G20

Perspectives from

Felipe Calderón • Lee Myung-bak
Julia Gillard • Dilma Rousseff
Jacob Zuma • Angel Gurría
Juan Somavia • Hans Hoogervorst
Lars Thunell • Maria van der Hoeven
Achim Steiner • Michel Jarraud
Braulio Ferreira de Souza Dias
Supachai Panitchpakdi • Michel Sidibé
Raymond Benjamin • Lawrence Summers

THE MEXICO SUMMIT JUNE 2012

MUNK SCHOOL OF GLOBAL AFFAIRS
G20 Research Group
UNIVERSITY OF TORONTO

The quest for growth and stability

Athabasca's Cleaner

The global demand for energy will continue to dominate the Canadian and international political and economic agendas. Athabasca Oil Sands Corp. offers an innovative solution to these energy challenges. The company holds an enormous acreage position in Alberta's oil sands region and anticipates using a breakthrough technology to produce its extra heavy oil resources in a sustainable and responsible manner.

Athabasca's new technology is called thermal assisted gravity drainage (TAGD) which uses electricity to gently heat the reservoir. Thermal heating is similar to the in-floor radiant heating systems people install in concrete floors to keep warm and comfortable. The heat is constant and even.

The company believes TAGD addresses a number of international concerns: it eliminates mines and tailings ponds, uses directional drilling from pads to minimize the surface footprint; it uses no water and significantly minimizes carbon dioxide emissions. Thus TAGD could be more profitable and environmentally sensitive than other oil sands recovery methods.

The company's prize reservoir is in its wholly-owned Dover West oil field, about 70 kilometres northwest of Fort McMurray. The oil is trapped in a 100 - 150 metres thick reef, called the Leduc carbonate, about 350 metres below the surface. Conservative estimates from third-party evaluators show approximately 17 billion barrels of contingent oil-in-place (best estimate) which could support production of 250,000 barrels per day for several decades.

Oil Sands Strategy

For commercial production, Athabasca could clear a select number of corridors through the forest, construct pads and directionally drill wells into the reef. Each pad is expected to be reclaimed shortly after the extra heavy oil production ceases, unless another technological advancement proves effective to sweep the reservoir clean.

Athabasca has a large extra heavy oil reservoir that could be Canada's answer to Saudi Arabia's elephant oil fields.

Although it is preliminary and not yet commercially proven, Athabasca believes TAGD may help Canada become an energy superpower, producing cleaner energy.

ATHABASCA
OIL SANDS CORP.

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GEOGLAM: improving food security through the use of Earth observations

Different kinds of cropping systems

Concerned about volatility in global food markets, the G20 adopted the Group on Earth Observations Global Agriculture Monitoring initiative, or GEOGLAM, in 2011 as part of its Action Plan on Food Price Volatility and Agriculture. The role of GEOGLAM will be to strengthen the international community's capacity to produce and disseminate timely and accurate information on agricultural production at the national, regional and global scales.

GEOGLAM will build on existing agricultural monitoring initiatives and enhance them through international networking, national capacity development and data-sharing. The GEOGLAM network comprises national agricultural agencies; international bodies such as the Food and Agriculture Organization, the World Meteorological Organization, and the World Food Programme; and a diversity of other institutions that participate in the GEO Agricultural Monitoring Community of Practice.

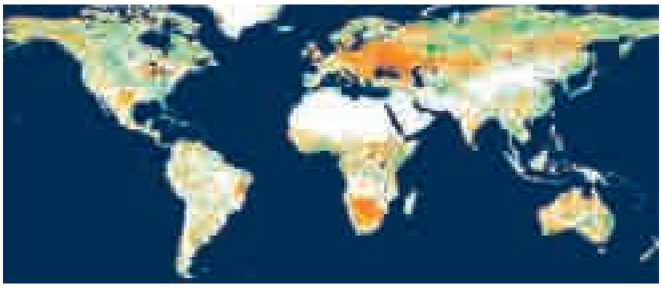
GEOGLAM will mobilise satellite and meteorological data and ground-based agricultural observations. It will also advocate full and open data-sharing.

The initiative will start by focusing on four key crops – corn, rice, soybeans and wheat – that are widely traded and the production of which is dominated by the world's main agricultural producers. Fluctuations in the annual production of these critical commodities can impact global food markets and threaten food security in vulnerable countries. GEOGLAM will also address the particular priorities of countries at risk, such as, for example, sorghum production in western Africa.

The G20 has invited the Group on Earth Observations (GEO) to lead the development of this initiative. GEO is a voluntary partnership of 88 governments, the European Commission and 61 international organisations that is building the Global Earth Observation System of Systems (GEOSS). It provides a framework within which these partners can coordinate their Earth observation strategies and investments, share their data, and develop new projects. In this way, GEO aims to ensure that decision-makers have full access to the cross-cutting data and information that they need for addressing critical global issues.

G20 countries can promote the success of GEOGLAM by ensuring sustained long-term investments in satellite and in situ networks, actively supporting the full and open sharing of data, and facilitating GEOGLAM's fundraising activities.

Distribution of global croplands



Global normalised difference vegetation index (NDVI) anomalies

GROUP ON EARTH OBSERVATIONS

www.earthobservations.org

G20

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Creating economic value: towards a new model of urban project evaluation

Stephen Beatty, Americas Head of Global Infrastructure Partner, KPMG in Canada

Lewis Atter, Associate Partner, Corporate Finance, KPMG in the UK

There is little doubt that cities are the engine of economic growth. Already, the world's cities are home to more than half of the global population and drive the vast majority of economic output. It is equally clear that economic growth can be enhanced through infrastructure development.

But measuring the economic benefits of infrastructure at a city level is notoriously difficult. In part, this is due to the influence of a wide range of external forces that alter the value of infrastructure from an economic perspective.

More importantly, however, it is because infrastructure tends to be approached as fairly simple equations responding to a specific challenge ("we need to move people and goods faster and more reliably", "we are running out of generation capacity", or "we cannot go on polluting our rivers"). What's more, investment is generally rationalised using sector-specific methodologies (such as road users' value of time saved in traffic versus net costs to taxpayers).

For developing and emerging economies, such as those in South America, this approach offers an opportunity to leapfrog more developed economies

Indeed, viewing infrastructure investment on a project-by-project basis may do more to hinder economic growth than support it. Take, for example, a roads project that connects an industrial development to a new port project: viewed as an isolated project and measured by time saved in traffic, the road would be hard to justify. But when one combines the economic benefits of delivering products to export markets with the increased throughput of the port and the potential for job creation, it becomes clear that the road actually provides exceptional value.

Rather than the traditional approach to evaluating projects that has – historically, resulted – in chronic underinvestment and otherwise worthy projects becoming stalled, what is needed is a new model that focuses on achieving growth and wider economic benefits such as increased tax proceeds, new jobs and enhanced gross domestic product.

And when projects are viewed against those criteria, one quickly starts to rethink the way that infrastructure delivers value to the economy. Digging deeper into transportation investments, for example, it becomes apparent that, rather than simply linking two points on a map, mass transit delivers value by connecting businesses to labour markets, businesses to businesses, or businesses to consumer markets. In other words, it's about improving connectivity.

But there are other ways to improve connectivity. In the UK, the Greater Manchester region has led the charge towards a new approach that started with civic leaders thinking about regeneration programmes as a way to improve business connectivity, and housing programmes as a means to improve labour markets. Rather than simply building out inter-regional transportation systems in order to reduce commuter travel times, they began to think more clearly about how housing, planning and transport can be improved to not only boost labour markets, but also to deliver a catalyst to communities that were less connected.

Essentially, what it comes down to is the question of what investment will deliver the most potential for job creation and productivity. And suddenly, rather than deciding on the value of a single mass transit system, the field is thrown wide open to also include civic planning, business promotion, urban regeneration and a host of other approaches and investments that may deliver a bigger bang for the investment buck and – as a result – greater economic development.

Greater Manchester's model has also gained the support of the national government which, recognising the economic benefits of the new approach, has signed an innovative deal allowing the city to 'earn back' a portion of the additional tax generated by investing in infrastructure, thereby enabling Manchester to create a genuinely self-sustaining proposition for economic growth and development.

For developing and emerging economies, such as those in South America, the potential of a new model for evaluating projects should be warmly welcomed. With burgeoning urban centres, stagnant economic growth and a legacy of underfunding infrastructure, this new approach offers governments an opportunity to leapfrog more developed economies by adopting a single-minded focus on driving economic value from infrastructure investment.

To be sure, there will be significant challenges. Government departments will need to integrate their approaches to investment in order to rally around common objectives; leadership will be

Greater Manchester, United Kingdom. Regeneration can enhance business connectivity, while housing programmes can improve labour markets

required at the highest level to provide the political will to do what is best for the economy as a whole; new agreements and close cooperation must be adopted between civic, regional and national governments to drive balanced investments and benefits.

But through taking a new and economically oriented approach, it seems clear that governments may now have a new model for turning infrastructure investment into much-needed economic growth.

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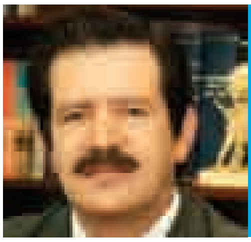
Caja Popular Mexicana: a cooperative helping to build a better world



By Ramón Imperial Zúñiga, Managing Director, Caja Popular Mexicana and President of the International Cooperative Alliance for the Americas

International recognition for the cooperative sector

This is a very important year for the global cooperative movement, since the United Nations has proclaimed 2012 as the International Year of Cooperatives to raise awareness of their contribution to socioeconomic development, and especially the impact they produce on poverty eradication, the creation of new jobs and social integration.

Caja Popular Mexicana is a savings and loans cooperative comprising close to two million people who have voluntarily joined as members to achieve common economic goals and match their social and cultural needs and aspirations through a democratic member-owned enterprise.

The International Cooperative Alliance represents more than one billion people worldwide, including Caja Popular Mexicana's members. Cooperatives enable their members to start their own businesses and help them to create opportunities for their families, such as building houses or educating their children. They contribute to all economic activities, such as agriculture, banks, savings and loans, industry, insurance, fisheries, housing, health, utilities, social services, tourism and hospitality, and consumer services.

Cooperatives also allow for cost reductions by sharing resources and ensuring greater bargaining power when purchasing supplies or the equipment that members need to do their jobs. They also offer better market opportunities when negotiating product prices – in other words, they generate wealth and prosperity for their communities.

Caja Popular Mexicana provides its two million members with the opportunity to escape poverty and engage in productive work

Members are provided with a range of services including financial education that enables them to manage their household finances

We are honoured that the UN has designated 2012 the International Year of Cooperatives, as this recognises the role that cooperatives have played in eradicating poverty, creating jobs and promoting social integration worldwide.

"Cooperatives are a unique and invaluable presence in today's world. They enable social inclusion and help small businesses to thrive"

BAN KI-MOON, UNITED NATIONS SECRETARY-GENERAL

Building a more prosperous Mexico and a better world

When you travel through Mexico, you realise what a wonderful country it is, with its abundant natural resources, distinctive culture and diverse beliefs and ways of life. However, it quickly becomes apparent that thousands of people live in impoverished and marginalised conditions for lack of basic opportunities. Poverty is prevalent in both the remotest communities and in the most developed cities, and this means a lack of education, food, health, jobs and financial inclusion for many Mexicans.

The alternative we offer, as a cooperative association, has special significance today because our organisation can act as a role model to enterprise, demonstrating how businesses can be socially responsible in times of crisis that have been brought about by a clear lack of corporate principles and values.

It is the responsibility of all of us to tackle poverty to improve the living conditions of the poorest members of society and put an end to the vicious circles of exclusion that drive down living standards. Cooperatives represent a bona fide and genuine alternative that can help build a more prosperous Mexico and a better world. Indeed, our social enterprise model is backed by more than 160 years of success and experience worldwide.

Caja Popular Mexicana and the value of cooperation

Since its foundation in 1951, Caja Popular Mexicana has stuck to its major objective of ensuring the economic and social improvement of its members by encouraging them to save and to use credit responsibly, and through the promotion of mutual aid, thereby distributing wealth, reducing borrowing, supporting productive work and creating jobs.

Our members, particularly women entrepreneurs, have received funding in excess of US$540 million over the past five years. This has allowed them to improve their quality of life, as have the more than 200,000 children and teenagers who save through our network of 429 banking branches.

Credit union founders were right in proclaiming that the way to free people from poverty is savings, loans and education. In line with this philosophy, Caja Popular Mexicana also seeks to promote cooperative education – more than 160,000 of our members have actively engaged in business workshops, as a result of which they have gained invaluable education enabling them to manage their household finances, as well as receiving training on cooperative values.

In conclusion, I would like to share with you a comment made by United Nations Secretary-General Ban Ki-Moon that sums up the value of the cooperative movement: "Cooperatives are a unique and invaluable presence in today's world. They enable social inclusion and help small businesses thrive."

"Cooperatives have helped to develop the capabilities of people with lower incomes, including women who have been excluded over and again from the potential to enjoy economic development and personal growth"

FELIPE CALDERÓN HINOJOSA, PRESIDENT OF MEXICO

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Mexico's vision of innovation and cooperation at the Los Cabos Summit

We must find fresh approaches to stimulate global trade while ensuring financial inclusion and food security in developing countries, writes Felipe Calderón, president of Mexico

Since Mexico took over the presidency of the G20 on 1 December 2011, the global economy has continued to face a number of challenges. The temptations that are facing leaders in the context of the current crisis are many: resorting to protectionist measures, failing to take bold action on medium- and longer-term issues, and focusing on the domestic sphere at the expense of global well-being, among others. However, I believe that the G20 is the best forum for encouraging countries to maintain an international, cooperative outlook, even in the most difficult of situations. I know that leaders will arrive in Los Cabos armed with the courage, ambition and creativity required to put the global economy back on the path to sustained long-term growth and to create a fairer and more prosperous world for developed and developing countries alike.

Economic stabilisation – complemented by structural reforms to stimulate growth and employment – must remain one of our key priorities. That was the strategy we followed in Latin America after the crises of the 1980s and 90s, and it has led to the region being in a much stronger economic position today. Learning from these experiences, I look forward to seeing leaders at Los Cabos agreeing on an enhanced action plan that encourages member countries to swiftly implement previous commitments and to carry out further concrete actions to correct macroeconomic imbalances and stimulate growth. It remains crucial to avoid protectionist measures and, instead, to foster international trade. The progress made at the ministerial conference of the World Trade Organization (WTO) in December 2011 was very encouraging, and I look forward to Russia's entry, as well as to the implementation of measures to help the least developed countries join the WTO. In the absence of agreement on the Doha Development Round, we must continue to find fresh, credible approaches to stimulate global trade.

Following the financial crisis of 2008-09, the G20 and the Financial Stability Board (FSB) have done a great deal of work to formulate policies that will help strengthen financial stability. This year we have moved to the implementation phase in many areas. At the Los Cabos Summit we will review the progress report on previous G20 recommendations, including derivatives reforms, resolution regimes and compensation practices. We will also discuss recommendations on regulating other areas of the financial sector, such as shadow banking, in order to help avoid future crises.

I know that leaders will arrive in Los Cabos armed with the courage, ambition and creativity required to put the global economy back on the path to long-term growth

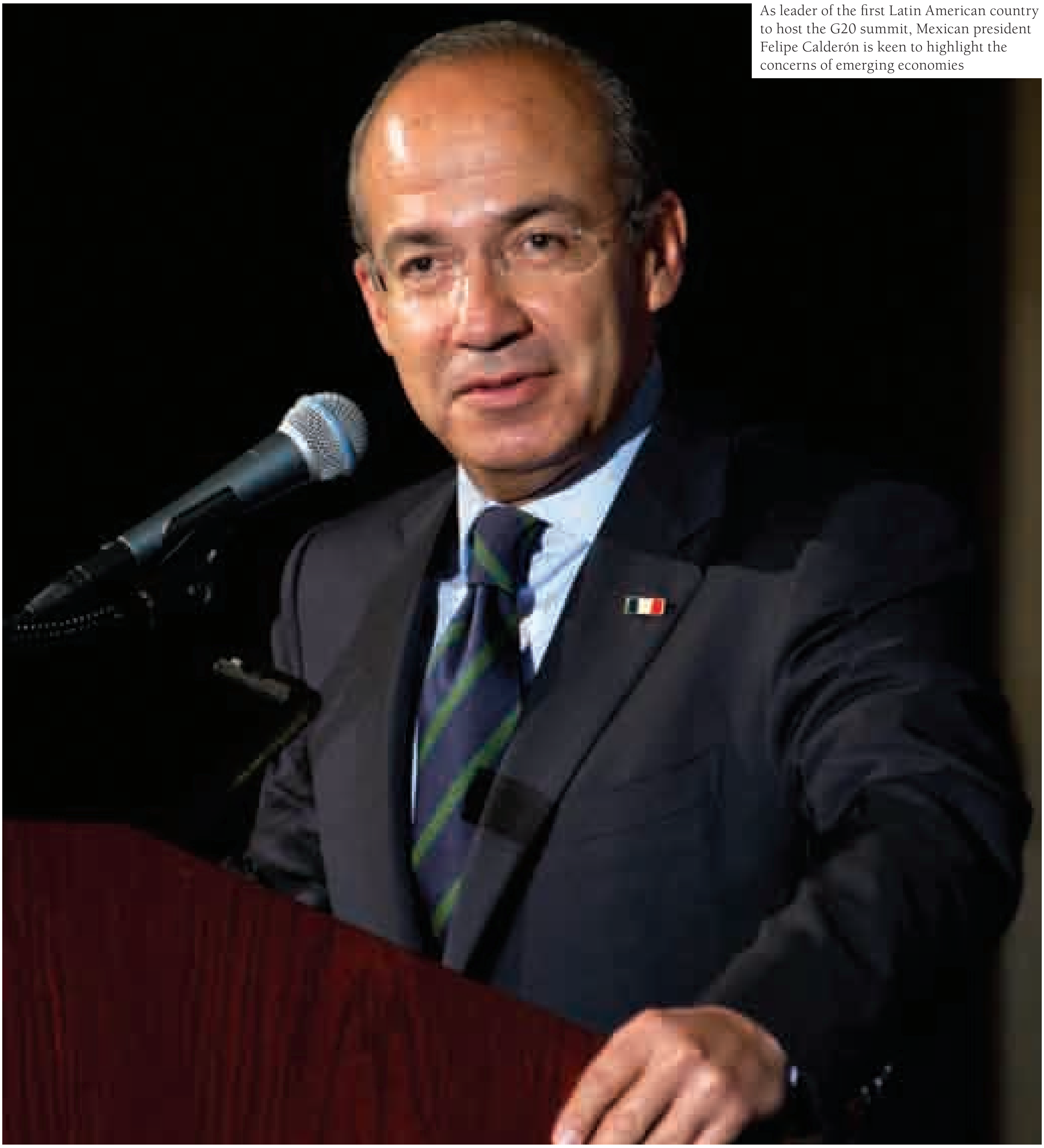
Financial stability

As the first Latin American country to hold the presidency of the G20, Mexico is committed to reflecting the concerns of emerging economies on our agenda. With regard to financial stability measures, it is important to strike a balance between the implementation of agreements such as Basel III and the need for the global banking system to continue to play a major role in the development of emerging economies. We have also been keen to focus on financial inclusion. Although this is not generally an issue of interest for advanced economies, it is of great importance for the development agenda. It could make a tremendous difference to the well-being of millions of people, giving them greater security and life opportunities. At the summit, I am certain we can agree on measures to advance financial education, consumer protection and access to financial products.

We have also emphasised the need to strengthen the international financial architecture; we have worked hard to make progress on creating a robust global financial firewall. We celebrate the agreement reached recently to strengthen the finances of the International Monetary Fund (IMF). Now, we should continue with this effort and reinforce the ability of this international financial institution to respond effectively to global crises. To achieve this goal, a key element is to enhance the voice and representation of emerging markets and developing countries. The G20 will also continue its work to strengthen the IMF's surveillance framework, ensuring more effective integration of bilateral and multilateral surveillance. Finally, we look forward to the implementation of the action plan to foster the development and deepening of local currency bond markets, so that emerging economies are better able to deal with negative shocks.

Sustainable development

Another priority of the Mexican presidency of the G20 is food security. The poorest households allocate half of their income to food. However, food prices have more than doubled in the past decade, and this alone has led to a dramatic increase in global poverty. This is the reason why Mexico has worked hard to foster compliance with the commitments set out in the Cannes Action Plan on Food Price Volatility and Agriculture. We would like to see agreement at the Los Cabos Summit to strengthen international cooperation on agricultural innovation, technology transfers, and research and development. We also need to advance in the incorporation of sustainability criteria into agricultural practices. And we need to address the issue of financial speculation and its impact on food prices. It is vital that we commit to put an end to hunger; famine is unacceptable in today's world, and we must ensure that there is no repeat of what happened in the Horn of Africa in 2011.



As leader of the first Latin American country to host the G20 summit, Mexican president Felipe Calderón is keen to highlight the concerns of emerging economies

Mexico is also well aware that the potential consequences of climate change in the coming decades are such that many of our current concerns about the world economic crisis will seem superfluous in comparison. Climate change is affecting the whole planet. Each country must do its part under the principle of common but differentiated responsibilities. At Los Cabos, I am certain that we will have the opportunity to make progress on green growth policies, the phase-out of inefficient fossil fuel subsidies, and the Green Climate Fund. We must succeed in designing tools that enable developing countries to boost their technical and institutional capacities, in order to implement policies that achieve sustainable development, compatible with economic growth and poverty reduction. We will also aim to provide countries with policy options to insert green growth strategies into their structural reform agendas. Furthermore, we will promote disaster risk management as a policy tool of crucial importance for economic stability.

Clearly, this is an ambitious agenda, which can only be achieved through the efforts of all G20 member countries. However, I believe that at this crucial moment, my fellow leaders will come together in a spirit of cooperation. Only by working together will we be able to achieve prosperity, security and justice for the generations of today and those of tomorrow as well. ■

A new spirit of cooperation

In order to achieve sustainable growth throughout the world, innovation is more important than ever, both in terms of high technology and on a more basic level

Peter Löscher, President and CEO, Siemens AG

The global economy is going through fundamental transformations. Patterns of growth are changing, the distribution of wealth is uneven, and economic conditions are once again becoming more challenging – even in the emerging countries on whom we all depend.

Our common goal of a more robust and integrated global economy is clear, but the road to get us there is far from certain, particularly if we are to remain true to our commitment to sustainable development. As President Felipe Calderon stated in his presentation to the B20 Plenary in Cannes last year: "The critical issue is to solve the dilemma between economic growth and the environment – to find new ways to promote development and sustainability at the same time."

While there is no magic solution, we do have some powerful and effective tools to work with. One of the most promising, both in emerging economies and in the developing world, is the immense and versatile power of innovation. Innovation takes different forms, and responds to circumstances in different ways. And times of change can often be times of opportunity.

From a historical perspective times of economic upheaval are, in many cases, associated with technological leaps. The Industrial Revolution introduced transformational technological changes. Such transitions can be highly disruptive, but the end result is often positive.

It is not entirely clear whether we are currently undergoing such a technology-driven transformation in our global economy. However, I am optimistic that we are, given the pace and magnitude of innovation currently taking place around us. I see creative destruction of business models all over the world, in the most diverse industries, and within my own organisation, a multinational company.

The following are just a few examples of the innovation push that I see taking place. Our energy systems are undergoing rapid change, with new technologies enhancing their efficiencies and enabling economically sensible low-carbon energy production. Our latest H family of gas turbines delivers market-leading levels of efficiency higher than 60 per cent.

New developments in wind and solar power are stretching the limits of what is possible. For example, one of our technology partners has developed a new high-concentrated photovoltaic module more than 70 per cent more efficient than previously existing technology through the use of monocrystalline modules. That's an incredible leap forward, and makes this technology one of great promise for the sun-drenched parts of our world.

Some other examples: in the area of healthcare, personalised medicine is starting to make a big difference; the economic potential of the internet is being reaped to an ever larger extent, for example making supply chains more sophisticated and helping farmers in rural India to know the fair price for their crops; and production methods are being revolutionised with the introduction of "3D printing".

Challenging economic times can serve to support innovation, rather than hinder it. One driver of innovation is increasing cost-consciousness. In emerging economies such as India, China and Brazil, chest X-rays are on offer for as little as US$3, tablet PCs for US$100 and cars for US$3,000.

The mindset that makes these products possible is becoming a powerful transformative force in the developed world, too. It is a force that demands big changes in the dynamics of innovation – how it happens and where it happens. Avoiding or ignoring these changes carries great risks, but successfully navigating this new environment can offer enormous rewards - for countries, for companies and for individuals.

The phenomenal growth story of emerging nations over the past decades is one driver of this trend. Consumers in these parts of the world are moving up the income ladder. More people are enjoying fresh water, electricity and education for the first time. More people are purchasing cars, washing machines, or smartphones for the first time. However, they are not yet able to pay high prices.

Opportunities for sustainable growth – in 2012 and beyond – lie in more economical products and services, and in more efficient use of resources

In developed countries, the opposite trend is gathering momentum. Governments and consumers are both looking for ways to cut spending. Obvious manifestations of the new frugality in rich countries include the success of discount supermarkets and no-frills airlines, and the introduction of more efficient, but cheaper and simpler, trains.

Opportunities for sustainable growth – in 2012 and beyond – lie in more economical products and services, and in more efficient use of resources. This holds true for developed as well as emerging countries, for consumer goods as well as investment goods. What links these changes is innovation in the broader sense.

The most successful frugal products are not just existing products stripped of some of their features. They tend to be disruptively new, developed in response to very specific consumer needs and often with an extremely limited budget. At Siemens, we also call them SMART products because they have to be

An array of Siemens wind turbines turn at the West Wind park, near Wellington in New Zealand

"Simple," "Maintenance friendly," "Affordable," "Reliable," and "Timely to market."

The innovations driving these products can be technological, they can involve processes, or they can draw on a disruptive business model. Often they are a combination of these three. Scarcity of resources is thus not an impediment, but an enabler for frugal innovation.

Collaboration is also vital. A great example of this type of collaboration is the Fetal Heart Monitor, a device developed by Siemens to monitor the heart rate of foetuses in the womb. Traditionally, this type of examination is performed with ultrasound technology. The Fetal Heart Monitor, however, is a much simpler and more economical device that uses microphones, making examinations easier to perform even without specialised training. What's more, it costs far less than the US$4,000 or so for ultrasound devices.

The idea for the Fetal Heart Monitor was conceived in India. German engineers then helped with the development of the microphones, improving the product while maintaining its simplicity and robustness. This approach illustrates the advantages of combining high-end expertise from places like Princeton or Munich with innovative ideas from Bangalore, Mexico City or Shanghai.

In this environment, emerging regions are, as their name suggests, increasingly powerful. However, it is a myth that their prime advantage is lower labor costs. Entrepreneurs from these regions are often more nimble, creative and ambitious. Yesterday they built low-cost washing machines, today they are offering low-cost X-ray machines. Nevertheless, this trend is positive for both emerging and developed economies: the competitive challenge speeds up innovation of technology and business models. And it drives more efficient and more sustainable use of increasingly scarce resources like energy and raw materials.

Competition between private companies on a global level is not sufficient to guarantee that the world embraces all the opportunities technological innovation grants. Good ideas need the right kind of environment in which to flourish.

Therefore, it is our joint responsibility to work towards the right policy framework that allows for turning great ideas into great products, leading to the creation of new businesses and, finally, new jobs. Managing globalisation in a better way is part of the solution. This goes far beyond legal matters like protection of intellectual property rights. Profound change must happen in terms of how we cooperate on a global level.

The great news is that as the world is becoming more frugal, it is at the same time becoming more plentiful. Millions of people in developing countries are rising out of poverty – thanks to the right policies, to better education, and to the power of innovation.

The right spirit of cooperation can make this trend more broad-based and genuinely long-term. It can help translate innovation into growth and make growth more sustainable and environmentally friendly. We need to support this spirit of cooperation between individuals, between companies and between nations. Because cooperation is the only way to assure that the new model for the world economy can be more robust, sustainable and equitable than the one it will replace.

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Maintaining momentum towards growth

With its experience of chairing the G20 summit in Seoul, Korea is well placed to help unite countries in a mission to create harmony between a sustainable environment and a healthy economy, writes Korean president Lee Myung-bak

In my time in office I have dealt with a series of economic challenges, beginning with the global financial crisis in 2008 and, more recently, the European sovereign debt crisis in 2011. In our increasingly interconnected global economy, risks were felt throughout the world; difficulties within advanced economies were acutely felt in many emerging and developing economies. We lost more than 20 million jobs and youth unemployment is now a global concern. In such a world, the role of the G20 remains crucial.

Although some say the eurozone may have avoided the worst and that the United States is showing signs of an economic recovery, we must maintain our sense of urgency. Uncertainty persists and the situation could deteriorate quickly if confidence in the market wanes. Subdued growth in advanced and emerging economies is raising concerns about a prolonged recession. We must stay vigilant because challenges, including high and volatile oil prices, deleveraging by multinational banks and increasing geopolitical risks, have yet to be resolved. The G20 must remain committed to achieving sustainable and balanced growth.

The collective leadership of the G20 helped the global economy step away from the brink of a depression by fostering effective policy coordination through fiscal expansionary measures and a standstill on protectionist measures and by urging financial regulatory reforms. Now the G20 is helping Europe overcome its sovereign debt crisis. At the 2011 Cannes Summit, all the G20 members agreed to work together to prevent contagion of the eurozone crisis and support global recovery. Subsequent agreements to strengthen the firewalls of the European Stability Mechanism and International Monetary Fund show strong commitments. Building on these achievements, G20 leaders will be able to deliver meaningful outcomes at the Los Cabos Summit in Mexico.

The key role of the G20 is to lead international collaboration to promote sustainable growth, prevent crises and strengthen global economic resilience. In the short term, and in this still-fragile global economy, we must maintain the recovery momentum and secure strong growth engines. In the long term, the G20 must go from being a 'crisis manager' to a 'global economic architect'.

At the Los Cabos Summit, I look forward to the G20 members reaching a consensus on four fronts. First, we must identify appropriate policy responses to set in motion a virtuous cycle of growth and fiscal health. Advanced countries must step up growth-enhancing investment expenditures and make bold reforms in pension and social security systems. Emerging countries must devise sustainable growth strategies that contribute to global rebalancing. More secure social safety nets along with investments in human capital, public goods and innovative industries would boost domestic demand. Advanced, emerging and developing countries should embrace free trade as a driver of growth and prosperity. Protectionism must not deter our efforts.

Next, the G20 should continue addressing commodity price volatility. High and volatile commodity prices over the past decade had a harmful impact on the world economy, especially on low-income commodity-importing countries. The elevation and uncertain prospects of oil prices are threatening global economic recovery. Building on our previous commitments, the G20 leaders must devise credible measures to enhance oil market stability. Producing countries must continue ensuring adequate oil supply. With the G20 leaders having committed to enhancing the function and transparency of both physical and financial commodity markets, we should more quickly develop measures to prevent market-disturbing speculation. In this context, the G20 must move towards the swift implementation of the recommendations of the International Organization of Securities Commissions to improve the regulation and supervision of commodity derivatives markets.

Effective policy coordination

In addition, the development agenda must gain traction to enhance the growth capacities of the developing world. In November 2010, G20 leaders agreed on the Seoul Development Consensus and its Multi-Year Action Plan to pursue shared growth. Last year, achievements were made in many areas including infrastructure, food security and human resource development. The success of the G20 development agenda is instrumental for not only sustainable growth, but also global rebalancing. By fully implementing agreements on development, the G20 must reap tangible outcomes to boost growth in developing countries, which will contribute to narrowing the development gap and creating additional global demand.

Last but not least, we must move towards sustainable development via green growth. Achieving harmony between a sustainable environment and economic growth is our shared mission. I have been fully committed to promoting low-carbon green growth as part of a new vision to guide Korea's development. With new technologies for clean and renewable energy and energy efficiency, and by promoting related industries, green growth can lead to new sources of growth and job creation, as well as solutions for climate change and energy crises. It is highly encouraging that the G20 has been strengthening its discussions on green growth, which is now a priority agenda item. In this context, I hope the G20 will devise a concrete plan for green structural reforms and identify and implement adequate support programmes for developing countries to pursue green growth policies.

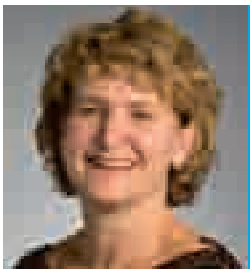
As the chair of the G20 Seoul Summit, Korea learned at first hand that successful international cooperation requires tremendous effort from everyone involved. The G20 has achieved much, precisely because its members have understood that serving the global common good also best serves individual purposes, especially in this closely interconnected global economy. As a member of this premier forum for effective policy coordination, Korea will continue to cooperate in the pursuit of strong, sustainable and balanced global growth. ■

President Lee Myung-bak wishes to achieve consensus at the summit. The question of volatile commodity prices is one item on the agenda

SPONSORED FEATURE

From field to fork:

the food security challenge and how Saskatchewan can help



Dr Karen Chad
Vice-President Research,
University of Saskatchewan

With the world's population expected to reach nine billion by 2050, it's clear that the global food system will be challenged to meet the demands of this growing population. But closing the expanding gap between rising food demand and stagnating food production is not simply a question of producing and distributing more food.

The drivers of food scarcity and access are complex and interwoven. They involve not just new knowledge of water, soils, energy and agricultural production, but also an understanding of the decision-making and regulatory structures across the supply chain, business practices at all stages of food production and delivery, and cultural factors that drive consumer tastes.

To ensure an enduring supply of safe, high-quality food for the evolving appetites of increasingly affluent global populations, we need to fully optimise the global food supply at all key points along the chain. This requires an integrated, multidisciplinary and system-wide view of the global food supply chain – from field to fork.

To date, research in food security has generally focused on sustainable production practices, improving yield and maximising nutritional value – all vitally important aspects of tackling the problem. But productivity includes much more than just outputs; it is influenced by price, quality, safety, income distribution, environmental considerations, and consumer acceptance. What's needed is a system-wide approach to how regional, national and global food networks function.

Indeed, there is consensus among leading international organisations, such as the Consultative Group on International Agriculture Research, that the food system cannot effectively address global food security challenges without accelerated innovation – not just in agricultural research and resource sustainability, but also in social science areas such as economics, governance and policy.

At the University of Saskatchewan (U of S) food research hub, we plan to take a comprehensive approach to help reshape food systems – an approach largely lacking in today's research landscape. Our goal is to serve the growing food needs of humankind by discovering, developing and delivering high-impact technological, economic, nutritional and environmental innovations to enhance productivity throughout the global food system.

We will create a new interdisciplinary institute that will build on our excellence in resource management, crop development and animal health, as well as expertise in policy related to agricultural innovation and trade, bio-processing and utilisation, and human nutrition.

We will initially focus on wheat, pulses and related prairie-crop systems where we have globally recognised strength, and we will carry our results to relevant regions around the world.

As a world leader in agricultural crop research and home to one of Canada's largest clusters of researchers and related research centres, we are well positioned to make strides in more efficient use of resources to increase the amount of nutritious food available globally. We will improve education and training on global food security issues and serve as a credible resource for innovative research, training and policy.

Working with partners around the world and building on our strengths, our new institute will integrate science and policy research and innovation across the food chain to contribute Saskatchewan-led solutions for sustainably feeding a hungry world.

University of Saskatchewan

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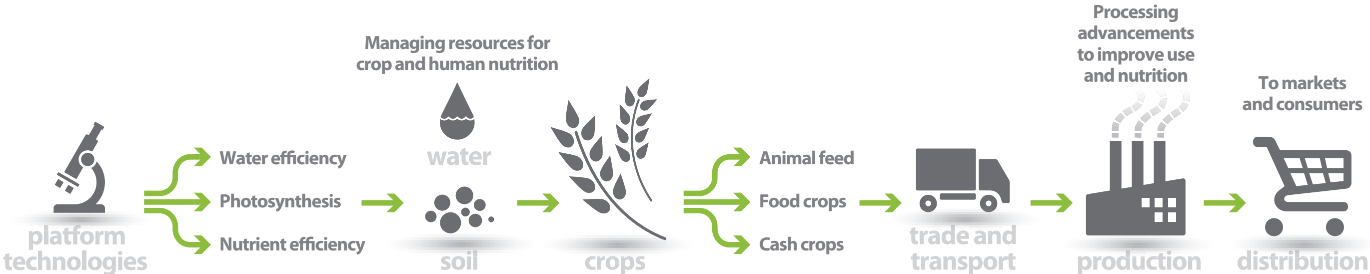
Saskatchewan will be part of the solution

Over the past century, the University of Saskatchewan has led far-sighted research and innovation to help grow a province and feed a growing nation. Now we will help feed a hungry world.

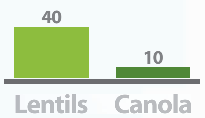
From field to fork

The new University of Saskatchewan global food security institute will help optimize the food supply system to make the best use of natural resources and deliver the best nutrition to people round the world—with a focus on wheat, pulses and related prairie crops.



Saskatchewan is a world leader in wheat, pulses and canola production:

- Contains 43% of Canada's arable land
- Wheat, canola and pulses account for more than 80% of Saskatchewan crop exports
- Accounts for 11% of global wheat exports*



Saskatchewan is rich in natural resources such as potash, oil and water.

Saskatchewan agriculture improvements can have major global impact:

- Our soil is amongst the most productive in the world. Our soil type, climate and key crops are common to many countries. Our food institute's impact could reach 570 million people and 170 million tonnes of crop worth CAN$34 billion.
- As Canada's largest agricultural producer, we have a dominant role in global food and food products systems and trade.

* Excludes durum wheat

The U of S outstanding food research hub

Centres of innovation

Globally recognized:

- Canadian Light Source synchrotron at U of S
- U of S Vaccine and Infectious Disease Organization-International Vaccine Centre

National leaders with global reach:

- U of S Crop Development Centre
- U of S Global Institute for Water Security
- More than 10 U of S colleges relevant to food security

Government research leaders:

- Agriculture and Agri-Food Canada
- NRC of Canada
- Saskatchewan Research Council

Regional strength:

- Canadian Feed Research Centre
- Canada-Saskatchewan Irrigation Diversification Centre
- U of S Feeds Innovation Institute
- Western Beef Development Centre
- Prairie Swine Centre
- Innovation Place (>50 companies)
- AgWest Bio Inc.
- POS BioSciences pilot plant
- Multinational agbio industry firms
- Saskatchewan Food Industry Development Centre Inc.
- Johnson-Shoyama Graduate School of Public Policy

Steeples of excellence

Our research will complement activities of major global partners in a range of areas along the food chain—from crop development to policy.

- Resource Management
- Crop Development
- Animal health

Emerging strengths

- Policy related to agricultural trade and innovation
- Bio-processing and use
- Human nutrition

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A relentless focus on global economic and financial prosperity

The G20 has already transformed the lives of many of the world's poorest people. It must now agree on and implement critical reforms across economies to ensure ongoing stability in the years ahead, writes Julia Gillard, prime minister of Australia

Australia has been a champion of the G20 from its inception, first as a meeting of finance ministers and central bank governors and then when the forum was elevated to a leaders' summit in 2008. The G20 has since proved its effectiveness to the world by ameliorating the destruction wrought by the global financial crisis, averting a global economic depression and saving an estimated 21 million jobs. Four years on, the G20's responsibilities to solve global economic challenges have not changed. While it has made progress in addressing the current vulnerabilities in the world economy, Australia would like to see the adoption and implementation of a number of critical reforms to ensure ongoing stability and growing prosperity in the years ahead.

The recent announcement of an additional $430 billion in resources for the International Monetary Fund (IMF) would not have been possible without the cooperation and leadership of the G20. This strengthening of the global firewalls to build on European firewalls is a significant achievement that points to the effectiveness and relevance of the forum. A strong IMF that can meet the needs of all its members is a necessary condition for global stability.

Foundations for growth

Adequate IMF resources themselves are not enough to guarantee global stability and growth. While all should acknowledge the growing number of policy actions taken by authorities worldwide, particularly in Europe, the G20 must use this breathing space wisely if it is to further reduce risks and resolve the remaining vulnerabilities in the global economy.

Market confidence is vital to a self-sustaining recovery. That is why I fully support Mexican president Felipe Calderón's priorities of economic stabilisation and structural reform as foundations for growth and employment at the Los Cabos Summit. There is still much work to be done, including by Europe. Fortunately, the leaders of the world's major economies laid much of the groundwork in the 2011 Cannes Action Plan for Growth and Jobs. Leaders will need to discuss their progress and fill out more detail at June's summit as a starting point for our Los Cabos Action Plan.

The G20 must deliver on a highly interdependent set of policy challenges. This includes sustainable government finances, a strong global financial system and deeper structural reforms by all of the world's big economies. It is the challenge of structural reform that can be lost in the day-to-day financial market headlines. It is also the most difficult to coordinate. Even if countries have a shared set of fiscal and financial reforms that are agreed upon and well understood, it is often the case that structural reform priorities are quite different across economies. Whether it is product and services markets, labour markets, taxation or skills and education, all have some reform priorities that need to be addressed. Australia's point has been that those reforms should be explained through the prism of how they support growth and jobs.

These reform decisions can be very difficult politically, and very complex in policy terms, particularly when viewed across economies. That is exactly why G20 leaders must have the discussion: we must also be able to explain these reforms to our people in a meaningful way. And G20 leaders must hold each other accountable. If we do not pave the way for growth and jobs through sustained reforms, there is a strong likelihood that we will continue to lurch from crisis to crisis.

Trade is a key priority in securing global economic stability and growth. There are pressures to 'keep jobs at home', despite it being counterproductive for growth and jobs in the long term and contrary to the messages the G20 has been sending since 2008. This is why I stood up for a renewed G20 commitment to resist protectionism at the Cannes Summit in 2011. Open trade is a public good that helps us all. By ensuring that markets remain open and allowing trade to grow, economic activity (and the jobs that come with it) will increase. This not only provides income and skills, but is also fundamental to people's dignity, health and quality of life.

The G20 must remain tightly focused on the big financial and economic items of the day. For it to lose definition or focus will only serve to dilute its effectiveness when it is most needed

Definition and focus

With the growing recognition of the effectiveness of the G20 comes a natural tendency for countries to seek to inject topics of concern into the agenda where they can be given effective leader-level attention. However, at its core the G20 must remain an institution that is tightly focused on the big financial and economic items of the day. By providing a global meeting place for leaders, the G20 allows us to deliver on the things that matter for people across the globe. For it to lose definition or focus will only serve to dilute its effectiveness when it is most critically needed. Already one can see how the G20 has transformed the lives of many of the world's poorest. In the two short years since G20 leaders launched the Seoul Development Consensus for Shared Growth, we have worked to help low-income countries fight poverty through work on food security and economic resilience.

I am proud of our work on the G20 development agenda and of Australia's contribution. Last year, we joined with Indonesia and Italy to secure the G20 leaders' agreement to reduce the global average cost

Australian prime minister Julia Gillard views open trade as a key priority for the G20 members in securing global economic stability and growth

of sending remittances from just over nine per cent to five per cent by 2014. This has the potential to produce additional annual flows of up to $15 billion to the people that need it most. This year, we are continuing our fight against global food insecurity by partnering with other G20 members, including Canada and the United Kingdom, as well as the Bill and Melinda Gates Foundation, to spur private investment in new products and innovations that will help us feed an additional two billion people by 2050. These outcomes are a vital contribution to achieving the Millennium Development Goals.

Australia will continue to do its bit to ensure the G20's ongoing agility and relevance. We will use our membership of the G20 troika once Russia assumes the chair in 2013 to enhance our engagement with G20 colleagues and non-G20 members, particularly those in the Asia-Pacific region, to ensure that the voices of those with an interest in the G20's actions are taken into account. And we will work closely with Russia as it takes up the G20 presidency to ensure that the momentum for medium- to long-term initiatives can be sustained through 2013 to 2015, with Australia having the privilege of hosting the G20 in 2014.

My vision for 2014 is for a summit that further advances our ability to create and sustain the economic conditions that drive growth and improve living conditions. I see a meeting that upholds the G20 as a reflection of new geopolitical realities, where major developed and emerging economies work together to make a difference for the world's peoples. I see a responsive, leader-led forum unfettered by bureaucratic trappings with an agenda owned by members but exercised in the interests of all. The G20 is a unique group that can only maintain its relevance and 'earned legitimacy' through a relentless focus on global economic and financial prosperity that improves people's living standards. That would be a contribution that Australia would be proud to have as part of its legacy. ■

Brazil's view on global economic and environmental governance

During a recent lecture, Brazilian president Dilma Rousseff described a path from economic growth to social inclusion, income distribution and environmental preservation

We Brazilians are very proud to be one of the so-called emerging nations; nations that actually have maintained notable economic growth for the past number of years. According to the International Monetary Fund (IMF), we BRICS countries – Brazil, Russia, India, China and South Africa – are responsible for 56 per cent of the world's economic growth.

We have also achieved macroeconomic stability. Not only have we brought inflation under control, but all variables measuring the country's fiscal robustness have also improved markedly. Above all, Brazil, once a country with massive public debt and a ratio of 60.4 per cent debt to gross domestic product (GDP) in 2002, now proudly has a debt-to-GDP ratio of 36.5 per cent. At the time my administration took office, Brazil depended on the IMF. Now our country holds a reserve of $362 billion, is one of the biggest buyers of US bonds and has settled all of its debts with the IMF. This accomplishment was extremely important for Brazil because it meant that we could finally independently determine our own economic and social policies. And we went from being a debtor nation to a creditor nation with the IMF.

But I must stress that the most important aspect of this process – the element that has most propelled us forward and that has truly fuelled the growth of the Brazilian economy – has been the first-time inclusion of 40 million Brazilians in the middle class.

Brazil has been generating an average of two million jobs annually. Consumption has been growing at a rate of more than eight per cent per year. This phenomenal rate owes itself precisely to the fact that once-impoverished Brazilians have now become active consumers. We have also democratised lending and have given millions of Brazilians access to personal bank accounts. The country has proudly built a powerful network for social protection. Brazil today is a country that,

in terms of social policies, has managed to stock up an arsenal of technologies that directly address the question of inequality.

We know that we are affected by the international economy, yet we are well positioned to confront this reality. We live in a time of much preoccupation, and the crisis currently faced by the world's developed countries, most recently by the European Union, is still a harsh reality, with recession and heavy unemployment an undeniable fact.

Weighty problems

Although we recognise that the actions taken by the central banks, mainly the European Central Bank, improved the situation greatly, many threats persisted. What the central banks did was to stop the occurrence of a liquidity crisis. However, the fact that the banks only stuck to monetary policies, the concurrent fact that countries in crisis are not being targeted for their markets, plus the fact that countries with budgetary surpluses are not pursuing investment expansion policies together place a number of weighty problems upon emerging countries. Primarily, there is a kind of competition whereby the devaluation of developed countries' currencies affects and leads to significant problems for emerging countries' manufacturing industries, as is the case in Brazil. Nonetheless, Brazil is in a condition to tackle this problem because it has a solid and healthy banking system.

But these policies alone – fiscal consolidation plus expansion policies by those countries able to apply such – will not contribute to renewed growth or prosperity. Moreover, we face a serious problem, which is the price of petroleum while there is decreased demand from developed countries, which will also impede renewed growth.

This year Brazil is in a much better position than it was last year. In 2011, we were forced to rearrange our macroeconomic policy. Now we are poised for more notable growth than what we were able to accomplish last year.

Given our country's history, it is clear that simply tackling recession, unemployment and job insecurity does not constitute a systematic solution to overcome the crisis. Together with sound fiscal policies, it is critical to recover investment and drive consumption in order to spur growth to pre-crisis levels. Brazil has 20 years of experience in this area. For 20 years, we applied non-stop policies of fiscal consolidation – better yet, of radical fiscal adjustment. And we faced extreme difficulties in overcoming stagnation, low growth and a lack of social policies – to the extent that a huge problem for us was once the sanitation policies in large Brazilian metropolises because we were simply unable to finance sanitation systems and unable to use public funds to improve the ageing sanitation systems in place.

This process has changed today because Brazil now focuses on its domestic market and then subsequently looks to the international market. We do not consider protectionism correct, nor do we believe it leads to competitive growth for the country. To the contrary, what is clear is that we must ensure and capitalise on the development of our large, continental country, with its 190 million inhabitants, its rich pre-salt reserves, its mining resources, its agricultural sector that needs

The Juscelino Kubitschek bridge in Brazil's capital, Brasilia. The city was designed and built in four years, formally becoming the country's capital in 1960

to be productive and use advanced technology, and the industrial sector that, despite its suffering, we are striving to make more extensive and complex. The industrial sector will survive – this I guarantee – and will become one of the pillars of Brazilian growth.

Sustainable development

We attach [importance] to the Rio+20 United Nations Conference on Sustainable Development. The Rio+20 summit will study, discuss and work on a new development paradigm for upcoming years. In addition to the Conference of the Parties (COP17) to the United Nations Framework Convention on Climate Change, which took place in Durban and whose commitment periods we seek to pursue throughout this year, we will actively engage in Rio+20 and in the biodiversity conference in India [in October 2012]. Rio+20 will focus not only on the climate, but also on biodiversity. And the question is: what is sustainable diversity for the coming decade – and for this century?

Brazil and the UN are in agreement that the crux of this conference can be summarised as follows: we can indeed grow, include, preserve and protect. In other words, we must focus on social equality. The importance of this matter grows ever stronger as the consequences of the crises facing developed countries, and even many developing countries, continue to increase social inequality throughout the world. Therefore, we raise the question of reducing inequality and expanding social inclusion in all areas, improving opportunities across every spectrum of society. This is the truly essential question facing us at this political juncture.

In addition to decreasing social inequalities, there is also the question of the right to growth and the question of respecting and protecting the environment. To this end, we, as a country, are in a special position, and I recognise this with pride. We have an energy mix that is based fundamentally on renewable resources, which is not the case in the majority of countries, where the mix is based on fossil fuels or nuclear energy.

Brazil also has great biodiversity. It is one of the most biologically diverse countries in the world. This is seen as a huge growth potential for the biotechnology sector and, ultimately, for the protection of biodiversity. Concurrently, we must preserve our forests and our huge rivers. We do not want to be a country stripped of its natural resources. We hold the world's largest forest reserve – the Amazon – and we also have a huge lesser-known biomass, the Pantanal wetlands, as well as other smaller biomasses. For us, this discussion covers a crucial concern: in a world in which we must use both technology and political will to deal with growth and protection, the question is how to best ensure a world that encompasses growth, social inclusion, income distribution and environmental preservation all at the same time. This is the crux of the debate. ■

Translation of excerpts from a lecture made by President Dilma Rousseff to the Harvard Kennedy School of Government, Boston, 10 April 2012


PETROBRAS

South Africa's philosophy of interconnectedness

South African president Jacob Zuma is seeking to use his country's participation in the Los Cabos Summit to promote the interests of Africa as a whole, in areas including infrastructure, international trade and global economic stability

South Africa seeks to use every forum where it has a voice, but in particular the G20, to make a contribution to the effort to ensure fair and effective responses to the challenges confronting the world today. The G20 plays a central role in the effort to strengthen multilateral cooperation.

We believe that the dynamic changes now under way within the global economy provide significant risks and opportunities for economies such as South Africa and within Africa. One of the key elements of African growth is improving the capacity to trade within Africa and internationally. A key pillar for strengthening African trade is building better infrastructure – better ports, railroads, roads, communications and electricity supplies.

Our capacity to grow is based on a sense that we will slowly return to relatively high rates of global growth, based on the growth of major emerging markets in particular. This optimism is supported by emerging signs of economic recovery worldwide. In sub-Saharan Africa, we are proud of our increased growth rates in recent years. The International Monetary Fund (IMF) believes that the sub-Saharan Africa economy will grow at a rate of 5.4 per cent in 2012, considerably exceeding average world growth. According to the IMF, between 2000 and 2010 six of the 10 fastest-growing economies in the world were in sub-Saharan Africa. This trend is likely to continue. It is forecast that for the five years to 2015 this will increase to seven out of the 10 fastest-growing economies. Africa is poised to be a major growth point in the global economy.

According to the IMF, between 2000 and 2010 six of the 10 fastest-growing economies in the world were in sub-Saharan Africa. By 2015, this is forecast to increase to seven out of 10

Forging consensus

The G20 has a very specific role to play in adding value to the international community. The G20 presents opportunities for advancing both global governance reforms and the international development agenda in a manner that is complementary. Through a series of summits, the G20 has helped to jumpstart actions by forging consensus among members, building the political will and mobilising the necessary resources for an effective response to global challenges. For all its prominence as the premier forum for global economic coordination for its members, however, the G20 is not an alternative to the United Nations or other fully representative multilateral institutions.

The G20 could contribute to multilateralism by acting as a consensus builder on certain issues. At their Los Cabos Summit, G20 leaders could assist in making progress in negotiations that are taking place in other forums by signalling their strong political support for positive outcomes, without usurping the role or mandate of the organisation where such negotiations are taking place. Areas where the G20 could help to add value in this regard include sustainable development, trade, climate financing and reform of the international financial architecture.

Central to South Africa's national agenda is creating a better South Africa and contributing to a better and safer Africa and a better world. South Africa seeks to use its participation in the G20 to promote and strengthen the interests of Africa and of the developing countries of the South. This is done without receiving any formal mandate from African countries, but in the knowledge that the voice of Africa needs to be heard on decisions taken by the G20 that have implications for the whole international community. For South Africa, it is equally important that the G20 expand its outreach programme, to ensure that the interests of all non-member countries are better understood and inform its decision-making.

The state of the global economy and prospects for growth remain fundamental to the work of the G20. The sovereign debt crisis in Europe continues to create uncertainty about prospects for the global economy. Eurozone governments and institutions must act swiftly to resolve the crisis and put in place adequate mechanisms to promote economic growth.

As we head towards the G20 Los Cabos Summit in June 2012, it is important that the G20 show that it can implement the agreements that it has reached to date. Agreement must also be reached on important issues. Key priorities for South Africa in the current cycle include:

- Reforming the IMF while ensuring that Africa's shareholding is not eroded, and in particular reiterating the call for a third chair for Africa on the IMF's executive board, as now exists at the World Bank. This is vital to the overall effort of real inclusion in the global economy;
- Continuing the effort to ensure that the heads of the Bretton Woods institutions are appointed through a process that is transparent, fair and merit-based;
- Supporting the effort to create greater stability in European economies to ensure that the uncertainty there does not undermine the significant growth gains made by economies in Africa in recent years through, for example, sharp falls in investment and trade;
- Pushing for progress in the effort to identify increased multilateral sources of financing to support the costly transition towards low-carbon or green growth that many economies will have to make;

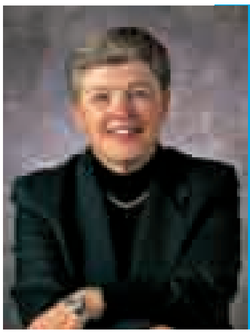
South Africa's President Jacob Zuma welcomes the opportunity to use the G20 forum to debate issues facing the African continent and the world

- Continuing to promote the need for real international cooperation between high- and middle-income countries to improve their support for low-income countries, in particular through the work of the G20 Development Working Group;
- Continuing to highlight the potentially vast contribution that sub-Saharan Africa can make towards global economic recovery as a new source or driver of global growth;
- Sustaining the need for greater focus on the capacity to trade within Africa and also to trade internationally. A key pillar for strengthening African trade is building better infrastructure – including improving ports, railroads, roads, communications and electricity supplies.

We attach a great deal of value to the importance of cooperation. This is expressed in the philosophical concept of *Ubuntu*, which emphasises that one cannot exist as a human being in isolation. It speaks about our interconnectedness. *Ubuntu* is roughly translated as 'humanity', or 'humanness – I am because we are'.

South Africa brings the spirit of *ubuntu* to our participation in the G20. Our struggle for a better life for all in South Africa is closely intertwined with our struggle for a better Africa and a better world. In this, our G20 partners have an important contribution to make. South Africa is committed to working together with the Mexican presidency and other G20 members to ensure a successful outcome at the Los Cabos Summit. ■

Africa's shifting landscape



Lou Anna K Simon, president, Michigan State University

With more than 50 years of engagement with Africa and more than 160 faculty currently working on projects with African partners, Michigan State University has developed a rich reservoir of knowledge and experience on the continent. From that, we find that five 'megatrends' will influence prospects for prosperity and food security in the next 10 to 15 years.

If underestimated, these trends will thwart the efforts of both Africans and their friends around the world to achieve positive development goals. These powerful currents will have different meanings for different countries, organisations, and individuals. But if we are to 'bend the trend' toward equitable and sustainable development, then governments, corporations, foundations, NGOs and universities today must carefully reckon the conditions under which we hope to proceed to this destination.

To begin with, policy debates need to focus more on development of a system that serves all people as democracy takes firmer root in Africa. Today, we can seize opportunities to work with the megatrends to create a better future for all, especially for those who are most at risk of being left behind.

MEGATREND 1: Urbanisation and pressures on land

Africa's food-consumption patterns will change dramatically over the coming decades. Rising urbanisation and growing per-capita incomes will double the marketed volumes of foodstuffs and ramp up demand for high-value foods (dairy, meat, fresh fruits and vegetables), processed foods, packaged convenience foods, and prepared foods. As fewer farm families support growing urban populations, farm productivity will need to increase in both crop and livestock production. Growing demand for packaged convenience foods will require substantial private-sector investment in food-processing technology.

But at the same time, people in rural areas are being squeezed onto smaller plots of land, leaving little room to expand farms and help meet the growing demand for locally grown food. While not fully understood, the squeeze is the result of an array of features that may include changes in ìtraditionalî local land-allocation systems, as well as the flow of investments.

Strategic implication

To scale up processing of staple crops throughout Africa, the food industry will need to undertake research on the biochemistry of basic food fermentation and on nutritional outcomes under alternative processing technologies. To fuel necessary productivity increases, the system will require a steady flow of scientific and technical skills in support of farm production, feed industries, storage, supply-chain management and food processing.

Governments will need policy and programme analysts and regulatory experts accustomed to thinking and operating in a market economy to ensure that policies and regulatory structures promote innovation and growth. Policies must also incorporate the needs and concerns of small-farm producers. Disproportionately women, these smallholders are a major link in a rapidly modernising food chain and a key to African economic development.

As foreign direct investment increases, policies have to address potential negative impacts on the environment, marginalised groups of society and conditions that promote unlawful land grabs. At the same time, it will be crucial to collaborate with the business sector to encourage investment, share best business practices and develop policies.

MEGATREND 2: Connectivity

With 600 million cell phones on the ground, Africa is connecting like never before. This opens access to a variety of opportunities for users, while generating potentially useful information about public sentiment, economic activity, and even emerging health threats. Smallholders can use their phones to check market prices, giving them the global insight to set competitive prices for their produce. Telemedicine can deliver more of its early promise.

There is tremendous potential for wireless technology to enable African development and to contribute to development goals. Not only will this technology produce data about its users, it has the potential to advance education and modern agricultural extension services.

Strategic implication

As connectivity grows throughout Africa, so, too, can insights into its people and institutions. To harness resources in ways that will benefit the smallholder and others along the value chain, foundations, governments, and universities should work together to develop a talent pool with deep analytical expertise. Such information could identify troubling patterns at an early point and help guide programs supporting vulnerable communities and people with targeted education and assistance.

MEGATREND 3: Regional integration

Every nation in Africa is a member of at least one regional economic group. There is new momentum for regional integration, especially around efforts dedicated to strengthening regional agricultural capacity. With knowledge and communication leapfrogging boundaries, the case for regionalisation is strengthened. The African Union's repurposing of the New Partnership for African Development (NEPAD) into a continent-wide implementing agency, the development of the Comprehensive Africa Agriculture Development Program (CAADP), and the expansion of activities by long-standing regional groups such as SADC, EAC, ECOWAS, and COMESA are recent examples of these African-owned and African-led initiatives. Such efforts are intended to address vulnerability to rising global food prices and to food shortages.

Strategic implications

Africa has a wide variety of crops and agricultural environments. These differences provide a strong basis for productive agricultural trade based on comparative advantage. But a successful regional agriculture effort will be highly dependent on stakeholders' understanding of policy impacts on productivity, on market access, on income growth, on poverty reduction, and on the reduction of trade restrictions between African countries.

MEGATREND 4: Influences of democracy

There is a stubborn public perception that, for all the effort and foreign assistance over many years, there has been no meaningful change in sub-Saharan Africa. The fact is that in 1989 there were only three democracies in sub-Saharan Africa, while today there are more than 20. Never have so many low-income countries moved toward popular governance in such a brief period. Fragile and imperfect, these governments have a long way to go. But today they're on the road.

Strategic implication

As democratic ideals take hold, responsibility to address social problems will extend beyond government and become an expectation placed on businesses and organisations. Corporations and foreign direct investors will be asked to consider the social impact of their actions. We know that, on the whole, the economy improves when trust in the private sector is high and societal conditions improve. Social engagement and assumption of leadership on appropriate issues will become increasingly important in building trust and creating value for companies and organisations in Africa.

MEGATREND 5: Supermarketization

Africa is poised for rapid transformation of its retail food sector, embodied in the rapid spread of supermarkets. This follows a decade of similar change in East and South-east Asia and in Latin America. As the supermarket industry develops, leading chains are rapidly adopting technological, organisational, and institutional changes in their product-procurement systems.

Farmers face a rapidly evolving market with the potential to change the very nature, composition and volume of trade in the region. It will happen with unprecedented speed. What took 100 years in the West took 30 years in China, and Africa promises an even swifter transformation.

Strategic implication

To help small farmers grasp emerging opportunities and to help those who can't find other employment, development programmes will be challenged to assist small farmers to make the transition to the new market environment.

Conclusion

These megatrends say something about what we know about the future, but it is still uncertain how people and regions will react. We know that by supporting the development of resilient communities through informed policymaking, we all benefit – whether we are in Michigan or Malawi. Family farms the world over, after all, are increasingly buffeted by the winds of change in an increasingly global market.

Resilient communities are better positioned to shape their own futures and to address the big challenges, such as climate change, health and nutrition, education and the prosperity of their citizens.

At Michigan State University, we believe that universities play an important role in this process. We create a safe space to discuss equitable and sustainable development trajectories, where bold ideas are tested and the preferred future on behalf of the common good is pursued.

Prospects for the G20 Los Cabos Summit

The G20 leaders meeting in Mexico will discuss the widest possible range of issues, from international financial crises and energy security to sustainable development

By John Kirton, co-director, G20 Research Group

The seventh G20 summit, taking place in Los Cabos, Mexico, on 18-19 June 2012, promises to be an exceptionally important event. It is the first summit hosted by Mexico. It is the second summit hosted by an emerging economy member of the G20, thus helping to institutionalise the hosting rotation between the group's established and emerging members. It is the first summit held in Latin America and only the second summit held in the broad Asia-Pacific region, highlighting the geographic shift in global economic activity from the ailing Atlantic world, and the hope for new sources of growth from rising powers beyond. It returns the G20 summit to its initial cadence of meeting at about six-month intervals,by following the last G20 summit in Cannes, France, on 3-4 November 2011. It thus provides a guaranteed and well-timed supply of global economic governance capacity to meet the latest instalment of the global crisis that is erupting, once again in the field of finance and economics from Europe and, above all, Greece. This is a fitting challenge for – and a great test of – a G20 summit that at its Pittsburgh meeting in September 2009 proclaimed itself to be the permanent, premier forum for its members' international economic cooperation in the world.

The current challenge is compounded by the fact that Los Cabos will include key veteran leaders with looming elections on their minds and several new leaders attending for the first time. The summit will take place immediately before the presidential elections in Mexico that will decide who will succeed Felipe Calderón, the summit's host. It comes in the run-up to US president Barack Obama's re-election bid on 6 November, where his skill in American and thus global economic governance will do much to shape his fate. It will be the first chance for Vladimir Putin, newly elected as president of Russia, to meet several of the G20's leaders, especially as he skipped the G8 summit held at Camp David in the United States on 18-19 May. It will also be the first G20 summit for newly elected, growth-oriented socialist French president François Hollande, facing French national legislative elections on 10 and 17 June. Hollande and most G20 leaders will also be preoccupied with the elections in Greece on 17 June, to see whether voters will return a workable coalition government committed to the painful steps needed to keep Greece inside the eurozone and even the European Union itself.

