# G20

SEPTEMBER 2009

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## THE PITTSBURGH SUMMIT

## Sustaining global recovery

# REGULATION IS A HALLMARK OF BRAZIL

## BM&FBOVESPA is a world reference in risk and collateral management

The global economic crisis which erupted in 2008 exposed the fragility of risk management systems while highlighting the need for greater supervision of international financial flows, more robust regulation of the financial sector and stronger monitoring of the systemically important payment, clearing and settlement systems.

All of these measures were adopted in Brazil back in March of 2002 when through the implementation of the new Brazilian Payment System, the nation's clearinghouses, under the administration of the private sector and the supervision of the Central Bank of Brazil, assumed a fundamental role in risk management and the prevention of systemic crises.

As a result the BM&FBOVESPA clearinghouses, which act as central counterparties to the equity, derivatives, foreign exchange and fixed income markets, have developed advanced risk management structures that surpass those of many other countries.

### TRANSACTION REGISTRATION

In the Brazilian exchange it is mandatory to register all transactions of derivatives (including OTC), foreign exchange, equity, and fixed income, which are carried out by financial institutions or by investment funds in a centralized registration system authorized by the Central Bank of Brazil.

The BM&FBOVESPA clearinghouses have a system that allows them to identify the clearing agent, the intermediary (broker) and the final client of each transaction. In addition, the regulatory agents may also have access, in an efficient and swift manner, to the risk exposures and transactions of each institution. As a result all transactions, without exception, are registered and known by the clearinghouses.

### INDIVIDUALIZED RISK CALCULATION AND COLLATERAL REQUIREMENT

Risk control is based on each contract's specific methodology. Risk calculation is based on the stress testing model which is conducted in quasi-real time (calculated several times throughout the day), and additional collateral is required whenever necessary.

Risk calculation and collateral requirement are performed individually, according to the final client. Collateral is pledged in the Clearinghouse custody account, with complete and effective segregation between the different clients.

The BM&FBOVESPA clearinghouses have exclusive settlement accounts in the Central Bank of Brazil to settle their transactions, eliminating their exposure to the credit risk of commercial banks.

### REGULATION AND SUPERVISION

The BM&FBOVESPA Clearinghouses count on a robust regulation and supervision structure based on the self-regulation structure of the Exchanges, the assessment and ongoing supervision of risk and settlement models performed by the Central Bank of Brazil, and the supervision of securities markets (including the derivatives market) carried out by the Brazilian Securities and Exchange Commission (CVM).

This integrated structure is further enhanced by the legal protection of the collateral held by the clearinghouses against bankruptcy procedures and judicial blocking attempts by creditors.

The tests imposed by this current economic crisis have demonstrated that the advances in improving the quality of regulatory and risk management systems have been highly beneficial for Brazil, and that clearly this is a path that should be followed by others in order to ensure efficiency, reliability, safety and transparency.

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# G20

## THE PITTSBURGH **SUMMIT 2009**


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THE LONDON SUMMIT 2009
THE LONDON SUMMIT 2009

# A greener energy future is happening here in Pittsburgh

Here in our headquarters city, Direct Energy Business is celebrating Pittsburgh's tradition of innovation by "greening" the electricity consumption of the entire city of Pittsburgh for the two days of the G-20 Summit. By purchasing Renewable Energy Certificates (RECs) to offset the city's electricity consumption today, we're demonstrating our commitment into a greener energy future.

The process for "greening up" electricity supply is simple, but the impact is significant. During the G-20 Summit, the employees of Direct Energy Business can take pride in what we've done for Pittsburgh and for the businesses that are creating renewable energy jobs right here in Pennsylvania.

Direct Energy Business is a Direct Energy company and is wholly owned by Centrica, plc. As one of the world's leading integrated energy companies, Centrica and its companies are developing innovative programs that advance us towards a greener energy future. Our projects span the globe: from the world's largest offshore wind farm at Lynn and Inner Dowsing, UK, to free energy efficiency retrofits that help inner-city Houston residents reduce consumption and control their energy costs. We have also made a firm commitment to reduce our power generation carbon intensity in the UK and have already reduced our global average to 351g $CO_2$/kWh in 2008.

We believe that the solutions for a greener, cleaner energy future are within reach, and we're committed to contributing to that global goal. At Direct Energy Business, we're helping our customers find new ways to plan, procure, and use their energy with approaches that are good for their bottom-line and for our environment.

**Learn more about our renewable energy commitment at www.greenG20.com**

## How we "greened" a city

**We achieved the major milestone of "greening" Pittsburgh's electricity supply using one of today's widely used tools: Renewable Energy Certificates, or RECs. A REC represents the attributes of electricity generated with renewable resources.**

**For each megawatt-hour of electricity produced with renewable resources, a single REC becomes available for purchase on a commodity market. These RECs are certified by third parties and made available for voluntary purchases by businesses and household consumers. The revenue created by the sale of RECs serves as working capital that helps to advance technologies and build facilities for renewable energy generation.**

**Our REC purchase acts as an offset of the environmental impacts of every kilowatt-hour of electricity used in Pittsburgh during the days of the G-20 Summit. Our renewable energy procurement includes 4,000 megawatt-hours of RECs from a landfill gas facility outside of Harrisburg, Pennsylvania, so we're contributing to the growth of a green economy here at home.**

Direct Energy

**www.greenG20.com**

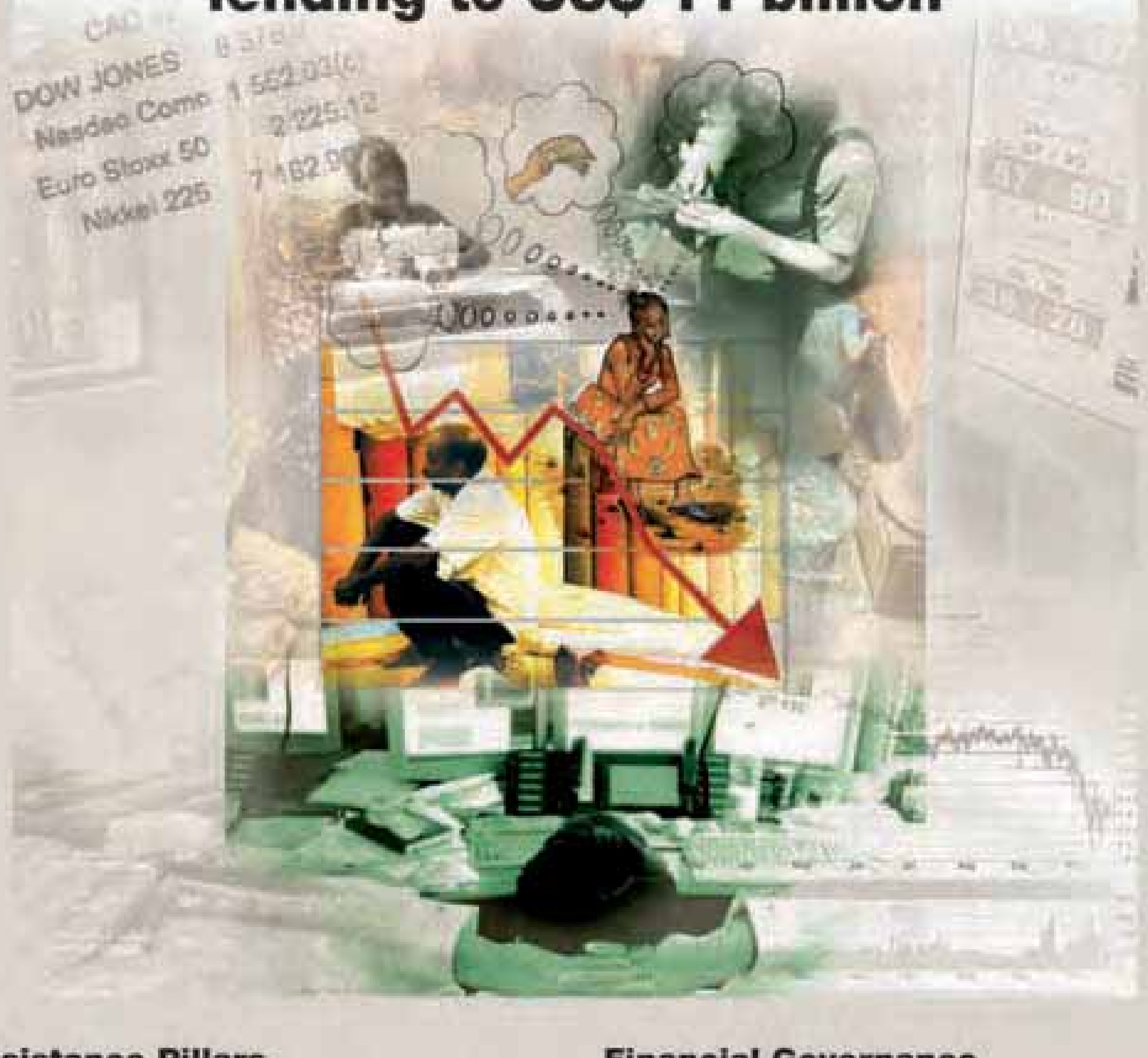
# A WARM WELCOME TO THE WORLD


FROM THE PROVINCE OF ONTARIO
HOST OF THE 2010 G8 SUMMIT
ONTARIO
CANADA
ontariotravel.net

African Development Bank Group

# AfDB Response to Financial Crisis -

## Significantly increase annual lending to US$ 11 billion




### Assistance Pillars

- Emergency Liquidity Facility of US$ 1.5 billion
- Trade Finance Initiative of US$ 1 billion
- Framework for Accelerated ADF Resource Transfer to help Member States
- Enhanced Policy Advisory Support

### Financial Governance

As the partner of choice for Regional Member Countries (RMCs), the AfDB is strengthening financial governance activities at the country, sector, and regional levels. The core objective is to help African countries build capable and responsive states by strengthening transparency and accountability in the management of public resources.

**African Development Bank Group**
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**Tel.: +216 71 333 511 – Fax: +216 71 351 933**
**E-mail: afdb@afdb.org – Internet: http://www.afdb.org**

# The President's Welcome Message for the Pittsburgh Summit

*By* Barack Obama, president, United States of America

Michelle and I look forward to welcoming world leaders to the wonderful city of Pittsburgh on September 24th and 25th and we thank the people of Pittsburgh and Pennsylvania for opening their city as a showcase to the world.

The Pittsburgh Summit is an important opportunity to continue the hard work that we have done in confronting the global economic crisis, and renewing prosperity for our people. Together, we will review the progress we have made, assess what more needs to be done, and discuss what we can do together to lay the groundwork for balanced and sustainable economic growth. Pittsburgh stands as a bold example of how to create new jobs and industries while transitioning to a 21st-century economy. As a city that has transformed itself from the city of steel to a centre for high-tech innovation – including green technology, education and training, and research and development – Pittsburgh will provide both a beautiful backdrop and a powerful example for our work.

Flanked by lawmakers, US president Barack Obama signs the Credit Card Accountability, Responsibility and Disclosure Act in the Rose Garden at the White House in Washington, May 2009

It is important to note how far we have come in preventing a global economic catastrophe. A year ago, our economy was in a freefall. Some economists were predicting a second Great Depression. Immediate action was required to rescue the economy. In the United States, we passed a historic Recovery Act that quickly put money in the hands of working families, and is putting Americans to work all across the country – including in Pittsburgh and the surrounding area. That includes companies such as East Penn Manufacturing, a third-generation family business that is now building batteries for the hybrid, energy-efficient vehicles of the 21st century. That includes the Serious Materials manufacturing plant outside of Pittsburgh that was shuttered last year, which is now rehiring the workers who lost their jobs and giving them a new mission: producing some of the most energy-efficient windows in the world. And at medical laboratories in Pittsburgh, scientists are making advances in tissue regeneration, which will help people across the globe, including our troops wounded in combat in Iraq and Afghanistan.

The steps that we have taken to jumpstart growth have also been coordinated with our partners around the world. Industrial production throughout the G20 has either stabilised or is growing. Global trade is expanding. Stresses in financial markets have significantly abated and our financial institutions are raising needed capital.

But all of us must remember that our work is far from complete – not when our people are still looking for work. As the leaders of the world's largest economies, we have a responsibility to work together on behalf of sustained growth, while putting in place the rules of the road that can prevent this kind of crisis from happening again. To avoid being trapped in the cycle of bubble and bust, we must set a path for sustainable growth while steering clear of the imbalances of the past. That will be a key part of the G20 agenda going forward and the Pittsburgh Summit can be an important milestone in our efforts.

In a place known as the city of bridges, we can come together to advance our common interest in a global recovery, while turning the page to a truly 21st-century economy.

By working with our friends and partners from around the world, the US is ready to help lead this effort in Pittsburgh and beyond. ◆


# London's legacy

*We know from the experience of the London Summit that the world will come together again. Our goal is to ensure that pledges are truly delivered for people everywhere who are worried about their future*

Five months ago, as the scale of the global economic crisis presented unprecedented challenges, world leaders came together in London and agreed on a unique response. United in our determination for a coordinated package of macroeconomic and financial measures to ease the worldwide recession, a historic deal was signed by countries representing two thirds of the planet's population.

We had set an ambitious agenda to restore stability, confidence, growth and jobs – and it was backed by a groundbreaking agreement to provide $1.1 trillion of support to the global economy.


*By* Gordon Brown, prime minister, United Kingdom

As part of our efforts to overcome the immediate crisis we approved extra financial resources for the International Monetary Fund, for additional lending and for trade finance.

Leaders also committed themselves to reject the protectionism that history has taught in the end protects no one.

Instead, global trade and investment were promoted by extending the pact not to raise new trade barriers until at least the end of 2010.

Financial supervision and regulation were strengthened. We have moved to bring an end to tax havens and taken steps to reform our international financial institutions to prevent a repeat of the economic turmoil we have witnessed.

Leaders provided additional resources for the poorest countries. We committed to a transition to low carbon technologies, helping to build an inclusive, green and sustainable recovery.

So no one should underestimate those extra-ordinary achievements reached in London last April.

Already we are beginning to see positive results. Emerging market bond spreads have fallen by almost half since London. It is still early days, but with countries across all continents pushing for recovery, most are forecast to be free of the shackles of recession by the end of this year.

Now is not the time to lose our focus, however. Rather, it is the moment to renew our determination to deliver fully on our commitments, both individually and collectively.

Indeed, the continued problems facing people around the world demand that we accelerate their implementation to secure a global new deal.

> “At Pittsburgh we will have to forge a new partnership of purpose”

Complacency will be the enemy of recovery. People are still losing their jobs, their homes and – in some cases – their hope. We must not fail them.

At Pittsburgh we will have to forge a new partnership of purpose to further support the fragile recovery in the world economy, to manage the adjustment to a new pattern of global economic growth and to create a lasting framework to deliver balanced global growth for the future.

All countries must also demonstrate progress on implementing the commitments they made in London, in particular on strengthening our financial sectors.

I have been consulting widely within the G20 and beyond to develop proposals on modernising our international financial institutions.

They must be better placed to meet the challenges of globalisation, promote sustainable global growth, and prevent and respond to future crises.

The G20 also has a moral duty to mitigate the effects of the economic crisis on the world’s poorest.

We must also address the challenge of climate change. In just three months the world will come together to reach a historic agreement at Copenhagen. Pittsburgh is an opportunity to make important progress.

What are required once again are leadership, vision and courage. We are therefore fortunate to have US president Barack Obama as our host for the G20.

During his short presidency, he has already given renewed hope not only to the people of the United States but to all citizens in all parts of the world.

Tough negotiations lie ahead. It will not be easy. But we know from the experience of the London Summit that the world will come together again.

Our goal is to ensure that pledges are not just agreed on paper but truly delivered for people everywhere worried about their future. ♦

# Pittsburgh: bridging the Washington-London G20 summits and beyond

*It is my sincere hope that the G20 leaders in Pittsburgh will agree on the fourth G20 summit where a full discussion on post-crisis global economic management and sustainable and balanced growth models can take place*

*By* Lee Myung-bak, president, Republic of Korea

Thanks to globally concerted policy endeavours, especially through the G20 summit process, the world economy now seems to be hitting the bottom of the worst financial and economic crisis since the Great Depression of the 1930s. Naturally, there are voices calling for the immediate implementation of exit strategies to unwind the unprecedented policy measures taken by most G20 members.

Calls for exit strategies are also heard in Korea, where the recovery process, although fragile, started earlier than in most economies in the Organisation for Economic Co-operation and Development (OECD). I strongly believe that there are still substantial downside risks in the global economy. However, this does not prevent me from emphasising the importance of preparing well-sequenced exit strategies to be implemented in the coming months.

I hope that the G20 leaders recognise the need to properly prepare exit strategies for future implementation in a timely manner when the global recovery takes a firm hold. Such recognition will send a positive message to the world, the financial

US president Barack Obama speaks alongside South Korea's president Lee Myung-bak during their bilateral meeting at the G20 summit in London, 2 April 2009

community in particular, clearly showing that leaders are mindful of the future risk of inflationary spirals. Yet the global community should be more wary about the possibility of falling back into a double-dip recession as a consequence of premature withdrawal of the rather effective policy measures taken so far.

Furthermore, I would like to re-emphasise the fact that what made the current global financial and economic crisis different from the Great Depression in its severity and duration is definitely the globally concerted policy endeavours mounted, especially on the part of the G20. By the same measure, the importance of concerted action in implementing exit strategies cannot be overstressed. I would like to see the G20 leaders agree on general principles on the implementation of exit strategies, leaving the timing to individual countries (as in the case of dealing with impaired assets, as I previously suggested in 'How Korea Solved Its Banking Crisis,' in the *Wall Street Journal* last March).

In preparing for the London Summit, as a member of the governing troika of the G20, Korea made a strenuous effort to produce deliverables. Fortunately, the London Summit did produce several important outcomes. Now the leaders should make every effort to ensure that those deliverables are properly followed through.

In the follow-up process, the G20 leaders should pay special attention to the needs and causes of emerging and developing countries. To this end,

> "At the fourth G20 summit, the leaders should seriously consider the institutionalisation of the G20 process as a means to strengthen global governance"

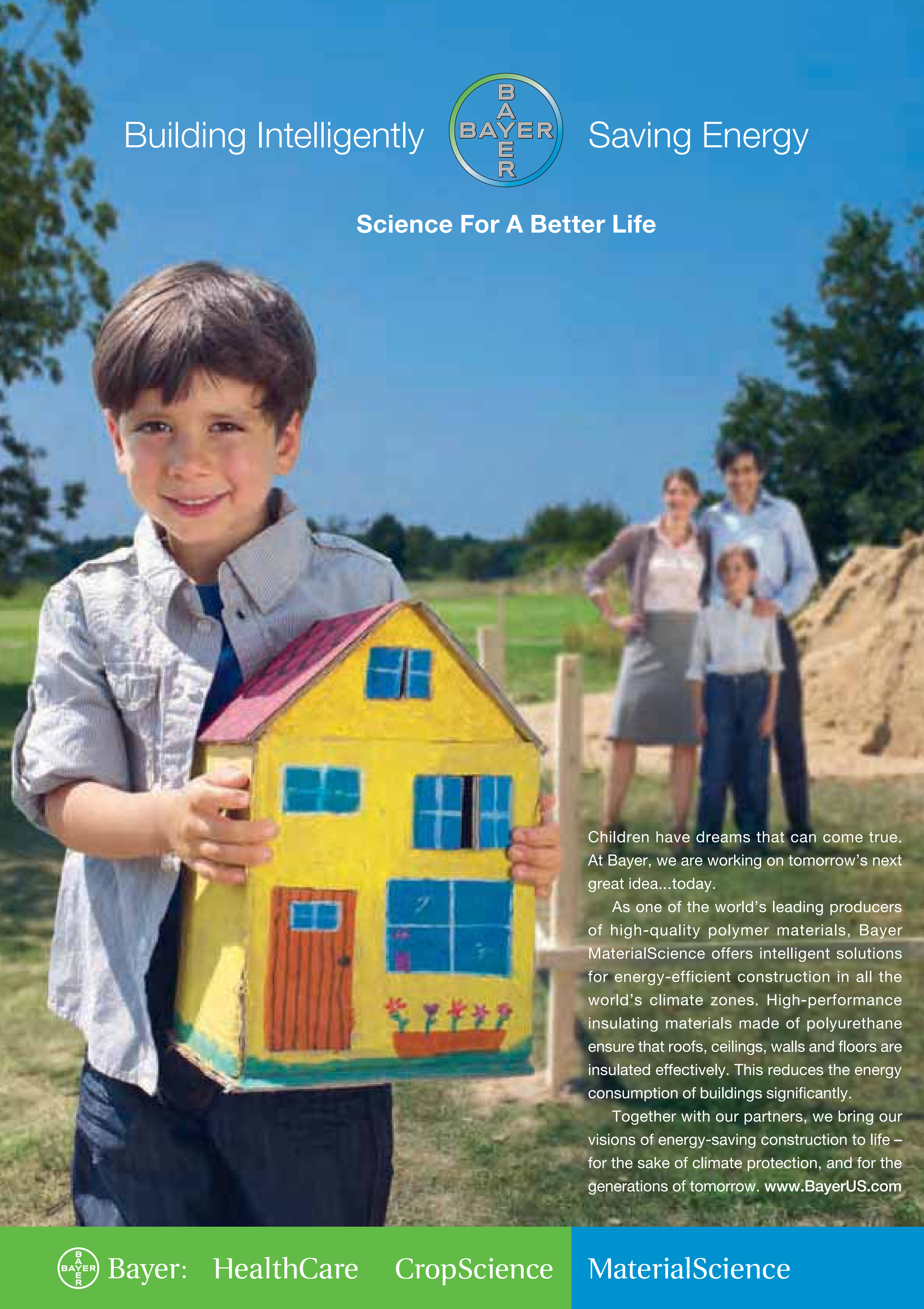
one of the proposals that Korea has advanced is the establishment of a trust fund consisting of new special drawing rights to be allocated for developed economies and economies with large foreign reserves for the benefit of non-G20 emerging and developing countries. The G20 should also continue to try to further increase the voice and representation of the emerging and developing world, to reflect global economic reality more closely.

At Pittsburgh, it is imperative for the leaders to reiterate and strengthen their pledge for the conclusion of the Doha round of trade negotiations by 2010, as agreed by the G8 leaders at the L'Aquila Summit last July, along with the reaffirmation of standstill and rollback commitments. The World Trade Organization should continue to carry out its intensive monitoring work.

In addition to following up, leaders should be concerned with future growth models that will help bring sustainable and balanced growth after the crisis by rebalancing the demand structure within individual economies, the development gaps between North and South, and energy sources supporting green growth. In this light, the leaders may task the International Monetary Fund, the World Bank, the OECD and other relevant multilateral institutions with producing policy recommendations on post-crisis global economic management for discussion at each level of the G20 process in the lead-up to the next G20 summit in 2010. In addition, the G20 leaders might also want to utilise the newly established working groups or task forces for the same purpose.

As seen in the coordinated response to the current crisis through the G20, the positive effects of globally coordinated policy responses far outweigh unilateral actions by individual countries combined. The G20 summit process has already shown its usefulness in effectively dealing with major global issues for speedier globally concerted actions. It is my sincere hope that the G20 leaders in Pittsburgh will agree on the fourth G20 summit where a full discussion on post-crisis global economic management and sustainable and balanced global growth models can take place.

Furthermore, at the fourth G20 summit the leaders should seriously consider the institutionalisation of the G20 process as a means to strengthen global governance. ◆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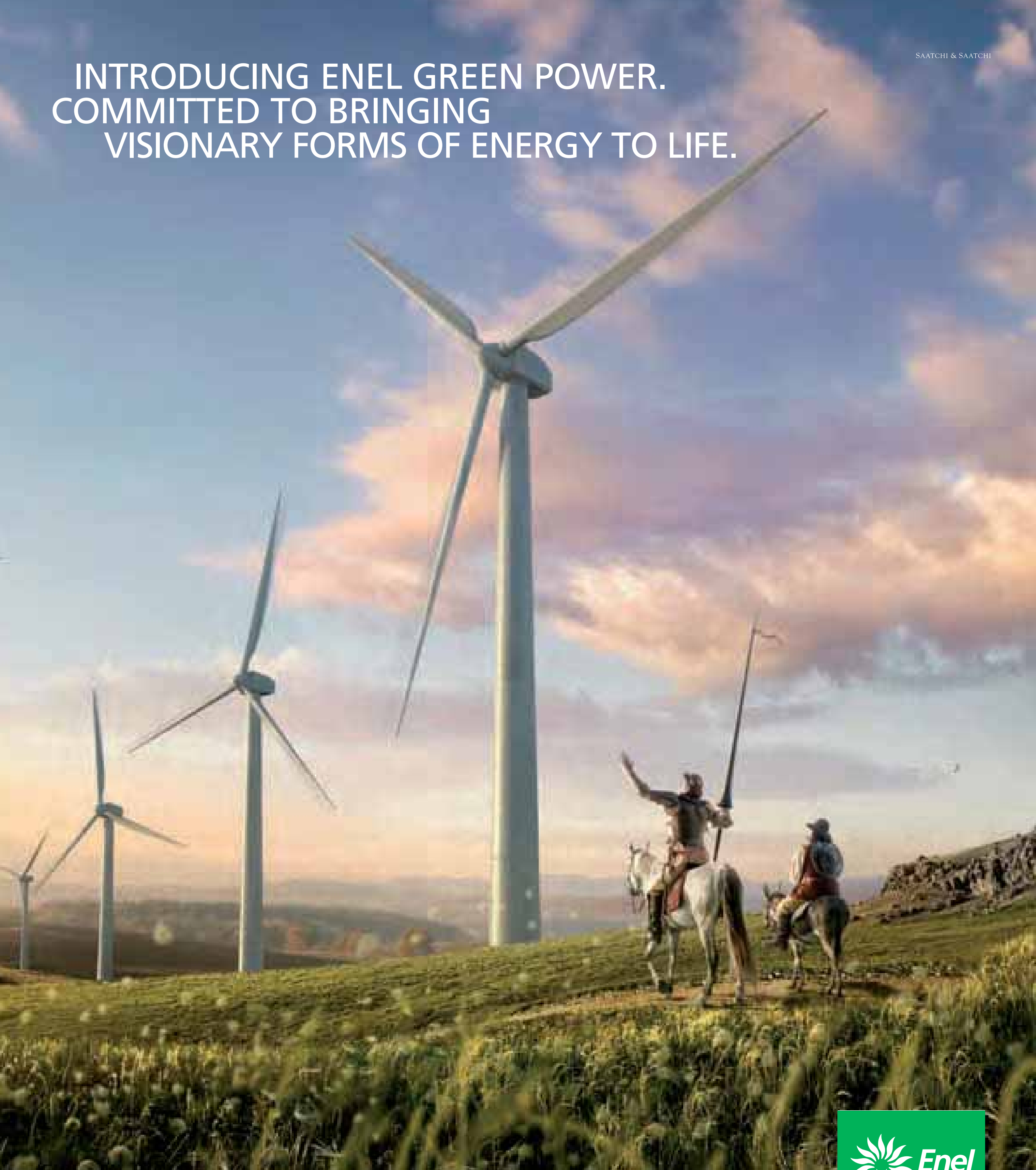
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# Brazil's approach to shared growth and global governance

*Brazil has been doing its part. It never succumbed to the dogma of the minimalist state, or abandoned social policy as a powerful stimulus to vigorous production*


*By* Luiz Inácio Lula da Silva, president, Brazil

The meeting of the G20 leaders at Pittsburgh is taking place at a decisive time, a time when the world is eager for collective answers to an unprecedented challenge.

Brazil has the gift of consensus building, an ability to unite differing perspectives, to draw solutions geared toward solidarity and diversity. That is why Brazil hosted the World Social Forum in January 2009, to discuss with civil society how best to deal with the impact of the global economic crisis on the lives of so many different people. Among the many areas of society important to these discussions, none is more so than the business community. Indeed, the private sector is a fundamental partner in facing the fundamental challenge ahead: how to create a more inclusive and sustainable model of development.

The international community must develop a coordinated response to what has become a truly systemic crisis. Economic activity has declined, and international trade has fallen a steep 9 per cent. This year alone, 50 million people will lose their jobs.

This is an economic earthquake at the heart of the developed world today. Yet it threatens to make its main victims those in developing countries.

The fast repatriation of capital and cutbacks in foreign investments have hit emerging economies. This is doubly unfortunate, for they are responsible for a large portion of the world's economic growth. Emerging countries are keenly aware of the enormous expectation that the world places on us. It expects consistent and coherent answers.

The G20 summit at London in April took an important first step in recognising that there can be no long-term solution without bringing developing countries on board. Developing countries may not be

> We must not let ourselves become hostage to paradigms that have collapsed around us

part of the problem – but they are an important part of the solution.

Government-led measures to pump up economic activity already represent 2 per cent of world gross domestic product. Yet this remains far too little given the severity of the current recession.

The world economy needs to get back on the rails. In London, the G20 agreed to inject $1.1 trillion into the International Monetary Fund (IMF) and the World Bank.

That means $850 billion to increase counter-cyclical policies in developing countries. These resources will stimulate demand, restrain the decline in economic activity and help balance national foreign accounts. Above all, these resources will preserve existing jobs.

Another $250 billion will finance world trade. Priority will be given to the most vulnerable countries, namely those that have lost market share and access to foreign financing.

The world cannot simply wait for the next crisis. Flexible credit lines for immediate use, with no strings attached, are urgently required. This will act as a preventive policy, helping to strengthen these countries against the crisis before it takes root.

World leaders need to go beyond emergency measures that leave unchallenged the paradigms that led the world economy to the brink of chaos. The profound and structural solutions that are required must not be postponed. Credit and trade will only resume if trust is rebuilt through a robust and transparent financial system.

The new rules and structures must be reviewed to incorporate developing countries as indispensable actors in a world that is ever more interdependent.

The first step was achieved by approving the ambitious scheduled review of quota and vote distribution at the IMF and the World Bank. But this is not enough.

Much greater investment is required since our countries remain marginalised when it comes to fundamental decisions.

Crises are no longer restricted to developing countries. It is imperative that preventive mechanisms are established in every country, including the developed ones. This will only be possible when multilateral oversight mechanisms are in place in financial institutions that operate globally.

Restarting trade is fundamental to this strategy of returning to growth. Protectionism is like a drug that offers fast relief but, in the long run, drives its victim into a prolonged depression.

A quick conclusion to the Doha round of trade negotiations would be an extraordinary display of determination in reversing protectionism. At the same time, there must be solidarity with poorer agriculture-dependent countries that rely on trade as their passport to prosperity.

It makes all the sense in the world to come to the rescue of banks and insurers in order to safeguard deposits and social security. However, it is even more important to protect jobs and stimulate production. There is no more effective example of a counter-cyclical measure.

Therefore, the public bailout of private banks in difficulty, even as a stopgap measure, should not be discarded out of ideological prejudice. We must not let ourselves become hostage to paradigms that have collapsed around us.

Latin America and the Caribbean have all the credentials to put themselves at the forefront of calls to revamp the international financial system so that it ceases to encourage unlimited speculation, easy profits and the ensuing social turmoil that they spawn.

Through determined efforts and prudent policies, the countries of this region are stabilising their economies and creating the conditions for sustained growth. Through concerted policies, we are paying down the region's enormous social debt.

We must find economically consistent solutions to the challenge of promoting growth, integration and development. The answers we provide must not, however, be at the cost of social justice and the fight against poverty and unemployment.

Our region faces major challenges and deficiencies. However, our power to overcome these is extraordinary.

We see the crisis as an opportunity. MERCOSUL, the regional trade association that brings together Brazil, Argentina, Uruguay and Paraguay, is engaged in developing innovative and creative solutions to the challenge of regional integration. Let us join forces to overcome these challenges.

Creating an integrated economic space in South America will allow us to confront, in unison, the impact of the world's economic downturn.

The recent increase in the Inter-American Development Bank's capital by $180 billion highlights the important role of regional finance mechanisms for stimulating production. The strengthening of the Andean Development Corporation and the launch of the regional Bank of the South will also contribute to a quick return to growth and to job creation.

Brazil is doing its part. Responsible and prudent economic and financial policies mean that today the country is better positioned to ride out the crisis. It has never succumbed to the dogma of the minimalist state, or ceased to implement social measures to stimulate vigorous production.

Brazil's Growth Acceleration Plan (PAC) is the result of a partnership between the state – and its strategic vision – and the private sector – with its social awareness. Today the PAC faces a new challenge – to help Brazil overcome the crisis faster. In this, the private sector also plays an irreplaceable role.

All are called to renew their collective commitment to global governance rules and practices that will mould a more just and humane world order. We seek an ethical globalisation, with people at the core of our concerns and actions.

The world expects much from us. Our worst mistake would be to forfeit the required boldness and vision. ◆

*The above is adapted from an address to the World Economic Forum on Latin America in Rio de Janeiro on 15 April 2009.*


How do we feed
a growing world
population?
Farm new land
Get more from existing farmland

Canadian prime minister Stephen Harper at the L'Aquila Summit, July 2009

# From Pittsburgh to Muskoka: building a sustainable global recovery

*The actions taken by Canada and the rest of the G8 and G20 have helped stabilise the global economy. But the world cannot become complacent. Much remains to be done to ensure a full recovery and prevent similar crises in the future*

*By* Stephen Harper, prime minister, Canada

The world is now a year into an unprecedented economic crisis, which has shown dramatically how interconnected all of our economies have become.

Since the onset of the crisis, the world's major economies, led by the G20 countries, who are meeting in Pittsburgh, have responded in a coordinated way to stabilise the international financial system and provide stimulus to our economies. Thanks to these efforts, economic recovery is now in sight – although it is fragile. Coordination and prudent management of our economies must continue.

Canada was fortunate to enter the crisis in a strong fiscal position and with healthy financial institutions. We have one of the lowest ratios of debt and deficit to gross domestic product in the G8 and the world's soundest banking sector according to the World Economic Forum. But, like all economies, Canada has been affected. That is why we identified early on four key priorities for action: getting banks working again, providing stimulus, resisting protectionism and reforming the financial sector for the longer term.

As G8 chair in 2010, Canada will work with our G8 and G20 partners to ensure coordinated approaches, and use our role to help build and sustain economic recovery for all of our economies and peoples

Canada and the world have made progress toward these goals over the last year. In Pittsburgh the G20 leaders will take stock of where we have come from and where we need to go. And Canada looks forward to hosting next year's G8 summit in Huntsville, in the Muskoka region of Ontario, as another milestone on the road to economic recovery.

**Global commitments to action**

At last November's Washington G20 Summit, leaders of the world's major economies agreed to a targeted and coordinated action plan to respond to the financial crisis.

In London in April, G20 countries pledged $750 billion in new resources for the International Monetary Fund (IMF), as part of a $1.1 trillion package to restore credit, growth and jobs, especially in developing and emerging economies, through multilateral institutions.

The G20 is bringing change to international financial structures, calling for reforms to the IMF and creating an enhanced and expanded Financial Stability Board. Canada co-chaired the G20 working group that developed an ambitious plan to reform the way financial markets are supervised and regulated.

G20 leaders were united on the need to resist protectionism, pledging to avoid bringing in any domestic protectionist measures through to the end of 2010, reaffirming their commitment to completing the Doha round of World Trade Organization negotiations and pledging $250 billion to financing for trade.

**Restoring stability and growth**

While Canada's sound financial system and strong fiscal balance sheet helped the country weather the storm better than most other economies, Canada has also experienced the downturn. Therefore we have worked hard both at home and with our international partners to restore stability and growth.

Canada's stimulus effort – federal, provincial and municipal – is among the largest in the G8, at more than $80 billion in measures, some 5.2 per cent of GDP. And money is flowing, with more than 80 per cent of the measures in our economic action plan already being implemented.

Canada has also been forceful in fighting protectionism, not only avoiding taking protectionist measures, but also encouraging greater free trade. This year we have unilaterally reduced tariffs and lowered barriers to foreign investment. We are actively pursuing trade agreements, concluding or signing agreements with the European Free Trade Association, Peru, Colombia, Panama and Jordan, while seeking new agreements with Korea, Central American countries and the Caribbean community.

Canada is committed to ensuring that international financial institutions have the resources they need to respond to the crisis. We have committed $10 billion in new resources to the IMF and doubled Canada's capital subscription to the Inter-American Development Bank.

We are following through on our commitments to help protect the most vulnerable. In 2009 we met our G8 commitment to double international assistance to Africa compared to 2003-04. We are on track to double international assistance overall by 2010.

Last July at the G8 Summit in L'Aquila, Italy, Canada announced a doubling of spending on agricultural aid, with an additional $600 million over three years. This builds on our commitment last year to completely untie procurement of humanitarian food aid.

**Opportunities at Pittsburgh**

The actions taken by Canada and the rest of the G8 and G20 have helped stabilise the global economy. But the world cannot afford to become complacent. Much work remains to be done to ensure a full recovery and prevent similar crises in the future.

First, we must continue to fix those banks that remain in need of repair. Until banks are sound and credit is flowing, a sustained recovery cannot be ensured. Toxic assets must be removed from bank balance sheets or ring-fenced. Until this happens, financial markets will not be able to function properly.

Second, stimulus must be implemented quickly and efficiently to ensure maximum impact. Countries should continue to coordinate their actions and avoid trade-distorting measures in their domestic stimulus packages.

Third, G20 members and international bodies must continue to strengthen financial regulation and supervision to avoid the threat of a future systemic crisis. Canada's experience shows that good financial regulation starts at home. But strong domestic regulation must be supported by regular and transparent independent reviews.

Finally, everyone must continue to resist protectionism. We need to ensure that the gains achieved by trade liberalisation over the past five decades are not jeopardised. In tough times, domestic pressure for protectionism always intensifies. But we must not only resist that temptation, but liberalise trade even further.

**From Pittsburgh to Muskoka**

While there are encouraging signs, economic recovery remains fragile. Governments must remain resolute and continue to act together to ensure a sustained global recovery.

While the extraordinary fiscal, monetary and financial measures that have been undertaken were necessary to stave off financial disaster, over time governments must pull back from some of these temporary actions and let market forces reassert themselves. Leaders need to plan and coordinate the exit strategies from these measures carefully and in full consultation with each other.

Canada looks forward to hosting the G8 leaders in Muskoka in 2010. Both the G8 and the G20 have had important roles in addressing the economic crisis. Canada intends to help continue that leadership. As G8 chair in 2010, Canada will work with our G8 and G20 partners to ensure coordinated approaches, and use our role as chair to help build and sustain economic recovery for all of our economies and peoples. ♦

# G8 SUMMIT

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# Prospects for the Pittsburgh Summit

*The G20 is still evolving, but with an agenda broadened beyond financial and economic issues, it has the potential to make progress on climate change and development*

*By* John Kirton, director, G20 Research Group, and Jenilee Guebert, research coordinator, G20 Research Group

On 24-25 September 2009, the leaders of the G20 systemically significant countries will assemble in Pittsburgh, Pennsylvania, for their third summit. It follows the first summit in Washington DC on 14-15 November 2008 and the second in London, on 1-2 April 2009. With the G20 summit moving from Britain back to America, Pittsburgh will be the first opportunity for United States president Barack Obama, sporting substantial popularity at home and abroad, to host a global summit and to make history on the world stage.

The Pittsburgh Summit will address a broad agenda. It will build on the ambitious achievements of British prime minister Gordon Brown's successful London Summit, and go beyond it in several ways. The precise agenda and achievements depend on several unfolding events. Unlike the long established institution of the G8 summit, operating since 1975, the new G20 summit is an evolving process whose full potential is still being discovered and designed by its members and hosts. The G20 summits' great initiatives have come to life only on the eve of the event. With their strong financial and economic focus, G20 summits depend on the emerging state of the global economy and financial system at the time they are held. The Pittsburgh Summit will also be affected by the outcome and prospects of elections in the world's second most powerful country, Japan on 30 August, and in the third most powerful, Germany on 27 September.

Amidst its many possibilities, Pittsburgh is likely to feature a full-strength agenda, spanning the finance and economic, global and transnational, and even

political-security spheres. Macroeconomic stimulus, responsible bankers' bonuses, multilateral trade liberalisation, reform of the international financial institutions (IFIs), climate change control and G20 architecture will all share centre stage. Currencies, most domestic financial regulations, an economic charter for ethical finance, anti-protectionism, development – including food and health – and Iran's nuclear programme will take second stage.

Pittsburgh's main message will be to stay the course on stimulus, rather than rush to the exit strategies. Germany and France, encouraged by economies that are growing again, will want the G20 to direct political energies toward removing the massive fiscal and monetary stimulus that seems to be working in diminishing the threat of another great depression and in reviving the world. But the United States, Britain and Canada have economies that are still struggling, with unemployment rising and consumption and confidence sharply constrained. They will argue that the fragile recovery is the result of unprecedented government stimulus that must be maintained until the private sector market, firms and consumers start functioning normally again. Backed by most other G20 members, this view will prevail. But firmer plans will be put in place to design careful, coordinated exit strategies, to be activated next year if all goes well. Real action on exchange rate volatility and misalignments, international imbalances and a global currency regime will be left for later, when economic recovery has definitively arrived.

On domestic financial regulatory reform, most of the devilish details will be left for the knowledgeable G20 finance ministers to decide at their regular meeting in November. At Pittsburgh, the G20 leaders will call for responsible compensation practices for private firms, to quell the mounting anger of their citizens and legislatures in America and elsewhere. In keeping with the G8's recent promise, they will approve the Italian-pioneered Lecce Framework as a codification of existing intergovernmentally agreed rules on how firms should behave. They could also endorse, two days before Germany's general election, the economic charter proposed by Chancellor Angela Merkel, thus adding an ethical foundation to the fixed rules that can quickly be overwhelmed by a fast-changing world.

On multilateral trade, G20 leaders will again take a firm anti-protectionist pledge. They will ensure that trade finance flows from public providers until it resumes from the private sector. The leaders will focus on building on the L'Aquila G8 Summit's move to get the Doha round finally delivered by 2010, in ways that, while modest, genuinely support development for the poorest in the world.

Development will also be addressed in its own right, with a push to deliver the targets for official development assistance promised by the developed countries to be completed by 2010 and to meet the much bigger Millennium Development Goals due in 2015. But Pittsburgh is unlikely to match the $1.1 trillion in new money that London mobilised to meet the immediate needs of the poor and generate global stimulus. Pittsburgh will try to implement these London commitments, and ensure that the new resources are used effectively to combat the current food and health crises.

As London gave the IFIs the expanded resources they greatly needed, Pittsburgh will concentrate on reforming these institutions to give the rapidly rising, largely resilient emerging economies the expanded voice and vote they seek, in bodies with modernised missions and mandates appropriate for the 21st-century world. With the deadlines of

> “Pittsburgh's main message will be to stay the course on stimulus”

spring 2010 and January 2011 for a revision of quota shares in the World Bank and International Monetary Fund respectively, much will depend on whether the Europeans join the Americans and Canadians in giving up their privileges from 1944 to the emerging powers, largely from Asia, that matter so much today.

Pittsburgh's most challenging and critical achievement will come on climate change. The summit could well deliver an acceptable framework for financing climate change mitigation and adaption. This is necessary, if not sufficient, for the still deadlocked negotiations for the United Nations conference in Copenhagen in December to create an effective carbon control regime to replace the failed Kyoto protocol one. G20 leaders will also advance green stimulus and investment, clean technology development, diffusion and transfer, and perhaps even an internationally compatible cap-and-trade regime, as well as green trade liberalisation for climate-friendly services and goods.

Pittsburgh's largest legacy will come on G20 architecture, in its decisions about whether, when and where to hold the next summit and how to institutionalise a process that will have proven its centrality and worth to the world. Should the G20 leaders decide to hold another summit, to do so in the spring, in Asia, and, above all, choose April in South Korea, they will have given the G20 and global governance a great boost. They will have affirmed that this leaders-level club of leading, fully equal, established and emerging countries will reinforce the annual summer gathering of the 'G8 plus', providing responsible and effective leadership three times a year for an ever changing, intensely interconnected world. As President Obama wisely observed at the G20 summit in London in April: "I'm pleased that the G20 has agreed to meet again this fall, because I believe that this is just the beginning. Our problems are not going to be solved in one meeting; they're not going to be solved in two meetings. We're going to have to be proactive in shaping events." ◆

> “The G20 summit's most challenging and critical achievement will come on climate change”

Sponsored feature

# FirstBank is committed to agricultural development in Africa

First Bank of Nigeria Plc (FirstBank) is the premier bank in West Africa and Nigeria's leading financial services group. Since 1894, the bank has continued to adapt and innovate to meet the different opportunities and challenges presented by different generations of customers, competitors and other stakeholders, thus assuring its sustainability and market leadership.

The bank's vision to maintain clear market leadership and be Nigeria's bank of first choice is pursued with a focused growth strategy backed by strong financial fundamentals. FirstBank is currently the most capitalised financial services institution on the Nigerian Stock Exchange. Through nine subsidiaries that play in all the sub-sectors of the financial services industry, and with an expansive branch network (536) across the country, FirstBank has been building customer relationships and alliances with key sectors that are strategic to the wellbeing and economic growth of the nation, thus creating one of West Africa's strongest banking franchises.

Agriculture has always been critical to the Nigerian economy, and FirstBank, throughout its multi-generational history, has maintained a tradition of strong commitment to the growth and development of the sector. From the early days of currency distribution to support commodity trade between West Africa and Europe, to its present day as one of the largest lenders to the sector, FirstBank has continued to play an exemplary role in promoting the development of the nation's agricultural and allied sectors.

FirstBank recognises the critical role of sustainable agriculture in human growth and development, contribution to GDP and creation of employment and wealth, especially now in the face of dwindling (erratic) oil revenues and the global food crisis. Farmers, traders of agricultural produce, merchants and professionals in the sector have variously benefited from support from FirstBank through the provision of capital for their diverse enterprises. FirstBank's total loan portfolio in agricultural financing reached an all-time high of N15billion during the last financial year.

