



From London to Pittsburgh: assessing G20 action for developing countries

European Network on Debt and Development

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About this briefing

This month European Union leaders meet in Brussels and then many of them travel to the Pittsburgh G20 summit. This briefing summarises the pledges made by G20 leaders on development, compares them to latest assessments of need, and examines European and G20 implementation. It recommends extra actions that leaders should agree this month.

The briefing has been written by Alex Wilks, Eurodad director. It has benefited from several rounds of inputs from Eurodad staff and board members. Helpful responses were also provided by many officials. The work has been done in conjunction with Jubilee USA which is publishing a similar briefing to hold the G20 leaders to account on their development pledges.

Comments and feedback are welcome. Send to [awilks\[at\]eurodad.org](mailto:awilks@eurodad.org).

About the European Network on Debt and Development

The European Network on Debt and Development is a membership network of 59 NGOs assessing and influencing official development finance policies. It is:

- a specialist group which produces research and analysis;
- a clearing-house for synthesising and exchanging NGO and official information;
- a facilitator of meetings and processes which improve concerted advocacy action by NGOs across Europe and with allies in the south.

Eurodad works to push for policies that support pro-poor and democratically-defined sustainable development strategies. We support the empowerment of Southern people to chart their own path towards development and ending poverty. We seek appropriate development financing, a lasting solution to the debt crisis and a stable international financial system conducive to development.

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Previous Eurodad analysis on the financial crisis and G20

- Implementing the G20 deal on IMF drawing rights and gold sales and the review of lending facilities for low-income countries;
- G20: additional emergency funding required to mitigate crisis impacts on poorer countries;
- Eurodad analysis of the April 2009 G20 communiqué;
- Bail-out or blow-out? IMF policy advice and conditions for low-income countries at a time of crisis;
- IMF financial package for low-income countries: Much ado about nothing? (with Bretton Woods Project, ActionAid and Third World Network);
- Dangerous derivatives at the heart of the financial crisis;
- A European agenda to fight capital flight.

Links to these and other resources from Eurodad and its members available on Eurodad's financial crisis and development web page. www.eurodad.org/whatsnew/articles.aspx?id=3819

A. Introduction

The financial and economic crises are continuing and their worst effects for citizens are still to come. European and other richer countries face immediate impacts through factory closures and house repossessions, and medium-term cuts to welfare state spending to pay down massive public debts. Developing countries are experiencing an investment squeeze, a decline in remittances, and a new debt trap as they are forced to borrow their way out of the current crisis.

The leaders of the Group of Twenty (G20) largest economies declared in April that they had taken decisions that would put the global economy back on track and ensure that citizens worldwide were shielded from the worst effects of the crisis. Their communiqué contained many impressive pledges and initiatives including spending increases, improvements to financial regulation, measures against tax evasion and reforms of international financial institutions. Action in the months since the summit has been more rapid than that following most previous summits.¹

However the communiqué's careful wording oversold the agreements among the G20 governments, and its headline statistic of US\$1.1 trillion exaggerated the amount of new money being brought forward. For all developing countries the G20 will provide a maximum of \$240 billion and for low-income countries \$50 billion.² The amount for low-income countries is three hundred and sixty times less than the \$18 trillion that richer governments have found to bail out or guarantee their private financial institutions.³

These pledges, to be implemented over several years, represent less than half of what developing countries need to compensate them for the shock created by the economic crisis. According to the World Bank this crisis will cause a financial shortfall for developing countries of between \$350 and \$635 billion in 2009 alone, and most developing country economies will recover more slowly than those of richer countries.⁴

This year G20 governments have made several steps in the right direction. But they have focussed on measures to support their own economies, and turned down key proposals that would help others – for example on transferring to poorer countries extra proceeds from IMF gold sales and Special Drawing Rights. Less than half of the promised extra \$50 billion for low-income countries is secured, and little has started to flow. Most of the G20's finance is available as loans, risking another major new debt crisis in future years. The clampdown on tax havens has already been declared successful, but the test of success in this area is far too weak and does not help most developing countries.

