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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Supporting developing countries in coping with the crisis

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I. INTRODUCTION

The world is in turbulence. No country or region is escaping the current global crisis. Developing countries, already badly hit by successive food, fuel and climate-change-related crises, are suffering severely from the consequences of the financial crisis and economic downturn. Tens of millions of people are falling – or relapsing – into poverty; the climate and the environment are under ever-greater threat; growth is slowing and unemployment is rising and there is a risk that the Millennium Development Goals (MDGs) are in jeopardy and the gains of this last decade will be forfeited.

In these uncertain times, the temptation is to look inwards. This would be a historic mistake. In this age of interdependence our future, our values, our security and our prosperity are inextricably linked with those of the developing countries. Recovery in advanced economies will drive recovery worldwide. In turn, growth in developing countries will provide jobs, growth and prosperity elsewhere too and contribute to global peace and stability.

In 2008, the international community repeatedly stressed that development is part and parcel of the solution to this global crisis. At the international conferences in New York, Accra and Doha, and at the G20 in Washington, strong positions were taken and precise commitments made to reach the MDGs, to stick to aid targets, to make aid more effective, and to involve the developing countries in the reform of global governance. These successes owe a great deal to the European Union's united stance, leadership and determination.

The G20 Summit in London of 2 April 2009 further underscored the urgency, calling for significant measures to be put into place to support developing countries. “Business as usual” is not an option in the present circumstances. Therefore, this Communication builds on the main results of the annual “Monterrey survey” detailed in the attached Staff Working Documents¹, and sets out twenty-eight concrete measures the European Union should take forward to help developing countries cope with the crisis.

¹ The four Staff Working Papers are: on Financing for Development (“Where does the EU go from Doha?” - SEC(2009) 444), Aid for Trade (“2009 Aid for Trade Monitoring Report” - SEC(2009) 442), Aid effectiveness (“Aid Effectiveness after Accra – where does the EU stand?” - SEC(2009) 443) and on the Millennium Development Goals (“Millennium Development Goals – impact of the financial crisis on developing countries” - SEC(2009) 445).

II. THE CONTEXT: FACTORS OF VULNERABILITY AND RESILIENCE

All recent analyses on the impact of the crisis converge on one point: after the advanced and emerging economies, the "third wave" of the crisis has reached developing countries².

Firstly, they are being affected by the direct impact of the *financial crisis* in particular due to the drying-up of credit, investment, private capital inflows and increased exchange rate volatility. *Countries which are heavily dependent on private capital market flows*, especially foreign direct investment, are particularly badly affected. Those developing countries which are *heavily dependent on remittances* are very hard hit. In total, the World Bank estimates that capital flows to developing countries will fall from \$1 trillion in 2007 to around \$600 billion in 2009.

Secondly, 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. Another immediate consequence of the global economic slowdown is the contraction of *global world trade volumes*. As the global demand for commodities falls and their prices decline as a result, developing countries' *export revenues* are expected to decrease sharply leading to deteriorating external balances as well as lower revenues. Developing countries which are *net exporters of commodities* will suffer the most from plummeting commodity prices, while *net importing countries* of raw materials will on the contrary see their import bills reduced. As a result, according to the World Bank, developing countries will face a financing gap of \$270 to \$700 billion this year.

As a result of these forces, developing countries already face serious *social consequences* of the crisis. Governments with widening public finance imbalances find it difficult to maintain the level of social expenditure; maintenance of public infrastructure is being postponed; funding for social safety nets is in decline just when it is most needed; and the number of unemployed and working poor, especially in urban areas, is increasing exponentially.

The crisis may also have important *political and security implications*. Increased poverty and social unrest could turn latent political divergences into acute strife. There may also be a more direct impact, with salaries not paid, due to budget constraints, in the public sector, including police and armed forces, fuelling unrest or even military coups. Normal political contests may harden, resulting in civil strife as ethnic parties fight for total power or access to resources. Moreover, the crisis could increase the substantial *migration flows* both in-country and intra-regionally. There could also be an impact on migratory pressure to advanced economies.