Earlier in 2009, FirstBank was one of only two banks selected to administer the Federal Government's N200billion Commercial Agricultural Credit Scheme (CACS) Fund, which is jointly promoted by the Central Bank of Nigeria (CBN) and the Federal Ministry of Agriculture & Water Resources, and financed from the proceeds of a multi-tenor bond raised by the Debt Management Office (DMO) on behalf of the CBN. The funds are being made available for on-lending to large-scale agricultural enterprises, via FirstBank and another Nigerian bank.

However, well before the N200billion CACS Fund, FirstBank has been maintaining a flagship portfolio of agric-based financial solutions under the brand FarmersFirst. The importance and success of FarmersFirst has helped in stirring competition in the banking sector towards agricultural financing. Recently, FirstBank introduced two more agricultural financing products; the Farm Machinery and Equipment Finance Scheme, designed to align with the Federal Government's policy on farm mechanization, for the acquisition of 40,000 tractors over four years; and the National Agro Dealer Support Scheme, designed

to support private sector capacity in agro-input procurement and distribution, in the wake of the government's deregulation of the agro-input market.

Furthermore, in order to complement the government's efforts to generate employment and create a community where Nigerian youths interested in agriculture can live and work together on individual farming projects, the FirstBank Farm Settlement Scheme was introduced in 2008. The scheme was launched in Ogun State in collaboration with the State government, and there are plans to roll out to other States interested in partnering with FirstBank under the programme.

FirstBank also maintains an Agricultural Development Trust Fund Model (ADTF) with six States of the federation under a scheme initiated by the CBN to facilitate access to credit by small farmers. Plans to extend the model to three more regions – Edo State Government, Delta State Government and Enugu North Local Council – are underway following the signing of Memoranda of Understanding between these entities and FirstBank.

The ADTF model is also being used to contribute to the rehabilitation of the Niger Delta, through a partnership between FirstBank and the Nigeria Liquefied Natural Gas Limited (NLNG) and the Shell Petroleum Development Company (SPDC) to finance Small Scale Agro-Enterprises in the Niger Delta.

In addition to direct intervention in the sector, FirstBank cements its commitment to agricultural development by its continued support for agricultural and engineering research and education in a number of Nigerian Universities and Higher Education institutions where the bank maintains Endowment Programmes and Professorial Chairs.

Over 115 years of history and dependable service to its customers and stakeholders, has certainly made FirstBank a financial services icon in Nigeria and West Africa. With over 4.2million customers, nine financial subsidiaries, over 500 locations in Nigeria and with presence in London, Paris, Johannesburg and Beijing, the bank is arguably the country's most diversified financial services group.

**www.firstbanknigeria.com**

FirstBank

# The world economy: road to recovery

*Signs of economic indicators improving provide much-needed encouragement and reassurance in uncertain times*

*By* Jim O'Neill, Goldman Sachs

As the leaders of the G20 countries gather in Pittsburgh, they can take some measured comfort from developments since they last met, in London, in April.

Stock markets have recovered throughout the developed and developing worlds. Many economic indicators have improved. The strong, worrying consensus that the world was heading inevitably into a 1930s abyss has abated. Today, the most popular debate about the immediate economic future is whether it will resemble an L, a V or a W, with very little focus on the 'D word' – depression.

For the developed world, the forecast issued by Goldman Sachs does not resemble any of those letters. For the large developing countries, many of which are now G20 members, led by China, it forecasts a V. For the world as a whole for 2010, it forecasts positive growth in gross domestic product (GDP) of around 3.5 per cent. This is above the average of the past 25 years of global GDP growth. But it does follow 2009 and a year of global GDP contraction.

Many of the proprietary indicators identified by Goldman Sachs suggest better times ahead, with a number of them distinctly V-like and, as of early August, suggesting upside risks to the coming forecasts.

After the collapse of Lehman Brothers in September 2008, Goldman Sachs developed its Financial Stress Index. It consists of four equally weighted variables: the spread between the London interbank offered rate (LIBOR) and the overnight index swap (that is, the spread between the bank funding rate and the market's perception of future official rates); the spread between the United States government's repo rate (the discounted rate at which a central bank repurchases government securities from commercial banks to manage the level of money supply) and the mortgage repo rate; the amount of commercial paper issuance; and the ratio of money market funds to the value of equity market capitalisation in the US, a measure of risk aversion.

This index deteriorated through much of 2008, especially after Lehman. It is now back to more normal levels, at those last seen in the late spring of 2007. This suggests that policymakers have

> "Many of the proprietary indicators identified by Goldman Sachs suggest better times ahead, with a number of them distinctly V-like and, as of early August, suggesting upside risks to the coming forecasts"

stabilised the systematic risk from the financial system. Moreover, if such exploding systematic risk was largely responsible for the collapse of the world economy last autumn, this return is a highly welcome sign.

Such an index offers no clues to what might happen if many governments decide to exit from their aggressively stimulative monetary and fiscal policies. While policymakers will need some time to consider, they should be pleased with current developments.

Goldman Sachs's financial conditions indices (FCIs), for more than 20 countries, have been used for many years as a guide to the effectiveness of monetary policy. Ordinarily, FCIs can be used as leading economic indicators. For the US, the FCI has shown a reasonably consistent and useful early warning of how policy might influence the economy 12 months hence. A 100 basis point easing, all else equal, means a 1 per cent strengthening economy within 12 months. Because of the importance of US financial conditions, such an easing results in a 0.6 per cent improvement in the world economy. In contrast, a 100 basis point tightening of US financial conditions, all else being equal, leads to a 1 per cent


weakening of the US economy, and a 0.6 per cent weakening of the world's.

The US index consists of three-month short-term US interest rates, triple-B equivalent bond yields (these two constituting 90 per cent of the index), the trade-weighted dollar and the Wilshire stock market index.

> "By early August 2009 the FCI had recovered around 65 per cent of what it lost, reflecting the very aggressive easing undertaken by the Federal Reserve Board"

China has taken huge steps to stimulate its economy, in order to reduce its dependency on exports and move towards domestic growth. Real growth GDP of 10.9 per cent is forecast for 2010

In 2008, the US FCI tightened dramatically, by nearly 500 basis points, especially after the failure of Lehman. Soon after, the US and world economies began to sink. Fortunately, by early August 2009 the FCI had recovered around 65 per cent of what it lost, reflecting the very aggressive easing undertaken by the Federal Reserve Board. This suggests that the US and world economy should recover around 65 per cent of what they lost.

China's FCI consists of four variables, slightly different from the US due to its different financial system. China uses M2 money supply instead of corporate bonds, as its corporate bond market is still a fledgling. Since November 2008, China's index has eased by 630 basis points, an unprecedented amount for any country with such an index. This reflects the huge steps undertaken by China to stimulate its economy and shift from export dependency to more domestic demand-orientated growth.

By March 2009, due to easing financial conditions and related improvements in financial conditions, sensitive parts of the economy produced a significantly higher forecast for Chinese GDP growth in 2009 and 2010. Real growth GDP of 8.4 per cent is


China's success is welcomed by the G20 countries, given the economic slowdown sparked by global reliance on over-stretched US consumers

forecast for 2009 and 10.9 per cent forecast for 2010. This development is highly welcome not just for China, but also for the world. Many argue that the build-up to the crisis resulted from excessive global dependence on an over-levered US consumer, the resulting global imbalances and vulnerability in the event of a slowdown. China's success in boosting domestic demand is thus an extremely welcome development for the G20.

An encouraging message also comes from the proprietary global leading indicator (GLI), devised to be as accurate for predicting future movements as the well-known leading indicator produced by the Organisation for Economic Co-operation and Development (OECD), as measured by industrial production. By having only a single global indicator of 14 reliable, high-frequency variables from around the world, the GLI tends to be about two months quicker than the OECD's indicator. Moreover, as it uses neither the stock market nor slope of the yield curve, it benefits asset allocation decisions.

The GLI fell sharply late in 2008 and continued to decline into spring 2009. It started to improve in March, about the same time as equity markets did. Its improvement accelerated in June and July. The year-on-year change in the monthly momentum of the index forms a V-shaped graph, suggesting some upside risks in the second-half 2009 global forecasts.

These factors should all encourage G20 leaders as they prepare to meet in Pittsburgh. The actions they took in April 2009, and in November 2008, appear to have helped arrest the decline of the world economy.

> “Citizens want reassurance that financial systems will be more effectively regulated, that unemployment will stop rising, that the future will be more certain”

But many challenges remain, not least the challenge of ensuring that the better tone of economic data and markets continue. Citizens want reassurance that financial systems will be more effectively regulated, that unemployment will stop rising, that the future will be more certain and, perhaps, fairer.

Many seem eager for a better natural environment and progress on climate change. The G20 leaders should persist with their soothing words – and keep the support that they have been nurturing. They will continue to be rewarded for keeping a steady hand on the tiller. ◆

# Welcome to Pittsburgh

*On behalf of the people of the Pittsburgh region, we are proud to welcome the world to Southwestern Pennsylvania for the Pittsburgh Summit 2009*

**By** Dan Onorato, Allegheny County Executive (left) and Luke Ravenstahl, mayor, City of Pittsburgh (right)

As world leaders gather in our community, they will find a region that has undergone a remarkable economic and environmental transformation. We have built a well-balanced and diversified economy in which the private sector continues to invest and create new jobs. We are proud to utilise our traditional strengths in advanced manufacturing, financial and business services, and energy. We have leveraged research and development at our 35 colleges and universities to innovate new industries in healthcare, life sciences, and information and communication technology. And we have invested in infrastructure and facilities to support a world-class quality of life, from arts and culture to outdoor recreation and green building.

We are still a work in progress, but we have learned many lessons about what it takes to create a regional economy that can provide sustainable prosperity. We look forward to sharing these lessons with the global community in hopes that together, we can build a better world. ◆

County of Allegheny

City of Pittsburgh

> "We have learned many lessons about what it takes to create a regional economy that can provide sustainable prosperity"


# A strategy for global economic growth

*The crisis offers an opportunity for greater leadership and cooperation. The unprecedented response of the G20 leaders must be maintained to build a new global governance framework. The OECD stands ready to help*

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

There are growing signs that the world economy is stabilising. Financial conditions have improved, money markets have started to normalise and there is increased risk appetite. The most recent indicators point to an improvement in output and trade. There is also conspicuous decline in the size of global imbalances.

Yet this was expected, given the unprecedented macroeconomic stimulus packages and the degree of global coordination put in place to counter the decline in world activity and repair the financial system. Current reductions of global imbalances are mostly the result of the downturn. They do not necessarily signal a permanent shift in underlying conditions.

This underscores the fact that our work together is far from complete. More must be done to move from today's policy-driven recovery to self-sustained growth – as confirmed by the analysis of the Organisation for Economic Co-operation and Development (OECD) of the consequences of the crisis on potential growth. The OECD sees a medium-term reduction in the level of members' potential output of about 3 per cent, reflecting higher structural unemployment, lower risk propensity, higher cost of capital and less investment, including in innovation. This reduction is on top of pressure from more secular trends, such as population aging, and other pre-existing policy challenges, such as efforts to mitigate climate change.

Several long-term policy priorities stand out in this context. First, and most urgent, we are facing a major job crisis with extremely serious social consequences. As labour markets respond to trends in economic activity with a lag, employment numbers will continue to deteriorate sharply in the near term. The latest OECD projections show a rise in total unemployment of more than 25 million by 2010, compared with pre-crisis levels. Global unemployment could well exceed 50 million, based on the projections by the International Labour Organization (ILO). These are huge numbers.

Second, efforts to improve the framework within which business, markets and governments should operate continue to deserve attention. We must ensure conditions wherein the whole business sector, including the actors of financial intermediation, acts prudently, transparently and honestly. Responsible

Work on active labour market policies – including skills development, effective social safety nets and training – is one of the key priorities for both the G20 and the OECD

business conduct is a prerequisite to maintain confidence in markets and, ultimately, foster production and job creation. It is the 'conveyor belt' of economic growth.

Third, a major policy challenge is the restoration of sustainable fiscal positions that have deteriorated dramatically with the crisis. In virtually all OECD countries, large deficits are expected in 2010. These frequently include a significant structural component. At the same time, assessing the timing of fiscal consolidation is a challenge in itself, as premature consolidation would endanger the recovery and delayed consolidation would undermine credibility.

Fourth, we need to set the basis for a global architecture that would underpin a more balanced world economy. As the process for increasing private and public savings in key countries with external deficits gains momentum, the world will experience even greater falls in potential output unless the saving-prone emerging economies undertake policies to shift toward more domestic demand-led growth.

Fifth, all the above policy areas provide additional rationales for accelerating structural reforms that would improve longer-term growth prospects and also enhance resilience to adverse shocks in the future.

These are the key priorities likely to be at the centre of the G20 discussions. The OECD is already working on many of them as follows:

*New sources of growth.* Further to assessing the impact of the crisis on potential output, since the launching of its Strategic Response to the Financial and Economic Crisis in 2008, the OECD has provided policy analyses and recommendations on appropriate strategies to restore growth through structural reform, enhanced innovation and public investment as delivered through the stimulus packages. The medium- and long-term challenges to fiscal sustainability generated by such packages are also important. We are looking at them thoroughly in our work.

*The social and human dimension of the crisis.* This includes work on active labour market policies, including effective implementation of the OECD Reassessed Job Strategy, skills development, income support, effective social safety nets, pensions, education and enhanced training projects. Some of this work will serve as input to the OECD Employment, Labour and Social Affairs Ministerial on 28-29 September 2009.

*Finance, competition and governance.* Within its areas of responsibility, the OECD is helping to prepare appropriate strategies for unwinding the extraordinary measures taken in response to the crisis. Competition and levelling the playing field are also important, including the central dimensions of moral hazard and implicit subsidies to institutions. The OECD also provides an institutional framework for continuous dialogue among relevant stakeholders on corporate governance, financial literacy and the fight against corruption in international business. Furthermore, with preserving market openness a key issue, the OECD plays a leading role in monitoring and peer reviewing measures that could restrain investment.

*Tax transparency.* Tax issues are very high on the G20 agenda. Its approach has been based on the principles of transparency and effective exchange of information on tax matters developed by the OECD. Responding to a request from G20 leaders to identify non-cooperative jurisdictions, the OECD issued a progress report following the London Summit. The OECD is working to strengthen the Global Forum on Transparency and Exchange of Information, including the expansion of its membership.

*Development issues.* The OECD is conducting work on aid effectiveness, policy coherence and financing to help developing economies become more resilient and less vulnerable to economic downturns, and to achieve the Millennium Development Goals. It is also helping to promote a comprehensive approach for development and development finance, to engage with all stakeholders in the development process.

*Trade finance.* The main providers of officially supported export credits have agreed to meet regularly at the OECD to exchange information on the measures taken in support of the London G20 trade finance initiative, and to ensure the continuation of medium- and long-term export financing.

*Green growth strategy.* Ministers of 30 OECD countries plus Chile, Estonia, Israel and Slovenia requested that the OECD develop a green growth strategy to help countries achieve economic recovery and environmentally and socially sustainable economic growth, including by promoting the use of market-based instruments, regulations and other policies to change behaviour and foster appropriate private sector responses.

*Global governance.* The OECD has been discussing a Global Charter for Sustainable Economic Activity with the German government and with other international organisations (the ILO, the International Monetary Fund, the World Bank and the World Trade Organization). Based on existing instruments, the charter aims to enhance the effectiveness of these instruments and fill regulatory gaps. The OECD is working actively on the issues of transparency, propriety and integrity in business conduct, also at the centre of the international agenda.

> "The global economy cannot go back to business as usual"

**Drawing the key lessons**

The response to the crisis has been impressive. As the recession bottoms out we must make sure that green shoots are consolidated and that we achieve self-sustained growth. We must work toward a greener, stronger, fairer global economy based on shared principles, while allowing for – and reaping the benefits of – diversity. The global economy cannot go back to business as usual. This means using all policy instruments at our disposal and developing a strategic framework to maximise synergies and complementarities among policies. The crisis is also an opportunity to shift gears in leadership and cooperation. The unprecedented response that the G20 leaders have implemented must be maintained beyond the emergency to build a new global governance framework. The OECD stands ready to provide its support to achieve this goal.

I look forward to contributing to a successful summit in Pittsburgh. ◆

# Bermuda's role in financial stability

**Economic background:**
Bermuda is located in the Western Atlantic with a land mass of 53 square kilometers and a population of 62,000. From the very early days of settlement in the 17th Century, Bermuda has been engaged in some form of international economic activity. From whaling, ship-building and salt-raking during the 17th Century, to export of spring vegetables to the Untied States in the 19th Century, international commerce has been an enduring feature of Bermuda's economic history. Between 1939-1945, ships, aircraft, and military personnel based in Bermuda played a significant part in the Battle of the Atlantic.

During the 20th Century, tourism was the principal source of jobs. However, during the last half of the 1990s, employment in hotels, restaurants, and other travel-related sectors declined appreciably. In contrast, employment levels in the expanding financial services and international business sectors were on a rising trend.

In the 21st Century, international business activity and the provision of business services have strengthened their positions as the leading sectors of Bermuda's economy. Bermuda's Gross Domestic Product was estimated at $5.8 billion[1] in 2007. The two leading sectors helped to sustain an average annual growth rate of 4.8 per cent during the period 2000-2007.[2]

**The Bermuda tax system is consumption-based:**
The Bermuda tax system has been in place since the 19th Century. One of the first legislated taxes, the Revenue Act 1898 that made provision for the collection of customs duty, remains in effect today.[3] Other forms of indirect taxes including payroll tax, passenger taxes, and property tax, together with annual fees for international companies, generated $813 million (or 84 per cent) of the estimated $966 million in total revenue in 2008/09.[4]

In Bermuda, the ratio of total Government tax receipts in relation to GDP was approximately 17.8 per cent in 2007.[5] For the United States and Canada the tax ratio for central government in both jurisdictions was in the range of 19.5 per cent to 20.5 per cent of GDP in 2007.

The tax structure is an element of Bermuda's success, and it should be evaluated in objective economic terms. The tax system was shaped for efficiency and fairness to Bermudian taxpayers. It was not designed to attract mobile capital from other countries.

**Prudential regulation:**
The Bermuda Monetary Authority (the "Authority") was established 40 years ago under the Bermuda Monetary Authority Act, 1969. The Authority is responsible for the supervision, regulation, and inspection of financial institutions operating in and from within Bermuda.

The Authority is independent from but accountable to the Government in pursuit of its statutory objects. The Authority meets with the Ministry of Finance regularly to discuss issues affecting the stability of the domestic and global regulatory framework. On an annual basis, there is a statutory requirement for the Authority to explain what progress it has made against its statutory objects to the Ministry of Finance and to lay its Operations Report and Statement of Accounts to Parliament.

The Authority has been at the forefront in developing international standards and strengthening cooperation among financial services supervisors worldwide. The Authority is one of the first of three regulatory authorities to become a signatory to the International Association of Insurance Supervisors Multilateral Memorandum of Understanding. The Authority is also the first amongst the Caribbean Group of Banking Supervisors to implement the new Basel II framework. As a member of the International Organisation of Securities Commissions ("IOSCO"), and a signatory to the IOSCO Multilateral Memorandum of Understanding, the Authority has the capacity to act on matters within IOSCO's remit.

**International cooperation:**
In the year 2000, Bermuda gave a commitment to the Organization of Economic Cooperation and Development (OECD) to uphold the standards of transparency and exchange of tax information. In making the commitment, Bermuda confirmed its longstanding position that it does not adopt or promote harmful tax measures. Further, Bermuda does not inhibit exchange of relevant information upon request with its international partners, nor does it have bank secrecy.

Bermuda participated fully in the OECD's development of a model tax information exchange agreement (TIEA) that was adopted in 2002. Bermuda's leadership role in establishing the OECD Model TIEA was assisted by its experience as a partner of the United States of America in a long-standing TIEA that was signed in 1988.

Bermuda has negotiated 14 TIEAs on a bilateral basis with various countries. On 2nd September, 2009, Bermuda was elected as a Vice Chair of the Steering Group of the new OECD Global Forum.

An essential part of the success of the regulatory and tax framework in Bermuda has been the existence of a coordinated approach to cooperation and information exchange in other areas. Bermuda is a founding member of the Egmont Group and has also been designated as a Sub-Bureau of Interpol. The International Monetary Fund in its 2007 review noted that "the criminalization of money laundering and the financing of terrorism is generally comprehensive, with offenses applying to both natural and legal persons, and to the requisite predicate offenses." In addition, Bermuda has been assessed by the US State Department as a low risk with regard to vulnerabilities and threats to the US national security and the stability of the global financial system, posed by money laundering and terrorist financing.

**Conducting business in Bermuda:**
Anyone wishing to do business in or from within Bermuda through any type of corporate structure is subjected to vetting by both the service provider and the Authority. This has resulted in a strong KYC culture within the financial services community and an emphasis on "quality" rather than "quantity". This process has been in place for more than 50 years and has separated Bermuda from many other countries which previously lacked the infrastructure or the willingness to develop a framework for disclosure prior to the standards set down by the Financial Action Task Force.

**The Bermuda insurance market:**
In the 1960s, Bermuda was a pioneering domicile for captive insurance companies. Bermuda remains the second largest domicile, after the U.S., for captive companies.

In the mid 1980s, Ace Ltd and XL Capital Ltd were formed for the sole purpose of providing excess liability cover to the US market. The provision of other lines of cover such as directors' and officers' liability soon followed. In 1988 Centre Re was formed to provide the innovative structured reinsurance. These companies chose to incorporate in Bermuda because of speed to market, proximity to the New York markets and Bermuda's links to the United Kingdom.

Following the loss of capacity in the U.S. market after the 1992 Hurricane Andrew, eight property catastrophe reinsurers entered the market. In the late 1990s, Arrow Re (Goldman Sachs) and Lehman Re (Lehman Brothers) were formed to facilitate reinsurance access to capital markets. These were followed by financial guarantee companies that provide guarantees for debt securities. Today, nearly $61 billion dollars in global premiums is written by 23 Bermuda domiciled insurers and reinsurers.

**The Bermuda model:**
The nature of global markets requires financial regulatory authorities to work effectively across borders. In this regard, formal discussions on regulatory cooperation and harmonisation have always been a key component of Bermuda's international economic policy. The Bermuda regime is founded on principles of good regulation, which are implemented via an institutional structure tailored to fit the nature of Bermuda's financial sector. Effective financial regulation combined with an effective financial stability framework has not only made Bermuda the uncontested destination for capital in the insurance industry over the past decade but also underpins our credit worthiness and our ability to manage through the current economic crisis. These are the principles upon which we build our international partnerships.

*[1] Bermuda dollar is pegged at par with U.S. dollar*
*[2] National Economic Report of Bermuda 2008, Table 2 page 18*
*[3] Revenue Act 1898, Revised Bermuda Laws, Volume 5*
*[4] Government of Bermuda, Budget Statement 2009/10, Table II, page 25*
*[5] Total receipts includes $929 million in taxes, licenses and fees booked to the Government Consolidated Fund plus about $98 million of social insurance contributions that goes into the contributory Pension Fund for payment of pension and allowance to senior citizens*

Barack Obama's often criticised economic stimulus package is giving a much needed boost to the US economy

# America's contribution to global economic growth

*The Obama administration has followed a multi-track approach to restoring the strength and vitality of the US economy. Its macroeconomic, microeconomic, monetary and regulatory policies reinforce one another and are more effective than any of them pursued alone*

**By** Robert Fauver, former US under secretary of state for economic affairs and former G7 sherpa

As the leaders of the G20 gather in late September in Pittsburgh, they face a world economy beginning to recover from the worst slowdown in decades. That recovery is coming sooner than originally expected. US president Barack Obama, as the host for this meeting, will be energised as a result of the emerging success of his economic policy approach to the deep US recession. He will work hard with the other leaders to secure the recovery and expected expansion for the next several years.

The Obama administration has followed a multi-track approach to restoring the strength and vitality of the US economy: macroeconomic, microeconomic, monetary and regulatory reform policies. These distinctly different policies have been designed to reinforce one another. When combined, the policies are proving more effective than any of them pursued by themselves.

The often criticised and much maligned economic stimulus package of the Obama administration is apparently providing the needed expansionary boost to the domestic economy. The American Recovery and Reinvestment Act of 2009 set forth some $787 billion of increased spending over an extended period. The president's approach was a multi-year set of policies rather than the traditional one-year stimulus approach. For the next several years the domestic economy will continue to be strengthened by the ongoing stimulus programme. While it is very difficult to attribute the precise degree of effect from the stimulus programme on the ongoing recovery, the programme is clearly an important part of the emerging recovery.

In addition to its fiscal approach, the administration has strongly supported the Federal Reserve System's use of a loose monetary policy stimulus to the economy. Historically low interest rates have been coupled with historically large injections of liquidity to financial markets. This easy monetary policy has strengthened financial institutions. It is beginning to result in increased bank credit, which is critical to the sustained recovery of the domestic economy. The evidence suggests that the housing market has bottomed out and is probably beginning to experience modest price firming in many parts of the country.

On the microeconomic side of the effort, the administration quickly and strongly injected significant funding into the failing financial sector. Banks, insurance companies and security firms all received government support funds. For a few firms, such as AIG, the funding amounted to a nationalisation of the private firm. For others, the funds increased the capital base of financial firms, which allowed them to continue operating.

This unprecedented involvement of the US government in the private financial system has apparently stabilised the fragile situation. Firms are looking healthy again. Recent quarterly data indicate that some of the previously government-supported firms have recorded profits for the first time in a year or so. There is still worry over the troubled assets held by financial firms, but the overall health of the financial sector is considerably stronger than when the administration took power in January 2009.

On the regulatory front, the administration has submitted a wide-ranging set of proposed reforms of the regulatory structure within the US. The goal is to consolidate the currently fragmented regulatory authority into a more focused overall strategic approach to regulations. The administration would like to strengthen consumer protection within the financial sector. To that end, it has proposed a establishing a new Consumer Financial Protection Agency to protect consumers across the financial sector from unfair, deceptive and abusive practices. While some of this work has been done in the past by the Federal Reserve System, the administration believes that consolidating the function in a new agency will strengthen consumer protection.

The Federal Reserve System will play a stronger and broader role in the new regulatory environment, if Congress passes the administration's reform plans. But, as always, Congress and the existing regulatory agencies can be expected to object to a change in the existing power structure.

Under newly submitted reform proposals, over-the-counter (OTC) derivative products will be regulated, and comprehensively regulated, for the first time. The proposed legislation provides for regulation and transparency for all OTC derivative transactions; strong prudential and business conduct regulation of all OTC derivative dealers and other major participants in the OTC derivative markets; and improved regulatory and enforcement tools to prevent manipulation, fraud and other abuses in these markets.

> From an overall macroeconomic perspective, the Obama administration has set the stage for a solid recovery that will provide much-needed stimulus to the rest of the world

Now that the Obama administration's regulatory philosophy is available in legislative proposals, the US Treasury will play an active role in the international discussions and negotiations focused on financial market regulatory reforms. The G20 will likely move forward on at least some forms of internationally agreed regulatory reforms.

From an overall macroeconomic perspective, the Obama administration has set the stage for a solid recovery that will provided much-needed stimulus to the rest of the world. Europe, which many thought was waiting for the US recovery to provide its own stimulus, has recorded modest positive growth in the second quarter of 2009. This is considerably earlier than anticipated.

Asia, too, is making significant progress in restoring growth to earlier levels. Led by China's early and large fiscal stimulus (the largest as a share of gross domestic product among the G20), Chinese real growth has recovered after only a brief slowdown to an annual growth rate of between 8 per cent and 10 per cent. Chinese authorities employed a combination of bank credits and infrastructure spending to bolster domestic demand. While there are still concerns about the ability of China to shift sustainably to domestic-led growth, the signs of early recovery are at least very promising.

Japan also acted quickly to provide fiscal stimulus. But the current domestic political turmoil – and expected change of political party leadership – has weakened consumer and business confidence. Recovery should come as exports to the US return to solid growth rates.

More broadly, the G20 needs to focus on the emerging return of trade protectionism that is sneaking into many government's legislative processes. The leaders need to endorse strongly the completion of the Doha round of trade negotiations, or at a minimum, issue an agreed commitment to avoid protectionist policy moves. ◆

Situation stabilised: Ford Motor Co posted a $2.3 billion quarterly net profit in July 2009, mainly due to gains from a $10 billion debt reduction plan, and said it was on track to at least break even in 2011, sending its shares up as much as 9.7 per cent

# REVEALING THE PITTSBURGH MODEL

## FROM THE WHITE HOUSE TO THE WORLDWIDE MEDIA,

Pittsburgh is hailed as a survivor of wrenching economic change and a region that has been strategically transformed — economically and environmentally. Today's Pittsburgh builds on its historic strengths in manufacturing, finance, business services and energy, leverages human capital to create new industries born of research, innovation and entrepreneurship and invests in its natural and cultural assets to create quality of life.

Adaptive. Authentic. Progressive. Take a closer look at this model region and discover how Pittsburgh is leading the way.

# THE NATURE OF BUSINESS

**Pittsburgh is a clean tech leader and integrated energy solutions provider to the world.**

Technologies developed by regional innovators like these are helping to sustainably energize the planet and create a stronger, greener Pittsburgh.

## WESTINGHOUSE ELECTRIC COMPANY

Dominating the world's nuclear energy technology.

## PLEXTRONICS

Developing new applications for conductive polymers that advance solar technology.

## EATON CORP.

Engineering electrical efficiency solutions for new and existing buildings.

## CONVERTEAM

Using expertise in traditional electrical power products to develop converters and generators for renewable energy applications worldwide.

## DAVID L. LAWRENCE CONVENTION CENTER

The world's first and largest LEED-certified convention center.

## PHIPPS CONSERVATORY

One of the world's most energy efficient and sustainable conservatories with a "living" education/research center that will exceed the highest green building standards.

## CHILDREN'S HOSPITAL OF PITTSBURGH OF UPMC

Saving lives and softening environmental impact at a new $625M campus featuring green building design and green operational practices.

## NATIONAL ENERGY TECHNOLOGY LABORATORY

Along with Carnegie Mellon University and the University of Pittsburgh, is advancing efficient and sustainable energy solutions; part of the more than $1 billion of energy-related R&D conducted in the region annually.

## CONSOL ENERGY

A multi-faceted energy producer of both coal and natural gas and operator of the U.S.'s only private coal R&D facility.

## AXION POWER INTERNATIONAL

Creating more eco-friendly alternatives to the traditional lead-acid battery.

## THE PNC FINANCIAL SERVICES GROUP

Constructing more green buildings than any other corporation in the world.

## FLABEG

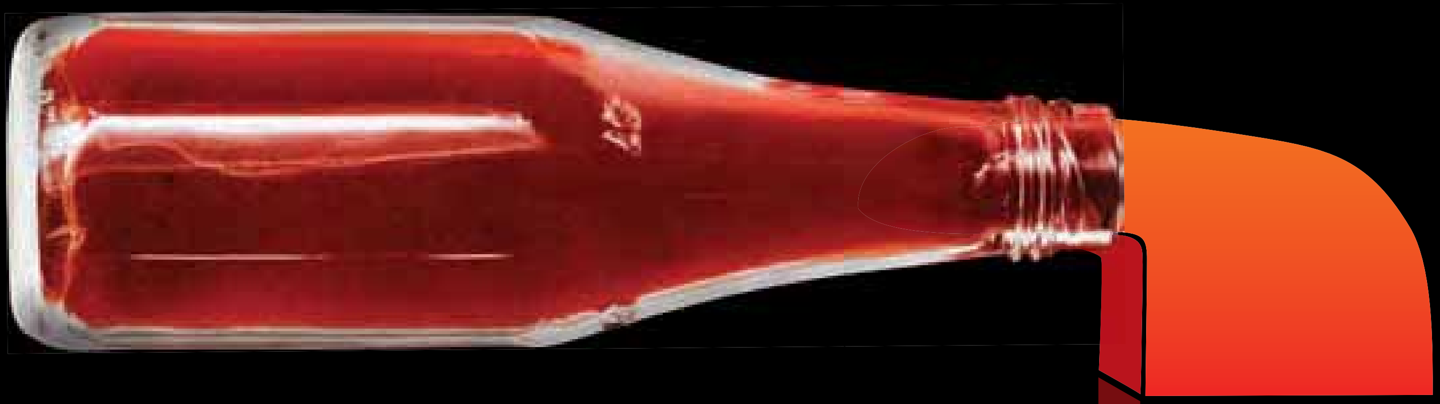
Its new parabolic solar mirror plant represents one of the largest recent manufacturing investments in the region.

## PPG INDUSTRIES

Developing more environmentally friendly building materials, along with new applications in wind and solar for their traditional products.

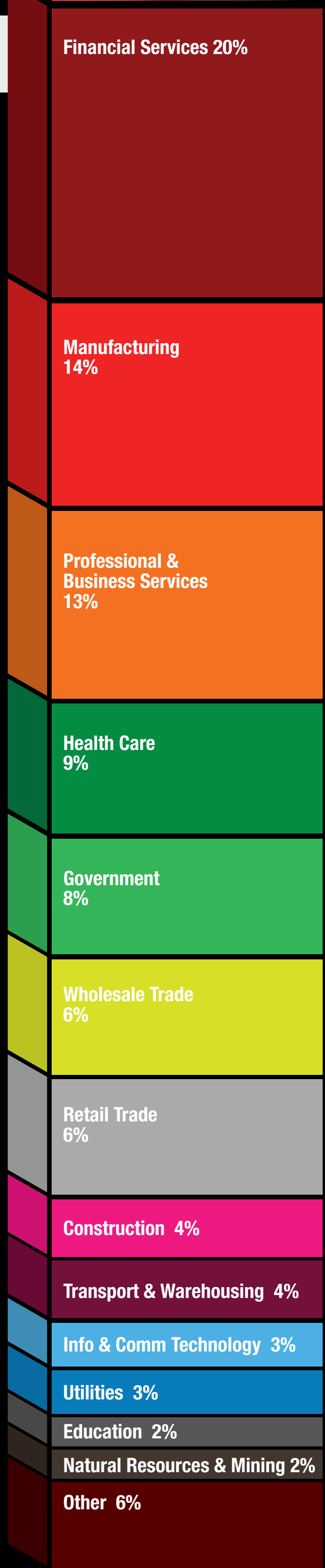
## EQT

Drilled the world's first natural gas well and is pioneering new drilling technologies to unlock the potential of the Marcellus Shale – the world's largest untapped proven reserve of cleaner burning natural gas.



# CREATING BALANCE THROUGH DIVERSIFICATION

There are more than 1.1 million jobs in the Pittsburgh region today. That exceeds the number of jobs here during the region's signature steel-producing heyday. A current breakdown by gross regional product illustrates how the region's leading industry sectors are contributing to this model region's prosperity.




## RIGHT WHERE IT COUNTS
### Financial and Business Services

Global institutions with headquarters or major business units here include BNY Mellon, Citizens Bank, Federated Investors, Jones Day and PNC. Two of the world's largest law firms – K & L Gates and Reed Smith – are headquartered here, as is Pennsylvania's largest health insurer, Highmark.

## BUILDING IT BETTER
### Advanced Manufacturing

Top manufacturers like Alcoa, Allegheny Technologies, Bayer, Bombardier, Eaton, Koppers, LANXESS, NOVA Chemicals, H.J. Heinz, PPG Industries, U. S. Steel and Westinghouse thrive here. While smaller precision tooling and machining companies meet global demands for the components that keep the world's machines running.

## BODY OF WORK BREAKTHROUGHS
### Health Care and Life Sciences

Pittsburgh's health services sector, with nearly 184,000 employees, builds on a legacy of biomedical innovation to create a robust network that's cultivating lifesaving technologies, medical device advances, regenerative medicine and pharmaceuticals. Mylan and GlaxoSmithKline Consumer Healthcare are part of this network, as is UPMC, which has grown into the region's largest employer and an $8 billion global health enterprise.

## BRAIN POWER AT FULL POWER
### Education and Research

The region's intellectual capital includes two Tier One research institutions — Carnegie Mellon University and the University of Pittsburgh — in addition to 33 other regional colleges and universities. And 100 corporate research and development centers keep Pittsburgh in a pacesetter position.

## HIGH TECH AT NEW HEIGHTS
### Information and Communications Technology

Nearly 1,600 technology firms including Ansys, Apple, Black Box, Comcast, Google, Intel and Mastech are here and employ some 32,000 people. A tech-savvy talent pipeline and robust network of organizations that support and finance innovation continue to grow Pittsburgh's knowledge-based economy.

# EVERYTHING IN CONCERT

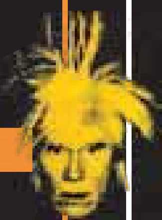
**Lively arts and outdoor recreation share the stage with plentiful options for attractive and affordable living in Pittsburgh. Much of this can be traced to deliberate investment by regional public and private sector partners in key quality-of-life amenities that are now economic generators.**

## PITTSBURGH SYMPHONY ORCHESTRA

Entertaining audiences with acclaimed performances at Heinz Hall, the PSO also acts as a cultural ambassador for Pittsburgh's quality of life and regional business development/investment opportunities when touring abroad.

## CLASS A CULTURAL DISTRICT

The heart of Pittsburgh's art and culture and a magnet for investment, the Cultural District — a former "red light" district — is now a unique, 14-block model of urban revitalization and home to performing arts, entertainment and night life.



## CARNEGIE MUSEUMS

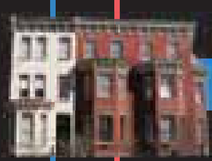
Part of the legacy of Pittsburgh's industrial past, this family of museums celebrates natural history, science and art, and the genius of Pittsburgh's pop art legend — Andy Warhol. (Andy Warhol's *Self Portrait*, 1986, ©AWF)

## HIKE & BIKE

The region boasts a comprehensive network of developed trails, including its newest outdoor asset — the 335-mile Great Allegheny Passage connecting Pittsburgh to Washington, D.C.

## THE THREE RIVERS

Tangible examples of the region's environmental transformation, Pittsburgh's rivers draw outdoor enthusiasts for fishing, boating and kayaking — leading *National Geographic Adventure* to rank Pittsburgh America's "No. 1 U.S. Adventure City." Former riverfront industrial sites are now home to exciting mixed-use real estate developments.



## PLACES TO CALL HOME

The region's diverse housing market has been deemed a "safe haven" while others have faltered in recent years. From 89 distinct urban neighborhoods to quality suburbs and charming small towns, Pittsburgh offers the perfect sense of place for many tastes.

**Let us help you discover Pittsburgh as a model region for your business. Contact us at 877.392.1300 or visit www.pittsburghregion.org.**

pittsburgh
imagine what you can do here.®

Construction continues to boom in Beijing's central business district. China's gross domestic product is expected to grow about 8 per cent this year as the economy recovers

# China: a revisionist rather than a revolutionist

*The world is pinning its hopes of economic recovery on China, but is the country prepared to become a global leader?*

*By* Tu Xinquan, associate director, China Institute for World Trade Organization Studies, University of International Business and Economics

Only a few years ago, some in the West warned of China's coming collapse. But now, almost all hopes for global economic recovery are pinned on China, the only major economy still enjoying growth during the current global financial crisis. The G20 London Summit in April was seen as the start of a new era in which China would lead the world economy. China has long sought to make others believe that it is one of the greatest countries on the planet. But China is not yet ready to take the leader's role, as it is a revisionist rather than revolutionary state.

In facing the crisis, China is using its domestic systemic advantage to make vital policy decisions much faster than other big economies, announcing a 4 trillion yuan stimulus package. Since China's economic downturn is due largely to its own recent policy of contraction, its stimulus has quickly restored investment and consumption. In the second quarter of 2009, China had a 7.9 per cent growth in gross domestic product, much higher than the 6.1 per cent of the first quarter. This showed that China's goal of 8 per cent growth for 2009 as a whole could be reached.

China's effective response enhances its image as the saviour of a struggling global economy. Therefore, its proposals for the international economic order have attracted attention. President Hu Jintao became the star of the London Summit. Zhou Xiaochuan, governor of China's central bank, also won world-wide fame for his suggested new international reserve currency, managed by the International Monetary Fund (IMF), to replace the US dollar. China's new offer of a loan to the IMF was also considered a step toward raising its voice in the international financial institutions (IFIs).

However, China still views itself as an emerging power rather than a leader in the world economic system. Although China undoubtedly wields significant economic and political influence, its society contains the fundamental weaknesses of an underdeveloped country. It still has far to go to be a global leader in quantity and quality. With its domestic focus, China's government does not think it is time to take primary responsibility for global prosperity and stability. But China can still be more active in global governance – and the G20 is an appropriate forum for China to exert its influence on global issues. Unlike the G7, the G20 brings together both systemically important industrialised and emerging economies. This inclusiveness corresponds to China's expectation and perception of international society. Therefore, China is not reluctant to be visible in the G20, although it is uncomfortable with the concept of a 'G2' or 'Chimerica'.

China's rising power enhances the effectiveness of the G20 because a stronger China will improve the power balance in the group, as well as its legitimacy. Every country gives top priority to its own recovery. Here there is no need to deny the differences between the advanced and emerging economies. The developed world is always willing to forget how countries became developed. For instance, developed countries claim that developing countries are stealing their intellectual property and that all countries need the strictest regulations to protect their intellectual property, overlooking the fact that they have control of most of it and that they were also imitating and copying during their development process. While developed countries endeavour to level the playing field for their sunset industries by imposing many requirements on competitors from developing economies, they criticise any protection for the infant industries of developing countries. As a developing country, in terms of economic and technological progress, China's views differ from developed countries' on what global economic governance should be like. These differences, as well as China's power, help to ensure that the G20 will be a democratic and balanced forum for countries in various stages of development to revise the existing global economic system.

China has brought forward ideas on the reform of the international institutions. But it is not trying to overturn the existing system and does not yet have its own blueprint for future global governance. It is trying only to reform some deficiencies that conflict with its own interests and values, as it is not yet in a position to take on the responsibility to lead. Moreover, China has enjoyed unprecedented growth under the current system. With regard to global economic governance, it will take into account the interests and requests of developing countries and reduce the control of industrialised countries. China also shares many common interests with the developed world. Cooperation rather than confrontation will help China achieve its goal of revising the international economic order.

At the Pittsburgh Summit, the world will hear a stronger Chinese voice. The London Summit put forward six pledges: to restore confidence, growth and jobs; to repair the financial system; to strengthen financial regulation; to fund and reform the IFIs; to reject protectionism; and to build an inclusive, green and sustainable recovery. For China, the first three tasks have basically been accomplished. The other three must be done collectively by all participants. IFI reform might be the most important issue in the next summit, as G20 members have some common concepts. China's desire for more voting rights is understandable. The major members of the World Trade Organization (WTO) have agreed to conclude the Doha round of multilateral trade negotiations before the end of 2010. If this deadline is met, trade liberalisation will have made visible progress, serving as the best weapon against the rising protectionism.

Because China has benefited much from its WTO membership, and the economic downturn has demonstrated that the Chinese economy still depends heavily on foreign demand, China needs to take a more aggressive and accommodating stance in the coming negotiations, for instance, by offering more radical market-opening commitments in services and agriculture. On sustainable development, however, China is more defensive. The United States and the

> "In terms of its economic and political development, China is still a developing country"

European Union have proposed a carbon tariff, which China strongly opposes. For China, this proposal ignores the differences between developed and developing countries for the historical responsibility of climate change, as well as regarding their present levels of development. Here, China again has a strong sense of identity as a developing country.

Although it is excited by its acceptance as a major world power, China is not yet prepared to take a leading role in assuming responsibility for global prosperity. In terms of its economic and political development, it is still a developing country. China has therefore neither the capability nor the willingness to establish a new international system to replace the existing one. China, rather, uses the current system, while trying to change parts of it to sustain its own interests. This rising China is revisionist rather than revolutionary, and will help the recovery of the global economy and the reform of international economic order. ◆

# Pittsburgh – transforming ideas into reality

*By Diane Beynon Landers, Ph.D, RPA, Vice President and CMO GAI Consultants, Inc.*

Pittsburgh, PA is the former steel capital of the world where its three rivers were once a valued means of iron and steel transport. That is past – and nowhere is Pittsburgh's future more visible than along its riverfronts where former steel mill sites are being transformed into thriving public and private developments. One outstanding example, Summerset at Frick Park, demonstrates the rethinking of the rivers' role in the region. Through a creative partnership of the Pittsburgh Urban Redevelopment Authority, the City of Pittsburgh, Summerset Land Development Associates, local communities, professional firms, and GAI Consultants, a former steel mill slag dump along the Monongahela River is being transformed into Pittsburgh's largest and most noteworthy residential development since World War II.

Owned and operated for over 100 years as a disposal area for slag from local steel mills, the transformation of this 230-acre "lunar-like" landscape paved the way for the award-winning, $269 million, multi-phase development, featuring 713 diverse and lovely homes surrounded by common green spaces and shady walking trails. Benefits to new homeowners are obvious, but benefits to the City of Pittsburgh are far-reaching. Not only do Pittsburgh residents enjoy new housing, parks and recreational opportunities, but the city eliminated a potentially hazardous liability. Several environmental and cost benefits were realized as well. By reusing abandoned land through remediation, new land consumption and natural resources impacts were reduced from the start. Nine Mile Run, the last remaining free-flowing stream in the City of Pittsburgh, severely degraded by high alkaline seeps from the slag dump, was restored to a sustainable natural habitat for fish, vegetation, and wildlife. An innovative soil mixture was developed to stabilize and enhance the slopes which actually decreased waste while nourishing vegetation growth. And, by reusing on-site soils as a planting medium, rather than importing clean fill, thousands of dollars were saved. Upon completion, the new development is expected to generate $3.4 million annually in property and wage taxes to the City.

