How do we know if the G20 is worth it?

The Group of 20 (G20) countries reassembled in the wake of the 2008 financial crisis to deliver a coordinated response to the impacts and causes of the crisis. It brings together the world's important financial centres and is made up of a mix of the major developed and emerging economies. As the self-appointed global forum for economic cooperation, it has gradually expanded its remit to cover the economic aspects of most globally significant issues from financial instability to food insecurity.

According to French newspapers, the 2011 G20 Summit in Cannes cost €80m. The intimation was clear: at a time when most ordinary men and women are tightening their belts, G20 leaders should not be so profligate with taxpayers' money. With this year's summit to be held at the equally exclusive (and expensive) resort of Los Cabos in Mexico, the spotlight is on the G20 to show that it is good value.

But if the G20 is delivering an essential service to the world economy – fixing financial regulation, finding ways of raising money to tackle climate change, making company taxation fairer and supporting job creation and sustainable growth in the poorest countries – then surely it is worth every centime?

You would like to think so, but as there are no adequate mechanisms for holding the G20 to account to its commitments or to plot its progress against its own objectives, it's pretty difficult to assess the Group's effectiveness. So, as yet another summit looks set to get bogged down in the Eurozone crisis, aid agency CAFOD asked four experts for their assessments of G20 progress in these vital areas of global cooperation.




Romero House, 55 Westminster Bridge Road, London, SE1 7JB.
Tel 020 7733 7900 **Fax** 020 7274 9630 **E-mail** cafod@cafod.org.uk **Website** www.cafod.org.uk

How does the G20 measure up on climate finance?

Liane Schalatek, Associate Director, Heinrich Böll Foundation North America

Why it matters?

The G20 is not only the club of the 20 most economically powerful nations on earth; it is also the club of the biggest polluters and includes, with the G7 countries, the biggest historic contributors to climate change. Thus, whether and how the G20 discuss climate change and the financial resources needed to deal with urgent mitigation and adaptation actions matters. Therefore, the way the G20 discusses climate financing can help set a political signal for overcoming the trust deficit between developed and developing countries that continues to plague the official climate negotiations. This trust deficit hinders real progress in the UNFCCC on both advancing financing and on emission reduction commitments.

The sums that are required to finance urgent climate action in developing countries are huge and they have to be provided in addition to meeting aid commitments - otherwise we risk reducing emissions on the backs of the poorest, particularly women and children, if developed countries just re-label funding that should go towards education or health in developing countries. At the climate summit in Copenhagen in 2009, and then confirmed at the UNFCCC summits in Cancun in 2010 and Durban in 2011, developed countries promised to deliver an additional US$100 billion per year by 2020 and US$30 billion in so-called “Fast Start Finance” from 2010 to the end of 2012. They also agreed to set up the Green Climate Fund (GCF), which has to be operationalised and capitalised quickly.

What did the G20 promise to do?

While the G20 so far has made no concrete promise on climate financing, it has taken a couple of climate-finance related actions and in one case, made an important promise that if held could spell significant additional amounts for financing climate action.

Starting with the promise: at the Pittsburgh Summit in 2009, the G20 committed to phasing out fossil fuel subsidies. If implemented, this would free up significant amounts of public finance for low-carbon investments in poorer countries. For example, just looking at the subsidies for the production of fossil fuels that developed countries still continue to provide, they amount to, at a minimum, double the amount yearly (more than US$60 billion) that the rich countries have committed to raising as fast start finance over three years. Developed countries have also recognised in submissions to the UNFCCC that ending their fossil fuel payments could increase the ambition of their emissions reductions commitment. Ending developed countries’ subsidies for fossil fuel production is a clear win-win situation for climate and development.

The G20 under the French Presidency also commissioned two reports on climate financing. The first one, called *Mobilizing Climate Finance*, was presented at the G20 Summit in Cannes. It was written by the World Bank, International Monetary Fund, the OECD and various regional development banks, and confirmed what an earlier report by the UN's High Level Advisory Group on Climate Change Financing (AGF) had concluded - that reaching the climate finance goal of $100bn per year by 2020 was "challenging but feasible". Both reports highlighted the role of public finance contributions and the potential of new innovative sources of financing. A second report for the G20 by the Gates Foundation on financing for development also underscored the potential for innovative public financing sources, such as a financial transaction tax (FTT) and levies on the carbon emissions of the maritime and air transport sectors for development and climate finance. Air and maritime transport emissions, the so-called "bunkers" are currently not covered under the UNFCCC.