While the crisis is affecting all developing countries, the extent of the impact, its symptoms and the ability to cope vary significantly across regions, countries and groups of populations. Due to improved policies over recent years, many developing countries are more resilient to the current crisis than in past global downturns and have some scope for *policy responses* to support growth and cushion the impact of the crisis. The commodity boom of the last few years, higher macroeconomic stability, structural reforms and debt relief, have allowed many countries to improve their financial position. Nevertheless, their scope for an independent monetary and fiscal policy response is severely limited because of persistent inflationary

² IMF ("The Implications of the Global Financial Crisis for Low-Income Countries", March 2009); WB ("Swimming Against the Tide: how Developing Countries are Coping with the Crisis", March 2009 and ("The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens", February 2009)); ODI ("The global financial crisis and developing countries – What can the EU do?", January 2009); EIB ("The impact of the financial crisis on ACP countries", December 2008); ADB ("Country Economic Monitoring Notes", February 2009).

pressures, strained budgets and deteriorating external balances, as well as the continuing effect of the surge in food and energy prices in 2008, and downward pressures on their exchange rates.

Global efforts to stabilise the financial sector, and aiming to stimulate economic recovery, are therefore highly relevant to developing countries. EU actions to improve financial sector regulation and to implement the European Economic Recovery Plan are major contributions in this respect. The ongoing or envisaged reforms of the lending activities of the IMF and the Multilateral Development Banks (MDBs) can help many developing countries, be they low- or middle-income economies.

But others are more vulnerable and they risk missing these new opportunities. In this context, special attention should be given to the *most vulnerable developing countries with limited resilience capacity*. In the light of the above analysis, an appropriate response should assess the degree of vulnerability and resilience of a country, based on parameters such as:

- dependence on export revenues and degree of integration into world trade;
- dependence on external financial flows and transfers, in particular foreign direct investment and remittances;
- capacity to react, which depends on the overall quality of governance, availability of external reserves, external debt and margin to adopt fiscal stimulus measures.

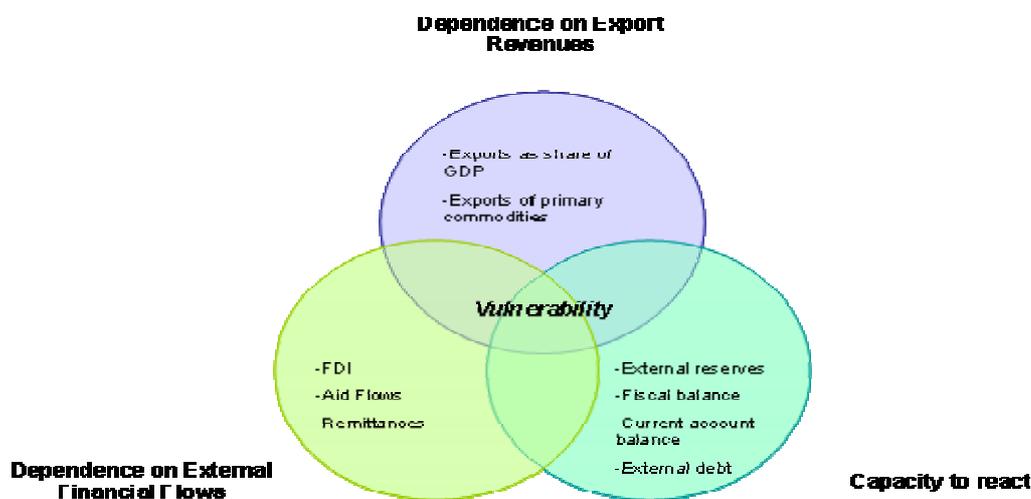


Chart 1

Hence, the Commission and EU Member States will in 2009, in collaboration with international institutions and partner countries, conduct further joint country impact analyses of the crisis with a view to identify the most vulnerable countries and to take coordinated EU country-specific action.