Summerset at Frick Park is a success story of a project that revitalized a Pittsburgh brownfield by being responsive to both community and environmental concerns. By engaging citizens in the engineering and environmental permitting process early on, public support was maximized. Commendations on the innovative and sustainable engineering solutions and community commitments have won Summerset at Frick Park the 2002 Award of Distinction Project of the Year by the Engineers Society of Western Pennsylvania; the 2003 Governor's Award for Environmental Excellence; and the 2003 Pennsylvania ACEC Diamond Award for Engineering Excellence. Commenting on the new development, the Pennsylvania Department of Environmental Protection stated, "It was truly visionary to acquire this site and establish an entirely new city neighborhood."

GAI Consultants is proud to be part of this collaborative effort as we partner with Pittsburgh and our local communities to "transform ideas into reality."

Transforming ideas into reality for over 50 years, GAI is a 650-person, award-winning, employee-owned, multi-disciplined engineering and environmental consulting firm serving our clients worldwide in the energy, transportation, real estate, water, municipal, government, institutional, and industrial markets from offices throughout the Northeast, Midwest, and Southeastern United States. More information about GAI Consultants is available at www.gaiconsultants.com/G-20.

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Sponsored feature

# Resilience to financial crises: Brazil and the new international scene

We live in a complex world, a statement that is hard to dispute and that the recent financial crisis has proven beyond any doubt. This world is characterized by economic integration, macroeconomic interdependence on an unprecedented scale and the emergence of economic powers from what not so long ago were called the "second world" and "third world". As it comes to financial markets, it is quite clearly a world of constant financial innovation and increasingly integrated financial markets.

This constant evolution and the consequent need for international coordination has given rise to new influential intergovernmental structures such as the G-20 and the Financial Stability Board. Long established institutions like the IMF and the World Bank are in the process of revising their practices and their own governance rules, and emerging countries are being admitted for the first time in numerous forums, not least the Basel Committee for Banking Supervision. The "level playing field" theme has reached the political domain.

As part of the response to the challenges we face in the financial arena, the world leaders have already shown a clear commitment to address the failures in the governance of financial institutions, to close loopholes in financial regulation and supervision and improve the infrastructure in important markets to make them more transparent and resilient to shocks. Systemically important banks, whose spillover effects in case of failure cannot be underestimated, now receive much more attention from supervisors and will face stricter prudential requirements. Finally, there's now wide agreement on the need both for convergence towards the effective implementation of international prudential regulatory and supervisory standards and for increased international cooperation among financial supervisors (and central banks) to deal with large cross-border institutions.

In Brazil, for the first time in many years we were able to weather the storm in the international scene with minimal damage, thanks to a responsible macroeconomic policy setting, to generally conservative financial regulation and effective supervision and also to the prompt response in terms of providing liquidity to financial markets, extending the coverage limit of deposit guarantees from US $30,000 to US $10 million per client and temporarily covering faltering trade lines. We also took an anti-cyclical stance in fiscal and monetary policies.

The initial conditions of the Brazilian financial system were indeed quite strong. Banks were not exposed to impaired assets abroad and had built up strong capital buffers in recent years. Furthermore, both the overall minimum capital requirement (11% of risk weighted assets) and specific capital requirements for market risk are higher than the international standard, and loan loss provisions take into account expected losses. A liquidity buffer in the form of high reserve requirements also allowed the Central Bank to rapidly release US $50 billion to the banking system. Part of the reduction in such requirements for the bigger banks was conditional on their purchase of loans, so directing existing liquidity to smaller banks.

On a more structural level, all financial institutions are regulated and supervised by federal authorities, and the results of monitoring capital adequacy, market liquidity, as well as system wide implications of the bank stress tests are all communicated to the public through biannual stability reports.

As the more acute effects of the crisis fade and confidence returns, capital adequacy ratios and profitability levels have returned to their previous levels, and banks' capacity to extend credit was preserved. Our latest stress testing exercise indicated that the banking system would be able to weather an extreme scenario in which the aggregate non performing loans ratio would rise to about 12 percent (close to the maximum observed over the last 20 years) without threatening financial stability. Reserve requirements, though reduced, still represent a sizeable buffer against an eventual liquidity squeeze.

In the macroeconomic front, international reserves, at US $219 billion, are already higher than before the crisis and fiscal results remain positive. Fiscal surplus in the 12 months ending in July 2009 still correspond to 1.76% of GDP.

The relatively positive scenario for Brazil doesn't imply that all is done in terms of prudential regulation and supervisory practices. We continue to develop our program of implementation of the Basel II Accord, down to the more advanced approaches, and to converge to the international financial reporting standard, and will soon conduct a self-assessment to test the adherence of current licensing, regulation and supervision practices to Basel Committee principles and recommendations.

Besides that, the active participation of Brazil in international fora of discussion on financial matters only strengthens our commitment to global regulatory standards and will facilitate the revision and improvement of our own practices. We applaud the initiatives to ensure that national authorities implement current international standards and codes in a consistent way, through the actions of the FSB, with the support of international financial institutions, in conducting peer reviews and creating incentives to foster adherence to the standards.

We also resolutely support the agenda of improving risk capture in prudential requirements, reducing procyclicality of financial markets, redefining the incentive structure for the financial industry so as to reduce the probability of future major crises and limiting the damage of financial turmoils to the overall economy.

All this should be done without losing sight of the need to avoid protectionist practices and to preserve a space for financial innovation. Regulatory reform, though essential, should be considered in all necessary detail and carefully phase-in as the global economy recovers. Another caveat, this one related to the thorny issue of cross-border banks, is that, before a much higher level of coordination among financial supervisors in different jurisdictions is achieved, national authorities should retain the right to establish the required levels of capital, liquidity and other prudential requirements for institutions for which they are ultimately responsible.

In the case of Brazil, the recent experience clearly shows that responsible public policy in financial matters greatly exceeds the costs. In the international scene, political leaders and policy makers are now on their way to substantially improve prudential standards and international cooperation in financial supervision and to bring the international community to implement and maintain those high standards. If the past is any guide and our modest experience can be taken as an illustration, the next time the world faces clouded skies, we'll be better prepared.

# Regulating the banks: next steps

*While the worst of the global economic crisis may be over, has it left regulators overly nervous and too keen to constrain?*

**By** Paolo Savona, professor emeritus, geopolitical economy, and economic adviser, Associazione Guido Carli

The world economy has begun to recover, but the lingering effects of the crisis are still with us in the form of growing unemployment and mounting bad debts on banks' books, which heighten the markets' perception of risk more than real risk itself.

Having made unconventional use of available monetary and fiscal policy tools, authorities now insist on the need for an exit strategy, a way out of the excesses of liquidity and the budget deficits that have been created. The revision of financial regulation is also proceeding, with a view to preventing the recurrence of grave episodes of mismanaged savings, circumvention of rules regarding tax havens, abusive conduct by managers and excessive leverage of households and savings intermediaries.

In this area, the United States and many other countries have proceeded on their own or – considering the modest scale of the decisions actually taken – have at least given the impression of going it alone. However, the G8 summit in L'Aquila in July 2009 called for future actions to be guided by 12 principles developed by the Organisation for Economic Co-operation and Development (OECD) in cooperation with Italy's Ministry for the Economy and Finance, which has rechristened them the Global Legal Standard.

> "Economic history shows that financial crises arising from speculation are the norm for market economies, not the exception"

The key points of this new financial governance – encapsulated in the terms transparency, integrity and ethical conduct – have been entrusted to the G20 at their summit in Pittsburgh. The G20 will verify their incorporation into the decisions taken at the national level and, if the extent of their application is still insufficient to govern world financial trading, will press for their adoption as global standards.

On transparency, the advances achieved are more visible in the behaviour of authorities and markets than in new regulations. Up to now, the regulatory void has been filled mainly by stress-testing banks in the US, whose lead has been followed by a few other countries, and the greater alertness of authorities, banks (taken to mean institutions that manage savings and credit in every form), firms and savers.

This is so partly because the largest institutions in the sector are using every means at their disposal to resist new and more incisive regulation, since they hope to run their own business with their hands free of constraint – just what led to the present situation.

This reaction may be understandable on the part of those few that take risks with their own funds, but it is not on the part of the vast majority that manage people's savings.

The aversion to new regulations extends even to over-the-counter (OTC) derivatives. Some still refuse to see that in certain forms, OTC derivatives are substitutes for money demanded for speculative purposes and are more likely to engender risks rather than to properly manage risks or distribute them among market participants with different risk appetites.

These aspects are now cloaked by a veil that, with the decline in activity in this segment of the financial market, obscures its desire to resume business as before – which is already happening in the form of financial parthenogenesis (i.e., finance that creates itself), not as an ancillary activity to real growth.

Under the heading of integrity – with securities maintaining the promises inscribed in them, from the rate of return to the value of the principal – progress is nearly nil. Economic history shows that financial crises arising from speculation are the norm for market economies, not the exception. They

World leaders at the G8 summit in L'Aquila called for new financial governance to be developed by the OECD in cooperation with Italy's Ministry for the Economy and Finance

can be prevented not by law but only by appropriate economic policy management adopting the objective of financial stability.

Financial stability suggests the protection of savers and requires monetary and fiscal policy action guided by utility functions. This is quite different from the current division of tasks, whereby monetary policy's mandate consists of curbing inflation and, in the case of some central banks, fostering economic growth. It is up to fiscal policy to ensure growth, fair income distribution and employment.

As to ethical conduct, if this expression means conduct consistent with a professional code of ethics or accountability to stakeholders, such behaviour can never be imposed by law, but only by the control exercised, broadly speaking, by the community or by public opinion and, in a strict sense, by the effective owners (whether shareholders or not).

Ethical conduct can be attained when operators assimilate the values of professional correctness and an awareness of the duties of membership in a civil society. What the rules must do is avoid fostering the belief on the part of savers that the state will protect them: governmental protection is possible only on a limited scale and for specific asset classes, such as bank deposits and government securities.

The assumption of greater responsibility must not be limited to private managers and public overseers, but must also involve savers, whose duty it is to improve their financial literacy. For these reasons, it would be useful if the Pittsburgh Summit transformed the commitment to foster ethics in finance to raise the level of financial education and culture of the planet's inhabitants.

“It is up to fiscal policy to ensure growth, fair income distribution and employment”

The G8's L'Aquila Summit did not address the issue of the consistency between the growth of sovereign wealth funds and the quest for efficiency characteristic of the free market. Nor did it discuss the expansion of Islamic finance. The latter is gaining ground (and consensus), even in major financial centres, presenting itself as more ethical and higher in integrity than western finance, despite its substantial deficit of transparency and obscure expression of integrity.

The framework of the Global Legal Standard cannot be completed today without considering these two aspects of the global financial problem. By the same token, it seems contradictory to seek new financial governance without addressing the problem of the role of an international reserve currency, performed by the dollar, in the presence of an enormous US external account deficit, and in the absence of a common exchange rate regime for all the countries that participate in world trade. ◆

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# Towards greater global responsibility in financial reforms

*By Dr. Zeti Akhtar Aziz, Governor Bank Negara Malaysia*

As the world becomes increasingly more interdependent, global responsibility becomes inherently important, given the far reaching implications that developments in one part of the world can have on other parts of the world. While there has already been progress achieved in garnering consensus on global responsibility in the area of the environment and sustainable development, equally urgent now is the global responsibility in the agenda for reform of the international financial system. This is in view of the even greater interdependence, arising from the stronger interlinkages between national financial systems and the more rapid pace at which the contagion occurs. Global considerations are therefore imperative if we are to achieve a shared global prosperity.

In relation to this, the financial regulatory reform in the aftermath of the global financial crisis of 2007 must be accompanied with such global responsibility. Given the highly complex nature of the international financial system and the very diverse global environment, several considerations need to be taken into account. Firstly, the approach adopted needs to be comprehensive. The regulatory reform needs to be accompanied by the strengthening of the global international financial system that includes the development of the international financial infrastructure and financial markets. It also needs to include strengthening of the institutions including the multi-lateral institutions, given that the environment in which they operate has been dramatically transformed with new risks and challenges. This is essential to ensure the effectiveness of the regulatory reform.

*"While there has already been progress achieved in garnering consensus on global responsibility in the area of the environment and sustainable development, equally urgent now is the global responsibility in the agenda for reform of the international financial system"*

Similar efforts need to be taken by emerging economies if there is to be effective participation in the international financial system. A more inclusive international financial system would therefore need to facilitate such participation without resulting in the risk of being marginalised, vulnerable to instability, or prone to frequent financial crisis. On the international front, it would need an enabling international infrastructure, while on the domestic front it would require a more developed and strengthened domestic financial system that has the capacity to absorb and manage the risks associated with a more deregulated and liberalised environment.

A third element in the regulatory reform is to ensure its consistent application to similar financial centres across the globe. The uneven application of regulatory standards will incentivise migration to those less regulated jurisdictions. Failing to take this into consideration may prompt global shifts in activities that gravitate towards such jurisdictions. This would in turn encourage increased risk taking. Such developments would raise the prospect of financial instability in the surrounding region that could spread to the overall global financial system.

While reforms in the approaches and calibration of financial regulation and supervision are clearly needed to produce a financial system that is stronger and more resilient to system-wide risks and stresses, all too often, the global standards and conventions are developed and imposed on national economies even before their robustness have been tested. Furthermore, when

such standards are applied to emerging markets, it may not reflect the inherent risks in these markets. With clarity of the objectives of the regulatory frameworks and structures, flexibility can be accorded to take into account the stage of development and mitigating factors that prevail in the individual economies.

Many of the prescriptions and conventions in the advanced economies have at times been directly or indirectly, imposed as models to be adopted by the rest of the world. These include supervisory structures, the extent of the role of market discipline and the approaches to deregulation and liberalisation. During the Asian financial crisis for example, the Asian countries were encouraged to establish a supervisory authority that was separate from the Central Bank. Several of these models and conventions have now been shown to be deficient and are being fundamentally re-examined. The sharp and major regulatory shifts can themselves create great uncertainty and instability, with high consequential costs to the system.

The formulation of international regulatory standards moving forward need to specify the pre-conditions to ensure the full objectives of the regulations are achieved. This will also create greater awareness and understanding on the approach taken by countries adopting the international standards or the modifications that need to be made to suit the different environment.

Turning now to Asia. Asia now and Asia previously is significantly different. Asia represents a region that has transitioned to a more competitive environment with greater market orientation while achieving a higher degree of resilience. While Asia has indeed been affected by this current international financial crisis, the impact has not been on the financial sector but on the real sector, arising from the contraction in world trade. Asia is, in fact, now seeing the significant payoffs from the financial reforms, institutional development and the strengthening of the financial infrastructure that has been undertaken in this recent decade. While financial markets have been volatile, financial intermediation has not been interrupted. Credit flows have continued to support the domestic economy. In addition, the capital buffers of the financial systems in the region are significant, allowing for the capacity to absorb further economic shocks.

Malaysia is a country that has taken advantage of this recent decade of strong growth to aggressively develop and reform our financial system and to strengthen our regulatory and supervisory oversight. With these preconditions in place, this crisis has not discouraged a significant liberalisation of our financial system during the course of this year.

In the Asian region, the large monetary and fiscal stimulus implemented is also supporting domestic demand, and is expected to intensify further the intra-regional trade. In addition, the region's households and firms are not over-leveraged and Asia's external position continues to remain strong.

Asia has also made significant strides in the area of regional cooperation. During the Asian Financial Crisis, responses by affected countries in the region were largely uncoordinated, with limited cooperation between countries. Today, extensive cooperation and collaborative mechanisms are already in place in areas of regional surveillance, regional institutional arrangements and financial crisis containment, management and resolution.

*"Asia has also made significant strides in the area of regional cooperation"*

Further cooperative efforts in the development of regional financial markets and the further strengthening of the mutual liquidity support mechanisms have also now been put in place to deal with any emerging financial crisis.

The global economic landscape that will confront Asia in the next few years will however be fundamentally different. Structural adjustments in the advanced economies will result in a prolonged period of slower global growth, and in turn, weaker global trade and external finance. Asia recognises that we can no longer be over dependent on exports to drive our growth, particularly exports that rely on the final demand from advanced economies. Going forward, new strategies and new economic models need to be developed. While Asian countries have individually established policies that would encourage a greater role for domestic demand, the cumulative regional market supports the growing intra-regional trade.

A global shift is thus taking place that is resulting in an increasingly multi-polar world. In this new phase of globalisation, the concentration of economic power within the global economy will become more dispersed. Asia is very much a part of this new future that is emerging. As a group of highly diverse economies, it increases the potentials for complementarities. Moving forward, the key structural changes taking place in Asia – including the strengthening of the domestic demand, the development of regional financial markets, the greater regional financial integration and cooperation – will not only contribute towards unlocking Asia's full potential in the global economy but will also contribute to a more balanced global growth and global financial stability.

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# Pay, risk and stewardship for future capital markets

*While reform of the financial regulatory system is constantly in the spotlight, private sector reform initiatives have been largely ignored*

***Edited by*** Stephen Davis, Millstein Center for Corporate Governance and Performance, Yale University

The recent financial crisis has revealed a massive failure of institutions that populate the world's capital markets. Banks, investors, ratings agencies, regulators and numerous other players demonstrated that confidence in market responses was misplaced. The loss of faith in capital market institutions has represented a significant hurdle to recovery as financial institutions continue to be wary of one another, and the public is wary of all of them.

Restoring trust in the system requires two distinct pillars of reform. The first pillar, reform of the financial regulatory system, both nationally and globally, has received most of the attention so far. Many organisations, such as the G20, the Organisation for Economic Co-operation and Development, the United States Treasury, professional bodies, universities and free-standing think tanks, are assessing proposed reforms of laws and regulations, new roles of regulatory agencies, changes in the supervisory process and the potential need for a unified and overarching international regulatory system.

The second pillar, reform initiatives and actions by the private sector for the private sector, has been largely ignored to date, as faith in these institutions has been shaken. However, trust in capital markets cannot be restored without the action of private sector institutions. The crisis exposed multiple flaws in the existing system, from the apparent inability of boards of directors to manage risk to compensation and incentive systems that many suggest may have exacerbated risk, to the poor stewardship of institutional investors. Each of these flaws must be taken seriously and addressed thoughtfully.

A significant underlying cause of the current financial crisis is a massive failure of risk management and oversight. Regulators failed to detect the risks, as did the boards and internal control systems of financial firms, not least due to significant incentives for attaining ever-growing returns in the short term. The recent risk-taking spree was not limited to financial institutions, but was instead embedded widely in corporate and social culture. Future improvement of risk management systems and oversight practices requires addressing several issues: the definition of risk for risk management and oversight purposes; the appropriate division of responsibilities among boards, management and risk officers; the use of risk models; the role of risk managers and the chief risk officer; and the oversight function of the board of directors. While this crisis originated in the financial industry, it offers a cautionary tale and important lessons for companies in all sectors of the economy about the perils of focusing exclusively on upside potential without due regard for the risks involved.

The main risk-related principles are as follows:

- Risk is part and parcel of business activity.
- Effective risk management requires an iterative

Existing compensation structures have encouraged risk-taking. In June 2009, US treasury secretary Timothy Geithner (second from left) met with Securities and Exchange Commission chair Mary Schapiro (left), Federal Deposit Insurance Corporation chair Sheila Bair, economic adviser Lawrence Summers and other leading executive compensation experts to discuss the need to reform compensation policies

process between management and the board of directors.

- It is the board's responsibility to set the company's risk appetite.
- It is the board's responsibility to oversee management's creation and execution of the risk management process.
- Both director independence and in-depth industry knowledge are essential to ensure adequate risk oversight by the board.
- Risk management units should have sufficient clout, independence and access to resources.
- Risk officers should focus on events or occurrences that can have a catastrophic or, at least, significant impact on the company.
- Risk models are a tool, not a crutch.
- Risk management should be kept separate from compliance functions.
- Risk should be managed primarily to the benefit of shareowners.
- Risk management and oversight after the crisis is an issue that needs increased attention.

Risk management deficiencies alone do not explain the reckless behaviour of financial institutions that ultimately led to the debacles of the past year. The existing compensation structures encouraged, often inadvertently, a substantial amount of risk-taking behaviour for short-term corporate profit. Consequently, superior risk management and oversight inevitably requires a re-evaluation of executive compensation practices. This includes the objectives of executive compensation, the relevance of pay equity considerations, the incentive structure of compensation packages, the role of compensation consultants and the importance of board accountability to shareowners for executive pay decisions. To render executive remuneration practices consistent with the goal of long-term value creation, the following measures are appropriate:

- Internal pay equity should be an important item on the board's agenda.
- The goal of executive pay should be to compensate and incentivise executives for their contribution to long-term value creation.
- Pay-for-performance arrangements must reflect executive contributions to actual performance due to factors that are within an individual's control, not general market movements.
- Boards should approach pay decisions as an element of risk to the organisation.
- Restricted stock grants are the preferable form of incentive compensation.
- Pay caps are not a sustainable solution for executive pay reform.
- Companies should expand the availability of 'clawbacks with teeth', which allow them to recover performance payments based on artificial results, fraudulent or otherwise.
- Compensation committees should hire their own compensation consultants and be mindful of their independence.
- The focus and expertise of the compensation committee are critical, but the whole board should be ultimately responsible for executive pay decisions.
- Greater board accountability to shareholders is essential to improve executive compensation practices.

Shareowners must also look at themselves and assess the extent to which they fell short in fulfilling their responsibilities as owners of the enterprise and allowed, or even encouraged, companies to take massive amounts of risk, ultimately leading to collapse.

Shareowner stewardship involves the role and responsibilities of shareowners as the constituency that ultimately elects and holds boards accountable, with a focus on the various structural impediments that have prevented effective shareowner stewardship. Issues include the influence of the internal governance of institutional investors on their ability to act as responsible owners, the deficiencies in composition and operation of fund oversight boards, the role of short-termism in thwarting shareholder monitoring and engagement efforts, the importance of transparency and accountability to the ultimate fund beneficiaries, and the need to overcome collective action hurdles to shareowner stewardship. Recommendations are as follows:

- There is a clear need to stimulate and disseminate further research and case studies that explore the correlation between fund governance and fund performance.
- Trustee or oversight boards should be composed of members skilled both in fund issues and board dynamics.
- Trustees or fiduciaries should meet skill requirements and undertake trustee training, continuing education and perhaps certification.
- Fund trustees or fiduciaries should ensure that job descriptions for the chief investment officer and fund CEO include understanding and appreciation of environmental, social and governance risks in investment portfolios.
- Funds should be held to as high a standard of accountability as they ask of portfolio companies.
- Federal and state/provincial governments, where appropriate, need to step in with legislation or regulation to produce market-wide standards of transparency and accountability among funds.
- Collective investment groups should consider two new missions: coordinating shareowner activism at specific portfolio companies by identifying a key member fund to serve as lead in each case, and identifying and training or certifying members of fund trustee or oversight boards.
- Fund scrutiny can be advanced by grassroots scheme members using social networking tools.
- Strong consideration must be given at the public policy level to the structure of retirement savings, and whether such savings should be directed into fewer, more concentrated, non-profit fund pools instead of the for-profit 401(k) defined contribution model used in the United States. ◆

*This article is drawn from* Pay, Risk and Stewardship: Private Sector Architecture for Future Capital Markets, *Policy Briefing No. 5, available at http://millstein.som.yale.edu/ and containing a more detailed list of policy recommendations.*

“While this crisis originated in the financial industry, it offers a cautionary tale for companies in all sectors of the economy”

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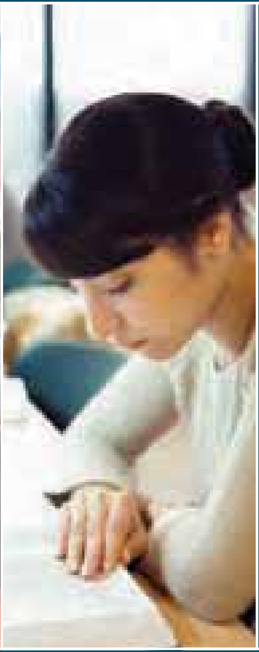

Another area in which independent ratings can play an important role is securitization and the benefits it can bring to the economy as a whole. Mortgages, student loans, car payments and other debt are pooled and sold to create new investment resources. This helps individuals to tap the global capital markets for money they need for college, to buy a car or start a business. It helps micro-financing of small businesses in developing countries.

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# Rating credit responsibly

*The answer to successfully regulating the ratings agencies is surely to reduce their role and open up the market?*

**By** Anthony Hilton, financial editor, London *Evening Standard*

The head of one of the big investment banks once explained the economics of derivatives based on subprime debt in the following terms. "We buy a package of debt for 90 cents. We spend two cents having it rated and three cents having it insured and we can then sell it for 100. Why wouldn't we do it?"

Now that the world has been brought to its knees by the implosion of the derivatives based on sub-prime debt, that banker has an answer as to why it was not such a good idea. But his analysis remains useful because it shows how central to the whole process the role of the rating agencies was. It was their willingness to express an opinion on the investment quality of those derivative securities that allowed them to be sold. Investors around the world did not really understand what was inside these complex products and therefore did not understand the risks. But they took the view that if the rating agencies said these financial products were safe, then that was good enough for them.

However, when some months later the losses on these products began to mount, these same investors naturally felt betrayed. The rating agencies that for a generation had been among the humdrum, little-noticed, back-office artisans of the financial world now found themselves in an uncomfortable spotlight. They were blamed for giving their seal of approval to products they did not fully understand. They were accused of conflicts of interest. There were widespread demands that new rules should be brought into being to prevent such mistakes in the future.

In truth it was as much the investors' fault as that of the rating agencies, insofar as the latter never gave a view on the marketability or liquidity of securities or the distortions in price that follow if liquidity dries up. Much of the plunge in prices was caused by a loss of liquidity, not default. For this the rating agencies should not really be blamed.

Thus it is that the humble rating agencies come to be on the agenda for the Pittsburgh G20 Summit – a public profile that would have been inconceivable for them even a few months ago.

> Much of the plunge in prices was caused by a loss of liquidity, not default. For this the rating agencies should not really be blamed


This does, however, reflect the complexity of what they do, the limited understanding even now of their role within the system, and the fact that no two agencies are alike in their processes and objectives and that no one feels the proposals outlined so far have cracked the problem.

The first, most obvious difficulty is conflict of interest. The rating agencies are paid not by the investor or the government but by the company issuing the debt or the investment bank packaging the derivative. This does not mean that rating agencies simply do what their paymasters tell them – they would lose all credibility if they did. But it does mean that the links between the two are unhealthily close in that the rating agencies were willing to advise the banks on how the products could be structured to get the best possible rating.

Clearly this form of payment is unsatisfactory. The problem is what to put in its place, as investors are not willing to pay the rating agencies directly. One

answer the G20 could consider would be to insert an intermediary into the process so that the issuer pays the intermediary and the intermediary then pays the rating agency.

This halfway house would seem to be preferable to alternative proposals that suggest, in effect, that rating agencies be nationalised and the rating of debt becomes a public service. This would probably work in the short term, but problems would emerge quite quickly. One is that debt is an international market, and inevitably the credibility of one government's rating apparatus would be less robust than that of another. It would follow that the AA rating issued by one country might be less stringent than the AA rating issued by another. This would damage the credibility of the process and lead to rating arbitrage – where issuers shop around for the softest jurisdiction – for the simple reason that the higher the rating the more cheaply they can issue the debt.

All ratings agencies were originally authorised by the US Securities and Exchange Commission. The G20 could address the issue of monopoly and consider using an international agency

> These are international markets and they need an international agency

Another problem that the G20 could address is that of monopoly. There are currently only a handful of agencies, all of which were originally authorised by the United States Securities and Exchange Commission (SEC). Although the agencies compete with each other, there is no competition in the accepted sense. Rather, there is what is often called 'group think' – the agencies all approach the task in similar ways. This delivers some interesting effects. A Standard and Poor's rating claims just to address the possibility of default while a Moody's rating assesses default and the amount of loss that will result from that default. Yet while they measure two different things, the two firms almost always give equal ranking to the same debt instrument. This suggests that, rather than being objective and competitive, they keep an unhealthy eye on what the other is doing, on the basis that if one appeared much tougher than the other it might lose all its business.

The answer surely is to open the market to many more firms, and to take the responsibility for their authorisation away from the SEC and give it perhaps to an international agency. But it is an open question whether the Americans would ever agree to this. The American financial markets remain the most powerful in the world and the Americans typically refuse to recognise any regulatory authority other than their own. However, these are international markets and they need an international agency.

Another issue the G20 could address is what it is seeking to regulate. Is it concerned with the right of the agency to exist, an insistence that its people are properly qualified and that it manages properly the conflicts of interest outlined above? Or is it concerned purely with the method of regulation – the process involved and what the rating actually means?

If it is the latter, might the G20 have a role in mapping out an objective and common standard to measure credit risk and let the agencies map their ratings on this scale? While it is at it, the G20 might also address the philosophical question of whether it is wise to have ratings play such a central part in the regulatory system and in particular as the determining factor in the calculation of bank capital. This gives ratings an importance in the system that is far beyond the original intentions of those who designed it. It is inevitable that when something is stretched to such an extent, it becomes distorted. The long-term answer surely is to reduce their role and restore them to their original purpose as a guideline to quality, not a guarantee. ◆

# The evolving regulatory landscape for rating agencies

One important purpose of credit rating agencies ("CRAs") is to help reduce information asymmetry between borrowers and lenders. They accomplish this role by providing opinions on the future creditworthiness of debt issuers and debt instruments. Despite this limited role, over time credit ratings have become tools used by market participants and regulators for wide-ranging purposes. Why has this occurred?

Certain attributes of credit ratings have encouraged their use for a variety of additional regulatory and market-based purposes.[1] One of the most important of these attributes is that ratings apply to a large, diverse group of entities and debt instruments, allowing users to compare and contrast debt issuers and instruments across regions, sectors and industries. We believe that, by facilitating comparability regarding credit risk, ratings have served the market well and helped cross-border investment and economic growth.

While we remain proud of our 100 year track record, Moody's is well aware of the loss of confidence in the credit ratings industry, driven in large measure by the recent performance of ratings for U.S. residential mortgage backed securities and related collateralized debt obligations. To address these concerns, we have undertaken a number of initiatives to enhance the quality, independence and transparency of our ratings.[2] We recognize that more can be done. We continue working to identify appropriate changes by actively communicating with market participants and authorities to understand and address their concerns and recommendations. However, our ability to achieve reforms depends to some extent on the regulatory landscape in which we operate.

### Risk of diverging rules: regionalization of the CRA industry

> *Regulation is first and foremost the responsibility of national regulators who constitute the first line of defense against market instability. However, our financial markets are global in scope, therefore, intensified international cooperation among regulators and strengthening of international standards, where necessary, and their consistent implementation is necessary to protect against adverse cross-border, regional and global developments affecting international financial stability.*
>
> **G-20 Declaration, November 2008**

In their April 2009 Declaration, the G-20 members committed to adopting registration systems for CRAs by the end of 2009. Importantly, the G-20 agreed that countries should base their systems on the International Organization of Securities Commissions ("IOSCO") Code of Conduct Fundamentals for CRAs ("Code"). We fully support this approach because we believe that the IOSCO Code has created a common language used by regulators, CRAs and market participants around the world.

As national authorities work diligently to adhere to the G-20's timeline, however, regulatory variations are emerging. Some of these variations strike at the core of CRAs' role in the financial system, including:

- **Global ratings comparability.** Some jurisdictions are imposing internal governance requirements that may result in each large office having to act as a separate CRA, while others are requiring CRAs to apply the same policies and procedures on a globally consistent basis;

- **Use of ratings in regulation.** Some jurisdictions seek to limit reliance on CRAs, while others seem to be increasing reliance by using CRAs to address wider disclosure issues, or as a means of prohibiting or restraining issuance of complex or new securities.

Moody's supports the G-20's position on "enhancing sound regulation",[3] and we believe it is appropriate to align regulatory oversight with market activity. However, to the extent that rules diverge in significant ways from country to country, they will affect the consistency both of CRA operations and the use of credit ratings. Such outcomes, in turn, may negatively impact the broader markets by reducing the availability of comparable information across national borders, creating opportunities for regulatory arbitrage, and, ultimately, undermining investor confidence.

### Additional areas for constructive change

As noted above, Moody's believes that appropriately crafted regulation is crucial to restoring confidence to the markets. With respect to the CRA industry, the G-20's leadership has led to important progress. Its endorsement of IOSCO's Code could promote convergence in oversight regimes along a common understanding of the role of ratings in the capital markets. There are, however, additional areas for constructive change that authorities may wish to consider on a coordinated basis.

1. **Address rating shopping.** Rating shopping, most prevalent in structured finance, is a harmful practice engaged in by issuers. We suggest two measures for consideration.
   a. **Enhance public disclosure of underlying information by issuers.** More extensive, mandatory public disclosure by structured finance issuers will mitigate the adverse effects of rating shopping by enabling investors, and other parties including CRAs who have not been asked to rate the transaction, to form their own independent view of the security.
   b. **Encourage unsolicited ratings.** Presently, there is no consensus among regulators on the benefits of unsolicited ratings. Some jurisdictions ban them, others hold that unsolicited ratings are insufficiently reliable because they do not have the benefit of issuer participation, while still others seek to promote unsolicited ratings. In our view, unsolicited ratings are useful (assuming sufficient public information disclosure to support credible analysis), increase the level of dialogue in the market about specific securities and mitigate the negative effects of rating shopping.

[1] These include: public dissemination; a simple to understand and use rating symbol system; objectivity and independence; judicious rating process; and predictive content.
[2] Please see our updates on *Strengthening Analytical Quality and Transparency*, which we began publishing in August 2008 and continue to update periodically.
[3] See generally, G-20 Declaration, November 2008.

2. **Promote healthy competition among CRAs**
   a. **Protect independence to facilitate diversity of opinion.** Most, if not all, policymakers recognize the need to preserve CRAs' independence. However, some policymakers have proposed "quality control" measures that intrude into ratings content and methodologies. Such measures can steer CRAs toward government-approved opinions. We believe that regulatory change should clearly and unequivocally protect CRA independence so that CRAs can have different views on the same security and compete against one another based on the quality and usefulness of their opinions.
   b. **Allow side-by-side comparisons of all CRAs' rating performance.** In our view, the market would benefit from a single regime about disclosure of ratings performance and track records for all CRAs in the market. In particular, we expect that authorities and market participants are interested in comparing the aggregate performance of issuer-paid ratings to the performance of non-issuer-paid ratings (including subscriber-paid ratings). An absence of uniformity in regulatory approach and a corresponding lack of transparency regarding the performance of non-issuer paid ratings is likely to impede, rather than promote, quality-based competition.

**Conclusion**

If 2008 marked the year when the international community saw a significant loss of confidence in the capital markets, the next several years will be evolutionary in nature. Changes will be put in place to attempt to restore that confidence. The way that markets work, the rules by which market participants engage and the mechanisms through which they operate will likely be notably different in the future from how they have been for the past half-century or more. The range of measures that various market participants and authorities have been taking will play a key part in determining the regulatory environment.

Fragmentation of financial regulation is, however, increasingly a threat to achieving the G-20's goals. This thesis is demonstrated within the CRA industry, where policy action has been active, but where implementation of rules at primarily national and/or regional levels is introducing inconsistencies. These divergences, in turn, may result in negative consequences not only for CRAs, but more importantly for the capital markets. At Moody's, we fully support the G-20's action plan to bring about a modernized and globally consistent system, and we are committed to being a constructive part of the international dialogue.

# G20 Research Group

**Munk Centre for International Studies**
**at Trinity College in the University of Toronto**

The G20 Research Group is a global network of scholars, students and professionals in the academic, research, media, business, non-governmental and governmental communities, who follow the work of the G20 finance ministers and central bank governors and the G20 leaders. Its mission is to serve as the world's leading independent source of information, analysis and research on the G20. The G20 Research Group is managed from the Munk Centre for International Studies at Trinity College in the University of Toronto, also the home of the G8 Research Group.

## The G20 Information Centre (www.g20.utoronto.ca)

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

## Books on the G20, G8 and Related Issues, from Ashgate at ashgate.com

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***Governing Global Derivatives***, Chiara Oldani (Global Finance series)

***Governing Global Banking***, Duncan Wood (Global Finance series)

***The G8 against Transnational Organized Crime***, Amandine Scherrer (Global Finance series)

***Sustaining Global Growth and Development***, Michele Fratianni, Paolo Savona and John Kirton, eds. (Global Finance series)

***Financing Development***, Michele Fratianni, John Kirton and Paolo Savona, eds. (Global Finance series)

***The New Economic Diplomacy*** (2nd edition), Nicholas Bayne and Stephen Woolcock (Global Finance series)

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The central counterparty model follows the recommendations of the G8 finance ministers' meeting in Lecce, Italy, in June 2009

# Dealing with derivatives

*Enhanced transparency and best business practices are key to preventing another financial meltdown*

**By** Chiara Oldani, professor of economics, University of Viterbo 'La Tuscia'; director of research, Assonebb

The G20's London Summit in April 2009 dealt with explicitly strengthening the financial system by expanding the mandate of the Financial Stability Board and by underlining the need for substantial international cooperation on regulation, supervision and monitoring.

To address the financial instability experienced since 2007, the London Summit promoted the establishment of a centralised clearinghouse for over-the-counter OTC derivatives, particularly those of the credit default (CD) type. A global clearinghouse (GCH) would contribute to smoothing excessive credit risks, especially those borne by un-hedged institutions lacking adequate capitalisation and liquidity, which can represent a real danger in case of a market squeeze.

European countries have supported the proposed GCH in the de Larosière Report, issued by the European Union's high-level working group on financial supervision in February 2009. The report asked not only for a European GCH but also for a more comprehensive risk management and warning system in a highly coordinated institutional framework. Those changes should come with the revised criteria of the Basel II Accord, which have proven to be procyclical and have forced governments to rescue banks and financial intermediaries to the detriment of taxpayers. In July 2009, the European Commission stated that in order to ensure a safe, efficient and sound derivatives market, the preferred model of a central counterparty (CCP) would be introduced in Europe by the end of 2009. This model introduces a centralised body that acts as counterpart in each transaction. Incentives to "dismantle any commercial hesitation to take up CCP clearing wherever possible" will be introduced at a European regulatory level.

The CCP constitutes a form of mutual insurance with mutual defences. Because it collects and manages collateral and serves as central guarantor, focused only on managing risks with multiple layers of protection, it simplifies the process and renders it safer. These advantages come at a cost to participants,

> "The London Summit promoted the establishment of a centralised clearinghouse for over-the-counter derivatives"

**Table 1: Amount outstanding of OTC derivatives, end of December 2008 (millions of US$)**

| Risk category/instrument | Notional amount | Gross market value |
|---|---|---|
| Foreign exchange | 49,753 | 3,917 |
| Interest rate | 418,678 | 18,420 |
| Equity linked | 6,494 | 1,113 |
| Commodity | 4,427 | 955 |
| Credit default | 41,868 | 5,652 |
| Total | 591,963 | 33,889 |

*Source: Bank for International Settlements Quarterly Review, June 2009*
*Total does not sum up because of unallocated amounts*

**Table 2: Commodity derivatives by instrument and type, end of December 2008 (millions of US$)**

| | Gold | Other precious metals (other than gold) | Other commodities |
|---|---|---|---|
| Gross market value | 64,691 | 17,886 | 872,590 |
| Notional amount outstanding | 394,906 | 111,109 | 3,921,069 |

*Source: Bank for International Settlements, Semi-annual Derivatives Statistics, May 2009*

and cannot be used for non-standardised contracts, where bilateral clearing applies.

The CCP follows the recommendations of the G8 finance ministers, plus officials from the EU and various international institutions, who met in Lecce, Italy, in June 2009. There, they discussed the need for stricter codes of conduct, paying particular attention to derivatives. Thus was born the Lecce Framework: "a set of common principles and standards governing the conduct of international business and finance".

The Lecce Framework states that excess volatility of commodity prices endangers growth. It seeks ways to improve the functioning and transparency of global commodity markets, including commodity derivative markets (see Table 1). The special attention paid to commodity derivatives is justified by their growth and speed, and by the macroeconomic implications caused by their mispricing and misuse.

Commodity derivatives reached a gross market value of $956 billion as of December 2008, of which $65 billion are gold and $18 billion other precious metals (see Table 2). If the notional amount of commodity contracts (which is never exchanged between parties) is added, the figure reaches $8 trillion. In relative terms, the commodity market represents less than 1 per cent of the global OTC derivatives market in the outstanding notional amount, and less than 3 per cent if based on gross market value.

Since June 2008 there has been a substantial drop of two thirds due to reduced appetite for risk in financial markets. Commodity prices, including precious metals, have also dropped severely. There are insufficient data available on commodity derivatives with respect to the trading of energy contracts (such as oil and electricity). However, the spikes in oil and natural gas prices experienced in 2007 and the soaring demand for energy by emerging countries – which will surpass that of the members of the Organisation for Economic Co-operation and Development in the coming five years – increase the need for hedging by market players. Energy derivatives contracts, as a special type of commodity, need better disclosure of data with respect to prices, underlying assets and counterparties involved at any stage.

The G20 should explicitly address this weakness in the global financial reporting system, because the wealth effect of energy consumption can have a significant impact on recovery, and because of the indirect effects from energy to production and then development. Moreover, the recent liquidity injection in the global economy raises inflationary concerns: such liquidity likely flows in OTC markets, and the resulting propagation of inflation should not go through unregulated financial tools, since standard inflation-fighting measures adopted by central banks and governments can be ineffective.

The Pittsburg Summit should make only well-capitalised intermediaries able to purchase commodity, energy and all non-financial underlying assets contracts. The massive injection of liquidity by the European Central Bank, the US Federal Reserve and the Bank of England since 2008 will trigger inflation in the following years. Those unable to hedge, notably households, need protection ex ante. Inflation represents the next challenge for the G20 policy makers after 2010.

"The best cure for the global financial crisis and reducing the likelihood of a new one is the effective limitations of the shadow banking system"

The best cure for the global financial crisis and reducing the likelihood of a new one is the effective limitations of the shadow banking system. It has been at the root of the financial meltdown because of its excessive counterparty risks and unbalanced portfolios. Financial deregulation has proved unable to balance risks. The decision by US president Barack Obama that hedge and all private funds should be registered with the Securities and Exchange Commission moves toward enhanced transparency and best business practices, which can restore confidence and promote growth in the very short run. ◆

# The Isle of Man – demonstrating leadership in international co-operation

The language of the public debate on taxation and financial regulation, with its crude categorisations of 'tax havens' and 'offshore centres', has tended to obscure the real distinctions between countries in terms of their compliance with global standards.

The misleading nature of such labels, often based solely on size and geography, is well demonstrated by the case of the Isle of Man, a small island nation that has long been at the forefront of international co-operation and collaboration.

A Crown Dependency situated at the centre of the British Isles, our Island is proud of its leading role in implementing and developing standards on tax and regulation. We recognised early on that working together in these areas is the best way forward for both our own community and for our international partners.

Since 2000 the Isle of Man has participated actively in the OECD Global Forum on Taxation, and worked in sub-groups of the forum that, for example, produced the model agreement on exchange of information on tax matters (commonly known as the TIEA) and the annual level playing field reports.

Our policy is one of demonstrable engagement, both in terms of developing new intellectual capital in relation to international tax co-operation and in building appropriate relationships with other countries underpinned by agreements based specifically on OECD standards of transparency and effective exchange of information for tax purposes.

As part of its programme of developing closer economic and taxation co-operation with other countries, the Isle of Man has concluded TIEAs with 15 countries, of which 13 are OECD members: the first being with the USA in 2002 and the most recent being signed on July 27, 2009, with New Zealand. In addition, the Isle of Man has during 2009 concluded comprehensive double taxation agreements with Estonia and Belgium. This network of agreements will continue to grow over the coming months and years.

In his budget statement on February 18, 2009, the Isle of Man Treasury Minister, Allan Bell, repeated the national policy, which has support in the Manx parliament and business community, in the following way:

"Our engagement with international organisations and with individual countries, coupled with our approach of combining actions with words and concluding tax co-operation agreements has positioned us well. The positive support of Tynwald [our parliament] for this approach makes our stance even stronger. We understand what is required of a country having a financial services centre and we deliver it."

Angel Gurría, Secretary-General of the OECD acknowledged in a speech given on October 21, 2008, that the Isle of Man was one of the finance centres actively negotiating tax agreements and making "most of the progress" in delivering standards in the areas of transparency and exchange of information. He went on to call from the OECD member countries for "a clear political recognition being given to those offshore financial centres that have made progress. The politicians in those jurisdictions have taken a high political risk. You need to show them that the choices that they made are the right ones…"

On April 2, 2009, the OECD published "a progress report on the jurisdictions surveyed by the OECD Global Forum in implementing the internationally agreed tax standard." The Isle of Man was listed in that report as one of the "jurisdictions that have substantially implemented the internationally agreed tax standard." Countries having this designation rapidly became known as being on the "white list".

Soon after, at a meeting of the OECD, the Isle of Man further demonstrated its willingness to align its policies with international benchmarks by announcing a new tax policy that will see the Island move fully to automatic exchange of information in its application of the European Union Savings Directive (EUSD).

The Isle of Man is continuing to forge new tax co-operation relationships, and recently contacted those member countries of the OECD, EU or G20 with which tax agreements are not yet in place, indicating its willingness to enter into negotiations aimed at concluding such agreements. In comparison to the major economies of the world represented in the OECD membership, the Isle of Man is tiny. Yet in the last eight years it has not only reformed most of its tax code, formed a well-respected treaty negotiation team and put in place a competent authority for the exchange of information, but it has also advocated its policies effectively and thus presented a distinct international identity in multinational forums and bilateral discussions with other countries.