Building on past consensus

To be sure, the Los Cabos Summit need not do the whole job by itself. The Camp David Summit set a G8 growth strategy that confirmed fiscal consolidation and structural reform as essential elements, but also approved new stimulus from public- and private-sector investment in infrastructure and education, rather than more short-term government spending and resulting deficits across the board.

NATO's summit in Chicago on 20-21 May reinforced the need for a secure, stable environment where crime, corruption and terrorism would be curtailed and where development in difficult regions such as Afghanistan, the Middle East and North Africa could take place. The Rio+20 Summit in Brazil on 20-21 June will multiply the momentum of Los Cabos on development and green growth.

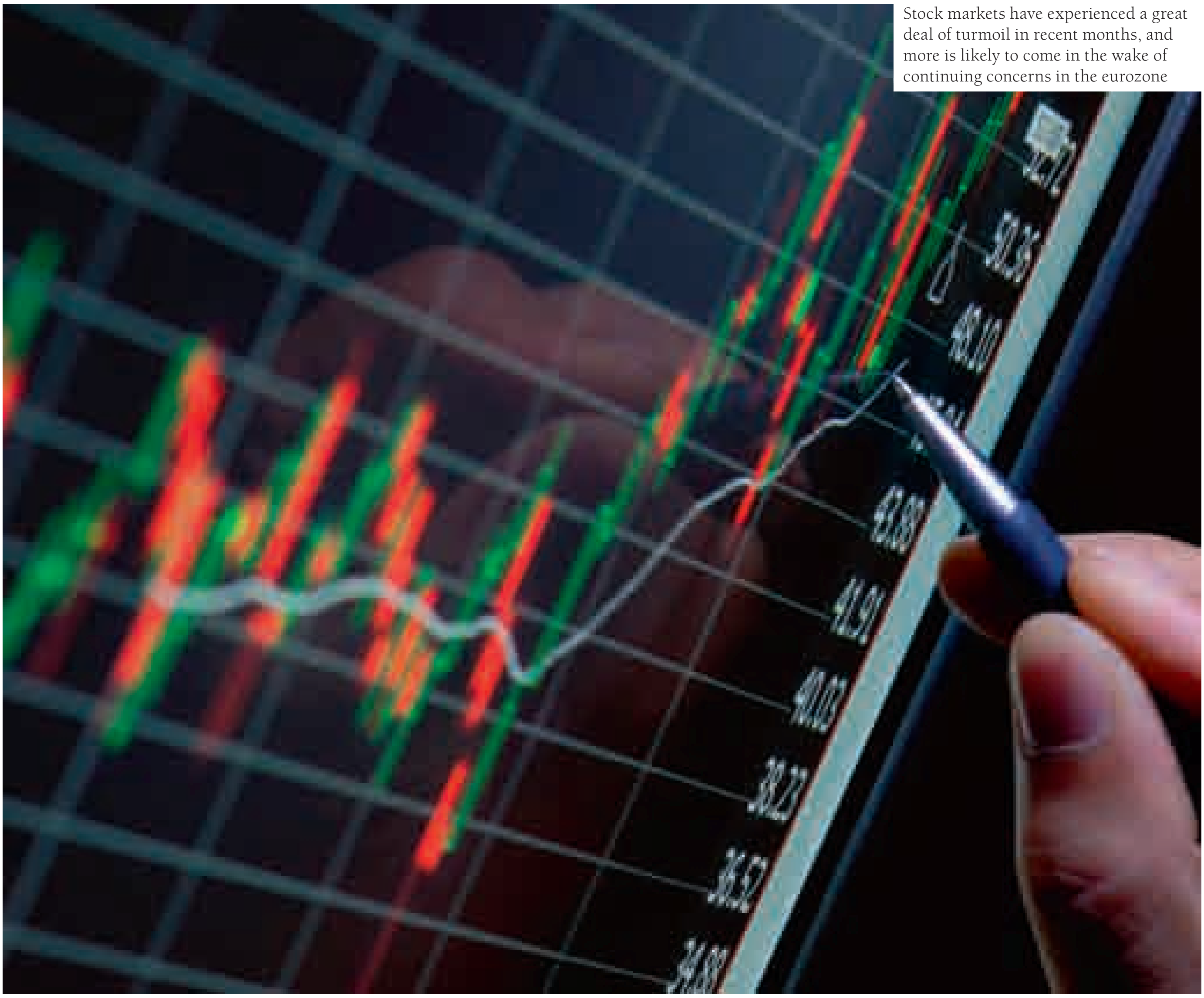
Nonetheless, Los Cabos, as with several G20 summits past, must contain and control the euro crisis, rather than be consumed by it, and still find time to advance the big, broad, finance, economic, development and social priorities that it has set to guide a troubled world. Los Cabos will first seek to contain the euro crisis, the day after the Greek elections, by sending a credible message of support to keep Greece in the eurozone or stop the contagion to Spain, Portugal, Italy and beyond, should Greece leave.

> ***The current challenge is compounded by the fact that Los Cabos will include key veteran leaders with looming elections and several new leaders attending for the first time***

To be sure, many may be overwhelmed by fast-moving globalised markets seized by fear – and the ultimate solution does lie within Europe itself. But G20 summiteers are now experienced in successfully coping with successive instalments of the euro crisis. Moreover, the G20's strong majority of non-European members have proven that they can get reluctant European governments to do difficult things, as in agreeing to voice and vote for reform at the International Monetary Fund (IMF).

A component and consequence of a successful crisis response will be G20 action to strengthen and sustain the still-fragile recovery in the global economy. It will come through a Los Cabos action plan to revive a global economy where much of Europe is contracting and growth in North America and Japan is sluggish and, in many major emerging economies, is slowing for the first time since the 2008 crisis passed.

Few members have the fiscal or monetary policy space to stimulate much more in the orthodox Keynesian way that the G20 has relied on since 2008. Thus the Los Cabos leaders will seek both to advance the G20's built-in agenda of strengthening sustainable and balanced growth through the Mutual Assessment Process and address the first priority of the Mexican host of providing economic stabilisation and structural reform as the foundations for growth, private-sector confidence, fiscal consolidation and high-quality employment.



Stock markets have experienced a great deal of turmoil in recent months, and more is likely to come in the wake of continuing concerns in the eurozone

The second Mexican priority is strengthening the financial system and fostering financial inclusion to promote economic growth. It includes unfinished business from the old G20 agenda, focused on big institutions in advanced countries, with regulating the shadow banking system the focus now. Given Mexico's status as an emerging economy, and the G20's emphasis on development since the Seoul Summit in November 2010, Los Cabos will emphasise the increased availability of credit services to the poor, national strategies, financial education and consumer protection.

Finance, energy and sustainable development

The third priority is improving the international financial architecture in an interconnected world. This includes the adequacy of global financial resources, the IMF's surveillance framework, IMF governance and the implementation of the IMF reforms to give emerging economies a greater voice. In raising new IMF resources, the G20 got off to a good start in April, when its finance ministers and others promised an additional $430 billion. But the Los Cabos leaders must confirm and establish details of the donations from the big emerging countries, especially as they may well be needed right away to contain the euro crisis or its contagious effects.

The fourth priority is enhancing food security and stability in volatile international commodity markets. The recent decline in world oil prices and new sources of gas supplies in North America should offer some relief on the energy front. In managing the supply and price of food and increasing agricultural productivity, the path has been paved by the G8 Camp David Summit's new alliance, strategy and funding for food and nutrition in Africa.

The fifth priority is promoting sustainable development, and working on green growth and climate change control. It includes forwarding the Seoul Development Consensus and the programme of the G20's Development Working Group. Calderón has long served as the G20's leader on climate change. He has advanced the work of the United Nations Framework Convention on Climate Change at Cancún in 2010 and has the Rio+20 Summit to broaden the work started at Los Cabos right away.

Finally, Mexico will seek to strengthen the G20 as an institution through greater interaction and inclusion with non-member countries, the United Nations system, international organisations, the private sector through the Business 20, policy analysts and advocates through the new Think Tank 20, young students and professionals through the Y20, and structured dialogues with non-governmental organisations and civil society. It could also add to its institutional legacy by bringing to life the Academic 20 called for by the Seoul Summit, by giving young entrepreneurs a more equal place alongside their big business peers and by expanding accountability mechanisms to monitor and improve its work.

This is a truly formidable set of challenges. But there is no other international institution able and willing to do these big jobs that the world badly needs to get done now. ■


KPMG
cutting through complexity
One last push to the finish line for IFRS
A marathon is a test of endurance. As we progress toward a single set of globally adopted Accounting Standards, we are near the end of a marathon. We have made great strides but we have not reached the finish line. Governments, companies, accounting firms and regulators need to make one more push to reach the elusive goal promised by IFRS. Only then can the benefits of a global accounting framework be realized by businesses, investors and the public at large.
KPMG views IFRS as more than an accounting issue. The change is transformational. We understand the wider impact on companies' systems, people and the enterprise as a whole. Our firms' audit, tax and advisory teams have the experience to cut through the complexity of IFRS and deliver value to our member firm clients.
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cutting through complexity

One last push for global adoption of IFRS will require intense efforts

The last mile of a marathon is the longest. The same is true of the drive to achieve the global adoption of International Financial Reporting Standards (IFRS), a process that began more than a decade ago. Even though we are on the final leg of the process, it would be a mistake to think we can coast home. There is a great deal more to be done, requiring hard work, courage and compromise.

The Group of 20 needs to make one final push to ensure we cross the finish line. Sixteen of the twenty members are committing themselves to IFRS adoption. The remaining four must boldly overcome lingering objections and commit to the integration of IFRS into their national accounting standards.

There is a great deal at stake. The debate over IFRS is one of the few issues where there is a real chance for the nations of the world to find common ground. In economics, the only forum that is remotely similar is the Doha round of global trade talks, and they are at a standstill.

The benefits of IFRS are great indeed. A global agreement will bolster economic confidence, enhance capital-market liquidity and provide a firmer foundation for a solid economic recovery. The world's financial markets are now more evenly balanced between Asia, Europe and the US than ever before. Investors need to be sure that similar transactions will be recorded in similar ways no matter what stock exchange the shares are listed on. There needs to be similar levels of transparency, too. A single, global accounting standard will lower the cost of capital.

There was clear evidence of the benefits when European banks reported their exposure to Greek sovereign debt at the end of last year. Because European countries have adopted IFRS, it was possible to compare the impact on the banks' balance sheets, something that would have been impossible without IFRS. The banks' results were not pretty, but the process of transparency helped build confidence. This shows that there has been significant progress on international accounting standards in the past few years as more countries climb aboard.

There is more that needs to be done. Four major convergence projects contained in the memorandum of understanding between the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board remain to be finalized. These projects cover financial instruments, revenue recognition, leasing, and insurance contracts. In addition, the focus should now move to consistent implementation and application of IFRS. This requires closer global cooperation between all stakeholders in the corporate reporting chain, including securities regulators, standard setters and the accountancy profession.

With respect to the future agenda of the IASB, there are a number of key issues to be addressed: one is tackling the growing concern about complexity and disclosure overload in financial statements. Another is about what actually is the performance that a company's management should be held accountable for. Views on this topic differ significantly, and the IASB is the appropriate body to lead this future debate.

These matters are hugely important, but less pressing than the need to obtain a commitment from the remaining major economies that have not done so yet, to adopt IFRS in full. We are nearly there. The Group of 20 needs to make one last push toward global accounting standards. When we have passed the finish line, we will all be winners.

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The State of Baja California Sur welcomes the G20 and the world

Marcos Covarrubias Villaseñor, governor of Baja California Sur, invites G20 delegates to explore the area's cultural heritage and natural beauty

The State Government of Baja California Sur is pleased to extend to you a cordial and warm welcome. I thank you, on behalf of the people of Baja Sur, for providing us with the opportunity to show you and share with you the greatness and beauty of our state through the pages of this excellent book.

Baja California Sur is one of the youngest states in Mexico. Yet it has a millenary and cultural heritage visible through impressive cave paintings and historical remnants and monuments, not to mention the infinite natural richness that manifests itself in spectacular coastal sceneries, deserts, mountain ranges, islands and oases that make Baja California Sur a true paradise between two seas.

The magnificent natural gifts bestowed on Baja California Sur are enhanced by an extensive and modern world-class quality tourist service infrastructure, which is enjoyed in an environment of tranquillity, peacefulness and safety. However, our main tourist strength lies in the natural hospitality that is inherent in the people of Baja California Sur and this hospitality we gladly share with all our visitors.

My government is strongly committed to promoting and encouraging, together with investors and service providers, an adequate use and development of our tourist resources, having as a fundamental premise full harmony with and respect towards our natural, historical and cultural environment. This constitutes the heritage not only of the families of Baja Sur and future generations, but of all Mexican people.

I invite you to immerse yourself in Baja California Sur. I am certain that your visit will be not only enjoyable, but also one that is unforgettable. Looking forward to your next visit, I reiterate this cordial and warm welcome to our state. ■

Gaining access to medium-level skills is key to global jobs growth

Göran Hultin, Chairman and CEO, Caden Corporation SA

Everyone agrees with the importance of creating jobs, but in the meantime, what do we do with the millions of unfilled jobs? Despite the fact that the world is still emerging from a global economic downturn and high levels of unemployment persist in many of the G20 member countries, employers are still reporting that they cannot find the right talent, at the right time, in the right place.

Unfilled jobs continue to reside in their millions across the G20 member countries, estimated at a minimum of 20 million vacancies. While comparing labour-market data internationally is often difficult, even with a margin for error, the conclusion remains the same: the G20 countries miss out on major employment opportunities because of significant mobility and skill mismatch problems. And it is not just about an unfilled job – it is also a forfeited economic opportunity.

Even in these economic times, globally one in three employers report difficulties in filling positions due to a lack of available talent or the right skills. The annual skills-shortage survey conducted by ManpowerGroup, a leading employment solutions provider, sheds further light on the challenge and the type of skills that are in short supply (see box). What is revealing is that although skills shortages continue to remain significant for high-level talent, the prominent shortage is in mid-level skills such as technicians, sales representatives and skilled manual trades.

At first glance, this skills gap does not seem to be very much in line with the ambitions of the G20. Yet while successful economies are shaped by high-level talent, for every highly qualified job that is created, three or four other jobs elsewhere in the economy are created, too. In this light, the output of the knowledge-based jobs may be at the forefront of the G20 countries' future, but it is carpenters, plumbers, drivers, administrative assistants that enable those jobs to be effective.

Top five jobs that employers are having difficulties filling – global results

1	Technicians
2	Sales representatives
3	Skilled trades workers
4	Engineers
5	Labourers

ManpowerGroup, Talent Shortage Survey, May 2011

As medium-skill level jobs remain unfilled, negative repercussions for high-level talent workers are inevitable. With world-class talent essential for shaping the future of economies, for creating new opportunities, innovating and turning ideas into actions, they need the support, infrastructure and services to be productive. The extent to which the talent and skill challenges are addressed, and the way in which they are deployed, will be crucial to the creation or loss of jobs.

The difficulties that employers have in finding the right skills point to two structural problems – that education and training policies are wrongly aligned with the needs of the G20 economies, and that labour markets are lacking in geographical and professional mobility, both national and international.

First and foremost, the skills of the workforce in the G20 countries need to be developed and aligned with labour-market needs. A much closer link between employers and education systems can help reliably signal which skills employers need allowing individuals and schools to home in on these skills, guiding the career choices of young talents to the emerging needs in future growth sectors.

Countries must promote a positive attitude towards careers in skilled trades, and towards aligning technical training with the needs of business

To grow the number of individuals moving into medium-skill jobs, countries must promote a positive attitude towards careers in skilled trades and towards aligning technical training with the needs of business. Employees and individuals in the G20 countries also have a responsibility for taking the initiative and developing their employability, along with companies making better use of current skills and recognising improved skills.

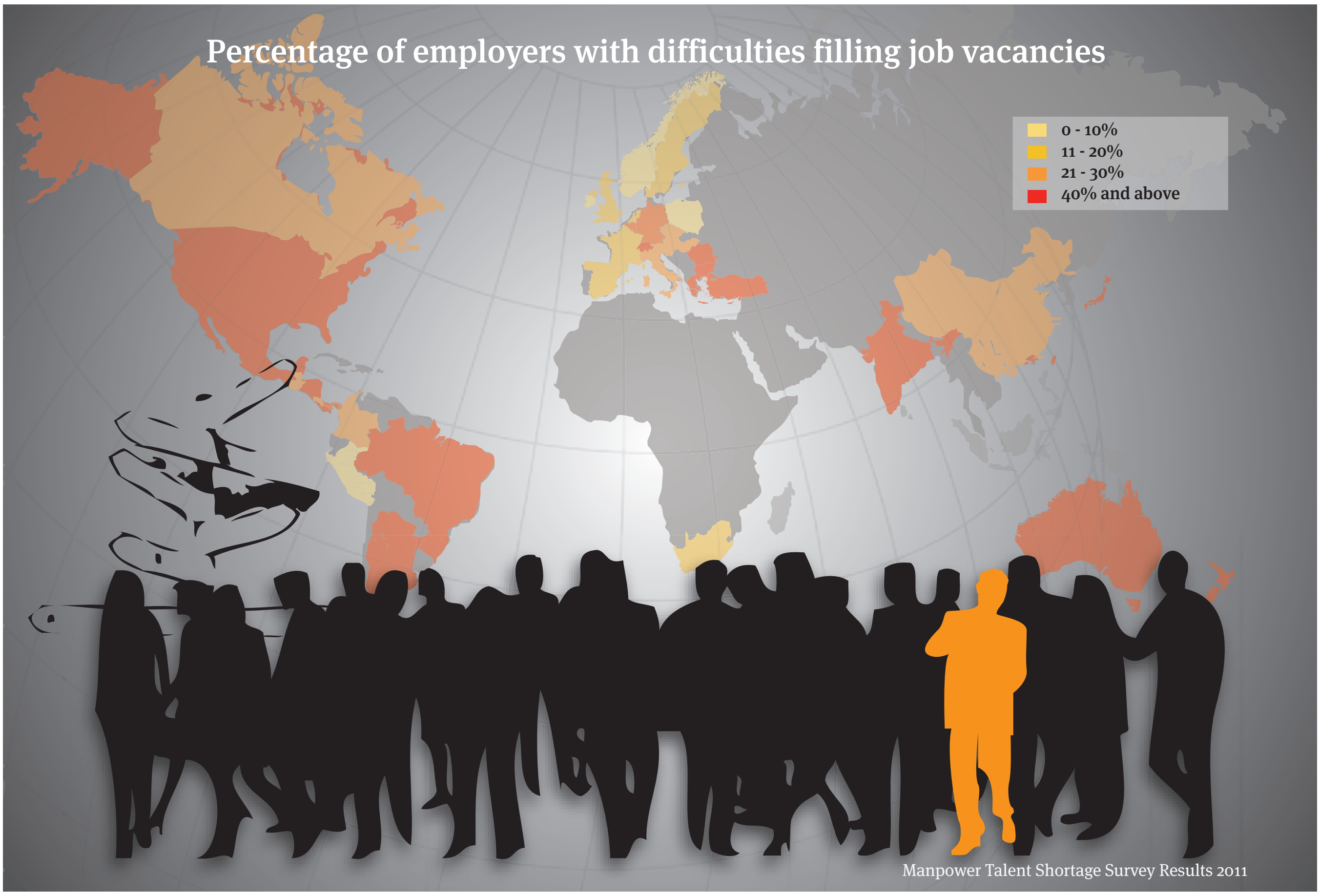
Intertwined in this approach is the G20 member states' role to encourage a proactive and demand-based training and lifelong-learning culture, with labour authorities promoting public-private partnership best practice for training and upgrading skills.

In addition to meeting the talent and skill needs, the demographic reality for the industrialised world presents increasing challenges for an adequate supply of desired skills.

By 2025, an ageing Europe will have lost 24 million workers from its indigenous workforce as high educational and technical skill levels exit the market place. The demographic reality is not confined to the industrialised world. China's population and workforce is also ageing rapidly.

Talent mobility will become an increasingly important means to ensure that talent is able to access jobs, and jobs access talent. Professional and geographical mobility will foster and develop these interactions.

It is often cited that people change careers up to five times during their lifetime. It is hard to verify the accuracy of this



Manpower Talent Shortage Survey Results 2011

claim, but most people can expect to make several changes during their working lives. How successfully this happens hinges on the quality of core education skill sets, soft skills and career counselling on which people build their future options.

Education and training systems in the G20 must therefore increasingly take into account the importance of soft skills and career counselling, in preparing trainees not only to land their first jobs, but also to stay in work throughout their working lives.

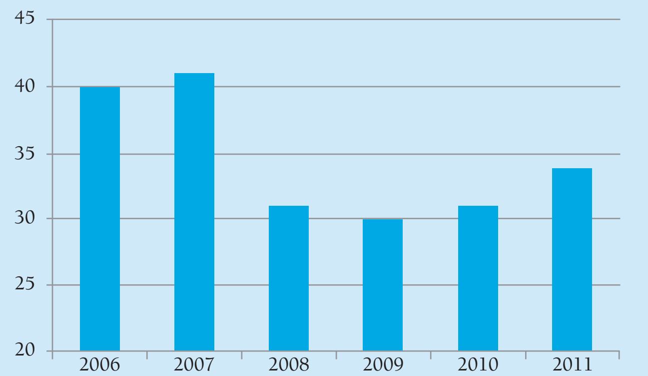
With career advancement and lifestyle experiences driving white-collar workers to take up foreign assignments, circularity, returning home or moving on to new opportunities are already inherent in the high-skilled sector. This trend is not determined by the length of a visa or work permit, but is rather driven by competing global opportunities and the career decisions that the sought-after people with the right skills choose to make. Circular migration of the highly skilled, therefore, is inherent in the nature of talent mobility.

Managing the circular migration of workers with mid-level skills raises quite different challenges from those relating to high-level skills: they pursue opportunity abroad because of the lack of it in their home countries; they address themselves to labour markets, not to specific employers; the barriers to their entry are higher and consequently they are more likely to stay on; and there are more of them than those with high skills.

The mechanisms for circular labour migration still require much strengthening, particularly in relation to how it responds to actual skills needs; how the recruitment process in the sending country is aligned with the employment process in the receiving country; the upgrading of migrant workers' skills; recognition of migrant workers' enhanced skills profiles; and facilitating re-entry into the labour market for returning migrant workers.

Leading private employment agencies with presence in both sending and receiving countries can bring their tools and global practices to bear in addressing these challenges, but they cannot do this alone. For the process to succeed, governments need to play their part in changing attitudes towards labour migration, lowering the barriers to entry and ensuring that internationally recognised recruitment standards and principles are respected at both ends – in the sending as well as in the receiving countries.

Percentage of employers experiencing difficulty in filling job vacancies due to a shortage of available talent



ManpowerGroup, Talent Shortage Survey, May 2011

Encouraging and sharing good economic governance

The global impact of financial crises means that no country is immune. But by committing to good governance and participating in groups such as the G20, countries can work together to restore growth

By Angel Gurría, secretary general, Organisation for Economic Co-operation and Development

The crisis is not over; it has merely changed its locus. The world is still living under the threat of worsening conditions in the weakest economies. There are certainly signs of improvement in global economic conditions. The pace of growth is accelerating in the United States and in Japan. In the US, growth should continue to strengthen as confidence among both businesses and households continues to pick up. Although emerging economies are going through a modest and, in some cases, perhaps desirable, slowdown, they are expected to pick up the pace going forward. However, the US should address the 'fiscal cliff' and instead, find a negotiated way forward on deficits and debt.

The situation in the euro area represents a Damoclean sword hanging above the world economy – the single biggest downside risk to the outlook. Adjustments in the euro area are now taking place in an environment of slow or negative growth and deleveraging, prompting risks of a vicious circle involving high and rising sovereign indebtedness, weak banking systems, excessive fiscal consolidation and lower growth. To make things worse, political instability is now adding to euro area woes.

Under these conditions, the world requires good, effective governance to meet complex global economic challenges. In the short run, this means that, through collective action, the world needs to restore growth, strengthen the banking sector and fix the sovereign debt crisis in the euro area. In the long run, it implies building strong, sustainable and balanced growth and identifying new sources of growth at the global level. As a general objective, good economic governance should result in enhanced and effective regulations that pave the way for a rules-based global economy.

Conditions for international cooperation have indeed changed dramatically, and thus so has the setting where the global economy is being addressed. This derives from the rebalancing of the global economy. Analysis by the Organisation for Economic Co-operation and Development (OECD) estimates that emerging and developing economies could account for close to 60 per cent of world gross domestic product (GDP) by 2030. The establishment of the G20 at the leaders' level and the decision at the 2009 Pittsburgh Summit to transform it into the premier forum for economic cooperation are welcome consequences of this trend. The G20 is giving new players a stronger voice in decision-making processes at the global level.

This should help craft more inclusive global governance down the line. Emerging economies have become critical players in globalisation – not only through their integration into international trade flows, but also in their capacity as major international creditors, foreign direct investors and centres of innovation. Their concerns are increasingly shared and encompass issues such as financial stability and coordination, management of capital flows, and non-discrimination in and freedom of investment. The enforcement of property rights and patent laws will also likely gradually become critical issues for these countries.

Uncertainties ahead

The establishment of the G20 has been a welcome step towards overhauling the international economic architecture. But what has been its track record so far? Given its policy achievements, it is fair to acknowledge that the G20 has registered some key critical successes. Governments successfully limited the impact of the 2008 crisis, thanks to a large, swift and coordinated policy response crafted at the 2009 London Summit that was unprecedented in history. G20 members have collectively refrained, so far, from raising new barriers to investment and trade. The G20 has also made tangible progress in a relatively short time on food security, for instance through the implementation of the Agricultural Market Information System (AMIS), which fosters greater transparency and regulation.

In the realm of financial regulation, taxation and anti-corruption, the G20's track record has been equally positive so far. For instance, at the request of G20 members, the Global Forum on Transparency and Exchange of Information for Tax Purposes hosted at the OECD delivered significant progress with respect to the implementation of international standards in the realm of tax transparency and exchange of information. The OECD was proud to support the successive presidencies of the G20 in achieving positive outcomes in these various strands of work.

This spirit of cooperation and coherence not only serves the G20 in many policy areas; it is also an important contribution to effective international governance

The ambitious agenda set out by the G20 encapsulates many of the critical issues for the future of the world economy. Green growth, the priority of the incumbent Mexican presidency, is obviously one of them. It constitutes an extremely valuable attempt in the current context to identify new, intelligent and environmentally friendly sources of growth. Here again, the OECD was glad to help Mexican authorities frame, refine and substantiate their policy agenda and priorities in the context of their presidency of the G20.

Lujiazui financial district in Pudong, Shanghai. The G20's record on global financial regulation and anti-corruption has so far been positive, says the OECD

On a more institutional note, another positive outcome of the G20 is that intergovernmental organisations have been encouraged to work together in the frame of G20 mandates. This has created synergies and maximised the effect of their individual expertise and experience. The OECD has cooperated closely with a large number of international organisations in delivery to the G20 countries – with the Food and Agriculture Organization and others on food security, the International Labour Organization on employment issues, the World Bank on development and green growth, and the International Monetary Fund through the framework for growth. This spirit of cooperation and coherence not only serves the G20 in many policy areas; it is also a genuine and important, albeit perhaps underestimated, contribution to effective international governance.

Foundations for growth

However, the G20 must still demonstrate that it can craft meaningful consensus to transform the world economy durably and enhance the sources of growth, once the crisis is left behind. In particular, it needs to build the foundations of strong, sustainable and balanced growth as envisaged in its eponymous framework. The world is not yet there. Whether the action plan endorsed at the 2011 Cannes Summit under the Framework for Strong, Sustained and Balanced Growth will deliver the expected boost to growth and a rebalancing of the global economy remains to be seen. Indeed, the Cannes Action Plan established a series of commitments in the fiscal, monetary and structural policies that need to be fulfilled. In Mexico, this plan will be revised and strengthened to feature clear policy actions to foster growth. The Los Cabos action plan should thus be a fully fledged 'Compact for Growth and Jobs'.

The OECD has made specific recommendations to the G20 in this domain, notably in the realm of growth-enhancing and job-creating structural reforms – such as well-targeted product and services market liberalisation and active labour market policies. But effective implementation of the commitments and collective accountability is also needed. This would involve an appropriate monitoring of policy action undertaken by countries under the Cannes and Los Cabos action plans and the establishment of an enhanced accountability framework under the Mutual Assessment Process (MAP): countries' commitments should be made more specific, quantifiable and associated with well-defined metrics to lend themselves to a proper assessment. In other words, the G20 should feature mechanisms for candid and systematic policy-sharing.

The MAP should be turned into a genuine peer-review mechanism whereby countries' commitments would be collectively discussed and agreed, and, after a given period, examined and reviewed by peers on a non-adversarial basis. Peer review is the OECD method par excellence. We are ready to share our experience on this front.

The G20 is at a critical juncture. Different regions of the world and particularly Europe need to address their own vulnerabilities and avoid contributing to the deterioration of the international economy. The world also needs a credible plan for growth that, in acknowledgement of different economic conditions and priorities for fiscal consolidation, puts the policy instruments for growth at the core of this debate.

We need a strong message, with credible and measurable commitments to reignite growth. This is what we expect from leaders meeting in Los Cabos – a turning point to have the G20 summits move from managing the crisis to one that could be called the 'Summit of Growth'. ■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Time for a policy rethink

Great leadership is called for if governments are to meet the challenges created by slow growth, rising unemployment and an increasing income gap emerging throughout the world

By Juan Somavia, director general, International Labour Organization

The G20 leaders meet in Los Cabos at a time of great political, economic and social uncertainty. The disconnect between the preoccupations of people and global political elites is deepening, with many damaging consequences for democracy, the rule of law, social cohesion and human development. International cooperation and policy coordination are becoming more difficult as countries turn inward just when that cooperation is needed most.

Unemployment and inequality

The global employment outlook for 2012 and 2013 is bleak. Growth is slowing in several major developing and emerging economies, many of which must maintain a brisk pace of expansion to meet the demand for decent jobs from a growing working-age population. The largest advanced economies face the legacy of a major crisis in the main centres of finance. This legacy includes levels of unemployment and inequality that have not been seen since the Great Depression.

About 56 million fewer workers are currently employed worldwide than would have been the case if pre-crisis growth had not been interrupted. Outright unemployment is up by 27 million. Labour force participation has fallen, removing a further 29 million. Out of the more than 200 million jobless, 75 million are between 15 and 24 years old. Informal employment remains prevalent in many developing countries. A full 900 million people of working age are unable to earn enough to lift themselves and their families above the $2-a-day poverty line. Had pre-crisis trends in poverty reduction been maintained, this figure would now be 55 million lower.

There is a high risk, with a weak recovery and some parts of the world in recession, that unemployment will continue rising in 2012 and 2013, mainly in advanced countries. In emerging and developing countries, employment in conditions that will reduce poverty may fail to keep pace with the still increasing growth in the working-age population. The world needs at least 40 million more jobs every year over the coming decade and, to get back on track towards halving world poverty, these jobs must earn more than poverty-level wages.

Inequality is on the rise. Between the early 1990s and the mid 2000s, in two-thirds of the countries for which data exist, the total income of high-income households expanded faster than that of low-income counterparts. Similar trends have occurred in other dimensions of income inequality such as labour income vis-à-vis profits, or top wages vis-à-vis wages of low-paid workers. In 51 of the 73 countries for which data exists, the share of wages in total income declined over the past two decades. Likewise, during the same period, the income gap between the top and bottom 10 per cent of wage earners increased in 70 per cent of the countries for which data exists. Furthermore, within the top 10 per cent, it is the top one per cent and even top 0.1 per cent who have seen the most rapid rise in their incomes.

Substantial swings in exchange rates, portfolio investment, trade and continued turbulence in the financial sector are damaging the real economy. There is growing acknowledgement that volatility in economic performance and income and other forms of inequality are interconnected. Businesses and workers are under pressure in many countries to maintain competitiveness by raising productivity and reducing costs. However, such efforts by real economy actors can be too easily nullified by large, sudden fluctuations from turbulence in financial markets.

Threats to recovery call for a rethink

Governments and central banks are still cleaning up the wreckage of the 2008 crash and have yet to complete the reform agenda for a safer financial system. The lightly regulated and internationally open systems of several major financial centres – one of the proudest creations of the new globalisation – failed spectacularly at huge cost to working families all over the world. Countries that resisted the pressure to liberalise suffered less damage and are recovering faster.

Despite massive injections of liquidity to shore up the international banking and financial system, funding of investments in the real economy and in job creation is weak. It is the responsibility of the International Labour Organization (ILO) to point out that the volatility endemic in financial globalisation is seriously damaging productive investment and employment creation. Reforms to the finance sector to make it serve the real economy are urgently needed.

The eurozone countries most exposed to finance market pressures as a result of high ratios of government deficits and debt to gross domestic product are excluded from international markets despite massive injections of liquidity by central banks to bolster bank's balance sheets. They are cutting public expenditure and increasing taxes. However, they are making little or no progress, as output and incomes are falling, too. Despite cuts in labour costs and far-reaching reforms to try to raise their competitiveness, their main export markets elsewhere in Europe are also not growing.

> ***A full 900 million people of working age are unable to earn enough to lift themselves above the $2-a-day poverty line***

Competitive deflation is spreading with the same disastrous consequences that trade protection created. Attempting to pay off financial debts by introducing austerity policies is piling up a social debt that is rapidly becoming unsustainable.

The spillover effects of the eurozone crisis are spreading worldwide and weakening the prospects of emerging and developing countries that had bounced back relatively rapidly in 2010 and 2011. Volatility in exchange rates and capital flows, partly a consequence of easy monetary policies in advanced countries, are damaging growth and jobs in several emerging countries. Food and fuel prices remain elevated,

In the United Kingdom, austerity measures brought in by the government have been met with protest from public-sector workers

with at least some part of the price rises being a consequence of cheap credit looking for speculative gains.

Weakening export markets, especially in Europe, are a further worry for the growth and development plans of developing and emerging countries.

There is growing awareness of the need to counter the risk that adverse feedback loops between nervousness concerning sovereign debts in some countries and regions and a still fragile financial sector will interact to stymie recovery in productive investment and decent work creation. It is time for a policy rethink.

Tools for recovery and development

With the flow of commerce, finance and information much more open internationally, national policy levers are less effective at steering economies to high levels of employment. The coordination of policies internationally is vital for recovering the collective capacity of governments to meet the people's priority need for decent work. To discuss, plan and monitor international economic cooperation: this is exactly what the G20 summits were created to do.

More tools are needed in the macroeconomic policy toolbox alongside fiscal, monetary and financial policies. Building on the 2009 ILO Global Jobs Pact, countries should consider introducing a package of measures specific to their needs. These measures include:

- investment in infrastructure and skills development;
- support for small and medium-sized enterprises;
- public employment services;
- work-sharing schemes;
- targeted support to industries;
- employment guarantee schemes;
- minimum wages uprating; and
- well-designed social protection floors to fit national situations.

Governance of globalisation requires the collective action of governments. This is especially urgent now.

The ILO, representing employment and labour ministers, business and unions, is acutely aware of the risks of a collapse in global demand. Each job is both a cost to an employer and spending power to a household. If employers are forced into cutting jobs and wages to survive, it diminishes consumption, which leads to weaker purchasing orders and more trimming of labour costs. The public budget suffers, too, from reduced tax revenues and pressures to support families and communities no longer able to earn a living.

Imagination, not ideology

Today's multipolar world economy means that no one country or region can lead on its own. Nevertheless, global political concern about jobs is a unifying theme for international action that can help the international system kindle recovery and transition into a sustainable strong and balanced path of global development.

Organising collective action requires leadership and connecting to people's priorities; imagination, not ideology. It requires dialogue, negotiation and a capacity to see ways of accommodating different interests in a package of agreed actions that moves everybody forward. Today's priority all around the world is ensuring that working women and men, especially youth, can earn a living through decent work. ■

CREATING JOBS AND GROWTH THROUGH INNOVATION

TECHNOLOGY BASED INNOVATION AS AN ENGINE FOR THE COMPETITIVE POSITIONING AND SUSTAINABLE DEVELOPMENT OF THE ECONOMY

To know more about the Start-Up Initiative, visit
www.startupinitiative.com

To join forces or discuss working on similar growth and job-creation partnerships, email
startup@intesasanpaolo.com

OUR RESPONSIBILITY

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

As a responsible European corporate citizen with a global reach, we have a duty to be part of the solution in these times of volatile and increasingly interdependent global markets.

Working for years on an international scale, we experience innovation as a key strategic factor and technology as an enabler to boosting growth and creating jobs. That's why we decided to establish ourselves as a European catalyst, connecting the dots of innovation scattered throughout the ecosystem.

That's why we made innovation a key commitment in our interaction with clients, start-ups, peers and the society, and that's why we created the Intesa Sanpaolo Start-Up Initiative.

OUR INNOVATION COMMITMENT

Our commitment to innovation has so far taken on many forms, such as:

- financing businesses through the Nova+ programme by providing favourable credit lines for innovative enterprises;
- advising on EU programmes through Intesa Sanpaolo Eurodesk which offers access to grant funding;
- networking with top research institutions to expose their most promising start-ups to investors and companies; and
- conducting equity investments through Atlante Ventures, our early stage funds dedicated to venture capital investing.

SOMETHING MORE - THE INTESA SANPAOLO START-UP INITIATIVE

In light of our commitment, we soon realized that a broader, scalable, and more collaborative solution needs to be found. As a result, two years ago, we successfully launched the Intesa Sanpaolo Start-Up Initiative, a comprehensive programme aimed at facilitating both equity financing and business relationships for start-ups.

Selected start-ups go through an investment readiness training. The best ones attend arena events where they can pitch to international investors and businesses, obtain widespread media coverage, and gain access to a rich network of partners providing key services and resources. The arena events are organized by sectors, which today include biotech, cleantech, ICT & Web, nanotech & materials, social ventures, electromechanics, and healthcare. The events soon extended their reach from Italy to other parts of Europe, including London, Frankfurt, and Paris, as well as the United States with its key hubs in New York and San Francisco.

The events then added specific industry arenas whereby start-ups from various sectors present technologies relevant to a specific industry such as agro-food, construction & real estate, fashion & design, and transportation.

More recently, through the EU's Competitiveness and Innovation Framework Programme our bank has been tasked to apply its Start-up Initiative process as a turnkey solution to boost start-up opportunities in the mobile technology sector across Europe.

THE INTESA SANPAOLO START UP INITIATIVE IN NUMBERS

Since the launch of the initiative in September 2009, we generated the following results:

20 Italian investment forums
14 International investment forums
1,200 Screened submissions
300 Trained start-ups
200 Finalist start-ups
3,000 Investor & Corporate attendees
1,500 Follow-ups with the start-ups
40 Success cases*

*) the Start-Up Initiative enabled this number of specific commercial, service and investment deals

THE POTENTIAL OF ONE – THE POWER OF MANY

Although solitude, dispassionate search, and deep reflection can produce amazing ideas and discoveries, it is the collaboration of many that constitutes the critical force behind their realization on a broader scale.
As we face the challenge of building lasting prosperity, we become humbly aware that just as the challenge is not the result of the actions of a selected few, potential solutions cannot be realized on a grand scale without the contributions of many.
The Intesa Sanpaolo Start-up Initiative has so far proven to be a successful model that facilitates investments in entrepreneurs, reduces investors' risk exposure, and acts as a platform to connect with other players. Although initiated and chiefly operated by our bank, its success rests on the shoulders of many, and its scalability depends on the collaboration with likeminded peers.
Through our global outreach, we have been most delighted to have successfully entered into several partnerships, including government trade & investment offices, international investment networks, business angel associations and some of the world's leading academic institutions that provide exposure to breakthrough technologies aimed at impacting humanity in a positive way.

VALUES – INGREDIENT TO LONG-TERM SUCCESS

As the leaders of some of the largest industrial nations gather these days in the corridors of insight, influence, and responsibility, it is as if the world comes closer for a few moments and is given the opportunity of discussing the many challenges afflicting mankind and exploring suitable solutions. As it comes to realizing those solutions, more often than not, technological innovation turns out to be one of the key drivers, and entrepreneurs the key protagonists in realizing them.
It is here, that the values which some of the most successful entrepreneurs live by come to mind: the high-spirited courage of starting something new; the essential requirement of challenging oneself; the dispassionate search for the right answer; the indefatigable passion to continuously improve; and a dependable commitment to pursue ambitious goals.
Relying on this value framework, we look forward to working with likeminded partners to help advance innovation as a key strategic factor and technology as an enabler of economic development.

THINK BIG, START SMALL, SCALE FAST

THINK BIG
to allow yourself to think global and regard the world as your playing field

START SMALL
to make sure that "it" works and that you know what it takes to roll it out

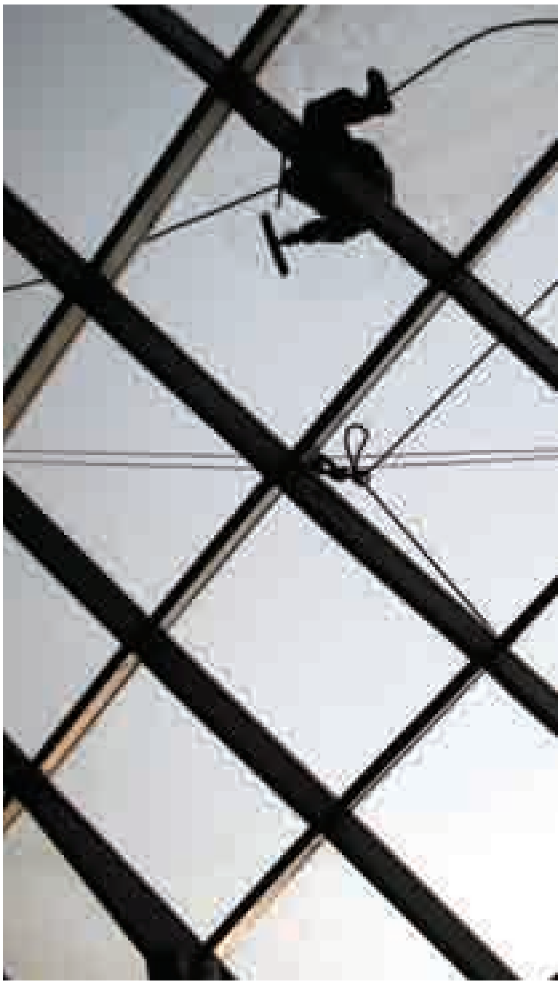
SCALE FAST
to grow organically, successfully, and sustainably

INTESA SANPAOLO

Strengthening social protection and economic development

Accessible and efficient social security systems have never been more important to protect vulnerable populations from economic uncertainty or natural disasters, and help boost growth in the long run

By Errol Frank Stoové, president, International Social Security Association



Social security makes a difference. It protects the population against the risks linked to old age, illness and parenting and is also a key element in sustainable economic development. Policymakers increasingly recognise that adequate social security benefits and services are a prerequisite for economic growth and not an impediment to it. Social security also supports social cohesion and strengthens family structures. Furthermore, by promoting better health and reacting effectively to natural disasters, the situation of the most vulnerable becomes more resistant to external shocks and interruptions to economic activity are minimised.

In order to fulfil this evolving role, social security has become truly dynamic. In many countries, not only has it managed to react rapidly to the financial and economic crisis by putting in place innovative and appropriate measures but it has also provided support to other policy measures, such as improving training and meeting youth employment objectives. Social security has acted as a social and economic 'shock absorber' in these difficult times.

The International Social Security Association (ISSA), which brings together 335 social security administrations and government departments from 157 countries, has responded to these challenges by promoting the concept of dynamic social security and supporting its members in putting in place appropriate measures. It has observed a number of positive experiences of this evolving role of social security. Many of its members have made significant efforts to extend and improve coverage to different sectors of the population in the past decade.

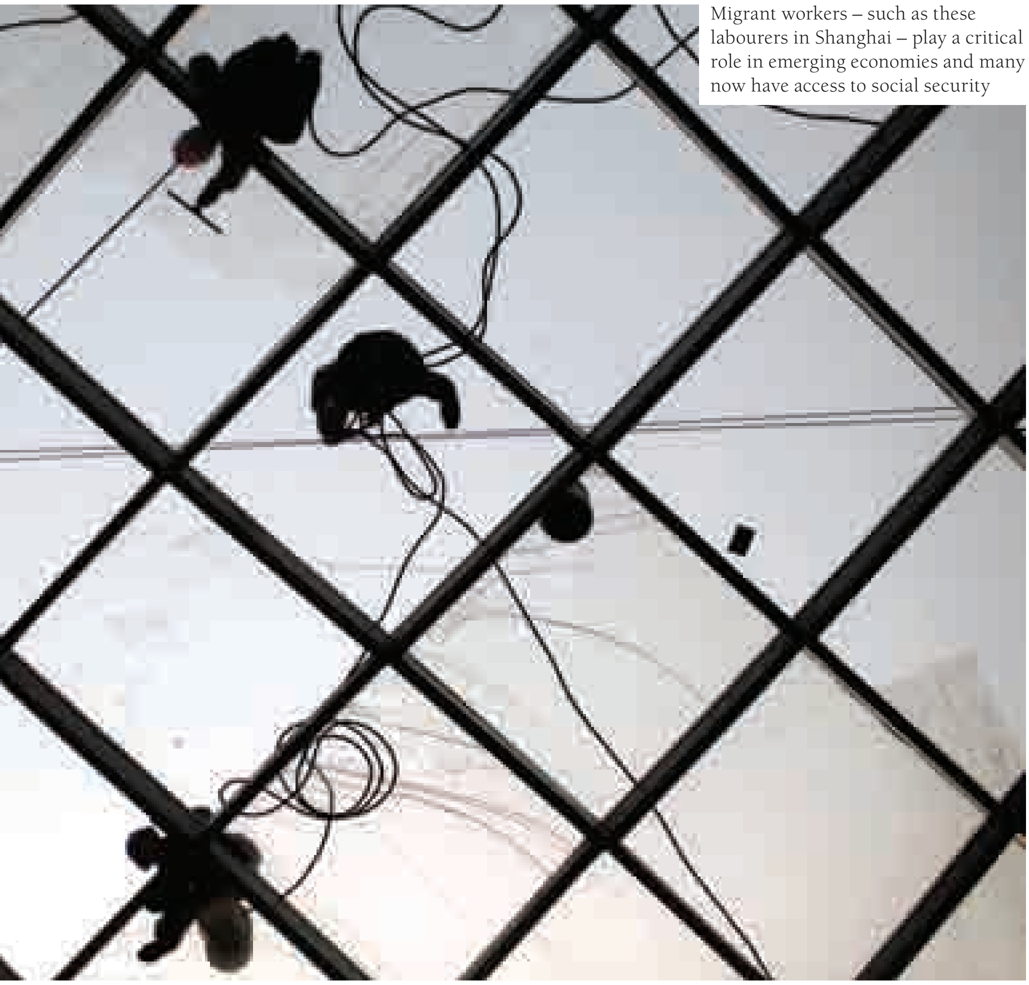
- In several countries in Europe and Asia, a system of partial unemployment insurance has ensured not only that skilled employees are kept in the workforce, but also that additional training has been delivered that is relevant for the labour market needs of the country.
- In the BRICS countries of Brazil, Russia, India, China and South Africa, a significant extension of coverage to previously excluded groups (such as rural populations and the self-employed) has been achieved, providing a strong anti-poverty lever and reducing inequalities.
- In Asia, social security has shown itself to be uniquely able to respond quickly and innovatively to natural disasters, ensuring that the affected population receives the benefits and services it needs.
- In Latin America, the large number of multilateral and bilateral agreements means that migrant workers are covered, thereby encouraging greater labour mobility and a better matching of supply and demand in the regional job market.
- In Africa, social security administrations have effectively used information and communications technologies to ensure that previously difficult-to-reach populations are now covered for a range of minimum benefits, including healthcare and old age benefits.

A growing use of technology

But challenges remain. The environment in which social security is operating is tough and constantly changing.

For this reason, social security administrations need to continually transform and improve how they operate in order to ensure that the benefits and services provided reflect today's globalised and dynamic world. Workers are more mobile, and migration within and between countries is increasing. Benefits should be appropriate and easy to understand, and delivery and financing mechanisms should be simple. Administrations have made huge steps in utilising information technology, with many administrations now on the cutting edge of providing e-services. Improved governance is another element in this pursuit of administrative excellence.

Social security is also increasingly working with other stakeholders to ensure that approaches are integrated and that there is less duplication of benefit efforts. For example, benefits from unemployment insurance schemes are increasingly structured to include elements essential to a country's employment objectives. Return-to-work



Migrant workers – such as these labourers in Shanghai – play a critical role in emerging economies and many now have access to social security

programmes are linked more closely to disability benefit systems.

By responding effectively to these challenges, social security has become an essential actor in ensuring socially inclusive economic development. Social security is increasingly considered an investment and not a cost. It provides an essential foundation for future development. In the current discussion of the right balance between austerity and growth measures, countries that have invested in social security have noticed immediate benefits: reduction in long-term and youth unemployment rates, improved social cohesion, maintenance of health levels and development of the human capital of young workers.

Cost-effective solutions

But what about the cost of social security? Historically some countries, concerned about the impact on the cost of labour, have hesitated to put in place or extend social security. But in the long run, the cost of not having social security is often higher.

Indeed, the positive externalities of such investment mean that the actual cost of extending social security is low. The management and administration costs of social security compare very favourably to those seen in private sector arrangements. In addition, social security benefits act as an economic lever, leading to more sustainable and robust economic development. Countries that have invested in social security – for example, partial unemployment insurance schemes that ensure that employees are kept in work and develop training – have recognised that it is an essential element of their economic growth strategy. Many G20 countries continue to invest in social security through innovative approaches backed up by strong political will and administrative excellence.

Social security will continue to play an important part in social protection and promotion of economic development. But dynamic social security will also evolve to respond to future challenges such as increasing life expectancy, the rise of non-communicable diseases and climate change. All this will occur against the backdrop of increasing scrutiny of the costs and benefits of social security, questions of intergenerational fairness, and an increasingly well-informed and demanding population.

Some countries have hesitated to put in place or extend social security. But in the long run, the cost is often higher

Many administrations have already put measures in place to anticipate these future changes through innovative and attractive programmes. In this context, the ISSA's role in promoting excellence in social security administration will continue to support the International Labor Organization's two-dimensional strategy for extending social security and putting in place a 'social protection floor'.

Without social security, future shocks are likely to seriously impede a country's economic development and threaten social stability. With the support of policymakers, social security is uniquely placed not only to ensure that the population is protected, but also to provide a sound base for continuing economic growth and strengthening social cohesion. The ISSA is pleased to note the importance of social security in many of the G20 countries and the increasing efforts made to extend coverage and improve benefit levels and services. ■

The economy of global trade

The largest economy in the world is no longer the economy of any one country

By Juan N Cento
President, FedEx Express
Latin America and the Caribbean

We've reached a tipping point in how the world works. The largest economy in the world is no longer the economy of any one country – it is the economy of the global trade of goods and services. Countries that are making an impact in the world of global trade are those that are connected into the global mainframe, not those that operate within the silos of their national geographies.

This convergence has accelerated the formation of a single global marketplace where commerce, connection and confluence have come together to create the world's largest economy valued at $18.3 trillion[1]. There are a number of macroeconomic trends driving this change: an increase in the volume of manufactured goods, a growing middle class in emerging markets and the transition of developing countries from producing nations to consuming nations[2]. What is clear is that these trends have shifted the dynamics of global trade, reflecting an evolution in globalisation and changing how the world interacts.

The focus on emerging markets is particularly important today because companies are relying on the expansion of high-growth markets to compensate for economic stagnation in the developed world. Three years after the financial crisis, the balance of economic power has changed. Emerging markets, such as Brazil, China and India, continue to grow and provide important opportunities for trade and investment. These high-growth markets are now seen as sources of new consumer demand rather than as mere low-cost production centres. Rising consumption in Asia, fuelled by an expanding middle class, will produce a host of new opportunities for trade – in terms of their domestic market, but also to pave the way for the next tier of emerging markets.

The international business market is also being reshaped through new emerging trade trends. Rapid expansion in exports and imports between newly emerging economies, a redistribution of global supply chains that include emerging markets to drive competition, and a sharp rise in commodities and infrastructure trading powered by the development of emerging economies around the world have all been catalysts for change.

The growing and evolving global economy presents excellent opportunities for businesses worldwide, especially as the world is more connected than ever before

The opening of new trade corridors and the continued strength of international economic powerhouses such as India, China and Brazil have helped to drive global trade. The growing prosperity of these countries, as they take on an ever greater role as consumers and producers of traded goods, also opens up new opportunities for other developing countries such as Vietnam and Indonesia, as traditional manufacturing centers increasingly set up shop in new markets. A recent article in the *Economist* revealed that, in May 2010, Vietnam overtook China as the largest manufacturer of Nike shoes – a sign of the changes that have taken place and a signal of things to come[3].

Embracing the growing world economy

But global trade is not without its challenges. Economic and political volatility, borne out by the recent eurozone and U.S. debt crises, has led nations and regions to erect protectionist measures to safeguard the health of their local economies. But this only serves to stifle economic growth in developed and developing countries. Open access to capital, information, people and foreign markets offers the best hope for current and future prosperity for people around the world. At FedEx, we are guided by the principle that when individual countries enable trade, they provide benefits not only for themselves but also for other nations with which they trade. Improved market access, more efficient customs and better infrastructure and business environments offer enhanced opportunities for both importers and exporters.

Global trade is at the very heart of the FedEx business and our network is a critical enabler of the global supply chain. We believe that the growing and evolving global economy presents excellent opportunities for businesses worldwide, especially as the world is more connected than ever before, and continues to become ever more interconnected day by day. We cannot stop this trend – and neither should we want to – but we can harness the trend to strengthen our economic recovery, generate growth and create jobs.

The world faces grave challenges that threaten our economy, our communities and our businesses – but the dynamism and opportunities flourishing around the world should provide us with hope, not induce fear. Will it be difficult – certainly – but bold and strategic actions can restore our economic strength, anchor our future economic prosperity and create the growth our economy so desperately needs.

Global trade helps us to be globally competitive. And today, to be globally competitive, you need to be global in your mindset. Today, with access to the internet and access to FedEx, businesses can sell their goods and services to, and find their suppliers in, virtually any market around the world.

The world is changing rapidly. We cannot afford to turn away from global trade, and we cannot protect or insulate ourselves from the growing world economy. The future depends on it.

Footnotes

1 FedEx Connect Website – http://connect.fedex.com/gb/en/#global-trade
2 Source: FedEx Annual Report Blog Post – http://blog.fedex.designcdt.com/annual-report-2011-global-shipping
3 Source: Economist Intelligence Unit 'State of Global Trade' custom article. China is not about to be abandoned as a production hub: worker productivity is also increasing and the economy is shifting to higher-value-added industries. However, the wage differential does mean that nearby, lower-wage locations have become more attractive. In 2008, Tomy Takara, a Japanese toy company, announced that it was shifting 30 per cent of its Chinese production to Vietnam. In May 2010, Vietnam overtook China as the largest manufacturer of Nike shoes

America's economic challenges and opportunities

With a difficult economic environment at home and new leaders to face across the table, US president Barack Obama could encounter a highly charged atmosphere as he meets the G20 members in Mexico

By Robert Fauver, former G7/G8 sherpa

The Los Cabos Summit is taking place this year in the most politically charged environment that has existed since the beginning of these summits. China is installing new leadership whose views are not well known. Voters in Europe have expressed their displeasure with austerity measures undertaken in the face of serious financial market conditions. A new socialist leader of France joins the group. Newly re-elected Russian president Vladimir Putin joins in. And US president Barack Obama faces a difficult economic environment for his own re-election effort. With popular sentiment turning against austerity efforts, it will be very important that leaders express solidarity in their joint efforts to promote growth and jobs.

In the United States, the economy continues to perform well below potential growth rates and is setting a record for the slowest recovery from a recession. Usually, the first and second years after a recession bottom will experience sharp real growth numbers – above potential growth rates – in order to reduce the gap between actual and potential gross domestic product (GDP). The current recovery has not experienced these normal strong quarterly growth rates.

The creation of jobs

Business investment has been extremely slow to recover from the recession. Some analysts attribute this to uncertainty over regulatory changes by the Obama administration – including healthcare reforms. Others point to the fact that consumers have been historically slow to recover their spending patterns and confidence levels. Both are holding back the rebound of real growth rates. The most important challenge for the American economy is the creation of jobs. Unemployment rates are historically high this far into the recovery. The only factor that has led to the decline in the unemployment rate has been the sharp reduction in labour-force participation rates – now at a more-than-30-year low. Fundamentally this represents workers who have become so discouraged with job opportunities that they have dropped out of the labour force. This smaller and smaller labour force gives the false impression of lower unemployment.

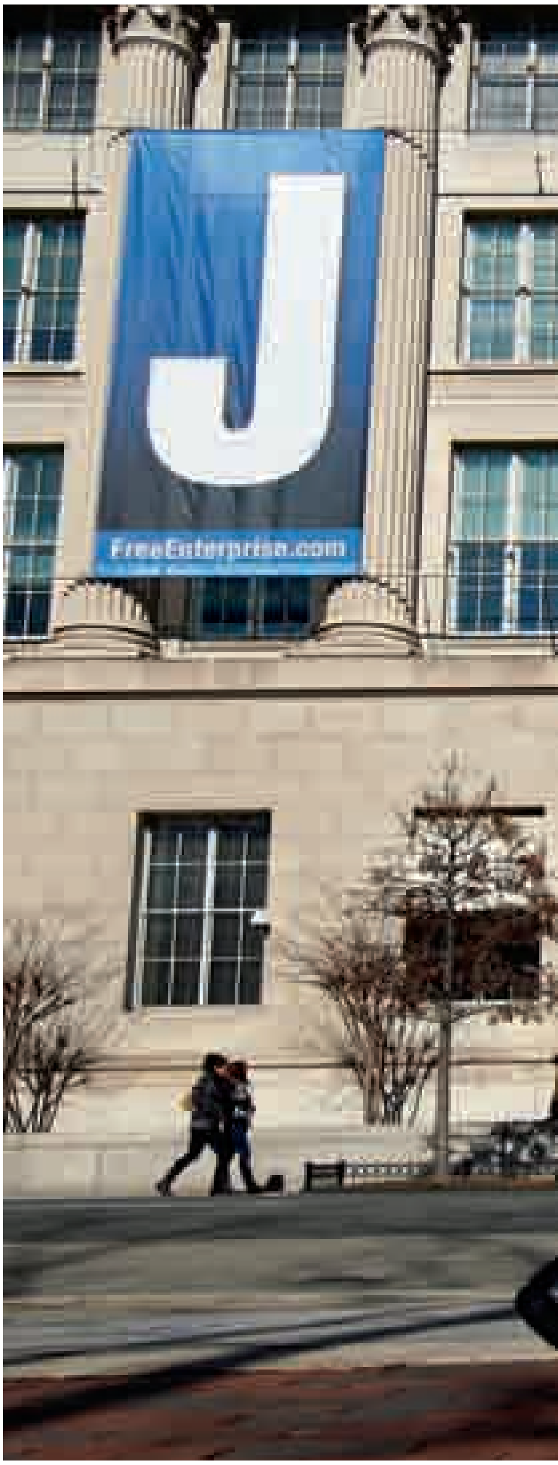
If the adult labour force participation rate stayed the same today as it was when the Great Recession ended in June 2009, at 67.5 per cent (it is now 63.8 per cent) the unemployment rate would be 10.9 per cent.

Political divide

Hence the most troubling problem facing the administration is the continued low growth in jobs. Firms facing lower productivity growth in recent quarters are likely to begin hiring new workers if consumer demand holds up in the coming months. But this is likely to be a slow path to job creation. Restoring business and consumer confidence remains the number-one problem in generating sustained real growth and hence job growth.

The political divide in the US prevents Congress from successfully designing and adopting a medium-term programme for attaining fiscal consolidation.

The House of Representatives has passed a budget that aims at medium-term debt reduction, but the Senate has failed to pass a budget since the beginning of the Obama administration. The only budget-related legislation that has passed the Senate has been continuing resolution bills that essentially lock in place past spending levels and



The need to create jobs is a pressing issue in the US. Some Americans are so discouraged that they have dropped out of the workforce altogether

As he arrives in Mexico to discuss the economy, US president Barack Obama will be aware of an election looming and the difficulties faced by his own country

patterns. A multitude of tax increases are set to take place on 1 January 2013 unless Congress takes action before then. These include not just the famous Bush tax cuts on the rich, but all the Bush tax cuts, including those on the poor and middle class.

It will also include the tax cuts in the stimulus programme, the reduction in estate taxes, the correction in the alternative minimum tax, the payroll tax break and business investment expensing.

In total, the tax increases will amount to roughly $500 billion in 2013. Obviously, this would be a disaster for the domestic economy. But there is no political will in the administration to bring up these seriously needed fiscal policy changes before the election. That means that these very important fiscal policy decisions will be relegated to the lame-duck session of the Congress, which will take place sometime after the November 2012 election.

Stimulus measures

In that lame-duck session, Congress will face the same political pressure that it faces today – Republicans resisting tax increases and Democrats resisting expenditure reductions. The chaos is likely to be staggering. And bad legislation typically results from tight timetables that force draft bills to be voted on without reading them. Unfortunately, fiscal consolidation will await the administration that takes power in January 2013 – either Obama Two or Romney One. Clearly, fiscal issues will dominate the new president's agenda, whoever the next president is.

Given the uncertainty in the global economy, with growth slowing around the world – not only in the industrial countries, but in major emerging market economies as well – the G20 leaders must craft a message that restores business and consumer confidence. For starters, the leaders need to develop an action plan that details the specific contributions that each country will make in order to restore growth prospects.

For some individual members, fiscal consolidation continues to lead the agenda. For others, deregulation and the freeing up of domestic structural restrictions to market forces are top. And for others, domestic demand stimulation is called for. Those countries that are not facing a national debt restriction need to create stimulus measures that will create domestic demand.

G20 members need to recommit their countries to the pursuit of freer global trade measures. The temptation to restrict imports in difficult times is short-sighted and must be rejected

Focus on energy

In addition, all G20 members need to recommit their countries to the pursuit of freer global trade measures. The temptation to restrict imports during difficult times is short-sighted and must be rejected. Evidence continues to grow that many members have forgotten the value to their domestic economies of freer trade and capital flows.

Also, the G20 members need to focus on energy supplies. Recent rises in crude oil prices have restricted the global recovery as some fear a renewal of inflationary pressures. The G20 could agree to an action plan that encourages alternative energy development – without government subsidies – and encourages the exploration and drilling for oil and gas in order to provide energy supply in the short to medium term.

Alternative energy sources are not yet major factors in the global energy supply and are not likely to be in the next five to 10 years.

In the meantime, nuclear, coal, oil and natural gas will continue to provide the vast majority of the globe's demand for energy. ■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Europe's growth challenges – seeking common ground

The crisis in the eurozone affects every country in the European Union in different ways, but national circumstances make it harder to formulate – and agree on – a united policy for growth

By Paolo Savona, emeritus professor of political economy, Rome

Everybody is wondering what the prospects for growth for the European Union are. From an economic point of view, the EU is divided into the eurozone, composed of 17 countries, and an area of 10 other countries, with Turkey and four other small states on the waiting list. The eurozone has a common currency, with one official exchange rate; all the EU members are bound by fiscal ties, which have become pressing with the fiscal agreement of 9 February 2012 still to be ratified by national parliaments.