III. TIMELY, COORDINATED AND TARGETED EUROPEAN ACTION

III.1. HONOURING OUR AID COMMITMENTS, LEVERAGING OTHER RESOURCES

The EU continues to be by far the biggest provider of Official Development Assistance (ODA) – with 59% of the overall total, having increased its share by 4 percentage points over 2007. In 2008, the EU reversed the downward trend in ODA flows registered in 2007. Collective ODA levels returned in 2008 to 0.40% of GNI, up from 0.37% in 2007, i.e. disbursements of almost €50 billion and an increase of more than €4 billion and €2 billion compared to 2007 and 2006 respectively. In addition, 13 Member States now have multi-annual national timetables illustrating how they will meet their individual commitments in 2010 and 2015, hence improving aid predictability.

Despite this upward trend, the outlook for the coming years appears rather problematic. Many Member States are far removed from the 2010 individual milestones. The additional effort to reach the collective target of 0.56% ODA/GNI in 2010 is equal to €20 billion. ODA is a key factor in the quest to reduce world poverty, reach the MDGs and leverage other sources. Its predictability is a value *per se* and must be ensured. The global crisis cannot be an excuse to water down our commitments. Aid is not a matter of charity but one of the drivers of recovery.

ODA alone, however, will not be enough. The EU must use all the sources and instruments available to leverage assistance aimed at stimulating growth, investment, trade and job creation. Such a comprehensive effort should constitute a “whole of the Union approach”, taking into account instruments and processes such as export credits, investment guarantees and technology transfers for the benefit of development.

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| <p>(1) <i>Honour ODA commitments.</i> EU Member States must honour 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. A resolute effort is therefore needed already this year.</p> <p>(2) <i>Leverage new resources.</i> Member States should step up efforts to mobilise additional development-relevant finance. Our target is that every euro spent on aid should leverage five euros in non-ODA (e.g. technology transfers, trade finance and private investment). The Commission also recommends that Member States deepen and apply more widely innovative sources of financing, for example building on ongoing voluntary solidarity levies, such as the airline tax to finance health programmes.</p> |
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III. 2. ACTING COUNTER-CYCLICALLY

Action is needed now. Support should have a direct counter-cyclical impact. The poorer economies badly need financing during these times of crisis. Measures should be taken to adapt priorities, disburse aid more quickly and, where necessary, frontload assistance and accelerate budget support. Member States are urged to take action along these lines in the context of their bilateral aid.

- (3) *Refocus priorities.* The Commission will, in partnership with developing countries, accelerate the Mid-Term Review of its strategy papers and support programmes in 2009 and 2010 with a view to reflect new needs and rising priorities. The EIB should, in the context of its Activity Plan 2009-2011, focus on counter-cyclical actions in areas such as infrastructure, including energy and climate change-related activities, and the financial sector.
- (4) *Quicken disbursement.* The Commission is applying more flexible implementation procedures to a number of emergency and post-emergency countries or regions and will keep the situation in other countries under review. The EIB will endeavour to accelerate disbursements under agreed financing contractual commitments.
- (5) *Frontload aid.* The Commission has advanced commitments constituting a large part of the Community assistance to ACP countries (€4.3 billion frontloaded for 2009) and will examine further ways to speed up aid delivery³. The EIB should frontload commitments in the framework of ACP Partnership Agreements (€3.5 billion Investment Facility and €2 billion Own Resources in 2008-2013) and under other external mandates (€25.8 billion in 2007-2013, possibly increasing by €2 billion) and is encouraged to accelerate expenditure towards ENP countries in Eastern Europe, in cooperation with the EBRD, as well as towards the accession and pre-accession countries.
- (6) *Accelerate budget support.* The Commission has committed, in 2008, nearly €3 billion in budget support (a quick-impact instrument) as a frontloading measure for ACP countries which translates as 72% of all budget support foreseen for 2008-13. The Commission will review ongoing budget support operations in the most vulnerable countries and will assess, on a case by case basis, the options to frontload disbursements and review the macroeconomic conditions or any other aspects necessary to accelerate disbursements.
- (7) *Exploring macro-economic assistance.* In exceptional cases, some macro-economic assistance to European Neighbourhood Policy (ENP) countries, accession and pre-accession countries could be considered, provided in cooperation with the International Monetary Fund and in coherence with IMF programme conditions.⁴

