

12TH APF Meeting Intervention by Mr. Briosas e Gala, APR of EC President

Mr. Barosso for Africa.

Agenda item *Response to the impact of the Global and Economic Crisis on*

Africa

Distinguished participants,

The economic and financial crisis is **hitting developing countries much harder than we expected only some months ago**, contrary to initial forecasts which asserted that developing countries would be spared from the crisis because of their relative disconnection from international financial markets. In fact, most developing countries are suffering from the succession of recent crises (food, fuel, financial) which is having very damaging effects, threatening not only the achievement of the Millennium Development Goals by 2015, but also undermining past progress observed in recent years.

The **forecasts for the second half of 2009 and for 2010 look gloomy**. In addition to the serious risk that years of sustained efforts and achievements by partner countries and EU donors alike would unravel, there is the risk that economic crises in developing countries will fuel **growing social and political instability**.

After the G20 meeting in London, the European Commission issued on April 8th a **Communication "Supporting developing countries in coping with the crisis"**¹, proposing a set of 28 **comprehensive, timely, targeted and coordinated** measures to cushion the human impact of the crisis and to boost economic growth in developing countries².

These measures include, *inter alia*: honouring aid commitments and leveraging new resources; acting counter cyclically; improving aid effectiveness; sustaining economic activity and employment; revitalising agriculture; investing in green growth; stimulating trade and private

¹ COM (2009) 160, Brussels, 8th April 2009

² 10018/09, Brussels, 18th May 2009

investment; working together for governance and stability; and protecting the most vulnerable.

Vulnerability and resilience

The European Commission will pay special attention to those countries which appear to be the **most vulnerable to the crisis, which have limited resilience capacity and where an EC grant contribution can make the difference.**

ODA and leveraging other resources

The **crisis must not be an excuse to water down donors' aid commitments.** As private financial flows towards developing countries are dwindling due to the crisis, **ODA is taking more importance than ever.** In 2008 EU ODA reached 0.40% of GNI or €49 billion and global aid levels also rose. **However, a significant effort will be needed to ensure fulfilling our aid commitments, of which the current increase is falling short.** This has an **impact** on the G8 to deliver on the **\$50 billion pledge of Gleneagles.**

According to the latest OECD/ DAC simulations the **EU will mobilise 80% of the remaining scaling-up required to reach the 2010 G8 target** from 2008 ODA levels.

At the same time we should **use development aid increasingly to leverage other non-ODA financial resources.** It is increasingly possible for development aid to act as a catalyst, attracting investment, promoting technology transfer and facilitating trade as well as other private sector flows.

Innovative Financing Mechanisms can also provide the fresh and additional resources needed for development.

As a matter of fact, ODA alone is not enough to tackle the global challenges that we face. COM has proposed and the Council of the European Union has agreed to a "whole of the Union" approach that implies that the EU must use all sources and instruments available to leverage assistance aimed at stimulating sustainable growth, investment, trade and job creation. The same should be done on global level.

Improving aid effectiveness

The crisis should **push us to further free up resources through efficiency gains**. The EU has played a leading role in setting the international policy agenda on aid effectiveness. We should keep the lead and demonstrate the concrete value of this agenda.

The EU is the first major donor to try to quantify how much could be freed up by delivering on the Paris and Accra commitments – in other words the **cost of “Non-Europe” in development**. First estimates show that up to €5 - 7 billion in efficiency gains per year could be achieved by implementing central elements of the Accra Agenda for Action.

In addition to continued action at bilateral donor level (EC level), the Commission is currently identifying specific areas which would benefit from joint EU approaches and closer cooperation amongst Member States. Discussions on accelerated division of labour, technical cooperation and use of country systems are underway in this respect.

A good example of how the EU is implementing the AAA goals, is the **“MDG contract”**. It is a longer term, more predictable form of budget support for those countries that have a good track record of using budget support and are committed to reaching the MDGs. We have so far approved MDG contracts in 7 countries [Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, and Zambia], with Tanzania expected to be agreed later in 2009. Collectively these account for about €1.8bn, representing 50% of all General Budget Support in the 10th EDF.

Acting counter-cyclically (budget support/macro-economic assistance)

As a direct consequence of the global economic downturn many developing countries confront declining commodity prices, declining international demand for their exports, lower levels of remittances, lower import and customs duties, reductions in foreign direct investment and difficulties in domestic and regional financial markets.

To respond to the immediate effects of the crisis in developing countries we must act counter cyclically. We as donors need to, **as the short term response**, provide aid more quickly and **focus aid on key sectors** that can best contribute to both fostering the economic recovery in a sustainable manner and protecting pro-poor expenditures for the most vulnerable.

The European Commission has also proposed setting up an ad hoc instrument (the "Vulnerability FLEX") to help address the social consequences of the crisis and compensate for falling revenues in the ACP countries most vulnerable to the crisis and with poor domestic resilience capacity, especially through direct budget support.

On the basis of economic, social and political vulnerability criteria this instrument will mobilise much needed short term support during the period 2009 and 2010, thus **helping to cushion the blow rather than acting after the event.**

In addition to promoting macro-economic stability and maintaining public spending especially in the social sectors, the EU has identified infrastructure, agriculture, green growth and trade & investment stimuli as key areas for support.

In the area of agriculture, work is ongoing, namely, for what concerns the frontloading of the food facility.

Another way to stimulate economic growth and job creation so is the **investment in inter-regional infrastructure** by addressing **key missing links**. The Commission has therefore proposed to reinforce and reshape the EU-Africa Infrastructure Trust Fund. This will allow us to finance national infrastructure which is part of regional networks and to introduce risk guarantee mechanisms.

The Commission, for its part, and in addition to the already €150 million made available, will contribute an additional €200 million for the period 2009-2010 to the Trust Fund, and we hope EU Member States to contribute an additional €150 million so as to increase the grant capital to a **total of €500 million by 2010.**

To boost **green growth and climate change** mitigation and adaptation, the Commission is already being quite active on climate financing in developing countries. Over the coming years around €360 million will support mainly adaptation in the poorest and most climate vulnerable developing countries (including €180 m for disaster risk reduction and €110 for the Global Climate Change Alliance). A comparable amount of €380 million is foreseen for mitigation, mostly under the heading of renewable energy and energy efficiency.

In the area of trade and investment, the EU will continue efforts to implement the EU Aid for Trade Strategy in all its dimensions, including the promotion of trade finance. We have made good progress, with the EC surpassing its 1 billion target, and the Member States collectively reaching 960 million.

There are some of the key EU tools to approach the current crises, but let me stress that, as we all agree, **Good domestic governance** by developing countries is a necessity for development to work, and this can only be created by developing countries themselves.

Thank you for your attention.

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