The two areas have respect for competition rules and a few other minor matters in common. Within the two European groups, the differences in economic trends are such that the statistical averages in the growth of gross national product (GNP) are not statistically significant, although these averages are under continuous examination by governments as well as by markets. Therefore, there are no 'European' growth challenges, only challenges to single European countries.

Coping with the euro crisis

After the severe euro crisis caused by a risk of default of some sovereign debts – partly because they were involved in the US financial crisis followed by the Lehman Brothers bankruptcy – the EU has made important decisions to fill the gap left by the European treaties, which did not foresee such crises.

The European Central Bank (ECB) has interpreted its mandate to intervene in favour of sovereign debts, but only on the secondary market. Despite the mandate to control inflation, it has carried out a policy similar to the US Federal Reserve's quantitative easing. The European Council and Commission in Brussels have created the European Financial Stability Facility, a financial stabilisation fund that will become a permanent mechanism of intervention – the European Stability Mechanism. Under pressure from Germany, it has reinforced the rules for government budget deficits as provided for by the Maastricht and Amsterdam treaties, and steered a 'soft default' solution for Greece.

These decisions only partially re-established trust in the euro, which had never failed, as its strong value against the US dollar demonstrates. The euro has remained stable at around $1.30, although analysts consider it overvalued by 20 per cent for the countries of the eurozone experiencing difficulties in growth, and undervalued at least by the same amount for those that have been able to get development back on track. This again highlights the fact that the eurozone is not an optimal currency area (OCA).

As is well known, in order to guarantee the convergence of OCA economies, it takes free movement of labour and capital and a compensating fiscal policy in case of asymmetric shocks. In each of these fields, some steps have been taken by the EU, notably the Schengen Treaty, common rules for banks and finance, and so-called 'cohesion policies'. Yet they require improvement to invert the divergent tendency in national growth rates. There is a lack of common tax legislation for incomes and profits, and common treatments for wages and welfare, which are necessary to make the single market function in favour of all.

Nevertheless, the risk of an implosion of the eurozone and of the entire European Union can be considered overcome. This allows the EU and the single countries – and Italy is definitely the most important among them – to dedicate more attention to growth. The prevailing political set-up to pursue

this objective is the recovery of the inflation control function by the ECB, which should be implemented in parallel with the recovery of fiscal stability at the national level.

Together with the strengthening of liberalisation, this would allow a crowding-in effect on private spending, as a consequence of the decreased need for resources on the part of the public sector.

The fiscal compact

After a period of a dramatic return to easy money and public spending in order to deal with the global financial crisis and the negative effects on the real economy, European policy is returning to a more orthodox approach. The possibility of growth across Europe depends, therefore, on the effectiveness of this policy, in which Germany and some others deeply believe, in contrast to

The value of the euro has remained relatively stable, despite the currency being overvalued in some countries and undervalued in others

France and some other countries, that are calling for a European intervention instead. The United Kingdom and the Czech Republic have withdrawn from this new fiscal policy regime referred to as the 'fiscal compact'.

The challenges for growth in Europe must, therefore, be considered on a country by country basis. Some of those in the eurozone – such as Germany and the Netherlands – show a current account surplus that would allow greater private spending, which is difficult for countries with a high propensity for saving. Others with a foreign deficit cannot increase public spending because they must reduce their budget deficits; they are asking instead for the issuance of eurobonds, that is, for the creation of a common indebtedness to finance public investment.

This situation does not favour development. Beyond the eurozone, excluding Sweden, public debt plagues everyone somewhat, even if they do not have a deficit the size of Britain's. Moreover, all the non-eurozone countries have current account balance problems, despite being able to manage their monetary policy and benefiting from the flexibility of their exchange rate against the US dollar and the euro.

Different circumstances

The European Union, therefore, in its division between monetary areas with different sovereignty, but with a conditional fiscal sovereignty for those prepared to join the fiscal compact, still finds the push towards growth mainly in the single market.

Europe is an interesting laboratory of economic policy for a world that has economic systems, such as in the US and Japan, that practise Keynesian policies with large public debts, but show contrasting foreign current account balances.

The main emerging countries of India and China have government budget deficits as well, but their current account balances are the opposite, with high real growth.

Therefore it is not possible to indicate a successful economic model, since it must be adjusted to national circumstances. This is why, despite all the leaders' efforts, it is highly unlikely that the Los Cabos Summit will be able to indicate a development pathway that is valid for the entire world.

The G20 leaders should thus try to explain the benefit or harm of maintaining such marked differences in public and foreign balances by indicating how to remove them. The reform of the international monetary and banking system and improving the homework of each country should be their task. ■

A business perspective on economic growth

Adopting policies to boost the economies of the world would not only benefit businesses but would ultimately help individual citizens and communities, too

Global economic growth is an excellent topic of focus for this G20 meeting. As a global business, serving customers in more than 180 countries, we welcome the opportunity to comment on this issue.

First, we readily admit that better economic growth directly benefits Caterpillar's sales and profits. But the benefits extend way beyond our income statement to our employees, dealers, suppliers, stockholders and communities. Since December 2009, Caterpillar increased employment (net of acquisitions) 34 per cent, or by 35,600 employees, so that plants could support higher sales. Higher sales also required the company to purchase more supplies from other companies and increase capital spending, benefiting employment at other businesses.

Just as improving economic growth benefits Caterpillar and our stakeholders, it would provide widespread benefits to the world's citizens and help solve some of today's critical economic problems. Some likely benefits include:

- **Employment:** Using International Labor Organization data for 83 countries, we estimated the number of unemployed workers increased by more than 11 million (about 18 per cent) since the financial crisis started. Businesses, the major provider of employment in many countries, will only add workers if sales increase. Sales growth ties closely to economic growth.
- **Budget deficits:** Sharp drops in income and profits during the financial crisis reduced tax receipts for many governments, contributing to larger fiscal deficits. The US dollar value of tax revenues for 21 developed economies declined 16 per cent between 2008 and 2009. This drop accounted for three-quarters of the increase in combined budget deficits. Recession-related budget programmes, such as unemployment payments, further worsened deficits. The weak economic recovery since 2009 has not fully restored tax revenues or employment, prolonging deficit problems for many countries. Simply put, accelerating economic growth would reduce budget deficits!
- **Income inequality:** Income inequalities worsened in many countries, in part due to increased unemployment. In rapidly growing economies, businesses are better able to create more jobs and increase wages in line with productivity. Both changes would reduce income inequalities.
- **Business confidence:** The financial crisis and the subsequent slow recovery contributed to significant changes in governments and more uncertainty about future tax and spending policies. In addition, recession concerns developed in both 2010 and 2011. These uncertainties caused many businesses to remain cautious about hiring and investing. Better economic growth would create a more stable planning environment for businesses and encourage more investment.

We doubt that many would argue against better economic growth – the problem is achieving this outcome. So far, results have been unsatisfactory, particularly in the developed economies. We monitor industrial production in 43 countries and output in only 14 of these countries has fully recovered from the financial crisis. Four years of sub-par performances are testing the patience of many people.

Caterpillar has economic professionals located throughout the world, who work closely with local marketing groups to assess economic developments and their impact on sales. These analyses heavily influence investment, production and employment decisions. Here's a summary of how frequently mentioned policy changes would impact our business decisions:

- **Structural reforms:** Actions to make economies more efficient, such as making labour markets more flexible, implementing simpler tax codes or promoting investment would improve efficiency. Greater efficiency allows a company or country to produce more but does not guarantee this output can be sold. Caterpillar will not increase employment or investment just because it becomes less costly to do so. We will do so only if we expect demand to increase.
- **Monetary policy:** Over time, and across countries, we found that monetary/financial factors largely drive business cycles and our sales. Lower interest rates, or better money and credit growth, generally lead to higher economic growth and sales. A tightening in such policies generally produces opposite results.

  The recent recovery showed the power of monetary policy. Beginning in late 2009, 40 out of 48 central banks we track started raising interest rates. Another three reduced liquidity provided to financial systems. Tightening was modest but economies reacted unfavourably; world economic growth fell from an estimated four per cent in 2010 to less than three per cent in 2011. Thirty-four of those central banks have since at least partially reversed their tightening, but more than a year's time was lost in restoring full employment.

  Any mention of monetary easing inevitably leads to concerns of higher inflation. But our experiences are that monetary policy impacts sales and economic growth, not just prices. We don't believe slow economic growth and high unemployment are currently needed to keep inflation under control.
- **Fiscal austerity:** Large government budget deficits and financing difficulties caused several governments to adopt fiscal austerity. So far, these policies mostly resulted in even weaker economic growth and bigger deficits, especially if combined with tight money. Although eliminating waste and shifting spending to more productive uses are always good ideas, we are negative about sales in countries using only austerity to solve budget problems.
- **Infrastructure investment:** Infrastructure development is important to our business so we spend considerable time studying needs. We've learned that many countries have not invested enough in infrastructure for years, resulting in insufficient and outdated capacity. Inadequate infrastructure irritates users, increases costs and waste, and sometimes limits production.

Several studies indicate well-planned projects would have good investment returns and would be good job creators. At a time when unemployment is high, returns to infrastructure are favourable and borrowing costs are near record lows, governments would be making good business decisions to finance such long-term investments.

After nearly three years of recovery from the financial crisis, the best word to describe our progress is "disappointing". There are a number of excuses given: growth potentials are lower, recoveries from financial crises take longer and structural changes have occurred. Unfortunately, these reasons encourage a defeatist attitude – economies can't do any better and people need to accept having less than in the past.

That's not our attitude at Caterpillar. We believe the world economy can do better! The Great Depression of the 1930s was both a worse recession and a worse financial crisis than the 2009 downturn. In the United States, economic growth averaged 8.6 per cent yearly in the March 1933 to May 1937 recovery. Growth in the current recovery averaged only 2.4 per cent yearly.

The developed economies in Europe have had weak recoveries, and another recession is a concern. As a result, we are cautious about investing or increasing production in those countries. Sluggish economies are just not attractive to businesses.

Caterpillar has economic professionals located throughout the world, who work closely with local marketing groups to assess economic developments

The adoption of more pro-growth policies in lagging economies should be the top priority. True, such actions would benefit Caterpillar sales and many other businesses. But more importantly, citizens in those countries would benefit from better employment opportunities and higher living standards. Economic growth is really a win for everyone!

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Differentiated governance themes between Japan and China

The complexities of governance improvement, with conflicting priorities and little common ground on global economic issues, mean that Japan and China continue to plough their own furrows

By Naoki Tanaka, Centre for International Public Policy Studies, Tokyo

G20 summits will have little influence on the resolution of today's euro crisis and global economic uncertainties, just as the G8 has had little impact. In this situation, there is a G0.

Nonetheless, world order should be analysed according to individual issues, and individual regions and individual countries, too. In East Asia, Japan and China stand at opposite extremes. Japan has been a champion of modernisation since the Meiji Restoration. However, the focus of most industrial modernisation has now shifted from Japan to China, and Japan is moving into a post-modernisation phase in order to survive in the global context. Not even the G20 framework can lead to convergence between China and Japan.

The impact of the euro crisis

In the first stage of the 2008 financial crisis, after systemic risks spread from region to region, emerging economies began to decouple from developed countries, through stimulative government expenditures. However, such artificial measures could not continue forever, for two reasons. One was the expected rise in the inflation rate. The other was the distortion of resource allocation, which was typical in China. With huge government expenditures, the norm became 'state-owned enterprises (SOEs) in progress, private firms in retreat'. If this situation continues, the job market for university graduates will not expand as expected.

The European Union is China's number-one export destination. The country's coastal areas have been severely hit by export stagnation since the euro crisis began in 2010. The adjustment of Chinese economic growth has affected the prices and quantities for natural resources. Australia, Canada and Brazil are now suffering because China's economy consumes much of those countries' materials through its own growth. The euro crisis is bringing economic adjustment through integrated supply chains, which is an issue of interconnectedness that the G20 summit should address. However, its resolution is not an easy one.

The euro crisis has also brought financial drags on emerging economies. Sovereign debt crises have reduced the quality of bank assets, through the sharp fall in the value of national sovereign bonds. Thinning bank capital bases have led to decreased lending to emerging economies. Yet the growth of emerging economies relies on refinancing their debts. Such disintermediation will follow through the European banks' lending after the euro crisis, which may disrupt the financial mechanisms in emerging economies. As a result, fear is now spreading into emerging economies – and the G20 is the right place to discuss this contagion. However, the G20 is not the right place to discuss the technicalities of the financial mechanism.

Fundamental gaps

Japan and China have not discussed the possible financial interruption caused by the euro crisis. This is the crude reality. Why does such inflexibility exist between these two countries? Some say that conflicts on territorial and war-time issues have prevented the relationship between China and Japan from improving. However, more fundamental gaps exist.

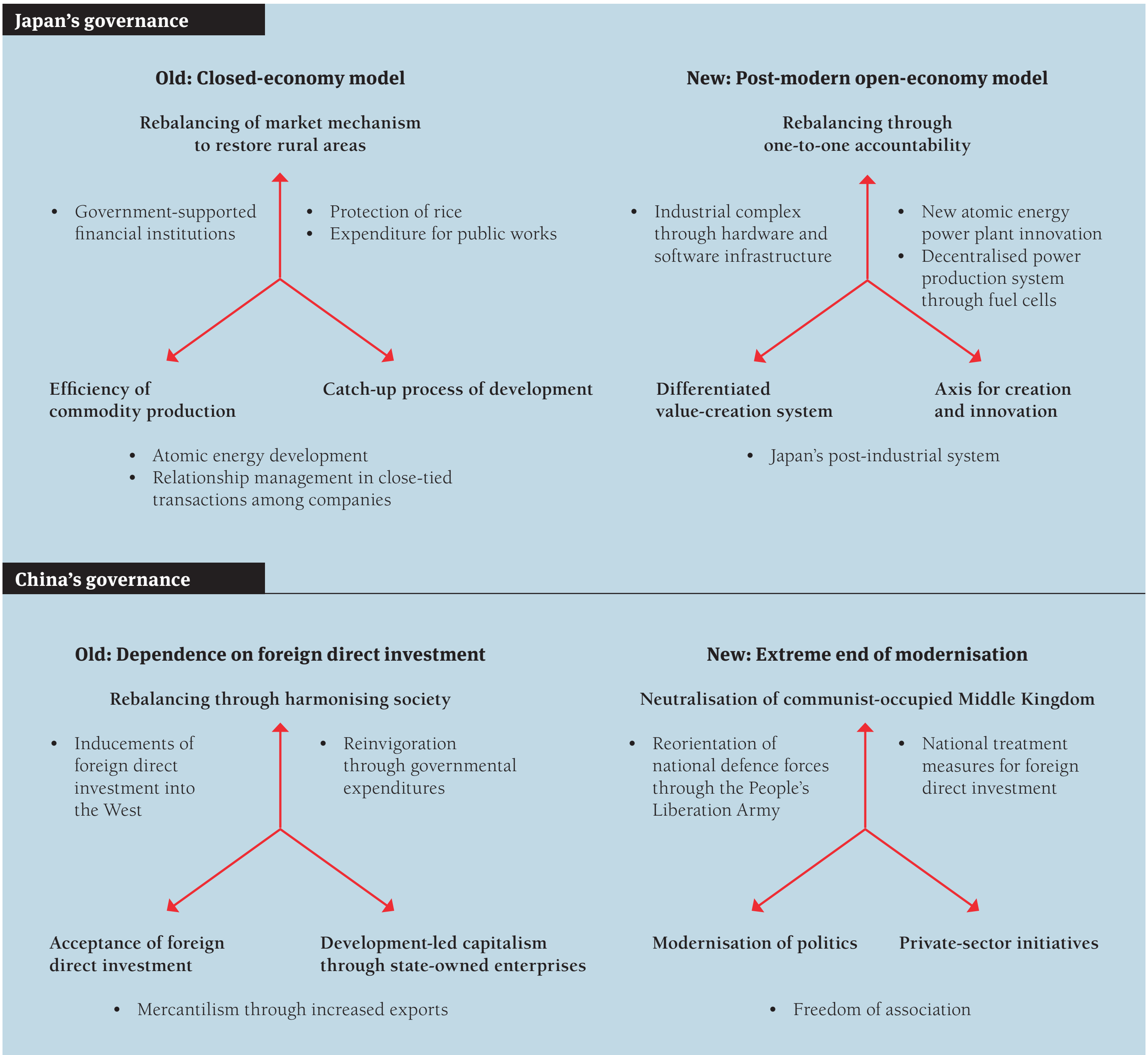
The two countries are in very different phases of improving their governance (see diagram, right). Japan's governance structure is moving into a post-modern phase. China needs to shift urgently to rapid industrial modernisation. If Japan does not differentiate its approach from China's, Japan's industries may not reap 'smart profits' from producing commodities with no protection from China.

China still needs to move towards modernisation. In order to have more value-added products, the Chinese government needs to accept a multi-party system. At present, the freedom of association is not permitted because of China's strict one-party political system. Yet the free exchange and coordination of opinions are required to generate more suitable economic development in China, and they require political modernisation. Moreover, when China needs more foreign direct investment to create a value-added economy, it should adhere to the principles of national treatment required by the World Trade Organization. Between Japan and China, more such discussions need to be held, whether at governmental or non-governmental levels.

The freedom of association is not permitted because of China's strict one-party political system. Yet the free exchange and coordination of opinions are required to generate more suitable economic development in China

Conflicting phases

At the summit of the Asia-Pacific Economic Cooperation forum in Hawaii in November 2011 Japanese prime minister Yoshihiko Noda declared his intention to have Japan consider joining the Trans-Pacific Partnership (TPP). To become a member of TPP, Japan needs to resolve its agricultural problems, which is not an easy task for the



Japanese government. However, the TPP framework is very beneficial for improving Japan's governance, which is required for its industrial innovation.

As China cannot qualify to join the TPP unless it modernises, the TPP also divides Japan and China. Therefore, for the time being, Japan and China cannot meet under the TTP framework.

Some refer to the G2 of the United States and China. However, a G2 cannot address global issues. The G0 or no-polar regimes are also mentioned – and in some situations the world will have to accept a G0. But Japan is perplexed by both the G2 and G0. Its anxiety comes not only because of its geography but also because of the differing governance structures between Japan and China. ■

The increasing relevance of gold in emerging markets

By Aram Shishmanian, CEO
World Gold Council

Over the past five years a fundamental shift in global economic growth patterns has taken place. In the West a reliance on debt and consumption was dramatically exposed, resulting in a period of persistent economic turbulence that shows little sign of ending. Asia by contrast, led by India and China, has forged ahead. In 2011, China's economy grew by 9.2 per cent and India's by 7.8 per cent, growth in the US and Europe, by contrast, was below two per cent.

While China's rate of growth is expected to slow in the coming years, as the benefits of mobilising labour and capital recede, it will continue to far surpass forecast rates of growth in the West. With China and India expected to account for 40 per cent of global middle-class consumer spending by 2030 (source OECD), it is clear that global growth, supply and demand is increasingly shifting.

But the story of growth is not just the story of India and China. Emerging markets will contribute a rapidly growing share to world consumption, with Brazil sitting in the top ten by 2020, with a 2.5 per cent share of global consumption. By 2020 there will be an additional 300 million upper-middle and middle-class households, with almost half of these new consumers coming from developing markets. The ten leading economies in the Asia-Pacific region will drive an increasingly large proportion of global growth. Home to half of the world's population, but currently accounting for only a quarter of global GDP, the Asia-Pacific region is expected to account for half of the world's output by 2050.

We are still in the very early stages of this global shift. However, we have already seen policymakers react in unprecedented ways, with central banks across the world undertaking significant measures to protect national wealth. The rules of global finance look likely to undergo further significant alterations in the years to come. Consumer habits, of course, are shifting with the West-East re-balancing and will continue to do so. Gold is well placed to play a key role at the centre of these changes.

Appetite for gold in Asia has been on a sustained upward curve for the past decade, with China and India now the two leading markets for gold demand, with these two countries responsible for over half of global gold jewellery purchases last year, spending almost $55 billion.

The appetite for gold in Asia has been on a sustained upward curve, with China and India the two leading markets

For Asian consumers with a heavily ingrained savings culture, gold is an ideal asset that serves the dual purpose of adornment and wealth preservation. High-carat jewellery is part of the lifestyle and the culture, used to mark celebratory and commemorative events, such as births, engagements, marriages and anniversaries. It is also traditional to offer gold

jewellery as gifts during important festivals, including the Chinese New Year or the Indian Dhanteras festival. As Asian populations have become more prosperous, attitudes towards saving and investment have also evolved, with gold a beneficiary of this evolution.

Looking ahead, as Asia becomes wealthier, demand for gold jewellery and gold for investment purposes is almost certain to increase. The World Gold Council estimates that by 2025, at least one billion people in China and India will have sufficient assets at their disposal to be active purchasers of gold. Naturally, this emerging middle class will purchase a wide variety of goods and invest in a broad range of products, but the Asian culture and tradition suggest the newly prosperous will also be keen purchasers of gold.

The region's interest in the precious metal stretches back to ancient times and has only intensified over the past decade. But gold is not only benefiting from increasing wealth in high-growth economies. Gold's unique qualities are being recognised by policymakers the world over. Since the onset of the financial crisis, central banks have reassessed both the optimal level and composition of reserves needed to maintain national wealth in a period of extreme uncertainty. It has become clear that a reliance on one or two currencies is no longer sufficient to protect national wealth. The world needs a multi-currency reserve system and gold has emerged as a solution.

Central banks are now significant net buyers of gold and last year these institutions bought more gold than they have ever done in the post gold-standard world.

The most active purchasers of gold in recent years have been central banks in Asia and other emerging markets. In the West, central banks, which only a few years ago were active sellers, are maintaining their gold reserves and in some cases adding to them.

As we move through 2012 and beyond, Asia is likely to play an increasing role in the gold market. It is the fastest-growing region in the world and the area with the greatest affinity for and interest in gold. The consequences for the global gold market and Asia's role within it are clear. Asia will increasingly play a central role in the gold story.

The Chinese economy in transition: its contribution to global growth

Significant reforms are in the pipeline to harness the benefits of increased urbanisation and move China in the direction of a more balanced and consumption-driven economy

By Yang Yao, director, China Centre for Economic Research, Peking University

The Chinese economy has shown signs of slowing down since the fourth quarter of 2011. Economic indicators from the first quarter of 2012 are not encouraging. Gross domestic product (GDP) grew by 8.1 per cent year over year, the lowest in the past 11 quarters; exports grew by 8.9 per cent year over year, but declined in Shenzhen, whose exports account for more than 10 per cent of China's total; foreign direct investment (FDI) has declined in five consecutive months; commercial housing sales declined by 14.6 per cent year over year.

Structural adjustments

The euro crisis has been the most significant contributor to China's export slowdown. The European Union is China's largest export destination; its economic meltdown has dragged down China's export growth. The decline of housing sales, however, is a result of the central government's measures to cool the real estate market. It is unlikely that the government will change those measures drastically. However, monetary policy will undergo adjustments. The People's Bank of China, the country's central bank, lowered the reserve ratio again to 20 per cent on 18 May 2012. The market expects more adjustments in the next several months.

In the end, the Chinese economy is likely to grow by over 8.0 per cent in 2012, higher than the 7.5 per cent target set by Premier Wen Jiabao. The real challenge facing the country, though, is to carry out the structural adjustments put forward by the government's 12th Five Year Programme. It has been widely recognised that China needs to reorient its growth pattern from an export-driven model to one that relies more on domestic demand. Structural adjustments were also proposed in the 11th Five Year Programme, but most fell through. This time, however, is different. The government has announced several concrete reform plans that, if they are carried out, will move China in the direction of a more balanced and consumption-driven economy.

One of them is to speed up the pace of urbanisation. Currently half of the Chinese population lives in cities. But this group includes migrant workers who stay in the city for more than 180 days in a year. Many do not bring their families because they do not have urban *hukou*, or resident status. As a result, they do not consume as much as they should. In addition to directly suppressing domestic consumption, this also has the effect of dragging down the growth of the service sector. The share of service employment has been increasing over time, but it is still barely above 35 per cent, less than half of the figure in advanced countries. Speeding up the pace and improving the quality of urbanisation will thus increase domestic consumption.

This urbanisation will be reinforced by another reform plan to allow migrants to obtain local *hukou* more easily. In the new policy announced by the central government, migrants in small cities automatically qualify if they have a stable job and housing, including rental homes, and migrants in medium-sized cities have the same right if they have worked in the city for three consecutive years. This reform has the potential to bring profound changes to Chinese society as well as to the country's economy. The Hu Jintao/Wen Jiabao government has removed most of the impediments for people to move freely across the country. However, migrants are still not treated as equal to local residents. The *hukou* reform will grant migrants the same rights as those held by locals to send their children to local schools, to be protected by the urban welfare system and to participate in local political life.

Banking reform

A third reform initiative is to open up the banking sector to domestic private capital. While foreign banks have been allowed to operate in China as part of the country's commitment to its accession to the World Trade Organization, domestic private capital is still banned from establishing independent banks. As a result, informal banking has emerged, especially in Zhejiang, Guangdong and several other southern provinces. One of the problems of informal banking is that

A Chinese factory worker inspects door components on a production line. Recently, China's economy has shown signs of slowing down

it operates under the radar of regulation. At the end of 2011, a crisis erupted in the informal banking sector in Wenzhou, a city in Zhejiang province that is renowned for its private economy. This crisis alerted the central government and led to the announcement that an experimental reform would be carried out in Wenzhou. The reform will allow private capital to set up regional banks and give selected individual investors the right to invest outside China. A more efficient and inclusive financial sector provides ordinary citizens with the opportunity to share the fruits of future economic growth and thus increases consumption. Therefore, this banking reform will help to rebalance the Chinese economy.

The fourth reform is to reduce the presence of state-owned enterprises (SOEs). China has privatised about 90 per cent of its SOEs, but the remaining enterprises are usually big and operate under government protection. They consume a disproportionate share of financial resources and crowd out private firms in the goods market as well as in terms of access to bank credits. The World Bank's China 2030 singles out SOE reform as one of the most urgent reforms that the country should undertake. This report was a product of the joint effort of the World Bank and the Development Research Centre, one of the research wings under the State Council, so there is reason to believe that the Chinese leadership is seriously considering further reform of SOEs.

China's extraordinary growth of exports in the 2000s was largely the result of the one-shot effect of trade liberalisation following the country's accession to the World Trade Organization. In the new decade, China will have to find ways to increase domestic demand to sustain high growth. For that, serious structural adjustments are needed. The four reforms mentioned above will accomplish much if they are carried out diligently. There are obstacles, however. Strong interest groups have high stakes in the current system. It will need extraordinary government resolution to overcome the resistance. ■

Helping to building bridges to financial inclusion

Hemant Baijal, Vice President, Global Public Policy, MasterCard Worldwide

The meaning of financial inclusion

Financial inclusion is the process of ensuring access to basic financial products and services to meet the payment, savings, credit, insurance, financial management and investment needs of the underserved segments of society at a reasonable cost and in a transparent manner. Access to payment services, in the form of a payment or a financial account, either provided by a bank or a non-banking financial institution, is seen as the stepping stone to full financial inclusion. Additionally, innovative models that promote access through electronic payment services – for example, mobile payments, prepaid cards, and agency banking – are regarded as cost-effective, efficient alternatives that are able to satisfy the financial needs of the underserved.

A global mandate on financial inclusion

According to the World Bank FINDEX, more than 2.5 billion people lack adequate access to financial services, out of which 2.37 billion live in developing countries. Evidence has shown that the underserved segment of society tends to have a variability in income, underscoring the need for financial services such as savings and insurance. Also, gaining access to financial services does not necessarily mean that they will be used. In other words, individuals who do not use financial services are not necessarily constrained from participating in the financial sector. Globally, 65 per cent of financially excluded adults do not use financial accounts because of (i) a lack of money, (ii) the suitability of products and services, and/or (iii) the high cost associated with the low-amount transactions such populations typically undertake. Recognising this challenge, the Group of 20 (G20) countries created an expert group in 2009 to develop an action plan for improving access to financial services. This produced nine guiding principles on innovative financial inclusion. In 2010, the Global Partnership for Financial Inclusion (GPFI) was established to formalise and implement these principles in G20 and non-G20 countries. The global mandate was further strengthened in 2011, when 80 institutions representing 75 per cent of the unbanked population met in Mexico at an event organised by the Alliance for Financial Inclusion (AFI) to endorse the Maya Declaration: the first global and measurable commitments by policymakers to promote greater financial inclusion. In its capacity as the holder of the G20 presidency, the government of Mexico proposed further actions as part of the 2012 G20 agenda on financial inclusion, including carefully designed national strategies that support financial education and consumer protection measures.

> **Financial inclusion is not just about providing access to financial services. To promote high usage, such services have to be suitable to the needs of the user**

The effects of limited financial inclusion

Cash-based, face-to-face transactions are typically dominant in environments with limited financial inclusion. Due to safety and security of payments and the high cost of transporting cash, remote payment mechanisms, such as recurring bill payments, ecommerce, and cross-border p2p remittances, cannot be conducted efficiently in cash. The lack of safe, transparent and convenient options for satisfying payment needs other than through face-to-face transactions severely limits the overall growth of commerce and economic activity in a country. Through the promotion of financial inclusion, there can be a deeper influence on the economic growth of a country, in addition to providing financial access to the underserved. Therefore, from a public policy point perspective, governments should prioritise policies that promote financial inclusion in conjunction with policies that remove regulatory, infrastructure or other barriers to the growth of electronic payments.

The role of government

Developing a broad-based financial inclusion strategy that is consistent with national public policy goals requires a structured approach. First and foremost, policymakers must identify financial inclusion as a "stated national public policy goal" that has firm political backing and commitment at the highest levels of the government. This is a primary condition for creating the appropriate policy environment, so that the necessary reforms can be implemented. Second, it is also important that such goals are measurable using the right indicators for account access and account usage (as developed by the AFI, World Bank and others), and that there is a national strategy in place to implement these goals, with established milestones for all stakeholders in the value chain. Third, it is important that the enabling legal and regulatory framework is in place to support financial inclusion initiatives. While there is no specific framework for financial inclusion, for such initiatives to be successful there has to be a critical mass of legal and regulatory reforms that address various aspects of retail payments, including the types of bank and non-bank entities that can provide payment and financial services. Fourth, payment systems policies promoting open competition with multiple providers and technologies must be considered. This will help reduce costs, offer choice and increase efficiency. Various trade-offs must be considered between managing

multiple providers and technologies – while proprietary technology may bring benefits in terms of specific functionality, it also tends to be expensive and makes interoperability with the broader financial system more difficult. Finally, governments should require payment service providers must be required to engage in financial education campaigns that support the broad-based national financial inclusion objectives.

The role of payment service providers

Financial inclusion is not just about providing access to financial services. To promote high usage, such services have to be suitable to the needs of the user. In this respect, the role of the payment service provider is of primary importance, because of their direct relationships with customers. The provider also has an important role in promoting account access and eventually usage, through the development of innovative technologies and various measures that support their implementation, including marketing, financial literacy campaigns and customer support. The quality, efficiency and transparency of such services is an important enabler in encouraging the use of such financial services by the underserved, as they all help to build trust.

MasterCard's mission for financial inclusion

MasterCard understands that the financial needs of the underserved segment can differ from country to country and is committed to developing innovative solutions that are suitable for the target audience, made available through its bank and non-bank partners. In this respect, MasterCard's mission is to:

Drive global financial inclusion for underserved populations around the world by delivering safe, simple and smart payment technologies that make mainstream financial services relevant to those who don't participate because of a lack of: awareness or understanding; trust in traditional providers; and/or inconvenient access points.

Address the needs of the underserved segment through partnerships and investments in multiple products and solutions. Examples include creation of Mobile Payment Service (MPS) platform for mobile money services for the unbanked, partnerships with Telefonica and Western Union to provide segment specific financial inclusion solutions.

Deliver financial education through proprietary programmes and tools, such as MasterCard's Smart Consumer, Are You Credit Wise?, and Community Financial Outreach Program. MasterCard has also entered into partnerships with organisations such as Pro Mujer, Network for Teaching Entrepreneurship, Junior Achievement, UN Women and INSEAD, to help provide young people and adults on low incomes with the training and resources they need to build and preserve assets.

Provide financial support to programmes that are focused on furthering financial inclusion through entrepreneurship. Key focus areas include training the next generation of entrepreneurs, encouraging new business development and providing existing businesses with the necessary tools, training and access to capital for them to thrive and grow.

MasterCard Worldwide

www.mastercard.com

Join together to generate global economic growth

Economic problems in Europe will be high on the G20 agenda, but a united response is also needed to resolve the issue of austerity measures slowing growth in developing countries

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

It is not clear what the G20 leaders will be able to achieve at their summit in Mexico this June. The world economy has become desynchronised, so there is no longer a consensus about how to coordinate economic policy.

There is also little enthusiasm for addressing other global issues, such as the impasse in the Doha trade negotiations.

The United States has regained its position as the G7 growth leader. Its economy grew by three per cent during the fourth quarter of 2011, and is likely to expand by as much as three per cent in 2012.

The Canadian economy will perform at least as well as the US economy because it does not have its legacy problems of falling house prices and large fiscal deficits.

The Japanese economy should achieve a growth rate of close to two per cent in 2012 because of reconstruction after last year's earthquake and an export recovery in the country after 2011's output disruptions.

Focus on Europe

The G7 laggard in 2012 is Europe. Southern Europe is in recession and growth in the north is close to zero. As with the 2011 Cannes Summit, the G20 may again have to focus on the sovereign debt problems of Greece, Spain and Italy. Greece's recent election produced a gridlocked parliament incapable of carrying out the programme devised by the International Monetary Fund (IMF) and the European Union to which it agreed under Prime Minister Lucas Papademos. There is a significant risk that Greece will lose access to the funds that were to have been provided under this programme, and thus Greece will find it difficult to finance government expenditures. The Greek government may have to follow California's example three years ago and issue IOUs to pay its bills. Such a situation will provoke renewed speculation about whether Greece should leave the monetary union. Such fears could well have a contagion effect on the bond markets of Portugal, Spain and Italy. The IMF raised $430 billion of new funds in April 2012, so it could offer financial assistance to the eurozone, but neither Spain nor Italy wants to pursue an IMF programme.

There is little that the G20 can do to help Greece if it lacks a government to carry out a reform programme. All the G20 can do is try to ensure that there is an effective firewall to protect other European countries from new market speculation about a break-up of the common currency. The G20 could also encourage the European Central Bank (ECB) to intervene more actively in the debt markets of Spain and Italy to restrain interest rates.

> ***The challenge for Mexico will be to limit the amount of time devoted to Europe's woes and save some for issues of more long-term importance***

The ECB boosted these markets significantly in early 2012 by lending more than €1 trillion to Europe's commercial banks. The Spanish and Italian banks used some of these funds to purchase their national debt. Yields began to rise again in March as the benefits of this lending eroded while the ECB stopped making purchases of government debt. If Greece appears likely to leave the eurozone because of its political impasse, there will be no alternative to the ECB playing a more active role.

The G20 could also discuss the need for Europe to pursue a more growth-oriented economic policy. It is increasingly obvious that the fiscal austerity policies of the troubled eurozone debtors are deepening their recessions and making it more difficult to achieve their deficit-reduction targets. Italian prime minister Mario Monti has already said that he is unable to balance the Italian

As Greece experiences both political and economic turmoil, G20 members must consider the possibility of the troubled country leaving the eurozone

budget until 2014. It will also be difficult for Spain to achieve its new target of reducing the fiscal deficit to 5.3 per cent of gross domestic product (GDP) in 2012.

France's new president, François Hollande, has been advocating a more growth-oriented policy for Europe. He should use the G20 platform to offer proposals for enhancing European growth. There is an emerging consensus that the European Investment Bank (EIB) should increase its capital and offer loans for new infrastructure projects to promote employment growth. The increased capital for the EIB should be only the first step towards containing the recession that is now gripping Southern Europe.

The growth rates of many developing countries slowed during 2011 because their central banks tightened monetary policy in order to hold inflation in check.

The growth rate of Brazil declined to 2.7 per cent from 7.5 per cent. India's growth rate dipped to 7.0 per cent from 8.5 per cent. China's growth rate has eased to 8.0 per cent from more than 10 per cent in 2010. Both Brazil and India have cut interest rates because inflation has declined from levels that prevailed in 2011 in both countries. China has reduced bank reserve requirements, but is reluctant to cut interest rates because inflation is still at 3.5 per cent. The developing countries believe they can sustain growth through monetary policy. They are not yet planning more stimulative fiscal policies.

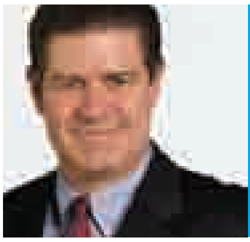
International policy coordination

One of the goals of the first G20 summit, in Washington DC in November 2008, was to restrain the danger of protectionism as unemployment rose in the industrial countries. The Global Trade Alert reports that since that meeting there have been at least 678 measures aimed at restraining trade. There were 242 measures in the EU, 112 in Russia, 111 in Argentina, 56 in India, 55 in China, 49 in Brazil and 26 in the US. The G20 should try to hold the danger of protectionism in check by offering strong support for the completion of the Doha Round.

The London Summit in April 2009 was probably the high point of G20 policy coordination. There was a severe global recession, so the great majority of countries pledged to pursue stimulative fiscal policies. The meeting also agreed to increase the IMF's resources by $500 billion. The desynchronisation of the global business cycle now will make it difficult to reach a consensus on how economic policy should evolve. As Europe is now the global economy's clear laggard, it is likely to attract the most attention in Mexico, but Germany will resist efforts to pursue more expansionary fiscal policies at a time when deficits are still large. All the G20 can do is encourage the European countries to give themselves more time to achieve their deficit reduction targets.

The G20 is such a diverse group of countries that it can probably achieve a consensus only in extreme circumstances, such as those that prevailed during late 2008 and early 2009. Its primary role will now be to serve as a forum for developed countries to discuss issues of common interest with the developing countries. These issues include trade, climate change, international monetary reform and global savings imbalances. The challenge for Mexico, as host at Los Cabos, will be to limit the amount of time devoted to Europe's woes and save some for other issues of more long-term importance. ■

Sovereign debt and public finance today – lessons learned and looking forward



By James S Turley, Chairman and CEO, Ernst & Young

Incentives have consequences, good and bad. The latter are usually unintended. That, to me, is the key lesson of the economic episodes that have punctuated the bumpy path from dot.com boom and bust and the banking crisis to the sovereign debt crisis we face today. Switch the scene to government and I think we face a similar situation – whereby rules are encouraging the wrong kind of behaviour.

Too often in governments around the world, archaic accounting has been used to hide the true costs of decisions. Election and budgetary cycles have incentivised governments to concentrate on the near term. And, unlike well-run companies, today's governments are incentivised to mortgage their long-term future for short-term benefit.

My profession has long argued that today's complex and interconnected world demands a single set of high-quality accounting standards

Consequently, many are still accounting for pensions, post-retirement health benefits and other entitlements on a cash basis. They do not have the processes or systems in place to take stock of the assets and liabilities they hold. And this is at a time when the need for governments to be accountable for their decisions around resource allocation is more important than ever before.

The sovereign debt crisis exposed the seriousness of poor financial management and sub-standard reporting by the public sector. It exposed the problems of archaic accounting and the need for modernising control systems and financial infrastructure. Yet governments are still taking decisions, which will affect their countries for years to come, with limited discussions and almost no disclosure of the long-term consequences.

In the aftermath of the financial crisis, governments, the International Monetary Fund, bond markets and investors need to be making the right decisions more than ever. But they need much better information to do so, and the public has a right to see such information. So it's inevitable that questions are being asked today about the appropriateness of government accounting.

Poor government accounting alone did not get us where we are today. Fundamental issues need to be addressed around market reform; government spending and taxation; and social provision and dependency cultures. But accounting can help lower the risk of decisions being made that burden future generations, and I believe that this can be done in three ways.

1. Improve transparency in government accounting

Over a generation or so, the private sector has had to incorporate measures that address the transparency and usability of financial statements and in my view, the public sector urgently needs to do the same.

We have to go into this with our eyes open – with improved transparency, the financial situation of many governments might well look worse before it looks better. But I firmly believe that better-quality financial information is a must if governments are to perform efficiently and effectively and respond to the needs of its citizens and the mandates of modern governing.

More widespread adoption of accrual accounting is an important step. While many countries have moved to accrual-based accounting, there are exceptions such as Germany, Italy, the Netherlands and Japan. And, while not affected by sovereign debt in the same way, major economies such as India, Brazil and China are still using cash-based accounting.

Of course, there are hurdles to change. The link between financial accounting and budgetary accounting and appropriations is one. A lack of resources to fund these reforms and to develop internal expertise is another. But these are not insurmountable challenges. And organizations like the World Bank and IMF are very active in funding capacity building, conversion and implementation.

In addition, governments need to provide more comprehensive reporting. It's no longer enough to judge governmental performance limited to the financial perspective, based on a single balance sheet date. Governments need to move beyond the election window or cycle and take a longer-term view – say over 40, 50 or even 75 years – and consider General Purpose Financial Reports such as 'Reporting on the long-term sustainability of Public Finances' or 'Service Performance Reporting'.

2. Improve consistency and comparability by adopting international accounting principles

My profession has long argued that today's complex and interconnected world demands a single set of high-quality accounting standards to provide the comparability that cross-border companies, cross-border investors and global capital markets need. The same holds true for the public sector.

Yet, unlike Government Financial Statistics, governmental accounting and financial reporting standards are still largely inconsistent. As governments increasingly work together on coordinated solutions and efforts – and as such share a common liability – it becomes increasingly unacceptable for the differences between accounting standards and levels of transparency to

continue. In fact, global financial regulatory convergence is something that the G20 and many other countries have called for to create stability for capital markets and investors. We believe that International Public Sector Accounting Standards (IPSAS) are a large part of the answer, but few countries are applying them in their entirety.

There have been some encouraging signs, however. While the rejection of the European Parliament monetary and economic affairs committee's proposal to mandate IPSAS for its member states was disappointing, although not surprising, the proposal itself is positive.

And we're pleased that a study is being conducted on the average gap between current governmental accounting and IPSAS, which Ernst & Young is helping Eurostat with. Based on these results, Eurostat will assess the feasibility of an EU-wide conversion before the end of the year.

3. Improving clarity of communications and, therefore, accountability

Our 'Toward Transparency' study found that few governments see essential stakeholders as key users of governmental financial statements. When asked who their key users were, around two-thirds of governmental financial officials across 33 countries did not mention international financial institutions and ratings agencies. And only half mentioned their own citizens – who presumably have a great, and growing, interest in how their taxes are being spent.

As governments come under increasing scrutiny from stakeholders questioning their response to the current economic situation, they will be forced to change their approach. Presenting information to a broader range of stakeholders, in a clear and digestible form, helps to improve stakeholder understanding. Just as importantly – it helps to foster a culture of accountability, which aids better decision-making.

There are examples of leading practice. France's 'Les Comptes de l'État' gives an easily digestible overview of the important financial facts, for example, and the 'Citizen's Guide to the 2011 Financial Report of the United States Government' is another.

But in demanding clearer communications and accountability, there are fundamental cultural issues that need to be addressed. Politicians need a framework that incentivises them to take decisions that better align to the long-term public interest – not the electoral or annual budgeting cycle.

As a profession, and indeed as citizens, we must call for institutional arrangements that change politicians' incentives and effectively constrain their behaviour. The work that IFAC and the UK's Chartered Institute of Public Finance and Accounting (CIPFA) are jointly pursuing to establish a governance framework for public sector organisations is a positive and encouraging step.

Building skills

Achieving these three improvements will require a commitment from governments to build their financial management skills and capabilities. Recently in Australia, the Auditor General's report to the New South Wales' parliament highlighted the need for more senior accountants after finding numerous mistakes in the financial records, a large number of which required correction before an audit opinion could be issued. Australia is likely to not be alone, just transparent.

Governments must seek to attract individuals with the necessary accounting, financial reporting, systems and other relevant competencies. They can do this through creating internships, innovative partnering arrangements with academic institutions and business enterprises, creating professional fellowships and other opportunities to serve in the governmental sector. Our profession can help with improved education, training and development. Ernst & Young, for example, has recently agreed to partner with CIPFA to help train countries adopting IPSAS.

Facing the facts

Finally, governments have to face up to the fact that change is not optional. The current situation can't continue indefinitely – the costs are too high in terms of fiscal instability, investor confidence and economic growth.

Accounting alone cannot guarantee that governments will always make the right decisions – but it can help them make better ones.

Going global with international financial reporting standards

Globalised markets mean that regional accounting languages are no longer adequate. If stakeholders are to trust financial statements, all economies need to move towards internationally accepted standards

By Hans Hoogervorst, chair, International Accounting Standards Board

The truly global marketplace that has developed in recent decades has brought the need for truly global accounting standards.

In many ways, this could be considered history repeating itself. In the past, changing standards and practices in business have driven the need for better ways to account for them. The first uniform accounting standards evolved in the form of national generally agreed accounting principles (GAAPs). As the influence of capital markets grew and domestic marketplaces became more sophisticated, investors recognised that markets needed a single, high-quality language to increase transparency and comparability that would allow them to make better informed investment decisions. The regional application of accounting rules was suitable at the time simply because companies borrowed and investors invested mostly in their home country.

Interconnected markets

This is no longer the case. Rapid and far-reaching technological breakthroughs have allowed the world to develop capital markets that are fully, comprehensively interconnected. Investors seeking diversification and return have been increasingly able to look overseas for opportunities.

Businesses have also become larger and more complex. It is not unusual now for even a moderately sized business to list on multiple stock exchanges, operate transnationally and have activities spanning multiple sectors.

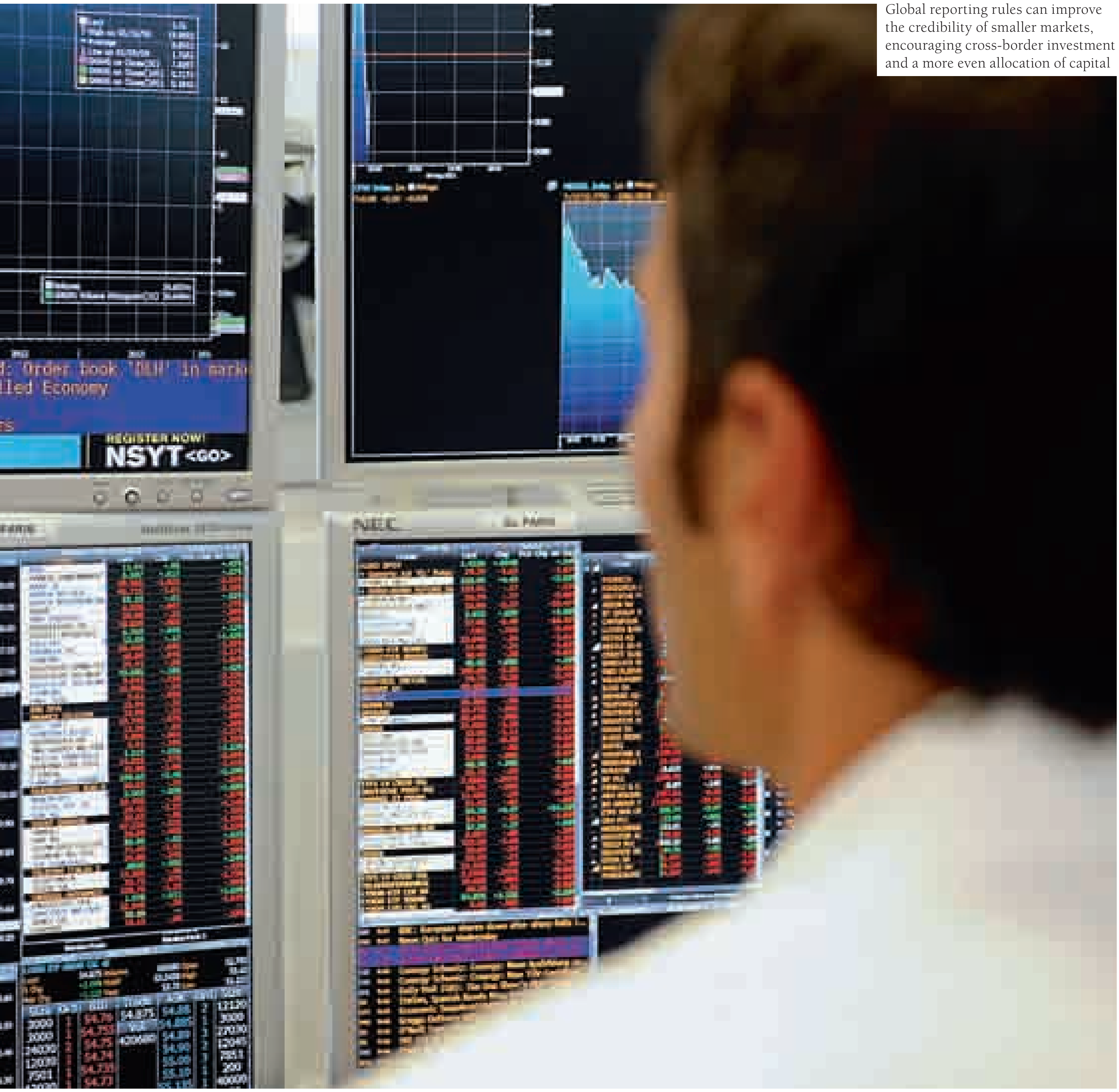
While these developments are capable of offering tremendous benefits to people all over the world, the downside is also apparent. As long as markets have existed, there have been periods of downturn and crisis. The global nature of today's economy means that these events are no longer localised but ripple across the world. The experience over the past four years in the wake of the sub-prime crisis in the United States and the current troubles within the eurozone are testament to this.

It sometimes takes a crisis to realise the need for change. The reality is that investment and business – indeed the free market as a whole – are beyond the point where multiple, national or regional accounting languages are appropriate or useful to the people that use them. The complexity of the modern market means that there is a need for a single, high-quality set of global accounting standards in order to maintain the confidence of users in the transparency and integrity of financial statements.

The need for such standards is as real for the smallest emerging economies as for the world's economic powerhouses. Application of global rules can give credibility to smaller markets, encouraging greater levels of cross-border investment and a more even allocation of capital. The establishment of global standards will enable effective comparability across political boundaries and could even facilitate greater levels of global education and training.

On the other end of the scale, companies – especially large multinationals – can reap enormous benefits from the application of global standards. They can benefit from lower costs of capital and the ability to integrate financial systems. They can greatly ease the effort of consolidating subsidiaries around the world and be able to understand better the financial statements of overseas suppliers and customers.

The International Accounting Standards Board (IASB) has already made enormous progress towards achieving this aim. In a



Global reporting rules can improve the credibility of smaller markets, encouraging cross-border investment and a more even allocation of capital

The IASB has made an enormous effort to engage with emerging markets on the issue of implementing global standards

remarkable departure from the multi-GAAP reality that existed at the time of IASB's inception in 2001, more than 100 countries now require or permit the use of international financial reporting standards (IFRSs). This list includes most of the countries belonging to the G20, which has repeatedly called for rapid moves towards global standards.

Why has IASB been so successful? First is the quality of its standards. Internationally, users recognise IFRSs as being of the highest quality. This has been backed up by volumes of academic research. IASB holds to the highest levels of organisational governance, which means that it is transparent and, most crucially, independent. This independence assures users that quality is maintained throughout the standard-setting process.

IASB's close work in recent years with the Financial Accounting Standards Board (FASB) has served to improve its standards. The US is still home to the world's largest capital market. The cooperation between the two standard setters has brought a significant reduction in differences between the two standards. This in itself has increased the level of confidence in IASB's standards and helped its cause enormously.

It is often remarked that the EU's decision to adopt IFRSs served as a catalyst for their broad adoption. This in itself is true. But, despite its obvious importance, Europe represents just one part of the story, as adoption is occurring right across the globe. IASB has undertaken enormous efforts to engage these growing markets – for example, since my appointment as chair of the IASB in June 2011, I have visited Asia five times.

More than 100 countries now require or permit the use of international financial reporting standards, including most of the G20 members

However, there is a long way to go before the work is done. Despite the progress over the past decade IASB is still some way from achieving truly global accounting standards. The obvious question is 'What next?'. The resources available to the IASB are limited, and as such it must be highly selective about what makes it onto its agenda. In 2011 it published a consultation document that set out some ideas and, more importantly, solicited public feedback on the agenda. In addition, the IASB and its staff have held numerous meetings, round-table discussions, webcasts and other outreach activities with investors and other stakeholders.

While this consultation process is still ongoing, IASB has been able to identify several key themes in the feedback it received. The most common is a call for a period of relative stability. This is no surprise – there has been an unprecedented series of changes over the past 10 years that have seen IASB's standards adopted all over the world and, in many cases, rewritten.

Although it is unlikely that a period of calm will ultimately be possible, IASB understands the underlying reasons that give its constituents good cause for requesting it, given the work and cost that go into applying new standards. That is why determining the IASB's future work programme will involve cherry-picking the most important areas where change is required. Let us fix what needs fixing, and no more.

Rigour and clarity

Many areas that IASB will look to address fall naturally out of the feedback from the consultation. There is almost universal support for completing revisions to its conceptual framework. This framework serves as a point of reference for the IASB's decision-making. It is also an important reference for companies when applying principle-based standards.

While the existing framework works reasonably well, areas such as measurement still need improvement. It is easy to understand why. After all, measurement is the most judgemental, difficult and politicised part of accounting. It is in areas such as this that IASB needs to bring more rigour and clarity. But it will be an extremely arduous task that requires much brainpower and courage.

The consultation has also identified other comprehensive income (OCI) as an area needing to be addressed. OCI is increasingly used as a home for income of a less than certain nature. It is true that income reported in OCI should come with a health warning, yet investors ignore OCI at their peril.

Providing a clearer conceptual definition of OCI will help to address the endless debates about volatility and financial reporting, as well as tackling the thorny issue of recycling. There are no easy or clear answers. But this is an area that IASB is very much looking forward to tackling.

In addition, there are a few other, less ambitious projects that IASB may well consider. These include agriculture, business combinations under common control, hyperinflation and rate-regulated industries.

The agenda is not yet finalised. We should not pre-empt the conclusions of the consultation. But it is fair to say that the direction of travel is becoming clear. ■

Tax reform for economies in transition and IBFD's approach

By Victor van Kommer, Belema Obuoforibo
and Marnix Schellekens[1]

Tax and development is a new topic on the international tax agenda. In decades past, developing countries focused on public expenditure issues rather than public revenue issues. Attention is, however, now shifting to the latter. Mobilizing and strengthening the tax and revenue side assists the recipient country in reducing its dependence on foreign aid. However, any tax reform or policy should not only serve to enhance or maintain revenues; it must also strengthen the fiscal legitimacy of the state.

Fiscal legitimacy

A sound tax system, consisting of a correctly applied sequence of building blocks that maximize value if set out in a holistic framework, is crucial to advancing fiscal legitimacy – the continuing belief the society has in the state, and therefore, in the value of paying taxes. Fiscal legitimacy is characterized by: transparency, accountability, responsibility, effectiveness and efficiency, fairness and justice of a tax system. These characteristics must be reflected in each building block, as well as the whole system, and must be considered when undertaking any tax policy or reform.

The IBFD approach

The IBFD approach is to take tax policy and tax reform, often treated separately, as two indivisible parts of one whole. We recognize that broadening the tax base is just as important as understanding the impact of globalization, the dimensions of free trade, and conventions to avoid double taxation, etc. The challenge of tax reform is to find the right balance between external demands and internal capacity.

Tax reform

A successful tax reform programme is quick, simple, popular and cheap. Speed and simplicity reduce the stress on the organization and uncertainty (of foreign investors), while popularity and low associated costs ensure the necessary support and fiscal responsibility.

Legislation

Good legislation is easy to read, easy to understand, and easy to apply by all parties involved. It should also reduce the compliance cost of taxpayers, the costs of tax administration, and must not go beyond what is necessary.

Governance

Good governance, today the centre of attention for many post-colonial states, paves the way to fiscal legitimacy by building people's faith in the state, and ensuring their acceptance of its laws and policies.

Moving legitimacy forward

States can enhance fiscal legitimacy by:
- involving independent third parties when auditing and evaluating public policies, thereby strengthening transparency and accountability
- promoting fairer and better public spending
- broadening the tax base and making tax systems fairer and more balanced, and
- reinforcing the capacity, authority and accountability of relevant executive organs

Independent actors with the necessary (financial) capacity can carry out a critical evaluation of policies and proposed reforms, and so contribute to good governance and fiscal legitimacy.

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1. Victor van Kommer is Director of Tax Services of the International Bureau of Fiscal Documentation (IBFD), and Professor of Tax Policy at the Utrecht School of Economics; Belema Obuoforibo is Director of the Knowledge Centre of IBFD; and Marnix Schellekens is a Research Associate at the Knowledge Centre of IBFD

IBFD

Standard Bank redefining financial inclusion in South Africa

Inclusive banking gives people with limited funds access to a bank account and all its benefits

Leon Barnard
Director, Inclusive Banking
Standard Bank South Africa

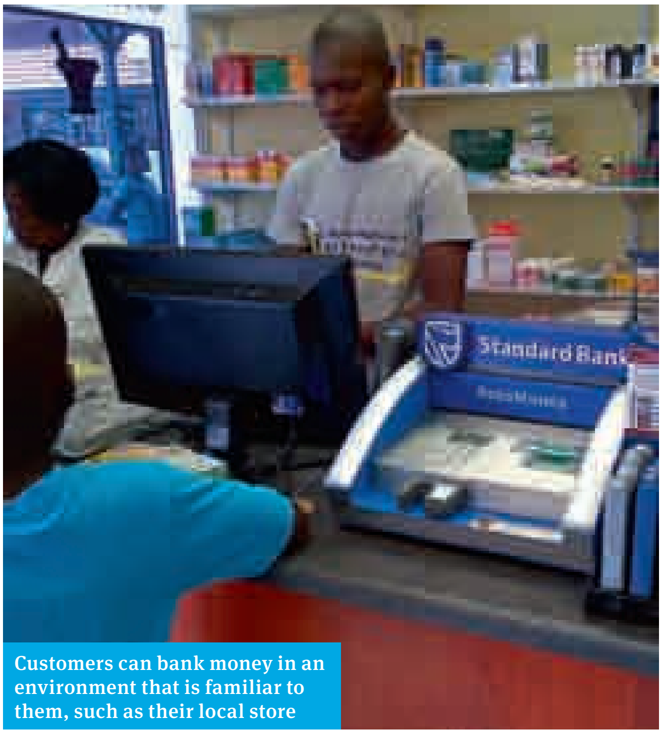
The World Bank recently released the first Global Financial Inclusion (Findex) Database Report, a comprehensive measure of financial sector indicators, tracking how adults use financial services across the world. The findings paint a global picture of financial sector access that many financial institutions are grappling with on a country level, especially in developing countries such as South Africa. It found that more than half of all adults across the world are 'unbanked'. Many of these adults reported that their main barriers to account use were high costs, physical distance, and lack of proper documentation.

In South Africa, research found that 25 million people – close to half of the country's population – earn less than R3,000 a month (approx US$388), and of these, 66 per cent remain unbanked. Reasons for this mirror the global picture: cost and access. The average customer in this segment lives 50km from a bank, and it is estimated there is close to R12 billion (approx US$1.5 billion) kept 'under mattresses' rather than in financial institutions.

The Global Findex report acknowledges that inclusive financial systems that allow broad access to financial services, removing both price and non-price barriers to use, are especially likely to benefit poor people and other disadvantaged groups.

Standard Bank Group's Inclusive Banking division is redefining inclusive banking in South Africa, creating an entire 'ecosystem' to bring banking to communities in ways that are much more relevant and accessible to the majority of people.

Standard Bank's unique presence in the many townships and informal settlements across the country bears testament. Many South Africans live a distance from urban centres, and thus rely on relatively expensive public transport to get to formal bank branches or even ATMs, adding to bank costs. Standard Bank is the first bank in the country to partner with local retailers already



Customers can bank money in an environment that is familiar to them, such as their local store

Local agents can open accounts with just a hand-held mobile device and a customer's details

operating in local townships, running small businesses known as 'spaza' shops. By walking to a local trader, customers can have access to Standard Bank 'AccessPoints' which provide Cash-ins (putting money into your account), Cash-outs (taking money out of your account), and Money transfer services. With 10,000 AccessPoints, increasing to an estimated 15,000 by the end of 2012, they have already proved to be highly successful, which is reflected in the high volume of transactions and increases in cash balances at the local retailers. Standard Bank also recruits local sales agents, or community bankers, from these areas.

Here, customers can interact with familiar community members, in their own language, and away from the often intimidating traditional banking environment.

Standard Bank's local presence was supported by the bank being first in the world on the new SAP mobile origination platform. With this technology, local sales agents are able to open accounts with just a hand-held mobile device, and a customer's ID and proof of residence. Such mobile origination is not only more accessible for customers, it is also 80 per cent cheaper than traditional origination. Currently, Inclusive Banking opens an estimated 120,000 new accounts a month. In 10 minutes, a customer can have an active bank account, with a debit card, and is registered for cellphone banking. Standard Bank's cellphone banking drive has been highly successful in a country where at least 83 per cent of the population are active cellphone users.

With direct banking costs also often cited as a key barrier to accessing financial services, Standard Bank added a further layer to its inclusive banking approach with the launch of its AccessAccount. The account has no monthly management fee, or minimum balance requirement, and has a highly transparent fee structure. Importantly, thanks to the overall 'ecosystem' available, the account encourages customers to transact at AccessPoints and on their cellphones, rather than just deposit and withdraw salaries. Instead of being a generic 'low-income' account, the AccessAccount was developed to be a high-value account, providing customers in this segment with the services required, channels in which to use them, and at a cost that was affordable.

The Global Findex found that worldwide, 65 per cent of adults without an account cited lack of enough money to use one, as the most common reason for not having an account.

What is crucial is the understanding that 'costs' refers to more than just bank charges; having a formal account costs in other ways, too. Thus, access to the banking system, and access to channels that are affordable and convenient, must be the key considerations in financial inclusion initiatives.

With its growing market of more than 5.4 million customers in the lower income segment, Standard Bank has a long history of being a leading player in creating better access to financial services in South Africa, and this remains a key focus area.

In 10 minutes, a customer can have an active bank account, with a debit card, and is registered for cellphone banking

Standard Bank inclusive banking ecosystem

- First in the world on SAP mobile origination platform, enabling the opening of active accounts in communities within minutes
- More than 10,000 AccessPoints providing basic banking in townships at local retailers
- AccessAccount with no monthly fee
- Cellphone banking success
- Growing market share of 5.4 million customers who are in the income segment below R8,000 (US$1,035)

Standard Bank

www.standardbank.com

Regulation of money markets is essential to prevent a crisis

Shadow banking has created havoc in China's already overheated credit market and, with underground lending rising rapidly, regulation is key to taking the heat out of the situation

By Lida Preyma, G20 Research Group

After the G20 decision to reform financial markets, the United States took the lead with the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010. The rest of the world then had a template for reforming its own market systems. Europe followed with a review of its Markets in Financial Instruments Directive (MiFID II). As both pieces of legislation harmonise regulation to avoid regulatory arbitrage, observers around the globe have been watching closely in order to formulate national policies that conform with those of the countries that house the world's two biggest financial centres. The International Organization of Securities Commissions (IOSCO) has been tasked with providing broad policy recommendations, which will trickle down to national regulation, taking into account national circumstances. These recommendations cover equities and over-the-counter derivatives and commodity derivatives, to name two. Although there has been some divergence between the US and Europe in proposed regulation, G20 leaders will call for regulators to come together to harmonise regulation to avoid arbitrage. In today's interconnected global economy, deviating out of self-interest will not help.

Since the G20 Cannes Summit in November 2011, the most controversial and divergent regulation has been the US Volcker Rule. It bans banks from proprietary trading and investing in hedge funds, private equity funds and other speculative investments that are not for the benefit of their clients. After the regulators proposed the rule, more than 17,000 comment letters were submitted. Now it is up to the regulators to consider the thousands of submissions, including some from foreign governments, and provide a rule that will accomplish what Congress intended when it passed the Dodd-Frank Act. Many have lobbied for its repeal, but only Congress can repeal a law it has passed. Regulators can only determine the definition of exemptions.