III.3. IMPROVING EFFECTIVENESS: A MATTER OF URGENCY

In these times of crisis, neither developed nor developing countries can afford to pay the high price of fragmentation and lack of coordination, as is currently the case. Worldwide, 225 bilateral and 242 multilateral agencies fund hundreds of thousands of activities each year. In 108 countries, more than ten EU donors are providing country programmable aid. EU donors fund around 60 000 projects with an average annual contribution in 2007 of only €400 000 to €800 000 per activity.

³ Broken down as €3 billion for budget support; €800 million for the Food Facility and €500 million for the *ad hoc* FLEX mechanism.

⁴ For countries on the OECD/DAC list for reporting on 2008-2010 aid flows.

This "aid ineffectiveness" is very costly. The volatility and lack of predictability of aid alone can increase costs by between 15% and 20%⁵. Tied aid has also been estimated to raise costs of goods, services and works by between 15% and 20%. Preliminary calculations show that the cost of failure to apply the full aid effectiveness agenda could range from €25 to €35 billion until 2015, or €5 to €7 billion a year, if the level of EU donors' net bilateral assistance remains stable.⁶ Such is the cost of "non Europe" in development.

Substantial reforms are needed and the EU has led the way. First, by acting and speaking as one, it has given a major push to setting new internationally agreed targets, such as the Accra Agenda for Action (AAA) adopted by the Accra High Level Forum in 2008. Secondly, by adopting measures to reduce fragmentation amongst European actors, initiatives such as the Code of Conduct on Division of Labour are a significant contribution to taking forward the aid effectiveness agenda worldwide.

This dynamic should now be strengthened. The expertise, resources and instruments of each donor should be better geared to one another. A coordinated EU effort on the basis of common priorities will enhance the short-term positive impact of our action and ensure its long-term sustainability.

- (8) *Take bilateral action.* EU Member States and the Commission should work together in the preparation of individual action plans for implementing the "AAA" commitments. These plans should outline actions to remove legal and/or administrative obstacles to aid effectiveness as well as internal incentives to change administrative behaviour, working methods and programming processes.
- (9) *Push collective EU approaches.* The Commission will propose, in 2009, codes of conduct respectively on global and vertical funds, on the use of country systems and on technical assistance. Implementing the Code of Conduct on Division of Labour, the Commission will also promote an EU approach towards cross-country division of labour. In the same spirit, the EIB should strengthen its cooperation with financing partners, donor agencies and with the Commission, including through delegated cooperation and the blending of EU resources. The cooperation between the EIB and the EBRD will also be strengthened in the framework of the Eastern Partnership Strategy.
- (10) *A collective EU approach to address the crisis.* By way of implementing this Communication, EU Member States are invited in 2009 to present actions and instruments introduced in response to the crisis in developing countries in view of building a coordinated response. The next Monterrey report will assess the implementation of the actions thus identified.
- (11) *Further reform of international aid architecture.* As the world largest donor, and by acting and speaking as one, the EU is a driving force for simplification of the international aid architecture. One reform the EU could push for implementation by the wider donor community is on "results-based conditionality", where streamlining

⁵ Homi Kharas. Measuring the Costs of Aid Volatility, Wolfensohn Centre for Development, June 2008.

⁶ Figures based on the preliminary findings of the study "The Aid Effectiveness Agenda – Benefits of a European Approach". The study, commissioned by the European Commission, is forthcoming in summer 2009.

and harmonisation could increase the ownership, predictability, transparency and democratic scrutiny of conditions for the use of aid resources.