Lastly, the current Mexican G20 presidency established a study group on climate finance chaired by France which is to look at how best to mobilise the needed resources and to ensure that the Green Climate Fund is operationalised and can start disbursing funding to developing countries quickly.

What has the G20 achieved?

The Cannes Communiqué was disappointing with respect to climate finance. G20 leaders only acknowledged the two reports, but did not recommend concrete ways to move the climate financing agenda forward, for example by proposing action on a concrete innovative financing source, such as an FTT. Instead, political leaders stayed non-committal, saying only that new sources of funding for development and climate finance should happen 'over time', but without concrete financial pledges or time targets.

It will depend on Mexico's leadership at the Los Cabos Summit, and if the Russian Presidency as the next in line to host the G20 is willing to advance work on climate finance, as to whether the new G20 Study Group on Climate Finance can achieve any concrete deliverables.

"There are some indications that the Pittsburgh promise to phase out fossil fuels (which turned out so far to be no more than lofty, political talk, with no concrete action plan or timetable), might get air time again this June. Hopefully this will happen at Los Cabos, if not a few days later during the UN Conference on Sustainable Development, the Rio+20 Summit.

Who are the leaders and blockers among G20 countries?

France has highlighted innovative financing during its G20 Presidency and pushed for a discussion of the FTT, which mostly the US and UK have blocked. France also together with South Africa before the Durban Climate Summit had issued a joint declaration urging their fellow G20 members to 'send a strong and positive signal on climate finance and its architecture' by endorsing and speedily operationalising the Green Climate Fund. The United States are especially reluctant – and in the current extremely polarised debate on the eve of a presidential election frankly politically unable – to make any substantial global financing commitments, including to the GCF. Mexico, which was the first country to propose a global green fund several years back, is currently taking the initiative with the climate finance study group, but the study group's future under a Russian G20 Presidency is far from assured. And Mexico has backpedalled from giving the issue of climate financing a higher profile on the official summit agenda, as they claimed they would do at the beginning of their presidency.

Nevertheless, climate finance is a G20 topic, and some countries, including the UK, have signalled their willingness to consider innovative financing sources as part of the work of the new study group."

How could the G20 do better?

The upcoming G20 summit at Los Cabos comes just a few days before the world community discusses sustainable development at Rio and how to overcome the multiple crises of persisting poverty and inequality, environmental destruction and climate change. In Los Cabos, the G20 could start by reiterating its Pittsburgh promise and substantiating it by proposing a concrete action plan with time-lines to phase out fossil fuel subsidies as quickly as possible. G20 developed countries could also pledge concrete amounts for climate financing now, including for capitalising the new Green Climate Fund, to ensure that with the end of the fast-start period funding for climate action in developing countries does scale up to the 2020 target, and not stagnate, or, worst-case-scenario, drop.

The G20 could also be helpful in working toward agreement on the most promising sources of innovative financing that G20 members are willing to support and by giving the climate finance study group clear terms of reference for what it needs to accomplish. The G20 can and should set the political signal for progress on climate change financing with such concrete pledges and actions.

However, the G20 must honour that the framework for decisions on climate financing, including on the sources and the composition of long-term climate change financing, has to be agreed multilaterally under the UNFCCC. Its 194 parties include 'the other 174 countries' that don't have an official voice and vote in the G20. Such actions would support the UNFCCC Durban work programme on climate finance and ensure that the next climate summit in Doha/Qatar at the end of 2012 can make further progress.

How does the G20 measure up on financial system reform?

Kevin Gallagher, Department of International Relations, Boston University

Why does it matter?

When you have 20 leaders across the world saying there needs to be financial reform, it has this 'soft power' to get other countries to do it. But the G20 doesn't have the legal standing to do it on its own.

