

# G20

## **Perspectives from**

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Recep Tayyip Erdoğan • Jacob Zuma  
Barack Obama • David Cameron  
Julia Gillard • Stephen Harper  
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**THE CANNES SUMMIT**

**NOVEMBER 2011**

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# G20

THE CANNES SUMMIT

NOVEMBER 2011



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## Common Understanding, Common Goals

Throughout Moody's 100-year history, we have welcomed feedback from market participants, policymakers and other users of our credit ratings regarding the utility of our ratings system and credit analysis. We have used that feedback to inform our own internal deliberations regarding the quality, usefulness and transparency of our ratings.

Most recently, we have welcomed the vigorous, public debate about reform proposals affecting the financial services sector because it has provided an important opportunity to discuss the role and value of credit ratings in the financial system. Market participants who choose to use our credit opinions should use them to augment, rather than replace, their own analysis. Simply put, credit rating opinions should contribute to market dialogue. They should not be used to end it.

Moody's believes that there is an equally important discussion to be had about the role of credit rating agencies. Over time, there has been a trend to allocate to credit rating agencies

functions that belong to others. In our view, credit rating agencies should have the limited role of expressing opinions about credit. Credit rating agencies should not be leveraged to fill some of the perceived gaps in the market, such as limited information disclosure or low suitability criteria for investor protection.

Moody's believes that it is essential that there be a discussion that leads to a common understanding about the role of credit rating agencies. A shared understanding of our role will lead to supervisory frameworks and market practices that support fair markets and the efficient flow of capital worldwide. Moody's welcomes the opportunity to contribute to this important discussion, and we look forward to engaging with policymakers and market participants to help achieve our common goals.



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# Cyprus: the evolution of the 21st-century international business and financial centre



Over the years, Cyprus has evolved into a boutique international business and financial centre that features a dynamic economy and a strong infrastructure, combined with niche expertise in areas such as banking and finance, shipping, tourism and more.

In the 21st century, Cyprus has become the destination of choice for investors seeking an ideal location for doing business between the Middle East, Africa and Europe. An EU member state since 2004 and a member of the Economic and Monetary Union (EMU) since 2008, Cyprus provides a thriving market-oriented economic system that provides access to the EU business centers and a unified market of over 500 million consumers.

## Cyprus appeal

Cyprus's real GDP growth rate is well above the average growth rate of EU-27, as well as that of the eurozone. The full liberalisation of the capital market, along with the elimination of tariffs and quantitative restrictions, fully harmonised with the European Union laws and regulations (known as the *Acquis Communautaire*), presents new, promising opportunities for foreign investors.

Cyprus's economic stability and effective, transparent regulatory framework offers international and domestic businesses confidence to invest, grow and prosper. In terms of foreign direct investment (FDI), in 2009 Cyprus attracted a total of €4,121.5 million in FDI, compared to €2,764.8 million in 2008 and €1,626.4 million in 2007. It demonstrates a solid FDI performance and potential.

The dynamism and stability of the economy of Cyprus is reflected in independent assessments undertaken by reputable international organisations:

- Cyprus was ranked 40th out of 139 countries by the *World Economic Forum Global Competitiveness Report 2010-11*;
- Cyprus's economy was ranked 18th freest, in terms of ease of doing business, out of 179 countries in the Heritage Foundation 2010 Index of Economic Freedom;
- Cyprus ranks 37th out of 183 countries in the *World Bank's Doing Business 2011* report.

## Low corporate tax rate, combined with a transparent tax system

Cyprus offers the lowest corporate tax rate in the EU at 10 per cent and has concluded double tax treaties with 45 countries worldwide. Cyprus has completed a programme of reforming all its financial-sector legislation in line with international best practice and has in place a simplified, effective and transparent tax system that is fully EU, OECD, FATF and FSF compliant.

## Robust infrastructure for the ease of doing business

Cyprus can cater to the specific needs of each investor and provide customised quality services that enhance the ease of doing business with low operating costs, specifically:

- **Banking and Finance:** In 2010, Financial Intermediation services accounted for around eight per cent of GDP. The Cyprus banking sector comprises 41 banks, of which seven are local banks, eight are subsidiaries of foreign banks, nine are branches of banks from EU countries and 17 are branches of banks from third countries, as well as 110 cooperative credit institutions. The sector employs about 11,500 people;
- **Accounting Services:** In 2009, there were approximately 120 limited companies and 40 partnerships operating in Cyprus, with approximately 2,700 active members of the Institute of Certified Public Accountants of Cyprus;
- **Legal Services:** In 2009, there were over 2,100 registered advocates and over 160 limited-liability law firms providing a wide range of legal services in Cyprus.

Cyprus offers highly qualified and multilingual talent, an advanced transport and telecommunications infrastructure, two international airports and deep-sea ports.

Entering the 21st century, Cyprus has truly developed into a dynamic global business and financial centre that offers specialised services and rewarding business opportunities catering for the diverse needs of international investors.

# There's **more** to Cyprus than meets the eye



More than just a holiday destination with pristine white beaches and 300 days of sunshine, Cyprus can also cater to your business needs ranging from registering and setting up your company's operations to managing your EU, North African and Middle Eastern clients at a considerably lower cost. The Cyprus Investment Promotion Agency and the Point of Single Contact offer free online information and guidance to all interested investors at <http://www.businessincyprus.gov.cy/>.

As well as being an EU country and a member of the European Monetary Union since 2008, Cyprus enjoys the lowest corporate tax rate in the EU of 10%. Cyprus belongs to those jurisdictions on the OECD White List which have substantially implemented the internationally agreed tax standard.

In addition to this, Cyprus provides efficient business services, has a transparent legal and regulatory system and is committed to sustainable growth.

Cyprus welcomes both visitors and investors to work here, so, if you are searching for a new business base, consider Cyprus. It's more than just beaches and sun.

*"Columbia's growth and expansion over the years is attributed to the uniqueness of Cyprus; being the island's strategic position at the crossroads of three continents, its comprehensive legal framework, double tax treaties regime, communication system, banking system, infrastructure in general and last but not least its highly educated labor force."*

*Captain Dirk Fry, Managing Director  
Columbia Ship Management Ltd*

*"The favorable business climate, the excellent telecommunications infrastructure, the well educated and skilled human resources, the favorable tax rates and the proximity to the Middle East and Africa markets, were some of the key factors that enabled NCR to decide to move its regional offices to Cyprus in the 80s. Gradually, NCR managed to expand the office in Cyprus to cover also all the African Countries."*

*Managing Director of NCR Cyprus,  
Mr. George Flouros*

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# Le plans du gouvernement français pour le Sommet de Cannes

*Intervention de Jean-David Levitte, conseiller diplomatique du Président de la République, Organisation internationale du travail, Genève, le 3 octobre 2011*



**J**e me réjouis que cette rencontre entre la présidence en exercice du G20 et la communauté internationale à Genève devienne désormais un rendez-vous incontournable et je voudrais une fois de plus saluer le travail réalisé l'année dernière par la Corée, pour informer et associer l'ensemble des Nations Unies aux travaux du G20.

La France s'est engagée avec beaucoup d'intérêt dans le sillon ainsi tracé. Elle accorde en effet une grande importance à l'ouverture du G20 à l'ensemble de la communauté internationale. Le G20 ne peut pas, et ne doit pas, être un club fermé. Même si les pays membres du G20 représentent 85 pour cent du produit intérieur brut (PIB) mondial, l'ouverture aux autres est une condition de sa légitimité.

Comme vous le savez, le Président Nicolas Sarkozy a consacré le début de la présidence française aux consultations. Dès janvier de cette année, il a rencontré les chefs d'état de l'Union africaine à Addis-Abeba. Il a beaucoup consulté, tant à l'intérieur qu'à l'extérieur du G20, chefs d'état et de gouvernement, dirigeants des organisations internationales, mais aussi syndicats, entreprises et société civile. Il continuera à le faire jusqu'au Sommet de Cannes et à ce titre, recevra mercredi ensemble les secrétaires généraux de la Francophonie et du Commonwealth.

Nous avons voulu une année de présidence du G20 utile, avec des résultats et des avancées tout au long de l'année plutôt qu'une concentration de tous les enjeux sur un seul événement que représente le sommet annuel. Je veux d'ores et déjà remercier les organisations internationales et institutions spécialisées qui ont apporté leur concours très efficace à l'agenda de notre présidence.

Mais bien entendu, compte tenu de la situation économique mondiale, le Sommet de Cannes devra avant toute chose se concentrer sur la réponse à la crise, qui affecte non seulement la zone euro, non seulement les Etats-Unis, mais aussi les économies émergentes et par voie de conséquence l'ensemble des pays en développement.

Le G20 a montré, dès l'origine, en novembre 2008 à Washington, puis en avril 2009, à Londres, qu'il était efficace pour faire face à la crise. Le message à cette époque était clair : il fallait « réparer » le système financier, s'engager à renoncer au protectionnisme pour éviter la répétition des erreurs commises dans les années 1930 et coordonner les efforts de relance. J'ajoute la réforme des institutions financières internationales, qui a permis un rééquilibrage devenu indispensable en faveur des pays émergents.

Nous avons pu croire en 2010 que le G20 devrait à l'avenir se réinventer pour gérer l'après-crise, mais les récentes évolutions économiques enregistrées tant dans les pays développés que désormais dans les pays émergents nous ramènent vers la gestion de crise. Ce sera donc la priorité absolue du Sommet de Cannes.

Nous souhaitons qu'à Cannes, le G20 puisse adopter un véritable plan d'action pour la croissance mondiale. Il devra pour cela s'appuyer sur des mesures de politique économique concrètes prises par les principales puissances. Je pense bien sûr aux Etats-Unis, à la Chine, aux états de la zone euro, mais aussi au Japon, au Royaume-Uni ou au Brésil.

Je n'ai pas besoin non plus de souligner devant vous la difficulté de la tâche. Si les messages de Washington et de Londres pouvaient être de manière univoque la relance, celui de Cannes devra être plus différencié : certains états ont besoin de se concentrer sur les mesures de soutien à l'économie, d'autres sur la consolidation de leurs finances publiques, d'autres encore sur le rééquilibrage de leur modèle économique en faveur de la consommation intérieure.

Je sais que beaucoup estiment qu'il revient d'abord aux pays de la zone euro de régler leurs problèmes

avant de demander aux autres de faire un effort. J'ai aujourd'hui deux messages.

Le premier est que la zone euro fera son travail... Notre détermination est totale pour aider la Grèce et bien entendu pour assurer l'avenir de l'euro, de la zone euro, et donc de l'Union européenne.

Mon deuxième message, c'est qu'il est vain de chercher les responsables de la crise. Il faut se concentrer sur les solutions à apporter. Après la faillite de Lehman Brothers, nous ne nous sommes pas tenus au bord du chemin en attendant que les Etats-Unis s'occupent de leur système bancaire. Nous avons tous, tout de suite, voulu mettre en place une coopération plus forte entre les pays principalement impactés par la crise financière, car c'était la seule manière d'être à la hauteur de l'enjeu. Aujourd'hui, c'est la même chose : personne n'est à l'abri de la crise économique et personne ne peut spéculer sur l'échec des autres puisque l'interdépendance de nos économies assure mécaniquement une rapide transmission des déséquilibres. C'est pourquoi la France appelle tous les pays du G20 à prendre des mesures adaptées à la situation et tous les pays non membres du G20 à soutenir les efforts collectifs qui seront entrepris pour restaurer la confiance.

Pour autant, le Sommet de Cannes, même dominé par le thème de la croissance et de la restauration de la confiance, ne se limitera pas au seul plan d'action que nous voulons y adoper.

Nous voulons marquer des progrès sur les nouveaux sujets mis à l'agenda du G20 par la France à la fin de l'année 2010, comme la réforme du système monétaire international ou la lutte contre l'excessive volatilité des prix. Ils sont non seulement utiles pour une meilleure régulation de la mondialisation, mais ils sont dès maintenant des éléments complémentaires du plan d'action pour la croissance.

Qui ne voit qu'il est désormais indispensable de progresser vers un nouvel ordre monétaire international, reflétant les nouvelles réalités économiques et évitant les déséquilibres des marchés des changes qui avaient failli dégénérer en guerre des changes il y a un an seulement? Qui ne comprend que les désordres sur les marchés des matières premières, qui ont conduit à des fluctuations excessives des prix agricoles ou énergétiques, sont un frein à la croissance mondiale, mais plus grave encore, directement responsables de catastrophes humanitaires?

Permettez-moi de rentrer un peu plus dans le détail en ce qui concerne le système monétaire international, élément indispensable du cadre pour une croissance durable, forte et équilibrée:

Le G20 s'est accordé sur neuf axes précis de réforme, depuis le séminaire réussi de Nankin le 31 mars dernier, co-organisé par la Chine et la France. Je signale les quatre principaux:

- la composition des droits de tirage spéciaux (DTS) du Fonds monétaire international (FMI) : le G20 travaille en particulier sur les critères d'intégration de nouvelles monnaies au panier des DTS.
- un cadre de référence pour la gestion des flux de capitaux : il s'agit d'avoir des références communes pour répondre à des brusques entrées ou sorties de capitaux. Je pense à un certain nombre de pays émergents, comme le Brésil, qui ont été confrontés à ce genre de problème.
- le renforcement de la réponse aux chocs systémiques à travers la mise en place de nouvelles lignes de crédits du FMI, cette fois destinées aux pays bien gérés mais exposés à une crise globale. Nous souhaitons par ailleurs que le FMI articule au mieux ses instruments avec les fonds mutuels de soutien créés par l'Europe, avec le Fonds européen de stabilisation financière (FESF), et, l'Asie avec l'accord de Chiang Mai.
- enfin, le G20 travaille sur le renforcement de la surveillance multilatérale du FMI, portant notamment

sur les effets de contagion économique et financière d'un pays, ou d'une zone, vers le reste du monde. Parmi les réponses structurelles à la crise, je voudrais souligner combien il est important que l'agenda économique intègre un agenda social ambitieux.

Nous avons réussi, à la demande du Président Sarkozy, à ancrer la dimension sociale de la mondialisation dans l'agenda de travail du G20. Pas pour en faire un thème de plus. Mais pour souligner que la réponse à la crise ne sera efficace que si elle inclut une préoccupation renouvelée et partagée pour l'emploi, pour la protection sociale et pour les droits sociaux.

La semaine dernière, les ministres de l'emploi ont scellé un accord qui permettra au G20 de progresser dans ce domaine essentiel dans les prochaines années.

Nous avons obtenu le soutien de tous les membres du G20 au concept de « socles de protection sociale » et à l'initiative des Nations unies élaborée dans ce sens. Les conclusions de la Conférence internationale du travail qui s'est tenue ici à l'Organisation internationale du travail (OIT), en juin dernier, de même que les recommandations du groupe consultatif présidé par Michelle Bachelet, ont été totalement prises en compte. Bien entendu et j'insiste, les socles de protection sociale sont définis au niveau national et doivent prendre en compte les spécificités de chaque pays, mais leur utilité a été soulignée par tous.

CC C'est qu'il est vain de chercher les responsables de la crise. Il faut se concentrer sur les solutions à apporter SS

Les organisations internationales jouent un rôle central dans la mise en oeuvre de l'agenda du G20, je l'ai déjà dit. C'est particulièrement vrai dans le champ social. Vous avez ainsi donné votre accord au G20 pour instaurer un mécanisme de coordination et de consultation et pour fournir des plateformes de partage des connaissances sur les bonnes pratiques en matière de protection sociale, qui devront être opérationnels d'ici le sommet du G20 au Mexique en juin 2012. Le Président Sarkozy souhaiterait par ailleurs la création au plus vite de postes d'observateurs croisés entre l'Organisation mondiale du commerce (OMC) et l'OIT pour renforcer encore la cohérence du travail de vos organisations.

La France souhaiterait aussi que les huit normes fondamentales de l'OIT soient partout ratifiées, respectées et qu'il en soit rendu compte. Je sais l'âpreté des débats sur cette question et combien il sera difficile de progresser, mais la France est déterminée à poursuivre ce combat, qu'elle ne lâchera pas.

Enfin et surtout, la réunion ministérielle a placé l'emploi en priorité. C'est une préoccupation que nous partageons tous. Grâce au travail acharné de Gilles de Robien, et à sa capacité de conviction, nous avons réussi, non sans mal, à pérenniser non seulement la tenue annuelle d'une réunion ministérielle emploi des pays du G20, mais aussi l'existence d'un groupe de travail dédié, permettant d'associer les organisations syndicales aux réflexions des gouvernements en faveur de l'emploi,

objectif clé de politique économique et facteur de croissance. J'ajoute que pour la première fois cette année, la présidence du G20 a facilité l'organisation d'un « Labour 20 » en parallèle à celle du « Business 20 ». La France espère que le Mexique et les présidences qui le suivront renouvelleront chaque année l'expérience.

Enfin, pourquoi ne pas le dire, la France a aussi joué un rôle moteur pour assurer la présence désormais acquise du directeur général de l'OIT aux Sommets du G20.

Permettez-moi maintenant d'en venir aux thèmes de Cannes qui ne sont pas nouveaux sous présidence française, mais pour lesquels nous avons beaucoup travaillé pour enregistrer des avancées concrètes.

En matière de régulation financière, la stratégie du G20 est fondée sur un principe simple depuis Washington: tous les acteurs, tous les marchés et tous les produits doivent être soumis à des règles et à une surveillance appropriée. La régulation de la mondialisation passe aussi, et peut-être surtout, par les règles applicables au secteur financier.

Sous la présidence française, le G20 a travaillé à la mise en œuvre des engagements pris lors des derniers sommets, en particulier à Pittsburgh, et sur de nouveaux objectifs.

D'ores et déjà, le G20 a adopté des mesures renforcées pour les grandes banques systémiques. Nous travaillons maintenant sur l'élargissement de la régulation aux entités et aux activités non-bancaires, comme la supervision du système bancaire parallèle, encore appelé shadow-banking, la protection des utilisateurs de services financiers, et la régulation des dérivés de matières premières.

Nous avons aussi réalisé de nouveaux progrès dans la lutte contre les pays et territoires non coopératifs, et notamment les paradis fiscaux et ce sera un sujet important à Cannes. Nous travaillons à une évaluation approfondie des progrès accomplis par une soixantaine de pays en matière de respect des règles pour les échanges d'informations, de lutte contre le blanchiment d'argent ou le financement du terrorisme.

À Cannes, nous espérons que le G20 signera la convention multilatérale sur l'assistance administrative en matière fiscale. La quasi-totalité des pays du G20 se sont engagés à la signer, et il nous reste toutefois à décider quelques partenaires.

S'agissant de l'agenda pour le développement, nous mettons en œuvre le mandat de Séoul.

Sous notre présidence, et en étroite association avec la Corée et l'Afrique du sud, qui ont co-présidé le groupe de travail avec la France durant toute cette année, nous avons bien avancé sur les neuf piliers qui constituent le plan d'action de Séoul.

De plus, pour la première fois, le G20 a tenu une réunion ministérielle sur le développement, le 23 septembre dernier à Washington. Notre présidence organisera 15 jours avant le sommet, le 21 octobre à Paris, une grande Conférence de mobilisation en faveur du développement, qui sera ouverte par le président de la République, afin que la société civile joigne ses efforts à ceux des gouvernements.

Avec l'accord de tous nos partenaires du G20, nous nous sommes surtout concentrés cette année sur trois thèmes particulièrement cruciaux pour nous : la sécurité alimentaire, les infrastructures et le financement du développement, avec un intérêt marqué pour les financements innovants.

En matière de sécurité alimentaire, nous avons déjà obtenu des résultats, même si bien entendu, la priorité de la communauté internationale s'est portée ces derniers mois sur la situation humanitaire catastrophique de la Corne de l'Afrique qui mobilise un certain nombre d'organisations genevoises.

Les ministres de l'agriculture du G20 ont adopté en juin dernier un plan d'action, dont je voudrais souligner deux mesures déjà mises en place. Tout d'abord, un système d'information sur les données physiques agricoles hébergé

par l'Organisation pour l'alimentation et l'agriculture (FAO), appelé AMIS, qui renforcera la transparence des marchés et permettra ainsi de mieux les stabiliser,

Ensuite, un Forum de réaction rapide, toujours à la FAO, qui associe les pays jouant un rôle significatif sur les marchés agricoles mondiaux et qui est destiné à améliorer la coordination internationale d'urgence. L'idée est qu'un pays producteur signale dans cette enceinte tout problème d'offre qui pourrait avoir un impact sur les consommateurs, tandis que les grands consommateurs signaleraient mieux leurs besoins.

La France est très engagée également pour le G20 soutien en plus des initiatives destinées à protéger les pays les plus vulnérables des conséquences de la volatilité excessive des prix des matières premières agricoles. Je pense en particulier au projet pilote, placé sous l'égide de la Communauté économique des États de l'Afrique de l'Ouest (CEDEAO), de réserves alimentaires humanitaires d'urgence pré-positionnées. La réussite de ce projet permettra d'élargir ensuite cette initiative à d'autres régions.

La présidence française veut aussi encourager les pays du G20 à s'engager à ne pas imposer de restrictions aux exportations dont a besoin le Programme alimentaire mondial en cas d'urgence humanitaire.

Enfin, vous le savez bien, la France estime que la principale politique à conduire pour améliorer durablement la sécurité alimentaire mondiale, est de renforcer l'investissement dans l'agriculture et ce, dans chacune des grandes régions du monde. Nous devons augmenter la production mondiale de 70 pour cent d'ici 2050 si nous voulons assurer nos responsabilités pour nourrir la population mondiale. C'est dans toutes les régions du monde que nous devons encourager la production, mais bien entendu, il nous faut consacrer notre priorité à l'Afrique.

Deuxième sujet prioritaire de notre agenda pour le développement: les infrastructures. L'absence d'infrastructures est l'un des principaux obstacles au développement dans de nombreuses régions du monde, notamment en Afrique. Le G20 a chargé le Panel de haut niveau pour les infrastructures, dont nous avons confié la présidence à M. Tidjane Thiam, de préparer des recommandations concrètes et innovantes pour encourager et renforcer l'investissement dans les infrastructures dans les pays en développement.

Nous espérons identifier à Cannes des projets phares d'infrastructures qui privilégieraient autant que possible l'échelle régionale et qui auraient un impact maximal sur le développement économique. Nous oeuvrerons pour que les efforts du G20 en matière d'infrastructures restent, là encore, concentrés sur les pays à faible revenu, en particulier d'Afrique.

S'agissant du financement du développement, le Président Sarkozy a demandé à Bill Gates de présenter des propositions à Cannes aux chefs d'état et de gouvernement, pour renouveler les engagements et innover en faveur de nouveaux modes de financement.

Nous avons souhaité que le rapport de Bill Gates évoque les objectifs communs en matière d'aide publique au développement, auxquels la France est très attachée, et pour lesquels elle a maintenu son effort budgétaire, malgré la situation actuelle des finances publiques (0,50 pour cent du PIB en 2010). Mais le rapport comprendra aussi un « menu d'options » concernant des mécanismes de financements innovants. Nous proposerons à chaque pays du G20 de se déterminer sur ce menu et de mettre en œuvre au moins l'une de ces options.

La France considère, je ne vous surprendrai pas, que la taxe sur les transactions financières (TTF) est le mécanisme le plus efficace. Cette taxe est techniquement faisable. Avec nos partenaires allemands, nous avons proposé des modalités concrètes. La Commission



européenne présentera un projet dans les prochains jours. Avec le soutien de la société civile et de l'opinion mondiale, qui demandent aux gouvernements de faire mouvement sur cette question, nous souhaitons convaincre non seulement de la faisabilité d'une telle taxe mais aussi de sa nécessité pour faire face aux grands défis du développement, comme la réalisations des Objectifs du millénaire pour le développement ou la lutte contre le réchauffement climatique. Plusieurs pays non membres de l'Union européenne ont fait part de leur intérêt, notamment de nombreux partenaires africains tels que le Mali, le Bénin, le Burkina Faso, le Congo, la Guinée, la Mauritanie, le Sénégal et le Togo, et je voudrais lancer un appel à la mobilisation de vos pays et de vos organisations en faveur de cette idée. Nous avons l'intention de créer un mouvement pour passer des belles paroles aux actes.

Puisque nous sommes à Genève, mais surtout parce que le commerce apporte une contribution absolument majeure à la croissance mondiale, je ne voudrais pas finir cette présentation sans évoquer les questions commerciales.

La huitième conférence ministérielle de l'OMC aura lieu ici à Genève, du 15 au 17 décembre. Et ici à Genève, vous savez bien que la poursuite des négociations dans

le cadre du mandat de Doha est très difficile. Pour cette raison, la présidence française souhaite que le G20 lance une dynamique de réflexion sur le renforcement de l'OMC. Notre objectif est de montrer l'attachement de tous nos pays au multilatéralisme commercial. L'OMC est le meilleur rempart contre la loi de la jungle et sa capacité à régler les différends doit non seulement être préservée mais encore renforcée.

... La France souhaite qu'un message de confiance dans l'OMC et de lutte contre le protectionnisme soit adressé à Cannes. Nous voudrions aussi bien sûr que des mesures en faveur des pays les moins avancés puissent être prises le plus vite possible car c'est tout de même le cœur du mandat des négociations commerciales en cours. Je me permets d'insister sur le plan d'action en faveur de la croissance. Notre approche ne veut laisser personnes sur le bord de la route.

L'agenda du Sommet de Cannes est lourd et nous sommes face à une crise d'une ampleur considérable, qui implique des décisions concrètes, des décisions fortes et un message très clair sur la croissance.

Beaucoup progressé cette année sur des enjeux de long terme et nous sommes confiants dans l'engagement du Mexique de poursuivre ce travail en 2012. ♦

Nicolas Sarkozy,  
président, République  
française, accompagné  
par Jean-David Levitte

# The French government's plans for the Cannes Summit

*Speech by Jean-David Levitte, diplomatic advisor to the president of the French Republic, at the International Labour Organization, Geneva, 3 October 2011*



I am delighted that this meeting between the current G20 presidency and the international community in Geneva has now become an essential event, and I would once again like to commend the work carried out by Korea last year to inform and associate the United Nations as a whole with the work of the G20.

France has shown great interest in following this example, as it places great importance on opening up the G20 to the entire international community. The G20 cannot and must not become a closed, exclusive club. Even though G20 member states account for 85 per cent of world gross domestic product (GDP), opening up to other states is one of the conditions of its legitimacy.

As you know, President Nicolas Sarkozy dedicated the beginning of the French presidency to consultations. This January, he met the heads of state of the African Union at Addis Ababa. He held extensive consultations, both inside and outside the G20, with heads of state and government, leaders of international organisations, but also unions, companies and civil society. He will continue in this vein until the Cannes Summit, and to this end, will welcome together on Wednesday the secretaries general of the Francophonie and the Commonwealth.

We wanted this year of our G20 presidency to be productive, with results and progress throughout the year, rather than everything being focused on the single event that is the annual summit. I would first like to thank the international organisations and specialised agencies that very efficiently helped us fulfil our presidency's agenda.

But naturally, given the current world economic climate, the Cannes Summit will first and foremost have to focus on how to deal with the crisis, which is affecting not just the eurozone and the United States, but also emerging economies and, in turn, all developing countries.

The G20 has shown, since the very beginning, in November 2008 in Washington and April 2009 in London that it could act effectively to deal with the crisis. At the time, the message was clear: the financial system had to be repaired, and countries had to commit to abandoning protectionism to avoid repeating the mistakes of the 1930s, and to coordinating recovery efforts. In addition, there was the reform of international financial institutions, which enabled a rebalancing that has become essential for emerging countries.

In 2010, we thought that future G20s would have to be adapted to manage the aftermath of the crisis, but the recent economic developments recorded in both developing and emerging countries mean that we must return to managing the crisis once again. This will therefore be the priority at the Cannes Summit.

At Cannes, we would like the G20 to be able to adopt a true action plan for world growth. To do this, it must be able to draw on concrete economic policy measures taken by the major powers, such as the United States, China and the eurozone, but also Japan, the United Kingdom and Brazil.

I do not need to tell you how difficult our task will be. While the messages from Washington and London were unequivocally for recovery, that of Cannes must be more diverse: certain states need to concentrate on measures to support the economy, others on the consolidation of their public finances, others still on shifting their economic model towards domestic consumption.

I know that many people believe that the eurozone countries must first deal with their own problems before asking others to make efforts. I have two messages.

The first is that the eurozone will do its job... We are fully committed to helping Greece and, naturally, to ensuring the future of the euro and thus the European Union.

My second message is that it is pointless to go looking for people to blame for the crisis. We must focus on the solutions that we can put in place. After the bankruptcy of Lehman Brothers, we did not wait around for the United States to work on its banking system. We immediately wanted to ensure greater cooperation among the countries hardest hit by the financial crisis, as this was the only way to effectively deal with the issue.

Today, we are in the same situation: nobody is immune to the economic crisis and no one must speculate on the failure of others as the interdependence of our economies means that imbalances are spread quickly. This is why France is calling on all G20 countries to take the appropriate measures to face up to the situation and on all non-G20 countries to support the joint efforts that will be taken to restore economic confidence.

Although it will be dominated by the issues of growth and restoring confidence, the Cannes Summit will not be restricted to the action plan that we want to adopt there.

We want to make progress on new issues that France added to the G20 agenda at the end of 2010, such as the reform of the international monetary system and the fight against excessive price volatility. These are not only useful in order to better regulate globalisation, but they are also now complementary to the growth action plan.

We can all see that it is now essential to make progress towards a new international monetary order that reflects the new economic realities and avoids the imbalances of foreign-exchange markets, which almost degenerated into a currency war only a year ago. We can all see that the chaos on the commodity markets, which led to huge fluctuations in agricultural and energy prices, is a hindrance to growth and, even worse, is directly responsible for humanitarian disasters.

I will now give some more details as regards the international monetary system, which is essential in the Framework for Sustainable, Strong and Balanced Growth.

The G20 has reached agreement on nine specific areas of reform since the successful Nanjing seminar on 31 March, co-organised by China and France. The four main areas are as follows:

- the composition of special drawing rights (SDR) by the IMF: the G20 is working in particular on the integration criteria for new currencies in the SDR basket;
- a reference framework for managing capital flows: there must be common references in order to respond to sudden capital inflows or outflows. I am thinking of a certain number of emerging countries, such as Brazil, that have been confronted with this type of problem;
- strengthening of the response to systemic shocks through the establishment of new IMF credit lines, this time intended for countries that are well managed but exposed to a global crisis. Furthermore, we would like the IMF to connect its instruments as much as possible to the mutual support funds created by Europe through the European Financial Stability Facility (EFSF) and Asia through the Chiang Mai agreement;
- finally, the G20 is working to strengthen the IMF's multilateral monitoring, in particular with regard to the effects of the economic and financial contagion of a country, or a region, on the rest of the world.

Among the structural responses to the crisis, I would like to highlight how important it is for the economic agenda to include an ambitious social agenda.

At the request of President Sarkozy, we managed to include the social aspects of globalisation in the G20 working agenda. This was not for the sake of creating another topic, but to stress that we can only effectively respond to the crisis by including a renewed and shared focus on employment, social protection and social rights.

[In September], the employment ministers concluded an agreement that will enable the G20 to make progress on this crucial issue in the coming years.

We have secured the support of all G20 members for the concept of 'social protection floors' and the United Nations initiative developed around this concept. The conclusions of the International Labour Conference held here at the International Labour Organization (ILO) last June, as well as the recommendations of the advisory group, presided over by Michelle Bachelet were fully taken into account. Naturally, and I insist on this point, the social protection floors are defined nationally and must take into account the specific nature of each country, but their usefulness was highlighted by all.

As I have said, international organisations play a key role in implementing the G20 agenda. This is particularly true in the social field. You have therefore given your agreement to the G20, to establish a coordination and consultation mechanism and to provide platforms for information sharing on best practices with regard to social protection, which must be operational by the G20 summit in Mexico in June 2012. Furthermore, President Sarkozy would like to see the creation of cross-observer positions between the World Trade Organization (WTO) and ILO to further strengthen coherence with regard to the work of your organisations.

France would also like the eight Fundamental ILO Conventions to be ratified and observed in all areas, and that this be reported. I know how intense the debates

It is pointless to go looking for people to blame for the crisis. We must focus on the solutions that we can put in place

on this issue can be and how difficult it will be to make progress, but France is determined to continue this fight, which it will not give up.

Lastly, and above all, the ministerial meeting made employment a priority. This is a worry that we all share. As a result of Gilles de Robien's unremitting work and his ability to convince, we succeeded, not without difficulty, in ensuring not only the continuation of the annual G20 employment ministers' meeting, but also the existence of a dedicated working group that will allow union organisations to join government discussions in favour of employment, a key objective of economic policy and a growth factor. Finally, I would like to add that for the first time this year, the G20 presidency has facilitated the organization of a 'Labour 20' to be held in parallel with the 'Business 20'. France hopes that Mexico and the presidencies that follow will repeat this experience each year.

It must also be said that France played a leading role in ensuring that the ILO director general will be present at the G20 summits.

Allow me now to come to the Cannes Summit issues that are not new under the French presidency, but for which we have worked very hard to make tangible progress.

Regarding financial regulation, the strategy of the G20 has been based on a simple principle since the Washington



Summit: all actors, all markets and all products must be subject to appropriate regulations and surveillance. The regulation of globalisation also, and perhaps above all, involves the rules applicable to the financial sector.

Under the French presidency, the G20 has worked on the implementation of commitments made during past summits, in particular at Pittsburgh, and on new objectives. The G20 has now adopted enhanced measures for the major systemic banks. We are now working on extending regulation to non-bank entities and activities, such as supervising the shadow banking system, protecting the users of financial services and regulating commodity derivatives.

We have also made further progress in the fight against non-cooperative countries and territories, in particular tax havens, and this will be a major subject at Cannes. We are working on a thorough evaluation of the progress made by 60-odd countries in terms of compliance with regulations for the exchange of information, the fight against money laundering and the financing of terrorism.

At Cannes, we hope that the G20 will sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Almost all the G20 countries have committed to signing it, but a few partners are yet to be convinced.

Concerning the development agenda, we are implementing the Seoul mandate.

Under our presidency, and in close association with Korea and South Africa, who co-chaired the working group with France throughout this year, we have made good progress on the nine pillars that made up the Seoul Action Plan.

In addition, and for the first time, the G20 has held a ministerial meeting on development, in Washington on 23 September. Our presidency will organise, on 21 October, two weeks before the Summit, a great mobilisation conference in Paris in favour of development, which will be opened by the president of the Republic, so that civil society may combine its efforts with those of the governments.

A series of over-sized candy sculptures representing national flags by French artist Laurence Jenkell, which have been exhibited in Cannes ahead of the 2011 G20 Summit

With the agreement of all our G20 partners, we have focused on three particularly important themes for us this year: food security, infrastructure and the financing of development, with marked interest in innovative financing.

In terms of food security, we have already obtained results, even though, of course, the priority of the international community these last months has been the catastrophic humanitarian disaster in the Horn of Africa, which has mobilised a certain number of organisations in Geneva.

The G20 agriculture ministers adopted an action plan in June, of which I would like to highlight two measures which have already been implemented.

First, an information system on the physical agricultural data hosted by the Food and Agriculture Organization (FAO), called AMIS, which will enhance the transparency of the markets and make it easier to stabilise them.

Second, a Rapid Response Forum, also at the FAO, that would include the countries playing a significant role in the international agricultural markets and that aims to improve international emergency coordination. The idea is that producer countries should alert this forum to any supply problem that could have an impact on consumers, while the major consumer countries would be more able to make their needs known.

France is also deeply committed to the G20 extending its support to initiatives aimed at protecting the most vulnerable countries from the consequences of the excessive price volatility of agricultural commodities. I am thinking in particular of the pilot project, under the responsibility of the Economic Community of West African States (ECOWAS), of prepositioned emergency humanitarian food reserves. The success of the project will make it possible to extend the initiative to other regions.

The French presidency also wants to encourage the G20 countries to commit to not imposing restrictions on the exports needed by the World Food Programme in case of a humanitarian emergency.



Last, France considers that the main policy to conduct to improve global food security is to increase investment in agriculture in every major region of the world. We will have to increase international production by 70 per cent by 2050 if we are to fulfil our responsibilities to feed the world population. We need to encourage production in every region of the world, but, of course, we must make Africa our priority.

The second priority subject on our development agenda is infrastructure. Lack of infrastructure is one of the main obstacles to development in many parts of the world, especially in Africa. The G20 has asked the High-Level Panel for Infrastructure Investment, whose chair we have entrusted to Mr Tidjane Thiam, to prepare concrete, innovative recommendations to encourage and increase investment in infrastructure in developing countries.

At Cannes, we hope to identify flagship infrastructure projects that would be primarily at regional level, and that would have maximum impact on economic development. We are working to ensure that the efforts of G20 in the field of infrastructure remain, here too, focused on low-income countries, in particular in Africa.

Concerning development financing, President Sarkozy asked Bill Gates to submit proposals to the heads of state and government at Cannes to renew commitments and innovate in favour of new forms of financing.

We wanted Bill Gates's report to address the common objectives in terms of official development assistance, to which France is fully committed, and for which it has maintained its budget effort, despite the current situation of the public finances (0.5 per cent of GDP in 2010). But the report will also include a 'menu of options' concerning innovative financing mechanisms. We will propose that each G20 country considers this menu and implements at least one of the options.

France considers, and this will be no surprise, that the financial transactions tax (FTT) is the most effective mechanism. This tax is technically feasible. With our German partners, we made tangible propositions to implement it. The European Commission will submit a draft in the coming days. With support from civil society

“ France would like a message of confidence in the WTO and of commitment to the fight against protectionism to be proclaimed at Cannes

”

and international opinion, which ask governments to take action on this issue, we hope to prove not only the feasibility of such a tax but also the need for one, in order to face up to the major challenges of development, such as achieving the Millennium Development Goals or the fight against climate change. Several non-EU states have shown interest, in particular numerous African partners including Mali, Benin, Burkina Faso, Congo, Guinea, Mauritania, Senegal and Togo, and I would like to call for the mobilisation of your countries and your organisations in favour of this idea. We intend to create momentum in order to turn words into action.

As we are in Geneva, but in particular because trade makes a great contribution to international growth, I would not like to conclude this presentation without mentioning trade issues.

The eighth WTO ministerial conference will take place in Geneva from 15 to 17 December. Here in Geneva, you are well aware that the negotiations in the framework of the Doha mandate are very difficult to pursue. For this reason, the French presidency would like the G20 to give momentum to reflection on strengthening the WTO. We aim to show the commitment of all our countries to trade multilateralism. The WTO is the best protection against the law of the jungle, and its capability to settle disputes must be not only preserved but also enhanced.

France would like a message of confidence in the WTO and of commitment to the fight against protectionism to be proclaimed at Cannes. We would also like, of course, to see measures in favour of the least-developed countries taken as quickly as possible, as they are at the heart of the trade negotiations under way. I would like to insist on the action plan for growth. Our approach aims to leave no person by the wayside.

The agenda at the Cannes Summit is packed and we are facing a crisis of considerable scale, which requires strong, concrete decisions and a clear message on growth.

We have made a lot of progress this year on long-term challenges, and we are confident in the commitment of Mexico to continue this work in 2012. ♦

# From Seoul to Cannes

*The global economy has continued to face many challenges since the G20 members gathered together in Seoul a year ago, and they must act in concert to steer the world towards sustainable and shared growth*

By Lee Myung-bak,  
president, Korea



**I**n a time of economic turbulence and a world of weakened confidence, it is the G20 that must provide leadership. By taking the helm, the G20 must guide the global economy back towards strong and sustainable growth.

Downside risks and structural problems worldwide call for global coordination. Lingering fiscal and financial weakness impedes the economic recovery of advanced countries, while volatile commodity prices and capital flows are attenuating resilient growth in emerging and developing economies. Individual countries must continue to try to solve these problems, but national policies would be more effective if they were pursued in coordination with others. That is why the G20's collective leadership can salvage the global economy. We helped the world overcome a financial crisis in 2008, and today we can help to avert another one.

The G20, in which advanced and developing countries from five continents work together, was created with urgency at a time when existing approaches to global crises were ineffective. It emphasized the need for new global governance that would guide coordination, agreement and action. It proved greatly influential.

The Cannes Summit in November will follow the course of the 2010 Seoul Summit and previous summits. It will

provide an arena for the G20 to respond to problems, strengthen cooperation in a long-term process and solidify its role as a global steering committee.

Arriving at a critical economic juncture, the Cannes Summit must reaffirm our strong commitment to policy actions that will restore confidence and ensure strong, sustainable and balanced global growth.

The Seoul Action Plan adopted at the Seoul Summit brought together policy commitments made by each G20 member. We agreed on the basic principles of exchange-rate policies and capital-flow management to ensure macroeconomic coordination. We also agreed on conducting external imbalance assessments using indicative guidelines to take specific action to reduce those imbalances. In Cannes, we must implement the steps of the agenda of the Framework for Strong, Sustainable and Balanced Growth agreed upon in Seoul.

In fact, it is vital that we push forward with decisive and cooperative policy actions, in differentiated country-specific circumstances, to achieve our shared goal. Advanced countries with large fiscal deficits must make clear commitments to fiscal consolidation without derailing any nascent recovery. Credible fiscal plans should be aligned with actions aimed at rebalancing global demand. Our commitment to strengthening financial systems must translate into actions.

In previous contributions to this publication, I emphasised that the world must take a path towards all-embracing growth that will reduce global disparities. The time to take that path is now. Balanced and

““ The Cannes Summit must reaffirm our strong commitment to restore confidence and ensure strong, sustainable and balanced global growth ””

sustainable growth must include efforts to close the gap between advanced and developing countries. Despite their weak economic power, low-income countries have great potential to contribute to global growth and prosperity by improving their production capacity. This year, we have diligently followed through on all nine pillars of the multi-year action plan of the Seoul Development

Consensus to bring out such potential. These efforts and the development agenda as a whole have received strong support from non-G20 countries as well. A continued commitment to development will reinforce the legitimacy and credibility of the G20 process.

France has displayed strong leadership this year, fully preparing for a successful Cannes Summit. I believe that we will produce concrete outcomes with regard to this year's priority agendas, which include improving the international monetary system, enhancing food security, reducing the volatility of commodity prices and supporting employment.

Specifically, the G20 must be committed to collective action and restore stability and confidence in the commodity markets. The hike in commodity prices has led to an increase in inflation in many commodity-importing countries, further impeding economic recovery. Downside risks have grown significantly. I look forward to seeing progress in discussions about improving the transparency of food and energy markets and regulations in the commodity derivatives market, which would lessen commodity price volatility. The G20 should also lead the

Korean president Lee Myung-bak is joined by US president Barack Obama (left) and Canadian prime minister Stephen Harper (right) during an event at the 2010 G20 summit in Seoul

global pursuit of policies to increase energy efficiency and develop clean energy technologies.

In the past four years, the G20 summits have established a unique path to consensus – a gradual, pragmatic and results-oriented approach to problem-solving in the international community. Each summit is built upon the previous one, and each G20 agenda evolves by absorbing new issues into a web of ongoing ones.

In a global economy interrelated through trade and financial markets, we must remember that the pursuit of cooperative benefits will lead to individual country benefits. We must also remember that a global economy rife with risks will tempt a country to pursue its own interests only. But at this time of great interdependence among countries, a country cannot thrive alone. Short-sighted protectionist policies would hurt us all by reducing the volume of world trade.

Through the G20 process, I believe that the world can cultivate a more intimate type of international cooperation and seize opportunities to build a thriving and more united society. And through the Cannes Summit, I believe we can show the world what collaborative prosperity looks like. ♦





cutting through complexity

ACCOUNTING REGULATION

# Global IFRS adoption isn't ending

More than 120 nations are now requiring or permitting IFRS reporting for domestic listed companies and dozens more are on the path to either full acceptance or – at the very least – dual compliance. Currently, we face a new challenge: to elevate IFRS out of a patchwork of national systems into a cohesive and consistent global approach, a process that is continuing to evolve.

KPMG understands the challenges ahead. Our global network of member firms works on both a national and multinational level to help companies, governments and regulators cut through the complexity of IFRS.

[kpmg.com/ifrs](http://kpmg.com/ifrs)



# Moving towards global alignment – why the focus must soon shift towards creating a consistent application of IFRS between member nations.

The challenge today is no longer one of establishing the IASB, nor building awareness of IFRS within national governments, rather it is to make a final push towards global adoption.

## The final push for acceptance and adoption

“The ongoing focus of G20 ministers on creating a globally accepted, high-quality set of accounting standards has been integral in the adoption of IFRS. And while the G20’s emphasis in the past has been on driving forward a convergence approach with national standard setters, the time has come for the organization to evolve the objectives of the IASB to focus on developing a global set of standards undertaken with appropriate processes in place to achieve truly global acceptance, including encouragement for remaining non-IFRS jurisdictions to join. The direction taken in the ongoing strategic reviews, by both the Monitoring Board and IFRS Foundation’s trustees, are encouraging in this respect.”

*Gary Reader, Head of KPMG’s Global IFRS Initiative*

“It is encouraging that three largest economies of US, Japan and China are all exploring avenues by which they can achieve a financial reporting framework that is IFRS compliant. For example, the recent US SEC staff paper on IFRS signals a very positive step in outlining an approach towards allowing US companies to assert dual compliance with IFRS and US GAAP. We look forward to the SEC declaring their intentions for IFRS convergence.”

*Paul Munter, National IFRS professional practice leader, KPMG in the US*

## The challenge ahead

“Clearly, the IASB has achieved great success in creating global awareness and agreement on the principles of IFRS.

But as more markets around the world adopt IFRS, there will be an increasing need for an aligned mechanism that ensures that IFRS is applied in a consistent fashion around the world. This will require increased co-operation between national regulators and among global regulators. It also requires the IASB to further establish themselves as the global authority and to work closely with the national and regional standards setting bodies, who should become the eyes and ears for the IASB at ground level to identify issues.”

*Mark Vaessen, KPMG’s Global IFRS Network Leader*

“Notwithstanding some major challenges that remain on the path to unified global adoption, the world is now coming very close to achieving a global plan on standards. The challenge facing the G20 today is how to apply their leadership to the undertakings of the IASB to help them make a final push towards converged solutions on some of their major projects, including financial instruments, and, with it, global adoption.”

*Manfred Hannich, Head of KPMG’s Accounting Advisory Services*



*Gary Reader*



*Paul Munter*



*Mark Vaessen*



*Manfred Hannich*

The IASB is now consulting on its future agenda and we encourage all stakeholders to participate in this process, to ensure that the IASB has the right focus in its work program for the next five years. As a global network, we at KPMG look forward to actively engaging in this agenda consultation.

# The G20: maintaining the spirit of cooperation

*The G20 was successful at setting a framework for reviving the global economy during the 2008 crisis and must show the same commitment and togetherness in creating its strategy for dealing with an equally challenging situation today*

By Felipe Calderón,  
president, Mexico



It has been more than three years since the world was on the brink of economic and financial collapse. The 2008 global crisis prompted leaders of the G20 to commit to make every effort to avoid a global economic meltdown. Since then, the G20 has emerged as a more inclusive forum that brings together developed and emerging economies, and has become a group in which economic decision-makers can foster international coordination in a complex and interdependent global economy.

## Stimulating the recovery

The unprecedented economic stimulus plan that was instrumented by the G20 to address the 2008 crisis included trillions of dollars that restored confidence and liquidity to global financial markets, prevented the collapse of global demand, saved millions of jobs and set the basis for global recovery. The G20 created a framework for promoting strong, sustainable and balanced growth. It also created the Mutual Assessment Process to monitor and coordinate domestic economic policies in order to prevent and gradually correct global imbalances, accelerate the recovery in jobs and, in general, produce a macroeconomic setting aimed at stimulating global recovery.

The G20 also played a central role in reforming the World Bank and the International Monetary Fund to better

reflect the changes in the world economy. It endowed them with enough resources to help countries facing economic turmoil and enhance their management structures.

Despite the initial success of the G20 in setting the framework for recovery, recent events have shown that the global economic outlook remains challenging. Public deficits are too high in many developed countries, while job creation rates show no improvement. Stock markets have experienced sharp volatility since early August, due to concerns about the effect of fiscal problems in developed countries on the international financial system, particularly in Europe. Expectations have turned gloomy due to the difficulties that some leaders are having in designing credible and effective solutions to this challenge.

## Global economy at a crossroads

Once again the world economy seems to be at a critical juncture. There are a number of issues that G20 members must address to avoid a new recession that could have long-lasting consequences.

First, we need to stick together in the spirit of unity and solidarity that characterised the creation of the G20. We have to focus on our common resolve to face the current situation and embrace once again our original vision of global cooperation.

Second, we need to act urgently and boldly, through a targeted mix of fiscal, monetary and exchange-rate policies to restore confidence in financial markets, keep liquidity flowing and promote growth.

All G20 economies must commit to fiscal sustainability. Some countries need to start this process urgently, while others can afford to implement medium- or long-term plans, but we must all walk this path sooner rather than later.

Another crucial point is that we must all keep our economies open to trade. During the 2008-09 crisis, countries that kept a true commitment to free trade, such as Mexico, resumed growth more rapidly than those that insisted on protectionism. This time, the risk of a deeper global recession makes defending free trade even more important.

Third, we need to explain our views and strategies, and we need to listen to what civil society has to say. Our universities, our business communities, our young people, our non-governmental organisations, all of them have interesting things to say about what we have done so far and what we could do. The same goes for countries outside the G20, to whose proposals and viewpoints we must pay attention.

For all these reasons we should prepare the ground for a successful G20 summit in France in November.



We must all keep our economies open to trade. The risk of a deeper global recession makes defending free trade even more important





We will have to send a message of unity, we will have to act and we will have to listen. France has proposed a number of important initiatives and, on that basis, we are working together to reach broad agreement. We will deliver in Cannes. I am certain the G20 will be up to this new challenge.

The G20 has proved its worth. Current global problems demand creative and innovative solutions. Global governance today entails further interdependence and collaboration on an equal footing between developing and developed countries.

El Ángel de la  
Independencia  
– the Angel of  
Independence –  
in Mexico City

In 2012, as president of the G20, Mexico will welcome member economies for the seventh summit. Finding ways to strong, sustainable and balanced growth will continue to be the top priority. The challenges of improving international economic cooperation are very significant, and Mexico will do its best to promote a strong and successful G20 meeting. A flourishing G20 means robust growth for the world economy. It means more jobs, opportunities and well-being. This is what we need. And this is what Mexico will work for, with all its determination. ♦

# Economic challenges call for concerted action

*The G20 has emerged as an organisation that can deliver effective global governance, and Turkey believes that its members should build on the progress made by delivering decisive action in response to today's economic problems*

**By** Recep Tayyip Erdogan, prime minister, Republic of Turkey



**T**he G20, as a new institution, was established in response to the 1998 financial crisis, which started in the emerging economies in Asia and spread across the globe. At that time, G7 finance ministers and central bank governors felt the necessity to broaden the dialogue to systemically significant economies from various regions around the world. After a lengthy, thorough selection process, the current members – Turkey being among them – were invited to join the G20. The finance ministers and central bank governors met annually.

In 2008, the world experienced a new and unprecedented wave of economic and financial crisis, which shattered the most robust economies, as well as more fragile ones. G20 members were called upon to further strengthen international cooperation to tackle this new global financial meltdown. In November 2008 in Washington, the G20 leaders convened for the first time, to restore global growth and initiate necessary reforms in financial markets. Subsequently, G20 summits have been held in London and Pittsburgh in 2009 and in Toronto and Seoul in 2010.

Thanks to our concerted and decisive actions, further deepening of the global economic crisis was averted. With its balanced membership of both advanced and emerging economies, the G20 has helped the world deal effectively with the crisis. It has delivered significant, concrete outcomes – including the broadening of financial regulation, policy coordination and enhanced macroeconomic cooperation – among its members. Furthermore, global governance has dramatically improved to better reflect the role and the needs of emerging economies.

Landmark reforms of the International Monetary Fund (IMF) and multilateral development banks overhauled the governance structure and expanded the

financial resources of these institutions. Turkey has benefited from these reforms, as have other emerging economies. International financial institutions have made new lending tools available for countries faced with possible liquidity shocks. Steps have been taken to restructure the international financial system and to achieve strong, sustained and balanced growth.

The distinctive characteristics of the G20 platform – its informality, flexibility and balanced membership consisting of advanced and emerging economies, and its consensus-based decision-making – enhance international policy coordination and enable progress on complicated issues. The G20 has thus emerged as the premier platform for global economic cooperation, with the ability to achieve tangible results.

Indeed, the G20 has strengthened the role of emerging economies in global governance. Emerging economies have started taking more responsibility, in line with their growing weight in the global economy and their increasingly prominent role in global politics. They have proven their resilience during the crisis, and have become the major drivers of the recovery.

Turkey, with its active participation, helped reflect the views of the emerging economies. In addition, to inform the non-G20 members and ensure their support, Turkey has contributed to the G20's outreach. As chair of the South-East Europe Cooperation Process last year in Istanbul, we organised a G20 outreach panel aimed at informing regional policymakers about the G20 agenda and sharing their views with the rest of the G20 members.

In May 2011, Turkey hosted the Fourth United Nations Conference on the Least Developed Countries (LDCs) in Istanbul, to adopt new strategies for the sustainable development of LDCs. The Istanbul Programme of Action for the Least Developed Countries for 2011-20 was endorsed. The programme supports the G20's stance on the LDCs and their development. Turkey is committed to play its part in assisting the development process of the LDCs, and has mobilised resources to this end.

In September, Turkey also organized the Conference on Commodity Price Volatility, one of the G20's 2011 priorities. This conference covered issues related to fossil fuels and agricultural price volatility, and the commodity derivatives market. It provided substantial input into the preparations for the Cannes Summit.

## **Turkey's swift recovery**

Since 2009, Turkey has been one of the fastest-recovering economies. In addition to the robust stance of its public finance, strong capital structure and effective risk-management in the banking sector, Turkey mitigated the



adverse effects of the crisis. Timely reforms to its banking system protected Turkish banks, so that no government resources were required to rescue any bank. Nor did its deposit guarantee system need to change. Moreover, timely exit strategies in fiscal and monetary policies have been effective. Fiscal discipline has always been an important element of Turkish economic policies.

Turkey was one of the first countries to announce a medium-term programme with an exit strategy, in

September 2009. For the next several years, Turkey has set solid targets for its budget deficit and ratio of debt to gross domestic product (GDP). At the peak of the current crisis, Turkey's budget deficit ratio increased to 5.5 per cent of GDP. Last year ended with a deficit of 3.7 per cent of GDP. For 2013, the target is 1.1 per cent of GDP. At the end of 2009, Turkey's public debt was 45.5 per cent of GDP, which decreased in 2010 to 41.6 per cent. Turkey is one of the few countries in the region

Zorlu Centre in Istanbul, a mixed-use project under construction. Turkey has seen growth in both the services and industrial sectors

to have decreased its debt-to-GDP ratio in 2010. For 2013, the target is 37 per cent of GDP.

High consumer confidence, high producer confidence and high confidence in the banking sector have been demonstrated in domestic investment performance, international capital flows and increased credit ratings. Economic activity continued its post-crisis recovery performance throughout 2010 as the Turkish economy grew by 8.9 per cent. Total output increased from pre-crisis levels.

The main sources of Turkish growth are robust growth in the services sector and double-digit growth rates in the industrial sector, private investments and consumption. While the labour force participation rate has increased, the strong growth has translated into significantly decreased unemployment. This is the result of high growth and strong labour market policies.

Momentum maintained its pace in the first quarter of 2011, with a positive trend in confidence indicators, industrial production and strong domestic demand. Hence, international organisations, including the European Commission, expect Turkey to be one of the fastest-growing economies this year. However, buoyant domestic demand, rising energy imports and relatively weak external demand have adversely affected the country's current account balance and led to a current account deficit of 6.6 per cent of GDP in 2010. On the other hand, this deficit is well financed and official reserves are

“The G20's main role should be to maintain a level playing field across countries. Reducing reliance on credit rating agencies is of utmost importance”

continuously increasing. Turkey has implemented the necessary monetary and macro-prudential policies.

Structural reforms implemented in the past decade are a primary reason for Turkey's favourable economic performance and its recovery. Our country is determined to step up the reform process so that it can sustain strong growth and achieve a more resilient economic structure. One priority is labour market reform. Active employment policies will increase employment and enhance the quality of labour, to increase efficiency gains and sustain growth. Another priority is energy investments, in order to ensure a reliable supply of energy for the growth process and to lower dependency on fossil fuels, which Turkey mostly imports. Structural reforms in health and education are accelerating. Judicial reforms, as well as reforms to harmonise with European Union legislation, are also in progress. Enhancing the investment environment for the private sector will continue to be a priority.

However, despite significant achievements, serious risks prevail in the global economy: sovereign risks of advanced economies, unbalanced growth prospects between advanced and emerging countries, growing concerns on unemployment, and soaring commodity prices.

The spreading sovereign debt crisis threatens the economic stability of the eurozone. Furthermore, the problem with the advanced economies is not solely fiscal.

Poor growth prospects and declining competitiveness lie at the core of the crisis. Without creative solutions for boosting the productivity and potential growth for these economies, I fear that the effects of the fiscal measures will be short-lived. The stability and growth prospects of the entire global economy are at stake.

Soaring commodity prices are also making the prospects for global growth worsen, through supply-side strains. There is a clear need to dampen excessive price movements through enhancing the regulation of these markets, thereby increasing the transparency of the price-setting mechanisms, as well as improving the supply of certain commodities. Moreover, worldwide efforts are necessary to increase the use of clean energy by investing in research and development and in innovation.

#### Urgent action to boost employment

Another critical challenge is fighting structural and long-term unemployment. Stimulus measures have not been enough to reduce structural unemployment. Urgent action is warranted to reduce the mismatch between the skills of the workforce and the demands of the economy.

Therefore, Turkey attaches great importance to furthering efforts to strengthen the cooperative spirit among G20 members. All necessary actions should be taken to overcome these challenges. It is thus critical at Cannes to agree on concrete policy actions for strengthening the global economy and reducing global imbalances.

These challenges also call for the development of a well-structured system to monitor individual country policies, to assess spillover effects and provide coordination to reach more strong, sustainable and balanced global growth. The IMF's spillover reports are a good start. However, a comprehensive review and restructuring of IMF surveillance would further strengthen policy coordination. This also requires enhancing the IMF's effectiveness and legitimacy. The latest quota and governance reforms must be implemented and the voice of emerging markets improved. At Cannes, we G20 leaders should reaffirm our commitment to completing the approval process by the 2012 annual meetings of the IMF and the World Bank.

The financial sector is also high on the Cannes Summit agenda. The focus is now on implementing the agreed reforms. The G20's main role should be to maintain a level playing field across countries. Reducing reliance on credit rating agencies is of utmost importance, so that they do not stimulate aggressive market reactions.

The scope of the G20 agenda with regard to development is large. The G20 must thus be selective, based on the general principles of the Seoul Development Consensus for Shared Growth, and focus on achievable targets.

The G20 has been effective in forging consensus and facilitating cooperation among its members. It should keep its flexibility, balanced membership and conciliatory role in key economic and financial issues.

To enable more effective oversight of these critical objectives, G20 members can discuss further institutional steps, such as establishing a permanent secretariat. In doing so, we should not overlook the trade-off between flexibility and formality. The pros and cons should be elaborated and a balanced approach should be adopted. Yet, if a consensus is achieved, Turkey would be pleased to host this office in Istanbul, which would be the ideal location for such a global institution. My government is also ready and willing to host a G20 summit, in either 2013 or 2014.

Turkey believes that, building on the important progress achieved, the G20 should continue to put in effect the right policies and measures. We believe that today's key economic challenges require a concerted, decisive action, which the G20 can deliver. Therefore, the spirit of cooperation among the G20 members should prevail to face future challenges. ♦



*Join the Global Conversation*

## G20 Research Group

In the rapidly globalizing world of the 21st century, the Group of Twenty systemically significant countries, created at the level of finance ministers and central bank governors in 1999 and elevated to the leaders' level in 2008, seeks to be the premier permanent centre of international economic cooperation. Its members, consisting of the Group of Eight, emerging countries and the European Union, work to provide financial stability, sustainable growth and openness that benefit all.

The G20 Research Group is a global network of scholars, students and professionals in the academic, research, business, non-governmental and other communities who follow the work of the G20 leaders, finance ministers and central bank governors. It is directed from the Munk School of Global Affairs at Trinity College in the University of Toronto, also the home of the G8 Research Group.

Our mission is to serve as the world's leading independent source of information and analysis on the G20. As **scholars**, we accurately describe, parsimoniously explain and reflectively interpret what the G20 and its members do, and, on this basis, responsibly predict what they will do. As **teachers and public educators**, we present to the global community and G20 governments the results of our research as well as others' research, ways to learn about the G20 and information about the G20. As **citizens**, we foster transparency and accountability in G20 governance, and the connection between civil society and G20 governors. And as **professionals**, we offer policy advice about G20 governance, but do not engage in advocacy for or about the G20 or the issues it might address.

### **The G20 Information Centre**

[www.g20.utoronto.ca](http://www.g20.utoronto.ca)

The G20 Information Centre is a multilingual, comprehensive permanent collection of information and analysis on the G20 available online at no charge. It complements the G8 Information Centre, which houses publicly available archives on the G20 as well as the G7 and G8.

### **Research and Publications**

Among the material available on the G20 Information Centre is a document detailing the **Plans and Prospects** for the G20's agenda, updated frequently. Also available are compliance reports and performance assessments, as well as online publications such as *Growth, Innovation, Inclusion: The G20 at Ten*, *The G20 London Summit: Growth, Stability, Jobs*, *The G20 Pittsburgh Summit 2009* and *The 2010 Seoul Summit: Shared Growth Beyond Crisis*, edited by John Kirton and Madeline Koch.

### **Key Publications**

- *Global Financial Crisis: Global Impact and Solutions*, Paolo Savona, John Kirton and Chiara Oldani (Ashgate Publishing)
- *Rising States, Rising Institutions*, Alan S. Alexandroff and Andrew F. Cooper, eds. (Brookings Institution)
- *Elements of the Euro Area*, Jesper Berg, Mauro Grande and Francesco Paolo Mongelli (Ashgate Publishing)
- *Global Financial Crime*, Donato Masciandaro (Ashgate Publishing)
- *The G8 System and the G20*, Peter I. Hajnal (Ashgate Publishing)
- *Sovereign Wealth Funds and International Political Economy*, Manda Shemirani (Ashgate Publishing)
- *Governing Global Derivatives*, Chiara Oldani (Ashgate Publishing)
- *Reforming from the Top*, John English, Ramesh Thakur and Andrew F. Cooper, eds. (Wilfrid Laurier University Press)

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# Human Rights

Respecting and promoting them.

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As a global company, Vale understands that it is not enough to respect Human Rights, but that it should also contribute to promoting them, in order to improve the living conditions of people in the regions where it operates.

In 2009, Vale's Human Rights Policy established the guidelines and principles for the company's projects and operations and throughout its supply chain. To turn this policy into effective action involving the company's and employees' everyday routines, Vale published its Human Rights Guide on December 10, 2010 - the same day on which the UN adopted the Universal Declaration of Human Rights.

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Addressing topics such as diversity, harassment, community relations, government, and society, the Guide ensures integrated management that respects and promotes human rights.

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In 2010, more than 2,600 corporate security guard contractors and over 170 company employees completed training on Security and Human Rights. As a result of the training cycles carried out and the process to globalize training practices currently under way, the percentage of corporate security personnel (contractors and employees) who have completed this training is 77%. Courses were conducted in 2010 in Canada, the United Kingdom, Colombia, Peru, Chile, Argentina, Mozambique, Paraguay, and Brazil.

Based on our Human Rights Guide, in 2011 we also began a training program in which employees discuss issues related to diversity, human rights violation risks, child labor, and forced or slave labor.



To ensure integrated management, Vale developed an internal assessment and planning tool for social issues. The tool covers the following areas: social impact management; child labor; forced, or analogous to slave, labor; relationships with indigenous, traditional, and/or fishing communities; artisanal and small-scale mining; and resettlement. The tool also enables risk analysis of child and forced, or analogous to slave, labor in the regions where Vale operates. The purpose is to evaluate Vale's activities in relation to human rights and develop action plans to improve continuously its performance in this area.

Human rights is a cross-cutting theme applicable to all of the company's businesses and areas. The topic is coordinated by the Corporate Social Responsibility Department, which acts as a catalyst for related subjects.

## Spheres of Influence

In accordance with its Human Rights Policy, Vale maintains the following relationship with each group of stakeholders in its sphere of influence:

- **Employees:** Vale provides dignified working conditions and educational activities that promote professional and personal growth; it always seeks to maintain a healthy work environment; it does not tolerate discrimination or harassment of any kind, including moral or sexual; it respects freedom of association, collective bargaining and diversity for everyone.
- **Supply chain:** Vale promotes awareness of human rights with special attention to the eradication of child and forced labor; it promotes the rights of children and teenagers; it seeks to establish relationships with suppliers, partners, and customers that share the same principles and values as Vale, promoting awareness and human rights practices; it strives continuously to improve risk assessment of human rights violations.

• **Local, indigenous, and quilombola communities:**

Vale bases all of its actions on dialog of mutual respect; it strives to maintain a relationship of continuous engagement by supporting initiatives that contribute to socioeconomic and environmental development in the regions where it operates, from the start until the end of operations.

• **Government:** Vale respects the laws and regulations of the locations in which it operates and cooperates with authorities to promote internationally recognized human rights; it cooperates in the investigation of any incidents involving human rights violations within its supply chain.

• **Society:** A signatory of the United Nations Global Compact, Vale has voluntarily made a commitment to guarantee basic human rights according to the UN Universal Declaration of Human Rights; it is also a member of the International Council on Mining and Metals (ICMM) and is aligned with the International Labor Organization (ILO), whose principles inspire Vale's efforts; the company is also a signatory to the Brazilian Pact to Eradicate Slave Labor, a program supported by the ILO.



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## Vale's Spheres of Influence

Respecting and promoting human rights



## Value chain

A condition concerning sustainability, which was already contained in Vale's Supplier Code of Conduct, the Sustainable Development Policy and Human Rights Policy began to be added to supplier contracts in Brazil in 2010. Contracts already in force are being amended to include this condition. In addition, analysis is under way to incorporate this clause in contracts with international suppliers.

Vale's operations in Brazil, England, Mozambique, and Taiwan conduct risk assessments of child labor and that of young people systematically exposed to dangerous working conditions. Vale also requires that the entire production chain (suppliers and clients) comply with Convention 105 of the International Labor Organization (ILO), concerning the eradication of forced labor.

## Campaign against sexual exploitation of children

In July, Salobo, an area in southeast Pará, Brazil, where Vale has a copper project, hosted the launch of a campaign to raise worker awareness of the need to combat sexual exploitation of children and teenagers. Run by NGO Terra dos Homens and supported by the Brazilian presidency's Human Rights Secretariat, the campaign raises employee awareness of children's and teenagers' rights, focusing on combating abuse and sexual exploitation.

Since 2008, the Salobo Project has been conducting preventive actions among members of the local community and employees. The practices developed in this initiative were suggested for inclusion in the Terra dos Homens pilot project involving measures to combat sexual exploitation of children, through a project called "Growing Up and Citizenship for Children and Teenagers".

Approximately 1,000 employees attended the campaign launch event, which highlighted the importance of the company and its employees' commitment to fighting sexual exploitation.



# Towards the Cannes Summit: managing the G20 in times of hardship

*The G20 proved invaluable in tackling the worst effects of the financial crisis and must continue its crucial role in providing a coordinated, international approach to dealing with the economic problems that persist around the world*

**By** Susilo Bambang Yudhoyono, president, Indonesia

**I**n 2008-09, the G20 played an indispensable role in bringing the global economy out of the abyss of a crisis. The unprecedented macroeconomic policy coordination it provided was attributed as the major ingredient for recovery, something that was missing during the Great Depression of the 1930s.

Last year, when we thought we had successfully turned the page on the global economic crisis, we were too optimistic. Global growth remains sluggish and downside risks are even greater. If they cannot be managed carefully, we may open another gloomy page in our history. This is a gentle reminder that complacency would never serve our purpose.

## **Avoiding protectionism**

The temptation to resort to protectionist measures usually arises during hardship. Again, the G20 managed this quite successfully by mandating related international organisations to monitor trade and trade-related policies of G20 members that might hamper international trade. The commitment by a group that represents more than 80 per cent of world trade has thus proven effective.

The G20 also played a critical role in reforming international financial institutions. The shift of six per cent of the quota shares of the International Monetary Fund (IMF), including the shift of two chairs on its executive board to the dynamic emerging-market and developing countries, is a step in the right direction to represent these countries better in the IMF.

So why, then, is the downside risk of the global economy still high, perhaps even increasing?

Indonesia remembers only too well its bitter experience during the 1997 Asian financial crisis, when it slashed its budget

The world is currently encountering the pressing challenges of the eurozone crisis and the fiscal situation in key advanced countries, volatile capital flows and the risk of overheating in emerging economies, and the problem of sluggish economic growth.

Some measures should be taken to address those challenges. First, in the advanced economies where fiscal debts are mounting, such as in the eurozone, credible medium-term fiscal consolidation is needed more than ever. This is the only way to restore market confidence in those economies. Of course, the impact of such consolidation should be balanced well with the need to sustain growth.

Contagion effects from the financial crisis in Greece should not be treated lightly. The eurozone countries should act hand-in-hand to prevent the situation from deteriorating in Greece and in other countries experiencing a similar situation.

Second, structural reform should be undertaken in advanced economies. This is the hardest and most difficult to do in terms of social and political policies. Indonesia understands only too well, remembering its bitter experience during the 1997 Asian financial crisis. It slashed its budget and maintained only what was most essential for economic recovery. Today, countries facing similar difficulties must also have the courage to take the same course. Subsidies that distort the economy, especially in agriculture, should be cut substantially. Such cuts will not only make the fiscal condition healthier, but will also boost the long-overdue Doha trade talks of the World Trade Organization.

Third, emerging and developing economies should carefully manage their large and volatile capital inflows. Overheating the economy is not only a macroeconomic problem, but also a serious problem for poor people in underdeveloped remote areas. Price hikes in food commodities will hit them hardest since the majority of their expenses are for food.

Fourth, the G20 should enhance its effectiveness in coordinating macroeconomic policies. The Mutual Assessment Process is a powerful vehicle. However, to realise its potential, it should be utilised more for real policy coordination than merely for information sharing.

Besides resolving current financial and economic issues, the G20 should take up the issue of development as part and parcel of its endeavour to attain strong, sustainable and



balanced growth. The G20's legitimacy will be questioned if it is silent on the interests of the majority of the world's countries. The deadline of the Millennium Development Goals is just four years away in 2015, and the G20 should contribute to their achievement.

Indonesia shares the view of G20 French presidency of prioritising the issues of infrastructure and food security in the deliberations of Development Working Group this year. Indonesia is also a strong advocate for strengthening good governance, believing that enhanced good governance will contribute to the improvement of fair competition and prevent misconduct among officials and business players. For this purpose, Indonesia, together with France, has served as co-chair of the G20 Anti-Corruption Working Group.

#### **Building on international ties**

The global economic recovery cannot be separated from regional dynamics. Interconnectedness throughout the world should therefore be enhanced. As the most vibrant region, Asia should again become the prime mover for recovery and prosperity. Other regions could and should benefit from a growing Asia through better connectivity.

Indonesia is playing an important role in this regard. As chair of the Association of Southeast Asian Nations (ASEAN) and host of the East Asia Summit in 2011, it is keen to promote better connectivity of the region with the world. Asia – and East Asia in particular, as the most populous region coupled with high economic growth – could be a global economic powerhouse.

In the context of ASEAN, Indonesia has agreed to establish the ASEAN+3 Macroeconomic Research Office,

Indonesia's President Susilo Bambang Yudhoyono, pictured at Merdeka Palace in Jakarta

supporting the Chiang Mai Initiative of Multilateralisation. With regard to food security, it has also agreed to establish the ASEAN+3 Emergency Rice Reserve.

We are now at a critical juncture. To remain ahead of the curve, it is in the interest of all that G20 members continue their united, solid and effective support of the Framework for Strong, Sustainable and Balanced Growth. The Cannes Summit should highlight several key issues.

First, it should address the pressing global economic challenges, such as the eurozone crisis, to prevent contagion. This is a matter of priority and urgency, as the credibility of the G20 will be at stake if it does not act to address this serious problem.

Second, it should reverse the problem of a low-growth global economy by creating new sources of global demand. The Cannes Summit should lay out the G20's commitments to increase global growth.

Third, it should highlight the G20's commitment to trade as an engine of global economic growth. Although the stalemate of Doha Development Agenda looms, G20 leaders should reiterate their commitment that open trade regimes continue to be essential.

Whether the G20 is able to deliver its meaningful contribution to solving today's pressing global economic challenges will depend very much on members' own solidity and effectiveness. The essence is to lead by example. Possessing 85 per cent of the world economy and representing two-thirds of the world's population will not be meaningful without leadership. Therefore, the most effective way for the G20 to influence the future course of global economic governance is by demonstrating its quality leadership. ♦

# Bioceánico Aconcagua Corridor: integration for growth



**Eduardo Eurnekian,  
President of Corporación  
América**

*“Make your life a dream and your dream a reality. Self-discovery comes when a man measures himself against an obstacle”*  
Antoine de Saint-Exupéry

South America is in need of its own ‘Panama Canal’ to bridge distances, foster regional integration and further its participation in the world economy. Building a fast track is highly required so that the goods produced in Mercosur can efficiently reach Asia, a key player on the changing global economic map.

The Bioceánico Aconcagua Corridor is an initiative developed by Corporación América that will bring the physical and commercial integration of both South American coasts to a new level, narrowing the routes and distances between Mercosur and the Pacific Basin countries.

The original idea was based on the analysis of the global economic outlook, the development prospects for the next 50 years and the need to seek a long-term solution to interoceanic communication that is more direct between

South America and the rest of world. The analysis was carried out bearing in mind that commercial exchange generates 40 per cent of the country’s growth in gross domestic product (GDP), so this project will lead to an increase in the level of economic activity and the standard of living.

History has proven that a reduction in transport time and costs brings about an increase in exports and a strong inflow of investment.

The project is also intended to free the region of a real Achilles’ heel, since part of the trade between Mercosur and Asia currently depends on the Cristo Redentor Pass, a crossing that has reached its capacity limit and remains closed up to 60 days per year due to snowstorms and extreme winds.

Only five million tons a year reach their destination, having to overcome numerous obstacles in the way, which stem from poor infrastructure, severe weather conditions, and geographical incapability to meet a demand that continues, regardless of the oceans or high mountains.

Based on a long-term analysis that sees a progressing Asia, a thriving Mercosur and a promising Africa, a solution has been designed that would reach a transport capacity of 77 million tons over the next 50 years, representing a 15-fold increase in capacity compared with the existing pass.

The corridor comprises a rail system with two 52-kilometre base tunnels that will link Argentina to Chile, and will transport cargo and passengers across the Andes in just four hours, as opposed to the 12 hours that is the current estimated time.

Besides reliability and speed, the Bioceánico Aconcagua Corridor has a strong positive environmental impact, as it will reduce carbon dioxide emissions to the atmosphere – because





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## The corridor comprises a rail system with two tunnels, that will transport cargo and passengers across the Andes in just four hours as opposed to the current 12 hours

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of the use of electrical energy instead of fossil fuels. This will contribute to a decrease in global warming, giving the whole project a negative carbon balance.

*“In the past, distances were greater because space is measured in time.”* This thought by Jorge Luis Borges reflects the spirit of the project: opening up new roads to bring continents together.

Today's world is fully globalised, the borders have gradually become bonds, the cultures have enriched themselves with the mixing of traditions and the differences relate mainly to time zones – an almost insignificant aspect for a planet in constant motion.

With the technological breakthroughs, oral communication is now immediate and this has resulted in major progress since all players can now communicate directly. International trade has been the first real communication among different cultures and nations, guaranteed by an exchange based on clear and universal rules.

Goods are not just produced in ports or bordering cities. Regional economies bond together and generate their own ways to reach new markets. It is necessary to broaden these links with a view to achieving an articulated production chain that would favour long-term progress and would go beyond any circumstantial ups and downs.

The corridor is an integration tool for all the region and the countries in it. It connects the internal economies and makes them work in coordination with the aim of connecting with Asia and with the Pacific coast of South America.

This initiative also contemplates the increase in demand and the possibility of generating new traffic between Argentina, Chile, Ecuador, Mexico, Peru, the United States, the Caribbean, Australasia and the Far East.

We think today about tomorrow. Calculations resulting from various studies carried out to assess the impact of the corridor forecast benefits in an area of more than three million square kilometres, that will influence a population of 126 million inhabitants. This accounts for 48 per cent of the total in South America, which generates 70 per cent of the continent's economic activity.

These millions of people will be the core subjects of the development that will have to take place in order to facilitate and increase trade flow. The small towns located along the roads and rails in the countries connected by the Bioceánico Aconcagua Corridor will become service providers for the increasing volume of export transport.

The project is presented within the framework of the Maipú Treaty, conceived as a treaty aimed at physical integration and economic cooperation. It declares the Bioceánico Aconcagua Corridor of strategic interest for Argentina and Chile, and sets a will commitment that ensures the development and implementation of the massive infrastructure works.

For the development of this initiative, Corporación América has created an international consortium of leading companies which includes Mitsubishi from Japan, Empresas Navieras from Chile, Contreras Hermanos from Argentina and Geodata from Italy.

All in all, the Bioceánico Aconcagua Corridor is a reliable, efficient and competitive crossing.

This interoceanic link will bring about a true revolution: South America will turn into a key player in the global economy. The time has come for a new crossing of the Andes.



[www.bioceanicoaconcagua.cl](http://www.bioceanicoaconcagua.cl)



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This is a pivotal time in the economies of the United States and Europe. Politicians are finding solutions for the financial system. However, job creation has been overlooked. The Occupy Wall Street and other simultaneous similar groups around the world have a legitimate point. The world needs infrastructure – most certainly in Africa, but also in most other places. This need presents not only an opportunity to find good feasible projects in Africa, but also to supply the job creation stimulus needed in our own countries. The means are there through Multilateral and Export Credit Agencies. If we do not recognize these opportunities and put in place measures to bring about the productive activities and the resulting job creation, it will be an opportunity lost.

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# Promoting growth, creating opportunity

*During a recent speech at the United Nations, US president Barack Obama shared his thoughts on some of the topics to be discussed at this year's G20 summit, including economic recovery, rebalancing, development and climate change*



**T**o bring prosperity to our people, we must promote the growth that creates opportunity. In this effort, let us not forget that we've made enormous progress over the last several decades. Closed societies gave way to open markets. Innovation and entrepreneurship has transformed the way we live and the things that we do. Emerging economies from Asia to the Americas have lifted hundreds of millions of people from poverty. It's an extraordinary achievement. And yet, three years ago, we were confronted with the worst financial crisis in eight decades. And that crisis proved a fact that has become clearer with each passing year – our fates are interconnected. In a global economy, nations will rise, or fall, together.

Today, we confront the challenges that have followed on the heels of that crisis. Around the world recovery is still fragile. Markets remain volatile. We stand with our European allies as they reshape their institutions and address their own fiscal challenges. For other countries, leaders face a different challenge as they shift their economy towards more self-reliance, boosting domestic demand while slowing inflation. So we will work with emerging economies that have rebounded strongly, so that rising standards of living create new markets that promote global growth. That's what our commitment to prosperity demands.

To combat the poverty that punishes our children, we must act on the belief that freedom from want is a basic human right. The United States has made it a focus of our engagement abroad to help people to feed themselves. Together, we must continue to provide assistance, and support organisations that can reach those in need. And together, we must insist on unrestricted humanitarian access so that we can save the lives of thousands.

To stop disease that spreads across borders, we must strengthen our system of public health. We will continue the fight against HIV/AIDS, tuberculosis and malaria. We

will focus on the health of mothers and of children. And we must come together to prevent, and detect, and fight every kind of biological danger – whether it's a pandemic like H1N1, or a terrorist threat, or a treatable disease.

I urge all nations to join the US in meeting the WHO's goal of making sure all nations have core capacities to address public health emergencies in place by 2012. That is what our commitment to the health of our people demands.

To preserve our planet, we must not put off action that climate change demands. We have to tap the power of science to save those resources that are scarce. Together, we must work to transform the energy that powers our economies, and support others as they move down that path. That is what our commitment to the next generation demands.

And to make sure our societies reach their potential, we must allow our citizens to reach theirs. No country can afford the corruption that plagues the world like a cancer. Together, we must harness the power of open societies and open economies. And no country can realise its potential if half its population cannot reach theirs. The United States recently signed a new Declaration on Women's Participation. We should each announce the steps we are taking to break down the economic and political barriers that stand in the way of women and girls. This is what our commitment to human progress demands.

I know there's no straight line to that progress, no single path to success. We come from different cultures, and carry with us different histories. But let us never forget that even as we gather here as heads of different governments, we represent citizens who share the same basic aspirations – to live with dignity and freedom; to get an education and pursue opportunity; to love our families, and love and worship our God; to live in the kind of peace that makes life worth living.

It is the nature of our imperfect world that we are forced to learn these lessons over and over again. Conflict and repression will endure so long as some people refuse to do unto others as we would have them do unto us. Yet that is precisely why we have built institutions like this – to bind our fates together, to help us recognize ourselves in each other – because those who came before us believed that peace is preferable to war, and freedom is preferable to suppression, and prosperity is preferable to poverty. That's the message that comes not from capitals, but from citizens, from our people.

