

Basic information	
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Effects of the global financial and economic crisis on developing countries and on development cooperation Subject 5.03 Global economy and globalisation 6.30 Development cooperation 6.30.02 Financial and technical cooperation and assistance	

Key players				
European Parliament	Committee responsible		Rapporteur	Appointed
	DEVE Development		GUERRERO SALOM Enrique (S&D)	06/10/2009
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	Committee for opinion		Rapporteur for opinion	Appointed
	INTA International Trade		MUÑIZ DE URQUIZA María (S&D)	10/11/2009
	ECON Economic and Monetary Affairs		KLUTE Jürgen (GUE/NGL)	15/09/2009
European Commission	Commission DG		Commissioner	
	Development		PIEBALGS Andris	

Key events			
Date	Event	Reference	Summary
08/04/2009	Non-legislative basic document published	COM(2009)0160 	
22/10/2009	Committee referral announced in Parliament		
01/03/2010	Vote in committee		Summary

09/03/2010	Committee report tabled for plenary	A7-0034/2010	
24/03/2010	Debate in Parliament		
25/03/2010	Decision by Parliament	T7-0089/2010	Summary
25/03/2010	Results of vote in Parliament		
25/03/2010	End of procedure in Parliament		

Technical information	
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Committee dossier	DEVE/7/01291

Documentation gateway				
European Parliament				
Document type	Committee	Reference	Date	Summary
Committee draft report		PE430.840	24/11/2009	
Committee opinion	ECON	PE430.634	29/01/2010	
Amendments tabled in committee		PE438.374	10/02/2010	
Committee opinion	INTA	PE431.180	23/02/2010	
Committee report tabled for plenary, single reading		A7-0034/2010	09/03/2010	
Text adopted by Parliament, single reading		T7-0089/2010	25/03/2010	Summary
European Commission				
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Effects of the global financial and economic crisis on developing countries and on development cooperation

2009/2150(INI) - 08/04/2009

PURPOSE: to propose a broad-spectrum strategy to support developing countries in coping with the crisis.

BACKGROUND: according to recent analyses, after the advanced and emerging economies, the "third wave" of the crisis has reached developing countries. The World Bank estimates that capital flows to developing countries will fall from 1 trillion dollars in 2007 to around 600 billion dollars in 2009.

The effects of the global economic slowdown are being felt in developing countries. The IMF expects developing economies to grow by a meagre 3.25% in 2009, down from 6.3% in 2008 and 7.9% in 2007. This economic slowdown is accompanied by a fall in global demand for commodities, lower export revenues and thus a slowdown in trade in developing countries. As a result, developing countries are likely to face a financing gap of 270 to 700 billion dollars in 2009.

Besides the purely financial aspect, the crisis may also have serious political and security consequences in the countries in question, in particular the most fragile ones: poverty and social unrest could turn latent political divergences into acute strife.

The Commission, therefore, considers that there is a need to take rapid action to ensure that the crisis does not affect these countries with even greater severity.

CONTENT: to come to the assistance of those countries under greatest threat, the Commission envisages a large arsenal of measures which may be summarised as follows:

1) activation of new resources: European overseas development aid (ODA) continues to be by far the greatest since the EU provides 59% of the overall total. In 2008, the rate of collective ODA was 0.4% of GNI, i.e. an amount of almost €50 billion (an increase in comparison with previous years). Despite this financial support, the outlook for the coming years appears rather problematic. Many Member States are far removed from the 2010 individual milestones and the additional effort to reach the collective target of 0.56% ODA/GNI in 2010 amounts to €20 billion. The Commission proposes that the Union uses all the sources and instruments available to leverage assistance aimed at stimulating growth, investment, trade and job creation. This would be achieved by:

- EU Member States honouring their individual and collective commitments to reach their ODA targets by 2010 and 2015. This will release an extra €20 billion in ODA in 2010;
- Member States should step up efforts to mobilise additional development-relevant finance. (e.g. building on ongoing voluntary solidarity levies, such as the airline tax to finance health programmes).

2) counter-cyclical action: the Commission considers that action is needed now in order to have a direct counter-cyclical effect in the countries in question. For this reason, it suggests that:

- priorities in the strategy papers and support programmes in 2009 and 2010 be redefined with a view to reflecting new needs and emerging priorities;
- disbursements made more rapidly to a certain number of countries or regions in emergency situations;
- aid is frontloaded (€4.3 billion frontloaded in 2009 in the ACP countries);
- budget support is accelerated;
- macro-economic assistance is investigated for the European Neighbourhood Policy (ENP), accession and pre-accession countries.

