Effects of the global financial and economic crisis on developing countries and on development cooperation

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The Committee on Development adopted the own-initiative report drawn up by GUERRERO SALOM (S&D, ES) on the effects of the global financial and economic crisis on developing countries and on development cooperation.

The report notes that the past two years have seen a succession of global crises (food, energy, climate, financial, economic and social) which have serious impacts on industrialised and emerging countries, but devastating implications for the poor population groups in developing countries. Members stress that it is the **EU's obligation to assist developing countries in coping with the burdens of the global economic crisis and climate change**, for which they are not responsible. They urge the Member States, in this respect, fully to fulfil their ODA commitments towards developing countries.

Increase ODA volumes: Member States are asked to increase ODA volumes in order to reach their collective target of an ODA/gross national income (GNI) ratio of 0.56% by 2010 and the target of 0.7% ODA/GNI for 2015 and to accelerate efforts to improve aid effectiveness. Stressing that while fulfilment of the ODA commitments is imperative it is not sufficient in terms of tackling the development emergency, Members call on the Commission for active promotion of existing innovative development-financing instruments and for urgent identification of additional innovative sources of finance.

Priority given to overcoming the crisis: the committee takes the view that priority should continue to be given to overcoming the financial and economic crisis. It expresses, however, major concern about the possibility and threat of a rise in the indebtedness of developing countries and a further crisis in relation to the viability of the debt, and calls on governments to take urgent action to reform the International Financial Institutions. The Commission is called upon to look into the implementation of the proposal by the World Bank to establish a vulnerability fund to finance food security, social protection and human development. It also calls on the Council and the Commission to take steps to bring about the increase in funding for international financial institutions and to advocate an ambitious reform of the IMF.

Reforming governance: the report asks the leaders of the G20 to act, without delay, on the commitment made at the September 2009 summit in Pittsburgh to reform the global development architecture and, within this framework, shift at least 5% of the IMF quota shares to emerging and developing economies and at least 3% of the World Bank voting shares to developing and transition countries. It stresses the need to reform world economic governance in order to ensure better representation of developing countries in decision-making forums. It proposes, to this end, that the G20 should be expanded to include at least one representative of the developing countries, who could be the President-in-Office of the G77.

The report stresses the need to move to an international system of governance that will protect the most vulnerable people and countries, especially those hardest hit by the crisis and with ineffective or no safety nets. The Commission and the Member States are called upon to devote particular attention to the promotion and protection of decent work and action to combat gender discrimination and child labour, adhering to the recommendations made on this subject by the International Labour Organisation, whose role should be expanded.

Levying financial transactions: convinced that taxing the banking system would be a fair contribution from the financial sector to global social justice, Members call for an international levy on financial transactions to make the overall tax system more equitable and to generate additional resources for financing development and global public goods, including adaptation of developing countries to cope with and mitigate climate change and its impact. The Commission is urged to present a communication on how a tax on international financial transactions can, inter alia, help to achieve the MDGs, correct global imbalances and promote sustainable development worldwide.

Debt: the report notes with great concern that developing countries are expected to face a financial shortfall of USD 315 billion in 2010 and that mounting fiscal distress in the most vulnerable countries is imperilling USD 11.6 billion of core spending in education, health, infrastructure and social protection. It advocates, therefore, a temporary moratorium on debt repayments, including capital and interest, and a **debt cancellation for least developed countries** to enable developing countries to implement countercyclical fiscal policies to mitigate the severe effects of the crisis. It proposes the establishment at international level of an independent and transparent body for debt arbitration.

Climate exchange: the committee welcomes the European Council's commitment in October 2009 not to undermine the MDGs with regard to combating climate change. It urges the Council to agree, as soon as possible and in the framework of the Copenhagen summit conclusions and the G20 compromises, on firm financial commitments that enable developing countries to cope with deteriorating climatic conditions and to ensure that assistance needed as a result of the economic crisis will not lead to a relapse into external over-indebtedness.

The Commission and the Member States are invited to: (i) to pay further attention to the link between the environmental crisis and the development crisis, and urges them to make sustainable development and 'green growth' strategic priorities for the EU; (ii) to allocate additional money for its commitments to fighting climate change in developing countries, also taking into account the increasing number of environmental refugees.

Trade: Members regard trade as a main driver of economic growth and poverty reduction in developing countries and call upon the EU and the Member States to leverage their international influence to ensure that development remains at the heart of the Doha Round negotiations and that a successful, fair and development-oriented conclusion of the Doha Round is achieved, while enhancing the pro-poor focus of EU Aid for Trade policy. The report points out that, in order to achieve greater financial stability and improve the functioning of the global trade system within the WTO, progress needs to be made towards a new international monetary and financial system which is based on multilateral rules that address the specific problems of developing countries and which falls within the United Nations framework.

Economic Partnership Agreements: the committee reaffirms the fact that Economic Partnership Agreements (EPAs) should be designed as pro-development tools and should not be regarded simply as international trade instruments. It urges the Commission to work towards a rapid conclusion of the negotiations, while taking into account the ways in which EPA provisions may impact on the ability of ACP countries to cope with the crisis. The Commission is called upon – when negotiating and implementing trade agreements, in particular the Economic Partnership Agreements – to strengthen EU policy coherence for development and, inter alia, the promotion of decent work, wealth and job creation.

Protectionism: Members believe that protectionism is no sound response to the crisis and reinforce their call upon the EU to do its part by reducing trade barriers and trade-distorting Union and other subsidies that cause so much harm to developing countries. They take the view that EU development policy should respect both the interests of the EU and those of developing countries and considers that the reciprocal opening-up of markets, which should not be achieved at the expense of economic stability in developing countries.

Tax havens: the report stresses that tax havens and off-shore centres encourage tax avoidance strategies, tax evasion and illicit capital flight. It underlines, in particular, that tax fraud in developing countries leads to an annual loss of tax revenue corresponding to 10 times the amount of injected development aid from developed countries. Members urge the Member States, therefore, to make the fight against tax havens, tax evasion and illicit capital flights from developing countries one of its overriding priorities. They reiterate in this context its conviction that the automatic exchange of information should be globally extended and implemented within a multilateral framework. They note the need for real improvement in the banking systems in developing countries as a concrete measure to secure investments and the development and growth of the financial sector, migrant remittances and commercial and any other relevant exchanges.

Microcredit: the committee considers that one of the major obstacles to economic development in developing countries lies in the limited access which potential entrepreneurs enjoy to credit and microcredit. It stresses moreover that, in most cases, credit guarantees are not available. The Commission and the EIB are called upon to hugely increase credit and microcredit access programmes.