Peace is hard, but we know that it is possible. So, together, let us be resolved to see that it is defined by our hopes and not by our fears. Together, let us make peace, but a peace, most importantly, that will last. ♦

*Based on excerpts from an address by President Obama to the United Nations General Assembly on 21 September 2011*

# Broad horizons, shared prosperity

*Infrastructure development in Africa, the importance of reaching agreement on climate change, and equitable international trade were just some of the issues highlighted by South African president Jacob Zuma in a recent address*



**I**t may be recalled that just two decades ago, South Africa was still in the throes of its liberation struggle. Brazil, the Russian Federation, India and China firmly supported our quest for freedom. Today we have met as one, we have met as partners. This bears testimony to the evolving world. We are now equal co-architects of a new equitable international system.

Such a new world order will be to the benefit of all humanity and aims at securing shared prosperity for all. What distinguishes each of the BRICS countries are the value and importance we attach to development. We share the commitment of ensuring that our people benefit at the broadest level from global growth and that the benefits of economic expansion are shared equitably.

Over the next ten years, Africa will need \$480 billion for infrastructure development. Already, Africa is projected as the third-fastest growing economy in the world, while the BRICS countries now constitute the largest trading partners of Africa and the largest new investors.

This economic relationship will be further strengthened as Africa forges ahead towards regional economic integration. This move will open up opportunities for more foreign direct investment and expanding trade relations with BRICS countries.

With regards to South Africa specifically, we expect to benefit economically and politically from this important alliance. Our primary goal is to improve the lives of South Africans through the growth and development of the economy, which will in turn result in job creation, our primary focus area, especially this year.

South Africa stands to benefit from the concrete projects of BRICS. These are in areas such as agriculture, science, statistics, development finance institutions, security and

justice. As this is a dynamic relationship, more areas of cooperation will no doubt be added as we interact.

We must emphasise that the relationship with our BRICS partners does not mean that relations with countries such as the United States and the broader north have become less important. The European Union and Europe also remain South Africa's most important economic trading partners, accounting for approximately 40 per cent of its exports, as well as 70 per cent of foreign direct investment.

We value these relationships with the developed north too. We recognise the developed north's continued dominance, but it is important to also acknowledge the rising importance of the giants of the south and the value, thereof, for a developing economy like ours.

At the end of this year, South Africa will host the 17th Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change. We are working towards the implementation of the COP 16 decisions in Durban, and are aiming for a realistic outcome in the short time available, while not raising any unrealistic expectations.

Although the parties have different positions on the elements on which agreement might be possible in Durban, any outcome must remain true to these principles. These include the principles of multilateralism, environmental integrity, common but differentiated responsibility and respective capabilities, equity, and honouring of all international commitments and undertakings made in the climate-change process.

I also have the honour to co-chair, with Her Excellency Tarja Halonen, the President of Finland, the UN Secretary General's High Level Panel on Global Sustainability. We have no choice as nations of the world. We must confront the climate change challenge head on for the sake of sustainable development and future generations.

With regards to equitable international trade, we join the call for the conclusion of the Doha Development Round, and will continue engaging for a developmental round. We are optimistic about progress in many areas of cooperation, because we in the BRICS share a common view on the need to work together to change the world for the better.

There is unity of purpose in our diversity and this is what renders this mechanism unique and increasingly influential. Naturally each country is responsible to its own citizenry, but we further share a collective accountability now to the global community and notably the emerging-market and developing economies component thereof. ♦

*Based on an address by President Jacob Zuma to the plenary session of the third BRICS leaders' meeting in Sanya, Hainan Island, People's Republic of China, on 14 April 2011*

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# An open letter to the members of the European Council

Brussels, 7 October 2011

Dear colleagues,

**W**e would like to share with you our views on the key issues coming up for discussion at the G20 summit in Cannes. We hope these orientations will serve as a good basis for our preparatory exchange of views at the European Council meeting.

The G20 summits were crucial in steering us through the global financial and economic crisis three years ago by acting strongly and decisively in a sense of urgency and common purpose. In light of the current economic situation, with world growth slowing down and the global economic outlook deteriorating, we need to renew this collective G20 spirit. Europe should be proud to have been instrumental in the creation of the G20 process; the fact that France holds the G20 presidency this year gives Europe a special responsibility. We need to make the Cannes Summit a G20 summit that restores confidence, supports sustainable growth and job creation, and maintains financial stability.

Europe will be in the focus of the Cannes Summit. Our G20 partners' perception is that if Europe does not solve its sovereign debt crisis there will be dangerous spillovers on the global economy. We need to show them that the European Union is determined to do whatever necessary to overcome the current difficulties. At the same time, we will also demand from our G20 partners a constructive contribution to face the global economic challenges.

Against this background, we consider the following EU priorities for the G20 summit in Cannes:

1. *Restoring growth and tackling global macroeconomic imbalances.* Many of the distortions underlying the large pre-crisis imbalances remain in place – including undervalued exchange rates in key emerging surplus economies, and insufficient domestic savings in some advanced economies. The EU should strongly support the adoption of an ambitious action plan at the Cannes Summit to address the immediate challenges coming from the current economic slowdown, and to strengthen and rebalance global growth over the medium term. We therefore need to ensure a balanced discussion of the various risks to the global economy, including those coming from the United States and from emerging-market economies. All countries need to make a contribution. The EU needs to demonstrate that we are aware of our own responsibility and fully engaged in addressing the challenges we face. Our contribution to the Action Plan should be based

on our agreed economic policy strategy, and in particular the decisive measures that we are taking to address the sovereign debt crisis, and strong policy commitments in the areas of economic governance, fiscal policy, monetary policy, financial repair, structural reforms and restoring growth.

2. *Making tangible progress on implementing the financial market reform agenda.* The agreed financial market reforms must be fully implemented while ensuring a level playing field. The EU is honouring its G20 commitments by being the first jurisdiction to launch, with the European Commission proposal, the legal process for implementing the Basel III agreement. Our G20 partners have to deliver as well, and together we should accelerate work to advance on other agreed reforms, such as over-the-counter derivatives, commodity derivatives, bank crisis prevention and resolution – where the EU is already moving. And further work is needed to agree ambitious measures on systemically important financial institutions, shadow banking and paving the way towards a single set of high-quality globally accepted accounting standards. It is time to make the necessary changes to the governance of the Financial Stability Board so as to underpin its monitoring function. On non-cooperative jurisdictions, the G20 in Cannes should support the [work of the Global Forum on Transparency and Exchange of Information for Tax Purposes].
3. *Making the international monetary system more resilient.* The current international monetary system, despite many imperfections, has enabled remarkable progress in global economic and financial integration. But there is scope for improvement and reform to strengthen economic surveillance by the International Monetary Fund (IMF), agreeing on principles to guide G20 members in the management of capital flows, agreeing on a roadmap for broadening the IMF special drawing rights to facilitate the internationalisation of key emerging-market currencies, improving the cooperation between regional financing arrangements and the IMF, and improving further the IMF's toolkit to support countries during systemic stress. We will also need to discuss the issue of the adequacy of IMF resources.
4. *Boosting trade as the most effective way to support global growth.* Despite our intensive engagement and that of some others in the first half of this year, it will not be possible to conclude the Doha Round of the World Trade Organization (WTO) in 2011. This is depriving the global economy of a significant boost, and risks encouraging protectionist measures. The EU



has a particular responsibility to lead the discussion in Cannes on how the G20 could support the WTO at the present juncture. We must advocate an active WTO negotiating agenda that delivers concrete results from the Doha agenda in 2012, in particular on least-developed countries, as well as broaden the scope of issues being considered by the WTO in order to address new global challenges. We need to renew our commitment to refrain from all protectionist measures and also need to ensure a global market and open trading system for raw materials that is undistorted, sustainable and transparent.

5. *Enhancing the social dimension of globalisation.* As reaffirmed by G20 labour and employment ministers on 26-27 September in Paris, employment and poverty reduction are at the centre of global economic policy coordination.
6. *Ensuring food security and promoting the G20 development agenda and innovative financing.* We need to address the global food security challenge by fully endorsing the Action Plan on Food Price Volatility and Agriculture agreed by G20 agriculture ministers on 22-23 June. The G20 Development Agenda has become an important part of the G20 and we welcome this year's focus on food security and infrastructure. We are looking forward to the report by Bill Gates on financing for development, which will contribute to the G20 leaders' discussion on development.

Herman Van Rompuy (left) and José Manuel Barroso encourage their European partners to show determination in solving the eurozone financial crisis, and call upon the other G20 members to address today's global economic challenges

- The European Commission has recently proposed a financial transaction tax for the EU. We believe that a similar approach among G20 partners can help us all meet global challenges. We will therefore strongly support further discussions by the G20 in this field.
7. *The G20 needs to further tackle the global climate and energy challenge and continue its fight against corruption.* The G20 summit will be an important opportunity to push for a successful outcome of the Durban Climate Conference of the Parties (COP 17) and we welcome the initiative taken by the G20 to conduct further work on mobilising resources for climate change finance.
  8. *Improving global governance.* Finally, we look forward to discussing the proposals contained in the report by Prime Minister David Cameron on global governance, which he will present at the summit following an invitation by President Nicolas Sarkozy.

The EU is fully engaged in making Cannes a successful summit in order to restore confidence and underpin the global economic recovery by demonstrating the ability of the G20 to act with a common purpose. The stakes for Cannes are high – for the credibility of the G20 and for each of its members. ♦

*José Manuel Barroso, president, European Commission  
Herman Van Rompuy, president, European Council*



# An open letter to French president Nicolas Sarkozy

*22 September 2011, Ottawa, Ontario*

## **President Sarkozy,**

**T**hree years after our first leaders' meeting, reverberations of the global financial crisis are still being felt by citizens and governments around the world. For many advanced economies the path out of the deep and prolonged recession will be difficult. This will impact on growth in emerging markets, and there is more limited room for manoeuvre than in 2009.

We fully support your call yesterday that the priority of the G20 must be to "help the world find the path to growth". We will give our full backing to your presidency in achieving this at the Cannes Summit in November. We need decisive action to support growth, confidence and credibility.

We have not yet mastered the challenges of the crisis. Global imbalances are rising again. External risks to the

stability of our banks and our economies are reaching pre-crisis levels. And volatile and high energy prices are hurting our citizens and acting as a drain on world growth.

At the same time, the confidence of citizens, businesses and markets has been damaged due to the lack of visible political will: this in itself is holding back the recovery. Over the summer, the difficulties encountered in finding a durable solution to sovereign debt problems have further affected confidence.

The G20, representing 85 per cent of the world economy, is our platform to address these challenges. Under your leadership in Cannes, we have the opportunity to commit to each other to take the actions we know are necessary. We must agree the hard policy decisions we should each take, validating our actions against strong objective analysis and recommendations from the relevant international institutions. And, within the Framework for Strong, Sustainable and Balanced Growth agreed in



Pittsburgh, we must each act on those decisions. Only when we work together can we restore strong growth and the confidence on which it depends.

The priorities are clear.

We must increase global demand without once again creating unsustainable global imbalances. Surplus countries need to increase their expansion of domestic demand, enshrining their policies in clear political commitments within the G20, including on structural reform, to keep markets open, increase exchange-rate flexibility and refrain from competitive devaluation. Deficit countries need to find new sources of growth, including making clear commitments now to put in place specific structural reforms necessary. They need to restore competitiveness and improve the underlying performance of their economies.

Eurozone governments and institutions must act swiftly to resolve the euro crisis and all European economies must confront the debt overhang to prevent contagion to the wider global economy. The July agreement to strengthen the eurozone financing facility was an important first step. Euro countries now need to ratify this agreement as soon as possible, alongside implementing reforms to deal with excessive deficits, improving economic competitiveness and acting now to strengthen banking systems. The eurozone must look at all possible options to ensure long-term stability in the world's second largest international currency.

Countries with long-term debt problems must put in place and implement credible growth-friendly medium-term fiscal consolidation plans, differentiated according to each country's own national circumstances. The United States, as the world's largest economy, also has an important role to play in restoring confidence. The August bipartisan deal lays the foundations for a deficit reduction plan and President Obama's jobs plan will help provide

a welcome impetus to growth in the short term. The US, along with other high-deficit advanced economies, needs to overcome the remaining hurdles towards restoring medium-term fiscal sustainability.

The failure to date to conclude a global trade deal is robbing the world of a much-needed economic stimulus. It is also affecting public confidence in our ability to deliver what leaders have promised to do repeatedly. We should agree in Cannes a credible plan to take to the World Trade Organization ministerial in December as a basis for concluding the Doha Development Round. If we cannot agree this we should direct our ministers to consider innovative approaches to deliver progress in a multilateral trade deal and strengthen the multilateral trading system. International trade can be the engine of global growth and development and we must keep it moving forwards.

In taking forwards all these actions, the G20 must also take a path toward all-embracing growth, supporting economic development that will help reduce global disparities.

The barriers to action are now political as much as economic. We must send a clear signal that we are ready to take the actions necessary to maintain growth and stability for all for the future. The G20 showed at the height of the global financial crisis that we could work together to deal with global instability – the Cannes Summit is an opportunity for leaders to prove this, arrest the slide in confidence, and strengthen the foundations for strong, sustainable and balanced global growth for the future. ♦

*Julia Gillard, prime minister, Australia*  
*Stephen Harper, prime minister, Canada*  
*Susilo Bambang Yudhoyono, president, Indonesia*  
*Felipe Calderón, president, Mexico*  
*Lee Myung-bak, president, Korea*  
*David Cameron, prime minister, United Kingdom*

French president Nicolas Sarkozy (right) greets Canadian prime minister Stephen Harper (left) and British prime minister David Cameron (centre) at the Elysée Palace in Paris, during their visit in September



## The world needs R&D leadership now



By Dr. Karen Chad,  
Vice-President Research,  
University of Saskatchewan

### The social imperative

The world is facing an unprecedented food security challenge – how to feed an expanding population that is forecast to reach nine billion by 2050, an increase of 2.6 billion people.

Experts say that meeting these enormous food demands will require a doubling of food production over the next 40 years. The daunting challenge is not only to produce and deliver adequate supplies of safe and nutritious food for our expanding world population, but to do so without destroying the capacity of future generations to feed themselves, given increasing constraints on available land and water resources and mounting climate change issues.

### Slowdown in productivity growth and R&D investment

But, alarmingly, there has been a global slowdown in agricultural productivity growth over the past two decades. This has been most pronounced in the OECD countries where R&D investment has been stagnant since the mid 1990s. It is particularly concerning since poorer countries tend to rely on the R&D undertaken by a small number of developed countries.

To increase the world's capacity to produce, process and distribute food, there is an urgent need for new science, technology and policies. Given the well-documented evidence that public and private R&D investments foster increased agricultural productivity growth, greater investment in research by both the public and private sectors is critical.

Fortunately, there is an historic resolve among G20 governments to collectively address these issues. Last June, the G20 agricultural ministers committed to increasing agricultural production through use of improved practices and technologies, as well as to new and expanded research and development.

### Universities key to finding solutions

Universities, with their focus on research and public education, have a key role to play in finding innovative solutions and ensuring that new knowledge is exchanged with and adopted by end users – from farmers, to communities, to government agencies, to companies in the food system. Indeed, food security institutes have been springing up on university campuses in various countries.

But the challenges are greater than can be addressed by any one university or country. To truly tackle the food security challenge as a global issue and anticipate tomorrow's challenges, there must be:

- greater sharing among the world's universities of ideas, research progress and diverse approaches to food security issues;
- initiatives to bring to bear the best minds and the best science and policy research on finding solutions to complex challenges;
- increased linkages among food security research networks; and
- enhanced dialogue and collaboration among partners in government, industry, NGOs, and academia.

Creating a consortium of universities with food security research interests and fostering a commitment to work together with our industry, NGO and government partners would be an excellent place to start.

### A moral responsibility to share knowledge and expertise

At the University of Saskatchewan (U of S), in the heart of one of the world's most important agricultural regions, we are willing to be part of the global solution. In a region with abundant natural resources, globally significant agricultural exports, and a century of successful agricultural research and development in sustainable high-yield agriculture, we feel a moral responsibility to explore connections between Saskatchewan R&D capacity and pressing global food security challenges, and to foster international information sharing.

With recognised expertise in crop development, feeds research, feedstock handling, animal and human vaccine development, and public policy across the food supply system, food security is a key U of S signature area. As food security issues are inextricably linked to water issues, our leadership in water security – through our Global Institute for Water Security – positions us to serve as an important node in the proposed global knowledge and innovation network.

### Twin goals: sustainable high-yield agriculture and affordable food prices

The world needs a concerted international effort led by governments, NGOs and universities to address the complex scientific and policy dimensions of achieving sustainable high-yield agriculture and affordable food prices. Through greater research investment and sharing of new knowledge, we can together help mitigate hunger and poverty around the world.



# Saskatchewan Discovery and Innovation Help Feed a Growing World

A century ago, the University of Saskatchewan led far-sighted research and innovation to help feed a growing nation.

Now through international collaborations in our signature area of food security, we're helping to feed a growing world. With a research focus on sustainable high-yield production and quality, we aim to push back the boundaries of what can be grown and raised in prairie environments to help address global food security challenges.

## Our campus is at the heart of one of the world's leading food production regions

Saskatchewan is a world leader in sustainable production and related research, policy and innovation.

- World's top exporter of lentils, dried peas, mustard and flax seed
- Supplies nearly a third of the world's total exported durum wheat
- Produces \$1 billion worth of beef annually, helping to meet growing demand in developing countries for animal-based protein
- Renowned biotechnology and agri-food sector, with \$8 billion exports in 2010
- Supplies 40 per cent of world potash, mainly for fertilizer use
- Global food science linkages with partners around the world

## World-renowned centre of excellence in crop development

- **New and improved crops:** More than 345 commercial crop varieties developed at the University of Saskatchewan, with innovations in spring and winter wheats, durum, barley, oat, flax, and pulses.
- **A billion-dollar, research-driven pulse industry:** Twenty years ago, peas, lentils and chickpeas were hardly grown here. Now Saskatchewan leads the world in pulse crop exports—staple foods in fast-growing emerging markets such as India, China, Bangladesh, and northern Africa.
- **Rust-resistant wheat:** Using conventional breeding techniques, genes for rust resistance were transferred from wild grasses to wheat varieties now grown around the world.
- **"Greener" animal feed:** Hog feed from a new barley variety with low levels of the natural compound phytate reduces phosphate in hog manure and the environmental footprint of hog operations, while lowering feed costs for producers.
- **Part of regional cluster that brought canola to the global marketplace:** Now a major generator of value in Canada and abroad.

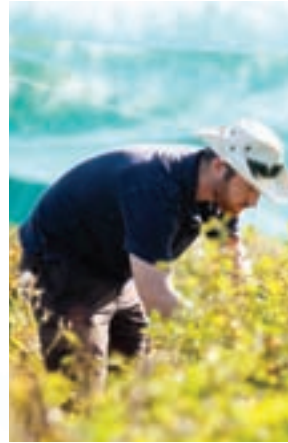


Photo courtesy of Canadian Light Source Inc.

## Home to two of Canada's top science facilities

- Canadian Light Source synchrotron with unique in-North America biomedical imaging for plant, animal and human studies
- New International Vaccine Centre for vaccine and infectious disease research and development to protect animal and human health

## Dominant research and training cluster with vibrant private sector R&D

- Veterinary, agricultural and medical colleges with a "one health" focus
- Leading federal and provincial centres for ag-related research located right on campus
- Vaccine and Infectious Disease Organization has six world firsts in vaccine research
- Global Institute for Water Security and renowned toxicology centre
- Johnson-Shoyama Graduate School of Public Policy
- Highly successful industrial research park—Innovation Place



# Three years of G20 summits: an assessment

*Although G20 members can be proud of their recent achievements in rebalancing the global economy, an urgent and potentially greater set of challenges must be addressed as the group enters its fourth year of discussion and cooperation*

**By** Montek S Ahluwalia, deputy chair, Planning Commission of India, and India's sherpa for the G20 summit

**A**s the G20 leaders meet at Cannes, it will be three years since their first meeting in Washington, at the height of the 2008 crisis. They can claim significant achievements in this period, notably the containment of the worst global crisis since the Great Depression, and also the start of some new initiatives, such as the coordination of macroeconomic policies and the evolution of an appropriate structure for financial regulation, although these remain works in progress. However, the eurozone crisis presents a new challenge that will again test its effectiveness in crisis management.

Most would agree that the G20 did well in orchestrating a simultaneous fiscal expansion by all countries with supportive global monetary and financial policies to contain the 2008 crisis. There was a contraction in industrialised

countries in 2009, but they returned to positive growth in 2010 and the emerging-market countries performed strongly in both years, indicating the emergence of a potential new source of dynamism in the world economy.

The turnaround was also supported by the G20's decision to expand financial resources for the international financial institutions, strengthening the global safety net and stabilising market confidence. The voting share of dynamic emerging-market countries at the International Monetary Fund (IMF) was increased, less than might have been warranted, but clearly a move in the right direction. Significant progress was also made in outlining an action plan for reform of the architecture for financial regulation to deal with risk and instability. The Financial Stability Forum was expanded to include all G20 members and renamed the Financial Stability Board (FSB), as a

permanent institution for overseeing the activities of international standard-setters and facilitating consultation with national supervisory authorities and the IMF.

The G20 also launched an ambitious multilateral effort – the Mutual Assessment Process (MAP) – to coordinate macroeconomic policies among the major countries. Coordination was viewed as critical for sustaining growth and reassuring markets. The crisis had led to a sharp increase in the sovereign debt position of industrialised countries, in large part due to the collapse in government revenues and the increase in expenditures on the social safety net.

While the resulting fiscal stimulus proved effective in supporting economic activity temporarily, it was obvious that it would have to be reversed. As such a reversal would have a contractionary effect on economic activity, it was felt that it should be phased to avoid an immediate contraction, while simultaneously seeking to reassure markets by taking credible steps to ensure fiscal viability over the longer term. This strategy needed to be supported by rebalancing global demand, with an expansion of demand in surplus countries accompanied by greater exchange-rate flexibility.

Coordinating macroeconomic policies on this scale among sovereign governments is not easy. Earlier IMF efforts had proved unsuccessful, but it was hoped that the MAP, being a country-led process, would do better. The Cannes Summit was to be the first opportunity to review, and hopefully agree upon, the outcome of the MAP in terms of a consistent set of policies for individual G20 countries capable of restoring growth.

### Eclipsed by the eurozone crisis

All this has been overtaken by the explosion of the sovereign debt crisis in the eurozone. If not effectively controlled, it could have a major destabilising effect on Europe and, given the weight of Europe and its integration with the rest of the world, therefore also on the global economy. The crisis was triggered by the collapse of the rescue package for Greece, which put pressure on Ireland and Portugal, with contagion spreading to Spain and Italy. All these countries have serious debt problems, although none as serious as Greece. Unfortunately, the failure of the IMF package for Greece has eroded market confidence, making it difficult to prevent contagion.

Greece is now widely regarded as 'insolvent' in the sense that the maximum austerity that is socially and politically acceptable will not allow Greece to reduce its ratio of debt to gross domestic product (GDP) to acceptable levels, given the low-growth prospects facing the Greek economy. The low-growth potential in part reflects both weak underlying factors, such as low investment, and the fact that domestic austerity itself will reduce domestic demand and depress economic activity. There is little prospect for offsetting this contractionary effect by relying on external demand, given the absence of exchange-rate depreciation as a policy option and also the depressed state of the European and world economies.

For all these reasons, markets believe that Greece can be rescued only if there is a substantial debt reduction. The 21 July package agreed with European leaders did involve some reduction of Greek debt, via a restructuring package backed by the European Financial Stability Facility (EFSF), but it was much less than was needed. Current market sentiment suggests that a haircut of between 40 per cent and 50 per cent of bank debt would be needed. It remains to be seen whether such an outcome can be agreed upon and how the burden will be shared: should it be borne largely by the banks themselves that lent imprudently to begin with, or shared by the European Central Bank (ECB) and the EFSF? Of course, if the banks take a hit, it will be left to governments to recapitalise them, further eroding their weak positions.

A map of Europe in marble, part of a world planisphere in Lisbon. Portugal is one of the countries causing concern in the current eurozone crisis

It is necessary to reassure markets that credible steps have been taken to ensure stability in the eurozone

The build-up of sovereign debt in Greece and other countries reflects a variety of factors, including weak growth, lax fiscal policies and imprudent bank lending, the last arising from a failure to recognise some inherent weaknesses in the eurozone. The adoption of a common currency removed the currency risk from lending to countries within the eurozone, which should have led to somewhat lower interest rates.

However, European banks behaved as if credit risk had also been eliminated. Fiscally weak sovereigns were able to borrow at interest rates only marginally higher than those of Germany. This would have been reasonable if the eurozone had mechanisms that enforced fiscal prudence, but there were none. Such mechanisms that existed had been breached earlier and made irrelevant. Despite this, the banks lent excessively, leading to a large build-up of sovereign debt in the countries that are now in trouble.

### New challenges await

The Cannes Summit faces two major challenges in addition to the usual items on the agenda. First, and most immediately, it is necessary to reassure markets that credible steps have been taken to ensure stability in the eurozone. Second, having ensured stability, the G20 also needs to show some progress on the MAP. The two are obviously connected since progress on the MAP should allow higher levels of growth globally, and therefore also for the debt-stressed countries, which in turn will have a favourable impact on any assessment of debt sustainability.

Stabilisation of the eurozone urgently requires a package that ends the Greek crisis, which requires early agreement on the difficult issues listed above. This must be followed by an effective adjustment programme for each country under threat. Even if an objectively credible package is put in place for each country, it may not reassure markets immediately, posing serious liquidity problems, so these countries will need liquidity support.

This is reasonable: once solvency is taken care of, liquidity must be provided and in ample measure. If the resources to meet liquidity needs are to come from the eurozone itself (whether the ECB or the EFSF), the international community is not directly concerned, although it is vitally interested in the success of the measures. If the eurozone effort needs to be further backstopped by the IMF, the G20 is directly concerned. In that event it will be the IMF's responsibility to determine whether the programme being supported is credible. In effect, the IMF will have to certify whether a haircut is necessary and, if so, whether it is adequately provided.

There is also the issue of what is the appropriate scale of the IMF's contribution, relative to what should be done internally by the eurozone. More generally, these issues raise the question whether resources available within the eurozone are adequate, and likewise the resources available from the IMF Markets will look for clear signals from the G20 on all these issues if normality can be restored.

Once the task of restoring stability in the eurozone is assured, the G20 will still need to make progress on the MAP, if only to persuade markets that the macroeconomic policies being followed by major countries are consistent with stimulating and sustaining robust growth in the medium term. As pointed out above, creating credibility about growth prospects is itself critical for reassuring markets that debt sustainability issues can be resolved.

All in all, the G20 members will have a lot on their plate in Cannes as they enter their fourth year. It illustrates the proposition that, in a globally integrated world, global coordination among major countries is needed. The G20 is the only mechanism we have to bring this about. ♦

*The views expressed in this article are those of the author and do not necessarily reflect the views of the Government of India.*

# Prospects for the G20 Cannes Summit

*At their sixth summit, the G20 members must rise to the challenges that face the global economy today, from the slowdown in growth to the escalating financial crises in the United States and Europe that threaten the world as a whole*

By John Kirton, G20 Research Group

The sixth G20 summit, taking place in Cannes, promises to be unusually significant. It must confront and control a new prospective global financial and economic crisis, arising first in a Japan struck by both natural and nuclear disasters in March and then in the United States with its sovereign debt downgrade, and now extending to Europe with doubts about sovereign debt in Greece, Spain, Italy and France and a Franco-Belgian bank gone bust.

The summit must simultaneously counter the rapid slowdown in global economic growth that helped caused these financial crises and that will compound their negative effects; it must also address its broad, ambitious, built-in agenda, starting by strengthening financial regulation and supervision for banks and for globally systemic financial institutions now under stress, and inventing new instruments and increasing resources for the International Monetary Fund (IMF) to contain the contagious global financial and economic crisis with which regional organisations alone, led by the formidable European Union, cannot cope. It must advance the three priorities defined in August 2010 by French president Nicolas Sarkozy as the Cannes Summit chair and host: modernising the internal monetary system beyond its heavy reliance on the US dollar, calming volatile commodity markets and improving global governance within the G20 itself, as well as in the United Nations galaxy. The Cannes Summit may also be called on to address newly erupting crises and opportunities, such as reconstructing a reforming North Africa and Middle East and controlling the terrorism that undemocratic regimes in the region breed.

## Responding to adversity

The Cannes Summit will probably rise to these challenges to produce a summit of substantial and sufficient success. It will do so above all in its classic mission of crisis response to the new financial and economic shocks erupting on its eve in its European home, by authorising a confidence-creating, coordinated action plan for growth, centred on credible medium-term fiscal consolidation combined with short-term stimulus, stronger financial regulation and supervision, and new responsibilities and resources for the IMF.

The success of Cannes as a classic 'back-to-basics' crisis-response summit will be driven above all by the very severe, sustained and somewhat familiar shocks erupting on the summit's eve. Further spurs for success will come in the inability of the EU and IMF to cope on their own, the rising capabilities of emerging G20 members now ready

to assist, the deep domestic attachment of all members to economic, social and political stability and openness, a highly experienced, energetic, ambitious, committed chair surrounded by like-minded G20 summit veterans, and the interpersonal bonds formed among those meeting for the sixth time in three years to confront and conquer global financial and economic crises such as this.

The defining challenge and likely standout success of Cannes will be to contain the growing global financial crisis and the accompanying plunge in economic growth. Equipped with the Framework for Strong, Sustainable and Balanced Growth and the Mutual Assessment Process (MAP) to help put it into effect, G20 members will move to design and implement a coordinated action plan for global growth, containing immediate measures and those that follow in the short and medium term. The plan will blend monetary, fiscal and direct financial support measures, give a green light for emerging G20 members as well as a few advanced members to stimulate, and have most advanced members, led by the US, credibly commit to comply with the fiscal consolidation by 2013 that they promised at the G20 Toronto Summit in June 2010.

In its content and in its clarity and in the G20 members' commitment to greater macroeconomic policy coordination, this action plan should create the confidence necessary for investors to lend and consumers to spend, and even encourage the US Congress and legislatures in Europe and Japan to make unprecedented adjustments for the greater G20 and global good. The recollection of the great recession and great rescue by the G20 from 2008 to 2010 and the reality of the current crisis are so strong that the Cannes leaders will be forced to expand on their proclamation at their 2009 Pittsburgh Summit to make the G20 the permanent priority forum for their international economic cooperation, a forum on which the global community as a whole now depends.

A second equally significant, if less spectacular, success will come through strengthening financial regulation and supervision. In the face of intense market concerns about the inadequate capital held by European banks as a buffer against their sovereign bonds that might go bad and their loans that might sour as their own and partners' economies slow, stagnate or shrink, G20 leaders will agree on the faithful implementation of the Seoul commitment to strengthen bank capital, the conduct of more convincing, internationally consistent stress tests, the imposition of rules for globally significant financial institutions that can expand as the contagious threat to global financial stability does, and the raising of the capital required by embattled banks that see their value shrink and their liquidity dry up. A key immediate accomplishment will be assisting



The defining challenge and likely standout success of Cannes will be to contain the growing global financial crisis





beleaguered countries bolster their international payments balances, bondholders, budgets and banks.

A third success will come from moves to strengthen the responsibilities and resources of the IMF. Since the start of the eurocrisis in the spring of 2010, IMF resources have backed those of the European Union in the rescue packages for Greece, Ireland, Portugal and, once again, Greece. Much more will be needed to convince markets that governments with enough available money, including the leading emerging countries in the G20, will be there to back Spain, Italy, France and the euro itself, should the need arise. One possibility would be to assemble a ready reserve in advance, a second line of defence at the IMF on which embattled governments could draw to assist their besieged international payment balances, bondholders, budgets and banks. Another would be to build on the

London Summit's success with another allocation of special drawing rights (SDRs), perhaps backed by more currencies than before. This would allow France to claim some success on its presidential priority of moving the international monetary system off its singular reliance on the US dollar, to give rising powers a greater share of the rights and responsibilities they now deserve.

A fourth advance will come on the French priority of commodities. Leaders will avoid the over-regulation of derivatives markets, and instead launch the much more food-friendly Agricultural Market Information System, or AMIS, to enhance market transparency, reduce fear-driven hoarding and protectionism at times of perceived shortages, and foster humanitarian food relief for the very poor.

Taking a back seat, but being nudged ahead, will be most issues that have generated the disputes and

A clock that stopped working at the time the March 11 tsunami hit the Rikuzentakata area in Japan. Natural disasters have joined economic crises on the list of challenges facing the G20



drama at G20 summits past. One is a global bank levy or international transaction tax that is tempting for cash-strapped, austerity-minded European governments, but resisted by the majority of G20 members, whose financial institutions behaved well during the shocks of the past several years. On the menu of innovative finance options that Bill Gates will bring to G20 leaders to back the provision of badly needed public goods when the budgets for official development assistance are under growing strain, the double-strength options of taxes on alcohol, tobacco or climate-unfriendly transportation will have greater appeal.

A second, now less central, issue is China's undervalued exchange rate. China, sensitive to increasing inflation and social instability at home, is rationally allowing the renminbi to rise against the US dollar and other currencies abroad. Further flexibility by China and others on this issue within the framework and the MAP is the sensible solution.

A third issue with a reduced profile is last year's allegation of 'currency wars' brought by new American quantitative easing and emerging countries' capital controls in response. Also on the back burner will be such summit perennials as getting the badly overdue Doha round of multilateral trade liberalisation negotiations finally done, even as leaders try to make the December ministerial meeting of the World Trade Organization a success. Similarly, giving climate-change control the boost it needs as the end of the Kyoto Protocol commitment period and the Rio+20 summit in 2012, as well as improving global governance, are due for modest advances at best.

In the same category stands serious efforts to deliver the G20's impressive commitment at its 2009 Pittsburgh Summit to rationalise and phase out inefficient fossil-fuel subsidies in the medium term – a move that would produce major advances in reducing, simultaneously, fiscal deficits, carbon emissions and harm to human health.

In the area of strengthening G20 governance, France's plan to spread the burden of an ever-expanding

**The trading floor of the New York Stock Exchange. Reform and regulation of the world's markets will continue to be among the subjects discussed at the Cannes Summit**

agenda over its full year as chair by adding several more ministerial meetings has paid off most clearly in the contribution of the G20 agricultural ministers' meeting to the food security advances. However, the current global financial and economic crisis gathering force since the spring suggests that the value of preparing for the possibility of returning to the G20 summit's tradition set at its start of holding two summits a year.

#### **Demand for an additional summit**

The intention of the next host, Mexico, to hold its G20 summit in June 2012 opens up the option of a further gathering in the autumn. The long-standing desire of Russia and Turkey to host the 2012 summit suggests there would be sufficient supply of this critical component of G20 governance to meet the clear demand. No G20 secretariat of any form could substitute for this critical value of the leaders themselves taking personal ongoing charge of the design and delivery of G20 governance that the world so badly needs.

To strengthen global governance beyond the G20, the Cannes Summit should bolster the authority and resources of the Financial Stability Board – a badly needed step towards making this body as strong a pillar in its area of the international financial institutional firmament as the IMF is in its field. Bolder, broader advances initially proposed by France as chair, such as reforming the United Nations Security Council, will have to wait for another day.

Despite such second-level disappointments, by acting as a coordinated club to contain the current financial crisis, revive slowing economic growth and strengthen financial regulation and supervision, the G20 Cannes Summit will give ever more life to the ambitious promise that the Pittsburgh leaders proclaimed of making the G20 the permanent, premier forum for its members' international cooperation and, now, in its impact for the global community as a whole. ♦



A change in the regulatory climate could help to reduce volatility in the markets and promote economic growth

# Regulatory reform is the route to market recovery

*As the burden of regulation continues to stifle the growth in the global economy that previous G20 summits have sought to trigger, the US could lead the way with a tax-reform programme that will inspire other countries to follow suit*

**By** Robert Fauver,  
former G7/G8  
sherpa,  
United States

**W**hen leaders of the G20 countries gather on 3-4 November in Cannes, they will once again be meeting at a time of high uncertainty and worry regarding the macroeconomic outlook for the world economy.

Since their first meeting in 2008, each G20 summit has attempted to tackle critical financial market and macroeconomic problems.

The global economic and financial problems they have faced are in many ways unprecedented since the Second World War. While past G20 summit communiqués have issued lofty objectives, the actual results of the meetings have not met expectations.

Pledges by leaders have not been matched by their actions. As a result, the global economic and financial situation is once again unsettled, financial markets are vulnerable, foreign exchange markets are volatile, consumer confidence is weak, business investment has moved to the sidelines and unemployment remains stubbornly high.

The economic outlook for real growth, employment, inflation, exchange-rate stability and world trade remains weak and uncertain. Real growth rates slowed in all parts of the world economy over the second and third quarters of this year. As a result, global economic growth has slowed, too. Fears of a double-dip global recession have returned with a vengeance.



Growth in the US, which has been slowing throughout the year, is set to fall to below two per cent. European growth, meanwhile, is expected to be in the region of one per cent this year. It is only in developing countries that growth is expected to be solid. But there, too, it is slowing.

Equity markets in the US, Europe and Japan have been volatile and trending downwards over the summer months. Modest equity-market gains, recorded earlier in the year, have largely been lost. Foreign exchange markets have been subject to wide fluctuations and gyrations in recent months, with no clear trends in sight.

#### **European concerns**

While much attention has focused on the political debates over fiscal policy in the US in recent months, worry over European fiscal deficit control has led to wide fluctuations and liquidity problems in European bond markets. Concern about the financial future of several members of the EU has led to foreign exchange market problems and rising interest rates in European markets. There has even been speculation over whether the eurozone would comprise the same country members in the future as it does currently.

Restoring conditions that will foster sustainable, non-inflationary real growth should be the primary focus of the G20 at Cannes. With growth expected to hover around the level of one per cent in the advanced countries, the global economy is unable to create a sufficient number of new jobs to prevent the rise of unemployment levels around the world. While

**Ongoing economic and financial problems continue to bring turmoil to markets in New York and around the world**

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stronger real growth continues in the major developing countries, growing worries about a return of inflation has led to monetary tightening in a number of the non-advanced members of the G20.

As a result of the focus of recent financial and foreign exchange markets on fiscal imbalances in the advanced world, policy-makers have a considerably more limited selection of tools at their disposal than they usually have. By most measures, there is little room for new government deficit spending in Europe or the US.

Japan continues to require rebuilding funds in the aftermath of the natural disasters it suffered earlier this year. Moreover, after several years of monetary policy ease, very little scope remains for the further expansion of monetary policy in most advanced members of the G20. Monetary policy in Europe could be eased at the margin, but only modest gains should be expected.

Some would argue that reducing fiscal deficits in the current environment – particularly in the US – would be growth-positive because it would reduce capital market uncertainty and government crowding-out of private investment. Very few commentators in the US suggest that tax increases are appropriate for the present situation. Some argue that new stimulus spending is required, but the political climate probably precludes additional action of this kind. As a consequence, only marginal attention should be given to fiscal or monetary policy stimulus among the G20 members at Cannes.



Discussions among leaders should focus instead on the role of microeconomic policies in addressing current economic problems. A wide array of microeconomic issues would benefit from their attention. In most G20 members, labour-market rigidities add to the difficulty of reducing unemployment.

#### **The problem of unemployment**

In Europe in particular, long-term unemployment is a serious problem. Labour-market deregulation would increase flexibility in EU economies and lead to job creation. Wage and working-hours regulations, coupled with unfunded pension systems, hang over the efficiency of European markets. Few incentives exist to encourage the long-term unemployed to seek jobs.

Regulatory reform would benefit all G20 members. The economic cost of excessive government regulations is substantial. In some cases, simply complying with regulations is costly for small and medium-sized companies. In other cases, uncertainty over future regulatory change results in postponed investment decisions and slower job creation. For many, excessive regulations prevent market signals from being fully received by consumers and investors.

In some countries, especially the US, economic growth could be encouraged through major tax-system reforms. Over many years, the US federal tax system has become encumbered with tax preferences in response to political pressures, instead of developing economic efficiencies.

Restoring conditions that foster sustainable and non-inflationary real growth should be the primary focus of the G20

Various tax subsidies have blunted normal economic signals and have led to a misallocation of investment funds. A significant tax-reform programme could free up resources for more economic purposes and add flexibility to the domestic economy. Such efficiencies could encourage domestic growth.

Removing regulatory burdens to energy development in the US could also stimulate growth. Vast, undeveloped energy sources could be exploited rather quickly if the regulatory climate were eased. New natural gas deposits and shale fields could significantly reduce US demand for imported energy. Approval of the US-Canadian gas pipeline would create jobs and dependable natural gas supplies. Offshore oil and gas exploration would create new jobs and energy sources.

#### **Benefit to developing countries**

Regulatory reforms would also be of benefit to the developing-country members of the G20. Market inflexibilities – especially those that are related to international trade – prevent the flow of market signals to their domestic economies.

The Cannes communiqué should focus on old-fashioned cooperation and coordination, drawing on the experiences of the G5 and the G7. The G20 needs to deliver a manageable set of regulatory reforms that can be implemented across all members. The communiqué should include specific commitments in an appendix, so that investors and consumers can identify expected change and act accordingly. ♦

# The contribution of Liechtenstein to safeguarding the stability of the global finance system



**Klaus Tschütscher,  
Prime Minister of Liechtenstein**

**F**inancial stability is probably the most important precondition for the development of Liechtenstein as a financial centre. The Liechtenstein Government therefore sees it as its duty to go along with the measures for the stabilisation of the financial sector demanded by the G20 Group and to support international efforts to reform the global finance system. The authorities and the finance sector will accept their responsibility for safeguarding the stability of the financial centre Liechtenstein also in the future.

Liechtenstein is situated in the heart of Europe and has a well-diversified economy, the foundations of which are based on a stability-oriented budgetary policy, a robust industrial scenario and a sound financial sector. The creditworthiness of the country was very recently assessed once again by the rating agency Standard & Poor's as AAA. Liechtenstein is a member of the European Economic Area (EEA) and is consequently also part of the common European financial services market. Liechtenstein and its financial sector attach great importance to its recognition and acceptance as an up-and-coming financial centre.

Liechtenstein is one of the few states worldwide that did not require any supportive measures for the financial sector during the recent financial and economic crisis. The banks trading in Liechtenstein remained stable and fully functional at all times. The basis for this exceptional demonstration of stability are the sound equity and liquidity ratios of the banks, which lie far above the current and expected international minimum levels, and conservative business models. The Liechtenstein financial system is furthermore backed by a strong and independent supervisory authority and high regulatory standards.

**Liechtenstein is one of the few states that did not require supportive measures for the financial sector during the recent crisis. The country's banks remained stable and fully functional at all times**

The financial centre Liechtenstein has, however, major external dependencies. First, there is a dependence situation because the larger banks have foreign subsidiaries, while others are themselves subsidiaries of foreign companies. Second, Liechtenstein is bound to two legal systems – to Switzerland through the Customs and Currency Treaty and to the EEA – and these are not always compatible. Finally, the banking sector relies on the Swiss infrastructure, especially on the payment systems.

Liechtenstein's banking sector is exceptionally large as compared with the national economy of the country, which means that there is a close connection between the economic health of the banks and the prosperity of the country. At the end of 2009 the banking sector's assets exceeded the annual GDP of the country by about 10 times.

The Liechtenstein Government has established a group of experts to regularly examine and develop supervisory and regulatory standards. The Liechtenstein authorities also seek to improve international cooperation with other authorities. The Ministry of Finance and the Financial Market Supervisory Authority have recently signed a joint declaration of intent with countries of the European Union for the improvement of international crisis management.

For more than a decade, Liechtenstein has recognised that for the effective combating of money laundering regulatory measures and mechanisms are necessary that meet the highest international standards and must be implemented by authorities equipped with the appropriate powers and know-how. It is only through transparency and cooperation that we can counter the misuse of our financial centre. My country today stands for an uncompromising, zero-tolerance policy in the combating of money-laundering, white-collar and financial crimes. The effectiveness of our systems is acknowledged. With their experience and know-how, our authorities are supporting states where the corresponding systems are still being developed. Our law and practice is constantly and actively being adapted to the recent developments of the relevant standards.

Transparency and cooperation is also the central element in the taxation area by which the stability and reliability of the set of rules and regulations applying to the financial centre of Liechtenstein are assured. With the declaration of 12 March 2009, Liechtenstein has recognised the international standards on the exchange of tax information developed by the Organisation for Economic Co-operation and Development (OECD) and has committed itself to their implementation. We are pleased that the Global Forum on Transparency and Exchange of Information for Tax Purposes has recognised our measures and has assessed our legal framework as being very largely in conformity with the standard. The recommendations made by the Global Forum will be carefully examined by the Government, and the necessary measures will be initiated and carried out as a top priority.

Liechtenstein's capital, Vaduz,  
with a view of the castle



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## My country today stands for a zero-tolerance policy in the combating of money-laundering, white-collar and financial crimes. The effectiveness of our systems is acknowledged

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The Government intends to counter the worldwide problem of tax fraud and tax evasion by a network of tax cooperation treaties and by being a reliable partner for other states. We therefore not only support the justified interests of other states but also meet with such action the needs of the customers of the Liechtenstein financial centre. We are doing this, above all, by promoting the conclusion of comprehensive treaties that provide not only for an exchange of information on request according to the current standard, but also for a mechanism for the regularisation of assets untaxed in the past. At the same time, we want to agree mechanisms by which foreign clients can also in future meet their tax obligations in the state where they live.

An important and inalienable element of the new international Liechtenstein tax policy is to develop and sustain a network of double-taxation treaties. Only in this manner can we take full account of the interests and needs of investors for legal and planning certainty and also create the necessary stable business environment for our many renowned and internationally active

industrial companies. Effective regulations, which are of a model character and can therefore also make a contribution to worldwide financial stability, should not only consider the interests of the states concerned but must also take account of the interests of investors, i.e., of the customers, and of the finance institutes. This holistic view is often not yet fully apparent in national and international discussions of the subject. I hope that the Liechtenstein strategy will contribute to the approach taken by the international community for stability and transparency, and help it to be measurably effective and sustainable.

As a small state, Liechtenstein is making its contribution to the safeguarding of global stability by resolutely taking precautionary measures to assure the stability of its economy and financial system. I also undertake personally to make every effort to ensure that Liechtenstein in future is also recognised internationally as a reliable partner, and to support international cooperation in questions of stability.



# Towards growth and integration in East Asia

*The risks to continued economic development in China and Japan cast doubt over the prospects for closer ties between these regional powerhouses and the rest of the East Asian region, unless a new direction is set for the medium to long term*

By Naoki Tanaka,  
Centre for  
International  
Public Policy  
Studies

Stock exchange,  
Seoul. Korea is one  
of the three dialogue  
partners of ASEAN

The 10-member Association of Southeast Asian Nations (ASEAN) and its three dialogue partners of Japan, China and Korea (ASEAN+3) have created a regional mechanism for greater collaboration and calibration of policies, including foreign exchange measures. They seek to clarify their commitment towards a sustainable world economy and complement the role of G20 in managing financial and economic crises.

ASEAN was formed in 1967 by Thailand, Malaysia, Indonesia, Singapore, the Philippines and Brunei, with the aim of stemming the domino effect of successive states turning to communism in South East Asia. At the height of the Vietnam War in the 1960s, the United States increased its military involvement in South Vietnam to contain communist powers in the region, particularly China and North Vietnam.

Given that America's anti-communist strategy was a major factor behind the creation of ASEAN, the organisation's declared objective of achieving regional economic integration would not be a practical goal. Even

Japan initially did not expect ASEAN to play a significant role in accelerating regional integration.

But in the late 1990s, the three war-ravaged Indochina countries of Vietnam, Laos and Cambodia joined ASEAN, and Myanmar – long ruled by isolated and authoritarian military regimes – were also admitted, bringing the total number of member states to 10.

In 1997, the leaders of Japan, China and Korea, the three most influential economic powers in East Asia, were invited to the ASEAN summit, which marked the initiation of the ASEAN+3 process.

In its more than 40-year history, ASEAN has undergone considerable transformation and continuously moved forward in its integration efforts. Before their participation in ASEAN, Japan, China and Korea had never worked together to create a formal all-Asian forum for dialogue. It was only after Seoul hosted the Olympic Games in 1988 that it could play its new diplomatic cards against Beijing – Pyongyang's sole major ally and source of economic aid. In the 1990s, Korean firms stepped up expansion into China. At the same time, however, the problem of Pyongyang's

nuclear weapons programme came to the fore. The two countries had many issues that needed to be dealt with before their bilateral relations could finally be established.

In reality, Korea could not find even a chance to propose a regional integration initiative. Given its strong economic and military ties with the US, it might have considered that a regional partnership that excluded the US was nothing more than a pipe dream. Another obstacle was the negative response from major political forces within Korea that prioritised the reunification of the Korean peninsula.

Japan, for its part, remained cautious about any regional economic cooperation, owing to Asian antipathy towards its early 20th-century military aggression. As a forum for discussing common economic and security issues regularly, ASEAN+3 proved to be a good opportunity for Japan.

Early ASEAN leaders deftly pretended to know nothing about the complicated and sensitive relationships among Japan, China and Korea when they laid out the broad ASEAN+3 framework. When the external dimension of linking ASEAN with its East Asian partners arose, the principle of inclusiveness was accepted.

However, inclusiveness in East Asia was achieved more effectively through the establishment of supply chain management systems by several companies, rather than through the efforts of the ASEAN countries themselves. East Asian firms needed such a network after the G7's 1985 Plaza Accord led to a steep appreciation of the yen against the US dollar, resulting in an upward revaluation of the Korean won and the New Taiwan dollar.

Japanese firms focused on supply chain development mainly in ASEAN members. The extended supply networks came at a time when China's economic reforms and open-door policy were gathering momentum, which eventually allowed ASEAN to deepen its economic interactions with China. The impetus came just before the start of the 21st century, from those companies that had built their own supply chain networks there.

**Regional benefits of membership**

ASEAN+3 has obvious advantages compared with the G20, which is part of global economic governance. Thailand, Malaysia, Singapore and the Philippines – four ASEAN members currently enjoying robust economic growth – are not members of the G20.

ASEAN also has a significant meaning in the context of international regimes. Indonesia is home to the world's largest Muslim population. Malaysia positions itself as a premier Islamic financial hub. Indeed, Muslims in the region are steadily moving forward towards democracy, compared with Middle Eastern countries still shaken by uprisings against authoritarian regimes.

There is no question that ASEAN is keenly conscious of the G20's role on the world stage. The ASEAN+3 finance ministers in May invited their central bank governors to their next gathering in 2012. They agreed to strengthen financial safeguards, so the ASEAN+3 Macroeconomic Research Office (AMRO) can prevent a crisis through emergency loans. ASEAN is acting swiftly to institutionalise regional financial cooperation, as exemplified by the recent creation of AMRO for financial surveillance. Meanwhile a secretariat function is unlikely to be added to the G20.

The ASEAN region encompasses more than 500 million people – around 40 per cent of China's population – with a combined nominal gross domestic product (GDP) of \$1.8 trillion in 2010, or 40 per cent or so of China's GDP. The economy of ASEAN+3 countries comprises 30 per cent of the world economy.

Unsurprisingly, prospects for ASEAN+3 are clouded by looming risks to the Chinese and Japanese economies. The yawning divide between China's rich and poor may reduce its economic growth, while Japan

**Figure 1: China-centric East Asian economic prospects**

Economic status in China			
Options for East Asia		Progress in China's social integration	China's growing social gap
	Progress in global economic integration	Formation of large economic bloc involving India, Brazil, Russia, South Africa and so on	Deepening rural-urban dichotomy
	Dysfunctional system for global imbalance corrections	East Asia's lack of absorbing capability, linked to wider global economic imbalances	Proposals for global scheme to reduce instability in East Asia

**Figure 2: Japan-centric East Asian economic prospects**

Economic status in Japan			
Options for East Asia		Sustainability in Japan with distinctive features	Widening gap between multinational corporations and domestic-oriented Japanese firms
	Progress in global economic integration	Japan's contribution to building supply chain management systems in East Asia	Negative images of society in Japan, once a model country for modernisation
	Dysfunctional system for global imbalance corrections	Japan's loss of engaging capability owing to weakening leadership in East Asia	Japan's economic measures taken solely to help manufacturers survive as 'suppliers of parts' for the world economy

faces growing uncertainty about its ability to restore fiscal discipline. But the two countries will be able to determine a medium- and long-term direction for their economies by 2015, the target date for ASEAN's fully fledged economic integration.

With regard to East Asia as a whole, the important question is whether the region can correct its global imbalances on its own (see Figures 1 and 2).

The worst scenario would be the failure of a mechanism for redressing global imbalances in East Asia at a time when the social divide within China grows increasingly large. The focus of international debate would then shift towards creating a system to prevent instability in East Asia, with special attention to addressing the region where discipline seems scarce.

The most important problem facing Japan, however, is whether its corporate sector will accelerate its shift away from its domestic focus. The best-case scenario would be for Japan to regain fiscal discipline when East Asia is demonstrating its ability to cure imbalances on a global basis. Japanese firms need to compete to upgrade their supply chain management technology from a global perspective. Japan's worst-case scenario would be the failure to eliminate domestic companies that rely heavily on a partial optimisation approach for their survival, with economic measures taken solely to help manufacturers survive by supplying parts for the world economy.

Economic development in the emerging East Asian region has come closer to a crucial crossroads. ♦

“The worst scenario would be the failure of a mechanism to redress global balances in East Asia at a time when the social divide in China is growing larger”

# Enabling transformation in public sector financial management



Filippo Sabatini, Global Transaction Services Public Sector Head, Citi

Growing competitive pressures and shareholder scrutiny have been a catalyst for many private sector organisations to increase process efficiency, reduce costs, improve transparency and encourage greater accountability. With post-crisis fiscal pressures, changing public expectations, and the need to increase financial inclusion, local and national government entities are now under similar pressure to transform their financial management. In addition, a major focus for both G20 governments and the World Bank is the rollout of effective and transparent governance models, best practices in operational efficiency and centralisation and optimisation of treasury activities. A growing number of local and national governments globally are making huge strides in enhancing efficiency and control, reducing costs, increasing financial transparency and building public confidence. At Citi, we actively support government and public sector bodies through dedicated global and regional teams that deliver skills, expertise and innovative technology across a comprehensive spectrum of banking solutions.

## Global financial challenges

While many private sector organisations are already leveraging technology to revolutionise payments and collections, document management and identity verification, government entities and agencies often have less leverage to determine how payments and collections will be made, particularly in countries where financial exclusion is high. Furthermore, the scale of the challenge can be enormous, with huge volumes of often disparate transactions, from taxes and utility payments to social benefits and salaries.

Paper and cash remain the two greatest barriers to achieving efficient financial processes. The time and cost required to transport and issue cash payments is significant, the risk of fraud, error or theft can be high and there is little auditability over payments. Cheque and voucher payments also compromise government agencies' operational efficiency and working capital objectives as they are costly and time-consuming to produce, the value date is unpredictable and auditability is low.

## Digitisation for cost and efficiency

As the use of electronic banking systems by citizens and businesses becomes more prevalent, national financial infrastructures are developing, and electronic payment options are improving, public sector bodies are now poised to undertake a similar transformation to their private sector

peers. Use of automated payments, particularly when integrated with sophisticated document management and identity management systems, enables governments globally to transform their financial management to improve efficiency, security, convenience, cost control and stakeholder confidence.

For example, prepaid cards and mobile technology offer huge opportunities. Prepaid cards are prefunded cards – either physical or virtual – with the value stored on a server-based electronic account as opposed to being linked to a bank account. Cards can be used for one-off amounts (such as tax rebates, grants or student loan payments) or regular payments (such as employee expenses, pensions, social security or benefit payments).

The payment process is highly efficient, cost-effective, secure and transparent, with complete auditability. Recipients can use the cards to pay for goods or services or to withdraw cash, in the same way as debit or credit cards. Cash is held securely, unlike cash payments; with immediate access to funds, unlike cheques; and cards are supported with telephone assistance, online expenditure tracking, and email and text message alerts.

## Automating supplier payments

Other forms of payments can also be managed successfully using cards, such as paying suppliers using procurement cards (also known as purchasing or p-cards). These cards can be used for any value of payment sizes, from petty cash through to large-scale procurement. Payment thresholds, suppliers and spend type can all be defined, ensuring compliance with internal policies and streamlining processes considerably. Payment terms are also predictable, which has a significant advantage for working capital and cash flow forecasting, with the potential to generate rebates. Emergency procurement cards can also bring crucial benefits during crisis situations, enabling governments to respond quickly with rapid procurement of supplies and services without compromising financial transparency or integrity.

For example, Citi implemented a p-card solution with customised reporting and exceptions modelling for a US government department that previously had more than 45,000 supplier accounts that were being paid manually, creating inefficiency, excess costs and a loss of control. Visibility and control over expenditure increased dramatically, while costs were significantly reduced. Suppliers also benefited from timely payment and the ability to integrate collection data into their own systems. As a result of this initiative, the department was awarded the prestigious Alexander Hamilton Award.

## Pioneering mobile technology

Increasingly, governments and citizens can leverage mobile telephony as a financial infrastructure. In cities, mobile technology enables low-value payments such as parking charges, public transport costs, and so on, to be automated. In countries with a high unbanked population, the opportunities are even greater. In Kenya, for example, more than 60 per cent of adults have



mobile phones, but fewer than 20 per cent have bank accounts. M-PESA is a mobile money service that delivers mobile electronic payments and mobile wallet capabilities across the country. As the first bank globally to provide mobile payments and store-of-value solutions, we worked with Vodafone's Kenyan affiliate Safaricom to use M-PESA's platform as a payment and collection channel for Citi's corporate and public sector clients in Kenya.

Around 60 per cent of payments nationally are now transacted through M-PESA, and we are rolling out similar solutions in other parts of Africa. Payees benefit from secure, immediate access to cash stored on the card; retailers no longer have to hold cash or wait for cheques to clear; while government agencies can make payments directly through their electronic banking system to mobile phones, in the same way as paying to a bank account.

#### **Efficiency in document processing**

One of the advantages of mobile payments is the removal of paper from the payment process. But creating and processing documentation, often linked to a financial transaction or sensitive citizen information, remains an essential government role. Governments and their agencies are the largest creators and processors of documents in the world. Increasingly, governments are seeking support from financial institutions such as Citi to provide comprehensive document management services, to reduce costs, enhance efficiency, security and transparency, and create a highly positive experience for citizens and other stakeholders.

For example, since 2005, Citi has processed all US passport applications, totalling 13 million each year. Advanced technology and automated techniques, such as intelligent character recognition and automated load balancing to remote operators, have resulted in significant efficiency improvements through greater automation and reduction in manual input, and a 50 per cent increase in capacity.

#### **Good governance**

Improvements in transaction and document management have operational and cost benefits, but there are also significant advantages in supporting governance objectives. Transparency, data integrity and auditability are intrinsic benefits to automated payment and document management solutions, based on a robust and secure platform. By demonstrating transparent financial processes and decision-making, public sector bodies can build public trust and are in a better position to manage and plan their financial requirements.

While the examples in this article only touch the surface of the opportunities for transformation that are now becoming a reality, they illustrate the huge potential for urban and rural local authorities, national governments and their agencies to revolutionise the way they interact with citizens to deliver universal benefits, by reducing costs, enhancing governance, and increasing efficiency, security and convenience. From cashless hospitals in Mexico to electronic tax and fee payments in Mumbai and state-of-the-art asset management in Minnesota, Citi is helping to create the cities, states and countries of the future, with the transaction, document and identity management tools that benefit citizens and enhance financial transparency.



# China comes to Cannes with an open mind

*China is playing an increasing role in the international economy and the financial markets, but it faces challenges following a period of rapid growth. The country needs to rebalance its own economy and become more involved in global reform*

By Yu Yongding,  
Chinese Academy  
of Social Sciences

**D**espite the sudden surge in negative comments by foreign pundits, the Chinese economy has continued to forge ahead. In the second of quarter of 2011, it registered a growth rate of 9.5 per cent. Inflation fell from 6.5 per cent in July to 6.2 per cent in August, the first decrease after consecutive increases for 12 months. The consensus among Chinese economists is that, in 2011, the Chinese economy will grow at a rate of more than nine per cent and inflation will fall below six per cent. China is not likely to suffer either a hard landing or runaway inflation in the foreseeable future.

Of course, all is not well. China's growth and economic stability face serious challenges. Any misstep will surely derail the high-speed train that is the Chinese economy. In the short run, the most serious threat is still inflation. The monetary overhang left by the excessive monetary expansion in the wake of the 2008 Lehman Brothers fiasco has yet to run its course. With the ratio of money supply (M2) to gross domestic product (GDP) approaching 190 per cent, the economy remains abundant with liquidity, evident in the ubiquitous speculative fever on houses and antiques, wine and rare stamps.

Rises in commodity prices also contributed significantly to China's inflation in the first half of 2011. Although the pressure of imported inflation has lessened, a rebound in commodity prices caused by the further loosening of

monetary policy by the US Federal Reserve still worries China. In recent years, the growth rates of wages and salaries have been accelerating strongly, surpassing income growth. Wage-push inflation will likely become a pertinent feature of the Chinese economy. Moreover, although the government has achieved some success in reining in investment – especially in real-estate development – the growth rate of fixed-asset investments remains high and can return to a higher level, generating inflationary pressure on the economy.

## **Liquidity shortages for business**

It appears that the Chinese government will not reprioritise the objectives of its macroeconomic policy until inflation falls below five per cent. However, as a result of the abrupt monetary tightening since late 2009, small and medium-sized enterprises, which contribute almost half of China's GDP and more than half of its employment, suffer from increasingly acute liquidity shortages and a credit crunch. Consequently, informal financial intermediation by illegal financial institutions has mushroomed, and interest rates in informal financial markets have gone through the roof.

The recent collapse of some informal financial institutions have cast a shadow on the stability of China's financial system. To make the situation worse, thanks to the European sovereign debt crisis and the faltering US



economy, China's exports may take a hard hit, which in turn will pull down China's growth substantially. The government has been walking a tightrope in its effort to control housing prices. For many years, investment in real-estate development accounted for a quarter of total fixed-asset investment and more than 10 per cent of GDP. The consequences of a collapse in real-estate investment on growth will surely be serious.

However, due to China's strong fiscal position, whatever happens, China should still be able to reignite the economy, although on a smaller scale than in 2008-09.

In short, unless the government shoots itself in foot by over-tightening its monetary policy and allowing the renminbi to be fully convertible too early, there is no reason for the economy not to maintain its growth momentum while bringing inflation under control in the next few years.

### Facing enduring problems

The real challenges facing China are medium- and long-term structural problems. The long list of those problems includes overdependence on investment and exports for growth, lack of innovation and creativity, the widening gaps in income distribution, serious pollution and a reckless use of resources. More fundamentally, progress in institutional reform is lacklustre, attributable to China's gradualist approach to reform.

China has been accused of running a large current-account surplus. But while it has exported large amounts of capital via a current-account surplus – mostly invested in US government securities – it has imported an equally large amount of capital, mainly in foreign direct investment (FDI). Instead of investing savings in domestic projects with high returns, China invests heavily in low-return US government securities.

Due to its highly concessional FDI-attraction policy over the past 30 years, as a result of the fierce competition among local governments, local investments are crowded out from high-return projects and must settle for less profitable ones. Facilitated by China's export-promotion policy, the excess resources – thanks to FDI crowding-out, as well as low consumption – translate into a current-account surplus, which is invested in US government securities.

Rebalancing the Chinese economy is not just a simple matter of exchange-rate policy. It involves a comprehensive adjustment of a policy regime consolidated over the past three decades. The adjustment will inevitably encounter fierce resistance from various interest groups that have

Checking on stock prices in Shanghai. China's economy faces challenges following its recent boom

established themselves during the drawn-out process of gradual reforms over 30 years. But China must make the necessary adjustment and shift its growth paradigm from dependence on investment and exports to balanced growth based on innovation and creativity.

As the world's second largest economy, the largest trading country and the largest reserve-holding country in the world, China plays an important role in reviving the growth momentum of the global economy and stabilising international financial markets. First, China should put its house in order and lay a solid foundation for sustainable growth.

Second, China should redouble its efforts in rebalancing its economy. It should dismantle its trade-promotion and FDI-attraction policies, including making the exchange rate more flexible and further liberalising the financial services sector – although China still has far to go in order to make the renminbi fully convertible.

Third, China is keen on lending a helping hand to European countries. The European Union is China's largest trade partner. It is in China's self-interests to assist the EU in overcoming its sovereign debt crisis. However, the squabbling within the eurozone makes China hesitant to get involved.

### Reshaping the monetary system

Fourth, China should be more active in the reform of the international monetary system. The current system is flawed by a fundamental contradiction: a national currency – the US dollar – serves as the key international reserve currency. It is one of the most important conditions for the global imbalances. The dramatic deterioration of the US fiscal position and the faltering recovery of the US economy may make the temptation for the United States to print more money irresistible. Retaliatory measures by emerging markets may prove inevitable, escalating political and trade tensions. The G20 and the International Monetary Fund must prevent this nightmare scenario from coming true. A supranational currency along the lines of the special drawing rights should be contemplated.

In a globalised world, while conflicts of interest among countries or groups of countries are unavoidable, common interests dominate. Therefore, politicians and technocrats from different countries should sit at the table to negotiate bargains both bilaterally and multilaterally. The G20 has provided a good platform for multilateral bargains. Surely, in Cannes this coming November, China will come to listen and to be heard with an open mind. ♦

Rebalancing the Chinese economy involves a comprehensive adjustment of a policy regime consolidated over the past three decades



# What's next?

*The future of the global economy rests with appropriate and decisive steps being taken to improve stability and confidence, not least in the United States and the eurozone, where domestic politics are proving a hindrance to concerted action*

**By** David Hale, chair, David Hale Global Economics; co-editor, *What's Next? Unconventional Wisdom on the Future of the World Economy*

**P**olitical decisions play an increasingly large role in determining the economic prospects of countries and regions across the world. This trend was one of the primary themes explored recently in *What's Next?*

*Unconventional Wisdom on the Future of the World Economy*, which I co-edited with Lyric Hughes Hale, and, if anything, this trend has become more pronounced since the book was published. One of the major risks now confronting the global economy is political uncertainty. There are major decisions pending in the United States, Europe and China that will determine whether 2012 will be a year of modest growth or of renewed recession.

The big uncertainties in the US centre on fiscal policy. The budgets published by the Obama administration this year project significant fiscal drag for 2012. There could be tax increases equal to 2.2 per cent of gross domestic product (GDP) as the reductions in payroll and business taxes enacted last December expire. The stimulus programme enacted in 2009 is also unravelling, and there could be spending cuts equal to 1.7 per cent of GDP.

One of the biggest declines will be in federal aid to state and local governments. It will fall from \$59 billion in the fiscal year that ended in July 2011 to only \$6 billion. As

most states still run large fiscal deficits, the reduced federal aid could force them to lay off additional workers. States shed over 150,000 jobs during the first half of 2011, and could easily shed another 250,000 during the year ahead.

#### **Proposals for US fiscal relief**

The Obama administration recognises the dangers posed by fiscal drag. In September, the US president asked Congress to approve a \$447 billion fiscal relief programme for 2012. He asked Congress to extend the payroll tax cuts, offer a plan to target small businesses, provide \$35 billion of new aid to state and local governments, extend unemployment benefits for another year, and undertake up to \$90 billion of infrastructure spending.

The White House is hopeful that the Republicans will agree to extend the payroll tax cuts and unemployment benefits, but it is sceptical that they will accept the proposals for aid to subfederal governments and infrastructure spending. If the White House is correct, there will be nearly \$300 billion of fiscal relief next year. Such an adjustment could help to sustain growth at two per cent or higher during the first half of 2012. Without relief, the tax increases could drive the economy's growth rate to one per cent or less.



Europe is preoccupied with the problems of highly indebted countries such as Greece, Portugal, Ireland, Italy and Spain. It has offered a rescue programme to Greece to avoid default, but the markets are discounting the possibility that Greece will pursue debt restructuring equal to as much as 70 per cent of the value of the bonds. There is now much debate over how Europe can prevent a Greek default from producing contagion that would drive bond yields significantly higher in other vulnerable countries.

The eurozone created the European Financial Stability Facility (EFSF) at the time of the first Greek rescue in 2010. It helped to finance the rescue programmes for Ireland and Portugal earlier this year. The eurozone countries recently agreed to increase the EFSF to €440 billion and to give the facility new powers, such as intervening in bond markets and recapitalising troubled banks. The International Monetary Fund (IMF) has speculated that eurozone banks may need more than €150 billion of new capital.

#### Concerns over euro stability funding

Many analysts are concerned that the EFSF will not have adequate resources to protect Italy and Spain if they suffer further large interest-rate increases. The US has proposed that Europe vastly expands the size of the EFSF to enhance its credibility with investors, but there is no consensus about how to finance such an expansion. Some think tanks have proposed that the EFSF establishes a 'bank and borrow' from the European Central Bank (ECB). Others would simply have the EFSF borrow in the market.

The Germans are concerned that a large increase would increase their own debt-to-GDP ratio and jeopardise their triple-A credit rating. ECB governor Jean-Claude Trichet has opposed the bank taking on the role of lender of last resort, despite the fact that it has purchased more than €50 billion of Italian and Spanish debt since early August. This impasse may not be resolved until market events make it necessary for the EFSF to intervene on a large scale. The Germans want to preserve the monetary union, so they will be flexible when there is no alternative. But their unwillingness to lead the markets has left everyone apprehensive and has adversely affected business confidence in the eurozone.

The prospects for major currencies are uncertain while the scope and scale of coordinated rescue measures are still being considered

“The G20 members will not be able to change the political dynamics that stand in the way of positive action”

There have recently been sharp declines in eurozone purchasing-agent surveys, suggesting a possible mini-recession during the next two quarters. The eurozone finance ministers would be able to bolster confidence if they could agree on a programme to protect Europe's banks and financial markets from a full Greek default.

China has been pursuing a tighter monetary policy in the past year in order to resist higher inflation and rising property values. It has raised interest rates five times and bank-reserve requirements 11 times. It also has imposed numerous restrictions on property lending. The policy has not prevented inflation from rising to 6.5 per cent, but it has created a credit crunch for small and medium-sized enterprises while depressing property values and sales.

China will be reluctant to ease monetary policy until inflation declines, but the economy will be vulnerable to a downturn in global trade. If the US and Europe have a recession, falling exports could reduce China's growth rate to six per cent from 9.5 per cent this year. China should therefore prepare contingency plans for fiscal and monetary stimulus in the event that a recession occurs in its two major export markets. It contributed significantly to the global recovery from the 2008-09 recession. As its ratios of government and private-sector debt to GDP are very modest, China has the potential to play this role again.

#### Lingering uncertainties

There will be no simple way to resolve the policy uncertainties now gripping the US and Europe. The American political system has deep partisan divisions that are causing policy gridlock, which may not be resolved until the 2012 presidential election. The Germans are reluctant to create a European fiscal union to support the monetary union. There is a broad awareness of the policy changes that will have to occur, but a natural reluctance to accept them. The G20 members can attempt to address these issues at their summit in Cannes, but they will not be able to change the political dynamics in the United States and Germany that stand in the way of positive action. The uncertainties will therefore linger, inhibiting business decision-making and reinforcing the downturn occurring in the largest G20 economies. ♦



## Malta: a centre of excellence and stability



**Tonio Fenech, Minister of Finance, the Economy and Investment**

Striving for excellence and achieving stability have been the two key growth factors that have supported Malta's development over the past years.

Strategically located in the centre of the Mediterranean, 93km from Sicily and 288km from North Africa, Malta has over recent years transformed itself into an innovation-driven economy that seeks to compete amongst the world's best in a number of areas where it benefits from a significant comparative advantage. Malta is indeed the smallest European Union and eurozone member and, perhaps, best known as a popular tourist destination with lots of history and culture to offer. However, over the past few years it has developed its economy into a vibrant, varied economy, hosting financial, IT, gaming, high-value-added manufacturing and logistics-related companies of international repute.

Despite the international crisis, Malta and its economy have demonstrated resilience and soundness, managing to continue to sustain above EU-average growth rates and significantly lower levels of unemployment. Indeed, our economy kept growing, registering a gross domestic product (GDP) increase of 3.2 per cent last year, a momentum which was sustained this year with growth rates reaching 2.3 per cent and 2.8 per cent in the first two quarters. The reason behind this success is the ability and willingness to transform ourselves and branch into new areas, a direct effect of the restructuring and transformation process that the economy has undergone in the past few years.

### Vision 2015 – Vision for Excellence

We believe that the Maltese economy can retain and improve its position in the face of the ongoing challenges by attracting and supporting niches of activities that have the potential to create high-value-added activities. Our long-term strategy – embodied in our Vision for 2015 and beyond – is built on the sound principle of aspiring towards excellence. We see and position ourselves as your partner to expand your operations. This Vision highlights diverse sectors, from the innovative sector of creative industries, the pillars of financial services and tourism, high-value-added manufacturing, the provision of international educational services, life sciences and health-related services, as well as transport and logistics. These sectors form the basis of our long-term vision, which is built around the potential of the



island and on the results registered so far by our economy. They are the areas in which we believe that we do have a competitive advantage and thus have the potential to excel in.

Some have questioned the motivation behind the decision to identify and invest not in one or two key sectors to achieve growth and excellence, but rather seven. Indeed, we believe that the recent experience of the international crisis has taught us the benefits of diversification – a decision that has made the country less prone to sector-specific shocks and the benefits of diversification.

Beyond the Vision, we offer resources. Most importantly, the human resource. We have invested enthusiastically in our educational and training system, which churns out qualified professionals targeted to address industry's needs. Our workforce is highly educated, productive, adaptable and multilingual. These attributes are regularly highlighted by foreign investors as the main reasons driving their decision to invest in Malta.

Indeed, foreign direct investment (FDI) has supported Malta's positive economic performance. FDI flows amounted to €792.1 million in 2010, an increase of €250.6 million over the previous year. A number of foreign businesses have not only expanded their operations on the island, but have brought over vertical aspects of their businesses, including pension management, call centres and other back-office work. Excellent IT systems – as well frequent air and sea links to major locations in Europe, North Africa, Middle East and Asia – put Malta closer to the needs of businesses.

Malta offers a proactive business environment, and the legal structure in Malta is based on the civil-law pattern of continental Europe, with an administrative and fiscal legislation based on British laws. EU, eurozone and Schengen membership, relatively competitive costs, a highly efficient OECD-approved tax model and an advanced telecoms infrastructure have also helped Malta to secure further investment and international recognition.

Despite this strong sense of affinity with its European neighbours, Malta's location allows it to serve as a bridge to the emerging economies in the Mediterranean region. Malta's humanitarian and logistical role during the crisis in Libya has been hailed as a success worldwide. The potential there is unlimited. Investment from Europe in the Mediterranean region has gone up from €2.5 billion in 1995 to over €7 billion in 2010. Imports and exports in Mediterranean countries have increased by 39 per cent and 52 per cent respectively during last five years. Despite this growth, the market size of the Mediterranean is set to expand by over 50 per cent by the year 2025. Adding to this, trade and investment liberalisation are under way in many North African and other Mediterranean states. Malta is perfectly located to assist in your growth.

On top of all this, Malta is a great place to be. Its history is vast and spans more than 10,000 years, while its culture is diverse, with influences inherited from foreign rulers of the country. The beauty of its natural scenery is complemented by almost year-round sunshine. No wonder our climate was ranked first in the International Living survey.

With this in mind, we invite you to be part of our success, because your success is the basis of our country's success, as our economic history has shown.

# Connecting to people: tackling the massive global jobs deficit

*As unemployment rates rise around the globe, especially among young people, and wages continue to stagnate, the world is looking towards the G20 leaders to cooperate on ways to address these problems and their effects on society*

**By** Juan Somavía,  
director general,  
International  
Labour  
Organization

**T**he G20 leaders will meet in Cannes at a time of great uncertainty and high risks, for people, jobs and the world economy. Expectations of the G20 are running high.

Around the world, some 200 million people are unemployed. Youth unemployment is around 20 per cent, two to three times the adult rate.

Long-term unemployment is on the rise in many countries, destroying skills and motivation. In many economies, workers' real wages were stagnant before the crisis and are now falling. Vulnerable employment and informality have not receded and make up a large share of total employment.

Sixty-one million people, less than one per cent of the world's population, have the same income as 3.5 billion people, 50 per cent of the world's population. In most advanced and emerging countries, income inequalities are widening, with a disproportionate share of income going to the top 10 per cent of income earners. This is challenging the foundations of social cohesion in many countries. It is weakening aggregate demand and the financing of growth, and leading countries to an over-reliance on export-led development, further widening internal imbalances.

At the end of 2010 and in early 2011, the world economy was growing at a pace that was sustaining a rate of growth of employment of around one per cent, roughly the growth in the working-age population. This halted the increase in the number of unemployed, but was not sufficient to reverse the trend and bring unemployment down by any significant measure. A rate of growth in world employment of 1.3 per cent is required in order to recover by 2015 the ratio of pre-crisis employment to working-age population, closing the current jobs gap and absorbing new entrants into the labour market.

However, the current global economic slowdown now implies employment is growing at only 0.8 per cent, less than the increase in the labour force. This can only worsen the chances of young women and men finding decent employment. The world is not on track to generate the 400 million new jobs needed in the next decade just to keep up with the increase in the working-age population.

## **Restoring people's confidence in governments**

G20 leaders have a tremendous responsibility. Levels of anxiety, anguish and anger are running high in many countries. Many people are looking to the leaders to turn around the drift back into crisis.

There is much talk of restoring the confidence of financial markets. It is even more important and urgent to regain the trust of citizens in governments' ability to make public policies for the benefit of working families and their communities, and for business and entrepreneurs of the real economy.

Emerging and developing countries have weathered the crisis better than the developed world. Most resisted the advice to lighten regulation of the finance sector and kept in place rules that prevented some of the worst excesses experienced in advanced economies. The absence of a debilitating private- and public-debt hangover in most of the largest developing countries has enabled recovery to take hold more strongly. But a slowdown in the developed world will inevitably affect the pace of this pick-up, together with inflationary and exchange-rate pressures.

Under these conditions, decisive global cooperation is urgently required in order to agree on a convergence of macroeconomic, employment and labour market policies that promote, in the near term, high levels of productive investment and job creation in sustainable enterprises of the real economy.

I strongly endorse the conclusions drawn by the G20 employment and labour ministers at their meeting on 26-27 September in Paris. The G20 committed "to promoting policies and institutions that enhance the job content of economic growth and contribute to create the quality jobs our people need".

## **Coordinated action for jobs-rich growth**

The Cannes Summit must mark a decisive breakthrough in coordinated action for jobs-rich growth across several interconnected policy fields. Full employment should be a central target of economic policies. Today, inflation rates, balanced budgets and public-debt levels are targeted – but not job creation. There should be action taken to achieve high levels of employment.

Multilateral agreements to reform and repair the financial sector, as called for by the G20 three years ago, must be accelerated and deepened in order to restore stability and confidence in financial markets. A reconstructed financial system servicing the real economy is vital.

Mobilising domestic and international development finance is critical for increasing investment in the economic and social capital of the least-developed countries.

Investment in the real economy to grow enterprises and employment is a priority: infrastructure, green energy and



the greening of production and transport are needed to create and sustain jobs.

The easing of credit conditions for small enterprises is an urgent requirement and a direct way to sustain investment and jobs. Credit facilities can take the form of guarantees, with some or all of a loan backed by government support. Part of the liquidity provided to banks could be earmarked for support to small businesses. Credit mediators to examine the requests of small businesses could be introduced.

Productivity increases have outstripped wages in many countries, contributing to income inequality and a falling wage share, thus widening internal and external imbalances. Labour standards, collective bargaining and minimum-wage systems should be strengthened to better align wages with productivity gains and sustain demand and income-led growth.

Public policies are needed to help businesses to resume hiring or to retain workers. Temporary reductions in payroll taxes paid by employers and workers have proven to be effective in this regard.

A strategy of socially responsible fiscal consolidation is needed to ensure that measures to introduce more stability in financial markets are not at the cost of social instability. Social protection for the vulnerable should be guaranteed; unemployed persons should have access to unemployment benefits, as well as orientation and training to facilitate job search. Tax reforms should ensure that the burdens of medium-term fiscal consolidation are shared fairly. Loopholes and boltholes to tax havens must be closed. Governments should actively consider a financial activities or transactions tax.

Emerging and developing countries will want to continue to rebalance their economies away from excessive

Young jobseekers in the Philippines look for vacancies as they queue during a job fair. Youth unemployment has become a widespread global problem

“ The Cannes Summit must mark a decisive breakthrough in coordinated action for jobs-rich growth across several interconnected policy fields ”

reliance on exports and towards domestic consumption. An important focus is more evenly distributed wage earnings and the gradual establishment of a social protection floor. The social protection floor approach is advocated by Michelle Bachelet, former president of Chile, in her report to the United Nations and the G20, showing the feasibility of measures to protect and empower the most vulnerable while sustaining demand.

These policy choices are the building blocks for patterns of growth that can yield social justice through the realisation of decent work for all: action to promote enterprise development and employment creation, to extend social protection, to engage in social dialogue, and to respect fundamental principles and rights at work. There is no better way to restore people's confidence and connect with them than by responding to the universal aspiration for a decent job. ♦

Intesa Sanpaolo is among the top banking groups in the euro zone and the leading banking group in Italy with over **19.6 million clients** served by **7,700 branches** and present in over **40 countries**.

Corrado Passera  
Chief Executive Officer  
Intesa Sanpaolo

“ **To create and sustain prosperity in Europe, we need to work together to harness innovation, boost growth, and create jobs.**

Working for years on an international scale, we strongly believe in innovation as a key strategic factor, and in technology as an enabler of economic development. That's why we decided to establish ourselves as a European catalyst, connecting the dots of innovation scattered throughout the ecosystem. That's why we created the **Intesa Sanpaolo Start-Up Initiative**. ”

#### OUR COMMITMENT TO JOB CREATION

Innovation is a key source of new jobs. Our key commitments include seed and later-stage VC funds, preferred loan facilities for R&D, advisory functions to accessing EU support funds, and various other activities.

