# How can the G20 really contribute to development?

## CIDSE recommendations to the G20 Russian Presidency
## May 2013

Most of the specific agendas dealt by the G20 leaders are crucial for southern countries and their access to different sources of financing for their public policies of development (Development Agenda, Financial Regulation, Anti corruption action plan, Innovative Financing, etc.)

The Seoul Multi-Year Action Plan on development ends under the Russian Presidency of the G20. This is a useful moment for the G20 to reflect on its role in global development and how to improve its impact to date.

This brief draws attention to some key changes that would improve the G20's track record on providing an inclusive and sustainable recovery, namely:

- To improve mechanisms to hold G20 governments accountable to objectives and commitments.
- To improve development coherence of its core agenda.
- To improve its interactions with civil society groups and low income countries, more able to represent perspectives of poor communities.
- To play to its strengths and highlight neglected agendas.
- To play to its strengths to tackle gaps in global governance and coordination that undermine development impacts in the global economy.
- To improve poverty and sustainability impacts of its "development agenda" to promote inclusive economies and regulate foreign direct investment.

### Improving the development impact of the G20 through greater accountability

*"Today, we reaffirm our commitment to work together and we have taken decisions to reinvigorate economic growth, create jobs, ensure financial stability, promote social inclusion and make globalization serve the needs of the people."*

Cannes Summit, Leaders Declaration, 2011

One of the promises of the G20 has been to make the global economy more fit for the purpose of promoting sustainability, providing jobs and improving its social impacts.
Agreeing and setting these good objectives for its collaboration and work has been an achievement and value-added of the Summits to date.

Additionally, the G20 established the Mutual Assessment Procedure as a tool to make its members more accountable as well as an accountability framework on specific commitments.

However, improvements still need to be made to ensure that the G20 makes progress against its own stated objectives, for example:

- G20 countries have a transparent process to score themselves against their progress to implement commitments.
- G20 countries are measured against objectives to achieve sustainability, jobs and improved well-being, not just aggregate growth.
- G20 proposals are tested for their development coherence. The G20's development impact extends beyond its development action plan. For example, whether the G20 succeeds in imposing effective curbs on speculation will partly determine future volatility of food prices.

There are some low-hanging fruit to move the G20 towards this objective of greater accountability and impact. For example G20 countries should lead by example introducing a new indicator of policy coherence for development including ODA, compliance with international regulatory, tax and anti money laundering standards, etc. To ensure that it measures success against the right objectives, they could support a UN initiative to produce beyond-GDP measures to guide policy-making, and begin to incorporate reporting on progress reducing inequality in G20 and IMF processes.

One easy step toward achieving development coherence is to allow more equal and systematic access to developing country governments and civil society to G20 processes, as well as better coordination with more inclusive UN processes. Whilst there is evidence that financial lobbies have stalled reforms and introduction of taxes, it is also true that the absence of equal and systematic consultation with civil society groups and developing country governments has hampered the adoption and progress of a truly development-friendly agenda.

## Tackling gaps in global governance: Fixing global finance

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

London Summit, Leaders Declaration, 2009

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

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

### Box 1: Regulating finance for development

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

- A framework for cooperation on international banking supervision to replace the current market-based incentives for risk management.
- Regulatory action to separate retail and investment activities in financial institutions.
- Practical and effective plans to deal with global systemically important financial institutions (SIFIs). In Europe the amount of public funding used to bail out banks already surpassed the equivalent of 32 percentage points of European GDP. The capital surcharges on SIFIs, announced by the Basel Committee, intended to compensate for the risks they pose, are too small to reduce risk-taking and are imposed on too narrow a set of firms. The Financial Stability Board (FSB), in formulating plans to improve the capacity of authorities to resolve SIFIs has ignored recommendations to reduce their size and complexity.
- Diligently updating the list of jurisdictions not complying with regulatory standards and imposing sanctions on territories that do not align with international prudential regulation.
- Requiring all financial institutions to limit and declare their activities in such poorly regulated territories.
- With respect to Credit Rating Agencies, providing alternatives to the "issuer pays" model which poses conflicts of interest that compromise the quality of service provided by the agencies. Regulatory measures to remove legal incentives to rely on credit rating agencies from law as per the recent G20-agreed "Roadmap" are welcome but unlikely to reduce that reliance in practice.
- Adopting policy measures to end the conflict of interest of accounting firms who control the accuracy of disclosed financial information and at the same time provide consultancy services, advising clients how to avoid tax obligations while being key members of the international body (IASB) defining international accounting standards.
- Regulating commodity markets to prevent systemic risks and manipulative practices. 'Over The Counter' trading should be carried out in public exchanges. Aggregate speculative position limits (total number and value of contracts for a given commodity) and higher margin requirements should be established and applied equally to all investors. In order to better control market operators, rules should be reintroduced to distinguished such operators from commercial traders. Participation of publicly insured institutions in commodity derivatives trading should also be strongly regulated - if not completely prohibited. Higher margin and capital reserve requirements should be put in place.
- Following the EU's example banning naked Sovereign Credit Default Swaps to combat speculation on sovereign debt.

