Effects of the global economic crisis on developing countries

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European Parliament resolution of 8 October 2009 on the effects of the global financial and economic crisis on developing countries and on development cooperation

(2010/C 230 E/02)

The European Parliament,

— having regard to the G20 summit held in London on 2 April 2009 and its statement on the Global Plan for Recovery and Reform,

— having regard to the UN Millennium Declaration of 8 September 2000, which sets out the Millennium Development Goals (MDGs) as criteria established jointly by the international community for, inter alia, the elimination of poverty and hunger,

— having regard to the report of the World Bank and the International Monetary Fund (IMF) entitled 'Global Monitoring Report 2009: A Development Emergency' published in April 2009,

— having regard to the report of the World Bank entitled 'Global Development Finance: Charting a Global Recovery 2009' published in June 2009,

— having regard to the UN Conference on the World Financial and Economic Crisis and its impact on development and to the UN General Assembly's endorsement of the outcome of the conference by means of Resolution 63/303 of 9 July 2009,

— having regard to the Commission Communication of 8 April 2009 entitled 'Supporting developing countries in coping with the crisis' (COM(2009)0160),

— having regard to the General Affairs and External Relations Council conclusions of 18 and 19 May 2009 on supporting developing countries in coping with the crisis,

— having regard to its resolution of 14 March 2006 on the strategic review of the International Monetary Fund [1],

— having regard to the study by Professor Ngaire Woods on the international response to the global crisis and the reform of the international financial and aid architecture [2],

— having regard to the Conference on Innovative Financing held in Paris on 28 and 29 May 2009 and the International Conference on Development Financing held in Doha between 28 November and 2 December 2008,

— having regard to the report of 17 March 2009 of the Committee of African Finance Ministers and Central Bank Governors established to monitor the crisis, entitled 'Impact of the Crisis on African Economies - Sustaining Growth and Poverty Reduction',

— having regard to the question of 3 September 2009 to the Commission on the effects of the global financial and economic crisis on developing countries and on development cooperation (O-0088/2009 – B7-0209/2009),

[1] OJ C 291 E, 30.11.2006, p. 118.
[2] Study commissioned by Parliament's DG EXPO Policy Department; publication forthcoming.

— having regard to Rules 115(5) and 110(2) of its Rules of Procedure,

1. Stresses that developing countries did not cause the global financial and economic crisis, but are disproportionally affected by it, facing dramatically decelerating growth and employment, negative impacts on the balance of trade and balance of payments, a sharp reduction of net private capital inflows and foreign direct investment, reduced access to credit and trade financing, declining remittances, large and volatile movements in exchange rates, collapsing reserves, increased volatility and falling prices for primary commodities, as well as reduced revenues from tourism;

2. Endorses the view of Ban Ki–moon, Secretary-General of the United Nations, that the global financial crisis has given rise to a development emergency in that it is undermining, and in some cases nullifying, hard-won progress on poverty, hunger and mother and child mortality, as well as on primary education, gender equality and access to clean water and proper hygiene, thus jeopardising the achievement of the MDGs, in particular those relating to health;

3. Notes with great concern that this crisis, which follows so closely on the heels of the food and fuel price crises, is already exacting major human costs and has devastating implications for the vulnerable in the poorest countries, with an expected increase of 23 million in the unemployment rate, up to 90 million more extreme poor in 2009 alone, life-saving drug treatment for up to 1,7 million HIV sufferers under threat, and between 200 000 and 400 000 more infant deaths per year on average between 2009 and 2015, which is the MDG target year in developing countries;

4. Stresses that many developing countries are finding that all their sources of development financing have been affected by the crisis, and will be unable to safeguard their hard-won economic gains without extensive external support;

5. Calls on the EU to take action to eradicate abuses of tax havens, tax evasion and illicit capital flight from developing countries; calls therefore for a new binding global financial agreement which forces transnational corporations automatically to disclose the profits made and the taxes paid on a country-by-country basis, so as to ensure transparency on what they pay in every developing country in which they operate,

6. Notes the G20's recognition of its 'collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential' and its reaffirmation of existing aid pledges and promises of new resources, including USD 50 000 million to support social protection, boost trade and safeguard development in low-income countries as part of a significant increase in crisis support for developing countries, and more resources for social protection for the poorest countries;

7. Welcomes the decision taken by G8 leaders at the July 2009 summit in L'Aquila, Italy, to donate USD 20 000 million for rural development and food safety;

8. Fears that the financial resources pledged may not be sufficient, may not be concentrated on the poorest countries and population groups and may not be brought to bear sufficiently swiftly and in a sufficiently flexible manner to generate the improvements that developing countries require;

9. Supports the G8 leaders' request to carry out, in 2010, an international review of policies towards the MDGs;

10. Notes the increased resources made available to the IMF and other international financial institutions; welcomes the recent IMF reforms, which include a more prominent role for the emerging countries;

11. Is gravely concerned about the fact that, as at July 2009, 82 % of the newly loaned IMF resources had gone to European countries, and just 1,6 % to countries in Africa, which is an indication that most of the available resources might be being devoted to high-income emerging markets and middle-income countries that are likely to be able to repay the loans they receive; stresses that the disruption of development processes has more destructive and lasting effects in the medium term for the least developed countries than those suffered by the most advanced countries during a limited period of crisis;

12. Calls for rapid implementation of the additional USD 6 000 million in concessional and flexible finance for the poorest countries resulting from sales of IMF gold reserves; notes with great concern the IMF's estimates that it can meet only around 2 % of low-income countries' (gross) external financial needs, which highlights the need for other institutions and donors to provide further concessional resources and grants;