Competitive advantage

Of concern to many is the fact that under the Dodd-Frank Act, only US Treasury securities are exempt from proprietary trading at US-domiciled banks. Even a foreign bank with a subsidiary in the US will be unable to trade, for proprietary purposes, the sovereign debt of its home country. This would give the US a competitive advantage and make it harder and costlier for other sovereigns to issue debt. Canada, Japan and the United Kingdom have sent the US strong letters saying that without an extension to outside sovereigns, diminished liquidity in their securities would result – which would affect the risk-management practices of foreign firms inside the United States. When liquidity dries up, the cost of issuing debt goes up (because demand is absent), thereby making it more expensive for governments to run their countries fiscally. Investors punish sovereigns when the yields are too high by moving to other securities because they see that some governments cannot service their debt. Demand decreases further and yields continue to climb. Downgrades then ensue and the whole cycle begins to spiral.

Those letters also ask that the US, while enhancing the stability of its own financial system, should not destabilise those of other countries. The bottom line is that this is a protectionist measure by the US. The July 2012 deadline for enactment of this rule is not likely to be met, given the number of submissions and the gravity of the issue. In the meantime, banks are deleveraging

and shedding entire trading desks. Many new hedge funds have formed with investor money, but managers are finding it more difficult to make money without the supporting infrastructure at the banks. New regulatory compliance has made this a more costly venture than was first imagined. This rule creates incentives for moving activity to the shadow banking sector, and firms and investors are losing money in these ventures.

With market regulation well on its way to being globally uniform across asset classes, in order to prevent a future financial crisis G20 leaders and regulators must turn their full attention to the shadow banking sector. This sector accounts for as much as 30 per cent of the global financial system and is valued at

Shadow banking is less regulated than traditional credit, so the People's Bank of China plans to legalise some aspects of this type of lending and supervise others

approximately $60 trillion. At the 2010 Seoul Summit, G20 leaders asked the Financial Stability Board (FSB) to prevent banking rules from transferring risks to the shadow banking system – which includes financial entities involved in credit intermediation outside the regulated banking sector, and can create regulatory arbitrage and systemic risk beyond the scope of that sector. At Cannes, the G20 agreed on recommendations to be developed in 2012 that strengthen regulations governing the financial relations of banks with the shadow banking system and include money-market funds, securitisation, loans and securities lending, and regulation of funds acting in the shadow banking system, such as hedge funds. As a main priority for the FSB, the goal is to build on a balanced approach between indirect regulation of shadow banking through banks and direct regulation of shadow banking activities. Investors need to keep an eye on this $60 trillion sector as a possible bubble in the making. Regulation may not come fast enough to avoid the downside risk of an opaque sector intensely intertwined with regulated entities. Shadow banking has become prominent in lending. In the US, private equity and hedge fund managers see lending as a new, unregulated line of business so that they can circumvent capital and liquidity rules. In China, shadow lending is creating havoc in the already overheated credit market. Some Chinese trust companies, which do not take deposits, package loans and provide investors with a slice of the revenue. The People's Bank of China will try to legalise part of its shadow banking credit market and supervise other parts. In March 2010 the underground market was estimated to be worth 2.4 trillion yuan ($379 billion), a figure that then grew to 10 trillion yuan ($1.58 trillion) when reserve requirements on Chinese banks were tightened that year. But the use of unregulated entities for credit was not entirely built on a lack of lending from banks. A high number of defaults in this area, where interest rates can be as steep as 100 per cent, will have ramifications for the regulated economy.

Liquidity problem

Likewise, the European Commission opened a consultation on shadow banking in March 2012 to put together regulations for 2013. The other leaders need to come together to make sure that they follow suit.

An unregulated shadow banking sector that is inextricable from the regulated banking sector (currently on shaky ground as it is) must be seriously addressed before it becomes a crisis. Otherwise, no amount of regulation will prevent that house of cards from tumbling. This needs to be done in short order as well so that action is preventive and not reactive. The problem, however, lies in the multiple regulations that are strangling the banks' ability to create revenue. Their capital requirements have continued to increase with Basel III and the addition of national buffers that are forced upon them. At the same time, these banks are deleveraging, holding more cash in reserve, buying back shares and debt, tightening credit available to businesses and households, and cutting staff in order to meet their heightened capital requirements. Each element taken separately will create a lower growth environment. Taken together they will create a real liquidity problem in the debt and equity markets, strain government spending on unemployed workers and stymie growth.

The International Monetary Fund has stated that banks will shed $2.6 trillion in assets by the end of 2013 in Europe alone. Who will buy all those assets? Regulators are creating an environment in which shadow banking can thrive – and at the same time are worried about the bubble bursting. This house of cards may have no chance against the strong regulatory headwinds that are blowing. ■

We generate social, economic and human value

We are a group of companies that seeks the generation of social, economic and human value into the lives of our clients and stakeholders. We are committed to people, transparency and the creation of development opportunities for the low income sectors. Our operation is based on large-scale, innovative and efficient models.

Social Value

> Committed to financial inclusion, we provide services to reach the most clients in the shortest time possible.

> Throughout the last 22 years we have diversified our product portfolio and today we provide more than 2.4 million clients in Mexico, Peru and Guatemala with working capital loans, life insurances, savings and a non-banking correspodents network manager. We have more than 14,000 employees.

> We have transformed ourselves in order to reach our aims in a transparent and efficient way, from an NGO in the 1990s, to a regulated financial institution – SOFOL – in 2000, and in 2006 we became a bank.

> In 2007 we had an Initial Public Offering in the Mexican Stock Exchange (BMV).

> By the end of 2010 we had founded Compartamos S.A.B., a holding company. This holding controls Compartamos Banco, the main subsidiary, the non-banking correspondent manager Yastás, the Compartamos Foundation in Mexico, Financiera CREAR in Peru and Compartamos S.A. in Guatemala.

Economic Value

> We are a solid and self-sustaining group, standing out for the generation of economic value with a long-term view, as well as for our ability to reconcile and balance growth with social and human development.

> By mid-2011, we started operations in Guatemala and acquired the 82.7% of the stock of Financiera CREAR in Peru.

> We are part of the Consumer Price Index (IPC) of the Mexican Stock Exchange and since 2010 of the MSCI (Morgan Stanley and Capital Index).

> Compartamos Banco is member of the Group of Enterprises of the Corporate Governance Latin American Round Table on behalf of the OECD and the IFC.

> We have won LatinFinance´s "The Best Microfinance Bank" award and received the Gold MFI Award by MIX Market in 2011.

Human Value

> Our leadership is based on people; this is why we support the integral development of both our employees and clients, who are the pillars of our sustainbility and the ultimate reason for generating value.

> Our code of ethics and conduct was acknowledged by The Smart Campaign as a model practice within the industry, and we have affiliated ourselves to the client protection principles proposed by this institution, among others.

> In 2011, Compartamos Banco obtained, for the second consecutive year, first place as "The Best Companies to Work for in Mexico" by the Great Place to Work® Institute Mexico.

> We provide 2% of our net income to support social corporate responsible projects, whose objectives are the family and education in communities where we operate.

The growing role of social business in development

Social business initiatives are taking off as large corporations and younger generations harness entrepreneurial spirit for the good of humanity. But legal and regulatory systems have not caught up

By Muhammad Yunus, Yunus Centre

When free market capitalism became the dominant model for the globalised world, people came to think of themselves as one-dimensional economic actors who are only out to earn as much profit as possible. And look at what it has cost. Children work in dehumanising conditions in sweatshops; cities are choked in smog; and crisis after crisis rocks the globe: food crisis, energy crisis, environmental crisis, oil crisis. We can instantly transmit messages halfway across the world, but we cannot feed all the hungry children in our communities. Because free market capitalism only offers a narrow vision of ourselves, we have sadly allowed suffering, abuse, exploitative business practices and environmental degradation to become commonplace.

Innate empathy

I came upon the idea of social business when I thought about how to reinvigorate the capitalist system with a definition that encompasses our innate empathy for our fellow human beings. Social business is a young, vibrant field that has enormous potential for meaningful impact and growth. I define social business as a non-loss, non-dividend company; non-loss and non-dividend mean that the social business only makes enough to repay its investors and/or expand. Thus, by their very nature, social businesses contribute to global development and social progress at the same time.

Social business initiatives are taking off at a steady pace as multinational corporations and dynamic young people are caught up in the promise of this exciting venture. Probably the most famous example right now of a social business is Grameen Danone, a joint venture with Danone Group that started in 2007. Grameen Danone produces and sells yogurt fortified with micronutrients to poor households in villages of Bangladesh. Apart from ensuring that rural children have access to an affordable product that helps them combat malnutrition, the Grameen Danone yogurt factory in Bogra also helps the local economy by providing steady work for cow farmers, as well as the women who go out to sell the yogurt in the countryside.

Another example is Grameen GC Eye Care Hospital. This social business charges less for poor patients than for wealthy patients, and is based on a system that delivers high quality inexpensively through high volume. The hospital also has highly trained technicians who do most of the examination and preparation work so that ophthalmologists can focus on the operations.

There are dozens of other proposals cropping up, such as those submitted by the ID Group to create two social businesses. One will be a workshop to produce functional clothing for children up to five years old in Bangladesh and to provide technical training to the rural poor and generate employment. The other social business will be a daycare centre for children. I am very excited about these and the many other social businesses that are in the works.

Obtaining financing is probably one of the biggest hurdles a social business must face on the road to launching and running successfully. To connect investors with social businesses, a social stock market is needed where only the shares of social businesses will be traded. An investor will come to this stock exchange with a clear intention of finding a social business with a mission of his or her liking. Anyone who wants to make money will go to the conventional stock market.

Unfortunately, the current legal and regulatory systems do not provide a place for social business. Whereas profit-maximising companies and traditional non-profit organisations (foundations, charities, non-governmental organisations [NGOs]) are recognised institutions covered by specific rules regarding organisational structure, governance and decision-making principles, tax treatment, information disclosure and transparency, social business is not yet a recognised business category. The sooner there is a defined legal and regulatory structure for social business, the easier it will be for entrepreneurs and corporations to create a multitude

Social business initiatives have the potential for positive effects on the lives of people in developing countries

of social businesses to tackle the human problems that plague society.

Climate strategies

Climate change affects developing countries in particular and its impacts threaten the incomes and livelihoods of millions of people. The effectiveness of social business will be diminished without a clear understanding of how poor people will deal with the risks due to climate change. Strategies need to be developed for agriculture, forestry and livestock to make poor people less vulnerable to climate stresses and shocks. Grameen is working with Crédit Agricole to develop an initiative that would provide micro-insurance to extremely poor people in disaster struck areas. The challenge lies in getting a concept of insurance that is traditionally aimed at the richer echelons of the population to be extended, applicable and feasible for extremely poor people with very low incomes.

A properly performing social stock exchange requires rating agencies, standardised terminology and definitions, impact measurement tools, reporting formats and new financial publications, such as the 'Social Wall Street Journal', and new electronic media, such as 'Social Bloomberg'. Governments must work together in creating legal frameworks for social business, which are capable of solving problems anywhere in the world.

In my decades of experience working among the poor in Bangladesh, I came to the conclusion that capitalism as it exists now cannot be effective in tackling such unresolved problems as persistent poverty, lack of access to healthcare and education, epidemic diseases and environmental destruction. This is when social business can come in and help do the work that the present version of free-market capitalism, governments, NGOs and other enterprises have yet to finish.

Social business is a dream and an action plan for a better tomorrow for all. I hope you will join me in my journey towards that future. ■

Itaú's experience with microfinance in Brazil

Recognising the need for a multifaceted approach

Brazil became the world's sixth largest economy at the end of 2011. In order to maintain its steady growth, the country needs a developed economic and financial infrastructure. Itaú Unibanco, Brazil's largest private bank and one of world's largest banks in market capitalisation, is committed to being a key player in the country's development and a leader in customer satisfaction and sustainable performance. For Itaú Unibanco, sustainable performance creates shared value to employees, customers, shareholders and society, ensuring business longevity. Microfinance is deeply rooted in the desire to promote social and economic development through a sustainable business model. Although 85 per cent of Brazilians live in cities (IBGE 2010), 40 per cent are still excluded from the banking system (IPEA 2010). Itaú Unibanco is helping to create a more inclusive financial system through Itaú Microcrédito, a microfinance operation aimed at urban microentrepreneurs. To get to know and understand the population at the bottom of the economic pyramid, the department explores the possibilities of alternative products, distribution channels and new technologies. Experiences are shared with other areas of the bank (stimulating downscaling) and with the International Finance Corporation and the Inter-American Development Bank, supporters of innovative solutions that increase access to financial services.

Informal microentrepreneurs

Brazil's legal and regulatory framework on microfinance seeks to encourage the supply of credit to individual entrepreneurs and micro-enterprises, increasing their production capacity and ability to create jobs. Estimates show there are 10.3 million informal micro-enterprises (Sebrae 2011); the informal economy represented 17 per cent of the Brazilian GDP in 2011 (FGV 2011). Informal micro-enterprises can provide work for up to five employees and are typically involved in commercial activities. Many are run by one owner, open all year round and have no accounting records.

The target market and the loan officer

Itaú Microcrédito targets formal and informal small-scale entrepreneurs in the metropolitan regions of São Paulo, Rio de Janeiro and Porto Alegre. A considerable number of informal microentrepreneurs who do not have the necessary qualities to participate in the traditional financial system, find a credit solution at Itaú Microcrédito. Itaú's approach is never single-product/single-service; loan officers evaluate the socio-environmental impact and financial literacy of potential clients and returning clients. They are responsible for disseminating practices related to the responsible use of money. Their role goes beyond client prospecting, credit analysis and overdue debt collection; they advise microentrepreneurs in their businesses, their impact in the community and their financial responsibility to the bank and to their families.

A sustainable business model

In Itaú Microcrédito's branchless business model, loan officers work in the community and rely on mobile technology to connect to headquarters in the historic centre of São Paulo. The use of mobile phones enables loan officers to concentrate on the client relationship, increasing information symmetry and reducing transaction costs. The loan officer accesses the workflow system to monitor credit approval, photographs and transmits documents to the back office team, and receives reports on portfolio quality and guidelines on how to manage the agenda. Running a paperless operation is environmentally-friendly, reduces costs and provides access to information and document security.

Another tool introduced to optimise the team's performance is the georeferencing tool, which identifies the location of microentrepreneurs free of credit restrictions. Moreover, the hybrid credit-analysis model, which combines conventional score filters with a well-rounded analysis conducted by the loan officer, stimulates a healthy portfolio growth. The score allows the credit

There are about 10.3 million informal businesses and many of these provide jobs for local people

Loan officers are not simply debt collectors, their role is to support and advise small businesses

The bank is keen to open new agencies in poorer communities, such as Complexo do Alemão

analyst to perform a simplified analysis of clients with higher scores and a more detailed evaluation of clients with a lower score. The use of mobile phones, integrated with a real time workflow system, georeferencing tool and combined scores, all contribute to the efficiency of the operation.

Itaú Microcrédito's relationship with its external and internal clients is an important part of the microentrepreneur's experience. Correspondents assume basic financial processes and help lower the transaction cost for clients. Partnerships with chain wholesale stores that supply microentrepreneurs can generate value for local businesses and the community.

Other initiatives include loan-protection microinsurance, developed in partnership with Itaú Seguros and offered at no cost to Itaú Microcrédito's clients. This also creates an opportunity to educate families about a new class of financial products. According to a study conducted by Fundação Getúlio Vargas (FGV) in 2009, approximately 100 million low-income Brazilians are potential microinsurance clients.

Supporting microfinance institutions across Brazil

In order to reach a large number of final clients and have a meaningful impact, Itaú Unibanco also supports small and large microfinance institutions offering oriented productive microcredit across Brazil. The process of channeling funding to one or multiple microfinance institutions is known as second-tier lending. Smaller public interest civil society organisations usually embrace funding and supporting technical services. Itaú Unibanco is committed to promoting microfinance best practices and trading experiences with partner organisations.

Brazil's largest private bank is committed to being a key player in the country's development and a leader in customer satisfaction and sustainable performance

A multifaceted approach

Microfinance is just one tool to alleviate poverty and promote financial inclusion. The bank is also committed to developing new products, increasing its financial literacy initiative, and opening new agencies in commonly avoided communities, such as Complexo do Alemão and Rocinha in Rio de Janeiro. The end goal is to create a virtuous cycle where the bank stimulates the social and economic development of Brazil's low-income population, which in turn demands more products and services. A coordinated and multifaceted effort has a deeper impact and does not suffer from the limitations of a one-product approach.

Itaú

www.itau.com

How microfinance can contribute to growth in developed countries, too

Small-scale lending schemes are not confined to developing countries where people may not have access to traditional sources of finance – they offer a particular relevance to post-industrial Europe

By Maria Nowak, president, Adie International

In recent years, microfinance – the lending of small amounts of money at low interest to new businesses – has achieved significant progress throughout the world, and especially in developing countries. More than 200 million people have access to it.

However, if credit is an instrument for creating wealth for the poor, just as for all other economic actors, it is also a debt they are not always able to repay. Thus, microcredit must find a way to balance its social mission with the need to cover its costs and protect its clients. Without this balance, either it comes close to usury, it cannot be sustained or it leads the borrowers to over-indebtedness.

If practised according to the rules, it certainly does not resolve all the problems of development, but it is a powerful instrument enabling the poor to gain control of their future, find their place in society and participate in economic growth.

Expansion in Europe

For more than 20 years, microfinance has also been developed in rich countries, and particularly those in Europe. Its expansion on a continent marked by the industrial revolution, wage-paid labour and the welfare state shows clearly that microcredit responds to the universal nature of entrepreneurship, which depends neither on the level of wealth nor on the level of education.

It is favoured by the structure of the European economy, in which 92 per cent of enterprises have fewer than 10 employees; where 80 million people live below the poverty line; and by the informal sector that – even if it is not talked about – is valued at between 10 per cent and 15 per cent of gross domestic product.

The development of microfinance is propelled by longer-term trends, namely de-industrialisation, the increased role of services, an ageing population and the necessity to reform social welfare systems. The new technologies that have contributed significantly to the globalisation of the economy are also contributing to local development. These trends favour the creation of small service units, sometimes linked in networks. Microcredit, initially assigned to emerging countries whose economies have a preponderance of self-employment, is thus also becoming the financial instrument of post-industrial economies.

> ***International aid need not be confined to a single direction. In this case, technology transfer is going from the South to the North. Microcredit can provide immediate support***

Beginning with operations carried out in Eastern Europe under the aegis of international donors, and in Western Europe via private initiatives such as that of Adie in France, microfinance – ignored by the political decision-makers – initially had to demonstrate its effectiveness on the ground.

This has proceeded faster in Eastern Europe on account of its political and economic transition and access to the resources of international aid. The change of mindset has been harder to promote in western Europe, where both governments and public opinion have been more attached to the status quo. The financial and economic crisis has accelerated the process.

Different countries, especially France, Romania and Italy, have modified microcredit's regulatory framework. Others, such as Germany, have created microcredit facilities supported by the state without touching the banks' monopoly. The European Commission, after publishing the *European Initiative for the Development of Micro-credit in Support of Growth and Employment* in 2007, established a facility for financing microfinance institutions, as well as a technical assistance facility.

G20 focus on developing countries

These efforts have not been supported on an international level by the G20 Global Partnership for Financial Inclusion (GPFI) and its partners: the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC), whose activities are limited to developing countries.

However, even if poverty does not have the same dimension and depth in rich countries as in the developing world, financial and social exclusion can have equally dramatic consequences.

Europe has much to learn from some emerging countries that have integrated microfinance into their economic and financial policies. The following two cases exemplify this.

Brazil has decided to allocate two per cent of its saving deposits to microcredit; it has created credit bureaux, developed financial education and created a network of non-bank windows that are authorised to provide financial services to the general population.

In the framework of the Arab Spring, Tunisia has included microcredit among 17 priority measures and has published a law providing the possibility of creating microcredit companies and associations. It has established, in a coherent manner, the entire institutional environment necessary for the sector's development.

Taking inspiration from these cases, the G20 at Los Cabos should go further in recognising microfinance. International aid need not be confined to a single direction. In this particular case, technology transfer is going from the South to the North.

Entrepreneurs in the developing world, such as this slum dweller in India, have taken advantage of microfinance schemes to establish their own businesses

Microcredit can provide immediate support to employment in European countries in crisis. It could play a role in Greece of equal importance to that it played in Bosnia at the time of the Dayton Agreements. To that end, it would be useful to open the expert and support networks to all countries in a spirit of globalisation. It would be necessary for central banks to incorporate growth and employment in their objectives, as is already the case with the US Federal Reserve.

Banking laws should allow the parallel creation of microfinance institutions, subject to the approval and supervision by the financial authorities, but enjoying more flexible regulation, adapted to their type of activity and risk. This regulation should not exclude the collection of savings. Self-employment should be regarded in the same way as wage-paid labour, with the legal framework adapted to cater for its particular characteristics.

Microfinance is becoming a common cause for all: a cause of growth, since there is no creation of wealth without access to capital; a cause of social cohesion, because it leads to greater equality of opportunity; and a cause of democracy, which is not confined to electing political representatives but is found in the ability of everyone to determine their destiny.

Microfinance is the virtuous form of shadow banking. It deserves to be liberated from the shadow and globalised. ■

The BBVA Microfinance Foundation: Productive Finances for poor people

Manuel Méndez del Río Piovich, Chairman and President, BBVA Microfinance Foundation

Today, 72 per cent of the adult population in developing countries – about 2.7 billion people, of which 250 million are Latin Americans – have no access to financial services. Microfinance started as the result of such a huge and unsatisfied demand from those financially excluded. However, after more than 30 years of activity and in spite of individual success achieved by many entities, the impact of microfinance on a global scale can hardly be considered remarkable, when 95 per cent of the referred population is still excluded from financial services.

No doubt, financial democratization has not spread in an effective way, since millions of poor people are still excluded from the financial system, hindering their social inclusion. With the aim of fighting the financial exclusion that large parts of the population face, BBVA launched its Microfinance Foundation, bringing an innovative approach to the existing microfinance status quo and addressing the needs of the poor on a sustainable basis.

Innovative, because BBVA, one of the largest international commercial banks – among the world's top five in profit terms – centred its microfinance involvement as a result of its Corporate Social Responsibility, focused on financial inclusion.

BBVA disbursed initially $300 million into its Foundation and made available the know-how of an institution with 150 years of banking experience for the purpose of serving the most underprivileged people, in a completely philanthropic manner.

Started in 2007, the BBVA Microfinance Foundation is a non-profit entity that has the objective of promoting the economic and social development of the most disadvantaged persons within society, through Productive Finances.

It does so by applying a unique and distinctive model, known for its professional business approach based on efficient and expert management. The model has two strategic pillars – on one hand, the creation of a group of sustainable microfinance entities in Latin America, specialising in Productive Finances; and, on the other, the development of initiatives to contribute to transforming the microfinance sector. Whereas the initial challenge the industry faced was to prove that the poor were bankable, the challenge of today's Foundation vision is to push further down the poverty ladder with a set of sustainable financial services (savings, insurance and loans) that meet the livelihood needs of the poor. In the Foundation's view, to fulfil this challenge an industry-wide shift is required, from a product to a market orientation, with financial services designed to support the real economic activity of the poorest and delivering the full range in a sustainable manner.

1. Consolidation of a Microfinance Entities Group

The BBVA Microfinance Foundation is developing and consolidating a group of sustainable microfinance regulated entities in Latin America, in which it is the majority shareholder and takes care of their management.

Productive Finances are the core of its operations, where financial products and services are provided to support the client's economic activity, pursuing a sustainable economic and social development. The final objective of this model is that clients become successful, which is pursued not only through financial services, but also through a comprehensive and continuous support, with training and advice, thus developing their business abilities and financial culture.

The Foundation provides to its entities, which retain their own differentiated local identity, a common culture, as well as common corporate governance systems, ethical guidelines, a pioneering technological platform, management and advanced risk models, and the experience shared by the different countries.

Overall, in the Foundation's view, economies of scale and scope are required to both facilitate the economic and social development of the poor, and to do it with financial and institutional sustainability.

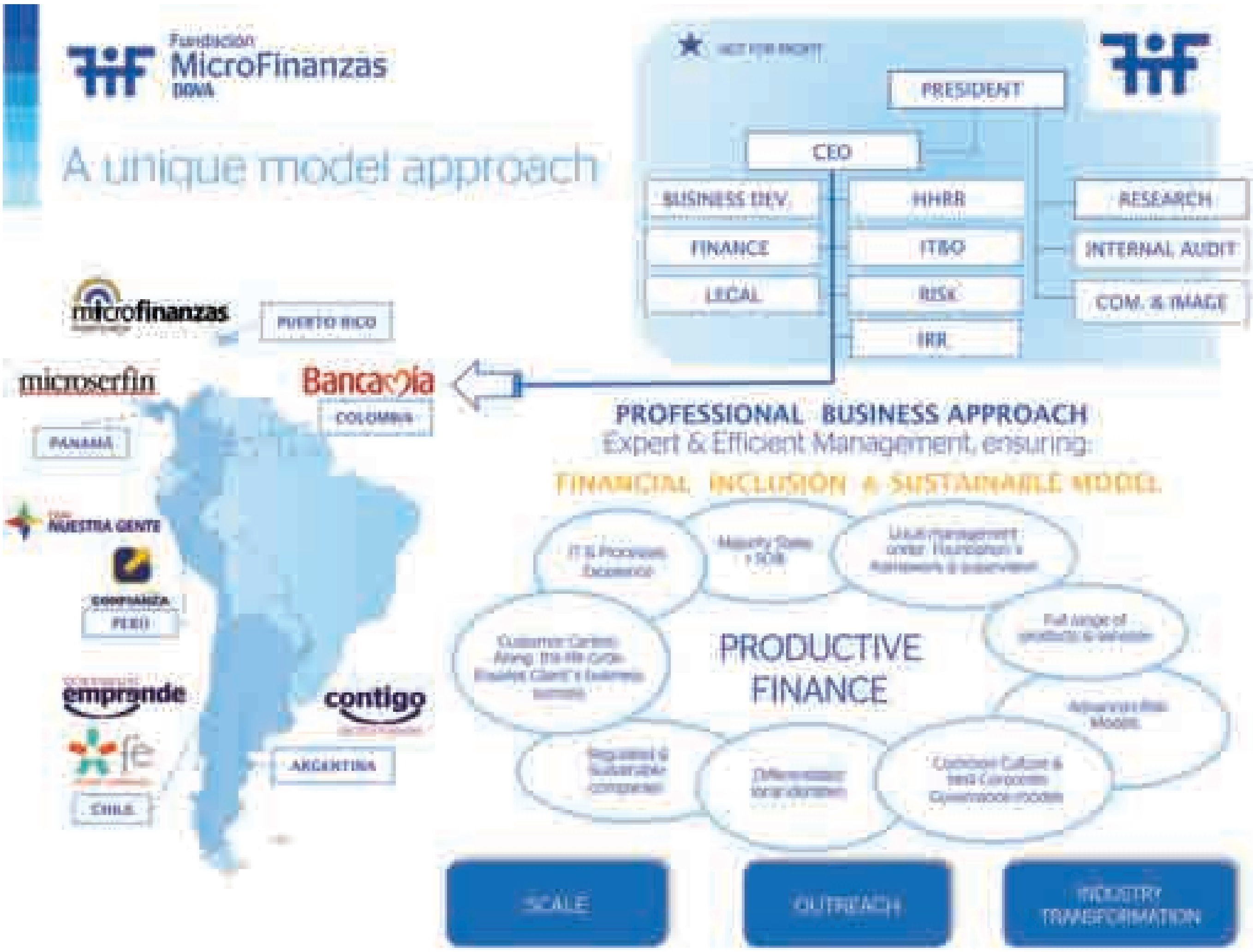
Since its official launch five years ago, at an event attended by HM Queen Sofia, the Foundation has established Banco de las Microfinanzas-Bancamía in Colombia; Caja de Ahorro y Crédito Nuestra Gente and Financiera Confianza in Peru; Microfinanzas PR in Puerto Rico; Emprende Microfinanzas and Fondo Esperanza in Chile; Contigo Microfinanzas in Argentina; and Microserfin in Panama.

By means of its operational entities, the BBVA Microfinance Foundation is currently servicing a base of one million clients in Latin America, with an estimated social impact on the lives of more than four million people. The Foundation has more than 5,000 employees, a network of 359 branches and has accumulated lending of $3.3 billion in credits (at an average of $1,350) since it was created in 2007.

Under its current phase of development, the Foundation is working towards consolidating its position in the region, and is moving its operations to Central American and the Caribbean markets.

The Foundation has established core strategic and operational alliances with other institutions that share its view and mission. This is the case of International Finance Corporation (IFC), a World Bank entity, for the purpose of co-investing in its microfinance entities and contributing to strengthen its growth in the area. Up to this day, IFC has invested in the largest of the Foundation's operations, Caja Nuestra Gente in Peru and Bancamía in Colombia.

Similarly, it is noteworthy the alliance signed by the Foundation and Banco de Desarrollo Económico para Puerto Rico (BDE), as well as, among others, the public-private alliance signed by the Foundation and the Micro, Small and Medium



The Foundation serves one million clients in Latin America, has more than 5,000 employees, 359 branches and accumulated lending of $3.3 billion since 2007

Business Authority of Panama (Autoridad de la Micro, Pequeña y Mediana Empresa de Panamá, AMPYME), for the joint management of microfinance in this country.

2. Development of the Microfinance Sector

Apart from consolidating its group of microfinance sustainable entities in Latin America, the BBVA Microfinance Foundation, in a purely philanthropic manner, develops a growing number of initiatives to help in improving the microfinance sector and to address specific obstacles that undermine its necessary growth and expansion of capacity.

Among these, there is the need to strengthen Corporate Good Governance within microfinance entities, and to improve the training of human capital. In response to these, the Foundation has written a "Universal Corporate Governance Code for Microfinance Entities", a reference document for the sector, containing the principles and rules that any microfinance entity good-governance code should include, in accordance with the standards and good practices accepted internationally.

Additionally, and in order to get the above assumed and put into practice, the Foundation has prepared a "Guide for the Adoption of Good Governance Principles in Microfinance Institutions", and also organises "Good Governance Training Workshops" for microfinance entities board members.

At the same time, and concerning human capital, the Foundation develops "Training Programs for Microfinance Expert Executives" in several Latin American countries, along with Banco Interamericano de Desarrollo (BID), the Spanish Distance Learning Education University (UNED) and prestigious local universities, such as Universidad del Pacífico in Peru, Universidad Javeriana in Colombia, Universidad del Congreso in Argentina, Universidad Latina in Panama, and Instituto de Estudios Bancarios in Chile. Equally, it has a strategic agreement with Instituto Tecnológico de Monterrey in Mexico for the development of training activities.

In conclusion, the BBVA Microfinance Foundation works to consolidate its group of microfinance entities, while at the same time leading several initiatives to help transform the sector so that it can dramatically enlarge its current scope and growth rate. All of this is conceived in order to produce a real and global impact, and to be able to attend, in a growing manner, to people who are excluded.

Fundación MicroFinanzas BBVA

www.mfbbva.org

Safe and fair financial services – enhancing consumer protection

Consumers worldwide, through no fault of their own, have been hard hit by the lack of regulation that resulted in the banking crisis. There is much that can be done to prevent it happening again

By Justin Macmullan, head of advocacy, Consumers International, and Adriana Labardini, director, Alconsumidor

The financial crisis was, without a doubt, a defining moment for the G20. However, in the immediate aftermath, it was the safety and soundness of the financial system that dominated G20 debates. In contrast, little attention was paid to the role of weak consumer protection in sparking the crisis or what sort of services the financial sector should provide in the future.

Consumer organisations had been questioning the state of financial consumer protection for many years. The financial crisis changed the nature of the debate by dramatically highlighting the fact that consumers are not just another link in the chain, but are essential players in the market. It is only with safe and fair products and services that their needs and the needs of the wider economy could be met.

In the wake of the crisis, Consumers International (CI), the independent international federation of consumer organisations with more than 220 members in 115 countries, asked what changes consumers could expect in return for the enormous sums being spent on the bail-outs.

A consumer campaign

This question led CI to launch a campaign in 2010 calling for international action to support consumers' access to safe, fair and competitive markets in financial services. It was a campaign for everyone, everywhere, whether their financial system had been rescued or not. On this issue, consumers in both developing and developed countries shared many of the same concerns.

The campaign bore quick results. At the 2010 Seoul Summit, G20 leaders requested the Financial Stability Board (FSB) to report back to the next summit on "options to advance consumer finance protection". This was followed by a request from the G20 finance ministers for the Organisation for Economic Co-operation and Development (OECD) to develop common principles on consumer protection in financial services.

Top of the 'to-do list' should be ensuring the basic safety of financial products, addressing unnecessary complexity, and providing clear information and independent advice

CI welcomed these developments. As an input into the process, it developed its own comprehensive recommendations to the G20 on financial consumer protection.

A key theme was that governments had traditionally relied far too heavily on consumer education. Much more attention should be given to establishing effective regulators with the mandate, powers and resources to protect consumers.

Top of the 'to-do list' for such a regulator should be ensuring the basic safety of financial products, addressing unnecessary complexity, and providing clear and accessible information and independent advice free from conflicts of interest. In addition, there must be effective complaint and redress systems. These steps are just as important in relation to financial inclusion and new consumers of financial services, where innovations in mobile banking and e-payments are making great strides but may require particular attention from regulators.

The promotion of greater competition is also key in many markets, not least following the consolidation that occurred in some countries following the financial crisis. This is not just a case of promoting easier 'switching' between bank accounts but also of separating the retail and investment arms of banks so that it is possible for a bank to fail without having a catastrophic impact on consumers.

Proposed international organisation

Finally, CI called for the establishment of an effective international organisation to support the continued development of financial consumer protection in relation to banking and credit.

CI welcomed the efforts of the French presidency (and, in particular, Christine Lagarde, at the time France's finance minister) in 2011 and the FSB and OECD to consult with consumer organisations. However, the transparency and accountability of the process were significantly undermined by the fact that the names of the national members of the FSB board and the OECD taskforce were kept confidential. This frustrated the ability of consumer organisations to discuss the development of the work with their national representatives.

In late 2011 the FSB and the OECD released the results of their work. The FSB report on *Consumer Finance Protection with a Particular Focus on Credit* made three recommendations based on a survey of its membership. These were to call upon an international organisation of regulators to take the lead on global financial consumer protection efforts; launch work on institutional arrangements and, if appropriate, develop best practices to guide institutional reform; and strengthen supervisory tools by identifying gaps and weaknesses.

November 2011 also marked the release of the OECD *High-Level Principles for Financial Consumer Protection*. The 10 principles largely covered the areas highlighted in CI's recommendations. However, there was some disappointment at the lack of detail and weak language used. It was hoped this

In the US, the banking crisis and subsequent economic downturn have led to many foreclosures on homes as families cannot repay their mortgages

would be addressed through the development of guidelines to support implementation. The G20 Cannes declaration endorsed both the FSB report and the OECD principles. It included a commitment to "pursue the full application of these principles" and a request for "the FSB and OECD along with other relevant bodies" to "report on progress on their implementation" and "develop further guidelines if appropriate".

Next steps to foster protection

CI welcomes the support that the Mexican presidency has given to formalising FinCoNet, a loose network of financial consumer-protection bodies identified by CI and then by the FSB as needing to become an effective international body to support financial consumer protection in relation to banking and credit.

It is critically important that governments ensure FinCoNet has sufficient resources to fulfil its mandate, a work plan that reflects consumers' needs and mechanisms to ensure consumer organisations can meaningfully participate in its deliberations.

CI will also continue to work with the OECD to support the implementation of the high-level principles for financial consumer protection as requested by the G20 leaders at Cannes. In particular, it will work with its members in three key areas.

First, CI will call for the development of effective guidelines for implementing the principles. This includes ensuring that the guidelines are not downgraded to simple 'approaches' that might appear to provide a diminished level of instruction. Rather, they must provide enough clarity and detail to define the actions required to raise standards in financial consumer protection.

Second, CI will request clarity on when the implementation reviews mentioned in the Cannes declaration will take place. CI views these reviews as an important part of the process that would ensure that it was not just a 'paper exercise', but one that would have a real impact. CI expects the reviews to start at the latest shortly after the G20 summit takes place in Russia in 2013.

Finally, CI will continue to push for a transparent and accountable process.

It is important that consumer organisations and other members of civil society have access to their national representatives on the OECD taskforce and on any other institution that is involved in the development of work on consumer protection.

Promoting growth and preventing a future crisis require governments to ensure that financial services become a safe and fair means to save, borrow, invest and perform the basic financial transactions that individuals need in order to function in an economy.

It is tragic that it took a financial crisis, and the resulting hardship, to open governments' eyes to the dangers of unregulated financial markets. The least that we can do now is learn the lessons from that tragedy and set a better course for the future. ■

Mibanco: a commitment to long-term development

People and society, inclusion as a means of preventing financial exclusion, and transparency – these are only a few of the concepts forming the perspective on development at Mibanco, the bank of the Peruvian Microenterprise

By Carolina Benavides, social assets manager, and Gabriela Kleeberg, journalist

In our country, the roles and responsibilities of banking in society clearly coincide, translating principally into the benefits of financial inclusion, which is fundamental to the country's macroeconomic development. Not only does it foster the formalisation of businesses and facilitate the realisation of safe transactions and investments, but it is also a means for forging the future of Peru's citizens.

Unlike traditional financial entities, Mibanco, which is today the fifth largest bank in Peru, concentrates its daily activities on the fulfilment of its mission, which is to provide opportunities for progress and access to the financial system with a social commitment.

In 1998, when Mibanco was established in Peru, formal microfinance was unknown to the majority of the population. Mibanco offered micro and small business owners, for the first time, access to the state-regulated financial system.

However, Mibanco's history dates back more than 40 years to when a group of entrepreneurs formed Acción Comunitaria del Perú (ACP), a non-profit organisation dedicated to placing micro credits among the most excluded socioeconomic sector. Today, ACP is the bank's majority shareholder and headquarters (Grupo ACP), which also brings together other businesses oriented towards offering business solutions to the same sector.

Both Mibanco and Grupo ACP have profound knowledge of the profile and needs of the group they seek to serve – the base of the pyramid, comprised mainly of migrants from rural zones to cities, in which the norm is women being in charge of daily family life. They are people who, from birth, have had to confront a series of difficulties and injustices – a result of the persistent social and economic divisions in our country. However, despite the scars of poverty, micro entrepreneurs do not give up easily and are eager to improve their living conditions.

At Mibanco, we have confirmed that access to credit is an opportunity to propel the sustainable development of our clients, but it must be accompanied by non-financial services to educate clients about the sustainable administration of their businesses. For this, training programmes such as 'Strengthening Women's Entrepreneurship in Peru', 'Microenterprise Diploma', and 'Myconsultant' – are fundamental parts of the bank's management.

> **For Mibanco, it is crucial that our clients have the option to experience something truly different**

While the aforementioned programmes seek to transmit objective knowledge, such as financial and administrative tools required for adequate business management, they are also spaces that offer other opportunities. For Mibanco, it is crucial that our clients at large – and women in particular, due to the fact that they tend to act as both mother and father – have the option to experience something truly different.

In this way, our training programmes address concepts related to social responsibility and solidarity. For example, in the case of the programme 'Strengthening Women´s Entrepreneurship in Peru', interactive activities and games enable women to see that economic success has a real, superior meaning if it is reached by

Mibanco facts and figures

Shareholders:

- Grupo ACP Inversiones y Desarrollo (60.30%)
- AccionInvestments in Microfinance (9.36%)
- International FinanceCorporation (6.50%)
- Accion International (6.33%)
- StichtingHivos – TriodosFonds (5.44%)
- StitchingTriodos – Doen (5.44%)
- Corporación Financiera de Inversiones (1.75%)
- Ducktown Holdings S.A. (1.40%).
- La Positiva Seguros y Reaseguros S.A. (1.36%)
- Triodos Fair Share Fund (FondoMutuo) (0.91%)
- La Positiva Vida Seguros y Reaseguros S.A. (0.35%)
- Transacciones Financieras S.A. (0.19%)
- Transacciones Especiales S.A. (0.13%)
- Otros Inversionistas (0.54%).

Mibanco in numbers (Annual Report 2011)

- US$1.929.4 million in total assets
- 668 thousand clients
- $1 million in training programmes for clients

Ratings obtained

- Planet Rating: 4+
- Global Reporting Initiative: A
- Global Compact: Avanzado (advanced)

Case studies

Yrma and Bernardino Meneses, clay crafts

Yrma and Bernardino have been Mibanco clients for two years. They live in Arequipa and their business consists of producing clay handicrafts, from traditional Peruvian cribs to decorative and kitchen items.

Initially, their house was made of ashlar and mats, materials that could not resist the rain. Also, in the same space, they had their workstation.

Today Yrma and Bernardino´s house is made of bricks and cement. Their working space is larger and outside their house – but on the same land. In March 2012, Bernardino plans to attend a crafts fair in Cordova, Argentina. It will be the first time he has left his birthplace, Arequipa.

Efraín Díaz, alpaca clothing manufacturer

Efraín Díaz manufactures clothing and alpaca-fibre* fabrics. When he started as a client at Mibanco, his children were finishing high school. His one-storey house was used both as their home and as his workstation. He had only two threading machines, but he had clear ideas.

Today, Efraín has been able to expand his house, b uy more equipment and continue to invest in the wellbeing of his family. Now his house has two floors, so he distributes the space better. The workstation is much bigger and is located only on the first floor, where he has 10 threading and sewing machines for the full clothes-manufacturing process. His children are going to university.

**The alpaca is an animal – camelid – that lives in the Peruvian Andes. Its wool, besides being used as a main source of shelter in the mountains, is considered a high-quality product for warm clothing worldwide.*

working (playing) creatively with the partners they are paired with (sisters), while being supported by respectful, empathetic trainers (parents) – conditions under which they can build a different, more positive, universe together.

The Miconsultor training programme is carried out with this same logic of solidarity and responsibility. Volunteers in their last years of university at national and foreign private institutions transmit part of their knowledge to the bank's clients, and meanwhile they benefit from the experience in the field. This interaction is mutually enriching: students learn about the diverse realities in the national territory, and at the same time they have the opportunity to apply their knowledge in practical situations; the clients strengthen their businesses and establish concrete plans for the future. In this way, we make real connections, reduce social divisions, and work in a sustainable way towards a common goal.

Other than an unmistakable commitment to its clients, Mibanco expressly adheres to global efforts such as the United Nations Global Compact and the Global Reporting Initiative. With the first, the bank commits to promote a respect for human rights among its interest groups and to contribute to a fairer, more equal, and more inclusive society. The second establishes the guidelines for transparent communication of the institution's economic, environmental, and social performance.

Finally, regarding Mibanco's relationship with the environment, we have an internal programme for controlling the consumption of natural resources, and we apply norms and policies when awarding credits that restrict them to environmentally friendly activities that do not threaten labour rights. These activities are subject to systematic follow-up, accompanied by constant awareness-promotion activities for personnel.

Clearly, for Mibanco, it is not just about social, environmental and economic responsibility. Our commitment focuses on the progress of our clients, of our institution, and of our extended community. This is the permanent challenge when facing any national or international economic scenario.

Strengthening the International Monetary Fund

Although the lending capacity of the IMF is set to double, its balance sheet is still relatively small, certainly in the face of massive sovereign debt, but the expertise of the IMF could be more widely used

By Domenico Lombardi, president, Oxford Institute for Economic Policy, and senior fellow, Brookings Institution

At the spring meetings of the International Monetary Fund (IMF) in April 2012, several member countries pledged more than $430 billion to increase the institution's resources. In practice, the IMF's lending capacity will double to some $800 billion once these pledges kick in. While a few countries have already made an unconditional commitment, some need to consult their constituencies at home before they can finalise any pledges – including Brazil, China, India and Russia.

No doubt the Los Cabos Summit will provide the opportunity to finalise those commitments and reiterate the membership's support for the IMF. As it stands, the IMF has already activated the contingent facility of the New Arrangements to Borrow, and its promised doubling of the capital base – as endorsed at the G20 Seoul Summit in November 2010 – may take longer than initially envisaged. As a result, these renewed commitments by the membership could not have been more timely.

Yet it would be a missed opportunity if the summit were to turn into an accounting exercise about the IMF's finances. The aim of having leaders of systemically important countries focus on IMF issues is to provide political momentum for bolder discussions on IMF policies. In fact, the crucial question that leaders should ask themselves is not 'how much' but 'why'. That is, what exactly is the strategy underlying the doubling of the IMF's lending capacity?

So far, the answer has been rather unclear. Following the demise of the Bretton Woods exchange rate system in the 1970s, the IMF lost its credit union character and has since become a lender to small and medium-sized developing economies. Its financial capacity has steadily declined in relative terms, but the segmentation of its borrowing clientele has enabled the IMF to cope with the rationing of resources imposed by its main shareholders.

The ongoing European crisis, however, has brought pressure to bear on this fundamental limitation. With a current lending capacity of less than $400 billion, the IMF can hardly exert any systemic role in today's global financial system. For instance, given its status as a de facto minority shareholder in the rescue programmes to peripheral eurozone economies, the IMF has not been in a position to voice its concerns and its input effectively as far as programme design is concerned.

A crucial, stabilising role

In the case of Greece, the IMF had highlighted the need for private sector involvement from the start, but no one listened until it was rather late. Based on this unbalanced relationship with the other European lenders, the IMF may decide to retrench from the European crisis, mitigating its exposure to the new rescue programmes in the periphery.

As for the larger sovereigns under stress, Italy and Spain, the IMF has hardly been a feasible option. Their funding needs are too great for the IMF's meagre balance sheet and calls by the IMF for precautionary programmes for these two countries have hardly been heard in Rome or Madrid.

Some highlight the fact that, at the height of the international financial crisis, the IMF played an important, stabilising role vis-à-vis Colombia, Mexico and Poland, through its uncapped, crisis-prevention flexible credit line (FCL). Indeed, following news of their precautionary programmes, market spreads narrowed in these countries.

IMF managing director Christine Lagarde and International Monetary and Financial Committee chair Tharman Shanmugaratnam

The comparison with Italy and Spain, however, would be ill suited, even assuming that Italy and Spain might qualify for an FCL, which is unlikely. In the case of the FCL-supported countries, the IMF had the financial capacity to stabilise the countries' rollover needs, in the event their economies had been cut off from markets.

Asymmetric prospects

This is simply not the case for the larger eurozone sovereigns. As a result, they are confronted with an asymmetric prospect. If they request an IMF programme, they face, as each potential IMF borrower does, the risk of an (unpalatable) market reaction that could escalate the very outcome they are trying to diffuse by bringing the IMF on board: that is, an unsustainable increase in spread that would, de facto, cut their economies out of markets.

Unlike FCL-supported economies, however, there would be no way for the IMF to step in the larger eurozone sovereigns and counter adverse developments, given the IMF's limited financial capacity. Should Italy and Spain request a precautionary arrangement so as to diffuse market pressure, they could potentially escalate the very political and financial risks they are trying to avoid.

The only way the IMF option may be feasible is if the European Central Bank (ECB) were to rely on IMF conditionality to contain the moral hazard that, under an extreme scenario, the ECB's own emergency large-scale interventions would trigger. This is, however, hardly the precautionary programme that the IMF has successfully offered to other member countries.

In the IMF's almost 70 years of history, the effectiveness of its advice in shaping the policies of member countries has been invariably tied to its actual or potential role as lender. This argues for a greater lending capacity for the institution, whose resources would be drawn with conditionality and only if needed, then refunded with interest.

This is crucial for establishing the IMF's role as a fundamental interlocutor during times of systemic crisis and for providing it with actual leverage in the shaping of crisis resolution. The alternative is a subaltern institution that would be called on to top up financial needs wherever a crisis erupts. ■

The future of the World Bank: considering the options

With more and more institutions providing support for the development of poor and emerging market economies, the World Bank needs to consider its role and reinvent itself accordingly

By Johannes F Linn, Brookings Institution

Twenty years ago, the World Bank was still the biggest and most powerful international development agency. Today, it is just one of the many institutions that support the development of poor and emerging market economies. Over the next 10 to 20 years the World Bank faces three options: it can continue on its current path of gradual decline; it might be radically scaled back and eventually eliminated; or it can dramatically reinvent itself as a finance institution that bundles resources targeted on growing global needs.

Option 1: Continued gradual decline

Under the first option, reflecting a business-as-usual approach, the World Bank will continue to diminish in scope, funding and relevance, as many developing countries find it insufficiently responsive to their needs. They have seen the regional development banks growing in importance, and emerging market economies have set up their own thriving development banks without the participation of the industrial countries.

This trend will be reinforced with the creation of a 'South Bank', as supported by the recent BRICS summit.

At the same time, the World Bank's soft loan window, the International Development Association (IDA), may face reduced funding from industrial countries that are deep in fiscal crisis; from heightened competition from other concessional funds, including the new climate funding mechanisms; and from a perception of reduced need, as many of the large formerly poor developing countries graduate to middle-income status. And the World Bank's status as a knowledge leader will be increasingly challenged by the rise of the developing countries' own analytical capacity and by a proliferation of private and official agencies currently doling out advice and technical assistance.

Option 2: Breaking up the World Bank

In 2000, a US congressional commission released its report recommending far-reaching changes in the roles of the International Monetary Fund and the World Bank, designed to reduce the scope and financial capacities of these institutions in line with the conservative leanings of the commission. For the World Bank, the report called for much of its loan business to be devolved to the regional development banks. The report garnered some attention when it was issued, but appeared not to have much impact subsequently.

While there is no imminent risk of the break-up of the World Bank, it could face a 'perfect storm' in the coming years as a result of a combination of factors: fiscal austerity and conservative governments in key industrial countries, a declining interest of the developing countries and rising concern about the fragmentation of the international aid architecture. There is an increasing overlap on the ground in the day-to-day business of the World Bank and that of the regional development banks. With their growing financial strength, institutional capacity and dynamism, and the apparently greater legitimacy of regional development banks among their regional members, shareholders might eventually decide that they would prefer the consolidation of the World Bank with the regional development banks, in favour of the latter.

This drastic step would be difficult to take politically, financially and administratively. However, the new World Bank president, Jim Yong Kim, would be well advised to be prepared for the possibility of such a perfect storm. The more the World Bank is seen to fade away, as described under the first option above, the greater is the likelihood that this second option would be given serious consideration.

> ***Global financial crises are likely to recur and require institutions like the World Bank to help provide safety nets and the structural foundations of long-term growth***

Option 3: A stronger global institution

Despite a decline in its role, the World Bank today is still one of the strongest and most effective development institutions in a world that needs strong and effective global institutions. According to a recent independent study by the Brookings Institution and the Center for Global Development, the IDA consistently ranks among the very top multilateral and bilateral aid agencies. A third, radically different, option from the first two would build on this strength to ensure that the world has an institution, 10 to 20 years from now, that helps the international community respond to the many global challenges that the world will undoubtedly face. These are: continued poverty, hunger, conflict and fragility, as well as major infrastructure and energy needs, education and health challenges, and global warming and environmental challenges.

How the World Bank might change

Moreover, global financial crises are likely to recur and require institutions like the World Bank to help provide safety nets and the structural foundations of long-term growth, as the World Bank did during the recent global crisis. How should it respond to such a broad mandate? First, the World Bank would substantially strengthen the role of its technical departments relative to the country

The World Bank headquarters in Washington DC. Although still one of the most effective development institutions, the bank must adapt to a changing world

departments and would fortify its reputation as an institution that can muster the strongest technical expertise, fielding teams with broad global visions to support systematically the pursuit of long-term sectoral and sub-sectoral strategies at country level, linked with regional and global initiatives, and involving public-private partnerships to assure that development challenges are addressed at scale and in a sustained manner.

Second, since all countries have unmet long-term finance needs and require access to global best practice in areas such as infrastructure, energy, climate change and the environment, the World Bank would open up its funding and advisory windows to all, not just developing countries.

Thus it would become the global equivalent of the European Investment Bank (EIB) and of the German Kreditanstalt für Wiederaufbau (KfW), which have successfully supported the infrastructure development of the more advanced countries along with developing countries. Third, for those countries with strong project management capacities, the World Bank would dramatically simplify its lending processes, following the example of the EIB. This would make it a much more efficient operational institution that would be a more attractive partner to its borrowing member countries.

Fourth, the World Bank would focus its own knowledge activities and its support for research and development on a search for effective and scalable solutions, linked closely to its operational engagement that would be specifically designed to support the scaling up of tested innovations.

Fifth, the membership of the World Bank would fix some fundamental problems with its financial structure and governance. It would invite the emerging market economies to make significantly larger contributions to its capital base reflecting their enhanced financial capacities. It would revamp its voting and voice rules in line with the changed global economic weights and financial contributions of emerging markets. And it would select its leadership on the basis of merit without reference to nationality.

Charting a course for the World Bank

With guidance and support from the G20, the World Bank and its new president will have to make a choice between these three options. Undoubtedly, the easiest choice is business as usual. But the leaders of the G20 should understand that Options One and Two are not in the interest of their countries and of the international community.

Clearly, the World Bank should remain a key part of the global governance architecture. But this requires that the G20 forges an ambitious long-term vision for the World Bank – something that has been lacking for the last 30 years – and then support the reform of the institution and build the authorising environment that will make it possible to achieve the vision. ■

Evonik Industries

With an eye for the world's future challenges

Politics, society, and industry are facing enormous global challenges. Today, around seven billion people are living on our planet. According to a forecast by the United Nations, this number will rise to about eight billion by the year 2025, and to nine billion by 2050. The consequences such as the growing scarcity of economically useable resources are already tangible. According to the World Health Organization, more than a sixth of the global population has no access to clean drinking water. The Food and Agriculture Organization estimates that around one billion people are suffering from malnutrition. Climate change and its implications are threatening to irreversibly damage the basis of our subsistence on the planet.

As one of the world leaders in Specialty Chemicals, Evonik Industries is determined to contribute to overcoming these global challenges with its innovative products and solutions – while at the same time harnessing the potential we see in them for our business.

We focus on economic megatrends – namely, resource efficiency, health and nutrition as well as globalization – and tap the promising markets of the future. Evonik's guiding principles in this endeavor are a strong interconnectedness and interdependence of economic success and responsibility.

In keeping with this, the Group also markets products which lead to an increase in energy efficiency during the customer's use phase, thus resulting in a decrease in greenhouse gas emissions.

Energy-saving tires are just one example. Evonik's silica-silane system used in modern automobile tires achieves a significant reduction in fuel consumption without compromising the tires' wear performance. What's more, road users' safety has even improved with the decisive wet grip thanks to Evonik's technology.

Another example is the energy-saving light bulb. Modern energy-efficient lamps or compact fluorescents consume less electrical energy than conventional light bulbs. By using special oxides from Evonik such as fumed aluminum oxides, the lifespan of energy-saving light bulbs can be increased significantly. This, in turn, paves the way for additional manufacturing-related CO_2 emission savings.

Insulating materials are another lever for further emission savings. Evonik has already spent 50 years developing indispensable additives, especially foam stabilizers, which are of major significance for producing and optimizing foam properties. Innovations are made possible thanks to ultrafine cell structures, which improve the foams' heat-insulating properties and, thus, also make a contribution to climate protection. The foam stabilizers are based on organically modified siloxanes, so they are derived from a type of chemistry in which Evonik already has broad expertise.

Other products of Evonik Industries help to meet the demand for meat, milk, and eggs and, thereby, contribute to a sustainable protein supply in the nutrition of the global population. Evonik is the only company worldwide to produce and market all four key amino acids for advanced animal nutrition such as DL-methionine and L-lysine, benefitting human beings, animals, and the environment.

Just as vitamins are vital for human beings and animals, amino acids are, too. They are the building blocks for all proteins forming skin, meat, and muscles. The body produces most of the amino acids itself. However, some of them have to be ingested daily, if deficiency symptoms are to be avoided. Traditional animal feed such as soy or corn lack one or various amino acids. For instance, if you only feed a chicken with vegetable proteins, it will suffer from a methionine deficiency. Evonik can efficiently fill such gaps: Just one kilogram of the essential methionine and two kilograms of lysine can replace 54 kilograms of fish meal and 34 kilograms of soybean meal. The decisive advantage here is that for each kilogram of weight gain in the animal, only about half as much nitrogen is released in the manure as for feeds with high protein content. It thus reduces over-fertilization of soil and minimizes the risks of groundwater contamination. In addition, it reduces the need for energy-intense imports of soybean meal as domestic wheat production more and more replaces the soy imports and is sufficiently available to meet the demand.

Isophorone chemistry is another of Evonik's core businesses. With over 40 years of experience and as one of the leading companies in this field, Evonik covers the whole production chain of isophorone and its derivatives. Main applications comprise eco-friendly coating systems and high-performance composites among others. The latter are used in the construction of wind turbines. However, this is not the only product that Evonik supplies for the expansion of wind power. We also produce innovative adhesive additives for the rotor blades of wind turbines. They ensure the right degree of viscosity, stability, and a simple adhesive application procedure on the rotor blade halves, when bonding the rotor blades.

Linking innovative drive and closeness to the customer is one crucial success factor and engine for profitable growth at Evonik. By drawing up new and optimized products or applications for our customers every day, we are making a valuable contribution for more resource efficiency and sustainability.

One of Evonik's latest products is hydroxy-terminated polybutadiene. With a new production site currently under construction in Marl, Germany, the company is bolstering an innovative polymer material which is used, for example, in sealants for highly insulating, triple-glazed windows or lightweight designs for the automotive industry.

Furthermore, Evonik has developed a new manufacturing process for MMA (methyl methacrylate), the starting material for acrylic glass. Like the traditional ACH sulfur process, the new AVENEER® process is based on the starting materials ammonia, methane, acetone, and methanol – but without the additional use of sulfuric acid. With no more need for the recycling of sulfuric acid, the process saves costs and conserves resources.

The new technology also stands out for its flexibility both in terms of location and the technology used. First, AVENEER® can be used at typical chemical sites all over the world, and second, it allows the retrofitting of existing plants at Evonik. The feasibility of the process has already been proven at pilot plant scale. The Group is now planning to construct its first full-scale production plant.

All these examples clearly demonstrate the central role of industry as creator and facilitator of smart solutions for the global challenges ahead. A strong and successful industry is key to further advancing on the path to new technologies and greater efficiency – this needs a broad, research-conducting and manufacturing industry as the basis, in particular, of a Green Economy. For Evonik, an innovative corporate culture, a holistic approach to societal questions, and value-adding actions are the key to success.

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Feeding the world

Food security is a vital issue for everybody, but policies designed to assist small farmers have a broader effect in tackling poverty among some of the world's most vulnerable communities

By José Graziano da Silva, director general, United Nations Food and Agriculture Organization

When the G20 leaders sit down in Los Cabos, food security and poverty reduction will be among the top issues they will discuss, alongside the financial and economic crisis, climate change and sustainable development. They are closely linked.

Food security is a common thread in the pursuit of sustainable development. Development cannot be sustainable if people are left behind. And, even today, the right to food – a basic human right – is still absent from the lives of 925 million people. A few days from the start of the Rio+20, the relationship between food security and sustainable development should always be at the front of the mind.

Hunger is a global challenge. Despite much progress, there is still a lot of ground to cover. The Agricultural Market Information System (AMIS), launched by the G20 in response to rising and volatile food prices and their impact on poor populations worldwide, is an example of action that can be taken at the international level.

However, international actions must be complemented by others at the local level, because people do not eat in global markets. People eat in their homes, in their cities and their villages. It is on this turf where the fight against hunger is fought.

A revamped global governance system for food security is necessary to coordinate ongoing efforts and link them to the local level, transforming the international discussions into quick and effective action to tackle emergencies and advance to the long-term goal of food security for all.

The Committee on World Food Security (CFS), recently reformed to include representatives of civil society, the private sector and a range of international agencies and research institutions, plays this coordinating role. It can connect global and national action. An example of this is the recent endorsement of the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security. The CFS-led negotiations resulted in this milestone that will improve how countries govern access rights to land, fisheries and forest resources.

The dangers of climate change

Why is this important? Because 75 per cent of the world's poor and hungry people live in rural areas and are among the most vulnerable to climate change. Many are subsistence and small-scale farmers with low productivity rates who depend on the food they produce either to feed themselves and their families or to earn a living. That is why assisting small-scale farmers is key to food security: this way, they are better prepared to support themselves and they increase food availability in the poor, rural areas of developing countries.

Eradicating hunger would make everyone richer. A child who is properly nourished can learn more, lead a healthier life and grow up to be more productive. This is why investing in agriculture and nutrition is good for business and good for governments. Food security is not simply an expense. Agriculture can drive socially and environmentally sustainable economic growth. Adequate nutrition reduces costs in health, education and social security.

The world's population is estimated to grow from today's seven billion to more than nine billion people by 2050. The Food and Agriculture Organization (FAO) estimates agricultural production will need to grow by 60 per cent over the next 40 years to meet the demand, exerting significant pressure on the world's resources. But this increase will only be necessary if people continue farming the way they farm and eating the way they eat.

There are other solutions. At the global level, one-third of all the food produced is

lost or squandered. Europeans and North Americans waste 115 kilos of food per capita. People in sub-Saharan Africa and South and Southeast Asia throw away 11 kilos a year. If these amounts could be reduced by 25 per cent, 500 million people a year would have food, with no need to produce a kilo more than today.

Improved food and nutrition education can reduce waste and promote healthier diets. Moreover, malnutrition also shows in the shape of overweight and obesity that affects more than one billion people worldwide.

Changing farming methods

There is also the way people farm: intensive use of agricultural inputs such as fertilisers and pesticides has taken a heavy toll on natural resources. Farming-as-usual is no longer sustainable. The world needs

Workers in Japan sort food waste; an industry devoted to food recycling has grown up in response to the rising cost of animal feed and fertiliser

a paradigm shift to sustainably intensify agricultural production, helping farmers improve productivity while protecting natural resources. FAO calls this the 'Save and Grow' approach. It is based on traditional knowledge and local ecosystems and focuses on smallholders, who tend to have the least access to resources, technology and training and lower yields than large-scale producers.

Conservation agriculture initiatives by FAO in collaboration with national partners are proving to be beneficial for small farmers in Africa and Asia, as they have been in South America. In Tanzania, a two- to threefold increase in crop yields has been achieved over a five-year period, leading to improved income and livelihoods.

Since 2008, more than 600,000 small farmers across Africa have adopted 'no-tillage' farming practices, offering a range of productivity, economic and environmental benefits. But environmental virtue alone is not enough – farmers must see tangible benefits in terms of higher yields and reduced costs. With the right management those benefits can be delivered, as seen in many cases worldwide.

A child who is properly nourished can learn more, lead a healthier life and grow up to be more productive

By supporting small-scale farmers, the world can produce food and increase the food supply where it is most needed – in developing countries. This effort can have even greater benefits when it is successfully combined with actions to improve access to food by the most needy. In different parts of the world, innovative ways link local production with consumption through cash-for-work and cash-transfer programmes. Such efforts help vulnerable families become more resilient. Moreover, by translating unmet food requirements into demand, they help to stimulate local production.

New ways to cooperate and learn from each other are needed, in both developed and developing countries. There is a wealth of knowledge to share and to learn from.

The world must make an effort to achieve food security as fast as possible. It is a possible goal, but it cannot be achieved by FAO or any government on its own. The private sector, civil society, research institutions and academia must all come together as a whole to eliminate hunger for every man, woman and child. ■

SPONSORED FEATURE

Feeding our hungry planet on a hectare-by-hectare basis

Sandra Peterson, CEO, Bayer CropScience

Meet Aep Sodikin. Out at dawn on his one-hectare rice paddy in West Java, Aep is one of Indonesia's 40 million smallholder farmers. He is also an agro-entrepreneur, embracing step-changing techniques that can both increase yields and reduce costs. Like all farmers, he faces the challenges of unpredictable weather and keeping pests at bay on a daily basis.