Richer countries need to clean up their financial systems and provide funding to compensate countries for the impacts they are facing through this crisis that originated in North America and Europe. Eurodad recommends that European governments agree at their 17 September 2009 meeting in Brussels to take proposals to the Pittsburgh summit that will help cushion the impact of this crisis on developing countries.⁵ These include:

- Doubling crisis-related grant funding available for low-income countries, including through reallocating proceeds from IMF gold sales and Special Drawing Rights;
- Instituting a two year moratorium on low-income country external debt service payments;
- Introducing multilateral, automatic, information exchange on tax matters;
- Instituting a transactions tax and other measures on commodity and financial speculation;
- Consolidating European representation in international financial institutions so that votes and seats can be reallocated to developing countries.

The G20 includes only the world's largest economies – including seven European representatives.⁶ It can take important decisions for those economies and make proposals that affect others. However it lacks legitimacy to write the new rules for the economic system by itself. It should refer more comprehensive reforms of international economic decision-making to the United Nations, where all governments are represented.⁷

B. G20 financing package: too little, too costly for low-income countries

The G20's pledges for developing countries are so far insufficient to provide the additional financing that these countries need to meet foreign exchange shortfalls and plug balance of payments gaps. G20 pledges have not been delivered in full and too many of the new resources are in the form of loans with policy conditions. More resources on better terms are needed to prevent major social dislocation as a result of the crisis.

Developing countries hit hard by multiple crises

The financial, now economic, crisis has exacerbated the poverty, debt and food crises. Worldwide an additional 100 million people may be pushed below the \$1 per day poverty line in 2009.⁸ In Pakistan government reserves are dwindling by US\$1 billion per month. In the Democratic Republic of Congo 200,000 mine workers are being laid off.⁹ In Sierra Leone twelve percent of the population may be pushed into poverty.¹⁰ In Zambia one quarter of mine workers lost their jobs in 2008.¹¹ African export revenues are likely to drop by US\$251 billion in 2009 and a similar amount in 2010.¹²

The World Bank estimates that developing countries will need to attract up to \$635 billion in 2009 just to maintain their existing economic and social standing. Foreign direct investment is projected to fall by 30% in 2009. Migrant remittances to developing countries are also dropping as workers in richer countries are laid off. These flows are predicted to fall by \$24 billion this year.¹³ This matters as remittances are an important form of direct support to poorer households and last year some countries received remittances worth a quarter of their GDP.¹⁴

As many European and other international commercial banks have been bailed out by their home governments they are strongly encouraged to lend in their home markets rather than extend further credit to developing country governments or companies.¹⁵ As existing commercial debt comes due for refinancing this may lead to a further phase of the economic downturn in the South, with several companies and governments needing to institute major cuts. Commercial banks are forecast to withdraw \$92 billion from emerging markets in 2009.¹⁶ Developing country currencies have been depreciating, making dollar-denominated debt more costly to service.¹⁷ At the same time government tax revenue is under pressure as businesses lay off workers and pay fewer tariffs and charges.

Unless significant official support is provided as grants and as debt relief, poorer countries will face very tough decisions.¹⁸ They will either be forced to default on existing loans, take out new loans on far worse terms – just pushing the payment crunch into the future – or dramatically cut spending on their economy and social welfare. At this time of economic flux it is hard to predict exactly how many countries will be in this predicament. But the World Bank suggests it may be 59 countries.¹⁹ These official calculations do not take into account the increases in government spending that are needed to deal with the economic and social fall-out of the crisis.²⁰

G20 pledges for low-income countries

In their 2 April communiqué G20 leaders stressed that the crisis has “a disproportionate impact on the vulnerable in the poorest countries” and recognised a “collective responsibility to mitigate the social impact of the crisis”. However less than 5% of the US\$1.1 trillion announced by the G20 will be spent on the poorest countries.