#### THE INTESA SANPAOLO START-UP INITIATIVE

is one of our projects for the creation of jobs by identifying and coaching promising start-ups and connecting them, at key global events, to potential investors and other players in order to meet, obtain support and make deals. Over the last two years, we accomplished the following:

**1,000+** **START-UPS SCREENED** to identify the most suitable candidates for coaching and for investors to meet

**200+** **START-UPS COACHED** to strengthen their management and presentation skills

**160+** **FINALISTS PITCHED** their ideas at international roadshows

**25** **INTERNATIONAL EVENTS** held in Italy, in other European countries and in the United States of America

**7** **TECHNOLOGIES COVERED:** BIOTECH, CLEANTECH, ICT AND WEB, NANOTECH AND MATERIALS, SOCIAL VENTURES, ELECTROMECHANICS, HEALTHCARE

#### A UNIQUE ECOSYSTEM UNDER ONE ROOF:

start-ups, investors, companies and other partners such as universities and incubators meet for deals, services, tech transfers and other forms of cooperation

**HUNDREDS OF LEADS FACILITATED:** the Start-Up Initiative enables key stakeholders to meet and to develop commercial, service and investment deals

INTESA SANPAOLO  
**START  
UP**  
INITIATIVE

**Think Big  
Start Small  
Scale Fast**

# How can we create growth and jobs together?

## Act Now Do Better Grow Together

### A PROVEN MODEL

The Intesa Sanpaolo Start-Up Initiative has facilitated investments in entrepreneurs to reduce investors' risk exposure, and to act as a platform from which to work with other players.

### A SCALABLE PLATFORM

To reinforce the impact of innovation, we continue to scale our commitment and strengthen the Intesa Sanpaolo Start-Up Initiative network both at existing and new locations in Europe and beyond.



### SOLUTIONS NEED THE CONTRIBUTION OF MANY

As we face the challenge of building lasting prosperity, we become humbly aware that just as the challenge is not the result of the actions of a selected few, the right solutions will also need the contribution of many. If you wish to help building the prosperity of future generations, we would like to hear from you.

To know more about the Start-Up Initiative, visit [www.startupinitiative.com](http://www.startupinitiative.com)

To join forces or discuss working on similar growth and job-creation partnerships, email [startup@intesasanpaolo.com](mailto:startup@intesasanpaolo.com)

# Young entrepreneurs should be a G20 priority as drivers of global growth

*While large companies have been shedding jobs during the global downturn, many young entrepreneurs have taken the risk of launching their own businesses to create employment. Such enterprise needs to spread worldwide to aid recovery*

**By** Vivian Prokop, founding chair, G20 Young Entrepreneur Alliance, and CEO, Canadian Youth Business Foundation; Grégoire Senhilhes, president, Les Journées de l'entrepreneur, France; and Francisco Ruiz, president, Coparmex Young Entrepreneurs, Mexico

**A**s the G20 leaders grapple with the continuing aftershocks of the 2008 financial crisis, entrepreneurship has proven to be vital for building a stronger economy globally, rather than simply a topic for theoretical reflection.

Issues of youth unemployment and entrepreneurship are destined to grow urgent on the global economic agenda. Even in good times, young people face relatively high unemployment and are the first and worst to be hit during any downturn. Those without jobs or prospects represent more than a loss of economic potential. They remain trapped in poor value-adding jobs, become easy targets for recruitment into criminal activity and the underground economy, and see no hope or reason to believe in society. Job creation strategies aimed at younger generations should be central to any economic recovery strategy.

Economic recovery will only happen thanks to a long-term vision and political will to place entrepreneurship at the heart of 21st-century capitalism.

Youth entrepreneurship must be a priority for world leaders because its importance in fostering growth is undeniable. In France alone, where this year's G20 summit takes place, small and medium-sized enterprises have created 1.8 million jobs over the past 15 years; over the same period, the country's 500 largest companies have cut 300,000 jobs. As average youth unemployment across the members of the Organisation for Economic Co-operation and Development (OECD) is expected to hit 18 per cent in 2011 and will drop only slightly next year, enabling more young people to launch new businesses is essential.

## Need for a worldwide plan

A successful strategy requires a sound appreciation of the issues that matter to young entrepreneurs, a coordinated plan to reinforce optimism, and initiatives that support entrepreneurial attitudes and activities. In order to enable large numbers of entrepreneurs to create jobs, innovate, invest, grow their businesses and contribute to stronger economies, a global entrepreneurial ecosystem is needed.

A major step in this process was the inaugural G20 Young Entrepreneur summit (G20 YES) in 2010, which started in Canada following the financial crisis. Despite the recession, young people were willing to take risks in creating employment for themselves and others. Demands for support from the Canadian Youth Business Foundation (CYBF) began to surge. The Canadian government moved

to reinforce CYBF's capacity, contributing \$10 million (an amount that has since grown to \$40 million). This enabled CYBF to fund a record number of start-ups (more than 600 in 2010) while maintaining an impressive 94 per cent success rate throughout the recession. In the same year, CYBF was inundated with requests for advice from overseas.

Since Canada was hosting the 2010 G20 summit, CYBF seized the opportunity to give entrepreneurship a higher profile in the global discussion about how to reinforce economic recovery. The first G20 YES was born, bringing more than 200 young entrepreneurs and supporters to Toronto in the days preceding the leaders' meeting.

The 2010 G20 YES produced a resounding consensus on five key issues: improving access to financing for people



with little experience and few assets, coordinating support for young entrepreneurs across the public and private sectors, fostering a more entrepreneurial culture, shaping regulation and tax policy in ways that encourage business start-up and growth, and enabling young people to acquire the knowledge and skills to succeed as entrepreneurs. A resulting communiqué was presented to Canada's minister of industry, Tony Clement, on behalf of the G20 leaders, and again a day later to top business leaders and finance ministers from across the G20 at the B20 summit.

“Youth entrepreneurship must be a priority because its importance in fostering growth is undeniable”

The second important outcome of this inaugural G20 YES was the decision to create a continuing vehicle for addressing entrepreneurship issues within the context of the G20. The G20 Young Entrepreneurs' Alliance (G20 YEA) was formed to create a worldwide movement with the aim of highlighting to young people the vital role played by entrepreneurs in countries' growth, innovation, job creation and competitiveness. The G20 YEA is a collective of leading entrepreneurially minded organizations representing the G20 countries. The G20 YEA Incheon Charter, formulated in November 2010 in Korea, declared a joint commitment to work within the official G20 process to raise awareness and drive policies that will help young people start and grow businesses.

The G20 YEA is organising the 2011 G20 YES in the south of France under the theme 'Entrepreneur = growth = new jobs'. It is hosted by French G20 YEA member

During the 2010 G20 Young Entrepreneur Summit in Toronto, key policy actions were identified for G20 leaders to undertake in support of young entrepreneurs

Les Journées de l'Entrepreneur and will take place from 31 October to 2 November. More than 400 emblematic entrepreneurs from the world's leading 20 economies will gather in Nice, near Cannes, where the G20 leaders will congregate the day after the G20 YES ends. Together, the entrepreneurs will finalise proposals for positive solutions to the crisis based on the most effective policies and practices to ignite entrepreneurship, developed on an international level with the support of Ernst & Young and McKinsey and Company. The G20 YEA will then present the resulting recommendations to the G20 leaders.

#### Looking ahead to Mexico

Next year, the G20 leaders will meet in Mexico, where eight million people between the ages of 15 and 29 are neither in school nor working, and where 3.6 million households – 15 per cent of the total – are headed by people between 15 and 29, of whom only one in eight has a university degree. Mexico's economy has seen a short-term recovery of the jobs lost in 2009, but it needs to create one million jobs a year just to absorb labour market entrants. Even this, however, will do nothing to reduce the number of people out of work today.

With Mexican G20 YEA member Comisión Nacional de Empresarios Jóvenes de COPARMEX at the helm, the 2012 G20 YES will build upon the previous summits by championing the growth of a sustainable entrepreneurial ecosystem in developed and developing economies. It will mark the third time that the YEA will bring international recognition to the critical role that young entrepreneurs play in economic growth, and will engage world leaders in providing greater support for these business owners, who create jobs for themselves and others.

For members of the G20 Young Entrepreneurs' Alliance and others, the G20 Young Entrepreneur summits are linked by one common, passionate belief – that entrepreneurship can become the cornerstone of global economic dynamism, competitiveness and prosperity.

For more information about the G20 Young Entrepreneurs' Alliance, visit [www.g20yea.com](http://www.g20yea.com) ♦





# Financial reform through the G20

*Establishing the right balance between risk and opportunity for future prosperity*



**Kent Andrews, Senior Vice-President, Regulatory and Government Affairs  
TD Bank Group**



**Craig Alexander, Senior Vice-President & Chief Economist  
TD Bank Group**

The 2008 financial crisis revealed fundamental weaknesses in the global financial system. The ensuing world recession also highlighted how financial problems are rapidly transmitted to the real economy and across countries. These recent experiences underscore that healthy economies require healthy financial systems, and that the latter require prudential regulatory oversight.

## **Ideal forum for financial reform**

A concerted effort is now under way to address the identified financial system shortfalls. Given that financial activity is global in nature, it is essential that the reforms are coordinated across countries and across financial sectors. Thus, the G20 is an ideal forum in which to shape the financial reform agenda.

Progress is already under way in a number of areas. Basel III effectively addresses the issues of excess leverage and inadequate capital. It also ensures that the underlying capital is of high quality.

The decision to require identified global systemically-important financial institutions to hold more capital is an effort to address the moral hazard dimension of 'too big to fail'. Moral hazard has also been tackled through the concept of living wills, which requires that financial firms identify how they would unwind operations if solvency became an issue. Stress testing has also been embraced as a manner to identify financial vulnerabilities. It also helps financial institutions to appreciate unanticipated economic and financial environments.

Recent experience shows us that oversight of individual institutions can miss broader or aggregate risks to national financial systems. This calls for macroprudential regulation, and many nations have initiated new programmes by their domestic regulators to provide such oversight. The concept of countercyclical capital buffers, which are part of Basel III, also helps to address macroprudential risk, by having regulators lean against excessive overall credit growth.



Transparency is also improving as traditional creditors are required to provide greater details on financial activities and exposures. Progress in providing oversight to non-traditional sources of credit is proceeding more slowly.

There is concern among many financial institutions that new regulatory oversight will place greater demand on their resources. However, cost should not be a determinant when it comes to establishing control functions for legal requirements. Moreover, financial institutions should appreciate that they, too, benefit from improved oversight. It reduces the risk of major imbalances developing that will hurt financial institutions. It also reduces counter-party risk. No one wants a repeat of 2008, including financial institutions, their shareholders, or the customers and clients that they serve.

#### **Achieving balance and flexibility**

However, the ultimate goal of regulators is challenging. Policymakers must strike the right balance. It is critical that the financial reforms do not undermine access to credit, make the cost of credit excessive or deeply reduce the incentive to innovate. The law of unintended consequences should also be considered. For example, restricting risk in one area could inadvertently incentivise inappropriate risk-taking elsewhere to maintain return on equity.

As mentioned, international coordination is key. However, this does not mean blanket treatment for every financial institution, because national supervisory judgment must be present in a domestic context, and international cooperation and coordination must be present in a cross-border context. All regulatory bodies must recognise the difference between low- and high-risk business models in their supervisory assessments, and align capital levels accordingly.

It is likely that financial reform will not be done perfectly the first time around. There must be scope to reassess regulatory changes to evaluate whether they are achieving

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### **Financial institutions, too, benefit from improved oversight – it reduces the risk of major imbalances developing**

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the desired outcome, and there needs to be the flexibility to alter rules if they are not. Financial system reform is not a sprint; it is a marathon that will take years to get the right mix. Moreover, financial regulation will need to respond and adapt to future financial innovation.

#### **The bottom line**

We commend the action of G20 nations on creating a stronger, more stable, global financial sector. The financial ills have been correctly diagnosed. Proposals for the traditional financial lenders have now been put in place to address the majority of issues.

Implementation and enforcement are now the challenge, with international coordination needed to ensure the desired outcome. This requires constructive and frequent communication between the regulators and the regulated, as well as between the regulators across countries. We are headed in the right direction, but the journey continues.



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# The case for a coordinated macroeconomic solution

*The G20 members need to rediscover their sense of urgency if they are to prevent further deepening of the global financial crisis, and cooperation among countries is crucial if the debt issues that brought about the downturn are to be resolved*

**By** William R White, former economic adviser and head of the Monetary and Economic Department, Bank for International Settlements

Over the past year, the G20 has been living under a dangerous misapprehension about the health of the global economy. As recently as April, G20 finance ministers and central bank governors stated that “the global recovery is broadening and becoming more self-sustained”. The global crisis that began in 2007 was declared over. A closer look at economic and financial data, however, reveals the continuing influence of the headwinds of debt that built up to the crisis.

The “imbalances” – both internal and external – that precipitated the crisis persist. The process of deleveraging in heavily indebted countries has barely begun, while the solvency of lenders is increasingly in question. This situation is reminiscent of the late 1920s and, in some respects, worse. The accumulation of large debts in the private and public sectors in some advanced economies is unprecedented in peacetime, as is the low level of interest rates. In effect, for many countries the limits of macroeconomic policies for stimulating demand have now been reached.

What does this mean for the G20? First, the sense of urgency that characterised the meetings of the G20 in 2008 and 2009 must be re-established. This is all the more important since slow growth or recession threatens to unleash the social and political tensions built up over recent decades in which income inequality has increased enormously. There is evidence of this in the Arab Spring uprisings and street demonstrations and unrest in Europe, China, India and elsewhere – while governments everywhere show high turnover rates. An increasing recourse to protectionism could well follow.

Second, the G20 must focus more on crisis management than crisis prevention. There are clear and pressing problems that threaten to affect all the G20 participants, creditors as well as debtors. These problems must be urgently addressed in a cooperative way.

This is not to deny the significance of the accomplishments of the G20's Mutual Assessment Process (MAP), especially given the extent to which important countries still pursue different objectives and also have different views on how market economies operate. The focus of the MAP on imbalances is a big step forward, since most analytical models ignore such concepts.

A further sign of progress is that these imbalances include not only external imbalances, but also the underlying domestic imbalances that drive them. Finally, the emphasis placed by the G20 on maintaining stability within the financial sector is welcome, given the central role attributed to financial dysfunction in recent years.

It is regrettable, however, that the indicators used to identify external imbalances do not include measures of competitiveness – as is the case internally in Europe. Hard targets to motivate a policy response and an enforcement mechanism are absent – the process suggests restraint rather than urgency in the face of known problems. Yet the welcome emphasis on the pursuit of financial stability by the G20 must not be allowed to divert attention from imbalances amassing in the non-financial sector. Severe economic downturns can occur even in an initially robust financial sector. The Great Depression kicked off in 1929 but the collapse of the US banking system only began two years later.

## Correcting past mistakes

What should the G20 do? Its first task is the most difficult. It must forge an agreement on the need for enhanced attention to crisis management and on the need for cooperative solutions to the continuing problems posed by the overhang of debt. Creditors and debtors both made errors in allowing debt levels to grow so high and both bear the responsibility for trying to find a solution to this problem.

Put more dramatically, creditors must see the threat of a further descent into crisis as a material threat to their own wellbeing. After all, it was the intransigence of creditors, and those seeking impossibly large war reparations during the 1920s, that contributed materially to the problems of the 1930s and all that followed. On the assumption that agreement can be reached on the character of the problem, what cooperative solutions suggest themselves? Existing imbalances constrain the use of stimulative macroeconomic policies in many advanced economies facing slow growth.

At the same time, many emerging market countries face resurgent inflationary pressures. Nevertheless, considerable room to manoeuvre remains, given the possibility of both nominal exchange-rate movements and supporting structural reforms.

Consumption spending in many emerging economies is too low, and fixed investment too high, while the very opposite is the case in many advanced economies. China and the US are a case in point. So further exchange-rate appreciation in rapidly growing creditor countries would appear to benefit everyone. Not only would substitution effects help achieve the desired real rebalancing, but the direct effects on prices would also be welcome. Inflation would be reduced in countries where this is a problem, but deflationary fears in debtor countries would also be reduced. As for supportive macroeconomic policies, more government spending on



infrastructure in advanced economies would provide an earning asset, as well as a liability.

Credible promises to reduce future deficits, even if current ones were allowed to rise, would provide further solace to financial markets worried about high levels of sovereign debt. In emerging economies, a more restrictive monetary policy might dampen inflation while leaving more room for improved government safety nets and spending on health and education. Such developments would help to bring down high household saving rates and encourage domestic consumption.

#### Easing the debt burden

Structural reforms would also help. In many highly indebted countries, these reforms would spur growth and help to make the burden of debt more bearable. In creditor countries, faster growth due to structural reform would also be welcome in itself, but reforms also could help to ease the problem of external imbalances.

In important creditor countries, such as Germany, Japan, China and Korea, the domestic services sector remains very highly regulated. Deregulation, with all of the associated opportunities for increased profits, would decrease the production of tradeable goods and increase import penetration as well.

Two other sets of policies suggest themselves. First, if debt overhang is a fundamental problem, then an orderly means of debt reduction needs much more serious attention. This applies to many households, to a number of sovereigns and to the resolution of systemically important financial institutions. Prospective future

*The Public Purse*  
– a sculpture in  
Melbourne, Australia,  
by Simon Perry –  
alludes to the power  
of government over  
financial affairs

“ If debt overhang is a serious problem, then an orderly means of debt reduction needs much more serious attention ”

declines in the value of the US dollar – which reduces debts denominated in that currency – must also be carefully managed to avoid disorder.

Second, the one sector not constrained by debt, but still reluctant to invest, is the private corporate sector in the advanced economies. For investment to accelerate, given uncertainty about the robustness of domestic consumption, protectionism must be ruled out. Businesses will be encouraged to make risky investments by a more certain domestic policy environment and by policies that generally support business. Recent political developments in the US and Europe have not been helpful in this regard. Credible policy statements, forged in the MAP, could go a long way towards establishing such a supportive environment. ♦

# Global Accounting Standards post 2011 – a way forward



*The International Accounting Standards Board issued a request for views on the strategic direction and overall balance of its standard-setting agenda. Comments are requested by 30 November 2011. In the midst of the ongoing global financial crisis, we provide our views on the role that the IASB can play in setting relevant and useful standards for global financial reporting*



**Christian Mouillon, Ernst & Young  
Global Vice Chair – Assurance**



**Karen Golz, Ernst & Young  
Global Vice Chair  
Professional Practice**

## **Background**

During and as a result of the financial crisis of 2008, the IASB focused much of its attention on topics related to the crisis, such as financial instruments and off-balance sheet entities. Now, as the IASB moves closer to finalising the remaining projects from its current work plan, it is looking forward to the next three years of standard-setting. On 26 July 2011, the Board issued a request for views (“The Report”) on the strategic direction and overall balance of its future agenda. This will be the first of an ongoing three-yearly public consultation process.

In the Report, the IASB has proposed the following strategic foundation for setting its future agenda:

- A more diverse IFRS community, potentially leading to new issues;
- A more complex market environment, creating new challenges in financial reporting;
- A number of new and amended IFRS have been issued or are expected to be issued in 2012 placing pressure on preparers to implement these changes and users to understand the key differences.

The Report highlights that the strategy of the future agenda should not only focus on the development of new IFRS, but should also emphasise the need to maintain existing IFRS. The Board has specifically asked very open-ended questions in the Report to encourage diversity in constituents' responses.

### Ernst & Young's views

Overall, we support the agenda consultation as it allows the IASB to receive views from a wide range of constituents, in addition to creating further transparency of the IASB's agenda-setting process. However, rather than prioritising specific projects, we believe that the agenda should focus on the following key strategic areas:

#### 1. The IASB should take the opportunity to step back and focus on the long-term goals of IFRS

- The IASB has the unique ability at this point in time to take a step back and re-assess the strategic direction of IFRS as a valuable tool for financial reporting. The three-year agenda should be set based on intermediate steps that help achieve its key strategic goals;
- The most important project would be a long-term analysis of the future of performance reporting. This project would focus on the decision-usefulness of IFRS that steps back from individual areas of accounting and considers IFRS financial statements as a whole. This will help to enhance confidence in the relevance of IFRS financial statements for both users and preparers. This confidence has been challenged as a result of the recent financial crisis and continued uncertainty in the global markets. Ideally, we would encourage the Board to find a way for IFRS to be seen as valuable by preparers as a means of 'telling the story of the business' to users, while at the same time meeting the needs of users for transparent, decision-useful financial information;
- As part of this performance reporting project, a comprehensive review of financial statement disclosures should be made. This includes emphasis on determining clear principles and objectives for streamlined financial statement disclosures to ensure that financial statements remain meaningful and relevant to their primary users;
- A high-level review of IFRS should also focus on the Conceptual Framework project. Once the Conceptual Framework and performance-reporting projects are completed, these can be used to 'road test' existing IFRS to identify areas of inconsistency or where further guidance is required;
- These are very in-depth projects aimed at the future state of IFRS. However, this should not preclude the IASB from taking short-term measures to achieve these goals (such as starting outreach activities, reviewing research and initial discussions of these projects).

#### 2. A period of calm is needed

- Preparers and users need time to implement and digest the raft of new standards that will have been completed by late 2011/early 2012. These include new standards on financial instruments, consolidation, joint arrangements, fair value measurement, revenue and leases;
- However, this period of calm does not mean that IFRS should remain stagnant or unresponsive to changes in the environment for the next three years;
- There is an opportunity to consider if there are any projects that would be relatively simple for financial statement preparers to implement (and users to understand), but would require greater effort on the part of the IASB to resolve

(for example, the distinction between debt and equity).

Completing projects that meet these criteria in the next three years would allow for minimal disruption while IFRS preparers focus on other, more significant new accounting changes;

- Many of the new standards represent implementation challenges and it is likely that the IASB will be asked to provide more application guidance. We would encourage the Board to do so;
- One example is the new standard on Fair Value Measurement – IFRS 13. This standard, while it does not change *when* fair value is used, provides detailed guidance on *how* to measure fair value. Many of the issues faced during the financial crisis, such as determining how to measure fair value in volatile markets, are now addressed in IFRS 13. However, there is likely to be an increased need for the involvement of valuations experts in applying this new standard. Accordingly, we support and encourage continued co-operation between the IASB and valuation bodies such as the IVSC.<sup>1</sup>

#### 3. Focus on consistency of application for the benefit of all stakeholders and users of financial statements

- As noted in the Report, there is an opportunity to focus on Post-Implementation Reviews and ensuring standards are consistently applied and interpreted. However, there are further efforts outside of post-implementation reviews needed to ensure the continued value, usefulness and consistency of IFRS for all stakeholders into the future. These key steps include providing interpretations (or application guidance where needed) at a global level and engaging regulators in the standard-setting process;
- The current lack of coordinated global regulation is an environmental threat to the consistent application of IFRS throughout the world. The IASB and its governing body, the IFRS Foundation, should consider what actions can be taken to mitigate these concerns;
- The goal of one set of high-quality global standards requires consistent application and interpretation across many jurisdictions. Engagement with local regulators is an essential part of this process, in order to avoid a proliferation of local interpretations. In our view, the Monitoring Board of the IASB has an important role to play in this respect, since it represents the securities regulators as a group.

### Conclusion

The IASB stands at a pivotal point in time. With a new Chair and Vice-Chair and much of its existing work programme near completion, there is a momentous opportunity to continue to shape IFRS to benefit all stakeholders and users of financial statements into the future. Now is the time to take big strategic decisions, rather than simply prioritising a list of separate projects. We encourage the IASB to be bold to benefit all.

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#### Footnote

1. International Valuation Standards Council
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# Emerging economies require flexibility from global financial reforms

*The individual needs of developing economies differ from those of their larger counterparts – an important consideration when banking and investment reform is debated. Only a two-tier system will offer such countries the conditions to grow*

By Hyoung-Tae Kim, president, Korea Capital Market Institute

Since the 2008 financial crisis, the G20 has played a pivotal role in discussions about global financial reforms. It is trying to build a comprehensive and common platform for all countries. However, this does not mean that every country must adopt the same regulatory system. Reforms need to be not only universal, but also flexible enough to accommodate the differences in each country's financial market.

As the new regulatory paradigm takes shape, the discussion thus far has focused heavily on advanced financial markets. For the G20 reforms to be successful, they must also reflect and accommodate emerging economies' needs and economic conditions.

## Reforms for the financial services industry

The subprime crisis showed that the universal banking system can have serious, and even fatal, problems, particularly in a crisis-prone economy. Under this system, commercial banking and investment banking can take place in the same firm. For individual financial institutions, operating an investment-banking business with deposit money is attractive. However, this model increases systemic risk to the financial system as a whole.

To address this problem, the investment functions need to be separated from commercial banks. The G20 is going in this direction with its proposed reform of the financial services industry, as is the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US. For emerging economies, the mixture of investment and

Unlike their global counterparts, investment banks in emerging economies are in a position to take more risks

commercial banking is not that serious. But for the sake of reducing systemic risk, the in-house operation of both should be prohibited. In the case of a financial institution in an emerging economy wanting to engage in both investment and commercial banking, the best organisational structure is the financial holding company. In Korea, the only way for a commercial bank to carry out an investment-banking business is to use a subsidiary or a financial holding company.

In addition, investment-banking industries in emerging economies are fundamentally different from those in advanced economies. Global investment banks took excessive risks. In contrast, those in emerging economies took very little risk, relying instead on agent businesses such as brokerage.

In the post-crisis era, investment banks need to strike a balance between agent fees and the principal investment business. Unlike their global counterparts, investment banks in emerging economies are in a position to take more risks. Therefore, regulations like the Dodd-Frank Act may not be optimal for emerging economies, considering the development stage of their financial industries.

## Over-the-counter derivatives markets

Global financial reforms will also affect the markets for over-the-counter (OTC) derivatives. The basic idea of reforms in this area is to build a centralised clearing platform. This platform can minimise counterparty risk associated with OTC derivatives, which was regarded as the main cause of systemic risk in the subprime crisis. Another key reform tackles the complexity of derivatives products and strives to standardise them.

Both reforms are in the right direction and may significantly reduce systemic risk related to OTC derivatives. However, most emerging economies do not have active OTC derivatives markets. Some countries do not have one at all. Although the global reforms sound reasonable, an overemphasis on centralised clearing platforms and standardisation might stifle the innovative spirit in emerging economies. Therefore, the application process should take a two-tier approach, in which advanced markets face stricter regulations, but developing markets have less stringent requirements.

A derivative product is born, grows and matures. In the beginning, an investment bank comes up with a new derivative product, which is at first contracted upon in the



OTC market. As people become familiar with the product, it becomes standardised and is then traded in the exchange market. The emerging capital markets are not yet well developed, so overstressing standardisation could prevent products from following their natural life cycle and slow market development. For the emerging economies, a regulatory environment that encourages brave ideas from market players is essential. The optimal position between innovation and stability in emerging economies is far different from that of well-developed economies.

### Managing systemic risk

The most important lesson that has been learned from the recent crisis is that managing systemic risk is crucial. However, it is easy to forget that the source of systemic risk is different between emerging and developed economies. In emerging economies, too-big-to-fail institutions are not the main source of systemic risk. Korea, instead of having systemically important financial institutions, has systemically important financial markets: the foreign exchange market and the dollar-based financing market.

Because Korea is deeply connected with overseas markets, systemic risks come from abroad in the form of sudden stops of loans or reversal of capital flows. The problem is not unique to Korea, as many emerging economies are in a similar position. Capital inflows and outflows are especially volatile in economies that have free-floating foreign exchange systems and fully open capital markets. As a result, the foreign exchange market

is the main channel for overseas risk to come into Korea. In some markets, it is more critical to deal with the systemic risk from outside caused by high volatility in capital flows than to regulate systemically important financial institutions.

In this respect, the reform of international monetary systems is especially relevant to the emerging economies. Although the most frequently discussed topic is the key currency issue, for the emerging economies the global financial safety net is more important. Besides credit lines provided by the International Monetary Fund (IMF), emerging economies need to have regional safety nets. These safety nets should start with bilateral or multilateral swap agreements and then possibly proceed to the establishment of a regional currency.

As economies become increasingly interconnected, global collaboration is all the more necessary. The G20 is the premier platform for this purpose. However, agreeing upon solutions within the G20 is much more difficult than it appears to be.

The reason behind this problem is that the new financial regulatory paradigm must be comprehensive so that it is globally applicable, while at the same time flexible enough to reflect each country's specific economic characteristics. Financial reforms must recognise the differences between advanced and emerging economies. The success of the G20's Cannes Summit depends on whether these differences can be fully understood and reflected in the reforms. ♦

A foreign currency dealer of the Korea Exchange Bank studies screens in the dealing room. Korea is among the emerging economies at the mercy of systemic risks from overseas markets

# Why 'fix' what is not broken?

*As the G20 leaders gather in Cannes, economic growth will be high on their agenda. Yet as Javier Perez of MasterCard Europe argues, one significant economic driver is at risk because of possible and unnecessary regulation*



**Javier Perez**  
President, MasterCard Europe

The present economic slowdown is a significant challenge for policymakers. With interest rates at historic lows, government spending trimmed to the bone and sovereign debt ratings heading south, there are very few macroeconomic levers left to pull in order to generate growth.

Yet there is one microeconomic mechanism that can continue to pump-prime the economy and stimulate growth even in the midst of a slowdown. This mechanism needs no government funding or central bank quantitative easing. Simply by making it easier for money to flow inside and across national borders, electronic payments via debit and credit cards create a beneficial 'multiplier' effect on money flows and stimulate commerce. Yet some regulators are trying to 'fix' what is not broken by seeking to reduce or even eliminate the interchange fees on which card payment systems are based. If this happens, there will likely be unintended negative consequences for individuals, businesses and national economies.

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**The interchange fees provide a transparent and necessary balancing mechanism to apportion the cost of providing a global card payment system, as well as the value it brings, in a fair way between consumers and business**

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A global card payment system with universal acceptance helps stimulate trade and increase the sale of goods and services. Everyone benefits: individual consumers who can make purchases more safely and conveniently, businesses which can trade more widely and efficiently, and national economies that benefit from the increase in commerce. Moreover, the system is transparent and reduces the use of cash thereby undermining the 'black economy' and further increasing government revenues.

The payments industry has created fair, efficient and ubiquitous global card processing networks which stretch from Tasmania to Lapland and Beijing to Seattle. But all these benefits could now be at risk. Clearly, these systems are part of the

solution and not, as some would have it, the problem: a small group of special interests have lobbied regulators and other public authorities with the simple aim of reducing their card acceptance costs by government intervention, contending that interchange fees impose an 'unfair tax' on business.

The global payment infrastructure has evolved over decades with little help or support from government or the state. Hundreds of billions of dollars and euros of private investment, plus countless hours of business effort, have built a powerful economic payments framework that serves businesses and consumers well. But it is a fragile thing. It requires the constant cooperation of millions of private and public enterprises to maintain global interoperability and to nurture and improve electronic payments as technologies develop and consumer and business needs evolve.

The interchange fees of which some complain provide a transparent and necessary balancing mechanism to apportion the cost of providing a global card payment system, as well as the value it brings, in a fair way between the ultimate beneficiaries – consumers and businesses. If regulators give in to the pressure they face from special interests, consumers will end up paying more for electronic payments and will increasingly revert to cash. This in turn will stifle consumer spending with the result that not only businesses but also national economies will be harmed.

By not looking at the big picture or taking a long-term view, those that urge intervention risk upsetting that delicate ecosystem of card payments that helps support and drive economic growth. Interchange is not a 'tax' on commerce, rather it is an 'investment' in the future of the European and global economy. This investment adds to the 'multiplier effect' – it does not subtract from it.

Interchange is an often misunderstood concept. First of all, interchange fees are very low. Secondly, they not only ensure that merchants are guaranteed payment and finance fraud protection, but they also help pay for innovations that generate cost savings as well as increased revenue for those accepting cards. The economic value of these benefits far exceeds the cost of interchange. Nowadays we don't use just cards to make payments but can also use mobile phones and PDAs. Contactless cards have speeded up secure payments which reduces the cost of doing business. Commercial cards allow companies to manage employee spending – giving them unprecedented real-time control over their budgets. Government cards reduce the cost of distributing social benefits. Prepaid cards extend the benefits of electronic payments to the unbanked. All of this has been made possible because of the investment in innovation which – in turn – has been made possible by interchange fees. And all of this helps to drive economic growth.

In addition, card payments are considerably more cost-effective than cash. All national bank studies comparing the cost of cash and that of card transactions conclude that cash payments are expensive. The bulk of that cost is borne by all of us through our taxes – why should we subsidise the use of cash? Not only is



cash more expensive than card payments but it cannot even begin to deliver the kinds of added value that cards bring – security, universal acceptance and the continuing innovation that creates new business opportunities. You can't book hotels and airline tickets with cash; businesses can't buy and sell goods and services globally online with cash; and the only 'loyalty' benefits you get with cash are a rubber stamp in a coffee shop. Cash is truly 'old money'.

The Reserve Bank of Australia's regulatory intervention in the payments card industry in the early part of this decade is a good example of the consequences of failing to take the long view. The RBA's forced reductions of interchange fees harmed Australian consumers by raising cardholder fees and reducing card benefits. As a result, Australian cardholders are now paying more than half a billion Australian dollars a year in additional fees for using credit cards while the value of benefits has declined by nearly a quarter. And even the RBA, in a review of its decision, admitted that it had 'no evidence' that merchants passed any of the AU\$850 million in annual cost savings on to consumers. The reduction in interchange in Australia also reduced incentives to innovate – delaying, for example, the introduction of 'chip' cards.

Forty years ago, many of today's payment products were the stuff of science fiction – now they are a reality. And in

10 years' time, if permitted, the card payments industry will have developed ever more convenient, inexpensive and innovative methods of paying securely across continents and in your local shop.

The payments industry has created, nurtured and developed an efficient economic driver based on a balancing mechanism that distributes the greatest good for the greatest number. Unnecessary intervention in the system would slow down the lifeblood of commerce, which is the last thing that the economies of the world need right now. The global payments system is not broken – I would therefore call upon all regulators to pause and reflect before trying to 'fix' it.



[www.mastercard.com](http://www.mastercard.com)

# Rebuilding confidence through global regulation

*The importance of a coordinated international approach to regulating financial institutions and markets has been highlighted throughout the ongoing crisis. Continued cooperation among countries is essential to promote greater stability*

**By** Lida Preyma, director, Capital Markets Research, Global Finance; author, *The Preyma Report on the G20 and the Global Capital Markets: Critical Issues and Analysis*

For more than a decade, the finance ministers and central bank governors of the 19 most systemically important countries and the European Union have met annually to discuss the financial challenges before them. With the financial crisis in 2008, this forum grew in importance to address the urgent issues at hand. Now that the G20 leaders meet regularly, it has been possible to bring stability to financial markets by making unified decisions that could be deployed nationally among all members. Countries have been working hard to implement the decisions made at the G20 summits, with varying degrees of success.

Coordinated regulatory policy is the best way to maintain strong and sustainable global capital markets. Unmitigated risk and regulatory arbitrage will only lead to further crises in the future. Regulation levels the playing field, but also maintains integrity so that confidence can be strengthened – and markets cannot function properly without the confidence of their participants. Well-functioning capital markets are critical to financial stability and sustained economic growth because of their sheer size, given the number of people employed in the sector and the tax revenue generated for governments, which can then deploy social programmes for their citizens.

In a world of intense interconnectivity, transparency is more important than ever, as illustrated by the unwinding of Lehman Brothers, still going on after its collapse in September 2008. The Financial Stability Board (FSB) has been tasked with producing a plan to dismantle globally significant, systemically important financial institutions in the event of their failure in order to mitigate contagion – the biggest threat to the interconnected financial system. The global impact of such institutions must be managed carefully should an economic shock lead to their collapse. The FSB will report to the G20 at the Cannes Summit.

## **The fluctuating speed of reform**

Regulation used to be as diverse as the countries within which it was administered. Recommendations made at the international level were not universally considered when national regulation was being formed. In the past year, reviews of Europe's Markets in Financial Instruments Directive (MiFID) and the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States have created new regulation at an unprecedented pace.

However, the rules are beginning to diverge and policy-making timelines differ. EU finance ministers have been unable to agree on the scope and details of the proposed rules, and the European Central Bank was concerned about central bank liquidity management if the rules

were passed as drafted. During its EU presidency in 2011, Hungary proposed that clearing requirements should apply only to off-exchange over-the-counter (OTC) derivatives with mandatory reporting encompassing all types of trades. Other countries, such as the United Kingdom, wanted the rule to include all derivatives, as in the rule being drawn up in the United States. The pace of rule-making has been ambitious but unsustainable, and has led to variations in implementation. US policy-makers extended their July deadlines to the end of the year, and European regulators delayed their review of the revised MiFID until September 2011.

“For growth to regain momentum, G20 leaders must not lose sight of the end goal of a stable global capital markets industry”

The stage had been set for international policy-making with the first two Basel accords and the International Organization of Securities Commissions (IOSCO) to create coordinated regulation that would strengthen capital markets. There was, however, no buy-in to comply with the regulation being formulated. Basel III, which was approved by the G20 at the Seoul Summit last November, would address the missing rules to strengthen firms by increased capitalisation in order to weather future financial crises, such as the current European sovereign debt crisis. Further coordination was needed to address the size of organisations that posed the greatest risk to the interconnected global economy. Contagion is the biggest threat, and moves ever faster – as witnessed by the fact that the sovereign debt crisis took months to spread from Greece to Ireland and then Portugal, but simply days and weeks to reach Italy, France and Spain. Moreover, the availability of credit from money markets funds dried up in the uncertain dog days of August, making the need to address shadow banking more urgent.

Once again, transparency in capital markets has come to the forefront. Although shadow banking was not the root cause of the financial crisis, G20 leaders know that



their work must also be forward-looking. This sector must be also regulated and supervised before it creates further instability and undermines the work being done on the Basel accords and globally significant international financial institutions. The FSB is undertaking studies to formulate pertinent rules that avoid regulatory arbitrage and focus on the interconnectedness within the international banking system.

#### Keeping pace with innovation

High-frequency trading (HFT) also presents new challenges for regulators. Defining HFT is a moving target: technological advances have made it difficult for regulators to police. However, they need to assess the impact of HFT properly, rather than writing regulation that reflects only the past. Innovation in the industry should not be stymied by lack of knowledge.

While capital markets await the creation of firm regulation, the industry has seen anaemic volumes

An electronic display in Tokyo delivers updates on the major indices. A coordinated approach to policy-making will help to reduce recent instability on the world's markets

moving in equity markets, with reactions to events that defy historical behavioural logic, increased activity in the credit default swaps market as investors bet against the soundness of entire countries, and a general slowdown in the growth of an industry responding to the decisions being made. For growth to regain momentum, G20 leaders need to stay on track and not lose sight of the end goal of a stable global capital markets industry with reduced systemic risk. They need to renew their commitment to unified policy-making. They must not rush through inappropriate and unsustainable regulation simply to meet deadlines for forming new regulation.

Regulation will not choke an industry that creates so many jobs and brings in countless dollars in taxation if it is unified, pertinent, fair and all encompassing. Over-regulation is not the answer. The free markets need to be able to be just that – free – but with regulation that ensures that integrity is the priority in order to restore confidence and rebuild the industry. ♦

# A modern European finance hub

*Gibraltar has in recent years repositioned itself to become a well regulated, mainstream and successful EU domicile for financial services business*



**The Hon Peter R Caruana QC,  
Chief Minister of Gibraltar**

**G**ibraltar is a British Overseas Territory which is self-governing in all matters – except defence, internal security and foreign affairs – and thus has its own government, parliament and judiciary. Elections to the Gibraltar parliament, in which all Gibraltar’s laws are made, are held every four years.

Gibraltar has been part of the European Union since 1973, having joined as part of the United Kingdom’s accession. EU law applies to Gibraltar except in three areas: Common Customs Territory (and therefore internal market rules on the free movement of goods), Common Agricultural Policy and harmonisation measures on turnover tax. All other EU measures apply to Gibraltar and are implemented through legislation passed in the Gibraltar parliament.

As an integral part of the EU, Gibraltar has financial services licensing, regulatory, and investor and depositor compensation regimes that are fully compliant with EU laws and requirements. The financial services sector thus enjoys passporting rights throughout the EU in all financial services matters, including banking, investment services, insurance, insurance mediation and reinsurance. Gibraltar-licensed financial services firms have access to a market of over 500 million people, and financial services contribute approximately 30 per cent of our gross domestic product.

During the past 15 years, our finance centre has successfully repositioned itself from tax haven to fully compliant, transparent and well regulated onshore EU finance centre, albeit one operating in an internationally competitive tax environment.

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**The financial services sector enjoys passporting rights throughout the EU in all financial services matters, including banking, investment services, insurance, insurance mediation and reinsurance. Gibraltar-licensed financial services firms have access to a market of over 500 million people**

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## Licensing regime

Financial services are licensed, supervised and regulated by Gibraltar’s Financial Services Commission (FSC), which functions independently of the government in operational matters. The Commission is responsible for the authorisation and subsequent supervision of banks and building societies, investment businesses, insurance companies, investment services, company management, professional trusteeship, insurance management, insurance mediation, money transmitters, bureaux de change, occupational pensions schemes, auditors and collective investment schemes.

Gibraltar legislation charges the FSC to regulate the industry in Gibraltar to standards that comply with all EU laws and are, additionally, at least equivalent to UK standards.

The FSC website, [www.fsc.gi](http://www.fsc.gi), provides statistics on all relevant financial businesses including numbers of licensed firms in each sector and statistics such as deposits and total assets of banks as well as assets under management, and so on. The website also includes copies of all financial services legislation.

Gibraltar’s regulatory environment thus reflects its status as part of the EU and also the Gibraltar government’s policy in relation to the financial services industry, which is a policy of alignment with all international consensual initiatives, standards and international cooperation. In this way, Gibraltar remains at the forefront of reputable international financial services centres.

## International cooperation

Gibraltar’s successful finance centre is based on the government’s conviction that it must remain squarely within the mainstream of international consensus. In line with its commitment to transparency and effective exchange of information ([www.oecd.org](http://www.oecd.org)) Gibraltar has to date negotiated and signed 18 tax information exchange agreements with Organisation for Economic Co-operation and Development (OECD) member countries, is on the G20-instigated OECD ‘white list’, and is currently negotiating similar agreements with many other countries.

The government of Gibraltar has a long track record of proactive and constructive engagement with international standard-setting initiatives such as, inter alia, the Financial Action Task Force (FATF) and International Monetary Fund (IMF) Resultant reports published by the IMF noted that Gibraltar was “at the forefront of the development of good practices”.

The IMF also concluded that Gibraltar’s regulator, the FSC, “carries out its duties diligently and has an intimate knowledge of the institutions under its supervision”.

In addition, the IMF stated that “the Gibraltar authorities are concerned with protecting the reputation and integrity of Gibraltar as a financial centre, and are cognisant of the importance of adopting and applying international regulatory standards and best supervisory practices. Gibraltar has a good reputation internationally for co-operation and information sharing.” The IMF reports on Gibraltar are available online at [www.imf.org](http://www.imf.org), [www.gibraltar.gov.gi](http://www.gibraltar.gov.gi) and [www.fsc.gi](http://www.fsc.gi)



### Diversified economy

Gibraltar's economy is successful and well diversified, with global or regional leadership positions in port services, tourism, financial services and online gaming, and sustains a high standard of living and of public services. The government's fiscal position is strong. The budget remains in surplus to the tune of more than three per cent of GDP, and net public debt is low at less than 30 per cent of GDP. The economy has tripled in size over the past 15 years, and the number of jobs has increased by 60 per cent over the same period.

As a result of the success of our economy, we have been able to invest extensively while at the same time lowering corporate and personal taxes very significantly. Our corporate tax rate has fallen from 35 per cent to 10 per cent, and the personal tax burden has fallen by up to 65 per cent. The highest effective rate of personal tax is now just 25 per cent.

Although Gibraltar has not escaped some of the effects of the current global economic recession and financial crisis, these

have not adversely affected its fiscal position or prevented continuing growth of our economy. Our economy – GDP now stands at £1 billion – grew by 6.5 per cent last year, and will grow by at least five per cent this year.

The success of our economy, and of our finance centre in particular, reflects the government's policy commitment to the highest standards of international cooperation, compliance and regulation. This is the only way in which credible and professional cross-border financial services business can be carried out sustainably. This commitment will remain at the very core of our approach.

In this way we can ensure that Gibraltar is attractive as a place to do business only to leading and reputable entities that share with us an understanding of, and commitment to, the importance of high standards and reputation.



# Steering a path towards international financial reporting standards

*The advantages of increased cooperation in international investment brought about by globalisation have also created a new set of problems for policy-makers, and the need for measures to improve market transparency and comparability*

**By** Hans Hoogervorst, chair, International Accounting Standards Board

**T**he global financial crisis continues to illustrate the integrated nature of international financial markets. Seemingly local events – whether US subprime defaults, European sovereign debt or concerns regarding a slowdown in Asian economic growth – have the potential to affect financial markets and capital flows anywhere in the world.

No one should be surprised. For a long time, investors have sought opportunities and diversification on a global basis. Companies seek to raise capital internationally, while domestic exchanges seek to attract international listings. The time when market participants traded

exclusively within their own jurisdictions is long gone. Capital formation has gone global, and capital no longer respects national or political borders.

## **Challenges of globalisation**

Such globalisation in financial markets should be accepted as an essential component of healthy economic cooperation. The international free flow of capital has and will continue to facilitate inward investment that, in turn, has the potential to raise living standards around the world.

However, as a former chair of the Dutch securities and markets regulator, I understand the challenges



presented to policy-makers when global financial markets transcend national or regional regulation. Adopting a global approach to financial regulation is one of the most important elements of the G20's work.

In the area of financial reporting, progress is well advanced. When the International Accounting Standards Board (IASB) began its work in 2001, it inherited a set of international accounting standards (IASs) that few countries or companies used. Each country would account for the same transaction in different ways, depending on where that transaction occurred. This patchwork of financial reporting standards inhibited investors from allocating capital efficiently, requiring an 'accounting premium' to be charged due to the risks involved when investing based on unfamiliar local reporting standards.

### Growing acceptance of global standards

Fast-forward through 10 years of substantial reform, and international financial reporting standards (IFRSs) – the successors to IASs – have gained the respect of market participants and regulators as high-quality standards. Even countries that previously had their own sophisticated accounting standards have viewed the adoption of IFRSs as a way to improve market transparency and comparability.

The IASB has continued to work in close cooperation with standard-setting authorities around the world to improve and align financial reporting standards, in pursuit of a single set of high-quality accounting standards. The work of the IASB and the US-based Financial Accounting Standards Board (FASB) has been instrumental in this process. As a result of almost a decade of joint work by the two boards, IFRSs and US Generally Accepted Accounting Principles (GAAP) have seen substantial improvements and are now converged in many important areas.

Thanks to ongoing improvements to standards by the IASB, investors and other users of financial statements have greater visibility of the financing of pension schemes and the cost of granting stock options. They

Only by countries agreeing to follow the same path can international standards be achieved



The case for a single set of high-quality financial reporting standards is compelling, and progress towards this goal has been remarkable



also have a better understanding of off-balance sheet activities and the assumptions made when calculating fair value measurements.

At present, more than 120 countries have chosen to require or permit the use of IFRSs. Repeated G20 communiqués have called for a wholesale move towards a single set of high-quality financial reporting standards. From next year, two-thirds of G20 members will require the use of IFRSs, and the remaining G20 members are well on the way. Chinese accounting standards are already substantially similar to IFRSs, while the United States and Japan, both of which already permit foreign registrants to report using IFRSs, will decide if and how to incorporate them into their domestic financial reporting regimes in the next year.

### Priorities for the future

So what is left to do? First, while the majority of the convergence programme is now complete, the IASB will continue to work with the FASB to complete the remaining joint projects to the highest possible standard. This involves finalising improvements to lease accounting, revenue-recognition requirements and financial instruments accounting – three of the most challenging areas of financial reporting. The IASB and FASB will also work together to develop a common approach to insurance accounting – an area in which there is only a stopgap measure. It is important that this joint work with the FASB is completed on a timely basis; however, quality will remain the overriding priority.

Second, the IASB and FASB will work to encourage the rest of the world to come on board. The momentum towards the global adoption of IFRSs is, in my view, unstoppable. However, different jurisdictions will follow different routes, each with its own challenges, on the path towards global standards. A clear and unequivocal commitment to embrace IFRSs is the most important factor for those economies yet to adopt. The transitional arrangements are secondary.

Third, the IASB has begun to consult on its future agenda once the convergence programme with the FASB is complete. Some jurisdictions would certainly appreciate a period of calm after such an intense period of standard-setting activity. Other, more recent adopters of IFRSs are waiting for the IASB to provide answers to their own financial reporting challenges. How should the IASB deal with projects that were deferred in order to prioritise the convergence programme and the IASB's comprehensive response to the financial crisis? The IASB must also finish the conceptual framework and come up with a clearer, more consistent definition of other comprehensive income. Input from this consultation will inform the determination of how to proceed.

### Building on strong connections

Finally, the IASB must further strengthen its institutional relationships. It must deepen the sense of buy-in and ownership by those already using IFRSs and who have entrusted the IASB to develop financial reporting standards on their behalf. This quid pro quo is an essential and fair part of the bargain when a country adopts the IASB's standards.

The case for a single set of high-quality financial reporting standards is compelling, and progress towards this goal has been remarkable. However, the standards must continue to evolve. We must complete the remaining convergence projects to a high standard, encourage the remaining economies to come on board, consult widely on our future agenda and strengthen institutional relationships.

The G20 leaders' ongoing support for the work of the IASB and the attainment of global accounting standards is most welcome. ♦

# WALKING THE TIGHTROPE: THE TRICKY ISSUE OF TAMING THE BIG BANKS

By Michael McKee, Head of Financial Services Regulatory, DLA Piper UK LLP

## THE MAIN REGULATORY AGENDA: G-SIFIS AND SHADOW BANKING

The principal regulatory work of the 2010 Seoul G20 summit was to approve the new Basel 3 Accord and set an agenda focused particularly on globally systemically important financial institutions (“G-SIFIs”) and on the shadow banking system. This set the regulatory agenda for the Cannes G20 summit.

In the case of G-SIFIs the overall policy objective is to reduce the moral hazard posed by SIFIs. Work during 2011 has focused on two main areas:

- Discouraging G-SIFIs from growing too big or too risky by developing an additional capital charge for G-SIFIs which is particularly penal for the largest and most risky institutions.
- Making it easier to resolve G-SIFIs in the event of their collapse without taxpayer solvency support.

G-SIFIs are mostly large banking groups. The G20’s regulatory agenda since the financial crisis began has been dominated by concerns about banks and investment banks – and most of the G20 regulatory changes have been directed towards these institutions. However, as the regulatory requirements on banks increase so it becomes more attractive to transfer business to non-banks if they can achieve some of the same business outcomes. So it is also very important for the G20 to look at shadow banking. Otherwise, by increasing regulation in one area the G20 might simply be creating the possibility of a new crisis arising in a different set of institutions which are less tightly regulated.

The 2011 work has taken place against a steadily worsening economic backdrop. Instead of the sub-prime mortgage focus of 2008, attention is now on sovereign debt. Sovereign debt problems bring into focus the intimate connections between governmental decisions relating to budgeting, taxation and the allocation of national resources and the global financial markets. They also show the extent to which financial groups headquartered in particular countries are, in part, dependent on the status and rating of their home country’s debt.

Too heavy handed an approach to G-SIFIs risks a reduction in capital flows globally – which could put increased pressure on the sovereign debt of particular countries and, in turn, on the banks headquartered in, or heavily exposed to, those countries. However, too light an approach could lead to the growth of even larger G-SIFIs – increasing the risk that a collapse of one or more of them would lead to huge costs for national governments and the global economy and to ever greater regulatory intervention thereafter. The G20 leaders must walk the tightrope in between.

## EXTRA CAPITAL CHARGES FOR G-SIBS

As mentioned most G-SIFIs are banks. The Basel Committee published a paper in July 2011 on its proposed assessment methodology for extra capital charges for these globally systemically important banks (G-SIBs).

Initially 28 financial institutions have been identified as G-SIBs. The IIAS is carrying out parallel work with regard to global insurance groups. The main objective is to require G-SIBs to hold more capital to increase their capacity to bear losses in times of significant stress for global financial markets – reducing the risk of their collapse.

Key elements of the Basel Committee proposals are:

- To identify and use a series of key indicators to measure the systemic importance of a G-SIB based on the impact its collapse would have on the global financial system and wider economy. The indicators will reflect: a G-SIBs global activity, its overall size, interconnectedness with other institutions, the extent to which another entity could be substituted for it and complexity. Each of these 5 categories will be given a weighting of 20%.
- G-SIBs would be grouped into 4 different “buckets” based on their scores using the indicators. The size of any additional capital charge will be determined by the bucket they are put in.
- G-SIBs should be incentivised to try and lower their charge by reducing the aspects of their business which produce high indicator results.
- Supervisory judgement can override the indicators – but should only do so in exceptional cases.
- The additional capital charge should be met using Common Equity Tier 1 only.

## RESOLUTION PLANS

If a G-SIFI collapses it is clear, from the collapse of Lehman Brothers, that better tools are needed to resolve it together with better cross-border arrangements. The FSB published a report on this in July 2011 and highlighted four main areas for improvement:

- The need for national resolution schemes, with a menu of specialist resolution tools, for financial institutions. Ordinary corporate insolvency regimes were inappropriate and special regimes are required.
- Stronger bilateral and multilateral cooperation regimes that are institution specific so that cross-border firms can be resolved in a more orderly and less expensive way.
- Better resolution planning by firms and authorities including each G-SIFI developing Recovery and Resolution Plans (RRPs).
- Measures to remove obstacles to resolutions such as e.g. fragmented data and information systems and complex web of intra-group transactions.



The paper also proposes a possible statutory bail-in mechanism which would allow a resolution authority to write-down or convert into equity unsecured and uninsured claims. This could either recapitalise the existing entity or a new bridge entity. Countries would write powers to create such a mechanism into their resolution regimes.

## SHADOW BANKING

In developing the scope for its work on shadow banking the FSB has decided to adopt a wide definition in the first instance. It has concluded that it should focus on “a system of credit intermediation that involves entities and activities outside the regular banking system and raises i) systemic risk concerns, in particular by maturity/liquidity transformation, leverage and flawed credit risk transfer, and/or ii) regulatory arbitrage concerns”.

The definition is not entity specific but money market funds, hedge funds and non-bank credit providers could fall within it. Some insurers could also be caught – but ordinary life insurance activity would not.

Different options it is focusing on are:

- Banks’ interactions with shadow bank entities – to reduce the spillover of risks into the regular banking system.
- Potential direct regulation of shadow banking entities.
- Regulated activities – possible regulated intervention focused on certain activities e.g. credit intermediation rather than on entities.
- Macro-prudential measures – which might address systemic risk in the shadow banking system more broadly.

## DLA PIPER’S VIEWS

DLA Piper considers that it is vital to the world economy to have a sound global banking system.

Consequently it supports the concerted action being taken by G20 countries to enhance international cooperation between countries and regulators.

DLA Piper considers, however, that it is also vital at present to stimulate growth in a global economy where recovery is still very fragile in many places. Experience has shown that the 2008 crisis has damaged economic growth more significantly than at first was expected. Banks are a vital transmission mechanism for economic activity and increased capital, liquidity and regulatory obligations exercise a brake on the role they play – impacting growth.

It will be important, therefore, that capital requirements for G-SIFIs are carefully calibrated. So DLA Piper supports the general framework for SIFIs but proposes more work on calibration and fine-tuning prior to implementation. This should include consideration of the size of the additional capital charges. It is arguable that smaller charges may be sufficient.

It is also vital that the timing of any changes are linked to the timing of changes for shadow banking system entities. This is necessary to prevent arbitrage resulting in activities flowing from banks to non-bank competitors.

It is important to recognise that insurance companies, generally, have very different business models and risk profiles from banks. They should not be exempt from action being taken against them if they are G-SIFIs but it will be important to suitably adapt the approach to take the differences into consideration.

The impact of changes should be kept under regular review – and modified if necessary. The impact on global growth should be considered, in particular.

It is particularly important to develop stronger cross-border mechanisms for national resolution authorities resolving a G-SIFI. Historically states have been stubbornly resistant to international agreement on cross-border insolvency issues – because of sensitivities about assets held within national boundaries. We see this to be one of the key requirements for improving resolution internationally.

We consider that more work needs to be done on the bail-in mechanism but that in principle it is an additional tool in the armoury of resolution authorities.

Overall the main objective for the G20 Summit’s consideration of regulatory issues should be to ask itself the question: will these changes enhance global growth prospects at the same time as reducing regulatory risk?

## FOR FURTHER INFORMATION PLEASE CONTACT



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# Combating corruption

*Bribery and corruption, even at apparently minor levels, have a detrimental effect on the economies of countries struggling to generate growth. The G20's plan to tackle corrupt practices is an important step towards eradicating the problem*

**By** Angel Gurría,  
secretary general,  
Organisation  
for Economic  
Co-operation and  
Development

**C**ombating corruption is not only about ethics. It is about dealing with the most pervasive crime that erodes the very foundations of fair business, good government and sustainable development. Unfinished roads, crumbling schools and crippled health systems are but a few serious examples that illustrate the impacts of corruption on societies where this phenomenon is critical.

The repercussions of corruption sweep across entire populations. A seemingly trivial bribe can easily and rapidly amount to a major loss of output in a poor country. It is estimated that corruption adds up to 10 per cent to the total cost of doing business. And in sectors especially prone to bribery, such as procurement, it can account for as much as 25 per cent of the cost of procurement contracts. In the current environment of weak global economic activity and poor growth prospects, no one can afford such waste.

These direct economic impacts are only the tip of the iceberg, however. Corruption also bears adversely on the well-being of citizens, businesses and governments. Ordinary people are hurt when bribery means that vital services, such as access to water, health and education, are not provided, which perpetuates poverty and is a source of instability. Local businesses are hurt when they lose

contracts because of bribes by others or because they cannot afford or are not willing to pay a bribe. Governments are hurt when, because they accept bribes and abuse their power, they lose their citizens' trust. And the whole world pays the price when bribery and corruption lead to weak governance that undermines national and regional security.

## **Achievements in anti-bribery strategies**

For more than a decade, tackling bribery and corruption and strengthening the integrity of markets have been at the core of the work of the Organisation for Co-operation and Development (OECD). The OECD has become the leading source of anti-corruption tools and expertise in areas such as international business, taxation, governance, export credits and development aid. Paving the way to end bribery in international business transactions, by establishing the Anti-Bribery Convention and rigorous laws against this practice in 38 countries, has been one of its biggest achievements. The OECD has helped countries on every continent to raise the bar in creating and strengthening strategies that would put an end to bribery. It has also developed standards and codes in strategic areas of public and private governance.

But all this is not enough. Genuine political will to eradicate corruption is essential. This is why the G20's



actions on tackling corruption are so significant. The G20 provides a platform for leaders of the world's 20 major economies to share their views on the high-priority issues of the international financial system and to prove their political commitment to implement positive reforms. G20 leaders pledged in the Seoul Anti-Corruption Action Plan to lead by example in the fight against corruption, targeting nine key areas where prompt action must be taken for an efficient and thorough elimination of corrupt practices.

Since the last summit in Seoul in 2010, the G20 Anti-Corruption Working Group has focused on strengthening the implementation of key international standards against corruption, developing tools where gaps existed and encouraging international cooperation in the fight against corruption. Its focus included, in particular, foreign bribery, public-private partnership, public-sector integrity, whistleblower protection, asset recovery and anti-money laundering.

Under the impetus of the G20 focus on anti-corruption, political momentum was gained for all G20 countries to strengthen their legislative frameworks and come into line with key international standards. In addition, many countries, such as China, India, Indonesia and the United Kingdom, adapted their legislative frameworks to bring them closer to these international anti-corruption standards, including the OECD Anti-Bribery Convention and the United Nations Convention against Corruption (UNCAC). Other G20 countries launched reform processes to strengthen their anti-corruption legislation in specific areas, such as India on money laundering and Mexico on whistleblower protection in the private sector.

As reflected in the *Monitoring Report* for the Cannes Summit in November 2011, the Anti-Corruption Working Group has set concrete goals and specific actions for the coming year to carry out the commitments in the action plan, for which the support of international organisations such as the OECD is essential. Among others, G20 members have committed to ensure that legislation is adopted to criminalise foreign bribery and strengthen whistleblower protection by the end of 2012. The OECD Working Group on Bribery provides a forum for the effective review of the implementation of the convention.

An international consensus must be maintained to ensure that corruption is wiped out, creating a fairer and more transparent world in which to do business

“The OECD has helped countries on every continent to raise the bar in creating and strengthening strategies that would put an end to bribery”

In fact, G20 members, in particular those not yet party to UNCAC, have agreed to engage actively with the Working Group on Bribery with a view to ratification.

Also, the Anti-Corruption Working Group expands its scope continuously to areas where enhanced action is needed, including the different branches of the public sector particularly prone to corrupt practices. To reinforce the impact of the recommended standards in this field, G20 members have committed to adopt fair and transparent procurement systems in line with article nine of UNCAC and taking account the OECD Recommendation on Enhancing Integrity in Public Procurement. Furthermore, as for foreign bribery, the OECD will provide a framework for evaluating implementation with its integrity review mechanism, among other tools.

#### Involving the private sector

In addition to supporting countries in reaching these identified benchmarks on foreign bribery or public-sector integrity, the OECD has assisted countries in developing additional tools, such as a compendium of best practices and guiding principles for legislation. Moreover, because the involvement of the private sector in the fight against corruption is indispensable to ensure its effectiveness, the Anti-Corruption Working Group proceeded to engage further with business and exchange views and experiences. The OECD helped by providing a platform for discussions. Working with the French G20 presidency with the support of the UN Office on Drugs and Crime, the OECD co-organised the conference on 'Joining Forces against Corruption: G20 Business and Government', which offered the first opportunity for high-level representatives of both the public and private sectors to share their efforts to formulate best practices in the fight against corruption.

These turbulent economic times are not the moment for complacency: every day of inaction is a missed opportunity to create a more prosperous, fairer and more transparent world. The G20 Cannes Summit is the opportunity to give impetus to those international commitments made on paper to become concrete action to combat corruption. The OECD is ready to play its part and to continue to support the G20 move closer to a world without corruption. ♦

# Impact of the Central Bank of Nigeria banking reforms in Nigeria



Mallam Sanusi Lamido Sanusi,  
Governor of the Central Bank  
of Nigeria

The Central Bank of Nigeria (CBN) banking sector reforms were a response to the devastating impact of the global financial crisis, in addition to poor corporate governance practices, overt and undue exposure to the capital market, oil and gas sector, poor risk-management practices and inadequate disclosure and transparency about the banks' financial position.

The CBN commenced a special joint examination in conjunction with the Nigeria Deposit Insurance Corporation (NDIC) to ascertain the true state of the banking industry. The outcome of the examination revealed that a total of eight banks exhibited imminent signs of collapse, which could drag the entire banking sector down, thereby endangering the Nigerian economy.

On August 14, 2009, in order to stem further deterioration in the condition of the affected banks and protect the interest of depositors and creditors, the CBN intervened through a series of measures. It replaced the executive management and, in some cases, the boards of banks with new ones and referred the cases of some of the principal officers to the law-enforcement and prosecution authorities. One former CEO was recently convicted and other cases are being tried.

The CBN injected a total of N620 billion into the banks in the form of tier-two capital to be repaid from the proceeds of recapitalisation in the near future. This has helped to stabilise the banks and restore confidence in the banking system. As a further confidence-building measure, the CBN reaffirmed the guarantee of the local inter-bank market to ensure continued liquidity for all banks and guaranteed foreign creditors credit lines to build confidence in correspondent banking relationships. This led to enhanced liquidity and helped to restore confidence with the international correspondent banks.

Objectives of the reform were predicated on a four-pillar policy framework laid out by Governor Sanusi Lamido Sanusi, namely: a) enhancing the quality of the banks, b) establishing financial stability, c) enabling a healthy financial sector and d) ensuring that the financial sector contributes to the real sector.

## Enhancing the quality of banks

In order to enhance the quality of the banks, the CBN put into practice a number of initiatives to promote the safety, soundness and stability of the banking system. The CBN embarked on scrupulous enforcement of good corporate governance and risk management culture in banks with emphasis on enhanced transparency and disclosures, in addition to the implementation of risk-based and cross-border supervision designed to better focus examination efforts on management's processes for identifying, measuring and controlling risks.

Macro-prudential guidelines were strengthened and preparation is being made to move towards implementation of the New Capital Accord (Basel II) by the year 2012. Other complementary measures to enhance the quality of the banks include a policy of limiting the tenure of Chief Executive Officers of banks up to a maximum of 10 years, aimed at forestalling corporate governance abuses.

The Know-Your-Customer directive had to be enforced in order to curb money laundering and other financial crimes in the banking system. There was a comprehensive review of the 'Fit and Proper Persons' rule aimed at ensuring that only credible persons of impeccable financial, personal and professional character are allowed as major shareholders, directors and managers of banks.

In order to safeguard the independence of external auditors, as well as enhance the integrity and credibility of the financial statements audited by them, the bank introduced tenure limit of 10 years for external auditors. Also, the CBN in conjunction with the Securities and Exchange Commission, issued guidelines for margin lending, which placed a limit on the banks' capital market exposure based on a percentage of the bank's balance sheet.

The Asset Management Corporation (AMCON) was established following the promulgation of an enabling act by the Nigerian parliament in 2011 as a broad resolution strategy aimed at addressing the problem of non-performing loans (NPLs) in the Nigerian banking industry. In line with its mandate, AMCON acquired risk assets of some banks worth over N1 trillion and recently an additional N1.6 trillion was injected into these rescued banks, aimed at boosting their liquidity as well as enhancing their safety and soundness.

Still in pursuit of enhancing the quality of banks, the Universal Banking policy was reversed and a new banking model aimed at making banks focus on core banking was introduced. Also a process of mergers, acquisitions and recapitalisation of the eight intervened banks was initiated.

Having concluded Transaction Implementation Agreements, the rescued banks (Equitorial, Finbank, Intercontinental, Oceanic and Union Bank) successfully secured the approval of their respective shareholders at the various Extraordinary General Meetings. Consequent to the shareholders' approval, the Nigeria Stock Exchange (NSE) has placed Intercontinental, Oceanic and Finbank in full suspension (meaning that their shares will not be traded on the floor of the Exchange, preparatory to being delisted from the daily official list of the NSE).

Thus, Intercontinental will in the next year combine its business with Access Bank; Oceanic Bank has been acquired by Eco-Transnational Bank for a subsequent merger with Ecobank Nigeria; while Finbank will be merged with First City Monument Bank. Union Bank remains the only stand-alone institution, following the proposed injection of \$500 million fresh capital and the consequent issue of 11.008 billion shares to Union Global Partners in consideration, as well as 3.3 billion shares to AMCON in lieu of its capital injection to raise the bank's net assets value to zero. This brings to completion the recapitalisation process of the rescued banks and full resolution of the banking crisis.

### Establishing financial stability

Another pillar of the reform programme is the imperative to establish financial stability, which is centred on strengthening the Financial Stability Committee (FSC) within the CBN, establishment of a hybrid monetary policy and macro-prudential rules. This also involves the development of a directional economic policy and counter-cyclical fiscal policies by the government and further development of the capital market as an alternative to bank funding.

The FSC will focus on maintaining a systemic stability by way of moderating excessive credit and financial assets growth as a check against an asset price bubble. The Financial Services Regulation Coordinating Committee has been strengthened to address issues of common concern to regulatory and supervisory bodies more effectively.

The CBN has also introduced new macro-prudential rules to address several of the specific causes of the crisis, which include the following:

- i. Limiting capital market lending to a set proportion of a bank's balance sheet;
- ii. Prohibiting banks from using depositors' funds for proprietary trading, private equity or venture capital investments (the "Volcker rule" or some version of Glass-Steagall);
- iii. Adjusting capital adequacy ratios depending on the perceived riskiness of the bank or financial institution
- iv. Adjusting capital adequacy depending on the perceived point in the cycle;
- v. Forward-looking capital requirement driven by stress tests conducted by CBN.

### Enabling a healthy financial sector

Another pillar of the reform is the effort of the CBN to implement a more competitive banking industry structure by way of maintaining a stable interest rate structure. The bank has maintained a very stable Monetary Policy Rate over the last year. This has in no small measure helped to guarantee a business climate amenable for business planning and forecasting.

The CBN established necessary infrastructure such as credit bureaux and credit registrars to function as credit-referencing institutions to write independent credit and status reports on prospective credit customers to provide another level of checks.

To facilitate an improved cost structure for banks through cost control and business process outsourcing, the CBN canvassed for a strategy for sharing of infrastructure facilities such as power and ICT among the banks as a way towards achieving a reduced cost profile in the industry. The CBN, in collaboration with the Bankers' Committee, recently placed cash withdrawal/lodgement limits of N150,000 for individual account holders and N1 million for corporate account holders, with the aim of reducing the high dominance of cash in the Nigerian economy with effect from June 2012.

Working with the banks, the CBN will start the implementation of the policy in phases. There will be pilot schemes in Lagos, Port Harcourt, Abuja, Kano and Aba, which will eventually cover the entire country in a few years. The payment system is constantly being improved.

Microfinance banks have been reinvigorated to take care of the unbanked, economically active segment of the population to foster greater financial inclusiveness, thereby reducing the informal sector. This is a deliberate effort by the CBN towards evolving a new microfinance bank policy with a view to repositioning the institutions for greater efficiency.

### Ensuring the financial sector contributes to the real sector

The CBN Governor, acting in his role as adviser to the President on economic matters, ensures that there exists a measurable relationship between the real economy and the financial sector. As a result, the bank adopted a hybrid monetary policy (a combination of market-based monetary policy measures and direct intervention fiscal measures) in some critical sectors of the economy.

To demonstrate this, the CBN recently approved the sum of a N500 billion facility for investment in power projects, which was later extended to the aviation industry. The funds, which are to be channelled through the Bank of Industry, is to be accessed through commercial banks with a tenor of 10 to 15 years at a concessionary rate of not more than seven per cent.

The bank also established a N200 billion Small and Medium Enterprises Credit Guarantee Scheme to promote fast-track access to credit by manufacturers and SMEs in Nigeria. The scheme is funded and managed 100 per cent by the CBN. Prospective loan applicants will be made directly to the participating banks, with a maximum tenor of seven years, inclusive of a two-year moratorium.

In summary, the CBN banking reform has recorded notable achievements when compared with experience from many other jurisdictions. The Nigerian banking sector reform was the only banking sector intervention or bailout where depositors did not lose their deposits with banks. There has been a considerable improvement in the macroeconomic environment, with a stable Naira exchange rate sustained for over 18 months and an inflation rate in low double digits.

There is also the emergence of AMCON, which acquired the NPLs from banks valued at over N1.2trillion and subsequently injected a further N1.6 trillion. The AMCON operation not only stabilised the banks' balance sheet, but also helped to inject liquidity into the banking sector. It is equally significant to note that AMCON was able to raise the bailout fund without any recourse to the national treasury.

Moreover, there has been increased financing of the agriculture value chain, from less than one per cent to two per cent of the loan portfolio of banks. Nine Nigerian Banks are currently among the top 1,000 banks in the world. Remarkable improvement is being recorded in corporate governance and better risk management profile.

The intervention in the aviation sector has helped to stabilise operations and has saved thousands of jobs as well as enhanced safety in that industry. Credit to the private sector has also increased, with the non-oil sector acting as the growth driver, so much so that the Nigerian economy remains one of the fastest growing in the world, with an overall GDP growth projected at 7.8 per cent for 2011.



# Ending tax-haven secrecy: a framework for G20 action

*As markets become increasingly globalised, so the opportunities for cross-border crime and other misconduct proliferate. Developing countries need swift G20 action to ensure banking and financial secrecy no longer undermine their ability to benefit from global trade*



By Loretta Minghella, Director of Christian Aid and formerly Head of Enforcement Law, Policy and International Co-operation at the UK Financial Services Authority

Let me be a little blunt, in the hope of catching your attention. Back in 2009, the G20 declared that “the era of banking secrecy is over”. But two years later, from developing countries’ perspective, nothing much has changed.

Indeed, it seems that the significant progress that has been made in getting tax havens to share information with other countries has largely focused on protecting the tax bases of the wealthiest nations.

Of course one can see why this has happened – the financial tumult of recent years has sent governments racing to secure their faltering sources of revenue. It has also made foreign aid more controversial among electorates.

Fortunately, there is a link between international financial secrecy and developing countries’ need for aid – tackle the secrecy and over time, the need for aid will diminish. That would please electorates in many rich countries, but becoming less dependent on aid is very much in poor countries’ interests, too.

It is laudable that some G20 countries are maintaining the commitment to give 0.7% of GNI to poor countries. But poor countries’ need to finance public services and infrastructure is vast and often goes beyond what aid budgets can cover.

So in the longer term, governments must raise revenue from their own citizens and companies operating within their jurisdictions. As well as bringing in funds, this is likely to make them more accountable to their citizens and less able to indulge in corruption.

Right now, however, offshore financial secrecy is allowing corrupt leaders, unscrupulous businesses and tax dodgers to undermine the fragile tax bases of developing countries. Of course, not all transactions with tax havens are nefarious, but the secrecy that surrounds them sends a strong signal that the risks of getting caught are low. Even if developing countries had enough well-trained, properly-paid tax officials, that same secrecy would prevent them collecting the monies due to them.

As a former financial regulator and Chair of the Standing Committee on Enforcement and Exchange of Information at the

International Organisation of Securities Commissions, I have seen how legislation is effective only when you also have timely access to information about potential abuse.

Now, as Director of Christian Aid, I see the harm that a lack of international cooperation is doing to people living in poverty across the world.

Christian Aid estimates that about US\$160 billion is lost to developing countries through tax dodging each year. By contrast, aid to developing countries totalled \$120 billion in 2009. So for every one dollar we give in aid to developing countries, more than a dollar is removed, illicitly.

This is why it was so welcome when in 2009 the G20 proclaimed that the “era of banking secrecy is over”. Cannes provides the perfect opportunity to take this one step further. To raise the bar on financial secrecy, G20 countries must sign and ratify the OECD/Council of Europe convention on Mutual Administrative Assistance in Tax Matters and provide the opportunity for non-G20 developing countries to engage. And, crucially, offshore jurisdictions need to feel pressure to sign the convention. This will maintain momentum on the tax and transparency agenda for future summits.

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## Offshore financial secrecy is allowing corrupt leaders, unscrupulous businesses and tax dodgers to undermine the fragile tax bases of developing countries

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By promoting such high-level coordination on financial transparency, both G20 and developing countries can capture resources and use them to foster the sustainable and balanced growth that is in all our interests.

*Christian Aid is part of a global movement calling for G20 action on tax havens, to protect the interests of poorer countries as well as rich ones.*

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# Keeping the consensus on tax havens

*The drive to end bank secrecy and to implement sanctions on tax havens has been undermined by political deals between countries. Only regulation and coordination on a global scale can bring about proper international standards*

**By** Amandine Scherrer, associate researcher, Canada Research Chair in Security, Identity and Technology, Université de Montréal, and OPIAS Consulting

In April 2009, the gathering of G20 leaders in London announced a crackdown on tax havens. Their communiqué advocated sanctions against non-cooperative jurisdictions and declared that the “era of banking secrecy” was now over. This commitment led to the publication by the Organisation for Economic Co-operation and Development (OECD) of a renewed list of non-cooperative jurisdictions around the world, the improvement of regulatory mechanisms through the newly established Financial Stability Board (FSB) and its expert group on non-cooperative jurisdictions, and the enhancement of peer-review mechanisms through the Global Forum of Transparency and Exchange of Information for Tax Purposes.

Did this move for greater transparency prove to be a long-lasting one? In today’s time of harsh budgetary cuts and restrictions, tax havens are increasingly perceived by the public as financial havens for a privileged few, unscrupulous companies and corrupt developing-world leaders. Governments are concerned about the loss of tax income. In today’s international economic and social context, a consensus seems to have been reached on the need to regulate tax havens and offshore jurisdictions.

## Exchanging information

Improvements have been achieved in the regulation of tax havens as set out in the G20’s action plan. The OECD blacklist has indeed led to a record number of multilateral tax information exchange agreements (TIEAs), with at least 500 signed, according to the G20 under the French presidency. More than 30 countries have shown progress in implementing the OECD standards.

The Global Forum now includes 101 jurisdictions and observers, allowing more jurisdictions to enter into agreements in line with its Model Agreement and both the OECD Model Tax Convention on Income and Capital and the UN Model Double Taxation Convention.

There are now 34 reports of the Global Forum that describe jurisdictions’ rules for ensuring that information is available, making it accessible by competent authorities and providing the mechanisms to exchange information with foreign tax authorities.

The reports also recommend how to improve cooperation in international tax matters. Follow-up mechanisms are in place, with a subsequent assessment stage every three years. Close to 60 reviews are now completed. The Global Forum also released an assessment in 2010 that identified a strategy for working with the OECD, other international organisations and regional groupings, to provide technical assistance to all interested

jurisdictions so that they can fully implement the standard.

The G20 has, without doubt, taken the lead in these steps towards greater transparency in regulating tax havens. Given the complexity of the task, the past two years have proved very fruitful. However, progress should not be overestimated. The quest for more transparency and regulation is often hampered by political bargains and distinctive domestic agendas.

A striking example is the Rubric Project, which was initiated by Swiss banks in 2009 and supported by Swiss authorities. It aimed to propose a flat-rate tax on the income of foreign-domiciled clients for countries that wish to avail themselves of the service.

This tax was to be deducted by the paying agent – the bank – and credited to the tax authorities of the client’s tax domicile. The project led to Switzerland’s

““ In today’s climate of harsh cuts, tax havens are perceived as financial havens for a privileged few, unscrupulous companies and corrupt developing-world leaders ””

formal agreements with Germany and the United Kingdom earlier this year. If such bilateral agreements confirm the will to enhance the exchange of information between countries for tax purposes, they also demonstrate a breach in the unanimity of the 2009 London Summit.

Such deals indeed allow banking secrecy to continue and undermine international efforts to crack tax havens. Moreover, they are contrary to the spirit of the European Union Savings Tax Directive, which takes primacy over bilateral agreements. Many reports underline that these deals mark a setback for international efforts led by the OECD and EU to improve transparency in the banking



The increase in the number of multilateral tax information exchange agreements offers a ray of hope in tackling tax havens

system. The current dispute between US authorities and Swiss banking officials, over a revised tax treaty to hand over the details of US citizens using Swiss banks, demonstrates how the issue of bank secrecy remains an object of harsh and sensitive negotiations.

#### Implementing sanctions

Another concern is the issue of sanctions. Even if the G20 London Summit and the G20 Pittsburgh Summit reached a consensus on proper sanctions against tax havens (such as increased disclosure requirements; withholding taxes and denial of deductions adding extra weight to the principles of tax transparency and information exchange in bilateral aid programmes), the technical difficulties of implementing them remain high.

Also, the OECD lists still face criticism and defiance. The question of the transparency of the international regulatory mechanism that fails to include territories linked to influential powers such as China (Macau, Hong Kong), the US (Delaware) and the UK (the Channel Islands, British Virgin Islands) remains an open one.

Indeed, these jurisdictions share common features with well-recognised non-cooperative offshore jurisdictions and tax havens. Also, the principle by which a country or territory is removed from the

blacklist after only mere declarations of intention to comply with international standards is often denounced by civil society.

In May 2009, the OECD's Committee on Fiscal Affairs decided to remove all three remaining jurisdictions (Andorra, Liechtenstein and Monaco) from the list of non-cooperative tax havens. As a result, no jurisdiction is currently listed. Similarly, Switzerland was removed from the grey list only a few weeks after the announcement of the OECD list in 2009.

#### Requirement for regulation

The G20 Cannes Summit should reaffirm the need for international regulation and coordination on the issue of tax havens and encourage the expansion of the Global Forum, as well as the network of TIEAs. The G20 leaders should also support OECD efforts in updating its non-cooperative jurisdictions list, promoting transparent assessment mechanisms and sound judgement.

The peer-review reports produced by the Global Forum should be endorsed and their follow-up mechanisms firmly promoted. Technical difficulties in implementing international standards, as well as in ensuring effective sanctions, should be clearly identified and targeted as priorities in the coming years. ♦



Handling gold granules at the Oegussa plant in Vienna, Austria. Unlike financial-based derivatives, physical commodity derivative markets are linked to goods with a finite supply

# A consistent approach to commodity derivatives

*We need a globally consistent stance towards the oversight of the physical commodity derivatives markets so they can carry out price-discovery and hedging functions while operating free from manipulation and abusive trading schemes*

**By** Greg Tanzer, secretary general, International Organization of Securities Commissions (IOSCO)

**O**ver the past few years, and especially in the aftermath of the financial crisis of 2008, volatility in commodity markets has been an issue of major concern for policy-makers around the world. In particular, politicians have raised legitimate concerns over the efficiency and integrity of commodity derivatives markets.

Both commodities and financial markets are global, and this means that an international approach is essential. Recognising this, the G20 used their November 2010 summit in Seoul to task the International

Organization of Securities Commissions (IOSCO) with carrying out further work on regulation and supervision of physical commodity derivatives markets, building on what it has done since setting up the Task Force on Commodity Futures Markets in September 2008. This work has culminated in the report of the task force and the IOSCO Technical Committee, setting out principles to regulate and supervise these markets, that it delivered to the G20 finance ministers last month ahead of the Cannes Summit.