In parallel to our internationally responsible approach to taxation, the Isle of Man is well established as a model country in terms of financial regulation, supervision and stability. The International Monetary Fund first gave the Island a clean bill of regulatory health in 2003, and has recently reviewed the Isle of Man again.

The Isle of Man's leadership in international engagement and in upholding high standards of financial regulation is reflected in its involvement with a major new initiative to help small countries respond to the global financial crisis.

The Island's Government has played a key role in developing the Small Countries Financial Management Programme in conjunction with the World Bank, the Small States Network for Economic Development and the Commonwealth Secretariat.

The programme, designed and run by Oxford University's Said Business School, held its inaugural session in the Isle of Man earlier this month (September 2009), attended by representatives from 30 small countries around the world.

The Isle of Man Government is pleased to share its expertise and resources in hosting this innovative education programme, which aims to strengthen the skills of government officials to foster a well-governed and regulated financial sector, conducive to the effective use of public funds, private sector investment and equitable economic growth.

Our Island has a long-term policy of positive involvement with international initiatives and of supporting international standards. It is our view that in this time of global economic turbulence such a responsible, co-operative approach is particularly relevant and vitally important.

All countries, large and small, face challenges in the current climate and all should be able to contribute to global solutions based on objective standards and fair, factual assessments. The Isle of Man looks forward to continuing to play its part in this process.

**Hon J A Brown MHK**
**Chief Minister**
**Isle of Man**

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# The challenges and contributions of offshore jurisdictions

*The Pittsburgh Summit provides an important opportunity for the G20 to work with offshore financial centres to tackle the issue of tax evasion*

**By** Denisse Rudich, Serum International

> It is estimated that the offshore economy amounts to between \$5 trillion and \$7 trillion

Offshore financial centres (OFCs) have taken the world by storm. OFCs are jurisdictions where the controllers and customers of registered corporations are non-resident and the majority of transactions are initiated from other territories. The transfer of funds from one virtual location to another cheaply, quickly and anonymously has facilitated the development of these centres. Many are located on small islands in the Caribbean and British Isles and form part of the Commonwealth or British territories.

While there is a belief that OFCs provide a refuge for illicit funds from money launderers, corporate fraudsters, corrupt politicians and tax evaders, many OFCs are sophisticated, well-run financial centres in their own right, as distinct from tax havens. Tax havens lack transparency, have no or nominal tax charged on income, have an ineffective exchange of information and no substantial economic activity carried out by their taxpayers. While some OFCs such as the Bahamas and Grenada have been identified as tax havens, the reliance on banking secrecy in well-established financial centres such as Barbados, Jersey and Guernsey pose challenges to governments worldwide in the area of tax evasion. This issue has regained the centre of the international stage, largely due to recent initiatives developed at the G20 London Summit in April 2009. Many wonder what the Pittsburgh Summit can add and what OFCs themselves can do to brush off the stigma associated with their economies.

It is estimated that the offshore economy amounts to between \$5 trillion and \$7 trillion, making up an estimated 6 per cent to 8 per cent of worldwide wealth under management. OFCs have much to offer to both consumers and businesses worldwide. They lower costs to customers using local banks by promoting consumer choice and competition in the financial sector. For businesses, OFCs decrease operational costs by offering operational freedom and flexibility in addition to confidentiality, light-touch regulation and low taxes. More than half of Europe's top 500 companies have subsidiaries in OFCs, and approximately 50 per cent of the companies quoted on the Hong Kong stock exchange are domiciled in Bermuda. OFCs are central to industries such as banking, insurance and mutual funds because they allow financial institutions to manage their risks and worldwide distribution networks better. Moreover, many corporations engage in the legal practice of tax avoidance.

Tax evasion differs from tax avoidance in that tax evasion entails fraudulent and criminal behaviour and involves the destruction of records, the concealment of material facts and acts of deception. Tax avoidance uses non-criminal methods to minimise tax liability. Given the current global crisis and massive amount of tax funds pumped into banks to stabilise the world economy, domestic tax preservation is high on the agenda of many governments.

OFCs and tax evasion have been on the G20 ministerial agenda for many years. The G20 has catalysed change by garnering political will, achieving cooperation among both advanced and developing economies, and providing incentives for countries to adopt related global conventions and treaties. The G20 has played a pivotal role in compelling international organisations to work together in the area of tax fraud, money laundering and regulatory reform. It has assigned the Organisation for Economic Co-operation and Development (OECD) the primary responsibility for monitoring progress on implementing internationally agreed standards through the Global Forum on Taxation. Many countries have adopted the OECD Model Tax Convention and signed bilateral tax information exchange agreements (TIEAs). The G20 has renewed calls for all jurisdictions to adopt and implement agreed standards. It flexed its muscles at the London Summit by issuing a list of sanctions it would carry out against countries on the OECD's blacklist of tax havens and non-cooperative jurisdictions.

At the Pittsburgh Summit, the G20 will likely welcome and fully endorse tasks assigned to the OECD in London in April. These include implementing a peer-review process to assess compliance and provide follow-up action; increasing the quantity, relevance and quality of TIEAs; expanding participation in the Global Forum; enabling developing countries to benefit from a cooperative tax environment; revising criteria to identify countries that have not substantially implemented international standards; and developing a toolbox of countermeasures against non-cooperative countries. Two of the biggest criticisms of the G20's dealings with OFCs have been its failure to accommodate the challenges faced by small jurisdictions that lack the resources and technical know-how to implement imposed standards and its endorsement of the OECD blacklist. The Commonwealth Secretariat, following an assessment of Barbados, Mauritius and Vanatu, has suggested that the costs of implementing such standards outweigh the benefits.

> “The G20 cannot act by itself. Offshore financial centres must boost domestic efforts”

The G20 has renewed calls for offshore jurisdictions to adopt and implement agreed standards, issuing a list of measures it will carry out against countries that do not comply

The Pittsburgh Summit could contribute by bringing OFCs into discussions on tax evasion and illicit finance. US president and host Barack Obama could invite OFCs to attend the summit to discuss specific challenges that they face in implementing standards and to put forward recommendations in response. The G20 could commit to providing technical assistance to help OFCs meet their commitments. The G20 could further task the OECD to develop a standardised TIEA to ensure that countries' financial intelligence units (FIUs) are able to obtain requested information. Finally, the G20 could persuade the Global Forum to hold a dialogue so countries could share domestic measures that have been effective in encouraging individuals and companies to disclose assets held offshore.

The G20, however, cannot act by itself. OFCs themselves must boost domestic efforts. OFCs need to invest in technology, and to hire and train more staff to work in their corporate registries and FIUs. The corporate registries of OFCs and other countries should screen the names of individuals and controllers of legal entities against commercially available databases of high-risk companies, individuals and politically exposed persons. Any matches would warrant further investigation, a decision not to register the entity and a report to law enforcement. Jurisdictions should also prevent the incorporation of entities issuing bearer shares. Alternatively, they could require the disclosure of holders and transfer of bearer shares.

OFCs need to take measures to improve the response time to TIEA requests. This could be accomplished by increasing investment in law enforcement and training to increase the speed of investigation of requests and search and seizure of dirty money. Countries should also consider amending domestic legislation to allow for requested information to be obtained without having to apply for a court order, or simply assign a judge to work inside FIUs. It is evident that OFCs, the G20 and international organisations must work together to tackle the joint issues of illicit finance and tax evasion. The Pittsburgh Summit presents an excellent opportunity not only to commit to and endorse the work of the OECD, but also to build a bridge for member countries and OFCs to work together in the area of tax evasion. ◆

Gatehouse Bank

# Financial stability – Islamic financial services and risk

**Shariah compliant financial services: a universal model of finance that avoids excessive risk and speculation in favour of support for worthwhile productivity.**

A great deal has been published about the relationship between Islamic financial services and the ongoing crisis in international banking and finance. Many commentators suggest that the Islamic economic model has universal application beyond the purely Shariah compliant banking sector, and can provide the necessary support for a more stable international financial platform, both wholesale and retail.

Mufti Muhammad Shikder

Some suggest Shariah compliant finance would not permit the purely financial derivative and other financial tools that Lord Turner of the UK's Financial Services Authority described as being of no social value, but would encourage finance of productive capacity – the lack of which still constrains markets in the aftermath of the first phase of the "credit crunch".

Against this backdrop and to help interested market participants build a more practical understanding of the Islamic financial model, Gatehouse Bank plc seeks to contribute some knowledge of aspects beyond the usual discussion of Riba, or unlawful gain.

**The importance of avoidance of Gharar and Jahalah for stability of financial institutions**

Shariah principles encourage transparency, honesty, and full and frank disclosure in all financial matters. Leading institutions of corporate governance in Islamic finance, such as the Islamic Financial Services Board and Accounting and Auditing Organisation for Islamic Financial Institutions, review and publish clear guidance in these areas. This is to protect the investor and the investee and to maintain stability in the financial market. For a successful financial system, it is important to eliminate any form of "excessive risk" known as Gharar and "ignorance /uncertainty/unknown" known as Jahalah. This is because Jahalah and Gharar could lead to a dispute and either often leads to one party's gain at the expense of the other. Avoidance of Gharar can be viewed as the fundamental basis of risk management in Islamic finance.

Shariah emphasises certainty in contracts and financial matters. It requires important matters to be written in a certain manner so that the possibility of dispute is eliminated. Shariah law therefore places great emphasis on refraining from excessive risk taking (Gharar) and purchasing items which are unknown (Majhool).

The words Gharar and Jahalah have been used interchangeably in Islamic jurisprudence to emphasise the removal of uncertainty in contracts. Examples of excessive Gharar are a sale in which delivery is unattainable, price is unknown or the object of sale is unknown (quality, quantum). In essence, the type of Gharar that invalidates the sale is related to the actual existence of the object of sale (Gharar al-wujud), which may or may not exist. As for Gharar pertaining to the attributes of the object of sale (Gharar al-wasf), it corrupts the sale (defective sales), but does not invalidate it.

Similarly, sale of unknown items (Majhool) is also prohibited in Shariah. Examples of these are found in Islamic jurisprudence, which include the sale of the offspring of an unborn animal (Habal al-habalah), the sale of milk in an udder, the sale of fish in the water prior to catching them or the sale of another person's property on the understanding that he will buy it and then sell it. The above mentioned sales have been prohibited by Shariah because of uncertainty and excessive risk in these contractual arrangements.

Many of the structured financial processes now believed to be central to the collapse of the global financial markets are incompatible with the above two Shariah principles of avoidance of Gharar and Jahalah. Such products include short selling or selling something you do not own, contracts of futures, options, sale of CDOs and selling of debts generally. All of these instruments are used in the conventional financial markets.

Shariah principles require any form of advancement of funds to be based on the growth of the real economy by allowing such funds to be used for the purchase of real goods and services that the vendor undertakes to deliver and the purchaser to take possession. These elements are fundamental to any type of Islamic financial structure. The exchange of real goods and services will seek to contribute to the development of the economy and to create a financial system that is sound and unshakable.

**Parallels between English law and the principles of Jahalah**

There are many similarities between English contract law principles and the principles underpinning Shariah based contracts. A good starting point is to examine the Shariah principles relating to Jahalah (uncertainty).

The doctrine of certainty in English contract law allows English judges to interpret, sever or put contracts into effect. It is well established under English common law that if the terms and conditions of any given contract are uncertain, a court will not be able to find that the parties involved have reached an agreement. For example, a contract for the sale of goods where the existence, price, quantity or other material characteristics are not known or are unspecified would not be put into effect by an English court.

If there are uncertain or incomplete clauses in a contract, and providing that the contract includes a severability clause, it may be possible to sever and void just those clauses affected by uncertainty rather than sever or void the whole contract.

A not so very different approach is taken under Shariah contract principles of Jahalah, under which a contract involving excessive Jahalah would be prohibited. Under a strict application of Jahalah principles, conventional contracts of insurance, forwards, futures and other derivative contracts are forbidden.

From an Islamic perspective, it is often argued that the main reason for not entering into a conventional insurance contract is due to the interest based investment activities of the insurance company. However, it is widely recognised that the inherent Jahalah involved in such contracts, whereby the insured may never make a claim even though he/she has made monthly payments to the insurance company for many years, make such contracts repugnant to Shariah principles too. Shariah, does of course, offer an alternative to conventional insurance in the form of Takaful.

It would be incorrect to state that all uncertainty/Jahalah in English and Shariah based contracts is capable of being removed, as every contract will contain some uncertainty. From an English law perspective, courts may look to external standards or industry practice or imply a term in to a contract to give effect to what it believes to have been the intentions of the parties. Similarly, Islamic jurists may show a willingness to consider market practice and customs in order to remove some of the Jahalah involved in contracts on which they have to adjudicate upon. Ultimately, the levels of uncertainty that will be acceptable to an English court or any Islamic jurist will depend upon the facts of each particular case.

Adil Hussain

If you wish to discuss these Shariah principles further or to learn how Gatehouse Bank is applying them in its business every day, please contact the article's authors: +44 (0) 20 7070 4000.

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# Islamic finance: an alternative financial model

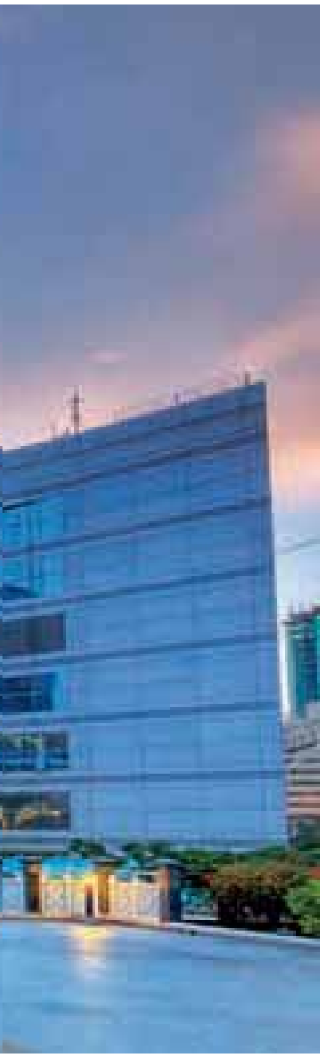
*There is much to be learned from the central principles of risk sharing and adhering to ethical values offered by the Islamic finance model*

*By* Ahmad Mohamed Ali, president, Islamic Development Bank

There are signs that the global financial crisis is subsiding. The unprecedented fiscal stimulus packages applied by the G20 countries have curtailed the sharp fall in gross domestic product in the first quarter of 2009. Economic recovery is, therefore, in sight. Economic growth in the G20 countries is expected to turn positive during 2010.

The global financial crisis has, however, adversely affected the export prospects of developing countries. It has either dried up external financing, or made it more costly, thus making it harder for them to attain the targets set in the Millennium Development Goals. Under these challenging conditions, scaled-up lending by multilateral development banks has helped developing countries to avert a disruptive crisis in the balance of payments and to continue funding critical projects in their public investment programmes.

Since November 2008, the Islamic Development Bank (IsDB) has participated actively in the work of



> The task force has examined the key elements of Islamic finance that can lead to the reform of the global financial system

the 'G20 Working Group 4: The World Bank and Other Multilateral Development Banks' by frontloading already-approved development assistance and identifying programmes for additional financing. This helped the IsDB garner support during its 34th annual meeting, held in June 2009, for adopting the board of governors' Ashgabat Communiqué to support the IsDB Group in its programme to mitigate the impact of the global economic crisis on member countries. In this context, the bank announced a two-fold increase of its ordinary capital resource operations from 15 per cent per annum to 30 per cent per annum over the three years from 2009 to 2011.

The IsDB will also rapidly disburse financing for programmes and projects in member countries in order to assist them in partially alleviating the tighter external financing conditions they encounter. This will help lay the foundations for economic recovery.

Given the scale of the global financial and economic crisis, G20 leaders and policymakers have responded forcefully with macroeconomic stabilisation measures. However, some of the key structural issues, involving addressing the toxic assets and the financial sector, have not been fully resolved. The virulence of the financial crisis was due to its extensive global reach and the epic magnitude of losses to which it led.

From the perspective of Islamic finance, the origination-distribution of risky assets through complex products and multiple layering created an illusion of economic progress. It in turn only benefited a few. Between 1975 and 2007, the debt of the financial sector in the United States grew at an annualised rate of 185 per cent, while that of the business sector, which is a major source of wealth creation, grew at only 34 per cent. It is, therefore, not surprising that during the same period the corporate profits of the US financial sector jumped by more than 20 times, while those of the non-financial sector increased by less than nine times. The hard lesson is that there is an urgent need to introduce a new set of regulations that could inextricably link the activities and growth of the financial sector to the performance of the real economy.

Over the years, the IsDB has supported and contributed to the establishment of an Islamic financial architecture. It is working with infrastructure institutions in the Islamic financial services industry to motivate and enhance the links between Islamic financial institutions and the real economy. The relationship between them is affected by the fact that Islamic financial institutions work within the global financial system.

On 29 October 2008, the IsDB organised a brainstorming session of leading bankers and economists from around the world. This led to the establishment of the Task Force on Islamic Finance and Global Financial Stability, chaired by the governor of Bank Negara Malaysia. The task force has, inter alia, examined the key elements of Islamic finance that can lead to the reform of the global financial system and build a resilient financial system, which can help prevent the recurrence of financial crises.

A major lesson of the current financial crisis is that the new international financial architecture should explicitly foster greater responsibility and accountability in the system by injecting greater market discipline. The central feature of Islamic economics and finance is, accordingly, strict adherence to Shariah principles, which reflect universal ethical values and the creation of a strong link between the financial and the real sectors. Islamic financial institutions are therefore not merely the agents for the collection of 'spread' in the context of debtor-creditor relationship. This prohibition of interest, or riba, helps build such a discipline into their operations.

> The intrinsic feature of Islamic finance is the participatory finance model

The intrinsic feature of Islamic finance is the participatory finance model in which both the financiers and business partners share in the ex-post outcome of risk and reward. Mainstreaming this feature of Islamic finance carries the potential of contributing to the promotion of market-based discipline and stability in the global financial system. Participatory financial intermediation will help in controlling leverage and the resulting excessive credit expansion. It will also, in turn, help bring about realistic pricing of assets and liabilities. Islamic contracts are generally asset based and activities transacted must comply with Islamic law.

The G20 reform agenda for international financial architecture proposes a host of regulations and assessments for the 'too big to fail' global financial institutions. Yet regulation of such financial institutions alone cannot counterbalance the incentives for socialisation of losses and privatisation of gains. Simply put, the ever-leveraged model of financial intermediation in a globalised world has proved disastrous.

The crumbling of ethics in the financial sector, explosion of little understood and risky debt instruments, and excessive leverage and speculation that have so unsettled financial markets, all need to be addressed. The Islamic tenet of risk sharing combined with the adherence to universal ethical values, restrictions on the sale of debt and its further securitisation can enhance the soundness and stability of institutions as well as the market, and thereby reduce the emergence of asset bubbles. A model of balanced financial and economic growth, which is at the heart of Islamic economics and finance, is necessary for achieving sustainable growth with financial stability. ◆

# How Islamic is Islamic finance?

*By Hussain Al Qemzi, Group CEO, Noor Islamic Bank*

Islamic finance appears to be the new buzz word of the decade. From France to Australia, bankers and economists are discussing the merits of Islamic finance and its future in the global financial system. Those of us in the industry know that the debate is complex even if the application of Islamic finance is not.

The world's financial community believes that an alternative model of financing could have prevented the worst economic crisis of this century. The sentiments echoed during the closing of the previous G20 meeting focused on Islamic finance as a possible alternative to the over-heated capitalist system that has been in place for decades if not centuries.

Certainly from the perspective of economies of scale, the role that Islamic finance could have played in dampening the fallout from the global financial crisis is miniscule. *The Banker* magazine publishes an annual list of the Top 1,000 global banks. In 2008 and during the height of the subprime crisis, the total assets of the world's top banks was an aggregate US$ 90,256bn. Comparatively, the Sharia'a-compliant assets of the Top 500 Islamic Financial Institutions in 2008 reached a mere US$ 639.1bn.

As it stands now, Islamic finance has not reached the critical mass required to have prevented the crisis.

There is another impediment to the growth of Islamic finance. From a Western perspective, the only thing wrong with Islamic finance is that it is "Islamic". From a practical perspective, the system is great. It is just the inconvenient matter of being associated with one religion that makes people pause. The 'Islamist' stigma in a post-9/11 world is not easy to shed. The irony is that Islamic finance began its boom after 9/11 in part due to the repatriation of capital from the West into Malaysia and the Gulf Cooperation Council countries.

So, how Islamic is Islamic finance? If you look at the one defining principle of Islamic finance – prohibition of interest or usury – then it is not that different from other major religions.

In July, the BBC Newsnight's economics editor Paul Mason stood outside the headquarters of RBS in London inviting employees to discuss the ethics of usury with him. His news report was about a growing awareness in the UK about usury practices of banks and high-street lenders. Mason was joined by Vicars, Priests, Rabbis and Muslim scholars – all seemingly united on the issue.

"The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service," the Vatican's official newspaper *Osservatore Romano* noted early this year.


These 'ethical principles' are not the sole proclivity of Islam. All major religions in the world, certainly Islam, Christianity and Judaism, prohibit usury as evidenced from the readings in their holy books.

When systems fail, people start looking for alternatives. The philosophy on which Islamic finance is based – preference for profit, loss and risk sharing and rejection of interest bearing debt instruments – is one that can be easily adapted by any financial institution. Islamic finance does not have to exist as a 'parallel' system to conventional finance. It can be, and in fact is, part and parcel of the global financial system – albeit the ethical part.

HSBC, Standard Chartered, Citibank and other global banks have started Islamic banking windows catering to customers that prefer ethics over interest. The relative success of these ventures clearly supports the argument that Islamic banking is not confined to the Muslim world since this system is about ethics and not religion.

Why not apply ethical practices to the world's financial system framework? For the development of a new financial structure, where a reversal to ethics can lend a humanist touch, we don't need Islamic finance and conventional finance to co-exist, but rather we need one ethical financial model.

As a simple example, if you look at household mortgage debt in the West, in an ethical banking system, a revised contract would turn the debt into equity; the borrower would pay the bank rent in lieu of interest payments to live in the property. This may also include a periodic payment that transfers the property to the tenant (lessee) once he pays the entire rental of the equity in the property to the tenant each year, so the risk of the ownership will remain within the bank during the lease period.

*"We don't need Islamic finance and conventional finance to co-exist, but rather we need one ethical financial model"*

It is in the best interest of the global financial system to start examining ethical means of investing, risk sharing, and regulatory framework that rewards financial institutions for the moral value that they bring to society. The current global crisis has shown us that stakeholders, be it customers or government, are not content to sit idle while financial systems crash around them.

Isn't it time that we forced our banks to act within a certain moral and ethical code that is based on the highest human values? I think it is.

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# Adopting the G20 agenda in the EU

*By* Mats Odell, Sweden's minister for local government and financial markets

Last autumn it became evident that regulation and supervision had been capable neither of preventing financial turmoil, nor of handling it efficiently. As the G20 London Summit clearly demonstrated, the experience was global and general, but in some respects it had a special dimension for Europe. Despite the efforts over the last decade to harmonise European regulatory frameworks and to promote cross-border cooperation among the European Union's 27 member states, it clearly was not enough. A strong conviction quickly emerged on the need to coordinate, improve and align regulatory and supervisory standards throughout the EU. Moreover, it was obvious that the links between traditional, 'micro-prudential' supervision and more systemic, macro-orientated analysis had been far too weak.

To change this, the so-called de Larosière Group proposed a new institutional infrastructure on the EU level, standing on two legs: a body responsible for macro-prudential surveillance, later named the European Systemic Risk Board (ESRB), and the European System of Financial Supervisors (ESFS), working as the hub in a network of national supervisory authorities. With the group's main findings adopted by the EU Commission and confirmed by the European Council in June, it is clear that this issue will be at the very top of the agenda for Sweden as EU president this fall.

On the macro level, the ESRB, consisting of national representatives from central banks and financial supervisors, will observe and, if necessary, alert members and call for action, if it detects signs of serious disturbances to the stability of financial markets. On the micro level, the ESFS will be led by three European supervisory authorities, built on the level-three committees, and with a mission to facilitate cooperation – in the broadest sense – among the national financial supervisors. Moreover, and not least important, neither the ESRB nor the ESFS will be just talkshops – they will have the power to initiate supervisory action.

> "Sweden aims to be a listening presidency and welcomes all relevant parties to offer their views"

Another important area of reform during Sweden's EU presidency will be the implementation of new rules to promote sound remuneration systems in financial institutions, based on the G20 guidelines to be decided in Pittsburgh. As European leaders have stated, it is time to end the bonus culture that has given unimaginable rewards to individuals taking excessive financial risks while passing the bill for failures on to tax payers. A new framework to regulate and supervise bonuses will be part of proposed amendments to the Capital Requirements Directive (CRD), which also introduces stricter capital requirements for complex products and trading books. Europe will also strive to make progress in regulating Alternative Investment Fund Managers and discuss measures to counter procyclicality in banks.

These reforms will clearly bring significant improvements in fostering financial stability in Europe. They will also form the EU's key contribution to the G20 effort to enhance financial stability globally and promote sound, not excessive, regulation. Of course, since there are no purely 'European' solutions to safeguarding financial stability, taking in the global perspective will be a cornerstone. Sweden aims to be a listening presidency and welcomes all relevant parties to offer their views.

Will Sweden be able to accomplish this? The media often focuses on conflicts and disagreements among EU member states. And when Europe gets itself together politically, the skeptics usually point at the often cumbersome and time-consuming legislative processes within the EU as an obstacle to real progress.

Of course, EU countries do hold differing views on some issues. Anything else would be surprising, considering that the European Union consists of 27 countries with large differences in financial markets, legislation and the way supervision is organised. Still, there is a very broad consensus on the general analysis and concepts on most of the proposals made, with clear possibilities to achieve good compromises on the yet unsolved issues. Moreover, Sweden foresees the proposals will be implemented in 2010. This is not just wishful thinking from the chair, but a realistic possibility. For once, the EU has an excellent opportunity to show that it can act swiftly and decisively. One prerequisite, however, is that all Europeans are ready to go the extra mile to make timely progress. Sweden's responsibility in chairing the efforts will be to listen carefully to all arguments to find the constructive compromises.

> "The EU has an excellent opportunity to show that it can act swiftly and decisively"

In hindsight it is easy to see that there were no checks and balances that could have restrained over-creative financial entrepreneurs from pumping up a monumental financial bubble while taking home remuneration far out of the reach of the general public. Having seen what consequences a bursting bubble of worldwide proportion can create, we must put those checks and balances in the proper place to prevent this from happening again. And even if it may not always prevent bubbles emerging and bursting, it can – and should – prevent them from creating disasters. ◆


# The Financial Stability Board: international cooperation to promote financial stability

*Promoting stability in a global, interconnected financial system requires coordination across jurisdictions and sectors. The enlarged FSB is well placed to facilitate this and move forward the regulatory reform agenda*

*By* Mario Draghi, chair, Financial Stability Board

The international community has embarked on an ambitious agenda of reforms to build a stronger, less crisis-prone financial system. The April 2009 summit of G20 leaders gave the Financial Stability Board (FSB) a prominent role in taking forward this agenda and promoting financial stability. The FSB is uniquely placed to fulfil this role because it brings together the many national and international bodies and institutions that share responsibility for financial stability. Through the collective actions of its members, the FSB facilitates consistency in the development and implementation of regulatory, supervisory and other financial sector policies as well as cooperation in identifying and addressing vulnerabilities. The international community is committed to maintaining an open and integrated financial system. Therefore, consistency and cooperation are essential for the success of the reform


At the G20 London Summit in April 2009, the Financial Stability Forum was relaunched as the Financial Stability Board, with a wider mandate and increased membership

agenda and the preservation of a level playing field across national financial systems.

The FSB is the successor to the Financial Stability Forum (FSF), which was established in 1999 by the G7 finance ministers and central bank governors. The FSF focused on assessing vulnerabilities affecting the financial system, overseeing actions needed to address these vulnerabilities and promoting coordination and information exchange among authorities responsible for financial stability.

To enhance its effectiveness, the FSF was relaunched as the FSB at the G20 London Summit in London with a broadened mandate and an expanded membership. A number of things were added to the FSF's previous mandate: monitoring market developments and their implications for regulatory policy, advising on best practices in meeting regulatory standards, undertaking joint strategic reviews of the policy development work of the international standard-setting bodies, supporting the establishment of supervisory colleges for global banks, overseeing contingency planning for cross-border crisis management and collaborating with the International Monetary Fund (IMF) to conduct early-warning exercises.

Membership was extended in April to a total of 64 participants. The FSB now includes authorities from all G20 countries, plus Hong Kong SAR, the Netherlands, Singapore, Spain, Switzerland, the European Central Bank and the European Commission. Representation is at a very senior level: central bank governor or immediate deputy, head of the main supervisory or regulatory agency, and deputy finance minister. In addition, the FSB includes the chairs of the principal standard-setting bodies and committees of central bank experts, plus senior representatives of the Bank for International Settlements (BIS), the IMF, the Organisation for Economic Co-operation and Development and the World Bank.

To support its broadened mandate and membership, the FSB's institutional structure has been strengthened. A steering committee has been established to guide the work of the FSB between plenary meetings, and three standing committees – on the assessment of vulnerabilities, regulatory and supervisory cooperation, and standards implementation – have been set up to take forward work in their respective areas. In addition, the secretariat, based at the BIS in Basel, Switzerland, has been enlarged.

> "Through cooperation among its members, the FSB seeks to support a level playing field across countries"

The success of the FSB in fulfilling its mandate depends foremost on its members. Its composition ensures that, in the FSB's deliberations, major economies and financial centres from around the world have a voice, and a broad range of perspectives are considered. Furthermore, membership comes with obligations to promote a sound, globally integrated financial system. Member authorities commit to pursuing the maintenance of financial stability, maintaining the openness and transparency of the financial sector, implementing internationally agreed standards of best practices and undergoing periodic peer reviews of adherence with these standards.

Cooperation and collaboration are integral to the work of the FSB. With financial markets and institutions being global, efforts to promote financial stability must also be global. There are many official institutions and bodies that have some degree of responsibility for financial stability. These are largely organised along national and functional lines. The


In order to safeguard international financial stability, the FSB seeks to protect against adverse cross-border and cross-sector developments

FSB brings them together to promote consistency in the development and implementation of policies across jurisdictions and sectors. Through cooperation among its members, the FSB seeks to support a level playing field across countries and, in this way, to protect against adverse cross-border and cross-sector developments that might undermine international financial stability.

The broad aim of the reforms initiated by the international community in response to the crisis is to better mitigate system-wide risks to financial stability. This requires changes in many areas, at the domestic level as well as the international level. Work is underway to establish a stronger framework for capital, liquidity and risk management at financial institutions that pose risks to the system as a whole; to expand the regulatory perimeter to ensure that all systemically relevant institutions, entities and products are subject to appropriate oversight; to mitigate the procyclical tendencies of the financial system; and to overhaul incentives that in the past led to excessive risk taking. Incentives are being addressed through changes in compensation practices, valuation and disclosure regimes, the use and oversight of credit rating agencies and the infrastructure for over-the-counter derivatives markets. More effective arrangements are also being put in place for international coordination and cooperation in the oversight of large cross-border financial institutions, as well as for dealing with crises at these firms when they occur.

The April 2008 report of the Financial Stability Forum on Enhancing Market and Institutional Resilience identified reforms in these and other areas, many of which were later incorporated into the Washington Action Plan of the G20 leaders issued at their November 2008 summit. At that meeting, as well as at the April 2009 summit, the G20 leaders asked the FSB to take forward and monitor implementation of the regulatory reform agenda. They also placed a renewed emphasis on the implementation of international standards.

The FSB, in conjunction with the standard-setting bodies, the IMF and the World Bank, is establishing processes to assess progress in implementation. The objective of these assessments is, first, to foster a race to the top in the adherence to international standards; second, to help identify jurisdictions that lag behind and provide incentives for greater implementation; and third, to support the peer reviews that FSB members will undertake as an obligation of membership.

Promoting stability in a global, interconnected financial system requires coordination across jurisdictions and sectors. The composition and functioning of the enlarged FSB make it well placed to facilitate this coordination and, thereby, to move forward the regulatory reform agenda. ◆

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University of Pittsburgh

# Global Regulation: A normative rather than institutional framework

*Milan J.N Meetarbhan, Chief Executive of the Mauritius Financial Services Commission argues that the debate about Global Regulation should focus on a normative framework leading to the adoption of an International Law of Financial Regulation, enforced by national regulators – through regional cooperation mechanisms, where necessary.*

One of the main lessons of the recent financial crisis is that regulatory failure in one jurisdiction can have a major impact across many other jurisdictions.

There have, therefore, been calls for Global Regulation, so that there are common standards of regulation across the world, and that these standards are set and enforced by one global regulator.

Thus, the weaknesses of national regulators and regulatory frameworks would be overcome by a universal regime under which there will be no regulatory arbitrage, no entities within the same group escaping regulatory oversight. Like civil aviation or telecommunications which are subject to the same international norms across the world, financial services would, irrespective of the jurisdiction where they are provided or the nationality of the service provider, be subject to the same norms.

Whilst it has been easier to achieve some degree of consensus on the need for greater harmonization of regulation and greater cooperation amongst regulators, there is, however no consensus yet on what exactly Global Regulation should entail.

For some, the debate about Global Regulation presupposes a global regulator. However, it may be argued that there can be Global Regulation without a global regulator.

Indeed, there may be a global normative framework without a global institution to enforce it. Global Regulation need not be enforced by a supra national regulator or a super-regulator.

Harmonization of legislative frameworks based on norms prescribed by international standard setters would, in effect, lead to a global normative framework.

Whether this normative framework should provide for differential treatment in view of different levels of development and market sophistication is a matter of debate, but the overall framework would still be global.

Global finance needs to be governed by a new International Law of Financial Regulation which will comprise of a set of internationally agreed norms.

The new International Law of Financial Regulation should not necessarily provide for a global or supranational regulator, but for a normative framework which will be enforced by national regulators on behalf of the international community.

**1. Global Regulation should, for the foreseeable future, be about a normative global framework and not about a global institutional framework**
**2. National regulators should double up as agents of the international community to enforce global norms**
**3. Global Regulation, in addition to global norms, should be about global cooperation to ensure harmonization of supervision and pooling of resources essentially at regional levels to ensure capacity to effectively supervise and regulate the financial services sector**

Almost 80 years ago, Georges Scelle came up with the theory of "dédoublement fonctionnel" of the State. According to Scelle's theory, the State doubles up as an agent of the international community with respect to some obligations under International Law. In these circumstances, the State exercises both its national sovereign functions and its functions as an agent of the international community.

Following agreement on a normative global framework and in the absence of a supranational or global regulator, national regulators should exercise both their national functions and act on behalf of the international community to enforce global norms. Appropriate reporting requirements for national regulators would enable existing organisations to have an overview of global financial services.

Given the relative inadequacy of resources and of capacity, especially in developing countries, Regional Pillars will be key to ensuring global cooperation.

A global enforcement framework starts with regional and sub-regional blocks. Countries which need to reinforce their capacity to regulate will have to come together under regional cooperation mechanisms to create a resource pool that will ensure effective

## Mauritius – Country Profile

**Location:** 2,400 km SE Coast of Africa
**Population:** 1.2 million
**Currency:** Mauritian Rupee
**Constitution:** Parliamentary Democracy - based on the Westminster Model *(Economist Intelligence Unit's Index of Democracy 2008 – Mauritius ranks 26th out of 167 countries as a full democracy)*
**Legal system:** Mixed Legal system (Common Law and Civil Law)
**GDP Growth Rate (2008):** 5.3%
**GDP Per Capita (2008):** USD 7,219
**PPP (2008):** USD 12,480
**Contribution of Main sectors to GDP (2008):**
Manufacturing 20.1%; Wholesale & Retail Trade 11.6% , Financial Services 10.9%; Communication and Transport 11.1%, Hospitality 8.6%; Construction 6.9%; Agriculture 4.4%
**Sector Trends forecast 2009:** ICT: +16.2%
Seafood: +14.4%
Financial Services: +5.9%

regulation of financial resources. Regional cooperation would cover areas such as macro-prudential and financial stability policies, integrity in financial markets, assessing vulnerabilities affecting the financial system, risk-based supervision and joint inspections, common legislative reforms programmes, training initiatives and development of sector specialist centres within the region.

Regional Supervisory Colleges would enable regulators who would not, on their own, have the capacity to provide effective regulation, to do so with other regulators from the region so that collectively, they complement each other and the strengths of some will compensate for the weaknesses of others. The calls for supervisory colleges have, so far, been made essentially in view of the cross-border nature of financial services and of the structure of the entities providing financial services. However, these colleges would also be required, in some parts of the world, to reinforce regulatory capability.

### About FSC

**The Financial Services Commission (FSC) is the integrated regulator for financial services, other than banking, and global business.**

**Main legislation enforced**
- Financial Services Act
- Insurance Act
- Securities Act

**Our mission**
- To promote the development, fairness, efficiency and transparency of financial institutions and capital markets in Mauritius;
- To protect the interests of investors and consumers;
- To ensure the soundness and stability of the financial system in Mauritius

**International relations** FSC is a member of IOSCO, IAIS and IOPS.


## Financial Services Sector

**Financial Services Sector contribution to GDP in 2008:** 10.9%
(Banking - 6.9%; Insurance - 2.7%; Other financial services - 1.3%)
**Growth of financial services sector in 2008:** 10.1%

**Capital Markets:**
**1. Stock Exchange of Mauritius (SEM)**
- Official Market;
- Development and Enterprise Market; and
- Derivative Market for Index & Security Futures

**2. Global Board of Trade (GBOT)**
GBOT licensed as a Multi-Asset Class Exchange will initially operate:
- A Commodities Exchange; and
- A Currency Derivatives Market

**Insurance*:**
**Growth in Gross Premium:** 19%
**Growth in Total Assets:** 5%
**Assets as % of GDP:** 25%

**Aggregate Figures 2008*

Mauritius has proposed the adoption of an Enhanced Cooperation Action Plan by the Committee of Insurance, Securities and Non Banking Financial Authorities of the Southern African Development Community (SADC) to ensure a cooperative approach to effective regulation of financial services in the region.

In the quasi-borderless world of financial services there should be no uneven application of international norms because of the lack of adequate capacity of some regulators to enforce the norms. For developing countries, Global Regulation is very much about cooperation to bring together the required expertise to regulate effectively – it is a people issue and it is not only about getting the financial rules right.

The International Law of Financial regulation needs to be adopted by the global community but enforcing it should be entrusted to national regulators.

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# A new International Monetary Fund?

*It is time for the IMF to embrace transparency and accountability, in order to bring its practices into line with those of other international organisations*

*By* Domenico Lombardi, president, Oxford Institute for Economic Policy, and non-resident senior fellow, Brookings Institution

Established as a small organisation to deal with relatively technical issues in international monetary cooperation, the International Monetary Fund (IMF) has gradually expanded its scope to encompass key aspects of the policymaking process in member countries. In so doing, it has come to affect an increasingly wide range of stakeholders. They do not necessarily recognise themselves in its formal governance framework, but their support has nonetheless become critical to the success of the IMF's programmes and policies. This has prompted the need for the institution to develop a better understanding of such a broad range of non-institutional actors. In this vein, the IMF's managing director has, for the first time, called on civil society – including academia, think tanks and non-governmental organisations (NGOs) – to provide input on the process for IMF reform under the so-called 'fourth pillar'.

The conclusions drawn from such consultations, for which I served as rapporteur, have been finalised in a report for the IMF executive board. Among the most expected findings, the consultations confirmed civil society's firm support for rebalancing the distribution of voting power between advanced and developing economies, for reshaping the composition of the executive board in favour of less represented regions following the consolidation of the European chairs, and for a transparent and merit-based selection of the managing director and the deputies.

The consultations, however, also revealed some less obvious findings that, if acted upon, would lay the basis for a new relationship between the institution and the broad stakeholder community. These observations relate to poor practices in appointing or electing executive directors, inadequate assessment of their performance, insufficient transparency of executive board proceedings and the absence of an ombudsman to monitor the compliance of officials' behaviour to operational policies and procedures.

> Current practices for selecting executive directors are unclear, to say the least

Current practices for selecting executive directors are unclear, to say the least. There are no job descriptions and no disclosed criteria that the

> The IMF does not have, with a few exceptions, formal operational policies and procedures

relevant country authorities supposedly follow when deciding on their appointees. This is in stark contrast with the latest trends, even among central bankers – traditionally closer to the IMF culture – where professional requirements are set and public bodies confirm that prospective candidates fulfill them. The European Union treaty requires that board members of the European Central Bank (ECB) "be appointed from among persons of recognised standing and professional experience in monetary or banking matters". Whether candidates do meet such standing is assessed by a specialised committee of the European Parliament that reviews the appointments proposed by the EU Council of Finance Ministers.

The United Kingdom has recently started to establish reasonably detailed job descriptions for the members of the Bank of England's monetary policy-setting body – the Monetary Policy Committee. In contrast to the ECB, the selection is public, as vacancies and their respective job descriptions are announced in the international press and the qualifications of relevant candidates are then scrutinised by a high-level panel. By contrast, the selection of IMF executive directors is managed, with some exceptions, in closed circles, with no open consultations. This biases the selection toward candidates with little or no incentive to meaningfully engage stakeholders. The latter, in turn, know very little about their own country representatives and hesitate to engage them for fear of no responsiveness. It is emblematic that, even when expressly asked, not one single participant consulted managed to mention his or her country representative by name.


International Monetary Fund managing director Dominique Strauss-Kahn, with John Lipsky, IMF first deputy managing director, and Masood Ahmed, external relations director, at a press conference in Washington DC on 9 October 2008

The executive board remains the last bastion of IMF secrecy. It takes several years to obtain documents related to board proceedings. Clearly, this affects the ability of stakeholders to reach out to their representatives. As one participant said: "How can we engage our executive director if we don't even know what he says at the board?" Indeed, the combination of the lack of transparency in board proceedings and the lack of well-established criteria for selecting board members prevents any meaningful assessment of their performance, either individually or collectively.

Furthermore, the IMF does not have, with a few exceptions, formal operational policies and procedures. There are no board-approved, generally available documents that the public can use to appraise, for instance, how the IMF decides whom to consult when designing programmes, technical assistance missions or other forms of policy work. Operational policies and procedures do exist, however, in the form of memos from management to staff. They are typically not disclosed to the public (in contrast to World Bank practice) and have not been approved by the executive board. This hampers the ability of the institution and of stakeholders to determine whether the conduct of IMF officials conforms to the standards for measuring their performance.

For the interaction with the broader stakeholder community to be meaningful, stakeholders must be able to understand and predict how IMF officials should respond to a given circumstance. This knowledge is key to increasing public confidence and trust in the effectiveness of the institution's work, beyond that held by a restricted circle of central bankers and senior finance ministry officials who typically understand the institution well. Unlike all the other multilateral financial institutions, the IMF has no formal mechanisms for stakeholders to hold it accountable for its operational policies and procedures. The establishment of an ombudsman would go a long way to increase their confidence. The ombudsman would have the independent power to review complaints from third parties that IMF officials have not complied with IMF-set operational policies and procedures. The role of that office would be flexible and relatively informal, and primarily that of problem solver.

> "The IMF has no formal mechanisms for stakeholders to hold it accountable for its operational policies and procedures"

The latter point illustrates well the basic thrust of these consultations, that the IMF should be held broadly accountable for its own decisions. The task is challenging, due to the complex nature of the IMF and its evolving role. But it is off to a good start, as witnessed by the managing director's call on civil society to contribute to the debate on IMF reform. One thing is certain: the time has come for the IMF to uphold those good practices already adhered to by other national and international organisations. ◆


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*Grow Up Great with Science*, PNC's newest initiative in early childhood education, comes at a time when many educators have sought increased emphasis in science education. Announced in April as part of the fifth anniversary of *PNC Grow Up Great*, the program provides preschool children from seven states and the District of Columbia with more opportunities to learn science basics and experience related activities that are educational and fun. The grants to 14 regional science centers and nonprofit organizations were made possible by the PNC Foundation, which receives its principal funding from The PNC Financial Services Group.

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LEADING THE WAY

Delegates from 44 countries attended the United Nations Monetary Conference in Bretton Woods, New Hampshire, on 4 July 1944

# Bretton Woods 1944 versus Pittsburgh 2009

*With previous summits focused on rebuilding the financial architecture, G20 leaders are unlikely to achieve as much as their counterparts did 65 years ago*

*By* Naoki Tanaka, president, Centre for International Public Policy Studies

The next summit of the G20 countries and regions — the third — takes place in Pittsburgh on 24-25 September 2009. When world leaders gathered at the two previous summits, they shared a common objective of stabilising economic management by rebuilding the international framework. However, the third summit will likely see participants come with expectations that have diverged considerably from those before. Already, G20 members have taken different directions to tackle the immediate problems, with an architecture for those yet to emerge. The G20 has moved away from its crisis-solving role; it is now trying to grapple, step by step, with creating a framework to address the factors underlying the crisis on a stabilised and sustainable basis.

Yet at Pittsburgh, the G20 is unlikely to attain something like a new Bretton Woods system, which provided the post-World War Two international economic framework. Three causes explain why excess expectations of this summit should be curbed.

First, regrets over past misdeeds that caused major human-made confusion and calamity have yet to converge on one central point. The predominant view now attributes the Great Depression to failed monetary policy.

But Cordell Hull, the US secretary of state who hosted the Bretton Woods Conference in 1944, could not abandon the view that the protectionist policy adopted by Washington triggered a chain reaction of global economic contractions. The widening gap between supply and demand in US industry, as in the steel sector, spawned a political argument that imports should be shut off from American markets by higher tariffs, leading to the passage of the 1930 Smoot-Hawley Tariff Act.