13. Regrets that, while an effective response to the crisis would require a new and large injection of resources, and in spite of the G20 pledges to make 'available resources for social protection for the poorest countries, including through investing in long-term food security and through voluntary bilateral contributions to the World Bank's Vulnerability Framework, including the Infrastructure Crisis Facility, and the Rapid Social Response Fund', the World Bank has been left to react mainly through its own existing resources and facilities;

14. Believes that the first priority should be simply to support policies that reduce poverty whilst obtaining the best value for taxpayers' money, guided by a recognition of the absolute human dignity of every single person in the developing world;

15. Considers fair and mutually beneficial trade to be the cornerstone of international financial market stability; notes that the EU must do its part by reducing the trade-distorting subsidies and trade barriers that cause so much harm to developing countries' economies;

16. Notes the harm to the capital structure of any economy caused by the 'brain drain' notes, furthermore, that this is a serious and ongoing concern in many areas of the world as the best and brightest people, whom developing countries can ill afford to lose, move abroad; calls therefore for action to be taken to encourage circular migration;

17. Notes with great concern that this has resulted in the World Bank being unable to respond to a number of countries which have been rendered particularly vulnerable by the crisis but do not meet the eligibility criteria for the International Bank for Reconstruction and Development (IBRD) or the International Development Association (IDA) or comply with allocation models requiring borrower creditworthiness and a record of 'good performance'; considers that this mismatch in funding highlights core problems with the World Bank's governance, which minimises risks to the institution and its non-borrowing members at the expense of its needy developing country members;

18. Stresses that the inability of the Bretton Woods institutions to respond to the needs of low-income countries, in relation to coping with the crisis, is caused mainly by the failure to make what are long-overdue reforms to the governance of those institutions in order to enhance their relevance, legitimacy and effectiveness and their sensitivity and responsiveness to developing countries; calls for such reforms to be made urgently;

19. Requests the EU and its Member States to take up their responsibility as major international players to work towards rapid implementation of the necessary reform of the Bretton Woods institutions, and in the meantime to fill the serious gaps in the response being made to the crisis by the G20, the IMF and the World Bank by swiftly delivering aid to developing countries and ensuring rapid disbursement to countries whose investments in meeting the MDGs are now at risk due to an external shock, namely a financial crisis unforeseen by them and beyond their control; in so doing, the EU and its Member States should at all times observe the highest standards of accountability and aid effectiveness as far as the use of public funds by donor recipients is concerned;

20. Expresses serious concern at the fact that aid from some EU Member States fell in real terms in 2008; calls on EU Member States urgently to fulfil their official development assistance (ODA) commitments by 2010, taking into account the fact that a majority of developing countries have been seriously affected by the consequences of the worldwide financial crisis;

21. Welcomes the EU's plans to frontload EUR 8 800 million of development aid, budget support and agricultural financing for immediate action, and the proposed EUR 500 million to support social spending in developing countries through the *ad hoc* vulnerability FLEX mechanism for African, Caribbean and Pacific (ACP) countries; recommends focusing budget support on the fields of health, decent work, education, social

services and green growth in the form of sectoral budget support; urges the EU and its Member States to meet the financial commitments outlined in the EU Agenda for Action on the MDGs; acknowledges the principle of ownership, highlighting the role of developing countries in setting their own policies, strategies and development programmes, and the mutual accountability of the EU and its partners for ensuring development results;

22. Draws attention to Parliament's repeated calls for the European Development Fund (EDF) to be brought within the Community budget in order to ensure democratic scrutiny of the uses to which it is put;

23. Regrets, however, that apart from EUR 100 million for the EU-Africa Infrastructure Trust Fund, all other spending comes from pre-existing commitments, and calls for greater additional funding; expresses concern about how the Commission will fill the funding gap caused in future years by frontloading budget support now;

24. Stresses that ODA volumes are not sufficient to meet with the urgency that the scale of the crisis demands the vastly increased needs it is creating in developing countries, and calls upon the Commission and the Member States to abide by their international commitments and to continue to contribute towards meeting the MDGs; calls on the Commission urgently to come up with new proposals for innovative funding mechanisms;

25. Stresses the need for greater consistency between the EU's trade, budgetary, climate change and development policies;

26. Recommends therefore that economic partnership agreements (EPAs) be used as a means of meeting development needs by giving ACP countries a commercial advantage and fostering the achievement of the MDGs, while allowing ACP countries to leave sensitive products and sectors, such as investment and services, out of the negotiations;

27. Points out, with this in mind, that EPAs must serve as a means of fostering regional integration and boosting the economies of ACP countries, and that funding pledges must be honoured;

28. Stresses that the European Investment Bank (EIB) has to be far more actively and transparently involved as a frontrunner in the development of novel financing mechanisms;

29. Urges the Commission to take a leading role in the swift enhancement of those mechanisms, including micro- and meso-credit, in particular in order to offer access to financing to vulnerable groups such as women and farmers;

30. Calls upon the EU to ensure that appropriate global regulatory arrangements are put in place to prevent a further financial crisis from occurring;

31. Calls upon the Member states to observe and fulfil their ODA commitments;

32. Stresses the importance in development terms of policy coherence in areas such as the economy, trade, the environment and agriculture, in order to prevent the global financial and economic crisis from having even more serious effects in developing countries;

33. Instructs its President to forward this resolution to the Council, the Commission, the Member States, the UN organisations, the IMF and the World Bank, the IMF and World Bank Governors from the EU Member States, and the G20 countries.