The April 2009 G20 meeting was historic, but since then there's been an inconsistent message. In '09 the G20 said, 'We've got a global crisis, and countries should create growth,' and they gave money to the poorest countries and increased contributions to the IMF. And then they said, 'This'll get us out of the crisis, but to prevent the next one, we need financial reform,' and they even created the Financial Stability Board. That was an historic meeting - it wasn't quite Bretton Woods, New Hampshire, but it was a time of global crisis with countries taking steps for the future.

The problem is that the 'future' hasn't happened. The G20 has been the place for countries to get together and discuss the worries of the day. And then we find out that JP Morgan – oops! -- did a $3-billion derivatives trade, and we haven't done anything. We've got a 2000-page Dodd Frank bill, and then we have this JP Morgan trade.

Financial reform is also important in terms of food crises and food price volatility. There's a lack of global action. The Dodd Frank bill and other considerations of regulatory reform had suggested position limits in food commodities, regulating derivatives trading in food-based commodities. The G20 was inconsistent and sometimes silent in making those links. The potential is that great powers can identify issues, but the G20 missed the ball on the food crisis.

Food speculation and hot money flows are global things the G20 should be pointing to, and there's been limited regulation on either of these things at all. If Brazil decides to regulate inflows and puts a tax on them, it only works if the US also regulates the flow, since it originates there. Wall Street is looking around at these 'hot' countries, and there's a lot of speculation on them. There's no limit - if I see the Brazilian economy soaring along, I can invest what I want with no limits. We're having 'bubbles' in different parts of the world economy – in food prices, in currencies and stock markets in poor countries. You can't give the G20 a passing grade for even keeping their eye on the ball.

What did the G20 promise?

It had great promise, but it's on the verge of being just another international shop. It would need things it is fundamentally incapable of since it's based on an informal arrangement, not a treaty. The IMF and the World Bank were founded on global treaties.

The G20 has failed to be a coordinating body. If you look at the regulations across the world, they've all been national. The G20 set up the Financial Stability Board, but it only has 22 people, and there's no salary for them (they are on loan from the IMF and the World Bank and other places), and there's no capacity to coordinate. It literally has no legal mandate at all.

They put out White Papers, but it's not like the IMF that has a trillion dollars and an official legal, global mandate. It's just sort of a G20 secretariat outpost with people on loan. That's not being serious about coordination. The G20 is a more bloated version of the G8. They come together to take the pulse of the world and to give recommendations until the next meeting. In Mexico you're not going to see a unified G20 because the Germans and other Europeans into austerity won't go for it. The most they can do is have unified communication – and even at that low level of a bar they haven't been able to deliver, given Europe's austerity and the election year in the US.

Interestingly, in 2009 they were doing a great job with television-based public relations and getting out the right message. Now they can't even agree on what to say.

What has the G20 achieved?

Once the G20 makes a statement, you have more countries pushing more institutional processes. For example, when the Basel III Banking Standards were created, the G20 was saying we need new regulations and we encourage that to happen - and it did. Would that have happened without the G20? Maybe; maybe not. It definitely blew wind into the sails.

The lack of a fair workout of sovereign debt is a major failure of the G20. After the Argentine debt crisis they said there should be an established system or rules for countries, and we didn't do anything about it. And now we have the biggest debt crisis since the 1980s in Latin America.

In a good workout programme, the folks with the debt have to pay the price. If we had a workout system, then if Spain defaulted, we'd know what happens next.

The G20 doesn't have the capacity or the standing to regulate the international monetary system. The Financial Stability Board has identified systemically important financial institutions around the world - the handful of big banks that if they went down, the world would go with them. There needs to be follow-through; in the forties at Bretton Woods they actually created institutions with global legal standing.

They tell national states to 'go and reform your financial system and we'll make it consistent worldwide'. There was political will in the beginning, but it's tougher now. There are different characters: The EU is totally consumed with itself, and in the US there was relative unity, but now it is quite polarised. We have key advisors saying: 'We need to roll back Dodd Frank because it's Communism'!

How does the G20 measure up on corporate transparency?

Karin Lissakers, Director, Revenue Watch

Why does it matter?
Information is essential for accountability, and citizens recognise they want an accountable government and private sector. You can see from the banking industry alone what happened without accountability. In the extractives sector we look for accountability in payment flows since they flow directly from companies into government coffers. In many countries the governments never reveal this information to their citizens.