This became a precursor to a movement to form a protectionist trade bloc among countries of the British Commonwealth. Many thought that such unchecked

> The world now lacks a stage-setter country with the calibre of the United States in 1944

protectionism, which held sway from 1929 to 1932, was the underlying cause of the subsequent breakout of World War Two. This analysis inspired Hull to take the initiative in building an architecture for the postwar international economy at Bretton Woods.

It is now obvious that today's credit crunches are directly attributable to the creation and sale of subprime loans and the introduction and marketing of synthetic financial products, such as collateralised debt obligations. Neither monetary nor trade policy thus provides the unifying catalyst today.

**Modifying financial services**

But have views converged on this point? The offering of extremely high executive pay has clearly disappeared among American financial services industries. Until only a few years ago, it was not unusual for top-class executives to demand $10 million in annual remuneration. But now they would prefer to be on the frontline of work even at $200,000. Of course, their pay packages include a contingency fee incentive, but many such executives say they are happy with a fee that is one tenth or even one fiftieth of what they used to receive.

Pundits have failed to reach consensus about the cause of the credit crunch because it is difficult, through financial activity, to control the risks that may arise in the future. If finance is defined as nothing more than intermediary activity between the demand for funds and the supply of those funds, it is easy to consider controlling such financial activity from the viewpoint of avoiding systemic risk. International agreement is possible over time.

At the Bank for International Settlements, members' monetary authorities have tackled reaching agreements and their revisions for more than 20 years. Discussions have focused on measuring the sufficiency of banks' equity capital for absorbing shocks from impaired capital and replenishing such capital to adequate levels. The G20 can readily reach a new agreement by extending this line of thinking.

However, it will not be easy to build consensus if financial activity is defined as distributing resources to link the present to the future. The key to such resource distribution lies in devising methods for diversifying and controlling risk. Banks' credit extension and selling of loan claims have thus far been considered indispensable for risk diversification. Hence the birth of the credit market for trading loan claims should be regarded as a sign of progress in financial activity.

In light of the importance of corporate rebuilding, debtor-in-possession (DIP) finance — which means financing arranged by a company during the bankruptcy process – would also show progress. In bailing out a company from the abyss of bankruptcy, it is desirable that the subject – one who responds to a request for financing after evaluating the risk involved in the failing company's core operations – emerges from among those familiar with the relevant industrial sector and the operations of individual companies therein.

> At Bretton Woods, participants peacefully and tacitly approved of emerging countries raising their share of the world markets

Should a uniform regulatory net thus be cast on the credit market and DIP finance? Most market participants would probably reply that the current mechanism should remain rather than face new regulations, as that would improve the efficiency of the economy. The implication is that the G20's intervention should not go as far as such risk-hedging methods. Arguments may be raised over the pros and cons of demanding information disclosure by hedge funds and applying uniform regulations to credit rating agencies. But these are not issues of a scale that will lead to a new financial architecture.

**Stage setter**

The second factor that divides the G20's current endeavours from the Bretton Woods system is that the world now lacks a stage-setter country with the calibre of the United States in 1944. The US now is saddled with the long-term task of adjusting household debt levels, which enables it to play only a limited role in lifting world economic demand. The US is far from the overpowering presence it enjoyed in the aftermath of World War Two.

While some see China and India as substitutes, both are struggling with many domestic contradictions. The pressing issue is thus how to position China and India in the existing global economic order. They are probably objects, not subjects.

The third difference from the Bretton Woods environment is that today's ongoing crisis demands upholding the improvement of the quality of economic activity. Countries must now confront the severity of climate change and other environmental issues.

At Bretton Woods, participants peacefully and tacitly approved of emerging countries raising their share of the world markets. Bretton Woods organisers were aware that an underlying cause of the war had been the exclusion from world markets of rising powers such as Japan and Germany. Proposals were made to smoothly integrate emerging countries into the world economy, by ensuring free trade, nondiscriminatory treatment and a free payments system.

In contrast, there is little room today to allow rising countries to engage in free-wheeling economic activity that could have an irreversible adverse impact. These emerging economies cannot build from within an environmentally friendly economy through a shift in their industrial paradigm, as spending on research and development constitutes only a limited percentage of the cash flow they generate.

For the next while, the world has no choice but to continue taking cosmetic measures to solve, one by one, the biggest contradictions that exist in today's compound international economic system. ◆

# The International Finance Corporation's role in trade finance and development

*To help people escape from the poverty trap, it is essential for IFC and its partners to do all they can to help fill the financial void*

**By** Lars H. Thunell, executive vice president and CEO, International Finance Corporation

Trade is fundamental to economic growth and development.

Maintaining emerging market firms' access to international markets is always important. But in times of economic uncertainty it becomes even more so, helping maintain the momentum in two key drivers of poverty reduction: employment and income gains.

In today's challenging economic conditions, when 90 million more people are trapped in poverty, many commercial banks have cut back their trade finance for emerging markets. The overall value of the trade finance business has declined in every region since October 2008. Shrinking demand and the financing shortfall have caused a double-digit drop in exports in all regions of the developing world. This makes it essential for the International Financial Corporation (IFC) and its partners to do all they can to help fill the financial void, 'crowding in' the private sector with new initiatives designed to support IFC's larger global vision: to create opportunity for people to escape poverty and improve their lives.

A member of the World Bank Group, IFC is the world's largest global development finance institution focused on the private sector. In this year of crisis, when investment flows to developing countries have dropped so sharply, the need for the financing and advisory services that IFC provides has never been greater. Trade is now one of IFC's key focal points, one of the areas where it is responding to the global economic crisis with speed, agility and innovation – helping businesses in developing countries with a broad package of targeted investments and advisory services.

Working in close partnership with others and mobilising resources from many sides, IFC has developed a response package that will support significant amounts of trade during the crisis. It is a sign of today's record demand for IFC services –

demand that is expected to remain strong over the next couple of years, as the world tries to recover from the crisis. There will be even stronger demand post-crisis for private sector financing in IFC's client countries, especially in low-income countries.

**A targeted response**

Global trade is expected to decline this year for the first time in decades, dropping by as much as 10 per cent. Reduced lending by banks around the world has created a $300 billion gap in trade finance. That gap poses a special risk to developing countries, which are particularly dependent on trade for economic growth.

IFC responded with a two-part initiative. It expanded its Global Trade Finance Program (GTFP), tripling its size to $3 billion. Providing guarantees for trade transactions in emerging markets, this programme is expected to underpin about $18 billion in additional trade over the next three years.

The GTFP is currently active in 77 countries, and could be expanded to approximately 25 more in the coming year. Its structure allows issuing banks to increase the volume and value of trade transactions, providing enhanced terms and access to competitive pricing terms.

The greatest demand for the programme recently has come from Latin America and the Caribbean. In Panama, Multibank recently became the country's first issuing bank to join the GTFP, improving access to finance for local importers and exporters and facilitating their entry to new markets. Multibank, which more than doubled its international trade operations in 2008, has now used IFC's programme in four transactions, totalling $23.4 million, that support international trade in manufactured and consumer goods.

Pakistan has received more than $250 million in GTFP guarantees in the past year. This has expanded access of finance to the country's corporate sector with a special focus on small and medium enterprises. Provided through eight leading Pakistani banks, this financing supports transactions in agricultural products, oil, iron and other industrial sectors – playing an important role in the broader economy at a critical time. Many other smaller frontier market countries – Armenia and Belarus, Malawi and São Tomé and Príncipe, Afghanistan, Yemen and others – have also benefited by having banks participating in the programme.

However, guarantees alone are not enough to address the gap in trade finance. So IFC helped launch the Global Trade Liquidity Program (GTLP), a unique initiative that brings together governments, development finance institutions and commercial banks to provide trade finance in emerging markets. The GTLP, which began operating in May 2009, initially consists of $5 billion in commitments from governments and other public sector sources, including $1 billion from IFC. It is expected to support $50 billion in trade.

A special feature of the GTLP is that for every 40 cents put up by IFC and public investors, commercial bank partners add 60 cents. Moreover, IFC will execute the programme by working through up to ten major global and regional banks with extensive trade finance presence in developing countries. Together they have relationships with more than 1,000 smaller corresponding banks in emerging markets. This broad network-based approach gives the GTLP near-universal coverage.

> “A special feature of the GTLP is that for every 40 cents put up by IFC and public investors, commercial bank partners add 60 cents”

> “IFC is the world's largest global development finance institution focused on the private sector”

The initial partner banks in the GTLP include Standard Chartered, Standard Bank, Citigroup and Rabobank. IFC has invested $1 billion, and is grateful for additional contributions from the governments of Canada and the Netherlands, the African Development Bank, the United Kingdom's Department of International Development and CDC Group, the OPEC Fund for International Development, the Saudi Fund for Development, Japan's Bank for International Cooperation and China's Ministry of Finance.

**Conclusion**

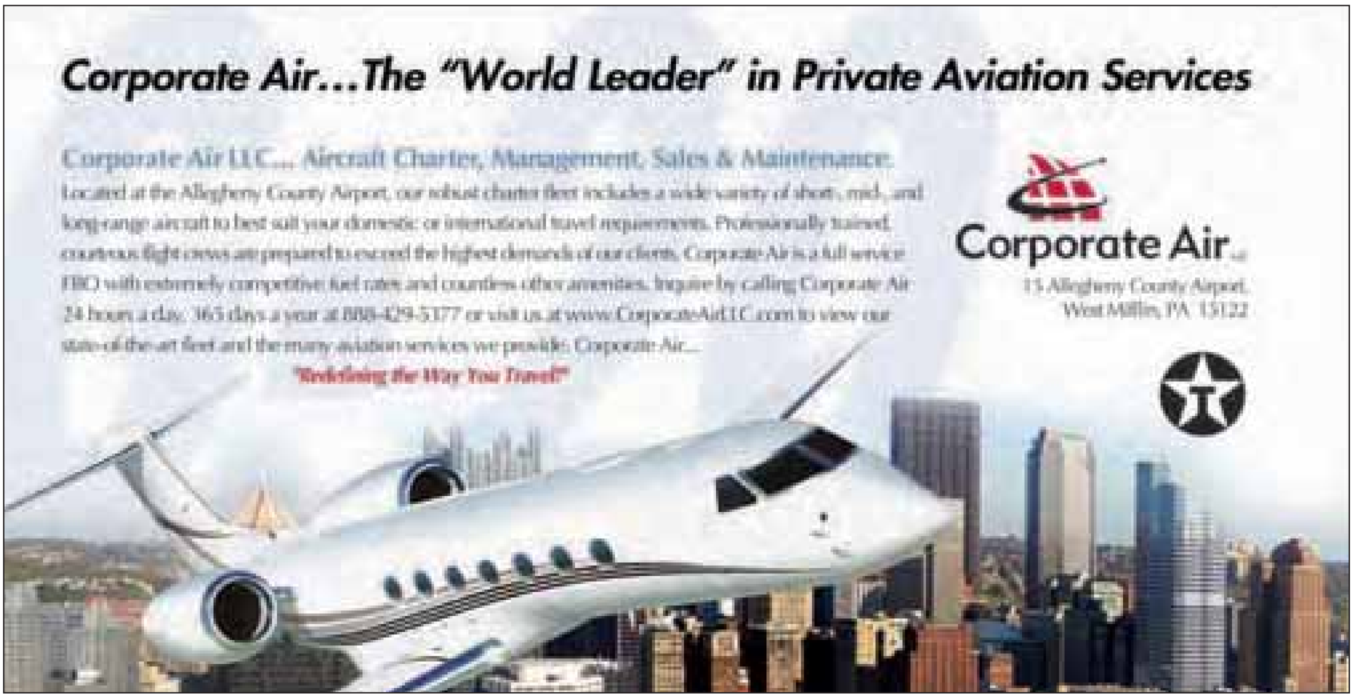
IFC is focused both on helping reduce the impact of the crisis on the poor and looking ahead to the post-crisis world. It realises that while official assistance is clearly vital, public sector money alone is not enough to turn the corner. The recovery strategy needs to encourage the role of private business. As the flow of credit resumes, developing countries can become a key force for a larger global rebound.

Over the longer term, today's high demand for IFC's private sector financing will likely grow even faster as developing countries account for a larger share of the global economy, public resources remain constrained, and a young and increasingly urban population in poor countries insists on higher-quality health services, education and infrastructure.

There is much to do. IFC can accomplish more working in partnership than alone. It is thus collaborating with the World Bank, the regional development banks and others in coordinated rapid-response initiatives for central and eastern Europe, Africa and Latin America and the Caribbean, in each case drawing from a rich knowledge base that will lead to increased lending and investments.

Trade is just one sector in which IFC has rapidly brought to market such targeted new crisis response initiatives. Others include the IFC Capitalization Fund, the Infrastructure Crisis Facility, the Microfinance Enhancement Facility and expanded Advisory Services. They come as part of a coordinated response to the most challenging economic conditions yet seen.

IFC will continue to adapt to meet these challenges and work toward a world where economic development is sustainable and inclusive. ◆




# Business Aviation is essential to America and the world

Corporate Air, a "World Leader" in private aviation services, is thrilled to welcome the G-20 to the great city of Pittsburgh! As the world converges to address a comprehensive agenda covering global economic recovery, it is an opportune time to explain the importance of Business Aviation – a vital industry that contributes significantly to economic growth here in America and around the world!

Business Aviation contributes over $150 billion to the U.S. economy every year, and provides over 1.2 million jobs. The vast majority of Business Aviation aircraft worldwide are manufactured, operated, serviced, and maintained in the United States. Even the handful of companies that manufacture planes abroad "complete" their planes in the U.S. American companies install electronics, automation systems, engines, paint, interiors and other aircraft components manufactured here in American factories by American workers. Flights made by business airplanes require support. Schedulers, dispatchers, maintainers, pilots, air traffic controllers and airport employees are just a few of the many support professions involved in Business Aviation. Business Aviation provides a lifeline to communities across the country and throughout the world. Business Aviation serves ten times the number of communities (more than 5,000 airports) served by commercial airlines (about 500 airports). This allows companies to locate and operate facilities in small towns or rural communities with little or no commercial airline service. This is vitally important since over 100 communities have lost airline service in the past year! Business Aviation ensures economic viability in these smaller, rural communities.

Business Aviation is an efficiency & productivity tool for tens of thousands of businesses in America, and far more throughout the world. Companies needing to reach multiple destinations in a single day rely on Business Aviation. This type of time-sensitive travel is impossible to conduct via other modes of transportation. When using a business airplane, employees can meet, plan and work en route. Employees can discuss proprietary information in a secure environment and without fear of eavesdropping, industrial espionage or a physical threat. Business aircraft utilize technologies that allow employees to remain in communication with colleagues and others throughout the duration of their flight. This is critical for both companies and government officials alike. It enables passengers to react quickly and manage rapidly-changing events. In addition, Business Aviation is a time multiplier, allowing key employees to do more, faster. Much like an investment in state-of-the-art computer software, a business airplane boosts employee efficiency and productivity. Efficiency = Productivity = Profits.

Business Aviation is also a life-saver for those in need. Through volunteer organizations like Angel Flight and the Air Care Alliance, business aircraft regularly contribute life-saving services to our communities. Business aircraft assist in disaster relief, ship food, medicine and clothing where it's needed, and transport patients for life-saving procedures.

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Workers of collapsed French car parts maker New Fabris demonstrate in front of Renault's headquarters in Boulogne-Billancourt in July 2009 to demand payouts to compensate for their lost jobs

# The trouble with trade: the Pittsburgh G20 leaders' review

*Despite the rhetoric, the Doha round has to reach a conclusion. It must end, even if it is the smallest of outcomes*

*By* Alan S. Alexandroff, Program on Conflict Management and Negotiation, University of Toronto, and The Centre for International Governance Innovation, and Andrew F. Cooper, The Centre for International Governance Innovation

The onset of the global financial crisis saw a serious deterioration in global trade. After a 27-year boom, predictions for 2009 suggest a contraction of some 9.7 per cent in global trade. Even those countries that achieved spectacular trade growth in previous years, most notably China and India, suffered a significant decline in trade with the global crisis.

The G20 leaders, at their first summit in Washington on 14-15 November 2008, pressed forward on financial reform but were quick to commit to an open global economy. They declared it critically important to reject protectionism and avoid turning inward in the face of falling growth and rising unemployment.

They declared: "Within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports." For emphasis, they tasked their trade ministers to "reach agreement this year on modalities that lead to a successful conclusion to the WTO's Doha Development Agenda, with an ambitious and balanced outcome".

This trade concern has not receded. In the follow-up G20 summit held in London on 1-2 April 2009, the leaders renewed their commitment to the 'Standstill Provision' and extended it through 2010. On the Doha


How determined are the G20 countries to prevent protectionism? A billboard in the business district in Taylor, Michigan

negotiations, they reaffirmed their pledge to reach "an ambitious and balanced conclusion".

At the G8 summit in L'Aquila, Italy, on 8-10 July 2009, the many G20 leaders present restated their promise to successfully conclude – by 2010 – the Doha round. They also requested their trade ministers to meet to "explore immediately all possible avenues for direct engagement within the WTO and to meet prior to the Pittsburgh Summit".

### The threat of rising trade protection

The decline in trade and the explosion of unemployment across the G20 countries, especially the advanced economies, as the financial crisis spilled over into the real economy of these countries, raised serious concerns that domestic political responses would be to erect trade barriers to protect domestic production. G20 leaders were alert to such a reality, acknowledging the response to the last great crisis – the Great Depression of the 1930s.

But how determined have the G20 countries actually been – beyond their pronouncements at G20 summits – to avoid protectionism? The WTO and the World Bank have monitored and published various aspects of trade policy since the Washington Summit. Both have raised concern over troubling trade policies. As early as February 2009, Elisa Gamberoni and Richard Newfarmer, acting independently from the United Nations, the WTO and the World Bank but using World Bank data, suggested that of 66 trade measures identified, 47 trade-restricting measures took effect. From these early analyses, it was apparent that traditional protection, namely tariff restrictions, represented only about half of the identified actions. Instead, many discriminatory measures were procurement restrictions in stimulus packages, export subsidies, and bailouts and subsidies to industries.

> The WTO's legitimacy is being undermined by the failure to end the round at all

It appears that many developed countries relied on these rather than border barriers. Traditional trade remedies, especially anti-dumping, have been employed more by developing countries against other developing countries (including India and China). In contrast, as Craig VanGrasstek, a US trade expert, argued regarding trade remedy: "In the United States today we have less evidence for protection now than I have seen in previous recessions."

The data from these international organisations, and specifically the WTO, focus only on trade measures that are inconsistent with WTO agreements. Because many state trading measures that include nationalist and indeed potentially discriminatory measures are unlikely to be gathered through such monitoring, several think tanks, including the Centre for Economic Policy Research (CEPR) and The Centre for International Governance Innovation (CIGI), have together initiated an independent global effort to monitor all state measures that might discriminate against foreign commercial interests, including imports, exports, foreign investments (including intellectual property) and foreign employees.

With the assistance of trade experts from among the G20 members, the Global Trade Alert (www.globaltradealert.org) has collected and published data on trade measures that might discriminate against foreign commercial interests. Results show that the G20 countries have implemented a significant number of discriminatory measures since the G20's November Standstill Provision. While there has been no across-the-board rise in protectionism – to the relief of trade experts – the surge in national industry bailouts, stimulus packages and subsidies nevertheless includes worrying aspects and even a trend to include foreign commercial discrimination in legislative efforts to protect domestic jobs.

### Completing the Doha round

On the G20's companion commitment to end the Doha round successfully, the rhetoric also appears to exceed the commitment to reach a conclusion.

Following the first G20 summit, senior officials in Geneva in December 2008 failed to make progress in the critical four areas identified by WTO director general Pascal Lamy – non-agricultural market access (NAMA), tariff cutting, initiatives for specified sectors, the special safeguard mechanism for developing countries to protect against agricultural import surges and the issue of NAMA preference erosion. Lamy called off the hoped-for December 2008 ministerial to mark negotiation progress.

On 24 July 2009, following the G20's promise in April to conclude the round by 2010, Lamy said he anticipated a very busy fall for all the groups negotiating the Doha round and that he felt that the member countries were making progress toward a successful conclusion. Yet just a few days later, Rahul Khullar, India's commerce secretary, stated that completion of the Doha round was out of reach in the current circumstances, given such public anger over job losses and lack of economic growth.

Doha must be ended, even if it achieves the smallest of outcomes. The WTO's legitimacy is no longer being undermined by the failure to conclude the negotiations successfully, but by the failure to end the round at all. Some time in the future the WTO can turn its attention to the new means of trade protection: non-tariff barriers generally, and bailouts, subsidies and discriminatory procurement specifically. ◆


We urge President Calderon and his Administration to fully investigate the Pasta de Conchos Mine Disaster.

65 miners were killed. 62 bodies have never been recovered, including Juanita Carrera Rodriquez's husband.

United Steelworkers – Fighting Globally For Workers' Dignity.

# India's role in getting Doha done

*India is laying the foundations for more open trade, with the focus on rural growth, employment and food security*

*By* Yoginder K. Alagh, chancellor, Central University of Nagaland, and former minister, power, planning and science and technology India

The Indian position has developed since the failure at the 2003 ministerial meeting of the World Trade Organization (WTO) in Cancun, to the point where India has invited the trade ministers to Delhi for negotiations. Permanent interests persist. However, progress is not only in atmospherics, but in substance too. Agriculture is the big issue, and services and others follow. The ministerial declaration at the 2001 Doha ministerial provided "that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development". India is prepared to implement this policy in its trading regime.

India has been willing to treat the earlier drafts of the Doha outcome document as a basis for discussion, since its interests are in laying the foundation for more open trade as a part of a widespread growth process. Rural growth, employment and food security are important in the emerging trading world. The issue is not grain, but access. There must be money to buy food, even if the farmers produce it and the shops have it. There must be agricultural growth, not to grow grain but to create a source of income on a widespread basis. When a large number of people live in rural areas, the state can feed a few people – and it must do so. More generally, however, to grow on a widespread basis, grain growth will slow down. Diversification emerges when incomes grow quickly in response to demand changes. But this was not happening fast enough.

> "The issue is not grain, but access. There must be money to buy food, even if the farmers produce it and the shops have it"

In preparing for Cancun, India was ready to negotiate the draft modalities paper prepared by the WTO's Committee on Agriculture. India reserved space for its interests. It was willing to integrate

monetary policy and tariff policy changes in a medium-term policy package that moved away from direct parastatal intervention to a crop-specific strategy that was compatible with both reform and the WTO. Under chair Stuart Harbinson, an attachment on curbs on parastatals was prepared – and India remained ready to negotiate on such issues. India set up a committee to retool its Agricultural Prices Commission, which I chaired, to build an appropriate strategy for WTO-compatible price interventions. But the United States and the European Union brought in last-minute revisions and the talks failed.

There was scepticism on whether the coalition created by India, Brazil and South Africa would last. But the ideas that India had raised would not go away and the developing world G20 – by that time a G33 – would hold. When the US trade representative called a mini-ministerial meeting, the EU, Mexico, India, Brazil and South Africa were invited. This group of five was the origin of the so-called G4. By 2005 India was being invited to the G8.

Although it was important for India and its partners to walk out at Cancun, it is important today to invite trade ministers to Delhi now. India has prepared much better adjustment paths to trade-dominated agriculture. In January 2009, it announced its decisions on the Alagh Committee's recommendations on the role of domestic price intervention in a WTO-dominated trade regime. The emergence of a globally competitive agriculture based on efficiency costs, as suggested by the committee, was accepted as the objective of policy. Also reinforced were policies and concepts, not common in the early part of this decade, such as futures, efficient management and market-based distribution costs, flexibility in markets and newer groups, such as self-help groups and producer companies. But, interestingly, India's cabinet did not

> India has prepared much better adjustment paths to trade-dominated agriculture

India's current plans for widespread agricultural growth include a commitment to implement a food security scheme for the poor and malnourished

accept the recommendation that tariff-based price interventions should be formed according to a rule-based, long-range marginal-cost framework. Later, the Ministry of Commerce unofficially announced that it wanted to give its WTO trade negotiators some room for bargaining.

Two major social developments have given urgency to India's WTO negotiations. First, the government of Manmohan Singh implemented the revolutionary National Employment Guarantee Scheme for all Indians, created under the guidance of Sonia Gandhi. Second, early in 2009 India made an irrevocable commitment that it will implement a food security scheme for poor, malnourished Indians. Both these policies are integrated into India's current programmes for widespread agricultural growth, endorsed by both the World Bank's 2008 World Development Report and the Food and Agriculture Organization's special report on Indian agriculture.

Markets and their development and processing are the key. Strategic alliances must be encouraged. Legislation developed in 2002 lets farmers' producer groups and cooperatives register as companies. Targeted employment and food distribution programmes for the poor and hungry segments of the workforce in low-productivity zones are priorities. But a hunger reduction programme, embedded in a food security strategy, must remain part of the broader process of diversification and growth in agriculture.

India will aggressively follow a policy of opening up services and outsourcing. It is now more receptive to the importance of educational, health and financial services on a global basis, under the usual regulatory regimes.

With some luck, India will maintain its momentum to get Doha done within the framework of global market reform and support for livelihood policies as a part of market-led widespread growth. It will play a creative role in negotiating special and differential treatment, tariff bands and non-agricultural market access, where it faces the same dilemmas as does the developing world. ◆


LET THE CLEAN ECONOMY BEGIN

This December, the world's governments will gather in Copenhagen to usher in the New Clean Economy. Climate Savers will be there. These companies are shaping the new reality by combining $CO_2$ reductions and business growth. By 2010 they will have collectively decreased their $CO_2$ emissions by 50 million tons while creating competitive advantage and increasing shareholder value. They're proving that climate leadership makes sense – for business and for the planet. Now is the time for the world's governments to lead us further along this path, into a new era. The future is calling, and the world is waiting. Follow the leaders at: **panda.org/cleaneconomy**

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# The Copenhagen conference's climate change challenge

*In Copenhagen, negotiators need to mark the beginning of the reorganisation of the world economy to ensure the global temperature increase does not exceed 2°C*

**By** Lars Lokke Rasmussen, prime minister, Denmark

The challenge of Copenhagen is one that is unavoidable and manageable. The compelling evidence on climate change calls for action. In three months, participants at the United Nations meeting on climate change in Copenhagen must conclude a global climate change agreement that will set the terms for decisive and collective action on climate change for many years to come. The objective is clear and ambitious: the Copenhagen agreement must be comprehensive, fair and effective.

It is not an easy task. Participants are facing difficult negotiations. But let us focus on the positive developments. It is encouraging that leaders at the Major Economies Forum (MEF) recognised in July that climate change requires an extraordinary global response and acknowledged the need that the increase in global temperature should not exceed 2°C. This is the same objective to which the European

Developing climate-friendly technologies: Horns Rev Offshore Wind Farm, located in the North Sea, west of Denmark, is one of the world's largest wind farms at sea. It comprises 80 efficient wind-turbines capable of producing 160 megawatts

> There is no such thing as a climate bailout if leaders fail to act now

Union has agreed. The G8 countries went one step further by declaring that they will work toward reducing emissions by 80 per cent in 2050. It is also encouraging that many countries have chosen to follow a low carbon development path by adopting climate action plans.

There is momentum. However, countries still have to accelerate to succeed in Copenhagen and meet the 2°C objective.

The G20 summit in Pittsburgh is the next important step. The world's economic crisis and climate are expected to be key issues there. G20 leaders can and must send a strong message on climate change financing and thereby bring vital input to the UN negotiations. All must oppose the risk of complacency, while combating the most severe economic crisis in a generation.

As leaders we must face the challenge of communicating the need for climate action. When you lose your job, the effect of the economic crisis on your everyday life is very direct and sudden. The effects of climate change on daily life may be much less apparent here and now; standing at the seashore you cannot see the sea level rising no matter the amount of scientific evidence. But without decisive action, the effects of climate change will be even more real, disruptive or devastating than those of the economic crisis. And while countries can engineer financial bailouts and economic stimulus packages, there is no such thing as a climate bailout if leaders fail to act now.

There can be no other way but to transform to low carbon societies. It is crucial to exploit the opportunities offered by the green agenda. Transforming economies into a low carbon growth path will offer new possibilities for technological development, production and employment. Countries typically spend as much as 5 per cent of gross domestic product or more on fossil fuels. A low carbon transformation can free up these resources and let them be put to other uses. Some sectors will experience decline, but others will face new opportunities. There is no contradiction between ambitious climate change policies and sustained economic growth. Green growth is the future.

In December, Copenhagen must address five key issues: financing, mitigation, adaptation, technology, and principles on measurement, reporting and verification.

The provision of financing to underpin and enhance climate action in developing countries will be one key element of an agreement in Copenhagen.

The current international framework here is not up to scale and is unable to deliver. Substantial changes are needed, by jointly building a climate financing architecture that can deliver support at sufficient pace and scale. It must ensure effective matching between climate action and support and achieving the maximum climate effect of support delivered. In addition to international public support, there will be financial transfers stemming from international carbon trade and crediting mechanisms. To ensure both sufficient financial transfers and environmental integrity of the system, the existing international carbon market mechanisms will have to be reformed, inter alia by introducing a higher level of aggregation through a programme-based approach.

Many issues need to be settled before a climate financing architecture can become fully operational. These issues include governance, sources of funds, envisaged circumstances for matching actions and finance and for accessing funds, and channels and instruments for delivery. Contributors want confidence and assurance that funds are being used efficiently and effectively, while recipients want confidence and assurance about availability and accessibility of finance. An appropriate balance between these concerns must be found.

> "There is no contradiction between ambitious climate change policies and sustained economic growth. Green growth is the future"

Furthermore, there must be a balance, acceptable to all parties, between action by industrialised countries and action by developing countries, the financial flows to developing countries and the actions in developing countries supported by these flows. The complexity of this negotiation is breathtaking.

Mitigation, emission targets, and pathways and abatement efforts will be a second core element of the Copenhagen agreement.

Industrialised countries must take the lead in achieving sizeable reductions in their emissions. In the mid term, the world must find common ground on targets. Concurrently we must work out the contribution of emerging economies and developing countries. Their efforts, while reflecting their individual national circumstances, must in the medium term achieve substantial deviation from 'business as usual' in their emissions.

While countries must acknowledge that there may be different paths to their final destination, they need to ensure that everyone is clearly and convincingly moving toward the same ambitious goal. Moreover, they need to ensure there is consistency between the pace they are setting and the planned arrival at the final destination.

To limit global warming to 2°C, global greenhouse gas emissions should peak no later than 2020 and be reduced by 50 per cent by 2050, compared to 1990.

Adaptation and technology are the third and fourth key elements in the Copenhagen agreement. Adapting to the climate change already occurring and that will occur notwithstanding mitigation efforts is inevitable. In particular, many poorer and vulnerable developing countries will be disproportionately affected. International support for their adaptation efforts is a necessary component in the Copenhagen agreement.

Accelerated development and transfer of climate-friendly technologies are essential. A significant boost in public efforts is needed to complement and underpin the substantial private efforts driven by other climate policies. Furthermore, enhanced cooperation is called for to strengthen dissemination and transfer of climate-friendly technologies to developing countries. There are many advantages in developing the partnerships on core technologies such as bio-energy, carbon capture and storage, renewables, energy efficiency and smart grids, as launched by the MEF.

Finally, it is important in Copenhagen to address the principles of a reliable regime to measure, report and verify actions of all participating countries. The conference will need to set a timetable for future follow-up.

The coming months are critical. Much is at stake. It is crucial that the Copenhagen agreement is practicable and feasible. In Copenhagen, negotiators will need to mark the beginning of the reorganisation of the world economy to make it independent of fossil fuels and to make it likely that the global temperature increase will not exceed 2°C.

Denmark will work hard toward this end. ♦

# Mexico: Challenges and Opportunities in the Current Crisis

As the major developed and developing economies of the world begin to see the first signs of a return to growth, hopes in Mexico are also rising although the dynamics and challenges are somewhat different. Mexico continues to face important structural challenges to become a more productive and competitive economy. On the positive side, many important political actors in Mexico, most notably President Calderón himself, see the necessity for structural change while the severity of the impact that the global financial crisis has had on Mexico represents an opportunity to take the steps necessary to make additional structural reforms. We continue to be hopeful that the opportunities provided by the crisis will not be wasted.

The economic slowdown produced by the financial crisis in the US has had a particularly negative impact in Mexico due to this country's dependence on exports to its northern neighbor. Manufacturing exports have declined by 25% through the first seven months of this year. For its part the trailing twelve month trade deficit has doubled through July. Ironically, given the strong imported component of final exports and the weakness in other imports the non energy deficit actually declined significantly. A major opportunity for Mexico going forward is to diversify its export markets (something that has slowly been happening) and to increase the local value added of those exports. However, the energy related trade surplus (due to falling oil prices and lower volume exports) has fallen dramatically. Thus the overall LTM deficit has gone from US$8,345m (in July, 2008) to US$16,019m (in July 09) while our measure of the net energy surplus has fallen from US$30,994m to US$16,579.

Fortunately, the insurance purchased last year by the Federal government against such a drop in oil prices has done much to ameliorate the damage (not reflected in the above numbers). However, this only suggests that unless we see a strong recovery next year in global demand much of the impact of the crisis may be postponed until 2010 making the future a bit less bright for Mexico than it might be for other economies.

As a result, economists are now expecting that the Mexican economy could contract by over 7% this year. We estimate that even assuming annualized quarter-over quarter growth of 7.5% and 6% in the last two quarters of the year, GDP would fall by roughly 7.35% in 2009.

As could be expected, especially given the significant dependence on petroleum revenue, public sector finances have been hurt by the impact of the global financial crisis. Policy makers in Mexico are now in the process of determining what combination of revenue enhancement, lower spending and higher deficits, is the best response for next year's budget.

In fact, the very idea of considering raising revenues and lowering spending in an environment in which the economy is just beginning to show signs of bottoming out and even fewer indications of recovering appears a bit odd in a world of fiscal stimulus and monetary quantitative easing. Nevertheless, this reflects the historical prudence that Mexican policy makers have shown in the face of recent economic crises. Furthermore, it is prudence which thus far appears to be shared by policy makers in different political parties.

Excluding petroleum revenues, the Federal government has in place a tax structure which although deficient in many frequently debated respects has actually shown a strong degree of resilience thus far, especially given the magnitude of the crisis. For example, through the first seven months of the year non-petroleum federal government tax revenues have fallen by 13.6% in real terms and 8.4% in nominal terms. By contrast, in the US with a much milder reduction in GDP Federal government receipts have fallen by over 20% in real terms through the first seven months of the year.

In terms of the debt and the deficit, the numbers show a situation that is in relatively good shape by international standards. We estimate that through the first six months of the year the trailing twelve month total federal public sector deficit (as measured by the "financial requirements" metric) reached a relatively modest 3.4% of LTM GDP. This is up from a small 1.5% through 2Q08, before the crisis hit. Excluding the "non-recurrent" income reported by the Mexican Treasury department in its quarterly statements, we estimate that the deficit reached a still relatively manageable 5.1%. In good part, the extraordinary revenues come from the hedging for oil prices mentioned above, income earned by the Central Bank due to its USD reserves at the time of the peso's depreciation last year and the use of stabilization fund resources. The presumed reduction in non-recurring income in 2010 suggests that the 5.1% figure is a better metric for the actual state of Mexican public sector deficit finances.

Thanks to the fiscal prudence shown by Mexican policy makers the debt level of the Federal public sector also appears to be relatively under control. The debt side of the "financial requirements" measure shows that the debt to LTM GDP was 38.4% in June vs. a low of 29.8% in June of last year. We estimate that a little less than 2% of the increase was due to the effect of the peso's deprecation on non-peso denominated debt, and thus not to deficit spending. In a world where public sector debt is increasing at extraordinary rates, these numbers are rather contained in comparison, especially given the negative impact on the Mexican economy of the financial crisis.

We believe that one of the reasons why Mexican authorities have decided to adopt a relatively conservative approach to the management of fiscal policy is the persistent threat of inflation and the limited maneuvering room this reality gives them. To this we would add the recognition that inflation tends to hurt most those families with limited economic resources.

Despite the severity of Mexico's economic downturn and as a result of the depreciation of the peso and perhaps also to the lack of a competitive domestic economic structure inflation in Mexico remains high although it has been on the decline. Through July headline inflation reached 5.44% while core inflation was at 5.32%. Excluding non-processed agricultural products headline inflation was at 4.79%. At its peak in December headline inflation was at 6.5% while excluding agricultural products it was at 6.0%. Core inflation peaked in March at 5.83%. These high levels of inflation also make it difficult for the Central Bank to further cut its key reference rates which now stands at 4.5% vs. 8.25% at the beginning of the year. The late initiation of rate cuts (beginning in January) also reflects the stubbornness of the inflation problem in Mexico.

One of the major drivers in lowering Mexican inflation has been the so-called "administered and concerted prices" index which in December was at 7.27% and by July had fallen to only 2.51%. These prices reflect products and services in which government policy plays a predominant role in their determination. In this area policy makers find themselves in a difficult dilemma. One way to increase public sector revenue is to raise many of the prices for public sector provided products especially in the energy field. Although this could lower the deficit it would also increase already strong inflationary pressures. Furthermore, the strong inflation in raw agricultural prices (12% in July) could get worse in months to come given below normal and irregular rainfall in many parts of Mexico, hurting production.

The difficulties in dealing with inflation reflect the rigidities in the Mexican economy in areas such as competitiveness, labor relations, education and burdens imposed on small business creation. There is also the issue of the role played by public sector companies in the key energy area. Fortunately, Mexican policy makers are fully aware of these difficulties and have been tireless in trying to achieve the necessary political consensus to effect reform. We have seen efforts in education and in Pemex. In the case of Pemex, and as a result of reforms approved last year, the percentage of petroleum revenue staying with Pemex in order to allow it to better finance its capital expenditure requirements has risen dramatically through the first six months of the year.

In fact, the very existence of HR Ratings is in large part due to an early decision by policy makers in the current Administration to increase competitiveness in the securities rating industry. Nevertheless, much more needs to be done and we can only hope that the severity of the current economic crisis serves as a catalyst for further change.

The IEA has undertaken an initiative to develop roadmaps for new energy technologies, such as the Kewet Buddy electric car, which is produced in Oslo by ElBil Norge AS (Ltd). When fully charged the car can run for about 80 kilometres on flat terrain

# The sustainable energy contribution

*A strategy is needed to promote continuous investment and ensure international cooperation for the development of low carbon energy technologies*

*By* Nobuo Tanaka, executive director, International Energy Agency

Current trends in energy supply and use are not sustainable. The findings of the 2008 World Energy Outlook published by the International Energy Agency (IEA) show that if policies do not change, primary energy demand will grow by almost 50 per cent by 2030, with a persistent dominance of fossil fuels – oil, gas and coal. Demand will come mainly from developing countries, mostly China and India, where continued growth and adoption of a modern consumer lifestyle will drive demand for more transport, cooling and heating. Growing fossil fuel consumption will drive up global carbon dioxide emissions, contributing to potentially catastrophic climate change.

The energy sector produces 60 per cent of global greenhouse gas emissions. It must be a key part of any strategy to reduce them. The world must change the path that it is now on. This will take an energy revolution, and low carbon energy technologies will be at its heart. Energy efficiency, many types of renewable energy, carbon capture and storage (CCS), nuclear power and new transport technologies will all require widespread deployment to reach the necessary greenhouse gas emission goals.

**Growing energy demand pushes up emissions**

The Reference Scenario – which assumes that no new policies are introduced – in the 2008 World Energy Outlook sees annual global primary energy


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demand growing 1.6 per cent on average up to 2030, from 11,730 million tons of oil equivalent (Mtoe) to just over 17,010 Mtoe – an increase of 45 per cent in a little more than 20 years. China and India account for slightly above half of this increase. Non-members of the Organisation for Economic Co-operation and Development (OECD) as a whole account for 87 per cent, so their share of world primary energy demand will rise from 51 per cent to 62 per cent.

Unfettered growth in energy demand will clearly have serious consequences. Under the Reference Scenario, carbon dioxide emissions will rise 45 per cent by 2030, contributing, with other greenhouse gases, to an eventual average temperature increase of up to 6°C. Three quarters of the extra carbon dioxide will come from China, India and the Middle East, and as much as 97 per cent from non-OECD countries as a whole – although non-OECD per capita emissions will still be far lower on average than among OECD members. Only the European Union and Japan will see lower emissions in 2030 than today's levels.

The energy sector has a relatively slow rate of capital replacement because of the long lifetimes of much of its infrastructure. More efficient technologies normally take many years to spread throughout. As a result, both the public and private sectors must accept the need for additional investment, as well as the potential costs of early capital retirement, in order to accelerate this process and deliver deep cuts in emissions.

### Investment plays a key role

The financial and economic crisis has had a severe impact on the energy sector, contributing to plunging

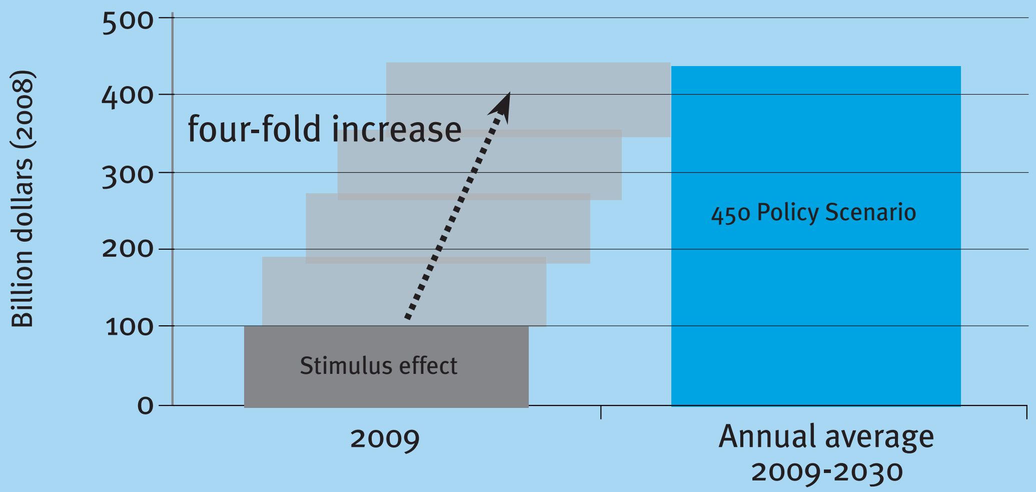
> “Both the public and private sectors must accept the need for additional investment”

investment. Unpredictable energy markets and highly volatile prices hinder the ability of producers to plan and realise investment in new energy infrastructure. IEA calculations show that global investment in upstream oil and gas has already been cut by 21 per cent this year compared to 2008 – a reduction of about $100 billion. Governments must increase their spending and make a long-term commitment that extends well beyond the current crisis to support projects that address energy efficiency and low-carbon technology.

Enormous investment will be required to transform energy use, including significant changes in the pattern of investment across the supply and demand chains, as well as huge additional spending on new capital stock, especially in power plants and in more energy-efficient equipment and appliances. Although the sheer scale of the transformation means placing a substantial burden on both the public and private sectors, the current financial crisis should be used as an opportunity rather than a barrier for launching this process.

## Incremental investment in the low carbon sector

To achieve the 450 Policy Scenario, governments would need to increase funds committed to the low carbon energy sector four-fold to their stimulus package




*Source: OECD / IEA 2009*

Sound energy investment strategies should be at the heart of every economic stimulus package. Governments must ensure that stimulus packages consist of green elements sufficient to prevent dangerous climate change. The IEA has calculated that of the total $2.6 trillion of public spending in short-term economic stimulus packages announced to date, $10 billion has been directed at energy efficiency and clean energy. This is a step in the right direction.

But much more needs to be done: investment in energy efficiency and clean technologies would need to increase four-fold to contain the rise in global average temperature (see figure above). Limiting the temperature increase to around 2°C means that carbon dioxide emissions will need to be reduced by at least 50 per cent by 2050, in line with stabilising them at around 450 parts per million – a goal that G8 leaders are willing to achieve. To realise this scenario, the IEA has found that emissions would need to drop from 41 gigatonnes (Gt) in 2030 to 26 Gt, representing a reduction of 15 Gt. The bulk of this emissions reduction – 54 per cent – would need to come from energy efficiency, followed by more renewable energy and nuclear power and, eventually, CCS after 2020.

> Enormous investment will be required to transform energy use

### Energy efficiency, functioning markets and low carbon energy technology

Against this background, the IEA urges the G20 to focus on energy savings and to support ongoing work on identification and dissemination of best practices, standards and recommendations for increasing energy efficiency. The IEA will host the secretariat of the newly launched International Partnership for Energy Efficiency Cooperation, a milestone in international cooperation on energy efficiency policy. The IEA welcomes the fact that the partnership has been called upon to take into account the IEA's consolidated set of 25 efficiency recommendations to the G8. If all IEA recommendations were implemented globally, around 8.2 Gt of carbon dioxide per year could be saved by 2030. This is more than the current energy-related emissions of Japan and the United States combined.

Efficient markets, including carbon markets, are central to reducing emissions. They highlight the role of sectoral approaches, which are intended to address sectors that require urgent action, without waiting for countries to take nation-wide commitments. Calling for enhanced technology development and research to mitigate climate change, the IEA has undertaken an initiative to develop roadmaps for new energy technologies. It is currently working on 19 roadmaps for solar photovoltaic, wind, electric/hybrid vehicles, CCS, nuclear power and the cement industry. The goal is to create a global platform on low carbon energy technology and ultimately create an international strategy to promote continuous investment and ensure the widest international cooperation for accelerating the development and deployment of low carbon energy technologies. This approach was endorsed by the G8 leaders at the L'Aquila Summit in July 2009.