Although Aep doesn't start his day thinking about the impacts of world hunger and climate change, there is a vital connection between his daily work and feeding our planet in a sustainable way. As the food-water-energy nexus becomes ever more critical, smallholder farmers like Aep are going to make a huge difference: Asia is home to around 90 percent (more than 500 million) of the world's smallholding farms. Many of these farmers grow the region's staple food crop – rice. And with two thirds of the world's one billion hungry people living in Asia, every single rice paddy counts.

Meanwhile, in Latin America and Africa, agriculture is also the lifeblood of economies and societies, with micro-scale farming being the primary income for millions of families. Our small-scale farmers around the globe have huge untapped potential to make a fundamental contribution to world food security, yet many are at a loss because of lack of access to seeds, fertiliser, equipment, technology, know-how and environmentally friendly solutions.

Enabling farmers to adopt climate-smart solutions

Today, world food security is not only about providing food to those at or below the poverty line, it's about empowering and incentivising smallholder and largeholder farmers to adopt techniques that can help plug the hunger gap, while at the same time boost their business sustainably.

Farmers like Aep are more than ready to adopt such techniques – if we give them a chance. Take our new scheme Bayer Tabela which – using direct seeding technology – cuts out the laborious nursery stage, saving the farmer precious time and money. Today, farmers like Aep only need to employ two people, compared with the average 25 labourers required per hectare.

After using Bayer Tabela for three seasons, in combination with a Bayer rice package of crop protection products, Aep is already seeing an increase of up to 30 percent on his rice yield.

In addition, Bayer Tabela uses up to 20 percent less water and emits up to 30 percent less methane than common farming methods. Climate change may not be on Aep's agenda, but it is certainly on ours: Bayer Tabela is the first direct seeding method aiming to receive approval as a Clean Development Mechanism (CDM) from the United Nations Framework Convention on Climate Change (UNFCCC).

Empowering farmers to propel their future growth

While saving precious resources is a crucial factor, the key to propelling farming's future lies in how we interact with farmers. We have an obligation to empower them by providing them with the tools, knowledge and motivation to grow crops sustainably.

Our teams have their feet on the ground and their hands in the dirt – talking to farmers like Aep every day, listening to their problems and devising solutions that they wouldn't have considered possible. We think of ourselves as having the 'heart of a farmer and the head of a scientist': we strive to understand the implications of failed harvests and to offer tangible and lasting solutions, such as seeds that can grow into stress-tolerant, drought-resistant, predator-fighting plants. In this way, we aim to give farmers the means to steer their own future success by mitigating factors that can threaten their livelihood.

After listening to the needs of farmers in Vietnam, for example, we developed our unique Much More Rice (MMR) programme. Featuring new hybrid rice seeds, crop protection products, as well as training on Good Agricultural Practices, our holistic MMR package can reduce costs, improve rice quality, and increase yield and profitability by more than 10 percent. Based on the success of this rice initiative, we are now extending it to other countries in Asia.

Our teams have their feet on the ground and their hands in the dirt – talking to farmers every day, listening to their problems and devising solutions

My favourite example of empowering farmers is Bayer's Model Village Project, which transforms them into frontline sustainable entrepreneurs. Last year, we launched two Model Villages in the Indian state of Karnataka. Both villages offer farmers a host of benefits including productivity-boosting know-how and tools; weather insurance schemes; agricultural consultancy; crop protection products and fertilisers; as well as education and schooling for children. They also feature eco-advantages such as special drip irrigation systems. Under the Model Village Project, Bayer representatives work closely with local Indian farmers, providing them with a passport to pilot their own future success.

The model village is a microcosm of what we believe farming could look like on a global scale under the new World Economic Forum's New Vision for Agriculture – an initiative involving 27 global companies, including Bayer Crop Science, which aims to help farmers thrive as key providers of sustainable food security.

Catalysing our progress with partnerships

In order to increase the global footprint of successful projects like Bayer's Model Village, we need to sharpen our focus on forging public-private partnerships across the world. Our successful

Bayer CropScience CEO Sandra Peterson: impressed with Indonesian rice farmer Aep Sodikin's entrepreneurial spirit and readiness to adopt climate-smart techniques, such as Bayer Tabela

partnership with the International Rice Research Institute – which aims to strengthen rice productivity through improved disease management and reduced greenhouse gas emissions – is a step in the right direction. But it's not enough.

We also need to strengthen links with partners across the whole value chain. At Bayer, we're currently building on our strong foundation of food chain partnerships to help enhance farmer empowerment and sustainability from seed to shelf. Our recently sealed agreement with PepsiCo, for instance, provides customised training in sustainable agricultural practices to PepsiCo's potato growers in South America.

These examples are but a handful of projects being carried out by one company in its quest to help feed a hungry planet. With the ever looming target to ramp up food production by 70 percent to feed an estimated nine billion people by 2050, we – governments, NGOs, universities and companies – must speed up and execute clear action points within strict time frames.

The aforementioned New Vision for Agriculture (NVA) has already defined clear targets to achieve 20 percent improvements per decade in the fields of economic growth and opportunity; food security and nutrition; and environmental sustainability. Although there is no one silver bullet when it comes to food security, the NVA has the potential to be a highly effective weapon in our global fight against hunger. Ultimately though, the most powerful step is to put the farmer at the centre of a multi-stakeholder axis that connects the dots among all stakeholders concerned. By breaking down our mission hectare by hectare, we can provide farmers like Aep with climate-smart solutions and tools that allow them to farm more efficiently. Then, by continuing to forge sustainable connections with multiple partners, we can and will make meaningful advances towards the common goal of feeding our hungry planet.

Investing in agriculture to drive sustainable development

Smallholder and family farms are the key to food security and poverty reduction in developing countries. But we must improve gender equality and target investment to close productivity gaps

By Kanayo F Nwanze, president, International Fund for Agricultural Development

The world is at a historic juncture in global agriculture, with demand for food – including high-value products such as fruit, meat and dairy – growing exponentially. This demand is being driven by an ever-growing world population and the emergence of an expanding middle class across much of the developing world. To meet this demand, food production will need to rise 60 per cent by 2050.

As a result, there is an unprecedented potential for agriculture to be the centre of new and vibrant markets, triggering sustained economic growth in countries across Africa, Asia and Latin America. In this context, agricultural development can make a significant and lasting contribution to increased food security and poverty reduction, but only if development efforts centre on smallholders and family farmers.

The world's 500 million smallholder and family farms are well positioned to be the key suppliers of today's growing urban markets, as well as continuing to supply rural markets. Today, many are poor, but with the right policy support and investments, they can supply these markets on better terms with greater capacity. More than half of these farms are in G20 countries.

The G20 clearly recognises the importance of food security. The International Fund for Agricultural Development (IFAD) is pleased to see the priority given this year to inclusive green growth, food security and improved infrastructure. Agriculture does not occur in a vacuum. It affects and is affected by a range of areas including environment, energy, finance, labour and education. The close proximity of the 2012 G20 and G8 summits to the Rio+20 conference has helped advance the realisation that sustainable and resilient agriculture is part and parcel of inclusive green growth and a green economy. However, much work remains to be done to ensure that this realisation translates into placing agriculture at the centre of a green growth, green economy agenda for sustainable development.

Wider benefits

Investing in agricultural development not only makes good business sense but also has much wider benefits. Numerous studies have confirmed that growth generated by agriculture is at least twice as effective in reducing poverty as growth in other sectors.

The pay-off for investment in agriculture is generally highest when that investment is targeted towards public goods, such as infrastructure, education, and research and development. These issues were also at the centre of a joint report that international organisations, including IFAD, presented to the G20 earlier in 2012. All these areas require urgent attention to close the large productivity gaps that still exist on smallholder farms around the world, and among the women and men on these farms.

Efforts in agricultural development must indeed include creating the conditions for women to be on an equal economic footing with men. In developing countries, women make up 43 per cent of all farmers. But they are held back by deeply unequal access to services and resources such as credit, extension, and improved seeds and fertiliser. All too often, they do not have title rights to the land they farm. Yields on farms headed by women could rise by as much as 30 per cent simply by giving women the same access to resources as men. Just levelling the playing field between women and men would result in 150 million people emerging from poverty and hunger.

Yields on farms headed by women could rise by as much 30 per cent if they had the same access to resources as men. This would result in 150 million people emerging from poverty

It is important to remember, in considering how to advance agriculture for development, that farming is a business, no matter how small. Creating the conditions for poor farmers to grow their businesses – first to achieve food security and then to produce a surplus – allows them to break out of poverty definitively. Smallholders, and farmers in general, are the biggest investors in agriculture in developing countries. They invest not only their own money, but also their time and labour. Recognising small farmers and their organisations as primary stakeholders in development requires genuine collaboration and inclusive processes that start with the design of programmes and continue through evaluation.

Investment is rightly a central element of the food security agendas of the G20 and G8 this year. Smallholders need greater domestic and international investment in rural areas that is sustainable – economically, environmentally and socially. IFAD works to ensure that its programmes and projects address these three pillars of sustainable development, which are also central to an inclusive green growth agenda.

Biogas success

IFAD's work with biogas is one example of the effectiveness of this approach. Eleven years ago, IFAD joined forces with the government of China to pioneer the use of biogas for poverty reduction. Manure is a source of methane. When it is released directly into the atmosphere, it is about 22 times more damaging than carbon dioxide. But when methane is burned it is

Marta Yat Chipel packs green beans for export at a cooperative in Uspantán, Guatemala. Gender equality has been shown to drive prosperity and well-being

©IFAD/Santiago Albert

less harmful, and provides a source of renewable and affordable energy. Biogas digesters allow waste to be channelled from domestic toilets and animal shelters into a sealed tank, where it ferments and is converted into gas and compost. Villagers who burn gas do not need to burn wood.

The project has contributed to higher incomes and reduced deforestation. Poor people who were not on the power grid now have energy for lighting and cooking and even for running generators. They can generate income from the animals that produce milk, meat, wool and eggs in addition to the dung needed for the biogas digesters. Children have light at night so they can study. Kitchens that were once filled with choking smoke now have clean air. And sanitation has been significantly improved.

The initial project was so successful that it is being scaled up in rural areas around the world. Today, IFAD supports biogas projects in China, Eritrea, Nigeria and Rwanda.

IFAD hopes that leaders at the Los Cabos Summit will take to heart the international organisations' report on sustainable productivity growth, in particular the recommendations for a holistic approach to bridging the productivity gap on smallholder and family farms. We also hope that food security and agriculture will remain central to the development agenda of the G20 for years to come. By placing these farms at the centre of agricultural development and supporting them by establishing inclusive markets, infrastructure and supportive policies, we will truly bridge the productivity gap and ensure that the improvements to rural lives and the rural environment last for generations. ■

Performance with Purpose

The Promise of PepsiCo

PepsiCo is guided by Performance with Purpose, because doing what's right for people and our planet leads to a more successful future for PepsiCo.

As a global food and beverage company with brands that stand for quality and are respected household names—Pepsi-Cola, Lay's, Quaker Oats, Tropicana, Gatorade, Sabritas, Gamesa and Sonric's—among many others, we will continue to build a portfolio of enjoyable and healthier foods and beverages, find innovative ways to reduce the use of energy, water and packaging, and provide a great workplace for our associates.

Additionally, we respect, support and invest in the local communities where we operate, by hiring local people, creating products designed for local tastes, and partnering with local farmers, governments and community groups.

Performance

Human Sustainability

Environmental Sustainability

Talent Sustainability

PEPSICO

PepsiCo is proud to have been in Mexico for over one hundred years and it remains one of our largest markets. In line with our Performance with Purpose mission, we are committed to the people, the environment and the communities where we work, and actively design and implement initiatives that have a positive impact.

We seek to deliver sustained business growth in the country, building on the 3 billion dollar investment we made in 2009 for innovation, infrastructure, communication and community.

Our High Oleic Sunflower Oil project has allowed us to re-launch the sunflower crop in Mexico, through a sustainable plan that includes small producers in our value chain. This also helps us include healthier ingredients in our portfolio.

We have developed water-efficiency methods, put in place measures to reduce the impact of our packaging, added wind energy in some of our production facilities, and integrated the use of hybrid vehicles among many other activities to help us protect the Earth's natural resources.

We help our associates accomplish their goals through healthier lives, enhanced education and the possibility to successfully combine family and professional development. This is achieved by offering workplace wellness programs and by fostering diversity and inclusion programs.

All of these efforts result in better performance of our business, while stimulating sustainable practices. We know a healthier future for all people and our planet means a more successful future for PepsiCo.

www.pepsico.com

Financing food security: the role of the private sector

The private sector will key in helping to achieve world food security, but concerted international effort, with leadership from the heads of the G20 countries, will be necessary to coordinate policies

By Lars H Thunell, executive vice president and CEO, International Finance Corporation, World Bank Group

There is widespread agreement that the private sector should play a greater role in food security, moving markets in ways that help the world's most vulnerable groups. It can, and should, happen. But it has not happened yet – at least not with the necessary scope and or on the necessary scale. Not in a world that must produce 70 per cent more food to feed the two billion more people it will have by 2050. Meeting this goal will require an estimated $83 billion per annum in new investment. Most of this will have to come from the private sector, and we are not there yet.

The G8 Camp David Summit's announcement in May 2012 of the New Alliance for Food Security and Nutrition, including a commitment to mobilise new private capital, was especially welcome. It is a promising initiative, but it is still very much in the early stages.

Much good work is already being done in many quarters to stimulate this process. The business community, bilateral donors, private foundations, international finance institutions, civil society, research organisations and others are all making important contributions. But a great deal has occurred in individual pilot projects. The issue must instead be addressed holistically if a food crisis is to be averted.

Reframing food security issues

Achieving this transformation will not be easy. It will take sound government policies that attract significant levels of private investment. To get there, one central point needs to be remembered: farmers are business people, too. Reframing the food security debate along these lines is one of today's great challenges of development facing the international community. As the G20 leaders gather in Los Cabos for their annual international policy coordination talks, good models of a private sector–based agricultural transformation must not be left behind.

Consider just one case: Nigeria. In the 1960s its share of global exports was more than 60 per cent in palm oil, 30 per cent in peanuts and 15 per cent in cocoa. Yet today its share in these markets has fallen to five per cent or less. Africa's most populous country is now a net importer of agricultural products, spending more than $4.2 billion in hard currency reserves each year to import wheat, fish, rice, sugar and other essentials to feed its nearly 160 million people.

Clearly a new, private sector–based approach must be taken in Nigeria and other developing countries with great potential for increased production of food crops.

A good overarching framework for such an approach, including vital questions of land use, now exists in the Principles for Responsible Agro-Investment launched by the World Bank and key United Nations agencies in 2009, drawing support from the following year's G8 Muskoka Declaration. IFC, a member of the World Bank Group, is pleased to partner with the G20 on a global initiative to build the private sector's role in food security in the world's poorest countries: the Global Agriculture and Food Security Program (GAFSP).

Farmers produce enough to feed everyone on Earth. But poor storage, distribution and other factors leave a billion people hungry. Left unattended, this tragic situation will only become worse in the coming years

Future directions

A multilateral mechanism to help implement pledges from the G20 summit in Pittsburgh in September 2009, GAFSP's largest component is a public sector window managed by the World Bank that has total funding of $697 million pledged by seven donors to date.

Complementing these efforts on the government side is GAFSP's private-sector window managed by IFC. Designed to provide long- and short-term loans, credit guarantees, and equity to support private-sector activities for agricultural development and food security, it now has approximately $200 million in funding, with a recent large Dutch contribution supporting existing grants from Canada and the United States.

IFC announced the first transaction under the private-sector window of the programme on 4 April 2012. Together, IFC and GAFSP provided a $15 million loan to expand production at PRAN, a food-processing company based in Bangladesh. This project will help fulfill continued growth in domestic demand as well as increased export market demand in India, Africa and the Middle East for packaged food products. It will soon be followed by many more.

More large-scale efforts of this kind must follow to tap into the private sector's capital, technology and management expertise in ways that help the poor and hungry. The focus must be on improving infrastructure and logistics, on increasing access to finance and on raising farmers' productivity, education and incomes.

Farmers produce enough to feed everyone on Earth today. But poor storage, distribution and other factors leave a billion people hungry. Left unattended, this tragic situation will only become worse in the coming years. So innovative approaches are needed to mitigate risks that have so far kept many of the world's major logistics companies from entering markets where they are needed most. Attracting them into new public-private partnerships would allow them to cut today's excessive rates of wasted food by building new silos, cold storage facilities, warehouses and ports.

Meanwhile, new risk-sharing facilities and other measures should be developed to help small-scale farmers start to attract more financing from the local banks that rarely do business with them now. This would allow them to invest in new seed, fertilisers, machinery and other key needs to increase production.

This could include work with a major global reinsurance company on a large-scale fund to help local farmers better manage their biggest risk – weather.

It also could include a significant portfolio-based bank risk-sharing facility with a donor-funded first loss facility. There are many good ideas to be considered in the context of a new global commitment for private-sector action to finance improved food security.

Given today's serious constraints on land and water resources, a focus on increased productivity, education and incomes must be embedded in all these efforts. IFC's experience shows that one of the best approaches here is to bring more small-scale farmers into the supply chain of demanding, sustainability-driven global food companies.

These buyers' high standards drive the producers to increase their productivity, especially in export crops such as coffee and cocoa. But this same approach can and should be taken as well with the domestic-market staples on which the most poor and vulnerable people depend.

An urgent need

IFC is the world's largest global development finance institution focused on the private sector. In the past four years, the World Bank Group has increased its annual agriculture investment from approximately $4 billion to $8 billion, nearly half of which now comes from IFC.

IFC welcomes the G20's current emphasis on food security issues. We are pleased to be part of the response – one we hope will only grow stronger in the future. The world's poor deserve nothing less. ■

In India and other developing countries, the private sector plays a key role in increasing food supply for poor and vulnerable people

Photo Credit: Brad Roberts/IFC

Feeding Tomorrow

Throughout history, agriculture has been a driver of social progress and nutritious food has been the fuel for people to reach their full potential.

Today, with 7 billion people on the planet, there is greater demand than ever before to increase food production and allow more people in more countries to lead healthy, safe and productive lives.

At PotashCorp, we produce potash, phosphate and nitrogen to help farmers improve yields and produce more food. Our fertilizer ingredients help grow food – and by growing more food, we feed more hope for tomorrow.

Bill Doyle
President and Chief Executive Officer
PotashCorp

Supporting the G20 Vision

With the world's population expected to reach 9 billion by 2050, farmers are being asked to boost production by as much as 70 percent over the next few decades, with the majority of that increase to come on existing farm land.

Achieving the required increases is possible, but requires a commitment to improving crop nutrition practices around the world. This will allow farmers to grow the crops needed to meet rising demand for food, fuel, animal feed and fibre without aggressively moving production to rainforests and other green space.

Adopting high-yield agricultural practices in more parts of the world is important to fighting against climate change and reducing greenhouse gas emissions. Since the 1960s, it is estimated that modern farming practices have kept 590 billion tonnes of carbon dioxide from entering the atmosphere.

This level of success is, in part, a product of the "Four Rs" of crop stewardship: right source, right rate, right place and right time. It is also a measure of the importance of another "R": research.

PotashCorp wholeheartedly supports the G20's commitment to "invest in and support research and development of agricultural productivity." We view this as an important step to meeting the needs of the world today and for generations to come.

Doing Our Part

An invigorated focus on global agriculture can help unlock the vast untapped potential of people around the world, especially in countries that have been traditionally undernourished.

It is our vision that farmers around the world will maximize the potential of their soils – and by doing so, they can help build a nutritious foundation on which their communities can thrive.

As a company, we will continue to pursue initiatives that encourage agricultural research and drive increased yields in a manner that is sustainable and environmentally responsible.

Together with other members of the global fertilizer industry, we support the International Plant Nutrition Institute (IPNI), a not-for-profit, science-based organization that has stationed scientists in many countries for hands-on involvement in agricultural research and development programs. IPNI's goal is to identify methods to achieve higher crop yields and to teach people how to improve production.

We believe farmers can produce enough food for our growing population. Like a seedling sprouting from the soil, food security solutions will rise from a foundation of research.

9 billion+

Expected global population by 2050

Source: United Nations

~50%

Current crop yield directly attributable to fertilizer use

Source: Agronomy Journal (January-February 2005), IPNI

70%

Estimated increase in crop production required by 2050

Source: FAO

90%

Expected percentage of required new crop production to be grown on existing cropland

Source: FAO

PotashCorp

Helping Nature Provide

Improving nutrition for Africa's food security

Undernutrition has an enormous impact on the life chances of millions of Africans. It is crucial that international efforts ensure that the world's poorest people have adequate access to essential nutrition

By Jay Naidoo, Global Alliance for Improved Nutrition

In June the world will turn its attention to the G20 Los Cabos Summit, where leaders from across the globe will gather to discuss some of today's most pressing problems. Food security, with an emphasis on food price volatility, will rightfully be high on the agenda.

But strengthening food security goes well beyond the challenges of increasing food production to meet future demand and addressing short-term price volatility. For poor consumers, the issue is not just about the quantity of food that they eat, but also the quality. The nutritional quality of the food eaten underlies health and well-being, and affects almost all aspects of people's lives and livelihoods.

This is why any consideration of food security in Africa must move beyond whether there is enough food to consider whether that food can deliver life-sustaining nutrients, particularly for the millions of pregnant and lactating women and infants and young children who have greater nutritional requirements than the general population.

The legacy of early deprivation

Global Monitoring Report 2012: Food Prices, Nutrition and the Millennium Development Goals, published by the World Bank, makes this point clear:

"Vicious interactions between malnutrition, poor health, and impaired cognitive development set children on lower development paths and lead to irreversible changes… The most dramatic effect of the food price crisis is an increase in infant mortality, especially in low-income countries. Other hard-to-reverse impacts include growth faltering (stunting or low height for age) and lower learning abilities. Malnourished young children are also at more risk for chronic diseases such as diabetes, obesity, hypertension, and cardiovascular disease in adulthood. Moreover, declines in human capital in a crisis tend to be more pronounced than the corresponding increases during economic booms."

The Lancet series in 2008 on maternal and child undernutrition put a number on the impact of nutrition on child health, calculating that undernutrition accounts for a staggering one-third of total child deaths globally – some 2.6 million each year. Even for those children who survive, undernutrition has produced generations of children who suffer from chronic malnutrition. Millions more suffer from vitamin and mineral deficiencies, which touch an estimated two billion people, affecting their health, development and educational attainment, as well as their economic outcomes.

> ***Nutritional quality needs to become an active and measurable objective***

Moreover, acute malnutrition, which demands emergency treatment, affects an estimated 55.5 million children globally. These conditions are exacerbated during times of economic crisis and food insecurity, and by poor access to clean water, good sanitation and adequate healthcare.

It was following up on these shocking statistics that the Scaling Up Nutrition (SUN) movement was born, designed to help governments, civil society, the private sector, research institutions and the United Nations system work together to fight hunger and undernutrition through expanding proven interventions. Far from being a silver bullet, the SUN movement recognises that addressing undernutrition will necessitate coordination and collaboration among the food, health and hygiene sectors.

And what of Africa? Why does Africa, a continent with such abundant agricultural potential, face such a challenge in food and nutrition security? Certainly, land and water management practices, limited uptake of agricultural technologies, poor infrastructure, a weak enabling environment that has inhibited particularly private sector investments, dysfunctional markets and few means to manage risks associated with excessive price volatility of agricultural commodities play critical roles.

But these challenges also relate to a failure to view food as a conduit to good nutrition and ultimately to positive health and economic outcomes. One need only look at progress towards achieving the Millennium Development Goals (MDGs) to see that Africa's statistics illustrate this.

Progress in the health-related MDGs, particularly maternal, infant and child mortality, is significantly lagging with respect to the 2015 targets. Progress towards reducing undernourishment also has a long way to go, with only 15 per cent of sub-Saharan African countries having achieved or on track to achieve MDG 1 – leaving 85 per cent off track.

Improving access to nutritious foods

The real question is what can be done, and where should the G20 focus its efforts if it cares about both economic development and the health and welfare of the world's poor. Evidence from the recent food price crisis indicates that increases in global prices have not only decreased access to food but have also forced the poor to sacrifice the consumption of nutrient-rich foods such as fruits, vegetables and animal products.

Improving the production, access and use of nutritious foods is one fundamental strategy to enhance the nutrition of the poor. Improving the quality of staple foods all along the value chain, through improved seeds, better fertilisers and milling and storage practices, as well as through large-scale fortification efforts shows promise in

In times of crisis, such as in politically volatile Somalia, children are more at risk of malnutrition and need support from the international community

improving the diets in a sustainable way that reaches the very poorest people.

The data is clear that pregnant and lactating women and children under the age of two have extremely high nutritional needs and must consume higher nutritionally dense foods. Improved maternal nutrition during pregnancy and lactation, the promotion of breastfeeding – including during illness – and the use of nutritious solid foods to complement breastfeeding, starting when the baby is six months old as well as therapeutic feeding when necessary, are important.

Taken together, efforts to improve the nutritional quality of food along the entire food value chain coupled with targeted nutrition interventions can both increase effective yields for poor farmers and improve the health and livelihoods of their communities and themselves.

In short, to improve nutrition for Africa's food security, the world must ensure that the food system is accountable for and works to improve nutritional value. This means more than simply increasing production and stabilising prices. Nutritional quality needs to become an active and measurable objective embedded within the food security agenda and within agriculture programmes.

Strategies for integrating health, nutrition and agriculture are reflected in the Scaling Up Nutrition movement, and are gaining momentum both nationally and among the global community. More support is required from G20 governments for substantial progress to be made in the fight against malnutrition. Supporting the policy and resource goals of the SUN movement is an important step. Capitalising more effectively on the reach and know-how of the private sector all along the value chain, and coupling that expertise with a strong policy environment is also important, as is emphasising the importance of nutrition in the agriculture and food security agendas.

So, too, is providing a framework for measuring progress. These additions would go a long way to address one of the world's greatest challenges both in Africa and in poor countries around the globe. Let us see the G20 take decisive actions to make this happen. ■

GRUMA,

MORE THAN **60** YEARS AS A SUSTAINABLE & SOCIALLY RESPONSIBLE COMPANY.

GRUMA is the global Mexican food company, leader in corn flour & tortillas/wraps as well as a major player in wheat flour and wheat based products like flatbreads and other basic food.

GRUMA was founded in 1949 by Roberto González Barrera and his father Roberto M. González Gutiérrez. The group is currently present in 113 countries in the Americas, Europe, Asia, and Oceania, through its global brands **MASECA**® and **MISSION**® and various leading brands in the local markets in which it participates. The company has 99 plants and more than 20,000 employees worldwide.

Ever since the founding of **GRUMA**, sixty three years ago, we have sought to be a company that fosters the integral development of the communities in which we are present, helping those who have least, implementing environmentally-friendly processes, creating jobs, and favoring training and progress, all without neglecting the continual growth of our company.

GRUMA
has a clear vision of sustainability in all its operations.

GRUMA has a clear vision of sustainability in all its operations. We conceptualize this principle as the satisfaction of the needs of our customers, employees, shareholders and the communities, guided by strict ethical standards, in compliance with regulations and with a long-term vision that combines economic and social development with the care of the environment, a fundamental aspect of our competitiveness.

GRUMA's focus on sustainability goes from the farmer's fields to the dinner tables of our consumers, and our sound corporate governance practices are a pillar of our sustainability.

GRUMA is a pioneer in the development of equipment which has not only improved production processes but is also designed to generate ecological advantages in:

As an example in 2010 we opened our plant in Panorama City, California, USA, which is the most modern tortilla factory in the world, as well as the greenest – operating on solar panels and cutting-edge technology to conserve water and energy consumption. This plant is our benchmark to continuously improve our facilities all over the world.

We maintain close collaboration with all of our suppliers under strict principles:

GRUMA we will continue collaborating to achieve a better future

DIMENSIONS OF GRUMA'S SUSTAINABILITY AND SOCIAL RESPONSIBILITY

In addition to all these, we have created "Patronato Cerealero" and "**Fundación GRUMA**", whose fundamental aim is to promote and support non-profit organizations and people engaged in projects of importance to society that improve the living conditions of the most vulnerable social groups and contribute to a wider knowledge and deeper understanding of Mexican culture. The foundation also responds rapidly to the urgent needs of communities affected by natural disasters.

As responsible corporate citizens, at **GRUMA** we will continue collaborating to achieve a better future and will continue working on behalf of sustainability in Mexico and in all the operations in which the company takes part.

GRUMA, THE COMPANY THAT NOURISHES THE HEART OF MEXICO AND THE WORLD

Financial volatility: dealing with derivatives in commodity markets

As energy market volatility continues to hit other commodities, the lack of coordination between national policies to increase resilience represents a severe failure for the global financial system

By Chiara Oldani, University of Viterbo

The global commodity market is dominated by energy contracts, followed by agricultural commodities and metals.

As a result, volatility in the commodity market is mostly due to energy trading. Among energy commodities, oil represents a very large share of the market. The two leading prices of oil, the West Texas Intermediate (WTI) and the Brent Crude, have been steadily above $100 a barrel for the past 12 months, and strategic reserves of consumer countries have almost ended. The prices of other non-energy commodities have increased mostly because of demand pressures. This robust price path negatively influences consumption and demand in the global economy; moreover, energy is indirectly involved in the pricing mechanism of other commodities, since it represents a relevant industrial input.

Downside risks for growth and stability are rising. The danger of prolonged stagnation for the G20 is very pronounced, as testified by the latest projection issued by the International Monetary Fund for 2012-13.

Commodities are traded on spot and on derivatives markets. The first commodity derivative was traded in the Mesopotamian era to hedge the price risk of sesame. Commodity derivatives markets are widespread in the global financial system, both as exchange-traded (ET) and over-the-counter (OTC) markets. Trading takes place mostly in the Americas and Asia. In particular, China is gaining market shares for ET commodity derivatives. Resources involved in the markets for OTC commodity derivatives represent around one per cent of the global derivatives markets; according to the available data from the Bank for International Settlements, in the first half of 2011, the notional amount outstanding of OTC commodities contracts was worth $3.2 trillion and the gross market value was $450 billion.

The introduction of financial derivatives reduces the price variability of underlying assets, but the extent to which the volatility produced in the derivatives markets influences the spot market is still an empirical issue to be investigated for segments of commodities markets other than oil and energy. Financial volatility is reflected in the commodity market, mostly via energy derivatives. This is confirmed simply by the positive correlation between oil and financial volatility indices.

OTC derivatives contracts attract relevant resources and have very little regulation, thus posing a certain problem for global stability. Some authorities have suggested introducing compulsory collateralisation for OTC commodity derivatives in order to reduce imported financial volatility. But this solution is unfeasible because of the hedging function played by commodity derivatives in investors' portfolios. If collateralisation were introduced, the market would find a new way to hedge, by circumventing the limit.

The Basel III capital requirements for banks and systemically important financial institutions (SIFIs) are very expensive in terms of resources allocated to capital. Their effect, other than a contraction of banking credit, will be a further push to shadow banking operators and deregulated trading, like derivatives, that do not have such expensive requirements.

Diverse policies

The lack of coordination to achieve common goals represents a severe failure for the financial system. What is still missing, more than four years after the beginning of the financial crisis, is a unique global regulation for the financial system. Starting in 2011, most G20 countries, following official meetings and statements on the issue, have implemented certain policies at the domestic level in order to smooth excess financial volatility and limit its impact on non-financial sectors.

Examples of national policies that have been implemented to reduce volatility are the compulsory registration of non-regulated market makers in the United States, the limits to short-selling introduced in some European countries (such as Germany) and the increased capital requirements for market makers to access trading in Europe. These policies are quite diverse. Their degree of effectiveness is heavily affected by the coordination among national regulations. In Europe, the introduction of a centralised counter party system (CCPS) goes in the right direction by forcing the harmonisation of national markets. The CCPS increases market resilience, reduces systemic risk and should thus decrease excess volatility. It is not free of risks, since it is not suitable for illiquid derivatives, and a forced concentration of trading can modify the competition in the market, by creating systematically relevant bodies of a new and unknown type.

In the US, the Dodd-Frank Wall Street Reform and Consumer Protection Act introduces a different structure of monitoring and vigilance of the financial system. The CCPS is not coherent with it. Nevertheless, American authorities are still waiting for the Act to translate into reality: this situation is a clear case of regulatory capture and leaves room for regulatory arbitrage. The G20 Los Cabos Summit should impose regulatory coordination and, finally, produce the global regulator. ■

What is still missing, more than four years after the start of the financial crisis, is a unique global regulation for the financial system

The two leading prices of oil, the West Texas Intermediate (WTI) and the Brent Crude, have been steadily above $100 a barrel for the past 12 months

Energy price volatility in fossil fuel markets

The rising cost of energy and its effect on economic growth are often blamed on the financial markets, even though the evidence suggests the issue is a fundamental question of supply and demand

By Maria van der Hoeven, executive director, International Energy Agency

Forecasts in today's energy commodity markets are marked by uncertainty – driven on the supply side by factors both above and below ground, and on the demand side by an economic recovery threatened by high energy (particularly oil) prices. In the end, it is those high prices that all rightly worry about, even when discussing volatility. Indeed, price volatility itself, even in oil prices, is not particularly pronounced. What has changed is that prices have risen significantly since 2002, so that a few percentage points up or down now represent multi-dollar swings. But that does not mean that these increases are not costly, or that volatility does not seem or feel more pronounced to the economy and to the public. At such high levels, every small increase is cause for concern. Much has been made about how to rein in volatility, but in order to curtail such price movements it is necessary to understand their drivers.

The real role of speculators

Volatility is often blamed on the growing interdependence between the physical and financial markets for oil and other commodities. Much has been made of the huge influx of capital in the past decade into crude oil and other commodity derivatives, which breached $430 billion in 2011, compared to around $55 billion in late 2004.

Commodities emerged as a distinct asset class, and represented a good hedge against underperforming equities or dollar depreciation. Capital influx into derivatives has caused some analysts to suggest that the 'financialisation' of commodities must therefore have underpinned the concurrent general price rise and volatility – particularly for crude.

But even if speculators have never been popular and tend to attract blame, a market without speculators (to take the other side of price-hedging transactions for physical market players) would arguably be a much more volatile one. Futures markets serve the important twin functions of risk transfer and price discovery, taking opposite positions to hedgers in the physical market and improving linkages between crude oil futures prices at different maturities as participation of commodity swap dealers and hedge funds has increased. Speculators should not be viewed as adversarial agents. Rather, they are essential participants for the proper functioning of commodity derivatives markets by providing the necessary liquidity, thereby reducing market volatility.

In addition, the analysis produced by the International Energy Agency (IEA) tends to cast doubt on the ill-defined concept of 'excessive' speculation within the crude market. The ratio of speculation to hedging demand in the crude futures market is consistent with that for other commodities, and has levelled off or declined since 2008.

The supposed 'smoking gun' of speculation underpinning higher crude prices is much less evident if one considers non-exchange-traded commodities. Among them, prices rose at a greater scale and pace than that of crude oil from 2006 to 2008. Indeed, the volatility in prices during 2000–10 for most non-exchange-traded commodities either matched or exceeded that for crude oil.

That said, speculative activity does affect price volatility. However, joint IEA workshops with the International Energy Forum (IEF) and the Organization of Petroleum Exporting Countries (OPEC) have suggested that the impact is largely confined to the very short term. Over longer periods, physical market parameters and expectations about their future development play a much greater role in price determination than does derivative market activity.

The IEA supports the efforts of regulators worldwide to enhance market transparency in commodity derivative markets. But regulators must avoid moves that excessively restrict the ability of participants on the physical side from hedging their price risks – by restricting the speculators who take on that risk while performing essential roles in liquidity and price discovery.

So what drives energy price volatility, if not financial speculation? The answer, like that to most economics questions, is supply and demand. If a very inelastic supply (due to long oil-project lead times and policy uncertainties for investment) meets a very inelastic demand

(due to oil's dominance of transport and especially fossil fuel subsidies), any change in the physical fundamentals will need a very large price change to return supply and demand to equilibrium. Reducing oil price volatility therefore requires stable regulatory and investment frameworks to encourage supply, and requires scrapping fuel subsidies that hinder price signals on the demand side. In some large consuming countries, high petrol taxes may wean consumers away from overreliance on hydrocarbons over the long term, but that needs to be balanced with their shielding effect on price signals.

Although energy price volatility is most often associated with oil (particularly crude), concerns about such natural gas and coal price movements have been rising. Together, they provide almost twice as much energy as oil, and form a backbone of power generation. For natural gas, some issues are similar to oil. Inelastic supply derives from an upstream environment with often problematic investment frameworks. On the demand side, price regulation and end-user subsidies are even more prevalent than for oil.

However, unlike with oil, due to the relative difficulties of gas transport (among other factors), there is no global market gas price. Consequently, gas price volatility is inherently regional. Among the regions, the only gas market liquid enough to see financial derivatives trading comparable to oil products is in North America – which also has the lowest gas prices. That does not support the theory that financial speculation is a primary driver of price inflation, but it does reflect the realities of market fundamentals – specifically, an abundance of unconventional supplies. Indeed, the rest of the world could well benefit from an expansion of gas trading. In Europe and, especially, Asia, relatively shallow and illiquid gas markets do not yet provide the trusted price signals that investors rely on.

Although energy price volatility is most often associated with oil, there have been growing concerns about natural gas and coal price movements

More efficient gas markets will be needed as gas becomes the universal back-up fuel in an electricity sector with increasingly volatile demand. IEA research suggests that the elasticity of fuel switching is better in efficient electricity markets with adequate infrastructure. This not only enhances supply security, but also reduces price volatility.

Meanwhile, on the supply side, the most important development is unconventional gas technology. Shale gas has a very different financial profile than conventional gas: entry costs are lower and more scalable, and the majority of the financial value is realised in the first two years. All of this leads to a supply side that is more elastic. Indeed, there is empirical evidence of declining price volatility in the past three years in the United States.

The enormous influence of China

For coal, events in one country have a particular influence on price. It is difficult to overstate the importance of China in coal markets. China's global market share in coal mining is four times that of Saudi Arabia in oil. China's share in coal demand is more than twice that of the US in oil. Chinese policy changes with regard to energy efficiency, nuclear investment or production in new mining areas can shift China's coal trade position and have profound implications for global markets. Increased visibility and better data on coal in China would have a welcome effect on reducing price volatility.

Although it may be tempting to blame financial markets and sinister speculators for energy price volatility (and indeed price rises), the evidence points to market fundamentals as the primary price drivers in oil, gas and coal markets. Policy efforts to reduce volatility should therefore work towards increasing the elasticity of both supply and demand – whether by facilitating investment or effective price signals. What they should avoid, though, are reactive and political gestures to curb those financial markets that often serve to actually reduce volatility. Even if politically expedient, poorly conceived regulation will not bring the prices down. ■

Progressing on subsidy reform: addressing the barriers

The G20 needs to champion the removal of fuel subsidies to create a level playing field for renewable energy and address climate change

By Mark Halle, director, Global Subsidies Initiative; executive director, IISD-Europe

Globally, governments spend at least $1.4 billion each day subsidising fossil fuels. The majority is spent in developing countries to lower fuel prices for final consumers. Since 2009, with the international oil price rising once again to around $120 per barrel, these subsidies have become financially unsustainable, particularly for net importers of petroleum products such as Indonesia and India. They place huge pressure on state budgets and create a fiscal liability vulnerable to volatile international oil prices. Subsidies contribute to fiscal debt, leading to deeper economic problems. In the wake of having its long-term credit rating downgraded, India has announced its intention to reduce fuel subsidies to cap the total subsidy bill (food and fuel) at two per cent of gross domestic product, down from 2.7 per cent.

Consumer subsidies are also very high in energy exporting countries, where they are used to redistribute wealth created from the country's energy reserves. However, subsidies are a very inefficient mechanism for doing so. They tend to be captured by vested interests and are not distributed equitably, with the largest share of the benefits going to those that consume the most energy. These countries, such as Saudi Arabia and Russia, have little incentive to improve energy efficiency and conservation, and therefore have very high rates of energy intensity. Although they do not involve direct government expenditure, these subsidies present a missed opportunity cost to increase energy exports.

In both cases, fossil-fuel subsidies shield consumers from market signals, stifling demand responses to higher prices that, in turn, can exacerbate price volatility. Subsidies can lead to under-investment in one or more parts of the supply chain. In India and Mexico the cost of providing subsides is shared with national oil companies, diminishing their capital available to invest in developing new resources and maintain supply infrastructure.

One barrier to reform is a genuine concern that reducing or eliminating consumer subsidies, particularly in times of high oil prices, will increase inflation. However, the economic impacts of reforming subsidies must be weighed against the impacts of maintaining subsidies. Subsidy reform may have a negative impact on inflation in the short term, but maintaining subsidies at the price of a higher fiscal deficit is likely to have a much higher impact on inflation and on economic growth in the mid to long term.

> ***With the international oil price rising once again to around $120 per barrel, these subsidies have become financially unsustainable, particularly for net importers***

This is not just a developing country issue. Almost all energy-producing countries, including the United States, Canada and Australia, provide subsidies for the exploration and production of oil, natural gas and coal. In times of austerity, it is difficult to justify handouts – to the tune of over $100 billion per year worldwide – to an already lucrative industry whose products are a major contributor to human-created greenhouse gas emissions. If these governments want to be seen as credible leaders in combating climate change, at the very least they need to remove subsidies to create a level playing field for renewable energy. At a cost of over $500 billion per year, subsidies that encourage production and consumption of fossil fuels fly in the face of efforts to address climate change.

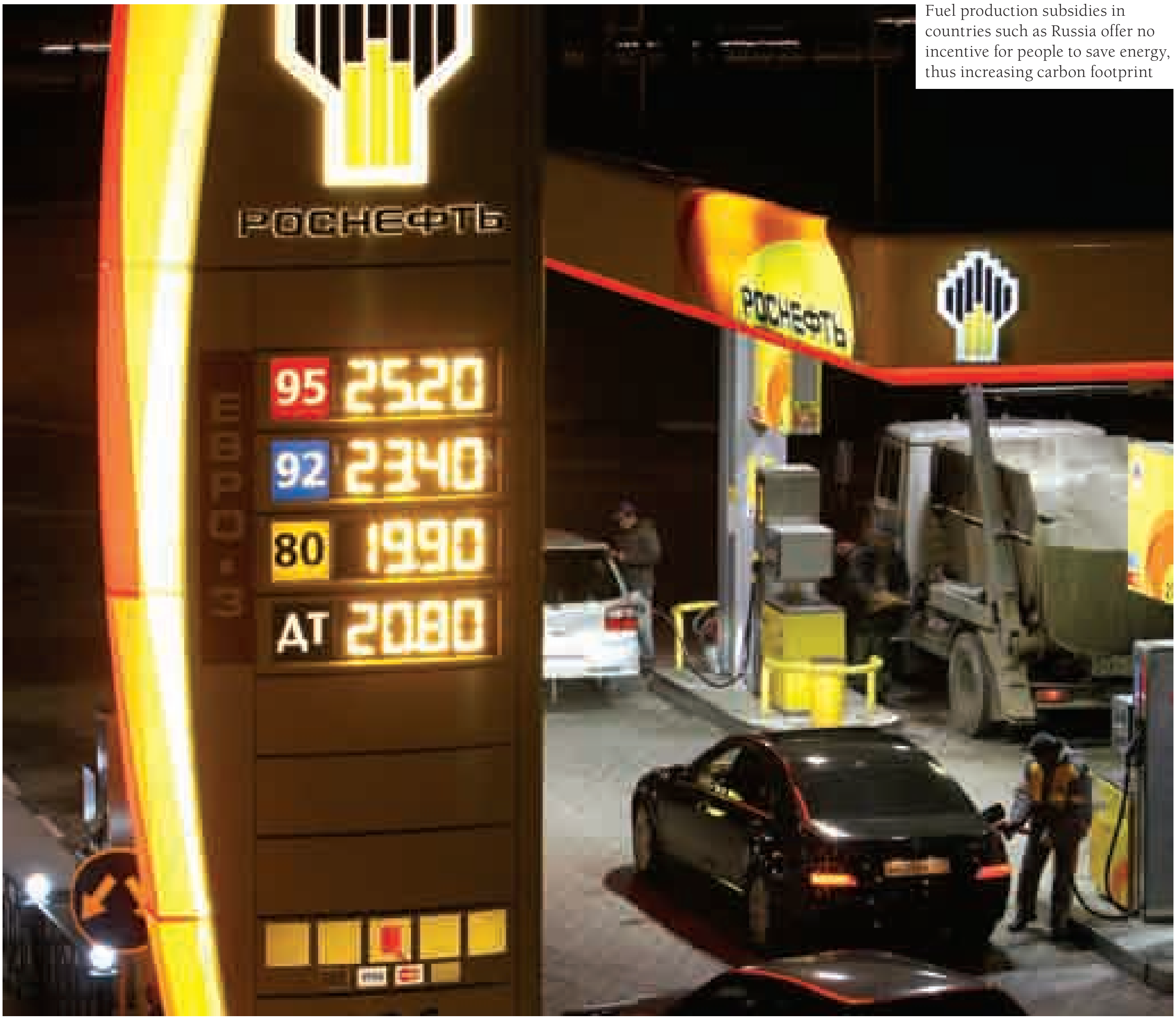
Since 2009, when the G20 first committed in Pittsburgh to phase out inefficient fossil-fuel subsidies, the global economy has faced increasing oil prices, tougher austerity measures to ward off economic crisis and a growing sense of urgency to reduce greenhouse gas emissions. Yet little progress has been made by G20 leaders to turn their commitment into effective national reforms.

Energy poverty

Organisations such as the International Energy Agency (IEA), the Organisation for Economic Cooperation and Development (OECD) and the Global Subsidies Initiative (GSI) have supported the G20, and governments more widely, by providing better estimates of the scale of subsidies, analysis of their impacts and policy advice for progressing reform. The B20 – a group of business leaders engaged in a process parallel to the G20 – have consistently called upon the G20 to "take faster and broader action" to make good their pledge to phase out fossil-fuel subsidies. At the 2011 B20 meeting in Cannes, on the eve of the G20 summit, the B20 called upon the G20 to provide a thorough report of all fossil-fuel subsidies prior to the Los Cabos Summit and to eliminate those subsidies within the next five years, while also taking action to address energy poverty.

Technical challenges

So why have governments not jumped at the opportunity to cash in their subsidies and claim the credit for taking action to combat climate change? While there are some technical challenges to implementing reforms, such as how to restructure and target support for those who need it, the barriers are largely political. Subsidies are captured by powerful vested interests – such as the oil and coal industries, and the middle classes. Governments also find subsidies a useful tool for winning favour from constituents, or an easy (albeit ineffective) solution to tough



Fuel production subsidies in countries such as Russia offer no incentive for people to save energy, thus increasing carbon footprint

problems, such as increasing energy access for the poor. One of the most useful actions governments can take, to start to overcome these barriers, is to report more information about the subsidies: how much they cost, who foots the bill and who reaps the benefits. Increasing public awareness about subsidies, their true costs and impacts will help to generate a demand for change and turn the political tide in favour of subsidy reform.

So, what can the G20 do at Los Cabos to make its pledge effective?

G20 members need to report their subsidies. A dismal effort was put forth by some G20 members at the 2010 Toronto Summit to report a few of their subsidies. Since then, reports by the IEA, OECD, the GSI and others, have clearly identified a large number of subsidies not reported by G20 members. And yet the G20 has not publicly released any reports to improve upon and update the national reports. A common argument from G20 members is that they are only required to report those subsidies they deem to be 'inefficient' or 'encourage wasteful consumption'. Indeed, identifying, measuring and evaluating subsidy policies are the first steps to reform. But, as a fundamental element of good governance, governments should report against all subsidies in order to be held accountable for public expenditure.

Tracking progress

The G20 should set a time frame for reform. The B20 has called for reform within five years. The Global Sustainability Panel recommended that countries reform fossil-fuel subsidies by 2020.

National circumstances will determine over what time period subsidies should be removed in order to allow the economy and consumers time to transition to higher energy prices. But by setting a time frame, the G20 will provide a focal point for the reform efforts and a milestone against which to measure progress. The G20 should establish an independent body to facilitate and support fossil-fuel subsidy reform. The body could be tasked with providing regular reports on subsidies and tracking progress of reform, undertaking new analysis on subsidy issues, and facilitating dialogue and the sharing of best practice among policy makers.

The G20 should champion fossil-fuel subsidy reform at the Rio+20 summit. That event presents an opportunity to extend the G20's commitment to all United Nations member countries, thereby creating a global pledge to phase out fossil-fuel subsidies.

As the first movers on fossil-fuel subsidy reform, the G20 should demonstrate leadership in Rio to secure a high-impact outcome that can generate significant economic, environmental and social benefits.

For more information about the IISD's proposed pledge to phase out fossil-fuel subsidies at Rio, visit www.iisd.org/gsi/gsi-policy-brief-high-impact-initiative-rio20-pledge-phase-out-fossil-fuel-subsidies ■

Creating a sustainable renewable energy infrastructure

Renewables sector in Mexico: the potential of wind energy

For the third consecutive year, Mexico's installed wind energy generation capacity increased substantially, with 354 MW of generation capacity added in 2011 to the 519 MW of generation capacity installed at the end of 2010. This is an amazing achievement, especially considering wind energy development only recently started in Mexico. Renewable energy sources account for approximately 24 per cent of Mexico's total installed power generation capacity, mainly from hydro and geothermal plants. Thanks to the efforts of President Calderón's administration, the wind energy sector has experienced exponential growth, moving from 3 MW in 2005 to more than 870 MW in 2011 (*source: GWEC-Global Wind Energy Council*).

The wind energy sector in Mexico has a bright outlook: the Mexican government estimates the country's wind energy potential at around 71 GW, mainly in the states of Oaxaca, Baja California and Tamaulipas.

The 396-MW Mareña Renovables project

Macquarie Group ("Macquarie") has been actively involved in the development of the wind energy sector in Mexico. In February 2012, Macquarie successfully closed the long-term debt and equity financing for Mareña Renovables, a 396-MW wind farm that is being built in the state of Oaxaca, southeast Mexico. At the Mexican peso equivalent of US$1 billion, the financing is one of the largest on-shore wind farm financings in the world to date and the wind farm will be, when finished, the largest wind farm in Latin America. The project does not rely on any government subsidies and is owned by an equity consortium comprising the Macquarie Mexican Infrastructure Fund, Mitsubishi Corporation, and PGGM.

This wind farm illustrates Macquarie's ability to originate, develop and finance complex infrastructure projects in extremely challenging markets.

Development of the project required Macquarie to:

- Negotiate and register land access agreements with more than 210 separate landholders;
- Obtain more than 60 separate federal, state and local government permits and authorisations;
- Negotiate a turnkey contract with Vestas WTG Mexico for the construction, and operation and maintenance, of the wind farm;
- Develop positive dialogue with local communities and establish sustainable, long-term solutions through active community engagement, in compliance with Equator Principles, IFC Performance Standards and IADB Safeguard Standards;
- Structure a debt package with a group of international, local, development, multilateral banks and an export credit agency;
- Secure long-term equity commitments for the construction of the project; and
- Negotiate an eight-year, fixed-price forward sale of Carbon Emission Reduction certificates.

This transaction has established a number of landmarks for Mexico:

- Largest wind farm in Latin America upon completion;
- Largest Mexican peso-denominated debt-raising for a Mexican energy project; and
- One of the largest private investments in the State of Oaxaca.

About Macquarie and infrastructure

Macquarie is a global provider of banking, financial, advisory, investment and funds management services. Macquarie Group Limited is listed in Australia (ASX: MQG) and is regulated by APRA, the Australian banking regulator. Founded in 1969, Macquarie operates in more than 70 office locations, 29 countries with more than 14,200 staff (as of March 31, 2012). Macquarie has been active in the Americas for over a decade, establishing its first office in New York in 1994 and in Mexico City in 2009. Today, Macquarie has more than 3,400 professionals in 30 locations in the region. Macquarie's market capitalisation is US$10 billion, as of May 2012.

Macquarie, through its Macquarie Funds Group ("MFG") and Macquarie Infrastructure and Real Assets ("MIRA") divisions, is recognised as a leading global investor and manager of infrastructure and real estate. MFG-MIRA manages more than 100 assets and 115 properties worldwide, representing more than US$90 billion in enterprise value (at December 31, 2011).

In December 2009, MIRA launched the Macquarie Mexican Infrastructure Fund ("MMIF"), the first Mexican peso-denominated fund solely focused on infrastructure investment in Mexico, with initial commitments of MXN 5.2 billion (US$410 million) from Macquarie, Mexican pension funds, and FONADIN (the Mexican National Infrastructure Fund).

As an owner and manager of significant assets, Macquarie works closely with communities to deliver essential services that benefit them, and to achieve high environmental standards. Macquarie's aim is to responsibly and profitably manage, on behalf of its investors, the assets in which it has investments. Infrastructure investments managed by Macquarie include in the renewable energy, regulated power and utility, transportation and telecommunications sectors, as well as social infrastructure.

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Global sustainability reporting: the corporate path to a green economy

Existing voluntary arrangements for sustainability disclosure have reached their limits. We require a new mandated approach to establish global standards of corporate responsibility

By Achim Steiner, United Nations under-secretary general and executive director, United Nations, Environment Programme, and David Pitt-Watson, chair, Hermes Focus Asset Management, and chair, UNEP FI Investment Commission

As the heads of state and government meet in Mexico for the G20 summit, thoughts will surely also be on the Rio+20 Summit immediately following it. One defining, decisive and positive outcome for the planet and its people could be a global commitment to corporate sustainability reporting and the use of sustainability information in financial sector decision-making.

Since the 1992 Rio Earth Summit, increasing numbers of companies have been factoring environmental, social and governance issues into their operations and business models. Around a quarter of corporations surveyed by Bloomberg are now encapsulating and disclosing some of these elements in their annual reports, side by side with cash flows, debts and liabilities. Meanwhile, several stock exchanges ranging from Istanbul and Johannesburg to São Paulo and Singapore are now requiring a serious commitment to environmental, social and governance issues from their listed firms. Dedicated sustainability indices have also emerged among some international rating agencies and exchanges, including the Dow Jones Sustainability Index, the FTSE4Good and the NASDAQ Global Sustainability Index.

This progress is welcome: it allows pension funds, shareholders and other investors to pick firms where sustainability is central – not least because there is good evidence that such corporations are better run, manage natural resources more efficiently, have reduced pollution footprints, are less prone to shocks in a globalised world and are less vulnerable to reputational risk. It is also assisting governments with a wide range of challenges, from meeting greenhouse gas targets to tracking health and safety improvements for workers across sectors and geographic regions.

Limit to voluntary arrangements

However, it is not enough. Both the United Nations Environment Programme (UNEP) and the Corporate Sustainability Reporting Coalition – an alliance of pension funds and investors with $2 trillion worth of assets under management along with a range of key corporate and civil society players – conclude that existing voluntary arrangements have hit their limits. Turning sustainability disclosure into a regular requirement will speed up the process of corporate responsibility vis-à-vis society and the environment, an indispensable prerequisite for delivering sustainable development.

Turning sustainability disclosure into a regular requirement will speed up the process of corporate responsibility, an indispensable prerequisite for sustainable development

The availability of relevant and comparable information is also fundamental in enabling investors and other financial players in the financial sector to align their decision-making with the long-term needs of sustainable development – and encouraging them to do so more systematically.

The time is ripe for a global policy framework on corporate sustainability reporting. This is essential in order to move forward and assist in fast-tracking a transition to a global green economy.

Why? First, several countries including China, Denmark, Ecuador, India, Norway, Singapore and the United Kingdom have recently created laws, procedures, guidelines and standards in line with the proposed convention. A survey of stock exchanges has found that 80 per cent of those responding wanted a global approach to sustainability reporting; only 30 per cent objected to this being mandated. Clearly mandatory corporate sustainability reporting can be done.

Second, many of the nuts and bolts underpinning a potential global framework already exist, via such voluntary efforts as the UNEP-founded Global Reporting Initiative, the Global Compact, the Carbon Disclosure Project and the International Integrated Reporting Council, which advocates integrated reporting – this being a holistic representation of the 'state of play' in a company and in respect to sustainability reporting, a necessary stepping stone in achieving such representation.

Third, there is an inherent risk in failing to tackle corporate sustainability reporting at the global policy level. While efforts by individual countries are to be welcomed, what business and finance needs most to fulfil their role towards a green economy is not many different standards (which over time would make international business and market access more complicated), but a common global agreement on reporting that will be more effective and cost less.

Some countries and companies may fear that a global policy framework such as a convention could prove a bureaucratic strait jacket or a costly brake on profits. This need not be the case. Indeed, experience has shown how the benefits of corporate sustainability reporting can be reaped without becoming an extension of red tape, and that having a global standard need not imply a 'one-size-fits-all' approach.

Governments can have the flexibility to implement in a variety of different ways,


Recycling plastic bags in North Africa for sustainable recovery, one example of new opportunities in a resource-efficient, job-generating green economy

whether through new laws, existing company laws or via listing authorities such as national stock exchanges.

Moreover, once adopted on a national level, compliance by individual companies could be done on a 'report or explain basis', effectively turning the tables on the current situation of opting in to corporate sustainability reporting to one where companies would have to opt out.

In other words, it would be up to companies' boards of directors to define what is material and needs to be reported, on the one hand, and what is immaterial and should be merely explained to regulators and shareholders, on the other.

Every day, trillions of dollars flow in and out of investments across the globe, a proportion of which is assisting in generating the conditions for a transition to a low-carbon, resource-efficient, job-generating green economy. A global commitment on sustainability reporting could dramatically assist in accelerating and scaling up these positive investment flows and bridge what is currently a big gap between ambition and reality for a sustainable future.

The momentum is rapidly gaining ground among responsible investors, an increasing number of corporations and forward-looking sectors of civil society.

The stakeholders of today want to be able to make an informed assessment, from companies' announcements and reports, of their overall performance, which includes social and environmental aspects in addition to financial aspects.

A range of commitments will be before world leaders at the Los Cabos Summit. Evolving sustainability reporting onto a higher, more widespread and legally grounded level, ideally in the form of a future convention, should be firmly on their radar as one inspiring policy option guaranteed to deliver powerful and positive environmental, social and economic outcomes. ■

The year that the world faced up to climate change

Mexico welcomes world leaders to the G20 summit, having just endured its worst drought for decades, which has focused the country on finding answers to the problems caused by global warming

By Michel Jarraud, secretary general, World Meteorological Organization

Mexico, the host of the 2012 Los Cabos Summit, has just endured its worst drought in 70 years, which threatens to have a far-reaching impact on the lives and livelihoods of its people.

In the words of G20 and Mexican president Felipe Calderón: "There is a terrible climate change problem. This is not just an issue regarding environmental issues. This is an issue that relates to the viability of our civilization's whole model as we look ahead to the end of this century."

Mexico is not alone. The 2011, *Annual Statement on the Status of the Global Climate*, published by the World Meteorological Organization (WMO), revealed that it was a year of climate extremes around the world. Significant flooding occurred in many places, while major droughts affected parts of East Africa and North America, largely because of a very strong La Niña event. Global mean temperatures in 2011 did not reach the record-setting levels of 2010, but were still the highest observed in a year with a La Niña, which has a cooling influence. Arctic sea-ice extent fell to near-record-low levels.

The preliminary findings of a forthcoming WMO Decadal Global Climate Summary show that climate change accelerated in 2001-10, which was the warmest decade ever recorded in all continents of the globe. The rate of increase in temperatures since 1971 has been remarkable.

Irreversible impacts

Climate change is happening now and is not some distant threat to worry about in the future. The world is warming up because of human activity and this is having far-reaching and potentially irreversible impacts on the Earth, atmosphere and oceans. Concentrations of greenhouse gases in the atmosphere have continued to increase unabated, reaching an all-time high in 2011. Between 1990 and 2010, according to the report, there was a 29 per cent increase in radiative forcing – the warming effect on the climate system – from greenhouse gases.

Population growth, industrialisation, globalisation, increased demand for food, energy generation – human activities are straining the planet's limited natural resources. Climate change and environmental degradation are likely to place even further pressure on ecosystems. The world therefore needs to do much more to embrace sustainable development – defined by the World Commission on Environment and Development as "meeting the needs of the present without compromising the ability of future generations to meet their own needs".

Development goals

The United Nations Conference on Sustainable Development (Rio+20), to be held in Brazil on 20–22 June 2012, aims to secure renewed political commitment for sustainable development, to assess progress to date in achieving the targets of Agenda 21 and to address new and emerging challenges. The WMO and the National Meteorological and Hydrological Services of its 189 member states and territories will work with the rest of the international community to realise the promises of, in particular, the Millennium Development Goals (MDGs), with a major focus on human health and development, to achieve 'The Future We Want'.

The Global Framework for Climate Services promises to coordinate efforts across the meteorological, hydrological, environmental, climatic and socioeconomic communities. It is being developed by WMO in conjunction with the broader United Nations system and is a key mechanism for achieving the MDGs. The framework will harness climate services in support of development, thus contributing to an enhanced quality of life worldwide.

The framework is based on the philosophy that sustained capacity for management of the climatic risks today is the foundation for efficient management of the increasing climatic risks of tomorrow, which scientists have predicted will be greater in scope and magnitude, as the consequences of human activities on the environment are felt.

It aims to provide climate information tailored to users' needs. The four initial priorities will be food security, water management, disaster risk reduction and health, because of the pressing need for climate information to guide long-

Water shortages during the recent drought in Mexico, which affected almost 70 per cent of the country, had a devastating impact on communities and industry

term planning on agricultural land use, dam construction, coastal defences and malaria-control programmes, to name but four examples. Other climate sensitive socioeconomic sectors, including energy, transportation, tourism and urban planning, benefit from such tailored services.

Extensive collaboration

WMO has made the framework its top priority because existing climate services do not reach the most vulnerable. Indeed, about 70 developing countries have little or no climate information. WMO believes that with a relatively small annual investment of around $75-$100 million it can build the foundations of this framework, which will allow governments to capitalise on the billions invested in climate observation, research, modelling and prediction during the past 30 years and on the progress made in short-range (days) to medium-range (weeks) forecasts by expanding to much longer ranges (seasonal to decadal). This will yield significant benefits, with a large return on investment.

Given the complexity of naturally occurring climate variability, amplified further by human-induced climate change, it is beyond the capacity of any single country or institution to build such a service on its own. Accordingly, the framework will be based on a long-term cooperative arrangement through which the international community will work together to facilitate the generation of and access to climate information and services.

To meet its objectives, the framework will require extensive collaboration among national and local governments, agencies, non-governmental organisations, civil society, the private sector, universities and research institutions. As such, the framework will be supported by the entire UN system as well as other organisations. The scientific and technical capabilities of all stakeholders will have to be improved. New capacities will have to be developed by reinforcing and aligning institutional arrangements, improving infrastructure and systems, and developing human skills and training.

The national infrastructure for the systematic collection of high-quality climate observations will have to be strengthened in many countries and regions. The maintenance of observation networks is critical, and will need financial support from governments. An extraordinary WMO congress meets in October 2012 to decide the governance structure of the framework and an implementation plan. It is an ambitious undertaking, but we are confident that we will succeed with it. ■

Biodiversity, its values and economic development

Living in harmony with nature underpins human society. Targets aimed at protecting the world's biodiversity will not only help the environment but also foster sustainable economic development

By Braulio Ferreira de Souza Dias, executive secretary to the Convention on Biological Diversity

The planet's species and habitats, and the goods and services they provide, form the basis of the world's wealth, health and well-being. Biodiversity underpins the functioning of ecosystems that human societies are built on. Its continued loss, therefore, has major implications for the well-being of the world as a whole.

The provision of food, fibre, medicines and fresh water, as well as the pollination of crops, the filtration of pollutants and protection from natural disasters are among those ecosystem functions potentially threatened by declines and changes in biodiversity. The fulfilment of cultural needs such as spiritual and religious values, the opportunities for knowledge and education, as well as of recreational and aesthetic values are also affected.