Their G20 communiqué recorded that “the actions and decisions we have taken today will provide \$50 billion to support social protection, boost trade and safeguard development in low income countries”.²¹ As well as this \$50 billion in new money the G20 leaders in London reiterated pre-existing commitments on aid, trade and the Millennium Development Goals.

Table 1: G20 low-income finance country finance pledges and status²²

| Channel | Pledge (period) | Status | Details |
|---|---|----------------------|--|
| IMF Special Drawing Rights | \$20 billion (one off) | Agreed and delivered | One off allocation. SDRs exchanged for hard currency will need to be paid for at a variable interest rate. ²³ |
| Concessional finance from IMF gold sales and IMF income. Debt relief on IMF interest payments | \$6 billion (2-3 years) | Partial delivery | \$785 million from selling IMF gold. \$2.3 billion from IMF resources. \$60-70 million in interest relief on some outstanding IMF loans. |
| Additional lending by the Multilateral Development Banks | \$6 billion extra (for 3 years) ²⁴ | Off track | G20 governments have not provided new concessional finance for low-income countries. ²⁵ |
| Support for trade finance via the International Finance Corporation/other channels | \$12 billion (over 2 years) | Partial delivery | G20 claims \$5.5 billion new commitments from donors but very little is new donor money. |

G20 responses – how much money have they made available?

The G20 implementation represents steps in the right direction, but does not match the scale of developing country needs at this time of unprecedented crisis, a crisis that they did not cause.

Finance channelled via the IMF

Since its April summit the G-20 and other governments represented in the IMF have successfully implemented their pledge on Special Drawing Rights.²⁶ This has delivered \$20 billion for low income countries.²⁷ This is a welcome increase to countries' reserves that is provided without conditionalities, although with interest charges that may rise steeply in the coming years. However the transfer represents just 8% of the \$250 billion total delivered in SDRs. The richest seven countries in the world – the G7 – receive some 44% of the SDR allocation.²⁸ Richer countries have been repeatedly requested to transfer some of their additional SDRs to low-income countries, but have not instituted a general scheme to do so.²⁹ Some European governments – including the UK and France – are understood to be considering bilateral action, and they should encourage other European and G20 governments to enact a general SDR transfer with no cost to recipient countries.

The G-20 also specified in April that: “additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide \$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years”. The IMF board claims that it has gone beyond this. It announced in August that the Fund will make available to low-income countries “up to \$4 billion per year in each of 2009 and 2010”. However this is an aspiration not a firm commitment. So far low-income countries know they will receive just \$785 million in genuinely additional money, from the sale of IMF gold reserves. This amount is seven times less than the \$5 billion that could have been provided from this source. The IMF has found a further \$2.3 billion “surplus income” that it can provide from other accounts.³⁰ The balance of the extra IMF funding for low-income countries still needs to be raised from donor governments. European and other G20 governments need to come forward this month and state how much money they will provide, by when.

The IMF has also announced interest relief on existing IMF loans until the end of 2011. This is worth an estimated \$70 million, representing a welcome - but small - saving of less than \$1 million per year for each of the 58 countries that qualify.³¹

The IMF will also receive an additional \$500 billion via its New Arrangements to Borrow (NAB). Some contributions remain to be cleared by legislatures and details of how this money will be spent are still being hammered out, compromised by the slow speed of IMF governance reform

negotiations. These resources will be lent to the IMF's richer client countries, many of them in Central and Eastern Europe.