However, policymakers need to take a holistic approach when they consider investments in new technologies. They should consider the impact of their investment on the whole energy system and choose to invest first in technologies that are compatible with the existing system or will enable the development or deployment of other technologies. For example, investing in smart electricity grids will enable the more rapid spread of renewables and electric vehicles. Investing in CCS could help prolong the life of existing power plants, which might be cheaper than replacing them – especially to avoid locking in sub-optimal alternative technologies for an extended period. ◆

# TOWARDS THE GLOBAL DEPLOYMENT OF SUSTAINABLE BIOENERGY TECHNOLOGIES

## GBEP IS BUILDING INTERNATIONAL CONSENSUS ON BIOENERGY FOR SUSTAINABLE DEVELOPMENT, CLIMATE CHANGE MITIGATION AND FOOD AND ENERGY SECURITY

The recent G8 Summit in L'Aquila, Italy, emphasised the decisive role that renewable energies can play in meeting the dual challenges of reducing carbon emissions and lowering fossil-fuel consumption and dependence. In this context, G8 leaders invited the Global Bioenergy Partnership (GBEP) to continue its work on science-based benchmarks and indicators for sustainable biofuel production and to boost technological co-operation and innovation in bioenergy.

From ys canada on Flickr

Establishing broad consensus on sustainable bioenergy development is now more than ever an imperative at an international level if we are to achieve the energy revolution and green recovery that many are calling for. International co-operation based on a common framework is essential so bioenergy can contribute to climate change mitigation and adaptation, energy security and poverty reduction.

GBEP has been active on this front through two task forces that have allowed its partners to find common ground on important questions. GBEP's Task Force on GHG Methodologies has designed a methodological framework for the lifecycle analysis of greenhouse gas emissions associated with bioenergy production and use. A report published in June of this year detailed the Task Force's tool, which will now be implemented to help build capacity in the assessment of GHG emissions from bioenergy and to increase transparency and accountability in the reporting of such analyses.

Through its Task Force on Sustainability, GBEP is tackling the thorny question of sustainability by developing criteria and indicators, which are intended to guide analysis of bioenergy at the domestic level. GBEP has reached agreement on provisional criteria – under the four headings of "environmental", "economic", "social" and "energy security" – and more detailed and technical work on indicators has now begun. A set of criteria and indicators is expected to be published by May 2010.

FAO/10489

Once sustainability criteria and indicators are established at an international level, the priority for policy-makers will be to take co-ordinated action to ensure that available solutions for the sustainable and resource-efficient production and use of bioenergy are implemented around the world, while also promoting the development of innovative, sustainable technologies and practices. This is the challenge that GBEP is now taking up as it seeks to complement its sustainability toolkit with instruments aimed at dismantling barriers to the widespread deployment of sustainable bioenergy technologies.

In light of this work, GBEP will prepare a report to be presented to the 2010 G8 Summit in Canada.

GBEP is an international initiative established in the context of the 2005 Gleneagles Plan of Action to "support wider, cost-effective biomass and biofuels deployment, particularly in developing countries where biomass use is prevalent." GBEP brings together 28 partners and 26 observers including governments, international and UN organisations as well as private and civil society stakeholders in a joint commitment to promote bioenergy for sustainable development.

The Partnership is chaired by Corrado Clini, Director General of the Italian Ministry for the Environment Land and Sea, and co-chaired by Brazil. FAO hosts the GBEP Secretariat at its Rome headquarters, with the support of Italy.

Read more about GBEP at www.globalbioenergy.org

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# For innovative, sustainable consumption

Each day, millions of customers and consumers around the world choose brands and technologies from Henkel. Our products deliver premium quality while having great potential to make positive contributions toward solving social challenges such as climate change, resource conservation, hygiene, and avoidance of waste. Multiplied a million times, the savings that can be made by using Henkel products represent a major step toward more efficient use of such valuable resources as energy and water.

At Henkel, our ambition is that each new product should not only offer consumers excellent performance but must also make a contribution to sustainable development. With regard to our laundry and home care products, we call this combination "Performance based on Sustainability". This ambition to combine the quality of our brands with responsibility toward people and the environment demands that we constantly come up with new, ever more innovative ideas. It sets a new yardstick for quality that makes it possible to meet the needs of people today without compromising the development opportunities of future generations. With our promise of "Quality and Responsibility" on all of our laundry detergents and household cleaners worldwide, Henkel is acting as a trailblazer and aims to make it easier for consumers to reach a conscientious purchasing decision and help them to identify the more sustainable solutions.

**Improvements throughout the value chain**
To meet the global challenges, Henkel focuses its activities throughout the value chain on sustainable development. Sustainable development starts with the selection of the raw materials, involves manufacturing, distribution and communication, and also takes into account the use phase and disposal.

**Example: raw materials**
Henkel has been using ingredients based on renewable raw materials for many decades. One example is the ingredients for washing-active substances – the surfactants. Instead of being based on finite resources such as petroleum, these can also be derived from palm kernel oil. In order to promote the sustainable cultivation of palm kernel oil, Henkel has been involved since 2003 in the Round Table on Sustainable Palm Oil (RSPO). Under the Book & Claim system Henkel became the first company in the world to purchase certificates for sustainable palm kernel oil for the products of its Terra Activ brand. The ingredients of the cleaning products are based up to 85 percent on renewable raw materials.

**Example: production and distribution**
For decades the responsible handling of resources has been standard practice at Henkel. Based on the 2007 levels, Henkel has set itself the target for 2012 of reducing the energy consumption per metric ton of output by 15 percent and water consumption by 10 percent. The volume of waste is also to be cut by 10 percent.

**Example: use phase**
In the overall life cycle of many Henkel products, most of the climate-damaging greenhouse gases are not generated during manufacture but during the use phase. Henkel therefore continuously optimizes the formulations of its laundry detergents and household cleaners so that they provide significant added value by offering additional functions, as in the case of Purex Complete 3-in-1, or already deliver very high performance even at low temperatures, as Somat 9 does. By selecting low temperature programs, consumers can thus help to protect the climate and save money at the same time.

**Example: disposal**
Henkel has been conducting research on biodegradability for more than 50 years. By developing the Closed Bottle Test, one of the six tests for biodegradability recognized worldwide by the Organization for Economic Cooperation and Development, Henkel has made a major contribution to progress in this area.

***"At Henkel, we focus on the entire value chain. "Performance based on Sustainability" is the key innovation driver which combines premium brand quality and corporate responsibility for sustainable consumption. Above all it is a real success factor!"***

Christian-André Weinberger, Corporate Senior Vice President and Global Chief Marketing Officer as well as Sustainability Council representative for the Laundry & Home Care business at Henkel.

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US president Barack Obama and the other G20 leaders are expected to help establish an international regime to replace the Kyoto Protocol

# How Pittsburgh can help Copenhagen on climate change

*Copenhagen needs to resolve five major issues. The G20 summit must produce a meaningful statement of principles that will lead to this resolution*

**By** Frank Loy, former US under secretary of state for global affairs and former chief climate negotiator

Expectations are high for the climate conference in Copenhagen in December 2009. They should be. Much is at stake. The science of climate change is unforgiving: every year – every day – that people put more greenhouse gases into the atmosphere means that they are closer to the day that their climate – and way of life – is irreversibly changed. Delay is the enemy of all.

The world expects the United Nations Copenhagen conference to establish an international regime to replace the present Kyoto Protocol one, when the latter expires at the end of 2012. Scepticism abounds over whether the conference will be able to produce such an international agreement. Most of the tough issues that Copenhagen needs to resolve remain unresolved – even after many preliminary meetings.

It is common for decisions in international negotiations to be backloaded – and to delay until the final hours the key decisions and major concessions that need to be made for successful negotiations. No doubt a good deal of backloading is going on here.

But in this instance – negotiations for an agreement of unparalleled complexity, with economic and political consequences larger than the most comprehensive trade agreement – such delay is a risky game. Negotiators at Copenhagen will not be able to come to an agreement without prior political decisions by leaders – their bosses – on key issues.

In September, some 75 days before Copenhagen, the leaders of the G20 will have an opportunity – the last one before Copenhagen – to make Copenhagen a success by taking some of those major policy decisions that need to be made.

> Negotiators at Copenhagen will not be able to come to an agreement without prior political decisions by leaders on key issues

That is both the G20's opportunity and obligation. The G20 is in many ways the ideal forum for this. At the table will be a manageable number of key players. They represent all the different political imperatives, motivations or drivers that shape Copenhagen negotiating strategies.

All the players in climate negotiations are, of course, motivated by a desire to reduce the risks associated with climate change. But for some this is the primary motivation, while for others that is by no means the case. The parties reflect four different policy drivers:

- For some, particularly European Union members, the desire to mitigate the risk of climate change is the primary driver.
- The principal concern of most developing countries, however, is their economic development. They view climate negotiations both as a possible threat and a potential boost to that objective.
- The US position is, of necessity, heavily influenced by the American public's concern. This is less about the risks of climate change than the quest for security of energy supply and a reduced reliance on imported oil.
- For Saudi Arabia and Russia, where the national income and, particularly, exports are dominated by oil and gas, the important motivation, in contrast, is security of energy demand.

Copenhagen needs to decide on five major issues. The G20 Pittsburgh meeting will only be useful if it produces some meaningful statement of political principles that point the way to their resolution.

First, how much will the industrialised countries cut their greenhouse gas emissions?

Second, what kind of nationally appropriate mitigation actions (namely support for non-agricultural market access, or NAMA) will rapidly industrialising economies such as China and India take to slow and reverse their emission growth? (At the 2007 Bali climate conference the need for NAMA was agreed to.)

Third, how much financing and how much technical assistance will industrialised countries offer developing countries to help transfer the new technologies for low carbon development?

A thick haze engulfs tourists and locals walking along the Olympic Green area in Beijing

Fourth, what role will reducing emissions from deforestation and degradation play in the future framework? Deforestation contributes almost 20 per cent of greenhouse gas emissions.

Fifth, how, and how much, will industrialised countries assist developing countries in adapting to rising seas and other consequences of climate change that will occur, regardless of all future steps, because of past emissions?

The leaders of the G20 can contribute to a successful Copenhagen conference by adopting a few principles, or instructions to negotiators. These might include the following:

First, without losing focus on the absolute need to deal with the central issue – climate change – the negotiations at Copenhagen need to be broad enough to address the national interests of all participants, most particularly, the development and adaptation needs of developing countries. While it is politically out of the question to 'compensate' the members of the Organization of the Petroleum-Exporting Countries and other suppliers for the loss of markets as demand for oil slows, it should be possible to discuss arrangements between producer countries and consumer countries that recognise that petroleum remains a critical part of the world's energy picture for the near and mid term, even as it becomes marginal in the long term.

Second, the negotiators need to set tough but realistic emission reduction targets for industrialised countries. Some of these will be aspirational while others will reflect real commitments. In setting the latter, they need to avoid target levels that are politically unrealistic and therefore will not be met.

Third, G20 leaders need to describe a range for the financial contributions from the industrialised countries that should be in the final agreement, expressed either in absolute terms or in the form of a formula. Parliaments and the publics of all participants need to understand early on that the amount will be considerably larger than most industrialised countries have contemplated, and considerably smaller than developing countries have demanded.

Fourth, G20 leaders must clarify what is expected from the rapidly industrialising developing countries. Their contributions may take different forms, but generally will be commitments to take specific actions to reduce emissions, in contrast to commitments to reduce emissions by a fixed amount. Their obligations need, however, to exhibit several characteristics: Commitments need to be legally binding, and the targets need to be ambitious, given the national circumstances of the country. It must be possible to monitor, measure and verify the reduction results of the actions. And commitments should be part of a larger national plan that envisions a flattening of the growth curve of annual increases in the country's emissions at a specific future date, followed by a reduction of emissions in absolute terms.

This is a tall order for the G20. But it is not an unreasonable one. The health of the planet requires that it be met. ◆

# Sustainable mining: Vale and its climate change approach

The climate change challenge demands immediate action from civil society, governments and business alike. We all have a shared responsibility to strike a balance: satisfying current socio-economic development needs while ensuring future generations' well-being.

Vale, a global leader in sustainable mining, has a proven track record of prioritizing the environment in its operations. In 2008, we invested US$ 678 million in environmental issues – from reforestation and conservation to the development of cleaner technologies. As a company that produces many of the basic ingredients that go into the products we enjoy in daily life, Vale has made "the transformation of minerals into prosperity and sustainable development" its Corporate Mission Statement.

The company's Climate Change Policy provides the direction for the initiatives developed by each business and corporate area. It is based on five pillars:

1. Strategic evaluation of the potential impacts of climate change on company business.
2. Promotion of Green House Gases reduction and capture initiatives.
3. Cooperation and partnerships to foster research and understanding of adaptation needs in the regions where the company operates.
4. Engagement with civil society, business actors and government to publicly discuss and contribute to the regulatory framework required to face climate change.
5. Transparency and continuous improvement.

Since 2005 the company has been carrying out annual inventories of its greenhouse gas (GHG) emissions and participating in the Carbon Disclosure Project (CDP), where in 2008 we were the only Latin American company listed in the Carbon Disclosure Leadership Index, having the lowest emission per revenue rate among the mining companies. According to Goldman Sachs report "GS Sustain – Change is coming: a framework for climate change – a defining issue of the 21st century", issued in 2009, Vale is the most efficient mining company regarding GHG emissions management.

## Energy – Key to Sustainable Mining

Vale's integrated operations – mines, railways, mineral processing plants and ports – have made the company not only a leader in its business sector but also a major consumer of energy and hence, keenly aware of the need to minimize the use of carbon-intensive fuels.

As a result, the company has focused on four complementary solutions: improving efficiency and substituting fuels in existing processes; using renewable energy sources, in particular hydropower, wherever possible; and investing in the development of new energy-related technologies.

Vale has implemented several actions to improve efficiency and promote fuel substitution in existing processes, for instance:

- Improving control mechanisms to optimize equipments usage period;
- Development of new railway operational models with longer carriages and specific driving training targeted to improve safety and reduce fuel consumption;
- Replacement or reform of high-energy consumption equipment such as large scale fans and pumping systems;
- Fuel substitution in key pelletizing plants, replacing oil for natural gas, thus reducing consumption and emissions.

Vale has also been investing in renewable energy sources. Nowadays the company owns or takes part in partnership in 19 hydropower plants which generated over 6000 GWh in 2008. Further, Vale is currently investing in two new hydropower plants, Karebee, in Indonesia, and UHE Estreito, in Tocantins/Brazil. This last project alone will add 1087 MW of installed Power to the company's power base. Within Brazil, almost all of our current electric energy consumption comes from clean, renewable hydropower.

The Center for Technology in Energy, hosted in São Jose dos Campos, São Paulo, by VSE - Vale Soluções em Energia S.A., was set up in partnership with Brazil's development bank (BNDES). This new company aims to the development of clean energy-related technologies. Its projects should also help to improve efficiency and flexibility in a variety of energy processes. Research focus on creating or improving machinery, such as turbines, designed to work efficiently with alternative energy sources, such as ethanol, biodiesel, biogas, and cleaner forms of thermal coal. Vale and BNDES will invest more than $150 million in the center in the first three years.

Further, as Brazil's largest railway and logistics operator, we are also working to replace a significant amount of diesel used by the company's train engines with cleaner, renewable biodiesel. The biodiesel is already being used on a 3% mix, on the 905km Vitória-Minas line in the southeast of the country. A new company aimed to produce Bio-fuel from palm trees in the Northeast, should help the company reach a mix of up to 20% of clean fuel in the coming years

## Preservation and Reforestation

As a mining company, Vale has long been concerned with the impact it has on the environment. Vale is now bringing its experience in Brazil to new investments around the world, as well as sharing its experience with the broader mining and scientific communities.

For instance, around Vale´s Carajás open-pit iron ore mine, the world's largest, located in the Amazonian area of the state of Pará, now include five separate preservation areas encompassing 807.290 hectares (an area about five times the size of Luxembourg) of tropical ecosystems, in partnership with the environmental authorities. In total, considering other regions and operations, Vale helps protect almost 1.000.000 hectares of forest worldwide, a massive land area of conserved forest, among which is the Reserva Natural Vale, a preserved area within the highly endangered southeastern Brazilian Atlantic Rainforest, nominated by UNESCO as World Natural Heritage site.

In addition, the company's current, ambitious Vale Florestar project, calls for planting and protecting millions of trees over 300,000 hectares, hence capturing 160 million tons of $CO^2$ in 21 years, in areas not previously used for mining. This program has been operational since 2007, in Brazil's Amazon region, directly employing some 1,500 locals.

Vale believes that actively addressing the challenges and opportunities climate change represents to humanity at the present time, is an important part of its sustainability strategy and of the legacy it aims to build for future generations.

# From conventional to creative energy supply strategies

*Non-conventional energy resources offer clean and innovative alternatives, but implemention is not always straightforward*

**By** Victoria V. Panova, Moscow State Institute of International Relations

> Biofuel production continues to develop, although concerns remain regarding its compatibility with food security

The multifaceted economic crisis continues. Some say the world is now in the process of stabilisation and will have recovery soon. Others see many difficulties remaining. Most agree that unlike the energy crisis in the 1970s, the energy sector did not trigger today's proliferating global financial and economic disaster. But oil market volatility, growing demand for hydrocarbons, political unrest in the producing or transit countries, and the knowledge that hydrocarbons are depletable resources have all contributed to the instability of the global economy in the first decade of the 21st century. To deal with these challenges, the world needs to shift from its over-reliance on hydrocarbons to a wider use of innovative, more climate-compatible and environmentally friendly alternative sources of energy.

**From hydrocarbons to alternatives and renewables: the current condition**

Non-conventional energy supply still occupies a minor share in the global fuel and energy balance. Only a few countries, such as Iceland, enjoy a natural advantage here. Thus, with today's financial crisis and the volatile price of oil, which last year reached a historic high of $147 per barrel before plummeting to below $50, there arose the danger that most investments in alternative and renewable energy sources would be frozen, as there are fewer commercial incentives there than with hydrocarbons. The price for oil has now stabilised around $70, which makes possible politically motivated investments in non-conventional energy. But the crisis has also led to delayed development of renewable energy projects, as many companies seek changes in regulations and decreased prices along the supply chain.

There is today a growing awareness of the need to switch to non-conventional resources. For example, the use of hydropower reached 2.8 per cent of global energy consumption in 2008, with China leading at 20.3 per cent on strong capacity growth and increased rainfall. Global wind energy capacity over the past year grew around 29.9 per cent, with markets in the United States and China growing fastest. By 2012 the wind market could grow by more than 155 per cent to reach 240 gigawatts (GW) of total installed capacity; by 2020 it could reach 8 per cent of global electricity demand, with more than 1,000 GW of installed capacity. In addition, over the past year solar power grew by 69 per cent. Biofuel production continues to develop, especially in the US and Brazil, although concerns remain regarding its compatibility with food security.

Nuclear energy could be seen as alternative energy. But it is still highly resisted by a large part of the global community. In Beijing in 2009, Mohamed ElBaradei, the head of the International Atomic Energy Agency, noted that although the economic crisis has led to decreased interest in nuclear energy, by 2030 demand for it will likely grow to 66 per cent, compared to today's 16 per cent. Over the past year, nuclear output has shown signs of decline of around 0.7 per cent. But it will likely maintain positive momentum thanks to the policies of China, India, Russia, the US and

A G20 focus on clean and efficient energy technologies could lead to projects like Beijing's Sino-Italian Ecological and Energy-Efficient Building, Tsinghua University. Fitted with state-of-the-art solar elements, it is a dynamic, energy-efficient oasis

Korea, whose governments consider nuclear energy an effective means to a green and climate-friendly economy. Decline is nonetheless expected in Europe, with the closures and phase-out policies of the United Kingdom, Germany, Sweden and Belgium.

### National and international strategies for green energy

At L'Aquila in July 2009, the G8 together with its five partners in the Heiligendamm-Aquila Process agreed on several common points on green energy. The leaders called for retrofitting coal plants and creating a 'Sustainable Buildings Network' to share information and best-practice examples. Their most important achievement was to involve "renewable energy in economic stimulus plans as a contribution to a green economic recovery". Most measures taken concern tax concessions, but promotional rates and hybrid tariffs are included.

The European Union, with its 20/20/20 Plan, is trying to maintain momentum and intellectual leadership by promoting new ideas and leading by example. Member countries have the means to introduce renewables, largely ensured by government subsidies, high levels of technical and economic development, and low rates of traditional resource-demand growth.

The United States is also adopting specific measures, such as the Troubled Asset Relief Program, the Emergency Economic Stabilization Act of 2008 and tax incentives aimed at developing renewable energy and energy conservation (for example, energy-efficient buildings, industries and transport). The next step in overcoming the anti-climate change legacy of George Bush's administration was the Clean Energy and Security Act (the Waxman-Markey bill). It was pushed through the House of Representatives on 26 June, on the eve of the G8 L'Aquila Summit, although it has not yet been passed by the Senate.

China and India have adopted laws to support their renewable energy industries. At the first summit of Brazil, Russia, India and China – the BRICs – in June 2009, even recognising their differing approaches, leaders agreed to diversify energy resources further, specifically emphasising renewables, new energy infrastructure and new investments. Their statement was backed up by several joint projects. Nevertheless, for those countries and, to a greater extent, for poorer developing countries, conventional energy still plays a large role because initially very little investment is required to meet basic energy needs and maintain economic growth. That is why the European model prioritising environmental considerations over economic ones is unacceptable to these countries. Hydrocarbon use will likely remain dominant in these countries, possibly leading to further polarisation between the core and the periphery of the global economy.

### Prospects for the G20 Pittsburgh Summit

At Pittsburgh, the G20 leaders will focus on economic issues. But sustainable energy development implies sustainable economic development. Thus the G20, which includes both producers and consumers, provides a good forum for exchanging ideas and bringing together differing positions, and for lobbying through international organisations for the adoption of specific measures.

The G20 might contribute intellectual and governance leadership to the Energy and Climate Change Advisory Group launched by United Nations secretary general Ban Ki-moon, including assisting with specific projects such as ways to lower construction costs of hydropower stations in Africa.

A wide variety of national incentives or soft sanctions should be introduced to promote alternative and renewable energy by all the members of the G20 including the EU. One way is to introduce specific trade benefits for those countries pursuing environmentally and climate-friendly policies.

The G20 should raise the question of technology transfer and try to settle the issue of intellectual property rights compatible with interests of both developed and developing countries, and also to allow developing countries to have clean and efficient technologies and introduce a more sustainable energy mix.

The G20, being more representative than the G8, has a better chance to lead in tackling many global problems. The litmus test of the efficiency of the new leaders-level G20 will be the outcomes of Pittsburgh: the successful management of the global economy, proper exit strategies and the reform of the global financial architecture. If those decisions prove to be meaningful and substantial, the G20 will be able to assume management of a variety of global issues beyond, notably, climate and energy security, taking up where the G8 leaves off. ◆

# From green deal to green economy

The global financial turmoil of recent months, collapsing economic activity and substantial job losses and fluctuations in the prices of fuel and food have pushed new systemic challenges to the top of the political agenda. We now face crises in the three areas of finance/economy, climate/energy and ecosystems/biodiversity.

Important parallels exist between the causes of the crises, especially a common failure to grasp the nature or extent of the problems in time, even when given early warnings. Other commonalities include: institutions and rules that motivate unsustainable business practices and lifestyles; inadequate transparency and monitoring; and the inaccurate valuation of financial and environmental assets and liabilities.

Societies worldwide have turned to their governments for support and leadership to facilitate the systemic changes required for sustainable solutions. Many countries have initiated national 'green deal' economic stimulus packages. The EEA contributed to international efforts to determine key priorities for spending, highlighting the five areas of energy-efficient buildings, sustainable transport, renewable energy, sustainable agriculture and freshwater infrastructure. However, studies by the European Commission and HSBC bank indicate that the packages vary between those lacking any 'green' element and others that target more than 80% of spending on green issues.

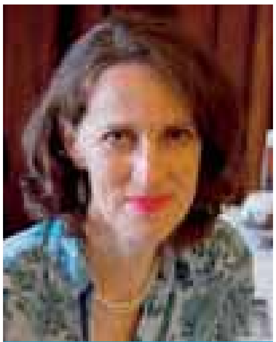
Spending in the right sectors offers a cost-effective opportunity to kick-start the needed shift. But the green deal packages should only be regarded as a first step towards broad systemic change, not the solution to the three crises. Improving the living standards of a growing global population in a sustainable manner will require us to go beyond the green deal to genuine 'green economies'.

These will be defined by key principles including preservation of the assets that support our livelihoods, greater reliance on renewables and the protection of life-sustaining ecosystem services. Governance structures should ensure transparency and free flows of information about the economy, society and environment. Taxes and subsidies should promote sustainable resource use and maximise human endeavour while ensuring an equitable and sustainable sharing of burdens now and across generations. Social and environmental costs and benefits should be internalised in market prices to reflect their true value in the supply and demand for goods and services. Lastly, sustainable resource management should be promoted through appropriate ownership regimes – private property rights, collective ownership or the public sector.

The shift is necessary to avoid perpetuating the systems that created the current crises. And determining how and when to act will be impossible without one vital ingredient: information.

For one, green economies will ultimately depend on the consumption and investment decisions of individuals. Troublingly, however, a European survey in 2008 revealed that 42 % of EU citizens still feel poorly informed about environmental issues. One simple solution is to present more accessible information. But engaging the public as actors in identifying and sharing data is also essential. This two-way approach would make available vast amounts of new information and provide lay knowledge to authenticate (or refute) 'official' scientific data, thereby creating a more robust, nuanced and credible body of understanding. It would further confer a sense of popular ownership of the social and environmental data and issues, and empower citizens as agents of environmental governance for making informed decisions.

The Shared Environmental Information System (SEIS) developed by the EEA and the European Commission aims at such engagement. Many European countries already contribute to SEIS initiatives such as 'Water Watch' which promotes public



**Prof. Jacqueline McGlade, EEA Executive Director**

interaction with GIS information on bathing water quality across Europe. Another EEA development, the Global Citizen's Environmental Observatory, will enable European environmental information to be gathered and presented in a single location, providing governments, policy-makers and citizens easy access to clear, comprehensible, real-time data, and opportunities for their own information contributions.

Secondly, to 'green' public or private sector investments and realise maximum benefits, the investments must be built on an accurate evaluation of costs and benefits in the short to long-term. In the field of energy generation, for example, using European biomass to produce fuel for the transport sector at first appeared preferable to using fossil fuels. But EEA research determined that its most cost-effective and sustainable use is actually for electricity and heat production.

Finally, in order to 'green' policies, environmental, economic and social monitoring systems and common indicators are crucial for flagging early warnings and policy evaluation. 'Ecosystem accounting' is also indispensible for presenting data on environmentally important stocks (e.g. forest resources) and flows (e.g. pollutants) that accompany conventional economic accounts (e.g. GDP), thereby providing a comprehensive measure of the environmental consequences of economic activity and a sound basis for selecting between regulatory, fiscal or rights-based policies.

Overall, there is a broad need to use environmental and social data along with existing economic aggregates to produce measures of national development that go beyond GDP. That means systems of national accounts that reflect not only current flows but also our impact on our most important underlying assets or the so-called 'five capitals': financial, human, social, manufactured and natural. This is vital for informing citizens about whether current ways of living are undermining their future prosperity and that of coming generations, and it is a measure of the success of governments in creating the conditions for sustainable growth.

**The European Environment Agency (EEA) is a European public body dedicated to providing objective, reliable and comparable information on the environment. The Agency currently has 32 member countries. Its vision is to become recognised as the world's leading body for the provision of timely, relevant and accessible European environmental data, information, knowledge and assessments. For more information see www.eea.europa.eu**

# Deploying carbon capture and storage

*CCS is one of the essential technologies necessary to limit the emission of carbon dioxide. The endorsement of the Global CCS Institute is a major step in the acceptance, deployment and eventual implementation of CCS technologies*

*By* Nick Otter, CEO, Global CCS Institute

The Global Carbon Capture and Storage Institute plays a vital role in reducing the effects of climate change. Its central objective is to accelerate the commercial deployment of carbon capture and storage (CCS) projects to ensure their valuable contribution in reducing carbon dioxide emissions.

The world faces an increasingly urgent timeline to address the issue of climate change. One of the most promising solutions is CCS. Increasingly recognised as essential in the portfolio of technologies necessary to limit carbon dioxide emissions, it will also allow the continued use of fossil fuels in a clean and sustainable manner in a world that will continue to rely on such fuels to provide energy for several more decades. The Global CCS Institute thus has the independence and authority to be a key voice in the debate on climate change and facilitate global cooperation on CCS, and so set the way for large-scale deployment.

CCS can potentially reduce the rate of global warming by reducing to almost zero emissions from power plants and energy-intensive processes that use fossil fuels. To date, models demonstrating the means of reducing emissions have highlighted


the significant role CCS can play. In a key scenario produced by the International Energy Agency (IEA), CCS accounts for up to 20 per cent of the reduction of carbon dioxide needed to meet the overall desired reductions of 80 per cent by 2050. Economically speaking, CCS provides the greatest benefit when applied to large emission sources, such as coal power stations, cement, steel and aluminium production facilities, refineries and chemical plants, especially when different sources of carbon dioxide can be stored in a common infrastructure. As early projects are established, confidence to deploy CCS at the necessary magnitude will grow, and the technology will be increasingly accepted by governments, industry and the general public.

Renewable energy technologies continue to develop, together with measures to improve energy efficiency. But fossil fuels, particularly coal, will continue to provide the bulk of the world's energy. Alternative and renewable energy sources will play a major role in years to come. However, many of the technologies involved remain in the early deployment phase and cannot be applied at the scale necessary to make significant reductions in carbon dioxide. Meanwhile, approximately 100 new, conventional large-scale power stations using fossil fuels are being constructed around the world each year.

In the near and mid term, global energy requirements will be met by a mix from all sources, covering fossil fuel, nuclear and renewable power. The world therefore faces a huge challenge to maintain security of supply while reducing the environmental impact. The transition to a sustainable energy, low carbon future must be managed carefully.

A portfolio approach will be essential. A key aspect of this is CCS, as it allows the clean use of fossil fuels at a scale that can make a real difference. In the medium run it will not be possible to ignore the continued use of fossil fuels. The issue will be how to ensure that they are used in a clean and environmentally responsible manner.

The endorsement of the Global CCS Institute by the G8 countries and those in the Major Economies Forum (MEF) at the L'Aquila Summit in July 2009 was a major step in accepting, deploying and eventually implementing CCS technologies. As Australian prime minister Kevin Rudd said, deployment hinges on targets, timetables and technology, and the funding for each.

The G8 countries committed to the development of 20 large-scale CCS projects, to be operational by 2020. This will provide much-needed confidence to enable commercial deployment and will provide the basis for the scale and magnitude needed for CCS to contribute significantly to reduced emissions. The Global CCS Institute will be vital in developing the partnerships needed to make these projects a reality.

To date, the Global CCS Institute has received unprecedented international support, with 24 national governments and more than 100 leading international corporations, non-governmental bodies and research organisations signing on as foundation members or collaborating participants.

The institute will look past the initial early-mover stage to ensure there is global capacity and capability so that CCS is a major tool in mitigating the impact of climate change.

> The G8 countries committed to the development of 20 large-scale CCS projects to be operational by 2020

The CO2CRC H3 Capture Project is Australia's most comprehensive CCS research facility. The project utilises the solvent capture plant installed by International Power as part of the Hazelwood Carbon Capture Project


A truck with a $CO_2$ tank stands in front of the Schwarze Pumpe plant in Germany. The $CO_2$-free power plant is a pilot project for carbon capture and storage – the first power plant in the world that will bury the toxic emissions from coal deep in the ground

While many CCS projects have been announced around the world, very few are progressing to final investment decision. Many have been unable to secure the necessary government and private investment, have not adequately acknowledged the necessity of characterising storage sites and have not achieved strong public acceptance. As the G8 and the MEF highlighted, each country with an interest in using CCS needs to address the existing barriers to investment at the national and international levels. The Global CCS Institute will help move these issues forward on a worldwide basis.

Urgent attention must focus on emergent, large-scale, integrated CCS demonstration projects, to ensure that they proceed in an expedited manner. The successful launch and completion of this type (and size) of project will provide the confidence required for further deployment of the technology.

> "CCS allows the clean use of fossil fuels at a scale that can make a real difference"

Acceleration of these 20 large-scale projects is a fundamental objective of the Global CCS Institute. One key task is to take stock of the position of existing CCS projects to understand their real position and identify what is needed to move to the next step faster. An additional action is to establish the desired portfolio of projects to give full confidence in taking CCS forward. This global assessment will establish a comprehensive reference point for the international community in the current economic climate.

The Global CCS Institute will use these outcomes to help set the strategy into 2010 and beyond. It will use the stock-taking approach to monitor progress toward establishing and implementing a range of projects that will provide the necessary confidence to proceed with a greater deployment of CCS.

The institute will advise on technologies that capture, transport and store carbon dioxide emissions, and provide expert insight on the costs and benefits of carbon solutions and the operational and legislative requirements needed to achieve success. It will work collaboratively with governments, non-governmental organisations and the private sector to build confidence in CCS and help drive the international momentum needed to provide a solution to the urgent challenge of climate change. ◆

The Centre for International Governance Innovation
Governance Innovation
Centre pour l'innovation dans
la gouvernance internationale

The Centre for International Governance Innovation (CIGI) is an independent, non-partisan think tank that addresses international governance challenges. CIGI's objectives are to anticipate and further understand emerging trends in international governance, particularly economic and financial governance, and to strengthen multilateral institutions.

Since 2003, CIGI's Breaking Global Deadlocks project has led a "Track II" process to develop the case for raising the G20 Finance Ministers' group to Leaders level. Some 30 "Track II" meetings examined in detail the proposal for an expanded group of leaders as an international problem-solving mechanism. Recent CIGI projects have related to the global financial crisis. They include:

**Study Group on Global Economic Governance:** A collaborative research initiative with Chatham House in the UK that explores the long-term implications of the global financial crisis for the global governance architecture and feeds into policy debates on how to reform the international financial institutions. The project pays particular attention to the emerging economic powers, monetary and financial regulation, and the role of the G20 as an economic crisis committee.

**Global Trade Alert:** This online resource monitors policies affecting world trade and provides real-time information about measures taken by governments during the global economic downturn and their likely effects on foreign commerce. Conducted in partnership with the Centre for Economic Policy Research (CEPR), the International Development Research Centre (IDRC) and the World Bank. See: www.globaltradealert.org


Ahead of the Pittsburgh Summit, CIGI has released a timely report that addresses the G20's core economic and structural concerns. In this comprehensive report, CIGI experts identify urgent and underlying tests to reboot the world economy and generate new normative structures for global finance. The report provides a consolidated set of policy recommendations for the Pittsburgh Summit on how the G20 leaders should address financial regulation, promote institutional reform, reduce systemic risks and cautiously approach "exit strategies" from stimulus programs.

**Download the report at: www.cigionline.org**

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The Craven County Wood Energy biomass plant, located near North Carolina, is a wood waste-fuelled power plant. Biomass is one of the fastest-growing renewable energy resources

# Financing renewable energy technologies and production

*New financial mechanisms are needed for sustainable renewable energy technologies, in order to maintain the global carbon balance*

*By* Raili Kajaste, Nordic Environment Finance Corporation, and Risto Penttilä, Finnish Business and Policy Forum EVA

A technological switch from fossil fuel energy to renewable energy generation is often advanced as part of the solution to the climate change challenge that the world is confronting. Such a solution requires significant private and public funding. This article looks at some recent trends, lists examples from Europe and Russia and offers lessons for the future.

Current private and public financing for sustainable renewable energy technologies and investment covers mostly hydropower, wind power, biomass and biogas-based fuel and energy production, geothermal energy, photovoltaics and solar cells. Other technologies such as wave and tidal energy and fuel cells are still mainly in the piloting and research phases. Carbon capture and storage is a tangential activity – also in the development phase. Nuclear energy is also considered carbon neutral.

**Investment trends**

Global concerns for climate change have led to increases in private and public funding of cutting-edge renewable energy technologies. In 2007 sharp growth rates of renewable energy finance resulted when global investments in the sector reached $150 billion and corresponded to 21 per cent of the world's new power generation increase that year. The impacts of the current financial crisis on the sector have been more negative for research funding than for actual investment in renewable energy. Worldwide new investment in the sector recovered in the second quarter of 2009, reaching $24.3 billion, up from a low of $13.3 billion in the first quarter. It is still 37 per cent below the quarterly average for 2008. Between 23 June and 3 August 2009, new investment reached a positive $31.9 billion, indicating that a recovery had begun.

However, there are no guarantees that the recovery will be permanent. Asset finance for

> Streamlining of international registries would help in keeping the global carbon balance

projects such as wind farms and solar parks rose sharply, and equity finance from public market investors re-emerged. In the second quarter, venture capital and private equity players invested $1.4 billion, down from a shrunken $1.8 billion in the first quarter and a long way below the figure of $3.5 billion recorded in the second quarter of 2008. This indicates problems for young prospective renewable energy companies in securing full financing for new development projects. It would result in delayed implementation of new technological advances and thus hamper the potential of these new technologies to mitigate climate change in time.

**Renewable energy strategies**

Government energy strategies typically involve both security of supply and promotion of renewable energy. The maturity and affordability of different technologies are well reflected in the global statistics on investment by technology in 2007. Here the share of wind power was 43 per cent, that of solar heat and power 24 per cent, and biofuels 17 per cent. Biomass and waste accounted for 9 per cent, other renewable energy 3 per cent and other low carbon technologies 2 per cent. The share of energy efficiency investment was only 2 per cent, reflecting more the low cost of energy efficiency investment than the maturity and affordability of the technology.

Today, biomass is the fastest-growing renewable energy resource in Europe. Even though new wind energy parks dominate the renewable power sector, two thirds of all renewable energy increase in Europe comes from biomass. The distribution of increase in new energy is 100 per cent in transport fuels, 95 per cent in heat production and 17 per cent in power generation. Already in 2006 biomass provided 89 million tons of oil equivalent (Mtoe) in primary energy in Europe. The Nordic countries, especially, have promoted the use of biomass and biogas in heat and energy production with concessional financing.

Challenges in selecting technologies include:

- balancing investing in energy saving and alternative sources of energy;
- speeding up producing more energy from renewable sources;
- enabling regulatory framework;
- helping foreign investors to fill the technological gaps; and
- competing globally for new investments.

These challenges need solutions before prospective technological advances in renewable energy generation can speed the transition to climate-friendly clean energy.

**Financial barriers**

Russia's huge untapped renewable energy potential is a case where a lack of incentives creates barriers for renewable energy investment. Renewable energy resources in Russia's primary energy balance in 2007 amount to 19 Mtoe, making the share of renewables in energy generation 1.07 per cent and in consumption 1.91 per cent. At the same time, Russia's assessed economic viable renewable energy potential is 224 Mtoe per year (Mtoe/a), and the technical potential exceeds 16,900 Mtoe/a including biomass, wind, solar, small-scale hydro, geothermal, hydrothermal, tidal and low-grade heat technologies. In macroeconomic terms, this wastes opportunities for oil and coal exports. The Russian government has recently issued legislation to boost the use of renewable energy resources. However, implementation is far behind the modest 4.5 per cent target of renewables' share in Russian power generation by 2020. To finance renewable energy technologies and generation, other economic incentives must function properly.

**New financial mechanisms needed**

The International Energy Agency estimates that in 2005 the relative energy intensity of the national economy (in terms of kilotons of oil equivalent per $2,000 purchasing power parity) was below 0.17 for the 27 members of the European Union (EU-27), when Russia's – in spite of considerable improvement – was near 0.47. Moreover, Belarus reports 76.5 megatons of carbon dioxide equivalent (Mtons $CO_2e$) from 2007, primarily from fuel combustion and agriculture, when the EU-27 reports almost 5,000 Mtons $CO_2e$ for the same year. Who should be asked to reduce the most?

The EU Emission Trading System is a market mechanism that has directly and indirectly boosted investment in biomass and wind energy within the EU-27. However, given current financial and economic crisis, fears are growing that the competitive advantage of countries with less stringent climate change regulations will hamper the growth and survival of industries in countries taking more proactive measures (such as the EU-27).

With under five years' experience with the Clean Development Mechanism and Joint Implementation mechanism agreed to in the Kyoto Protocol, results are mixed. Project implementation has been cumbersome and slow. Changing methodology requirements for pre-project determination, delays in registration and verification, monitoring problems and many other hurdles have reduced the expected effect. Any future similar mechanism must be regulated on the basis of a normal investment project cycle without artificial hurdles that benefit only those who have invented the procedures. Streamlining of international registries would help in keeping the global carbon balance.

The Organisation for Economic Co-operation and Development does not favour concessional crediting. However, in reducing greenhouse gas emissions, concessional mechanisms can deliver desired results. The small energy-efficiency soft loans that the Nordic Environment Finance Corporation has offered for poor municipalities in northwest Russia since 1990 have managed to reduce carbon dioxide emissions with a cost below €1 per tonne.

New mechanisms should build on such proven financial measures. Multilateral agreements that respect national priorities but require trade-offs from all participants have the most potential, but alternative energy resources and energy efficiency are only part of the solution. ◆

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# The G20, or the G200? A Commonwealth view on global development challenges

*The G20 needs to think creatively if it is to help the developing world out of the difficulties into which it has been led*

*By* Kamalesh Sharma, Commonwealth secretary general

With five members in the G20 – but many more outside it – the Commonwealth has always said the same thing to the group, from within and without. It is this: while 90 per cent of global gross domestic product (GDP) will be represented at the G20 table in Pittsburgh in September, 90 per cent of the world's countries and their voices will be missing.

Globalisation is the essential fact that all people's fortunes are interlocking, and that all challenges can only be met together. So the G20 countries, when they meet in the United States, should always be conscious of their place in the global 'G200'. They should be aware of the unseen and unrepresented guests at their table, who bear the consequences of their decisions and actions.

For the G20, the current global downturn can make them a little poorer. But for the developing world, embodied in the G172 not at the summit, the current global downturn is devastating. An estimated 44 million people worldwide have fallen into poverty in the last year alone, and 100 million people are now newly categorised as undernourished. In the same period, infant deaths worldwide have risen by at least

Pupils attend a class session at the Stara School and rescue centre in Nairobi's Kibera slum, Kenya, where the UN's World Food Progamme provides lunch. WFP feeds more than 770,000 children on school feeding programmes, providing a critical safety net to poor families

> Global challenges need global rules, which need global consent

250,000. These people – for they are not statistics – are the reality of the downturn. We all are witnesses to the receding target of meeting the Millennium Development Goals (MDGs). Armed with the facts, we are responsible for ensuring that those with the capacity to make a positive and durable difference do exactly that.

The G20 should always remember that until these ill winds blew, the G172 had done many of the 'right things'. But they had little of the built-in resilience of established institutions and robust economies to allow them to withstand being buffeted by a series of crises. The gains of decades were blown away in days. Turbulence in the skies of the developed world has unleashed hurricanes in the developing world.

There are now signs of growth in the world economy. The International Monetary Fund (IMF) recently declared itself more optimistic about 2010. The G20's fiscal stimulus – including the trillion dollars it agreed on in London in April – has produced some of this momentum.

We prophesy at our peril as to when and how we emerge from the current economic darkness. But certain lessons are clear. One is the need for a global economic system that gives priority to stability and is built on the interests of all, not the few.

Hence there is a continuing Commonwealth initiative to reform and revitalise the global financial institutions, making them properly representative and inclusive. Unless the voices of all those on the receiving end are heard clearly and appreciated in all their individual nuances and needs, the recovery and reform proposals currently being pursued run the risk of missing their goals.

The Commonwealth also emphasises the need to reinforce development in tough times.

Development – as democracy's twin – is the key not just to the emergence from the current darkness, but also to many poorer countries' very existence. The MDGs of 2000 were the first universally adopted framework for ensuring that all countries could achieve their potential. They were agreed to by rich and poor countries alike, by donor and recipient. But all eight of the goals are now in danger of not being met. Without spectacular growth in China and India, the slippage in sub-Saharan Africa and other parts of Asia and Latin America would be even more serious than it already is. As development scientists start to look beyond the MDG deadline of 2015 – debating possible new targets in areas such as population growth and social protection – they also forecast that the world will not reach its targets by 2015.

The Commonwealth accounts for one third of humanity, and one quarter of the world's governments. It is thus conscious that 14 of its members are least-developed countries, and half its members are expected to record negative GDP growth in 2009. Botswana – long seen as a model of macroeconomic stability and careful liberalisation – has swung from a 7 per cent surplus in 2008 to a 6 per cent deficit in 2009. The effects of the developmental downturn arise in the areas of social development that need funding the most: in 2009 Nigeria's education spending is down by 19 per cent, and its health spending by 26 per cent.

> Armed with the facts, we are responsible for ensuring that those with the capacity to make a positive and durable difference do exactly that

To reverse the slide, the G20, first, can honour its own aid commitments – made as long ago as 1970 when richer countries first promised in the United Nations to reach a target of 0.7 per cent of GDP for overseas development assistance, and – more recently – by the G8 at Gleneagles in 2005, and by the G20 in London last April. Aid flows are at risk as the rich countries digest the staggering costs of bailing out their financial sectors, and aid promises are already badly broken. A still greater loss is the stalling of private sector investment into the developing world.

At the G20 summit in London in April, British prime minister and host Gordon Brown announced the end of the Washington Consensus of open markets, privatisation and liberalisation. At the centre of the recovery exercise were resources made available primarily through the IMF. The international financial institutions – especially the World Bank and the IMF – have since led a coherent, international response to the current crisis, in the form of billions of dollars released as liquidity for finance. They are to be congratulated for this.

But the World Bank itself estimates that the financing gap for developing countries may still rise to $700 billion – and the international community does not know where that funding will come from. The developing world may be retarded long after this crisis, with poorer countries especially hard hit by the end or the slowing of equity finance, bank lending and foreign direct investment. The nagging concern is that recovery could as easily mean relapse.