The principles set out in that report will help to ensure that physical commodity derivatives markets serve their



Commodity prices listed at the New York Mercantile Stock Exchange. Regulators should set up a clear framework for commodities derivatives contracts, says IOSCO

fundamental price-discovery and hedging functions, while operating free from manipulation and abusive trading schemes. However, these principles are not intended to address absolute price levels or price volatility in the underlying physical commodities.

The principles aim to ensure a globally consistent approach to the oversight of commodity derivatives markets that will deliver effective supervision, combat market manipulation, and improve price transparency.

So what is IOSCO proposing to the G20? The principles address five key areas: design of physical commodity derivatives contracts, surveillance of commodity derivatives markets, tackling disorderly markets, enforcement and information sharing, and enhancing price discovery and transparency. It is worth examining each one in turn.

Getting the design of commodity derivatives contracts right is important because that is the best way to eliminate or minimise the susceptibility of futures contracts to price manipulation or distortion. Where contract terms are not consistent with commercial practices or the delivery process is biased in favour of either participant, the contract may not be commercially successful or it may be susceptible to market abuses or manipulation and so contribute to price distortion and disorderly markets.

Regulators must therefore establish a clear framework for the design and review of the criteria and procedures for commodity derivatives contracts. Contracts must also have what IOSCO calls 'economic utility'. This means they should meet the risk-management needs of potential users and promote price discovery of the underlying commodity. This is important because the more accurately a commodity derivatives contract reflects the operation of the underlying physical market, the more likely it is to be useful as a tool for hedging and price discovery.

The derivatives contract must therefore correlate with the physical market. Reflecting the operation of the underlying physical commodity market will avoid, or at

least minimise, the possibility of manipulation or price distortion in the derivative contract. In order to get the design right, regulators should take the views of potential contract users into account. The contracts themselves should be transparent so that the terms and conditions, as well as details such as delivery and pricing, are readily available to regulators and market participants.

The second broad area is surveillance of commodity derivatives markets. Surveillance is more than just a buzzword. Physical commodity derivatives markets are unique because, unlike financial-based derivatives, they are linked to goods with a finite supply. Effective surveillance programmes are needed to detect manipulative or abusive conduct, and to ensure the operation of fair and orderly physical commodity derivatives markets. There needs to be a clear and robust framework for surveillance, agreed methods for monitoring trading activity, and collecting and analysing market information.

Information is a critical tool for maintaining fair and orderly markets and ensuring market integrity. Obtaining this information is particularly critical during periods of high price volatility, in order to determine whether a market is functioning properly. Acquiring information on traders' positions also enables regulators to understand the composition of the market and to analyse the participation of both commercial and non-commercial market participants.

It is particularly important that regulators are aware of large positions and their owners – including positions owned or controlled by a third party on behalf of the true owner – and they may need additional information on related over-the-counter (OTC) and physical market positions. This is critical, as it will enable regulators to identify the build-up of concentrations of positions that could result in congestion or price distortion, and provide evidence of possible manipulation or other abusive trading.

The third area is the need to deal with disorderly markets. Disorderly conditions in physical commodity



derivatives markets can have significant negative effects on national economies. They can be caused by technical errors in the trading system, 'fat finger' mistakes and overreactions to major news or rumours, such as embargoes or natural disasters, that might affect supplies of commodities. IOSCO believes that regulators should be given powers to intervene in the market to prevent or address disorderly conditions.

Accordingly, it is critical that they have the necessary powers to intervene in the markets. In particular, they should have the power to stabilise markets when disorderly conditions exist, including ordering market participants to reduce the levels of their positions. In order for that to work, regulators need the power to set ex-ante limits on positions and to establish the principle of automatic consent by traders to follow an order of the regulator when that trader's position reaches a defined threshold size.

The fourth element of IOSCO's proposals is enforcement. Regulators must have powers to prohibit, investigate and take enforcement action against market abuses. This includes manipulation or attempted manipulation of the market. Clearly there must be clarity as to what constitutes manipulative, abusive conduct or other prohibited conduct, and IOSCO's reports set out 10 specific practices. Regulators also need adequate powers and the capacity to investigate and prosecute actual or suspected market abuse. The final element is the power to discipline market participants if an abusive practice has occurred in the market, ranging from a warning to expulsion as a member.

The final section of IOSCO's proposals aims to enhance the price-discovery function of commodity futures markets. Enhancing the availability and quality of information regarding the production, consumption, storage and trading of the physical commodities that underlie a financial market contract will improve the reliability of price discovery in the financial markets. This enhancement

IOSCO believes that regulators should be given powers to intervene in the market to prevent or address disorderly conditions

will improve transparency in commodity derivatives markets and in OTC transactions. The process is critical, not only for signalling expectations about price, but also for providing data that might improve the analysis of any causal relationships between financial and physical market activity.

The principles that the Technical Committee has set out help to ensure that the physical commodity derivatives markets serve their fundamental price-discovery and hedging functions, while operating free from manipulation and abusive trading schemes.

These principles represent a valuable contribution to addressing the G20's legitimate concerns regarding the efficiency and integrity of commodity derivatives markets by presenting concrete recommendations that will support better-functioning, better-policed and more transparent commodity derivatives markets. By endorsing their implementation through a coordinated approach at their Cannes Summit, leaders will ensure the best prospects for improving the operation of both derivatives and commodities markets and for achieving the G20's objectives. ♦

# Commodity-prices volatility: the reality behind the notion

*Wildly fluctuating commodity prices have made it more difficult for governments to produce accurate economic predictions and have harmed the potential for growth. The world cannot afford to allow such volatile markets to go unchecked*

By Arkady Dvorkovich, aide to the president of the Russian Federation and G8 and G20 sherpa

**T**oday, the ongoing volatility in energy and commodity markets is central to the political agenda of the G20, but why does it matter in the first place? In recent years, a number of commodities have demonstrated price fluctuations measured by double-digit percentage points. At extreme moments the price may even double or triple, as once happened to oil prices around the time of the 2008 financial crisis. Due to the magnitude of the economic and political impact of such fluctuations, the world can neither dismiss nor remain a passive observer of these market phenomena.

What is commonly described as volatility represents occasional and not necessarily anticipated price hikes, which undermine governmental efforts at predictable budgets and put at risk the projected profitability of a broader range of business. It is an unwelcome challenge at any time, and even less desirable under the current circumstances.

Exceeding certain limits, it may jeopardise the barely achieved small growth in the aftermath of the world economic crisis that is being currently enjoyed. Volatility also has a considerable impact on economic output, depending on which side of the trade interaction the country or company sits. Price fluctuations may also play a positive role in economic adjustments, sending a signal that may induce a structural change or amendment in market behaviour. The devil is, as always, in the detail, and there is, therefore, a question of what kind of signal and when it comes.

Lastly, there is the issue of whether there is the time or capacity to adapt. If one only relies on the invisible hand of market forces, then government regulation as such remains obsolete. Left unattended, price fluctuations may easily cross the line to where they might develop into energy or food security challenges.

Volatility matters for Russia, because it is a major player in the international oil and gas markets, as well as in markets for some metals, grains and other commodities. An upward dynamic of certain commodities (primarily hydrocarbons, grains and timber) gives the Russian government extra means to fill its exchequer, yet it also has adverse effects on its policy of maintaining a stable and predictable budget. Clearly, Russia cannot complain when prices go up; but it has a sober understanding of the necessity of long-term stability in both trade relations and internal challenges for its currency and inflation.

Following the work of G20 working groups, there has been a series of consultations with market players and regulators on the issue of energy price volatility. Here are some of the results of these consultations:

The volatility discussion that has been taking place at the G20 is directly linked to a broader debate about the need to streamline the regulation of financial markets that, with certain ups and downs, has remained high on the political agenda since the 2008 economic crisis. Mandated by the G20, the International Energy Agency (IEA), the International Energy Forum (IEF), the International Organization of Securities Commissions (IOSCO) and other international bodies are engaged in a fact-finding mission to explore the perceptions of the financial speculation behind recent price spikes and, if any exist, finding who is responsible for that speculation, and then offering some suggestions on what to do.

## Cautious assessments

Remarkably, yet predictably, all these organisations are careful not to draw decisive conclusions. There are at least two reasons for this. First, although references to excessive volatility and abuses in financial markets have emerged as a cliché, there is still no substantive or, more importantly, legal definition of what is meant by these terms. There are no clearly defined criteria for how to differentiate 'excessive volatility' from, say, normal or acceptable price fluctuations or how to distinguish decent operations to buy and sell derivatives and other securities from punishable financial speculation that needs to be constrained by regulatory measures.

Second, there is a solid consensus among business people that observed volatility reflects a tightening of the market and fundamental factors, and that to fight volatility politicians need to introduce measures to improve the supply side. Traders believe that it was good news rather than bad when commodity derivatives turned into financial assets: it increases liquidity and facilitates hedging risks in tight markets. Business leaders also warn that any action to constrain derivatives, if not carefully designed, might have adverse effects on the performance of markets.

This perspective is not without argument, but there is another side of the coin. Institutional investors that demonstrate growing interest in investing in commodities have made the interconnection of physical and financial markets much tighter. The amount of resources invested



Russia cannot complain when prices go up; but it has a sober understanding of the necessity of long-term stability





increased from \$13 billion in 2003 to between \$180 billion and \$200 billion in 2008. These factors contribute to price hikes being deeper, speedier and more dramatic.

Moreover, financial players do not think in terms of high or low prices. They earn their income from price differences – in other words, the more volatile the environment, the more profit they make. Bullish behaviour is the dominant strategy for those who invest in ‘paper’ instruments, as it is an easier strategy to follow.

Finally, a decade ago, financial institutions generated about 15 per cent of the profits of US companies. Today, their share has grown to 45 per cent. Almost a million new fortunes have been created through financial operations. In other words, after becoming an asset in itself, investment in securities, especially derivatives, became more attractive than any investment into the ‘real economy’ – a hedging instrument from a subsidiary function turned into a primary one that overshadows physical trade.

With regard to Russia’s position, it is uneasy about substantial and unpredictable price fluctuations in commodities in world markets. This volatility creates extra risks for operational stability for a number of key sectors of the economy, as well as for monetary policy and budgetary planning. Russia has no intention of being associated publicly with any move to unduly raise the prices for end consumers.

#### The view from Russia

What is Russia’s standpoint? Russia suggests that the G20 consider the following recommendations:

Any discussion of whether commodity prices should be high or low makes little economic sense, since those fluctuations reflect not only the dynamics of the balance between supply and demand, but also major macroeconomic factors and, not least, the financial

Workers at Rosneft Achinsk oil refinery, one of the biggest Siberian fuel producers. Volatility in commodities prices is influenced by more than simply supply and demand

policies of the United States and European Union (including US dollar exchange rates).

The G20 should call on experts to come up with draft definitions of what constitutes excessive volatility and speculation or abuse of the market. Without a consensus on what these labels mean, no constructive discussion is possible, much less proposals for practical measures.

Russia supports the extension of Joint Organisations Data Initiative (JODI Oil) to other commodities starting with natural gas (coal is tricky from technical point of view), with the caveat that this makes sense only if data on the financial aspects of respective markets are collected concurrently. If the gap between knowledge of ‘physics’ and ‘money’ remains as it is, there will be no basis either for analysis or for practical action.

#### Steps to a global information system

Russia has already started to apply this approach on the national level, introducing a law on the State Information System on Energy, which passed its first hearing in parliament in September. This experience could be useful if all agree that it is necessary to explore the creation of a global information system on energy data, supplementing existing databases of national and international bodies.

To conclude, the keys to success are a closer dialogue between the consumer and producer countries and the coordination of the energy policies of the major players. When, as happened in the spring, Russia learned about the release of US oil reserves from media reports and not from its counterparts on energy, it does not contribute to price stability. My strong belief is that this was just an exception that proves the rule. The rule is that everyone sits in the same boat, and only synchronised and carefully crafted energy policy will keep that boat afloat in the turbulent waters of today’s economy. ♦

# We need consultation rather than a ban on OTC derivatives trades



By Christian Katz,  
chief executive officer,  
Six Swiss Exchange

More than three years have passed since Lehman Brothers collapsed, precipitating a global financial crisis from which the world has yet to recover. Back in those dark days of September 2008, one of the key challenges facing market participants and policy-makers centred on the extent of over-the-counter, or OTC, derivatives trades in which not only Lehman but nearly all financial institutions were involved. Not centrally cleared, weakly regulated and often opaque, the vast OTC derivatives universe was extremely difficult to assess, in terms of both individual exposure and overall market vulnerability.

Politicians and regulators concluded, not unreasonably, that this situation was deeply unsatisfactory and that structural reform was needed.

G20 leaders subsequently stated that all standardised OTC derivatives contracts should be traded on exchanges, cleared through a central counterparty and reported to trade repositories. These proposals have since been ratified by the Dodd-Frank Act in the US, while the European Union has agreed to tighten regulation of OTC contracts and is working on legislation towards that end.

So far, so commendable. Regulated exchanges offer unparalleled liquidity, a supreme degree of transparency and very low transaction costs. During well-established opening hours, they operate robust trading platforms and provide strong protection against market abuse. Almost without exception, they performed superbly even during the most painful months of the crisis, proving easy to analyse, regulate and monitor. Furthermore, as exchanges realised that standardised OTC derivatives should and would move to regulated markets, they started to build new solutions to trade these contracts in a variety of asset classes, including foreign exchange, commodities, equities and bonds.

To superficial observers, therefore, it might seem logical to move all derivatives contracts on-exchange, ridding financial markets in one fell swoop of OTC trading – by its nature, hard to control or influence.

Such a move would be gravely misconceived. As with other markets, financial markets cater to a wide variety of customers, each with different needs. For some, price and liquidity are all-important; for others, discretion is paramount. Today, customers of financial markets have that choice. The suite of on-exchange derivative products is growing fast as the industry tries to implement private, entrepreneurial solutions to the

problem, ahead of political, governmental remedies. Nonetheless, occasionally customers need something special – and that is where the OTC market comes in.

The important point is that OTC markets and centralised, regulated markets are in a symbiotic relationship, and each would be hard-pressed to survive without the other. OTC markets not only offer specialist service; they also spawn innovation. By their very nature, these are often the markets where new products are created. Once a new OTC derivative becomes more widely used and more standardised, it becomes more suited to regulated exchanges. This creates fresh liquidity, which serves as a basis for new investment and risk management approaches, driving further innovation in the OTC field.

That does not mean markets should be allowed to continue as they were before 2008. But it does mean financial market products are not essentially good or bad, and policy-makers cannot assume that they are.

We are at a crucial stage. And as we move towards the execution of structural reform and regulation, there is a grave danger of throwing the baby out with the bathwater, imposing blanket bans on certain products or certain trades, and weakening the entire financial system as a result.

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## OTC markets and centralised, regulated markets are in a symbiotic relationship, and each would be hard-pressed to survive without the other. OTC markets not only offer specialist service; they also spawn innovation

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Now, more than ever, a consultative approach is needed, particularly on three key points.

First, how do we properly standardise derivatives, ensuring the abuses of the past are not repeated and making markets more effective, while giving them the freedom to flourish?

Second, if many more trades rely on central counterparties for clearing, how should we deal with the increased concentration of risk accrued at central clearing houses?

And third, if policy-makers are keen to consolidate trade data in trade repositories so there is a consolidated audit trail of trades, how can we ensure the costs involved are evenly spread in a global roll-out?

On the first point, market participants, policy-makers and regulators are already working on what is and what isn't a standardised derivative. It is essential that this consultative approach continues, even if it takes some time. Policymakers and regulators need to rely on exchange industry and banks' input, even if they retain ultimate decision-making powers. Certainly, we need to move more derivatives contracts onto exchanges and regulate them more closely, but such moves need to be effected with care and sensitivity. Outlawing all OTC trades, limiting short-selling, imposing unreasonable obligations on market-



makers, creating a financial transaction tax on trades – these are the kinds of proposals that may have superficial political appeal but would ultimately restrict market activity, thereby harming the pensions, savings and investments of the very people they are designed to protect.

We also need to bear in mind that increasing the role played by central clearing houses will minimise the risk borne by market participants, but it will also concentrate more risk in the clearing houses themselves. Some of them will become systemically relevant, so governments and central banks will have to treat them as such.

The question of achieving transparency through trade data is extremely important as well. Whether a global solution is feasible within the next few years remains very doubtful indeed. But, to date, at a regional level, much of the cost of data gathering, monitoring and so forth has been borne by regulated exchanges. If global trade repositories were to be constructed, captured volumes would soar – and so would costs. These must, therefore, be more fairly apportioned at a national, continental and global level, between the private and the public sector. Given that ‘guesstimates’ for the US alone range from \$100 million to

\$2 billion, this is no small matter and due care should be taken before final decisions are made.

Overall, SIX Swiss Exchange is in favour of proposals to shift more OTC derivatives trading to regulated markets. The line between OTC and regulated markets must, however, be drawn intelligently in consultation with the industry. What should be avoided at all costs is excessive interference in regulated exchanges from well-meaning policy-makers. Most mature financial markets run by exchanges are well regulated, highly liquid and transparent. Putting too many obstacles in their way would encourage market participants either to withdraw from these regulated markets or to seek out new, unregulated ways of executing trades. Neither option is in the interests of regulators, traders or investors.

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# Injecting confidence into the derivatives markets

*It is important that the G20 takes steps to bolster the commodity derivatives markets by implementing transnational financial regulation and focusing on scaling back the freedoms afforded to deregulated operators and markets*

**By** Chiara Oldani,  
Department  
of Economics,  
University of  
Viterbo 'La Tuscia'

**C**ommodity prices are influenced strongly by their derivatives, especially in the energy market. The commodities market has played a key role in financial markets over the past five years, thanks to the diversification it provided to portfolio managers, increased volumes of transactions and growing prices.

The markets for both exchange-traded commodities and over-the-counter (OTC) commodities are dominated by oil contracts, followed by agricultural products and precious metals. The largest exchange-traded commodities market is the CME-CBOT – the merged Chicago Mercantile Exchange and Chicago Board of Trade. According to the Bank for International

Settlements, OTC commodity contracts reached the nominal value of \$2,922 billion in the second half of 2010, corresponding to \$526 billion in gross market value (see table, opposite). However, there is very little disclosure of detailed data on the counterparties, exposure, delivery and prices of OTC contracts.

According to finance theory, derivatives influence underlying contracts positively by reducing the spread between the bid and the ask price and by increasing market liquidity. Such positive effects are welcome in markets characterised by structural friction, such as the commodities market, where physical delivery and reserves strongly influence prices and demand. Nevertheless, the virtues of derivatives vanish in the presence of ineffective

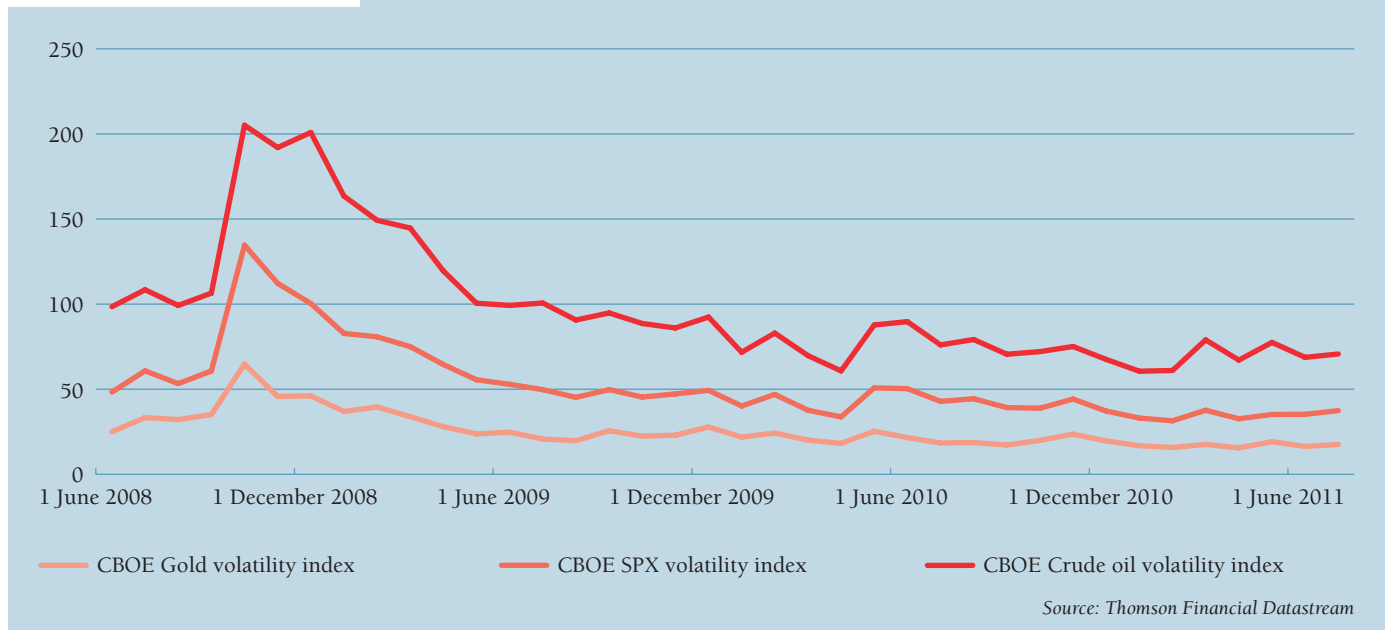
**Table:** Amounts outstanding (in billions of US dollars)

	National amounts outstanding				Gross market value			
	H1 2009	H2 2009	H1 2010	H2 2010	H1 2009	H2 2009	H1 2010	H2 2010
Commodity contracts <sup>a</sup>	3,619	2,944	2,852	2,922	682	545	457	526
Gold	425	423	417	396	43	48	44	47
Other	3,194	2,521	2,434	2,525	638	497	413	479
Forwards and swaps	1,715	1,675	1,551	1,781	...	...	...	...
Options	1,479	846	883	744	...	...	...	...

<sup>a</sup> Adjustments for double-counting partly estimated

*Source: BIS Quarterly Review, 2011.*

**Graph:** Monthly volatility indices



regulation and supervision and market segmentation. Excess volatility in the commodities market is the result of excess demand combined with a thin market and constrained supply. After the subprime crisis of 2007-08, governments intervened to smooth excess volatility in the interest-rate market. Indeed, central banks in Europe, the United Kingdom and United States actively intervened in the interbank market to smooth the excess volatility of interest rates, thus reducing financial volatility. In 2010-11, central banks also intervened in the sovereign bond market.

Two factors explain the consequent freedom of the commodity and derivatives markets: the fear of the inflationary consequences of such interventions and the impossibility of acting successfully in all financial sectors. The oil volatility index and the gold volatility index are highly correlated to the financial volatility index (see graph, above). There is no conclusive evidence of any systematic influence of speculative activity in the commodities market, although the limitations of the available data will inevitably affect this result.

Most research so far has focused on the oil market, its efficiency and its relationship with the macroeconomy, while other commodities are neglected because they make up less than one-third of the market. Energy derivatives contracts proved to be efficient and liquid, by reducing the underlying market bid-ask spread. Prices of non-fuel commodities – for example, agricultural products such as coffee, wheat and maize – and metals have shown three-digit percentage increases over the past two years; in this market, the limited availability of hedging tools and the

small amount of liquidity did not contribute to alleviating the loss of buying power for low-income population and small firms. For example, derivatives on pork bellies – a product widely consumed, but not appreciated, in financial markets – were delisted in July.

At this stage, the G20 needs to coordinate transnational financial regulation in order to restore and improve market confidence. The financial services regulations of the World Trade Organization should constitute the base from which the G20 should start its coordinating activity. The Cannes Summit should focus on diminishing the freedom of deregulated operators – specifically hedge funds – and markets (such as OTC derivatives).

The European Union recently stated that the “proposed EU Regulation has in key areas different prudential regulatory requirements for CCPs [central counterparties] than what the US has proposed so far [in the Dodd-Frank Act] and therefore this could potentially create market access problems for CCPs based in the US seeking access to the EU market”.

The financial regulatory improvements (such as the US Dodd-Frank Act and directives passed by the EU) and capital requirements (specifically the Basel III reforms issued by the Basel Committee on Banking Supervision) should reduce the regulatory asymmetry and misalignment that, at present, fuel OTC sector volatility. In particular, OTC derivatives should be traded on exchanges and electronic platforms, in order to shift the clearing of these instruments away from opaque bilateral structures to centralised clearing through transparent, regulated CCPs. ♦

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 The markets for both exchange-traded commodities and over-the-counter commodities are dominated by oil contracts  
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# A new relevance for gold



By Aram Shishmanian, CEO of the World Gold Council

In 2001, the price of gold averaged \$273 an ounce. Since then, the price has increased every single year, averaging more than \$1,500 an ounce in the first six months of 2011 and rising still further since then. This performance has prompted suggestions that gold is a speculative investment; that it is in a bubble and that the price will surely tumble in time. But these suggestions have no basis in reality.

Even a cursory look at supply and demand data shows that the price of gold is being driven by robust market fundamentals. In 2010, global gold demand was valued at \$157 billion, the highest figure on record. Appetite for bullion has continued this year, with strong quarterly figures in terms of both value and volume.

Behind these statistics lies a series of interwoven facts, which, together, are increasing gold's relevance in the world today.

Jewellery has been the prime source of demand for gold over many decades, and it remains in poll position. In 2010, it accounted for just over half of global demand and the trend has persisted this year. Consumer appetite is in evidence across the world, particularly in gold's cultural heartlands, China and India. The economic growth experienced by both countries is well-documented. As individuals become wealthier, they are purchasing gold as jewellery and as an investment, since both are seen as synonymous with wealth. This trend presages well for the future, especially as higher prices have done nothing to dent demand – over the past decade, for example, gold has risen 400 per cent in rupee terms in India

but demand has increased by 25 per cent. Adding to this groundswell, the numbers of people joining the Indian and Chinese middle classes are expected to soar by hundreds of millions over the next decade.

In the West meanwhile, a number of factors contribute to make gold part of the fabric of financial markets. This is not a new role. Indeed, gold has been considered to be a reliable hedge against credit risk, currency risk and inflation for some time. As the financial crisis has mutated from a mortgage crisis to a banking crisis and now to a sovereign debt crisis in the largest economies of the world, gold has been a constant source of value for savers, for investment managers and for the wealth of our nations.

Reserve asset managers have reassessed both the optimal level and composition of reserves needed. Significant reserves are required to survive in a world that, though three years into the financial crisis, remains deeply imbalanced. The world

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## Gold has been a constant source of value for savers, for investment managers and for the wealth of our nations

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needs a multi-currency reserve system: that is evident from the 'Triffin dilemma' that contributed to the current crisis. But the nascent diversification into eurobond markets has been abruptly curtailed by the sovereign debt crisis. Exchange rate policies in the rest of the world, and the lack of sufficiently deep government debt markets elsewhere, have ruled out diversification. Gold has emerged as a solution.

Emerging market countries around the world are buying huge volumes of gold and while European central banks have halted sales, the world's central banks are now large net buyers of gold. They have bought more than 200 tonnes of gold so far this year and are expected to accumulate considerably more





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## **Emerging market countries around the world are buying huge volumes of gold and while European central banks have halted sales, the world's central banks are now large net buyers of gold**

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by the end – a far cry from the 400-tonne sales that were the norm only a few years ago.

The hardest challenges of all are being faced by the world's leaders. Our financial system is broken. Bold steps and new thinking are required to fix it – nowhere more so than in our global regulatory framework, which allowed financial markets to so badly misprice risk. The right steps are being taken.

G20 leaders' commitment to augment the use of central counterparty clearing houses and Basel III will reduce systemic risks, and here too gold is playing a role. Leading clearing-houses and international banks, such as the Chicago Mercantile Exchange in the US, ICE Clear Europe and JP Morgan, have started to accept gold as collateral. Gold's lack of credit risk, counter-cyclical behaviour and deep and liquid

market make it an ideal choice. As the credit quality of other traditional sources of collateral continue to deteriorate, this use for gold is likely to grow. This is also a reason why the liquidity buffers proposed under Basel III should be extended to cover low risk and high liquid assets such as gold.

Other roles for gold may yet emerge, possibly in the international monetary system. This is currently being investigated by the highly respected think tank, Chatham House, where discussions are at an early stage.

In the meantime, three points stand out: supply and demand fundamentals for gold are stronger than ever, respect for gold is higher than it has been for decades, and appreciation for gold's relevance in today's troubled world is just beginning.



[www.gold.org](http://www.gold.org)

# Commodities and the global economy

*Rapid increases in the prices of key commodities in recent years have contributed to the lacklustre recovery from the global financial crisis seen in many parts of the world. Policies to reduce the effect of speculation on prices are urgently needed*

By Donald GM Coxe, strategy advisor, BMO Financial Group

**W**hy should the G20 concern itself with commodity prices? Don't the busy leaders of the world have more serious problems? They need to be concerned about a new version of stagflation that threatens the global economy, with inflation rates forecast by the Organisation for Economic Co-operation and Development (OECD) remaining modest at a time of very strong commodity prices. The G20 leaders are rightly considering policy reforms to ensure that the prices of key commodities – particularly foods and fuels – are driven overwhelmingly by supply and demand, not speculation. Rising food prices have exacerbated the problems of the poor across most of the world, while soaring oil prices bring back memories of past recessions induced by oil shocks.

## The rising price of foodstuffs

According to US data, in the past six years, the price of corn has roughly trebled, the price of wheat has doubled and the price of soybeans has more than doubled. Most food industry observers believe that corn's outperformance among the grains is because roughly 40 per cent of output is mandated into the production of ethanol. Wheat prices have responded primarily to adverse weather conditions in the key exporting countries. Last year's embargo of Russian wheat exports produced a sudden sharp price increase worldwide, but prices have since stabilised.

The basic driver of grain prices is the increase in vegetable protein demand from rapidly growing Asian economies. The number of hectares under cultivation worldwide has been increasing more slowly than the rate of consumption, although increased use of fertilisers and other technologies has increased output in most of the major grain-growing areas. However, as the CEO of Nestlé said, when asked how to reduce food inflation: 'Ban ethanol!' Ending European demand for palm-oil-based diesel fuels is also worth consideration. Can farmers produce enough grain and oilseeds to feed the world – and keep oil prices under control? Not likely.

Many observers also note that pension funds and other investors in passive commodity funds that roll over their exposures as contracts expire have accumulated large positions in the grains at various times in recent years. Considering the Open Interest positions at the Chicago Mercantile Exchange (CME), a reasonable observer could conclude that when new investment funds were pouring into these contracts, they – temporarily at least – accentuated upward price moves.

The oil business is so huge in comparison to the grain business that it attracts speculators and hedgers on a

vast scale. Once again, the passive investors in rollover funds seem to be capital suppliers to oil producers and professional speculators, rather than price manipulators or generators of commodity inflation.

Historically, oil prices have tended to trade in what is known as 'backwardation': the 'front month' contract is priced higher than the next months, so a passive investor keeps earning the difference as contracts are rolled over.

However, since US financial authorities began requiring oil companies to price their forward hedges – long and short – to market, oil futures have tended to trade most of the time in 'contango' – in which oil for future delivery trades at a higher price than spot. As a result, passive investors lose almost every month, as they end up acquiring fewer barrels of oil. The stronger the oil market, the more money they lose. That these roll funds and stock exchange-traded vehicles still have such huge sums under management is remarkable.

After the crashes and bailouts of 2008-09, governments and regulators are reviewing the large scale of oil, gas and products trading that is not effected transparently on

“ Rising food prices have exacerbated the problems of the poor across most of the world, while soaring oil prices bring back memories of past recessions ”

exchanges, but do so undisclosed – through financial institutions. To many observers, it is unclear why non-transparent trading offers societal benefits. What is clear is that the financial industry has tended to vigorously resist all attempts to constrain its commodity operations.

Eminent personages such as American economist Paul Volcker have long complained that banks' involvement in commodity trading puts them at risk without generating benefits to society at large. Governments could conclude that financial institutions



whose failure would put the economy at risk should not be permitted to trade commodities for their own accounts – except on public exchanges where the scale of their involvement and risk is made public.

### Regulating the commodity exchanges

The US Commodity Futures Trading Commission proposes position limits on the scale of derivative contracts – futures and swaps – on 28 commodities, including foods and fuels. No participant would be permitted to control more than 25 per cent of 'deliverable US supplies' for any covered commodity (apart from commercial hedging for normal business purposes – such as flour mills hedging their exposure to wheat, or oil refiners hedging their exposure to oil).

At first sight, non-commodity investors might regard these rules as reasonable. They are controversial, however, precisely because history shows that attracting speculative capital into futures markets from outside those markets has benefited farmers, miners, oil producers and refiners, bakers and food processors. These consumers need to hedge their inventories and price risks, and highly liquid futures markets have been crucial for them. That said, huge speculative positions in foods and fuels can certainly drive prices far higher – at least for a few months – than market forces would dictate.

Historically, commodity exchanges have tended to be tardy about imposing higher deposits on futures contract exposures when a commodity is in a runaway bull market. Perhaps governments could consider imposing automatic

Traders in the Corn options 'pit' at the Chicago Mercantile Exchange Group in Chicago. The price of corn has trebled over the past six years

increases in investors' and speculators' cash commitments when a commodity rises more than a certain percentage within a defined period of time. That kind of self-functioning constraint would probably have prevented oil from leaping from \$96 to \$147 a barrel in five months in 2008 – and collapsing to \$36 in the ensuing panic.

Although OECD governments have long agreed in principle that embargoes on food exports carry damaging consequences for the global economy, they still happen. One reason is that food processors, farmers and investors manage their businesses by estimating future grain prices using data on global inventories and crops yields. When a major grain exporter suddenly embargoes its exports, the disruption is global – the equivalent of the impact on oil prices of a sudden civil war in a major oil-producing state.

### Uncharted territory on prices

High commodity prices have historically been the best 'cure' for high commodity prices – as excess production is brought on stream, driving prices down and keeping them down for years.

This time seems to be different – because history offers no parallel to the sudden, sustained growth in commodity demand from China, India and Indonesia. The OECD has no experience with sustained high prices for foods and fuels at a time of slow economic growth.

The commodity futures markets also lack that experience. Therefore governments should agree how to ensure that those markets collectively respond in consumers' interests. ♦



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Increased foreign investment in agriculture will help to build on existing development gains

# Is the international investment policy regime up to the tasks ahead?

*With the gap between the richest and poorest countries widening and the world struggling to deal with ongoing crises, the investment community must consider whether it possesses the tools necessary to meet development objectives*

**By** Supachai Panitchpakdi, secretary general, United Nations Conference on Trade and Development

**O**ne of the current pre-eminent policy challenges is how to foster responsible investment and reap the attendant development benefits. Today's investment environment is characterised by flows of foreign direct investment (FDI) that remain 15 per cent below their pre-crisis average and more than 35 per cent below their 2007 peak, despite the fact that companies' income from foreign investments is close to 2007 highs. This lack of private productive investment is particularly serious as public investment runs out of steam in one country after another.

The investment landscape is also experiencing fundamental changes. Last year was a landmark: for the first time, developing countries received more than half of global FDI flows in 2010. However, emerging markets are not only important recipients of FDI, but also increasingly large investors themselves, with their share of world outflows approaching 30 per cent. Clearly the patterns and types of investment by these new players on the scene are different – and so are their priorities. There is a growing risk of investment protectionism, given that the restrictive investment measures undertaken by governments each year have reached the highest level since 1992.

All this is occurring at a time when the world is striving to deal with crises related to food, finance and climate change and when the development gap is widening, which particularly affects the least-developed countries and the poor and marginalised. These investment-related challenges, together with the broader debate about global economic governance, raise the question whether the international investment policy regime is sufficiently equipped for offering reliable global economic governance, successfully promoting responsible investment and effectively delivering on its development promise.

Harnessing the contribution of international investment agreements (IIAs) so as to effectively encourage sustainable investment is therefore a key priority for the investment community.

**The role of international investment agreements**

As of June, the IIA regime comprised more than 6,100 treaties, including 2,830 bilateral investment treaties (BITs), 2,996 double taxation treaties and 314 other IIAs (such as free-trade agreements with investment provisions). Countries negotiate IIAs to protect and promote investment, at a pace of three agreements per year. The IIA universe has become highly fragmented and complex, with thousands of individual agreements lacking any system-wide coordination and coherence.

There are IIAs at the bilateral, regional, intra-regional, inter-regional, sectoral, plurilateral and multilateral levels. Moreover, they go beyond investment-specific provisions by including rules addressing related matters such as trade in goods, trade in services, intellectual property, labour issues or environmental protection.

However, there has been some consolidation at the regional level, with an increased focus on plurilateral free trade agreements (FTAs) with investment provisions. Important developments are also happening at the European level, where the Lisbon Treaty has shifted the responsibility for FDI from member states to the EU.

Today's development objectives and changes in the investment landscape, along with the evolving structure of the IIA regime, pose specific challenges to contributing to sustainable development.

While the IIA regime has become too large for states to handle, too complicated for firms to take advantage of and too complex for stakeholders to monitor, it is still too small to cover the whole investment universe. Despite continuous growth, IIAs offer comprehensive cross-sectoral post-establishment protection to only two-thirds of global FDI stock and cover only one-fifth of bilateral investment relationships.

**Bilateral relationships**

Some FDI stock is subject to protection by two or more IIAs, but full coverage would require another 14,100 BITs. These treaties would cover, on the one hand, many bilateral relationships with little propensity to invest (where FDI flows are negligible) or to protect, such as between member states of the Organisation for Economic Co-operation and Development (OECD). On the other hand, they would include a few bilateral relationships with substantial FDI stocks not covered by any existing investment protection agreement.

Moreover, the IIA regime raises several concerns. There are few mechanisms for coordination between it and other parts of the global economic system (namely, trade, finance, competition or environmental policies) or other bodies of international law, such as international environmental or human rights law.

The regime's investor-state dispute settlement mechanism has raised concerns among numerous stakeholders. There are questions about the balance, or lack thereof, that IIAs establish between the rights and

“The world needs a sound international investment regime that effectively promotes sustainable development for all”

obligations of investors and governments and, in certain circumstances, between home and host countries.

In sum, today's global challenges and the changing landscape of international investment flows, together with the specificities of the IIA regime, suggest a need for a more coordinated, regulated approach to international investment issues, to ensure that the IIA regime contributes effectively to sustainable development and fits with other economic and non-economic policies.

While countries manage to address these challenges by adjusting individual investment treaties and domestic policy frameworks, the longer-term challenge lies in agreeing to a global approach to investment for development and a coherent global governance framework for investment. Above all, the world needs a sound international investment regime that effectively promotes sustainable development for all, based on a new investment-development paradigm.

**Working to reap rewards**

The United Nations Conference on Trade and Development (UNCTAD) is the focal point for issues related to investment and sustainable development, putting this objective at the forefront of its activities with investment stakeholders around the world.

By offering a platform for sharing experiences and best practice and building consensus, UNCTAD is advancing a broad understanding of issues to be addressed so that international investment policies function in a way that is more efficient and conducive to sustainable growth and development. UNCTAD's 2010 World Investment Forum (WIF) allowed high-level discussion and action on harnessing international investment as an engine of growth and development. The WIF's Ministerial Round Table – with more than 25 ministerial-level participants – and the WIF's IIA conference addressed challenges and the way forward for international investment policymaking.

UNCTAD offers cutting-edge and development-oriented legal and policy research on issues related to IIAs, including through its World Investment Reports (WIR) and specific publications on IIAs. It also provides policy advice, technical assistance and capacity-building, on issues such as improving investment policy frameworks nationally and internationally, harnessing corporate self-regulation to ensure responsible investment, fostering entrepreneurship and helping domestic enterprises create mutually beneficial business relationships with transnational corporations.

**Cooperating with the G20**

Throughout its wide range of activities, UNCTAD works with investment and development stakeholders around the world, including the G20. UNCTAD appreciates the role that the G20, through its Cannes Summit, can play in fostering sustainable development in today's particularly challenging context.

The contribution of investment is a common thread throughout the priorities identified for the summit, including building infrastructure, ensuring food security, promoting innovative financing – including a green climate fund – and encouraging private-sector development.

UNCTAD is already working with the G20, notably through monitoring G20 investment policies in a project undertaken jointly with the OECD. It has contributed to the G20 Development Working Group, including on options for promoting responsible investment in agriculture, determining indicators for measuring and maximising added economic value and job creation arising from private-sector investment in value chains, and promoting standards for responsible investment in value chains.

The G20 is a highly relevant forum for practical solutions to development issues through giving attention to the investment perspective. This is why UNCTAD is pleased to offer its specific contribution and assistance in these important endeavours. ♦

# Bladex, a key player in the economic growth of Latin America

Banco Latinoamericano de Comercio Exterior, S.A. (Bladex), is the culmination of an ambitious project initiated over 30 years ago to meet the financing needs of importers and exporters in Latin America and the Caribbean, and to support the Region's economic development by promoting foreign trade.

In 1992, Bladex became the first Latin American bank to be listed on the NYSE, and that same year also became the first Latin American bank to obtain an investment grade rating. At present, Bladex has eight representative offices, in Argentina, Brazil, Colombia, United States, Mexico, and Peru, as well as an Agency in New York. The bank is headquartered in Panama.

Today, Latin America provides an important share of the goods and services that drive global economic growth. Bladex is at the heart of these activities, providing almost US\$1 billion per month in funding to the Region, supporting ever-increasing trade flows between Latin American countries and with the rest of the world.

The Bank deploys a team of skilled professionals, providing its customers a full range of products and services focused on foreign trade, including:

- Short and medium term foreign trade credit
- Structured trade financing
- Discounting and insurance coverage for export transactions
- Leasing

Bladex's commitment to excellence contributes to the steady growth of a dynamic and profitable business, and to the welfare of the Region as a whole.



# Rebalancing Asia requires a rethink

*The importance of Asia's contribution to the global economy should not be underestimated. Rebalancing the continent's economies is necessary, but a focus on development can trigger innovative thinking and deflect a further downturn*

**By** Yoginder K Alagh, chair, Institute of Rural Management Anand, and former minister, power, planning and science and technology, India

**O**ne reaction to the world's problems is to suggest, wistfully, that the fulcrum should shift to Asia. That is where the growth and the financial reserves are – and where the sound policies are. During the most recent recession, Sonia Gandhi called India's nationalised banks a source of strength. She was criticised in the Indian financial press, in spite of the run on a private Indian bank for its losses. What, exactly, is the role of the G20 in all this?

All serious work, including large statistical models, shows that the US and German economies remain much too big and powerful for such fashionable statements about an Asian fulcrum to be significant. The world has shrugged off the ratings by agencies, which have not exactly proved prescient since 2007. There will be an impact of the US downgrade on bond prices and the dollar in the short run, but the markets had already factored in the fundamentals, as Iwan Azis, head of the regional integration office of the Asian Development Bank (ADB), has pointed out. Exports from trading economies such as Thailand and Taipei may suffer, but the giants, such as Japan, China and India, are sufficiently diversified to avoid suffering substantially.

Is there a future for more trade and investment in Asia and within Asia? While a big rebalancing is obviously required, the baby should not be tossed out with the bath water. As the G20 continues to press for reform, Asia's contribution must be included from the start.

In June, the ADB organised a meeting with the Korea Institute for International Economic Policy to discuss 'assistance to Asian countries in building a regional macro-financial-trade policy framework', to coordinate efforts to rebalance policies addressing development issues. At that meeting, I stated that financial and trade policy reporting usually argues from an implicit comparative, static framework. This is also true of the rebalancing reporting, which concentrates on exchange rate changes and related issues. Volatility in these trends has, in fact, introduced greater uncertainty.

Development issues tend to be conceptually underplayed, even if they gain urgency in crisis situations. They have substantial implications for investment, human development and related trade and financial policy. This is particularly true for rebalancing, which, as with G20 initiatives, requires a medium-term framework in order to be meaningful.

A focus on development, with an emphasis on sectors with large employment and output consequences, can trigger innovative thinking on trade and move away from talk of a double-dip recession. Studies by the Food and Agriculture Organization (FAO) have shown the negative

impacts on diversification, spread of agricultural growth, employment and poverty outcomes of static trade policy prescriptions in meltdown periods in Asia. Agricultural trade is particularly relevant, with countries having very different agro-climatic characteristics and therefore differing possibilities for specialisation and trade. A medium-term framework for agricultural tariff policies would be beneficial. Similarly, policies for small and medium-sized enterprises are required in a stimulus phase, as in the US package, to trigger trade and development. Korea and Japan are good examples of this approach.

## Forming a base for development

A stable, medium-term trade policy with a rule-based regime and currency arrangements could lay the foundation for rebalancing and development. Newer financial products are needed to buttress such kinds of development. Models developed by the ADB, with the International Food Policy Research Institute (IFPRI), have shown that acceptable alleviation of poverty and hunger in Asia would not be possible without such reform. Policies requiring a medium-term framework need a macro policy and exchange-rate regime of the kind discussed at the G20's Seoul Summit in 2010. Azis himself has a computable general-equilibrium model of regional rebalancing, that starts with employment and safety-net objectives in a meltdown rather than with general admonitions on reform.

Big Asian countries have detailed agro-climatic inventories. Large Asian land masses in the Indonesian archipelago, Thailand, Myanmar and elsewhere in South Asia are rich in agro-climatic diversity and are 'worlds within the world'. This is a powerful argument for trade: each region should look for what it can do best. Agriculture and rural development can concentrate on specialisation, while food and fibre deficits and surpluses would be cleared with trade. Agricultural growth based on agro-climatic resource endowments is sustainable in the sense that it conserves water, energy and land.

Globally, this process would temper commodity instability, as growth of the large Asian economies would support the revival. When per-capita income rises by seven per cent annually in real terms, as in the case of the BRICS group (Brazil, Russia, India, China and South Africa), the income elasticity of demand of non-grain agricultural products is around two. Annual growth of 15 per cent would provide the world economy with the stability it needs. Although completing the Doha Development Agenda would be useful, designing concentric circles of cooperation could well be something the G20 could take on successfully.

Policy issues include diversification as a part of rebalancing in terms of consumption and demand trends,



Asian economies have again reached a stage where advances are possible, and where security can provide incentives for technological change





as well as a possible change in the structure of the labour force in fast-growing Asian economies. Also important are marketing, communication, first-stage processing, infrastructure, and knowledge and skills for accelerating the process of development and avoiding dislocations due to unanticipated sharp shifts – as seen in political conflicts in India and China – over land acquisition and insufficient facilities for migrants coming from rural to urban settings.

These issues would have implications for trade policies, including tariffs and incentives to promote the smooth functioning of markets in a medium-term framework. This, in turn, would need financial products and markets to be developed to support the market processes in diverse capital markets. Safety nets, such as employment guarantees and food security networks, would be required. Asian economies have once again reached a stage where advances are possible, and where security can provide powerful incentives for technological change.

Planting saplings in a ricefield in Gujarat, India. The various Asian countries differ widely in their agro-climatic characteristics

The development of inter-regional profiles would provide a larger context in which such policies could be followed. Most of the inward-looking rebalancing literature on Asia flounders because models tend to be dominated by US and German outcomes. Given the importance of the large global economies, it is possible that the exploration of comparative, static Asian inter-regional flows might offer interesting complementary possibilities.

The macro frameworks that were accepted at the Seoul Summit could provide a quantitative coordinating framework for exploring such possibilities. Counterfactuals exist, where structural change can take place in a benign framework and highlight the importance of policies. Indeed, according to a model that I have developed on the future of Indian agriculture, the poorest Indian would be richer by one-third in seven years, in a benign global scenario. Surely, such an outcome is worth working for. ♦

# The importance of promoting long-term investment

Founded in 2009, the Long-Term Investors' Club ([www.ltic.org](http://www.ltic.org)) aims to bring together major worldwide institutions – including sovereign wealth funds, public-sector retirement funds, private-sector pension funds and development banks – to assert their common identity as long-term investors and to facilitate greater cooperation between members.

Today, the Club is composed of 14 major financial institutions and institutional investors from all over the world, in particular from the G20 countries, representing a combined balance sheet total of US\$3.2 trillion. Our message is that fostering the right conditions for long-term investment is key to ensuring international financial stability and sustainable economic growth.

In a world suffering from a deep imbalance between accumulated savings in some parts and large-scale unfunded investment needs elsewhere, cooperation and partnerships are among the best ways to allocate capital in a more efficient and equitable way, and to lay the basis for sustainable, shared growth.

Undoubtedly, the G20 is the forum to cooperate in creating the right conditions for long-term investment and shared growth.

*For this reason, the Long-Term Investors' Club broadly supports the priorities of the French presidency of the G20.*

Concerning infrastructure, the needs are huge in a context of climate change, demographic growth and rapid urbanisation.

Developing new infrastructures in emerging countries, and restoring those of the developed countries, implies massive investment. According to the Organisation for Economic Co-operation and Development (OECD), the worldwide need for infrastructure can be estimated at \$50 trillion by 2030:

- in the European Union, the European Commission estimates that €1.6 trillion still has to be spent just in the fields of transport and energy infrastructures between now and 2020;
- in India, infrastructure needs by 2017 are projected to be \$1 trillion. And by 2030, urban development alone will require \$1.2 trillion of investment in infrastructure;
- in the southern and eastern Mediterranean, the infrastructure pipeline is estimated at \$200 billion for the next five years.

We are all aware that infrastructure projects have specific financial features: long maturities; large capital commitments; specific risks (demand uncertainty, environmental risks, political and policy-related uncertainties, technological obsolescence) and, finally, a specific return profile (for example, for most transportation-related investments the return is low in the first decade, then grows).

*Only very specific financial players can undertake these risks. Long-term investors are among them.*

Nevertheless, we now have to operate in a very challenging environment. According to a McKinsey report<sup>1</sup>, the world is now entering a new era in which the desire to invest exceeds the willingness to save, putting upward pressure on real long-term interest rates. The gap between global saving and needed investments could range from \$1 trillion to \$2.4 trillion by 2030.

Moreover, the financial crisis has also led many long-term investors to reassess their ability to act as such. Indeed, according to a report presented at the Davos Forum<sup>2</sup>, while in 2009, long-

term institutional asset owners owned slightly under half of the world's professionally managed assets (\$27 trillion out of \$65 trillion), they allocated only 25 per cent of their assets (\$6.5 trillion) for long-term investing. The gap is also due to the combination of short-termist biases, in terms of both regulations (accounting and prudential standards) and market practices.

*In a context in which most national budgets are constrained by the effects of the crisis and public investments have decreased, the priority is to find new ways to finance our economies' needs.*

The Club members have made several proposals to adapt the international and European regulatory framework in order that the current reform of accounting and prudential standards better take into account the specificities of long-term investment.

Moreover, the Club has developed an active cooperation strategy and launched two infrastructure investment initiatives: the EU 27 Marguerite Fund<sup>3</sup>, to support strategic investments in the fields of energy, climate change and transport infrastructure in the EU's 27 member states; and the Mediterranean InfraMed Infrastructure Fund<sup>4</sup> dedicated to long-term investments in sustainable transport, energy and urban infrastructures in the countries of the Mediterranean's southern and eastern shores.

These funds are prototypes of new platforms that allow public investors to join the private sector to finance long-term investments.

The support of the G20 members to promote long-term behaviour is critical. Investors and governments need to modify their behaviour in favour of long-term investment:

- Governments should better consider the impact of regulatory decisions on long-term investments. They also have a fundamental role in creating the conditions to encourage the flow of capital from savers to long-term investments; and
- Investors have to promote long-term strategies and align their decision-making structures with their long-term mandates, as well as actively cooperating with other long-term investors.

The challenges we face go beyond our borders and require the pooling of all available resources to finance our economies' needs. They also require the full, united participation of all the players, notably the emerging countries and their sovereign wealth funds.

Globalisation is not behind us; it stands in front of us. It contains risks and major opportunities. If we want to overcome these risks and seize these opportunities, we must cooperate.

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#### Footnotes

1. McKinsey Global Institute: *Farewell to Cheap Capital? The Implications of Long-Term Shifts in Global Investment and Saving*, December 2010
  2. World Economic Forum: *The Future of Long-Term Investing*, January 2011
  3. [www.margueritefund.eu](http://www.margueritefund.eu)
  4. [www.inframed.com](http://www.inframed.com)
- 



[www.ltic.org](http://www.ltic.org)

# THE LONG-TERM INVESTORS CLUB

## ● Caisse des Dépôts (CDC)

President: Augustin de Romanet

Location: Paris

Global Assets (2010): € 270bn

[www.caissedesdepots.fr](http://www.caissedesdepots.fr)



## ● KfW Bankengruppe

CEO: Ulrich Schröder

Location: Frankfurt

Global Assets (2010): € 442bn

[www.kfw.de](http://www.kfw.de)



## ● APG

CEO: Dick Sluimers

Location: Amsterdam

Global Assets (2010): € 272bn

[www.apg.nl](http://www.apg.nl)



## ● Caisse de dépôt et placement du Québec (CDPQ)

President: Robert Tessier

Location: Montréal

Global Assets (2010): € 114bn

[www.lacaisse.com](http://www.lacaisse.com)



## ● Ontario Municipal Employees Retirement System (OMERS)

CEO: Jacques Demers

Location: Toronto

Global Assets (2010): € 54bn

[www.omers.com](http://www.omers.com)



## ● Infrastructure Development Finance Company Limited (IDFC)

CEO: Dr. Rajiv Lall

Location: Mumbai

Global Assets (2010): € 5.4bn

[www.idfc.com](http://www.idfc.com)



## ● Mubadala Development Company

CEO: Khaldoon Khalifa Al Mubarak

Location: Abu Dhabi UAE

Global Assets (2010): € 19.5bn

[www.mubadala.ae](http://www.mubadala.ae)



● **European Investment Bank (EIB)**

President: Philippe Maystadt  
Location: Luxembourg  
Global Assets (2010): € 420bn  
[www.eib.org](http://www.eib.org)



● **Cassa di depositi e prestiti (CDP)**

President: Franco Bassanini  
Location: Rome  
Global Assets (2010): € 249bn  
[www.cassadpp.it](http://www.cassadpp.it)



● **Bank Gospodarstwa Krajowego (BGK)**

CEO: Dariusz Daniluk  
Location: Warsaw  
Global Assets (2010): € 9bn  
[www.bgk.com.pl](http://www.bgk.com.pl)



● **Vnesheconombank (VEB)**

Chairman: Vladimir Dmitriev  
Location: Moscow  
Global Assets (2009): € 36bn  
[www.veb.ru](http://www.veb.ru)



● **The China Development Bank (CDB)**

CEO: Chen -Yuan  
Location: Beijing  
Global Assets (2009): € 465bn  
[www.cdb.com.cn](http://www.cdb.com.cn)



● **Türkiye Sınai Kalkınma Bankası (TSKB)**

CEO: Hali Eroglu  
Location: Istanbul  
Global Assets (2010): € 3.8bn  
[www.tskb.com.tr](http://www.tskb.com.tr)



● **Caisse de Dépôt et de Gestion (CDG)**

Director General: Anass Hour Alami  
Location: Rabat  
Global Assets (2009): € 12bn  
[www.cdg.ma](http://www.cdg.ma)



# Project finance, risk management and economic development

*As developing economies expand, the challenge of satisfying their increasing needs creates opportunities for investors. However, initiatives are necessary to encourage international funding against a background of local risk and instability*

**By** Julia Czarniak and Jelena Madunic, Skadden, Arps, Slate, Meagher & Flom LLP

**G**lobal demand for energy and other natural resources is expected to increase dramatically over the long term as emerging economies in Asia and the Indian subcontinent continue to expand. This increase will exert enormous pressure on existing infrastructure and capacity, leading to scarcity and upward price trends. While innovative green technologies can alleviate some of this pressure, untapped energy resources located in developing countries present valuable development opportunities to meet ever-expanding global and domestic resource needs.

However, conflict-affected and fragile (CAF) states – and developing countries to a lesser extent – are characterised not only by the risk of political violence and social instability, but also by a lack of structural predictability, which makes them unattractive to foreign investors. With underdeveloped capital markets, legal frameworks and institutions, and limited availability of skilled human resources, the development and financing of large-scale infrastructure projects (including energy projects) in CAF and other developing countries are challenging.

## **Easing the flow of capital**

The unique features of project finance have led to its increased popularity for such large, capital-intensive projects. Project finance typically involves the use of limited or non-recourse syndicated loans to special-purpose vehicles, in which sponsors take an equity stake. In the absence of developed capital markets, project finance facilitates the flow of international capital into developing countries. It is particularly well suited for large-scale infrastructure projects, for which capital needs often surpass the investment capacity of any single investor.

Additionally, for certain large-scale infrastructure projects in developing countries and particularly for those with a public focus (such as building roads, railways or power plants to serve domestic markets), project finance is often the only means of accessing capital.

The non-recourse nature of project finance lending means that, once the project is completed, lenders look primarily to its assets and revenues, not to its sponsors, for fulfillment of the loan obligations. Consequently, one key consideration is the allocation and minimisation of risk, often achieved through the use of political risk insurance (PRI) and guarantees, certain tailored contractual arrangements (including the allocation of

completion and operating risk), the syndication of loans and the involvement of multilateral agencies. In CAF and developing states, where political risk is most acute, these risk-management capabilities make project finance a particularly effective method of financing.

## **Political risk deters investors**

According to the World Bank's Multilateral Investment Guarantee Agency (MIGA), political risk is the foremost constraint to foreign direct investment (FDI) in CAF and developing countries over the next three years, in spite of short-term concerns over the global financial crisis. As reported in MIGA's publication *2010 World Investment and Political Risk*, the type of political risk that most concerns corporate decision-makers is government intervention that adversely affects the financial viability of their investment, such as changes in regulation, breach of contract, expropriation and restriction on currency conversion. MIGA also reports that investors consider the most effective tools for mitigating risk to be PRI, along with government and local community engagement, risk analysis and the use of joint venture structures.

In the fiscal year ending 30 June 2011, MIGA issued a record high of \$2.1 billion in new investment guarantees (insurance), representing a 43 per cent increase from the previous year. While FDI has picked up since the height of the financial crisis, recent social and political upheaval in the Middle East and North Africa has resulted in a renewed awareness of political risk, further underscoring the role of PRI in promoting private lending and attracting capital.

Multilateral providers of PRI include MIGA, the African Trade Insurance Agency, the Arab Investment and Export Credit Guarantee Corporation, and the Asian Development Bank. Other providers are national insurers, including export credit agencies such as the Overseas Private Investment Corporation and the Export-Import Bank of the United States, the Export Credits Guarantee Department in the United Kingdom, the Japan Bank for International Cooperation and France's Compagnie Française d'Assurance pour le Commerce Extérieur. These institutions play a vital role in diversifying the types of available PRI coverage, mobilising additional insurance capacity and promoting PRI products to new investor groups. In doing so, multilateral and national PRI providers encourage investment in developing countries by attracting investors that may otherwise be too risk averse to enter the targeted markets.



The type of political risk that most concerns corporate decision-makers is government intervention that adversely affects their investment





In addition to attracting international capital, multilateral and national PRI providers can leverage their political or diplomatic relationships with host governments to mediate disputes between investors and host governments. Since its inception in 1988, MIGA has received 60 claims relating to \$22.4 billion of guarantees issued for projects worldwide, but has only paid out \$16.2 million in five such claims. This is because the vast majority of reported claims were resolved through mediation with host governments, which were often unwilling to jeopardise their relationship with MIGA (or the World Bank) and preferred to settle the disputes.

### Projects lead to growth

In light of the continuing credit crunch, project finance and PRI will continue to help spur economic growth in developing countries. Large-scale infrastructure projects generate cash flow, which, although initially directed to satisfy loan repayment obligations, is later funnelled to project sponsors to be reinvested in the local economy. These large-scale projects spur job growth and training, lead to the development of local transportation infrastructure and generate government revenues that can be used to promote sustainable social and economic development.

To ensure that foreign investment in such projects meets international business standards, G20 leaders should work to further develop, monitor and promote adherence to international guidelines, such as the Equator Principles for determining, assessing and managing environmental and social risk in project finance transactions and the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises, which set forth voluntary standards for responsible corporate conduct.

Political pressure must also be exerted to ensure that states, in particular resource-rich CAF countries, do not fall prey to the so-called resource curse – where increased cash flows generated from energy and mineral projects lead to corruption, political instability and social turmoil. Imposing tailored conditionalities and developing innovative structures for internationally funded projects can ensure that revenues serve public-interest purposes, thus promoting good governance and encouraging sustainable economic development.

With global demand for energy and other natural resources curving ever upwards, and international financial markets in turmoil, project finance is set to remain a strong driver of social and economic development worldwide. ♦

Many construction and infrastructure projects in developing nations are dependent upon foreign funding, but negative local factors are a cause of concern for investors

# The World Bank: playing a central role in development

*As donor countries come under domestic pressure to control their budgets, it is vital that alternative sources of financial aid, including multilateral banks, are in a position to ensure that the momentum of development is maintained*

**By** Sri Mulyani  
Indrawati,  
managing director,  
World Bank

**W**hat are the most critical questions facing global development today? A comprehensive answer to this question that is multidimensional and considers each dimension – theoretical, macroeconomic, geopolitical and environmental – could easily fill pages and pages. Instead, this article will focus on some of the questions that have most recently come to the fore in the wake of the ongoing transformative global financial and economic crisis. The crisis is already having far-reaching implications for development stakeholders (particularly on the donor side), as well as for the availability of resources and the way in which global support is mobilised in order to finance development.

With many of the 'traditional' donors (ie the members of the Organisation for Economic Co-operation and Development) in the midst of a fiscal crisis, prospects for aid budgets do not look good and the realisation of aid commitments – including those made by the G8 at the Gleneagles Summit in 2005 – seems more distant. This makes recent statements by several donors to maintain aid all the more commendable, as retrenchment is required elsewhere in domestic budgets. Nevertheless, even some of the most generous donors will be faced with intense domestic pressure to contain spending, making it even more crucial that others, including multilateral development banks, have the capacity to pick up some of the slack.

At the same time, emerging economic powers, including China, are being looked at to enhance their support to low-income countries. The shift in the donor landscape, amid pressures on donor budgets, intensifies the need to ensure that donors and recipients channel these scarce resources to where they can do most good and be used most effectively. For this to happen, both donors and recipients will need to ramp up existing commitments to enhancing the transparency of aid-related financial transactions.

As argued in Microsoft chairman and philanthropist Bill Gates's report to G20 leaders, developing countries need to step up efforts to mobilise domestic revenue and financing from new and innovative sources. As Gates says, donor countries can assist in this effort by providing capacity-building support, including for the sharing among developing countries of their experiences with replacing past reliance on aid resources with strong national tax and budget systems. Although developing countries are each at very different stages, ultimately there should be continual

progress made towards the objective of enhancing reliance on domestic revenue to finance current spending. Developing countries' governments, rather than seeing such reliance as a response to external aid shortfalls, should view it as an opportunity to enhance ownership of their policy priorities, and build greater confidence and accountability of governments to their citizens.

Many developing countries will have to find innovative ways to generate financing for infrastructure, education and health projects. Diaspora resources – via diaspora bonds and remittance-backed bonds – have the potential to finance public- and private-sector projects. The annual savings of the diasporas from developing countries – \$400 billion by some estimates – represent a hitherto untapped potential source of financing for development efforts.

Diaspora bonds can tap into the emotional ties – the desire to give back – of the diaspora and potentially help to lower the cost of financing for development projects back home. The World Bank is currently engaged with the governments of Kenya, Nigeria and the Philippines to implement diaspora bonds. To meet the growing demand for its support, the World Bank recently announced the formation of the Task Force on the Implementation of Diaspora Bonds.

## **Redefining economic multilateralism**

For the future, there are additional opportunities to enhance global development. Today's new multilateralism must build a sense of shared responsibility for the health of the global political economy and must involve

“ The first and most critical challenge faced by the G20 today is to prevent a backsliding on development progress ”



those with a major stake in that economy. Economic multilateralism must be redefined more broadly, beyond the traditional focus on finance and trade. This shared responsibility will benefit from greater access to data and information. The World Bank's 'Open Data, Open Knowledge and Open Solutions' initiative is more than just a slogan. This is a fundamentally new way to search for development solutions.

Important steps were taken under the Korean presidency in 2010 to bring development issues into the mainstream of the G20 agenda. This was a welcome development and has led to some significant advances under the French presidency in a number of areas, including food security and infrastructure financing. These are clear priorities for the World Bank Group, which remains committed to supporting their implementation.

The first and most critical challenge faced by the G20 today is to prevent backsliding on development progress. Without a doubt, the most important contribution that the G20 can make is to take decisive action by the time of the Cannes Summit to restore confidence in global economic management. Uncertainty, short-term fears and the search for safe havens have created unprecedented levels of volatility and come to dominate the attention of policy-makers and investors. Uncertainty is an anathema to growth and, until confidence is restored in the ability of leading governments to respond decisively to the crisis, longer-term development objectives will be pushed

aside. Failure of the G20 to make meaningful progress on this front will undermine not only G20 credibility as stewards of the global economy, but also the success of many of its other efforts to promote strong, sustainable and balanced global growth.

Clearly, this is only a necessary, not sufficient, condition for success. The recent work requested by the G20 on supporting the development of more effective tax systems, prepared jointly by a group of international organisations, including the World Bank, sets out a useful blueprint for support to domestic-resource mobilisation in low-income countries. This, coupled with calls for greater transparency with respect to financial transactions among developed and developing countries – in both the public and the private sectors – would represent real progress from the G20.

Development partners play a critical role in supporting the efforts of low-income countries to improve public-resource management and enhancing the capacity of governments to develop alternative sources of revenue. The recent ascendancy of many emerging-market countries has also highlighted the value of their individual development experiences. Sharing these experiences with less-developed economies as they move from low- to middle-income status and beyond should therefore take on a more prominent place in the development toolkit. The G20 is well placed to promote so called South-South learning, an area in which the World Bank has extensive expertise as a knowledge broker and pioneer in fostering peer learning. ♦

World Bank Group president Robert B Zoellick takes his seat at the G20 development meeting during the IMF/World Bank Annual Meetings, held in Washington in September 2011

# Time for equity and justice



Rt Hon Helen Clark, Co-Chair,  
MDG Achievement Fund and  
UNDP Administrator

**A**round the world, many people are articulating their disappointment with leaders and with governance and economic systems. A sense of disillusionment, anger, and helplessness has prompted uprisings and/or protests from Wall Street to the Middle East.

The issues being raised are not new. We live in a very unequal world. Despite tremendous progress in many respects, extreme poverty persists. Estimates of global income inequality reveal that, as of 2007, the wealthiest 20 per cent of humankind enjoyed almost 83 per cent of total global income, while the poorest 20 per cent had just a single percentage point of that income. At the current rate of improvement, it would take the poorest one billion people more than 800 years to access 10 per cent of global income (Ortiz & Cummins, 2011).

The sheer magnitude of current inequalities serves as a call to action for a revised development framework that puts tackling poverty and promoting equity and social justice at its centre.

## A social justice agenda for development

Over a decade ago, 189 world leaders signed the Millennium Declaration and the Millennium Development Goals (MDGs)

were launched. The Millennium Declaration was based on a set of fundamental values which included a firm commitment to social justice as the guiding principle for development efforts.

Over more than 10 years of work to advance the MDGs, we have witnessed the power that they have had in mobilising the international community, national governments and civil society towards a common end. But 10 years of implementation has also shown us that, despite numerous gains, progress has been uneven – and, indeed, characterised by deep disparities between different social groups.

## Intersecting Inequalities and Social Exclusion

Evidence from a recent global study produced by the MDG Achievement Fund (MDG-F) and the Institute of Development Studies (IDS), shows that in almost every society, in every region of the world, both rich and poor, there are certain groups of people who face systematic social exclusion as the result of the intersecting inequalities that characterise their lives. These include:

- Cultural inequalities: forms of discrimination and devaluation that treat members of these groups as somehow inferior to others;
- Political inequalities: the denial of voice and influence in the decisions which affect their lives and their communities;
- Spatial inequalities: such groups frequently live in places that make them harder to reach or easier to ignore;
- Economic inequalities: they are at the receiving end of an unfair distribution of assets and opportunities.

Each of these inequalities is a source of injustice in and of itself, but it is their interaction which explains the persistence of social exclusion over time, and its resistance to 'business-as-usual' approaches to development. Caste, race, ethnicity, language, and religion are among the most common markers

**Indigenous communities from the Colombian Pacific Coast organise to discuss community nutrition, food security and health. Isolation and the countries' ongoing conflict has exacerbated already vulnerable conditions**



Health volunteers and district nurses work together to reach women living in the remote villages of Tigray, Ethiopia in order to monitor child health



of exclusion. As elsewhere in society, gender cuts across all these, so that women and girls from marginalised groups generally fare worse than men and boys.

This story of inequality and social exclusion matters. It matters because inequality undermines progress on the MDGs and other development goals. It matters because it slows down the rate at which a given level of economic growth translates into poverty reduction. At the level of everyday life, inequality undermines people's sense of self-worth and agency, and can be associated with despair, depression, substance abuse, and criminal activity.

Inequality and social exclusion do not occur by chance. They are the outcome of policies and practices. This means that they are not immutable and are susceptible to change. Fora such as the G20 and other global spaces can be vehicles for putting forth alternatives.

#### Policies options and a macro-enabling environment

Change could include :

- Matching the drive for economic growth with an even stronger drive for equity: redistributive fiscal policies, reformed taxation systems and more investment in those currently left behind helps;
- Strengthening the resource base of marginalised groups through land reform and land-titling, asset transfers, and inclusive financial systems;
- Investing in broad-based, employment-centered economic growth;
- Investing in infrastructure and area-based development to improve connections between marginalised groups and the rest of society;
- Improving the outreach and quality of basic social services, and ensuring that they are relevant to citizens;
- Comprehensive social-protection measures to sustain basic living standards;

- Comprehensive collection and dissemination of information. The level of disaggregation of the information base from which we plan and measure progress on development has equity implications;
- Legislating against discrimination and taking other measures, such as affirmative action;
- Investing in developing participatory monitoring tools that encourage greater government accountability;
- Enabling excluded groups to organise and unite around and participate in the collective decisions that affect their lives;
- Focusing on transformative approaches that address the root causes of inequality;
- Strengthening formal and grassroots democratic processes, and committing to greater international solidarity and the promotion of inclusive spaces for global policy debate.

This may be an ambitious agenda which is easy to articulate and hard to implement, but in the words of the late Sergio de Mello, "If we don't aim for the seemingly impossible, we will risk settling for mediocrity".

*The MDG Achievement Fund is a joint United Nations initiative which supports national efforts to eradicate poverty and inequality.*



[www.mdgfund.org](http://www.mdgfund.org)

# Latin American Reserve Fund

## THE ONLY REGIONAL RESERVE POOL IN LATIN AMERICA

It is an organization where members make capital contributions to help each other deal with Balance of Payments difficulties.

Established more than 30 years ago in 1978 as the Andean Reserve Fund (FAR), it later became Latin American Reserve Fund (FLAR), to promote membership for all Latin American countries.

### History and performance

FLAR enjoys strong support from member countries, to which it has provided net benefits as liquidity insurance during its 30-year-plus existence.

### Objectives

Provide support to balance of payments of member countries by granting credits or guaranteeing loans from third parties.

Improve the conditions of international reserve investments made by member countries.

Contribute to the harmonization of exchange, monetary, and financial policies of member countries.

### Governance

The Assembly is composed of the Ministers of Treasury or Finance of member countries.

The Board of the Fund is composed of the Central Bank Governors and the Executive President.

The Executive Presidency is the permanent technical body of the Fund elected by the Board.

### Resources

Member countries	Subscribed Capital	Paid-in Capital
Bolivia	234.4	195.7
Colombia	468.8	391.3
Costa Rica	234.4	195.7
Ecuador	234.4	195.7
Peru	468.8	391.3
Uruguay	234.4	131.9
Venezuela	468.8	391.3
<b>Total</b>	<b>2,344*</b>	<b>1,892.9</b>
Prudential reserves		189.3
Paid-in capital reserves		2,082.2

*Figures in million USD*

### Credit Rating

The highest credit rating in Latin America. AA Composite Rating (Standard & Poor's, AAA1+; and Moody's, Aa2/P1).

### Lending instruments

FLAR has five types of credit lines, with a term of 1 to 3 years: Balance of payments, Foreign debt restructuring of Central Banks, Contingency, Liquidity and Treasury. Members can borrow up to 250 percent of their paid-in capital contribution.

### Other services

Asset management, term deposits, compliance and risk measurements of investment portfolios, training and seminars.

*Totals can differ due to rounding\**

# Looking to Latin America and the Caribbean

*For the past two decades, this region has experienced vast improvements in its members' economies and in conditions across society as a whole. The task today is to consolidate on that progress amid the global challenges of the coming years*

**By** Luis Alberto Moreno, president, Inter-American Development Bank

**A**s G20 leaders prepare for the Cannes Summit, mobilising global action for sustained, strong and balanced growth remains the overriding concern. The world's economic recovery is uneven, and faces important risks.

Latin America and the Caribbean are certainly not immune to these risks. In fact, some analysts have already lowered this year's forecasts for growth in gross domestic product (GDP) for several of the region's economies. The reality is that some Latin American and Caribbean economies are facing challenges related to inflation, increasing government spending and lower demand for their exports.

Nevertheless, the Latin American and Caribbean region continues to weather the deep and diverse problems in the global economic arena relatively well. So well, in fact, that the 2010s may eventually be described as the decade of Latin America and the Caribbean. This outcome is obviously not guaranteed. But there is a window of opportunity in which the region can take decisive steps to sustain growth, reduce income inequality and eradicate the extreme poverty that still affects one in eight people in the region.

## **Building on recent success**

My optimism about the economic and social future of Latin America and the Caribbean is rooted in the region's record of the past two decades. Since 1990, inflation in the region as a whole has fallen from almost triple digits to about seven per cent. The foreign debt of Latin America and the Caribbean dropped from 28 per cent of GDP to seven per cent. And per-capita income more than doubled to around \$11,000 in purchasing power.

Results in the social sphere were just as remarkable. Whereas half of the population was poor in 1990, today that figure has fallen to a third. Drinking-water supply has increased from 85 per cent to 93 per cent, and electricity coverage from 70 per cent to 93 per cent. Infant mortality has fallen by more than half. And school enrolment has risen at all levels – with primary enrolment up from 86 per cent to 94 per cent, secondary up from 29 per cent to 71 per cent, and post-secondary increasing from 17 per cent to 38 per cent.

The place of Latin America and the Caribbean in the global economy has also undergone a dramatic transformation. The average external tariff has fallen from 45 per cent to just nine per cent. The share of the region's foreign trade exchanged with Asia has doubled, and the value of trade within the region has risen tenfold. Large enterprises, which for decades focused on domestic markets, have aggressively embraced globalisation. Today,

there are 66 *multitativa* corporations, with operations in every corner of the globe.

These turnarounds were no accident. A look at the policies adopted in many of the region's countries reveals that they have been strengthening from both a macroeconomic and an institutional standpoint. Many of these achievements are also the expression of a democratic maturity that recognises the diversity of political models, as well as a deepening consensus on economic and social policies not conditional on the political cycle.

These changes reflect the institutional stability of the region and the policy advances that leaders have made over two decades. Integration into the global economy means external factors, especially overseas demand for raw materials, have contributed to the region's success. They will continue to influence its potential.

However, the region is also experiencing a radical reordering of economic and political relations between rich and emerging economies. 'South-South' trade is not a passing phenomenon. It will transform the flow of goods, investment and knowledge for decades to come. And the cumulative political impact of all these changes is evident in the composition of the G20 itself. The three largest economies in Latin America and the Caribbean are now members of the world's premier forum for international economic coordination.

No doubt the current developments in the global environment are imposing a new test for Latin American and Caribbean economies. In fact, as long as North America and the eurozone account for more than half of the global economy, their problems will hold back recovery in the rest of the world.

Commodities prices could be negatively affected should China experience a slowdown that is significantly faster than expected, harming several South American economies. If the United States enters into a new recession or a period

“South-South trade is not a passing phenomenon. It will transform the flow of goods, investment and knowledge for decades”

of prolonged, very low growth, exports of industrial products and consumer goods from Mexico and Central America will decline. Sustained weakness in the US economy would also result in lower foreign currency earnings from tourism, remittances, foreign direct investment and other capital flows to the Caribbean and Central America. The banking crisis in Europe, of course, could also harm Latin America and the Caribbean through its impact on financial markets and trade.

These are significant risks. They make it all the more imperative for Latin America and the Caribbean to consolidate recent gains and deepen reforms. Regionally, the challenge is to design mechanisms, such as fiscal stabilisation or 'rainy day' funds, that enable countries to dampen the impact of external shocks and finance public investments. Such mechanisms can also help to ease pressure on exchange rates and the effects of the so-called 'Dutch disease'.

Another critical hurdle is to improve low productivity. Although sectors such as mining and agriculture are globally competitive, productivity in many services has actually slipped in Latin America and the Caribbean in recent years. This is partly due to the persistence of informal employment, which affects the quality of jobs and creates two classes of citizens – one with access to the social safety net and one that cannot aspire to good healthcare or a decent retirement pension. To tackle the roots of low productivity, the region must create incentives for formal employment, unleash a revolution in the quality of education and invest much more in science, research and technology.

Latin America and the Caribbean face critical bottlenecks caused by ageing and inadequate infrastructure. This significantly impairs integration efforts and adds to the logistics and transportations costs of exports. Moreover, extreme weather events linked to climate change are increasingly threatening the region's water, energy and transport infrastructure. To adapt and remain competitive, the Inter-American Development Bank estimates that the

region will need to spend the equivalent of six per cent of its GDP on infrastructure for the foreseeable future.

Finally, Latin America and the Caribbean must control rising violence and crime. This is, perhaps, the most elusive and thorny challenge facing the region. Recent public opinion polls indicate that no other issue is more important to its communities. Unfortunately, there are no magic formulas for eliminating violence. However, many cities in the region, particularly in my native country, Colombia, have made measurable progress through sustained and integrated strategies. The challenge now is to replicate homegrown solutions and put this issue at the top of the public agenda.

#### Overcoming the obstacles

Of course, none of these challenges is new. What is new, however, is the conviction that none of these obstacles is big enough to prevent Latin America and the Caribbean from sustaining growth and rapidly reducing poverty in the coming decade, and the certainty that the region is capable of finding solutions rooted in its own experience and its own vision for the future. This is the outlook of a revitalised Latin America and Caribbean that has learnt from its failures and mistakes and is now ready to make the most of its opportunities and fulfil its immense promise.

I am delighted that the G20 will come to Latin America next year, with Mexico as its host. Mexico has been a leader in putting development challenges at the heart of the G20 agenda. Next year's meeting will help to focus global attention on the achievements of Latin America and the Caribbean and the rising profile in the world's economic, cultural and policymaking spheres.

No one would have predicted, 20 years ago, that Latin America and the Caribbean would be an island of comparative prosperity and stability in a world shaken by economic and political turmoil. As the G20 leaders work to restore confidence and reignite growth around the world, they should seek both encouragement and inspiration from the experience of this rich and optimistic region. ♦

Exports from Latin America, such as these gerberas flowers grown in Columbia, are on the increase, reflecting an overall rise in trade and the potential for further expansion





# Global Prosperity Starts with Reproductive Health

What single investment saves the lives of women, improves family health, lifts communities out of poverty and promotes economic prosperity?

An investment in reproductive health.

“The success of international family planning shows us that when women have choices they can change their lives and those of their communities. Progress for women is progress for all. By investing in reproductive health services, we are investing in people and their potential.”

**Ambassador Jan Eliasson**  
Former President,  
United Nations General Assembly,  
Former Minister for Foreign  
Affairs, Sweden

Every dollar spent on reproductive health and family planning services returns \$1.40 in savings on maternal and newborn health care costs. And the benefits go much further:

- **Women realize their potential** – With fewer unintended pregnancies, more girls complete their education, more women join the labor force, and women increase their earning power.
- **Families prosper** – When parents have access to reproductive health care and can plan their families, they can make greater investments in their children’s nutrition, education and health.
- **Economies grow** – Countries that invest in reproductive health for the long term significantly boost their GDP.

Each day, nearly 1,000 women die from pregnancy complications. And more than 200 million who want access to family planning can’t get it, resulting in unintended pregnancies, unsafe abortions and maternal health complications.

These largely preventable tragedies cost an estimated \$15 billion in global productivity each year. It doesn’t have to be that way.

**We can—and must—achieve universal access to reproductive health services by 2015.**

Last year, G8 countries moved closer to universal access and all Millennium Development Goals when they launched the Muskoka Initiative for Maternal and Child Health with a pledge of \$7.3 billion over five years. Yet this work is far from done.

The Global Leaders Council for Reproductive Health, representing 16 sitting and former heads of state and other leaders, calls on G8 leaders and nations worldwide to strengthen their resolve: Governments must increase financial support for reproductive health.

For women, families, communities and our global economy, an investment in reproductive health is an investment in our future. Boost funding now.

**Join our Call for Resolve. [www.globalleaderscouncil.org](http://www.globalleaderscouncil.org)**



**GLOBAL LEADERS COUNCIL  
FOR REPRODUCTIVE HEALTH**

ASPEN GLOBAL HEALTH AND DEVELOPMENT  
AT THE ASPEN INSTITUTE



# The role of CAF in the promotion of Latin America's development



Enrique García  
CAF executive president  
and CEO

## Latin America's future development challenges

In the first decade of this century, the majority of Latin American countries adopted prudent macroeconomic and financial policies, and took steps to improve microeconomic efficiency, too. Helped by favourable international conditions, this combination of factors allowed Latin America to maintain reasonable rates of economic growth and to reduce poverty levels. It also meant that Latin America was better prepared than other parts of the world to react to recent global imbalances.

However, the region continues to be very vulnerable to external shocks, the rates of growth attained are clearly insufficient to converge with more advanced economies, and it has the highest rates of inequality in the world.