Finance channelled via multilateral development banks

World Bank lending commitments in the year up to the end of June 2009 reached US\$59 billion, up from \$38 billion in the previous fiscal year. This is set to remain at a similar level in the coming two years. Other Multilateral Development Banks (MDBs) have also scaled up their lending. However these lending increases do not amount to “at least \$100 billion of additional lending by the MDBs, including to Low-Income Countries, to a total of around \$300 billion over the next three years”, as G20 leaders promised in April.³² The funds are mainly available at non-concessional rates and are therefore not suitable for low-income countries. The World Bank calculates that between 2009 and 2011 \$88 billion more money will flow through the MDBs than would have been the case before the crisis. Of this at least 83% is for emerging markets rather than the most impoverished developing countries.³³

The G20 also claimed that it would support trade finance to the tune of \$250 billion over two years. But the annex of the G20 London declaration clarified that G20 governments were only to contribute some \$3-4 billion for low-income country trade finance, with the balance to be made up by existing private and public sources. The G20 claims to have raised over \$5 billion, though its figures are unclear and at least \$1 billion - but probably much more - is not additional.³⁴ None has yet been committed to low-income country trade finance. China has provided \$1.5 billion to the International Finance Corporation's trade finance programme, the UK \$300 million, Canada \$200 million and the Netherlands \$50 million.³⁵

Richer country governments have pledged since the 1970s to provide at least 0.7% of their Gross National Income in the form of aid, a pledge they again repeated at the April G20. No G20 government has yet reached this target and the OECD calculates that \$23 billion in promised aid spending will be missing by the 2010 target that was set by the G8 in 2005. 2008 and 2009 have seen further aid cuts by some G20 countries, for example Italy and France, while others (USA, UK and Japan) have increased. Richer countries have so far failed to provide genuinely additional money to help developing countries deal with the increasing impacts of climate change, and are under pressure to find fresh money for the Copenhagen climate talks this December.

Front-loading and debt payment freeze

The money that is available from the World Bank, IMF and other multilateral sources such as the European Commission is mainly money that they were anyway planning to spend in future years. Just €110 billion of the European Union's €8.8 billion crisis development spending commitments, for example, are comprised of new funding.³⁶ This “front-loading” approach will mean that funding to low-income countries will soon dry up unless additional resources are brought forward. If the economic downturn lasts several years – as it is predicted to do for most developing regions – there will be extra spending needs just to maintain the status quo, let alone to have any hope of reaching the 2015 Millennium Development Goals.

G20 promises and responses – nature and impact of money

There is not enough money on the table to allow developing country governments to maintain their public spending levels during 2009, let alone to allow those governments to increase spending to stimulate their economies and deal with the social impacts of the crisis. The complexity, cost and conditions of the money are also negative for developing countries.

There is a danger of new debt crisis being created, as most of the money developing countries are receiving to help them cope with the crisis is in the form of loans. Many of the public loans are not concessional, and – where developing countries have access to them - private markets are charging a premium for lending to developing countries that they see as risky. For emerging markets, the average cost of borrowing has increased to 11.7% compared with 6.4% in pre-crisis

years. It is worrying that the G20 sees lending rather than grants as the preferred solution to the crisis. This means that countries that were not responsible for the crisis are being forced to compromise their futures by taking on new debts. The massive public borrowing by richer countries will make new borrowing (and repayments on variable interest rate loans) prohibitively expensive for poorer nations in the future.

These loans come with policy conditions on top of the financial ones. There has been some progress on reducing IMF and World Bank conditionality, but this is far too limited and gradual. Eurodad's research on IMF loans provided to low-income countries since the crisis broke in September 2008 shows that the IMF is still advising stringent fiscal and monetary policies to low income countries as well as controversial structural reforms.³⁷ Of the ten low-income countries for which Eurodad has assessed the IMF's post-crisis programme:

- all have to make spending cuts;
- five programmes push for wage bill freezes or cuts;
- five have to reduce their deficit;
- five insist that governments pass on food and fuel rises to their citizens, and:
- None have flexibility to defer debt payments.

These measures are the opposite of the expansionary measures being undertaken by G20 governments to combat the economic downturn in their countries. There are clearly double standards at play. G20 countries such as Mexico get no or much less conditionality while low-income countries still do. The IMF has not got enough resources available on the right terms for low-income countries. The conditionalities attached to its money mean that the institution is also not trusted as a neutral adviser on policy responses to the crisis.