III.4. CUSHIONING THE SOCIAL IMPACT, SUPPORTING THE REAL ECONOMY

III.4.1. Protecting the most vulnerable

The current crisis could push a further 90 million people in developing countries into poverty in 2009,⁷ with women, children, the elderly and the disabled most at risk. The EU must, as a priority, pursue the 2010 milestones in its MDG Agenda for Action or risk further compromising 2015 targets. Continued support in the fields of health, decent work and education is key to ensure that the most vulnerable are not left unprotected. There is an economic cost to social crisis. Without a skilled, healthy workforce, recovery will be delayed and growth put at risk. The loss of revenues will affect the public financing of relevant social services.

- (12) *Take targeted social-protection measures.* The Commission will and EU Member States should support developing countries' targeted actions to cope with the direct social impact of the crisis through the creation and strengthening of social safety nets, facilitation of direct cash transfers and enhancement of in-kind transfers. The Commission will give specific attention, when feasible and needed, to social safety nets, labour intensive works and the reform of labour markets.
- (13) *Support mechanisms to safeguard social spending.* The Commission will propose to dedicate in 2009 at least €500 million from the 10th EDF to support those ACP countries hardest hit by the crisis. This financing, will be delivered as much as possible as budget support, through (i) the existing FLEX, based on past export losses as well as (ii) an *ad hoc* vulnerability FLEX, based on parameters such as forecasted export losses, decreased remittances and financial flows (*q.v.* Chart I). The Commission calls on EU Member States to participate in this initiative as part of the international effort targeting the most vulnerable.

III.4.2. Sustaining economic activity and employment

III.4.2.1. Maintaining and building infrastructure

Maintenance and building of infrastructure are effective crisis mitigators to reach the most vulnerable and create jobs, through local infrastructure development and maintenance while serving basic needs and stimulating economic activity and trade. Investments in large-scale infrastructure should be accelerated to increase competitiveness of developing countries and create cross-border and cross-regional interconnectivity⁸. Concerning Africa, the EU will focus on closing the infrastructure financing gaps for the key missing links identified in the EU Africa Infrastructure Partnership. The Commission will discuss with the African Union (AU) the appointment of "project coordinators", i.e. political personalities to lead regional brokering on these key missing links. This approach has proven of added value in the context of the Trans-European Networks, both for energy and transport. Also, in the light of needs

⁷ World Bank, 2009.

⁸ Further details on African and Mediterranean regional infrastructure initiatives in Annex 3 and 4 respectively of the SWD on *Financing for Development*.

identified by the AU ahead of the recent G20⁹, the EU effort on African missing links is all the more timely and essential.

- (14) *Support quick delivery infrastructure and job creation.* The Commission will provide support for labour-intensive infrastructure works and maintenance in order to preserve access to services and to curb likely under-spending on maintenance due to fiscal pressure in developing countries. The Commission encourages Member States and other donors to take similar action. In this framework, the Commission will set-up a network of EU and other financiers to draw up a pipeline of accelerated infrastructure investments to be financed in 2009/2010. The Commission encourages the EIB to use on-lending agreements with regional development banks and domestic financial intermediaries for local infrastructure.
- (15) *Establish regional infrastructure in the Mediterranean.* In the framework of the Union for the Mediterranean, the Community, including the EIB, and the Member States will establish the regional maritime and land highways, support renewable energy, antipollution measures and south-south interconnectivity.
- (16) *Increase by 2010 to €500 million the grant inlay in the EU-Africa Infrastructure Trust Fund.* The Commission, for its part, will allocate €200 million for 2009-2010, doubling its current inlay, and calls on Member States to join this effort so to raise €500 million. Achieving this target will leverage €2.5 billion in soft loans to support infrastructure. Furthermore, the Commission proposes to adapt the Trust Fund (i) to include national infrastructure which is part of regional networks and (ii) to introduce risk guarantee mechanisms. Hence, the Commission calls on Member States to support the necessary amendment of the Trust Fund Agreement. Moreover, the Project Financiers Group should include the Africa Development Bank and be open to contributing third countries.