Addressing biodiversity loss is a prerequisite for economic prosperity in the 21st century – a century that will be characterised by the challenge of population growth, increased consumption from a rapidly growing global middle class and the impact of climate change.

A set of ambitious targets

As a road map for the way forward, the 193 parties to the Convention on Biological Diversity (CBD) adopted the Strategic Plan for Biodiversity 2011–20 and its 20 ambitious Aichi Biodiversity Targets. These are not just a step towards sustainable development and a green economy; they are also an opportunity for G20 countries to achieve their own goals.

Of the suite of 20 targets, several address the importance of biodiversity for the economy. They provide tools and approaches not only for government, but also to help the business sector shift production and consumption in a more sustainable direction. These targets offer a way to address the valuation of biodiversity and the impact of incentives on protecting it.

Target two calls for the integration of biodiversity values into national and local development and poverty reduction strategies and planning processes, as well as into national accounting and reporting systems. Integrating and reflecting the contribution of biodiversity and the ecosystem services it provides in relevant strategies, policies, programmes and reporting systems is an important element in ensuring that the diverse values of biodiversity and the opportunities derived from its conservation and sustainable use are recognised and reflected in decision-making. Similarly, accounting for biodiversity in decision-making is also necessary to limit the effect of unintended negative consequences.

__Overall, the CBD's targets are not only designed to deal with halting the loss of biodiversity. They also represent opportunities for countries to realise economic efficiencies__

The third target addresses eliminating, phasing out or reforming incentives, including subsidies, that have a harmful impact on biodiversity. This is done in order to minimise or avoid any negative impact on the environment and to promote positive incentives for the conservation and sustainable use of biodiversity.

Ending or reforming harmful subsidies would also generate net socioeconomic benefits. The creation or further development of positive incentives for the conservation and sustainable use of biodiversity – provided that such incentives are in harmony with the CBD and other relevant international obligations – could also provide financial resources or other motives to encourage actors to undertake actions that would benefit biodiversity and the environment overall.

Negative incentives

Therefore, depending on national circumstances, countries could try to accomplish three things. For some countries, it may be possible to abolish damaging economic incentives outright. However, for many others a more steady, gradual approach may be required, as different sectors or groups in society have come to depend on whatever incentives are available. In some cases, there will be powerful vested interests that have strong reasons for maintaining them.

It will not always be possible to eliminate or phase out incentives that damage the environment. In these cases, efforts should be made to reform them. They may be deemed important for other societal objectives – these incentives should be reformed so that their negative impact is reduced as much as possible.

Finally, plans should be made to develop and apply positive incentives for the conservation and sustainable application of biodiversity.

An overarching principle in this target is that any actions taken should be in harmony with the CBD and other relevant international obligations, taking into account national socioeconomic conditions. They should contribute to the conservation of biological diversity and the sustainable use of its components; they should not have a negative impact on the biodiversity and livelihoods of other countries; and they should contribute to sustainable development and the eradication of poverty.

The fourth target of the strategic plan calls for governments, business and stakeholders at all levels to take steps to achieve plans for

Wanawake Kwanza (Women First) growers' association in Maza village in Tanzania. Safeguarding the biodiversity of ecosystems is of critical importance

sustainable production and consumption and keep the impact of the use of natural resources well within safe ecological limits.

Tackling over-exploitation

The unsustainable use or overexploitation of resources is one of the main threats to biodiversity. Many individuals, businesses and countries are making an effort to substantially reduce their use of fossil fuels, with a view to mitigating climate change. Similar efforts are needed to ensure that biodiversity is also kept within sustainable limits.

Achieving sustainable production and consumption is a long-term process. For this reason the target requires that parties and stakeholders start taking the steps or develop the plans needed to achieve this.

This target also seeks to ensure that the use of natural resources are kept within safe ecological limits. What constitutes an ecological limit is a broad concept. But it can be generally understood as a point where the amount of resources being extracted or used is less than or equal to the amount of resources that ecosystems are able to provide on a sustainable basis, while maintaining the functionality of the ecosystem.

Although specific limits will vary with different ecosystems, in many cases the actual limits will be unknown, so applying a precautionary approach will be advisable.

Overall, these targets are not only designed to deal with halting the loss of biodiversity. They also represent opportunities for countries to realise economic efficiencies. Subsidy reform and attention to sustainable consumption and production have the potential to realise tremendous economic gains.

Biodiversity, if properly valued, represents an important national natural asset that, if properly harnessed, can be the means to sustained economic growth – a future of life in harmony with nature. ■

The contribution of civil aviation to climate change control

The aviation sector not only makes an important contribution to international economic growth – it is also spearheading policies to address the environmental issues associated with air transport

By Raymond Benjamin, secretary general, International Civil Aviation Organization

If you flew to the G20 Los Cabos Summit, this has probably been the safest activity you engaged in today. The aircraft that you flew on is 70 per cent more fuel efficient and 75 per cent quieter than if you had taken the same trip 40 years ago. Since 1944, the International Civil Aviation Organization (ICAO) has been the specialist agency for international civil aviation for the United Nations.

The organisation sets standards, policies and guidance necessary for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection. It serves as the forum for cooperation in all fields of civil aviation among its 191 member states in order to ensure that international air transport services are operated soundly and economically.

Civil aviation plays a key role in society as it affects social, cultural, economic, commercial, political and environmental aspects of life. It therefore has a primary role in the search for opportunities and solutions for sustainable development across its social, economic and environmental pillars.

Aviation is a vital element of the global transportation system, bringing people together in remarkable ways. In 2011, around 2.7 billion passengers were transported safely by air. This figure is forecast to exceed seven billion by 2030. In addition to people, more than 50 million tons of cargo – approximately 40 per cent of world trade by value, but less than two per cent by volume – are carried annually. Air transport supports 3.5 per cent of the global gross domestic product (GDP), including the employment of more than 56 million people worldwide. If aviation were a country, it would rank 19th in size by GDP, about the size of Switzerland.

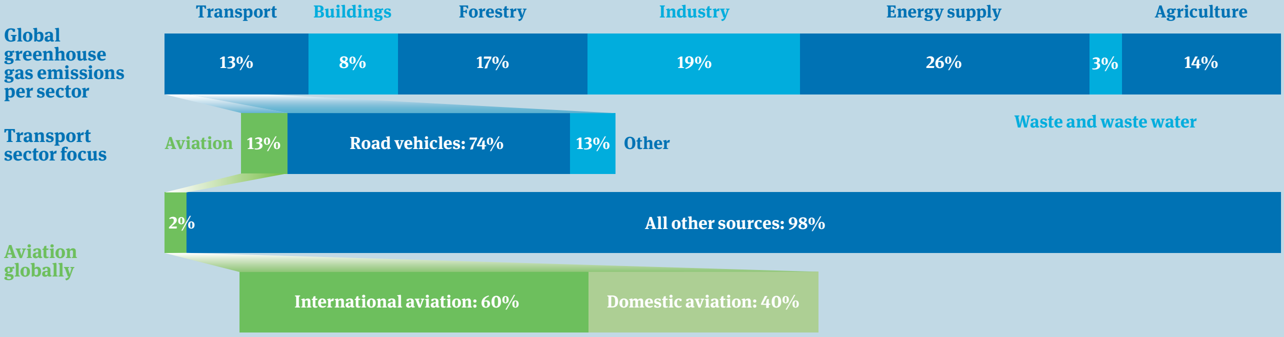
These figures relate to total global aviation, both domestic and international. Measures that can be applied towards improving the sector's environmental performance often benefit both domestic and international aviation. However, while the responsibility for domestic aviation rests with individual states, the responsibility for international aviation resides with ICAO.

As the world has become increasingly concerned with global climate change, ICAO has taken the lead in addressing international aviation's contribution. This is estimated by the Intergovernmental Panel on Climate Change to be approximately two per cent of global anthropogenic carbon dioxide emissions and forecast to grow to three per cent by 2050. Of that two per cent, international aviation represents approximately 62 per cent (see box below). This portion is the responsibility of ICAO.

While international aviation's contribution to global emissions is modest, its emissions

The focus on climate change – sound policies based on sound information

Total CO_2 emissions from aviation (domestic and international operations) currently account for approximately two per cent of total global CO_2 emissions (*IPCC 4th Assessment Report 2007*); approximately 60 per cent of that two per cent are from international aviation (around 1.2 per cent)



Although the contribution of aviation operations to total global CO_2 emissions is relatively small, forecasted traffic growth (around 4.7 per cent per year) raises questions on the future contribution of aviation activity to climate change and on the most effective way to address CO_2 emissions from the sector

LAN Airlines staff prepare for the first flight in Latin America using a navigational system designed to reduce emissions

are growing. In October 2010, ICAO's members adopted a comprehensive global policy on addressing greenhouse gas emissions. Resolution A37-19 from the ICAO Assembly reflects the determination of its members to play a leading role in addressing climate change by working through ICAO to limit or reduce emissions from international aviation, identifying a global solution while taking into account the special needs and circumstances of its members.

The resolution includes a global aspirational goal of an improvement of two per cent in fuel efficiency annually up to 2050, a medium-term global aspirational goal from 2020 that would ensure that global carbon dioxide (CO_2) emissions would be stabilised at 2020 levels and further work to explore the feasibility of a long-term global aspirational goal for international aviation. The resolution also includes de minimis provisions based on the amount of international air traffic to ensure that states with small contributions to global air traffic (less than one per cent) are not burdened disproportionately.

ICAO has identified measures that can be applied to realising those goals. These include aircraft-related technology development, alternative fuels, improved air traffic management, more efficient operations, economic measures and regulatory measures.

Members asked ICAO to develop the first CO_2 standard for aircraft and a global framework for market-based measures and to explore a global scheme for international aviation. Together, these measures constitute a practical means for addressing emissions from international aviation in a manner compatible with an overall global strategy for combating climate change. As with most of the measures, while ICAO is responsible for international aviation, the measures address domestic emissions from the sector as well.

Among the most promising opportunities for delivering a sustainable future for aviation as a sector are the development and deployment of sustainable fuels. New alternative fuels offer the potential not only to reduce net emissions, but also create new economic and employment opportunities in traditionally non-oil-producing regions.

Commercialisation and production scale-up, due to high costs, still represent the major challenge to the development of a sustainable jet biofuels industry, but ICAO is actively engaged with all major stakeholders to address these challenges globally.

Next steps from the member states

Member states are currently submitting plans that outline their policies and measures to reduce emissions from international aviation. This represents an important interaction between ICAO and its members as each plan will communicate the planned actions and expected results in quantitative terms, marking an important transition to an implementation mode on the environment. To support states in developing these plans, ICAO prepared guidance material, conducted regional hands-on training workshops covering more than 90 per cent of the world's air traffic and is actively working with states.

To achieve the aspirational goals adopted by the assembly, adequate financial resources must remain within the international aviation sector itself, enabling it to respond effectively to the challenges of climate change. Some studies of climate change finance have suggested international aviation as a source of funding at levels disproportionate to the sector's contribution to global emissions. Such a policy would limit the ability of the sector to address its own emissions and could adversely affect demand, thereby reducing the economic benefits that international aviation delivers – a lose-lose scenario.

Significant barriers to imposing a tax on international aviation also exist. Most significant are the more than 4,000 bilateral agreements that exempt international aviation fuels from being taxed. The language in these agreements reflects Article 24 of the Convention on International Civil Aviation (1944) and a subsequent clarifying Assembly Resolution (1999). Amending the Chicago Convention would require the approval of a two-thirds majority of states, in other words the support of an additional 108 countries beyond the G20.

To fulfil its role as a catalyst for economic, social and cultural development, air transport needs to be sustainable. ICAO's vision for sustainable development is a safe, secure, efficient and reliable mode of transport that provides for universal access to low carbon mobility while minimising its environmental impact and maximising its social and economic output. ICAO continues to work closely with its members and international organisations to develop concrete proposals to limit and reduce the environmental impact of aircraft engine emissions, with a view to achieving a sustainable future for international aviation.

Aviation delivers positive, global, social and economic benefits. The G20 can support the essential role of international aviation in global society by considering positions that will help it to develop sustainably. ■

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Satellite observations:

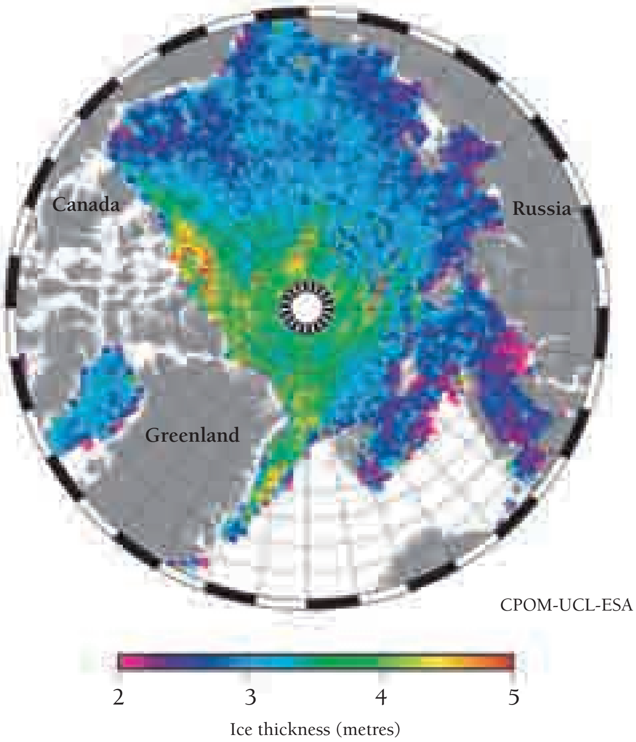
an indispensable tool for international environmental action

Efforts of the European Space Agency

Never before in history has a species more fundamentally changed the natural environment of Earth: humans are today so profoundly impacting global parameters that science speaks of the anthroposphere, or technosphere, as one of the planet's spheres. International politics has drawn up legal instruments tying state parties together in supporting positive trends and mitigating the negative consequences of human action. The UN Conventions – such as the United Nations Framework Convention on Climate Change (UNFCCC), United Nations Convention on Biological Diversity (UNCBD) and United Nations Convention to Combat Desertification (UNCCD) – have become an important aspect of international regulatory force towards more sustainable action. The implementation of these conventions benefits strongly from space technology.

While the impact of human action generally starts on a local level, its consequences can amount to large-scale phenomena which are best quantified and qualified on a global scale with the use of satellites. These steady sentinels in space support a better understanding of the global processes that shape our environment and also our future. The European Space Agency (ESA) is a pioneer in terms of Earth observation satellites. ESA has been instrumental in making meteorology one of the first

Sea ice thickness in Arctic Ocean
(January/February 2011)



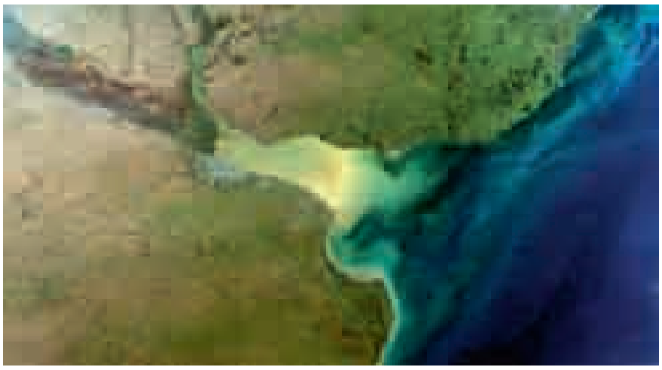
sustainable and operational space applications in Europe, having contributed to the development of the Meteosat missions since the 1970s. The long-lasting ERS-1, ERS-2 missions and Envisat, the world's largest Earth observation satellite ever, have provided an immense amount of valuable research data to more than 4,000 scientific projects worldwide and to service providers every day.

One of the most urgent topics of our time is the understanding of the underlying mechanisms of climatic change, and the contribution of mankind to it. For a sound scientific assessment and extrapolation it is indispensable to look at the state of, and, more importantly, the changes in the Earth's climate which come about as the result of the interaction between various

The implementation of UN Conventions benefits strongly from space technology

components. ESA is developing a fleet of so-called Earth Explorer missions that shed light on open questions regarding these Earth systems. ESA's GOCE mission has reached its ambitious goal of mapping Earth's gravity with unprecedented precision. In March 2011, after only two years, the satellite has collected the measurements needed to record the geoid reference shape of our planet, allowing scientists to create the best-ever model of the geoid. The SMOS mission has delivered the first global measurements of soil moisture and ocean salinity, two key variables in the Earth's water cycle. The first Arctic sea ice variability map, precursor to a 'fever curve' of Earth's climate and based on data from ESA's CryoSat mission, was presented in spring 2012. New Earth Explorers are in the pipeline awaiting launch, such as Swarm to study Earth's magnetic field, ADM-Aeolus for 3-D wind-mapping and EarthCARE for aerosols, cloud and radiation budget monitoring.

Equally important to new observations is the utilisation of many years of archived data sets, their re-processing with



ESA's SMOS mission has provided the first measurements of ocean salinity

A fleet of Earth observation satellites is due to launch in the next 10 years

the newest scientific algorithms, their comparison and their interpretation. The 'Global Climate Observing System' (GCOS), in the context of the UNFCCC, defined a set of 'Essential Climate Variables' (ECVs), which shall be systematically monitored, in order to quantify the state of our climate in an objective and effective way. In response hereto, ESA has given birth to the 'Climate Change Initiative' which generates, preserves and gives access to long-term data sets for many of these variables.

With a veritable fleet of 20 Earth observation satellites to be launched over the next decade, the ESA is set to continue providing an ever sharper look at the Earth as the cradle of humankind and at the natural and anthropogenic changes it experiences over time, while supporting the international environmental conventions and thus giving decision-makers the tools to respond to the challenges of the 21st century.

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Sustainable development: turning the idea into reality

The scientific knowledge to create a greener world is probably already with us, but the question of whether organisations are sharing it effectively could be one of the hottest topics debated at Rio+20

By Adriana Abdenur, general coordinator, BRICS Policy Centre; professor, Catholic University of Rio de Janeiro

At this point, the single biggest hurdle to sustainable development on a global scale is neither conceptual nor technical; it is institutional. Contemporary societies probably possess the scientific and technological capacity to generate solutions to most of the concrete environmental, social and economic problems faced today, offering alternative paths to development that will use resources more intelligently in the long term. What is lacking is a solid governance system designed to identify innovations, foster new ideas, rally constituencies towards reframed goals and implement solutions on the scale needed to effect real change in a well-distributed manner. A reformed governance system for sustainable development should not only be more representative of the interests and potential of developing countries, but also be firmly embedded within a network of knowledge hubs that foster the production and flow of innovative solutions. Such a system would, in fact, reproduce on a global scale some of the key characteristics of regional innovation systems in places such as Silicon Valley, where interlinked organisations based on a relatively free flow of knowledge generate speedy and cumulative innovations.

The idea of reforming global governance for sustainable development is nothing new. Many expect this to be the most controversial topic at Rio+20. Climate change debates – suffering from acute fatigue within non-specialist circles due to the political imbroglio of the Kyoto Protocol – have been all but left off the conference agenda in favour of the far broader (and, hence, more nebulous) concept of 'green economy' and strategies for poverty alleviation. So far, the governance controversy pivots on the type of global coordinating body that might replace the United Nations Environment Programme (UNEP). Whether a new coordinating institution is formed or UNEP is simply revamped, there is clearly an urgent need for better coordination of efforts that take place at multiple levels and different places among a complex set of actors. Whatever shape that coordinating body ultimately takes, it will not succeed unless it adopts a network approach to innovations for sustainable development.

The current governance system suffers from two interrelated problems: lack of a strong coordinating agency and fragmentation of efforts. As far as institutional strength is concerned, UNEP lacks clout and funding; it has remained relegated to the inferior status (and accompanying resources) of a UN programme rather than a full-blown agency, and suffers from significant replication of efforts and contradiction by other UN bodies. Given the multi-scale, multi-sector nature of sustainability, coordination at a global level requires greater capacity, a broader mandate and funding beyond the voluntary contributions that form the bulk of UNEP's budget.

In addition, and partly as a result of its limited resources, UNEP has remained frustratingly remote from the debates and issues of sustainability. Because of this distance and organisational incoherence, current attempts at coordination have been highly fragmented among a variety of international environmental agencies.

A global coordinating institution thus must be endowed with adequate financial resources to coordinate and execute ambitious programmes, but one that is nested within – and in turn, fuels the expansion of – a strong network of institutions dedicated to sustainable development. Such institutions

Greener ways to generate electricity, as seen by these Bloom Energy servers in Silicon Valley, are developed through organisations pooling their expertise

include not only national governments but also sub-national governments and agencies, civil society organisations, and private sector actors. Many of these are located in the developing world – itself the source of key sustainability solutions yet far too often still viewed as the site of only problems. These actors generate a variety of solutions and social and scientific technologies. Many of the 'social technologies' for sustainable development have arisen out of necessity, improvisation within a context of scarce resources, popular demand and mobilisation, or ingenious policymaking – as is the case with a variety of successful conditional cash transfer programmes, recycling cooperatives and reforestation programmes. Other adaptable models include progressive municipal planning coming out of Medellín, Colombia, and recent efforts to integrate low-income communities into the fabric of the city in Rio de Janeiro, Brazil.

The scientific laboratories of developing countries are frequently overlooked as knowledge hubs, although they produce a variety of frugal yet ingenious solutions. Many of these are devoted to solving problems that afflict precisely those societies most directly, but that to the growing realisation of the rich world, also bear on the well-being and sustainability of industrialised countries.

Indian and Brazilian research centres working on agriculture and biotechnology, for instance, have much to contribute to global food security and public health, but some of these centres remain isolated from international research networks. Any effective coordinating body for sustainable development should work to catalogue these hubs and strengthen the linkages across them.

Building up such a network is a gargantuan task. This is precisely where the G20 could help stakeholders to implement more effective solutions to environmental and social problems around the world. By pooling resources, the group could help reorient global models of development by restructuring institutions and networks so as to improve the flow of innovations and scale up solutions. The challenge of reforming global governance for a network of sustainable development can be broken down into three steps: mapping, linking and coordinating. Mapping involves identifying existing knowledge hubs of universities, agencies, think tanks, research centres and community organisations – which produce and disseminate solutions for sustainable development. The task is more difficult than it sounds, given the high level of fragmentation among institutions working on the gamut of topics that fall under the umbrella of sustainable development and the corresponding low degree of information dissemination. Likewise, such an effort would involve identifying the gaps that need to be bridged in order to strengthen institutions, foster the free flow of knowledge, scale up solutions and help innovations reach the problems for which they have been designed.

Knowledge exchange

Linking involves building bridges across institutions and creating channels to enhance the free flow of knowledge, resources and financing for sustainable development projects. Such linking might involve greater diplomatic efforts and also greater technical, financial and humanitarian cooperation and the implementation of concrete initiatives such as high-speed communications linking different regions of the planet. Ultimately, the focus should be on knowledge exchange rather than on the traditional and tired stripped-down modalities of technology transfer. The goal should be to broaden the field for participation by a wider variety of stakeholders, from governments to non-governmental organisations and private firms.

Coordinating involves facilitating efforts and strengthening the institutional capacity of those knowledge hubs dedicated to sustainable development, so as to make more transparent and effective the necessary tasks across sectors of target setting, project design and implementation, monitoring and evaluation, and dissemination of results. This coordination, like mapping and linking, cannot be effectively implemented without the full participation (in the sense of partnership rather than mere consultative basis) of developing country actors.

As Kofi Annan recently noted, "Our biggest challenge in this new century is to take an idea that seems abstract – sustainable development – and turn it into a reality for all the world's people". Such a reality cannot be divorced from the networks of innovation – actual and potential – that can turn vague terms such as green economy into concrete solutions for sustainable development. ■

Sustaining growth in Latin America and the Caribbean

Despite continued global economic uncertainty, countries in Latin America and the Caribbean have experienced steady growth. Maintaining such expansion over the long term is the next challenge

By Luis Alberto Moreno, president, Inter-American Development Bank

The G20's Los Cabos Summit unfolds against a backdrop of global economic uncertainty. Although the worst fears about a slide back into widespread recession appear to have been dispelled, the crisis is not yet over.

This global uncertainty is felt – albeit moderately – in the western hemisphere. Latin America and the Caribbean have been growing at more than four per cent annually, and while this may slip this year, unemployment will remain at less than seven per cent. Such growth needs to quicken, but for that to occur, it is necessary for the storms that are currently battering other shores to abate.

It is common knowledge that drastic, sudden adjustments can lead to lost decades. Latin America's hard-won experience can serve as a valuable example to countries on the other side of the Atlantic to pursue the kind of policies that helped its region manage public debt problems and, ultimately, move back onto a growth path.

Thanks to these policies, Latin America and the Caribbean are today viewed as a region of promise and opportunity. Since 2002, it has lifted more than 50 million people out of poverty. It has significantly reduced its debt burdens and budgetary imbalances. If the region's growth were to average 4.8 per cent per year (a level only slightly above the average for the past 10 years), by 2030 its gross domestic product could double. And that, in turn, could push the region's poverty rate, now at 31 per cent, to as low as 10 per cent. Within just one generation, 500 million of its citizens could belong to the fast-expanding middle class.

What can be done to ensure that this promise of greater prosperity is realised? If there is one hard fact that should inform any forward outlook, it is that global growth is increasingly driven by demand from Asia, a continent that will need ever-increasing volumes of food, hydrocarbons, minerals and other raw materials. 'South-South' trade flows have been surging since the dawn of this new century, as Asia turns to Latin America and the Caribbean for these resources. Bilateral trade between Asia and the region has been expanding at an average of 20.5 per cent per year since 2002. It reached an estimated $442 billion in 2011.

Although market forces are driving this shift, governments need to play their part.

Diversifying exports

One key focus for the Latin American and Caribbean region is greater diversification in the basket of export goods. Free trade pacts, investment agreements and other such arrangements should spur manufacturing or agro-industrial ventures. Just as important is how the region can share policy successes and positive experiences. It has a wealth of experience in poverty reduction, agricultural modernisation, mining industry advances and urban development. Asia, too, has a storehouse of experience with first-class education systems, the technology leap and export policies to draw upon.

Latin America and the Caribbean must also expand and strengthen commercial ties across the southern hemisphere, where business and integration opportunities will increasingly be found. Now is the time to look to Africa, which, with its population of over one billion, represents great long-term potential for trade and investment.

Also, much still remains to be done in its own corner of the world. The Sixth Summit of the Americas, recently hosted by

Agriculture is one of many sectors in which Latin America and the Caribbean can profit from the increasing demand from Asia

Colombia, highlighted the need for Latin America and the Caribbean to cooperate and work together in the spirit of the meeting's theme, Connecting the Americas. Here, it is not only a question of developing physical infrastructure, which still lags so far behind as to constitute a barrier between neighbouring and fellow countries.

Virtual connections, logistics and bureaucratic procedures also need to be improved. Integration will open more and more doors. Integration requires political will, as well as the conviction that Latin American and Caribbean countries are stronger being united than if they operate as islands in a sea of missed opportunities.

The example provided by the region's business community, which has crossed borders, forged alliances and found opportunities, is proof of the benefits of operating in a regional marketplace. The first-ever CEO Summit of the Americas, organised by the Colombian government with the help of the Inter-American Development Bank (IDB) in Cartagena, brought together the top representatives of the hemisphere's business community with government leaders to foster closer ties and discuss issues that are vital to the region's competitiveness and productivity.

International success

There is a growing group of Latin American multinationals – the so-called 'multilatinas' – that are competing successfully around the world. Increasingly, more medium-sized companies are venturing into international waters. They must be encouraged to do so by ensuring that they have access to timely, competitive financing. In addition, regional supply chains must be created, so that even the smallest enterprises can participate in the process of adding value to the region's commodities and manufactured goods.

Amid the promises that the future holds, and with all that Latin America and the Caribbean have achieved in recent years in terms of controlling inflation, managing public debt and improving fiscal balance, several key concerns remain.

First among them is education. This is a critical challenge, not only in terms of spending or coverage of service, but especially in terms of education quality. International tests have shown that Latin American and Caribbean students underperform when compared to their peers in countries with lower incomes. This is partly a matter of teacher training, but also a problem of inflexible policies and poor management. Improving education will help to narrow the wide equity gap that characterises the region's societies, making Latin America and the Caribbean more productive and competitive, and enabling a culture of innovation to take root.

Consolidation requires political will, as well as the conviction that Latin American and Caribbean countries are stronger being united than as islands in a sea of missed opportunities

The second point is crime and insecurity, which top Latin American and Caribbean citizens' list of concerns. It is paradoxical that just when major advances in economic stability and increased incomes have been achieved, crime has reached levels far worse than during the 'lost decade' 30 years ago. Across the region, 350 people are murdered each day, more than in any other part of the world. It is time to mount a more coordinated response to this challenge, one that harnesses higher-quality information about crime and invests in professionalising those charged with maintaining law and order.

Raising living standards in cities

Progress in this area is essential to fulfil another pressing objective: improving the quality of life in the cities. While Asia is currently experiencing rapid urbanisation, Latin America made this transition some time ago. The region is home to some of the planet's most populous metropolitan areas, but also to some 500 cities that have populations of between 100,000 and two million. They must grow in a sustainable way, with transparent management to promote social inclusion and equity.

The Inter-American Development Bank's (IDB's) Ninth General Increase in capital resources, which came into effect in 2011, positions the bank to better address the region's growing financial needs. However, the surging growth of Latin America and the Caribbean, coupled with the uncertainties stemming from global economic conditions, has made evident a demand that already outstrips capacity. This is prompting IDB to explore solutions to respond more effectively to its clients, who value not only its lending capacity, but also the technical support and know-how of its experts.

As the G20 leaders gather for their summit, the ongoing fragility of the world's industrialised economies will naturally dominate discussions. But nobody should lose sight of the need to sustain the growth of the world's emerging economies, for their continued prosperity will be the key to an enduring global recovery. As John F Kennedy said: "Geography has made us neighbours, history has made us friends, economics has made us partners, and necessity has made us allies". ■

Free trade pacts and investment agreements can offer an incentive for agro-industrial ventures

Latin American Reserve Fund

The only regional reserve pool in Latin America was established in 1978 as the Andean Reserve Fund (FAR) and later became the Latin American Reserve Fund (FLAR), to promote membership for all Latin American countries. It is an organisation where members make capital contributions to help each other deal with balance-of-payments difficulties.

FLAR enjoys strong support from member countries, to which it has provided net benefits as liquidity insurance during its 30-year-plus existence.

FLAR can play a much more relevant role in regional financial stability and continues to promote and encourage membership of all Latin American countries.

FLAR within the regional financial structure: performance in perspective

- FLAR is a unique institution at the Latin American level and one of the few in the world.
- The FLAR sub-region represents one-fifth of regional GDP.
- FLAR's financial assistance action has been expedite and timely throughout its history.
- FLAR has a *de facto* preferred creditor status in its member countries and imposes few conditions or requirements for granting credits.
- FLAR's member countries' commitment is proven by the continuous capitalisation of profits throughout its existence and the contributions of fresh capital.
- FLAR has strengthened its financial capacity by issuances in the international markets.
- FLAR is non-bureaucratic, efficient and flexible in order to meet the needs of member countries.
- FLAR is a highly specialised technical institution and has been greatly successful in the management and investment of international reserves and in providing services to central banks and public institutions of the Latin American region.

FLAR resources (US$ million) (March 15, 2012)

Member countries	Subscribed capital	Paid-in capital
Bolivia	234.375	197.937
Colombia	468.75	395.874
Costa Rica	234.375	234.375
Ecuador	234.375	197.937
Peru	468.75	395.874
Uruguay	234.375	234.375
Venezuela	468.75	395.874

Total subscribed capital: $2.343.750; **Paid-in capital:** $2.052.247
Prudential reserves: 10 per cent of paid-in capital: $205.224

Credit rating

The highest credit rating in Latin America. AA composite rating (Standard & Poor's, AA/A1+/stable; and Moody's, Aa2/P1/stable)

Lending instruments

FLAR has five types of credit lines, with a term from one day to three years: (i) balance of payments, (ii) Central Bank foreign debt restructuring, (iii) contingency, (iv) liquidity and (v) treasury.

Members can borrow up to 250 per cent of their paid-in capital contribution.

ROA (return on assets) average of past three years: 1.5 per cent

ROA (return on equity) average of past three years: 2.5 per cent

Investment guidelines

Investment objective

Real capital preservation within a three-year horizon and a confidence level of 95 per cent.

Strategic benchmark

- 33.3 per cent US TIPS
- 33.3 per cent US six-month T-bills
- 33.3 per cent one-month LIBID

Maximum tracking error: 100 basis points

Eligible instruments include short- and medium-term securities issued by:

- US Treasury and GSE.
- US Agencies MBS.
- Supranational and sovereign governments and agencies.
- Corporations and financial institutions.

Minimum credit ratings:

- For money market instruments, a credit rating of minimum A2/P2/F2 by Standard & Poor's and Moody's and Fitch ratings, respectively.
- For medium-term notes, a credit rating equal or higher than A-/A3/A- by Standard & Poor's and Moody's and Fitch ratings, respectively.
- For financial institutions and corporations, the maximum medium-term exposure by issuer is one per cent of the market value of the portfolio.

Other services provided

Asset management, term deposits, compliance and risk-management monitoring for investment portfolios, training and seminars.

Fondo Latinoamericano de Reservas
Ana María Carrasquilla, Executive President
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Moving beyond complacency: towards a renewed development

The region has witnessed substantial progress in the economic and social fields. But challenges ahead remain complex and require a long-term vision and a mutually supportive agenda

By Enrique García, president and CEO, CAF – Development Bank of Latin America

Latin America is in a favourable but somewhat paradoxical situation in view of the great uncertainty of the global economy. It exhibits relatively high growth rates, enjoys an open democratic environment and has reduced – with some exceptions – its poverty rates. Many of the developed countries in North America, Asia and Europe are beginning to see the region as a key ally in their strategies to promote growth in their own economies. This has increased their interest in expanding their markets towards Latin America and in increasing foreign direct investment even in sectors that go beyond natural resources and activities linked to telecommunications.

Undoubtedly this is good news for Latin America but, at the same time, it is an opportunity for its countries to initiate a cycle of reforms and to address new challenges. These must be approached with responsibility and without complacency.

Latin America has been able to grow, after more than a decade of reforms, mainly because of a responsible fiscal policy, a stronger financial regulatory framework and, of course, high international commodity prices that have been reflected in a considerable increase of export earnings. The positive external situation, in the context of an adequate macroeconomic policy, has yielded its fruits.

The challenges for Latin America

Despite these macroeconomic successes, the problems are also apparent: the region continues to show high levels of inequality and poverty; employment is precarious; public institutions continue to be weak (as evidenced by the high levels of criminality and the low levels of citizen satisfaction with the rule of law); the export sector depends on producing low value-added goods and services; there are low levels of productivity in both the public and private sectors; investment in infrastructure is scarce; the rates of innovation and entrepreneurship are unsatisfactory; and high barriers to the financial system restrict enterprise development. At the same time, Latin America shows significant lags in adopting new energy-efficient technologies and developing a green economy.

Building on advantage

How, then, does the region face up to this agenda for change, taking advantage of the renewed interest? This is perhaps the true dilemma: either it remains in a 'comfort' zone that depends on the high prices of natural resources – assuming that this increase in income due to the hike in prices is permanent and running the risk of a technological change or of a decline in global demand – or it builds up competitive strengths on the basis of these comparative advantages, promoting a productive transformation that goes along with greater social equity.

This is what Justin Yifu Lin calls the "comparative advantage-defying" strategy: the adoption of policies that gradually build on the relative abundance of some factors in a sustainable way – in the case of Latin America, natural resources – to promote a process of productive transformation.

This path can only be built jointly by the public and private sectors. The organisational complexities and the needs for investment cannot be the exclusive task of only one sector. This path must be based on the shared construction of entrepreneurial, social and institutional agendas.

On the issue of infrastructure, Latin America exhibits a deficit of investment.


Economic progress in resource-rich Latin America has forged ahead, with many countries enjoying high growth rates and increased foreign investment

The region invests less than three per cent of gross domestic product in this area, while China invests 10 per cent, and the average for advanced countries ranges between five and six per cent. Latin America should double its investment. To take on this challenge it must develop capacities and mobilise resources. Does it have the capacity to carry out the required task? The number of companies in Latin America capable of carrying out large infrastructure projects – such as the Panama Canal, or urban metro networks and railways to link cities – is limited.

There are a few large Brazilian and Mexican companies, but they could not satisfy the demand. There is, therefore, a huge space for foreign companies, which are already taking advantage of it, and there is a huge room for growth for local engineering services companies. The ability of local firms to take advantage of the opportunities will depend on the capacity to generate the necessary human resources and entrepreneurship. It is increasingly frequent to see transnational companies participating in international bidding processes, even those financed by multilateral organisations, as well as the emergence of some Latin American conglomerates in this area.

The role of the public sector

Does the region have the resources? It is hard to believe that the public sector by itself will be able to finance this effort. Inevitably, it will have to associate itself with the private sector, generating investment mechanisms for companies to participate, while at the same time mobilising individual savings by strengthening local capital markets.

Another critical case relates to employment and the growth of small and medium-sized enterprises (SMEs) and their internationalisation. Latin America must diversify its supply of exports to advance in its productive transformation and grow at higher rates. It is not possible to generate better jobs and expand exports of greater value added if it does not mobilise SMEs.

Although these enterprises generate a good part of total employment, they barely export and exhibit low productivity levels. Therefore, addressing these challenges is critical and requires shared agendas for competitiveness, innovation, entrepreneurship and access to financial resources.

The private sector must be the key promoter of these changes, but it is hard for it to do so alone as SMEs often face considerable market and information failures. Therefore the public sector, through development agencies, can catalyse greater levels of cooperation among enterprises to stimulate the creation of productive chains. It can take a role in coordinating public-private agendas regarding innovation and technological transfer and investing in infrastructure and logistics projects that increase the competitiveness of sectors with export potential. The public sector can also promote access to international markets, reduce financial barriers, develop mechanisms for quality certification and consolidate private sector institutions that promote the development of productive chains and companies.

The global financial crisis may be an opportunity for Latin America to engage in this transformation. As the recession in Europe may last two or three more years, Latin America could take advantage of Europe's industrial capacity by promoting direct investment of large companies but, above all, of SMEs. The SMEs of the developed G20 members are not small compared with their Latin American peers, and their high levels of technology and specialisation may represent a contribution to the region.

Therefore, both governments and the private sector should seriously consider the challenge of productive transformation and take advantage of the situation faced by the economies of the rest of the world to attract both international capital – from SMEs – as well as the knowledge and entrepreneurial capacity necessary to transform the productive chains with competitive potential.

The risk of complacency

Latin America has achieved great progress in the economic and social areas, but the challenges that remain are complex. The increase in income levels in the region as a result of higher commodity prices at the global level is a blessing, but also represents a real risk. Latin America must overcome the complacency that its abundance generates. This effort is not an easy one: it requires a long-term vision, public- and private-sector collaboration, and building solid institutions to design and implement innovative and adequate public policies. ■

Promoting sustainable development and green growth in Asia

Asia has made massive economic progress, but it is coming at a cost, both human and environmental. Action needs to be taken so more people can share in the wealth of the region in a sustainable way

By Haruhiko Kuroda, president, Asian Development Bank

Asia's stunning economic growth over the past two decades has raised living standards and helped to lift more than half a billion people out of poverty. But this socioeconomic progress has come with a high price tag, due to unsustainable and often inequitable economic growth patterns.

The region is consuming resources and polluting at a high rate, with a still rapidly growing population, expanding urbanisation and increasing demands from an expanding middle class. Public health and human well-being are suffering from degraded natural resources, threatened ecosystems, worsening water stress, natural disasters and increased waste generation, with the poor being hardest hit. Climate change – the most dramatic symptom of unsustainable development – exacerbates these problems and threatens the future of both the region and the world.

With 545 million malnourished people in the region and 700 million people still without access to modern forms of energy, food and energy security are of particular concern. Difficult choices are looming at the nexus of the food, water and energy sectors, particularly as agriculture and energy compete for declining water resources.

Weak governance and institutions continue to pose a challenge to the region's environmentally sustainable growth. While in some countries environmental policies, laws and institutions have been strengthened, few have implemented effective enforcement and compliance procedures. Efforts to build effective governance structures for green growth need to be deepened and expanded.

To get itself onto a sustainable path, Asia must improve the efficacy of resource use, environmental protection and economic growth, while ensuring equitable outcomes for its people. While these challenges are daunting, they also offer new opportunities for placing future development on an environmentally sustainable, low-carbon and climate-resilient path. Given that the region is extremely diverse, green growth strategies must be carefully adapted to national situations and investments prioritised, depending on specific environmental, social and economic contexts.

Consistent with the region's emerging green growth agenda, the Asian Development Bank (ADB) will help its developing member countries pursue economic growth and human well-being while using fewer resources and generating fewer pollutants and emissions per unit of gross domestic product. It will seek to support long-term transformational change; promote approaches that will produce multiple benefits covering environmental, economic and social aspects; promote integrated planning across resource flows; and address environmental challenges at local, regional and global levels.

> ***Difficult choices are looming at the nexus of the food, water and energy sectors, particularly as agriculture and energy compete for declining water resources***

ADB emphasises the need to address climate change, promote the development of livable cities and take a range of actions improving environmental policies, knowledge and management capacities. Its operations have three mutually supporting strategic directions: to promote sustainable infrastructure; to improve natural resource management and maintain ecosystem integrity; and to build sound environmental governance and management capacities, with response to climate change embedded as a cross-cutting issue. To achieve this agenda, ADB mobilises financial resources, maintains and builds new strategic partnerships and develops knowledge solutions.

ADB plays an active role in channelling concessional financing to effective investments. It mobilises private sector financing and entrepreneurship through direct project lending, equity investments, risk reduction, carbon finance, technology development and diffusion, public-private partnerships and other innovative modalities.

Over the past 10 years ADB has supported 240 projects contributing to environmental sustainability amounting to more than $23 billion. Its investments in clean energy reached $2.1 billion in 2011. From 2008 to 2011, ADB invested more than $2.8 billion to provide access to energy for nearly 10 million households. In 2011, investments in urban transport and railways accounted for 15 per cent and 23 per cent, respectively, of its transport sector portfolio.

Through the Cities Development Initiative for Asia, it is promoting the development of 'livable' urban environments. ADB seeks to sustain its annual water investment at $2 billion to $2.5 billion during 2011–20, and a total of $20 billion to $25 billion by 2020. Several of its programmes support better management of natural resources and ecosystems, including the Coral Triangle Initiative, the Greater Mekong Subregion Biodiversity Conservation Corridors Initiative and the Heart of Borneo Initiative. In addition, its climate change adaptation programme helps its client countries build climate resilience.

G20 Los Cabos and Rio+20 Summits

To make the commitments on green growth made at the G20's 2010 Seoul Summit and previous summits operational, several areas require further action and increased funding:

An enabling policy framework for promoting transitions to green growth is needed. In recognition that policy and institutional frameworks must support transitions to green growth, including

Asian countries will need financial support in their efforts to invest in measures to mitigate the risks of climate change, such as flooding

low-carbon and climate-resilient development, a regional programme of green policy reform in the Asia and the Pacific could help promote needed changes, such as more efficient resource pricing, removal of perverse subsidies and green fiscal reform.

Technology development and transfer for green growth are required. Taking advantage of the establishment of the Technology Mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) technology partnerships could be developed to promote skills transfer and capacity building. Such platforms could help exploit economies of scale leading to reduced costs, the mitigation of risks, the development of indigenous capacity and increased incentives for investment in research and development (R&D) over the long term. These partnership platforms may include knowledge sharing and collaboration in R&D, analytical work and project financing.

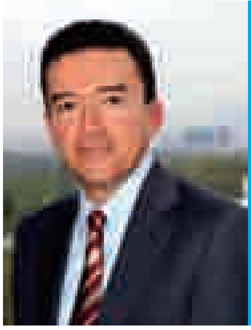
Critically important ecosystems must be conserved. To address the economic undervaluation of ecosystem goods and services in the market and the resulting loss of biodiversity and ecosystem degradation, further commitment is needed to explore and develop initiatives to expand new payment schemes and market mechanisms. Examples are the UNFCCC approach in Reducing Emissions from Deforestation and Forest Degradation (REDD) and Payment for Ecosystem Services (PES) schemes.

Social protection and poverty reduction are necessary. To ensure that there is a 'just transition' in the pursuit of green growth and low-carbon development, countries in the region must carefully design reforms to achieve environmental and equity objectives simultaneously. To this end, countries should be supported in their efforts to develop education and skills programmes to foster green job creation and social assistance and welfare programmes, especially for poor and vulnerable groups, including women.

Green growth requires financing. All these initiatives in developing countries will require strong financial support from developed countries, whether through multilateral or bilateral channels. In particular, the Green Climate Fund should be financed to serve as the principal multilateral mechanism for climate-related investments, especially to achieve significant increases in the availability of funding for measures to adapt to climate change. ■

BANSEFI, leading the way for financial inclusion in Mexico

BANSEFI helps people on low incomes across Mexico to gain access to secure, dependable financial services



Carlos Montaño
CEO, BANSEFI

Reforms in the regulatory framework set in place during the past 10 years have provided the foundation for the construction of a solid financial system in Mexico. A better financial system, together with responsible handling of fiscal policy throughout this time, have made the Mexican economy more resilient and capable of withstanding external shocks in a much better way than other economies.

The financial system plays a key role in the prospects for growth in any economy. The Mexican banking system still faces the enormous challenge of making services available to most of the population. In many areas of the country, financial services are still provided by informal schemes, making the otherwise common and safe task of saving a risky and uncertain one.

The legal framework aims to regulate the financial intermediaries currently providing these services, making trustworthy financial services available to all. To make this happen, development banks have played a key role, focusing on the attention of people on low incomes, typically underserved by the private financial sector. Financial inclusion is a priority for the Mexican government and is part of the main agenda of the G20 summit this year. Helping to achieve the goal of enabling every person to have access to financial services is one of the reasons the National Saving Bank and Financial Services (BANSEFI) exists. This development bank has become a key player in fostering financial inclusion in the country.

BANSEFI has become an essential tool for the Mexican government in achieving financial inclusion. BANSEFI has expanded the frontier of financial services to reach the low-income population, a market niche that the private banking sector has not fully reached. One of the main goals of BANSEFI is to be the first point of access to a financial system when no other financial intermediaries are present.

To offer access to financial services to this clientele, BANSEFI has created a network of 494 branches, spread out over the entire country. They offer financial products and services such as savings, remittances (both local and international), micro-insurances, and acts as a window for receiving payment of services (eg, utility bills).

The size and reach of this network is complemented with the joint venture between the members of the Popular Financial Sector and BANSEFI, known as L@Red de la Gente ('The People's Network'). This commercial alliance includes 287 financial intermediaries, increasing the number of offices to more than 2,300. L@Red de la Gente is the largest financial network in Mexico, with more presence than any other commercial bank.

BANSEFI has recently begun another commercial alliance via a correspondence bank. This began with DICONSA stores. These are community-owned shops, created by the government to sell food, basic products and agricultural supplies in Mexico's poorest rural communities. This network is made up of 25,000 stores that are located throughout the country. As many as 236 stores have been approved as BANSEFI correspondence outlets by the National Banking and Securities Commission. Many more are perfect candidates to enlarge BANSEFI's network, as they are placed precisely near the segment of the population intended to be reached by basic financial services.

In its 10 years of existence, BANSEFI has created the largest financial network in Mexico, with a presence in 2,380 municipalities (97 per cent of the municipalities). No other network has as wide a reach as BANSEFI. Last year, BANSEFI, through its financial network, made payments of more than 1.5 million international remittance transactions, for a sum close to $600 million. In addition, the Institution manages 11.4 million accounts and $15 billion in assets.

Helping low-income families

An outstanding result in financial inclusion for the Mexican government was achieved last year when BANSEFI created 6.5 million-worth of debit cards that were linked to bank accounts for the same number of people.

With financial inclusion high on the Mexican government's agenda, it was considered crucial to make all the people who are beneficiaries of the most important social programme in Mexico ('Oportunidades') account holders. They now receive their cash transfer through a debit card from BANSEFI. By opening these 6.5 million accounts, these low-income families now have a safe and reliable tool to save and make basic transactions in shops and via the ATM network.

In addition to the Oportunidades programme, BANSEFI distributes other government transfers, amounting to more than $3 billion during 2011. Transparency and accountability are enhanced by the use of this tool. The positive effects are also found in reduced transaction costs, as Oportunidades' recipients do not have to travel miles to collect their benefits. Now the challenge is to provide further financial education to maximise the benefits of financial inclusion.

An important component of financial inclusion is financial literacy. BANSEFI has deployed a major programme of financial education for its network partners and customers. The aim is to have informed customers who will take better financial decisions and make the most of the financial services offered by the BANSEFI network.

BANSEFI offers financial education workshops to members of the popular financial sector who, in turn, will be able to replicate financial literacy courses with their customers. BANSEFI also uses mobile units to give financial workshops in hard-to-reach towns. As part of the strategy of financial education, BANSEFI created a microsite called Finances for Everyone (www.finanzasparatodos.org.mx), where educational financial videos and information on financial planning, savings, credit, insurance and other services can be found.

Mexicans needed a reliable way to conduct financial transactions

BANSEFI has an ambitious agenda that seeks to consolidate and extend educational activities and financial inclusion by developing innovative and effective financial products that meet the population's needs, supplemented by the use of new technologies to expand the geographic coverage of financial services. To reach this goal, BANSEFI will foster the expansion of correspondence banking. This will significantly increase the BANSEFI network, while lowering the cost of opening full-service bank branches. BANSEFI will also work towards the use of mobile financial services that will facilitate transactions in areas where the cost of transporting funds are relevant. As more and more people use mobile phones and coverage increases throughout the country, the use of such technologies will reduce transaction costs and benefit millions of Mexican families.

BANSEFI, as the financial inclusion leader in Mexico, has shown remarkable achievements in offering access to financial services to the population, and especially to low-income families. Carrying out the BANSEFI agenda will keep Mexico on the right track, and technology will enhance financial inclusion in the country.

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Developing Africa

African economies have been growing robustly. The continent is rich in resources – both natural and human – but these need to be harnessed effectively if Africa's full potential is to be realised

By Donald Kaberuka, president, African Development Bank

Africa's robust growth during the 21st century has generated much enthusiasm for the continent's prospects for economic development and the reduction of poverty. Years of reforms have been followed by an increase in exports, foreign direct investment and domestic demand. Therefore, despite the global economic and financial crises and the recent sovereign debt problems in the eurozone, more than one in four African countries registered growth rates above five per cent in 2011.

Some of these growth rates were on par with those of China and India. This robust growth is helping Africa to reduce poverty which, based on a poverty line of $1.25 a day, has fallen from 58 per cent to 47.5 per cent since the beginning of the century.

This good performance has been largely driven by the booming mineral, oil and gas, and service sectors. There have been significant benefits for some groups, but their uneven distribution has increased inequality among households and regions. Swathes of the population are still trapped in deep poverty.

Yet there are three key windows of opportunity for Africa's growth and development in the medium term – good policies, the natural resource boom and the demographic dividend.

Strengthening good policies

Macroeconomic stability is crucial to preserving the benefits of the strong growth that Africa has witnessed. Recent inflationary pressures, especially in East Africa, have raised serious concerns about the impact on vulnerable groups. Fiscal discipline must be preserved as the key to sound macroeconomic management. On the structural side, a number of significant bottlenecks to growth and economic diversification, such as poor infrastructure, burdensome regulatory regimes and low skills, have to be addressed.

In the wake of reduced aid flows to Africa, governments must focus on mobilising domestic resources and good policies and practices relating to expenditure. Good governance should be a goal for many countries. Efforts to eradicate corruption and reduce the heavy toll that it imposes on governments' capacity to deliver services to the people should be pursued vigorously.

In making growth more broad-based, Africa must address the challenge of low agricultural productivity, which is a serious drag on the rest of the economy.

The potential for young people to become job creators in their own right through policies that support and nurture young entrepreneurs should be recognised and acted upon

Africa's agriculture is largely carried out by smallholder farmers. They are constrained in terms of finance, technical advice, farm equipment and market access. Thus, while it has been estimated that agricultural growth has a multiplier effect of 1.5 on the rest of the economy in sub-Saharan Africa, much more needs to be done before the sector's leveraging effect is felt more widely.

Abundant and efficient infrastructure is needed to enhance Africa's competitiveness and productivity and the delivery of services, but long-term financing will be needed to make a real dent on the infrastructure deficit. Governments need to encourage innovative approaches, including the use of pension funds, insurance schemes and other sources of domestic funding for infrastructure development. Several African countries are, for example, considering issuing infrastructure bonds. It might also be necessary to set up a number of public-private partnerships for the construction of infrastructure, notably in electricity generation.

Africa needs to help grow its private sector in a more purposeful manner. But while its potential is vast, impediments to the private sector remain pervasive. Apart from bottlenecks in infrastructure, access to finance and the availability of skilled workers are key constraints. Furthermore, the modern private sector in Africa has so far generated little employment. Many countries are revisiting the issue of industrial policy, based on the models of the Asian countries, in search of a workable model that takes into account their natural endowments.

Harnessing the natural resource boom

Africa has become a mineral prospector's paradise. No day passes without the announcement of a significant discovery of oil, gas or some other mineral. If properly harnessed, this resource boom could help accelerate Africa's growth on a sustainable basis and reduce absolute poverty. This will also mean less dependence on foreign aid.

The African Development Bank (AfDB) has estimated that Africa has more than 122 billion barrels of proven oil reserves; the potential reserves could even be higher.

Deposits of natural gas are equally plentiful, estimated at about 500 trillion cubic feet of proven reserves, and the equivalent in potential reserves. Africa is also endowed with vast amounts of non-oil mineral resources.

Globally, it produces 82 per cent of platinum, 24 per cent of phosphate, 25 per cent of titanium, 20 per cent of gold, 18 per cent of uranium and 5 per cent of nickel. Africa's ability to benefit from its mineral windfalls will depend on the quality of its public policies. New wealth must be invested in new technologies, skills development and infrastructure to ensure that even after the end of the boom, countries continue to prosper. There will be a need for fiscal regimes that raise revenue without hindering private-sector participation in mineral prospecting and development.

However, it is important for countries to negotiate fair deals. African governments receive only about 12 per cent of the royalties

Africa has the youngest population in the world, and a young, well-educated workforce is an important resource in its own right

on oil and gas production, compared to Latin America's 24 per cent. According to a recent AfDB study, foreign gold mining companies receive tax exemptions that far exceed the relevant tax codes of countries.

Africa has the youngest population in the world. Close to 20 per cent of its one billion people are aged between 15 and 24. It is estimated that by 2030, one in every four young people will be African. The youth bulge is considered a serious socioeconomic challenge in many African countries. However, the experience of Asia indicates that, if well harnessed, a large and youthful population provides many opportunities for raising productivity and growth.

In many Asian countries, governments gave priority to education in science and technology in the 1950s and 1960s, thereby putting in place an environment ready for the fast growth witnessed in the coming decades. Also important was the emphasis on the provision of quality health and education services, including those in rural areas.

Creating opportunities

The potential for young people to become job creators in their own right through policies that support and nurture young entrepreneurs should be recognised and acted upon. Several challenges have to be addressed, including the quality and relevance of education. While many young people are unemployed in Africa, many skilled jobs remained unfilled.

This mismatch needs to be addressed urgently. The resources expended by governments in scaling up the technical skills of their young populations will be more than rewarded in future years by a rapid pace of development. Human development should thus have the first call on the resources flowing from the natural resource boom. The green economy also provides opportunities for youth employment.

Sustaining Africa's growth and reducing poverty will require economic transformation – the extent to which it is able to transform inherited wealth into created wealth. Resources that require such transformation include Africa's minerals and its young people. For perhaps the first time since independence in the 1960s, Africa has the opportunity to embark on sustainable development and pull its population out of poverty. ■

DEVELOPMENT

India's story of agricultural growth

The historical struggles experienced by India in increasing and diversifying its food production are rarely discussed. Yet the country could make a unique contribution to the development debate

By Yoginder K Alagh, former minister of power, planning, science and technology; chair, Institute of Rural Management Anand, India

What are the major challenges facing India in economic development, especially in the food and agricultural sectors, and what effective strategies has it pioneered?

Jeffrey Sachs recently said that Sahelian Africa has much to learn from India's strategy of a broad policy architecture for spreading irrigation for small farmers in the 1970s. But the orthodox view at that time was that India could not feed itself.

William and Paul Paddock, in *Famine 1975!*, argued: "Today, India absorbs like a blotter 25 per cent of the entire US wheat crop. No matter how one may adjust present statistics and allow for future increase in the US wheat crop, it will be beyond the resources of the US to keep famine out of India." Others – the Hudson Institute, Keith Griffin, Francine Frankel, the Bretton Woods institutions, and Paul Streeten and Michael Lipton at the Institute of Development Studies in the United Kingdom – all took a dim view of India's agricultural prospects. Some argued that India also did not have medium-term growth prospects since poor agriculture would lead to a wage goods constraint. The World Bank and even India's ministry of finance felt that India would not achieve its target of 125 million tonnes of grain by 1978-79; estimates ranged between 118 million and 120 million tonnes.

At that time policymaking in India focused on resource allocation and policy support to agriculture. Indira Gandhi saw food security as a central issue. Once a plan was ready, she forced through resources for it even after the budget was passed. The Planning Commission, basing itself on large studies of sources of growth in India, produced its first agricultural sub-model under my supervision, making conservative assumptions on land reserves and productivity so that resource allocation for agriculture, particularly irrigation, received a high priority in the investment budget. Public-sector capital formation of Rs 5566 crore at 1993-94 prices in 1976-77 was not reached in any year in the 1990s, reflecting the lack of strategic policymaking for agriculture in the reform period. By 1978-79, India was producing 127 million tonnes and was a net exporter of grains.

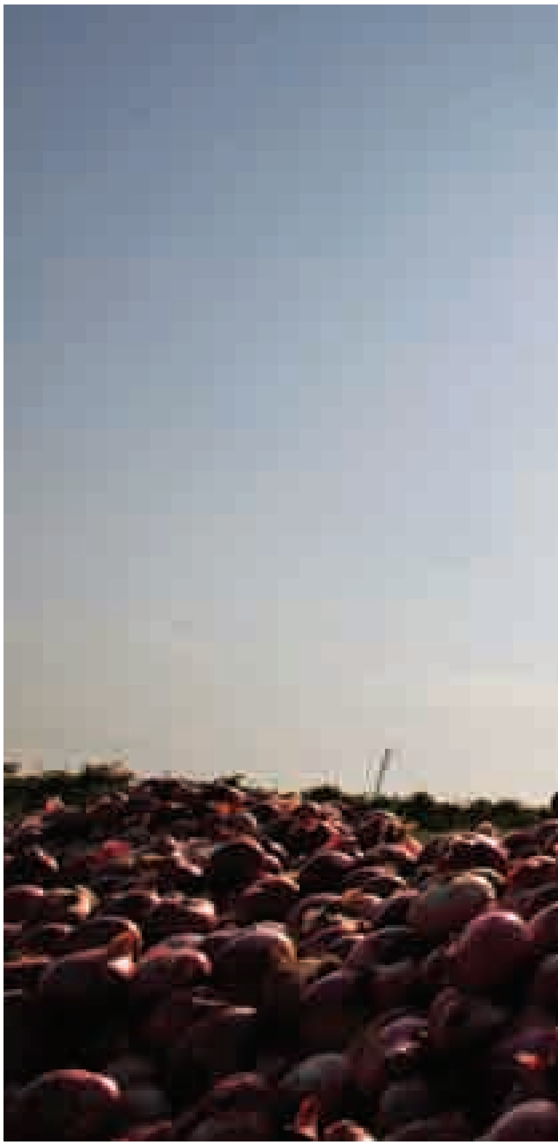
Diversification and demand

Having succeeded, the Indians soon realised that producing grain was not enough. Agriculture in this semi-continental country meant each of its 144 agro-climatic regions should grow what it was best endowed for. Rajiv Gandhi pushed this approach in the late 1980s. This time, now as a member of the Planning Commission, I saw the second plateau in 1989. The 1990s was a lost decade for agriculture in India, with growth rates halving and investment falling and lectures on reform and globalisation substituting for policy.

India's successes and tribulations in feeding itself, sustaining the food demands of a billion-plus population with limited land and water, are of global relevance

The current government formed by the United Progressive Alliance party since 2004 has put the sector back on its historical growth path. But India faces the demands of high growth on agriculture and struggles with diversification and expansion of food demand.

The Indian story of agricultural and broad-based rural growth is a tortured one, largely unknown in rest of the world. India's successes and tribulations in feeding itself, attempting to reduce hunger and sustaining the food demands of a billion-plus population now growing at one of the fastest rates anywhere, but with limited land and water, are of global relevance. In a world of knowledge dominated by major power centres, the story of private consultants, development bankers and large corporations is a common one, but the Indian story is not. It is understandable that India pushes the World Trade Organization's Doha Development Agenda, for India is willing to give in on the issue of subsidies for its



Women labourers work in an onion field in Pimpalgaon, north of Mumbai. India continues to struggle with diversification and expansion of food demand

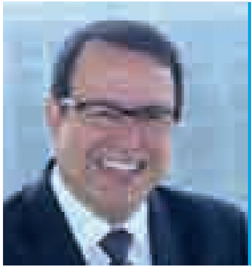
parastatal organisations in return for a fairer trading regime and the freedom to follow the livelihood objective.

A realistic approach

Particularly since the 2010 Seoul Summit, India has followed the G20 with persistence. Since 1975 India has moved away from a fixed exchange rate and did not share the East Asian mercantilist fixation. Thanks to India's conservative banking system and strong regulatory tradition of central banking, India's leading economic government officials Y Venugopal Reddy, Rakesh Mohan and their successors have become widely recognised names in the global search for financial transparency. Having used the market increasingly in its larger economic policies, the Indians also took like ducks to water in the G20's consensus on pushing the Mutual Assessment Process into country-specific commitments, leading to the 2011 Cannes Action Plan. In terms of measurement and operations, India argues that commitments emerge from domestic policies and that there is not the necessary global push. It takes a somewhat realistic approach to the doctrine of rebalancing, recognising the scale of the economies of the United States and Germany, but asking for creative institutional experimentation for larger trade in the faster growing economies, needed to avert global crises. However, uncoordinated rebalancing, the Indians argue, may make things worse.

Large countries such as India will sup at the high table only if their concerns about water, energy and sustainable development are accommodated. This requires understanding and experience-based debates about real alternatives. Such talk must be followed by give and take. The world's poor need more take than give, but the magnitudes will remain debatable. The disappointing part is that this process is very, very slow. ■

Formalisation, productive inclusion and microcredit in Brazil



By Carlos Alberto dos Santos, technical director of the Bilian Service to Support Micro an Small Enterprises (Sebrae)

All over the world, best practices of microcredit systems show a range of possibilities in offering credit to productive businesses in the informal sector. Small sums of credit are allocated, governed by an assessment of the client's ability to pay the funds back, based on cash flow and, in the absence of concrete collateral, on alternative guarantee mechanisms. This innovative credit technology helps to reduce assymetric information and the moral hazards that are inherent in the process of offering credit, that created the so-called microfinance revolution of the 1980s and 1990s, with the Grameen Bank of Bangladesh as its iconic example.

The debate around the small size microcredit plays in Brazil's financial system continues, despite the successful and internationally known experience of the Banco do Nordeste's Crediamigo programme. Most experts on the issue point out the operational and logistical difficulties of establishing a microfinance system in a continental country such as Brazil – the so-called big-country dilemmas.