The G20 governments pledged to “make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure. We encourage the MDBs to contribute fully to the achievement of this objective”. The World Bank and other multilateral financing institutions have not instituted serious changes to green their portfolios. Indeed there is a risk that finance is rushed through for sub-optimal or harmful projects without adequate assessment or citizen scrutiny. An example is the controversial Grand Inga dam in Democratic Republic of Congo, a project that has initial support from the World Bank.

In September 2008 governments signed the Accra Agenda for Action on aid effectiveness. This said “as new global challenges emerge, donors will ensure that existing channels for aid delivery are used and, if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate co-ordination at country level”. The opposite has been the case with financial crisis funding, with a proliferation of confusing initiatives that are hard to understand and manage. Box 1 shows the facilities created by the World Bank Group, but this problem also afflicts the European Commission, Regional Development Banks and bilateral donors.

BOX 1. Proliferating World Bank crisis funding initiatives

| Public sector support | Private sector support |
|---|--|
| Vulnerability Financing Facility | Global Trade Finance Program |
| Global Food Crisis Response Programme | Global Trade Liquidity Program |
| Rapid Social Response Programme | Infrastructure Crisis Facility |
| Financial Crisis Response Fast-Track Facility | Microfinance Enhancement Facility |
| Infrastructure Recovery and Assets Platform | Global Food Fund |
| | Capitalization Fund |
| | Private Sector Troubled Asset Management Program |
| | Energy for the Poor Initiative |

The above listing shows the preponderance of facilities for infrastructure and trade finance support. Mechanisms that support rich country exporters are proving easier to fund-raise for than mechanisms that support impoverished peoples' livelihoods. The World Bank's Rapid Social Response Fund has not announced the receipt of any dedicated funds from donor governments,

for example, and the Vulnerability Fund has attracted just \$320 million from the UK government. Contrast the International Finance Corporation's trade finance programmes which have received over \$2 billion.³⁸ It is controversial that Citi Group, a bank heavily involved in the financial crises, is a key operator and beneficiary of this trade programme.

As there is insufficient grant money available for low-income-countries the G20 should additionally agree a moratorium on their debt service payments. A moratorium for these countries would help them to continue and increase spending ahead of the 2015 MDG deadline, not make drastic cuts due to the crisis. UNCTAD has calculated that a two year moratorium for just 49 low-income countries for 2009 and 2010 would free-up \$26 billion for investments in poverty reduction and economic development.³⁹ A start in this direction has been made by the waiver on certain interest payments to the IMF, but this will only provide some \$60-70 million relief for the beneficiary countries. The G20 needs to go much further.

C. G20 financial regulation: fragmented and faint-hearted

As well as raising and spending money it is vital to introduce major institutional and policy shifts to prevent future crises and establish a new basis for more stable and equitable finance in future. The G20 has set out ambitious goals but needs to agree precise measures that will support developing countries, including multilateral automatic information exchange to help guard against tax evasion and position limits for financial firms to limit commodity speculation. Such regulatory measures are essential to prevent the outflow of billions of dollars from developing countries on an ongoing basis.

Regulating finance for development

The crisis clearly shows the perils of unregulated private finance and the negative spill over effects it can have on all countries. These dangers are now recognised by almost all commentators and political leaders. The G20 agreed that “major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis”.

Many aspects of financial regulation need to be addressed. This short briefing assesses the four that we judge most important for developing countries: tax haven reform, transnational company accounts transparency, commodity speculation and hedge fund regulation.