III.4.2.2 Revitalising agriculture

While food prices have gone down recently, remaining structural problems, such as a lack of productive capacity and infrastructure, necessitate continued support for and increased investment in agriculture. Revitalising agriculture in developing countries requires a comprehensive approach. Reviewing existing strategies and support programmes entails domestic policy reforms, along with support for input provision, such as seeds, fertilisers and agricultural finance, for demand-driven research and extension, and for sustainable production systems. In addition, targeted infrastructural investments will need to link more effectively production areas with markets, requiring support to be provided both for export infrastructure and for small-scale rural infrastructure.

⁹ *Africa's Common Position: Preparation towards the G20 meeting of April 2, 2009, AU, March 2009.*

- (17) *Speed up financing for agriculture.* The Commission is frontloading the €1 billion Food Facility. The first tranche of €14 million has also been agreed and will target 23 countries judged to be most at risk. Overall, the Commission will commit more than €500 million in over 40 countries in the first half of 2009 and another €300 million by the end of the year, thus accelerating the coordination and efficiency of support for agriculture.
- (18) *Invest in agricultural corridors.* The Commission and Member States should work with the regional organisations and the private sector to align investments in support of linking markets and production areas, a new focus for the EU.

III.4.2.3. Investing in green growth

The crisis offers a major opportunity to create greener economies. Climate change is a huge challenge and global action must be taken now to avoid irreversible damage later. The EU, having made its own firm commitments, is resolutely engaged in securing an ambitious Copenhagen outcome in December and the full participation of developing countries to this end must be facilitated. As regards Least Developed Countries (LDCs), the setting of National Adaptation Programmes of Action (NAPAs) is a priority issue for support. These NAPAs contain the most urgent requirements and should be embedded in national strategies. So far, 39 countries have adopted such plans and others, including non-LDCs should follow suit¹⁰.

- (19) *Push forward the Climate Change Alliance.* EU Member States should contribute to the Global Climate Change Alliance (GCCA), endorsed by the European Council in 2008. The GCCA seeks to boost support for the poorest and most climate-vulnerable developing countries, in particular LDCs and small island developing states.
- (20) *Use innovative financing for climate change.* EU 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 that Member States explore the possibility of launching the Global Climate Financing Mechanism (GCFM) as a bridging initiative in the transition period between 2010 and the full implementation of any new financial architecture agreed at the Copenhagen conference.
- (21) *Focus on renewable energy.* The EIB should invest in renewable energy and energy efficiency. The regional dimension through regional energy transmission, gas pipeline and distribution projects will be reinforced. In eligible countries, the EIB should endeavour to increase the use of its €3 billion Energy and Sustainability Facility. The Commission will promote renewable energy in ACP countries through the €200 million Energy Facility and is identifying a new programme to support energy in Latin America as part of the 2010-2013 Regional Indicative Programme.

¹⁰ The following countries have adopted NAPAs: Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Sudan, Tanzania, Tuvalu, Uganda, Vanuatu, Zambia.

(22) *Support the transfer of environmentally friendly and sustainable technologies.* The Commission and Member States should support the Global Energy Efficiency and Renewable Energy Fund (up to €80 million by 2010), an innovative risk capital fund, managed by the EIB Group, aiming to accelerate the transfer, development and deployment of environmentally sound technologies in developing countries and economies in transition.

III.4.2.4. Stimulating trade and private investment

As a result of the crisis, the WTO reports that global trade is predicted to fall for the first time in more than 20 years, by 9%. Capital inflows have already decreased dramatically and intra-regional trade flows have slowed down substantially. An upturn is needed. Building trust and predictability for market actors, reducing trading costs, and reinforcing productive capacity, will help countries counteract some of the negative effects of the crisis, and will help them come out stronger when the worst is past. Two objectives should be pursued.

