EURO-MEDITERRANEAN
PARLIAMENTARY ASSEMBLY

The Meeting of the Committee on Economic and Financial Affairs, Social Affairs and Education

Draft Recommendation on:

The Mediterranean Response to the Global Financial Crisis

Presented by MP
Mohammed M. Abou El-Enein

Chairman of the Committee on Economic and Financial Affairs, Social Affairs and Education

- **Having regard to the outcome of the informal meeting of the Council of Europe held in March 1, 2009;**
- **Having regard to the results of the World Economic Forum Annual Meeting – Davos 2009;**
- **Having regard to the results of the informal emergency meeting of the EU held in February 22, 2009 in which the EU countries that participated in the Washington Summit approved to assist the G20 to implement its reform obligations;**
- **Taking into account the results of the meeting held in Berlin in February 22, 2009 on the preparation for the G20 Summit;**
- **Having regard to the results of the G7 meeting held in Rome in February 14, 2009;**
- **Having regard to the results of the G20 summit in Washington in 14-15 November 2008;**
- **Referring to the results of the Tangier Declaration issued in the "South Forum for a New Mediterranean (MEDays) in November 27, 2008;**
- **Taking into account the EU Presidency Declaration of 15-16 October 2008;**
- **Referring to the results of the meeting of the Euro-Mediterranean finance ministers;**
- **Having regard to the results of the G7 finance ministers meeting held in Washington in October 11, 2008;**
- **Having regard to the results of the Ministerial Conference of the Union for the Mediterranean under Marseille Declaration in 3-4 November 2008;**
- **Having regard to the results of the informal emergency meeting of the G8 in October 4, 2008 in Paris, where leaders of the European countries asked a better financial markets;**

- **Referring to the results of the European Parliament session in October 15, 2008, with the ratification by all the EU Member States on a proposal of bank loans guarantee;**
- **Referring to the joint initiative announced recently by the European Investment Bank, the World Bank and the European Bank for Reconstruction and Development (EBRD) to support the banking sectors in the region and finance the loans to projects that were affected by the global financial crisis;**

A. Whereas the global financial and economic crisis has imposed itself on the whole world countries, even more serious is that it is still in a state of constant movement, moves from one side to the other, and it is difficult to determine accurately its overall repercussions;

B. Recognizing that the impact of the crisis will not be limited to the cash side of the economy. Rather, its contagion could extend to the real economy, represented in:

- **The slowdown in global economic growth and high unemployment rates in the world;**
- **A decline in global direct investment, including the decline in inward direct investment to the southern and eastern Mediterranean countries;**
- **A decline in total expenditure in Europe and America. This will affect financing of investments and reduce demand for exports and tourism in the southern Mediterranean countries;**
- **A sharp decline in global financial markets, including markets of the Euro-Mediterranean region;**
- **A large number of bankrupt banks and financial institutions, including some insurance companies, resulting in the disappearance of some of**

these institutions and the integration of others, and the governments had to pump large amounts of liquidity to cover their financial positions;

- **A decline in energy demand and the global lower prices for oil and gas;**
- **An end of inflation and a decline in the price of many commodities;**

C. Emphasizing that the main causes of the global financial crisis are multiple and interrelated, such as lack of transparency, of dramatic failures Credit rating agencies, and the week rules of corporate governance.

D. Having confidence that the global financial crisis had revealed many of the learned lessons, including the ineffective early warning mechanisms, the weakness of supervising the international institutions, particularly in the US and some developed countries, the absence of supervisory practices on a cross-border basis and the importance of the role of the state for regulation, supervision, follow-up and even direct intervention in some cases;

E. Noting the initiative of world countries and regional and international groupings to take several measures to address the crisis and limit its negative repercussions, particularly the adoption of financial rescue plans, developing policies to stimulate the domestic demand, increase investment, ensure deposits in the banking institutions, reduce the interest rate to stimulate the local market and take protective action to protect domestic industries;

F. Whereas the key pillars of the economic recovery plans are:

- **Major injection of purchasing power into the economy to boost demand and stimulate confidence;**
- **The need to a short-term action to reinforce competitiveness in the long run. So, the plan sets out a comprehensive program to direct action to "smart" investment;**

G. Recognizing that the financial crisis has shown just how interdependent the world has become. The scale and speed at which a loss of confidence in one part of the world soon affected financial markets and spilt over to real economies worldwide, is rightly a matter of concern;

H. Emphasizing that the Euro-Med countries cannot help growth if they do not work together. So having confidence in the importance of expediting the implementation of priority projects determined by the Heads of States and governments in the Paris Declaration, on the establishment of the Union for the Mediterranean, as one of the mechanisms of overcome or reduce the negative effects of the global economic crisis. It is necessary to continue to follow up the progress made in implementing these projects;

I. Whereas the hardships posed by the crisis are therefore not entirely negative. Recession gives us an opportunity to retool our economy and corporations. The crisis provides governments with a unique opportunity to funnel public funds into developing green technologies and alternative energy;

The Committee emphasizes that dealing with the crisis' repercussions requires action on three levels:

I. The International Level:

1. **The globalization of the financial system must be based on the globalization of the controlling system. This requires reconsidering internal policies to develop more effective policies to deal with the risks not to avoid them;**

2. **Affirms the importance of accountability and responsibility as key factors for the world financial system. The most important principles are reform of credit rating agencies and the regulation of all those involved in financial industry;**

3. **Calls for developing common rules for investment funds, notably concerning definitions, codification of assets and rules for delegation.**

4. **Concerning the regulation of Credit Rating Agencies (CRAs), it recommends that:**

   - **a fundamental review of CRAs' business model, its financing and the scope for separating rating and advisory activities should be undertaken;**

   - **the use of ratings in financial regulations should be significantly reduced over time;**

5. **Calls for IMF reform that would be to readjust the voting rights of member states to reflect the changes in the global balance of economic power. This should not only include greater influence for – and capital contributions from – emerging giants such as China and India, but also an increased role in decision making by the less developed countries;**

6. **Calls for keeping world trade moving as protectionism could drag us 20 to 30 years backward. Any such moves would hit poorer, trade-dependent countries the most; the current global financial crisis increases the difficulties, but should not derail us from progress that has been made;**

7. **Calls for reaching an early agreement on a global trade deal in the WTO Doha Round. A successful Round will send a strong short-term signal of confidence in the new global economic order. Over time, it will bring consumers and businesses all over the world benefits in terms of lower prices;**

II. The Regional Level

8. **Stresses that facing the economic crisis impact requires to coordinate international and regional policies and systems. The "Union for the Mediterranean" will help in bringing together and integrating economic spaces - geographically close, but different in its economic and humanitarian origins- so that it can serve as the basic pillars of a much wider regional body;**

9. **Supporting setting up a common system for insuring bank deposits. In addition, a joint mechanism or cooperation is to be developed in order to tighten banking rules for capitals and organize high-risk future restrictions on the amount of funds that banks can lend to one side;**

10. **Calls for supporting the Mediterranean countries, as the EU in 2007 continued to be the largest donor of Overseas Development Assistance (ODA) - will reaffirm its commitment to arriving at ODA target levels of 0.56% of GNP by 2010 and 0.7% by 2015. It will also invite other donors to continue to work towards these goals;**

11. **Stresses the need to ensure that the Euro-Mediterranean is a single market functions well and that the flexibility in aid rules can be used to the full so Mediterranean countries can help support threatened sectors;**

12. **Calls for a coherent and workable regulatory framework for crisis management in the Euro-Med region;**

13. **Acknowledges that an effective risk warning system shall be put in place. It should aim to deliver clear messages to policy makers and to**

recommend pre-emptive policy responses, possibly triggered by pre-defined "danger zones";

14. **Stresses the need to establish a Euro-Mediterranean Insurance and Export Credit Institution. The institution will have a significant impact on the protection of assets, leading to the promotion of exports from the South;**

15. **Stresses the need for legislation concert in the partner countries of the Union for the Mediterranean, especially in the priority sectors for investment;**

16. **Welcomes the steps taken by Italy and Spain in close collaboration with other partners to implement the Mediterranean Business Development Initiative. This initiative aims at assisting the existing entities in partner countries operating in support of micro, small and medium-sized enterprises by assessing the needs of these enterprises, defining policy solutions and providing these entities with resources in the form of technical assistance and financial instruments and based on the principle of co-ownership;**

17. **Stresses that supporting the Mediterranean Solar Plan requires taking into consideration the extensive experience that the EIB has gained in Europe through financing for solar energy technologies and more broadly in the fields of renewable energies and energy efficiencies, FEMIP has offered to play a key role, in close cooperation with the relevant actors involved, in the several investment-program and projects which are due to be implemented in the Mediterranean region within the coming years;**

18. **Notes that establishing a "common Euro-Mediterranean economic area" requires, in the medium term, the integration of the southern economies in the Lisbon Strategy, by extending certain sectoral policies, implemented by the European Union, related to research, development, economy and knowledge, to the Mediterranean countries;**

19. Stresses the importance of "Invest in the Mediterranean" concept between the European Commission, and the Euro-Mediterranean organizations and initiatives with the purpose to improving the size and quality of the Euro-Mediterranean investment and trade, building sustainable businesses, and contributing to the sustainable economic development of the region;

20. Calls, in the area of scientific research, establishing a Euro-Mediterranean area of research as a fundamental pillar to encourage innovation economy in the Mediterranean. In this case, the Union for the Mediterranean will encourage the establishment of effective centers of excellence and technology programs through partnerships involving companies;

III- The National Level

21. Acknowledges that industries have to highlight how they are developing innovative new products and business systems to respond to the present crisis and to prepare for the post-crisis world;

22. Stresses that, in view of the corporate governance failures revealed by the current financial crisis, it is considered that compensation incentives must be better aligned with shareholder interests and long-term firm-wide profitability by basing the structure of financial sector compensation schemes on the following principles:

    - the assessment of bonuses should be set in a multi-year framework, spreading bonus payments over the cycle;

    - bonuses should reflect actual performance and not be guaranteed in advance;

* * * ---- * * *