Off-shore centres and tax havens facilitate an annual illicit capital flight of US\$1 trillion from developing countries – nine times the size of development assistance.⁴⁰ Almost two thirds of this amount is comprised of transactions motivated by multinational company tax avoidance and tax evasion schemes. Speculative financial operators such as hedge funds and private equity companies have played a part in feeding the dramatic fluctuations in oil, metal, food and other commodity prices that have made economic management particularly challenging for developing countries in recent years.⁴¹

The financial model that has predominated for the last two decades resulted in sharp increases in inequality, instability, negative effects on the real economy and jobs (up to 50 million will be lost worldwide in 2009 as a result of the crisis, according to the International Labour Organisation).⁴² Under Millennium Development Goal VIII and in the UN Financing for Development agreements, all governments have committed to develop a rule-based, predictable financial system. To fulfil these pledges and the new pledges from the G20 London summit in April governments need to introduce and enforce new rules on corporate transparency and accountability. These will need to be enforced by better governed national, regional and international institutions.

G20 promises and responses – financial regulation

In April the G20 promised to “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”. This, the London communiqué continued, would involve “greater consistency and systematic cooperation between countries” and a “framework of internationally agreed high standards”.⁴³

Improved global standards

The Organization for Economic Cooperation and Development (OECD) – a rich countries club – has been asked to produce a global standard “to create a comprehensive framework, building on existing initiatives, to identify and fill regulatory gaps and foster the broad international consensus needed for rapid implementation”. This would cover “corporate governance, market integrity, financial regulation and supervision, tax cooperation, and transparency of macroeconomic policy and data”. This idea was first supposed to be taken forward by the G20 in 2006, which was requested by the G8 to produce a ‘Responsible Lending Charter’. The G20 made little progress on this in three years, and G8 finance ministers this summer again stated vaguely “we are

committed to working with our international partners to make progress". The G20 does not so far appear capable of delivering clear standards and enforcement mechanisms in this area, with action to date limited to producing an inventory of existing initiatives.⁴⁴ This is an important agenda, and Eurodad's Responsible Finance Charter outlines several measures that should be implemented.⁴⁵ The G20 should instead commit to an inclusive process under the aegis of the UN to take this forward.

Action on tax evasion and banking secrecy

The G20 further claimed that "the era of banking secrecy is over" and pledged to "take action against non-cooperative jurisdictions, including tax havens". In this area the G20 is again relying on the OECD, which has set a weak international standard for exchange of tax information. The OECD now claims that "no jurisdiction is currently an uncooperative tax haven" and the G20 that over half of the 87 jurisdictions which are being scrutinised have "substantially implemented" its standards.

To get these endorsements governments have only had to commit to sign twelve bilateral Tax Information Exchange Agreements. This is far too few and the model of information exchange is flawed. Obtaining information under these agreements requires governments to submit cumbersome dossiers about citizens' suspected tax malpractices, meaning that this system is rarely used.⁴⁶ And the OECD's threshold of just 12 bilateral agreements that need to be concluded allows governments to escape its blacklist merely by making agreements with another dirty dozen tax havens. The vast majority of countries are left without treaties and without recourse. The G20 finance ministers in their meeting on 4 and 5 September recognised the limitation for developing countries of current measures, saying that different approaches would be needed, "possibly including through a multilateral instrument".

However the deadline set by the G20 for involving developing countries in tax discussions now looks likely to be missed. In their April communiqué leaders "committed to developing proposals, by end 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment". But the OECD Forum meeting in Mexico on 1 and 2 September 2009 indicated that this may be pushed to 2010.⁴⁷ The G20 should stick to its timetable and use its November 2009 St Andrews G20 finance ministers meeting to deliver a new multilateral approach that will work for developing countries.

A further measure that is needed to guard against tax havens is forcing transnational companies to publish a country by country breakdown of their profits and losses and taxes paid. This proposal is gradually gaining support, but has not gained critical mass.⁴⁸ Country by country reporting would allow tax authorities and the public to spot where tax dodging might be taking place and follow up.⁴⁹ The G20 should require the OECD to report on this issue by early 2010 and set a deadline for appropriate follow-up action by the International Accounting Standards Board.