The need to reform the international monetary system remains urgent. Despite being a priority of the French Presidency of the G20, the actions agreed that year were not at all up to the task. The G20 chose to prioritize discussions on surveillance and lending reforms of anachronistic IMF structures and an increase in IMF lending resources that is out of step with the meager movement in accountability and governance. Regional schemes for monetary coordination, rather than being supported, are being shoe-horned under the IMF under a one-size-fits-all mentality. The discussions on multilateral management of capital flows recently culminated with an "institutional view." While this document recognizes capital management techniques as a necessary part of the toolkit that countries need to have available, it refers to capital account liberalization as a desirable long term goal and subjects the desirability of capital controls to far too many pre-requirements. Reforms towards a system that supports stability, trade, and adjusting global imbalances without recessionary consequences, would involve looking at a revamped system of Special Drawing Rights as the cornerstone of the international monetary system (which could also generate extra development and climate finance), a credible framework for exchange rate management and coordination and supporting greater regional and sub-regional mechanisms for monetary cooperation.

The 2010 agreement by the G20 to give emerging market/ developing countries greater representation and voting power in the IMF's Executive Board has not yet been honored. Neither have the limited changes in voting power agreed previously in 2008. For a third time the G20 has missed its own deadline to review the IMF's quota formula which is long overdue. Even this commitment would not guarantee real equity in vote allocation unless accompanied by a commitment to include consideration of 'demand-oriented' variables that may favor developing countries as against the 'supply-oriented' ones that prevail in the formula today. The agreement to increase representation of developing countries at the Executive Board by reducing the number of European chairs by two should be implemented and the freed up seats must benefit the most crowded constituencies. Even if one of these chairs were to go to African countries, the resultant three African chairs would still have the largest workload.

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

## Highlighting neglected agendas 1: Implementing concrete measures to improve financial transparency and taxation

*"We agree…to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over."*

*"We are committed to developing proposals, by end 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment."*

London Summit, Final Declaration, 2009

*"We reiterate the need to prevent base erosion and profit shifting".*

Los Cabos Summit, Final Declaration, 2012

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

For instance, G20 leaders in Cannes, promoted the Convention of Mutual Administrative Assistance in Tax Matters but nothing has been done to ensure tax havens' participation. The adoption of the convention should be introduced as a new criteria in the peer review evaluation system which aims to measure the degree of compliance at domestic level with international tax transparency commitments. The Global Forum has attempted to tackle some issues relating to information exchange. The country reports published until now are providing very useful information. According to the intermediary report of June 2012, only 12 territories among 79 are entirely compliant with all the transparency criteria (85% of non full compliant countries). It is now the responsibility of G20 countries to keep political pressure on this process and require the OECD to publish a new ranking of tax havens based on the Global Forum evaluations. In order to measure the progress accomplished with the current standards, all G20 countries should publish each year, indicators about the number of requests sent and received, the amount of information exchanged, the corresponding tax base and the amount of money collected. The Global Forum should introduce the shift towards automatic information exchange as a new criterion in the peer review process.

In 2013, G20 countries will also have to adequately address the widespread use of tax-havens by transnational companies (TNCs). TNCs' transparency and tax compliance conduct has been on the agenda of the G20 Development Working Group since 2011 but concrete proposals were still lacking despite unprecedented levels of public outrage against the lack of corporate tax responsibility. In Los Cabos, G20 countries mandated the OECD to produce an action plan on "Base erosion and Profit Shifting" (BEPS), by June 2013. A first diagnosis on BEPS was published in February. This project aims to develop a comprehensive approach in order to simultaneously modify various rules on corporate taxation. The OECD recognises that company taxation rules set up in the first half of the twentieth century are no longer relevant in today's context of big, global transnational corporations. Systemic weakness and loopholes facilitate and encourage tax avoidance in developing countries as well as in rich countries. This project needs to be ambitious, inclusive and consider all the available options to address the current challenges and build a long term alternative.