## Structural challenges

Compared with other regions, Latin America has low levels of savings, investment and productivity, and its economic output is overly concentrated on activities related to raw materials and basic industrial products (commodities). These structural weaknesses go some way towards explaining why Latin America became relatively irrelevant in the world economy over the past 50 years, a period during which the emerging Asian economies have shown increasing dynamism and activity.

There is no doubt that the region must face significant structural challenges if it wants to achieve high and truly sustainable levels of development in economic, social, political and environmental terms. In fact, Latin America needs to build a long-term development agenda to reverse the previous situation, as well as to reconcile stability, efficiency, equity and environmental objectives.

Bearing this in mind, the pattern of economic growth that the region pursues should have certain characteristics. The rate of growth should be higher and more substantial than it is currently, to reduce the gap that separates Latin America from advanced economies. The pace of growth should be sustained so that economies can develop, not just in the short-term but over many years. And the style of growth should be inclusive, to create opportunities for the majority of the citizens.





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## Over the past five years, CAF has approved transactions amounting to \$40 billion, and today it is one of the major sources of multilateral financing for Latin America

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It is also crucially important for Latin America to promote productive transformation, so that countries in the region can develop activities with greater added value. This is especially true of countries that are rich in natural resources, but the entire region needs also to be mindful of cultural, racial, ethnic, and environmental considerations.

### CAF as a strategic partner

When CAF was created more than four decades ago, it was a small financial institution integrated by six countries of the Andean sub-region. Through the years it has become a leading Latin American multilateral development bank, integrated by 18 countries (16 in the region itself, plus Spain and Portugal).

Over the past five years, CAF has approved transactions amounting to \$40 billion, and today it is one of the major sources of multilateral financing for Latin America and the main source of funding for infrastructure and energy development.

Thanks to the substantial increase in its operations, CAF has been able to finance initiatives considered strategic by its shareholder countries, as well as those that strengthen regional integration.

### Financial support and expert advice

CAF promotes a comprehensive development agenda and, as such, it works hand in hand with Latin American countries,

providing support, not only through loans and other financial products, but also through advisory services. In this way, the institution uses the knowledge and expertise that it has generated in the last 40 years and shares it with those who need it most.

The development agenda that CAF pursues is focused on the public and private sectors, in fields such as infrastructure, social development, public policy and manufacturing. CAF also works towards increased competition and enhanced environmental awareness. Furthermore, through grants and non-reimbursable technical cooperation, CAF supports member countries in other matters related to the strengthening of core institutions, corporate governance, community development and culture. CAF is a strong promoter of Latin America's regional integration as well, and its participation in the global economy. Its contributions in this regard are evident in the way that it helps to build bridges between Latin America and the rest of the world in order to attract financial and technological resources. CAF is also well known for its intellectual contributions to the development arena and its breadth and depth knowledge in this field.

Overall, therefore, Latin America should know that it can count on CAF as a strategic partner to face the permanent challenges of a changing world.



[www.caf.com](http://www.caf.com)



# A CASE OF TRIPLE BOTTOM LINE IN LATIN AMERICA

Latin America is a region of great natural resources. However, the degradation of its ecosystems and loss of biodiversity is evident. Reversing these trends, while improving the living conditions of its inhabitants, requires companies that are committed to the construction of a more sustainable and fair society.

Masisa is one of the most important companies in the forest and industrial sector in Latin America, in the production of wood boards for furniture and interior architecture. The company is a pioneer in terms of the Triple Bottom Line (financially, socially and environmentally).

Its value proposal lies in the fact that Masisa is a reliable brand name – one that is close to its clients and stakeholders, and which anticipates market needs with highly innovative products and services by creating financial, social and environmental value throughout the different stages of its value chain.

### **Sustainable plantations and biodiversity**

Masisa's forest patrimony – 225,000 hectares of pine and eucalyptus plantations in Chile, Argentina, Brazil and Venezuela – is managed under the Forest Stewardship Council (FSC) certification, which is becoming the highest standard in the industry.

The forest patrimony has an important role to play in the company's value proposal, since it helps to ensure fiber supply in the long term and also reduces the volatility of its results.

Consequently, Masisa adheres to the project promoted by the World Wildlife Fund "New Generation Plantations" that promotes sustainable managed plantations, while preserving the integrity of the ecosystems, protecting the highly preserved forests, as well as the interests of stakeholders. Worthy of mention are the 65,000 hectares of natural forest reserves and protection areas owned by the company in the region.

### **An eco-efficient industry and healthy products**

Masisa is the first wood-production company to obtain the E1 European certification of low formaldehyde in the region and offer a wide mix of products that contribute to sustainable constructions by adhering to the LEED® certification.

The 12 industrial complexes that Masisa owns in Chile, Argentina, Brazil, Venezuela and Mexico have been certified under ISO 9.001, ISO 14.001 and OHSAS 18.001, and maintain world-class levels in terms of health and occupational safety, both for its direct and indirect employees.

Recently, Masisa concluded an alignment to international standard ISO 26.000 of corporate social responsibility, outlined in the Annual Report 2010.

Despite its multi-channel distribution, the company has developed a network of more than 310 specialized stores for carpenters, called Placacentro Masisa, providing a unique approach to the end user of the company's products, thus strengthening its growth and inclusive business initiatives.

### **Innovation is in Masisa's DNA**

As part of its growth plan, Masisa has developed inclusive businesses by creating a community of carpenters in Latin America, who are encouraged to strengthen their businesses and improve their quality of life.

By being one of the first companies to sign the United Nations Global Compact, Masisa has promoted the knowledge of its Business Principles in all its subsidiaries and has committed itself to incorporating them into its value chain in the coming years.

All these actions have led Masisa to ongoing innovation in terms of processes, services and products, based on an entrepreneurial approach that often results in higher costs in the short term, but which translates into significant dividends and industry trendsetting in the medium and long run.





A site in Shanghai, China, upon which apartments are due to be built. Asia's continued growth will increase both energy demand and carbon emissions

# Progress, prospects and plans for Asia

*Dramatic growth and a reduction in income poverty have characterised Asia over the past decade. But with inequalities remaining and new problems created by growth itself, the continent needs support in tackling its development challenges*

**By** Haruhiko Kuroda, president, Asian Development Bank

**A**sia has shown remarkable progress. The developing region's sustained success is one of the most significant achievements in economic history. Today, Asia accounts for more than a quarter of global output.<sup>1</sup> Per capita incomes grew nine per cent annually over the past decade, reaching almost \$5,000 in purchasing power parity terms in 2010 – up from only \$2,000 in 2000. Investment rates are at a record high, averaging 35 per cent of gross domestic product (GDP) over the past decade, suggesting enormous confidence in the region's future. The outlook remains positive, with robust growth of more seven per cent expected in the region this year and next.

Economic growth has led to a spectacular decline in income poverty in the region. Asia is well on track for slashing the number of people living in extreme poverty by half, although progress is uneven across countries. Hundreds of millions of Asians now enjoy a better quality of life than was previously the case.

*Asia 2050*, a study commissioned by the Asian Development Bank (ADB), predicts that, by 2050, the region could account for more than 50 per cent of global output, trade and investment. The continent would therefore regain the dominant global economic position that it held around 250 years ago, prior to the Industrial Revolution. Some have described this possibility as the 'Asian Century'.

While developing Asia continues to surge forward in economic growth and play a more prominent role in the global economy, most of the world's poorest people still live on the continent. Inequalities are also widening. Out of 20 developing Asian economies, 14 have experienced increasing Gini coefficients, which reflect income inequality, in recent years.

Progress in meeting the Millennium Development Goals (MDGs) remains far too slow, particularly among Asia's most vulnerable low-income countries (LICs), which have access to ADB's concessional lending from the Asian Development Fund (ADF). In Asia's LICs, 348 out of 100,000 women die in pregnancy and childbirth each year – more than twice as many as in Asia's richer economies. Child malnutrition is also more acute, with 36 per cent of children underweight in the LICs compared with only 27 per cent in sub-Saharan Africa.

### Inequalities hamper growth

In poorer countries, these large and increasing inequalities compromise long-term poverty-reduction efforts, because the impact of growth on poverty reduction is mitigated or reduced through inequality. Moreover, widening inequalities can undermine social cohesion and political stability, which in turn may destabilise the region and potentially halt its growth momentum.

Developing Asia's rapid growth has come at the expense of the environment. Deforestation, land degradation, and water and air pollution are the 'shadows' of this growth. They degrade living conditions even as incomes increase. Asia's continued growth will be accompanied by increasing energy demand and rising carbon emissions – adding strain to an already fragile environment.

Around the world, rising sea levels, higher temperatures and other climate changes create a chain of events that hit the poor the hardest. Demographic changes and rapid urbanisation also have profound implications. Both trends must be effectively managed to minimise or mitigate their impact on the environment, poverty and quality of life. For Asia, as elsewhere, policies for growth must consider environmental sustainability.

Lifting countries in Asia out of poverty requires huge financing and technical resources. These needs are more pressing for LICs that not only face severe fiscal constraints, but also have limited ability to attract private capital, and less access to capital markets and other financing flows.

Without sufficient alternative financing sources, official development assistance (ODA) continues to be an important source of development finance in LICs. As a key partner in Asia's development, ADB plays an important role in Asia's transformation and provides critical assistance for growth and poverty reduction. However, given the major development challenges that continue to be faced by the region, the task is far from over. Assistance, particularly for LICs, will continue to be crucial to ensure that the region can complete its transformation equitably and sustainably.

### Complementary agendas

Asia's growth must be fully inclusive to overcome inequities and address the remaining pockets of poverty. This means ensuring that the benefits from high economic growth are distributed broadly and that people have equal access to opportunities and basic social services. This will require the expansion of infrastructure and a proper policy environment for private enterprise, which is the major engine of growth. Enhanced social protection for the weak and vulnerable will also be needed.

The sustainability of growth will depend on how its impact on the environment is managed. Unless reversed, rapid deterioration of the environment, particularly in LICs, will seriously threaten economic



The rest of the world has much to gain by spreading prosperity more widely and equitably. Asia's poorer countries must not lag behind its giants



growth and ultimately social stability. ADB's support for environmentally friendly technologies – such as clean and renewable energy sources and efficiency-improvement measures – helps developing countries to address environmental concerns, including climate change. ADB is also building capacity in the region to adapt to climate change, promote sustainable resource management and improve air quality.

Regional cooperation and integration must also be stepped up, in order to enable lagging countries to share in development. Asia is highly diverse, and includes some of the world's largest and most competitive economies along with numerous small, underdeveloped and often fragile LICs. Some LICs are also landlocked or island economies, making it difficult for them to connect with external markets.

Regional cooperation and integration could help to accelerate growth, reduce poverty and economic disparities, and address shared vulnerabilities. By working together, countries in Asia can speed up the process of development and combat poverty more effectively. Regional integration will also help to rebalance growth in the region – and globally.

### A critical role for the G20

Last year, the G20 leaders adopted the Seoul Consensus for Shared Growth to support the broader objectives of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy. The G20 leaders made a commitment to help narrow development gaps and reduce poverty by expanding growth and prosperity in developing countries, and in LICs in particular.

In this context, the development needs and challenges in the Asia and Pacific region cannot be overlooked. The rest of the world, including G20 members, has much to gain by spreading prosperity more widely, equitably and sustainably. The poorer countries of Asia must not lag behind its giants. Support for the more vulnerable countries is particularly critical to meet regional and global MDG targets, bridge remaining development gaps and contribute to global stability.

Concessional financing is important in securing the region's future. Unless the flow of ODA to Asia and the Pacific is increased, many LICs will face increasing difficulties. Many donors are facing hard economic times, yet continued support for dedicated concessional funding sources, such as the ADF and the Global Climate Fund, provide crucial development financing for the region's LICs. This support will help to raise people out of poverty and help countries to become fully integrated in the global economy in a sustainable manner.

The Asian Development Bank, in partnership with others such as G20, is dedicated to doing all it can in helping the Asian region to face its large and growing development challenges and achieve balanced, inclusive and sustainable growth – which will also bring enormous benefits for the world at large. ♦

#### Footnote

1. Asia comprises three sub-regions: East Asia and the Pacific (including North Korea), South Asia and Central Asia (including Iran). The economies covered are Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Cook Islands, North Korea, Fiji, Georgia, Hong Kong, China, India, Indonesia, Iran, Japan, Kazakhstan, Kiribati, Korea, Kyrgyz Republic, the Lao People's Democratic Republic, Macao, Malaysia, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Pakistan, Palau, Papua New Guinea, the Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Taipei, Tajikistan, Thailand, Timor-Leste, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu and Vietnam.



Mobile phone technology is appealing to the young and sophisticated consumer class emerging in Africa

# African development: continuing progress

*Africa's spectacular growth over the past decade – sustained by a vast increase in trade with China and India, along with a surge in domestic demand – continues to help the continent to withstand the effects of the global economic crisis*

**By** Donald Kaberuka, president, African Development Bank

**N**ot so long ago, the development discourse was suffused with 'Afro-pessimism'. The 1990s was seen as a lost decade for Africa, marked by massive macroeconomic imbalances, unsustainable debt, stagnant growth, and seemingly insoluble conflicts and political crises. It was an era when Africa's development agenda was set by outsiders through the Bretton Woods institutions' structural adjustment programmes, which, as conventional wisdom has it, were treatment regimes so invasive as to be harmful to their patients.

A decade on, it is remarkable that we find ourselves talking about an African miracle. Africa has been through a decade of unprecedented growth. Per capita gross domestic product (GDP) in sub-Saharan Africa has leapt from \$400 to \$700. Even the global financial crisis could not halt this momentum. In 2011, sub-Saharan Africa will grow by 5.6 per cent, with a number of countries exceeding seven per cent – the threshold for major and lasting inroads into poverty.

Africa's new economic buoyancy is driven mainly by good macroeconomic management and market reforms

# TerrAfrica scales up sustainable land and water management

*TerrAfrica partners are united by the view that securing land productivity while managing the changing usage of land and climate risk requires an expansion of sustainable land and water management*

**T**errAfrica is an African-driven global partnership programme to scale up sustainable land and water management across sectors in 23 sub-Saharan countries. The partnership supports this effort by reinforcing investments, institutions and information at country and regional levels.

Expanding the uptake of proven technologies – such as natural regeneration of tree cover, soil and water conservation, watershed planning, water harvesting, integrated nutrient management, low tillage or agroforestry – requires sustained country dialogue to align fragmented investments, information, and institutions.

African countries and their partners are increasingly expanding the public sphere on policy and practice across institutional, geographic, and disciplinary boundaries, and integrating sustainable land and water management in national planning and larger-scale investment and budget planning. This renewed emphasis on natural capital is resulting in multiple wins, including environmental benefits such as improved soil structure and fertility, watershed and ecosystem function, and greater biodiversity in production landscapes. Such global public goods are leading to more secure livelihoods, economic growth, and less hunger.

## Recent in-country progress

- Burkina Faso has completed its road map for defining investment priorities and is working to implement a sustainable land management (SLM) projects (US\$65.6 million).
- Burundi has recently joined the TerrAfrica partnership with a very much appreciated study on the country's coffee production.
- Comoros is developing a project on ecological planning and SLM.
- Eritrea launched its SLM platform and is now developing a large SLM programme that includes SLM pilot project and catchment management (\$27 million).
- Ethiopia was one of the first countries to launch its SLM project. Based on its experience, the country is now launching its own national SLM knowledge base and a capacity-building strategy. These activities will generate a national land-use plan to harmonise stakeholder activity and approaches.
- Gambia is entering the process with a large SLM project (\$18.4 million).
- Ghana is developing an inter-ministerial SLM programme with analytical links to the Comprehensive Africa Agricultural Development Programme (CAADP). The country has completed its Sustainable Agricultural Land Management Strategy and is working on entering the land degradation and hazard assessment with a national GIS (geographic information system) database.
- Kenya continues to make strong progress with its inter-ministerial team and the finalisation of its SLM project.
- Lesotho has expended awareness and knowledge on SLM and is launching a new SLM project (\$6.3 million).
- Madagascar is defining its SLM investment priorities focused on individual watersheds and is developing its own SLM information management system. A new Irrigation and Watershed Management project was recently approved (\$39 million).
- Malawi is making good progress towards greater SLM practices across a wide variety of fronts, incorporating SLM into agriculture, climate change and poverty alleviation programmes. The country's investment plan is now completed and the Agricultural Development Support Project is now yielding results (\$42 million). A new Equatorial Africa Deposition Network Project is under development (\$7.8 million).
- Mali has finalised its SLM investment priorities. The country has generated a new SLM monitoring framework and is finalising a cost-benefit analysis and public expenditure from which findings are already being applied in investment planning. The SLM agricultural and pastoral productivity project will continue until 2012 (\$125 million).
- Mauritania is finalising its SLM investment priorities with the support of the emerging national SLM committee. The SLM in the Oasis Ecosystems of Mauritania project is ready for start-up (\$27.2 million). The country is preparing to launch carbon financing linked to SLM, and is also engaging in an SLM capacity-building assessment.
- Niger has finalised its SLM investment priorities. The country has more than \$73 million of approved SLM projects. These investments will address a host of issues, including community-driven SLM and agriculture. The country is also working to strategically integrate SLM as a tool to build climate change resilience in highly vulnerable landscapes.
- Nigeria continues to make progress with the application of SLM. The Fadama III project is under implementation (\$457 million). A major analysis on climate change, visiting low-carbon growth and climate vulnerabilities, has supported the preparation of the new Nigeria Erosion and Watershed Management Project (\$350-450 million). The national SLM knowledge base is operational, and a cost-benefit analysis and public expenditure review have been completed. The country has developed an inter-ministerial cooperation agreement that will feed into the CAADP and will support SLM mainstreaming.
- Rwanda is developing an SLM information system. The nation is also participating in two transboundary programmes in Lake Victoria and in the Kagera River Basin. The government has initiated the process of defining the national SLM platform and strengthening cross-sectoral coordination.
- Senegal is preparing its own SLM investment priorities, with regional support. Its large SLM project is under implementation,



focusing on the agricultural sector (\$54 million). The country is finalising its SLM platform.

- Senegal is preparing its own SLM investment priorities with regional support. The country's large SLM project is under implementation (\$54 million) and it is finalising the set-up of its SLM platform.
- Togo has completed its SLM investment priorities and is preparing for its implementation, that will address adaptation issues linked to the regular floods occurring in the country.
- Uganda has made consistent progress on the completion and implementation of its SLM investment priorities. The country is strengthening SLM coalition-building through an inter-ministerial technical working committee and developing an SLM country programme. A project to mainstream SLM at district and central levels, to address land degradation linked to cattle production, was recently approved (\$7.4 million).
- Tanzania is developing its own SLM investment priorities, which will translate into investment projects.
- Zambia is generating new cross-sectoral SLM policies and strategies. This includes strengthening institutional capacities. Analytical studies are being completed to provide a basis for developing investment priorities.

### Increase in investments

The World Bank and Global Environment Facility (GEF) TerrAfrica portfolio is now approximately \$2 billion in active and pipeline projects, as well as analytical and advisory services directly benefiting several African countries; other partners such as AfDB (African Development Bank), FAO (Food and Agriculture Organization), IFAD (International Fund for Agricultural Development), UNDP (United Nations Development Programme), UNEP (UN Environment

Programme), bilateral donors, and African countries themselves bring the total value to well over \$3 billion.

A new World Bank/GEF Sahel and West Africa Programme in Support of the Great Green Wall Initiative was approved in May 2011. The programme approaches \$2 billion, with grants of approximately \$108 million from the GEF, the Least Developed Countries Fund, and the Special Climate Change Fund.

#### Contact:

*The Secretariat of TerrAfrica is hosted and managed by the technical body of the African Union, the NEPAD Agency (New Partnership for Africa Development). The NEPAD Agency co-chairs the steering committee of the TerrAfrica platform together with the UNCCCD (United Nations Convention to Combat Desertification) Secretariat.*

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[www.nepad.org](http://www.nepad.org); [www.terrafrica.org](http://www.terrafrica.org)

that were implemented during the last two decades. Coincidentally, the rise of China, India and other emerging economies hungry for Africa's natural resources has helped sustain growth. Trade with India and China has grown tenfold since 2001, and 30 per cent of Africa's trade is now with Asia.

But Africa's rise is more than just a resource boom. Today's spectacular growth in telecoms, construction, the financial sector and agri-business is a sign of structural change in the African economy. Some 40 per cent of Africans now live in urban areas where a new, young and sophisticated consumer class is emerging. The rapid spread of mobile telecommunications and other new technology offers opportunities for leapfrogging. Africa's economic powerhouses – South Africa, Nigeria, Kenya and, until recently, Côte d'Ivoire – are helping to drive regional trade and economic integration.

Africa also has a new generation of policy-makers who are increasingly getting the fundamentals right. They have taken advantage of the fiscal space and macroeconomic balance delivered by structural adjustment and turned their attention to microeconomics, achieving significant improvements in the business climate. To this one can add a new 'can do' attitude among Africans, which is a sign of both a young and energetic population and the cross-fertilisation of ideas with the African diaspora. All these factors add up to major, long-term opportunities for African business and international investors alike.

#### A challenging new age

For all these reasons, I am confident that the African miracle is no false dawn, but the start of a new era in Africa's development. But it would be wrong to gloss over the scale of the challenges and risks ahead: 48 per cent of the African population still lives below the poverty line. While there has been unequivocal progress towards almost all the Millennium Development Goals (MDGs), a number of targets will not be met. This is not because there has been no progress, but because the rate of progress is slower than required.

Progress has been further slowed down by the 'triple-F' crises: food, fuel price, and financial and economic. In that sense, should the current economic uncertainty lead to another global slowdown, most African countries will find it even harder to achieve the MDGs. Thirty years after Amartya Sen pointed out that famines were first and foremost political failures, it is a matter of deep regret that, once again, 10 million people are facing a catastrophe in the Horn of Africa – a sign of the world's (and Africa's) failure to respond to a crisis that was neither sudden nor unpredictable.

For all those involved in Africa's development, the Arab Spring has been a wake-up call and a warning. The North African countries that succumbed to political crisis were some of the continent's best economic performers. They demonstrate that growth may not be enough if it fails to deliver benefits for the majority of the population – in particular, jobs for the rapidly growing youth population. To date, most of Africa's economic growth has been enclave in nature, benefiting narrow geographical regions and social groups. Growth has not been achieved in the labour-intensive industries that have been such a key driver of poverty reduction in Asia.

The Arab Spring also brought home the size of the 'legitimacy gap' in sub-Saharan Africa. Recent events have convincingly discredited the idea of an 'authoritarian bargain' – that African populations demand bread over democracy. African countries have come a long way in the past two decades in building democratic institutions. The peaceful transfer of power through the electoral process, once unthinkable, is now evolving. But challenges remain, and African countries need to pursue progress in this direction.

The African Development Bank (AfDB) is using its mandate as Africa's pre-eminent development institution to address the most important structural constraints on Africa's growth. Its medium-term strategy focuses on five interlinked areas: economic integration, strong institutions and good governance, the private sector, closing the gaps in infrastructure and skills, and supporting countries emerging from conflict.

#### Protecting Africa's services and growth

AfDB played a key role during the global financial crisis, helping to mobilise finance that enabled African countries to take counter-cyclical measures and protect their public services and development programmes. It is investing heavily in overcoming Africa's vast infrastructure gap, which it estimates adds 40 per cent to the costs of doing business and will only become more acute as Africa's growth continues.

Some 20 per cent of AfDB's resources are going into promoting regional integration through hard and soft infrastructure, to reduce the fragmentation of the African economic space. It is exploring opportunities to promote more inclusive growth, in particular by making job markets work for young people. And it is working hard to mobilise international finance for climate change adaptation and clean energy, including through a new Africa Green Fund. While Africa is disproportionately

“Africa's rise is more than just a resource boom. Today's spectacular growth in telecoms, construction, the financial sector and agri-business is a sign of structural change in the African economy”

vulnerable to the impact of climate change, this is a moment of opportunity for a continent with such a large share of the world's clean energy potential.

At the G20 summit in Cannes, there is a need for a very different international development agenda. By and large, aid has played a substantial role in meeting critical financing gaps in many African countries for purposes of development. However, often it has been too little and too late. The pledges of large increases in aid that marked previous international summits are not credible in today's climate, which is understandable. While development partners' official development assistance is critical, Africa's increasing needs for finance require looking for other sources: not just aid, but also domestic savings and revenues, private foundations, remittance flows and the international capital markets.

While Africa can still benefit from the advice of traditional donors and development institutions, new partnerships with the emerging economies and 'learning by doing' are perhaps still more beneficial. I would like to see the G20 and its Development Working Group at the forefront of this new development paradigm and the new international architecture it requires. ♦

ARGENTINA | BRAZIL | BOLIVIA | CHILE | COLOMBIA | COSTA RICA | DOMINICAN REPUBLIC | ECUADOR | JAMAICA  
MEXICO | PANAMA | PARAGUAY | PERU | PORTUGAL | SPAIN | TRINIDAD & TOBAGO | URUGUAY | VENEZUELA





UN MESSAGE AUX LEADERS DU G20

# L'Agriculture est la voie menant à la prospérité en Afrique

L'agriculture demeure le poumon économique de l'Afrique subsaharienne. Elle contribue pour 45% de notre PIB et 60% des recettes d'exportation. Environ 76% des 987 millions d'Africains vivant dans les zones rurales dépendent de l'agriculture pour leur moyen de subsistance.

Mais la performance agricole demeure médiocre. Les rendements de céréales sont moins de 1 tonne par arpent—juste un cinquième de la moyenne mondiale. L'apport de l'Afrique au commerce agricole global représente juste 2%. En conséquence, la moitié des Africains ne vivent que de 1,25 dollar par jour. Un nombre sans cesse croissant de 265 millions d'Africains sont mal nourris.

**La production agricole en constante augmentation constitue le besoin le plus urgent du continent. Une augmentation de 10% de la productivité réduirait la pauvreté de 4% à court terme et de près de 20% au fil du temps. Pour accroître la production, les Africains doivent relever simultanément plusieurs défis: il doit y avoir un investissement accru dans la recherche agricole et la science. Les paysans ont besoin de l'accès amélioré aux semences de qualité, aux intrants agricoles et au financement. Les sols appauvris doivent être engraisés à nouveau. Il faut que les Africains mettent au point des marchés fonctionnels et accroissent les investissements dans les infrastructures liées à l'agriculture. Enfin, les paysans africains ont besoin d'un meilleur appui de leurs gouvernements et de l'aide pour s'adapter à l'impact néfaste du changement climatique.**

L'opportunité pour promouvoir la sécurité alimentaire en Afrique n'a jamais été plus grande qu'aujourd'hui. Des progrès importants s'opèrent au Ghana, au Malawi, au Mozambique et Tanzanie.

L'Alliance pour une Révolution Verte en Afrique (AGRA) collabore avec les paysans aux ressources limitées en Afrique à travers la filière agricole du continent. Nous apportons de nouvelles techniques, de nouvelles technologies, et la formation

aux communautés rurales et aux paysans. Notre préoccupation est de trouver des solutions dans un pays ou région et de les introduire dans d'autres endroits où elles

ont la potentialité d'accroître les rendements agricoles, la productivité et les revenus. Nous sommes dirigés par des Africains, sommes basés en Afrique et nous entretenons des partenariats avec les institutions multilatérales, les agences de développement, les sociétés privées, les institutions de recherche et les gouvernements pour créer des systèmes durables en appui aux paysans aux ressources limitées en Afrique.

L'AGRA opère dans 13 pays. Notre réseau nous permet de transférer les connaissances, les technologies et l'expertise à travers les régions et les communautés dans les domaines allant des semences aux sols et de l'accès au marché aux financements innovateurs et à la politique. Notre attention porte sur la mise à l'échelle des innovations et des approches qui ont la potentialité de transformer l'agriculture des paysans aux ressources limitées à travers le continent, et faire de l'agriculture une entreprise productive et rentable. Notre objectif est de sécuriser l'Afrique sur le plan alimentaire à force de systèmes agricoles hautement efficaces, compétitifs, productifs et durables.

Les Africains accueillent favorablement l'engagement des leaders du G20 à aborder la sécurité alimentaire au plan global tout au long de l'année 2011. En se projetant sur l'avenir, nos partenaires au développement devraient se départir de l'assistance alimentaire pour passer à l'investissement dans les paysans aux ressources limitées par la formation, le développement des marchés et en finançant les meilleures semences, les sols, les intrants agricoles et le financement innovateur. De nouveaux investissements sont également nécessaires en vulgarisation agricole et en recherche, dans la construction des dessertes rurales, les systèmes d'irrigation et les infrastructures agricoles. Ces efforts permettront aux paysans africains de générer plus de produits alimentaires pour eux-mêmes et leurs communautés et leur permettre de vendre leurs excédents et diversifier les plantes à grande valeur, le bétail et les fruits.

**Le développement de l'agriculture en Afrique est la voie du continent vers la prospérité.**

**Joignez-nous pour aider les paysans africains aux ressources limitées à être les partenaires à part entière de l'économie mondiale.**

— Namanga Ngongi, Président, AGRA



## A MESSAGE TO THE G20 LEADERS

# Agriculture is Africa's path to prosperity

Agriculture is the mainstay of Sub-Saharan Africa's economy. It contributes 45% to our GDP and 60% of export earnings. Three quarters of Africa's populations are directly dependent on agriculture for their livelihood.

But Africa's agricultural performance remains poor. Cereal yields are less than 1 ton per acre—just one fifth of the global average. Africa accounts for just 2% of global agricultural trade. As a result, half of Africans exist on less than \$1.25 per day. A staggering 265 million Africans are undernourished.

**Increasing agricultural production is the continent's most urgent need. A 10% increase in productivity would reduce poverty by 4% in the short run, and nearly 20% over time. To increase production, Africans must simultaneously address several challenges. There must be increased investment in agricultural research and science. Farmers need improved access to quality seeds, crop inputs and finance. Depleted soils must be renourished. Africans need to develop functioning markets and increase investments in agriculture-related infrastructure. Finally, African farmers need better support from their governments and help in adapting to the harmful impact of climate change.**

The opportunity to advance African food security has never been greater than today. Significant progress is taking place in Ghana, Malawi, Mozambique and Tanzania.

The Alliance for a Green Revolution in Africa (AGRA) works with Africa's smallholder farmers across the continent's agricultural food chain. We bring new techniques, technologies and training to rural communities and farmers. Our focus is finding solutions in one country or region and introducing them into others where they have the potential to increase crop yields, productivity and incomes.

We are African-led and African-based, and we partner with multilateral institutions, development agencies, private companies, research institutions and governments to create sustainable systems in support of Africa's smallholder farmers.

AGRA operates in 13 countries. Our network enables us to transfer knowledge, technologies and expertise across regions and communities in areas ranging from seeds to soils, and from market access to innovative finance and policy. Our focus is on scaling-up innovations and approaches that have the potential to transform smallholder agriculture across the continent, and make farming a productive and profitable business. Our goal is a food secure Africa with highly efficient, competitive, productive and sustainable agriculture systems.

The commitment of the G20 leaders to address global food security throughout 2011 is urgently needed. Moving forward, our development partners should shift their focus from providing food aid to investing in Africa's smallholder farmers through training, market development, and by supporting better seeds, soils, farm inputs and innovative finance.

New investments are also needed in agriculture extension and research, and building rural roads, irrigation systems and farm-related infrastructure. These efforts will enable African farmers to grow more food for themselves and their communities, and enable them to sell their surpluses and diversify into high-value crops, livestock and tree products.

**Growing Africa's agriculture is the continent's path to prosperity. Africa needs nothing less than a green revolution. Join us in helping African smallholder farmers be full partners in the global economy.**

—Namanga Ngongi, President, AGRA



[WWW.AGRA-ALLIANCE.ORG](http://WWW.AGRA-ALLIANCE.ORG)



# Assisting in regional reform to maintain development gains

*Several governments in the Middle East and North Africa have responded to recent unrest by bringing about political and social reforms – a process that the Islamic Development Bank Group is helping to implement*

**By** Ahmad Mohamed Ali, president, Islamic Development Bank Group

**A**s a 'South-South' development financing institution, the Islamic Development Bank (IsDB) uses resources from its better-off member countries to assist those that are less well off. Most of its members in the Middle East and North Africa (MENA) region account for about 35 per cent of the total membership of IsDB (including Turkey and Iran). Recent developments provide both an opportunity and a moral obligation for the G20 and the multilateral development banks (including the IsDB) to help the region in their short-term and long-term reforms, on both the political and socioeconomic fronts.

Between 2006 and 2008, the 19 member countries in the MENA region recorded an average economic growth above five per cent per year. This trend was interrupted by the global financial crisis, which saw economic growth decelerate to 0.4 per cent in 2009. Due to strong economic fundamentals, the region has recovered rapidly, registering close to its pre-crisis growth rate of 4.7 per cent in 2010. The region has also recorded an average current account surplus of 6.8 per cent of gross domestic product per year between 2000 and 2010. However, inflation averaged 10.2 per cent per year over that time. Against the backdrop of the eurozone and US debt crises, the macroeconomic outlook of the region for 2011-12 is promising.



The MENA region has seen waves of civil unrest, youth violence and the destruction of lives and property over recent months. The root causes have been attributed to economic hardship, youth unemployment, and a lack of political freedom, good governance and inclusive growth. This turmoil could reverse the decade-long gains made in development. Unemployment is a scourge in the region due to the bulge in the youth population and a mismatch between the skills available and regional needs. The World Bank estimates that the Arab world would need to create 80 million new jobs over the next 15 years to keep up with annual population growth averaging 1.7 per cent between 2001 and 2010. According to the International Labour Organization (ILO), youth unemployment averages 23.6 per cent, including 23.7 per cent in the Middle East and 23.6 per cent in North Africa.

#### Reforms for social change

In response, some governments are quickly implementing wide-ranging political and socioeconomic reforms to improve the lives of their citizens. Spending programmes focus on providing unemployment benefits and insurance schemes, increasing public investment in infrastructure and the housing sector, providing jobs for young people, enhancing support for small- and medium-enterprises (SMEs), increasing social inclusion, improving the quality and relevance of education, and launching labour-intensive projects.

The IsDB Group – through the Islamic Corporation for the Development of the Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and the Islamic Research and Training Institute (IRTI) – is helping MENA countries in implementing their reforms. The region has received \$38.7 billion of total IsDB Group net cumulative approvals. Recent interventions include supporting youth employment generation and social safety nets, strengthening infrastructure and human development,

promoting the SME sector and microfinance, and enhancing vocational training.

The MENA region, according to the World Bank, needs between \$75 billion and \$100 billion in new infrastructure investment annually to sustain recent growth rates and boost economic competitiveness. The IsDB, in partnership with the World Bank and the International Finance Corporation (IFC), recently launched the Arab Financing Facility for Infrastructure (AFFI), which aims to raise up to \$1 billion in new financing to leverage infrastructure investment in Arab countries and drive inclusive economic growth.

In the wake of the turmoil in the region, the IsDB approved a financing package of \$250 million to reduce youth unemployment in affected countries. The IsDB and IFC launched the Education-for-Employment (E4E) initiative in the Arab world to mobilise \$2 billion over the next five years, while engaging the private sector to create new job opportunities for employment-based education and enhancing labour-market skills for Arab youth and women. Moreover, the ICD is establishing programmes for country-specific SME facilities.


The IsDB is also partnering with international financial institutions (IFIs) in a joint approach to private-sector development in North Africa, aiming to develop a shared vision that addresses the common challenges of high unemployment, skills mismatch, large regional income disparities and low levels of private-sector investment. Furthermore, the IsDB Group announced its 2011-13 programme support for Egypt (\$2.5 billion) and Tunisia (\$900 million), and is broadening and strengthening its partnership with Arab regional multilateral institutions.

To support the Islamic financial services industry in the region and beyond, the IsDB has established the International Islamic Financial Market (IIFM), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic International Rating Agency (IIRA).

The G20, as well as the rest of the international community, plays an important role in infrastructure

Protests across the Middle East and North Africa forced a rethink by governments in several countries

# IF GLOBALIZATION IS ESSENTIAL, THEN A NEW GLOBAL GOVERNANCE IS A MUST



Political action, in the 21st century, differs vastly from that of the one preceding it. World dynamics, interstate interactions, and events that shape global politics today redefine not only the issues but also the actors and institutions on the political stage. The 20th-century institutions were established in a specific manner to confront and solve the social, economic and political challenges of the era they belonged to. These Bretton Woods institutions' *raison d'être* were envisioned with respect to the power balance and the political-economic context.

Needless to say, without these institutions the world would not have been able to survive the turbulence caused by the end of the Cold War in the 20th century. While the IMF's role was instrumental in establishing financial stabilization, the World Bank focused its efforts on the countries in need of growth and struggling with poverty reduction, UNICEF channeled its efforts to protect and rescue children from harm's way and UNDP helped make development more sustainable. However, with a new century and a new world order, these institutions' mandates and operational capacities have been called into question. The remedies for the diseases of the 20th century are no longer able to cure the maladies of the 21st century.

The profound transformation in our relationship to politics explains the dominance of transnational actors in international relations. In the 21st century, the individual comes to the forefront. With the advances in information and communications technology (ICT), the virtual and real distance between individuals has diminished. As a result, the sharing of intellect has become commonplace and the increasingly numerous channels of communication have enabled greater participation. With this, individuals have discovered themselves and claimed their role in the development of their own society and global politics.

The introduction of the individual to the political stage brought about a new setting to the functionality of global politics. In turn, this new setting triggered new trends. Among these new trends we find new forms of interactions, demands for new products and services and, accordingly, new currents in consumption patterns. Such interactions are not confined to geographical limitations; movement of labor and capital denies borders and alters the existing structures.

The aggregate impact of the new course of social dynamism redefines the notion of nation-state dynamics. Whereas international relations were defined by nation-to-nation interactions, today company-to-company, individual-to-individual, consumer-to-consumer, etc, best describes the new social atmosphere. As a result, there is a free flow in the commerce of services. Economic life does not abide by geographical limits, and thus regional or local regulations are insufficient to take advantage of this new dynamism.

Although boundaries between nation states become blurred, a competitive market economy is a managed system; it is not emancipated either locally or globally. For a market economy to deliver the expected benefits, it has to provide the players with a symmetric and complete set of information and must work in a homogeneous framework. When markets fail, there must be a set of regulations that can help solve the situation.

The need for cooperation to regulate and manage these new trends must be addressed. Just how acute the need is for better and more cooperation is evident with the example of the 2008-2009 economic crisis. This episode is an excellent (and catastrophic) case study of the lack of financial sector regulation mechanisms. If the United States and the European community had come to a common regulation understanding, the economic crisis might not have happened and/or precautions could have been taken, and at least the aftermath of the crisis might not have been as deleterious as it was.

As we enter a new period in which a rethinking of the established rules is at the top of the agenda, we must take lessons from 2008-2009. In fact, as economic trends become transnational, insisting on local regulatory principles is hopeless. We are in an era in which we have to improve the new global governance system and regulation system or, even though it is undesirable, we must settle for the status quo. Any intermediate solution would leave us worse off since it would naturally force states to make protective policies. As true adherents of a market economy, we must adhere to all of the rules of the game. We cannot accept the market economy's philosophy and neglect its requirements.

In this respect, the G20 is an invaluable response because it brings together heads of states to address global issues. The G20 is also a very competent initiative to tackle the lack of coordination, as it has an extensive representative capacity. Under the G20 umbrella, the emerging population and wealth come together and constitute the new collaborative system of the 21st century. Through the lens of the G20, we can identify three options for dealing with the international system: restructuring, reconstructing or maintaining the status quo.

Unsurprisingly, any reconstruction process will take time. However, some issues demand immediate attention. The most imminent response must be given to energy security, financial sector regulation and climate change. Failing to address these issues is detrimental to all segments of the world, because a successful development process will be at risk. The short-term effects will be consequential, and it will be nearly impossible to rewind if we do not address these issues immediately.

The World Business Council for Sustainable Development produced a report, Vision 2050, that addresses our key concern here: "The window for action could be closing, and much will need to be done in the next decade. Progress must be secured across many different domains, sectors and regions. Government, civil society and the public at large must be equally committed. Delaying action will make the already ambitious targets that much harder to achieve."

In an increasingly globalized world, global understanding and coordination are crucial. The G20 has a great responsibility to facilitate a better form of global governance. In order to accomplish such an important task, this representative entity needs to consolidate and further institutionalize itself.

As members of the G20 community, we must create a forum for revising the current international system and consolidating G20 under the auspices of G20. This convention should be expected to bring forth a preliminary framework to be assessed at Mexico in 2012.

development, microfinance, SMEs, tourism, agriculture and water resources management, human and institutional capacity-building, and food security. These areas are part of the G20 action plan for shared and inclusive growth being developed by the multilateral development banks (including the IsDB), as well as specialised international agencies including the World Trade Organization (WTO), the ILO and the International Fund

“ To implement the G20 action plan, development assistance should be based on the needs and priorities of the countries in the region ”

for Agriculture and Development (IFAD). That action plan will be presented at the Cannes Summit.

To implement the G20 action plan, development assistance should be based on the needs and priorities of the countries in the region. Special attention should be given to ‘South-South’ cooperation and institutional capacity at the country level for achieving sustainable socioeconomic development. In particular, the action plan

should be country-owned and country-led, with a focus on the needs of the youth and the unemployed.

As a result of the crisis in some MENA countries, the confidence of both local and foreign investors has been shaken, and risks and uncertainties have increased. The G20 leadership must help to facilitate growth led by the private sector, given that private-sector engagement has become the main driver of economic and social progress worldwide. The G20 and the IFIs can help the region with financing as well as with creating an enabling environment for private investors, generating high-quality jobs and restoring confidence of the business and private sector.

#### Global commitments

G20 members are called upon to enhance the level of development assistance through greater alignment of aid with national priorities, more transparency in aid delivery, and promotion of ‘South-South’ cooperation with more focus on aid for trade. They are also called on to revitalise the global commitment for achieving the Millennium Development Goals by 2015. The G20 and other stakeholders should join with the IsDB in designing E4E solutions for addressing unemployment and supporting the AFFI initiative to catalyse private, as well as public, investment for infrastructure development.

Similarly, the G20 must reaffirm its commitment to identifying bankable growth-supporting projects, preferably at the regional level. The G20 also needs to provide strong support to economically viable, socially responsible and environmentally sustainable private investment in the agriculture value chain to face the challenge of food security. Finally, the G20 should consider mainstreaming Islamic finance in the international financial system in order to avoid a repeat of the 2008 global financial and economic crisis. ♦

An Egyptian woman celebrates after a wave of protest swept President Hosni Mubarak from power



# Anambra State of Nigeria: achieving the Millennium Development Goals



**Mr Peter Obi,**  
Governor of Anambra State

## 1. BACKGROUND: THE STATE, ITS VISION AND ITS DEVELOPMENT STRATEGY

### 1.1 The State and its Chief Executive

Located in the south-east geopolitical zone of Nigeria and home to the Anambra Igbo, who are undoubtedly the most entrepreneurial group of people in sub-Saharan Africa, Anambra State today is under the democratic governance of Mr Peter Obi, who was elected Governor in 2006 and re-elected in 2010 for a second four-year tenure, thus becoming the only Governor of the State ever to serve two terms.

With solid academic preparation at a variety of Ivy League institutions, complemented by vast business/financial experience garnered from positions as chairman and director of a number of quoted companies, Mr Peter Obi came well prepared for the job.

Before becoming Governor, his quest for knowledge had taken him to the University of Nigeria; Lagos Business School Nigeria; Harvard Business School, US; London School of Economics, UK; Columbia Business School, US; Kellogg Graduate School of Management, US; Institute for Management Development, Switzerland, etc. Much of his business and financial experience came from his positions as former chairman of Fidelity Bank, Future View Securities Ltd and Paymaster Nigeria, as well as former director of Guardian Express Bank and Chams Nigeria.

Mr Obi's sure-footedness in the business world has also been enhanced by his membership of a number of reputable professional associations: Fellow, Nigerian Institute of Bankers; Member, Nigerian Economic Summit Group; Commonwealth Business Council; British Institute of Directors, etc. Happily married and the father of two teenage children, 50-year-old Governor Obi undoubtedly possesses the academic, professional and social stability for the onerous task of governing Anambra State.

### 1.2 Our vision, our strategy

The Vision of Anambra State under Peter Obi's administration is to achieve the Millennium Development Goals (MDGs). From all indications, Anambra State is among the very few subnational governments in Africa to have adopted the MDGs as their vision in their commitment to the development of their societies. The strategy for achieving this vision is a unique approach, christened Anambra Integrated Development Strategy (ANIDS), with which all targets of the MDGs are being pursued

simultaneously. The beauty of ANIDS lies in its simultaneous development of all sectors.

ANIDS is, basically, a strategy that allows the State Government to plan carefully, budget properly, implement the plan, monitor the implementation, ensure delivery of the plan and encourage participation and feedback from the communities and stakeholders for whom the various ANIDS projects are being executed.

At the heart of the participatory governance in Anambra State today is the involvement of the people in all stages of the project cycle – from planning and budgeting to implementation. With ANIDS, the State has moved its planning and budgeting from being supply-driven to being demand-driven. This is necessary in order to maximise the benefits from very scarce resources because Anambra, not being an oil-producing state, is a relatively poor state.

Because it is anchored on careful planning and budgeting, ANIDS enables the government to identify budgetary gaps, some of which the state needs to fill with the support of its development partners. Thus, in view of the meagre resources of Anambra State, collaboration with development partners (national and international) is of utmost importance. Unlike the situation in the past, before the Peter Obi administration, when Anambra was a pariah state and a no-go area for international development partners, a number of them are operating in Anambra State today, notably the United Nations Development Programme (UNDP), the European Union (EU) and the UN Children's Fund (UNICEF).

## 2. HOLISTIC DEVELOPMENT: STRIVING HARD, ACHIEVING RESULTS

ANIDS is the driving force behind the rapid development that has been taking place in Anambra State over recent years, with landmark achievements in every sector of the economy. Appreciating Anambra's efforts, the former Senior Special Assistant to the President on MDGs, Hajiya Amina Az-Zubair, said, "Anambra State has made remarkable success in the implementation of the MDGs Programme." The following examples will illustrate the efforts and some achievements in a few sectors:

### 2.1 Fighting poverty and hunger

As a pro-poor, grassroots-oriented government, one of the first steps taken by the Peter Obi administration in its fight against poverty was to do a Poverty Mapping of the State to establish its poverty profile. Having thus identified the poorest Local Government Areas (LGAs), the government is making concerted efforts to eradicate extreme poverty in the State, particularly in these poor LGAs. Consequently, Anambra State government has consistently churned out pro-poor policies and programmes as the basis for poverty eradication in the State.



**Governor Peter Obi at the distribution of empowerment tools to the physically challenged**

In this regard, the FADAMA III Programme has been a major avenue for providing capital and equipment support to hundreds of rural dwellers engaged in agro-related activities; capital support has also been given to thousands of the less-privileged – particularly women, widows, the physically challenged, as well as caregivers of orphans and vulnerable children – to enable them to either expand their trade or start petty trading or small-scale farming.

Revolving loans have been made available to hundreds of women's cooperative groups to establish small-scale, agro-based businesses such as poultry farms, fish ponds and pig farms. Sundry equipment (including palm oil-processing machines, palm kernel-cracking machines, food-processing machines, soap-making machines and electricity-generating sets to power them) have been distributed to cooperative groups to establish cottage industries.

A variety of skill-acquisition training sessions have been organised for the unemployed (especially the indigent, physically challenged, women and youths) who have been subsequently empowered with micro-enterprise equipment such as computers, generators, hairdryers, sewing machines, shoe-making machines, welding machines, vulcanising machines, motorcycles, woodwork/carpentry tools, barber's shop tools, ovens, cookers, etc. to make them self-reliant through self-employment.

Poverty reduction is also being pursued through massive expansion of rural roads, especially in remote food-producing areas, thus opening up such strategic areas of the state with good access roads. This enables the government to send much-needed agricultural inputs to such remote rural areas; it also enables rural farmers to evacuate food items and other agricultural produce to urban markets for better profits and to feed the people. Today,

Anambra State is reputed to have the best network of roads in Nigeria, especially in rural areas.

The creation of jobs, especially for young people, is another major weapon in the fight against poverty. The government's aggressive efforts to create an enabling environment for local and foreign investors are yielding fruit and will create thousands of jobs.

The establishment of a neem-based organic fertiliser plant to produce fertiliser will boost the huge capacity of the agricultural sector to generate employment. The ongoing construction of a giant facility in Onitsha by South African Breweries (SABMiller) is expected to create hundreds of jobs. The construction of the First and Second Business Parks in Onitsha is boosting commercial activities (the First has been completed and put to use while work on the Second has reached 90 per cent completion).

The government is collaborating with Innoson Vehicle Manufacturing Company in Nnewi (the first indigenous vehicle manufacturing outfit in the country) and also revitalising/resuscitating abandoned and comatose industries, including Omor Rice Mill, etc. Commending poverty reduction efforts by Anambra State, Dr Magnus Kpakol, Coordinator of the National Poverty Eradication Programme (NAPEP), said: "Governor Obi was the first governor to visit my office to discuss how to fight poverty in his state and remains determined and dogged by initiating effective economic empowerment programmes."

## 2.2 Education

ANIDS achievements in the education sector are truly heart-warming. Before Governor Peter Obi's administration, not one single public secondary school in the state had a properly equipped, functional science laboratory. The scenario was no better in the area of computer literacy: in this age of information technology, computers were virtually unheard of in public schools. Today, the situation has changed dramatically in terms of ICT, science laboratories, electricity, water supply, etc. About 150 schools have benefited from the laboratory rehabilitation and equipment programme of the government; more than 120 schools have been supplied with computer sets – each school receives 10 desktops with full accessories; Microsoft Academies have been established in 120 schools, with 50 laptops each; school buses have been provided for more than 100 secondary schools – the first time ever in the history of the state; technical colleges have been renovated and fully equipped; electricity-generating sets and water boreholes have been provided for schools, etc.

Unprecedented progress has also been made in the provision of infrastructure in primary and secondary schools. When Peter Obi assumed office as Governor, there was no single public primary school classroom block that was not leaking; none without cracked walls, so much so that many of them constituted death traps to



**Micro-enterprise equipment being distributed to unemployed youths**



**An example of the new look of primary school classrooms across the state**

schoolchildren and teachers alike. The situation was the same for secondary schools, where trees were found to have grown in some classrooms! Today, the government's achievements in all education sub-sectors have been truly astonishing: construction of new classroom blocks and renovation of existing ones in numerous primary and secondary schools across the 21 Local Government Areas of the state (new prototype, five-room classroom blocks are simultaneously being provided for all the 177 communities in the state, at three blocks per community); and construction and renovation of numerous buildings, including students' hostel complexes. The result has been the creation of a conducive environment for learning at all levels of education.

### 2.3 Health

Achievements in the health sector have been equally impressive, as our health indicators have continued to improve. Under the Peter Obi administration, there has been remarkable improvement in the provision of infrastructure for primary health centres, general hospitals and tertiary health facilities, as exemplified by the astounding transformation going on at the Teaching Hospital of the State University.

With special focus on maternal, child and reproductive health services, the State Government has given unprecedented support to the improvement of primary healthcare services through the provision of new infrastructure and upgrading of existing ones: at least five Primary Healthcare Centres (PHCs) have been rehabilitated in each of the 21 LGAs and numerous new PHCs and general hospitals constructed across the State; essential drugs, medical equipment, furniture, potable water, electricity-generating sets, etc, have equally been provided for these health facilities.

Commendable efforts have also been made to build the capacity of existing and incoming health providers: capacity training for hundreds of doctors, nurses and other health workers; securing accreditation for the state's Schools of Nursing, Midwifery and Health Technology through provision of a multiplicity of infrastructure and facilities including lecture rooms, computer rooms, libraries, IT equipment, audio-visual/teaching aids, furniture, office blocks and equipment, students' hostels, etc.

A remarkable innovation in the provision of healthcare in Anambra State is government's support to voluntary agency/mission hospitals and training institutions (previous governments had ignored such health facilities, as all attention was focused on government-owned health facilities). Today, the Peter Obi administration has provided facilities to secure accreditation for mission hospitals, giving regular financial support (Grants-in-aid) to such hospitals and mission Schools of Nursing and Midwifery

across the state, providing them with logistics support by donating buses and ambulances, supplying them with drugs, and extending a lifesaving hand of friendship and cooperation.

### 2.4 Environment

Achieving the goal of ensuring environmental sustainability depends on the prevention of loss of environmental resources, provision of sustainable access to safe drinking water and basic sanitation, drastic reduction of the proportion of urban populations living in slums, etc. The Peter Obi Administration has recorded remarkable achievements in this regard and, although a lot still needs to be done, its ongoing efforts and what it plans to do in the next three years give a clear indication that this Goal 7 of the MDGs is achievable by the state.

The problem of access to safe water and sanitation, which remained intractable before the Peter Obi administration, is now being effectively tackled by the state on its own, as well as in collaboration with its development partners. Some of the results include: provision of hundreds of boreholes all over the state in schools, health facilities and communities generally in both urban and rural areas; scaling up from boreholes to medium- and large-scale water schemes, especially through the resuscitation of water projects, most of which were abandoned many years ago (ongoing work at more than 15 major water schemes will, on completion, provide access to safe water for hundreds of thousands of people in various parts of the state); construction of hundreds of toilets (VIP, pour-flush, sunplat, etc) across the state, particularly in schools, health facilities and public places; provision of sanitation/clean-up equipment, including payloaders, dumpsters, receptacles, etc; and a massive clean-up of the three major cities, particularly the commercial city of Onitsha.

To combat environmental degradation and loss of environmental resources, the government is battling the erosion



**Anambra State University teaching hospital in Awka, which is nearing completion**



**Completed intervention at Ebenebe gully erosion site**



**Flood control and slum upgrading: dredging of Sakamori and Nwangene Creeks, Onitsha**

menace in virtually every part of the State (with up to 1,000 active erosion sites across the State, Anambra is one of the worst hit areas in sub-Saharan Africa); a number of flood-control measures are also being adopted, including effective design and construction of roads with proper drainage, massive de-silting of drainage systems in urban areas, and the opening up of Sakamori and Nwangene creeks in Onitsha to stop the flooding that is threatening to submerge this giant city, identified by UN-Habitat as one of the fastest growing cities in the world.

Concerned about the unplanned and uncoordinated growth of cities all over the developing world, resulting in slums in most major cities, the Peter Obi administration has taken steps to forestall this in Anambra State; with the assistance of UN-Habitat, Anambra became the first state in Nigeria to produce Master/Structure Plans for its three major cities (the Administrative/State Capital Awka; the commercial city of Onitsha and Nnewi, the industrial hub).

### **3. CONCLUSION: THE NEED FOR PARTNERSHIP**

The Government of Anambra State today is working around the clock to achieve its vision of achieving the MDGs. With a clear vision and a well-articulated and innovative strategy to achieve it, Governor Peter Obi and his team are ready to confront the State's development problems. The greatest problem is funding to fill budgetary gaps, in view of the state's poor revenue base.

Consequently, a lot of funding support is required, particularly from international development partners and well-meaning corporate organisations. Secondly, such assistance should be demand-driven by supporting already planned and ongoing projects that meet local needs and which, ultimately, help to achieve the Millennium Development Goals.

Anambra State has already acquired a reputation for accountability and faithfulness in the use of development partnership funds, as attested to by a good number of heart-warming outcomes of international development partnerships in the state: rated best overall state in the implementation of the EU-WSSSR Programme and consequently one of only three states in Nigeria currently benefiting from the EU/UNICEF additional funding for good performance to provide water and sanitation facilities. Anambra is now rated best in the implementation of the World Bank FADAMA III Programme, although it was the last state to join.

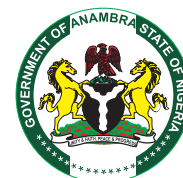
As a sign of its commitment, the state has been the first to sign the Programme Implementation Agreement with UNICEF

for three consecutive years since 2009. To the delight of UNICEF and other child-friendly groups and individuals, Anambra State pioneered the Children's Town Hall Meeting with the Governor to involve children in the participatory democracy in the State by giving them a voice in governance (the Children's Town Hall Meeting is now an annual event, with the 2010 edition attracting more than 3,000 children, who presented close to 300 questions and requests to the Governor as part of the interaction); regularly playing host to very many national and international dignitaries who can now visit the state because of the peace and decency in governance that now reign here.

Indeed, Anambra State has created a conducive environment for investment and development partnership to achieve the MDGs. The need for such partnership is huge and its time is now!



**Governor Obi with EU Ambassador David MacRae, commissioning an EU-supported water project**





A woman sells fish and chicken at her market stall in Kivu province, DR Congo, where around 3,400 women received training funded by the United Nations

# How social business can empower the poor

*As global capitalism creates increasing disparities in wealth, there is a growing need for the promotion of the social business model – where the bottom line is not profit, but instead the number of children overcoming nutrition deficiency*

**By** Muhammad Yunus, Yunus Centre, Dhaka, Bangladesh

**C**apitalism centres on the free market. It is claimed that the freer the market, the better the result of capitalism in solving the questions of what, how and for whom to produce. It is also claimed that the individual search for personal gains brings a collective optimal result.

However, around the world today, crisis after crisis keeps surfacing: in food, energy, the environment and oil. Many of the problems today persist because of a too-narrow interpretation of capitalism. As a result suffering,

abuse, exploitative business practices and environmental degradation are commonplace.

Given the opportunity, people would come into the marketplace to express their selfless urges by running a special type of business – called social businesses – to make a change in the world. In the absence of such opportunity in the marketplace, people express their selflessness through charities. Charitable efforts have always been there and they are noble. They are needed. Yet business is able to innovate, to expand, to reach more and more people through the power of the free market.

# Sentech: the backbone of South Africa's broadcasting media services

Sentech is a State-Owned Enterprise (SOE) operating in the broadcasting signal distribution and telecommunications sectors and reporting to the Minister of Communications. Sentech began as a technical division of the South African Broadcasting Corporation (SABC), responsible for signal distribution services of the Corporation. In 1992, the SABC corporatised the division as Sentech, a wholly owned subsidiary of the Corporation. In 1996, the Sentech Act 63 of 1996 was amended, converting Sentech into a separate public company responsible for providing broadcasting signal distribution services as a 'common carrier' to licensed television and radio broadcasters.

In terms of the Electronic Communications Act No 36 of 2005, the main object of the Company is "...to provide electronic communications services and electronic communications network services in accordance with the Electronic Communications Act." Within this context the Company enables government to intervene in the communications sector through network-based infrastructure.

## Vision

*"To be a world-class provider of a sustainable communications network infrastructure and services in South Africa."*

## Mission

*"To enable affordable universal access to communication services in the context of South Africa's sociopolitical imperatives as a developmental state."*

## Mandate

- Implement and ensure sustainable operations of infrastructure-based interventions;
- Target content-based services, including but not limited to: content distribution, content storage and content management;
- Impact on the communications industry and society at large.



## PRODUCTS AND SERVICES

Sentech is responsible for the development and operation of a vital infrastructure which provides broadcasting, wireless broadband and managed services to a wide range of customers. The Company owns and operates 742 FM radio transmitters, 627 television transmitters and satellite services. The broadcasting and broadband infrastructure delivers access to communication services to the furthest and most remote places in the Country.

## BROADCASTING AND MEDIA

### Radio Signal Distribution

Sentech's FM transmitters broadcast in the FM frequency spectrum of 88MHz to 108MHz. Sentech currently provides FM broadcasting services to 17 SABC public radio stations, 20 commercial radio stations and more than 65 community radio stations throughout South Africa, reaching more than 10 million listeners. The high quality of signal integrity makes FM (Frequency Modulation) the frequency spectrum that is

most favoured by audio broadcasters. Sentech also offers value-added services to enhance the quality and functionality of its FM radio services, including Audio Processors and Radio Data Services (RDS).

Medium Wave (MW) broadcasting uses the frequency spectrum between 535.5 kHz and 1606.5 kHz. Sentech's MW transmitters use different transmitter power configurations, from 1kW to 100kW, which cover a large geographical area per transmitter. Sentech currently provides MW broadcasting services to four MW radio stations.

Sentech currently provides Short Wave (SW) broadcasting services to 17 SW Stations to various parts of Africa, including BBC World, Radio France International and Trans World Radio. Sentech operates the most powerful SW transmitters in Africa and can cover not only the entire African continent, but also southern parts of Europe. The Sentech Short Wave station in Meyerton transmits SW radio signals into South Africa and the rest of the African continent. This medium of broadcast offers the opportunity to target remote areas with the use of very high-powered transmitters and high-gain antenna systems.

## BROADCASTING AND MEDIA (continued)

### **Television Signal Distribution**

Sentech provides terrestrial television services for the public broadcaster, private commercial broadcasters and community broadcasters. Sentech's extensive network covers in excess of 92 per cent of the national population. Sentech's TV transmitters broadcast a signal on the VHF and UHF frequency spectrum of 175MHz to 847MHz, bringing trouble-free signals to the homes of millions of South Africans. This frequency spectrum offers a high quality of signal integrity and is favoured by the majority of broadcasters.

### **Direct-to-Home Satellite Distribution Platform**

*Free-to-View Television* is an alternative digital satellite television home viewing platform. Unlike the conventional satellite pay-television services, Free-View is free, meaning that there is no monthly subscription fee to view a number

of channels currently hosted on the Sentech satellite platform. Sentech operates its Free-View satellite platform on Intelsat 7 and 10 and utilises the latest digital direct-to-home technology.

Sentech's *Business Television* (BTV) is a satellite broadcasting information distribution service that can offer cost-effective solutions for business communication, education and training. This is a point-to-multipoint, real-time communications tool, irrespective of distance and/or location, within the satellite footprint. It is typically used for business-to-business communication and brings the power of this dynamic medium into the boardroom, office and store, or wherever it is needed.

*Business Radio* is a satellite-based service that offers organisations the ability to educate, entertain and inform customers with powerful in-store music and messaging services. Business Radio provides the customer with the ability to send the same message in real time to all its outlets in a cost-effective manner.

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## WIRELESS BROADBAND

### **VSAT**

Sentech's VSTAR service uses the Linkstar star topology VSAT network. VSTAR services are provided on the IS-7 Southern Africa KU-Band transponders, effectively providing coverage anywhere in South Africa and the SADC region. For many reasons – enterprise-wide consistency, scalability, ease of deployment and lower costs – VSAT is an attractive alternative to terrestrial connectivity.

*Sentech's VSTAR platform provides:*

- Geographic independence
- 24/7 internet connectivity (greater than 98 per cent uptime)
- Cost-effective, value-for-money services
- Easy and rapid deployment and scalability

### **MANAGED SERVICES**

#### **Studio-to-Transmitter Links**

The Sentech STLs are used to link a broadcaster's studio to the relevant Sentech RF transmission facility. The STLs are very reliable and is provided with an UPS (Uninterruptible Power Supply) to ensure continued service even during power outages.

#### **Facilities Leasing**

Sentech offers leasing facilities on most of its over 225 high sites and infrastructure to customers requiring an intermediate link in their own networks. Three levels of facility leasing are offered: country sites, metropolitan sites and the Sentech Tower. Each facility comprises accommodation, mast, access road and electricity, with customers able to choose the options required.

#### **Consulting**

Sentech provide professional, technology-trained staff and the very best equipment obtained on the international market. These resources put Sentech in a position to provide world-class consulting, training and planning services to other signal distributors. The consulting services, which are offered to new and existing broadcasters, include frequency planning and technical consulting to determine equipment status and operation level. Sentech has further established a school of technology to provide training to staff and external stakeholders.

## STRATEGIC NATIONAL PROJECTS

### **Digital Terrestrial Television**

Digitising the analogue terrestrial network is a key project within the broader objective of establishing an information society. In this respect, Sentech is responsible for building network infrastructure to ensure that broadcasters migrate to digital terrestrial television (DTT) broadcasting within the International Telecommunications Union (ITU) and government timelines. DTT will provide a subscription-free, multi-channel, multi-platform viewing experience with access to a greater number of television programmes.

### **National Wireless Broadband Network**

Compared with peer countries, both internet and broadband penetration remain on a rather low level in Southern Africa. To address this issue, the Department of Communications was tasked with rolling out a Consolidated National Broadband Network (CNBN). As an enabler, Sentech will then roll out a National Wireless Broadband Network (NWBAN) to provide a multimedia platform within the CNBN. This multimedia platform will offer access and connectivity to clinics, schools and further education and training institutions in rural and underserved areas, along with any other sphere of government.

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Imagine if talented entrepreneurs and business executives around the world devoted themselves to ending malnutrition



Imagine what could be achieved if talented entrepreneurs and business executives around the world were to devote themselves to ending malnutrition in a businesslike fashion, but without any intention to make money for themselves or their investors.

Social business is precisely that. I came upon the idea of social business when I thought about how to use the capitalist system by giving it a new structure so that it encompasses people's innate empathy for their fellow human beings. Social business is a new kind of business, introduced into the marketplace with the objective of making a difference to the world.

The goods and services created by a social business are designed to provide benefits to poor people or to help solve a social problem. Investors in a social business can get back their investment money, but will not take any dividends from the company. Profits will be ploughed back into the company to expand its outreach and improve the quality of its product or service.

Another example of social business is a dividend-paying company – similar in structure to conventional for-profit companies, but owned directly only by poor people, or by a trust that is dedicated to a set of predefined social causes.

Since profits flowing to poor shareholders alleviate poverty, such a business thus helps solve a social problem. Grameen Bank in Bangladesh, which is owned by the poor people who are both its depositors and customers, is an example of such a social business. By their very nature, social businesses contribute to global development and social progress at the same time.

#### **Enterprise to solve social problems**

Social business is a young, vibrant field that has enormous potential for making meaningful impact and growth. Social business initiatives are taking off at a steady pace, with multinational corporations and dynamic young people involved in the promise of this exciting venture. In Bangladesh, Grameen has started social businesses in areas of health, nutrition and education, among others, to solve social problems.

The idea of social business took wings when Grameen launched a joint venture with food producer Danone. Together it formed Grameen Danone Foods and produced nutritious fortified yoghurt for undernourished children in rural Bangladesh. The product, called Shakti Doi, is made with full cream milk that contains protein, vitamins, iron, calcium, zinc and other micronutrients.



Grameen Danone Foods is a prime example of social business because it sources raw materials locally and employs local people. But, more importantly, neither Danone nor Grameen makes any money from this venture beyond recuperating the initial investment. The bottom line is to see how many children overcome their nutrition deficiency each year. There is one plant now operating in Bangladesh, with plans to have 50 such plants throughout the country.

Some people are sceptical. Who will create these businesses? Who will run these businesses? I always say that, to begin with, there is no dearth of philanthropists in the world. People give away billions of dollars. Imagine if those billions could be used in a social business to help people. These billions will be recycled again and again and the social impact could be that much more powerful.

#### **Creating opportunity for those in need**

Social business opens new doors to the world's poor. The thought that always energises me is that poverty is not created by poor people. Poor people are endowed with the same unlimited potential of creativity and energy as any human being at any stage of life, anywhere in the world. It is a question of removing the barriers facing

poor people to release their creativity for solving their problems. They can change their lives, only if they get the same opportunity that the rest of the world gets.

The G20 could be a great platform to support social businesses around the world. It could make three basic interventions that would make a big difference in the existing system by broadening the concept of business to include social business in the framework of the marketplace; creating inclusive financial and healthcare services that can reach out to every person on the planet; and designing appropriate information technology devices and services for the bottom-most people and making them easily available.

Now is the time for bold and creative thinking. The world must move fast because it is changing rapidly. The first piece of this new framework must be to accommodate social business as an integral part of the economic structure. Together, if we face up to problems through changing capitalism and its institutions, we can change the way people think.

Social businesses can be an important part of that vision. And once a sustainable strategy is put in place for such a model, then the aspirations of the people will become a driving force. ♦

Children queue to collect rice as their parents work in Ukhiya district, near Teknaf, Bangladesh. Further expansion of social business can help poor families to lead healthier, happier lives

# A world of seven billion

*As the G20 leaders discuss efforts to reduce global inequalities, there is no more important topic than the health and human rights of women and girls – an issue that is being addressed by two major campaigns launched by the United Nations*

**By** Babatunde Osotimehin, Executive Director, United Nations Population Fund (UNFPA)



**I**n making the social dimension of globalisation a priority for the 2011 Summit in Cannes, the G20 sets out an enormous and vital challenge for itself and the global community: to work together to reduce severe inequalities and achieve justice for all. In this task, there is no higher priority than the health and human rights of women and girls. If we make the right investments, we will not only secure their health and well-being, but their families and communities will thrive.

Global and national leaders have recognised that protecting the rights and the health of women and girls is key for achieving all development goals. We know that if a woman has five years of schooling, her children are 40 per cent more likely to live past the age of five; and if women are provided with a full package of family-planning and maternal and newborn care services, productivity losses related to pregnancy and premature death are reduced. Yet, action lags behind. Hundreds of thousands of women die due to pregnancy- and childbirth-related complications every year. These preventable complications are the leading cause of death and disability among girls aged 15 to 19 in developing countries. About 215 million women who do not want to become pregnant lack access to contraceptives in developing countries.

The solutions are not complex, nor are they expensive, especially if savings from prevention of catastrophic illness and other consequences of inaction are included in the calculation. We need to ensure that adolescent girls can stay in school, rather than be married off at the age of 12 or 15. They need to learn livelihood skills and have access to productive assets in order to postpone marriage and

childbearing until they are ready. The rights of adolescent girls to comprehensive education on sexuality and health, and to sexual and reproductive health services, must be met so that they can make informed and healthful decisions.

UNFPA, the United Nations Population Fund, is at the heart of assisting countries to meet such challenges – from achieving universal access to sexual and reproductive health, to counting people and making sure that they count in all aspects of national planning, to achieve the Millennium Development Goals (MDGs) and other international development goals.

On 14 September 2011, the United Nations Secretary-General Ban Ki-moon launched the 7 Billion Actions Campaign, an initiative led by UNFPA to ensure that we meet our shared responsibility for a healthy and sustained world. The campaign is a platform for individuals, governments, non-governmental organisations, civil-society organisations, businesses, media and academia to contribute to a better world for all. Our global community has never been more interconnected and the milestone of seven billion provides an opportunity to demonstrate our shared responsibility to care for one another and for our planet. The growing global population will require renewed efforts to protect the rights and promote the health and well-being of women, children and adolescents. The 7 Billion Actions campaign is a call to action – there are seven billion possibilities.

## Strategy for maternal and child health

In 2010, in an unprecedented expression of support, the UN Secretary-General launched Every Woman Every Child, a Global Strategy to enhance financing, improve policies and strengthen health services to reduce maternal and neonatal mortality and achieve universal access to reproductive health. UNFPA, UNICEF, UNAIDS, the World Health Organisation and the World Bank, have initiated a unique collaboration, H5, to assist national governments and other partners to make accelerated progress toward achieving MDG 5 and its targets. More than 500 countries with the highest numbers of maternal and newborn deaths have already committed to specific actions to achieve better health for women and children by 2015.

One of the most important of these commitments is ensuring health workers with midwifery skills are more available to assist women with normal deliveries, support access to emergency obstetric care, provide contraception, and deliver services to prevent and treat sexually transmitted infections, including HIV. In September 2011, ministers of health and senior health officials from seven countries with large numbers of maternal and newborn deaths, together with representatives of civil society, non-governmental organisations, the private sector, health professionals and partner governments, met to discuss the key priorities for reducing maternal and newborn deaths. The high-level participants agreed that key priorities were (a) training and deploying health workers with midwifery



skills at the community level, and (b) mobilising community health workers to provide a bridge between women and skilled providers. Accelerated progress toward this and other goals of Every Woman Every Child would prevent approximately 190,000 maternal deaths from pregnancy-related causes and about four million deaths of children under the age of five in 2015 alone.

Another critical area of work led by UNFPA is adolescents' sexual and reproductive health and rights. Empowering adolescents, girls in particular, with knowledge of sexual and reproductive health is essential for their health and development and to decrease the many risks that adolescents face in the realm of sexuality: infections, including HIV; violence; forced marriage; sexual coercion and unwanted pregnancy, among others. With UNFPA support, countries are beginning to provide sexuality education inside and out of schools, but far more needs to be done to provide all adolescents with these vital resources and to ensure their access to the sexual and reproductive health services they need. Many global commitments have been made in the past decade to provide a clear framework for actions in this vital area.

#### Addressing current and future needs

The investments described here require careful planning using both population and cost projections. UNFPA also assists governments to track and analyse population trends such as growth, special distribution, characteristics, living conditions and physical resources, as well as health expenditures to ensure that policies address the current and future needs of the local population appropriately. By providing the empirical evidence that population and reproductive health issues are linked to achievement of the MDGs, UNFPA supports governments to develop nationally led poverty-reduction policies that invest in gender equality and reproductive health.

Ensuring equality in healthcare for women and girls in developing countries can only result in a positive effect on their societies as a whole

UNFPA supports governments to develop poverty-reduction policies that invest in gender equality and reproductive health

Finally, promotion of gender equity and protection of human rights, especially of girls and women, are the foundation stone for all of this work. Many of the health problems that girls and women face reflect violations of their human rights, including violence, sexual coercion, and discrimination in accessing information and health services. High fertility is driven by human-rights violations such as early forced marriage, preference for sons, and attitudes that value women based only on the number of children they have. We need to act now. By enabling women and girls to participate more actively in society, they positively affect their families, their communities and their countries, and thus can help to ensure a healthy and productive world.

Looking toward 2015, let us ensure that each of our seven billion, especially the half who are female, have the opportunity to reach their full potential. We can, and must, secure a just and healthy life for every woman and girl. In doing so, those seven billion opportunities will make the world a better place. ♦



# Non-communicable diseases: taking action

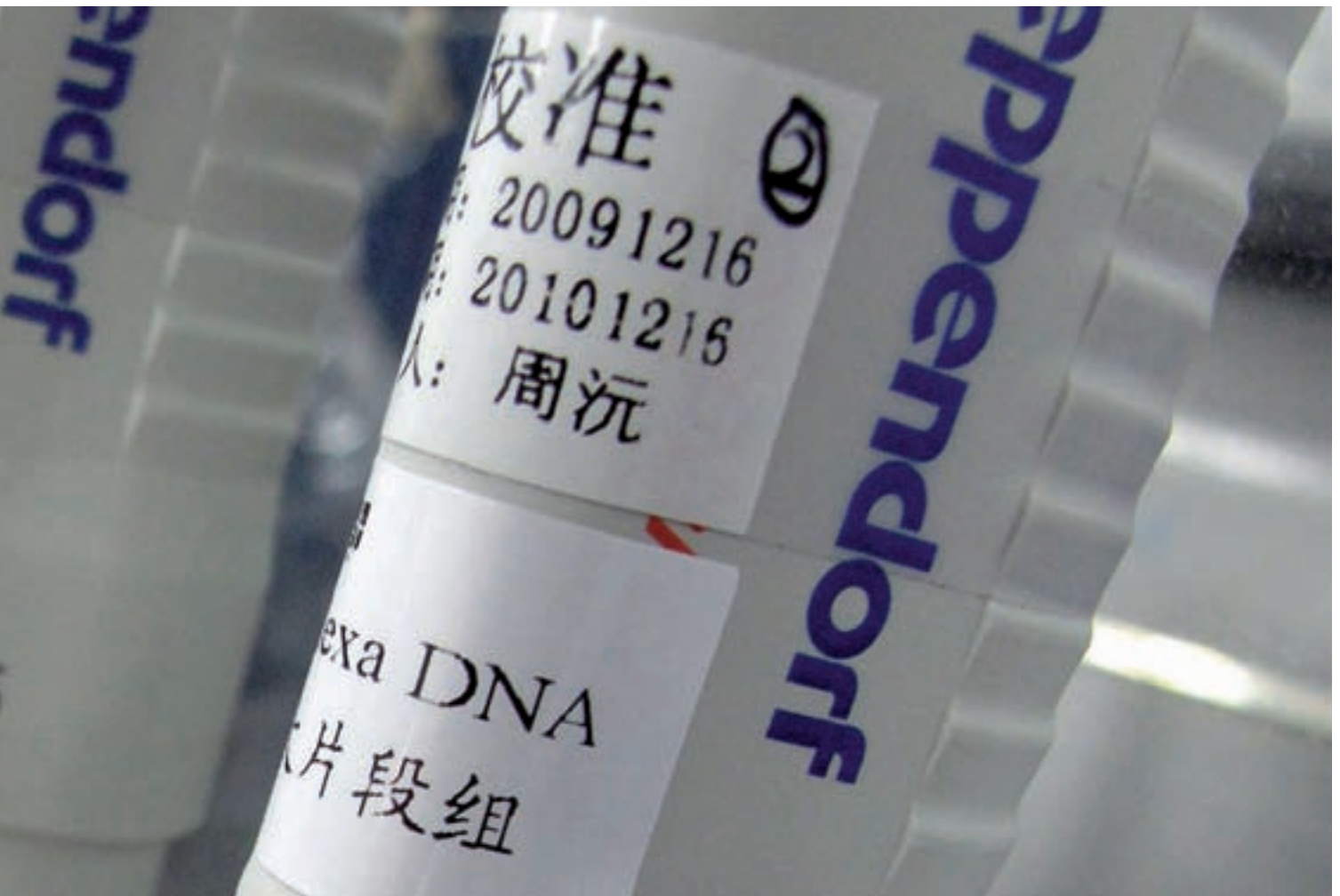
*The damaging economic and social effects of non-communicable diseases on both developed and emerging countries have been recognised at international level, leading to agreement on a fresh set of policies for tackling this silent pandemic*

**By** Mirta  
Roses Periago,  
director, Pan  
American Health  
Organization

**T**he economic toll of non-communicable diseases (NCDs) – namely, cancer, diabetes, heart disease and stroke, and chronic respiratory disease – will exceed \$30 trillion over the next two decades in healthcare costs, lost productivity and personal medical expenses, revealed a recent study by the World Economic Forum and Harvard University. Such a burden roughly equals the gross domestic product (GDP) of the four biggest economies (United States, China, Japan and Germany) and represents almost 2.5 times the annual output of the BRIC countries (Brazil, Russia, India and China).

Global leaders duly recognised the devastating economic and social impact of NCDs at the United Nations High-Level Meeting on the Prevention and Control of NCDs (UN HLM-NCDs) held in New York on 19-20 September 2011. International commitments were reached to reduce the risk factors behind NCDs and to create more robust policies, programmes and strategies to prevent and control this foreseen calamity.

Now the challenge is to implement the right policies and follow-up mechanisms that will move the declarations into actions – and quickly – since some 36 million people die each year from NCDs, often prematurely,



affecting productivity and stressing national healthcare budgets. At the same time, the number of people affected by NCDs is expected to rise substantially due to a rising and ageing population, placing further strains on fiscal results and risking setbacks in hard-fought health achievements.

Fortunately, however, there are several proven and successful 'best buys': low-cost and effective public health interventions are available to reduce the forecast NCD impact. In fact, for a small investment of \$1-\$3 per person per year, a core set of NCD strategies can be implemented, as shown in a recent report produced by the World Health Organization (WHO). These 'best buys' include tobacco control, salt reduction, cervical cancer screening and multi-drug therapy for people with a high risk of heart attacks and stroke, among others. These actions have a high value-for-money ratio, both from a public health perspective and from an economic standpoint.

Yet the underlying causes of this silent pandemic cannot be addressed solely by the health sector. Tobacco consumption, obesity, physical inactivity, unhealthy diets and harmful use of alcohol will only be reduced through public policies with concerted actions involving many government sectors – particularly agriculture, transportation, education and trade – acting in sync with the private sector, non-governmental organisations and civil society.

#### International initiatives

This is precisely why the UN has taken on NCDs, only the second health issue after HIV/AIDS to be addressed in such a high-level forum. Clearly, NCDs are a common priority for all countries regardless of size, geographic location, demographics or economic development. Together, countries have taken on a commitment to tackle this problem now, before it spirals out of control.

Recent DNA research into predicting an individual's risk of non-communicable diseases has yet to make significant progress. New policies aim to promote early detection and guidance on lifestyle choices

Some 36 million people die each year from NCDs, often prematurely, affecting productivity and stressing healthcare budgets

The political declaration, universally adopted, calls for WHO to develop a comprehensive global monitoring framework, including a set of indicators, and to recommend a set of voluntary global targets before the end of 2012, for member states to establish or strengthen national NCD policies and plans by 2013, and for the UN secretary-general to undertake a comprehensive review and assessment in 2014 of the progress achieved.

The G20 at the Cannes Summit should build upon the advances made at the UN HLM-NCDs and translate these into visible and concrete changes and actions within countries and communities, through the development or strengthening of public policies that transform physical and social environments into protective spaces that nurture and strengthen health and well-being. In particular, this summit should examine and discuss options to move forward on specific aspects of the political declaration, which call for strengthening international cooperation



# Innovating for a better world.

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**Find out more at [Medtronic.com/ncd](https://www.medtronic.com/ncd)**



# The Global NCD Issue

Noncommunicable diseases such as heart disease, diabetes, cancer and respiratory diseases represent the world's leading causes of death, account for 75 percent of worldwide healthcare expenditures, and will cause a global economic output loss of \$30 trillion in the next 20 years.

As the world's leading medical technology company, Medtronic has pledged to leverage our people, products and philanthropy to improve access to quality healthcare. Here's how we are doing it:

## Global Policy and Advocacy

**Working with policymakers, healthcare professionals and nonprofit organizations to elevate chronic disease prevention and management on the global agenda.**

- **Support for the NCD Alliance:** We supported this coalition of nonprofit organizations to create awareness, mobilize resources and develop recommendations for the United Nations High-Level Meeting on Noncommunicable Diseases in September 2011.
- **Policy and Regulatory Reform:** We are supporting a series of initiatives to create the conditions required for improved patient access to appropriate therapies.

