Time to hold the G20 to account

CIDSE recommendations to the G20 Summit
Los Cabos, Mexico, 18-19 June 2012

The Group of 20 (G20) has tasked itself with coordinating a much-needed global response to tackling some of the most pressing problems of the world economy. But it is difficult to assess the progress of the G20 countries towards the shared goals that emerged and consequently of the usefulness of the forum.

It is high time that the G20 reported on its progress against its own objectives and made other improvements to its ways of working to make it fit for purpose and more likely to achieve its ambitious, but important goals.

This brief draws attention to the need for increased progress against G20 objectives in critical areas, makes recommendations for specific actions and points to the need for better tools and processes for the G20 to increase its transparency, accountability and ultimately effectiveness.

Fixing global finance

"Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our financial system. We will take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens."

London Summit, Leaders Declaration, 2009

The world's most devastating economic crisis in decades – resulting in massive unemployment, public debts and setbacks in poverty reduction – was caused by underlying problems in the financial system and how it is managed. The G20 became a Summit-level forum specifically to tackle such problems of inadequate regulation of the financial sector; the growth in size, complexity and risk-taking particularly of the shadow banking sector; failures of supervision agencies; the absence of better ways to tackle sovereign debt and a lack of coordination on monetary policy which generated unsustainable global imbalances.

The G20 has largely failed to institute adequate measures to regulate finance, discourage speculation, prevent future crises and reorient the financial sector to provide credit for productive and socially-useful activities. Investment banks such as JP Morgan are still reporting massive losses on their "gambles" and governments may yet again have to bail out banks in Spain. Further measures will be needed to move away from crisis-as-usual (S*ee Box 1*).

Box 1: Regulating finance for development

To achieve a financial sector that will not generate crisis, will not engage in excessive speculation, and will support the real economy in productive and socially-useful activities requires reforms that go beyond the G20's current actions. To create a climate conducive to development, further action will be needed including:

- A framework for cooperation on international banking supervision to replace the current market-based incentives for risk management. The recent JP Morgan incident has shed light on the inherent limitations of leaving measuring risk weights of assets to banks' own internal models.
- Practical and effective plans to deal with global systemically important financial institutions (SIFIs). In Europe the amount of public funding used to bail out banks already reached 32 percentage points of European GDP. The capital surcharges on SIFIs, announced by the Basel Committee, intended to compensate for the risks they pose, are too small to reduce risk-taking and are imposed on too narrow a set of firms. The Financial Stability Board (FSB), in formulating plans to improve the capacity of authorities to resolve SIFIs has ignored recommendations to reduce their size and complexity.
- Publishing the long awaited list of jurisdictions not complying with regulatory standards and imposing sanctions on territories that do not align with international prudential regulation.
- Providing alternatives to the "issuer pays" model, with respect to Credit Rating Agencies, which poses conflicts of interest that compromise the quality of service provided by the agencies. Regulatory measures to remove legal incentives to rely on credit rating agencies from law will not reduce that reliance in practice.
- Adopting policy measures to end the conflict of interest of accounting firms that also provide consultancy services, advising clients how to avoid tax obligations.
- Regulating commodity markets to prevent systemic risks and manipulative practices, including significant margin requirements and position limits for traders; reintroducing rules that distinguish market operators from commercial traders. Participation of publicly insured institutions in commodity derivatives trading should also be strongly regulated - if not completely prohibited - and require higher margin and capital reserve requirements. 'Over The Counter' trading should be carried out in public exchanges and both aggregate speculative position limits (total number and value of contracts for a given commodity) and higher margin requirements should be established and applied equally to all investors.
- Following the EU's example banning naked Sovereign Credit Default Swaps to combat speculation on sovereign debt.

The need to reform the international monetary system remains urgent. Despite being a priority of the French Presidency of the G20, the emerging consensus actions were not at all up to the task. Instead the G20 has chosen to prioritize discussions on surveillance and lending reforms of anachronistic IMF structures and a Global Financial Safety Net which may pay the way for even higher irresponsible lending during times of crisis. Regional schemes for monetary coordination, rather than being supported, are being shoe-horned under the IMF under a one-size-fits-all mentality. The discussions of a "framework for managing capital flows" refrained from curbing countries' rights to implement capital account restrictions, but refer to capital account liberalization as a desirable long term goal. Reforms towards a system that supports stability, trade, and adjusting global imbalances without recessionary consequences, would involve looking at a revamped system of Special Drawing Rights as the cornerstone of the international monetary system (which could also generate extra development and climate finance), a credible framework for exchange rate management and coordination and supporting greater regional and sub-regional mechanisms for monetary cooperation.