Large coalitions of NGOs have had success in the United States with the 2010 banking regulation act, which included that all companies listed in the US would have to report all payments country-by-country and project-by-project. The EU is considering similar legislation that is under debate next month. We would like to see other capital markets adopt similar legislation, such as Canada, Brazil and South Africa. Shanghai will also be important at some point.

These are huge advances, but the data hasn't been compiled yet. However, in a year you will see a huge leap forward in terms of reports of payments flows from oil and gas extraction. This was the primary goal of the 'Publish What You Pay' coalition, and it is being achieved. This runs parallel to the voluntary Extractive Industry Transparency Initiative (EITI). There are about 35 countries in various stages of disclosure - for instance, the US just announced it would disclose mining and gas extraction on federal lands.

What did the G20 promise?
The US and the EU have moved ahead on the extractive industry side, but the G20 as a whole certainly hasn't. Canada was adamantly opposed to any reporting, and Russia and China were obstacles to the G20 to moving ahead. However, as more companies get covered - Canadian companies listed in the US will be reporting anyway - companies will want to see that their competitors are under the same jurisdiction.

The large companies exist in multiple jurisdictions, so it's very unlikely that they are not listed in either EU or US capital markets. But a large Chinese company could have a subsidiary listed in New York but not other parts of the company. Certainly we will be covering a very high percentage of the larger oil and gas companies. There are a lot of smaller and medium companies that list in Canada, but not in the US. It's the same in South Africa. So we'd like to see a universal disclosure standard.

What has the G20 achieved?
Because the US is implementing the EITI, this is going to be on the radar. But the SEC still needs to vote on the final rules. So the process is just getting started in the US. The G20 as a group has made some supportive statements, but they have not moved ahead as they have on anti-bribery. The Anti-corruption Working Group (of the G20) has achieved results.

China adopted the law criminalising bribery to foreign governments, and Russia passed a similar act. These are the result of the G20.

We'd like to see progress on tax exchanges more broadly and that hasn't happened. The actions of the EU and US are more the result of civil society and the governments than the G20.

Who are the leaders and blockers among G20 countries?
In the EU, Germany is being very difficult on the coverage of the payment disclosure. They want it to be much narrower. The Canadians have not wanted to discuss mandatory disclosure at all. In the G8 there was a push by the US and UK to include it in the communiqué, and Canada blocked it. France and the UK have been in the lead; they were very proactive in the G20.

How could the G20 do better?
The Anti-corruption Working Group has defined its mandate very narrowly. The G8 has issued a strong commitment to cracking down on money laundering. I would not be surprised if the G20 issued a strong statement on that.

We'd like to see universal payment disclosure and broadened to tax exchanges. The corporate sector has avoided paying taxes, and it's in everyone's interest that multinationals pay their share. I would like to see a robust statement on that.

When it comes to general tax disclosure, the G20 is not prepared to wholeheartedly take on their corporate lobbies in their own countries. Given their dire fiscal positions, they could in the next year or so, but I doubt it.

How does the G20 measure up on development?

Dirk Willem te Velde, Head of the International Economic Development Group, Overseas Development Institute

Why does it matter?

The G20 has an important role in development in three distinct areas: first to put its own house in order to grow faster and smarter and that's beneficial to non-G20 countries too, then it can produce a co-ordinated response to say, financial crisis, rebalancing of economies and so on; second, it can put a spotlight on issues including development and exclusivity; third, there's the link between G20 policies and the development prospects of the poorest countries so it's a forum for making coherent policies in which issues such as greening national economies, valuing natural capital and agricultural subsidy are coherent.

The G20 is the right forum to discuss important development issues such as volatility of food prices which are generated by financial markets dominated by G20. It is not just about price increases, it's about change and unpredictability, which makes planning difficult. For the poor volatile prices mean they have to sell livestock and take children out of school especially when high food prices leaves them with little money to spend, then they forgo income-generating opportunities in future, so there are long-term development impacts. But volatile prices can also be over a short time, so if there is a safety net in place they wouldn't have to take more extreme measures.

High food prices will push some people into poverty but volatility is complicated - stability is best.

What did the G20 promise?