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## Strengthening Health Systems

**Creating an environment for better health, by training healthcare professionals and patients and integrating NCD prevention, diagnosis and treatment into existing and emerging care systems.**

- **Physician Education:** We invest millions in training healthcare professionals on the safe use of our therapies at 22 education centers in 17 countries and via video-conferencing and high-fidelity simulation.
- **Philanthropy:** Medtronic Foundation grants help integrate NCDs into primary care systems in developing countries and support centers of excellence that disseminate key knowledge about prevention, diagnosis and treatment options for chronic disease.

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## Therapy & Healthcare Delivery Innovation

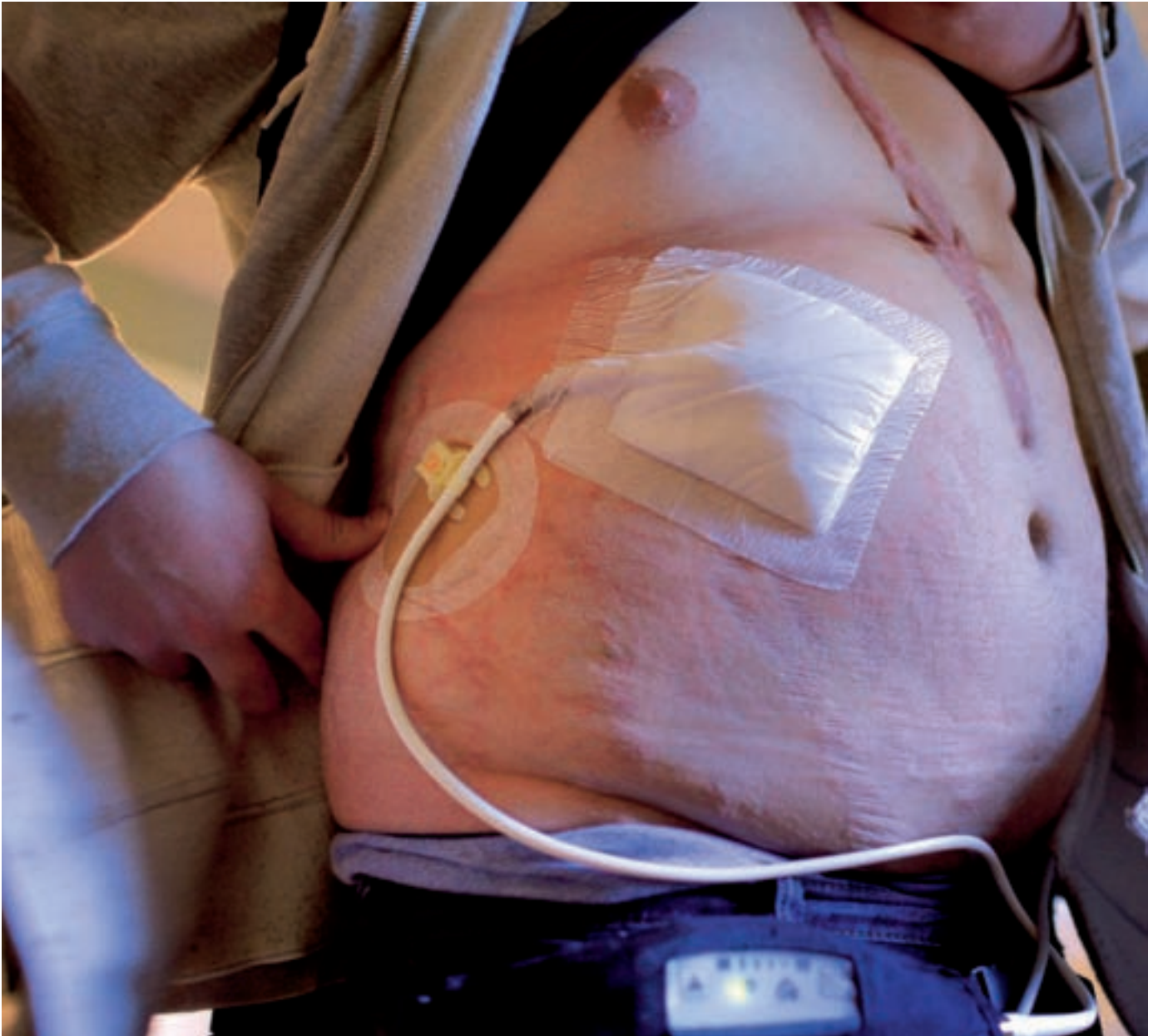
**Developing technologies and evidence-based best practices that lead to more affordable, appropriate and accessible Medtronic therapies throughout the world.**

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- **Healthcare Delivery Innovation:** We are dedicating financial and human resources to increase the company's capabilities to design, test and scale-up new models that will increase access to quality care.



For the bigger picture on chronic NCDs, scan this code or visit our website at [Medtronic.com/ncd](http://Medtronic.com/ncd)





in support of national NCD plans; fulfilling official development assistance-related commitments that can be leveraged for NCD prevention and control, and engaging non-health actors, including the private sector and civil society, in collaborative partnerships to reduce NCD.

The G20 can significantly influence development initiatives and other forms of international cooperation, including 'South-South' partnerships, and leverage these to address NCDs prevention and control – especially to invest in the 'best buys' – such as increased taxation on tobacco and alcohol products.

#### Spreading the message

Although global advocacy for NCDs was successfully achieved at the UN meeting, raising awareness in other global forums, to further incorporate the response to NCDs into the development agenda, will be necessary. With NCDs at the forefront of development discussions, the Pan American Health Organization (PAHO) and WHO will have the opportunity to enhance collaboration among UN agencies, such as the Food and Agriculture Organization, United Nations Population Fund, UN Women, UNAIDS, the United Nations Environment Programme, United Nations Industrial Development Organization, UNICEF and the United Nations

A heart disease patient fitted with a device to pump blood through the circulatory system, taking over most of the heart's work. Measures to combat NCDs will reduce the need for such invasive treatments

Development Programme, as well as with the World Bank and other international organisations, thereby helping to synergise efforts and integrate NCDs into relevant global health initiatives.

Local-level advocacy and action are even more critical at this time, to create the positive energy needed to halt the NCD epidemic quickly. A social mobilisation movement for NCD prevention and control is necessary. The Wellness Week initiative, launched by PAHO and the World Economic Forum in association with mayors from 24 cities, the Get the Message Campaign by the Healthy Caribbean Coalition, the global call from the NCD Alliance and the Wellness in the Workplace initiatives adopted by many corporations are but a few examples of the growing social mobilisation in this realm.

The G20 is called on to take a leading role in the social movement against NCDs by promoting consideration of health in all policies. Current consumption and urban design patterns are unsustainable, but the know-how and the ability to change these for the better do exist. This is crucial to foster the well-being of populations, to alleviate fiscal pressures caused by rising healthcare costs, and to preserve and stimulate productivity. All of these are necessary conditions to spur widespread and sustained socioeconomic development. ♦

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# The Neglected Tropical Disease Non-governmental Development Organization Network:

*a global partnership to improve the health  
status of the bottom billion.*

The NTD NGDO Network is a constellation of partners working to reduce poverty by fighting tropical diseases such as river blindness, lymphatic filariasis, trachoma, schistosomiasis, and soil transmitted helminths.

These are the diseases that cause blindness, disability, malnutrition, and poor maternal and child health. They perpetuate the poverty cycle. Lymphatic Filariasis alone causes almost \$1 billion yearly in lost productivity.<sup>1</sup> Armed with generous donations from a number of pharmaceutical companies the NTD NGDO Network works closely with ministries of health to provide medicines that are available at no or low-cost and to help communities cope with disability caused by the diseases. A growing body of research shows that controlling NTDs improves the health outcomes of individuals co-infected with malaria, HIV, and/or TB.<sup>2</sup> Further, mass distribution of medicines to control the NTDs creates the infrastructure needed to provide additional important interventions such as vitamin A supplementation and bed net distribution to prevent malaria.

We urge the G20 to allocate resources to strengthen health systems in the least developed countries and support the scale-up of NTD control activities. Through this powerful partnership of NGDOs, ministries of health, the pharmaceutical industry, and WHO, we can make great strides toward achieving the Millennium Development Goals.



<sup>1</sup> First WHO Report on Neglected Tropical Diseases. Available at [http://www.who.int/neglected\\_diseases/2010report/en/](http://www.who.int/neglected_diseases/2010report/en/)

<sup>2</sup> J. Noblick, et. al. Linking Global HIV/AIDS Treatments with National Programs for the Control and Elimination of the Neglected Tropical Diseases. PLoS Neglected Tropical Diseases, 2011; 5 (7)



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Controlling NTDs improves the health outcomes of individuals co-infected with malaria, HIV, and/or TB.<sup>2</sup>



# Investing in an equitable approach to maternal and child health

*Much progress has been made in achieving global targets on maternal and child health, but further work is required to eliminate the inequalities of access that exist within countries that have otherwise been successful in improving services*

By David Morley and Meg French, UNICEF Canada

**F**or children born over the past year, the next four years until 2015 are a critical time in their life. They will learn to walk and talk. Physically and mentally their body will change more quickly than it will throughout the rest of their life. But if those children are part of an ethnic minority group living in poverty in South Asia or sub-Saharan Africa, they may not live to see that fifth birthday. If they do, their development and, therefore, their future potential may be hindered by malnutrition and disease. And while it is unlikely they and their family have ever heard of the Millennium Development Goals (MDGs), it is for these millions of children that these targets were set.

Global progress has been made towards achieving MDGs 4 and 5 on child and maternal health. Fewer women and children are dying than in 1990, the base year for measuring success. Child mortality rates have dropped by 35 per cent over the past 20 years. Although progress has not been as quick as it should be, more children and women are accessing healthcare than ever before. But further investment – and of the right kind – is needed.

Traditionally, the G20 has been a forum for discussion about economic issues. The agenda has broadened, but that theme persists throughout the leaders' discussions. However, children's issues and, more broadly, social development have been largely missing from the G20 agenda. And yet children's issues are not separate from economic ones. Children who grow up healthy and educated become productive members of society and are more able to contribute to ending the cycle of poverty in which their family and community may be. The G20's focus on sustainable economic growth and resilience has not automatically delivered inclusive and sustainable development – nor adequately reduced inequalities. But if the MDGs are to be met, this needs to change.

## **Inequalities amid improvements**

In the past, child and maternal health have been improved through investment in policies and programmes that aim to increase overall coverage of key health initiatives and improve health infrastructure. This emphasis was important and is the reason behind much of the progress towards achieving the MDGs. But this focus has some drawbacks. In many cases it has meant that those children and families who are hardest to reach due to geographic or societal disparities have not had access to improvements in health and social services.

Progress at national levels in many countries looks positive, but the truth is that these numbers can hide the reality of what is going on within countries. The disparities in child mortality rates and maternal mortality ratios between populations within countries can be extreme. Children and mothers who are marginalised because of factors such as poverty, gender, ethnicity, geography or ability often have limited access to healthcare, even when there has been progress at a national level. Health services can be missing for people living in remote settings. Costs for healthcare may be prohibitive, while language, culture and religion can also be barriers to access.

“In order to achieve the Millennium Development Goals, the world must act to reach those who have not yet been reached”

In order to achieve the MDGs, the world must act to reach those who have not yet been reached. With this in mind, UNICEF's work over the next years will be driven by an equity approach to development. Grounded in the universality of the rights of the child, UNICEF is investing its resources in ensuring that it works with its partners to reach those children and families who have been the hardest to reach. Some of the important elements of an equity approach include investing in proven, cost-effective health interventions in primary healthcare, addressing bottlenecks that limit access for marginalised children and working with communities excluded from mainstream services.

But given the financial commitments that have been made and the work that still needs to be done, is it possible to achieve the MDGs in today's global economic situation? Will the cost of reaching these hard-to-reach children be prohibitive? It is clear that the answer is no.

Guided by the principle that there is a moral imperative to reach all children with strong health and social



services, UNICEF wanted to understand whether there is an economic imperative as well. After an exhaustive study of the literature and data on the disparities within countries and the evidence on the impact of strategies to reduce child mortality, UNICEF conducted an innovative simulation to determine how an equity-focused approach to reducing child mortality would compare to the current strategies used to achieve the health MDGs for children.

UNICEF discovered that not only will using an equity-focused approach accelerate progress towards achieving the MDGs faster than the current strategies in use, but that this approach is also cost-effective. The improved effectiveness is highest in low-income, high-mortality countries. For every \$1 million invested using an equity focus, 60 per cent more deaths would be averted than through the current approach. It also became clear that this focus would bring about better results in reducing maternal mortality, diminishing stunting, preventing mother-to-child transmission of HIV and eliminating unsanitary conditions.

#### Responding to new findings

Clearly, everyone must react to the results of this study. UNICEF is reviewing its programming and ensuring that it does all it can to achieve the MDGs and realise the right to survival and health for all children – especially those who are hardest to reach.

For those whose mission it is to partner with governments and communities to achieve the MDGs, the

A premature baby receives at a neonatal intensive care unit in Havana. Cuba has taken great strides in reducing maternal and infant mortality

funds needed must be made available in a timely manner. Even during difficult economic times, one cannot turn inwards and focus solely on domestic interests to the detriment of foreign interests and the global community. The world is too interconnected for this to make economic or moral sense.

#### Focus of development discussions

During this year's G20 summit in France, discussions and plans to achieve sustainable economic growth and development must include investing in the social sector and raising the income of the poor in order to achieve broad-based development and sustainability.

Innovative financing to meet development challenges is also on this year's G20 agenda. These tools will be important in ensuring much-needed funding to reach the MDGs. But the funds from these new financing mechanisms must be invested in children and women, particularly the poorest and most marginalised. And they must be additional to previous aid commitments.

The target year for achieving the MDGs is 2015. That is not far away. The G20 must do all it can and use its power and influence to support the global effort to reduce the preventable deaths of women and children. An equity approach to investing in maternal and child health is the right approach – from both a moral and an economic perspective. It will help to ensure that any child born today can enjoy their right to a healthy and happy tomorrow. ♦

# Sustaining Fragile Gains in the Fight to End Malaria

The world has made remarkable gains against malaria in the past ten years: global malaria deaths have dropped by an estimated 38%, with 43 countries (11 of them in Africa) cutting malaria cases or deaths by 50% or more, reversing the trend of the previous decade and saving over a million lives.

The Secretary General of the United Nations, Ban Ki-Moon, rightly noted that “Only rarely have we seen a public health initiative provide so much return on investment.”

With approximately US\$ 5 billion mobilised over the past ten years, coverage has risen across all interventions to prevent and treat malaria, particularly insecticide-treated nets. Enough nets have been distributed to cover nearly 80% of the population at risk in sub-Saharan Africa. This dramatic increase in access to relatively simple interventions is translating directly into lives saved. By confronting malaria, all-cause child mortality is also on the decline.

However, even those countries which have already demonstrated remarkable success in controlling malaria continue to face significant challenges today. The progress achieved to date is threatened by the emergence of mosquitoes resistant to current insecticides. Gains are also threatened by the emergence of malaria parasites which are resistant to artemisinin, the key component of the most effective drug combinations currently available to treat malaria.

Perhaps the biggest risk to progress is the uncertainty of funding. Sustained, even increased financing will be required to consolidate the gains made and continue to move forward. Unless malaria remains high on the global health agenda, the progress achieved can quickly backslide.

## Sumitomo Chemical and Olyset® Net

Since its foundation in 1913, each generation of Sumitomo Chemical leadership has held to the fundamental principle that, alongside commercial considerations, the company's activities should make a lasting contribution to the public good in all the communities in which it operates.

Sumitomo Chemical developed Olyset Net, the first long-lasting insecticide-treated bed net to receive a full World Health Organisation (WHO) recommendation. In 2003,

Sumitomo Chemical began a pilot Olyset Net manufacturing project with A to Z Textile Mills in Arusha, Tanzania. Production in Arusha has expanded dramatically since then: from around 300,000 nets per year in 2004 to 30 million nets per year in 2010 – 50% of global Olyset Net production capacity.

The School of Oriental and African Studies (SOAS), University of London, recently undertook an independent study of the Arusha operation. Their evidence shows that, in a country where perhaps 90% of wage earners work in informal or insecure employ-

ment, the Olyset facility provides a sustainable, dependable livelihood that allows workers to send children to school, save money, and plan for their future.

ferable to other employment sectors. Starting salaries are substantially higher than the national minimum average, with the factory providing housing, food and medical services to its workers. It is estimated that employees' wages are supporting more than 35,000 people in the local community.

The pioneering collaboration between Sumitomo Chemical and A to Z Textile Mills has been widely recognised as a success story for private investment and manufacturing in Tanzania. But this success is fragile. This business is at risk from procurement policies that



do not give consideration to sourcing locally-manufactured goods.

Our experience manufacturing Olyset Nets in Tanzania has proven that African manufacture of a vital health commodity can achieve market competitiveness in terms of quality, price and delivery time. Explicit donor support for local production of health commodities can thus achieve critical health interventions while contributing to broader development goals, such as long-term sustainability and economic development in Africa.

Malaria and poverty are profoundly intertwined. There is a long-term, ongoing need for long-lasting bed nets in Africa. Sumitomo Chemical believes these and other health commodities should be produced by those who most depend on them, to allow the economic benefits to be locally realized.

Olyset Net production created over 7,000 jobs in Tanzania – mostly for young women under age 30. Employee training programs enable acquisition of key skills that are trans-



# Saving Lives, Creating Jobs

Since 2004, Sumitomo Chemical's partnership with A to Z Textile Mills has proven that African manufacturing of long-lasting bednets is competitive on price, quality and delivery time. For Assamuni Issa — and thousands of her colleagues in Tanzania, Ethiopia and Malawi who produced 30 million Olyset Nets last year — the benefits go beyond protecting the health and well-being of their communities. Regular paychecks, job training and the chance to send children and siblings to school are transforming their lives. We believe local economic impact is fundamental to achieving a sustainable model of integrated malaria prevention.

FOR MORE INFORMATION:

[www.olyset.net](http://www.olyset.net)



**Olyset Net**  
SUMITOMO CHEMICAL A TO Z TEXTILE MILLS

# The momentum of investment in health must be maintained

*Development aid has always been high on the G20's agenda, but consideration needs to be given to improving the access to healthcare for millions of people in order to ensure that the prospects for economic expansion are not hampered*

**By** Michel D Kazatchkine, executive director, Global Fund to Fight AIDS, Tuberculosis and Malaria

**F**or the first time, at its summit in Cannes, the G20 will also adopt concrete measures to foster its cooperation with developing countries, after the roadmap of this agenda was approved in Seoul in November 2010. This roadmap will focus mainly on supporting sectors that have a direct impact on economic growth, such as infrastructure and food price volatility. However, the G20 also needs to assume leadership in another area that is key to development: health.

## **Health investment essential for economic growth**

For decades, the G8 has invested steadily in development aid, with health taking a prominent place on its agenda. As G20 leaders discuss the best ways to ensure sustainable economic growth in developing countries, they must also pay attention to the basic building block of the economy, human capital, which is very often jeopardised by weak health systems, a high prevalence of communicable diseases and a lack of access to treatment and prevention.

Malaria, AIDS and tuberculosis are the deadliest diseases in the developing world. Given that malaria, for example, reduces gross domestic product (GDP) by 1.3 per cent per year in high-burden countries, and that a person infected with HIV can see his or her productivity drop by 80 per cent once infected, fighting these diseases in poor countries is a moral imperative as well as a rational economic investment. Poor health conditions affect all aspects of human capital, not only through the direct consequences of decreased productivity, but also because of their indirect economic impact – such as children's inability to go to school – and their social consequences. Investing in health clearly means investing in a country's future.

## **Ending global pandemics requires alignment**

In the past decade, much has been achieved in the fight against the three prominent diseases in the developing world. The global number of new HIV infections has decreased by 19 per cent between 1999 and 2009, while coverage of antiretroviral treatment reached a remarkable 40 per cent. Tuberculosis mortality has dropped by a third in the past 20 years, and mass distribution of insecticide-treated bednets has seen reductions of malaria-related child mortality of up to 80 per cent in endemic countries. However, now is no time for complacency. It is necessary to build on these gains to bring treatment and prevention to the millions still in need. Far more must be done to

tackle unmet challenges, such as the serious problem of multi-drug-resistant tuberculosis.

In the past 10 years, the Global Fund to Fight AIDS, Tuberculosis and Malaria has made a major contribution to progress in global health, investing more than \$20 billion in 150 countries. Programmes supported by the fund have saved an estimated five million lives through the delivery of antiretroviral treatments to about three million people, the distribution of more than 190 million insecticide-treated bednets, and the detection and treatment of more than 8 million tuberculosis cases. The Global Fund's unique governance structure has also given implementing countries, civil society and the private sector an equal voice with donor countries.

The Global Fund stands ready to build on these successes. But it also recognises that, in a time of economic volatility in traditional donor countries, winning the fight against disease will require greater global solidarity. That is why new rules will require countries that receive Global Fund financing to increase their own investments in health. And it is why the fund is working hard to expand its resource base, both by engaging new donors and supporting innovations in development financing.

The G20 represents 85 per cent of global GDP, and recent encouraging moves from China, Brazil and India show that these emerging economies are willing to take a more active role in development financing. As was the case with the G8, the G20 should now serve as the platform for the world's largest economies to increase both political commitment and the resources available for major global health challenges.

At the same time, in order to achieve ambitious health goals in the next five years, innovative approaches are required. A financial transactions tax of the kind being proposed by France and Germany is one such example. Set at a small rate, such a tax would have minimal impact on global markets, but could leverage several billion dollars a year to fund global public benefits, including health.

The experience of the past decade offers unprecedented hope that the world can win the fight against global pandemics. But doing so will require continued political commitment, further innovation and greater global cohesion. As the G20 London Summit in 2009 marked a shift in global economic governance from the G8 to the G20, Cannes can represent a similar quantum leap in the resolve of G20 members to tackle development challenges collectively. ♦



Poor health conditions affect all aspects of human capital... Investing in health means investing in a country's future





An AIDS patient is fed by a volunteer worker in South Africa. Once a person is diagnosed with HIV, their ability to earn a living declines dramatically

# G20 Support for Biofuels Crucial to Reducing Our Reliance on Crude Oil

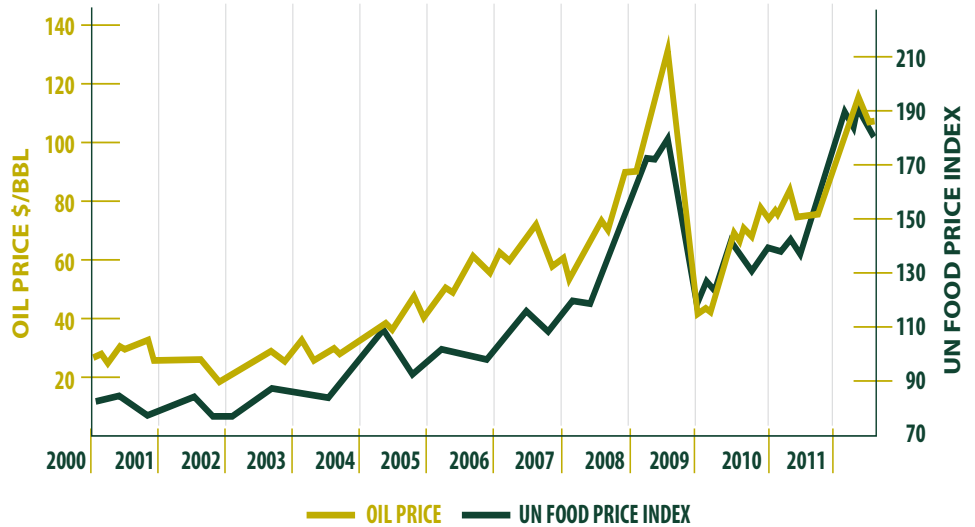
## Growing Fuel, Feed and Food

The International Energy Agency has projected that energy demand will double by 2050. This growing demand for energy combined with the depletion of global conventional oil reserves has put the need for alternatives to crude oil at the top of the global policy agenda. Three years ago, a number of large vested interests launched a well-funded campaign to discredit biofuels and affect the outcome of this ongoing policy discussion. At the heart of this campaign was the claim that biofuels were to blame for higher food prices.

Since then, a series of credible government and academic studies have proven that biofuel's use of feed grade grains has, at worst, had a minimal impact on food prices. More to the point, these studies have revealed that the single biggest influence over the cost of

harvesting, planting, packaging, marketing and transportation of food products, is the price of oil. When oil prices go up, so does the price of food.

Source: IMF – Primary Commodity Prices



“ By 2050, biofuels could provide 27% of total transportation fuel... and will not compromise food security.

Source: International Energy Agency Technology Roadmap – Biofuels for Transport, April 2011



## Biofuels Not to Blame for Food Price Spikes

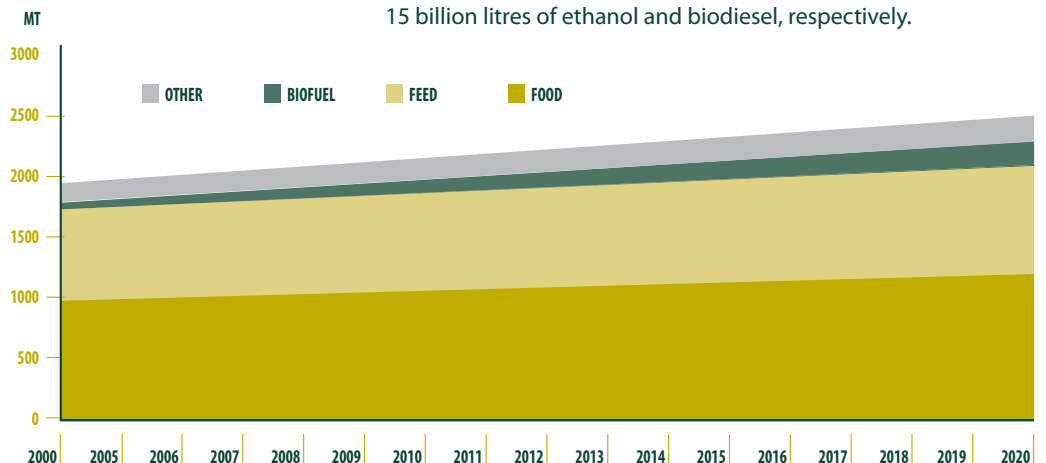
The World Bank took the position three years ago that biofuels were to blame for high crop prices. They have since reversed their position after conducting more thorough research arguing that the effect of biofuels on food prices has not been as large as originally thought.

The World Bank concluded that other factors such as market speculation and energy prices were in large part responsible for the 2008 food spikes.

In fact, according to the UN FAO only about 3.7% of global grain production (after netting out byproducts) and 10% of global vegetable oil production are now used to make 85 billion and 15 billion litres of ethanol and biodiesel, respectively.

**FOOD AND FEED USE DOMINATE CEREAL CONSUMPTION.**

Source: OECD and FAO Secretariat



## G20 Must Focus on the Impact of Oil Prices on Food Security

### FACTS:

- Global biofuels production uses less than 1% of our arable land to produce feedstock.

*(Trostle, R. 2008. Global Agricultural Supply and Demand: Factors Contributing to Recent Increases in Food Commodity Prices)*

- Average world grain yields have increased faster than the rate of population growth since the 1980s.

*(Southgate, D, Graham, D, and Tweeten, L. 2007. The World Food Economy, Malden: Blackwell Publishing)*

- The "grain deficiency" for the hungry people in the world's most hungry countries is equivalent to 1.1% of annual world grain production. The problem is lack of local food production in hungry rural areas, not supply of grain from the developed world.

*(Daynard, K and Daynard, T. 2011. What are the Effects of Biofuels and Bioproducts on the Environment, Crop and Food Prices and World Hunger?)*

- Roughly one third of the food produced in the world for human consumption every year – approximately 1.3 billion tonnes – gets lost or wasted.

*(Gustavsson, J, Cederberg, C, Sonesson, U, Otterdijk, R and Meybeck, A. 2011. UN FAO Global Food Losses and Food Waste)*

- According to the United States Department of Agriculture, farmers only receive 16% of the average retail price of food.

*(United States Department of Agriculture. 2011. Economic Report #114)*

- A 1.1% growth rate in annual grain production is needed to increase total global production by 70% between 2000 and 2050. Average world grain yield increased by 1.5% per year from 1987 to 2007.

*(Daynard, K and Daynard, T. 2011. What are the Effects of Biofuels and Bioproducts on the Environment, Crop and Food Prices and World Hunger?)*



## Key Findings from Recent Research

UK Department for Environment and Rural Affairs report: *Agricultural Price Spikes 2007/2008: Causes and Policy Implications*, January 2010:

*"the rapid increase in global energy prices increased the cost of agricultural inputs, especially fertilizers, so increasing the cost-base of agricultural producers, particularly in the cereals and oilseeds sector."*

The World Bank report *Placing the 2006/08 Commodity Price Boom into Perspective*, July 2010:

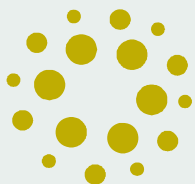
*"the effect of biofuels on food prices has not been as large as originally thought, but that the use of commodities by financial investors (the so-called "financialisation of commodities") may have been partly responsible for the 2007/08 spike."*

UN FAO report: *Making Integrated Food-Energy Systems (IFES) Work for People and Climate*, February 2011:

*"Farming systems that combine food and energy crops present numerous benefits to poor rural communities."*

OPEC's *December Oil Report*, December 2010:

*"Energy efficiency policies along with the use of biofuel will put more downward pressure on oil consumption worldwide."*



## Global Renewable Fuels Alliance

The Global Renewable Fuels Alliance is an international federation representing over 65 percent of the world's renewable fuels production from 44 different countries.

Through the development of new technology and best practices, our members are committed to producing renewable fuels with the smallest possible ecological footprint.

The GRFA is committed to promoting the expanded use of renewable fuels throughout the world through the advocacy of sound public policy and responsible research.

### Global Renewable Fuels Alliance

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# Better information to improve food security

*The G20's leaders are making the problems of rising and volatile food prices a top priority for Cannes. Improved information and transparency will help to reduce panic in the markets and act as a prior warning of price surges*

**By** Jacques Diouf, director general, Food and Agriculture Organization

**T**he world today faces continuing concerns about high and volatile food prices and food security. The last year has been marked by a continuation of the extreme swings in food prices seen since 2006. A few months of calm came to an abrupt end in 2010 when from July onwards unfavourable weather hit crops in major producing countries. By year end, grain prices had soared back to their level at the peak of the 2008 food crisis.

The high prices of 2007-08 pushed an additional 80 million people into hunger, increasing the number of hungry and malnourished to one billion. That is around one-sixth of the world's population.

High and volatile food prices challenge the fundamental human right to adequate food. They not only increase but also deepen poverty and food insecurity. The impact falls most heavily on the poorest – especially the urban poor and the landless – who may spend as much as 75 per cent of their income on food. High food prices reduce their purchasing power and lead to irreversible harm. They reinforce poverty traps as physical and human capital is eroded and spending on education is cut.

## **Threat to investment**

For poor food producers, price volatility increases uncertainty and deters the investments essential to increasing food production and reducing vulnerability. Without assistance to overcome supply-side constraints, they have neither the means nor the incentive to respond to higher prices. For governments of net food-importing countries, increasing and volatile costs threaten exchange reserves and disrupt development budgets and slow the pace of growth and development.

The resurgence of high food prices in 2010 prompted fears of a repeat of the 2007-08 food crisis, threatening increasing food insecurity, rampant food price inflation and civil unrest. Fortunately, the worst fears have not materialised generally. But high and volatile agricultural commodity prices are likely to persist and continue to challenge the ability of consumers, producers and governments to cope with the consequences. The issue of agricultural price volatility and how to deal with it is has thus been at the top of the G20 agenda.

In June this year, G20 agricultural ministers agreed on an action plan to combat volatility itself and its negative impacts on the food security of the most vulnerable. That action plan will be submitted to the G20 leaders in Cannes. The discussions were based on the *Interagency Report to the G20 on Food Price Volatility*, prepared by the Food and Agriculture Organization (FAO), the Organisation for Economic Co-operation and

Development (OECD), the International Fund for Agricultural Development (IFAD), the International Monetary Fund (IMF), the United Nations Convention on Trade and Development, the World Food Programme (WFP), the World Bank, the World Trade Organization (WTO), the International Food Policy Research Institute (IFPRI) and the UN secretary general's High-Level Task Force on the Global Food Security Crisis. The efforts of these 10 international organisations were coordinated by FAO and the OECD. The report put forward a number of concrete policy options aimed at both reducing volatility and mitigating its negative effect on countries and the vulnerable.

“ High and volatile food prices challenge the human right to adequate food. They not only increase but also deepen poverty and food insecurity ”

Many factors have contributed to price increases and volatility. Suggestions for policy responses are similarly broad. Greater regulation of speculation, the creation of buffer stocks and reform of biofuel policies, for example, all have their advocates as means to reduce food price volatility. But they remain controversial. What all are agreed upon is the need for better information and more transparency in international food markets.

The experience of the 2007-08 food price crisis and today's high and volatile prices have exposed weaknesses in information concerning world food supply and demand, a lack of reliable indicators of when crisis threatens and a lack of policy coordination to avoid individual country responses turning a bad situation into a crisis.

The G20 agriculture ministers adopted the recommendation to establish the Agricultural Market Information System (AMIS) to improve information and transparency and promote policy dialogue and coordination at the global level. Better information and

# A toolkit for sustainable bioenergy



The debate over the sustainability of bioenergy, and of biofuels in particular, continues to rage. What is beyond doubt, however, is that they are here to stay: while efforts to develop a second generation of biofuels, which may be better able to manage the trade-off between food and fuel, also continue, these could be as much as 10 years away – and there is still no guarantee that they will address all the sustainability issues.

What is crucial in the meantime, therefore, is to have a framework under which both governments and investors can monitor and assess the impact of bioenergy projects. The Food and Agriculture Organisation of the United Nations (FAO) has spent more than three years working on this, in collaboration with a number of partners. The result is the **FAO Support Package for Decision-Making for Sustainable Bioenergy**.

The package includes four elements, which says Olivier Dubois, the leader of FAO's energy group: "will allow decision-makers and users to make the right choices and decisions about biofuel development".

The first element is a road map, the UN-Energy Decision Support Tool for Sustainable Bioenergy (DST), prepared jointly by FAO and the United Nations Environment Programme (UNEP), which gives investors and governments a list of the questions they should use to formulate a bioenergy strategy and appraise bioenergy projects, ranging from why they want bioenergy, through how it compares with alternatives, to the technologies and feedstocks that will be used and where to implement bioenergy initiatives.

The second tool, the **Bioenergy and Food Security project (BEFS)**, is designed to support countries that have been approached by investors interested in establishing bioenergy projects. The aim, says Dubois, is to provide a detailed analysis of the situation, risks and opportunities related to bioenergy development

This has already been tested in three countries – Peru, Thailand and Tanzania, all of which are at different stages of implementation of bioenergy policies and projects – and a further eight countries have requested information, underlining the growing interest in such tools.

The next instrument, the **Bioenergy and Food Security Criteria and Indicators (BEFSCI)**, is a policy tool for both ex ante and ex post stages of project implementation, giving governments and investors both a list of good practice and related

policy instruments, and ways to monitor impact and performance when the project is up and running.

The fourth element, developed by the **Global Bioenergy Partnership (GBEP)**, is a list of 24 sustainability indicators of bioenergy that provide a comprehensive yet practical means of evaluating the impacts of bioenergy production and use in a country, and thereby informing policy development. These indicators were agreed by 23 countries and 13 international organisations in May 2011, with the involvement of a further 22 countries and 10 international organisations as observers.

The four elements of the package are designed to be used separately or together, and they can be brought in at different stages of the decision-making and monitoring process. That means the analysis can be relatively quick – using the DST alone, for example, could take less than six months – or, if there is more time, the other elements can be combined to help devise a detailed policy and strategy; alternatively one can use the BEFSCI tool straight away to promote good practices and related policies, following the precautionary principle.

"The whole issue of bioenergy is very complex and controversial," says Dubois. "We are aware of the debate, but we must operate in a systematic and pragmatic way. It is too simplistic to say that there is no competition between food and energy: it depends on what you use, and how and where you use it.

By providing a menu of options – from detailed analysis of projects to guiding principles – we think we will help to advance the debate over the issue, and allow the implementation of sustainable bioenergy projects in an informed way."





enhanced transparency will reduce volatility and the incidence of panic-driven price surges, and permit better-informed policy decision-making. AMIS will provide the basis for global food market alerts to price surges, operating as an international early-warning system. The first meeting of AMIS took place in September this year.

AMIS is a platform shared by countries, international organisations and the private sector to strengthen synergies and collaboration in order to improve data reliability, timeliness and frequency, to build developing countries' capacity in market outlook analysis and to promote policy dialogue. It focuses on the global food market and includes major producing, consuming and exporting countries that together account for most of the world food market.

AMIS will involve a joint secretariat, housed in FAO, comprising nine international organisations with the capacity to collect, analyse and disseminate information regularly regarding the food situation and outlook, as well as food policies. These organisations will ensure that the information outputs of AMIS will be objective, benefiting all – a public good for the international community.

In addition to the secretariat, AMIS includes the Global Food Market Information Group and the Rapid Policy Response Forum. The Global Food Market Information Group will be made up of food market experts from the participating countries. They will be responsible for ensuring the provision to the secretariat of continuous, quality, reliable, accurate, timely and comparable

**Agricultural problems caused by adverse weather conditions put developing countries at risk of food shortages and dependence on international aid**

information regarding national supply and demand and outlook and policy developments. The group will also promote the improvement of statistics and information and will guide capacity-building. The Rapid Policy Response Forum will enhance policy dialogue when the market situation and outlook indicate a high food security risk. It will consist of senior policy-makers from participating countries. Its objectives are to enhance policy coordination through promoting early exchange of key policy information and to assist in mobilising wide and rapid political support for appropriate policy response and actions.

#### **Building resilience**

International and national actions can mitigate food price volatility and its impacts on vulnerable people. However, what is also needed is to build long-term resilience. The background to the devastating impact of soaring and volatile food prices on the livelihood of the poor is 20 years of underinvestment in agriculture and neglect of the sector. Investing in agricultural productivity growth and resiliency is paramount to addressing food price volatility. For the majority of poor countries, a healthy agricultural sector is essential to reduce vulnerability to international price volatility, to overcome hunger and poverty, and to provide the platform for wider economic growth. In the longer term, the resulting increases in food production by developing countries can not only strengthen their resilience to high and volatile prices, but also assist in reducing that international volatility. ♦

# Better-informed development policies, now

The number of developed and newly industrialised countries has been rapidly expanding. Several of them, once considered developing, have succeeded in becoming newly industrialised and helped establish the G20. This new coalition has made strong commitments to help the remaining developing countries move ahead. The Millennium Development Goals (MDGs) have established a number of critical economic, social, and environmental goals for developing countries to achieve. Unfortunately, as United Nations Secretary-General Ban Ki-Moon lamented four years ago, only a few countries will meet the MDGs by 2015. In addition, the current global economic crisis is further increasing the hurdles for the low-income countries everywhere.

Compounding the old, these new problems and the growing risks from climate changes demand more effective planning tools to make sure that the G20's financial support (which may become limited as a result of the economic crisis) is used more efficiently to assure progress towards meeting the MDGs or similar national goals.

Fortunately, such tools are available. The Millennium Institute (MI), a non-profit development research and service organisation, has created a system dynamics-based model to help developing countries design, test, implement and evaluate their development strategies. Over the past two decades, MI has worked with partners in Africa, Asia, Latin America and the Caribbean to develop their capacity to build and use scenario-based models to prepare long-term national roadmaps for sustainable development and inform supportive policies that address the MDGs, economic growth, climate change and post-conflict peace-building, in a comprehensive, systemic and holistic manner.

The MI approach involves looking into alternative future scenarios from the business-as-usual scenario, to enable informed choices that optimise synergies and minimise or mitigate the unintended consequences of policy decisions. Within a single, integrated framework, the economic, the social and the environmental impacts of decisions can be visualised and examined. The model's capability, versatility and ease of use make it, among others, a great tool for implementing the Paris Declaration on Aid Effectiveness:

- **Ownership:** The model's analytical capability and MI's institutionalisation policy give countries the ability to develop comprehensive scenarios, thereby exerting leadership over and control of their development agenda. It fosters ownership through the participatory process of scenario development, which brings together different stakeholders to develop, articulate and eventually implement the common vision.
- **Alignment and Coordination:** Scenarios produced with T21 enhance donor effectiveness by clarifying a country's overall situation – particularly the cross-sector relationships – to show opportunities to pool resources and the optimum potential contribution best suited for each donor to create synergies.
- **Results Management and Accountability:** T21's capability to measure results versus initial commitments and goals permits factual results-based management and enforces mutual accountability through sound monitoring and evaluation.

The development of national and regional T21 and local scenario modelling capacity yields a very high return on investment (ROI). For example, in Ghana, the model helped identify savings of up to 15 per cent of the estimated MDG investments based on how the investments are structured across sectors. In an application with the UN Environment Programme, it showed that green investments of two per cent of global gross domestic product in certain key sectors could trigger more sustainable growth than business as usual while reducing greenhouse gas emissions and promoting ecosystem preservation (see chart). Such high ROI is witnessed in the over 40 national applications of the model so far.

## Results of the GER2 scenario in 2014, 2030 and 2050, relative to BAU2 (%)\*



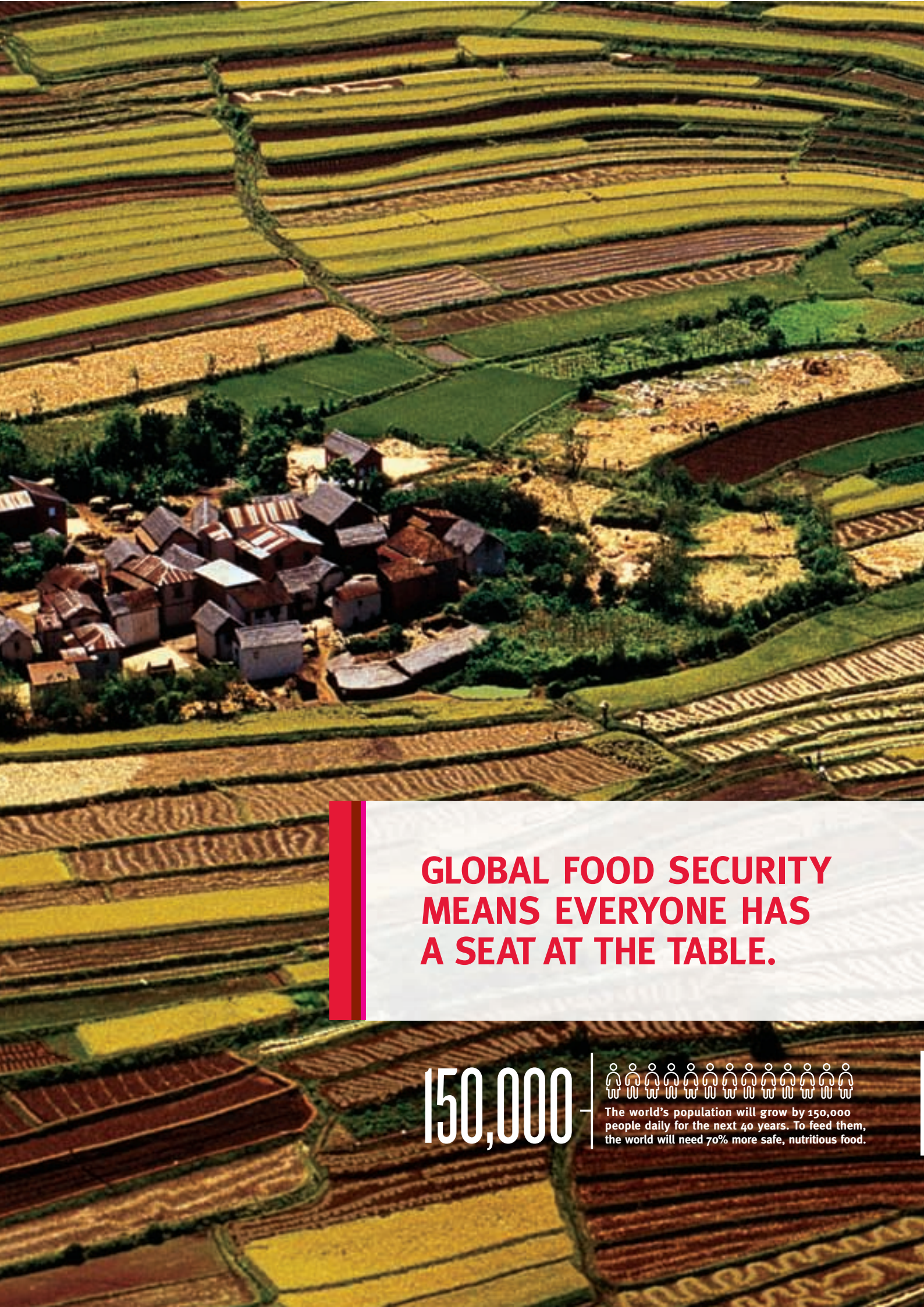
\* The UNEP Green Economy Report (2011) GER2 scenario assumes that 2% of the global GDP is invested in key sectors for a low-carbon, resource-efficient economy, while the BAU2 scenario allocates the same additional investment (2% of GDP) that continues the current unsustainable trends.

Given the complexity of the tasks ahead for all the stakeholders, use of a highly intuitive and productive tool such as T21 is imperative to address the myriad challenges we face collectively in our increasingly interdependent world. If the G20 is to seriously address sustainable development, it must call for and support the adoption of an integrated framework (such as T21) by governments and the development cooperation community as a matter of urgency.

For information please contact Dr. Hans R Herren, President Millennium Institute; [hh@millennium-institute.org](mailto:hh@millennium-institute.org)

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85 For 85 years, Pioneer Hi-Bred has helped farmers plant diverse hybrid crops to increase productivity.



# Advancing agriculture for development

*The issue of food and nutrition security has become increasingly urgent as famine threatens the Horn of Africa. It is essential that measures are introduced to ensure people in the developing world are less vulnerable to fluctuations in food supply*

**By** Kanayo F Nwanze,  
President of the  
International Fund  
for Agricultural  
Development  
(IFAD)

“**F**ood security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life” (World Food Summit Plan of Action, November 1996).

In the past year, the G20 has focused more on food and nutrition security than ever before, partly in response to the food price spikes and volatility of recent years. With

the spectre of famine now casting a shadow over the Horn of Africa, these efforts have an added urgency.

There is no question that when disaster strikes, immediate emergency assistance is imperative. But to prevent the tragedy of hunger and starvation from recurring, it is necessary to introduce measures to safeguard the food and nutrition security of vulnerable people around the world. If no action is taken now to strengthen the resilience of people to crisis, whether natural or human-made, millions of people will suffer.



The world's population is expected to grow from around seven billion today to about 9.2 billion in 2050. To meet demand, global food production will need to increase by 70 per cent in less than 40 years. Production in developing countries will need to almost double.

Establishing long-term food security, however, is not simply a matter of increasing the volume of food. People must be able to afford to buy food that meets their nutritional, cultural and taste requirements. And this food needs to be widely accessible in local markets all year round, even in remote rural areas.

### Raising production of smallholders

When agricultural development is designed to boost the output and income of smallholders, it can have a profound impact on food and nutrition security in developing countries, while also reducing poverty. There are around 500 million small farms in the developing world, providing up to 80 per cent of the food consumed in Asia and sub-Saharan Africa. Most of the two billion people who depend on these small farms are poor. Indeed, about half of the chronically undernourished in the world are poor rural people for whom agriculture is an essential source of food, income and employment. Raising the incomes and productive capacity of poor farmers and labourers, many of whom are women, makes it possible for more people to buy food, while at the same time increasing the supply of suitable foods to local markets.

Traditionally, small producers have operated in poorly organised markets, with weak infrastructure and services. But today, agricultural and food markets throughout the world are becoming better organised. Quality standards

An Indian woman dries paddy grains in Agartala. Women make up a high proportion of the farmers and labourers in developing countries

are rising, and supply chains are becoming more integrated. Demand is growing, not only for higher volumes of food, but also for higher value food, particularly in urban markets.

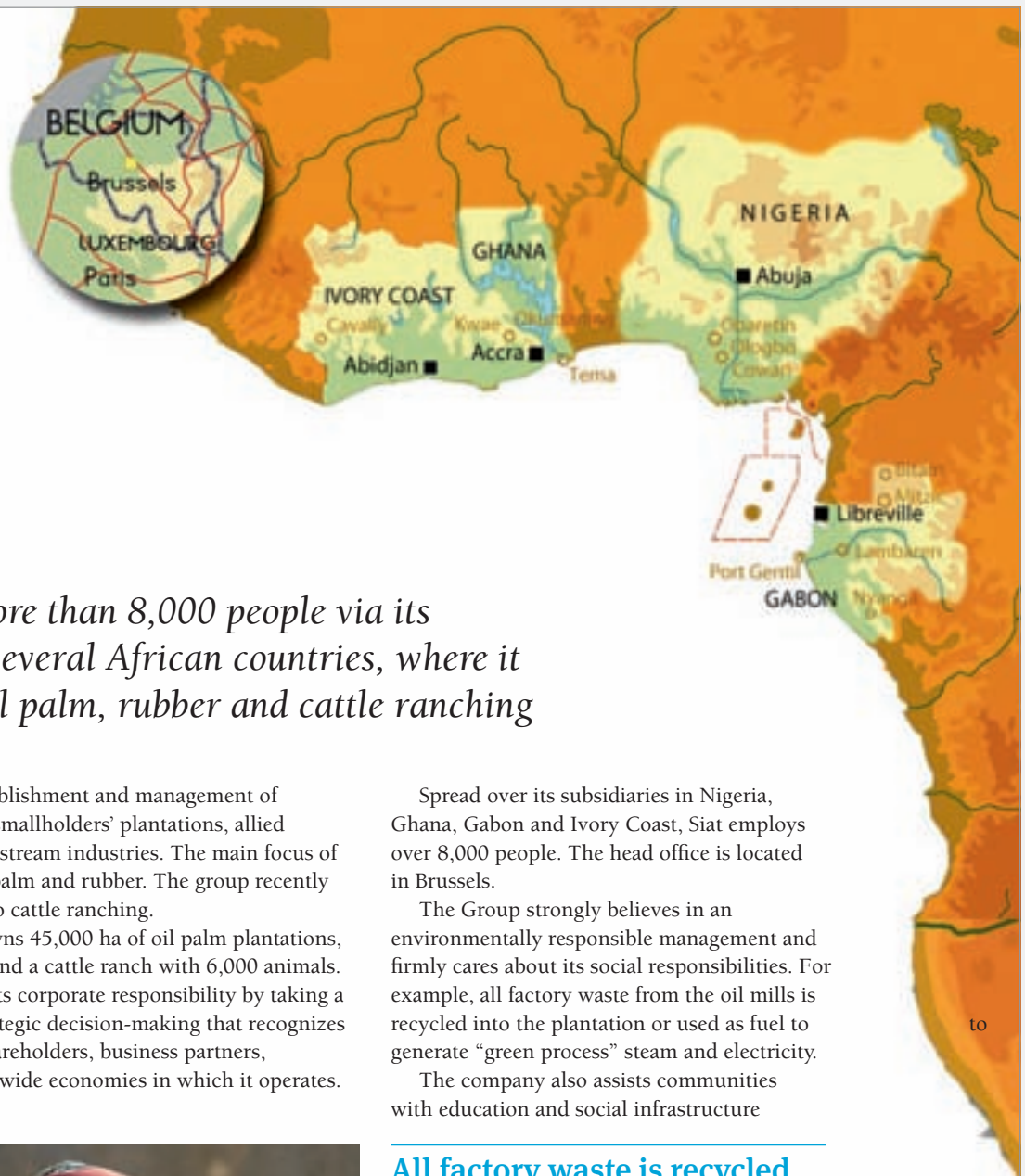
How can poor smallholders benefit from these developments? For smallholders, new markets and increased demand offer new opportunities. But there are also greater risks of exclusion, particularly if farmers are unable to reduce their transaction costs or cannot meet higher standards. With a more enabling environment, supportive policies and investments, these farmers can produce more and better-quality food, and achieve higher and more stable incomes. Strengthening the ability of small farmers to engage with markets, while at the same time improving the functioning of these markets, are essential steps in creating food systems that can eliminate poverty and hunger.

Increasing poor farmers' resilience and ability to manage risk is another essential element of agricultural development. Poor farmers in developing countries are contending with higher rates of land degradation, water scarcity and growing competition for dwindling natural resources. They also face a more difficult and unpredictable climate, in which extreme weather events are expected to become more frequent and more violent. Achieving food and nutrition security requires making agriculture – and the livelihoods of small farmers – more resilient to such phenomena. It also requires good governance; without it, droughts and other natural disasters can too easily translate into famine.

The International Fund for Agricultural Development (IFAD) is both a United Nations specialised agency and

# SIAT – Investment Company in Tropical Agriculture





*Siat employs more than 8,000 people via its subsidiaries in several African countries, where it specializes in oil palm, rubber and cattle ranching*

Specialized in the establishment and management of industrial as well as smallholders' plantations, allied processing and downstream industries. The main focus of the tree crops rests on oil palm and rubber. The group recently diversified its activities into cattle ranching.

Currently the Group owns 45,000 ha of oil palm plantations, 15,000 ha of rubber trees and a cattle ranch with 6,000 animals.

The Group carries out its corporate responsibility by taking a long-term approach to strategic decision-making that recognizes the interests of its staff, shareholders, business partners, consumers, and the world-wide economies in which it operates.

Spread over its subsidiaries in Nigeria, Ghana, Gabon and Ivory Coast, Siat employs over 8,000 people. The head office is located in Brussels.

The Group strongly believes in an environmentally responsible management and firmly cares about its social responsibilities. For example, all factory waste from the oil mills is recycled into the plantation or used as fuel to generate "green process" steam and electricity.

The company also assists communities with education and social infrastructure

### **All factory waste is recycled into the plantation or used to generate steam and electricity**

development such as roads, potable water, electricity, dispensaries and the like. These actions aim at creating commitment and stability, which in turn provide security for the Group's investments.

Siat is constantly looking for new opportunities and for dynamic, motivated people to join its team.

For more information and our current vacancies, please visit our website [www.siat.be](http://www.siat.be) or contact us on the following e-mail address: [jobs@siat.be](mailto:jobs@siat.be)



[www.siat.be](http://www.siat.be)



A Sudanese farmer tends his land on the banks of River Nile in Khartoum. Smallholders need assistance to access markets and to meet rising demand

an international financial institution. For more than 30 years, IFAD has pursued a mandate focused on rural and agricultural development to combat poverty and hunger, which today places it at the frontline of efforts to improve food and nutrition security.

The projects that IFAD supports are designed to give poor rural people the tools to seize new opportunities and build resilience. IFAD views smallholder agriculture as a business, and recognises farmers as small entrepreneurs who need better incentives and an enabling environment to invest more effectively and sustainably in their farms and non-farm enterprises. It also believes that more productive, sustainable, resilient and better market-integrated smallholder agriculture is critical for food and nutrition security in the developing world.

#### Strengthening supply chains

Experience shows that market-oriented agriculture has tremendous power to generate incomes, sustainable economic growth and food security. But for this to happen, all sections of agricultural supply chains need to be strengthened, from production to processing and marketing.

Supportive public policies and investments are essential, as is stimulating private investment in agriculture (including by farmers), to reduce risks and costs and to ensure that growth in agriculture actually contributes to food and nutrition security.

The G20 can help developing countries put in place the necessary public policies and investments. It can facilitate the production and dissemination of research and technology to make smallholder agriculture more sustainable and resilient.

The G20 has an important role to play in promoting the sharing of experience by countries, such as Brazil and China, that have made progress in food and nutrition

“ The projects that IFAD supports are designed to give poor rural people the tools to seize new opportunities and build resilience ”

security through boosting agriculture. The G20 can also help promote policy coordination between countries, which is essential as for dealing with sensitive issues in trade, biofuels and responsible investment in agriculture.

Finally, the G20 has made some headway in engaging with the private sector in areas such as food price volatility. Private-sector involvement, ranging from large companies to small farmers and their organisations, is critical to generate broad-based strategies that enable agriculture to contribute most effectively to food and nutrition security.

With the number of hungry people likely to surpass one billion this year, efforts to improve food and nutrition security must accelerate. By working together towards long-term solutions, the conditions can be created so that when the next natural or human-made disaster hits, everyone is prepared and vulnerable people do not starve. Anything less is unacceptable. ♦

# A global action plan for tackling hunger

*The combined effects of recent natural disasters, conflict and volatile food prices have placed the greatest burden on those least able to cope. Eradicating such vulnerability requires coordination and commitment from the developed world*

**By** Josette Sheeran, executive director, United Nations World Food Programme

**T**he challenge of ensuring access to nutritious food for the most vulnerable is now compounded by a convergence of global crises. An increasing number of natural disasters on all continents, escalating insecurity associated with ongoing conflicts, and volatility in the price of agricultural commodities now seem to be the norm. The tragedy is that the individuals exposed to the highest levels of risk from floods or drought, conflict or war are those with the poorest means to cope with such shocks.

This has played out dramatically in the drought-induced hunger crisis in the Horn of Africa, as conflict, political instability and weak institutions plunged more than 12 million people into desperate hunger. As the World Bank's *World Development Report 2011* notes, people in conflict-affected states are more than twice as likely to be undernourished as those in other developing countries.

Climatic changes have also increased both the frequency and intensity of natural disasters. Floods and droughts that were periodic have now become epic and repetitive. The 2011 drought in the Horn has been declared the most severe for 60 years, while last year's monsoon floods experienced by Pakistan were the worst in the country's recorded history.

New challenges require new, system-wide approaches. No one country, region or organisation can address these challenges alone. The burden of managing rising risk and uncertainty must not fall on the estimated 80 per cent of the world's population with no access to safety nets. To address these issues, the World Food Programme (WFP) has proposed a five-point action plan that calls for the development of emergency food-reserve systems, the scaling up of social protection safety nets, support to smallholder and women farmers, the exemption of

“If honoured, existing commitments would allow food to be shipped rapidly to wherever it is needed in an emergency”

humanitarian food from export bans and the creation of a multilateral mechanism to improve analysis of food prices, production and stocks.

The G20 has clearly recognised the need for a common approach to tackling the hunger challenge over the past few years. Food security has been a central theme on the G20 agenda since the 2009 London Summit. The summits in Toronto and Seoul in 2010 saw world leaders recommit to addressing fundamental food security issues. Under strong French leadership, food security has emerged as one of the key pillars of this year's G20 process.

## Proposals for an emergency reserve

In response to G20 requests, WFP and other international organisations prepared a proposal for an emergency humanitarian food reserve as part of a broader array of policy responses to price volatility in food and agricultural markets. That proposal calls for a pilot programme for a small, regional emergency food-reserve system to be submitted for consideration before the end of the year.

The aim is to enable the poorest countries to ensure rapid access to food for the most vulnerable people through targeted food assistance programmes in the event of supply shocks, while building capacity to develop, deploy and manage food stocks and safety nets.

The world must also come together to support previously agreed-upon systemic solutions, such as allowing humanitarian food to be exempted from export bans. Countries have agreed to make humanitarian exemptions, first at the G8 summit in L'Aquila in July 2009, and then at the World Summit on Food Security in Rome in November 2009. If honoured, these commitments would allow food to be shipped rapidly to wherever it is needed in an emergency.

Some countries that imposed export restrictions in 2008 and 2010 made exemptions for purchases of humanitarian food, including those by the WFP. However, others have not done so, forcing humanitarian agencies to purchase food from more distant sources. And most exemptions, if made, are on a case-by-case basis after concern has been raised and the exemption requested. Valuable emergency-response time and resources are lost, as procurement teams have to spend time negotiating or finding alternative suppliers from other regions.

As the world's largest humanitarian organisation with the mission to protect lives and livelihoods, WFP plays a major role in helping the world's poorest to build resiliency. This is why recent times have seen one of the most profound reforms in the organisation's history as it moves from a food aid agency to one that provides food and nutrition assistance, helping individuals,

# Food security – a hot potato

*Food security in the 21st century demands significantly increased and sustained investment in agricultural research-for-development. We urgently need immediate research investment to boost food availability and access. Sustained investment is critical for longer-term research to drive a deeper, contextualised understanding of our production and consumption systems. Only then can we transform our current vulnerabilities into a resilient global food system*



**Pamela K Anderson,**  
director general,  
International Potato Center,  
Lima, Peru

## Urgency

Global food security is fragile. Climate change, economic crises, high grain prices, and rapid population growth are combining to create a perfect storm.

In the mid 20th century, investment in agricultural research resulted in availability and access to safe and relatively inexpensive food, and saved millions of people from hunger and starvation.

Agricultural research became the victim of its own success. The past four decades have seen a steady decline in investments for agricultural research. However, even by conservative standards, the rates of return on investment in research-for-development are more than two-fold – with recent studies showing as much as \$9 of benefit for each \$1 invested in agricultural research.

## Within our reach

Climate-smart agriculture that can ensure food security, improve lives, and protect our earth's fragile resources is possible. But it demands new investments and an increased knowledge base that incorporates scientific advances in agriculture with development strategies that will result in sustainable impact.

Food security exists when all people at all times are free from hunger. The concept of food security includes: food availability, access, utilisation and vulnerability. Food availability is the supply of food. Access is a household's ability to obtain that food. Utilisation is a person's ability to select, take in and absorb nutrients in food. And vulnerability is the physical, environmental, economic, social and health risks that may affect availability, access and use. Looking at the example of how one crop – potato – fits into a more robust global food system can help illustrate these different dimensions of food security.

## Investing in food security: food availability and diversification

The number of people going hungry every day is hovering around one billion. Part of the solution is to increase production. While growth rates of the major grains are stagnating, current potato yields in the developing world are often only one-half to one-quarter of their yield potential. Immediate investment in seed systems, improved crop varieties, pest and disease management

and post-harvest losses, which close the yield gaps and realize the yield potential of potatoes, offer high rates of return to governments and other investors.

Increased production will also come from improving systems productivity. Across southern Asia, where arable land for crop expansion is scarce, there are at least 30 million hectares that could be modified to rice-potato-rice rotations. Research evidence indicates that in these systems potato yields are doubled and rice yields are also increased.

But, ultimately, the challenge of food scarcities will require a more robust and diverse world food system. Crop diversification can mitigate risks of crop failures and buffer against global grain price fluctuations. The vital role of commodities that complement the major grains must be recognised and supported.

The power of investing in a diversified commodity portfolio can be seen in the case of China. The Chinese government projects that its population will continue to grow and stabilise at 1.5 billion people over the next two decades. It has targeted 95 per cent food self-sufficiency. This will require increasing food supplies from the current 500 million tons to 600 million tons by 2030. The government has decided that at least half the new food production will come from potato. Under the recently approved five-year plan, China, known as a land of rice, will increase potato production from its current 99 million to 150 million tons/year.

In its recent reform, the Consultative Group on International Agricultural Research (CGIAR) constructed a research priority on Global Food Security in order to reposition key under-invested, but critical, commodities. Potatoes are featured along with sweet potatoes, cassava, and bananas in the CGIAR Research Program on Roots, Tubers, and Bananas. Other under-invested commodities that feature in the new CGIAR portfolio include: sorghum, barley, millets, triticale, dry beans, chickpeas, groundnut, lentils, soybeans, fish, and livestock.



Farmers in Peru. Smallholders in several countries are reaping greater income from their potatoes



### Food access

Even when food is available, it may not be accessible. In poor countries, 50 to 70 per cent of household income is spent on food. Improving access involves at least two dimensions:

i) maintaining low prices for staple foods and ii) increasing the incomes of poor households.

Diversifying into commodities that are not internationally traded offers a buffer to the price volatility of the major grains. In the case of potato, a 2008 FAO study showed that in 70 countries across the developing world, potato prices remained low and stable, while grain prices were spiking.

Staple crops also have an important role to play in increasing the incomes of poor households, particularly if they can be linked to market chains that increase demand and value. Smallholder producers in countries from Peru to Ethiopia and Indonesia are reaping greater income from their potatoes, thanks to higher market demand and higher-value processed potato products.

Value chain research by the International Potato Center (CIP) and partners over the past 15 years has demonstrated the tremendous potential for income generation (and improvements in non-monetary assets) through the creation of non-conventional partnerships among small farmers and the private sector.

### Food utilisation

With growing scarcity of arable land, pressures on water and land resources, and awareness of the need to preserve our precious treasure of biodiversity the research focus must shift. We must address questions such as: What are the critical micronutrients for a population? How much nutrition can be produced per unit area? How can we use local biodiversity to enrich diets?

Potatoes produce more edible energy per unit land area and time than any other major food crop. A standard 100-gram potato contains half the vitamin C required per day and is rich in other micronutrients such as iron, zinc, phenolics, and fibre. CIP is

screening its World Potato Collection for nutritional quality and undertaking conventional breeding to push the nutritional value of potatoes to even higher, clinically significant, levels.

### Vulnerability

Sustained, long-term investment in systems research is needed to address food vulnerability. We must understand complex food portfolios of smallholder systems across the developing world. Our understanding must translate into climate-smart, intensified, and sustainable production systems that bring benefits to both the producers and consumers. There is no blueprint for sustainable intensification in the face of continued population growth, growing scarcity of land and water, and intensifying climate change. We must generate that understanding.

The deep challenges that we face today in food security, human health, and climate change can all be characterised as challenges in dynamic complexity. These are systems that are biophysically, ecologically, socio-economically and culturally diverse and complex. And they are constantly changing. We need to develop and apply tools and methodologies that will allow us to understand and intervene in these systems at different scales.

Without the appropriate immediate and longer-term investments in agricultural research, we will not transform the current vulnerabilities into a resilient global food system.





communities and countries build food security. In this way its response is smarter, more targeted and context-specific. It is able to build resiliency to food insecurity even at a very early stage in its humanitarian response.

Such resiliency is vital in order to save lives and protect livelihoods before crisis strikes. Indeed, there are hopeful signs that today's drought need not result in the tens of thousands of deaths seen in earlier decades. Other than the tragic situation in south Somalia, where those in control have blocked humanitarian assistance, the drought's impact has been blunted by preparation and resiliency programmes.

Through a community adaptation program called MERET, WFP has been supporting the Ethiopian government in sustainable land management and rain catchment, which has vastly increased food production and mitigated the impact of the drought. In the dry Karamoja region of northern Uganda, local communities

**A flood victim carries flour to his village from a distribution point in Pakistan. Much of the local population remains dependent on food aid, months after disaster struck**

are showing more resiliency than during the droughts of 2007-09, thanks to a new system of communal food stocks that are replenished at harvest time. In Karamoja, WFP has also put in place a comprehensive child hunger safety net to provide predictable, entitlement-based nutritional support to children throughout their life cycle in order both to stabilise acute malnutrition and to prevent chronic malnutrition during a crisis.

Albert Einstein famously noted that the definition of insanity is to do the same thing over and over again and expect a different result. With images of starving children from the Horn of Africa still fresh in their minds, world leaders will come to Cannes in November ready to do things differently. The G20 can play an important role in putting in place and supporting innovative system solutions that are critical to addressing the urgent food security needs of the most susceptible at a time of growing risk and vulnerability. ♦

# Performance with Purpose


The Promise of PepsiCo




At PepsiCo, we rely on the earth's natural resources to run our businesses. We are committed to minimizing the impact that our business has on the environment with practices that are socially responsible, scientifically based and economically sound. Agriculture is one of the largest elements of PepsiCo's environmental footprint, so we work hard to continually improve our agriculture processes. Part of this approach is the *Promise of PepsiCo*, a series of goals related to reducing our environmental impact, diversifying our product portfolio and investing in our associates, all while continuing to deliver strong financial performance. Among these goals, we strive to apply proven sustainable agriculture practices on our farmed land, and to provide funding, technical support and training to local farmers. Through these investments and innovation in farming practices we endeavor to improve the welfare of our growers and the communities that are part of our agriculture supply chain.

An example is our participation in the World Economic Forum's recently convened CEO Task Force. It is comprised of seven Working Groups, including one on Food Security made up of 12 CEOs including PepsiCo's Indra Nooyi. A result of this high-level meeting were some recommendations from the working group:


## Improve the functioning of agricultural markets to ensure a sustainable global food system

 PepsiCo, along with the Inter-American Development Bank, launched an agriculture initiative in Mexico to create a sustainable market for sunflowers while providing loans and a source of income for some 850 Mexican farmers and their families.


## A 50% increase of investments in food value chains is needed by 2015

 PepsiCo China installed infrastructure, water-conserving pivot irrigators and sand dune stabilizing crops to protect soil from erosion in areas subject to sand storms.


## Environmental sustainability must be integrated as a core objective into all agricultural activity

 PepsiCo adheres to a global Sustainable Agriculture Policy grounded upon a set of principles developed to encourage our growers to operate in a way that protects their land and communities.

## Technology innovation and distribution should be accelerated through partnerships and policy reforms

 In India, a region that faces severe water shortages, PepsiCo developed an agriculture technology called direct seeding of rice to help growers use less water compared to traditional methods.

## A major shift to improve nutrition must be undertaken

 PepsiCo is beginning work with the World Food Programme and USAID on an initiative related to nutritious products made from local crops for low-income consumers in Africa.



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# Mobilising business for food, nutrition and health security

*In the past, governments and aid organisations have been wary of private-sector involvement in addressing shortages in food and healthcare. Collaboration with business to alleviate these problems is growing, but needs to spread further*

By Laurette Dubé and Janet Beauvais, McGill World Platform on Health and Economic Convergence

**F**ood, nutrition and health security are topics of interest within many global governance settings. The G8 has highlighted maternal and child health and nutrition, and the G20 has chosen food and nutrition security as priorities that leaders will support through dedicated global funds. Food, nutrition and health security are also at the core of the management of both infectious pandemics and non-infectious diseases. Chronic diseases were in the spotlight at the United Nations High-Level Meeting on Non-Communicable Diseases in September, illustrating the urgency of addressing issues globally at the interface of food, nutrition and health security.

Recently, such policies have called for whole-of-government and whole-of-society approaches. Whole of government relates to placing health, healthcare and other social issues on the same policy and political agenda as agriculture, development and other economic issues. Whole of society expands this concept to all of society, from individuals to communities, the private sector and civil society at local, national and global levels.

The motivation is twofold: healthcare costs consume more than 10 per cent of gross domestic product in the majority of countries, with a minimal proportion going to prevention, and most of the levers for prevention – be they policy or action – lie outside the formal health system. However, these novel policy approaches are far from achieving their full potential.

At the core of both approaches is a need to mobilise business as an actor. However, many stakeholders, governments and non-governmental organisations alike have been wary of collaboration with business, fearful of the possible influence of the market-based interests of business on global health.

The private sector has engaged in some health-promoting initiatives jointly with global institutions, such as the Business 20 (B20), on the margins of the G20, and the Creating Shared Value global business leaders' and Inclusive Business conferences on the margins of the UN Private Sector Forums in 2009 and 2010. Moreover, as a result of the success of the 2008 UN Private Sector Forum on the Millennium Development Goals and Food Sustainability, the UN secretary general decided to hold the forum annually so that the private sector can contribute to the key intergovernmental negotiations.

More frequently, business has acted on its own to address global health challenges through creating policies and programmes and innovating novel models of research, product creation and implementation to partner and collaborate with global health organisations and governments. However, the number of businesses involved and the breadth of the industries have not fully represented the number and scope of actors that are critical to addressing food, nutrition and health security issues.

If global institutions such as the Organisation for Economic Co-operation and Development or the G20 at the Cannes Summit are to move from vision to action to scale up their efforts and address issues of food, nutrition and health security effectively, through collaboration with business, several key questions must be asked: Which businesses should be mobilised? Under what mode of engagement? Made possible by what institutional changes?

## Which businesses should be mobilised?

If sustainable and significant change is to be made at the level of international policy-making, the current focus on a handful of large global corporations has to be replaced by a consideration of the full range of business that can contribute to food, nutrition and health security. These businesses also encompass micro, small and medium entrepreneurs, as well as small, medium and large national corporations.

Their activities include those that shape livelihoods and lifestyles, such as agriculture, food and beverage, leisure, media, transportation, communication, rural/urban planning and development, engineering and other socioeconomic infrastructure sectors. They also contribute to detection, diagnostics and control, as in the case of firms involved in biotechnology, pharmaceuticals, point-of-care technology, medical informatics, healthcare and health systems. Moreover, all businesses can have an impact through the workplace conditions they offer to their employees.

## Under what mode of engagement?

Not only is the type of business engaged important, but the mode of engagement is also critical. The most powerful mode that business of any sector could undertake is to position food, nutrition and health security as a driver of its own research and development, innovation and operation. Business engagement calls further for novel collaborative mechanisms and relevant sectoral and



cross-sectoral health and economic convergence metrics, to support a common decision-making process among potentially conflicting or synergistic policy and investment domains, such as agriculture, development, education, health and trade.

There is a need to identify and capitalise on the respective differential capabilities of each actor, as well as the appropriate mix that fosters the most convergence. To harness these capabilities there must be synergy among corporate, public and global governance frameworks. Novel, accountable and transparent modes of engagement are needed, with concrete, time-bound and achievable projects.

A network approach that involves non-hierarchical webs of connection among equals – one that is held together not by force, obligation, material incentive or social contact, but instead by shared values – could be one solution. Such engagement based on convergent governance and action capitalises on one initiative at a time and shifts the prevailing mindset from trade-off, zero-sum games and competition to one of synergy, non-zero-sum games and cooperation.

#### **Made possible by what institutional changes?**

At a more formal level, leading international institutions in the field of health are making strides in creating and promoting permanent collaborative mechanisms and structures to encourage partnership and discussion with non-governmental actors. The World Health Organization (WHO) is considering creating new platforms for multi-stakeholder governance, such as a world health assembly that is open to both civil society as well as industry. The Pan American Health Organization (PAHO) Partners Forum on Chronic Disease in the Americas is also a novel approach to implementing multi-sector engagement.

“ The focus on large global corporations has to be replaced by a consideration of the full range of business that can contribute to food, nutrition and health security ”

Global institutions need to examine new approaches to harness the power of the complete range of business players and the whole-of-society initiatives taken by consumers and a rich diversity of stakeholders from community, civil society and the private sector, with each investing resources and competencies into the strategy. For these global institutions and the national governments that form them, convergence requires fully embracing the diversity of its roles and policy levers to guide society in ensuring that, in each of its choices, the largest share of societal and economic value is achieved by those organisations or partnerships that are best positioned to achieve it for the least cost. ♦

Workers unload rice reserves in Jakarta, Indonesia. The country has invested heavily in agriculture to reduce the need to import food

# Agricultural technologies to feed future generations: reasons to revitalise

*Meeting the rising global demand for food will require more land devoted to agriculture and an emphasis on research and development, which has seen little increase in funding in recent decades among the majority of major economies*

**By** Philip G Pardey, Department of Applied Economics, University of Minnesota; director, International Science and Technology Practice and Policy (InSTePP) Center

**R**ecent spikes in global food prices have garnered much attention, as they did in the early 1970s. But much less policy attention has been placed on longer-running trends in commodity prices. Will food prices revert to a downward trend as they did in the 1970s, or is the era of ever-cheaper food a thing of the past? The food security of poor people the world over – and the standard of living of G20 consumers – rests on the answer to this fundamental question.

The future path of food prices and the capacity of the world to feed future populations affordably hinges heavily on the agricultural productivity of the G20 members. These countries employ two-thirds of the world's agricultural labour force, account for 58 per cent of the global land devoted to agriculture, and in 2008 produced 69 per cent of the world's agricultural output by value. They produce 75 per cent of the world's food and feed staples (wheat, rice, maize and soybeans), 65 per cent of its milk and 71 per cent of the world's beef, sheep and poultry. The G20 members also account for a substantial share of the international trade in agricultural commodities, which helps to shore up country shortfalls in production due to weather and other factors and dampen fluctuations in global commodity prices.

Eliminating hunger and meeting an ever-growing global demand for food, feed and biofuels is a basic demand-and-supply problem. If global agricultural production fails to keep pace with the world's appetite, agricultural commodity prices will rise. Estimates put the world's population at seven billion by 2012; nine billion by 2050. And as global per capita incomes grow, each person is likely to consume more food. Analysts anticipate a 70 per cent increase in demand for food by 2040, compared with 2000.

## How do we meet rising demand?

There are two ways to meet this growth in food demand. One is to plough more land into agriculture. The other is to increase crop yields and agricultural productivity.

Both will be necessary. But increasing agricultural productivity will be crucial to sustainably securing food supplies in the decades ahead, as most prime agricultural land is already in production. Among the majority of G20 members, the challenge will be preserving the land already in production from urban and infrastructure encroachment and environmental degradation.

How have the G20 members been faring, and what are the prospects for productivity growth? Unfortunately, for many countries, recent and prospective productivity performances are wanting. The rate of growth in global crop yields has slowed in the past 30 years as a whole. Similar patterns are evident for other measures, such as agricultural labour productivity in most G20 members. The rate of multi-factor productivity (MFP) growth (indicating the rate of growth of aggregate output relative to the rate of growth of all measureable inputs, including land, labour, capital, energy and fertiliser) has also slowed dramatically in the higher-income G20 members for which reliable measures are available. In the United States, MFP grew at almost two per cent per year from 1950 to 1990, but since then has grown at barely half that rate.

“For many countries, recent and prospective productivity performances are wanting. The rate of growth in global crop yields has slowed in the past 30 years as a whole”

By contrast, for some other important agricultural producers such as China and the former Soviet Union, growth in crop yields and other productivity measures has either been sustained or has recovered of late. However, it is hard to tell the difference between sustained growth and that which is really episodic in nature – spurred, for example, by massive institutional reforms.

Why has agricultural productivity growth slowed? It is complicated, but one factor stands out: for decades almost all the higher-income G20 members have been reducing

# De-risking agriculture finance for sustainable development and capacity building



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their growth in public investments in agricultural research. The United States increased its inflation-adjusted public expenditures in agricultural research and development (R&D) by 3.5 per cent per year during the 1950s and 1960s; since 2000 it has grown by just 1.4 per cent per year. Australia, France and the United Kingdom have followed suit. Many countries have also expanded the scope of agricultural research to address new policy issues (eg food nutrition, obesity, biosecurity and environmental matters) at the expense of research on farm productivity. Moreover, as climate change continues and plant pests evolve with new crop varieties, a significant share spent on research is required just to maintain past productivity gains.

#### **What measures are needed?**

Turning around lacklustre productivity trends requires revitalising spending on farm-productivity research. The pervasive slowdown in productivity growth over the past two decades was preceded by many years of slowing public spending. It takes decades to develop and diffuse new agricultural technologies, meaning that long lags between changes in research spending and changes in

productivity growth are to be expected. China, as a rare positive example, has continued to increase spending on agricultural research and stands out among G20 members in sustaining growth in agricultural productivity.

Some suggest that the scaling back in public support will be countered by an upsurge in private funding. However, while the private share of agricultural R&D has crept up over the decades, more recently such growth has slowed in tandem with public spending.

Certainly, corn yields have sustained their growth over recent years, and this crop has notably received substantial amounts of private R&D attention. But it is an exceptional crop in many technical and intellectual property respects, and does not address the general prospects for private R&D. It is hard to imagine firms anticipating sufficient returns on farm-oriented R&D to justify substantially ramping up their investments, at least in the near term – especially in developing countries where market and regulatory conditions limit the commercialisation prospects for privately produced farm technologies.

Moreover, in the higher-income G20 members, more than 60 per cent of private agricultural R&D focuses



Lettuce plants grow under artificial lights and in a liquid solution in China. Such innovations are the product of the country's increased spending on agricultural research

“ The slowdown in productivity growth over the past two decades was preceded by many years of slowing public spending. It takes decades to develop new technologies ”

on food processing, where the market and intellectual property realities are more conducive to profits that drive private investments in innovation. As in the health sciences, all forms of private food and agricultural R&D stand firmly on the shoulders of basic discoveries made with publicly funded research by universities and government agencies. Taken together, these pervasive commercialisation problems mean that private markets will tend to underinvest.

Since it is hard to imagine that present productivity trends can be revived without increased spending on

agricultural R&D, it boils down to public policy decisions: Will G20 members play their part in sustainably ending global hunger in the decades to come, while also promoting continued prosperity in their own agricultural sectors?

Reinvigorating public spending on R&D to ensure a sustained stream of new technologies and know-how is one critical step; getting these technologies into the hands of farmers is another. Regulatory reforms that lower the costs of managing and mitigating risks associated with the new technologies that spur farm productivity growth will also play their part. ♦

# PotashCorp: Feeding the Future

## The focus on food security

Enhancing global food security is a complex matter with no single or simple solution.

From our early days as a Saskatchewan potash producer to our global footprint as the world's largest fertilizer enterprise by capacity, the history of PotashCorp has given us a unique perspective on this critical challenge.

The world's population is projected to exceed 9 billion by 2050, with most of the population increase occurring in the developing world. The growth will occur in urban areas, while rural populations decline. As people move off the land and into cities, diets also change. A shift from grain-based to protein-based diets adds even greater stresses on finite land that also supports livestock feed.

The Food and Agriculture Organization (FAO) estimates that 90 percent of the additional food to feed the world's growing population will be produced on current crop land.

## Increasing crop yield is essential

By 2050, agricultural production will need to increase by 70 percent. To match supply with demand, the world's farms will need to become much more productive.

Increasing crop yield is an essential part of the solution. With responsibility for 40 to 60 percent of the world's food production, soil nutrients are helping play a unique role in feeding emerging populations.

The use of potash in Latin America and Asia, for example, has increased over the past decade by nearly 70 percent and crop productivity has risen significantly.

## We all have a role to play

We know from firsthand experience that, once farmers learn more about crop yields and the value of proper nutrient application, their ability to feed their families and communities increases dramatically.

