Fighting the global recession's storm: Implications for European development co-operation

27 May 2009, Residence Palace, Brussels

An EDC 2020 Policy Forum took place on 27 May 2009 in Brussels to assess the impact of the financial and economic crises on European development policies. It aimed at addressing two emerging topics: the role of Europe in global efforts to fight the financial crisis in the aftermath of the G20 meeting in London, and second the effort by the Commission to provide a single European front in the face of the crisis, most notably by issuing a 28 pledge Communication on 'Supporting Developing Countries in Coping with the Crisis'.

After opening remarks by the EADI executive secretary **Thomas Lawo**, **Philippe Keraudren**, project officer at the European Commission, DG Research, put the Policy Forum in perspective in respect to the overarching activities of both the EDC 2020 project and the 7th Framework Programme activies.

Ramesh Jaura, moderator of the morning roundtable on the post-G20 efforts to counter the effects of the crisis, began by underlining the social and economic impact of the crisis on developing countries. He then gave the floor to **Simona Bovha Padilla**, Economic Adviser at the Bureau of European Policy Analysis (BEPA) of the European Commission, who gave a brief overview of the priorities set by the plan for action set forth by the Commission.

She outlined the need to address the following topics as priorities: (i) crisis impact: the crisis has hit developing countries harder than according to the forecast. Central and Eastern Europe was hit especially hard. (ii) the risk of instability that could stem from the crisis. (iii) On Aid, with remittances drying up there is a renewed need for ODA. (iv) On poverty, the Commission devised new instruments, including the Vulnerability FLEX that aims to act counter cyclically to support countries in need. (v) She outlined the urgent need to boost the real economy by investing in interregional infrastructure, and to support green growth. (vi) Efficiency gains need to be made. EUR 7 billion could be saved by thoroughly implementing the Accra Agenda for Action.

In conclusion she outlined that the crisis is a turning point for global governance. She emphasized that the EU plays a leading role in promoting stability, and providing technical assistance as well as ODA.

Mr. Jaura asked **Alison Evans**, director at ODI, whether she believes the EU to be doing enough. She said it was yet to be seen whether the crisis could be a game changer. She pointed out that the crisis in Africa is a growth crisis, as reported by the latest African Development Bank report, and that a development crisis is already underway. The EU Council conclusions arising out of the GAERC, she said, were disappointing. While the Council welcomed the 28 pledge plan set forth by the European Commission, it failed to fully commit to it.

She went on to say that the crisis did give us an opportunity for action. But she stressed that the EU would need to fight an uphill battle to overcome its divisions and lack of clear vision, in order to provide the sort of game changer that we do need.

In conclusion she emphasized the importance of the following steps in fighting the effects of the financial crisis: (i) long term planning (2015), (ii) the need to push to achieve the MDGs, (iiI) the promotion of a low carbon economy (iv) a focus on resilience in terms of poverty reduction, (v) social protection, (vi) going beyond ODA to promote mutual accountability in devising new frameworks to reach better global governance.

Jean Louis Arcand, Professor at the Department of International Economics, IHEID, made a strong case for efficiency and incentives as real drivers against the crisis. He underlined that over optimism (*voeux pieux*) and money alone are not enough in the face of this crisis and pointed out that ODA was seldom devised as to differentiate transient from chronic poverty. Mr. Arcand criticized the central planning or 'burn rate' mentality of big donors in which success is measured not in terms of aid effectiveness but of aid volume. This, he continued, is only made worse by poor results in evaluating programmes on the ground, especially in terms of lessons drawn by past mistakes and inefficiencies.

He concluded by saying that development actors across the board, institutions, governmental agencies as well as NGOs need to engage in serious reflection on quality assessment and effectiveness if they aim at countering the effects of the crisis.

Vicente Yu, Programme Coordinator of the South Centre's Global Governance for Development Programme, reacted to Mr. Arcand's presentation by saying that aid is indeed an industry, with some inbuilt mechanisms that do not encourage effectiveness. He linked Mr. Arcand's and Ms. Evans' interventions by saying that rethinking global governance is the necessary first step towards better aid practices.

Mr. Yu explored the urgent need for representativeness and true North-South collaboration in the face of the crisis. He expressed skepticism at the USD 1.1 trillion figure pledged at the G20 meeting, seeing business as usual rather than a game changer. Mr. Yu outlined 6 priorities for action set by the South Centre: (i) regulatory deficit of global finance must be addressed, (ii) avoidance of collateral damage to the South in the Northern response to the crisis (iii) IMF reform is required (iv) expansionary fiscal and credit policies should be adopted (v) an international independent debt court should created (vi) more reliance on regional institutions should be promoted.

Mr. Yu also warned of the rising threat of protectionism and advocated a central role for the UN in the future of global governance. He also called the EU to focus on coherence in its own policies, on good governance in the North and to act swiftly on the 6 priorities for action advanced by the South Centre.

Ramesh Jaura thanked Vicente Yu for outlining the complex issue of North-South cooperation and then took questions from the floor. Questioners focused on green growth and global governance and

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concrete steps for action, underlining weakness in the EU drive for reforms at the IMF level. The question of aid was also raised.

Vicente Yu replied that the concept of aid is to be reexamined and that more focus should be put on a more equal world in representation. **Simona Bovha Padilla** stressed that the EU does engage in promoting IMF reform, although she conceded the process to be slow. Asked to give concrete proposals to address the effectiveness issue, **Jean Louis Arcand** underlined the need to devise self financing insurance schemes for the poor to help support developing countries as a way out of the crisis and out of the 'burn rate' mentality of donors. **Alison Evans** said that while solutions do already exist, in the form of microfinance and remittances, the need for political coherence and solid global governance is direr. The crisis, she said, provides us with an opportunity to act, on the European and global level, for more coherence. She stressed that the upcoming Copenhagen conference would put the world community to the test.