The challenge of expanding the offer of microcredit in Brazil has been taken on by the Brazilian Federal Government through the Crescer Program – a microcredit programme that is offered, alongside technical help, to productive enterprises. In its first six months, the public banks involved in the programme – which was launched in September 2011 – have reached the landmark figure of a million credit contracts and $600 million lent. At the core of the Crescer Program is a large network of public bank branches, public funding to finance the credit operations and a subsidised interest rate; the initiative's goal is to reach more than 3.4 million clients and lend up to $1.5 billion by the end of 2013.

The clients of microcredit are, traditionally, entrepreneurs from the so-called informal sector of the economy. In Brazil it is estimated that this segment has nine million people, most of whom work in the tertiary sector, in retail and services. The Crescer Program has the aim of reaching this sector through microcredit that is offered by the public banks taking part in the programme.

The high costs involved in extending credit to this sector through more traditional ways means it needs to be heavily subsidised which, in turn, explains the why so few private banks participate in this area.

On the other hand, the scattered portfolio of clients of those financial institutions that are not regulated by the Brazilian

Central Bank reflects the limited amount of funds available for microcredit working in the not-for-profit sector.

Has the microfinance sector in Brazil the certainty of being a exclusive part of public policy and subsidised credit schemes? Or, to put it another way, isn't there a possible alternative to offer microcredit on a more commercial basis, with a stronger role for private banks, cooperative unions and public banks?

The high costs involved in offering small amount of credit, and as a result, the difficulty of the microfinance sector to reach a wider clientele, are directly linked to the need to collect adequate and qualitative data to support credit analysis and risk assessment in a certain economic environment where the informal sector is the potential client.

A recent and powerful microeconomic reform that recently took place in Brazil could make an important contribution in overcoming this dilemma. The Complementary Law No 128/2008, officially applied after 1 July 2009, helped to radically reduce the costs and red tape of formalising a micro business in Brazil through the EI-Empreendedor Individual (Individual Entrepreneur), a new economic status for those who until then had opted to remain in the informal economy. This reform can be considered a silent revolution in the making in Brazil – it is a massive process of inclusion in the formal economy of millions of informal enterprises and entrepreneurs.

Individual Enterpreneurs (EI) can be registered as micro businesess if they have an annual turnover of less than $30,000. The formalisation process can be completed at no cost in a matter of minutes using online forms: it is completely paperless, with no stamps and no bureaucracy.

In addition to the rights of becoming a formal business, an EI gains access to welfare services and retirement rights. It costs less than $20 a month and the process of payment is simple and can be done through a single form.

By drastically reducing the costs and the time involved in formalising a micro business in Brazil, this new law has already allowed, in less than three years, more than 2.5 million people in productive activities to formalise their businesses.

On average, 4,800 EIs are registered all over the country every day. As part of the formal economy the entrepreneurs give a clear signal to the financial institutions offering microcredit that their business activity is not seasonal, nor is it a part-time activity that they are engaged in while searching for a job. Last but not least, they signal that their business is not illegal. All illicit activities are informal, but not all informal activities are illegal. In the medium term, this massive formalisation process taking place in the Brazilian economy will have a tremendous collateral effect of exposing the illegal activities in the informal sector.

The bills that register trade transactions and the formal process of buying inputs and merchandise are also sources of information that will further reduce information asymmetry. It can provide, at a very low cost, information on a potential client's capacity to pay back loans.

Through the National File for Registered Enterprises the granting of microcredit to Individual Entrepreneurs helps counter the lack of incentive to lend as part of the risk mitigation process. This establishes the formation of a virtuous circle, generating more – and better – information that will allow risk mitigation and reduce the cost of credit analysis and operation, lower interest rates, generate a stimulus to the demand, and foster a large operational scale with lower operational costs.

The most important driven factors to the formalisation process should be its low cost and the simplicity of the process. This was the decision taken by the Brazilian Government when it decided to overcome the vicious circle of high costs and high bureaucracy that prevailed until recently. Advancing further in this direction is one of the major challenges for the social and economic development of Brazil.

Formalisation, inclusion and microfinance in Brazil are indeed great news.

Finance, governance, knowledge: pillars to protect the world's water

The era of 'easy water' has passed. We need to seek political engagement on the issue, find new types of financing and change public attitudes if we are to safeguard this resource for future generations

By Loïc Fauchon, president, World Water Council

The world needs growth. But the circulation of people and ideas demands that growth be fair for all humans and also for nature. The rapid expansion of the world population, its increasing concentration in large cities and the legitimate desire of each human to have access to a standard of living that satisfies that person's needs for food, sanitation, education and culture require significant growth. To achieve this growth, global peace and the capacity to make resources such as water and electricity permanently available must be guaranteed.

Securing water and energy is a prerequisite to the survival of the human, animal and vegetal worlds. There is no development without water. But not all the water can be dedicated to development. This is where the future of both water and the planet lies today. Securing global and local water resources and their usage has become one of the key priorities that the international community must take into account and guarantee.

This water security – which, slowly but surely, is becoming binding on all people, political decision makers and economic actors – covers several aspects.

The first is human security, which deals with essential needs or the obligation to make water available in both sufficient quantity and quality to feed and care for the planet's population. Existing and potential arable land exists in adequate quantity even if it is unevenly distributed on the Earth's surface. The capacity to water this land and ensure that it is not confiscated conditions the food security of more than a billion individuals.

Two conditions seem important. First, confidence in local farming – so often abandoned for many decades for the benefit of major agri-industrial groups whose existence is surely necessary but insufficient – must be restored. Second, feeding the world population is inconceivable without providing permanent access to healthcare. Access to water is the cornerstone of health policies. Water-borne diseases remain a principal cause of mortality, notably from diarrhoea in children and malaria. What would be the purpose of providing a sufficient quantity of food to people if one later lets them die for lack of healthcare?

The water-energy-security nexus

To this end, the world needs to get the right recipe for the water-energy-security nexus to consider coupling water and energy at the service of food and health security. Then one can talk about water for economic security to guarantee the availability of water to produce the goods and services required for development. In a global economy, no one can pretend to have economic self-sufficiency. Industrial production demands large quantities of fresh water to be treated later. The governments of those countries most lacking water resources will face choices based on the quality of the knowledge they gain about the quantities or even volumes of water required for domestic production of their own food commodities, cars and computers. The concept of virtual water will help guide economic and hence political choices. Rationalising the use of water stands now as an obligation for all governments.

Another aspect of water security concerns water that guarantees a proper ecological balance. Returning a sufficient quantity of quality water to the natural environment in order to ensure the proper balance of biodiversity and protection of ecosystems boils down to guaranteeing the life and survival of future generations.

Pipes feeding water to a hydroelectric power station. Governments must outline their priorities on water consumption by individuals, industry and public utilities

Securing water for essential needs, economic growth and ecological balance means fully enshrining the right to water as a human right, a guarantor for the dignity and freedom that each inhabitant of Earth is entitled to. None of this is possible if the world cannot manage to regulate and control the growing water demand and continue to increase its supply while respecting the balance of this natural medium.

Making larger quantities of water available for the global population requires increasing the productivity of each drop of water, but also developing smart technologies that produce without destroying. Deep-well pumping, water transfers over large distances, water desalination, recycling of wastewaters, rainwater collection and brackish-water emergence count among the key opportunities that leading-edge technologies offer for the near future.

Yet all this must be done with prudence and respect for the natural environment. Tomorrow's world will be able to cope with the thirst of the increasing number of inhabitants only by ensuring that the use of these technologies does not hinder the capacity of the continental water reserves for renewal through protection from pollution of all sorts.

Political leaders have an immense responsibility to guarantee a world in which access to water becomes universal. This concept lies on three pillars that form the bedrock of the priority given to water: finance, governance and knowledge. There can be no international, national or local water policies without clear and powerful interaction among these three pillars. This requires imagining new types of financing while prioritising budgets dedicated to the access to public services. It requires allowing for water governance as close as possible to the population while empowering citizens with a view to a better, more economical and rational use of water. And it requires increasing knowledge exchanges in order to develop the techniques best suited to local contexts.

Promoting public policies that will raise awareness of the fact that the time of easy water has passed is an obligation for all. Since taps must now come before guns, the future of water – beyond technical breakthroughs – clearly depends on political will. ■

MINING PRODUCES PRECIOUS THINGS: A BABY BORN WITHOUT HIV

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Promoting the global governance of international health and development

It is time for the G20 to demonstrate real leadership on the AIDS response by supporting a global tax on financial transactions, tracking commitments and developing a coherent stance on intellectual property

By Michel Sidibé, executive director, UNAIDS

In the first decade of the 21st century, the G8 was a consistent and effective champion for the leading global initiatives in health and development. In 2000, the G8 called for the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria. In 2002, the G8 welcomed the New Partnership for Africa's Development (NEPAD), and in 2005 G8 leaders made bold commitments at Gleneagles to increase foreign aid, provide debt relief and reach universal access to HIV treatment.

In the current decade, it has been the G20 that has taken on the expanding role of ensuring worldwide financial stability. This shift brings with it a unique responsibility: the G20 must promote the global governance of international health and development.

Supportive statements

Since 2010, the G20 has engaged closely with the agenda for international development. At the 2010 Seoul Summit, the G20 adopted the Seoul Development Consensus, which recognised that the global financial crisis "disproportionately affected the most vulnerable in the poorest countries and slowed progress toward achievement of the Millennium Development Goals (MDGs)". It cited the clear need to strengthen and leverage development efforts to address such challenges. In 2011 at Cannes, G20 leaders emphasised that "aid commitments made by developed countries should be met" and that "emerging G20 countries will engage or continue to extend their level of support to other developing countries". These bold statements underscore the G20's readiness to play a leading role in health and development.

To date, however, the engagement of the G20 in this sphere – including the implementation of the Multi-Year Action Plan of its Development Working Group, has fallen far short of its potential, and of the hopes of millions of people in low- and middle-income countries who look to the G20 for leadership and solidarity.

The AIDS epidemic illuminates the true influence and potential impact of the G20 on global health and development. Thirty years ago, the G8 countries were among the first to be affected by the AIDS epidemic, but today they represent only eight per cent of the people living globally with HIV. By contrast, the G20 countries currently represent 40 per cent of the 34 million people living with HIV. The full engagement and support of the G20 is essential if the world is to reach the UNAIDS vision of zero new HIV infections, zero discrimination and zero AIDS-related deaths.

> ***The G8 countries were among the first to be affected by AIDS, but today they represent only eight per cent of the people living globally with HIV; the G20 countries represent 40 per cent***

In 2010, after years of significant increases in global AIDS funding, several G8 countries reduced their contributions. However, this drop in international AIDS funding has been offset by substantial increases in domestic AIDS funding from key G20 countries, including the BRICS (Brazil, Russia, India, China and South Africa). There have also been significant increases in development assistance for AIDS from Australia, Saudi Arabia, Korea and Turkey. The members of the G20 now contribute over 85 per cent of all international funding for the global AIDS response in low- and middle-income countries. By increasing domestic and international funding for AIDS, the emerging economies in the G20 have demonstrated their commitment to end dependence on international aid and their readiness to share responsibility for the AIDS response.

As the leaders meet at their summit in Los Cabos, the G20 should mobilise their collective influence and commit to three action-oriented outcomes that will have an immediate and profound impact to demonstrate the G20's role as a leading force for global governance of health and development.

The legacy of Los Cabos

First, the G20 members should break from past development paradigms that expect their governments to commit additional financial resources needed to fulfil the Seoul Development Consensus. Instead, the legacy of the Los Cabos Summit should be the G20's decision to support a global tax on financial transactions that would provide dedicated resources for health and development. It has been estimated that even a minor tax of 10 basis points on equities and two basis points on bonds could generate about $48 billion from the G20 members, without adding to the fiscal burden on the governments or the economies of the G20. But for the global AIDS response, just a portion of these resources would enable the world to eliminate new HIV infections among children, put 15 million people on lifesaving treatment, halve the number of tuberculosis deaths in people living with HIV and much more by 2015. The additional resources would enable the world to bridge the gaps to reach the other MDGs.

Second, the G20 should leverage the vision and support of international civil society as a key partner. The AIDS response has always demonstrated that progress is elusive if the hopes and expectations of those most affected are not represented at the table. If the Los Cabos Summit supports the call of civil society for the G20 to put into place concrete mechanisms to follow up commitments from

Just a portion of a global tax on financial transactions for health and development would enable the world to eliminate new HIV infections among children

previous summits and also provide greater representation to civil society itself, the G20 will quickly transform itself from the object of civil society protests to its greatest partner and advocate.

Third, the G20 should connect the dots between the commitments of its individual members to the global AIDS response and the need for a coherent G20 policy on trade-related aspects of intellectual property rights (TRIPS). The G20 is in a unique position to improve global access to affordable medicines, including essential generic drugs for HIV treatment. If the G20 adopts a strong common position to reject data exclusivity clauses and other 'TRIPS-plus' measures in bilateral and regional trade agreements, millions of people in low- and middle-income countries will continue to access treatment for HIV and other life-threatening illnesses in the future.

With these three commitments, the Los Cabos Summit would mark a turning point in the development of the G20 – showing its maturity and readiness to go beyond the individual contributions of its members to set an equitable and sustainable agenda for global health and development. ■

The Serum Institute of India:

rowing against the tide of new, unaffordable vaccines

The Serum Institute of India (SII) is India's number one biotech company and the world's fifth-largest vaccine manufacturer (by volume) with an installed annual production capacity of more than one billion doses of different vaccines. SII is also one of the largest suppliers of vaccines to UN agencies, (UNICEF & PAHO) thereby supplying to more than 140 countries, and takes pride in the fact that one out of every two children immunised worldwide gets at least one vaccine produced by the Serum Institute.

Founded in 1966 by a true visionary, Dr Cyrus Poonawalla, with the aim of manufacturing life-saving immuno-biologicals, which were in short supply in the country and imported at high prices. Getting the permission to produce vaccines was not an easy exercise, but production started and picked up when the company won contracts to supply state governments and hospitals. Thereafter, several life-saving biologicals were manufactured at prices affordable to the common man, with the result that the country was made self-sufficient for Tetanus anti-toxin and anti-snake venom serum, followed by the DTP (Diphtheria, Tetanus and Pertussis) group of vaccines and then later on the MMR (Measles, Mumps and Rubella) group of vaccines. Today, the company is recognised as a reliable source of high quality vaccines and biologicals, and its products have been regularly supplied to international health agencies such as WHO, UNICEF and PAHO. This impact has been large enough to make International agencies including WHO, PATH, NIH, NVI/RIVM and CBER/USFDA to work with the Serum Institute to develop affordable vaccines against Meningococcal A, H1NI Influenza, Rotavirus and other diseases. SII's products are WHO-prequalified, and registered in many countries including Switzerland, mainly because of its strong quality management systems.

Since its inception, the philosophy of the company was to develop new vaccines at affordable prices for the developing world without compromising on quality. This has resulted in developing newer vaccines like Meningococcal A Conjugate, Hib Conjugate and Pentavalent vaccines, which has saved the lives of new born children in the developing world globally.

This approach coherently emerges in two of the most recent and successful cases of needs-driven health innovation produced by the Serum Institute, recounted here.

Bill Gates lists Serum Institute Chairman Dr Cyrus Poonawalla as one of his seven most influential vaccine heroes

Nasovac™, a new preventive vaccine against H1N1 infection. In the wake of the 2009 panic due to fears about the H1N1 pandemic, the Serum Institute announced in July 2010 the launch of its indigenously developed vaccine, Nasovac™ to prevent swine flu. This is a live, monovalent vaccine containing Live Attenuated Influenza Virus (LAIV) propagated in embryonated hen eggs for administration by intranasal spray, a painless prevention method. Priced at Indian Rs.160 ($3.42) a dose, the vaccine costs half the price of foreign and domestic swine flu vaccines sold in India, in an effort to encourage more

people to take it. With the technology now in place, India now has the capability to make its very own seasonal influenza vaccines, by switching the pandemic H1N1 strain with the seasonal flu virus.

MenAfriVac™, an innovative vaccine collaboration against meningococcal meningitis. The Serum Institute's new meningitis vaccine for Sub-Saharan Africa was officially launched in Burkina Faso on 6th December 2010, marking a historic event for the part of the world known as the Meningitis Belt, annually stricken by the re-emergence of the epidemic infection. The Meningococcal A Conjugate Vaccine (MenAfriVac™) is the product of a pioneering vaccine development collaboration, namely a technology transfer alliance between the Serum Institute of India and the US National Institutes of Health (NIH). Under the Meningitis Vaccine Project (MVP) first mooted in 2001, (a PATH project for which a grant of $70 million was received from the Bill & Melinda Gates Foundation in collaboration with WHO), the NIH licensed conjugate vaccine technology to the Serum Institute, which agreed to produce the vaccine cheaply in exchange for technical know-how. Indeed, the Serum Institute has kept the promise made in 2002 of supplying this vaccine at an introductory price of 40 cents a dose. The product has been prequalified by WHO, and in just two years the Serum Institute has supplied to Unicef more than 55 million doses. This has transformed the life of people residing in Sub-Saharan Africa by protecting them from devastating Meningitis A epidemics.

A report from the humanitarian medical organisation, Médecins Sans Frontières, and Oxfam, released in May 2010, has highlighted that four factors have been crucial to the project's success pointing towards MenAfriVac™:

1. focus on low cost;
2. identification of a single supplier for a single product;
3. technology transfer from a publicly funded institute, and
4. partnership with an emerging country supplier.

The Serum Institute is playing a significant role in achieving Millennium Development Goals (MDGs).

a) From 1999 until 2005 the SII measles vaccine contributed towards the prevention of nearly 7.5 million deaths.
b) Reduction of deaths from measles in Africa and the eastern Mediterranean region by a remarkable 90 per cent and in the world by 74 per cent in 2007.
c) Preventing more than 2.5 million annual deaths from diphtheria, pertussis and measles.
d) Meeting United Nations goals towards reducing measles deaths by 90 per cent by 2010, three years before schedule.
e) Reduction in the 8.1 million serious illnesses caused by Hib.

As well as other excellence awards such as the Sabin Award for global corporate philanthropy, bestowed in 2005, SII Chairman Dr Cyrus Poonawalla was conferred with the "Award for Excellence in Inter-American Public Health" by the Pan-American Health Organization (PAHO) and the Pan-American Health and Education Foundation (PAHEF) in 2010. This was presented for the Serum Institute's extraordinary contribution in the elimination of rubella and congenital rubella syndrome throughout the Americas. Bill Gates lists Dr Poonawalla as one of his seven most influential vaccine heroes. "His Serum Institute", says Gates, "makes more vaccines than anybody."

The Serum Institute's core scientists in R&D are working hard to contribute further to global health in the near future by developing the following vaccines :

- Rotavirus vaccine
- Meningococcal ACYW vaccine (Polysaccharide/Conjugate)
- Pneumococcal vaccine (Polysaccharide/Conjugate)
- Human Papilloma Virus vaccine
- Acellular Pertussis, containing combination vaccines
- Inactivated Polio Vaccine, and so on

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Fiscal stability, economic growth and non-communicable diseases

Non-communicable diseases such as diabetes are both a cause and an effect of poverty, with huge costs at the micro and macroeconomic levels. But coordinated policy interventions can work

By Mirta Roses-Periago, director, Pan American Health Organization

Senior policymakers must come to terms with the fact that fiscal consolidation in the medium and long term will not be achieved without attention to non-communicable diseases (NCDs), such as cancer, cardiovascular diseases, diabetes and chronic respiratory disease, and their associated risk factors. This major preventable drag on economies worldwide must be addressed if countries are to maintain prospects of long-term economic growth without threatening fiscal stability objectives. The G20 is distinctively well positioned to do so.

According to recent estimates published by the International Monetary Fund, since 1970 total health spending has increased as a share of gross domestic product (GDP) in both advanced and emerging economies. It went from six per cent to 12 per cent in the former, and from less than three per cent to five per cent in the latter. These increases have put tremendous fiscal pressure on governments and financial pressure on households and businesses. Furthermore, over the next 20 years public health spending is projected to rise in advanced and emerging economies on average by three per cent and one per cent of GDP respectively. At least one-third of the increase would be associated with the effects of population ageing, since it goes – along with increases in life expectancy – hand in hand with the rising prevalence of NCDs, as well as the widespread risk factors of tobacco use, unhealthy diet, physical inactivity and harmful use of alcohol.

A recent study by the World Economic Forum and the Harvard School of Public Health uses a different approach to estimate the economic impact of NCDs. Over the next 20 years, NCDs will cost more than $30 trillion, representing 48 per cent of global GDP in 2010, and pushing millions of people below the poverty line. Mental health conditions will account for the loss of an additional $16.1 trillion over this time span, with dramatic impacts on productivity and the quality of life.

Early mortality and disability caused by NCDs affect the productivity of the working-age population: about one-quarter of all NCD deaths occur in people under the age of 60

NCDs are diseases of long duration and generally slow progression, thus imposing a high burden on society in both human and economic terms. The four main NCDs – cardiovascular diseases, diabetes, cancer and chronic respiratory disease – are the greatest cause of premature death and morbidity worldwide, accounting for 63 per cent of total deaths. Nearly 80 per cent of those deaths occur in low- and middle-income countries. According to 2007 estimates, in the Americas 76 per cent of deaths were related to NCDs, and 60 per cent of these to the principal NCDs. Estimates by the Pan American Health Organization (PAHO) show that some 250 million people are living with an NCD in the Americas and, as such, are at risk of potentially becoming disabled or suffering an early death.

The economic impact has various dimensions. There are direct and indirect costs involved, at both the household and the macroeconomic levels. Experts have shown that chronic diseases and related risk factors have an impact on consumption and saving decisions, labour-market performance and human capital accumulation. Indeed, early mortality and disability caused by NCDs have negative effects on the productivity of the working-age population: about one-quarter of all NCD deaths occur in people under the age of 60. NCDs are both a cause and effect of poverty, worsening equity problems.

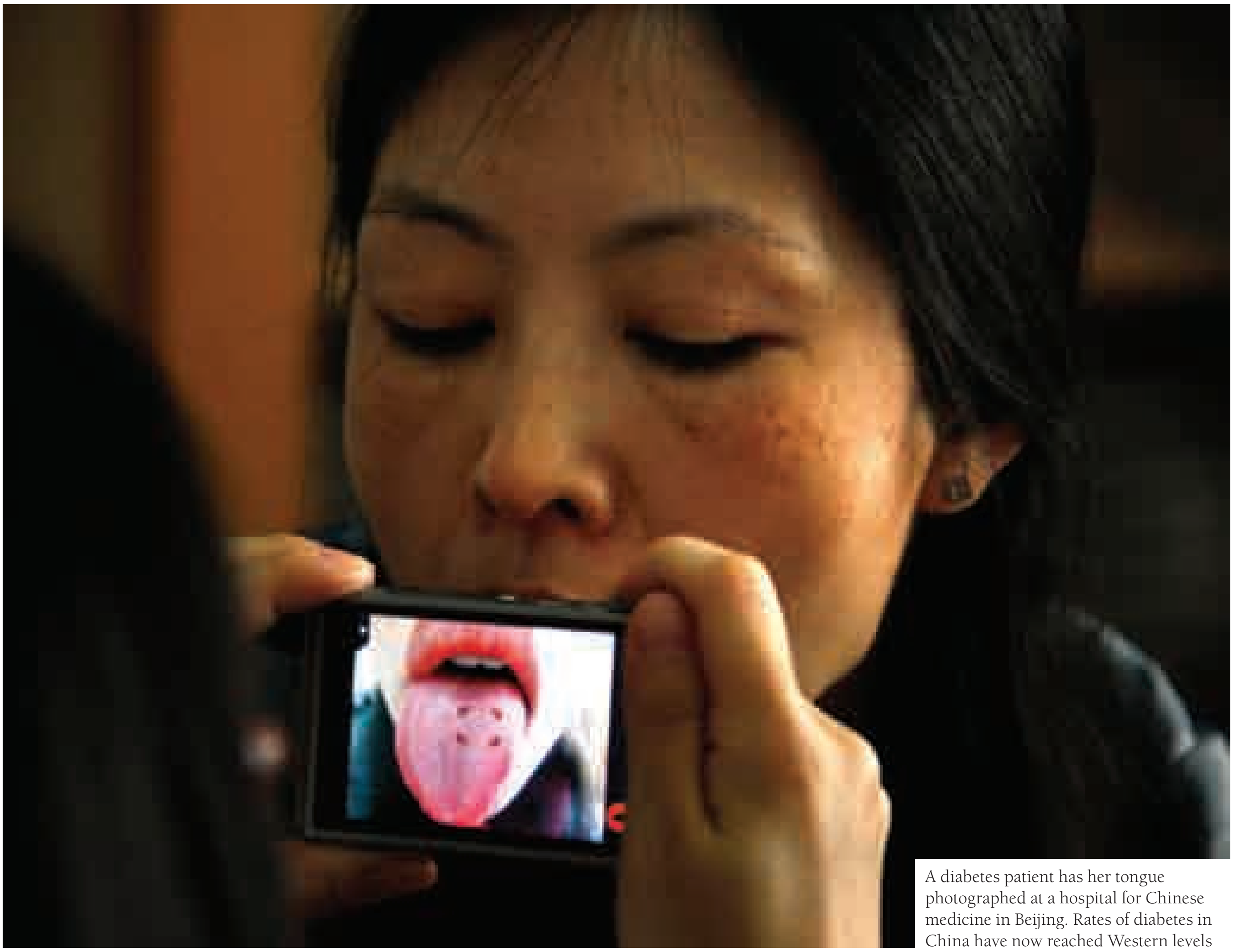
Public policy interventions

Most of these mounting costs are associated with interventions at the curative level. The good news is that NCDs and their expensive complications are largely preventable. Therefore, interventions at the macro policy level to strengthen the preventive level of care would help to contain the increasing human and economic burdens of NCDs.

Interventions to reduce the economic impact of NCDs can address two dimensions: individual and collective. The first is linked to how much NCDs are a result of consumer choice where the main risk factors identified play a role; and the second is linked to the recognition that NCDs are a result of a complex interrelated environment at the society level (including urbanisation, the globalisation of food supply, education and income levels, unemployment) – evidence of the need for a multisectoral approach.

Therefore, action at the public policy level should contemplate individual and social behavioural changes, taking a multisectoral and a 'whole of society' approach to foster a combination of environmental changes, regulation, taxation, education, and the adaptation and strengthening of health services with an emphasis on a primary healthcare strategy.

Without determined action, the costs and adverse impacts of NCDs will continue to rise. However, these can be avoided to a large extent by investing more in prevention. The investments and most cost-effective measures to be taken are outlined in *From Burden to 'Best Buys': Reducing the Economic Impact of Non-communicable Diseases in Low- and Middle-Income Countries*, published by the World Health Organization (WHO) and the



A diabetes patient has her tongue photographed at a hospital for Chinese medicine in Beijing. Rates of diabetes in China have now reached Western levels

World Economic Forum. Measures such as tobacco control, alcohol control and dietary salt reduction have benefit/cost ratios of between 20:1 and 30:1. Other interventions such as screening and early detection of hypertension, diabetes and some forms of cancer, and follow-up with preventive care are also highly cost effective.

A global partnership

As host of the Los Cabos Summit, Mexico was the site of a recent partnership meeting on the economic dimensions of NCDs, which analysed, among other things, the severe economic and fiscal impacts of this silent epidemic in the country. This partnership aims to strengthen the capacity for priority setting and policymaking informed by economic analysis. Its members are PAHO/WHO, the Economic Commission for Latin America and the Caribbean, the Organisation for Economic Co-operation and Development, the Public Health Agency of Canada, McGill University and Washington University, as well as Mexico, Argentina, Brazil, Canada, Colombia, Costa Rica, Chile, and Trinidad and Tobago. Areas of work pursued by the partnership include further research and modelling of interventions, training, dissemination of information and developing guidelines for public policy.

G20 leaders are in a unique position to provide global leadership in the follow-up to the United Nations High-Level Meeting on NCDs held in September 2011, and to promote the adoption of integrated public policies of cost-effective solutions for a problem that affects all countries, all people and all businesses. Decisive actions by policymakers to address these challenges are crucial to reach both the sustainable growth and the human development principles that the G20 is about. ■


We've found a way to reverse the global diabetes epidemic.
Your leadership.
© Novo Nordisk

If we fail to act, 552 million people could have diabetes by 2030.

Diabetes is truly a global epidemic. With 366 million people already living with diabetes, the disease is putting a strain on healthcare systems globally and on our economies. In the U.S. alone, the cost is over $218 billion annually — contributing to a total worldwide price tag of $465 billion.

We can reverse this course. But to do so, we need strong global leadership more than ever before.

The world must live up to its promises.

In 2006, the UN General Assembly passed Resolution 61/225. For the first time, diabetes was publicly recognized as a chronic, debilitating and costly disease.

In 2011, the world went further. The United Nations High-Level Meeting on the Prevention and Control of Non-communicable Diseases (NCDs) defined the social and economic challenges, officially placing diabetes on the global health agenda.

The UN stressed that prevention must be the cornerstone of the global response to diabetes.

Our policy is action.

Novo Nordisk is committed to improving conditions for the millions who live with diabetes today, and preventing the spread of the disease tomorrow.

Canada
France
Germany
Italy
Japan
Russia
United Kingdom
United States

Total projected number of people in G8 countries with diabetes in 2030

74.9 million

Developing Country	2030 total projected number of people with diabetes	Percentage increase from 2011 to 2030
China	129.7 million	44.1%
India	101.2 million	65.1%
Brazil	19.6 million	58.1%
Bangladesh	16.8 million	100%
Mexico	16.4 million	59.2%

"We believe the pledge by UN Member States should be translated into concrete action to address the threat diabetes poses."

Novo Nordisk President and CEO Lars Rebien Sørensen

- Novo Nordisk's Global Changing Diabetes® Leadership Forums have gathered participants from 78 countries and engaged more than 10,000 key stakeholders to address current challenges and work to change the future course of diabetes.
- Novo Nordisk co-founded the Diabetes Advocacy Alliance™ (DAA), a U.S.-based coalition with a goal to influence change in the U.S. healthcare system to improve diabetes prevention, detection and care. Ultimately, we must elevate diabetes on the national policy agenda.
- Novo Nordisk created the World Diabetes Foundation, a long-term commitment to creating awareness and expanding access to diabetes treatment and care in developing countries.
- In 2011, Novo Nordisk either trained or sponsored training for about 835,000 healthcare providers to diagnose and treat diabetes.
- In the U.S., a national education program, Ask.Screen.Know., highlights the need for early diabetes screening and detection and has reached millions of Americans across the country. Worldwide, the Changing Diabetes® Bus promoted the early detection of diabetes, screening more than 135,000 people across five continents.

We call on all world leaders.

Through global leadership, Novo Nordisk is making diabetes a priority. Join us and together, we can reverse this epidemic.

For more information on the global diabetes epidemic and best practices, visit changingdiabetesbarometer.com.

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Addressing global health challenges through improved nutrition

With diseases related to malnutrition on the rise, the challenge is not only to ensure food security, but also to address the nutritional quality of the food being consumed and its impact on health

By Julio Frenk, chair, Partnership for Maternal, Newborn and Child Health; dean, Harvard School of Public Health; and former minister of health, Mexico

My father, Dr Silvestre Frenk, who worked at the Children's Hospital in Mexico, was one of the world's leading authorities on child malnutrition. I have followed his leadership in my own career, prioritising this issue when I was Mexico's minister of health from 2000-06. More recently, I have become involved in the fight against non-communicable diseases, including rising rates of obesity and their impact on chronic diseases.

Thus I have been exposed to the issues of malnutrition – including both under-nutrition and over-nutrition – from early childhood through my current professional life. I am now proud, but not surprised, that Mexico has taken a leadership role in naming food security as one of the five priorities of its presidency of the G20.

Malnutrition and food security

The Mexican government, in its paper entitled *Food Security: a G20 Priority*, defines food security "not only as an increase in production, but also the availability of, and access to, food by the population". I agree with this and would urge the G20 to go even further and integrate nutrition security into its deliberations and recommendations.

Poor nutrition is a key issue faced by low-, middle- and high-income countries. It is a marker of social inequity as it affects the most vulnerable. Malnutrition, in all forms, is a major contributor to disease and early deaths, especially for women and children whose low socioeconomic, legal and political status increases their exposure and vulnerability to disease.

Under-nutrition is an underlying cause of death for 2.6 million children annually (one-third of child deaths) and leaves millions more with lifelong physical and mental impairments. Under-nutrition inhibits healthy development and reduces productivity, and therefore economic development. Malnourished children are at a greater risk of having difficulty learning, playing and engaging in normal childhood activities. Adults who were malnourished as children earn 20 per cent less, on average, than those who were not.

Women are also adversely affected by malnutrition. For example, malnutrition often leads to anaemia and other deficiencies that can cause death and limit their productivity and contribution to economic development.

The double burden of malnutrition

Today, the world increasingly faces a double burden of malnutrition, where under-nutrition and over-nutrition contribute to worsening health outcomes. At least 2.8 million people die each year as a result of being overweight or obese. By increasing the risk of chronic diseases such as diabetes and heart disease, obesity also reduces productivity and leads to rising costs in healthcare. High-fat, high-sugar, high-salt, micronutrient-poor food tends to be cheaper than healthy food and thus has a larger detrimental health impact on the poorest. Obesity is an increasing problem not only in high-income countries, but also in G20 countries such as Brazil, China, India and Mexico, as well as in other low- and middle-income countries.

Malnutrition in the form of under-nutrition alone leads to losses in gross domestic product by poor countries of as much as three per cent per year.

Challenges to food and nutrition security are growing. Climate change is affecting food production patterns and may place regions and countries most vulnerable to food insecurity at even greater risk. Food prices have been notably higher since 2000 than in the previous two decades, They continue to be volatile. Volatility and higher food prices lead poor households to consume food of lower nutritional value, entrenching them in a cycle of poor nutrition.

Evidence-based strategies

The G20, led this year by Mexico, must invest in nutrition, especially for the most vulnerable – notably women and children – in order to improve health outcomes, livelihoods and overall development.

Women and children are often at the most risk from malnutrition – but the problem is not only confined to low-income countries

The G20 should commit to multi-sectoral approaches aimed at promoting country nutrition strategies as recommended by the Scaling Up Nutrition movement. This should include efforts to expand on successful interventions to address under- and over-nutrition. Such initiatives should include the following:

- Investment to improve nutrition for mothers and children during the critical 1,000 days from gestation to age two – when better nutrition can have a lifelong impact on a child's future and help to achieve long-term progress in health and development;
- Direct nutritional interventions to prevent under-nutrition, such as exclusive breastfeeding for six months, micronutrient supplements, food fortification for children and complementary feeding;
- Population-wide weight-control campaigns that raise awareness about over-nutrition among medical staff, policymakers and the public, and promotion of health literacy; capacity-building and empowerment to raise awareness of risk factors of obesity; incentives to stimulate substitution of high-calorie, low-nutrition foods; and
- Improving agricultural productivity with a focus on smallholder farmers to promote food security, in a way that addresses climate change-related issues (such as breeding crops that are more nutritious and heat resistant) and education interventions that have a powerful impact over time in preventing under-nutrition.

Existing food systems have failed to address malnutrition, and continuing food-price volatility has limited the access of vulnerable populations to sustainable, nutritious diets. If this problem is not addressed, malnutrition will continue to undermine sustainable economic development. ■

Improving national and international investment regimes

Against a continued backdrop of shifting economic tides, the development of sound investment policy is at the heart of securing sustainable growth and the wealth of benefits it delivers to communities

By Supachai Panitchpakdi, secretary-general,
United Nations Conference on Trade and Development (UNCTAD)

Investment policies – at both the national and international levels – are developing against a constantly changing economic environment and evolving political goals. The key policy challenge is how to make foreign direct investment (FDI) instrumental for qualitative and inclusive growth and to find the right equilibrium between investment liberalisation and regulation for the public good. These are key areas of the work of the United Nations Conference on Trade and Development (UNCTAD) on investment for development as recently confirmed at UNCTAD XIII and the third World Investment Forum (WIF) held in Doha, Qatar, in April 2012.

One key message emerging from UNCTAD XIII is that building productive capacity is crucial for fostering sustained economic growth and inclusive development, including poverty reduction. Foreign investment can make an important contribution – directly and indirectly – to achieving these goals.

However, this contribution is not automatic. A comprehensive policy framework is needed to maximise the benefits of FDI, minimise the risks and ensure that investment policies and measures to achieve other relevant policy goals are mutually supportive. Therefore, policy matters.

Benefiting from investment flows

Policies that focus on education, training, health and nutrition, research and development, and incentives for investments in wealth-creating activities can best prepare host countries to benefit from FDI flows. Enterprise development, including access to finance for small and medium-sized enterprises (SMEs), is equally critical to build up a more diversified economy.

It is also a precondition for integrating domestic firms into international value chains. Also of importance are technology policies aimed at strengthening the know-how of countries and improving their competitiveness.

Industrial policies, in particular in developing countries, can play an important role in triggering dynamic and sustainable development, as they can contribute to job creation, economic clustering and export competitiveness. At the same time, it is important to avoid the negative effects of industrial policies in terms of 'beggar-thy-neighbour' strategies, excessive incentives and a return of protectionist tendencies.

Challenges of investment policy

Sustainable development can also be promoted through specific FDI policies. FDI is encouraged by a stable, predictable and enabling investment climate. However, providing such conditions is not enough. FDI policies face a number of additional challenges.

First, policymakers must decide how best to calibrate FDI. They have the choice to promote, restrict or prohibit it. Recent years show a trend towards a more cautious policy approach by governments, seeking to protect critical infrastructure as well as strategic industries, responding to national security concerns. Other policies have also strengthened the regulation of FDI to safeguard other legitimate policy goals. It is particularly important to avoid having such policies degenerate into protectionism.

Second, there is the challenge promoting responsible investment. It has two related aspects, namely how to encourage 'green' investment through the 'right' incentives for investors, and how to develop a proper regulatory framework that fosters social and environmental objectives. Balancing investor rights and obligations is a key task. Attention is also warranted so that regulation does not become a pretext for green protectionism.

Third, there are challenges related to the international investment regime. While continuously expanding – more than 3,000 core treaties existed at the end of 2011 – the universe of international investment agreements (IIAs) has become highly fragmented and complex, presenting an atomised, multilayered and multifaceted network of treaties.

Investment disputes are proliferating, with arbitration tribunals increasingly making judgements on key domestic policies. Core mechanisms of checks and balances existing in domestic laws, such as an appeals mechanism, are non-existent in international investment treaty practice. Another important deficiency of the current IIA system is that it exclusively focuses on investment protection. It is important that future treaties do more to promote responsible investment.

How UNCTAD helps

It is among UNCTAD's core functions to help policymakers address the manifold challenges outlined above. UNCTAD XIII recently confirmed, clarified and expanded this mandate for the next four years.

In fulfilling its task, UNCTAD's work on investment covers a wide range of activities. In addition to its two core products, the biannual World Investment Forum and the annual World Investment Report, UNCTAD also carries out numerous specific programmes, including monitoring of global and regional FDI trends, national and international investment polices, individual country reviews, capacity-building, investment promotion, intellectual property and enterprise development.

With regard to the challenge of supporting the development of appropriate investment policy regimes in developing countries, UNCTAD has most recently developed the comprehensive Investment Policy Framework for Sustainable Development (IPFSD). This takes a fresh look at investment policymaking and examines the universe of national and international policies through the lens of today's key investment policy challenges.

An oil-station worker in Abuja, Nigeria. In developing countries, industrial policies can contribute to generating jobs and making exports more competitive

UNCTAD has developed the Investment Policy Framework for Sustainable Development that examines policies through the lens of today's key investment policy challenges

The IPFSD focuses explicitly on the sustainable development dimension. It comprises a set of core principles covering such areas as development strategies, investment protection and promotion and facilitation, corporate social responsibility and international investment agreements. The principles are complemented by guidelines for national investment policies, policy options for the negotiation of development-friendly IIAs, as well as criteria to evaluate policy effectiveness.

The IPFSD leaves national policymakers space to 'adapt and adopt' as appropriate. It can also serve as the basis for capacity-building on investment policy. The framework has been designed as a living document that will be continuously updated based on feedback from policy forums and from work in the field. It will thus provide a platform for open-sourcing best-practice investment policies.

In recent years, G20 activities have gained crucial importance for investment policy making. At their Seoul Summit in 2010, G20 members recognised "the critical role of the private sector to create jobs and wealth, and the need for a policy environment that supports sustainable private-sector-led investment and growth".

Post-summit projects

Several initiatives involving UNCTAD have been launched in the aftermath of this summit, including the development of key indicators for measuring and maximising the economic and employment impact of private-sector investment and a project to identify and promote the best existing standards (developmental, social and environmental) for responsible investment in value chains. The G20 endorsed the International Principles for Responsible Agricultural Investment as developed by UNCTAD jointly with the Food and Agriculture Organization, the World Bank and the International Fund for Agriculture and Development. Equally important is the G20's call upon UNCTAD, the World Trade Organization and the Organisation for Economic Co-operation and Development to monitor policies of G20 member countries with a view to identifying cases of trade or investment protectionism.

Following up on these numerous cases of cooperation, UNCTAD invites the G20 to take an active part in the further development and practical application of the IPFSD. In this context, UNCTAD supports the suggestion of the B20 task force recommendations for the upcoming G20 Los Cabos Summit to establish a working group on investment. Such a working group could contribute not only to identifying and addressing existing investment barriers, but also – and of equal importance – to fostering sustainable and responsible investment. ■

Skolkovo: Where ideas become industries

Liberalising trade: mapping the way ahead

While the troubled financial sector has occupied the minds of the world's leaders, the subject of trade has been neglected. Without adequate attention to the issue, the potential for protectionism increases

By Tu Xinquan, University of International Business and Economics, Beijing

Since the global financial crisis hit in 2008, financial liberalisation has become a 'bad boy' disliked by all governments. Paradoxically, the financial sector has been attracting the most attention and inputs from world leaders simply because it has created the most trouble. In contrast, the trade sector, a long-time contributor to global economic growth, is somewhat neglected. Trade issues and officials are much less noticed than those in finance and banking in the context of the G20. Finance ministers and central bankers convene each year, but trade ministers do not. Nonetheless, the spectre of protectionism never vanishes.

In some sense, trade has become a victim of its own success. Thanks to successive trade liberalisation under the auspices of the multilateral trading system, the world managed to deter economic nationalism and protectionism and to maintain overall openness following the 2008 crisis. Despite the great trade collapse in 2009, world trade contributed to economic growth again in 2010 with a rebound of 13.8 per cent. Meanwhile, protectionist fears, which peaked in 2009, gradually dissolved. Consequently, world leaders felt that with the current multilevel trading system in hand, trade no longer required much concern or attention. Therefore, although the G20 summit always calls for an early conclusion of the Doha Round, trade negotiators in Geneva received no direction or support from their capitals and delivered no substantial offers.

In fact, the world trading system is hardly immune from erosion by nationalism and protectionism. With world trade sharply decelerating with only five per cent growth in 2011 and an even slower 3.7 per cent rise likely in 2012, trade tensions have been mounting since the second half of 2011. According to the recent Global Trade Alert report, initial reports of the incidence of protectionism in the third quarter of 2011 are as high as in the most troubling quarters in 2009. In the first quarter of 2012, according to China's Ministry of Commerce, China has received 17 remedy cases covering $2.6 billion of exports – increases of 88 per cent and 106 per cent respectively.

Another concern is that more conflicts are happening among leading countries. In particular, those governments have intervened in new industrial developments during the crisis with the intention of taking the lead in emerging industries. Many subsidy programmes initiated early in the crisis are now becoming the subject of conflicts. Disputes among China, India, the United States and the European Union (EU) over local content requirements, technology transfers and subsidies in the new energy industry are cases in point. The open world trading system may soon face its greatest test.

In some sense, trade has become a victim of its own success. Thanks to successive trade liberalisation, the world managed to maintain overall openness following the 2008 crisis

Moreover, macroeconomic conditions in both developed countries, such as the United States and those of the European Union, and emerging economies such as China and India are worsening at the same time. China faces an unexpected simultaneous deceleration in key indicators such as gross domestic product, investment, consumption exports and imports in the first four months of 2012. India's economic growth in the first quarter is also down to 6.1 per cent.

The EU area still sees no growth in the first quarter, while the US economy has grown only 2.2 per cent, also slower than last year. More unfortunately, a difficult economic situation meets a complicated political atmosphere. Several major countries will experience leadership changes, the most significant of which could take place in the United States and China. No matter what the result is, their incumbent governments are facing more domestic pressures. In February, US president Barack Obama created the Interagency Trade Enforcement Center in response to criticism from Republican presidential candidate Mitt Romney over his handling of China, pledging to "bring the full resources of the federal government to bear on investigations… to counter any unfair trading practices around the world, including by countries like China".

Initiatives to liberalise trade

Some might argue that trade has remained a focus of many governments, on the evidence of numerous bilateral and regional free trade agreements (FTAs) that have been signed. These preferential agreements are not necessarily stumbling blocks to multilateralism. Some high-profile regional initiatives have been launched recently, including the Trans-Pacific Partnership and the China-Japan-Korea FTA. If they eventually work out, some economically significant freer trade actions may result. Nonetheless, they cannot substitute for a multilateral mechanism. In particular, it is politically and economically difficult to reach bilateral agreements between major economies where trade disputes happen most frequently. There are no FTAs yet between the members of the G7 and Brazil, Russia, India, China or South Africa – the BRICS countries. Even among the G7 countries, there are only the North American Free Trade Agreement (NAFTA) and the EU.

A container ship prepares to leave port in Tokyo. Understanding the importance of the multilateral trading system is vital to the prospects of global economic recovery

Moreover, bilateral and regional FTAs will fragment the global trade system.

The World Trade Organization (WTO) remains the most efficient and legitimate mechanism of global economic governance. Since major economies have global trade interests, the WTO is the best venue for them to make domestically and internationally balanced trade-offs with their trading partners, especially their extra-regional ones.

The dilemma is one must pay the most in order to get the most. However, politicians are reluctant to make hard decisions. With more than 150 members and a single-undertaking negotiation approach, it is a formidable task to reach consensus in the WTO. The Doha Round is despairingly deadlocked. Undoubtedly, the WTO needs to be reformed to make progress. An applicable model for future negotiations might be the model of the International Technology Agreement, celebrating its 15th anniversary in 2012. Non-discriminatory and non-mandatory sectoralism could be used to conquer the obstacles to liberalise trade in sensitive products.

Nevertheless, before turning to future negotiations, the WTO must conclude the Doha Round. It cannot afford a total failure of this round, which has taken 10 years of constant effort. To avoid that catastrophe, members must accept a partial success. Each member should lower its ambitions in exchange for fewer requests on itself.

Maintaining Doha Round support

Making a deal would already be a victory for the WTO, regardless of whether the deal is big or small. Even a small deal requires political resolutions and contributions from major members. World leaders should focus on the issue for a period of time and delegate more authority to their negotiators. More importantly, they should secure domestic support for, or at least tolerance of, a smaller Doha package. First and foremost, they should go beyond mere rhetoric and invest visible resources and commitments in the multilateral system.

Trade is a microeconomic topic in textbooks. The significance paid to trade in national economic policymaking differs among countries. Top leaders might not keep a close eye on what happens in Geneva. They rarely visit the WTO or get personally involved in trade negotiations.

The G20 members are now all WTO members. They are also the most influential ones. Perhaps the G20 could convene a face-to-face discussion or even negotiation including these top leaders along with their trade ministers and the WTO director-general. A quick conclusion may be unrealistic, but it would be most helpful for these leaders to understand what the multilateral trading system means for the world and themselves, and what they can and should do to revitalise the stalled Doha negotiations.

Jagdish Bhagwati claims that the most important reason for the stalemate of Doha is a leadership deficit, meaning the ignorance of the US of the WTO. But leaders' absence in trade negotiations in major countries might be more harmful. Hopefully, Los Cabos will see the deeper involvement of top leaders of major powers in the priority issue of world trade. ■

Combating transnational crime and cybercrime

Globalisation is not restricted to economies – it also extends to crime, and more needs to be done by law-enforcement agencies to foster coherent international strategies in the fight against crime

By Ronald K Noble, secretary general, Interpol

It is a truism today that time is accelerating. A corollary of the modern acceleration of time is the reduction of distances, and even their contemporary virtual disappearance in the cyber world. Today, persons, goods and ideas travel and affect the lives of men and women around the world with unprecedented facility and speed.

If it can be argued that technology is morally neutral, the dramatic shrinking of distances, experienced by billions of people every day, can nevertheless have a negative side: the growth of transnational organised crime, the rise of cybercrime and the spread of violent radicalism. These are three of the most pressing security challenges the world is facing and will still be facing in the decades to come.

Organised crime is in phase with its time: counterfeit products are manufactured on one continent and smuggled around the world; persons are trafficked like mere commodities over thousands of kilometres across land and sea; and cars stolen on one continent are recovered in black markets in the four corners of the world.

The development of the internet has added a totally new dimension to crime. Cybercriminals defraud from unsuspected distant havens, develop new underground markets for illicit trade, but also attack networks and critical digital infrastructures and, in so doing, threaten the very stability of states. The cost of cybercrime is already estimated at $388 billion globally, a figure larger than the black market of marijuana, cocaine and heroin combined. However, the sheer size of this threat should not conceal the fact that in all its forms, it involves human beings somewhere in the world, who must be held accountable for their actions.

Finally, the internet facilitates the dissemination of violent and radical ideologies, while modern means of transportation allow for the development of transnational terrorist organisations. With the internet, radical leaders can reach friendly ears in all corners of the world and events in one place can trigger violent reactions at the other end of the world on the same day. Terrorist organisations develop logistical and funding infrastructures that function in ways very similar to – and sometimes in cooperation with – classic transnational organised crime.

An international problem

Today, there are approximately one billion international arrivals annually, $18.1 trillion in goods traded internationally each year, and more than seven billion devices connected to the internet. In 2020, these numbers are likely to reach 1.4 billion international travellers (3.7 million people crossing international borders every day), $24 trillion in traded goods, and as many as 50 billion devices connected to the internet.

These are the concrete expressions of today's world, those on which transnational organised crime, cybercriminals and violent radicals thrive, and as a result also those on which law enforcement must act to keep citizens safe and secure all around the world.

Interpol works in numerous ways with police authorities in its 190 member countries to enforce the law.

First, Interpol relies on a vibrant network of 190 national central bureaus (NCBs), each embedded in its respective national law-enforcement structure, and all connected to a real-time secure global police communication and coordination network accessible by more than 20,000 users worldwide. By offering a

unique combination of global reach and local effectiveness, Interpol's NCB network de facto stands as the organisation's backbone essential to its daily operations.

Second, Interpol maintains the world's only global database of stolen and lost travel documents, currently containing information on more than 32 million documents shared by 163 countries. This wealth of critical data can easily be made available to border police for the systematic screening of travellers. In 2011, 680 million checks on this database generated more than 47,000 hit alerts globally.

Third, Interpol targets one of the most heinous crimes facilitated by the internet: child sexual abuse. Endorsed by G8 members and funded by the European Commission, Interpol's International Child Sexual Exploitation image database allows specialised national investigators to share data across the

Hui Gao leaving a court in Hong Kong; he was arrested by Interpol members on a warrant relating to theft and money laundering charges in New Zealand

world to identify victims and perpetrators. By the end of 2011, nearly 2,500 victims had been identified and more than 1,300 offenders arrested. In two separate operations, offenders pictured in digital child abuse material were positively identified, located and arrested within a matter of days, following a global public appeal issued by Interpol. They are now serving jail sentences.

Fourth, Interpol initiatives to combat trafficking in illicit goods, including in the area of counterfeit pharmaceutical products, facilitates cooperation among law-enforcement agencies in tackling global illicit trade.

These initiatives develop synergies between police, customs authorities and the private sector. A series of targeted operations across all continents has led to numerous arrests and to the seizure of important quantities of illicit goods.

Interpol is currently studying the possibility of creating a global repository of legitimate products' identification codes for police and private individuals.

Fifth, Interpol Information Technology Working Groups from all regions of the world develop specialised cooperation and organise targeted operations, including against online fraud, botnets and hacker groups. In 2014 Interpol will open the Global Complex for Innovation, which will include an 'Innovation, Research and Digital Security' component that will develop innovative cooperative solutions to tackle cybercrime globally.

The actions of Interpol against transnational organised crime, cybercrime and violent radicalism make a difference globally. But that difference is too small in the face of today's challenges. From a global perspective, the rule of law is lagging behind the evolution of modern societies. Unfortunately, the systematic sharing and accessing of police information internationally is still not completely integrated into the philosophy of most police authorities around the world.

An international problem

Obsolete legal frameworks impede efficient law-enforcement cooperation. How can police effectively fight cybercrime if global web-based services are governed by local laws that are not coherent internationally? Bound by borders but facing borderless crime and criminals free to do what they wish, they are fighting an uphill battle. Running after digital communications, they are out of step with 21st-century criminals and terrorists. Supporting international police cooperation, pushing for the development of an international legal framework to efficiently fight transnational crime and cybercrime, and investing in multilateral security mechanisms are the three key strategies to meet today's global security challenges.

A series of targeted operations across all continents has led to numerous arrests and to the seizure of important quantities of illicit goods

The G20 members have the global representation, political power, financial means and, most importantly, their own national interest to consider making sure that law enforcement keeps pace with the changing and evolving nature of the threat posed by transnational organised crime and cybercrime confronting everyone.

In answering this global call, Interpol looks forward to supporting G20 members and their law-enforcement agencies in their efforts. It stands ready to foster and enhance their international police cooperation ties with the rest of the world.

We should never forget that the only possible path to victory against a common foe is to overcome differences and distance, and join forces to act decisively as one. ■

The islands to treasure

The British Virgin Islands' economy is one of the most prosperous in the Caribbean, with a stellar reputation for managing its affairs responsibly. The secret could lie in the partnership between government and the private sector

By Elise Donovan, International Affairs, British Virgin Islands

The British Virgin Islands: a tourism and financial services success story

Nestled in the heart of the Caribbean, 60 miles east of Puerto Rico, the British Virgin Islands (BVI), a spectacular array of 50 islands, islets and cays sprinkled over 59 square miles of crystal blue waters, provides a unique experience for business, leisure and adventure. Touted as the world's greatest sailing destination, with sailboats, pleasure boats and mega yachts, the aquatic experiences distinguish the BVI's tourism product as superior. Every year for the past 40 years, sailing enthusiasts from around the world have converged on the BVI for the world-famous BVI Spring Regatta, a seven-day collection of races throughout the charming islands, whose history is riddled with tales of explorers, pirates, buccaneers and hidden treasures.

Legend of the islands

Legend has it that these islands were named Las Virgenes (the Virgins) by Christopher Columbus on his voyage through the islands in 1493, as they reminded him of St Ursula and her 11,000 virgins. The emblem of the islands, the Vigilate, bears a portrayal of St Ursula surrounded by 11 lamps, each representing 1,000 virgins. The islands have also gained literary fame as the reported backdrop for Scottish author Robert Louis Stevenson's adventure novel *Treasure Island*, which weaves a swashbuckling tale of 18th-century pirates, treachery and buried gold.

The British Virgin Islands, with their unspoiled beauty, serenity and calmness, are in many respects reminiscent of the virgin purity that may have lured Columbus into its dreamy mystique. Today, the Virgin Islands are still able to entice and enchant the world's greatest voyagers.

British business magnate Sir Richard Branson has made the BVI his home and he privately owns two of the islands in the archipelago, Necker Island and Mosquito Island.

Magical coves and sheltered bays

The BVI's tourism slogan, 'nature's little secrets', refers to the magical coves and sheltered bays snuggled at the foot of rolling lush mountains. The islands' tranquility transcends underwater into a magnificent kaleidoscope of breathtaking sea creatures – for divers and lovers of snorkeling there is nothing to match it. With a population of just under 30,000, the islands flow unhurriedly to the rhythmic beats of the tropical trade winds, but are unlike your typical Caribbean destination. The BVI's capital, picturesque Road Town on the main island of Tortola, is a colourful arrangement of low-rise buildings that house the businesses which drive the Territory's commerce. Road Town's Main Street is a one-way pass-through that retains the architectural designs that date back more than a century.

Premier of the BVI,
Dr the Honourable
D Orlando Smith OBE

Maintaining a strong economy

The British Virgin Islands' economy is still one of the most well-managed and prosperous in the Caribbean. Although the global crisis resulted in a slight negative economic growth, the economy is already rebounding with growth rates in 2010 and 2011 of between one and two per cent, which are well above the regional averages.

Premier of the BVI, Dr the Honourable D Orlando Smith OBE, who was elected to office in late 2011, believes he has the formula for an even stronger economic recovery: a partnership between government and the private sector. Thus, within a few months of being in office, Dr Smith held consultations with the private sector in both the tourism and financial services industries. Through these meetings he gained their commitment to help improve the Territory's products and services, diversify the economy, and make the BVI more competitive.

Tourism accounts for close to 40 per cent of the national income. Each year the BVI has been accustomed to attracting an average of 800,000 tourists, about half on cruise ships, from destinations around the globe. Arrivals have declined since the crisis, but the Smith government is rebranding and exploring beyond its traditional tourist markets.

World-class financial services

The other 60 per cent of the national income comes from financial services. Providing a range of services in investment and financial management, the BVI has consistently remained among the top tier of jurisdictions that offer quality and world-class financial services. The BVI is the world's leading offshore domicile for company registrations with more than 450,000 active companies registered and is among the largest domiciles globally for hedge funds. With the largest corporate registry in the world, the BVI's electronic system VIRRGIN allows for 24-hour around the clock processing, which facilitated 64,000 new incorporations in 2011. Experts say that high net-worth individuals find the BVI attractive as it provides a "financial services sector that offers sophistication in a variety of services, security, a robust legal system and sound infrastructure".

An added advantage

Leading international services firms also help to make the BVI a jurisdiction of choice. The Big Four accounting firms, PwC, Deloitte, Ernst & Young, and KPMG, and all the major offshore law firms, are established in the territory.

Its stellar reputation, compliance with international regulatory standards, and its political and economic stability, gives the BVI an added advantage. Maintaining a business-supportive environment, while adhering to international regulatory standards, has allowed the BVI to thrive and remain competitive in financial services. The BVI's high standards and well-regulated regime have been recognized by international standard setters, such as the Financial Stability Board, the Caribbean Financial Action Task Force, and the International Monetary Fund. The jurisdiction has been white-listed by the Organisation for Economic Cooperation and Development (OECD) and, to date, has signed 22 tax information exchange agreements with many of the OECD countries, India and China.

The British Virgin Islands – a spectacular array of 50 islands, islets and cays over 59 miles of crystal blue waters, and touted as the world's greatest sailing destination

Commitment to manage responsibly

In an April 2012 visit to the territory, the British Minister for the Overseas Territories, Henry Bellingham, told Premier Smith that he was pleased with the "BVI's commitment to manage itself responsibly" and called the BVI a "a huge success story".

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The importance of improving G20 accountability

Many great decisions could be made at the G20 summit, but who will ensure those ideas are translated into action? It may be time to implement targets, timetables and regulatory reform

By Ella Kokotsis, G20 Research Group

The G20 will assemble in Los Cabos, Mexico, on 18-19 June 2012 for their seventh summit gathering since first convening in November 2008. During this two-day meeting, politicians, academics, civil society and media from around the world will pay very close attention to what the G20 can realistically deliver. The leaders are expected to cover a broad and diverse range of international issues spanning growth and employment, structural reform, the international financial architecture, food security, energy efficiency, green growth and the fight against climate change.

Strengthening transparency

To maintain their credibility and legitimacy as the centre of global economic governance, the G20 must seize this key opportunity to demonstrate to the world its continued value, leadership and effectiveness. Los Cabos thus offers a key venue for the G20 to showcase its capacity, not only to reach consensus on the most complex and pressing global challenges, but also to be accountable for the broad spectrum of commitments the leaders will produce in their Los Cabos declaration.

The question of accountability is by no means a new concept for the G20. Its first summit in Washington in November 2008 yielded a stand-alone section in the final declaration devoted exclusively to “Strengthening Transparency and Accountability”. Here the G20 emphasised the importance of implementing its commitments through detailed targets and timetables, and established an action plan to implement principles for financial and regulatory reform. To guide the process, the G20 leaders tasked their finance ministers to work to ensure that the commitments established in their action plan were “fully and vigorously implemented”. Indeed, the issue of accountability became the defining feature of both the G8 and G20 summits in Canada in 2010. The G8’s *Muskoka Accountability Report* was the product of the first-ever comprehensive accountability mechanism created by the G8. It was supported by a senior-level working group, with a consistent methodology for reporting on key commitments. In delivering their report, the leaders expressed their commitment to implement their decisions and strengthen the effectiveness of their actions.

Yet, despite Canadian prime minister Stephen Harper’s March 2010 letter to his colleagues in the United States, United Kingdom, Korea and France asserting that “we are all accountable” and that “now is the time for the Leaders of the G20 both to recommit themselves and deliver on the ambitious reform objectives and agenda”, all three subsequent G20 summits at Toronto, Seoul and Cannes failed to produce a rigorous accountability mechanism comparable to that established by the G8 at Muskoka.

How well have the approaches worked?

Much of the criticism levied against the G20’s perceived accountability deficit comes primarily on two grounds.

The first is its lack of formal authority, as the G20 is not a legal entity, lacks a standing secretariat and is not governed by a formal set of rules, doctrines or principles.

The second criticism flows from the G20’s lack of a rigorous accountability mechanism, including a baseline set of standards, accurate and consistent shared information, and an agreed-to set of sanctions (or at least consequences) for violations of non-compliance. Equally importantly, the G20s lack of normative values is often blamed for

The G20 leaders who met in 2011 made a commitment to work together for financial stability, but have been accused of failing to follow up on promises

European Commission President Jose Manuel Barroso (first left) and European Council President Herman Van Rompuy (second left) meet with Japanese prime minister Yoshihiko Noda (right) at the G20 2011 Cannes Summit

Contrary to the G8, viewed as a global nexus of like-minded leaders, the G20's inability to follow up on its promises is often attributed to its lack of a common set of universal values

its accountability shortfalls. Contrary to the G8, traditionally viewed as a global nexus of like-minded leaders, the G20's inability to consistently follow up on its promises is often attributed to its lack of a common set of universal values including the pursuit of democracy, support for human rights and a belief in free-market economies.

Sceptics thus question the ability and, indeed, willingness of the G20 to forge consensus, reach and honour agreements, and build an effective global governance regime with a membership as politically, economically, religiously and culturally diverse as the G20's is. Although its history is still relatively young, and the quantity and robustness of its compliance are still developing, an interesting trend is emerging in G20 accountability. Leaders of the G20 are submitting to the value and importance of an accountability mechanism insofar as they continue to mandate experts and working groups to report back on the progress made regarding decisions rendered. They do so by requesting a number of key international organisations, non-governmental organisations (NGOs) and academic institutions to monitor and report publicly on compliance with G20 commitments. In turn, these actors are holding the G20 to account on how the summit's decisions are affecting the global economy, development, sustainability and environmental concerns. A review by the National Research University Higher School of Economics (HSE) in Moscow identified 53 such public G20 accountability reports, including those mandated by the G20, as well as those initiated by other actors seeking to hold the G20 to account.

Individual performance

Within these reports, four pillars of accountability are addressed, including transparency, consultation, evaluation and correction. Of the 29 reports produced by various international organisations, 18 provided evidence based on individual G20 members' performance, with the other 11 offering data in an aggregated format. None of these reports offered any sort of scoring methodology, and only five presented recommendations for future action.

How can the G20 advance accountability?

Several steps are required for the G20 to advance its accountability at the 2012 Los Cabos Summit. First, the G20 needs to recognise that effective leadership involves making commitments that stick.

Doing so means going beyond the rhetoric of 'needing' more accountability in G20 governance to actually building and developing a regular, clear and transparent accountability review and reporting mechanism. A report of this nature would need to acknowledge that on numerous global initiatives, the G20 simply cannot act alone; it requires partner organisations, including NGOs, private foundations, civil society, academia and the private sector to contribute to the successful outcome of its goals. G20 interventions are therefore clearly influenced by how all these partnerships work together to ultimately deliver results.

