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Head of Unit

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Subject: Achieving MDGs in time of financial turmoil

Dear Mrs de Waal,

I am writing in response to your email addressed to the President of the European Commission Jose Manuel Barroso. In your letter you have touched upon one of the most worrying questions currently facing us – how the financial crisis could affect the achievement of the Millennium Development Goals. You also put forward specific ideas on the use of debt/MDG swaps as well as a global solidarity fund, both of which can be considered innovative or alternative financing mechanisms for development.

While the current financial crisis may have originated in the developed world, it is apparent that its impacts are of global proportions. The Commission therefore strongly believes that in our response it should be treated as such.

In a very important meeting on November 15 in Washington, world leaders agreed on principles to underpin a new global financial order that should help avoid future crises and increase protection for consumers, savers and investors. In this regard, the Commission has always emphasized the importance of development. While focusing on recovery from financial crisis, developed countries should not forget the poorest of the world. That is one of the reasons why President Barroso has been so keen to reach an agreement, as was recently the case, on a €1 billion food facility to boost agricultural production in developing countries.

At the moment it is hard to predict to what extent the current financial crisis will have an impact on the developing countries' efforts to meet the UN Millennium Development Goals. While increased Official Development Assistance (ODA) alone is not sufficient, official development finance is necessary to eradicate poverty and foster sustainable development. Indeed, foreign aid can play a decisive role in improving economic and physical infrastructure as well as education and health systems in countries with low domestic financing capacity.

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The financial crisis must not be an excuse to water down efforts to promote development and tackle climate change. Instead we must do more, and we must do it faster. The European Commission prepared for the Doha conference on Financing for Development with a strong commitment to ensuring that it gave a strong signal regarding ODA commitments. The EU is committed to delivering on its promises and to reaching the collective target of 0.56% of GNI by 2010 and of 0.7% of GNI in 2015. In this regard, the EU also calls on other donors to agree to fairer international burden-sharing for the scaling up aid to reach the Gleneagles commitments.

In this regard I would like to commend your ideas on the means to deal with developing countries' indebtedness problems at the time of financial turmoil. I would like to highlight that the European Commission has always been deeply committed to the Heavily Indebted Poor Countries (HIPC) Initiative. While emphasising debt relief, this initiative also links it to poverty eradication, structural adjustment and social policy reforms. The European Commission contributes to the initiative both as a creditor on its own claims and as a donor to the HIPC Trust Fund.

Turning to your specific suggestions on debt/MDGs swaps, there has been considerable international interest in debt swaps and their potential to create a new financing mechanism to help overcome long-standing barriers to development. There seems to be room for more targeted debt swaps, for instance in the field of health or education (both MDG targets). An excellent example of this is the Debt2Health initiative recently launched by the German government. It envisions freeing up domestic resources through debt relief that can be invested in urgent public health needs.

The debt for MDGs mechanisms underline a sectoral approach which considers the MDGs framework as a set of specific goals, targets and indicators each deserving separate interventions in order to be achieved. The Commission believes that broad initiatives to tackle poverty in its various dimensions should be considered. Coherent and comprehensive development strategies which are adapted to the countries/regions' specificities, needs and priorities and which take into account the complex set of potential interactions and trade-offs among sectors should greatly benefit developing countries' struggle to overcome poverty.

The debt-for-aid /MDG proposal raises the question of its potential to raise additional funds to support development processes. This question is of course particularly relevant considering the potential negative impact of the current financial crisis and its economic implications on financial resources for development (ODA, export earnings, private investments and remittances). If a debt-for-aid/MDGs swap aims to target official bilateral debts, there is a risk that it may generate no fresh money for development as debt reduction/cancellation operations are integrated into ODA calculations, as shown for example by the impressive ODA peaks in 2006 resulting from important debt cancellations.

As regards the Solidarity Fund you propose, I would like to emphasize that such initiatives organized on a voluntary basis can have potential positive implications such as mobilizing external financing and the participation of new actors as well as overcoming capacity constraints in developing countries. But one should ensure that global funds respect the Principles of the Paris declaration, in particular the principles of alignment, country ownership and mutual accountability, and take into account existing channels for aid delivery. At the same time, we should be cautious and avoid the proliferation of global initiatives and vertical funds and ensuing increase in transaction costs so as to ensure more coherent and effective development co-operation.

Rallying support by EU Member states would be an important starting point towards promoting innovative approaches. But I would like to assure you that the European Commission is ready to work with donors to support existing initiatives (i.e. health related) and contribute further to developing new innovative financing mechanisms.

I believe at the moment the biggest challenge for the international community is to overcome national interests and to ensure that aid commitments are maintained. We must focus on active donor policies that have an impact on the everyday life of people living in developing countries.

Once again, I would like to thank you for your letter and the ideas that you have put forward for our consideration.

Yours Sincerely,

P. Craig - McQuaide

Peter Craig Mc-Quaide