Building on the leadership shown by the United States in 2010 with the Dodd-Frank Act and the EU Commission's 2011 proposals for reforming the Accounting and Transparency Directives and the Credit Requirements Directive IV it is vital that the G20 does not lose momentum towards a global standard for corporate financial transparency on a country-by-country basis. At the very least, the G20 should make an unambiguous statement supporting a robust global standard for mandatory country-by-country and project-level reporting that establishes meaningful disclosure requirements and a level playing field for extractive industries and key economic sectors in developing countries (telecommunication, construction and banks).

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

1. Implement the recommendations from the UN, IMF, WB and OECD on how to support the strengthening of developing countries' tax systems and lead by example for all the measures that can be implemented at national level (such as the implementation of an impact assessment for each domestic tax measure).
2. Promote a multilateral tool for automatic tax information exchange. G20 countries should use the opportunity of the current bilateral negotiations between USA and almost 50 other countries in the context of the US Foreign Account Tax Compliance Act (FATCA) to build momentum for a multilateral tool providing automatic information exchange. The European Union should adopt a similar rule and claim for automatic information exchange from all its members, all the states under their influence and third countries.

3. Take stronger steps on the collection and publication of 'beneficial ownership' information for all registered companies, trusts, foundations and charities. Nominee directors and shareholders should be required to state on whose behalf they are working, as suggested by the FATF's Recommendation 24.

## Highlighting neglected agendas 2 : Moving forward on innovative sources for climate change and development

*"We reaffirm that climate finance will come from a wide variety of sources, public and private, bilateral and multilateral, including innovative sources of finance."*

Cannes Summit, Leaders Declaration, 2011

Huge sums of new and additional climate finance are needed to help poor countries to deal with the impacts of climate change and ensure the urgently needed transition to a low carbon future. At the UNFCCC talks in Copenhagen in 2009, Cancun in 2010, and Durban in 2011, developed countries reiterated their promise to deliver on their Fast Start Finance (FSF) commitments, for the period 2010 to 2012. In Doha in December 2012, as the FSF commitments were coming to an end, developed countries once again reiterated that they would commit to mobilize $100 billion per year by 2020 for developing countries mitigation and adaptation needs but failed to provide any milestones to reach this $100 billion goal between now and 2020, nor to identify the sources of international climate finance.

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

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

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

At the Pittsburgh summit (2009) the G20 promised to work jointly to end fossil fuel subsidies. Significantly reducing, towards putting an end to fossil fuel subsidies would free up public money for low-carbon investments. The huge subsidies that developed countries provide for the production of fossil fuels (according to some estimates easily double to triple in one year what

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

has been promised as fast start finance over 3 years) should be ended immediately and repurposed for scaling up provision of public climate financing by developed countries.

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

The Mexican G20 presidency put climate financing on the agenda for last year's summit. But in Los Cabos the G20 didn't go beyond mandating a study group on climate finance co-chaired by France and South Africa. Much below the original ambitions for the Study Group to look at how "to effectively mobilize resources and support the operationalisation process of the Green Climate Fund," the group appears to be restricted to a space for sharing experience and best practice on climate finance.

In order to move forward the much needed implementation of innovative sources for development and climate needs, the G20 needs to:

- Reaffirm the importance of implementing a FTT, and of those implementing countries committing tax revenues for social and climate change related expenditure, with at least half allocated to international development and climate finance commitments, with climate revenues earmarked through the Green Climate Fund.
- Call on the study group on climate finance to keep working on options to mitigate emissions and raise revenue in international transport, while ensuring no net incidence on developing countries; and support a strong signal from the G20 to the International Civil Aviation Organisation and the International Maritime Organisation on the need for rapid progress on these fronts.
- Follow up on the Pittsburgh commitment to work towards putting an end to fossil fuel subsidies linked to production, and elaborate on how to redirect funds freed up from ending such harmful subsidies to international climate finance needs.