The G20 could also consider a new formula of economic development, already proven in Brazil, Japan and South Korea. The new approach can be true to the basic principles of the Washington Consensus, while considering tools such as moderate forms of government guarantees for long-term loans, partly nationalised development banks, managed exchange rates and flexibility on inflation. The G20 needs to think creatively if it is to help the developing world out of the difficulties into which it – the G20 – has led the world.

The G20 will mark its 10th anniversary in Pittsburgh in September. The Commonwealth will mark its 60th anniversary when its heads of government meet in Port-of-Spain in November. Both face difficult times. For the first time in a generation, both confront a confluence of crises that can only be met by joining efforts. Global challenges need global rules, which need global consent. The G20 must find a way to reach out to make this new partnership truly global. The Commonwealth stands ready to contribute fully and enthusiastically to such an approach. ◆

# Fincorp – helping Swazi entrepreneurs to help themselves

As the nation celebrated 40 years of independence in September 2008, FINCORP cherished its groundbreaking contribution of 12 years to the economic growth and prosperity for the Swazi Nation. Apparently the organization first opened its doors to the public in April 1996 and has over the years grown to unprecedented levels in both scale and scope. FINCORP has predominately featured in the market place as “the lender of first choice to small and medium entrepreneurs in Swaziland” and the brand name has been elevated to prominent levels. The operation has been characterized by exponential growth and demand for its services far exceeded expectations. An average annual growth of 20% has been achieved over the years.

Swazi empowerment, enterprise development, and the creation of wealth and jobs are at the core of the operational guidelines. All developing countries need significant job creation from the private sector and enterprise development is the only option as a lasting poverty eradication strategy. In an effort to deal with innate social inequalities and the poverty scourge, His Majesty King Mswati III officially launched FINCORP in 1995 with a clear mandate of providing access to credit.

In pursuit of its mandate, the organisation has over the years undergone various policy and operational changes, with the aim of adequately meeting the changing demands of its target clientele. It was initially a wholesale lending institution but subsequent to in-depth market research, the product offering was broadened in April 2003 to include retail lending in order to cater to borrowers who were not affiliated to existing and accredited financial intermediaries. It has always been entrenched in FINCORP’s policies that customer loyalty can be best maintained through continued and concerted efforts to meet their needs.

FINCORP offers a wide range of products which include general business start up capital, working capital, asset lease finance, agri-business finance, order-financing and micro loans.

As a relatively young organisation, it has successfully reached many SMEs and has provided cumulative financial and non-financial services valued at more than US $63 million to over 30,000 clients since inception.

The provision of after care support to loan beneficiaries is at the core of FINCORP’s success and this is manifested by the fact that over 50% of the staff represent customer relationship officers who ensure that all clients are closely monitored and mentored on a regular basis. FINCORP places emphasis on cash flow and character lending, and requires demonstration of a complete business cycle before considering any proposal for financial assistance. A project proposal must be technically feasible and financially viable in order to be considered for finance.

www.fincorp.co.sz

FINCORP
SWAZILAND DEVELOPMENT FINANCE CORPORATION

The ADB-supported Tarbela Dam, Pakistan

# Achieving interdependence

*Socially inclusive and environmentally sustainable growth in Asia is key to achieving global economic growth*

*By* Haruhiko Kuroda, president, Asian Development Bank

What happens in Asia and the Pacific is fundamentally important to G20 countries for two quite different – but related – reasons.

First, the Asia Pacific region is still the centre of gravity of world poverty, with 903 million people living below the poverty threshold of $1.25 a day set in 2005, a number greater than the population of all the G8 countries and Australia combined. This pervasive poverty made the region highly vulnerable to the 2007/08 food crisis, with more than half of the additional 100 million people who became chronically hungry in 2008 coming from Asia.

Poverty indicators relating to nutrition and maternal and child health are especially problematic in this region. Just over one quarter of children in developing countries globally are underweight, but in South Asia the prevalence is 46 per cent. Despite being the fastest-growing region in the world economically, it accounts for nearly 34 per cent of global deaths of children under five, more than 40 per cent of maternal deaths and 60 per cent of newborn deaths. Of the 450 newborn babies who die every hour around the world, more than half of them are in only six Asian countries – Afghanistan, Bangladesh, China, India, Indonesia and Pakistan. Even before the current global economic slowdown, the Millennium Development Goals (MDGs) were at risk of not being met. They simply cannot be achieved without much faster, deeper and broader progress in Asia and the Pacific.

Second, and paradoxically, the world now increasingly depends upon a dynamic Asia to help restore the pace and pattern of economic growth, not just in the region but globally as well. Asia is indeed suffering from the current global recession. However, its sound and prudent banking policies, sustainable debt management, competitive and productive industries, and high savings and investment can be sources of durable economic growth. Provided international markets and capital remain open and fair, and with good public and private

Ensuring long-term food security is one of ADB's goals.These roadside fruit and vegetable markets in Sri Lanka have fresher and more varied produce as a result of the ADB-supported Kirindi Oya Irrigation and Settlement Project

investment, Asia can be a source of renewed global economic growth.

Asia can also affect the quality of that future economic growth. As developing Asia grows, its share of global carbon emissions could rise above 40 per cent by 2030. This would make the region the main driver of global climate change. Aside from investing in environmentally sustainable solutions, Asia can also promote social protection schemes to address health, livelihood and climate-related vulnerabilities, develop infrastructure in disadvantaged areas and promote energy efficiency that will increase the incomes of the poor. A socially inclusive and environmentally based growth path for Asia is not only the right thing to do; it is also the smart thing to do.

**What needs to be done**

The current economic slowdown continues to exacerbate the problems of poverty, inequity and poor health. Rising unemployment has forced vulnerable sectors of society to switch to much cheaper and less nutritious types of food, making the poor, particularly pregnant women, even more vulnerable to ill health.

A study by the Asian Development Bank (ADB) estimates that unless measures are taken to tackle climate change, rice prices will be 20 per cent higher in 2050 compared to the case for no climate change. Wheat prices will increase by 16 per cent. Maize prices will shoot up by 52 per cent. According to recent work by the Food and Agriculture Organization (FAO) using longer-term population and income projections, global food production will need to increase by more than 40 per cent by 2030 and 70 per cent by 2050 to meet increasing demand.

In the health sector, Asia also has particular challenges that undermine incomes, productivity and equity at the household and national levels. Public expenditure on health is lower than in any other region in the world. At around $11 per person per year, it is clearly inadequate for essential care. Much healthcare expenditure is also inequitable and a cause of poverty simply because it is 'out of pocket': ADB studies found that almost 40 million people in India alone fell below the poverty line simply because of such essential health payments. Much of this expenditure is also inefficient, either allocated to the urban elite by governments or spent by the poor on services provided by unqualified practitioners in the unregulated private sector.

If the recent global economic crisis has shown anything, it is the need to respect and work with, not against, the power of markets. Yet one cannot simply leave markets to run unregulated or on auto pilot. A balance is needed to achieve socially inclusive and environmentally sustainable economic growth that also reduces poverty.

> "If the recent global economic crisis has shown anything, it is the need to respect and work with, not against, the power of markets"

**What ADB is doing**

In response to the above imperatives, ADB is making significant efforts to ensure long-term food security and improve overall health in the region by encouraging private sector participation, knowledge management and regional cooperation in accordance with its long-term strategy.

> “As a short-term response to the food crisis, ADB provided targeted interventions to protect the food entitlements of the most vulnerable groups”

As a short-term response to the 2007/08 food crisis, ADB provided targeted interventions to protect the food entitlements of the most vulnerable groups and budget support to the hardest-hit countries to alleviate fiscal pressures and reduce distortions in food pricing and access to health services.

In the medium term, ADB's food and health security assistance will focus on rural infrastructure, sustainable land and water management, and adaptation and mitigation measures to make agriculture more resilient to climate change. Regional cooperation for food trade facilitation and cross-border health-related risks, improved national and regional safe food-supply chain networks, and enhanced agriculture research and development will also be key components of ADB's strategy.

Leaders of the G20 countries, of which six – Australia, China, India, Indonesia, Japan, Korea – are located in the Asia Pacific region, can be particularly helpful by supporting and sustaining national public investment in food security, basic health and health systems. This will make major inroads to achieving the MDGs, including the three directly related to health, nutrition and food accessibility and thus indirectly affecting all the other goals. Supporting Asia's food security and health systems is also in the direct national interest of the G20 countries themselves: all of them and the world benefit by reducing incidence of infectious diseases such as pandemic influenza, multi-drug-resistant tuberculosis, HIV/AIDS and vulnerabilities of the poor to both economic and natural shocks that may induce regional social instability.

**Conclusion**

The key theme is interdependence. Global economic growth and the MDGs simply cannot be achieved without spurring socially inclusive and environmentally sustainable growth in Asia. Equitable, inclusive and sustained growth is not possible without access to food and better public health. That in turn requires increased – and better quality – public expenditure and regional public action on food and health security and climate change.

G20 leaders can play a major leadership role in effectively responding to these challenges. ADB is well positioned and keen to be a central part of the solution. ◆

Although some 48 million people have been lifted above the poverty line since 2003, the number of poor in the Latin American and Caribbean region now looks set to rise

# Growing to meet future challenges

*Both the region and the IDB are at an inflection point. To be relevant and effective for the region's first development, the IDB needs to be a bigger bank as well as a better bank*

**By** Luis Alberto Moreno, president, Inter-American Development Bank

Over the past 15 years, the Latin American and Caribbean region have had solid growth, sound macroeconomic policy, poverty reduction, and significant and sustained progress in the region's broader development agenda. Between 1994 and 2008, the region grew at an annual average of 3.3 per cent – cumulatively, by 57.8 per cent – and poverty rates fell from 45.7 per cent to 33.2 per cent.

Although the region has been able to confront the global financial crisis with a more solid standing than in previous crises, due to its improved macroeconomic policies, the most recent projections of the International Monetary Fund (IMF) estimate that the effects of the crisis on the region will be greater than anticipated. Latin America and the Caribbean's gross domestic income are expected to fall by 2.6 per cent in 2009. The significant progress in poverty alleviation achieved in the last five years could be reversed. Since 2003, an estimated 48 million people across the region have been lifted above the poverty level. Currently, the prospect is that the number of poor could rise by 34 million over the next three years.

### Challenges facing Latin America and the Caribbean

Latin America and the Caribbean face two critical and overarching short-term challenges. First, the region's countries must identify and obtain financial resources in order to carry out the expansive policies necessary to respond to external conditions. Such financing must be secured at a time of limited access to capital. Moreover, the prospects for securing necessary capital are limited by a crowding-out effect from developed economies pursuing their own stimulus programmes. Second, Latin American and Caribbean countries need to design their stimulus packages with the purpose not only of reactivating their economies but also of ensuring that the achievements of the last decade on poverty reduction and protection of the most vulnerable people are not reversed. The challenge is to maintain the stability that over recent years has come hand in hand with solid growth and poverty alleviation.

In addition to facing the immediate challenge of weathering the current global financial crisis, the region also confronts long-term development challenges. Two central challenges are to foster equality of opportunity across a broad range of areas and meet the Millennium Development Goals (MDGs), and to close the growth gap with the rest of the world while achieving global environmental sustainability and addressing climate change.

The region has large inequalities of opportunity both within and between countries. Some of the most unequal countries have registered progress over the last decade. Nevertheless, continued stratifications continue to create bottlenecks for faster growth, greater social inclusion and sustainable poverty reduction. Several countries in Latin America and the Caribbean have a per capita gross domestic product that is only a quarter of the regional average. Their poverty rates are nearly twice as high as the average for the region as a whole. These gaps are also reflected in most indicators of social welfare and access to services.

Although macroeconomic management in the region has improved notably in the last decade, growth in the region has lagged behind growth in other emerging regions of the world. The integration of Latin America and the Caribbean into the world economy is uneven and its trade performance lacklustre compared with that of developing countries in Asia and the Pacific. Progress in environmental sustainability has been mixed.

**The role of the Inter-American Development Bank**

The Inter-American Development Bank (IDB) has played a key role in helping Latin American and Caribbean countries address the short-term dislocations associated with the global crisis. At the onset of the crisis, the bank took immediate countercyclical action by developing the Liquidity Programme for Growth Sustainability and expanding the Trade Finance Facilitation Programme.

In addition, in 2008-09, the IDB frontloaded its approval and disbursement levels for both ordinary capital and concessional funds, making them significantly greater than the average in the last four years. To take advantage of historically low interest rates in dollars, the bank offered the option of using fixed or LIBOR-based interest rates in IDB loans, permitting borrowers to better forecast the cost of their debt and take advantage of readily available financial instruments to hedge their currency and interest rate risks. Furthermore, by eliminating the Policy-Based Lending Authority and making the Policy-Based Borrowing Authority the only policy to define limits on total lending, the IDB's disbursement capacity was increased by $2 billion between 2009 and 2012. Moreover, the bank was authorised to consider proposals by member countries to subscribe to non-voting callable capital ordinary shares. A proposal to increase Canada's callable capital in ordinary capital by $4 billion has already been approved.

Above all, the IDB represents an important source of financing and knowledge to support longer-range development programmes in the region. It is the largest source of development finance in the region. Currently, the IDB provides borrowing member countries more than 50 per cent of multilateral financing. Between 1994 and 2008, it financed 1,230 loans for a total $108.6 billion.

Yet the IDB has become increasingly smaller relative to the region's financing needs. The bank's last recapitalisation took place in 1994. Since then, economic activity in Latin America and the Caribbean has doubled; new development challenges such as climate change, infrastructure deterioration and inequality have emerged; and countries have committed to reach the MDGs. After 2010, the IDB's capacity to address these challenges and respond to country demands for financial and non-financial products will be severely constrained. From 2011 to 2020 the bank's ability to lend and disburse is projected to drop significantly. Furthermore, its net financial flows to the region could become negative – at a time when borrowers are in greatest need of bank support.

The IDB's board of governors thus reached a consensus at its July 2009 meeting in Santiago, Chile, that the bank required a capital increase. It is anticipated that the capital replenishment will be approved in March 2010 at the IDB's annual meeting of the board of governors in Cancún, Mexico.

Both the region and the IDB are at an inflection point. To be relevant and effective for the region's future development, the IDB needs to be a bigger bank as well as a better bank. In this regard, it is intensively working on implementing a series of measures to maximise the development effectiveness and impact of its interventions in the context of a capital increase. The aim is for these measures to help promote institutional transparency and integrity, deepen the fight against corruption, emphasise diversity, strengthen management for development results and improve risk management.

Although current indications point to 'green shoots' in the global economy, the countries of the region must neither drop their guard nor reduce the intensity of their efforts to withstand the current global instability, position themselves to restore dynamism in their economies and confront their longer-term development challenges. The IDB needs to have the financial resources and knowledge capacity to effectively support the region in this endeavour – as it has for the last 50 years. ◆

"The IDB needs to have the financial resources and knowledge capacity to effectively support the region"

"Although current indications point to 'green shoots', the countries of the region must not drop their guard"

# Synopsis of Uganda agriculture – 2009

**Agriculture in Uganda's economy**

Agriculture remains the key driver of both growth and poverty reduction. It contributes up to 15 % of GDP that has been growing at the rate of 6% for the past 15 years. It also accounts for 48 % Uganda's export earnings. Of the country's estimated population of 29.592 million, 77 % are engaged in agriculture. Agriculture is key for raising household incomes and therefore constitutes the strategic sector to accelerate poverty reduction

Uganda enjoys unparalleled natural resources (arable land, water and moderated weather). Out of a total surface area of 241,551,000 Km$^2$, area, Arable land is 199,807, 000 Km$^2$ and 41,743,000 Km$^2$ is under water and swamps. The Country has therefore great potential to produce a range of crops, livestock and fisheries products, including temperate products such as fruits and vegetables. Out of an estimated 202,000 hectares of potential irrigable area, only 20,000 hectares are being irrigated.

Uganda is located in the heart of Africa astride the equator, bordering Sudan, Democratic Republic of Congo, Rwanda, Tanzania and Kenya. It is therefore strategically land-linked within a regional market of East-Central Africa and is clearly poised as the Food Basket for most of Africa.

**Agriculture sector performance and challenges**

The agriculture sector national output from cash and food crops, livestock, forestry and fishing grew by 2.6% in 2008 compared to growth of 2% in 2004. Improved performance of food crops was the main driver of agriculture growth. For example, production of maize grew by 15% and rice by 33% between 2004 and 2008.

**Uganda agriculture by 2015**

Uganda is in the process of finalizing a Development Strategy and Investment Plan (DSIP) for agriculture whose vision is to have "a Competitive, Profitable and Sustainable Agricultural Sector", and the Mission is to "Transform subsistence farming to commercial agriculture". The DSIP puts emphasis on crops, livestock and fisheries.

Under the DSIP, key targets for the sector over the next five years are;

a) Sustain increased rate of growth of agriculture from 2.6% to 6% per annum.
b) Attain national average farm household gross income of 20 million Uganda shillings per year (est. US $10,000).

**Agriculture sector strategies to achieve targets**

Uganda has focused investment in core priority public functions including agricultural research; agricultural extension services; policy, planning, and support supervision to the local governments. Investments in support of these strategies are packaged under four thematic areas targeting product value chain development:

(i) Enhancing Production and Productivity;
(ii) Improving Access and Sustainability of Markets;
(iii) Creating an Enabling Environment; and
(iv) Institutional Development in the agriculture Sector

An innovative flagship of public interventions is that from 2009, onwards, Government will support establishment of agriculture learning centers at parish level to serve as demonstration sites to all farmers and support them to graduate into commercial farmers.

An agriculture credit facility to be accessed by eligible farmers and agro-processors through commercial banks will finance acquisition of agricultural and agro-processing machinery and equipment. Small farmers will be supported to access micro finance services through Savings and Credit Cooperative Organisations.

**Agriculture DSIP funding requirements**

Uganda will need to invest an estimated US $245 million in year one (2009/10) of the DSIP. A total public investment of an estimated US $1,250 million will be required over the next five years.

**Investment opportunities in Uganda's agriculture**

Dairy and dairy products including powdered milk production and other dairy by-products as well as dairy infrastructure; meat and meat products including modern abattoirs; fisheries production and processing; cotton and textiles; production and processing of fruits and vegetables; floriculture; establishment of high value processing plant for coffee and cocoa and branding of Ugandan tea; agribusiness services including cold chains, packaging and cargo freight; inputs manufacture; e.g. tractors, vaccines, irrigation equipment, chemicals; agricultural insurance; establishment of an agricultural bank and micro financial services; and the construction of warehouses and warehouse chain facilities across the country. Other opportunities include honey processing, cassava processing for industrial starch and packaging of beans and pulses.

**Conclusion**

With implementation of the Agriculture DSIP and investment priorities outlined, Uganda's agriculture is projected to overcome the challenges currently faced and attain the growth target of 6% per annum over the period 2009-2015 and there by effectively contributing to the Country's development.

# Long-term commitment vital for Africa's growth

*Further investment, particularly in food security and infrastructure, is needed if Africa is to reduce its dependency on outside assistance*

*By* Donald Kaberuka, president, African Development Bank

The Pittsburgh Summit comes at a pivotal stage in dealing with the financial crisis. At a global level, the world has seen some first tentative signs of recovery. But at the same time, there is considerable uncertainty whether this is a false dawn or a W-shaped recession. In either case, the message from Africa is the same. The real economy in most of its countries has been hit hard. To avoid further damage, action is required now. Additional investment is needed.

**The impact on Africa**

Initial expectations that Africa would be protected from the impact of the crisis have proved misplaced. Although they vary from country to country, the negative effects are now well documented: minimal or no access to credit, a contraction in trade, declining remittances and withheld foreign investment. As banks shore up their capital and focus first on their domestic constituencies, it could take years for financing flows to Africa to resume. In effect, Africa is unfairly bearing an additional risk premium.

The fall in exports and capital inflows makes it difficult for countries to maintain adequate levels of foreign exchange reserves, thus increasing exposure to future shocks. To maintain pre-crisis growth rates, there is an investment gap of some $50 billion. To reach the Millennium Development Goals, that gap exceeds $117 billion.

Additional investment is affordable, a small fraction of that already deployed within the G20. Without it, growth will be well below the level needed to reduce poverty. Indeed, through no fault of its own, Africa will be worse off than it was before, and less able to participate in the eventual global upturn.

Take two critical cases: infrastructure and food security. Even before the crisis, Africa faced a substantial deficit in infrastructure. In most African countries, infrastructure is a major constraint on doing business, depressing firm productivity by about 40 per cent. This imposes substantial additional costs to trade, reduces Africa's competitiveness and hinders economic integration. To correct it requires long-term sustained investment. Instead, as budgets shrink, projects are delayed or cancelled, and crucial maintenance is neglected.

> In most African countries, infrastructure is a major constraint on doing business

Food security has risen up the agenda, and rightly so. The United States brought it to the fore at the G8 summit in L'Aquila in July 2009. But the root cause of food insecurity in Africa is poverty: lack of money to buy food, thin markets, inadequate basic rural infrastructure to connect farmers to markets, high transport costs, poor health and limited irrigation. More than any other continent, Africa depends on rain-fed agriculture and, therefore, on the vagaries of the weather. The effects of climate change are already here and impose new costs.

**Africa's response and the contribution of the African Development Bank**

Fortunately, previous reforms have given some of Africa's economies a degree of resilience. Notwithstanding pressures to do otherwise, African leaders have decided to maintain these efforts. But the overriding limitation is a lack of resources. For

almost all, there is no possibility of a fiscal stimulus. Three quarters of investment in Africa is financed domestically. Governments are making additional efforts to increase domestic resource mobilisation, but that is undermined by declining revenues and weaker private sector activity. While the G20's focus on social safety nets is understandable, very few African countries have the resources to build them.

The African Development Bank (AfDB) has taken exceptional measures to respond to the unprecedented demand from its member countries. Consistent with the recommendations of the G20, it has frontloaded its resources, sped up implementation, unlocked resources through portfolio management and put new instruments in place to provide emergency liquidity and to support trade finance. It has done so while maintaining a sound balance sheet. But the results are predictable: the AfDB has doubled the pace at which its resources are consumed and it has run out of headroom.

The position is stark. Unless the AfDB increases its capital base, new borrowing by both the public and the private sectors in Africa will be severely curtailed. Nor will it be able to play a countercyclical role in response to future shocks unless it has the necessary resources on which to call. The same applies to the bank's poorer member countries, which rely on concessional resources from the African Development Fund. Without an early replenishment, next year there will be a hiatus in the fund's commitments to low-income countries.

**What Africa wants from the Pittsburgh Summit**

The G20 has naturally focused thus far on stimulating global demand and repairing financial systems. Notwithstanding the impact on its people, Africa remains on the margin of global discussions. Africans hope that the Pittsburgh Summit will recognise and respond also to the needs of poorer countries, and that G20 leaders will show the same sense of urgency and determination. If it does so, it will enhance its legitimacy in global governance. Failure to do so will call it into question, at least as far as those many countries not represented are concerned.

> "Africa wants less damaging volatility. It wants to be able to plan ahead with confidence"

The G20 has provided substantial additional resources through the International Monetary Fund, but these are essentially for support for the balance of payments. Africa wants less damaging volatility. It wants to be able to plan ahead with confidence. It wants to reduce dependency on assistance. It therefore needs longer term investment for growth.

At L'Aquila, the G8 leaders yet again repeated previous commitments of development assistance. But, frankly, performance is mixed, as shown by the amount that still needs to be delivered by 2010 if G8 members are to meet their commitments made at the 2005 Gleneagles Summit. What is needed from the G20 are time-bound plans for implementation.

Africa not only wants its voice heard but, in a changing international architecture, also wants more support given to African institutions. Specifically Africa's finance ministers and central bank governors have urged the G20 to agree on an early and substantial replenishment of the capital of the AfDB at Pittsburgh, and to replenish concessional resources through the African Development Fund. We look forward to an explicit commitment from the G20 to do so. ◆

A $155.29 million loan agreement for a multinational highway between Nigeria and Cameroon was signed at the AfDB's 44th Annual Meeting in 2009. The AfDB is calling for substantial capital replenishment to improve the infrastructure that much of Africa needs

Sponsored feature

# Bringing leaders to the table for good food, economic vitality and healthy children

As leaders of 85 percent of the world's economy gather at the G20 World Economic Summit this year, they will look past the current worldwide economic recession to the future of the world's children.

The future of the world's children has been the focus of the W.K. Kellogg Foundation since the day we opened our doors in 1930. An important strategy for ensuring a healthy future for children is to connect people with good food and healthy activity – requirements for children to thrive, both physically and mentally.

One productive way to frame the larger G20 discussion is to ask the question: Are the human constructs that make up the world economy – the food system, urban planning, school environments and public health systems – working effectively on behalf of the world's children? Are we doing as much as we can to ensure that children get what they need to prosper and thrive? For example, the way we produce food is outpacing our ability to manage and steward the world's natural resources and is creating childhood health outcomes of low birth weights, hunger and disease. Is there more we can – and should be – doing together?

While the Kellogg Foundation works largely at the level of community systems, it is the world's political and economic leaders who can create the kind of large scale systems change necessary to create the best possible food and health outcomes for all children.

**Putting money where the mouths are**

As the largest private funder in the United States in the area of sustainable, community-based food systems, (43 percent of all private funding; 25 percent of total private and public funding) we are encouraged by the groundswell of citizen interest and activity in making "good food" available. "Good food" is food that is healthy, environmentally sustainable, affordable, and treats producers fairly. Take for example, our Food and Fitness Initiative, a multi-year, nine-community project that seeks larger systems change and supports communities across the United States that are embracing active living and healthy eating.

Our farm-to-school programs connect schools with local farms with the objectives of serving healthy meals in school cafeterias, improving student nutrition, providing health and

**On any given Saturday, more than 26,000 Detroiters, suburbanites and tourists shop elbow to elbow, sharing experiences from generation to generation at Detroit's Eastern Market. Last year, nearly 30 Michigan farmers' markets accepted Electronic Benefit Transfer cards to increase the accessibility and affordability of fresh food to low-income residents. Eastern Market is a key player in the Kellogg Foundation- funded Food and Fitness initiative**

nutrition education opportunities that will last a lifetime, while supporting local small farmers. Forty states are now engaged in farm to school initiatives,

One of the pioneers of the farm-to-school approach, Gadsden County School District is a small community 20 miles west of Tallahassee, Florida. In 1996, the school district accepted a delivery of 3,000 pounds of leafy greens, which has now expanded to other fresh produce including sweet potato sticks, green beans, watermelon, okra, strawberries, muscadine and more.

A cooperative group of 60 to 100 African American farmers based in Florida, Georgia, Alabama, Mississippi and Arkansas supply the schools. The farmer cooperative now serves more than a million students in 72 school districts, and it all started in Gadsden County. This has benefited the farmers as much as the students they feed. The cooperative has built a solid infrastructure for distribution and delivery that enables communities in rural areas where the farmers live to build stronger economies.

### The fierce urgency of now

Today, we have an unprecedented opportunity to address the crisis of escalating chronic illnesses, many of which are preventable and linked to poor diet and physical inactivity. Diabetes, obesity and heart disease are compromising human potential and productivity, straining the economy and health care system, and fueling health disparities by disproportionately afflicting low-income communities and communities of color.

Increasing access to good food and fitness opportunities will bring multiple benefits. Through efforts like our Food and Fitness Initiative we can reinvigorate local economies, reduce healthcare costs and address legacies of inequity.

"A great number of people and organizations are working hard to attack this issue. What the Kellogg Foundation brings to the table is its long and deep relationships with community, state and national food networks and farmers, and our interest in public health," said Sterling K. Speirn, president and CEO of the Kellogg Foundation. "Our aim is to seize the energy and interest that already exists in communities and help them learn and grow new approaches."

### Seeding a national movement; inspiring a worldwide vision

The Foundation's effort is part of a nationwide Healthy Eating/Active Living Convergence Partnership, in which several food and health funders are working together to address physical activity and access to high-quality food in the context of the natural, built, social, political and economic environment. Convening partners include the Kellogg Foundation, Robert Wood Johnson Foundation, Kaiser Permanente, the Centers for Disease Control and Prevention, the California Endowment and Nemours Health and Prevention Services.

World leaders can join us in improving the health and well-being of our world's vulnerable children by supporting communities and families who are working to transform their food, health and built environments.

One doesn't have to look far to see solutions being developed and implemented by local community leaders. The Pennsylvania Association for Sustainable Agriculture (PASA), the largest member-based sustainable farming organization in the United States, recently brought together more than 2,000 people to discuss the worldwide search for food sovereignty. They are not a unique group, but instead are part of a growing movement in the United States and around the world to change the outcomes of the critical system that feeds people.

**Mixed Greens aims to "grow a bumper crop of smart kids by using school vegetable gardens as classrooms and kitchens." At 10 public schools in Grand Rapids, Michigan, urban youth are learning about health, nutrition, agriculture and the environment. Mixed Greens hopes that today's veggie-loving students will grow into healthy, active citizens who understand the need and value of a local food economy**

### Small action; huge impact

Two policy solutions which would have the power to change the global food system include two seemingly small ideas:

- Enhance agricultural production for sale within and adjacent to communities where it is grown; and
- Further connect availability and access to good food to healthy birth weights and healthy children through robust investment in prenatal support and school food programs.

Early intervention in the lives of children is critical to assure thriving, fulfilled lives. And it is in the hands of the world's children that our future lies.

The W.K. Kellogg Foundation is the fifth largest private foundation (in terms of assets) in the United States (as of June 25, 2009, Foundation Center). Our mission is to support children, families and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Grants are concentrated in the United States, Latin America and the Caribbean, and southern Africa.

**For more information, visit the Foundation's website at www.wkkf.org**

W.K. KELLOGG FOUNDATION

**www.wkkf.org**

# Securing food and agriculture worldwide

*The G20 has the opportunity to tackle global food security and make historic changes to the very politics of food supply*

*By* Donald G.M. Coxe, chair, Coxe Advisors LLC

The global financial crisis and economic recession pushed the world food crisis off the world's front pages only months after the United Nations High-Level Conference on World Food Security in Rome sought to marshal resources for the food crisis in June 2008.

Unfortunately, the food crisis has not gone away. More than 1 billion people suffer from serious malnutrition. World grain carryovers relative to consumption remain at marginal levels, even though consumption of high-protein foods – meat, milk and oils – is reduced because of the recession, and grain prices have sharply retreated. Nevertheless, grains remain at higher prices than prevailed before the global food crisis began, even if, among foodstuffs, only sugar is now at near-record highs. The emerging economic recovery will assuredly send grain and oilseed prices skyward, exacerbating the problems of the poorest people of the world.

Why is there a world food crisis when global grain, meat and milk production has been growing throughout the decade? The answer lies in the longer-term effects of the food policies of the major food-

Disruption to planting seasons caused by climate change could have a catastrophic effect on food supplies

producing members of the Organisation for Economic Co-operation and Development (OECD).

Since the 1950s, the farm programmes of the United States, Canada and Europe have been driven by the seemingly endless surpluses of grains, particularly feed grains. President John F. Kennedy introduced the feed grain programme in 1961 to deal with what he called the challenge of abundance. That legislation, and its successors and imitators across most of the OECD in later decades, sought to control grain production and provided for aggressive export programmes aimed at what were called emerging economies, funded by loans at low rates. What 'rich people' could not consume would be sent to the 'poor people' to prevent starvation. The policies were the awkward spawns of the intimate relationships between farmers and agribusiness, on the one hand, and the deeply felt charitable impulses of the majority of OECD voters, on the other.

Those policies were, in effect, backed by the World Bank and the International Monetary Fund (IMF), which structured their long-range programmes to strengthen economies throughout the developing world by building viable urban industrialised societies along developed market models. They ignored the insights of such intellectual giants as Mohandas Gandhi that most of the poor lived in rural areas and that the sustained dumping of grains meant that most farmers in the developing world could never achieve the earnings needed to support their families and generate surpluses for urban dwellers. Only in recent years has the World Bank begun to reshape its strategies to provide the irrigation, technology and fertilisers needed to produce adequate food supplies in emerging economies. Today, roughly two thirds of India's population still live on farms and in villages, and most families have plots so tiny that they can barely meet their own needs – let alone supply bourgeoning urban demands.

The European Union's Common Agricultural Policy, which consumes roughly 40 per cent of the EU's budget, has been conspicuously successful in protecting its own farmers' incomes. But the advent of genetically engineered (GE) seeds threatened to disrupt this tenuous balance by expanding grain outputs, creating even greater surpluses that must somehow be funded to protect price levels. While there is a legitimate debate about the potential longer-range risks of using new technologies to expand food output, the experience of the US, Canada and other GE-using food giants has forced the overwhelming majority of scientists to endorse their supervised use. The US has been so successful in expanding corn production through GE seeds that it has decided to deal with its surpluses by mandating the allocation of one third of its corn output for ethanol production. The EU's biofuels programme has been so successful that it was recently blamed by a coalition of Asian countries for driving up the prices of soybean and palm oil to levels that threaten their urban poor.

When Keynes was challenged for changing his mind on a policy issue, he replied, "Sir, the facts have changed. How do you respond when the facts change?"

> "The Asian economies leading the recovery must not be stopped by food shortages and soaring grain prices"

When the new middle class in China, India and southeast Asia, collectively responsible for soaring oil and metals prices, began to change its diet of subsistence levels of bread and rice to include meats and milk, the arithmetic of protein conversion began to change the global supply and demand ratio for grains. It takes roughly seven units of vegetable protein to produce a unit of beef protein, five units for pork and milk, and nearly three for poultry. But the number of hectares of grain production worldwide has been growing by only 1.5 per cent in the last decade, whereas consumption was rising at 3.5 per cent until the global recession hit. Industrialisation, urbanisation, pollution and overdrawn aquifers have limited the growth of reliable arable land worldwide. What is needed now is a swift, sustained increase in per-hectare yields worldwide, particularly in the emerging economies.

That means permanent changes in the politics of food worldwide.

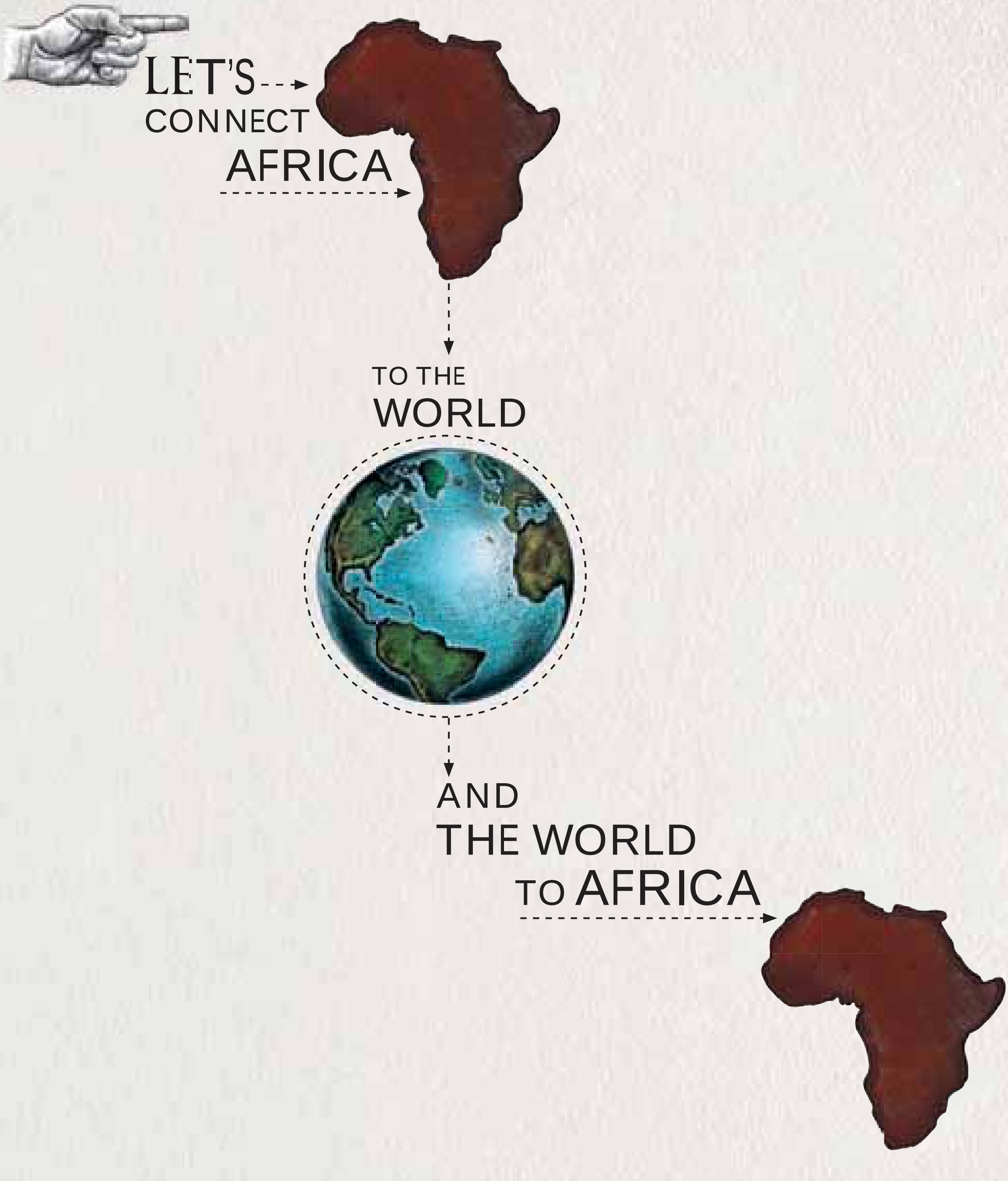
As the world emerges from this recession, the Asian economies leading the recovery must not be stopped by food shortages and soaring grain prices. Already, some wealthy countries are engaged in large-scale ventures – such as offshore farming – designed to ensure their food security. They fear that in the next food crisis, they might not be able to buy adequate supplies of food at almost any price.

Technology and reasonably good governance were at the core of the industrialisation that made North America and Europe wealthy – and reduced the percentage of farmers in the population to single digits, while continuing to expand food output to help drive the growth of cities and prosperity. The G20 has a historic opportunity to launch that model across the world.

Time could be running out. Weather conditions have been generally favourable – compared with long-term historical records – across most of the world's major food-producing regions in recent decades. Recent erratic weather conditions, which have triggered late planting seasons in temperate zones, may signal climate change conditions that could have catastrophic effects on global food supplies.

The world can no longer take cheap, readily available food for granted. ◆

*This article is drawn in part from the keynote address to the 78th annual conference of the Couchiching Institute of Public Affairs on 'The Politics of Global Food' on 6 August 2009.*


LET'S
CONNECT
AFRICA
TO THE
WORLD
AND
THE WORLD
TO AFRICA

# Food security and finance

Maintaining levels of food security for a community or country is far easier than achieving it. Unfortunately, it is the "have-nots" that remain affected by low levels of food security. The world's poorest nations, most of them in Africa, continue to labour under lack of access to economic means and other stimulus that will provide them with sufficient nutrients to meet even daily requirements.

There is no doubt that achieving food security is a strategic imperative. How one tackles the issue is another issue altogether. Globally, the debate around food security continues; everything from farm subsidies, poor governance, global warming and limited resources and education have been touted as reasons for declining levels of food security.

The fact is that all the reasons given are extremely relevant. The issue though, is that those countries affected or afflicted with low levels of food security face multiple challenges on multiple fronts. Solving this issue calls for a co-ordinated and targeted response.

Take banking for instance. The traditional role of banks has been to accept deposits and advance loans. Not much has changed in decades. The mechanisms and delivery systems have changed, but the basic core function of banks has not.

Standard Bank, Africa's largest bank by assets, operates across the agricultural value chain to leverage economies of scale and in so doing, provides access to finance, education and expertise to all levels of the value chain. In achieving this, the bank provides a sound foundation to build community food security, but also to maximise profits across the entire value chain.

Lack of access to finance is a major constraint to unlocking the potential of agriculture in Africa. Standard Bank is making a concerted commitment to serve the entire value chain, with special emphasis on making finance, formal markets and direct inputs more accessible to smallholder farmers. Investment in farming on the African continent has been worryingly low, with agriculture receiving less than its fair share of investment when compared to other sectors of an economy. Reasons for this have largely been due to lack of credit history, marginal returns and lack of financial literacy.

Standard Bank has partnered with organisations such as the Alliance for a Green Revolution in Africa (AGRA), Kilimo Trust, Millinium Challange Account (Mozambique) and MiDA (Ghana) which contribute by providing loss guarantees and training and mentorship. They have launched an initiative that provides innovative financing partnerships that will accelerate food production and raise the incomes of thousands of farmers in Mozambique, Tanzania, Uganda and Ghana.

Standard Bank has made \$100m available in those four countries to support businesses on the input side of the value chain. This includes agro dealers, farmers associations, millers, out-growers, fertilizer wholesalers, local fertilizer producers and blenders, and seed companies, to name a few. The focus is generally on small farmers, to provide them with access to direct inputs for staple crops such as maize, rice, sorghum, millet, cassava and legumes. However, consideration will also be given to cash crops such as vegetable and fruits.

On the output side, financing will support warehouse receipting systems, agro-processing, storage facilities, among other entities.

The partnership between Standard Bank and AGRA, Kilimo Trust, MCA & MiDA aims to reach 750,000 small farmers and SMEs over the next three years. Standard Bank believes that the successful partnership with AGRA will raise household income, create employments, and ensure food security.

This initiative has also been designed with several other goals in mind:

1. To expand lending to the agricultural sector through innovative financing structures.
2. To stimulate a large proportion of farmers and SME's in agricultural value chains to access commercial financing and in the process build assets and, enhance their credit history and rating.
3. To build a data base on the performance and benefits of commercial lending to the agricultural sector.
4. To develop products aimed at mitigating the financial risks affecting the agricultural sector, which includes insurance for the various value chain players.
5. To increase the efficiency of the agricultural value chain players.
6. To develop business capacity for the various sector players and to enhance efficient service delivery.
7. To develop a working consortium from different sector players aimed at delivering the required synergy to achieve these objectives.

Standard Bank believes that through partnerships in the agricultural sector on the continent greater levels of food security can be developed. Partnerships evolve and can also outgrow environmental barriers like access to finance, infrastructure related issues and even education and literacy.

**Standard Bank is a leading African banking group focused on emerging markets globally. It has been a mainstay of South Africa's financial system for over 145 years, and now spans 17 countries across the African continent. Its emerging markets focus has taken it to 16 countries outside Africa including Brazil, Russia and China. It's headquarters are in Johannesburg and it is listed on the Johannesburg Stock Exchange. Visit www.standardbank.com for more information.**

Standard Bank
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# Food security and the biofuels challenge

*If agriculture rests on intensive energy inputs or drives expanding cultivation because of the pressure of biofuels, only to produce plant-based fuels with less energy content than coal or oil, it is hard to imagine how or why carbon credits are due*

**By** C. Ford Runge, Distinguished McKnight University Professor of Applied Economics and Law, University of Minnesota

The declaration issued by G8 agriculture ministers on 20 April 2009 acknowledged an increase of 100 million hungry people in 2009, bringing the number of malnourished above 1 billion. The G8 ministers noted that the food situation had not markedly improved since the crisis summer of 2008. But they failed to acknowledge biofuel's role in the price increases – estimated at 30 per cent of the total by the International Food Policy Research Institute. Instead, the declaration called for a 'balanced combination' of food and renewable energy from biomass, emphasising second-generation biofuels from non-food crops.

Since then, 2009 has delivered what promises to be a bumper harvest, alleviating for the moment the food crisis atmosphere of last season. Even so, biofuels continue to demand more than a third of the US maize crop. Relief in the form of non-food cellulosic biofuels is still years away. Meanwhile, the US and other G8 countries continue to subsidise and mandate food-competing biofuels. A recent estimate of the costs of ongoing biofuel subsidies and mandates in the US, by Earth Track of Cambridge, MA, conducted for Friends of the Earth, puts the total from 2008 to 2022 at $400 billion. If President Barack Obama's proposed increase in the US biofuels mandate of 60 billion gallons a year by 2036 is met, these costs will approach $1 trillion, a diversion of funds sorely needed for other national and international needs.

Poor people's need for food, increasingly challenged by rising prices, is less of an international issue than the debate over biofuels and energy and the role of carbon emissions resulting from fossil fuels. Yet they are all related. Food is, after all, energy itself, measured in caloric units. Its production consumes energy, produces carbon emissions and leads to carbon sequestration over short periods. The fact that food crops such as maize, soybeans, rapeseed and palm oil are now the primary biofuel sources means that their prices and the price of oil now move together. But it is the huge demand for crops to feed the maw of biofuels production that is of concern.

Food and energy are inextricably linked. Indonesia and Malaysia, the top palm oil suppliers, ship 34 million tonnes of the vegetable oil globally, with the EU taking around 15 per cent for both food and biofuel requirements

The food versus biofuel debate underlines only one aspect of the challenge facing the G8, and now the G20, to balance and coordinate energy and food policies at the national or international level. At the national level, agriculture and energy portfolios are separate, with little real integration. Internationally, the Food and Agriculture Organization remains unmatched by a comparable United Nations energy agency and cannot make energy policies part of an already overburdened bureaucracy.

Four aspects of the food/energy challenge merit attention. The first is the role of energy in agriculture and the sustainable level of hydrocarbons used to produce, process, store and transport food. The second is whether using plant biomass as a source of fuel is truly renewable or whether it will displace the crop production needed to feed a growing world while contributing to even greater greenhouse gas emissions. The third is the heavy emphasis on energy inputs to agriculture, which have substantially boosted yields since the 1960s and may have created the illusion that humanity has outrun the Malthusian spectre, discouraging investment in agricultural research and technology when it is most urgently needed. The fourth is how agriculture and energy will come together in response to global climate change.