The sovereign debt crisis facing several European countries once again demonstrates that existing frameworks for debt restructuring lead to systematically suboptimal outcomes and undershoot the required levels of debt reduction. Ordinary citizens of a country and particularly vulnerable groups suffer the worst impacts of anti-crisis measures. This has been a reality for developing countries for decades. Now many northern countries find themselves in similar situations. Relevant agencies with expertise (UNCTAD, International Financial Institutions, civil society, etc.) need to develop a binding, independent and predictable framework for arbitrating on sovereign debt claims alongside standards for responsible lending and borrowing which should be speedily adopted. Such a framework would help to reverse the adverse impacts of a sovereign debt crisis particularly on the social stability of a country and on vulnerable groups. It would also fill the current vacuum in global sovereign debt governance.

Promoting a just economic recovery

"Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all."

Seoul Summit Declaration, 2010

Low Income Countries have been severely impacted by a financial crisis that started in G20 countries. Global challenges for inclusive economic development remain in the poorest countries: poor traders and producers are failing to benefit from global trade, poor country governments are failing to harness inward global investment to boost the local economy. In this context the G20 committed to supporting economic development in low-income countries and adopted the Seoul Action Plan on development in 2010 to overcome constraints such as poor infrastructure, under-employed and unskilled workforces.

Yet, as the G20's approach to infrastructure demonstrates - the predominance of large-scale infrastructure, promotion of public-private partnerships and lack of mention of safeguards or assessments - the emphasis is too much on achieving aggregate growth and not enough on looking at the social, poverty and environmental impact of its action plan.

In order to achieve its objective of achieving more sustainable growth that reduces poverty and narrows the development gap, the G20 needs to:

- ensure that it measures success against the right objectives, by supporting a UN initiative to produce beyond-GDP measures to guide policy-making, and by incorporating reporting on progress on inequality in G20 and IMF processes.
- focus its action plan much more on direct benefits to poor small-scale businesses and improving the quality of informal jobs, where poor people tend to be more economically active.
- promote policies that are shown to have a pro-poor impact. For example, by ensuring that the inter-agency coordination mechanism on social protection that is being established has clear targets to assist all countries to establish social protection floors by 2020 and financing for start-up costs in low income countries.
- tackle food security by prioritising investment in sustainable, small-scale food production, scaling up strategic food reserves, abolishing biofuels mandates and subsidies, improving oversight and regulation of land deals and tackling food price volatility by regulating financial markets

The G20's development impact extends beyond its development action plan. For example, whether the G20 succeeds in imposing effective curbs on speculation will partly determine future volatility of food prices. A better mechanism for testing the development coherence of its core agenda is urgently needed. One easy step toward achieving this is to allow more equal and systematic access to developing country governments and civil society to G20 processes, as well as better coordination with more inclusive UN processes.

Improving financial transparency and taxation

"We agree…to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over."
"We are committed to developing proposals, by end 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment."

London Summit Final Declaration, 2009

The G20 has long held that financial opacity contributes to instability, allows corruption and undermines revenue collection efforts of governments. Yet the pace of reform is far too slow to match the serious proportions of the problem.

For instance, G20 Development Ministers after their meeting in Washington called for the adoption of the Convention of Mutual Administrative Assistance in Tax Matters but nothing has been done to ensure tax havens' participation. The Global Tax and Development Forum has attempted to tackle some issues relating to information exchange. Over 700 Tax Information Exchange Agreements (TIEAs) and Double Exchange Agreements have been concluded as a result. However, only a third of these agreements are actually in force.

Worst of all, G20 countries still refuse to address the widespread use of tax-havens by transnational companies (TNCs). TNCs' transparency and tax compliance conduct has been on the agenda of the development working group in 2011 but concrete proposals are lacking.

Building on the leadership shown by the United States in 2010 with the Dodd-Frank Act and the EU Commission's 2011 proposals for reforming the Accounting Directive, it is vital that the G20 does not lose momentum towards a global standard for extractive industry transparency. At the very least, the G20 should make an unambiguous statement supporting a robust global standard for mandatory country-by-country and project-level reporting that establishes a meaningful disclosure requirements and a level playing field for oil, gas and mining companies.