Regulating hedge funds and commodity price speculation

Another regulatory measure announced by the G20 that would be significant for developing countries is to extend regulation and oversight to all systemically important financial institutions, instruments and markets including systemically important hedge funds. Limited regulation measures by EU and USA are proposed but little legislation or institutional reform has yet been agreed and strong industry lobbying is underway to dilute key clauses.⁵⁰ The British government is also playing a role in advocating against the current capital adequacy measured in the draft European Union Hedge Funds Directive. It is likely that they will be further weakened before they are enacted.

Hedge funds and private equity companies are still speculating on commodities and on companies, and their prices are still fluctuating, partly because of speculation. UNCTAD concluded that "recent wide fluctuations of commodity prices have been driven by the financialisation of commodity markets", causing many problems for developing country producers,

consumers and governments.⁵¹ Many poorer people in low-income countries spend over half their income on food. The U.S. Commodity Futures Trading Commission may prevent financial services companies taking aggressive speculative positions in commodity futures markets. The European Commission has launched a consultation on 'Possible initiatives to enhance the resilience of Over the Counter Derivatives Markets'.⁵² However proposals to tighten regulation in this area are moving too slowly and an industry backlash is in full swing.

The G20 leaders have recognised that there are major gaps in regulation, but they have so far been unable to set out a comprehensive and effective programme of reform. There are significant obstacles to overcome – from coordination among different governments to industry special interest lobbying. But the G20 needs to use its Pittsburgh meeting to come forward with detailed proposals and a clear determination to introduce regulatory measures that will address speculation, tax evasion and responsible finance standards.

D. Transforming the global financial architecture

The G20 communiqué states that “we are determined to reform and modernise the international financial institutions ... we will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalisation, and that emerging and developing economies, including the poorest, must have greater voice and representation”. However there has been a lack of clarity and effectiveness among international institutions and the G20 has made little progress in clarifying which international institution should do what.

One of the few specific actions in this area by the G20 was symbolic – changing the Financial Stability Forum to become the Financial Stability Board. This body will still only involve G20 governments and has not undertaken any initiatives to show that it is capable of making a difference. It is due to present a major report to leaders before the Pittsburgh summit.

The G20 also pledged in April to reform the “mandates, scope and governance” of the international financial institutions so that “emerging and developing economies, including the poorest, must have greater voice and representation”. Specific pledges were made on representation and quotas at the IMF and World Bank.

A high-level commission chaired by former Mexican president Ernesto Zedillo has been established to consider governance reforms. Current indications are that it has not got far in its deliberations on reallocating voting shares or board chairs to developing countries. UK government minister Mike Foster recently stated that “negotiations on a voting formula are just beginning” and that “some reallocation [of board seats] may be required in due course”.⁵³ European Union governments, which are over-represented in the World Bank, IMF, G20 and other bodies, are the major obstacle here.⁵⁴ Some European governments are said to be backing proposals for the consolidation of European constituencies and for double majority voting on some decisions. Both steps would be welcome, but as yet no strong joint European position has emerged, and until it does discussions on the issue are frozen.

The G20 review of World Bank and IMF mandates has been contracted out as a consultation exercise on the Overseas Development Institute blog.⁵⁵ This has not been widely publicised and not picked up significant momentum. A political negotiation on several existing proposals to reform IFI mandates, programmes and incentives is needed to follow up.

UN institutions, which are more inclusive and legitimate than the World Bank, IMF and the G20 itself, are constantly held back by richer country suspicion. This was clearly shown in the UN summit on the financial crisis in June, which resulted in a strong diagnosis of the causes and consequences of the crisis, but too little specific follow-up.⁵⁶ G20 governments have not addressed most of the far reaching, comprehensive and necessary proposals made by the UN Commission.