Open Discussion Forum

After a break, Mr. Jaura introduced the Open Forum Panel discussants to speak about the 28 pledges made by the European Commission in 'Supporting Developing Countries in Coping with the Crisis'. He gave the floor to **Annalisa Prizzon**, research assistant at the OECD Development Centre, who called attention to external debt sustainability as a key to planning a way out of the crisis. She pointed out that debt sustainability should be focused on (i) trade credit that goes beyond what is proposed by the European Commission (ii) avoiding the debt trap by engaging in sustainable lending to support social spending without affecting the financial future of developing countries (iii) increasing aid flows beyond 2009/2010.

Andy Sumner, research fellow at the Institute of Development Studies, underlined the 28 pledges do not put enough stress on poverty and social protection, as pointed out earlier by Alison Evans. Although poverty indicators are slow to surface studies conducted at IDS have shown that during 9 previous crises poverty has risen by up to 50%. To that end Mr. Sumner proposed two pledges should be added or revised. (i) Rapid real-time poverty tracking: link the MDGs with vulnerability indicators; and do rapid appraisal including people's own crisis indicators; (ii) Make SP objective-led then plan instruments (not vice-versa); go beyond transfers to EC aspirations of transformative social protection and build local ownership (via dialogue, CSP review, design)

Beatrice Knerr, professor at the University of Kassel, opened her intervention by pointing out that the Communication generally lacks clear vision on education and on concrete planning and timing for action. She then underscored the importance of migration as regards to planning for the crisis, being faced by a plural and often unexpected picture of migration. Migration, she said, does not follow standard expectations.

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Ms. Knerr also underlined that the focus on remittances as mere cash flows was detrimental to other types of remittances: e.g. Human capital, know-how, political practices. Their impact was underestimated if not altogether absent from the Communication. She concluded that a much refined understanding of post-crisis migration flows is needed in order to better address the effects of the global financial crisis.

Bodo Ellmers, Policy and Advocacy Officer at Eurodad, warned the audience that the Communication does little to address the sustainability of EC limited funds and lack of member states support, most notably in frontloading aid. He pointed out the gap between EC aspirations and state policies in the face of the crisis, showing an inherent lack of coherence.

He underlined the urgency to rework the sovereign debt mechanisms and to push donors to honor their commitments as the inherent preconditions to the work as planned by the EC Communication on supporting developing countries.

He underlined the urgency to rework and improve the sovereign debt restructuring mechanisms and to push donors to honor their commitments on scaling-up ODA. This, he added, was the precondition to a meaningful European contribution to supporting developing countries in coping with the crisis.

San Bilal, Programme Coordinator at ECDPM, reacting to Mr Ellmers' intervention, also underscored the urgent need to honor pledges but doubt that many of the EU member states will leave up to their commitments. In the context of a crisis that would have long ripple effects, frontloading would be a useful but limited strategy to address the full set of consequences of the crisis. While some instruments already exist and can be adapted, such as the EC proposal for a "vulnerability" FLEX, their effectiveness needs to be improved. Mr. Bilal noted, as Ms. Knerr did before, that the principal weakness of the Communication was that it lacked an outline for systematic long term planning. A proposed solution would be to adjust the EPA approach and to better strategise and support policies on regional integration, which would offer more solid long term solutions to the Global financial crisis.

Dirk Willem te Velde, started by saying that the EC had done well in releasing this Communication, but that some context was lacking. First, he said, the responses to the crisis should be framed in a much wider response to other shocks: food, fuel, climate. Furthermore, and underlining what had been pointed out earlier as a lack of vision, Mr. te Velde argued that more scenario building to forecast possible outcomes was a vital tool in building policies. He also thought of the EU as central in (i) supporting reform at the IMF and (ii) lead the fight, at home and abroad, against protectionism. For that the EU needs a stronger united voice that could catalyze reform.

Opening the session to the Forum's participants, Mr. Jaura gave the floor to **Klaus Rudischhauser**, Director for General Affairs, Directorate General for Development (European Commission) who thanked the speakers for their appraisals of the 28 pledges set forth by the European Commission, a process in which he was directly involved. Mr. Rudischhauser pointed out the uniqueness of the Communication,

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as the only political document addressing the point of helping developing countries in respect to the global crisis. While the G20 meeting addressed for the most part middle income countries, the state of the poorest countries was not addressed. The European Commission, he said, took the initiative to address this gap. The point of this Communication is to underline that ODA is no panacea and that development must rely on a broad spectrum of instruments. To answer criticism made by the speakers, he said that budget support and vulnerability instruments were vital tools in preventing developing countries from cutting social spending. He emphasized that long term solutions are to be encouraged, and admitted some shortsightedness in EDF budget support. But he also pointed out that reaching long term targets, and thus sustainability, was temporarily less important than mitigating the most dire short term effects of the crisis.

After Mr Jaura asked the panel to react to Mr. Rudischhauser's intervention, **Dirk Willem te Velde** emphasized that the poorest countries can stimulate the global economy as they are the most liquidity constrained and that developing and developed countries are linked both ways. **San Bilal**, echoing previous interventions, replied that the need for sound global institutions in which North and South could deal with global together was most urgent.

Ramesh Jaura thanked the speakers and participants for a lively discussion and concluded that across the board speakers agreed that the silver lining in this time of crisis was a much heightened sense of interdependency. He added that questions of inclusiveness in global governance, as well as reform, need to be at the top of political agendas in Europe and beyond.

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