In addition, to support progress to increase tax transparency across a range of sectors, the G20 should:

1. Adopt all 12 recommendations from the UN, IMF, WB and OECD on how to support strengthening developing countries tax systems.
2. Extend the mandate of the G20 anti-corruption working group beyond 2012 to include payment disclosure and tax information exchange.
3. Take stronger steps on the collection and publication of 'beneficial ownership' information for all registered companies, trusts, foundations and charities. Nominee directors and shareholders should be required to state on whose behalf they are working, as suggested by the FATF's Recommendation 24.

Providing innovative financing for climate change and development

Huge sums of new and additional climate finance are needed to help poor countries to deal with the impacts of climate change and ensure the urgently needed transition to a low carbon future. At the UNFCC talks in Copenhagen in 2009, Cancun in 2010, and Durban in 2011, developed countries promised to scale up their Fast Start commitments up to an additional $100 billion per year by 2020 to developing countries for mitigation and adaptation and set up a Green Climate Fund.

To deliver on these commitments, governments need to find long term, adequate and reliable sources of climate finance to meet the growing needs of poor and vulnerable countries, and to curb the growing trend of displacement of official development assistance (ODA) to climate finance, which could deprive poor countries of vital aid for areas such as health and education.[1]

Making progress on long-term climate finance is crucial to building trust in the overall negotiations towards an ambitious, global deal by 2015 on cutting emissions and to support increased ambition in developing countries climate action between 2013 and 2020.

The IFI's *Mobilizing Climate Finance* presented to the G20 Summit in Cannes (November 2011) found that a range of sources of climate finance are available, from budgetary contributions to action on fossil fuel subsidies to raising potential new sources of public funds ("innovative sources"). In addition, a report by the Gates Foundation on financing for development advocated innovative finance methods such as a financial transactions tax (FTT) and carbon pricing of maritime and aviation sectors (those with growing emissions not dealt with currently under the UNFCCC) for development and climate finance.

At the Pittsburgh summit (2009) the G20 promised to work jointly to end fossil fuel subsidies. Significantly reducing, towards putting an end to fossil fuel subsidies would free up public money for low-carbon investments. The huge subsidies that developed countries provide for the PRODUCTION of fossil fuels (according to some estimates easily double to triple in one year what has been promised as fast start finance over 3 years) should be ended immediately and repurposed for scaling up provision of public climate financing by developed countries.

Yet the G20 has consistently failed to make solid commitments or to implement its promises. The communiqué from the G20 Summit in Cannes simply noted the Mobilizing Climate Finance report and stopped short of proposing a way to progress climate financing. The G20 highlighted that they welcomed Gates' findings and that "some of the leaders have implemented or are prepared to explore some of these options."[2] The G20 agreed that new sources of funding being found for development and climate change should happen 'over time'.

Most recently, the Mexican G20 presidency initially put climate financing on the agenda for this year's summit. But now the G20 seems only ready to deliver a study group on climate finance chaired by France. Its aims would be to look at how "to effectively mobilize resources and support the operationalisation process of the Green Climate Fund".

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1 In 2010 OECD figures indicate 15% of ODA was climate finance.

2 G20 Leaders Summit: Final Communiqué: pg.28.

Conclusion

"..to strengthen its ability to build and sustain the political consensus needed to respond to challenges, the G20 must remain efficient, transparent and accountable".

Cannes Summit Final Declaration, 2011

The G20 has set high expectations by purporting to be the place to rapidly coordinate global responses to global challenges (even beyond the financial sector). Its members can set the tone and terms for the consideration of issues and agendas in a wide range of global institutions.

If G20 summits are to be taken seriously, they need to demonstrate that they can deliver much more than appealing rhetoric.

There is no adequate mechanism to ensure that the G20 achieves its objectives, as demonstrated by the lack of progress highlighted in this brief.

For this purpose, it needs a proper accountability framework that is transparent, open not only to G20 countries, and where

- G20 countries are scored against their progress to implement commitments.
- G20 countries are measured against objectives to achieve sustainability, jobs and improved well-being, not just aggregate growth.
- G20 proposals are tested for their development coherence.

In order to achieve this, the G20 also needs to improve its consultation processes. Whilst there is evidence that financial lobbies have stalled reforms and introduction of taxes, it is also true that the absence of equal and systematic consultation with civil society groups and developing country governments has hampered the adoption and progress of a truly development-friendly agenda.

CIDSE members

CIDSE is an international alliance of Catholic development agencies. Its members share a common strategy in their efforts to eradicate poverty and establish global justice. CIDSE's advocacy work covers global governance; resources for development; climate justice; food, agriculture & sustainable trade; and business & human rights. **www.cidse.org.**

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June 2012