## Improving the development impact of the development agenda

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

Seoul Summit Declaration, 2010

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

---

2 CannesG20, Leaders Summit, Final Communiqué: p.28.

Yet, as the G20's approach to infrastructure demonstrates[3] the emphasis is too much on achieving aggregate growth and not enough on looking at the social, poverty and environmental impact of its action plan.

To address the impact of price volatility on food security, the G20 has committed to contribute to enhance transparency and better functioning of commodities markets. Indeed this is a matter of significant concern if we are to curb food price volatility and ward off another food crisis. The G20 action plan on food had committed to making strides on issues of transparency and regulations in commodities markets. To date progress in this area remains weak with continuing opacity of derivatives markets.

Another important issue in the G20 action plan on food was the question of reserves. Reserves are crucial in helping stabilize markets. Agreements have been made to improve humanitarian reserves and establish a code of conduct for managing these. Beyond this, regulatory stocks play an important role in helping smooth out prices in the international market and are an important strategy for governments in ensuring they do not get caught in a price surge.

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

- Focus its action plan much more on direct benefits to poor small-scale businesses and improving the quality of informal jobs, where poor people tend to be more economically active.
- Promote policies that are shown to have a pro-poor impact. For example, by ensuring that the inter-agency coordination mechanism on social protection that is being established has clear targets to assist all countries to establish social protection floors by 2020 and financing for start-up costs in low income countries.
- Demonstrate with clear policies and actions, including committed ODA spending, political will to achieve the current MDGs.
- Support and endorse a politically negotiated Post-2015 framework within the UN through an open, transparent and accountable process that is inclusive of all stakeholders, especially people living in poverty. Additionally: a) support the identification and defining of solutions for global and national inequality based on G20 3 expertise; b) support a consensus oriented approach within Post-2015 negotiations, and c) foster Policy Coherence for Development (PCD) to ensure a holistic approach to eradicating poverty and reducing inequalities.
- Take seriously the Agricultural Market Information System (AMIS) to enhance food market transparency and encourage coordination of policy response to market uncertainty; and put pressure on the private sector to keep their end of the bargain and be transparent also with production and stock information.
- Uphold efforts to support the setting up of food reserves, both humanitarian and regulatory and continue to support ECOWAS' pilot initiative on the issue.
- Prioritise investment in sustainable, small-scale food production, abolish biofuel mandates and subsidies and improve oversight and regulation of land deals.
- Recognize and respect the role and mandate of the Committee on World Food Security (CFS) of the United Nations and align any food and nutritional security (FNS) efforts with

[3] The predominance of large-scale infrastructure, promotion of public-private partnerships and lack of mention of safeguards or assessments potentially undermine the poverty and sustainability impact of G20 actions on infrastructure.

this most inclusive and legitimate body, whose very mandate is to provide guidance to States and ensure coherence in FNS policies.

- Regulate the International Development Institutions promoted by the IFIs with the implementation of the UN Guiding Principles on Business and Human Rights, the OECD guidelines for multinational enterprises and strong internal policies to prevent tax dodging and profit shifting. Multilateral and bilateral development banks and credit export agencies must establish internal policies in order to require compliance on those standards from the private companies they support. No funds should be allocated through intermediary financial institutions in offshore centers.
- Adopt the guidelines developed by the Tax and Development Taskforce on the use of Tax Incentives in order to reduce the useless and expensive gifts supposed to attract foreign investments.

## Conclusion

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

Cannes Summit, Final Declaration, 2011

The G20 has set some good objectives with respect to improving the impacts of the global economy and tackling barriers to inclusive and sustainable economic development in low-income countries. In order to achieve the high expectations it has set for itself as the forum to coordinate global responses to global challenges taking the actions highlighted in this brief would make a big difference to its progress against these goals and to its development impact.

CIDSE members

Austria | Belgium | Belgium

Canada | England and Wales | France

Germany | Ireland | Italy

Luxembourg | The Netherlands | Portugal

Slovakia | Scotland | Spain

Switzerland | USA

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


**Document contacts:**

- Jean Saldanha, saldanha(at)cidse.org, +32 2 233 37 53
- Aldo Caliari, acaliari(at)coc.org, +1 202 635 2757
- Christina Chang, cchang(at)cafod.org.uk, +44 795 283 2031
- Mathilde Dupré, m.dupre(at)ccfd-terresolidaire.org, + 33 7 61 70 91 21