At our model farm in Trinidad, local farmers and students are learning these lessons and succeeding.

An old proverb holds that if you give a man a fish you feed him for a day, if you teach him to fish you feed him for a lifetime.

Governments, the private sector and NGOs all have an obligation to ensure that farmers the world over are taught how to get the most from their land.

Our progress as human beings is rooted in agriculture. The first crops harvested by our ancient ancestors provided a reliable source of nutritious food and set the world on a different path. A well-fed people don't fight or fear for their survival, they dream and build a better life for their families.

Each and every day, thousands of PotashCorp employees produce nutrients that significantly increase the productivity of finite land, helping to feed an ever-increasing global population.



**William J. Doyle**  
President and Chief Executive Officer  
PotashCorp



Education initiatives like our model farm in Trinidad help teach students, farmers and the public how balanced fertilizer application can boost crop yields to help meet the food supply needs of our growing global population.



# Investment in research is crucial in the quest to ensure food security

*The successful drive to produce ever greater crop yields in the latter half of the 20th century led to a sense of complacency. A resumption in research spending can insure against future production shortfalls as global demand continues to rise*

**By** Carlisle Ford Runge, Distinguished McKnight University Professor of Applied Economics and Law, University of Minnesota; and Carlisle Piehl Runge, Davenport College, Yale University

**I**n a recent article in *Nature*, a distinguished panel of scientists argued that the hourglass is running on the critical battle against global hunger and malnutrition. The crisis has been intensifying thanks to three related – and ominous – trends. First, the rate of increases in crop yields appears to be slowing. Second, agricultural research expenditures have diminished since the 1980s, especially in Africa. Third, global food supplies have not kept pace with demand and prices remain very high.

These problems are exacerbated by the increasing use in rich countries of grain not only as food and feed but also for biofuel. In the United States, nearly 40 per cent of the corn crop is now being used to make ethanol.

In early 2010, in an article in *Foreign Affairs*, we warned against complacency in the face of the tight relationship between global food supplies and total demand. The famine in Somalia is but the leading edge of

a desperate – and global – Malthusian struggle between growing populations and incomes that prefigure ever increasing demands for calories, requiring increases in the fundamental capacity to produce the food that people need and want. In cornucopias of food production such as the US and the European Union, this precarious balance may seem far away and of little consequence now. But it should not be lost on leaders in the industrialised, food-surplus world that political instability in the Middle East, North Africa and elsewhere is driven in significant part by a young populace not only hungry for political freedom but also simply hungry, due to food prices that have risen precipitously in the past five years.

After the dramatic increases of 2008, in which the index of food prices published by the Food and Agriculture Organization (FAO) averaged 200 points, many interpreted its decline in 2009-10 as evidence that 2008 was an aberration. This reprieve, however, was



simply a reflection of the global economic slowdown, which slackened demand as global production continued apace. The screen has since darkened: stresses on crops in the grain belt of the US Midwest and elsewhere are being met by unrelenting demand from developing countries.

In the latest FAO report, published in July, the food price index stood at 234 points, up one point from May and only slightly below its all-time record high of 238 in February. The July index was 39 per cent above the June 2010 reading. Throughout the year, the index has remained above even the highest readings of 2008. Whatever may happen in the next crop season, the G20 faces the challenge of a decades-long endeavour that even the most formidable policy advocates may find daunting.

Since the Second World War, gains in agricultural productivity around the world have been defined by greater output per hectare of land and hour of labour. These gains have resulted primarily from substantial increases in the use of agrochemicals, fertilisers, large farm equipment, water and, in developing countries, labour. But all these inputs, many of them derived from petrochemicals, have come at a cost. As greater yields were coaxed from the land, other costs rose as well, in part in the form of rising land prices that excluded young entrants from entering agriculture.

#### Environmental impact

A second kind of cost was to the environment. Over-irrigation and the excessive use of fertilisers and agrochemicals polluted and depleted water supplies and sapped the soil's fertility. In the US, huge releases of nitrogen and fertiliser into the Gulf of Mexico, much of it originating from farm fields in the Upper Midwest, created the worst conditions in the hypoxic "Dead Zone" in more than 25 years. This will be aggravated further by the flooding this year in the Mississippi Basin.

In northern India, the level of groundwater in aquifers has fallen by about 10 centimetres per year since 2002, due to increasingly intensive crop irrigation – about the same total volume of water as melted from Alaska's glaciers over the same period. Today, the aquifers cannot replenish fast enough to sustain current yields over time.

In short, the impressive gains in average agricultural yields over the last half of the 20th century created the illusion that the Malthusian spectre had been vanquished.

SS In the current atmosphere of austerity and fiscal discipline, the G20 leaders must find a way to make an exception for agricultural research SS

The deeper reality is that, as water and soil quality has fallen, petrochemical inputs have taken up the slack, but biophysical systems have been pushed to their limits. Although yields have continued to increase, they have been doing so at diminishing rates. The juggernaut of yield-increasing technology began slowing in the 1990s. This was due both to biological limits and cutbacks in agricultural research – a result of the complacency that arose from ever-increasing yields. Improvements brought by investments in research come with a lag: peaking after about 25 years, but with effects that persist for another 25 years. Hence, the consequences of decisions taken in the 1970s and 1980s to limit the growth in investing in agricultural research have only recently become apparent.

One way to think about these investments is as a long-term insurance policy against famine. Paying the premiums for this insurance year after year may seem like a low-payoff strategy, but when crisis strikes, they pay off hugely in the form of technological weapons against shortfalls in production. In the current atmosphere of austerity and fiscal discipline, the G20 leaders must find a way to make an exception for agricultural research – to recognise that the "seed corn" requires investments to save everyone in the end. The actual requirements are relatively modest – on the order of \$50 billion globally – but the returns from an economic and political stability perspective are incalculable. ♦

In the United States, greater yields drive up land prices, while taking their toll on soil

# Financing food security: a private-sector agenda

*As the world's largest development institution focused exclusively on the private sector, IFC has collaborated with the G20 to extend the reach of international investment to benefit food producers and consumers in emerging markets*

**By** Lars H Thunell, executive vice-president and CEO, International Finance Corporation (IFC)

**F**ood security is one of today's essential issues, ranking high on the G20 agenda and due to feature prominently in the Cannes Summit's discussions.

Global leaders are acting collectively, improving policy coordination and building new support for the developing world's agriculture and emergency food relief programmes. They are working together urgently at a critical time, as rising food prices are taking a harsh toll on the poor, and the tragedy of famine has returned to the Horn of Africa.

This united government action is especially welcome after years of relative neglect, in which agriculture's share of total aid flows fell from 19 per cent in 1980 to just three per cent in 2006. But to enhance it even further, other steps must be taken to increase the private sector's role. The global financial markets' impact on food security must also be strengthened.

This is one key aspect of the work at the International Finance Corporation (IFC), a member of the World Bank Group and the world's largest development institution focused exclusively on the private sector. As part of its larger efforts to strengthen food supply in developing countries, it extends the reach of leading financial institutions in ways that will benefit consumers and producers alike, working with JP Morgan and others to help address price volatility and increase production.

No one solution can be sufficient at a time when almost a billion people suffer from hunger. World food production must rise by 70 per cent as population rises by two billion over the next 40 years. But there is much to be gained by making commodity-price hedging, against price volatility and other proven short-term financial products, more widely available, in conjunction with a broader package of longer-term initiatives to build the private sector's impact on hunger.

## Need for collective action

The G20 emphasises that food security is a comprehensive challenge, requiring collective action from all players involved to increase the production of food at affordable prices through sustainable agriculture practices. Since 2008, it has been building the Global Partnership for Agriculture, Food Security and Nutrition with three broad objectives:

- governance, to ensure the coherence of policies affecting food security;
- knowledge, to mobilise expertise and research on behalf of food security; and
- finance, to reverse the downward trend in financing for food security.

Within the context of making more financing available, new ways must also be found to offset today's price volatility, which hurts producers and consumers alike. In the second half of 2010 alone, the World Bank estimates, 44 million people fell below the poverty line because of high and volatile food prices. International agriculture prices then spiked in 2011 for the second time in three years. The United Nations and the Organisation for Economic Co-operation and Development estimate that food prices will continue to remain higher, and continue to show excessive swings, for the next decade.

This volatility not only limits the access of the poor to food, but also restricts producers' access to animal feed and other inputs, as well as financing for their business activities, hampering investment and holding back output. Left unattended, it poses serious threats to progress in other areas of the global food security agenda.

## IFC's response

In response to volatility, IFC has worked in close coordination with the G20 presidency to develop the new Agriculture Price Risk Management (APRM) product. Cited at the June 2011 G20 agriculture ministers' meeting in Paris, it is initially being rolled out with JP Morgan, enabling price hedges worth many times its \$400 million facility amount on behalf of emerging-market agricultural producers and buyers. Since the exposure associated with risk-management operations is typically smaller than the principal amount of hedges made available to clients, these combined credit exposures should enable up to \$4 billion in price protection to be arranged by JP Morgan for emerging-markets' agricultural producers and buyers.

The APRM product will enable financial intermediaries to help importers of cereal grains obtain protection from sudden price increases that could take a heavy toll on the poor, who often spend up to 80 per cent of their household budgets on food. The effort with JP Morgan will have especially strong regional coverage in Latin America, creating a model that will be extended with other banking partners to sub-Saharan Africa, Asia and the Middle East and North Africa. The model is one that could then be replicated by other multilateral institutions for wider impact.

To complement these efforts, IFC is also supporting the development of new commercial insurance products that will help African farmers increase their output, protecting them for the first time against risks of drought and other forms of severe weather that can damage their crops. More than 19,000 small-scale Kenyan farmers now hold affordably priced weather insurance, provided through an IFC-backed initiative of the Syngenta Foundation



Almost a billion people suffer from hunger. World food production must rise by 70 per cent as population rises by two billion over the next 40 years





for Sustainable Agriculture and two local partners, UAP Insurance and mobile telecoms operator Safaricom. Similar efforts are also under way to help other commercial players introduce weather insurance to 24,000 farmers in Rwanda. These innovative African projects are funded through IFC's Global Index Insurance Facility – a partnership with the European Commission, the ACP Secretariat, Japan and the Netherlands – that is also expected to expand access to index insurance in other African markets, and then to be replicated in Asia and Latin America.

It is also important to remember that in many low-income regions, inadequate storage and distribution systems result in up to half of the food that is produced being destroyed before it reaches consumers. Warehouse and storage facilities can be improved with new private capital and management, but are just one part of local agricultural supply chains, all of whose components need to receive more private financing to keep up with rising demand for food.

Leading financial institutions in the developing world – such as ICICI Bank and HDFC Bank in India, Banco Galicia in Argentina, Banco Itaú in Brazil, and Standard Bank of South Africa – have all found ways to tap these markets, successfully building large local agribusiness portfolios. The challenge now will be to extend this trend more deeply into Africa, where less than one per cent of commercial lending currently goes to agriculture.

IFC currently invests more than \$2 billion per year in the agricultural sector. It will be working alongside

its partners to help clients attract more private financing for inventories, seeds, fertilisers and chemicals, infrastructure, distribution and other key needs for increased food production.

Our overarching goals are to enhance food security, through increased investment and enhanced productivity; enhance development and inclusiveness, by focusing on smallholders, women and risk management; and enhance environmental and social sustainability as a business driver, through resource management.

#### Global coordination

These initiatives complement the Global Agriculture and Food Security Program launched at the September 2009 G20 Pittsburgh Summit. Pooling new donor resources to help support country-led agricultural investment plans, this new vehicle is housed at the World Bank Group. It includes a private-sector window, managed by IFC, that focuses on launching and scaling up high-impact products for small-scale farmers. Working alongside donor partners Canada, the United States and other potential collaborators, IFC will use these funds to extend the private sector's reach, using the grant funds to build up key areas in the food supply chain that are not yet fully commercial.

IFC welcomes new partners in this historic effort. Together, we can open up the new private-financing channels that are essential in addressing food security, reducing poverty and feeding a hungry world. ♦

IFC supports new private-sector approaches that help to increase food production in Africa and other regions



## **Feeding the Soil to Feed the Planet**

OCP is proud to play an important role in feeding a growing global population, by providing essential elements for soil fertility and plant growth. As a leader in the phosphate rock and derivatives market, with 90 years of experience, OCP provides a broad range of well-adapted fertilizer products to enhance the soil, increase agricultural yields, and feed a hungry world sustainably and affordably.

Headquartered in Casablanca, Morocco, OCP works in close partnership with over 130 customers on 5 continents.



# The essential component of social justice is adequate food for all

*Tackling the challenge of food security in Africa requires a shift from focusing on increasing yields to a new emphasis on nutrition. Well-nourished children have the best chance of completing their education and realising their potential*



**By** Jay Naidoo, chair, Global Alliance for Improved Nutrition

**T**he Green Revolution remains one of the most successful drivers of economic development in the 20th century, enabling food production to keep pace with a doubling of global population from three billion in the 1960s to seven billion in 2011. Increases in staple food crop yields tripled during that period, reducing the percentage of malnourished people from 41 per cent in 1960 to 16 per cent in 2000 in Asia alone. Although the Green Revolution is credited with keeping food prices

historically low, the global food system is failing today in two major ways: it is unsustainable and consumes resources faster than can be naturally replenished, and it contributes to extreme poverty, suffering and disease. 'Adequate food for all' must thus include the ability of the food system to nourish and fuel humanity equitably and sustainably. The future of humanity rests on being able to do more with less.

Nearly half the world's population suffers from the effects of a food system that, in an effort to feed a growing

population and meet some societies' demands for a 'richer diet', is shifting global supply towards higher-end markets. This results in an unprecedented new global paradigm. At one end of the spectrum, food insecurity is growing among the most vulnerable, in both low- and middle-income countries, resulting in one billion hungry people. At the other end, one billion people are over-consuming, creating a new public health epidemic in chronic conditions such as type-2 diabetes and cardiovascular disease. Caught in the middle are more than two billion people who face the silent killer of 'hidden hunger' – malnutrition – from not getting enough critical micronutrients to support optimal health and productivity.

Altogether, hunger, malnutrition and over-consumption exact an enormous toll. Malnutrition alone is responsible for 11 per cent of the global disease burden, a third of all childhood deaths and losses of up to three per cent of a country's gross domestic product (GDP) per year. Over-consumption and poor nutrition are an underlying cause of and a risk factor in non-communicable diseases (NCDs), which cause about two-thirds of the world's deaths, with 80 per cent of them in low- and middle-income countries. Economic losses from NCDs are estimated to amount to \$35 trillion between 2005 and 2030. Achieving food security thus requires looking at the broader impact of the food system and pivoting the focus to improving nutritional outcomes to avert this tremendous public health and economic burden.

**A continent seeking self-sufficiency**

This need is most pressing in Africa. It is the only continent that does not grow enough food to nourish itself. Since the Green Revolution, Africa remains the only region where average yields are stagnant and food production per capita has seen a steady decline. Much of this can be explained by changes in rainfall patterns, soil mismanagement, and insufficient investments in infrastructure and water management. Public investment in agricultural water development in sub-Saharan Africa has actually declined over the past two decades. The lack of political will and inadequate investment in natural-resource management is inhibiting Africa from not only becoming self-sufficient, but also burgeoning into the last remaining breadbasket of the world.

Addressing Africa's food security challenge requires a paradigm shift from a narrow focus on increasing yields towards a more comprehensive global food system where the metrics of success are nutritional outcomes. The focus should be on nutrition per acre or nutrition per unit of water (or any other variable that controls food production), rather than on tonnes per hectare or tonnes per litre of water. The goal must be to produce more affordable food of better nutritional quality while using less water per unit of nutrition. Linking the drivers of sustainable agriculture directly to the critical goal of nutrition allows more comprehensive approaches to the big challenges. While improvements in yield contribute to this goal, higher nutritional content of food, a more balanced diet and reductions in waste and spoilage are all additional, often lower-cost, mechanisms to improve the outcome for the same unit of land or water.

Applying this metric to the food system will not only shape Africa's response to food security, but could also address the looming health crisis caused by over- and under-nutrition, climate change and natural-resource management. In addition, by 2020, worsening water security could trigger another global food crisis, causing a shortfall of up to 30 per cent in cereal production. Today, more than a third of the world's population is affected by water scarcity. Climate change is expected to worsen this by increasing the frequency and severity of floods and droughts.

The interdependencies among water, agriculture and health are well understood, but poorly integrated into

comprehensive multi-sector approaches. Water scarcity is one of the biggest limiting factors in the world's ability to feed and sustain its growing population. In Africa, more than 80 per cent of freshwater withdrawals go to agriculture, of which as much as 40 per cent is wasted due to inefficient agricultural practices. It takes approximately one litre of water to produce one calorie of food energy. The basic diet of the poor, predominantly consisting of plant-based staple crops, would require approximately at least 2,000 litres a day. However, diverse diets that include the regular consumption of meat could require as much as 5,000 or more litres per day since, on average, meat requires 10 times the water required per calorie from plants.

**The importance of water security**

Factoring water security into the nutrition-food security paradigm creates a mechanism to redefine goals and metrics to measure sustainable progress towards establishing a food system capable of adequately nourishing a population of nine billion by 2030. Integrating the sectoral goals of health, agriculture and sustainability will promote approaches that preserve that which is most scarce – water – and that which is of greatest public value – the ability of the food system to nourish, fuel and sustain society. In a similar way that



“ All solutions for Africa rest on the ability to ensure that today’s children have a chance to reach their potential ”

The Blue Nile falls, near Bahir Dar in Ethiopia, where a government water collection and irrigation programme has doubled local agricultural yields

the carbon credit system drives market mechanisms and commercial processes in the direction of low emissions, so the agriculture, health and sustainability communities can converge to design a credit system to encourage governments, industry, farmers and consumers to adopt new technologies that maximise yields of nutritional crops per unit of water and measure their success in the amount of nutrition delivered to those who need it. This is a surefire way to ensure quality in the food system and to align investments from both the public and private sectors to maximise and preserve nutrient density, reduce food spoilage and waste, and improve the supply chain.

Over the next 1,000 days, 75 million African children will face the most critical development period of their life – from the womb to age two. Science has proven that a well-nourished child is more likely to complete her or his education, possess a higher IQ and earn up to

46 per cent more over his or her lifetime. In fact, a child’s attained height for age at two years is the single best predictor of human capital.

All solutions for Africa rest on the ability to ensure that today’s children have a chance to reach their full economic potential. Investing in the future of youth by ensuring they are adequately nourished will not only help break the cycle of poverty, but will also empower them with the potential to raise the continent of Africa.

As Nelson Mandela said: “Overcoming poverty is not a task of charity; it is an act of justice. Like slavery and apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings. Sometimes it falls on a generation to be great. You can be that great generation. Let your greatness blossom... There can be no keener revelation of a society’s soul than the way in which it treats its children.” ♦



# Global issues – corporate impact

*Food security and climate change, economic growth and resource scarcity are issues high on the global agenda – issues that cannot be resolved by any single player. Public-private partnership, innovation and investments: concerted approaches must be part of the answer*



**Jørgen Ole Haslestad, president and CEO, Yara, since 2008**

**Y**ara is a global company committed to making an impact. Supplying the world's farming community with vital crop nutrients, contributing to the attainability of global food security, we are engaged in major global issues.

- Food security and climate change are closely interrelated
- Agriculture is part of the solution
- Yara International ASA is a dedicated partner in projects that address these issues

## Food and climate

The defining global issues of food security and climate change are closely interrelated. As the world's leading mineral fertiliser company, we strongly advocate the need to put agriculture on the climate change agenda, and to include farming in major global processes.

Agriculture is a key to food security, poverty alleviation and resolving the climate change issue.

In the face of a growing gap between increased consumption and limited resources, Yara's approach is that of increased food production through improved agricultural productivity achieved in a balanced and responsible way.

Feeding the future without unduly compromising the environment requires investments in innovation and technology transfer – and optimising resource efficiency in a balanced manner.

## Common future

Two decades after the Rio conference, the global challenges remain daunting. By 2050, the world's farmers will have to feed up to nine billion people, without cultivating significantly more land, employing relatively less water, and having to cope with more erratic weather and often less favourable growing conditions due to global warming.

Sustainability is commonly agreed upon as a global necessity. Although considerable progress has been made, there are alarming deficiencies to be observed. Examples are the serious depletion of soil nutrients in large parts of Africa, persistent deforestation and increasing freshwater scarcity – all with agriculture as a common denominator.

Through the G20 Cannes Summit, the COP 17 Durban conference and the RIO+20 event next year, the global community has the opportunity to engage collectively in finding sustainable solutions for our common future: fostering genuine public-private partnerships, driving policy processes at all levels that address both short- and long-term needs, inspiring innovation and inviting sustainable and responsible investments.

## Commitment

The G20 is composed of countries accounting for two-thirds of the world's farmland, producing three-fifths of global grain production. Through the French presidency, the G20 has reinforced its longstanding focus on food security. The 2011 G20 summit will draw a line from the Pittsburgh commitments through the Toronto declaration and the Seoul Summit – drawing attention to the need to close existing agricultural productivity gaps; inviting the private sector to play a critical role.

Yara is a committed, long-term partner in large-scale partnership development, contributing to value creation for our shareholders, our customers and society at large. From the African Green Revolution conferences, the World Summit on Food Security and the World Economic Forum's New Vision for Agriculture to the G20 collaboration – Yara has catalysed dialogue, initiating private-public partnerships as a key intervention.

## Agricultural productivity

The G20, as well as the broader public-private partnerships, have identified a common cause – advocating improved agricultural productivity on a sustainable basis. This is vital to produce enough food – and to help prevent the conversion of forests into farmland. Such conversion leads to massive greenhouse gas emissions. Yara's main contribution consists of crop nutrition, knowledge sharing and technology transfer. Working actively with a range of partners, Yara creates platforms for balanced and responsible agricultural growth.





### Resource efficiency

The G20 commitment to improving resource efficiency resonates deeply with Yara. To utilise scarce natural resources sustainably is at the heart of our strategy. Key resources include land suitable for farming and access to water for irrigation. Yara's knowledge greatly reduces greenhouse gas emissions in fertiliser manufacturing; our crop knowledge enhances input efficiency – increasing yields and reducing emissions, while also playing a key role in water conservation in agriculture.

### Private sector

Yara shares the G20 position on the need to include the private sector, invite public-private partnerships and attract investments. To promote productivity growth, especially in developing countries, investments must be made throughout the entire value chain, not least in infrastructure.

### Creating impact

Yara is determined to create an impact, especially with respect to increasing food security and reducing climate change. In addition to being part of influencing the global agenda towards linking food security and climate change, we have engaged in several major endeavours, including:

### Agricultural growth corridors

We catalysed the establishment of agricultural growth corridors in Mozambique and Tanzania. Based on a multi-sector public-private partnership approach, we are collaborating with a range of stakeholders across the entire value chain to bring sustainable and transformative change to the agricultural sector in those countries. This includes helping to share lessons learnt at a much wider level through events such as the African Green Revolution Forum.

### African Agricultural Growth and Investment Task Force

Launched at the African Union Heads of State meeting in July 2011, this task force is a multi-sector effort of which Yara is a founding member. The goal is to accelerate sustainable growth in agriculture, by way of establishing a coordinating platform that helps African governments increase private-sector investment, partnership and collaboration.

### Greening Sahara

Yara has committed to support the Sahara Forest Project, aiming for restorative growth through the profitable conversion of sunlight, CO<sub>2</sub>, deserts and seawater into food, water, electricity and biomass, offering immense potential.

### Carbon footprint guarantee

Yara has launched the world's first carbon footprint certificate for mineral fertilisers. Our contribution to climate-smart agriculture helps the farming sector minimise its greenhouse gas emissions, making an impact on global warming while ensuring high yields.

### N<sub>2</sub>O catalyst

Yara has developed and implemented an innovative catalyst technology. Our solution can reduce emissions of N<sub>2</sub>O from nitric acid production by up to 90 per cent, making a significant impact on greenhouse gas emissions.





Worldwide farmers speak up  
June 16 and 17, 2011 Paris

Over the past four years, increased food demand, climate and sanitary hazards and financial speculation have all led to volatility and price fluctuations for agricultural products, which have been devastating for producers and consumers alike. That is to say nothing of hunger or of the extreme poverty suffered by farmers.

As the current holder of the G20 Presidency, France placed the issue of agricultural commodity price volatility on the agenda for the summit in Cannes. Together with farmers from all over the world, we are pleased to see this situation finally being taken into account. This is what we called for at the G120 on 16th and 17th June in Paris. 240 people representing 120 agricultural organisations from 75 countries called on the G20 leaders to remember that agriculture's primary purpose is to feed populations and that the 21st century's food challenge requires increases in production quality and quantity. These representatives also called on leaders to: highlight the need for transparency and information on global markets and stocks; to encourage the international organisations involved to set market and position-taking rules for agricultural commodities with the aim of reducing excessive speculation; to foster the creation and development of regional, national and local agricultural policies together with representatives from agricultural organisations; to limit the disappearance of land used for farming as well as cross-border appropriation of productive land and to ensure that farmers' access to land is maintained.

A few days later, the Ministers for Agriculture of the G20, who met in Paris, issued an "Action Plan on Food Price Volatility and Agriculture" which will be put to the G20 leaders at their summit in November. It called for more regulation, greater transparency, improved international political coordination, increased productivity, commitments for maximum food security, the right to safe, sufficient and nutritious food, the development of risk

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**Professional agricultural organisations will strive to ensure these commitments are implemented in a way that benefits both farmers and consumers**

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management tools, improvements to the functioning of derivatives markets for commodities, promotion of innovation, etc.

These commitments are promises and conditions that ensure that it remains possible to farm in all parts of the world and professional agricultural organisations will strive to assure that they are implemented in a way that benefits both farmers and consumers.

We want to believe in this.

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[www.fnsea.fr](http://www.fnsea.fr)



Amazon jungle in Mato Grosso State, one of Brazil's biggest areas for deforestation. Rio+20 is a chance to reshape environmental organisations in line with today's realities and demands

# Climate challenges need a joint response at Rio+20

*Next year's 20th anniversary summit is a timely opportunity for the world to consider a central environment policy framework. The G20 members must show leadership and willingness if sustainable development is to be a realistic prospect*

**By** Achim Steiner, UN under-secretary general and executive director, UN Environment Programme

**T**he G20 Cannes Summit comes seven months before Rio+20, in Brazil in June 2012. Almost 20 years ago – at the 1992 Earth Summit in Rio – world leaders, notably the then French president François Mitterrand, laid the foundations for sustainable development, including three landmark treaties on biodiversity, climate change and desertification.

The question is, can next year's United Nations conference on sustainable development match – and indeed surpass – the Earth Summit while transforming the promises of a previous generation of leaders into a fully implemented programme of sustainable development?

One thing is clear, Rio+20 is going to take place at a time when there is a consensus on the need to rethink the global economy and to re-envision the instruments that are required in order to respond to persisting issues and to address new ones.

The conference also offers an opportunity to reform, retool and refocus the global institutions inherited from the last century in order to ensure that they reflect the needs, geopolitics and demands of the current one.

Much of the debate among G20 members will focus on the theme of a green economy, in the context of sustainable development and poverty eradication.

Another key theme at Rio+20 will be that of an institutional framework in the context of sustainable development – not least as a result of France's initiatives to reform international environmental governance.

## **A question of timing**

Why is the time particularly appropriate for this issue? In 2012, the United Nations Environment Programme (UNEP) will be 40 years old.

Since the 1972 Stockholm Conference – and as a result of the Earth Summit – more than 500 multilateral

environmental agreements (MEAs) have been negotiated. These cover such diverse topics as the trade in endangered species, hazardous waste and protecting the ozone layer – resulting in the Kyoto Protocol. Environmental issues are now incorporated into the work of more than 40 international organisations.

But there is another side to these success stories. Those MEAs have become an administrative burden for many developing countries, stretching limited financial and human resources. From 1992 to 2007, 540 meetings were held for 18 major MEAs, at which 5,084 decisions were taken.

There is also much duplication of effort and fragmentation of purpose. By dealing with symptom upon symptom, challenges appear to have been addressed whereas, in fact, root causes and root solutions have been masked. This approach has also stifled the prospect of a more synergistic and effective approach.

Today's global population of nearly seven billion will surpass the nine billion mark by 2050. Many scientists estimate that a global temperature rise of 4°C by mid-century may occur as a result of rising greenhouse gas emissions – double what many experts regard as the acceptable threshold to prevent damage from climate change.

According to *The Economics of Ecosystems and Biodiversity Report*, an initiative hosted by UNEP, loss of ecosystem services from forests alone may exceed \$4 trillion a year. Also, resource consumption may cause current rates to triple by 2050 – an unsustainable level by any account.

The current management regime is thus failing this generation's search for sustainable development and will certainly short-change the next, unless a more effective, stronger, coherent, focused governance system can be established.

The Rio+20 theme of an institutional framework for sustainable development rests on three pillars: international environmental governance, and economic and social elements. However, many believe that the environmental side remains the weakest pillar of the edifice as it stands.

### Deciding on a new organisation

The key question is not just whether a global organisation for the environment is needed, but how it would be configured and what it might do that would prove to be transformative. Such an organisation would require the authority to allow environment ministers to achieve some parity and equity with their economic and social counterparts. UNEP's governing council meets annually, but the decisions taken by environment ministers are referred to the UN General Assembly in New York, where they can be agreed upon or dismissed.

A body with the kind of decision-making authority of the World Trade Organization (WTO) – or a specialised agency such as the World Health Organization – could remedy this disconnect between ambition and reality.

An anchor institution could provide authoritative policy guidance to MEAs in order to address fragmentation and build a more strategic direction to bring together all the distinct parts of the current environment corpus. Such a strengthened body could also confront the issue of financing. Currently decisions on allocating funds for the environment are often taken in parallel forums, such as the Global Environment Facility.

Meanwhile, the lack of a central and anchoring policy framework leads to increased costs, inefficient targeting of scarce financial resources and curtailed consequences for achieving sustainability. Moreover, the world invests significant time, skill and capacity in negotiating treaties, targets and timetables but far less in actually implementing them. Any new structure must therefore address this gap by having a dedicated implementation arm to financially support and build the capacity of developing countries to meet their commitments regionally and nationally.

Other important elements include building accountability into environmental agreements and decisions, backed up by peer review and review mechanisms. The African Union, the WTO and the Human Rights Council offer examples of how this could be done.

### Building scientific capacity

Finally, sound science underpins sound policymaking, but too often the wealth of scientific knowledge available to governments is unfiltered or unfit for cooperative decision-making. A comprehensive science-policy interface that spans the full range of environmental challenges and sectors and that can build scientific capacity in developing countries is another key link in this forward-looking governance debate.

So, there is near-universal consensus on the need for reform of international environmental governance. But the specific proposal and level of ambition remain subject to debate. Yet some options and elements of how that reform might be shaped have emerged – including perhaps the World Environment Organisation and UNEP.

Nevertheless, despite the growing consensus, there remains some hesitation, both with regard to the green economy agenda and to the question of an international environment organisation. Indeed, some developing

 Rio+20 is an extraordinary moment in international affairs when not only the challenges, but also the opportunities, of the new century are becoming ever clearer 

economies are concerned that these two directions could be used by developed economies in order to erect 'green' barriers to trade.

There is clearly a need to manage any such potential risks and bring clarity rather than suspicion. Rio+20 is an extraordinary moment in international, planetary affairs when the challenges, but also the opportunities, of the new century are becoming ever clearer.

The world knows enough today about what works and what needs to be fixed. Whether the world's 190-plus nation-states can collectively set aside the politics of suspicion in favour of the politics of shared, supportive and reformative action remains to be seen. However, there are strong indications that many countries are keenly aware of the link between environmental sustainability and economic and social stability. They are equally keenly committed to reforming how the planet is managed in order to achieve transformative and sustainable change.

At the end of the day, any summit needs to craft a deal – with enough for everyone to deem it worthwhile. Political leadership and engagement at the highest level will determine whether Rio can deliver this time around: the G20 members have an important role to play in setting the milestones on the road to Rio in June 2012. ♦

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# Trina Solar: sunny skies

*As the world's first Global Growth Company Industry Shaper in the solar sector recognised by the World Economic Forum, Trina Solar Limited has a long, illustrious and ongoing history as a solar photovoltaic pioneer*

An internationally recognised manufacturer of mono and multicrystalline photovoltaic (PV) modules, publicly traded Trina Solar has morphed into an industry bellwether since its founding in 1997. Trina Solar's high-quality PV modules provide clean, dependable solar electric power to on-grid and off-grid residential, commercial, industrial and utility-scale applications around the world.

Based in Changzhou, China, Trina Solar has attracted investors ranging from Milestones Capital to Merrill Lynch, and has sales and marketing offices, and installation partners, throughout Asia, Europe and North America. The company is committed to improving the competitiveness and efficiency of solar energy en route to leading the way towards developing a sustainable global PV industry.

The company's performance has been exemplary. According to the 2011 global PV industry sustainable growth index report, Trina Solar ranked in first place worldwide. In a separate survey, the Solar Scorecard 2011 world ranking for PV Manufacturers' Toxics Coalition, which measures product recycling, green job creation and corporate transparency, named Trina Solar #2. In the context of its membership in the

Global Growth Company Community, Trina Solar looks forward to sharing its practices of green growth and sustainability across a broader international platform.

Trina Solar researches, develops and manufactures its ingots, wafers, cells and solar modules at its facilities in Changzhou, which it then sells in major PV markets worldwide, including Germany, Italy, the United States, France and Japan. Trina Solar also targets emerging PV markets, such as Israel, Malaysia, India and Australia. The company has been growing steadily, evidenced by its construction of China's first PV model house, 40 standalone PV power stations in Tibet, and China's largest-ever solar project – the 20KW PV power station in Jiangsu province.

According to Jeffrey Fan, Trina Solar's Director of Corporate Communications, the company's vertically integrated business model has established an industry benchmark. The company has evolved beyond a traditional "Smile Curve" – which focuses on original equipment manufacturers (OEM), while other players along the value chain control branding and technological innovation – by adopting instead a "Rainbow Curve," which combines superlative research and development, world-class, high-quality, low-cost manufacturing and global branding under



Among Trina Solar's most recent prestigious projects was the provision of solar panels for Belgium's pavilion at the 2010 Shanghai Expo



## Trina Solar's "Rainbow Curve" allows the company to continuously ensure high-quality products and processes along the entire integrated value chain, while maintaining one of the lowest cost structures in the industry

one roof. By combining ingots, wafers, cells and modules on one campus, this pioneering Rainbow Curve allows Trina Solar to continuously ensure high-quality products and processes along the entire integrated value chain, while maintaining one of the lowest cost structures in the industry. Moreover, the company has roughly 150 patents for technical innovations, including producing silicon ingots and wafers by using a portion of reclaimable silicon raw materials, to reduce the reliance on polysilicon.

Today, Trina Solar's growing global presence has expanded to include offices in Zurich, Madrid, Munich, Milan, San José, Seoul, Tokyo, Sydney, Beijing and Shanghai. Trina Solar has long-term partnerships with leading equipment suppliers in Switzerland, Italy, Germany and the United States, which provide cutting-edge equipment with the latest technology for the company's high-quality production facilities. Just last year, says Jeffrey Fan, the company provided solar panels to the Belgium Pavilion on behalf of the 2010 Shanghai Expo and, as part of the United Nations (UN) Millennium Development Goals, teamed up with UN Environment Programme and the Earth Institute at Columbia University to provide off-grid solar systems to African countries

that are lacking grids and are badly in need of electricity. In the company's 2010 fourth-quarter report, Trina Solar reported sales of 1.06 gigawatts, with net revenues of US\$1.857 billion.

In its own backyard, Trina Solar has devoted significant time and resources to dramatically reducing both electricity consumption and pollution caused by its own manufacturing processes, and installed anti-pollution equipment at facilities around the globe to reduce, treat and recycle manufacturing waste.

Innovative, passionate, responsible, as well as committed to further reducing costs by innovating integrative system solutions along the value chain to downstream businesses, it is no coincidence that Trina Solar's logo comprises two colours: blue, representing the sky, and a red dot, mirroring the vast energy of the sun. "Trina", after all, is a transliteration of the original Chinese name 天合 (TianHe). 天 means "sky", or "heavens", while 合 means "combine harmoniously".

Going forward, Trina Solar's continuing mission is to leverage advanced photovoltaic technology to keep bringing the sky's most abundant resource, the sun, to customers around the world in the form of clean, reliable solar electricity.



[www.trinasolar.com](http://www.trinasolar.com)

# A low-carbon economy: the focus of China's 12th Five-Year Plan

*China's rapid development in recent years has placed a strain on its environment and resources. As the country aims to extend the economic benefits to all, it is also making plans to reduce harmful emissions and tap into alternative energy sources*

**By** Xu Ting, School of International Relations, University of International Business and Economics, Beijing

In recent years, energy shortages, environmental pollution and climate change have become the focus of the international community. Countries all around the world are trying to develop low-carbon economies with low energy consumption, and to achieve sustainable development.

China has recently experienced rapid economic growth, which has exerted much pressure on its resources and environment. With a per capita gross domestic product (GDP) of \$3,700, ranking it around 100th in the world, it remains the world's largest developing country. According to the United Nations, 150 million people in China still live below the poverty line. The country needs to develop its economy and improve people's livelihoods and living standards while also addressing climate change, controlling greenhouse gas emissions and improving its capacity to adapt. "As a developing country, both development and emissions reduction are priorities," says Xie Zhenhua, deputy director of the National Development and Reform Commission. "Therefore, low-carbon development is the only solution."

There is much attention in China on creating a low-carbon economy and sustainable development, especially as the world struggles to recover from the 2008 financial crisis. The current trend of economic growth will lead to a huge consumption of global energy resources and will degrade the environment further. Developing countries are undergoing rapid industrialisation and urbanisation. However, subject to its level of development and technological constraints, China depends heavily on traditional energy resources, and this increases pressure on both the environment and energy prices.

## Defining a low-carbon city

According to the World Wide Fund for Nature (WWF), a low-carbon city is one that maintains a rapid rate of economic development while keeping its energy consumption and carbon dioxide emissions comparatively low. Thus, 'low carbon' includes two parts: energy conservation and emissions reduction on the one hand, and, on the other, renewable energy – which means that steps taken to conserve energy will continue to be implemented, and efforts to increase the use of renewable energy and adjust the energy structure will speed up. China is shifting its focus from the energy conservation described in the 11th Five-Year Plan to the low-carbon economy in the 12th Five-Year Plan.

The 11th Five-Year Plan set two targets for energy conservation and emissions reduction: decreasing GDP energy consumption by 20 per cent and decreasing total emissions of major pollutants by 10 per cent. To achieve these goals, policies and regulations on energy-saving and emissions reduction from central and local governments have been put in place and integrated into the evaluation system of local government and businesses.

By the end of 2006, the first *National Assessment Report on Climate Change* was issued by the Ministry of Science, Development and Reform Commission and six other ministries. It was the first time that the development of a low-carbon economy to address climate change was proposed. 'Green' and 'low-carbon' standards were in effect during preparations for the 2008 Beijing Olympics and during the Games themselves. In August 2009, the 'Renewable Energy Law Amendment' was submitted to the standing committee of the National People's Congress (NPC). One month later, President Hu Jintao announced China's stand and its Climate Change Action Plan at the United Nations Copenhagen conference.

China will develop low-carbon technology to transform traditional industries

On 27 August 2009 the NPC Standing Committee adopted the resolution 'Tackling Climate Change', which highlighted the development of a green and low-carbon economy. Various levels of government are strengthening their support through their budget arrangements.

In addition to local- and central-government policy support, the market for a low-carbon economy has also been established. The Beijing Environment Exchange, the Shanghai Energy and Environment Exchange, and the Tianjin Climate Exchange have been created. *Research on China's Introduction of a Carbon Tax*, a report produced



by the Ministry of Finance, recommended that China introduces a carbon tax within five years. The use of such economic tools should be increased to enhance energy conservation, extend environmental protection and help make the transition to low carbon through pricing, taxation and fiscal policy. The 12th Five-Year Plan promotes the use of market mechanisms and economic instruments to achieve the goal of a low-carbon economy.

The Comprehensive Energy Conservation Programme for the 12th Five-Year Plan, detailed energy-saving targets and the total emissions control programme were agreed upon in principle at a meeting on 19 July 2011, chaired by Premier Wen Jiabao, leader of the National Group in Response to Climate Change and Energy Conservation. The report covers key areas of energy conservation, including enhancing industrial production capacity and eliminating backward production capacity, as well as those in the 12th Five-Year Plan: adjusting and optimising the industrial sector, implementing key projects on energy conservation, promoting the use of advanced technologies, strengthening energy management, and improving energy conservation and efficiency, production and market mechanisms.

Technological innovation is key to coping with climate change. During its 12th Five-Year Plan, China will develop low-carbon technology to transform traditional industries

and will implement energy conservation in industry, construction, transportation and other fields. The plan's climate change objectives will be integrated energy consumption per unit of GDP, carbon-emissions intensity, the proportion of renewable energy and forest carbon sinks.

#### Upgrading industry

The key to significantly reducing the energy intensity and carbon intensity per unit of GDP is building industrial systems and consumption patterns based on low-carbon emissions. To achieve this, Qinghua University's Low-Carbon Economy Institute recommends, first, upgrading the technology used in traditional industries, speeding up the transformation of those industries by using high technology and improving energy efficiency.

Second, it recommends strategically adjusting the whole industrial structure, developing new low-carbon industries, such as hi-tech industries and modern services, and optimising the industrial structure. Third, it suggests developing new and renewable sources of energy, reducing the proportion of fossil energy and protecting the energy supply while reducing carbon dioxide emissions. Fourth, it recommends regulating public consumption, changing consumption styles, and encouraging business as well as individuals to participate actively. ♦

A woman cycles past a coal-burning power station in Beijing. China is working to reduce its dependence on fossil fuels as its industrial development continues apace

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Fifth leading region in terms of GDP.



< The world's largest liners are built in Saint-Nazaire, where the whole network is working on developing environmentally friendly vessels as part of the Sustainable Ship Design project.



< The Arronax cyclotron is a unique piece of technical equipment and a formidable tool in the fight against cancer.

# IEA and G20: cooperation across the spectrum of energy challenges

*The International Energy Authority has been working closely with the G20, not only on the core mission of fostering energy security, but also on tackling the key problems of price volatility and lack of access to modern energy services*

By Maria van der Hoeven, executive director, International Energy Agency

Since the 2010 G20 Seoul Summit, the world has witnessed the Arab Spring, the Fukushima disaster in Japan and continued uncertainty in global financial markets. These events have had repercussions in the energy sector, underscoring the core mission of the International Energy Agency (IEA) – to foster energy security – but also highlighting other crucial energy challenges that can no longer be ignored.

Among these, two deserve special attention: continued price volatility in energy markets and inadequate access to modern energy services in many countries. The IEA has undertaken extensive work in both areas to identify the steps needed to overcome these challenges.

## Tackling price volatility

Prices for oil, as those for many other commodities, are inherently volatile – and volatility itself varies over time. The oil market has recently been characterised by rising, and at times rapidly fluctuating, price levels. After relative stability in 2010, in the following 10 months crude oil prices have fluctuated from \$75 to \$125 per barrel. Natural gas and coal prices have also fluctuated widely. At the same time, the past decade has witnessed an explosive growth in the trading of financial derivatives of energy products, as well as financial investment in commodity indices – especially in oil, but increasingly in gas and coal as well.

The apparent increase in the volatility of oil prices in 2008-09, coupled with increasing financial participation, raises questions about what determines volatility in energy commodity markets. Since energy commodities generally have highly inelastic supply and demand curves, at least in the short run, neither supply nor demand initially responds much to price changes. Therefore, any shock will lead to large changes in energy prices. According to IEA analysis, industry-specific or macroeconomic shocks to supply-demand fundamentals drive price volatility.

The IEA has participated in the G20's efforts on oil, gas and coal market volatility. Work on volatility in commodity markets was submitted to the G20 in July 2011, and the report on gas and coal volatility will be submitted to the G20 in October. Furthermore, the IEA hosted a seminar last spring on the 'financialisation' of commodities and recent regulatory changes affecting over-the-counter energy markets. The second IEA-IEF-OPEC Symposium on Physical and Financial Markets is in Vienna in November

2011, organised under the IEA's joint programme with the International Energy Forum (IEF) and the Organization of Petroleum Exporting Countries (OPEC).

The workshop, dedicated to 'Functioning and Regulation of the Physical and Financial Energy Markets', will build on the insights gained from the programme's first workshop. It will examine the functioning of physical and financial energy markets, price reporting agencies, and the impact of physical and financial markets on petroleum prices and volatility. It will also explore future expectations on oil prices and volatility, assess the impact of new regulatory reforms on energy markets, and look at the role of physical and financial market data transparency. The final joint report on price-reporting agencies, with the additional participation of the International Organization of Securities Commissions (IOSCO), was submitted to the G20 finance ministers' meeting in October 2011.

In addition, the IEA has increased coverage of derivatives markets and the cross-linkages between financial and economic factors and oil prices, in its regular *Oil Market Report*.

Preliminary results suggest financial derivatives markets play a negligible role in fostering energy price volatility. On the contrary, transparent, well-regulated derivatives markets are beneficial in enabling risk transfer and efficient pricing.

## Ensuring access to energy

Price volatility affects countries both rich and poor. But while many developed countries are concerned primarily with energy security or decarbonising their energy mix, many others still seek to secure enough energy to meet their citizens' basic human needs. More than 1.4 billion people (over 20 per cent of the global population) have no access to electricity, while 2.7 billion people (40 per cent of the global population) are without clean cooking facilities. More than 95 per cent of these people are in sub-Saharan Africa and developing Asia, and 85 per cent are in rural areas. This situation will change very little over the next 20 years. Indeed, it will deteriorate unless much greater action is taken.

Lack of access to modern forms of energy goes hand in hand with a lack of clean water, sanitation and healthcare. It also represents a major barrier to economic development and prosperity. Without electricity, it is difficult to participate in the modern world economic system.



Addressing these inequities depends upon international commitment to effect the necessary change by setting targets and indicators to monitor progress.

Through its *World Energy Outlook* publication, the IEA has focused on gaps in modern energy access for more than a decade, providing independent quantitative analysis. The 2011 edition tackles financing – a critical issue for delivering universal modern energy access.

“ The public sector must provide a supportive investment climate by implementing strong regulatory reforms ”

To provide universal energy access by 2030, an average investment of almost \$50 billion per year is needed – more than five times the level in 2009. While the relative increase in investment is large, it remains a small share of global annual investment in the power-generation sector, reaching only five per cent of the level projected by 2030. The resulting increase in energy demand and carbon dioxide emissions would be modest. In 2030, global energy demand would rise by just 1.2 per cent and carbon dioxide emissions would be only 0.8 per cent higher, compared with the IEA's baseline scenario.

The barriers to universal modern energy access are significant, but surmountable. Actions must confront

Guarding the petrol depot of a French oil refinery. Price volatility affects both rich and poor countries

specific issues, such as the need for detailed energy statistics on both supply and demand and the lack of funding; as well as broader factors, such as developing appropriate local conditions to provide investor confidence, including capacity-building and regulatory frameworks. The increase in financing required to achieve universal access is large relative to current levels, and requires additional funding from all major existing sources. The public sector must provide a supportive investment climate where private actors are willing to operate, by implementing strong governance and regulatory reforms. The public sector, including donors, must also use its tools to leverage private sector investment where the commercial case is marginal, such as through loan guarantees. Its own investment should concentrate on areas where the commercial case is weak, but the public case is clear.

Fortunately, momentum is increasing on both energy access and energy price volatility. Today's international agenda offers several opportunities to take further action. The declaration by the United Nations of 2012 as the 'International Year of Sustainable Energy for All' is an important opportunity that must not be missed. The Energy for All Conference in Norway in October 2011 provided a strategic platform to discuss the link between energy access and development. Both will be key issues at the United Nations Conference on Sustainable Development – Rio+20 – in Brazil in June 2012. As for commodity price volatility, the G20 Cannes Summit will highlight this issue, which is a major concern for developed countries seeking stable economic growth – but, indeed, also essential to stable, widespread access to such commodities in the least-developed economies.

The IEA's work with the G20 thus spans the spectrum, from analysing price volatility as it plays out in major financial centres to ensuring the provision of most basic energy necessities to billions of poor around the world. It is a partnership that continues to yield widespread results. ♦



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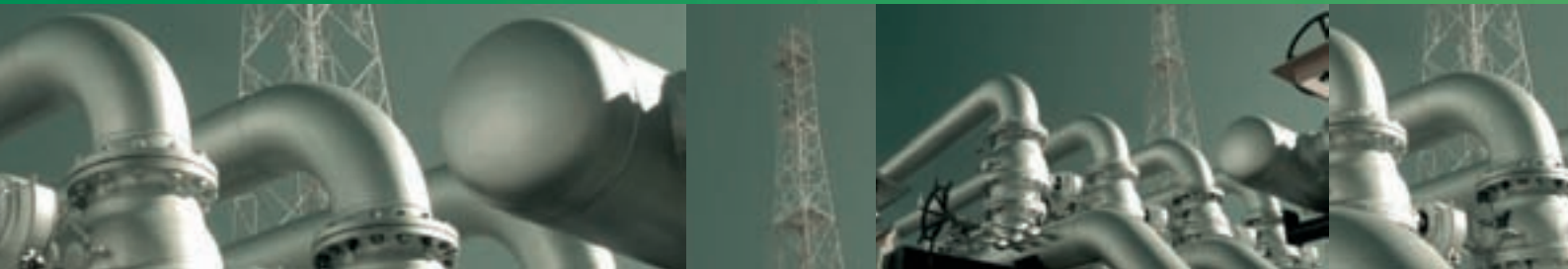
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# A strategic approach towards sustainable development

*Raízen, a recently created joint venture between Shell and Cosan, the world's largest sugarcane producer, strategically furthers the sustainability actions of its founders. The key element in this strategy is a Sustainable Development Compass that will minimise uncertainties along the way*

**R**aízen was born in 2011, with the mission to offer solutions in sustainable energy and to provide a relevant contribution to society. With 24 sugar and ethanol mills, Raízen manages more than 700,000 hectares, has a distribution capacity of 21 billion litres per year and over 40,000 employees. It is the fifth largest Brazilian corporation and generates enough electricity to supply a city the size of Rio de Janeiro. With such figures, Raízen has the responsibility of being effective in its sustainable development strategy.

There is no question that sugarcane-based ethanol is an excellent fuel, because of both its environmental benefits and the way it requires only small adjustments to fit the current transportation system infrastructure. But, in itself, does producing an environmentally beneficial fuel through good practices make a company sustainable? Not necessarily.

## The conditions for a healthy environment encompass preventing pollution, preventing the destruction of ecosystems, and respecting human rights and needs

Any sound sustainability strategy must inevitably deal with two major agendas: (1) the overall conditions for humanity to perpetually experience good quality of life, and (2) the particular conditions that will result in a long-lasting organisation placed within the larger environment. The challenge is merging the two while respecting each one's non-negotiable elements.

The first agenda demands compliance with a set of scientifically robust environmental and social principles. These overarching necessary conditions for a healthy natural and social environment encompass: preventing pollution in all its forms; preventing physical destruction of ecosystems; and respecting human rights and needs. Society can be sustainable only when it complies with these conditions.



The other agenda refers to the particular strategic conditions any company must design and implement in order to sustain itself within its environment. The non-negotiable factor here is profit: a private company must be profitable.

Regardless of how good its strategy is, an organisation can be long-lasting only if the larger environment remains so.

Over the long run, performing outstandingly in the second agenda,

but not in the first one, would be the

equivalent of building a solid construction on top of foundations made of clay. Profits cannot last if foundations collapse.

The strategic approach Raízen is implementing – and recommending – is to adopt long-term guidelines based on the first agenda. With this Sustainable Development Compass, every move impels the company towards compliance with overarching sustainability principles. And while moving forward, every step must be strategic businesswise, which in itself brings the whole value chain along.

We at Raízen are concerned with the state of the planet. At the same time, we have the goal of being profitable by contributing to society with sustainable energy and, in doing so, generating a better future.

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# The time has come for a G20 energy task force

*The current collection of institutions involved in coordinating energy governance around the world is outdated. The G20 can take the lead in developing a modern and coherent strategy for a sustainable energy future that benefits everybody*

By Dries Lesage,  
Ghent Institute  
for International  
Studies, Ghent  
University

In today's world, energy cooperation is characterised by a hodgepodge of overlapping institutions, weak international regimes and remaining governance gaps. Unlike other complex issue areas such as trade, financial stability or health – led by the World Trade Organization, the International Monetary Fund and the World Health Organisation, respectively – energy has no universal institution that can serve as *primus inter pares* for governance coordination and reliable statistics. True, the United Nations has created the inter-secretariat structure UN Energy to coordinate its own energy activities, but observers agree that this is a far cry from the idea of a genuine 'World Energy Organisation'.

Several energy issues are clearly beyond the competence of UN agencies. With its broader scope, huge expertise and outreach activities to emerging economies, the Paris-based International Energy Agency (IEA) comes closest. But it only accepts countries in the Organisation for Economic Co-operation and Development (OECD) as members, and has hardly any competence with regard to issues such as the development-energy nexus or nuclear energy, for which other institutions are better placed.

## Interconnected energy issues

The current institutional fragmentation does not necessarily mean the end of the world. On the contrary, the existing variety of energy issues requires flexible and specialised institutional responses, rather than one new, big bureaucracy. However, Earth, with its integrated world economy and integrated eco-system, also faces an integrated energy problem. What is more, most energy issues are interconnected: they have important ramifications for other policy areas, such as development, climate, security, trade, finance and food. By consequence, a political body is needed to provide oversight, manage the interplay among relevant policy areas, resolve conflicts and detect governance gaps. That body should have the resources, authority and vision to develop a coherent strategy for a sustainable global energy future.

At its summits at Gleneagles in 2005 and St Petersburg in 2006, the G8 was the first high-level body to embark on such an effort. This resulted in some initiatives for energy efficiency, cleaner energy and technological collaboration, as well as a coherent set of 'Global Energy Security Principles' covering values such as transparency and market principles, the need to diversify the energy mix, environmental sustainability and development concerns. G8 summitry was also instrumental in boosting IEA activity on energy efficiency and cleaner energy, and in reaching out to key emerging economies.

The G8's energy work looked very promising at the outset, especially with regard to global coordination. Unfortunately, in later years, high-level attention for energy governance waned. Perhaps the G8, wrongly, thought that after delegating much of its agenda to the IEA, its coordination job was done. With the recent advent of G20 summitry, the question became to what extent the G8's energy agenda would migrate to this larger group, and whether the latter would adopt the former's energy *acquis*.

The G20 summit in Pittsburgh in September 2009 only "took note" of the G8's St Petersburg principles, and chose to focus on just a few new initiatives. Since then, the G20 has undertaken efforts to curb excessive volatility in oil prices and enhance transparency in oil markets, later to expand to the gas trade. A key element in this exercise is the improvement of the Joint Organisations Data Initiative (JODI Oil). Another important project is the phasing-out of fossil-fuel subsidies, which now contribute massively to global warming and cost the governments of developing countries' billions of dollars a year.

“The existing variety of energy issues requires flexible and specialised institutional responses, rather than one new, big bureaucracy”

Progress on this front would support both climate policy and fiscal consolidation. This, however, cannot go without "providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms", as the leaders declared at Pittsburgh. For the initiatives mentioned above, the G20 works with multilateral institutions such as the OECD, the IEA, the Organisation of Petroleum Exporting Countries and the International Organisation of Securities Commissions.

In 2010, following the oil spill in the Gulf of Mexico, Russia and others added global marine environment protection to the G20's energy agenda. Finally, a working group focuses on clean energy and energy efficiency.

*Mano Yaheer  
for eni*

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It is expected to work with the Clean Energy Ministerial, a multilateral US initiative that resulted from the Copenhagen climate conference in 2009 and will report to the G20 summit in Cannes.

The world can also hope that, after the Fukushima catastrophe in March 2011, the G20 will produce a political roadmap to strengthen international regulation and oversight for nuclear safety – an unacceptable weak spot in global governance. Given the gloomy prospects for the nuclear stress tests in Europe and safety assessments elsewhere, it should also refrain from promoting nuclear energy as a solution to climate change.

Although the ongoing initiatives are extremely valuable and address real governance weaknesses and gaps, the G20 does not act as a genuine political steering committee for the fragmented field of global energy governance in general. Still, it represents more than 75 per cent of the world's energy consumption and more than 80 per cent of all carbon dioxide emissions. With members such as Russia, Saudi Arabia and Canada, the G20 is also relevant for production, but the global sustainable energy agenda should be mainly consumer-driven. As energy is a very strategic issue, governments

Workers in China install a high-voltage electricity pylon. Better international cooperation on energy can bring greater efficiencies and aid efforts in tackling climate change

might prefer an informal country grouping, rather than an official multilateral institution for coordination. The G20 is sufficiently representative and flexible to assume leadership, provided that the least-developed countries are also directly involved.

#### **Providing policy coherence**

A G20 energy task force is now needed to do the overall strategic thinking on global energy governance. Nobody else will do it. The aim is not to substitute the good work already being done, or to undermine more inclusive, rules-based multilateralism, but to contribute to policy coherence and provide political stimuli on behalf of countries that bear a great responsibility for the world's energy problems.

Visionary energy experts from member countries could call on a wide array of international institutions for assistance, including the International Atomic Energy Agency, the International Renewable Energy Agency and the World Bank. One possibility is a standing, but flexible, network of officials from the G20 and multilateral institutions, comparable to the Financial Stability Board. Ambitious institutional innovation is badly needed, because the future of this planet and its people depend on it. ♦



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Ministry of  
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# The role of electricity transmission systems in energy policy goals

*Greater interconnectivity between cities and countries can provide the answer to reducing the cost and improving the reliability of electricity supplies, as well as bringing into the equation renewable energy sources in remote regions*

**By** Daniel Dobbeni, CEO, Elia Group, and president, European Network of Transmission System Operators for Electricity (ENTSO-E), and Konstantin Staschus, secretary general, ENTSO-E

**E**nergy has always been a prerequisite for human development and well-being. For electricity, the added value often far exceeds its cost (as with, for example, lighting, medical, communications systems and media).

Electricity is the most flexible form of energy that humans use. It can be generated from many different primary sources of energy, including coal, oil, gas, nuclear, hydro, biomass, sunshine, wind and geothermal. It can be used for almost all energy applications. Many of the examples used to illustrate how central energy is to human needs involve electricity. Even for heating and road transport, electricity is more efficient than fossil fuels, using heat pumps and electric or plug-in hybrid cars. Worldwide electricity demand is thus forecast to keep growing, at spectacular rates near 10 per cent per year in some emerging economies, and at up to five per cent per year in most members of the Organisation for Economic Co-operation and Development (OECD).

## Economies of interconnection

Although electricity can be generated locally for local use, the economics and security of supply provide strong reasons for interconnecting cities and countries through high-capacity transmission lines. Savings come from market integration – always using the least expensive resource available to serve loads – and from savings in sharing reserve-generation capacities. A large, interconnected system needs proportionally much less reserve-generation capacity than a small island

Transmission capacity must expand in order to serve load growth reliably, especially in emerging economies

system, reducing cost and increasing reliability. A large interconnected system is critical to renewable energy sources such as hydro, wind and solar energy, which are often best available in remote regions. Their daily and seasonally fluctuating output also requires transmission lines to connect windy areas, sunny areas and mountainous areas where storage hydro plants are crucial for balancing generation with demand.

Transmission capacity therefore must grow rapidly all over the world. It must expand in order to serve load growth reliably, especially in emerging economies. It is needed to integrate large amounts of renewable energy sources into the power system and to bring power from new power plants to the cities via a reliable, meshed grid. It must also grow so electricity markets can be integrated on a continental scale to reduce costs and improve the security of supply.

## Renewable energy integration

The integration of renewable energy sources has become a key driver worldwide. In Europe, the European Union's Renewable Energy Directive legislates rapid growth to enable renewable sources to supply 20 per cent of Europe's energy needs by 2020. The National Renewable Energy Action Plans of the EU's 27 members show that wind energy will grow by 150 per cent – from 85 gigawatts (GW) in 2010 to 213 GW in 2020 – and solar by 250 per cent – from 26 GW to 91 GW, compared to 809 GW installed capacity overall in 2010 in the EU.

But regardless of laws, renewable energy sources will grow worldwide because they help reduce greenhouse gas emissions and are poised to become competitive with other sources. Already onshore wind energy in good sites is almost competitive with traditional coal- or gas-fired generation. Photovoltaic panels (PV) have seen cost reductions of around 22 per cent each time worldwide production capacity has doubled over the last years, with technological and manufacturing efficiencies predicted to continue this downward trend. The European Photovoltaic Industry Association forecasts PV grid parity in southern Europe before 2015 and near competitiveness with conventional generation before 2020. With grid parity, investments by household and business depend less on government support. PV take-up could even grow into quantities difficult to balance with demand.

Nighttime in central Tokyo. Global electricity demand is rising by as much as 10 per cent per year in some countries



# Empowering a Clean Energy Future Must Start Today

*The energy crisis is no longer a national or a local problem; it afflicts all of us globally. Climate change is affecting our daily lives, and with a quarter of the world's population in developing countries lacking access to basic electricity, the problem cannot be a back-burner issue anymore.*

UNDOUBTEDLY, MORE THAN EVER, WE NEED TO PROGRESS towards green energy and carbon reduction initiatives to alleviate the global energy crisis. And we must do it now.

The benefit of clean energy sources, such as solar, is that it can meet our energy demands without compromising the resources of future generations. Sunlight is the primary source of energy for almost all life sources on earth. It delivers enough energy in 60 minutes

to meet global energy needs for an entire year.

Through years of research, solar technology has now reached the point where it can be deployed in terms of scale and cost to fundamentally change the way we generate electricity. However, with less than 1% of the world's

energy production coming from solar, the challenge remains for the solar energy industry and G20 leaders to implement this technology globally.

It becomes imperative for the G20 leaders to formally acknowledge that shifting to a new model of economic growth—Green Growth—merits a central place in the agenda of international economic cooperation. By committing to make Green Growth a standing item on the G20 agenda for the next five years (and beyond), policymakers and multi-stakeholders will facilitate the building of a set of initiatives to progress green

growth-related investment, innovation and resource-efficient industrial processes.

According to a report by the Organization for Economic Co-operation and Development (OECD) published in May 2011, Green Growth policies can help create up to 20 million jobs worldwide by 2030, in the areas of renewable energy generation and distribution alone, and have a beneficial knock-on effect on the consumer market. Indeed, efforts to foster Green Growth on an international scale are clear from the EU's 2020 objectives to cut greenhouse gas emission by 20% and source 20% of its energy needs from renewable sources. Suntech supports both OECD's Towards Green Growth strategy and EU's 2020 objectives wholeheartedly.

For these reasons, it is vital for G20 leaders to support resource-efficient choices over the medium and long term, such as by ending wasteful consumption subsidies and managing the phasing out of targeted subsidies. In 2008, US\$ 557 billion was spent worldwide on fossil fuel subsidies, though G20 leaders have already committed to phase out this spending over the medium term. Effective enabling frameworks should be put in place by coordinating domestic regulatory frameworks and incentive programs.

G20 governments can stimulate momentum by working with the private sector in a structured manner to identify practical, replicable ways of attracting private capital into clean technology investment.

G20 leaders should promote innovation and creativity by increasing research and development spending to provide for the faster uptake of advanced

**It becomes imperative for the G20 leaders to formally acknowledge that shifting to a new model of economic growth—Green Growth—merits a central place in the agenda of international economic cooperation.**



technologies, leading to lower costs and increased efficiency. They should promote the shift to sustainable consumption by promoting education campaigns to raise consumer awareness about the transition towards a green economy; consumers themselves ultimately must demand a sustainable green economy.

The massive potential of the Green Growth model is evident in China, where ambitious, long-term national goals have helped to create a backdrop for a growing renewable energy industry. China is currently the world leader in clean energy investment, with policymakers recognizing that they cannot provide the energy or the foundation for public health that its population and economy needs by simply relying on fossil fuels.

In its latest Five Year Plan, hailed as the greenest Plan ever, Beijing outlined an ambitious strategy to build 235 gigawatts (GW) of power generation capacity from clean energy sources by 2015, of which 10GW will be solar. Considering that the average coal-fired power station has a 500-megawatt power generation capacity, by 2015, China can potentially replace 470 coal-fired power stations with clean energy sources! Internationally, China plans to build power projects in 40 African countries with the aim of cutting the continent's reliance on fossil fuels.

Suntech is doing its part too. In 2011, we plan to ship more than 2.2 GW of solar panels, with the aim to ship 10 GW by 2015. Suntech's illustrious leadership team, comprising solar scientists with more than 50 years combined experience in solar research and development, are focusing on achieving the highest levels of efficiency in the industry. All of Suntech's R&D programs have a clear goal—reduce the cost of harnessing solar energy and increase the performance of

solar cells and panels. Suntech has established collaborative relationships with the University of New South Wales and Swinburne University of Technology in Australia, as well as photovoltaic research institutions around the world.

Moreover, by promoting youth education, we can foster the next generation of social leaders, and solar engineers. For example, Suntech has donated solar modules to the Sega Girls School in Tanzania, where the clean electricity is helping to generate a more environmentally aware and self-sustaining generation of young women. We have helped provide solar panels to McNeil High School in Austin, Texas, where the school's new Green Club is informing the community about our planet's energy and environmental crisis. In addition, Suntech's Youth Innovation Competition has brought solar technology into thousands of classrooms across China, reaching tens of thousands of students. We will continue to make strategic investments to promote education and accelerate humanity's transition towards a more sustainable and responsible way of living.

However, Suntech acknowledges that the renewable energy industry and G20 leaders need to come together to make Green Growth a reality. Ultimately, Green Growth is a concept that needs to function in a self-sustaining way and be integrated into global markets, business balance sheets, management systems and practices. Solar energy provides a real solution to today's energy crisis, combating climate change, and providing access to basic electricity to a quarter of the world's population.

*Suntech calls upon the G20 leaders and governments to join us in empowering a solar tomorrow. We can and will do it.*

The energy needed to balance the fluctuating nature of renewable sources adds to costs. The work of transmission system operators (TSOs) is crucial for successful system integration. Many new and upgraded transmission lines are needed to transport renewable energy from where it is generated to where people need it. New lines are also needed for continent-wide integration of renewable energy sources, hydro and other generation to ensure that generation is balanced with demand reliably and efficiently.

#### Political support is required

Political support for the TSOs that build and operate the transmission lines, and solve the balancing challenge every day, is especially important now.

First, the procedures for acquiring permits for new lines are much too slow – best practices show that they can be sped up. Innovative compensation schemes are also needed for communities that are crossed by new lines.

Second, investment sums much higher than those needed for day-to-day business are required too. To be able to be financed with equity and loans, TSOs need stable and attractive regulatory treatment that is competitive with other businesses with a similar risk profile.

Third, public acceptance of large infrastructure is poor. Governments, regulators and TSOs must stand side by side, year after year, and explain with transparent arguments, as well as unflagging persistence, why each new line is needed.

Fourth, continental-scale markets and joint transmission planning are needed – for the economies, for customers and for the TSOs themselves.

Finally, demand response must be allowed to bid into continental-scale intraday and balancing markets through smart grids, based on clear market definitions and data-exchange standards. TSO research and development

are crucial to prepare for a future in which hydro and conventional resources may no longer be enough to balance all the fluctuations in renewable sources of energy.

#### Tangible progress in Europe

The European Network of TSOs for Electricity (ENTSO-E) unites 41 TSOs from 34 countries based on strong new mandates in European law. In 2010, ENTSO-E's first Ten-Year Network Development Plan identified 500 new transmission projects needed to achieve the European 2020 goals and how they support more competitiveness and market integration, sustainability and integration of renewable sources, and security of supply. The projects, with an aggregate length of 42,100km, represent an increase of transmission corridor length of about 14 percent, and roughly €100 billion investment over 10 years. Beyond 2020, electricity highways with a higher voltage and possibly with direct instead of alternating current – onshore and offshore – will be needed. Ensuring secure and reliable operations at all times and cost-effectively requires that future electricity highways are planned, operated and managed, taking into account the existing networks.

Already, for 2014 implementation, ENTSO-E and its members contribute to the electricity market integration in Europe, through setting up price-coupling mechanisms in order to allocate today's scarce transmission capacity efficiently.

ENTSO-E's cooperation with the EU and its new Commission for Energy Regulation has delivered its first products, confirming the crucial role of TSOs in achieving a clean, competitive and reliable power system for Europe.

Given the challenges ahead, TSOs need strong support from policy-makers and the public. Explicit support from the G20 for achieving the five goals above would clearly help to set the stage. ♦

High-voltage electrical transmission towers supplying Melbourne, Australia. More extensive networks offer solutions to meeting future supply levels



The Itron logo is located in the top left corner, featuring the word "Itron" in white lowercase letters with a yellow lightning bolt symbol above the letter 'o', all set against a red rectangular background.

**Itron**

A young girl with blonde hair, wearing a pink headband and a pink top, is shown in profile on the left side of the image, smiling and looking towards a field of wind turbines in the distance under a clear blue sky.

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# Energy efficiency: a key enabler of the ‘smart grid’



## The grid is ‘smartening’

There is a clear consensus that the grid needs to ‘smarten up’ to be able to cope with the increasing complexity of the electricity network: intermittent renewable energy sources, growing demand from users, environmental concerns, not to mention the future charging requirements of electric vehicles. Without a smarter energy infrastructure, the whole stability of the system is at risk. The good news is that smarter grids should help reduce by 13 per cent to 24 per cent the forecast peak demand increase, according to the 2010 Technology Roadmap of the International Energy Agency.

Overall, smart grid technologies provide an opportunity to optimise the performance of existing infrastructure through better monitoring.

## For the grid to become ‘smart’, a combination of smarter supply, smarter demand and smarter services such as ‘demand-response’ is required

Smarter demand starts with energy efficiency in homes, buildings and industrial sites – making energy efficiency a key enabler of a smarter grid.

Energy efficiency saves energy and money and cuts carbon emissions, with a short payback, across all installations, through competitive solutions that are available today. Energy efficiency is therefore the cheapest, fastest and most effective way for governments, companies and citizens to address their energy issues.

In short, energy efficiency is a no-brainer, strongly supported by governments around the world who recognise that there can be no energy strategy today without energy efficiency.

## Governments around the world recognise that there can be no energy strategy today without energy efficiency

Yet markets and regulations and public awareness do not support energy efficiency as they should.

Energy services, electricity pricing, demand-response policies, subsidies and incentives, training and information should be reviewed and improved to support the twin ambitions of energy efficiency and the smart grid.

It is high time to set up a new collaborative business model, involving governments, policy-makers and regulators, private companies and consumers, NGOs and academia.

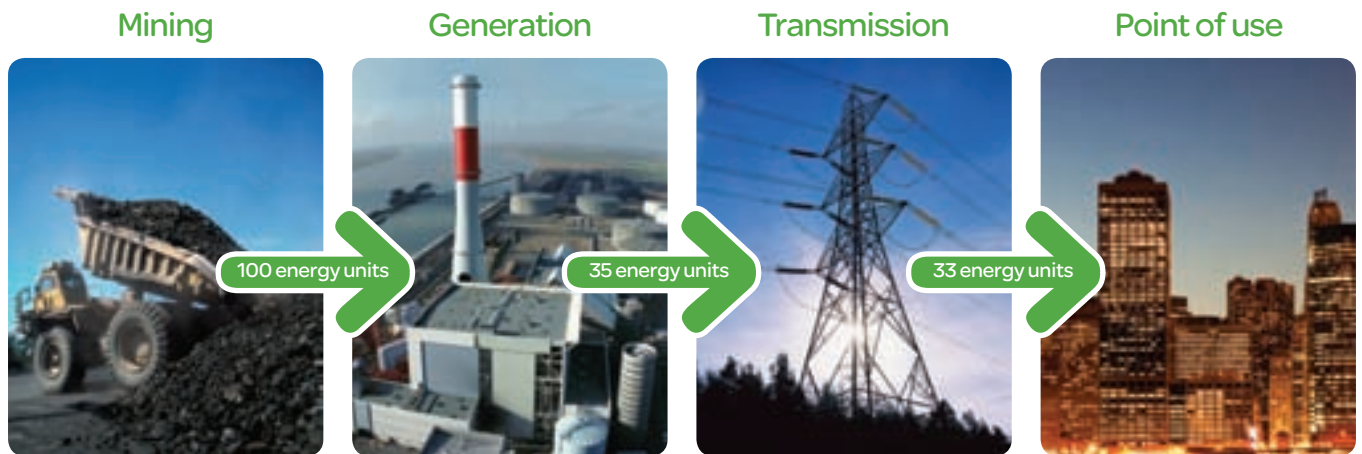
Improving energy efficiency is a quick, easy and practical way to help solve the world’s energy challenge.

It can no longer remain a missed opportunity – it is time to act. This is also what the G20 should be about.

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# The only good watt is a negawatt



Due to intrinsic inefficiencies, 33 units of energy consumed at the point of use require 100 units of primary energy

## What's a negawatt? The one you didn't use

### Energy saved is money saved

Yes, the smart grid is coming and we are actively implementing intelligence and innovations to help make it a reality. But we need a solution that will save energy and drive efficiency today as we are building the smarter grids of tomorrow.

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### EcoStruxure solutions cut energy costs today

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# NetOne: the network for rural communities

**N**etOne Cellular (Pvt) Ltd, the pioneering mobile network operator in Zimbabwe, has extensively expanded its network to rural communities and has always made strides in rural areas – in more ways than one. Since NetOne's formation in 1996, the various projects that it has pursued to connect the rural communities have been strategic and intentional and, to this day, NetOne remains the network most widely identified with rural communities in Zimbabwe. This is due to various expansion projects in terms of coverage, unique, tailor-made Value-Added Services (VAS) for the rural people, and exploration of renewable sources of energy to keep the rural communities connected to the global village.

Over the years, NetOne has pioneered network development, building a strong footprint of coverage in all provinces, major highways, towns, tourist resorts, growth points, township centres and farming areas, keeping the entire country's population – and, indeed, visitors to the country – connected. It is worthy of note that 70 per cent of Zimbabwe's population is located in rural areas, which had hitherto experienced limited development in telecommunication services.

NetOne saw fit to pioneer GSM mobile services to enable these previously disadvantaged communities to communicate with the outside world. The network has embarked on further expanding its coverage, which in the year 2010 alone saw more than 100 base stations commissioned, three-quarters of which were placed in mining, rural, township and growth-point locations. NetOne effectively expanded the already widest network coverage, and these communities are proud of NetOne as their preferred mobile network service.

Electricity supply is a big challenge to the growth of Zimbabwe's mobile communications industry. In areas where heavy equipment is operated, most companies have deployed generators as alternative sources of power. NetOne operates base stations that require a lot of power, so much that they end up being switched off for prolonged periods in the likely event of commercial electricity interruptions or load-shedding – a practice that is currently being employed, given the fact that electricity demand surpasses supply, causing power cuts. Rural communities in Zimbabwe largely do not have power, and NetOne took it upon itself to address this concern by installing solar-powered base stations in areas that are hard hit by power shortages, to ensure uninterrupted coverage to rural communities.

NetOne won a prize at the inaugural ICT Awards held in 2010 on the biggest project that impacted the public in rural communities through the solar chargers.

The above-mentioned power challenges also affect rural communities in terms of the inability to charge their mobile handsets. The typical scenario is that if someone wants to charge their phone they often have to travel 10km to reach the nearest shopping centre, where they could charge their mobile phones. NetOne developed solar chargers that were donated to chiefs, headmen and central school locations in areas that do not have power to help them charge their mobile handsets. Chiefs and headman are respected authorities in their local communities, and donating these solar chargers to them ensures that everyone in the community benefits. This solar charger



unit is free to the community, donated for the benefit of the subscribers who come to buy NetOne airtime.

There are communities that were hard hit by drought and related water shortages who approached NetOne for assistance to sink boreholes. NetOne has sunk a borehole in Mawabeni in the Matabeleland region. There is another borehole project that we are currently pursuing, to be sunk in the Buhera district at Chiurwi primary school in Manicaland.

In terms of product development, NetOne has increasingly enhanced mobile convenience for rural populations with the recently launched OneWallet mobile money transfer. This product provides rural people to use their mobile phones as a convenient way to make transactions.

Given the sparse population distribution in the rural areas, NetOne tends to target its base stations on high mountain sites to cover as much of the area as possible. These sites often have no access roads and no nearby electricity grid, thus escalating the cost of construction. Typical construction costs for a single base station located in such areas range from \$150,000 to \$200,000. Therefore, NetOne requires significant funding levels to take these noble rural telecommunications projects to their logical conclusion. Zimbabwe has the highest literacy rate in Africa, and bringing information and communications technologies to the reach of the entire population will inevitably increase the country's GDP and international trade, as well as bringing about socioeconomic development.

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Ensuring that every community is plugged into the global network will address even their most basic needs

# Positive change through better connections

*The power of information and communication technologies to influence daily lives goes far beyond simply staying in touch via mobile phones or social networks. Such innovations can improve access to essential needs for developing countries*

**By** Hamadoun Touré, secretary general, International Telecommunication Union

**T**oday, in a world of seven billion people, current projections from the United Nations suggest that the global population will continue to grow, peaking some time mid-century at around nine or 10 billion. The Cannes Summit is, therefore, a good opportunity to look at how to address the most pressing issues facing humanity over the coming decades.

It is clear that to meet the needs of all the world's people – for adequate food and water, for healthcare and for education, to name just some of the basic essentials –

the power of information and communication technologies (ICTs) must be leveraged.

There are two reasons to remain optimistic that it will be possible to do this – and to create a smarter, more equitable and more sustainable world.

First, the one inexhaustible resource in the world is human ingenuity. Over millennia, humans have been able to address and resolve complex issues because that is the way they are as a species: very good at problem-solving – which is just as well, given the problems that have needed to be solved in the past and will continue to do so in the



Students learn how to use computers aboard a ship converted into a classroom in Colombia. ICTs can connect communities in the developing world to a new wealth of knowledge

future. And, second, because ICTs by their very nature are one of the best breeding grounds for innovation.

Over the past two decades, there has been an extraordinary proliferation of ICTs in almost every domain of human endeavour. Today there are almost six billion mobile cellular subscriptions and more than two billion people are already online. Everything that happens is now directly linked to – and by – ICTs.

Indeed, one thing is certain: ICTs will continue to proliferate – and I suspect that recent forecasts from Cisco and Ericsson, which predict 50 billion connected devices by 2020, may in fact be underestimates.

Thus, there is every opportunity to leverage the power of these ubiquitous ICTs to serve the needs of humanity through the 21st century, and to bring the social and economic benefits of ICTs to all the world's people, wherever they live and whatever their circumstances. Indeed, ICTs represent not just the single most powerful channel to reach out to others, but perhaps the only way to address the most pressing issues of the day – including accelerating progress towards meeting the Millennium Development Goals (MDGs).

#### **Technology to tackle hunger**

The innovative use of ICTs will be crucial in ensuring that the world's billions have affordable, equitable access to adequate food supplies, at every step of the process – from delivering the right information to farmers to help them improve yields and prices to improving supply-chain efficiencies, to ensuring that consumers understand nutritional needs, both for themselves and their children.

Similar principles apply to smart water management and distribution. Here, too, ICTs will play a vital role,

as water resources become more scarce and much more valuable. Technologies such as the semantic sensor web, remote sensing with satellites and geographical information systems can be used innovatively by water authorities to obtain information in real time about water use, to track and forecast the level of rivers, and to identify new sources of fresh water.

#### **Monitoring the environment**

ICTs allow water stakeholders to obtain information almost instantly about a number of physical and environmental variables – including temperature, soil moisture levels and rainfall – through web-enabled sensors and communication networks. This ability makes accurate information about the situation available (without the need to be physically present) for making forecasts and reaching decisions.

Smart metering technologies can also provide individuals, businesses and water companies with near real-time information about their own water use, thus raising awareness about usage, locating leakages and having better control over water demand.

Innovation combined with ICTs will also transform healthcare and education globally – in the developed world, as well as the developing world.

Already, mobile phones play a key role in healthcare in a growing number of countries in sub-Saharan Africa, Asia-Pacific and Latin America, where they deliver simple SMS reminders for vaccinations or antiretroviral treatments and gather grassroots information on demographics and diseases – not to mention serve as mobile information repositories for personal health records. New applications are being developed in the



thousands to help deliver healthcare to those who cannot be easily reached by medical specialists.

More advanced applications, such as 3D computer tomography, will soon allow for non-invasive internal examinations and diagnosis. Advanced data mining will allow rare and unusual medical conditions to be diagnosed and treated more quickly and effectively.

#### Advances in learning

In education, ICTs are already one of the main platforms for disseminating knowledge. This is perhaps the biggest shift in education since the founding of the first great higher-learning institutions, which depended on the model of 'lecturer' and 'lectured to'.

ICTs have brought two new forces to play: the death of distance and the democratisation of information and knowledge. As a result, distance learning has proliferated – so much so that the world's biggest universities are now the Indira Gandhi National Open University in New Delhi, India, which has three million enrolled students, and the Allama Iqbal Open University in Islamabad, Pakistan, which has 1.8 million students.

Through various projects around the world, including the 'Connect a School, Connect a Community' initiative of the International Telecommunication Union (ITU), computers and the internet are being brought both to those of school age and within the community as a whole for the first time. Children introduced at a young age to the vast realm of knowledge that the internet offers will stay connected as they grow.

Better-educated adults not only have families of more manageable size, but their children also have significantly improved survival rates, as well as better chances of

“ The innovative use of ICTs will be crucial to ensuring the world's billions have affordable and equitable access to food supplies ”

an education, basic healthcare and stable, better-paid employment. Even simple devices like an ordinary mobile phone can have a profoundly transformational effect.