> "The food versus biofuel debate underlines only one aspect of the challenge facing the G20, to balance and coordinate energy and food policies"

The past two decades have seen the amount of global aid for agricultural research to developing countries shrink. If hunger is to be kept at bay, this needs to be reversed

Food takes energy to produce. While much of this energy is solar, plants are relatively inefficient converters of the sun's energy. To boost yields, modern agriculture has borrowed from accumulated energy stores in oil and other hydrocarbons to supplement soil nutrients and to plant and harvest using large machinery. Harvested grain is dried using natural gas, processed using energy-intensive methods, packaged, transported, refrigerated and cooked before being eaten. Energy related to food production and consumption represents about 10 per cent of the total energy consumption in the United States.

Plants used for biofuels not only require substantial amounts of energy (mainly natural gas) to produce; but the energy in biofuels is about two thirds that of gasoline. The land area needed to substitute biofuels for petroleum fuels is vast. In the US, even a 10 per cent substitution of plant-based fuels for gasoline is estimated to require 43 per cent of cropland, whether the biofuels are produced from maize or switchgrass.

Whether biofuels will improve greenhouse gas emissions is also highly questionable, since to meet global food demands, land elsewhere will be needed. Additional land clearing will emit carbon dioxide, making biofuels greenhouse gas negative. And if intensive fertilisation of crops for food or fuel results, according to Paul Crutzen, the resulting nitrogen oxide emissions will contribute greenhouse gases at a level 296 times more harmful than carbon dioxide.

When it appeared that the world was winning the fight against hunger, government funding for agricultural research flagged. Despite marked expansion in G8 agricultural subsidies, spending on agricultural assistance and research has fallen. In real 2008 dollars, US investment in agricultural development abroad fell from $400 million a year in the 1980s to $60 million in 2006. In rich countries, public investment in research shrank by 0.5 per cent annually between 1991 and 2000, compared with annual increases of 2.3 per cent in the 1980s. Total global official aid to developing countries for agricultural research fell by 64 per cent between 1980 and 2003. This decline was most marked in poor countries, especially in Africa. This research pays high rates of return per dollar invested – estimated at between 25 per cent and 100 per cent. But it can take a quarter century for maximum pay-off, suggesting the need for a rapid acceleration now if the spectre of hunger is to be kept at bay.

> "When it appeared that the world was winning the fight against hunger, government funding for agricultural research flagged"

Food and energy should be considered jointly at upcoming climate talks in Copenhagen in December 2009. But if agriculture rests on high and intensive energy inputs, or drives the expanding cultivation of previously uncultivated areas because of the pressure of biofuels, and then produces plant-based fuels with less energy content and more disturbance than coal or oil, it is hard to imagine how or why carbon credits are due. By contrast, if agriculture is to substitute genomic innovations for energy and land and reduce agriculture's carbon output, it may move in tandem with energy conservation in the rest of the global economy. ◆

# Advocating for the inclusion of diabetes and NCDs in the Millennium Development Goals

Every ten seconds someone dies of diabetes, in the same ten seconds another two people develop diabetes. Diabetes was responsible for 3.8 million deaths worldwide in 2007, roughly 6% of total world mortality. There are currently an estimated 246 million people with diabetes worldwide and within 17 years this number is expected to rise to a stunning 380 million.

According to the World Health Organization (WHO), diabetes and non-communicable disease can have a crippling effect on the health care budgets of nations and could cost the larger economies up to USD 500 billion each over the next decade, mainly as a result of lost productivity and premature deaths.

Despite these alarming numbers and death toll, non-communicable diseases and diabetes in particular are surprisingly neglected issues on the global health agenda. They are widely neglected as development issues and underestimated as diseases with profound economic consequences. The rapidly increasing burden of these diseases is affecting poor and disadvantaged populations disproportionately, contributing to widening health gaps between and within countries.

According to WHO, in 2002 infectious diseases caused 40% of deaths worldwide, while non-communicable diseases accounted for 60%. In the same year, USD 2.9 billion were allocated by international donors to infectious diseases, while only USD 0.1 billion were allocated to non-communicable diseases.

Effective prevention and treatment strategies for diabetes are not costly as long as diagnosis is made available early and effective treatment initiated in order to effectively bring down costs related to other related non-communicable diseases. Both in health and economic terms neglecting chronic diseases such as diabetes is going to be very expensive as the costs and productivity losses as a consequence of its complications will undermine and stunt economic growth and negatively impact the Millennium Development Goals.

## Achieving the Millennium Development Goals

The toll that diabetes takes on individuals, societies and economies especially in the developing and less developed world cannot be overstated. With its strong focus on helping the poorest of the poor, the World Diabetes Foundation is contributing to the achievement of the Millennium Development Goals through its primary focus on health related issues in the area of diabetes and related non-communicable diseases in developing countries. Through special focus on women and diabetes, children with diabetes and tuberculosis and diabetes, the Foundation contributes directly to Millennium Development Goals 3,4, 5 and 6. It is striving to bring attention to the grossly under-resourced and neglected area of chronic non-communicable diseases and is a strong advocate for their inclusion in the Millennium Development Goals.

Undiagnosed diabetes may be further contributing to the high burden of communicable diseases in countries where the load is already high. Recent systematic reviews show that diabetes mellitus (DM) increases the risk of developing tuberculosis (TB), especially in young people and in developing countries with a high background incidence of TB. The Millennium Development Goal. 6 specifies that the incidence of infectious diseases such as TB be halted and reversed by 2015. To succeed in achieving this target, it is important to focus in resource-poor countries not only on HIV/AIDS but also on the burgeoning epidemic of DM as a significant epidemiological risk factor.

If the high mortality and heavy burden of disease experienced by low- and middle-income countries are to be tackled comprehensively, global development initiatives must take into account the prevention and control of non-communicable diseases and diabetes in particular. Instruments such as the Millennium Development Goals and the recently adopted United

Nations resolution on diabetes provide opportunities for synergy, as do mechanisms that harmonize development aid and strategies for poverty alleviation.

**World Diabetes Foundation**

The World Diabetes Foundation is dedicated to supporting prevention and treatment of diabetes in the developing world through funding sustainable projects. The Foundation creates partnerships and acts as a catalyst to help others do more.

During its seven years of existence, the Foundation has established project-related partnerships and collaboration with prominent organisations such as the WHO and its regional and country offices, the United Nations Office for Partnerships, the International Diabetes Federation (IDF), the World Bank and the Danish International Development Assistance Agency (Danida); Global Alliance for Women's Health; International Union Against Tuberculosis and Lung Diseases, various non-governmental organisations (NGO's) including DanChurchAid, the Insulin Foundation and the Fundacion para la Diabetes. In addition the Foundation partners with ministries of health in the developing countries as well as with local diabetes associations, local NGOs, key opinion leaders, policy makers and global media.

**Mandate and objectives**

The aim of World Diabetes Foundation is to alleviate human suffering related to diabetes and its complications among those least able to withstand the burden of disease. The Foundation operates with a strong poverty focus, meaning that its support can only be granted to developing countries. In effect this means that only countries listed on the OECD/DAC list of aid recipient countries are eligible for World Diabetes Foundation support. In addition to efforts to improve care, the Foundation focuses on diabetes prevention, paying special attention to supporting initiatives that otherwise receive little attention. These include the prevention of blindness and limb amputations due to diabetes, as they have disastrous psychosocial and economic consequences. An additional area of focus is on mothers and children with diabetes. Significant emphasis is placed on long-term sustainability of project activities. To achieve this, focus is on strong local ownership, through a local champion who drives the project process, ensuring that the project activities are anchored within existing health structures and that local authorities assume responsibility for continued implementation of activities after project completion.

World Diabetes Foundation strives to educate and advocate globally in an effort to create awareness, provide care and relief locally to those impacted by diabetes. The World Diabetes Foundation has funded 208 projects to date with a total portfolio of USD 210.9 million of which USD 70.6 million are donated by the Foundation. The projects funded by the WDF will in the coming three to four years potentially influence the diabetes treatment, prevention and awareness efforts of 71.5 million people directly in the developing countries.

The World Diabetes Foundation was established as an independent trust in 2002 by Novo Nordisk A/S through a commitment of over 1.2 Billion DKK (USD 255 Million) to be allocated over the period 2001 - 2017. The Foundation is governed by a board of six experts in the field of diabetes, access to health, and development assistance.

**For further information about our projects, partnerships and funding possibilities, please visit our website: www.worlddiabetesfoundation.org**

**The Millennium Development Goals:**

1. Eradicate extreme poverty & hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

**Diabetes during pregnancy now contributes substantially to 'high-risk' pregnancies and, in some countries, may already be the leading cause of maternal morbidity**

WORLD DIABETES FOUNDATION

**www.worlddiabetesfoundation.org**

# America's global health support for development

*Obama's Global Health Initiative constitutes a $63 billion commitment to address serious health problems facing the world's poorest people, including child and maternal health, family planning, neglected tropical diseases, HIV/AIDS, tuberculosis and malaria*

*By* Gloria Steele, head, Global Health, USAID

At the Masagbo village near Banamé, community health promoters are key to educating villagers. With more than 900,000 people dying from malaria every year, knowing how to set up a mosquito bednet is critical

The United States is the global leader in addressing global health needs, having invested $8.2 billion in 2009 and $45 billion over the past decade. The US Agency for International Development (USAID) is the principal US governmental agency providing development and humanitarian assistance to more than 100 countries in the developing world. At the country level, USAID works hand in hand with national programmes and partners to further country-driven programmes.

Its health programmes are complemented by additional USAID investments that address poverty and hardship. Emergency food aid and assistance boost agricultural productivity. Micro-credit programmes provide access to money that, wisely used, can lift families out of poverty. Girls' education programmes improve the health and prosperity of coming generations. Water and sanitation programmes prevent disease, and emergency relief and food assistance are provided following disasters.

USAID works in close collaboration with other US government partners, as well as with other donors, non-governmental organisations (NGOs), faith-based and community organisations, the private sector, the United Nations and host countries themselves. US government assistance in the health sector in developing countries has contributed to unprecedented public health success. Examples include the following:

- There are 2.1 million individuals receiving anti-retroviral therapy; more than 58 million people are being reached through programmes to prevent sexual transmission of HIV.
- More than 32 million people were reached with malaria prevention or treatment interventions during 2008 through the US President's Malaria Initiative.
- Thanks to increased access to family planning services, contraceptive use among women of reproductive age in the developing world has increased from under 10 per cent in the 1960s to more than 43 per cent today.
- The number of deaths of children under five has dropped from more than 15 million a year in the 1980s to an estimated 9.2 million in 2008, representing the saving of 6 to 7 million child lives each year.
- Maternal mortality has been reduced by between 20 per cent and 50 per cent within approximately a decade in 11 countries receiving US government assistance.
- More than 1.2 million people were successfully treated for tuberculosis in 2007, resulting in more than 600,000 lives saved.
- Since 2006, more than 132 million drug treatments for neglected tropical diseases have been delivered to more than 38 million people.

Although progress has been made, urgent health challenges remain. Global maternal mortality rates are unchanged. Even today 530,000 women still die each year from pregnancy-related causes; 6 million children under the age of five continue to die each year from preventable causes; more than 900,000 (mostly children) still die from malaria; there are still 9 million new cases of tuberculosis with 1.7 million deaths; there are 52 million unwanted pregnancies each year; and millions are disabled by tropical diseases for which simple treatment exists.

There are strong reasons – moral and strategic – why the United States is committed to global health.

Improvements in health contribute directly to economic growth, both by making people more productive and by reducing the burden of healthcare costs.

The combination of increased child survival and reduced family size has important economic and environmental effects. Healthy, well-nourished children not only have improved survival rates, but they also have higher intellectual development. Iodine deficiency alone results in a loss of up to 15 IQ points. Malaria accounts for an annual loss of $12 billion each year in Africa and tuberculosis also has a devastating economic impact on families and communities. Countries where the fundamental human needs are better met for health care are more stable.

In May 2009, President Barack Obama announced a $63 billion commitment to global health to address

"There are strong reasons – moral and strategic – why the US is committed to global health"

USAID provides development and humanitarian assistance throughout the world

some of the most serious health problems facing the world's poorest people. This Global Health Initiative focuses increased attention and resources on global health challenges, including child and maternal health, family planning and neglected tropical diseases. It maintains the US government's robust funding and strong commitment to fighting HIV/AIDS, tuberculosis and malaria.

This comprehensive global health approach will invest in efforts to prevent millions of new HIV infections, reduce mortality among mothers and children under five, avert millions of unintended pregnancies and eliminate some neglected tropical diseases.

President Obama and Secretary of State Hillary Clinton have recognised and maintained the important commitment made by the US to deal with AIDS, tuberculosis and malaria. At the same time, the administration has committed to substantially increasing US efforts to save the lives of more children and mothers. The Global Health Initiative also commits the US to accelerating progress by connecting its work on high-impact health programmes through a comprehensive integrated approach that will help countries strengthen their health systems. This approach will extend beyond health services, to harness the contributions of US government investments in water and sanitation, in agriculture and food security, and in girls' education, among others, to achieve better health for families and children.

With many actors in global health, the US must seek the continued and strategic integration of disease-specific interventions and sector-wide support in each host country. Increased work in health systems is critical to achieving the global standard of country ownership and leadership of health system development.

Global health investments must be made in a more integrated and coordinated way, in a way that puts host countries in the lead for improving the health of their people, and in a way that develops their capacity to do so.

Governments, multilateral organisations and other donors must increase cooperation to assist host governments to develop their own national health plans, identify jointly with the host countries and other donors places where donors' integrated resources can best support those plans, and contribute to collaborative monitoring of progress. The US experience shows the importance of including the NGOs and the local private sector in this country empowerment process, along with the host government.

Donors should be flexible and respond to programmatic gaps identified by a specific country and help to fill those gaps. In-country partners should also be involved in the planning of how US government resources will be used.

Addressing urgent humanitarian health needs requires developing local capacity to provide an integrated package of high-impact health services. These include prevention and treatment of diarrhoea, respiratory illness, malaria and malnutrition. They also include family planning, maternal health and HIV/AIDS interventions, as well as effective tuberculosis diagnosis and treatment.

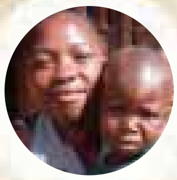
> “The US is the global leader in addressing global health needs, having invested $8.2 billion in 2009 and $45 billion over the past decade”

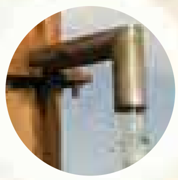
The capacity of the private sector must be strengthened to provide community-based services and distributors to create sustainable service delivery. Social marketing and private sector providers should be encouraged to deliver community-level curative and preventive services, including health franchising, individual health providers and pharmacies.

At the global level, the US must leverage support from other countries and multilateral partners so that the world can come closer to achieving the health-related Millennium Development Goals – numbers four, five and six.

The US must continue to pioneer health research and innovation and develop key life-saving technologies for the future.

Finally, the US must build upon what it knows works to leave a legacy of greater survival, health and well-being for many more families in the poorest countries of the world. ◆





# HONORING COMMITMENTS to the world's poorest mothers and children

## A call for bold, focused action to reach internationally agreed health targets

Nine years ago, world leaders agreed to a set of Millennium Development Goals to meet the needs of the planet's poorest people. Although significant progress has been made, efforts must be greatly intensified to reach targets for maternal, newborn, and child health by 2015. In sub-Saharan Africa, for example, women still face a 1-in-22 lifetime risk of dying from preventable or treatable complications of pregnancy and childbirth, and 15 of 100 children do not reach their fifth birthday.

Although the current economic downturn is increasing global health challenges, targets for maternal, newborn, and child health are still within reach. To most efficiently and effectively achieve targeted improvements, PATH recommends substantially enhanced political and financial support to:

- ➔ **Increase access to proven tools and interventions,** with emphasis on strengthening health systems—including enhancing workforce recruitment and training, improving product procurement and logistics systems, and meeting other requirements for scale-up of effective technologies and interventions.
- ➔ **Accelerate development and delivery of new tools,** including vaccines to prevent leading causes of childhood deaths—such as pneumonia, diarrhea, and malaria—and other appropriate, affordable technologies to reach the underserved in even the remotest areas.
- ➔ **Promote integrated approaches** to improving maternal, newborn, and child health by focusing on critical underlying factors that contribute to good health, such as improved nutrition and access to safe water.

At PATH, we believe expanded support in these three key areas will dramatically improve maternal, newborn, and child health around the world.

Photos clockwise from upper left: David Jacobs, PATH/Mike Wang, David Jacobs, Aurelio Ayala III

PATH
A catalyst for global health

PATH is an international nonprofit organization that creates sustainable, culturally relevant solutions, enabling communities worldwide to break longstanding cycles of poor health. By collaborating with diverse public- and private-sector partners, PATH helps provide appropriate health technologies and vital strategies that change the way people think and act. For more information, please visit www.path.org.

Lack of clean water causes outbreaks of diarrhoeal disease and trachoma, exacerbating already-existing problems of ill health

# Health security from economic and environmental innovation

*In an increasingly interdependent world, health security should be an integral element of the foreign policy and national security agendas of the G20*

By Jeffrey L. Sturchio, president and CEO, Global Health Council

At their Washington Summit in November 2008, with a focus on trying to understand and respond effectively to the global financial crisis, the G20 political leaders acknowledged that re-regulating financial markets and reviewing the workings of the international financial institutions alone would not be enough to restore economic growth, increase employment and enhance poverty reduction.

Moreover, they acknowledged that the impact of the global recession would rest disproportionately on the most vulnerable populations. Accordingly, the G20 leaders said: "We reaffirm the importance of the Millennium Development Goals [MDGs], the development assistance commitments we have made, and urge both developed and emerging economies to undertake commitments consistent with their capacities and roles in the global economy." After noting the importance of country ownership and

"By making health a priority, the G20 and the global community can improve the prospects for long-term growth and development"

mobilising all sources of financing for development, they continued: "We remain committed to addressing other critical challenges such as energy security and climate change, food security, the rule of law, and the fight against terrorism, poverty and disease." Global health – the fight against disease, and specifically the MDGs of improving child survival, maternal mortality and the response to the HIV, tuberculosis and malaria epidemics – thus featured prominently among the commitments made in Washington.

Yet, just six months later, in London in April 2009, health was hardly in evidence. With a strong emphasis on restoring confidence, growth and jobs, repairing global financial institutions and "strengthen[ing] financial institutions to rebuild trust", the G20 leaders focused on finance and trade, while introducing new commitments to food security and addressing the threat of irreversible climate change. While these emphases are understandable and welcome, the London Summit did not identify how its promises on finance, economics, the development agenda and climate change will improve 'health for all', the long-term rallying cry from the Alma Ata conference of more than 30 years ago.

As the G20 leaders prepare to gather in Pittsburgh for their next set of deliberations, it is worth asking the questions: Should health matter to the economic and environmental agenda outlined by the G20? And how can we forge links with the finance, economic development and climate change initiatives of the G20 to ensure health security as part of the inclusive, green and sustainable recovery they envision? The answer to the first question – based on a growing consensus among global health and development professionals, policymakers and advocates worldwide – is a resounding yes. And finance, food security and climate change cannot be considered in isolation from global health: indeed, by making health a priority, the G20 and the global community can improve the prospects for long-term growth and development.

The agricultural sector is vulnerable to extreme weather, leading to food insecurity and malnutrition in many developing countries

## Global health matters

As Margaret Chan, director general of the World Health Organization, has argued, "equitable access to health care, and greater equity in health outcomes are fundamental to a well-functioning economy ... Health had no say in the policies that led to the financial crisis or made climate change inevitable. But the health sector will bear the brunt of the consequences." Improving health security by lowering the burden of disease in developing countries and improving population health contributes to poverty reduction, catalyses economic growth and aids in creating political stability. As Dr. Chan notes, "a world that is greatly out of balance in matters of health is neither stable nor secure". This insight provides an imperative for the G20 to address critical health challenges in a systematic and sustainable way. Investments in health are not luxuries to be shelved until more pressing financial and environmental issues are resolved: health, as a global public good that provides the foundation for stronger and more secure societies, must be a central focus for collective action.

Health security supports food security and environmental security. Whether considering cholera epidemics in Zimbabwe or Bangladesh, malaria in East Africa, the European heat wave of 2003 or the aftermath of Hurricane Katrina in New Orleans in 2005, one can see that climate change has direct, predictable and measurable impacts on health. Heat waves, floods and rising sea levels, for example, have consequences for the spread of vector-borne diseases such as malaria. Scarcity of clean water can lead to outbreaks of diarrhoeal disease and trachoma. And the vulnerability of the agricultural sector to extreme weather leads to food insecurity and malnutrition that exacerbate the problems of ill health already affecting many developing countries and small island nations. But there are solutions available to these malign aspects of climate change and food insecurity. To take just one example, the Global Alliance for Improved Nutrition has successfully developed a programme of food fortification through micronutrients that is reaching millions of the poor, with important consequences for their health – and their ability to work and be economically productive.

In an increasingly interdependent world, health security should be an integral element of the foreign policy and national security agendas of the G20 members. There are encouraging signs that many of the G20 leaders understand and are acting on this principle, seeking solutions that work and planning to scale them up. This broadened focus is also evident in the United States in the Obama administration's ambitious $63 billion, six-year Global Health Initiative announced in May 2009. Secretary of State Hillary Rodham Clinton noted that this initiative "will be a crucial component of American foreign policy and a signature element of smart power. Bringing better health to people around the globe is an avenue to a more secure, stable and prosperous world."

> "Bringing better health to people around the globe is an avenue to a more secure, stable and prosperous world"

Thanks to the combination of effective advocacy, political leadership, new tools and new resources, the world has seen encouraging progress in global health in recent years. Despite many remarkable accomplishments, much remains to be done. The G20 leaders in Pittsburgh have an opportunity to think innovatively about health security as that avenue to a more secure, stable and prosperous world. Let's hope they capitalise on this opportunity: we all have a stake in the outcomes. ◆

# Investing in innovative partnerships to stop malnutrition

Malnutrition means the impairment of hundreds of thousands of growing minds. It means the death of millions of children each year. And it means the large-scale loss of national energies, intellects, productivity and growth.

Poor diet in early years and during pregnancy impairs physical and mental development, forever. No amount of good food can reverse the damage of spina bifida or blindness caused by the lack of folic acid or vitamin A, or of iodine deficiency that can reduce a child's intelligence by 10 to 15 points.

Each year 3.5 million children die as a result of malnutrition and a further 178 million are stunted. Two billion people in the world today suffer from vitamin and mineral deficiencies.

The Global Alliance for Improved Nutrition (GAIN) is an alliance driven by the vision of a world without malnutrition. GAIN mobilizes public-private partnerships and provides financial and technical support to deliver healthier foods and supplements to those people most at risk. Our innovative partnership projects in more than 25 countries are improving the lives of nearly 200 million people. Our project portfolio is growing and our goal is to reach one billion people.

Now is the time to join the Global Alliance for Improved Nutrition in the fight against malnutrition by making it a policy and investment priority. Together we can make a real difference, to today's children and to future generations.

**Marc Van Ameringen, Executive Director GAIN**

**GAIN's added value: investing in innovative partnerships to stop malnutrition**

The Global Alliance for Improved Nutrition (GAIN) fights malnutrition to make people and economies healthier and more productive. GAIN supports food fortification projects in more than 25 countries with high levels of vitamin and mineral deficiencies and its programs are expanding rapidly. GAIN funding has enabled businesses to invest an additional US$32 million in initiatives to fight malnutrition and to partner with national governments to reach more people suffering from malnutrition. GAIN-funded projects support national governments and local companies to develop and distribute high quality and affordable fortified complementary food and supplement products that improve the nutrition of mothers and young infants, groups most at risk of malnutrition. GAIN's out-of-the box model for fighting malnutrition is delivering results. Last year, GAIN's programs reached an estimated 190 million people, more than half women and children; they will improve, when at full scale, the lives of more than 600 million people. We aim to reach one billion people.

**Investment in food fortification yields high returns**

The cost of food fortification to reduce widespread malnutrition can be as low as a few cents per individual per year for adding iodine to salt, and up to 25 cents for more complex vitamins and minerals. Yet the benefits far outweigh these costs. In May 2008 the Copenhagen Consensus, a panel of economists including Nobel Laureates, rated combating child malnutrition as the single most promising development initiative worldwide. The group determined that providing vitamin A and zinc supplements to children under two would cost US$ 60 million per year and deliver US$ 1 billion in benefits. It also concluded that

vulnerable to malnutrition. This program also stimulates sustainable market–based initiatives. The program works with local companies to develop new products, distribution channels and marketing approaches aimed at improving the nutrition of infants and young children in low-income families and partners with financial institutions and venture

**Marie Konaté is CEO of a leading producer of fortified infant cereal products in Côte d'Ivoire. She is fighting malnutrition in her country in partnership with GAIN.**

*GAIN:* How is GAIN supporting you?

*MK:* My company Protein Kisèe-La provides affordable cereal-based complementary foods and promotes the production of local food crops (maize, rice and soya beans). Our main product, Farinor®, is an infant cereal product fortified with vitamins, minerals and proteins for infants 6 to 24 months that we promote in conjunction with breastfeeding. GAIN's Infant and Young Child Nutrition Program is providing a five year grant to us so that we can partner with the non-governmental organization Helen Keller International to address vitamin and mineral deficiencies among infants in Côte d'Ivoire. The grant from GAIN will help us repackage, market and distribute Farinor® to ensure that low-income families can afford and access it. For example, we plan to sell the product in small sachets for US$ 0.25 each. Our goal is to reach an estimated 1.5 million children 6 to 24 months old across the country.

*GAIN:* What drives you?

*MK:* What makes me most excited is that this business model is sustainable and can be reproduced elsewhere. I also admire African women who are farmers the most because they are business-minded, entrepreneurial and they work hard. I also admire my employees. During the recent conflict, they continued to deliver maize, rice and soya despite the dangers involved. They told me that being employed was one of the only things that gave them hope during this difficult time. I was amazed by their dedication and confidence. I know I am making a difference in Côte d'Ivoire's development through the purchase and use of local agricultural products and provision of products that respond to the needs of local populations.

providing micronutrients in the form of iodized salt, vitamin A capsules and iron-fortified flour for 80 percent of the world's malnourished would cost US$ 347 million a year, but yield a massive US$ 5 billion from avoided deaths, improved earnings and reduced healthcare spending.

**Infant and young child nutrition**

The goal of GAIN's Infant and Young Child Nutrition Program is to improve the health and nutrition of 10 million children under two years old, an age group that is particularly

capitalists to increase local business investment in improving infant and young child nutrition. In 2008, GAIN partnered with both the International Finance Corporation and Acumen Fund, a non-profit global venture capital fund that uses entrepreneurial approaches to solve the problems of global poverty.

**Premix facility**

The GAIN premix facility was set up in 2009 to help food fortification projects by establishing an easier, more cost effective way of procuring high quality vitamin and mineral premix. Micronutrient premix is a complicated commodity. Price and quality can vary tremendously, and quality verification requires sophisticated equipment and expertise. Customers in developing countries face a number of barriers when procuring premix, including access to reliable suppliers, variable prices, quality control and lack of upfront capital for large purchases. To address these barriers, the Global Alliance for Improved Nutrition (GAIN) has established the GAIN premix facility (GPF) to make premix procurement easy. With the GPF, GAIN customers can access high quality premix at a competitive cost.

For more information on GAIN visit www.gainhealth.org

# Argentina

## Cristina Fernández de Kirchner

Cristina Fernández de Kirchner became president of Argentina in December 2007 after winning the general election in October. She replaced her husband, Néstor Kirchner, who was president from May 2003 to December 2007. She is Argentina's second female president, but the first to be elected. Kirchner was first elected to the Senate in 1995, and in 1997 to the Chamber of Deputies. In 2001 she won a seat in the Senate again. Born on 19 February 1954 in La Plata, Buenos Aires, Kirchner studied law at the National University of La Plata. She and her husband have two children. This will be the third G20 summit Kirchner has attended.

*Finance minister: Amado Boudou*
*Central bank governor: Martin Redrado*

# Australia

## Kevin Rudd

Kevin Rudd became prime minister of Australia in December 2007, replacing John Howard, who had held the position since 1996. Before entering into politics, Rudd worked for the Department of Foreign Affairs, where he held posts in Stockholm, Sweden and China. He also spent time as a political staffer and held positions that included chief of staff for the premier of Queensland and director general of the office of the Queensland cabinet. Rudd first ran for office in 1996 and was elected in 1998. He was born in Nambour, Queensland, on 21 September 1957. He earned a bachelor's degree in Asian studies at Australian National University in 1981, where he focused on Chinese language and history. He and his wife, Thérèse Rein, have three children. This will be the third G20 summit that Rudd has attended.

*Finance minister: Wayne Swan*
*Central bank governor: Glenn Stevens*

# Brazil

## Luiz Inácio Lula da Silva

Luiz Inácio Lula da Silva first assumed the office of the president in January 2003, after being elected in October 2002. He was re-elected in October 2006, extending his term until January 2011. Lula first ran for office in 1982 in the state of São Paulo and in 1986 was elected to congress. He did not run for re-election in 1990. Instead, he became more involved in the Workers' Party, where he continued to run for the office of president. Lula was born in Caetés, Pernambuco, on 27 October 1945. He received no formal education and began working in a copper pressing factory at the age of 14. He became heavily involved in the workers unions at a young age. He is married to Marisa Letícia and has five children. This will be the third summit that Lula has attended.

*Finance minister: Guido Mantega*
*Central bank governor: Henrique de Campos Meirelles*

# 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 October 2008 and returned to the House of Commons with a stronger minority. Before running for politics he served as a policy adviser for the Reform Party. 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. Harper was born in Toronto, Ontario, on 30 April 1959. He studied at the University of Toronto and the University of Calgary, earning his master's degree in economics in 1991. He and his wife, Laureen Harper, have two children. This will be the third G20 summit that Harper has attended.

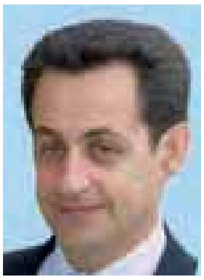
*Finance minister: James Flaherty*
*Central bank governor: Mark Carney*

# China

## Hu Jintao

Hu Jintao has been president of the People's Republic of China since March 2003. He replaced Jiang Zemin, who had held the position since 1989. Hu also serves as general secretary of the Communist Party of China's (CPC) Central Committee and chair of the Central Military Commission. Before entering politics he worked as an engineer. He joined the CPC in 1964 and began working with the party in 1968. In 1992, he was elected to the Standing Committee of the Political Bureau of the CPC Central Committee and was re-elected in 1997. He became vice-president of China in March 1998 and vice-chair of the Central Military Commission in 1999. In 2002, Hu was elected general secretary of the CPC Central Committee. Born in Jiangyan, Jiangsu, on 21 December 1942, he received his engineering degree from Tsinghua University in 1965. He is married to Lui Yongqing and they have two children. This will be the third G20 summit that Hu has attended.

*Finance minister: Xie Xuren. Central bank governor: Zhou Xiaochuan*



# France

## Nicolas Sarkozy

Nicolas Sarkozy became president of France in May 2007, taking over from Jacques Chirac, who had held the position since 1995. Sarkozy worked as a lawyer while he pursued politics. From 1983 to 2002, he was mayor of Neuilly-sur-Seine. He has been president of the Union pour un Mouvement Populaire since 2004. He has held a number of cabinet portfolios, including minister of state of the economy, finance and industry; minister of the budget; and minister of the interior. Sarkozy was born in Paris on 28 January 1955 and received his law degree from the Université de Paris in 1978. He is married to Carla Bruni and has three children from two previous marriages. This will be his third G20 summit.

*Finance minister: Christine Lagarde*
*Central bank governor: Christian Noyer*

# Germany

## Angela Merkel

Angela Merkel became chancellor of Germany in November 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 the third G20 summit that Merkel has attended.

*Finance minister: Peer Steinbrück*
*Central bank governor: Axel Weber*

# India

## Manmohan Singh

Manmohan Singh became prime minister of India in May 2004, replacing Atal Bihari Vajpayee, who held the position from 1998 to 2004 and also for a short period in 1996. Singh was re-elected in May 2009. Before entering politics, he worked as an economist, including for the International Monetary Fund. He was governor of the Reserve Bank of India from 1982 to 1985. Singh was first elected to the upper house in 1995. He was re-elected in 2001 and 2007 and served as minister of finance from November 2008 to January 2009. He was born in Gah, Punjab (now known as Chakwal district, Pakistan) on 26 September 1932. He received his bachelor's and master's degrees from Punjab University in 1952 and 1954. He also received an additional undergraduate degree from Cambridge University in 1957 and a doctorate from Oxford University in 1962. He and his wife, Gursharan Kaur, have three children. This will be the third G20 summit that Singh has attended.

*Finance minister: Pranab Mukherjee*
*Central bank governor: Duvvuri Subbarao*

# Indonesia

## Susilo Bambang Yudhoyono

Susilo Bambang Yudhoyono assumed the presidency in October 2004, replacing Megawato Sukarnoputri, who had held the position since 2001. He was re-elected for a second term in July 2009. Before entering into 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 third G20 summit.

*Finance minister: Sri Mulyani Indrawati*
*Central bank governor: Miranda Goeltom (acting)*

# Italy

## Silvio Berlusconi

Silvio Berlusconi became prime minister of Italy for the third time after winning the April 2008 election. Before entering politics, he started his career as a building contractor. In 1980, he established Canale 5, the first private national television network in Italy. He also became a leading Italian publisher with Mondadori. In 1994 he resigned from Gruppo Fininvest in order to establish the political movement Forza Italia. In the same year, he became president of the Council of Ministers for the first time. In June 2001 Berlusconi became prime minister again, an office he held until 2006. Born in Milan on 29 September 1936, he received his law degree from the University of Milan. He is married to Veronica Lario and has five children. This will be the third G20 summit that Berlusconi has attended.

*Finance minister: Giulio Tremonti. Central bank governor: Mario Draghi*

# Japan

## Yukio Hatoyama

Yukio Hatoyama, whose party was elected on 30 August 2009, replaced Taro Aso as prime minister. Aso had held the position since 24 September 2008. Before entering politics, Hatoyama worked as a professor. In 1998 he was instrumental in the merging of several parties to create the 'new' Democratic Party of Japan, and led the party from 1999 to 2002 before again assuming the leadership in May 2009. Hatoyama was first elected to the House of Representatives in 1986 and has been re-elected seven times. He was born in Tokyo on 11 February 1947. He studied engineering at Tokyo University and completed his PhD at Stanford University. He and his wife, Miyuki Hatoyama, have one son. This is his first G20 summit.

*Finance minister: Unavailable. Central bank governor: Masaaki Shirakawa*

# Mexico

## Felipe Calderón Hinojosa

Felipe Calderón Hinojosa became president of Mexico in December 2006, replacing Vicente Fox, who had held the position since 2000. In his early twenties Calderón was president of the youth movement of the National Action Party. He later served as a local representative in the legislative assembly in the federal chamber of deputies. In 1995 he ran for governor of Michaocán. He served as secretary of energy from 2003 to 2004. Born in Morelia, Michoacán, on 18 August 1962, Calderón received his bachelor's degree in law from Escuela Libre de Derecho in Mexico City. He later received a master's degree in economics from the Instituto Tecnológico Autónomo de México, as well as a master's degree in public administration from Harvard University. He and his wife, Margarita Zavala, have three children. This will be the third G20 summit that Calderón has attended.

*Finance minister: Agustín Carstens*

*Central bank governor: Guillermo Ortiz Martínez*

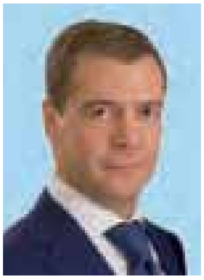
# Republic of Korea

## 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 third G20 summit.

*Finance minister: Yoon Jeung-Hyun*

*Central bank governor: Lee Seongtae*



# Russia

## Dmitry Medvedev

Dmitry Medvedev became president of Russia on 7 May 2008, after winning the presidential election in March and replacing Vladmir Putin, whose term in office had expired. Before entering politics, Medvedev worked as a legal expert and lawyer. He was officially endorsed as a presidential candidate in December 2007 by Russia's largest political party, United Russia. Medvedev served as deputy prime minister from 2005 to 2008. He was born in Leningrad (now St Petersburg) on 14 September 1965. He earned a degree in law in 1987 and a doctorate in private law in 1990 from Leningrad State University. He is married to Svetlana Medvedeva and they have one child. This will be the third G20 summit that Medvedev has attended.

*Finance minister: Alexei Kudrin*

*Central bank governor: Sergey Ignatiev*

# Saudi Arabia

## Abdullah bin Abdul Aziz Al Saud

King Abdullah bin Adbul Aziz Al Saud has been in power since August 2005. He replaced Fahd bin Abdul Aziz Al Saud, who had reigned since June 1982. As crown prince since 1987, Abdullah had previously acted as de facto regent and thus ruler since 1 January 1996, after Fahd was debilitated by a stroke. Abdullah was formally enthroned on 3 August 2005. He also serves as prime minister of Saudi Arabia and commander of the National Guard. Abdullah is chair of the supreme economic council, president of the High Council for Petroleum and Minerals, president of the King Abdulaziz Centre for National Dialogue, chair of the Council of Civil Service and head of the Military Service Council. He was born 1 August 1924 in Riyadh and has a number of wives and children. This will be the third G20 summit Abdullah has attended.

*Finance minister: Ibrahim Abdulaziz Al-Assaf*

*Central bank governor: Muhammad Al-Jasser*

# South Africa

## Jacob Zuma

Jacob Zuma became president of South Africa on 9 May 2009, succeeding Petrus Kgalema Motlanthe, who had held the position since September 2008. Zuma joined the African National Congress (ANC) in 1958 and joined the ANC's National Executive in 1977. In 1994, he was elected National Chair of the ANC and chair of the ANC in KwaZulu-Natal. He was re-elected to the latter position in 1996 and selected as the deputy president in December 1997. Zuma was appointed executive deputy president of South Africa in 1999 and held that position until 2005. He was elected ANC president at the end of 2007. Born on 12 April 1949, in Inkandla, KwaZulu-Natal Province, he has received numerous honorary degrees. He has three wives and several children. This will be the first G20 summit that Zuma has attended.

*Finance minister: Pravin Jamnadas Gordhan*

*Central bank governor: Tito Mboweni*

# Turkey

## Recep Tayyip Erdoğan

Recep Tayyip Erdogan became prime minister of Turkey in March 2003, replacing Abdullah Gül, who had occupied the office since 2002. Before becoming prime minister, Erdoğan was mayor of Istabul from 1994 to 1998. He was born on 26 February 1954 in Rize, Turkey, and studied management at Marmar University's faculty of economics and administrative sciences. He is married to Emine Erdoğan and has two children. This will be the third G20 summit Erdoğan has attended.
*Finance minister: Kemal Unakitan*
*Central bank governor: Durmuş Yılmaz*

# United Kingdom

## Gordon Brown

Gordon Brown became prime minister of the United Kingdom of Great Britain and Northern Ireland in June 2007, three days after becoming leader of the Labour Party. He was first elected to parliament in 1983 as representative for Dunfermline East. Since 2005 he has been the representative for Kirkcaldy and Cowdenbeath, also in Scotland. Before entering politics he worked as a lecturer and journalist. He served as chancellor of the exchequer from 1997 to 2007. Brown hosted the second G20 summit on 1-2 April 2009. Born in Govan, Glasgow, on 20 February 1951, he studied history at the University of Edinburgh and completed his doctorate in 1982. He and his wife, Sarah Brown, have two children. This will be the third G20 summit that Brown has attended.
*Finance minister: Alistair Darling*
*Central bank governor: Mervyn King*

# United States of America

## Barack Obama

Barack Obama became president of the United States on 20 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 in Illinois. He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and American mother. He received his bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. He is married to Michelle Obama and they have two children. This will be the second G20 summit that Obama has attended and the first that he has hosted.
*Finance minister: Timothy Geithner*
*Central bank governor: Ben Bernanke*

# European Union

## John Fredrik Reinfeldt

John Fredrik Reinfeldt has been prime minister of Sweden since October 2006. Sweden holds the six-month presidency of the European Council from 1 July to 31 December 2009, taking over from the Czech Republic led by Mirek Topolánek. Reinfeldt has been a member of the Swedish parliament since 1991. Born in 1965 in Österhaninge, he graduated from Stockholm University with a degree in business and economics. He is married to Filippa Reinfeldt and has three children. This will be the first G20 summit Reinfeldt has attended.
*Finance minister: Anders Borg*
*Central bank governor: Stefan Ingves*

## 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 Barroso was an academic. He studied law at the University of Lisbon, holds a master's degree in economics and social sciences from the University of Geneva, and received his doctorate from Georgetown University in 1998. He is married to Maria Margarida Pinto Ribeiro de Sousa Uva and has three children. This is the third G20 summit Barroso will attend.
*Central bank governor: Jean-Claude Trichet*

# Shaping the counterattack against the international trade in fake goods

The European Anti-Counterfeiting Network

**The international trade in counterfeit goods must be reduced in order to protect consumers against dangerous and useless fake products as well as legitimate business against the unfair competition by counterfeit traders!**

**High penalties, effective and speedy measures are important but no longer sufficient to fight this growing phenomenon. The involvement and liability of the service providers to the counterfeit trader is required. The businesses who carry, ship, provide a platform or a market to the counterfeit trade, should protect themselves against the negative consequences of the counterfeit trade and at the same time support rights owners and enforcement authorities to fight counterfeiting!**

Counterfeiting of goods is a serious crime that has many negative consequences. The capacity of an economy to create and innovate is reduced, consumers are exposed to danger, the viability of commercial enterprises is undermined, there is a disincentive to inward investment and job creation and government revenues are reduced.

**SNB-REACT:** In response to the damage being caused by this illicit trade a number of rights holders grouped themselves together and established a business association, SNB-REACT. It comprises 160 Members drawn from all the industry sectors affected by counterfeiting and assists them to share ideas, best practice and manage the growing problem. Amsterdam based, it enjoys a network of branch offices and agencies in Milan, Lisbon, Skopje, Vilnius, Madrid, Prague, Latvia, Istanbul and Warsaw. Through partnership agreements with highly skilled intellectual property right specialists in all other European countries, members of SNB-REACT can rely on a practical anti counterfeiting service which fully complements their internal counterfeiting strategies.

**Combating counterfeiting can be expensive!** SNB-REACT is able to succeed in fighting the trade in counterfeiting in the most efficient and cost effective manner and, hence, it has become the world's nr 1 service provider for rights owners. It provides an inclusive package of legal and practical services and continuously strives to maintain the lowest possible cost and fee structure, whilst maintaining a high quality in delivering legal actions, investigations, monitoring of markets, events and the Internet, storage, recycling and destruction of fake goods in environmental friendly manner.

**IPR Business Partnership:** To complement this practical enforcement framework the members of SNB-REACT now have direct access to the IPR Business Partnership, a global and strategic public-private partnership that seeks to develop innovative solutions to the problem of counterfeiting and works alongside key bodies at the global, regional and national levels of capacity building and training initiatives.

The counterfeit problem is changing rapidly and is being facilitated by the new digital and IT technologies and the ease of travel and communications. Such developments were not fully anticipated when the Trade Related aspects of Intellectual Property Rights (TRIPS) agreement in 1986 was negotiated. We therefore wholeheartedly support the G20 discussions on counterfeiting as well as the on-going ACTA negotiations. We highlight several issues that deserve a high priority:

- **Improving information management** and dealing with "roadblocks" that exist, which inhibit the sharing of information on a "Government to Government" and a "Government to private sector" basis.
- **Sharpening accountability.** Logistics operators, shippers, brokers, storage operators, FTZ operators, ISPs etc, are important links in the movement of counterfeit or pirated goods. Improving accountability mechanisms for such operators would strengthen official control over the supply chain and reduce the movement of counterfeit products.
- **Building effective partnerships.** This is the cornerstone of our inclusive approach to anti counterfeiting. We advocate the creation of structures at a national level to enhance partnership between policy ministries, enforcement agencies and the private sector and at regional or sub-regional level.

***www.snbreact.org***
***www.iprbusiness.org***

SNB-REACT

IPR Business Partnership

# Atlantic Council

## 'Freedom's Challenge'

# Gala Dinner

**November 8, Adlon Hotel, Berlin**

On Sunday November 8, 2009, the Atlantic Council will host a special Gala Dinner to celebrate the 20th Anniversary of the Berlin Wall's fall.

Held in association with Newsdesk Media Inc., the 'Freedom's Challenge' Gala Dinner will be attended by government, military, industry, financial and cultural leaders and officials from across the Atlantic Alliance, with past and present leaders receiving special 'Atlantic Council Freedom Awards'. The event will take place at Berlin's Adlon Hotel, located adjacent to the Brandenburg Gate, where the Wall was first breached in November 1989.

**For further information on the Gala Dinner, please contact Angela Coleman:**
**angela.coleman@newsdeskmedia.com or +44 (0) 20 7650 1600**

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# IMPROVED CARE FOR SOME OF THE WORLD’S MORE VULNERABLE PEOPLE

**The Lilly MDR-TB Partnership, a public-private undertaking, mobilizes 18 partners on five continents in the battle to stop the spread of MDR-TB. Lilly and its partners are working hard to save lives from TB and MDR-TB, a disease which affects the most productive populations.**

The public-private partnership provides access to medicines, transfers manufacturing technology to resource-constraint countries, conducts research, trains health care workers, raises awareness and promotes prevention, while providing support for communities and advocating on behalf of people living with TB and MDR-TB.

The partners work together closely, sharing knowledge and expertise in the quest to contain and conquer one of the world’s oldest diseases.
The Lilly MDR-TB Partnership is about more than the transfer of technology and know-how – it’s the Transfer of Hope.

THE Lilly MDR-TB PARTNERSHIP

For more information visit www.lillymdr-tb.com