The G20 set itself the objective not only to restore growth but to lay the foundation for a fair and sustainable world economy. It pledged to deal with the human dimension of the crisis, to create jobs and to support incomes of those affected by the crisis.

The G20 acknowledged that even before the crisis, too many still suffered from hunger and poverty and even more people lack access to energy and finance. Recognising that the crisis has exacerbated this situation, it pledged cooperation to improve access to food, fuel, and finance for the poor.

The G20 also promised to work to narrow the development gap and to reduce poverty and reaffirmed and pledged to meet its prior aid and financing commitments, made in the context of the Millennium Development Goals and the 2002 United Nations Conference on Financing for Development in Monterrey, Mexico.

What has the G20 achieved?

Aid commitments can be reiterated but it is up to individual G20 countries to fulfil them. One of the challenges of the G20 is that it can agree things but these need to be taken elsewhere for follow-up and implementation, it’s not an implementing body, just one for providing political momentum to get things done.

The June 2010 communiqué in Toronto committed to the setting up of a development working group. The Koreans introduced a G20 agenda for growth and development focusing on growth and resilience in low income countries. They issued an action plan with six principles and nine pillars of growth, covering things like infrastructure and food security and coming up with a number of actions such as unlocking finance or removing blocks on finance for infrastructure projects.

In response to the need to improve access to food for the poorest - it's a work in progress, but it is moving forward - the Action Plan to promote more research into agricultural innovation and private sector innovation in agriculture has been developed. There is now a better framework for investment in agriculture. The G20 is also looking at the scaling up of nutrition and new Agricultural Principles that G20 nations will sign up to. On food price volatility, a mechanism has been developed, and to help cope with emergencies, a plan for food stocks is also being developed.

It’s important that the spotlight has been brought onto development and inclusive growth - this in itself does a lot that it’s on the agenda even though it is politically very sensitive. Bringing people together to discuss development is already progress.

Who are the leaders and blockers among G20 countries?

Korea has been a positive player in the G20 for bringing the Development Consensus and especially infrastructure to the development agenda; so before Seoul there wasn’t an action plan on development. It’s also useful to listen to the Koreans and other countries on what they think about development, how to phrase it. Korea has come from a low income country to a high one in less than a generation - so that’s a good example, offering lessons to others. Korea has developed through active education and industrial policies as well as a very effective strategy for green growth which has moved a lot of people out of poverty.

Mexico is also to be noted positively for bringing green growth and food security to the table this year and for engaging with civil society and business to look beyond the aid commitment agenda

Saudi Arabia and India want to keep fossil fuel subsidies which isn’t a positive position; India believes inclusive green growth will hamper their own prospects for development, as do many emerging economies.

How could the G20 do better?

Overall much of the development and inclusive growth work could be carried out much more quickly. It is painfully slow. A system of scorecards could improve the accountability of the G20.

There is a need for the G20 to improve the link between core economic policies and development; it’s also a place to think about growth and policies in terms of the development agenda. For example, it is very important for island states, which aren't in the G20, to be able to contribute to the G20 discussion and action on climate change and there are the tools for this, so they are heard and they contribute to core policy.

Policy coherence for development is vital – this means thinking through the links between G20 policies and the welfare of the poorest. The core issues for the G20 - such as a Eurozone firewall, exchange rates, environmental policies – all need to be looked at to see the impacts they have on the welfare of the poorest. Development issues have to be integral and cross-cutting for all G20 policies - this is policy coherence. There isn't enough space at the G20 for development conversations.

There's still a lot to do but people are talking and the G20 is that talking forum. So it's good to shine the spotlight on particular issues and coordinate policy for better and speedier action.

How does CAFOD think the G20 measures up?

"..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 G20 Summit final declaration

If G20 summits are to continue, they need to demonstrate that they can deliver much more than appealing rhetoric and ambitious goals.

The present processes fall far short of being an adequate mechanism to achieve the G20's objectives, as demonstrated by areas highlighted by the experts above.

Instead the G20 needs a proper accountability framework that is transparent.

- G20 countries must be scored against their progress to implement commitments, such as on development and regulatory reform;
- G20 countries should be measured against objectives to achieve sustainability, jobs and improved well-being, not just aggregate growth;
- G20 proposals should be tested for their development coherence.

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