#### Creating a sustainable world

ICTs will be critical in helping to create a more sustainable world in the 21st century. Smart grids, environmental sensors, intelligent transport systems, dematerialisation and digitalisation of goods and services, and new ways of improving energy efficiency will drive the transition to a low-carbon economy, while facilitating adaptation to the effects of climate change.

With political will, a strong social conscience and a profound desire to fulfil a humanist mandate, everyone is fully capable of making the world a better place for all. I am absolutely confident that together, by leveraging the power of ICTs and innovation, we shall do so. ♦

# Mobile security: the foundation of new economic development

Research In Motion® (RIM) focuses on designing secure and efficient solutions for enterprises and consumers. BlackBerry® smartphones are available through 565 carriers in over 175 countries and there are 50 million BlackBerry smartphone users. A global presence this large requires that BlackBerry products and solutions are developed with insight into how the value of secure online communications can be achieved and applied across old and new world markets.

The topic of cyber security is predominant in discussions of the worldwide growth of mobile data and communications for consumers and enterprises. Cyber security means securing networks from all attacks, malicious or otherwise. This is best done within organisations through the application of a standard cyber-security policy that both establishes governance of issue resolution and enhances the safety of an organisation, its partners, and its customers through the timely and appropriate notification of security vulnerabilities, thereby minimising the risk of exposure and possible exploitation and maintaining valuable brand credibility. The term that signifies the cumulative measures that individuals and organisations take to protect their network assets (personal computers, mobile phones, servers, and so on) is cyber defence. To understand the impact of cyber

security and cyber defence in the global conversation, the progress of ecommerce in all aspects of global economies, and the concerns of everyday citizens and governments alike, we must understand the value of security in mobile communications.

## Mobile tools can foster economic growth and stability

Communications today have reached unprecedented levels with information that is readily accessible in electronic forms and that can be easily transferred, duplicated and shared. Smartphones, portable computers and tablets are increasingly being used by people to access the internet, and particularly in emerging or developing economies, providing the sole connection to the internet.

As the G20 addresses the financial crisis and the need for growth of agricultural sectors, the new growth in mobile technology has put unprecedented access to information in the hands of independent business people, including farmers. The G20 proposal of a database providing access to comprehensive, reliable and regularly updated information for agricultural markets can be more fully realised with securely managed smartphones and tablets running applications that connect to such a database.



With up-to-date information right at their fingertips, the appropriate people can receive proactive wireless notification about evolving situations, verify issues with colleagues, and take action quickly. Mobile communications technology, provided with the right level of data security, enables a previously unforeseen potential to ensure safety and quality and simultaneously protect government and public interests. For example, a BlackBerry application developed for LILA Asturias in Spain allows dairy farmers real-time access to LILA's complete analysis of variables in dairy samples. The security of documents sent and received on BlackBerry smartphones is recognised under the UNE-ISO 17025 standard and fulfills LILA's certification requirements. This validation of the BlackBerry solution allows all stakeholders to benefit from increased quality and efficiency, and hence profitability. For more information, see [uk.blackberry.com/newsroom/success/LILA-Asturias-\(UK\).pdf](http://uk.blackberry.com/newsroom/success/LILA-Asturias-(UK).pdf)

The economic dependency of G20 members on communication infrastructures will be shared more and more by developing countries. Globally, people from all walks of life are communicating, buying and selling on mobile devices as part of their daily lives, and the need is stronger than ever for any device or system that transmits data to protect confidentiality

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## People from all walks of life are communicating, buying and selling on mobile devices, and any device that transmits data must protect confidentiality

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in both fixed and mobile environments. Small and large businesses and public-sector organisations alike need to keep their own product-related data private but are also responsible for protecting personal information that they store about customers, partners and employees.

### The value of security

Individuals and organisations can employ a variety of solutions, including antivirus software, firewalls and encryption, to help protect personal information on desktop platforms. Making these tools available to mobile platform users is a fundamental part of protecting their privacy and earning their trust. To meet the public demand for secure personal and business information, communication solutions need to provide built-in security features that allow users to manage their privacy protection easily and consciously.

Security should enhance consumers' choices and be a market differentiator. Consumers must be educated to select solutions that best meet their communications and security needs, and that limit their total cost of owning and configuring a mobile device by providing security features that are both inherent and usable. For example, on BlackBerry® smartphones, a free mobile application for consumers called BlackBerry® Protect allows customers to remotely back up, restore, and locate their BlackBerry smartphones from wherever they are via their computer. Vendors must develop products with security features and technology that appeal to consumers and offer them security at no additional cost, freeing them to focus on their personal and business endeavours.

Securing the information that people store on their smartphones is a fundamental part of protecting their privacy. The security of a mobile platform should also allow organisations to extend their own data and systems

to mobile applications. Mobile business solutions for the public sector must protect information but allow mobile personnel wireless access to case files and associated records, emergency operating procedures, alert notifications, timely analysis and reports – all at the point of need.

### Conclusion

Security certifications assure people and organisations that the technology they choose is trusted and suitable for use by some of the most security-conscious organisations in the world. The assurance that the information of a business, however large or small, established or entrepreneurial, is secure is an essential cornerstone in developing trust and confidence in the online economy and its established and emerging brands. As citizens merge their private and business lives on their mobile devices, this principle becomes essential to their safety and livelihood.

It is challenging for private citizens to independently verify the security of the mobile technologies they use. To confidently measure and evaluate a mobile solution's security model, many individuals and organisations – including governments and military organisations – look to trusted third parties that have independently verified and certified a technology for use. Vendors that work to certify their mobile solutions through trusted validation programmes provide assurance to governments and consumers.

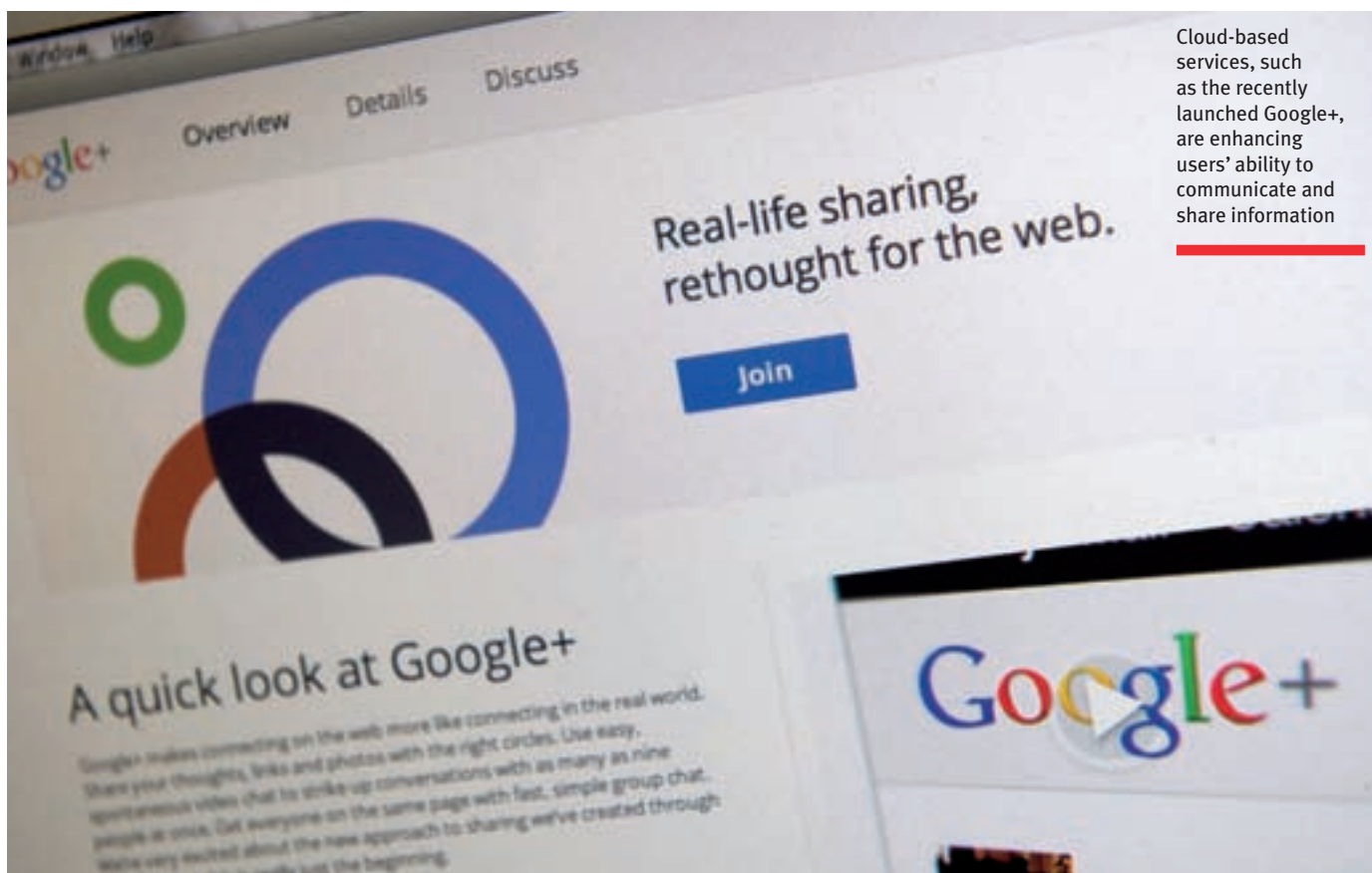
### About BlackBerry security

RIM has long been a leader in mobile communications and has a history of integrating security features into its products. The company firmly believes that security technologies are an important foundation for a digital economy and for the protection of governments and citizens. BlackBerry products and solutions have received more security accreditations globally than any other wireless solution. The BlackBerry solution has been approved for level EAL 4+ of the Common Criteria for Information Technology Security Evaluation (CC), the highest level attained by any mobile internet solution designed for civilian use. The BlackBerry® PlayBook™ is the first tablet approved under the FIPS (Federal Information Processing Standard) certification from the National Institute of Standards and Technology (NIST) for use within the United States federal government.

Built-in security features in BlackBerry products include the use of encryption technology and security features to protect stored data and allow individuals to use these same privacy protections for their personal data and the information they choose to allow applications to access. If a device is lost or stolen, encrypted data cannot be read by an unauthorised person. Application controls prevent malware from accessing sensitive personal information. The BlackBerry Enterprise Solution also includes policy controls designed to give organisations the ability to balance individual and enterprise use of BlackBerry smartphones.



[www.blackberry.com/security](http://www.blackberry.com/security)



Cloud-based services, such as the recently launched Google+, are enhancing users' ability to communicate and share information

# Questions of trust as we head into the 'cloud'

*As growing numbers of internet users migrate their data from their own devices to the servers of 'cloud-computing' providers, issues of policing, privacy and human rights are coming to the fore, not least in states where democracy is lacking*

**By** Ronald Deibert, director, Canada Centre for Global Security Studies, Citizen Lab, Munk School of Global Affairs, University of Toronto

**T**hough barely noticeable, a major tectonic shift has happened in global communications. Data previously stored only on desktops, on hard drives and in filing cabinets has evaporated into the 'clouds'. 'Cloud computing' refers to the delivery of software and other services as a utility over computer networks. But the cloud has become a metaphor for the way today's digital lives have been dispersed into a globally distributed mist.

Whereas, before, the internet was a self-segmented network distinct from other means of communication, such as television, telephony and radio, all these media have become integrated into a single system of planetary communications called cyberspace. This has happened at the same time as business models and service-delivery mechanisms for information and communications have

changed fundamentally, with the rise of social networking, mobile connectivity and cloud computing (referred to together here as the 'cloud').

For large organisations, such as businesses and governments, the cloud provides a major cost-cutting solution. For individuals, it is convenient, reliable and fun. For the companies that support the cloud and the various products, services and devices that connect to it, it is an attractive source of growing revenue and innovation.

But there are dark sides. The shift to the cloud represents a paradigm shift in communications, which has upset the principles, norms and rules of what used to be just the internet. Under the internet's operating paradigm, the companies that ran the infrastructure took a 'hands-off' approach to the content that flowed through their networks, a principle known as 'network neutrality'. Today, data is entrusted to vast transnational information

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empires – such as Google, Facebook and Amazon – that act as gatekeepers of what gets communicated and what is accessible. Market considerations can easily outweigh privacy and other rights concerns.

The rapid shift to an entirely new ecosystem has also opened up unforeseen insecurities that are systematically harvested by opportunistic actors, including criminals, unethical businesses, and military and intelligence agencies. Whereas at one time people's data was only as secure as they could protect it behind closed doors in their offices and filing cabinets, today it is only as secure as the companies that host it. In principle, entrusting data to third parties should actually enhance security because security is delegated to professionals that should have the ability to keep up with the latest threats. But studies have shown that cloud-computing companies are far less concerned with security than the bottom line. Some spend less than 10 per cent of their information technology resources on security.

Not surprisingly, there has been a growing rash of major security breaches across governments and the private sector. According to Privacy Rights Clearinghouse, nearly 600 million records have been breached due to the roughly 2,670 data breaches made public since 2005, in the United States alone. Included among these was the breach of Epsilon systems, resulting in a loss of more than 60 million email addresses from more than 50 companies. A breach of Sony servers in April 2011 resulted in the exposure of the private data of more than 100 million people. Major US defence contractors have also now admitted to persistent breaches and attacks.

Although many of these breaches appear to be mostly opportunistic hacks by anti-authoritarian groups intending to wreak havoc against 'the system', a growing number have sophisticated political and economic motivations. Research by Citizen Lab and the SecDev Group has uncovered cloud-based espionage networks emanating from Chinese, Iranian, Syrian, Burmese and other national jurisdictions pursuing numerous high-profile government, military, political, opposition and human-rights targets across Asia, Europe and North America.

One overarching characteristic is that the trade craft employed by the perpetrators is usually indistinguishable from that used in the ecosystem of cybercrime. As cyberspace becomes an object of geopolitical contests and a political battlefield among authoritarian regimes and their adversaries, clouds will become vectors for cyber-espionage and politically motivated attacks.

### Transcending jurisdictions

The shift to the cloud has also created new governance issues. While the notion of the cloud may seem ephemeral and be experienced by users as a virtual mirage, the infrastructure in which it is embedded involves a complex material, logistical and regulatory infrastructure that can span multiple political jurisdictions, from the local to the national to the international. While the text, the image and the video all may still seem within our immediate grasp, on our desktops and handheld devices, they are not. Data that we handle – that we assume is in our possession – is transported in an instant over cables and through radio waves from arrays of servers, many of which are far away in another political jurisdiction. And almost all of it is owned and operated by the private sector.

Governments looking to control cyberspace must therefore enlist the private sector that owns and operates the cloud to 'police the internet', through laws, regulations, incentives or other types of pressures. For example, in Canada, the government has introduced a crime bill that would require internet service providers (ISPs) and telecoms companies to retain user data, process the data for law enforcement and intelligence consumption, and share it with law enforcement representatives – all without

judicial oversight. Such arrangements are not uncommon. Telecom carriers and ISPs not only facilitate access to information for law enforcement, but also actually derive revenues from doing so, and there is extensive variation among them on how exactly they go about doing so. As a result, citizens using different communications services can live in entirely different universes of rights.

The downloading of policing functions to the private sector – a phenomenon known as 'intermediary liability' – extends to the protection of intellectual property. It is considered standard practice for large carriers to 'clean their pipes' of malicious networks and traffic associated with file sharing or other activities deemed copyright-infringing. In the United States, several ISPs and carriers have already taken on this responsibility as a voluntary arrangement. The bottom line of business now demands it.

### Manipulation by non-democratic states

Of course, what is considered intermediary liability or a market imperative in Canada and the United States differs quite fundamentally from the situation in Belarus, Iran, Vietnam or China. In non-democratic countries, ISPs, telecom carriers and mobile operators are asked to police political content, track dissidents, identify protestors, send threatening messages over their networks and disable certain protocols used by adversaries – as part of the next-generation controls emerging in cyberspace. During the Arab Spring, for example, the Egyptian government forced ISPs to shutter the internet and required the country's main mobile phone operator, Vodafone, to send mass text messages encouraging pro-regime sympathisers to take to the streets to counter the protestors.

Citizens can find themselves hamstrung in jurisdictional confusion. When the US-based son of an Iranian activist, arrested presumably after his cell phone records were turned over to Iranian authorities by his provider, filed a lawsuit against Nokia-Siemens in an American court, the company argued that it was the wrong case in the wrong jurisdiction, and that it was merely following local law. The suit was eventually withdrawn.

In Canada, the Rogers Yahoo! internet privacy policy states that "personal information collected for the Internet Service may be stored and processed in Canada, the United States or other countries and may be subject to the legal jurisdiction of these countries". Users might well ask which countries and whose laws. As people's data evaporates into the clouds, so seemingly do their rights.

The trend towards the clouds may be irreversible, but its direction can be shaped in ways that mitigate some of its more serious dark sides. The private sector that owns and operates the clouds should be required to spend as much, if not more, effort protecting users' privacy and data as it does policing the internet for law-enforcement and intelligence agencies and copyright holders. If market forces are not enough, data-breach and privacy-by-design laws should be introduced, both domestically and through global cyber-security forums. Civil-society networks, including university researchers, play an important role as well, monitoring the private sector, uncovering and exposing security flaws and other forms of corporate negligence, and educating users on best practices.

More broadly, there needs to be a reinvented discussion of what public transparency and accountability mean as data levitates to the clouds and private authority in cyberspace becomes the norm. There is an urgent need to strengthen the protections against when data can be shared with third parties without users' knowledge or permission. Private forms of authority should be subject to the same type of rigorous checks and balances as is public authority, especially as their operations can span political borders where rights protections diminish. Until such time, dark clouds will continue to grow more ominous on the horizon, threatening to diminish human rights. ♦



As cyberspace becomes an object of geopolitical contests, clouds will become vectors for cyber-espionage and politically motivated attacks



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# Building international cooperation in cyberspace

*The speed with which information technologies are shaping the modern world has left governments, industry and individuals exposed to fast-evolving cyber-threats. Countries should come together to ensure a safe and secure online environment*

**By** John Lyons,  
chief executive,  
International  
Cyber Security  
Protection Alliance

**C**yber-crime in all its facets is rapidly coming to define the 21st century. Whether it is Anonymous and its hacktivist friends taking down another website, financially motivated cyber-criminals stealing banking data or state-sponsored hackers pilfering intellectual property, such behaviour is now sadly the rule and not the exception.

But it should not come as a surprise when the latest cyber-attacks are played out in the daily paper or online news. During the Industrial Revolution, the world experienced tremendous innovation – a monumental upheaval in human life, powered by machinery. From that revolution sprang modern shipping and the rail industries, followed later by the automotive and aircraft industries, all growing and developing at a much more genteel pace than today's information revolution. That pace allowed for supporting infrastructure to grow and for people to become accustomed to such innovations. There was time to educate the public and train those who wanted to work in these developing industries.

Even with slow evolution and gentle maturation, many major accidents and incidents claimed lives. Legislation and regulation – or the threat of such – were needed along the way to improve safety and security. Seatbelts had to become compulsory in cars and manufacturers had to introduce quality assurance and certification for their products before they could be fitted and used in vehicles.

It should come as no surprise, then, that the rapid, chaotic acceleration of the information technologies of today has left governments, citizens and business caught on the back foot. Without the time to develop at a more sedate pace, the result is dangerous gaps in several areas, gaps that have been greedily exploited by what can be broadly termed cyber-criminals. Now is a good time to pause, therefore, and rethink what structures are needed to safeguard businesses, citizens and their governments in this very fast-moving, internet-enabled age of communication and technological advance.

## **Urgent need for global cooperation**

Governments, of course, should continue to look within their own borders to tackle cyber-crime and to introduce measures to protect their critical national infrastructures. But it is also imperative that they start looking outwards at greater cooperation on a legislative and regulatory basis. A welcome development has been the two-day International Cyber Conference, hosted by the UK's Foreign and Commonwealth Office on 1 November, in order for governments, international organisations, non-governmental organisations and businesses to

discuss cooperation across sectors and geographical boundaries. Five streams formed the agenda: economic growth and development, the social benefits of the internet, international security, cyber-crime, and safe and reliable access.

## **A new era of connectivity**

When it comes to international security and cyber-crime, the Cold War days of mutually assured destruction are over. Everyone lives and works in an incredibly interconnected world – one look at the global financial crisis and how it reverberated with frightening speed across the planet reveals just how interconnected people are. Indeed, the successes of the Arab Spring might not have occurred had it not been for the ability of citizens to support one another online and through social media.

Those suggesting that western countries need to up their offensive cyber-war capabilities should tread carefully. In the physical world, air strikes can be carried out with a minimum of collateral damage – unmanned airborne raids in Afghanistan are carefully engineered to limit civilian casualties. However, this degree of surgical precision cannot be possible with any degree of confidence in cyberspace.

An act of cyber-war against a government department could well cause significant damage to non-related vital services. A denial-of-service or similar attack may, in a worst-case scenario, take out related healthcare or other networks that are plugged into the same backbone. Jeopardising the safety of innocent civilians and harming a country's growth and prosperity in a way that is disproportionate to the transgression that began the exchange is dangerous, given the globalised and interdependent nature of world economies.

At a time of economic austerity and uncertainty, governments – especially those in developing countries – more than ever need assistance to develop a toolkit of best practices. But this needs to go further and aim for international harmonisation of legislation and regulation, while providing the law-enforcement agencies tackling cyber-crime with the capability and capacity they badly need. This work is of paramount importance to build a more safe and secure internet-engaged global marketplace – not by regulating content, but by addressing specifically internet crime and security threats and risks.

Whether they are cyber-intrusions or cyber-attacks by 'botnets', carried out by rogue elements or government-sponsored hackers, cyber-attacks could ultimately lead to trade sanctions against a country that permits or, indeed, sponsors them, not to mention damage to its economy. Everybody would lose. This requires attention at senior



At a time of economic austerity and uncertainty, governments need assistance to develop a toolkit of best practices





governmental level, even by officials who would rather keep their collective political heads in the sand.

Russia and China, in particular, must be part of this debate. Both are prolific actors in cyberspace and on the world stage, and are thus fundamental to progress towards a safe and secure internet. There is little point in the Chinese government heralding its stand against spam email originating within its borders without acknowledging the threat posed by the groups operating there that attack other states. The same could be said about organised criminals within Russia. This type of state-endorsed cyber-crime damages these countries' standing on the world stage, harms their economic stability, and strains diplomatic and economic ties.

#### **An inclusive approach**

These countries must be part of the solution. The G20 Cannes Summit represents a wonderful opportunity to build upon the work of the UK conference and on the important work of other intergovernmental groups. This includes the Commonwealth Secretariat's proposal

Inside the Global Response Centre of the International Multilateral Partnership Against Cyber Threats, based in Malaysia. Joint international efforts are necessary to fight cyber-attacks

on cyber-crime, currently being considered by the Commonwealth heads of government.

Agreements are needed on how to proceed into a new era of political cooperation on the internet. Financing is necessary, of course, but difficult decisions must not be ducked because of a lack of investment. The world's citizens and businesses deserve to know that governments enable and support the sustainable economic development presented by the internet and by the huge innovation now possible by mobile smart devices. Some of the poorest countries can skip the significant infrastructure expense of fixed-line communications and jump straight to a mobile environment that can deliver new prosperity to those who are most in need.

At a fundamental level, governments around the globe must take the lead in ensuring that the security of today's communications and technology revolution is safeguarded for everyone. There has been much progress since the Industrial Revolution, but leaders must look to the future if this new revolution – of a very different kind – is not to spiral out of control into lawlessness and mutual distrust. ♦

# Advancing international cybersecurity through strategy and partnership



Scott Charney  
Corporate Vice President,  
Trustworthy Computing,  
Microsoft

Cyberattack joins terrorism and weapons of mass destruction as one of the new, asymmetric threats that puts nation-states at risk. To be clear, there are risks to cyberspace other than those related to security; for example, the increasing number of machines and applications creates a very complex environment with challenging reliability issues, and nations' increased dependence on information technology makes the availability of systems a national and international imperative.

National governments confront many challenges in cyberspace. These include:

- Reliance on interdependent, interconnected global networks;
- The misuse of information technologies to enable extremists to engage in acts of violence;
- The ability of any individual to employ cyber tools to perpetrate actions that in the physical world would normally be limited to nation-states (such as espionage and other significant attacks that, if conducted by a nation-state, could be considered acts of warfare); and
- The ability of any nation, regardless of traditional measures of sophistication, to gain economic and military advantage through cyber programmes.

In addition to these challenges, the internet citizen – the individual who uses cyberspace for social and commercial interactions – is critically relevant to any solution. Unsecured computers can turn everyday users into a launch platform for attacks, and user fear about online security and availability can have sweeping economic consequences. Trust in cyberspace, on the other hand, can create new opportunities, markets and possibilities.

Nations must plan, organise and act accordingly to develop national cyberspace security strategies that can address these challenges. Historically, national security strategies have been characterised by their employment of all elements of national power – economic, diplomatic, law enforcement, military and intelligence. Comprehensive cyberspace security strategies must include these elements and articulate how they will be employed to ensure national security and public safety, ensure

economic prosperity, and assure delivery of critical services to the public. Such strategies must also recognise the ever-mounting importance of economic security. In the industrial age, power was generally based on physical might; in the information age, power is derived from information, knowledge and communications.

Articulating and advancing a clear understanding of *norms*, *attribution*, and *deterrence* in the context of cybersecurity can dramatically improve the national and international cyberspace ecosystem.

## Norms

Foreign policy and diplomatic engagements on issues related to cyberspace security are not as focused as our efforts to combat terrorism or stem the proliferation of nuclear weapons. I believe that nation states should marshal their diplomatic skills and expertise to advocate cyberspace security and increase multilateral cooperation. I would caution that advocacy and cooperation are not goals in themselves. We need to focus advocacy and cooperation efforts towards specific outcomes. For example, working with like-minded nations to articulate clearly defined norms of nation-state behaviour in cyberspace could help to deter state support for cyberattacks, or hold nation-states that support such efforts accountable for their actions.

## Attribution

Attribution of cyberattacks is one of the most fundamental challenges facing the international community. The inability to attribute attacks can greatly impede the effectiveness of a nation's response. Too often, valuable time is lost trying to determine if an attack or penetration of a system was an isolated criminal incident or one perpetrated by a foreign intelligence organisation. Attributing the source is essential to ensuring the appropriateness of response – criminal prosecution or military/diplomatic measures. Absent strong attribution abilities, international and national strategies to deter acts will not be taken seriously by the community of attackers who thrive on this diagnostic weakness, or by criminals who prey on citizens' inboxes and online accounts. Thus, we must focus on identity and authentication in cyberspace and enhancing swift international cooperation on cyberattacks. We must also recognise that while greater attribution will not ensure attribution in all cases, it will help to ensure that the number of incidents where attribution is difficult is reduced dramatically.

## Deterrence

Deterrence did not happen overnight in the Cold War; the concept and strategy took several years to develop. Deterrence in the information age is perhaps even more complicated owing to the lack of attribution and the inability to identify strong mechanisms to prevent hostile actions. But nations can learn

# Collective Defense

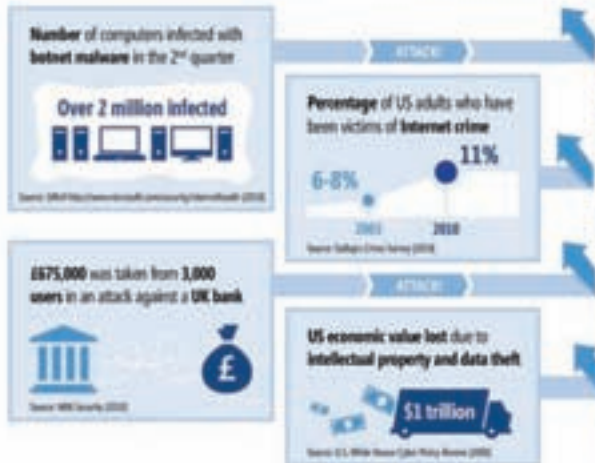
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## Cyber Threats

As the world becomes more connected, the nature of cyber threats continues to evolve.

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## Collective Defense

A global collective defense model helps protect Internet citizens from complex and sophisticated cyber threats.

- Collectively Engage
- Learn From Public Health Model
- Protect User Privacy
- Align With Market Forces
- Address Botnet Risk

## Protected Consumer Devices



All forms of connected devices are better protected by adopting a collective defense model.

### Future Online Citizens



## Governments and private sector shareholders must articulate a new philosophy that starts with a simple premise: government and private sector efforts should be synergistic and efficient

important lessons from the nuclear experience. In the Cold War, nations kept sensitive information secret, but disclosed enough about their strategy and capabilities for allies and adversaries alike to understand the commitment to national security and nations' ability to protect it. We must do the same for cyberspace.

Deterrence is very difficult when adversaries and bad actors are motivated and persistent. In order to improve cyberspace security in a meaningful way, deterrence requires a clear and unambiguous commitment by nations and an understanding by the spectrum of bad actors – from cybercriminals, to organized crime and nation-states – that violations of national cybersecurity have consequences. What makes deterrence successful is commitment, broadly known and broadly felt.

Cyberspace security is a shared challenge and requires government and the private sector to work together.

The private sector designs, deploys and maintains much of each nation's critical infrastructure. However, the private sector faces unique challenges because its customer base and supply chains are global. It also builds commercial products that can be targeted by sophisticated adversaries, including nation-states. Private sector firms are increasingly being forced to think about security challenges that cannot reasonably be

mitigated by commercially realistic development practices, especially as users remain price-sensitive.

Governments also face challenges. Unlike certain other traditional aspects of national security, cyberspace cannot be secured by the government alone; it requires a coordinated effort involving the owners, operators and vendors that make cyberspace possible. The bifurcation of responsibility (governments must protect national security) and control (they do not customarily manage the assets or provide the functions that must be protected) dictates the need for a close partnership, with clearly defined roles and responsibilities, that optimises the capabilities of participating stakeholders.

Governments and private sector stakeholders must articulate a new philosophy for collaboration, one that starts with a very simple premise: government and private-sector efforts should be synergistic and efficient. This requires that governments and the private sector: (1) identify those security requirements that will be fulfilled by the market; (2) identify national security requirements; and (3) identify how the gap between market security and national security can be filled. This effort must be focused on protecting functions (such as communications) as opposed to simply physical assets. Moreover, we must build operational partnerships that let us effectively mitigate and respond to threats.

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# Strengthening the system: the need to adjust the IMF

*As the G20 faces having to redesign financial crisis-management facilities at the global level, it may find that the most effective route is to adapt an existing instrument – the International Monetary Fund – to current policy challenges*

**By** Louis W Pauly, Canada Research Chair in Globalization and Governance, University of Toronto, and director, research programs, Munk School of Global Affairs, University of Toronto

One day last year, a European official explained something to me. “It used to be that whenever I had to bail out a bank, I never worried about the taxpayers,” he said. “Any political resistance or anxiety could be handled simply by reminding them that by preventing chaos in their financial system, we were using their money to save their own assets. But during the crisis of 2008, taxpayers saw us using their money to bail out foreigners. From now on we have to be mindful of a new political reality. Next time, we might not be able to do it.” The underlying policy challenge is now pressing, not only in Europe but globally.

It should surprise no one that bitterness and resistance now surround the issue of saving large complex financial institutions (LCFIs) during systemic emergencies. Nor should it be a surprise that recent governmental actions have led to sovereign debt crises that require collaborative action to resolve. The situation reflects more choice and decision than accident or error. The states now represented around the G20 table did not stumble blindly into this ‘new world’. After 1945, primarily for reasons of security, they expanded trade and investment flows across their borders. In the early 1970s, the exchange rate system designed to facilitate those flows broke down, so the states chose to reduce controls on ever larger cross-border movements of short-term capital. At various collaborative decision points since then, open markets for goods, services and capital have appeared to promise better economic and security outcomes than any feasible alternative. Only the wilfully blind were unaware that the necessary implication was deeper, and more intrusive, political cooperation in the years ahead.

In a national setting, that kind of cooperation ultimately entails the definitive and legitimate resolution of problems of collective action associated with periodic financial emergencies. It defines the very scope of government in the financial arena. But few were, and are, yet ready to countenance the same idea at the global level. So the realities of the now-common life are obfuscated by such terms as ‘mutual adjustment’, ‘reliable collaboration’ and, lately, ‘global governance’.

Governments, by definition, exist to organise societies, oversee and redirect the benefits and the costs of living together, and otherwise promote the common social good. But the global society that has been evolving

since 1945 is not yet ready to accept the rights and obligations associated with a shared future. A sense of solidarity, or at least inevitability, remains weak. And the common good is not yet fully recognised. But those benefiting most from a status quo defined by integrating markets will not willingly retreat, while those losing out lack both the power to roll back the status quo and an alternative vision for a better future.

## **A gamble with global security**

The overarching task for the G20 is to take the next steps in building a truly global society that recognises itself as such. In the midst of mounting financial crises, the choices before leaders and their constituents are clearer than ever. One choice culminates in *ex ante* intergovernmental agreements on fiscal burden-sharing during collective emergencies. Despite the crisis of 2008 and its aftermath, aligning all the relevant political forces appears too ambitious. Even Europeans still committed to the ideal of a single market face great difficulties in negotiating legitimate and effective arrangements in the shadow of imminent catastrophes. Perhaps ad hoc measures such as those deployed in 2008, and constructive ambiguity, can mitigate the moral hazards associated with any kind of emergency backstopping system, whether applied to LCFIs or to excessively indebted governments. But why gamble with global security in this way?

Two alternatives are under debate. One is to break up all LCFIs and ring-fence vulnerable national markets. Let financial institutions that desire to expand abroad establish fully capitalised subsidiaries capable of being efficiently wound up by host countries in an emergency. Alas, the idea is wise and elegant, but unrealistic. It discounts the political power of many financial institutions, and unjustifiably imagines that national authorities will give up the idea of sustaining globally competitive national champions, eschew greater reliance on foreign capital to meet domestic consumption and investment needs, and fully cooperate at crucial points in the implementation stage. Experimenting again with capital controls and living wills to facilitate cross-border bankruptcies seems to provide convenient substitutes, but they only render the core dilemma less transparent.

The other alternative is difficult, messy, inelegant and hardly foolproof. It aims to affirm a commitment to collaborative problem-solving, but to limit its scope



The overarching task for the G20 is to take the next steps in building a truly global society that recognises itself as such





by raising LCFI capital requirements, cooperating more intensively on systemic risk supervision, reducing national reliance on debt-fuelled growth and expanding emergency standby facilities through intergovernmental instruments such as the European Stability Mechanism.

LCFIs are likely to remain in existence. The logic of intensive fiscal collaboration must eventually extend to the global level. There is no realistic escape from the necessity of fiscal burden-sharing during emergencies, and from limiting associated risks by deeply sharing supervisory responsibilities. The task ahead is not unprecedented.

#### Valuable vehicle for collaboration

In the post-1970s trade and investment-centred economic order, that same logic led member states to adapt the International Monetary Fund (IMF) to operate not simply as a technical advisory agency, but as a vehicle for fiscal collaboration and macroeconomic supervision. During various debt crises from the 1970s through the 1990s, it worked not perfectly, but reasonably well. The world of 1931 remained a distant memory.

Some say a better and more feasible objective now is to adapt earlier global experiments in emergency management, centred on networks of central banks. This would be fine if all that was needed were temporary liquidity facilities during foreseeable crises in an

increasingly complex system. But such hopes were clearly dashed between 2007 and 2011. Sometimes, integrating financial markets requires confronting solvency problems that require fiscal responses. Routinely attempting to hide such responses through the operations of central banks could eventually produce a profound political backlash, and the kind of global monetary instability the world has been trying to avoid for the past 80 years.

Sooner or later, the G20 will find that the most promising path forward leads back to redesigning definitive crisis-management facilities at the global level, and then its members will ask themselves a simple question: why contemplate the difficult politics of inventing a brand-new instrument, when a tested instrument already exists in prototype?

It is time to adjust the IMF to current policy challenges. Its callable resources need to be expanded significantly, the political foundations upon which it rests need further rebalancing, and the legal obligations underpinning its surveillance authority need to be enhanced and reinforced. The pressures that have recently drawn attention to the Financial Stability Board and the European Financial Stability Facility are global pressures. A serious global instrument for financial stabilisation is required if the effort to build enduring social and political solidarity through integrating capital markets is to succeed. ♦

Reinforcement bars at a construction site in China. A global financial stabilisation instrument is needed to build social and political solidarity



# A laboratory to analyse a changing world order

*The G20 has prompted various reactions throughout its existence, yet one thing is clear: in a world where the old distinctions have dissolved, it reflects complexity and provides an arena for testing new modes of international relations*

**By** Karoline Postel-Vinay, senior research fellow, Sciences Po (Paris)

**B**ack in early 2008, the G20 was still a little-known ministerial-level forum that only a few economic experts and international analysts seemed to care about. Today, the G20 is so well established that it seems to be an inescapable reality. Could this be the new centre of global leadership? This view is becoming commonplace, generating alternately excitement or anxiety, hope or resignation. Yet the G20 looks much more like a construction site than an established and fully functioning institution. It may prefigure a new mode of global governance, the form of which is not yet known.

But, for now, the G20 is essentially a laboratory: it analyses a changing international order and tries to organise it.

#### **Result of metamorphosis**

The G20 reflects the complexity of a world order in which lines that were still familiar in the late 20th century have become blurred. The 'East' and 'West' have disappeared, leaving – both within the former western camp and the opposite side – deep uncertainties regarding the promotion of political progress. The sharp division between 'North' and 'South' has dissolved. The difference between 'developed' and 'developing' does not systematically

Using test tubes to grow plants in Korea. The G20 is acting as a testing ground for new international codes

match national borders: China, India and Brazil are both very rich and very poor. The issue of underdevelopment, which used to refer to a neat wealth/poverty nexus, has become a general problem of inequality that is de facto transnational. International actors have changed, too. Sovereign states, consecrated by the United Nations system as the paramount actors in world affairs, must now accommodate, negotiate and cooperate with a host of other actors – public and private, subnational and supranational. The G20, by its very composition and evolving modus operandi, mirrors these changes.

### Space for analysis

The G20 is also an arena where the world's socioeconomic changes are examined and where new codes and modes of international relations are tested. It regularly calls on the expertise of specialised organisations, such as the Organisation for Economic Co-operation and Development (OECD), the International Labour Organization (ILO) and the Food and Agriculture Organization (FAO), to provide assessments of global issues such as taxation, growth, employment and food. The old powers of the North are learning to work on an equal footing with the emerging South, and the latter is increasingly part of the solution rather than the problem. The 19 sovereign states of the G20 are establishing new channels of communication with regional groupings – not just the European Union but also others, such as the New Partnership for Africa's Development (NEPAD) or Association of Southeast Asian Nations (ASEAN) – that are regularly invited to the summit.

Very different countries – secular and religious, democratic and authoritarian, highly developed and less developed – collectively define an agenda for discussion. Actors with often divergent interests are testing their ability to cooperate on concrete topics such as currency, agricultural commodities and job creation. In this era of global impatience, the results look mixed, but they are never insignificant. The very fact that such diverse actors are engaged in this collective process is an achievement. As José Manuel Barroso, president of the European Commission and, as such, an expert in supranational management, noted, it is indeed “a huge step forward that would not have been possible a few years ago”.

### Questions over legitimacy

The G20, according to its critics, is not legitimate, or, according to many of its supporters, sufficiently legitimate. The G20, say the former, does not include all member states of the UN, particularly any least-developed countries (LDCs). Measuring the legitimacy of the G20 on the basis of this correct observation is to forget that legitimacy is not an objective concept, but a political one. In international politics, legitimacy derives from a consistency between norms that are accepted at a given historical moment and the actions of those who share them. International legitimacy cannot be achieved by simply lining up a great number of states. Yet if the legitimacy of the G20 were only a matter of numbers, the majority of the world population living below the poverty line resides in emerging countries, not in LDCs. This has to do with the very unequal pattern of development experienced by most emerging countries – a phenomenon amplified by the demographic size of some of them, starting with China and India. As the major emerging countries are represented in the G20, so are the majority of the poorest inhabitants of the planet.

The most radical sceptics fear that the G20 is about to take over the UN. But it is difficult to detect, in either the G20's declarations or its initiatives, any intention to make such a bold bid. On the contrary, what looks obvious is that its members, individually and collectively, recognise the need to maintain a place where all the world's states can congregate.

The ‘pro-G20’ side commonly argues that the G20's relative lack of legitimacy is counterbalanced by efficiency. That efficiency is usually measured by comparing UN unwieldiness with G20 swiftness. Undeniably, the G20 reacted rapidly to the financial crisis in 2008; it was also instrumental in reforming voting rights at the International Monetary Fund (IMF). But again, deciding whether a given entity (international or domestic) is efficient depends on the definition of its mission. In the case of the G20, this definition is an ongoing process. So far, its mission is more limited than that of any major international organisation.

### Distinct identity

Many have said that the new ‘G’ will replace the G8. However, as John Kirton, a longtime observer of both the G8 and the G20, has argued, this will probably not happen. Major topics addressed by the G8, such as security-related ones, would be difficult – if not impossible – to transfer to the G20 agenda. At the 2011 G8 Deauville Summit, French president and host Nicolas Sarkozy noted that the “democratic family” needs a place to meet. But that family picture is incomplete: India and Brazil, at least, should be included. In the absence of any global association of democracies, the G8 is an imperfect, yet useful, forum for like-minded countries.

The historical trajectories of the G8 and G20 differ significantly. The invitation from the G7 to Russia in 1997, rather than to China, was a clear reference to the dying repertoire of the Cold War. The G20, which was first a G22 and then a G33, emerged from the events

Actors with often divergent interests are testing their ability to cooperate on topics such as currency, agricultural commodities and job creation

that followed the fall of the Berlin Wall, ranging from the financial crises of the 1990s in East Asia, Russia and Latin America to the ongoing turmoil in Europe and the United States. Having different origins, the two ‘G’ groups are most likely to have different destinies. The G8 has remained an informal entity, which does not imply that the G20 should or should not do the same. In August 2010, President Sarkozy raised the idea of a permanent secretariat for the G20, although this quietly disappeared from the French G20 presidency's agenda. Canadian analysts Roy Culpeper and Joe Ingram have argued that their country, one of the founders of the G20 and indeed a very engaged one, should become the permanent home of the G20. The French could warm up to the prospect of Montreal being to the G20 what Brussels has been to the European Commission.

But on the eve of the Cannes Summit, the debate on institutionalisation looks speculative, at best. The G20 is a novel framework that tries – and, in many regards, succeeds – to reinvent international cooperation; the organisation is obviously too busy to think whether it should be nomadic or sedentary. ♦



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### **Books on the G8 and Related Issues** **from Ashgate Publishing**

*Securing the Global Economy: G8 Global Governance for a Post-Crisis World*, Andreas Freytag, John Kirton, Razeen Sally and Paolo Savona, eds. (Global Finance Series)

*Making Global Economic Governance Effective*, John Kirton, Marina Larionova and Paolo Savona, eds. (Global Finance Series)

*Financing Development*, Michele Fratianni, John Kirton and Paolo Savona, eds. (Global Finance series)

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# Accountability in G20 governance

*Accountability and transparency are important elements in ensuring that the G20 is delivering on its commitments, but few formal mechanisms exist for holding member countries answerable for their decisions and the subsequent effects*



**By** Marina Larionova, International Organisations Research Institute, Higher School of Economics; and Ella Kokotsis, G20 Research Group

**T**o retain its credibility and legitimacy as the centre of global economic governance, the G20 must demonstrate continued value, leadership and effectiveness. Accountability is a critical component in demonstrating the G20's effectiveness, as implementing commitments ensures that promises made are promises kept.

The question of accountability and effective follow-up is not new to the G20. Meeting for their first summit in Washington in November 2008, the leaders devoted a section of their declaration to 'Strengthening Transparency and Accountability'. In it they emphasised the importance of implementing their commitments through detailed targets and timelines. In establishing an action plan to implement principles for financial and regulatory reform, the G20 tasked their finance ministers with the responsibility of ensuring that the commitments were "fully and vigorously implemented".

In Toronto in 2010, Canadian prime minister Stephen Harper said that accountability would be the "defining feature" of both the G8 and G20 summits that he was hosting. Indeed, the G8's *Muskoka Accountability Report* was the product of the first comprehensive accountability mechanism ever created by the G8 and supported by a senior-level working group, with a consistent methodology for reporting on key commitments.

In delivering the report as promised, the leaders expressed their pledge to implement their decisions and strengthen the effectiveness of their actions. Yet despite the letter in March 2010 by Harper and leaders of the United States, the United Kingdom, Korea and France to other G20 members asserting that "we are all accountable" and "now is the time for the leaders of the G20 to commit themselves and deliver on the ambitious reform objectives and agenda", the G20 summits in Toronto and Seoul failed to produce an accountability mechanism similar to that of the G8.

Much of the criticism of the G20's accountability deficit derives from two sources: the group's lack of formal authorisation and the lack of key accountability components, including standards, sanctions, shared values, norms and information. Nonetheless, the G20 submits to accountability mechanisms insofar as the leaders mandate their ministers, experts and working groups to report on progress made on decisions rendered. In addition, the G20 often requests relevant international organisations to report publicly on G20 compliance with their commitments. There are also actors such as non-governmental organisations (NGOs), academic institutions and international organisations that hold the G20 accountable on the impact of their decisions on economies and societies.

#### Reports and assessments

Since 2008, there have been 53 publicly available reports on G20 accountability. The two main types are those mandated by the G20 and those initiated by actors seeking to hold the G20 accountable. The authors can be classified

“ The individual and collective performance of G20 members should be evaluated more rigorously, and there should be more consultation with those affected by G20 decisions. Addressing these shortcomings may improve the G20's performance ”

as G20 structures, international institutions, academic institutions and NGOs. These reports address the four accountability aspects of transparency, consultation, evaluation and correction. Some provide evidence for each G20 member rather than an aggregated assessment. Many provide recommendations that promote consultation, and some offer scores and performance ratings.

Most of these reports (29 in total, or 55 per cent) were produced by international organisations, with 24 mandated by the G20. Five were initiated by the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO), and assessed G20 members' compliance with commitments to fight protectionism, enhance tax transparency, and promote employment and social protection policy.

The first WTO report on compliance with the anti-protectionist commitment made at the G20 Washington Summit, which was published in January 2009, was not requested by the G20. But at the London Summit later that year, the G20 leaders called on the WTO to continue to monitor their adherence to this commitment. Most of the reports (18) by international organisations provided

evidence based on individual G20 members' performances, whereas 11 presented data in aggregated form. None of these reports provided a scoring methodology, and only five offered recommendations for future action. Overall, the number of reports produced by international organisations has been steadily increasing: two at London, six at Toronto and eight at Seoul.

Eight reports have been produced by various G20 institutions at the mandate of the leaders. All reports present aggregated data without an evidence base or a scoring methodology. Furthermore, these reports do not propose recommendations for future action, apart from the two reports by the G20 trade finance experts group.

Seven of the reports (13 per cent) were by academic institutions. Nine reports (17 per cent) were released by NGOs. These 16 reports were self-initiated, provided a distinct evidence base and tracked individual compliance of G20 members, thus contributing to the transparency and credibility of the assessments. The academic institutions assessed G20 compliance using a scoring system and ratings, which were absent from other accountability reports.

It is the quality and not the quantity of G20 accountability that should be addressed. Accountability is being practised in a dispersed, but not shared, fashion. Accountability procedures are indirect. The accountability mechanisms are weak and need to be strengthened, and the technocratic nature of the accountability reports renders them inscrutable to the public. The reports by academic institutions and NGOs lack recommendations. International organisations either do not provide evidence by member or do not offer recommendations, while the G20 structures' reports contain neither evidence base nor assessments nor any recommendations.

The G20's pursuit of its mission thus lacks transparency on delivery. The individual and collective performance of G20 members should be evaluated more rigorously, and there should be more consultation with those affected by G20 decisions. Addressing these shortcomings of the accountability system may improve the G20's performance.

#### Advancing G20 accountability

Two major steps are required for the G20 to advance its accountability at its 2011 Cannes Summit. First, the G20 should recognise that effective leadership means going beyond simply identifying inputs (such as resources allocated and programmes created) to developing a regular, clear and transparent reporting mechanism.

Such a mechanism would need to acknowledge its own limitations, the most important being that of attribution. On many environment- and development-related initiatives, the G20 must rely on partner organisations, NGOs, private foundations, civil society and the private sector to contribute to the successful outcome of its goals. G20 interventions are therefore influenced by how all these partners and groups come together to deliver results.

As with the G8, an ongoing accountability working group is essential in ensuring that the G20 stays on track. It would make sure that consistent methodologies allow for rigorous assessments, that standard and quantifiable terms are employed, that common benchmarks and baselines exist, and that adequate monitoring systems on the ground provide for the timely and reliable information essential to results-oriented reporting.

This type of self-reporting and accountability has a positive impact. Holding themselves publicly accountable places added pressure on G20 leaders to comply with their global commitments. To stay on track after Cannes to Mexico in 2012 and beyond, the G20 can enhance its credibility as the centre of effective global economic governance by providing candid self-assessment on its collective accomplishments and reporting on them in a clear, transparent and measurable way. ♦

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# A role for parliaments and civil society

*The first meetings of the G20 were informal, pragmatic summits, but it is time now for a more structured framework to be set up for the organisation, with input from both the politicians and the civil societies of the member states*

By Olivier Giscard d'Estaing, Comité pour un parlement mondial

People have lost faith in their leaders and their governments. This phenomenon is apparent in the outcomes of recent parliamentary elections, which condemn the governments in place, whether they be right-wing, left-wing or centrist. Worse still, public revolts attempt to remove leaders from office, while the leaders try to stay in power in the name of their constitutional legitimacy. These events can lead to long and bloody civil wars, followed by oppressive trials.

Admittedly, the current crisis in public finance, the associated economic slowdown and rising unemployment are a heavy burden. Daily criticism in the media stirs public opinion and casts doubt on the ability of governments to take reassuring corrective steps.

In reality, everyone is responsible for these public deficits, which are the cause and consequence of astronomical debts. These debts represent 100 per cent of the United States' gross domestic product (GDP). In the eurozone, they exceed the maximum of 60 per cent established in the Maastricht Treaty. Some governments' and parliaments' budgets present such deficits that they can be financed only through government loans, with unbearable budget liabilities in terms of interest and repayment. Add to that the mismanagement of public funds, errors and, in some cases, corruption.

But, overall, governments' decisions are based on how they perceive the need to spend to meet citizens' requirements, expressed by voters and unions and amplified by the media. These choices can be unpopular, as governments are forced to make sacrifices in jobs, the social safety net, salaries and retirement plans, that in turn lead to decreased consumption, increased unemployment and further dissent.

## Leaders under fire

Unwavering resistance that does not protect the public interest, but simply works to win back power, leads to the criticism of reasonable, often courageous and potentially effective measures. The only goal is to make people believe in the incompetence of leaders, who are constantly under fire for everything they do, in public and in private.

Unfortunately, parliamentarians are constantly swayed by their concern for staying in power. Members of the opposition believe that their only chance is to attack the leader and his or her party, which is easy thanks to glaring crises and inequities, and because actions are slow to take effect. All this makes a deep and negative impression on public opinion.

Sometimes, it is the longevity of the leaders and their political parties that people can no longer stand. Staying

in power for too long warps those who wield it. Isolation and arrogance, combined with supreme power, make such leaders perfect targets for the press. Worse still are unchecked corruption and accumulated wealth, which can reach such proportions that they can cause only hate and rejection.

Yet for economics and politics to work, trust is key. It motivates and stimulates labour, investment and consumption. How can this situation, which affects not only states but also leaders' meetings, particularly those of the G8 and G20, be rectified? A good communications policy is essential, but its effects are limited. The public's economic and political education, needed for understanding complex problems and assessing proposed solutions, is inadequate. Moreover, critics always claim that any action is intended to keep those in power where they are.

Two possible solutions exist: basic economic and civic education, and a new approach to the role of parliament, which is the only way to democratise international political life.

## Economic education

From a very young age and throughout school, students must learn about how the economy works. Their education must also help shape their character, and teach community involvement and responsibility. Such schooling will generate effects in the medium term and thus must be supplemented by short – week-long or evening – programmes for adults, with international participation, dealing with national and worldwide economic and social issues.

Members of parliament and senators represent the sovereign power of democracy. They decide the laws; they appoint or revoke the government; they connect power and people. So parliamentary participation in the work of the G8 and G20 must be organised. Such participation could take the form of two special sessions of parliament, designated for this purpose by national or continental parliaments, such as those of the European Union or the African Union. Such sessions could each last a week, and could take place three months before and after the leaders' meetings.

In addition, the way that the G8 and G20 operate must be addressed, because the leaders – all remaining in power – are the only players involved. At first, these summits were simple consultations among leaders, like the meetings of finance ministers at the Organisation for Economic Co-operation and Development (OECD). The benefits were to know each other better, to compensate for bilateral meetings, to familiarise themselves with other national policies and, above all, to take into account – and even



Schooling for students on the economy must be supplemented by short programmes for adults on economic and social issues



influence – the national policies of each member country. These summits subsequently led to joint decision-making, and to interventions of a financial or regulatory nature.

The expansion from the G8 to the G20 was necessary. The presence of new participants makes it possible to associate great countries from all continents with this coordination, and change the image of a G8 favouring large, wealthy states.

But the will of the people, and economic necessities, demand more: these annual meetings have become exceptional opportunities for collective decision-making with global impact. People expect more than the summits can offer, and the resulting disappointments compromise the necessary trust they deserve. There is no institutional framework, no democratic participation and no system to follow up. However, the analysis conducted by the University of Toronto's G8 and G20 Research Groups does provide detailed assessments of summits and their follow-ups in each member state. This private initiative could serve as a model for an indispensable regular evaluation of the leaders' actions.

At first, the informal and pragmatic nature of the summits ensured their continuation. Anglo-Saxon countries prefer this type of process, which depends on experience rather than written texts for every consensus, which is hard-won. This approach echoes an emphasis on jurisprudence over a civil code. But it is no longer enough: there can be no major international action without first establishing and adopting the institutional framework for its implementation.

#### Multilateral mission

Given its charter and number of members, the United Nations cannot take on this mission of multilateral economic governance. Attempts to reform its charter with a two-thirds majority have failed. Voting members could not even agree on changes to the composition of the Security Council. And despite their beneficial role, UN agencies have neither the financial means nor the institutional framework necessary to fulfil their missions. There have been UN programmes established recently with medium-term objectives that mobilise global goodwill, but they lack the compelling nature needed to achieve the desired goals.

Often under the impetus of the G8 or G20 chair as part of the presidency, national and international meetings are organised that involve representatives from

nongovernmental organisations, government ministries, experts and researchers to prepare the summits' work. In addition, there are meetings of the members' ministers involved in the economy and finance, domestic issues, the environment, foreign affairs, health, education and research, to name but a few, assisted by leaders' representatives, or 'sherpas'. These meetings are fruitful opportunities for the members to exchange ideas, share experiences and establish cordial relations, as well as to present proposals and analyses of needs and appropriate action.

All of these activities are a primer for multilateral governance, but they lack an institutional framework for action. To consolidate these efforts, to reassure the public, to manifest a concern for involving players in public life, an institutional framework should be enshrined in a treaty that fosters, among other things, a democratic and parliamentary approach to global governance.

#### Input from leaders

The proposal of a treaty instituting the G8 or G20 should be examined at the initiative of several leaders, as has always been the case for the creation of international entities: it was on the initiative of Robert Schuman, France's minister of foreign affairs, that the six countries of France, Germany, Italy, Belgium, Luxembourg and the Netherlands adopted the treaty instituting the European Coal and Steel Community in 1951 – which eventually led to the establishment of the EU. Similarly, the UN Charter was signed in 1945 by the 51 founding countries, based on proposals drafted by the leaders of the United States, the United Kingdom, China and Russia.

This new treaty would confirm current practices, but could also innovate to help create true global economic governance. The terms of reference, meetings and key themes to be addressed would be specified, reaffirming the principle of subsidiarity and the conditions for admission into this international community, in which invited members would decide to take part. Provisions would have to be made for international taxes to finance their operations and interventions, a parliamentary assembly and a court of audit.

The historical evolution towards a new model will take time, since many political leaders still defend their national sovereignty. Nonetheless, such a project is the best response to concerned citizens and anti-globalisation protestors, whose revolts could mark the start of a new ordeal accompanied by unbearable violence. ♦

Voting in a general election in Bermuda. Any treaty for the G8 or G20 needs to foster a democratic and parliamentary method of working



# The Astana consensus to meet today's challenges

*Last May's gathering of experts from a wide variety of professional communities at the 2011 Astana Economic Forum produced a wealth of proposals for meeting today's economic challenges, and which should be adopted by the G20 members*

By Astana  
Economic Forum

In May 2011, the fourth Astana Economic Forum assembled more than 5,000 people from 80 countries, including economists, politicians, academics and business people to focus on the global economy and finance, business and investment, and society and development. Participants included members of the Club of Madrid, the Reinventing Bretton Woods Committee and the G20 Research Group, as well as the Astana Club of Nobel Prize Laureates members John Nash Jr, Roger Kornberg, Robert Mundell, Sir James Mirrlees, Robert Aumann, Finn Kydland and others. During the two-day forum, they developed several recommendations for the G20.

## **The world economy and international monetary system**

The G20 should solve global financial imbalances, including high price volatility and exchange-rate disparities, a non-equilibrium system of reserve currencies, the state of public finances of the countries that provide the world currencies, and bias in rating sovereign emitters and uncontrollable derivatives. Doing so involves the following:

- Forming a permanent committee to discuss creating a subnational world currency, including choosing the source, determining the principles for participation, preparing the financial tools to be denominated in the supranational currency and identifying projects to provide such tools;
- Elaborating standards for determining the key indicators of the financial status of developed countries in order to maintain stability and predictable currency rates;
- Moving from sovereign credit ratings by rating agencies to ratings from authoritative international organisations – such as the United Nations, the World Bank and the G20 – that provide objective indicators;
- Restricting investment in currency derivatives, cutting off speculative capital from operations in currency markets, returning to separating credit and investment in banks.

## **International financial institutions**

To boost the legitimacy and efficiency of the international financial institutions, the G20 should do the following:

- Give more voting rights to developing countries by reducing the veto of the United States, decreasing the majority required from 85 per cent to at least 70 per cent and reducing Europe's predominance;
- Consider including population and reserves in calculating the quotas of the International Monetary

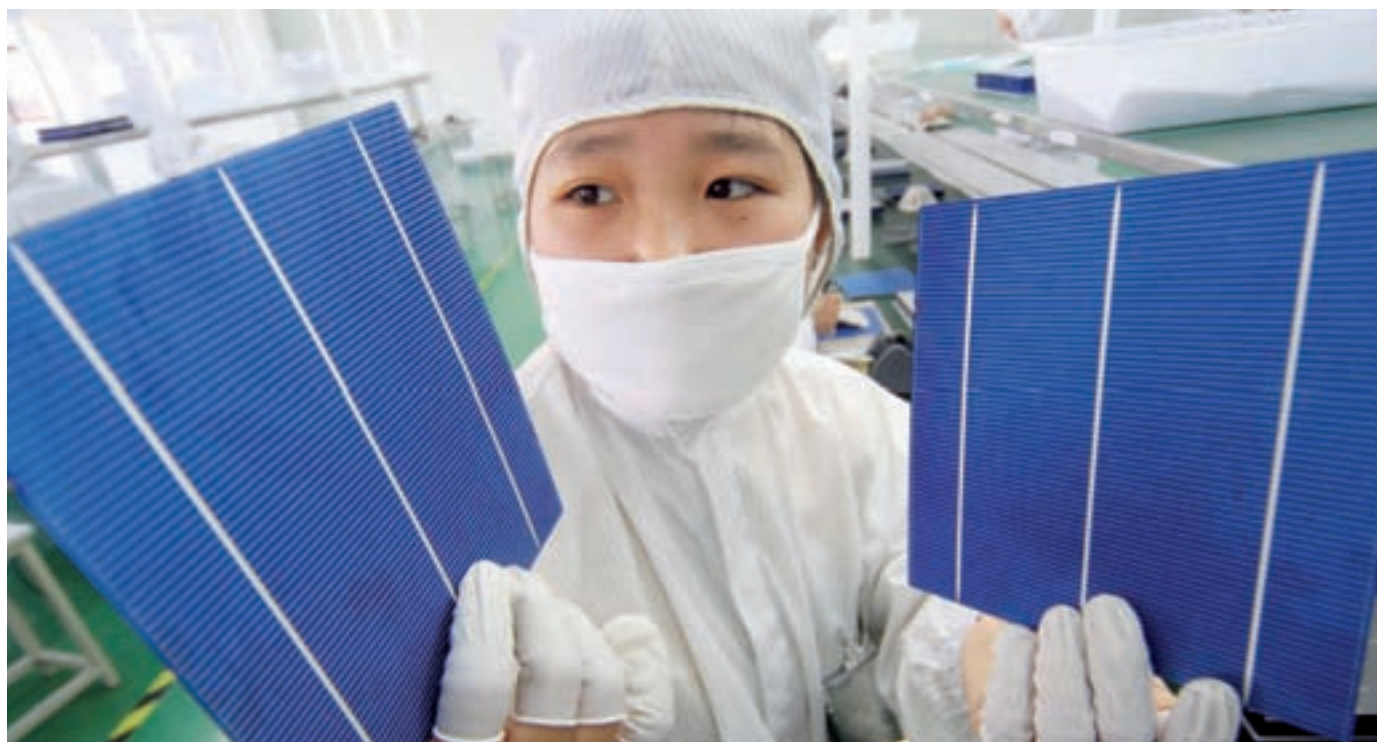
Fund (IMF), as currently 80 per cent of the formula is based on gross national product;

- Select the managing director of the IMF and the president of the World Bank according to professional merit, rather than maintaining the tradition of appointing a European to the IMF and an American to the World Bank;
- Create a new IMF council that will ensure more active participation at a high political level of country members, which will diversify the and rebalance quotas;
- Create a mechanism for automatically recapitalising development banks to improve their ability to react quickly to crises.

## **Financial regulation and supervision**

The recommendations on reforming domestic financial regulation and supervision are as follows:

- Implement the commitments agreed to by the G20;
- Create an effective, transparent, independent and authentic mechanism for all G20 members to report their progress in implementing their commitments on financial regulation and supervision;
- Set out the principles and processes for promoting financial regulations that would apply to all, including developing countries;
- Supplement the work of the Financial Stability Board (FSB) by involving the private sector, which possesses broad knowledge about complex markets, tools and institutions.
- Make financial regulation and supervision a high-grade component of IMF consultations under Article IV, especially in cases where budgetary restrictions prevent a country meeting its obligations as quickly as required;
- Advance work on the shadow banking sector;
- Apply bank charges only in countries where banks and other financial institutions have needed urgent financial support as a result of the 2007-08 financial and sovereign debt crises;
- Conduct stress tests on banks, insurance companies and financial institutions to assure their stability in the face of especially powerful shocks;
- Establish solid regulations for the commodity markets that allow for increased manufacturing and improved distribution of raw materials;
- Set out the principles and processes for the merger, absorption and competition policy of stock exchanges;
- Require national supervising bodies to give more attention to regulating and supervising the housing and commercial real-estate markets on an international basis.



### Trade and investment

To support international trade and investment, the G20 should do the following:

- Correct world trade imbalances by adjusting exchange rates and stabilising internal savings;
- Use fiscal measures to support investment and eliminate tax dumping from offshore countries and zones;
- Maintain measures to stimulate the incomes (credit terms, salary levels) and private business (tax stimulus and liquidity), with special attention to low-income developing countries;
- Increase the state's responsibility to distribute incomes by rebalancing the rights and responsibilities of investors and the state;
- Remove barriers to foreign trade and investment by ensuring that the growing trend to selective industrial policies does not create barriers to trade and investment in developing countries;
- Create investment conditions congenial to foreign investors and investment hubs;
- Make investors more responsible for the ecological consequences of investments and manufacturing;
- Help conclude the successful Doha round of negotiations of the World Trade Organization.

### Food and agriculture

To increase short- and long-term food security, the G20 should do the following:

- Demand that governments and international organisations expand food aid where needed by establishing a social protection system for the local population, preventing crisis situations early and creating a mechanism to react quickly to possible crises;
- Increase economic growth as the best strategy to reduce poverty, improve food security and increase agriculture productivity;
- Invest in social protection and social support to soften the most serious consequences of financial shocks and limit long-term consequences;
- Support investments in agricultural infrastructure as a priority by governments, international organisations and donors;
- Develop agricultural social infrastructure to improve the rural business environment and human capital.

Promoting measures to increase investment in new innovations – including these solar panels and other green energy technologies – is one way that the G20 can stimulate global economic growth

### Green economy

In the short term, the green economy can provide growth in gross domestic product, increase per capita incomes and employment.

In the long term, it will preserve the environment and reduce social inequality. The G20 should therefore do the following:

- Eliminate inefficient grants and free-up national budget resources for ecological or social priorities.
- Eliminate trade barriers for ecologically friendly goods and services to accelerate the replacement of old technologies and reduce pollution levels and environmental damage caused by waste;
- Increase financing for innovation in developing clean technologies;
- Use fiscal stimulus to invest in the green economy;
- Increase state purchases of green goods and services;
- Include the economic consequences of ecological loss in national accounting systems, focusing on biodiversity and ecosystem services that justify additional financing and employment;
- Enhance the use of alternative energy to sharply decrease greenhouse-gas emissions;
- Include the findings of *A Global Energy and Environmental Strategy for Sustainable Development in the 21st Century*, prepared by Nursultan Nazarbayev, president of Kazakhstan, in the agenda of the 2012 Conference of the United Nations on Sustainable Development (Rio+20).
- Create a world energy ecological bank modelled on the World Bank.

### Conclusion

The 2011 Astana Economic Forum demonstrated that a global gathering of committed experts from many professional communities can come to consensus on specific innovative ideas to meet the current challenges to the global economy.

The fifth forum, on 22-24 May 2012, will thus continue this effort on a greater scale, inviting leaders of national governments, science, business, arts and culture to focus on investment policy. It will also include a meeting of heads of large companies on the eve of the forum, within the framework of the Foreign Investors Council. ♦

**Argentina** | Cristina Fernández de Kirchner

Cristina Fernández de Kirchner became president of Argentina in December 2007 after winning the general election in October. She replaced her husband, Néstor Kirchner, who had been president since May 2003. She is Argentina's second female president, but the first to be elected. Prior to her current position, she was a senator for the provinces of Buenos Aires and Santa Cruz. She was first elected to the Senate in 1995, and in 1997 to the Chamber of Deputies. In 2001 she won a seat in the Senate again. Born on 19 February 1954 in La Plata, Buenos Aires, Kirchner studied law at the National University of La Plata. She and her husband have two children. This will be Kirchner's sixth G20 summit.

**Finance minister:** Amado Boudou | **Central bank governor:** Mercedes Marcó del Pont | **Sherpa:** Alfredo Chiaradia

**Australia** | Julia Gillard

Julia Gillard became prime minister of Australia on 24 June 2010, replacing Kevin Rudd, who had held the position since 2007. Before entering into politics, Gillard worked as a lawyer. From 1996 to 1998, she served as chief of staff to opposition leader John Brumby. Gillard was first elected as a member of the House of Representatives in 1998. She has served in various positions, including shadow minister for population and immigration, shadow minister for health and deputy leader of the opposition. From 2007 to 2010, Gillard served as deputy prime minister. She was born in Barry, Vale of Glamorgan, Wales, on 29 September 1961 and emigrated to Australia in 1966. She earned a bachelor of arts and bachelor of law in 1986 from the University of Melbourne. She lives with her partner, Tim Mathieson. This will be second G20 summit that Gillard has attended.

**Finance minister:** Wayne Swan | **Central bank governor:** Glenn Stevens | **Sherpa:** Gordon De Brouwer

**Brazil** | Dilma Rousseff

Dilma Rousseff was elected the 36th president of Brazil on 31 October 2010 and inaugurated on 1 January 2011. In 2002, Luiz Inácio Lula da Silva appointed her minister of energy. In 2005 she became chief of staff and remained in office until 31 March 2010, until stepping down to run for president. She was born in Minas Gerais, Brazil, on 14 December 1947. Rousseff studied economics at the Minas Gerais Federal University School of Economics and did postgraduate studies in economics at the Campinas State University. She is divorced from Carlos Franklin Paixão de Araújo, with whom she has one child. This will be Rousseff's first G20 summit.

**Finance minister:** Guido Mantega | **Central bank governor:** Alexandre Tombini | **Sherpa:** Valdemar Carneiro Lêao

**Canada** | Stephen Harper

Stephen Harper was elected prime minister of Canada in January 2006, assuming office from Paul Martin in February with a minority government. Harper ran for re-election in 2008 and again on 2 May 2011, when he returned to the House of Commons with a majority. Before running for politics he served as a policy advisor for the Reform Party. He was first elected as a member of parliament in 1993. He served as leader of the opposition for several years before becoming prime minister. Harper was born in Toronto, Ontario, on 30 April 1959. He studied at the University of Toronto and the University of Calgary, earning his master's degree in economics in 1991. He and his wife, Laureen, have two children. This will be the sixth G20 summit that Harper has attended.

**Finance minister:** James Flaherty | **Central bank governor:** Mark Carney | **Sherpa:** Louis Lévesque

**China** | Hu Jintao

Hu Jintao has been president of the People's Republic of China since March 2003. He replaced Jiang Zemin, who had held the position since 1989. Hu also serves as general secretary of the Communist Party of China's (CPC) Central Committee and chair of the Central Military Commission. Before entering politics he worked as an engineer. He joined the CPC in April 1964 and began working with the party in 1968. In 1992, he was elected to the Standing Committee of the Political Bureau of the CPC Central Committee and was re-elected in 1997. He became vice-president of China in March 1998 and vice-chair of the Central Military Commission in 1999. In 2002, Hu was elected general secretary of the CPC Central Committee. Born in Jiangyan, Jiangsu, on 21 December 1942, he received his engineering degree from Tsinghua University in 1965. He is married to Lui Yongqing and they have two children. This will be Hu's sixth G20 summit.

**Finance minister:** Xie Xuren | **Central bank governor:** Zhou Xiaochuan | **Sherpa:** Tiankai Cui

## France | Nicolas Sarkozy



Nicolas Sarkozy became president of France in 2007, taking over from Jacques Chirac, who had held the position since 1995. Sarkozy worked as a lawyer while he pursued politics. From 1983 to 2002, he was mayor of Neuilly-sur-Seine. He has been president of the Union pour un Mouvement Populaire since 2004. During his time in parliament he has held several cabinet portfolios, including minister of state of the economy, finance and industry, minister of the budget and minister of the interior. Sarkozy was born in Paris on 28 January 1955 and received his law degree from the Université de Paris in 1978. He is married to Carla Bruni and has three children from two previous marriages. This will be the sixth G20 summit that Sarkozy has attended, and his first as host.

**Finance minister:** François Baroin | **Central bank governor:** Christian Noyer | **Sherpa:** Xavier Musca

## Germany | Angela Merkel



Angela Merkel became chancellor of Germany in 2005, replacing Gerhard Schröder, who had been in power since 1998. Before entering politics she worked as a researcher and physicist. She was first elected to the Bundestag in 1990 and has held the cabinet portfolios for women and youth, environment, nature conservation and nuclear safety. She was born in Hamburg on 17 July 1956 and received her doctorate in physics from the University of Leipzig in 1978. She is married to Joachim Sauer and has no children. This will be Merkel's sixth G20 summit.

**Finance minister:** Wolfgang Schäuble | **Central bank governor:** Jens Weidmann | **Sherpa:** Joerg Asmussen

## India | Manmohan Singh



Manmohan Singh became prime minister of India in May 2004, replacing Atal Bihari Vajpayee, who held the position from 1998 to 2004 and also for a short period in 1996. Singh was re-elected in May 2009. Before entering into politics, he worked as an economist, including for the International Monetary Fund. He was governor of the Reserve Bank of India from 1982 to 1985. Singh was first elected to the upper house in 1995. He was re-elected in 2001 and 2007 and has held cabinet positions including minister of finance and minister for external affairs. Singh also served as minister of finance from November 2008 to January 2009. He was born in Gah, Punjab (now known as Chakwal district, Pakistan), on 26 September 1932. He received his bachelor's and master's degrees from Punjab University in 1952 and 1954. He also received an additional undergraduate degree from Cambridge University in 1957 and a doctorate from Oxford University in 1962. He and his wife, Gursharan Kaur, have three children. This will be Singh's sixth G20 summit.

**Finance minister:** Pranab Mukherjee | **Central bank governor:** Duvvuri Subbarao | **Sherpa:** Montek Singh Ahluwalia

## Indonesia | Susilo Bambang Yudhoyono



Susilo Bambang Yudhoyono assumed the presidency in October 2004, replacing the incumbent Megawato Sukarnoputri. He was re-elected for a second term in July 2009. Before entering politics, he served as a lecturer and a military general. His first experience in politics came when he was appointed minister of mines and energy in 1999. Yudhoyono later served as coordinating minister for politics and security. He was born on 9 September 1949 in Pacitan, East Java. He received his doctorate in agricultural economics from the Bogor Institute of Agriculture in 2004. He and his wife, Kristiani Herawati, have two children. This will be Yudhoyono's sixth G20 summit.

**Finance minister:** Agus Martowardojo | **Central bank governor:** Darmin Nasution | **Sherpa:** Mahendra Siregar

## Italy | Silvio Berlusconi



Silvio Berlusconi became prime minister of Italy for the third time after winning the 2008 election. Before entering politics, he started his career as a building contractor. In 1980, he established Canale 5, the first private national television network in Italy. He also became a leading Italian publisher with Mondadori. In 1994 he resigned from Gruppo Fininvest in order to establish the political movement Forza Italia. In the same year, he became president of the Council of Ministers for the first time. In 2001 he became prime minister again – an office he held until 2006. Born in Milan on 29 September 1936, he received his law degree from the University of Milan. He is separated from Veronica Lario and has five children. This will be the sixth G20 summit that Berlusconi has attended.

**Finance minister:** Giulio Tremonti | **Central bank governor:** Mario Draghi | **Sherpa:** Bruno Archi

**Japan** | Yoshihiko Noda

Yoshihiko Noda was appointed prime minister of Japan on 2 September 2011, after Naoto Kan resigned in August. Noda served as finance minister since June 2010, and senior vice finance minister in 2009. He was first elected to public office in 1987 in Chiba prefecture and then, in 1993, to the national Diet. Born in Funabashi, Chiba prefecture, on 20 May 1957, he is a graduate of School of Political Science and Economics at Waseda University. He is married and has two children. This will be Noda's first G20 summit.

**Finance minister:** Jun Azumi | **Central bank governor:** Masak Shirakawa | **Sherpa:** Shinichi Nishimaya

**Korea** | Lee Myung-bak

Lee Myung-bak became president on 25 February 2008, replacing Roh Moo-hyun, who had occupied the position since 2003. Lee joined the Hyundai Construction Company in 1965 and eventually became chief executive officer of the Hyundai Group before being elected to the Korean National Assembly in 1992. In 2002 he was elected mayor of Seoul, a position he held until 2006. He was born in Kirano, Osaka, Japan, on 19 December 1941. He received a degree in business administration from Korea University in 1965. Lee and his wife, Kim Yun-ok, have four children. This will be his sixth G20 summit.

**Finance minister:** Yoon Jeung-hyun | **Central bank governor:** Kim Choong-soo | **Sherpa:** Lee Jong-hwa

**Mexico** | Felipe Calderón Hinojosa

Felipe Calderón Hinojosa became president of Mexico in December 2006, replacing Vicente Fox, who had held the position since 2000. In his early twenties Calderón was president of the youth movement of the National Action Party. He later served as a local representative in the legislative assembly in the federal chamber of deputies. In 1995 he ran for governor of Michoacán. He served as secretary of energy from 2003 to 2004. Born in Morelia, Michoacán, on 18 August 1962, Calderón received his bachelor's degree in law from Escuela Libre de Derecho in Mexico City. He later received a master's degree in economics from the Instituto Tecnológico Autónomo de México, as well as a master's degree in public administration from Harvard University. He and his wife, Margarita Zavala, have three children. This will be Calderón's sixth G20 summit.

**Finance minister:** Ernesto Cordero | **Central bank governor:** Agustín Carstens | **Sherpa:** Maria de Lourdes Aranda

**Russia** | Dmitry Medvedev

Dmitry Medvedev became president of Russia in 2008, after winning the presidential election and replacing Vladimir Putin, whose term in office had expired. Before entering politics, Medvedev worked as a legal expert and lawyer. He was officially endorsed as a presidential candidate in December 2007 by United Russia, Russia's largest political party. Medvedev served as deputy prime minister from 2005 to 2008. He was born in Leningrad – now St Petersburg – on 14 September 1965. He earned a degree in law in 1987 and a doctorate in private law in 1990 from Leningrad State University. He is married to Svetlana Medvedeva and they have one child. This will be the sixth G20 summit that Medvedev has attended.

**Finance minister:** Alexei Kudrin | **Central bank governor:** Sergey Ignatyev | **Sherpa:** Arkady Dvorkovich

**Saudi Arabia** | Abdullah bin Abdul Aziz Al Saud

King Abdullah bin Abdul Aziz Al Saud has been in power since August 2005. He replaced Fahd bin Abdul Aziz Al Saud, who had reigned since June 1982. As crown prince since 1987, Abdullah had previously acted as de facto regent and thus ruler since 1 January 1996, after Fahd was debilitated by a stroke. He was formally enthroned on 3 August 2005. He also serves as prime minister of Saudi Arabia and commander of the National Guard. Abdullah is chair of the supreme economic council, president of the High Council for Petroleum and Minerals, president of the King Abdulaziz Centre for National Dialogue, chair of the Council of Civil Service and head of the Military Service Council. He was born 1 August 1924 in Riyadh and has a number of wives and children. This will be Abdullah's fifth G20 summit.

**Finance minister:** Ibrahim Abulaziz Al-Assaf | **Central bank governor:** Muhammad Al-Jasser | **Sherpa:** Hamad Al Bazai

## South Africa | Jacob Zuma



Jacob Zuma became president of South Africa on 9 May 2009, succeeding Petrus Kgalema Motlanthe, who had held the position since September 2008. Zuma joined the African National Congress (ANC) in 1958 and joined the ANC's National Executive in 1977. In 1994, he was elected National Chair of the ANC and chair of the ANC in KwaZulu-Natal. He was re-elected to the latter position in 1996 and selected as the deputy president in December 1997. Zuma was appointed executive deputy president of South Africa in 1999 and held that position until 2005. He was elected ANC president at the end of 2007. Born on 12 April 1949, in Inkandla, KwaZulu-Natal Province, he has received numerous honorary degrees. He has three wives and several children. This will be Zuma's fifth G20 summit.

**Finance minister:** Pravin Jammadas Gordhan | **Central bank governor:** Gill Marcus | **Sherpa:** Siphon George Nene

## Turkey | Recep Tayyip Erdoğan



Recep Tayyip Erdoğan became prime minister of Turkey in March 2003, replacing Abdullah Gül, who had occupied the office since 2002. On 12 June 2011, Erdoğan was re-elected prime minister for a third term. Before becoming prime minister, Erdoğan was mayor of Istanbul from 1994 to 1998. He was born on 26 February 1954 in Rize, Turkey, and studied management at Marmara University's faculty of economics and administrative sciences. He is married to Emine Erdoğan and has two children. This will be the sixth G20 summit that Erdoğan has attended.

**Finance minister:** Mehmet Simsek | **Central bank governor:** Durmus Yılmaz | **Sherpa:** Mehmet Gücük

## United Kingdom | David Cameron



David Cameron became prime minister of the United Kingdom of Great Britain and Northern Ireland on 11 May 2010. He was first elected to parliament in 2001 as representative for Witney. Before becoming a politician he worked for the Conservative Research Department, and served as a political strategist and advisor to the Conservative Party. He has been the leader of the Conservative Party since December 2005. Born in London, England, on 9 October 1966, he received his bachelor's degree in philosophy, politics and economics at the University of Oxford. He is married to Samantha Cameron and has two children. This will be Cameron's third G20 summit.

**Finance minister:** George Osborne | **Central bank governor:** Mervyn King | **Sherpa:** Jonathan Culliffe

## United States of America | Barack Obama



Barack Obama became president of the United States in January 2009, replacing George W Bush, who had held the presidency since 2002. In 2005 Obama was elected to the Senate, having previously worked as a community organiser, a civil-rights lawyer and a state legislator for Illinois. He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and American mother. He received a bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. He is married to Michelle Obama and they have two children. This will be the fifth G20 summit that Obama has attended.

**Finance minister:** Timothy Geithner | **Central bank governor:** Ben Bernanke | **Sherpa:** Michael Froman

## European Union



### | Herman Van Rompuy

Herman Van Rompuy was elected the first full-time president of the European Council on 19 November 2010. He was prime minister of Belgium from 2008 to 2009. Before entering politics, he was a lecturer. Born in Etterbeek, Belgium, on 31 October 1947, he has a bachelor's degree in philosophy and a master's in applied economics from Katholieke Universiteit Leuven. He is married to Geertrui Windels and has four children. This will be his third G20 summit.

**Finance minister:** Jacek Rostowski | **Central bank governor:** Jean-Michel Trichet | **Sherpa:** António José Cabral



### | José Manuel Barroso

José Manuel Barroso became president of the European Commission in November 2004. He was prime minister of Portugal from 2002 to 2004. He studied law at the University of Lisbon, has a master's degree in economics and social sciences from the University of Geneva, and received his doctorate from Georgetown University in 1998. He is married to Maria Margarida Pinto Ribeiro de Sousa Uva and has three children. This is his sixth G20 summit.

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