Common benchmarks

Second, an enduring accountability working group, similar to that of the G8, would play an integral role in ensuring the G20's work stays on track. Such a group would be tasked with monitoring the G20's commitments to ensure that standard and quantifiable terms are employed, that consistent methodologies and rigorous assessments are used, that common benchmarks and baselines exist, and that adequate monitoring systems on the ground provide for timely and reliable information.

Reliable results

All of these aspects are critical in ensuring effective and reliable results-oriented reporting. Thus, to maintain its credibility and legitimacy as the centre of global economic governance, the G20 has an important opportunity at Los Cabos not only to provide an inventory of its collective accomplishments, but also to engage the broader international community and report on its accomplishments in a clear, transparent and measurable way. ■

Keeping promises: how big a difference has G20 summitry made?

Research has been carried out to measure how well G20 members have implemented commitments made at previous summits, and how this compares with compliance made by their G8 counterparts

By Caroline Bracht, G20 Research Group, University of Toronto, and Mark Rakhmangulov, Global Governance Research Centre, National Research University Higher School of Economics

In its role as the premier global economic forum, the G20 places economic coherence and collaboration for strong, sustainable and balanced growth at the top of its priorities. Since the Cannes Summit in November 2011, this priority has evolved into ensuring that future growth includes all people and adheres to principles of sustainability – in other words, 'green growth'.

Such inclusiveness and sustainability have traditionally been defined as development and climate change. While the priorities, agenda and commitments of the G20 have evolved, a performance evaluation is essential before further advances should be made.

An analysis of the level of implementation highlights areas that are satisfactory and those that require improvement, and points to the possibility that other international organisations may be better suited to ensure full implementation.

Measuring policy implementation

The G20 Research Group based at the University of Toronto and the National Research University Higher School of Economics in Moscow have collaborated on compliance reports to measure how well G20 members have implemented a selection of priority commitments made at each summit.

These reports use a scientific scale from -1 to +1 (with -1 representing no action or actions taken against the commitment, 0 representing partial compliance or a work in progress, and +1 representing full compliance because all required actions have been taken).

In response to the 2008 financial crisis and in an attempt to restore growth and prosperity, the G20 commitments from the Washington Summit in November 2008, the London Summit in April 2009 and the Pittsburgh Summit in September 2009 were

Members of the G20 group of countries have agreed to commitments relating to adoption of clean energy technologies disproportionately weighted in the areas of macroeconomics, finance and trade.

These summits focused on addressing global instability by taking common action on fiscal measures, overseeing financial markets and keeping the global economy open for trade. A sign that policy coordination was successful was indicated by a compliance score of +0.65 with economic commitments, which far exceeds the overall G20 average of +0.44. There was little difference between G8 and non-G8 members. The average compliance with finance commitments was slightly lower at +0.42, followed by trade at +0.24, one of the lowest of all the issue areas monitored.

Compliance in key areas: development

After the 2009 Pittsburgh Summit development issues grew on the G20 agenda. This translated into an increase in discrete, timely and action-oriented commitments. The G20 Development Working Group, created at the Toronto Summit in June 2010, was tasked with monitoring the implementation of the development commitments, specifically those in the Multi-Year Action Plan produced at the Seoul Summit in November 2010. According to the G20 Research Group's assessments, the overall compliance average with development commitments was +0.17. There was a noticeable difference between G8 and non-G8 countries: the G8 countries' average was +0.64, while the non-G8 average was -0.21.

A study conducted by the University of Toronto team increased the number of development commitments monitored with an emphasis on those from the Seoul Summit. This study raised the overall G20 average to +0.44, mostly due to the increase in the compliance of non-G8 countries to an average of +0.26. The G8 members' average also increased to +0.67.

Climate change and energy

The climate change commitments made by the G20 leaders most often reinforce the United Nations Framework Convention on Climate Change, and reiterate support for the Conference of the Parties.

Findings from the University of Toronto team indicate that the overall average was +0.37, with the G8 members' average at +0.44 and the non-G8 members at +0.30. These results indicate a reduced gap in performance between the G20's advanced economies and the emerging economy members.

The compliance reports on energy include commitments on clean energy technologies, energy efficiency and the reduction of fossil fuel subsidies, the latter a key achievement of the Pittsburgh Summit.

The average compliance on energy was +0.56, with the G8 average at +0.69 and the non-G8 average at +0.48. When the results of a special study completed by the G20 Research Group and Mexico's Instituto Tecnológico de Monterrey are included, the averages decrease to +0.46, +0.55 and +0.42, respectively.

One compliance report assessed a commitment that synergistically brought together climate change and development to achieve green growth. The compliance average was -0.10, where the G8 members had a higher score of 0.00 and the non-G8 members a lower than average score of -0.18.

Comparing G20, G8 and BRICS

The members of the G8 and the BRICS countries of Brazil, Russia, India, China and South Africa are also members of the G20. Compared with the G8, which was established in 1975, the G20 and BRICS are relatively new. The scale of the difference in compliance between G8 and non-G8 members varies by issue area. It is the most pronounced on development and least pronounced on climate change. It is also apparent that the BRICS members perform on a par with the non-G8 members.

The G20's compliance scores show clear trends. Commitments made in the traditionally defined areas of climate change and energy have been implemented to a high degree among all G20 members. The G20 Research Group's study on development has indicated that, increasingly, commitments concerning development – as well as macroeconomic commitments – have been complied with, especially by non-G8 members. All members of the G20 have historically complied with their macroeconomic, climate change and energy commitments.

The gap in the performance in these areas between G8 and non-G8 countries has been relatively small. On an optimistic note, the gap between G8 and non-G8 countries in performance on development commitments is decreasing, as non-G8 members increasingly comply with their commitments. Indeed, perhaps the future success of the G20 will depend on the ability of its members to implement commitments that synthesise the traditionally defined areas of macroeconomics, development and climate change. ■

The G20's compliance scores show clear trends. Commitments made in the traditionally defined areas of climate change and energy have been implemented to a high degree

Measures to combat climate change are also among the commitments made by G20 members

THE WORLD FROM A LESBIAN

ilga

PERSECUTION

DEATH PENALTY

5 countries and parts of Nigeria and Somalia

IMPRISONMENT

*78 countries and 6 entities**

- Death penalty
- imprisonment up to 14 years
- Imprisonment from 14 years to a life-long sentence
- imprisonment, no precise indication of the length/ banishment
- unclear = legislation not specifically homophobic but which can be used as such
- uncertain = law awaiting court ruling or persecution by organised non-state agents

RECOGNITION

RECOGNITION OF SAME-SEX UNIONS

*30 countries and 28 entities**

- Marriage
- Equal (almost equal) substitute to marriage
- Clearly inferior substitute to marriage

PROTECTION

ANTI-DISCRIMINATION LAWS

*57 countries and 82 entities**

- Countries which introduced laws prohibiting discrimination on the grounds of sexual orientation

NO SPECIFIC LEGISLATION

AND GAY HUMAN RIGHTS PERSPECTIVE

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May 2012
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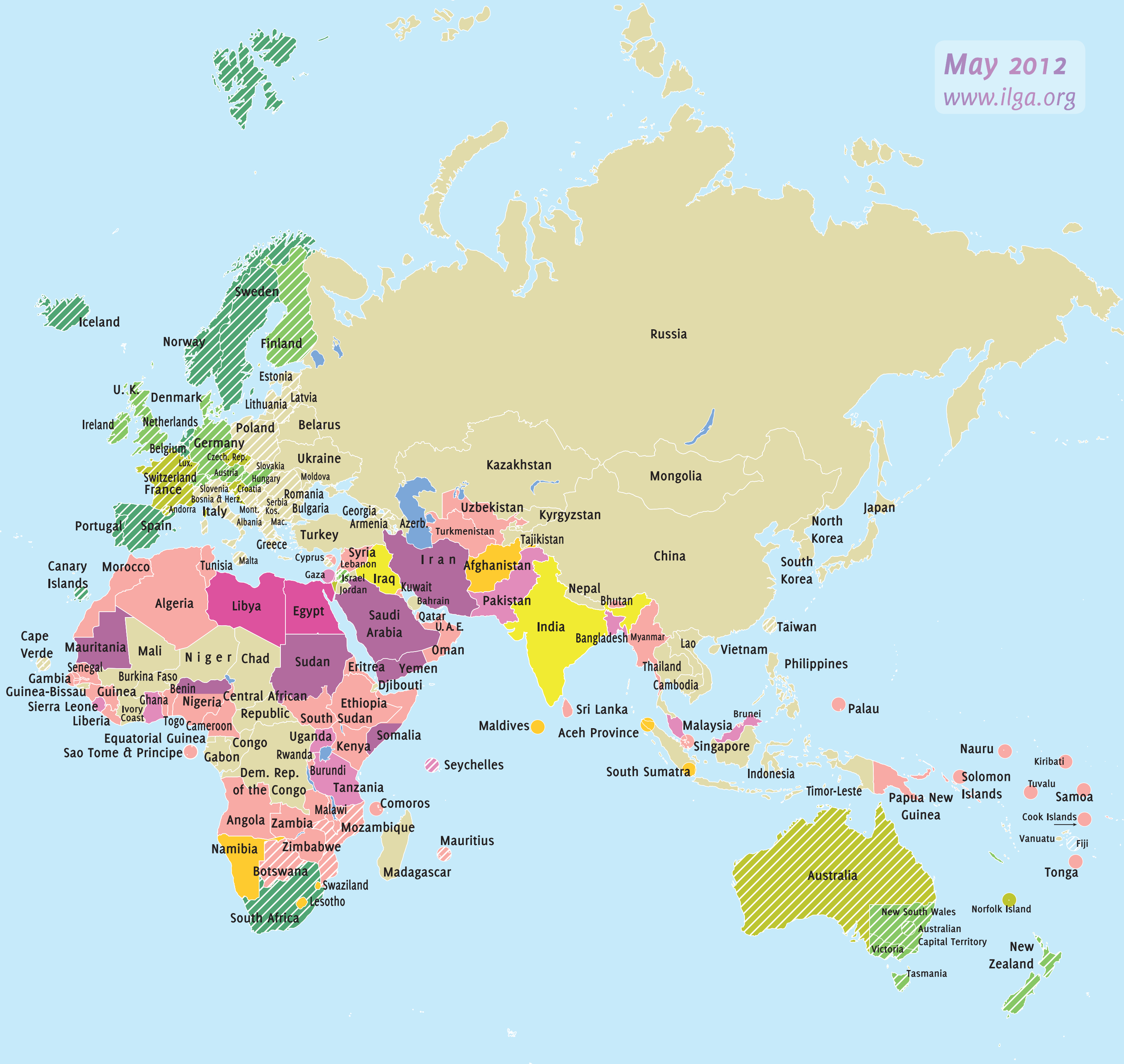

*Include part of a federation, state, province, federal district, any other administrative and/or territorial unit. These laws are aimed at lesbians, gay men and bisexuals and at same-sex activities and relationships. At times, they also apply to trans and intersex people. This edition of the world map (May 2012) was coordinated by Stephen Barris (ILGA). Design: Renné Ramos & Eduardo Enoki. Data represented in this map is based on "State-Sponsored Homophobia: a world survey of laws criminalising same-sex sexual acts between consenting adults - 2012", an ILGA report by Eddie Bruce-Jones & Lucas Paoli Itaborahy (available on www.ilga.org in English, Spanish, Portuguese and French). ILGA thanks groups which contributed to the annual update.

ILGA is the oldest world-wide umbrella organisation fighting discrimination on grounds of sexual orientation and gender identity.

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At the heart of global governance: achievements and future challenges

The G20 process has expanded from its origins as a financial forum to encompass a much broader range of issues and participants, with Mexico pushing the barriers even further as host of this year's summit

By Andrew F Cooper, Balsillie School of International Affairs at the University of Waterloo, and distinguished fellow, Centre for International Governance Innovation

Through its institutionalisation as "the premier forum for international economic cooperation", the G20 has carved out a key position as an apex or direction-setting forum for global governance – a position traditionally held solely by the established countries within the G8.

The G20 has become thicker institutionally from its initial format in 1999 at the level of finance ministers and central-bank governors to its elevation to the leaders' level in 2008. The process has also been extended through the intergovernmental nexus of ministers of agriculture and labour/ employment (who first met under the French presidency) and foreign ministers (who first met under the Mexican presidency). On the civil-society dimension, the G20 has embedded the involvement of a wide array of business representatives through the B20 forum and the Civil G20 dialogue (initiated during the Korean presidency, but extended and refined during the Mexican presidency).

Thickening with regard to an interactive network of multilateral organisations has also occurred – privileging the International Monetary Fund and the World Bank, as well as expanding the global economic governance architecture to include the expanded Financial Stability Board. Beyond these international institutions, however, there is a growing demand for the G20 to build up other inter-institutional linkages, particularly those that lie outside of the international financial architecture and, specifically, those that lie within the United Nations system (the World Health Organization, the Food and Agriculture Organization and the World Food Programme, and the United Nations Development Programme).

The effectiveness of the G20 has been a key point of contention. The G20 has proven resilient in its crisis committee role with regard to the 2008 global financial crisis and the ensuing spillover problems in the eurozone. Increasing levels of compliance among members indicate that the G20 is working towards a more effective role in global governance. Yet the momentum has slowed down with regard to the G20's transition from crisis-management committee to a steering group for a wider agenda in global affairs. The major challenge facing the G20's long-term governance role is in creating an effective relationship with existing international institutions to ensure that the growing demand for global governance is satisfied, and that issue-specific regime complexes are governed efficiently, with as little inter-institutional competition as possible. Messy multilateralism need not be equated with counterproductive multilateralism.

The major challenge facing the G20 is in creating an effective relationship with existing international institutions to ensure that the demand for global governance is satisfied

Since 2008, the relationship between the G20 and the G8 has evolved according to a broadly defined, if somewhat awkwardly operationalised, division of labour. In its new role, primarily associated with its Muskoka Summit, the G8 has made a marked turn towards the political and security and development dimensions of global governance, as well as African development (with initiatives on Africa and child and maternal health).

The G8 has focused much of its attention on the diffusion of democracy in the course and aftermath of the Arab Spring, as well as on the role of the North Atlantic Treaty Organization (NATO) within the international security architecture (notably on Afghanistan). This division of labour, nonetheless, does not preclude convergence on key areas of agenda overlap, particularly on the issues of commodity-price volatility and food security, where the G8 and G20 have both included these items on their agendas, and should have an interest in collaborating on problem-solving.

Potential for fragmentation

Still, the risk of competitive approaches to governance looms, as does the promise of complementary approaches. One such risk to the G20's institutional coherence is a more exaggerated split between a caucus of G8 members and a caucus of the BRICS countries – Brazil, Russia, India, China and South Africa – within the G20. Although such fragmentation is far from dysfunctional under current conditions, it opens up a scenario of a structural divide if the G20 loses momentum in terms of output legitimacy.

The complementary side of the G20 is reinforced further by the rapprochement between selective and universalistic forms of multilateralism. The G20 has sought to work more closely within the parameters of the United Nations (UN) system. The Millennium Development Goals have been positioned as a benchmark for the G20's core mandate of attaining strong, sustainable and balanced growth. As 2012 G20 summit host, Mexico can build on the theme of financial inclusion to create sharper linkages between the G20 and the UN in global trade and development.

The summit serves as an important benchmark in the progress of the wider G20 process. To begin with, it marks a transition and expansion of ownership of the G20 process to hosting the summit by a middle power, the second after Korea's successful

2010 hosting. This showcases an important functional development in the bridging role of countries in the G20 that are neither G7/8 nor BRICS members – a bridging role likely to be embraced by Australia and Turkey as they take on the hosting functions in 2014 and 2015 respectively. It also marks Mexico's own transition to a G20 insider from its earlier role as key player in the G8's formative, albeit limited, Heiligendamm/Outreach Five process.

Widening summit participation

Mexico's willingness to push the institutional boundaries is highlighted by its extension of the summit process to include foreign ministers at the state level and an upgraded form of engagement with business and key civil society groups at the non-state level. It has also built on innovations from previous hosts, especially with respect to consultations with and inclusion of the participation of non-members, with a particular focus on regional organisations and the Global Governance Group (3G) encompassing a wide composition of small states. Chile's economy minister was invited to a pre-summit meeting of G20 finance and trade ministers. Chile – a key member of the 3G – and Colombia – host of the 2012 Summit of the Americas – will attend the Los Cabos Summit. Such mechanisms also do much to reinforce Mexico's position in the regional dynamics of the Americas.

Los Cabos will provide Mexico with an opportunity for branding its ownership of the G20 process similar to that achieved by Korea during the 2010 Seoul Summit, where the development agenda became central to the work of the G20 through the creation of the Seoul Development Consensus. Mexico's emphasis on financial inclusion can serve as the basis for a more integrative approach to global economic governance and participation by smaller, more vulnerable states.

In addition to the branding of particular agenda items, on green growth as well as financial inclusion, Mexico has displayed enormous diplomatic skills in institutionalising the G20 through the sherpa process and the troika process of the outgoing, current and incoming hosts. Such championing allows Mexico to have credibility with future hosts, in particular those other members of what can be termed the rising middle in the G20, with which its shares some salient identity formation and tangible interests. ■

Building on the theme of financial inclusion, summit host Mexico can help to establish greater links between the G20 and the United Nations on global trade and development

Time for a new version of globalisation? A view from China

Unless members ensure that collective agreements are implemented domestically, the G20 risks losing its effectiveness. A new, sustainable global economic model may be the key to easing the ongoing turmoil

By Su Changhe, School of International Relations and Public Affairs, Fudan University, Shanghai

The G20 has become one of the most important informal multilateral platforms for the world's major economies to address serious economic and development issues since the 2008 financial crisis. The frequent consultations and summits among the 20 members at least reflect the common willingness of international society to take collective actions to deal with tough issues, although differences and divisions exist. The G20 is not a meaningless talking shop. But if the agreements cannot be implemented effectively by the members in their domestic politics, G20 fatigue may gradually emerge and its effectiveness will be discounted.

As the second largest economy in the world, China has been widely seen to have more capacity and policy instruments to rebalance the world economy. But this expectation is overestimated. In the current world, no particular country has the capacity to save the world, not even the largest economic entity – the United States. The most compelling case is that each country should stand together to address critical issues. This is a really a living wisdom for all the peoples in an interdependent world.

Consensus created

Compared to the G8, the G20 is broadly seen to have a more legitimate and representative character for global economic governance. No one doubts that the G20 is an effective platform for creating consensus and achieving agreements among its members. The United Nations is too big to create consensus on economic issues, while the G8 is too small to reach a consensus that represents the views of emerging countries. The G20 was born at the right moment, during a period of sensitive power transition. Much consensus has been achieved at the last rounds of summits and ministerial dialogues, such as that on preventing protectionism, increasing jobs, balancing the economy and reforming the International Monetary Fund. These frequent dialogues are useful for reducing misperception and misunderstanding among countries during a crisis. As a platform, the G20 plays a key role in building trust and confidence around the world.

The 2008 financial crisis may mean that the old version of globalisation is dead. That version of globalisation, which has been advanced mostly since the end of the 1970s, was accompanied by the spread of finance around the world. The crazy financial market, or "casino capitalism" in the words of Susan Strange, was out of sovereign control and regulation, while international society was short of sufficient institutional tools to restrict the flows.

Globalisation in itself is not wrong – what is wrong is this version of it. To maintain the sound operation of globalisation for the rest of this century, the world needs to redesign its international institutions, including the international monetary system, to create a sustainable economic model. Basically, finance should return to its core value, which is to serve the real economy rather than experience an overexpansion into a virtual economy.

Inclusive growth

With a high degree of economic interdependence, all countries for the first time are in the same boat. The emerging economies together have contributed more than 50 per cent to global economic growth in recent years. Without the inclusive

spillover effect of emerging economies, the industrialised economies could perform rather worse. Only China will import around $10 trillion and invest $500 billion overseas over the next five years. This is a very positive signal for the world. Therefore, the world needs to change its perspective to recognise the reality of the unbalanced growth between emerged and emerging economies. The sustained growth of the emerging economies will ultimately be useful for the rest of the world economy in hard times. It will be a disaster for the world if both emerged and emerging economies fall into crisis.

In the absence of a global authority, some responsible public policies, including financial

China's recent expansion has propelled it to the position of the world's second largest economy, but no single country can be expected to bear the sole responsibility for energising global recovery

policy, that are made especially by countries that play a stabilising role in the international system are key to good global governance. The ideal policy is one that is mutually beneficial to many countries, which could produce public goods. The second best public policy benefits only the country without damaging other countries. The third best benefits only the country and causes damage to others.

The worst public policy not only damages the country but also harms others. It is not a public good, but a public bad. In order to update the old version of globalisation, both external review and internal self-restriction are required to make more responsible public policies for global governance.

This is definitely necessary. As the anchor country in terms of monetary policies, the first and second quantitative easing policies implemented by the United States have been criticised by other countries for transferring adjustment costs to the outside world.

Opposing protectionism

The unforgettable lesson of the 1929 economic crisis is that if the world closes the door to international cooperation and major countries' policies move inward rather than outward, the world economy will be damaged further. However, the disturbing message is that there is an increasing trend that some countries are inclined to take 'beggar-my-neighbour' policies. The G20 should oppose such policies, to maintain a free trade system. At the same time, international society must act to improve the conditions of the victims and the losers in the wave of globalisation. With the increasing number of losers and the eclipse of global middle-incomes, they may become the decisive factor in leading a country to withdraw from international institutions.

If the current international institutions do not matter, or do not adjust to the new international environment, more and more countries may be inclined to get out of the current institutions, which were mostly created at the end of the Second World War. ■

Russia's vision for G20 summitry

The G20 has demonstrated its importance in addressing problems on a global scale. However, change is necessary if it is to remain an effective forum for coordinating policy and tackling crises

By Marina Larionova, director, International Organisations Research Institute, National Research University Higher School of Economics

The G20 has proven that it can respond to crises. It now has to live up to the expectations that it can prevent global risks and break the deadlocks that other institutions responsible for resolving critical issues have been unable to break. Challenging a plethora of sceptics, the G20 is now a long-term process in motion.

The G20 leaders' decisions based on the 2012 Mexican presidency's five priorities are broadly shared among the G20 members and beyond. Those decisions are expected to advance global financial and economic stability, promote growth and job creation through structural reforms, make progress towards reforming the international financial institutions, strengthen financial regulation, enhance food security and mitigate commodity price volatility. The summit commitments and their implementation by the G20 and relevant international institutions will show how many of the expectations have been met.

Principles for agenda-setting

Russia, which takes over the G20 presidency from Mexico for 2013, will build its agenda on several principles. First, Russia will focus on the complete and timely implementation of the G20's key commitments in priority areas. Assessment of the progress of that implementation will help identify which pledges of the G20's core agenda have been delivered and which remain fully relevant, and what should be done to provide impetus for further action, collectively and individually.

Second, Russia will concentrate on a limited number of priorities that should balance continuity and innovation, as well as leaving space on the agenda to accommodate emergency issues arising on the eve of the summit (as was the case in Cannes, where the leaders had to work on both the planned agenda and an emergency agenda).

Third, Russia will build on G20's comparative advantages. Bringing together the world's major advanced and emerging market economies, the G20 is an indispensible forum for economic policy coordination. Macroeconomic rebalancing, economic growth, reform of the international financial and monetary architecture, and improving financial regulation should remain at the heart of the G20 agenda.

G20 decisions on economic and financial issues require political leadership, vision and responsibility. The leaders should have more time for strategic discussions

Fourth, Russia will consolidate inclusive strategies, inviting leaders from non-G20 countries and engaging with international and regional institutions. The Eurasian Economic Community may be represented by its general secretary. This will bring Russia's eight regional partners into the G20 process. As surmounting global risks and implementing G20 decisions both on G20 members and on global institutions, the G20 should continue to collaborate in strengthening of the necessary institutions: the United Nations and its International Monetary Fund and World Bank. To complete the work on consolidating the evolution of the Financial Stability Board in 2012, the G20 will reinforce its decisions on strengthening financial regulation.

Fifth, Russia will send a clear message about why the G20 process matters and what its decisions mean to the people. Effective consultation mechanisms with G20 civil society may help upgrade the social dialogue and promote awareness of the forum's contribution to people's well-being and to the global public good.

To make its relevance comprehensible to the global community, the G20 should set up an accountability process, along with the highly technical reviewing process mandated to be done by specialised international institutions. An ongoing official G20 website would help to sustain G20 engagement with citizens, academia and business.

Managing global economic risks

The G20 should focus on managing and mitigating global economic risks arising from chronic fiscal imbalances – the centre of gravity as defined by the World Economic Forum's *2012 Global Risks* report. This risk is exacerbated by the others within the cluster: unmanageable inflation and deflation, recurring liquidity crisis, chronic labour market imbalances and prolonged infrastructure neglect. Four critical connectors, which join the five centres of gravity (economic, geopolitical, environmental, societal and technological) into one system, are also economic: increasing income disparity, major systemic financial failure, the unforeseen negative consequences of regulation, and the extreme volatility in energy and agricultural prices. Most of these issues constitute the G20's legitimate mandate.

Russia's presidency should consolidate the incremental progress made by the G20 on macroeconomic imbalances and financial safety nets, sustain progress on international financial and monetary system reform, and re-energise the impetus for structural reforms. Progress on financial regulation should be coupled with due assessment of unforeseen negative consequences of regulation. G20 members should continue to collaborate to

Canadian prime minister Stephen Harper talks with then Russian president (now prime minister) Dmitry Medvedev at the 2011 G20 Cannes Summit. Russia takes over the G20 presidency in 2013

mitigate volatility in agricultural prices and engage more effectively in managing energy prices volatility. Making restoring growth and employment levels a priority, Russia should boost attention to policies aimed at overcoming income disparities. This will prove G20 leaders' commitment to ensuring a fair and sustainable recovery.

The G20 should consider making employment a formal indicator in the Mutual Assessment Process for strong, sustainable and balanced growth, as proposed by the International Trade Union Confederation and the Trade Union Advisory Committee of the Organisation for Economic Co-operation and Development. Russia's presidency can contribute to overcoming income disparities by promoting the adoption of the G20 action plan to support the implementation of social protection floors at the national level. The G20 should deliver on the commitments to generate investment for infrastructure development as a condition for strong, sustainable and resilient economic growth in developing countries.

Refining the summit structure

With a large number of issues, multilevel coordination, diverse perceptions among the G20 members as well as non-members (including states, international organisations, civil society, trade unions and other actors), the G20 process has become increasingly challenging to manage. The G20 would benefit from a structured dialogue with civil society and academic institutions. Improved coordination within the troika of the outgoing, current and incoming presidencies at different levels may prove an asset to the forthcoming and subsequent presidencies and to the G20's performance and credibility as a hub of global governance.

G20 decisions on economic and financial issues require political leadership, vision and responsibility. The leaders should have more time for strategic discussions. The presidency programme should be planned so that it leaves the details to the meetings of ministers, working groups and experts, and culminates in a summit with fewer seats at the table, thus creating space for the leaders' face-to-face engagement on big issues in a spirit of political vision and solidarity.

This is the way forward for attaining the G20 priorities of responding to crises, protecting against them and making globalisation work for all. ■

The B20's role in G20 governance

The B20 summit, which takes place just prior to the G20 event, gathers together more than 400 chief executives from major corporations to recommend action on tackling global challenges

By Alejandro Ramirez Magaña, chair, B20 Organizing Committee

On 17 and 18 June 2012, just prior to the G20 summit at Los Cabos, Mexico will also host the Business 20 Summit (B20). This event will gather more than 400 chief executives from the most important global corporations to discuss how the private sector can contribute to solving some of the world's most pressing problems.

With this goal in mind, business leaders have engaged in B20 task forces, working closely with other stakeholders to address global challenges such as food security, green growth, employment, transparency and anti-corruption, trade and investment, information and communication technologies (ICTs) and innovation, and financing for growth and development. Participating chief executives have developed plans that begin by asking what business should do before looking at the role of government.

This will be the fourth meeting of the B20, which began in Toronto in 2010 and has been held subsequently in Seoul in 2011 and Cannes in 2012. Each one has played an increasingly constructive and meaningful role in the G20 process. In preparation for the Los Cabos Summit, at the Mexican Organising Committee, the B20 has implemented a number of important innovations:

- Broader multistakeholder perspectives: the B20 included global experts and key members of civil society as full members in its task forces.
- Close links with the G20: the B20 briefed the G20 sherpas regularly and invited government liaisons with each task force.
- Timeliness: the B20 developed detailed recommendations two months before the G20 Los Cabos Summit.
- Optimal focus: the B20 reviewed its draft recommendations with Mexican president and G20 chair Felipe Calderón, in Puerto Vallarta in April 2012, and also participated at the G20 meetings of trade, agriculture and labour ministers, the G20's Development Working Group, and other workshops and forums.
- Continuity and impact: the B20 developed a breakthrough Advocacy and Impact Task Force, in addition to its seven core thematic task forces, to ensure that the recommendations resonate across countries and are carried forward from one year to the next.

The Advocacy and Impact Task Force led the way for the rest of the thematic task forces to prioritise the B20's recommendations and make them actionable by adding the activities required for their implementation. The concrete recommendations proposed for Los Cabos are as follows.

Food security

- Enhance public- and private-sector investment significantly to achieve a 50 per cent increase in agricultural production and productivity by 2030.
- Strengthen national-level food security programmes, supported by public-private partnerships.

Green growth

- At the time of the Los Cabos summit, the B20 will announce the creation of a new set of international financial institutions, development banks (international development finance clubs), companies, banks and private investor groups designed to make practical progress on the green growth agenda within the next 36 months with an initial focus on financing. Initial activities include:
  - Identify and share best practices on risk mitigation and co-investment funding structures for green investment.
  - Support efforts to move away from a project-by-project basis to a portfolio investment approach.
  - Work with G20 leaders to incorporate 'leveraging private finance' as a key performance strategy for international financial institutions and national development banks.

Employment

- Facilitate growth of small and medium-size enterprises (SMEs) and innovative business models: business leaders and associations, with the support of local governments, should commit specific resources to supporting growth and innovation potential along value chains, including identifying and strengthening high-potential SMEs, cooperatives and social enterprises.
- Scale internships and apprenticeships: business leaders and associations, with the support of national and local governments and academic institutions, should commit to a major campaign to scale and improve the image and quality of apprenticeships and internships.

Transparency and anti-corruption

- For government: streamline public procurement processes to address the demand side of bribery and to encourage and further incentivise business action against corruption.
- For the business community: increase participation in collective action and sectorial initiatives to encourage cross-fertilisation through sharing best practices and training materials and engage SMEs through supply chains.
- For joint government and business action: develop a platform of dialogue to promote participation in integrity pacts, support

Mexican president Felipe Calderón addresses the B20 business leaders' meeting that preceded last year's G20 summit in Cannes

efforts to raise SME business integrity standards and identify good practices to facilitate the active cooperation between companies and enforcement authorities.

Trade and investment

- Push for more rapid progress on specific items on the negotiating agenda of the World Trade Organization on a priority basis, to promote the long-term interests of developing and developed economies alike.
- Lead by example in rejecting measures that restrict trade and investment and in promoting measures that enhance them.
- Reiterate support for open cross-border investment as an essential contributor to growth, development and job creation and take concrete steps to advance an international investment agenda.

ICTs and innovation

- Enable broadband for all, which involves an understanding of the unique environment of each country, cost-efficient construction of physical infrastructure and spectrum management, development of new business models for services, and availability of affordable devices and services for consumers to use.
- Develop content and applications for the public good, providing social inclusion through ICTs.
- Provide access to government services, education, banking and real-time information such as flight information, traffic and waiting times for certain services to improve and enable society as a whole.

Financing growth and development

- Recognise the low-risk nature of trade finance and the value it provides for emerging economies, and take action to reverse the unintended consequences of the capital and liquidity treatment of trade finance.
- Support efforts by all countries to increase SME finance through better provision of data on SME credit risk guarantee programmes and a unified national agency that promotes this segment in order to ensure financial inclusion.

True global collaboration

The B20 task force recommendations are the result of true global collaboration. More than 150 leaders and experts from more than 25 countries have worked closely together over the past four months to develop practical solutions to critical global challenges. Distinguished chief executives of global corporations acted as co-chairs of the task forces, providing leadership and focus. Their committed staff provided essential and equally collaborative support in weaving these ideas into actionable recommendations.

The World Economic Forum, the International Chamber of Commerce, and McKinsey & Company have been involved in the B20 for a third year, providing complementary skills and perspectives. The process was additionally enriched this year by the active engagement of the Organisation for Economic Co-operation and Development, which provided invaluable insight and participated actively in all the task forces, and the Fundación IDEA from Mexico, which provided vital support as the secretariat of the B20. Also, Mexico has made an unparalleled commitment to this year's B20 process. The Mexican business associations COMCE and Coparmex played important leadership roles in the Mexico B20 Organising Committee. The Mexican government has shown an impressive commitment, starting with the in-depth involvement of President Calderón in the summit and its activities.

Through the recommendations by the B20 task forces, and in the actions in the months to come, our hope is that the B20 will have made a concrete contribution to rebuilding trust in the global economy and improving the state of the world at this critical juncture. ■

To see the full report of the B20 Task Force Recommendations, visit www.b20.org

GOVERNANCE

Young entrepreneurs are crucial to economic recovery and prosperity

While many of the G20 countries struggle to find ways to stimulate their economies, they should look no further than the young entrepreneurs of today to generate jobs and much-needed growth

By Vivian Prokop, founding chair, G20 Young Entrepreneurs' Alliance, and CEO, Canadian Youth Business Foundation; Francisco Ruiz, president, 2012 G20 YES Mexico, and president, Young Entrepreneurs of Coparmex; and Victor Sedov, president, 2013 G20 YES Russia, and president, Center for Entrepreneurship Russia

Around the world, governments are wrestling with deepening debt levels and stubbornly high unemployment, and desperately looking for ways to stimulate growth and foster further economic activity to stave off another recession.

As the world faces the real possibility of a double-dip recession, the negative affect on young people is staggering. Research by the International Labour Organization (ILO) indicates that young people are three times more likely to be unemployed than adults, with more than 75 million youth around the world seeking employment. Among members of the Organisation for Economic Co-operation and Development (OECD), youth unemployment in 2010 was almost 17 per cent, with Spain reporting rates as high as 42 per cent.

The G20 Young Entrepreneurs' Alliance (G20 YEA), a chartered alliance of leading entrepreneurship organisations representing each of the G20 countries, advocates that long-term economic recovery is possible if a greater emphasis is placed on youth entrepreneurship in the political agenda. While job creation is at the front of the G20 leaders' minds, there is no standing agenda item that puts a focus on the group with the highest potential to do so. Young entrepreneurs (those under 40 years old) not only bring vibrancy and innovation to world economies, but also typically hire youth.

According to *The Power of Many: Realizing the Socioeconomic Power of Entrepreneurs in the 21st Century*, a 2011 report by McKinsey & Company, small and medium-sized enterprises (SMEs) account for 52 per cent of gross domestic product (GDP) and 64 per cent of employment. Start-ups are a significant driver of economic growth, accounting for 36 per cent of variation in economic growth rates.

Entrepreneurship, particularly among young people, is critical for innovation, employment and growth. Ernst & Young's 2011 report *Entrepreneurs Speak Out: a Call to Action for G20 Governments* indicates that, overwhelmingly, what young entrepreneurs around the world require to develop successful businesses are favourable government policies, including access to funding at various stages of the business and encouraging a culture of entrepreneurship. This finding came from a survey of 1,000 young entrepreneurs worldwide.

> ***The G20 Young Entrepreneurs' Alliance aims to provide a voice for young entrepreneurs and to highlight to governments the vital role that they play in the world economy***

When the leaders of the G20 countries gather in Mexico in June, discussions will centre on stabilising economies, strengthening financial systems, improving financial architecture and promoting sustainable development. Through these talks, leaders must consider policies that create the conditions to better support the next generation of entrepreneurs. Now is the time for entrepreneurship to be positioned on the political agenda as a path providing hope for young people. It is the time for G20 leaders to put a stake in the ground with the creation of an entrepreneurship declaration – a long-term G20 action plan that commits to the creation of favourable conditions for fostering more young entrepreneurs to create more jobs, thereby enabling human activism and initiative.

Promoting entrepreneurship

The G20 YEA aims to provide a voice for young entrepreneurs and to highlight to governments the vital role that they play in the world economy. Its main focus is the G20 Young Entrepreneur Summit (G20 YES) series. In June 2010, Canadian prime minister Stephen Harper made history by providing official summit status to the inaugural G20 YES hosted by the Canadian Youth Business Foundation (CYBF). The event welcomed more than 200 young entrepreneurs to Toronto.

Its resounding success quickly led to the formulation of the 'Incheon Charter' only three months later in Korea. In 2011, French president Nicolas Sarkozy provided official summit status to the G20 YES hosted by Les Journées de l'Entrepreneur in Nice, France. Over 500 global entrepreneurs attended, attracting Nobel Peace Prize laureate Muhammad Yunus and OECD secretary-general Angel Gurría.

The 2011 G20 YES called on governments to commit to a process of dialogue and ongoing research with organisations supporting young entrepreneurs to map out a path for collaboration and joint research strategies within and across borders. It also encouraged governments to implement best practices that focus on building fertile 'ecosystems' for entrepreneurs, providing access to financing at multiple stages of the business life cycle and ensuring a supportive entrepreneurial culture is in place.

Mexico's President Felipe Calderón has provided the third official summit status to the 2012 G20 YES hosted by the Young Entrepreneurs of Coparmex. It will once again represent the true voice of youth entrepreneurship, with 500 maverick

Delegates at the 2011 G20 Young Entrepreneur Summit in Nice, France. Their calls for increased support for new business will be echoed at the 2012 summit in Mexico City

entrepreneurs expected to arrive in Mexico City on 2-5 June 2012. It will provide another great opportunity for cross-border business and international networking. It is poised to build on the action items from previous G20 Young Entrepreneur Summits by producing valuable policy recommendations gathered directly from grass-roots young entrepreneurs. These recommendations will be presented in an official communiqué to the G20 leaders.

The Center for Entrepreneurship, Russia's G20 YEA member, will host the 2013 G20 YES. It will focus on creating the entrepreneurial ecosystem and education necessary to increase the number of start-up companies by young entrepreneurs in G20 countries.

Vital component for global recovery

The members of the G20 YEA who make these summits a reality are committed to one core belief – that entrepreneurship be considered a cornerstone of global economic recovery, stability and prosperity.

The G20 leaders should look no further than the young entrepreneurs of today for inspiration. Helping young entrepreneurs to launch their businesses will provide jobs and prosperity to many and will generate revenue to governments to protect vital services and help stabilise national economies. This is a golden opportunity for the G20 leaders to provide a strong coordinated global plan that enables entrepreneurship as a primary path to growth.

We can think of no better legacy for today's G20 governments to leave behind. ■

For more information about the G20 Young Entrepreneurs' Alliance, visit www.g20yea.com

GOVERNANCE

The G20 in retrospect and prospect

The G20 has become a highly effective international forum for collective decisions over global issues from trade to fiscal regulation. The challenge will be to maintain the momentum in the future

By Lawrence H Summers, John F Kennedy School of Government, Harvard University and Matthew J Schoenfeld, Harvard Law School

The G20 was created in the wake of the 1997–99 Asian financial crisis as it became clear that global financial issues could no longer be managed by the traditional G7, made up of rich countries. The scale of emerging economies and their growth was such that they would no longer only be shaped by global economic developments, but would have a powerful role in shaping them. Indeed, today, emerging markets account for well over half the growth in global trade and global financial reserves, as well as global wealth and income.

It is said that one should visit one's doctor before one has a serious medical problem. It is in this way that the first decade of meetings of the G20 finance ministers and central bank governors will be remembered. While important discussions about the policies of the international financial institutions and about issues ranging from money laundering to debt relief for highly indebted poor countries took place, it remained the case going into 2008 that the annual meetings held much the same message.

All this changed in the autumn of 2008 and the spring of 2009. With the world on the brink of financial Armageddon, the G20 met for the first time at the leaders' level in Washington, in November 2008, and then were committed to meet again in London in April 2009. With 90 per cent of global gross domestic product represented, the twin summits were highly productive – perhaps the most successful piece of economic summitry of the past generation.

Four main outcomes emerged: a commitment to avoid protectionism and maintain international integration, a major increase in the support for the international financial institutions, a commitment to macroeconomic policies and a shared commitment to a serious upgrading of global approaches to financial regulation.

While every policy area is different and has its own complexities, there was an element common to all of the successful outcomes. In each case, the G20 enabled countries to pursue strategies that made the world better off when pursued commonly, but that might well not be in the interest of any one country acting unilaterally. The G20 provided a kind of collective reassurance that permitted countries to act in internationally responsible ways, and provided peer pressure that helped leaders surmount domestic political pressures.

The value of a common commitment

Today, it is clear that the world trading system, even under the strain of the Great Recession, has not imploded, despite the evident temptations of protection when faced with rising unemployment. True, the Doha Round has not moved forward in the way many would have hoped. But the more important point is that despite by far the worst downturn since the Second World War, and despite substantial trade imbalances, there has been very little resort to protection, and 'beggar-thy-neighbour' policies have largely been avoided. This reflects, in part, the reduced viability of protectionism as an economic strategy in a world of global supply chains. But it also reflects the common commitment made by the G20 leaders.

The G20 also agreed on measures to ensure the availability of finance for emerging markets. An agreement was reached to triple the financial resources available to the International Monetary Fund (IMF), along with the provision of flexible credit lines to emerging markets with sound policies.

A framework was established in which the World Bank was able to substantially increase its lending, and special support was provided for trade finance. Once again, collective action problems were averted due to the inclusive structure of the G20. The fact that members pledging aid knew that their peers were doing likewise helped facilitate a quick and meaningful commitment. Additionally, countries outside the G7 played a substantial role in buttressing the credit lines – without their involvement and support, the resulting funding measures would have been smaller and probably ineffective. While strong fundamentals played a role, the availability of support on a substantial scale is surely part of the reason why the recent crisis was the first in history where major problems in industrialised countries did not do devastating damage to emerging economies.

A third major outcome of the 2008-09 summits was a common commitment to expansionary policies directed at maintaining

Growth in the emerging markets, such as India, is such that they now have a powerful role in shaping the global economy

global aggregate demand. In the words of the Washington communiqué, the members of the G20 agreed to "use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability".

A clear mandate

The efficacy of this commitment is supported by the observation that the countries that pursued fiscal policy most aggressively enjoyed the best economic performance subsequent to the summit. Here, too, the collective element was essential. Any country unilaterally increasing demand ran the risk of incurring excessive debts and, in the case of small economies, having much of the demand effect fall outside the country. Hence the case for collective action.

Finally, the 2008-09 summits provided a clear mandate for strengthening financial regulatory cooperation. This is essential, if the unacceptably poor performance of financial regulation is to be addressed. National efforts, no matter how determined, confront the problem of how to deal with supranational institutions that are literally too big for their home countries to save.

There is also the ever-present risk of races to the bottom, and the perennial conundrum of how to resolve cross-border institutions. While none of these issues has been resolved in the past three years, considerably more progress has been made than would have been made in the absence of the G20.

The G20 enabled countries to pursue strategies that made the world better off when pursued commonly, but that might well not be in the interest of any one country

The good news since the London G20 is that the sense of crisis that pervaded the global economy has lifted to an important extent. Growth is established almost everywhere in the world with the exception of Europe. And Europe's problems, while posing global risks, are understood as having their roots in local policy failures.

Unfortunately, with the removal of a sense of crisis, the G20 has become less effective in driving global policy. Recent meetings have emphasised that national policies must respond to national conditions. While a truism, this principle also points towards mutual satisfaction with uncoordinated steps. Worse, the emphasis on demand that was present in 2009 has given way to traditional clichés about sound fundamentals and the like. As a result, it is hard to point to anything since London that would not have happened if the G20 had never been created.

All of this makes the G20 summit in Mexico especially important. The European situation is once again at a critical juncture. The US economy has again not achieved escape velocity. Japan appears to be struggling, and there are worrying signs in both China and India.

Governments throughout the industrialised world are on an unsustainable financial trajectory. And, increasingly, the rewards of what economic success has achieved are going disproportionately to a small minority of the population. There is a hunger for a demonstration that the complex global economy can be managed, amid increasing scepticism.

A successful G20 summit, like those in Washington and London, would take concrete steps that point towards more growth. It would engender confidence that would make growth more likely. A G20 communiqué that read like a cliché would be highly dispiriting. The world will be watching. ■

The BRICS Research Group

The concept of the "BRICS" was first created by Jim O'Neill to refer to the investment opportunities in the large emerging economies. Today, the annual meetings of the leaders of Brazil, Russia, India, China, and now South Africa, which started in 2008, transcend that economic context to embrace a broad range of high-level issues requiring global governance, such as trade and investment, health, food and agriculture, development, energy, environment, climate change, social progress, peace, security and international institutional reform.

Led by Marina Larionova of Russia's National Research University Higher School of Economics and John Kirton of Canada's University of Toronto, the BRICS Research Group aims to serve as a leading independent source of information and analysis on the BRICS institutions and underlying interactions. Documentation from the BRICS and relevant research and reports are published on the BRICS Information Centre website at **<www.brics.utoronto.ca>** and the International Organisations Research Institute at **<www.hse.ru/en/org/hse/iori/bric>**. Together with international partners from the BRICS countries, the BRICS Research Group focuses on the work of the BRICS and diplomacy within the group as a plurilateral international institution operating at the summit level. Particular attention is paid to the relationship and reciprocal influence of the BRICS with other leading global governance institutions such as the G8, the G20 and those of the United Nations galaxy. The BRICS Research Group also conducts analyses of the compliance of the BRICS members with their summit commitments.

The BRICS Research Group is proud to announce its first publication – BRICS: The 2012 New Delhi Summit, published by Newsdesk Media and available online at <www.brics.utoronto.ca/newsdesk> – with guest editor Dr. Yoginder K. Alagh, chair of the Institute of Rural Management Anand and vice-chair of the Sardar Patel Institute of Economics and Social Research and a former minister of Power, Planning, Science and Technology in the Government of India.

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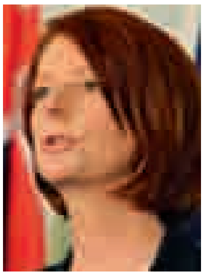
Argentina | Cristina Fernández de Kirchner

Cristina Fernández de Kirchner became president of Argentina in December 2007 after winning the general election in October, and was re-elected in October 2011. She replaced her husband, Néstor Kirchner, who had been president since May 2003. She is Argentina's second female president, the first to be elected. Prior to her current position, she was senator for the provinces of Buenos Aires and Santa Cruz. She was first elected to the Senate in 1995, and in 1997 to the Chamber of Deputies. In 2001, she won a seat in the Senate again. Born on 19 February 1954 in La Plata, Buenos Aires, Kirchner studied law at the National University of La Plata. She has two children. This will be Kirchner's seventh G20 summit.

Finance minister: *Hernán Lorenzino* | ***Central bank governor:*** *Mercedes Marcó del Pont* | ***Sherpa:*** *Alfredo Chiaradia*



Australia | Julia Gillard

Julia Gillard became prime minister of Australia on 24 June 2010. From 1996 to 1998, she served as chief of staff to opposition leader John Brumby. Gillard was first elected as a member of the House of Representatives in 1998. She has served in various positions, including shadow minister for health and deputy leader of the opposition. From 2007 to 2010, Gillard served as deputy prime minister. She was born in Wales, on 29 September 1961 and emigrated to Australia in 1966. She earned a bachelor of arts and bachelor of law in 1986 from the University of Melbourne. She lives with her partner, Tim Mathieson. This will be the third G20 summit that Gillard has attended.

Finance minister: *Penny Wong* | ***Central bank governor:*** *Glenn Stevens* | ***Sherpa:*** *Gordon De Brouwer*

Brazil | Dilma Rousseff

Dilma Rousseff was elected the 36th president of Brazil on 31 October 2010 and inaugurated on 1 January 2011. In 2002, Luiz Inácio Lula da Silva appointed her minister of energy. In 2005 she became chief of staff and remained in office until 31 March 2010, until stepping down to run for president. She was born in Minas Gerais, Brazil, on 14 December 1947. Rouseff studied economics at the Minas Gerais Federal University School of Economics and did postgraduate studies in economics at the Campinas State University. She is divorced from Carlos Franklin Paixão de Araújo, with whom she has one child. This will be Rousseff's second G20 summit.

Finance minister: *Guido Mantega* | ***Central bank governor:*** *Alexandre Tombini* | ***Sherpa:*** *Valdemar Carneiro Leão*

Canada | Stephen Harper

Stephen Harper was elected prime minister of Canada in January 2006, assuming office from Paul Martin in February with a minority government. Harper ran for re-election in 2008 and again on 2 May 2011, when he returned to the House of Commons with a majority. Harper was first elected as a member of parliament in 1993. He served as leader of the opposition for several years before becoming prime minister. He was born in Toronto, Ontario, on 30 April 1959. Harper studied at the University of Toronto and the University of Calgary, earning his master's degree in economics in 1991. He and his wife, Laureen, have two children. This will be the seventh G20 summit that Harper has attended.

Finance minister: *James Flaherty* | ***Central bank governor:*** *Mark Carney* | ***Sherpa:*** *Louis Lévesque*

China | Hu Jintao

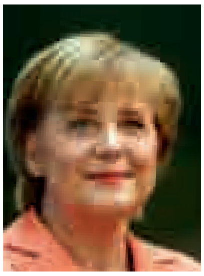
Hu Jintao has been president of the People's Republic of China since March 2003. Hu also serves as general secretary of the Communist Party of China's (CPC) Central Committee and chair of the Central Military Commission. In 1992, he was elected to the Standing Committee of the Political Bureau of the CPC Central Committee and was re-elected in 1997. He became vice-president of China in March 1998 and vice-chair of the Central Military Commission in 1999. In 2002, Hu was elected general secretary of the CPC Central Committee. Born in Jiangyan, Jiangsu, on 21 December 1942, he is married to Lui Yongqing and has two children. This will be Hu's seventh G20 summit.

Finance minister: *Xie Xuren* | ***Central bank governor:*** *Zhou Xiaochuan* | ***Sherpa:*** *Cui Tiankai*

France | François Hollande

François Hollande was elected president of France on 6 May 2012, having defeated Nicolas Sarkozy. He served as first secretary of the Socialist Party from 1997 to 2008. He was the deputy for Corrèze in the National Assembly of France from 1988 to 1993 and again since 1997, and was also the mayor of Tulle from 2001 to 2008. He joined the Socialist Party in 1979, and was an economic adviser for François Mitterrand. Born in Rouen on 12 August 1954, he holds degrees from the École Nationale d'Administration (ENA) and the Institut d'Études Politiques de Paris (Sciences Po). His partner is Valérie Trierweiler, and he has four children with his previous partner, Ségolène Royal. This is Hollande's first G20 summit.

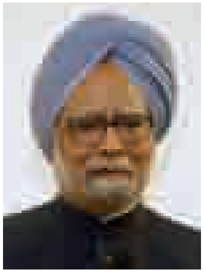
Finance minister: *Pierre Moscovici* | ***Central bank governor:*** *Christian Noyer* | ***Sherpa:*** *Emmanuel Macron*



Germany | Angela Merkel

Angela Merkel became chancellor of Germany in 2005, replacing Gerhard Schröder, who had been in power since 1998. Before entering politics she worked as a researcher and physicist. She was first elected to the Bundestag in 1990 and has held the cabinet portfolios for women and youth, environment, nature conservation and nuclear safety. She was born in Hamburg on 17 July 1956 and received her doctorate in physics from the University of Leipzig in 1978. She is married to Joachim Sauer and has no children. This will be Merkel's seventh G20 summit.

Finance minister: *Wolfgang Schäuble* | ***Central bank governor:*** *Jens Weidmann* | ***Sherpa:*** *Lars-Hendrick Röller*



India | Manmohan Singh

Manmohan Singh became prime minister of India in May 2004, and was re-elected in May 2009. Before entering politics, he worked as an economist, including for the International Monetary Fund. He was governor of the Reserve Bank of India from 1982 to 1985. Singh was first elected to the upper house in 1995, and has served as minister of finance and minister for external affairs. He was born in Gah, Punjab (now known as Chakwal district, Pakistan), on 26 September 1932. He received degrees from Punjab University in 1952 and 1954 and a doctorate in economics from the University of Oxford. He and his wife, Gursharan Kaur, have three children. This will be Singh's seventh G20 summit.

Finance minister: *Pranab Mukherjee* | ***Central bank governor:*** *Duvvuri Subbarao* | ***Sherpa:*** *Montek Singh Ahluwalia*

Indonesia | Susilo Bambang Yudhoyono

Susilo Bambang Yudhoyono assumed the presidency in October 2004, replacing the incumbent Megawato Sukarnoputri. He was re-elected for a second term in July 2009. Before entering politics, he served as a lecturer and a military general. His first experience in politics came when he was appointed minister of mines and energy in 1999. Yudhoyono later served as coordinating minister for politics and security. He was born on 9 September 1949 in Pacitan, East Java. He received his doctorate in agricultural economics from the Bogor Institute of Agriculture in 2004. He and his wife, Kristiani Herawati, have two children. This will be Yudhoyono's seventh G20 summit.

Finance minister: *Agus Martowardojo* | ***Central bank governor:*** *Darmin Nasution* | ***Sherpa:*** *Mahendra Siregar*

Italy | Mario Monti

Mario Monti was sworn in as prime minister of Italy on 16 November 2011 to lead a technocratic government after the resignation of Silvio Berlusconi. He also serves as minister of the economy and finance. He was a member of the European Commission for a decade. Prior to joining the European Commission, he was a professor of economics at Bocconi University and its rector from 1989 to 1994. Born in Varese on 19 March 1943, Monti received a degree in economics and business from Bocconi University and did his postgraduate studies at Yale University under James Tobin. He and his wife, Elsa, have two children. This will be Monti's first G20 summit.

Finance minister: *Mario Monti* | ***Central bank governor:*** *Ignazio Visco* | ***Sherpa:*** *Pasquale Terracciano*

Japan | Yoshihiko Noda

Yoshihiko Noda was appointed prime minister of Japan on 2 September 2011, following the resignation of Naoto Kan in August. Noda served as finance minister from June 2010, and senior vice finance minister in 2009. He was first elected to public office in 1987 in Chiba prefecture and then, in 1993, to the national Diet. Born in Funabashi, Chiba prefecture, on 20 May 1957, Noda is a graduate of the School of Political Science and Economics at Waseda University. He is married to Hitomi Noda and has two children. This will be Noda's second G20 summit.

Finance minister: *Jun Azumi* | ***Central bank governor:*** *Masaaki Shirakawa* | ***Sherpa:*** *Shinichi Nishimiya*

Korea | Lee Myung-bak

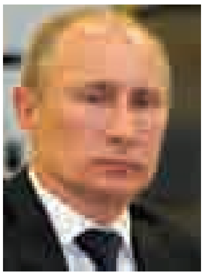
Lee Myung-bak became president on 25 February 2008, replacing Roh Moo-hyun, who had occupied the position since 2003. Lee joined the Hyundai Construction Company in 1965 and eventually became chief executive officer of the Hyundai Group before being elected to the Korean National Assembly in 1992. In 2002 he was elected mayor of Seoul, a position he held until 2006. He was born in Kirano, Osaka, Japan, on 19 December 1941. He received a degree in business administration from Korea University in 1965. Lee and his wife, Kim Yun-ok, have four children. This will be his seventh G20 summit.

Finance minister: *Bahk Jae-wan* | ***Central bank governor:*** *Kim Choong-soo* | ***Sherpa:*** *Lee Jong-hwa*

Mexico | Felipe Calderón Hinojosa

Felipe Calderón Hinojosa became president of Mexico in December 2006. Calderón was president of the youth movement of the National Action Party and later served as a representative in the legislative assembly in the federal chamber of deputies. He served as secretary of energy from 2003-04. Born in Morelia, Michoacán, on 18 August 1962, Calderón received his bachelor's degree in law from Escuela Libre de Derecho in Mexico City, a master's degree from the Instituto Tecnológico Autónomo de México and a master's in public administration from Harvard University. He and his wife, Margarita Zavala, have three children. This will be Calderón's seventh G20 summit and his first as host.

Finance minister: *Antonio Meade Kuribreña* | ***Central bank governor:*** *Agustín Carstens* | ***Sherpa:*** *Maria de Lourdes Aranda*



Russia | Vladimir Putin

Vladimir Putin assumed the position of president of the Russian Federation on 7 May 2012. He succeeds Dmitri Medvedev, who had been president since 2008. Putin served as prime minister under Medvedev, having earlier been elected president in 2000 and re-elected in 2004. A member of the United Russia party since its establishment in 2001, he led the party from 2008 until April 2012. From 1998 to 1999, he was director of the Federal Security Service, having worked for the KGB from 1975 to 1991. Putin was born on 7 October 1952 in Leningrad and graduated from Leningrad State University's law faculty. He and his wife, Ludmila, have two daughters. This will be Putin's first G20 summit.

Finance minister: *Anton Siluanov* | ***Central bank governor:*** *Sergey Ignatiev* | ***Sherpa:*** *Stanislav Voskresensky*

Saudi Arabia | Abdullah bin Abdul Aziz Al Saud

King Abdullah bin Abdul Aziz Al Saud has been in power since August 2005. He replaced Fahd bin Abdul Aziz Al Saud. As crown prince, Abdullah had previously acted as de facto regent since 1 January 1996, after Fahd was debilitated by a stroke. He also serves as prime minister of Saudi Arabia and commander of the National Guard. Abdullah is chair of the supreme economic council, president of the High Council for Petroleum and Minerals, president of the King Abdulaziz Centre for National Dialogue, chair of the Council of Civil Service and head of the Military Service Council. He was born 1 August 1924 in Riyadh and has a number of wives and children. This will be Abdullah's sixth G20 summit.

Finance minister: *Ibrahim Abulaziz Al-Assaf* | ***Central bank governor:*** *Fahad Al-Mubarak* | ***Sherpa:*** *Sulaiman Al-Turki*

South Africa | Jacob Zuma

Jacob Zuma became president of South Africa on 9 May 2009, succeeding Petrus Kgalema Motlanthe. Zuma joined the African National Congress (ANC) in 1958 and joined the ANC's National Executive in 1977. In 1994, he was elected National Chair of the ANC and chair of the ANC in KwaZulu-Natal. He was re-elected to the latter position in 1996 and selected as the deputy president in December 1997. Zuma served as executive deputy president from 1999 to 2005. He was elected ANC president at the end of 2007. Born on 12 April 1949, in Nkandla, KwaZulu-Natal Province, he has received numerous honorary degrees. He has four wives and several children. This will be Zuma's fifth G20 summit.

Finance minister: *Pravin Jamnadas Gordhan* | ***Central bank governor:*** *Gill Marcus* | ***Sherpa:*** *Sipho George Nene*

Turkey | Recep Tayyip Erdoğan

Recep Tayyip Erdoğan became prime minister of Turkey in March 2003, replacing Abdullah Gül, who had occupied the office since 2002. On 12 June 2011, Erdoğan was re-elected prime minister for a third term. Before becoming prime minister, Erdoğan was mayor of Istanbul from 1994 to 1998. He was born on 26 February 1954 in Rize, Turkey, and studied management at Marmara University's faculty of economics and administrative sciences. He is married to Emine Erdoğan and has two children. This will be Erdoğan's seventh G20 summit.

Finance minister: *Mehmet Şimşek* | ***Central bank governor:*** *Erdem Başçı* | ***Sherpa:*** *Mehmet Gücük*

United Kingdom | David Cameron

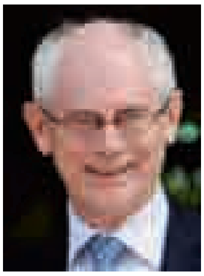
David Cameron became prime minister of the United Kingdom of Great Britain and Northern Ireland on 11 May 2010. He was first elected to parliament in 2001 as representative for Witney. Before becoming a politician he worked for the Conservative Research Department, and served as a political strategist and adviser to the Conservative Party. He has served as the leader of the Conservative Party since December 2005. Born in London, England, on 9 October 1966, he received his bachelor's degree in philosophy, politics and economics at the University of Oxford. He is married to Samantha Cameron and has two children. This will be Cameron's fourth G20 summit.

Finance minister: *George Osborne* | ***Central bank governor:*** *Mervyn King* | ***Sherpa:*** *Ivan Rogers*

United States of America | Barack Obama

Barack Obama became president of the United States in January 2009, replacing George W Bush, who had held the presidency since 2002. In 2005, Obama was elected to the Senate, having previously worked as a community organiser, a civil rights lawyer and a state legislator for Illinois. He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and American mother. He received a bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. He is married to Michelle Obama and they have two children. This will be Obama's sixth G20 summit.

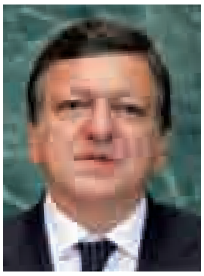
Finance minister: *Timothy Geithner* | ***Central bank governor:*** *Ben Bernanke* | ***Sherpa:*** *Michael Froman*



Finance minister:
Olli Rehn
Central bank governor:
Mario Draghi
Sherpa:
António José Cabral

European Union
Herman Van Rompuy

Herman Van Rompuy was elected the first full-time president of the European Council on 19 November 2010. He was previously prime minister of Belgium from 2008 to 2009. Before entering politics, he was a university professor. Born in Etterbeek, Belgium, on 31 October 1947, he holds a bachelor's degree in philosophy and a master's in applied economics from Katholieke Universiteit Leuven. He is married to Geertrui Windels and has four children. This will be his third G20 summit.



José Manuel Barroso

José Manuel Barroso became president of the European Commission in November 2004. Previously, he was prime minister of Portugal from 2002 to 2004. Before entering politics, he was an academic. Born on 23 March 1956 in Lisbon, he studied law at the University of Lisbon, holds a master's degree in economics and social sciences from the University of Geneva, and studied for his doctorate from Georgetown University in 1998. He is married to Maria Margarida Pinto Ribeiro de Sousa Uva and has three children. This is his seventh G20 summit.

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G20 Research Group

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

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

The G20 Information Centre
www.g20.utoronto.ca

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

Speakers Series

The G20 Research Group hosts a speakers series in its efforts to educate scholars and the public about the issues and agenda of the G20. Past speakers have included senior officials of the International Monetary Fund and scholars from Columbia University and elsewhere.

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As part of its research program, the G20 Research Group sends a field team to the G20 summits and finance meetings when possible to assist the world's media on site at the international media centre and collect the documentation uniquely available there.

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Among the material available on the G20 Information Centre is a document detailing the **Plans and Prospects** for the G20's agenda, updated frequently. Also available are compliance reports and performance assessments, as well as online publications.

Working with Newsdesk Communications in the United Kingdom, the G20 Research Group has also produced a special volume commemorating the tenth anniversary of the G20, *The G20 at Ten: Growth, Innovation, Inclusion*, as well as an edition for every G20 summit since then, all available online as well as in print.

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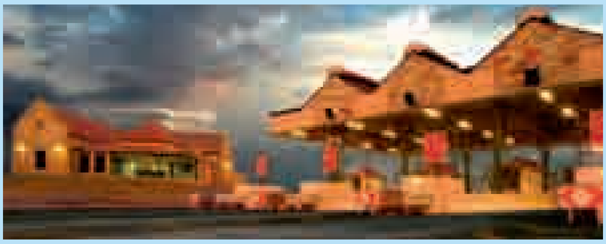

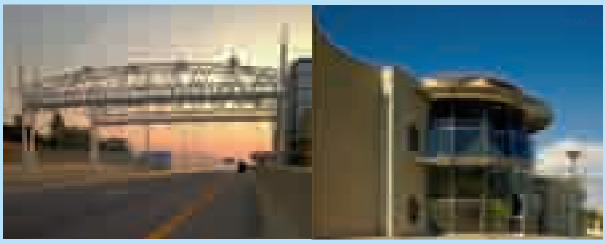

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