First, the EU should accelerate more than ever its Aid for Trade (AfT) Strategy and respect the collectively pledged intent to devote €2 billion to trade-related assistance (TRA) by 2010 and ensure follow-up of all other aspects of the AfT Strategy. In 2007, the EC surpassed the objective set for 2010, with TRA equal to €1.019 billion. EU Member States' TRA totalled €60 million, a significant increase from 2006. Combined EU spending on all Aid for Trade again exceeded €7 billion in 2007. These positive quantitative trends must be sustained and translated into more effective development- and growth-oriented strategies embedded in national programmes as well as in the regional integration agendas. The EU regional AfT packages for the ACP must be urgently put together, building on the recently adopted EU Regional Strategy Papers.

Secondly, the EU should take forward the work on *trade finance*, in line with the G20 outcome. With the tightening of global liquidity conditions, trade financing has been adversely affected. According to the IMF, the Low Income Countries' volume of trade financing dropped by 18% in the last quarter of 2008. Export credits, credit facilities and guarantees are crucial vehicles for boosting trade and must be enhanced.

(23) *Step up implementation of the AfT agenda and make AfT more effective.* The Commission and Member States should intensify their efforts to implement the Aid for Trade Strategy, sustain current levels of commitment, including by continuing to provide €2 billion level TRA in 2009 and 2010, and ensure that support is effective and produces the expected results. The ACP and Latin America regional AfT packages should support regional organisations and partner countries in an effort to pool development aid for "regional stimulus".

(24) *Increase export credit.* The G20 agreed on a \$250 billion multi-lateral trade finance initiative through export credit and investment agencies and through the MDBs. Many Member States have substantially increased the capacity of their export credit agencies (ECA) to guarantee and insure export transactions. The Commission recommends that further extended capacity should be given to cover higher volumes of business in support of developing countries. The EIB should consider supporting multilateral initiatives on trade finance.

(25) *Ensure guarantees for investment and provide credit facilities.* (i) The Commission and the EIB are working together to increase guarantees for investment, inter alia

through the expansion of guarantee possibilities under the Infrastructure Trust Fund and the EIB's Investment Facility; (ii) The Commission calls on the Council to adopt the Commission proposal of May 2008 that will provide for financial strengthening of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) through the use of reflows; (iii) The Commission will strengthen the Investment Facility for ENP countries in Eastern Europe; (iv) The EIB should, through the provision of loans, equities and/or guarantees, step up its support to microfinance institutions as well as to the banking sector..

IV. WORKING TOGETHER FOR GOVERNANCE AND STABILITY

Governance and fighting corruption are key to sustainable economic development. Several areas deserve special support. Developing countries need to pursue efforts to establish a sound *macroeconomic and regulatory* environment for private-sector activities and growth. This is the best incentive for attracting foreign investment and reducing domestic capital flight. 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. Higher borrowing to help offset the impact of the crisis could pose serious risks to the sustainability of debt, in particular for those developing countries that already have a high debt burden.

Countries in *fragile situations* will require specific attention and action. Measures must be taken to enhance early warning, conflict prevention, crisis management and democracy building aiming at consolidating political and social stability and preserving the democratic gains attained over the last years. The Commission will intensify political dialogue with these countries.

Finally, this national governance agenda should be complemented by a strengthening of *regional integration processes*. Uncoordinated, or even competing, national plans can have a detrimental effect on neighbouring countries and worsen the economic recession. Conversely, regional integration and cooperation, in particular the promotion of intra-regional trade and free movement of goods, services, persons and capital, will help mitigate the longer-term effects of the crisis. In this regard, the conclusion of comprehensive Economic Partnership Agreements with ACP regions is essential.

- (26) *Enhance policy and political dialogue.* The Commission will in 2009, in the context of the Mid-Term Review and the Governance Initiative, make economic and financial governance a key issue in its political dialogue with partner countries.
- (27) *Strengthen tax governance.* The Commission will promote good governance in the tax area on international, regional and domestic levels. In order to deliver on the development goals, and to improve the global financial and regulatory systems, the Commission calls on Member States and partner countries to support this objective.
- (28) *Avoid new debt crises.* The Commission and Member States should promote a discussion on enhanced sovereign debt restructuring mechanisms building on existing frameworks and principles.

