greece and Spain are all drowning in debt, it is becoming extremely expensive for all those nations to issue new debt. Foxley (2011) indicates that global financial crunch has affected so many nations including countries such as Malaysia, Thailand, Argentina, and Mexico, as well as in so-called periphery economies in Europe (Greece, Spain, Portugal, Ireland), where the financial crisis showed their huge vulnerabilities in terms of their fiscal and current account positions, their rigidities in the labor markets, and in their exchange rate policies.

4. THE ALTERNATIVES FOR ZIMBABWEAN NGOs

Most NGOs in Zimbabwe are still in the mode of business as usual, yet the global financial crisis has been with us since 2007 and it has been only since 2009 that its effects began to trickle down South. Zimbabwean NGOs have to identify areas which can be mainstream but at the same time not disadvantaging the recipients of such aid. This is a big challenge because the global financial crisis actually means that there will be more poverty and unemployment as companies close shop or restructure. For Zimbabwe which has a dominant informal sector over the formal sector, the effects will be unbearable particularly for a nation coming out of a decade long political and economic crisis. The global financial crisis is therefore a double tragedy in Zimbabwe, a country which is supposed to be in a transitional mode.

4.1 RELYING ON VOLUNTARY WORK

In my reflection on what can be done if all donors close shop, I was made to remember NGOs in Zimbabwe in the early 80s and early 90s when it was almost and more often a calling to be working for NGOs. Working in this area was mostly for the kind and those determined to see communities develop or transform. The behavior of NGOs then was similar to priests and sisters in the Christian faith. I remember in Marondera the likes of Anamai (women) Utete who drove their bicycles daily to the nearby farming communities and rural district councils to provide the women with ‘family planning’ tablets, and generally inform them and discuss on reproductive issues; Anamai (women) Musonza of the Marondera Red Cross Society, among others who used to feed the malnourished with soup, mahewu (corn drink) and at least one meal. These women were moved by the need to help the poor. They would get very little allowances, just to keep them going. In short what I am saying is that we need to re-inculcate voluntarism in Zimbabwe. In Tokyo, Peace Winds Japan has a volunteer-to employee ratio of 4 to 1, a strategy that has helped to cut NGOs salary expenditures as it prioritised local sourcing. Getting rich
from a salary if you are an NGO worker is therefore not expected under the global financial crisis, unless one invests in a business.

4.2 STRENGTHENING ACCOUNTABILITY

It has become increasingly essential to increase accountability on the use of donor funds. This calls for Zimbabwean NGOs to expand on ways to show that they are spending money more effectively. Diverting funds for unintended purposes should not be done. Abbyas and Niyiragira (2009) argues that accountability in aid effectiveness will not work if the framework used is restricted to donor or recipient government relations without going further to include other stakeholders at national level. Capacity building becomes necessary for aid effectiveness. Strengthening the credibility of budgets for NGOs should be used as a tool for governing the allocation and use of development resources. Accountability and ownership represent the core issues of aid effectiveness.

4.3 INVESTING IN PRODUCTION, MANUFACTURING AND SERVICES SECTORS

Who ever thought that one day we could gather to say, how can our NGOs be innovative with local resources? I know of Oxfam GB which has second hand shops at least in the United Kingdom. Some NGOs in East Asia are involved in the production of blankets and shoes which they give to the needy but also benefit in terms of programming from the sale of such items. Controversial as it may sound, there are organisations who will find it easier to go into farming, since they extend extension services to communities anyway. I have in mind the Community Technology Trust which over the years has been practically advocating for conservation farming and growing of indigenous vegetables. Such organisations can strategically partner with communities as they, in addition of their assistance ensure quality control and search viable markets for products from communities. NGOs working with cotton farmers may want to invest in value addition of the process by going into manufacturing of yarn. Gone are the days for giving a blind eye on what happens next after one production level which an NGO can be interested in.

Most of the time, NGOs get services from private players. These services include photocopying, the transportation and provision of food and accommodation. Without monopolizing such services; which is not possible under globalisation, Zimbabwean NGOs can take a leaf from JekesaPfungwa ‘Ivholin’ondo’ in Waterfalls whose premises can be used as training facilities when not being used for their primary use. Accommodation is offered together with catering. This has kept this organisation running for all the dry periods which it has endured in funding.

I am sure you are wondering where the money for investment should come from? There is nothing wrong for NGOs with the capacity to also provide consultancy services. I have in mind those NGOs which provide specialized services such as technical expertise in trade or climate change and bio-fuels whose expertise is often required nationally, regionally and internationally. Fees from such services can be substantial, to raise good money for investment into a fundraising business which can sustain the secretariat and other programming activities.

4.4 POLICY OPTIONS

With the global financial crisis, it is important that Zimbabwean NGOs should contribute meaningfully to the policy framework for the country. All sectors in our country require a comprehensive review in the context of the global financial crisis. Zimbabwean NGOs have an advantage of working with the grassroots and know what works for the people in terms
of development. Unfortunately advocacy strategies for NGOs most of the time are weak on policy. NGOs know what they want but how to lobby for incorporation is the problem. To illustrate this point, how many NGOs focus on the national budget and national economic and monetary policies in the country? The lack of grassroots participation and also the neglecting of public opinion in the making of vital public policies do not foster efficiency, goodwill and transparency which are crucial aspects of sustainable growth and development.

5. CONCLUSION

It is my humble submission that the Government of Zimbabwe still needs NGOs to complement its services. The global financial crisis has a direct impact on reaching the Millennium Development Goals. The most important lesson of the global financial crisis is a wake-up call for Zimbabwean NGOs to look for resources around us and see how this can be used to benefit the poor. But care must be taken to ensure that the NGOs do not become the private sector by negating their primary role.

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