History will not judge the 2009 G20 process kindly unless it uses its Pittsburgh meeting to consider far bolder proposals. These include:

- Moving toward a new global currency reserves system to reduce global imbalances and reduce volatility;
- Introducing a fair and transparent arbitration process to assess and resolve disputes on debt claims.
- Instituting a tax of 0.005% on foreign currency transactions. This could deliver \$30 billion if placed on the four major currencies (US Dollar, Euro, Yen and Pound).
- Establishing and providing additional resources to a global climate fund under the UN.
- Reconsidering financial services and capital account liberalisation, ensuring that trade and investment agreements do not lock in liberalisation measures which often prevent national economic development.⁵⁷

E. Conclusion and demands

G20 leaders hailed their 2 April summit as a historic occasion with unprecedented financial commitments and significant decisions to transform the global financial architecture. The G20 deserves credit for recognising the major problems caused by the financial crisis and dysfunctional financial governance, but it has not managed to mobilise sufficient political will or finance to prevent major social impacts from the crisis or to design the institutions needed to prevent future ones.

The G20 agreements do not cover low-income country needs at this time of crisis. The G20:

- has so far contributed less than half of its promised \$50 billion for low-income countries, an amount that was less than 5% of its total financing pledge;
- is providing most of its finance as loans, risking another new debt crisis;
- has only taken tiny steps to regulate tax evasion, commodity speculation and other activities that drain resources from developing countries on an ongoing basis.

At the Pittsburgh G20 meeting on 24 and 25 September and the World Bank/IMF Annual meetings in Istanbul from 4-5 October, heads of state and finance ministers must take further action to prevent low-income countries being further victims of this crisis which they did not cause and to build the inclusive institutions that will be needed to regulate finance in future.

As the current problems facing developing countries are due to failures in the financial system in richer countries there is a need for additional finance as well as measures on financial regulation as a matter of policy coherence. To help developing countries maintain economic activity and social spending at this time when they confront a financing gap of up to \$635 billion G20 governments should step up their efforts to meet their existing commitments on aid and other development finance. They should also:

- Redistribute \$90 billion of their new IMF SDRs from richer to poorer countries.
- Speed up the sales of IMF gold and transfer US\$ 6 billion of the proceeds to Low Income Countries.
- Ensure that their contributions to multilateral institution crisis response is additional to aid budgets and that they provide further additional climate change funding.
- Provide money to low-income countries affected by the crisis as grants;
- Apply responsible finance principles to guard against loans being taken on for commercial reasons that will not benefit the population, and to ensure that projects meet environmental and social standards.

As sufficient finance on good terms is not available a debt moratorium is required to prevent many developing countries being forced to make further dramatic cuts in spending. To help countries cope with this crisis the G20 should agree to:

- a two year moratorium on all debt payments of developing countries that are falling behind on the Millennium Development Goals, without the build-up of interest.
- establish a fair and transparent debt work-out mechanism to assess the legitimacy and payability of debt claims.

Over-reliance on free market self regulation was the major cause of the current crisis. There has been a lot of talk about strong, coordinated regulatory action, but the implementation so far has been patchy and slow. The G20 needs to pay particular attention to:

- Change its approach to tax havens, replacing the current bilateral approach with a comprehensive multilateral, automatic, information exchange model.
- Introducing country by country reporting rules for transnational companies.
- Regulating highly leveraged institutions such as hedge funds, particularly through tighter capital adequacy requirements.
- Introducing and enforcing tight position limits on commodity derivatives positions to limit financial speculation on food, oil, land and other essential commodities.

Endnotes

- 1 The Global Plan for Recovery and Reform, London G20 communiqué, 2 April 2009. At: www.g20.org/Documents/final-communique.pdf.
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- the \$4 billion paid into its Global Trade Liquidity Pool (the main instrument for Low-Income Countries). This money is not additional, and the other donor money is presumably pre-existing aid funds. A further concern is whether this money will have a positive poverty impact - it is primarily support of rich country exporters, with only indirect benefits for poorer people. Analysis based on phone conversations with UK and World Bank officials, September 2009 and EU Position for the G20 Ministerial and Governors meeting of 4-5 September 2009, unpublished.
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