V. GLOBALISATION: OPENNESS, EFFICIENCY, INCLUSIVENESS

V.1. AN OPEN ECONOMY

The EU's strategy to help developing countries cope with the crisis is framed within a wider global context within which, as highlighted at the London Summit, decisive action is needed not just to sustain global recovery, but also to reinvigorate world trade and investment and for greater inclusion in global institutions. A return to the *status quo ante* is not an option.

More protectionism means less growth and less development. Ensuring that global markets remain open is one of the best ways to fight the downturn and stimulate a return to growth, which will be beneficial for both developed and developing countries. The EU should, with the other members of the international community, take steps to:

- *Refrain from new barriers.* In London the G20 agreed to refrain from introducing new barriers to trade or investment and called for the removal of trade-restricting or distorting measures that have been put in place recently. This pledge was extended to the end of 2010.
- *Make progress to reach agreement on the Doha Round as soon as possible.* The Round contains elements that are of real value for the developing countries, and especially the poorest countries, for instance by providing duty-free and quota-free market access for Least Developed Countries to all developed markets and increased opportunities in many emerging economies. It would mean, inter alia, significant cuts in trade-distortive agricultural subsidies, substantial reductions in market access barriers, and an ambitious agreement on trade facilitation.

V.2. MORE EFFICIENT AND INCLUSIVE GLOBAL INSTITUTIONS

Global governance systems have been outpaced by the intensity of political and economic integration and interdependence worldwide. To harness this process, a more efficient and inclusive global architecture is needed. Here again, 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. Appraisals by the UN, the IMF and World Bank of what is needed to enhance their capability and legitimacy are being undertaken separately and will culminate at different intervals in 2009. The G20 has expedited the process of reform of the IFIs. For the UN, the June 2009 UN High Level Conference will provide an early opportunity to take forward this reform agenda.

Seen from the development angle, the following topics deserve special attention from the EU:

- *On the UN,* it must be put in the condition to effectively coordinate international efforts to help developing countries tackle a variety of global social, economic, financial and economic challenges. For example, the ECOSOC reform should be fully implemented. In addition, the UN's capacity to deliver as one should be strengthened, as recommended by the UN Panel on System Wide Coherence (2006), e.g. in food security through the further integration and rationalisation of its three food and agricultural agencies in Rome.
- *On the IFIs,* the G20 in London agreed to substantially increase resources for the IFIs, including resources to boost their capacity to help countries in need. This includes immediate financing from members of \$250 billion – of which \$100 billion or €75 billion is provided by EU Member States – which will be subsequently incorporated into an

expanded and more flexible New Arrangements to Borrow increased to \$500 billion - a general SDR allocation of \$250 billion as well as ratification by IMF members of the Fourth Amendment. In addition, the G20 agreed to reform the mandates, scope and governance of the IFIs to ensure greater voice and representation for emerging and developing countries and agreed that their heads and senior leadership should be appointed through an open, transparent and merit-based selection process. For the World Bank, the Commission favours the fast-tracking of IDA as a crisis mitigation measure. IFI conditionality needs to be tailored to the specific situation of each country in the current crisis.

- *More comprehensively*, synergies ought to be drawn between these reform efforts in the pursuit of greater coherence in respective governance bodies. The role of regional development banks vis-à-vis LDCs should be further enhanced. Lastly, building on the London Summit, regional and continental groupings such as the AU, ASEAN and others should be invited to participate in informal international economic platform in order to vouchsafe greater efficiency and representation.

VI. CONCLUSION

This multifaceted crisis poses a serious threat to global stability. Our long-term political vision must guide swift and decisive immediate action. Commitments made last year must be respected and accelerated. But the crisis also holds opportunities. Opportunities to reach out to the developing world and establish a new and better kind of partnership, to invest more and better so as to stimulate our own economies, to refocus priorities, to achieve green growth, to redesign the international economic and financial architecture and adapt it to the realities of this new century.

None of this will happen without strong and unconditional European leadership pushing forward the new Global Deal decided in London. To make the difference, Europe must be united.

The time to act is now.