3) improving effectiveness of aid: the Commission recalls that the dispersion of action undertaken in the developing countries has a considerable cost in terms of effectiveness. The volatility and lack of predictability of aid alone can increase costs by between 15% and 20% and that some calculations show that the cost of failure to apply the full aid effectiveness agenda could range from €5 to €7 billion/year. A coordinated European effort based on common priorities now has to be proposed. Several actions are envisaged:

- bilateral actions involving Member States and the Commission;
- collective European actions such as the setting in place of an EU approach towards cross-country division of labour with regard to development aid;
- collective EU approach to address the crisis;
- further reforms of the international aid architecture.

4) cushioning the social impact, supporting the real economy: several initiatives are envisaged to provide practical help to the countries concerned:

- **protect the most vulnerable** (women, children, the aged and disabled): the Commission considers that those most in need of help should receive assistance by: (i) taking targeted social protection measures; (ii) support mechanisms to safeguard social spending (via funding through the EDF, in particular);
- **sustaining economic activity and employment:** the aim is to create a maximum of jobs in the maintenance and building of local infrastructures. Several initiatives could be envisaged such as: (i) support for quick delivery infrastructure and job creation; (ii) the establishment of regional infrastructure in the Mediterranean (in the context of the Union for the Mediterranean); (iii) an increase by €500 million by 2010 of the grant inlay in the EU-Africa Infrastructure Trust Fund;
- **revitalising agriculture:** although they have been falling gradually, food prices are always a subject of concern in developing countries. Revitalising agriculture in these countries requires a comprehensive approach: (i) speeding up financing for agriculture (e.g. by frontloading payments for the Food Facility with a billion euros); (ii) investment in certain agricultural corridors (align investments in support of linking markets and production areas);
- **investing in green growth:** the crisis offers a major opportunity to create greener economies, including in the least developed countries. The Commission suggests (i) supporting the Global Climate Change Alliance (GCCA) which seeks to boost support for the poorest and most climate-vulnerable developing countries; (ii) use innovative financing for climate change (the Member States should use part of the revenues from auctioning emissions allowances, as agreed in the European Emissions Trading System legislation for, amongst others, climate adaptation measures, afforestation, reforestation and technology transfer in developing countries that will have ratified the Copenhagen agreement). The Commission also recommends the Member States to explore the possibility of launching the Global Climate Financing

Mechanism (GCFM); (iii) focus on renewable energy via projects funded by the EIB; (iv) support the transfer of environmentally friendly and sustainable technologies via the Global Energy Efficiency and Renewable Energy Fund;

- **stimulating trade and private investment:** the Union needs to act at two levels: (i) accelerate its Aid for Trade (AfT) strategy and respect the collectively pledged intent to devote €2 billion to trade-related assistance by 2010; (ii) promote the work on trade financing, extending the work under way in the G20, by increasing export credits, credit facilities and guarantees in order to stimulate trade.

5) strengthening governance: governance and fighting corruption are key to sustainable economic development. Several areas deserve special support. **Good governance in the fiscal area**, i.e. transparency, exchange of information, fair tax competition, and sound customs systems will increase domestic financial resources for development. Moreover **external debt** should be managed carefully. Countries in fragile situations (involved in conflicts or in crisis) will require specific attention and action; Lastly, this national governance agenda should be complemented by a strengthening of regional integration processes.

6) improve the institutional approach to the crisis: the Union's strategy to assist developing countries to cope with the crisis falls within a broader, global context which requires action from global institutions. A more efficient and inclusive world order is required. The ongoing crisis offers an opportunity to make the UN system and international financial institutions fit to tackle global challenges in an effective manner and the G20 should expedite the reform process. In this regard, the Commission proposes:

- that the UN must be in a position to effectively coordinate international efforts to help developing countries tackle a variety of global social, economic, financial and economic challenges;
- that the G20 keeps its promises by motivating the international financial institutions to act in favour of developing countries (this implies an immediate financing on the part of the G20 members of some 250 billion dollars);
- that regional and continental groups, such as the African Union or ASEAN, should be invited to participate in informal international economic platforms in order to vouchsafe greater efficiency and representation.

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

2009/2150(INI) - 25/03/2010 - Text adopted by Parliament, single reading

The European Parliament adopted by 283 votes to 278, with 15 abstentions, a resolution on the effects of the global financial and economic crisis on developing countries and on development cooperation.

The resolution 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.

Parliament notes with concern the reduction in ODA efforts for public health – in particular sexual and reproductive health rights – which is crucial to attaining the MDGs. It points out that a healthy, strong workforce is a precondition for economic development.

Priority given to overcoming the crisis: Parliament 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 resolution 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 resolution 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 resolution 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: Parliament 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 resolution 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: Parliament 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 resolution 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: Parliament 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. Lastly, it invites the Commission to give full consideration to the recommendations expressed in this resolution while drafting the proposal for a decision on the EIB's external lending mandate following the mid-term review.