Cannes
B20 BUSINESS SUMMIT

Final report
with appendices

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CONTENTS

FOREWORD

The G20 Summit in Cannes, France, from 3-4 November 2011 is taking place at a pivotal moment when the global economy is at a crossroads. In these challenging times, stronger, more coordinated leadership from the G20 is necessary to address both the immediate and longer-term global economic challenges. Comprehensive collaboration between the business sector and governments across the G20 is also essential for the global business community to communicate its perspective on the obstacles to new investment, job creation and growth. It is important that governments listen to businesses and work with them to reboot the flagging recovery and find new drivers of growth.

The French Presidency appointed the MEDEF, the largest association of employers in France, to assemble panels of business leaders to develop proposals for the consideration of G20 leaders, and organize the B20 Summit in cooperation with other business organizations from all the G20 countries. The World Economic Forum and the International Chamber of Commerce (ICC) also brought together panels of CEOs to make recommendations for the G20. MEDEF, the Forum and the ICC joined forces and drafted an integrated set of proposals. In total, some 200 heads of small, medium and large corporations from around the world, as well as representatives of 23 business organizations from across the G20, were involved in working groups on the most pressing issues facing the global economy.

This volume contains the final report from this effort that conveys, in an integrated and concise way, the key recommendations developed by the B20 working groups and those of the World Economic Forum and the ICC. The contributors engaged in deliberations over several months to shape a package of concrete actions that G20 leaders could take in Cannes to drive and strengthen economic growth in a more sustainable, balanced and inclusive manner. The working groups have also issued specific commitments on the part of the business sector to support a new, more action-oriented agenda. As a legitimate and representative voice of global business, the B20 is prepared to work with the G20 to implement the measures and policies proposed in this action plan.

The recommendations in this document are the collective opinions of the respective working group members alone. They do not represent any institutional view of the World Economic Forum or the International Chamber of Commerce, and they do not necessarily reflect the positions of the companies of participating CEOs.

At this critical juncture, it is important that business and civil society join forces with governments to develop and implement solutions to the complex and interconnected risks the world is facing.

The business leaders of the world welcome this challenge and stand ready to do their part.

EXECUTIVE SUMMARY

The global economy is at a crossroads. The 2011 G20 and B20 Summits come at a pivotal moment for the world. Global growth is decelerating and investor confidence is eroding even as the fiscal and social aftershocks of the 2008-09 financial crisis persist in many countries. Stronger and more coordinated leadership from G20 leaders is necessary to reverse these trends. In particular, deeper cooperation among governments and other stakeholders is required to **1) adjust global governance to the new realities to strengthen confidence, 2) unlock the levers of economic growth, and 3) ensure that the benefits of global growth are sufficiently shared to be sustainable.**

ADJUST GLOBAL GOVERNANCE TO THE NEW REALITIES TO STRENGTHEN CONFIDENCE

The world is increasingly complex and intertwined so that a number of effective cooperation systems are required. However, global governance and international institutions and systems have yet to adapt fully to this new reality:

- **Globalization calls for broader transparency from public and private stakeholders alike. Beyond transparency, better macroeconomic coordination is needed to mobilize a strong, coordinated response to the mounting, interrelated monetary and fiscal challenges faced by major economies. G20 leaders should commit to address today's critical economic situation with the same sense of urgency and common purpose that they exhibited at the Washington and London G20 summits in late 2008 and early 2009. We also recommend that the G20 build on the leadership of the Korean and French G20 presidencies, and improve the consistency and continuity of its actions by developing a transparent, multi-year, integrated agenda and by continuing to organize appropriate consultations with relevant stakeholders before making decisions. The business community is determined to make material contributions. In particular, there is a growing consensus among business leaders for the business community to express commitments on anti-corruption efforts, corporate social responsibility, corporate governance and other important areas.**

- **The G20 should drive a reinforcement of key international institutions. This requires 1) improving their legitimacy (e.g., by increasing the weight of emerging economies in the International Monetary Fund), 2) ensuring their decisions are fully informed through better consultation mechanisms, notably with the business community and other stakeholders, and 3) increasing the effectiveness of these institutions through extended mandates (e.g., the International Atomic Energy Agency, the IMF) and mechanisms to monitor the stringent implementation of decisions made (e.g., peer reviews, independent assessment reports). In particular, the IMF should be strengthened in its roles in 1) crisis management and lending, 2) capital market development, and 3) surveillance and support in the coordination of macroeconomic policies.**

- **The business community and the G20 should collaborate with the relevant regulators to improve the international monetary and financial systems.**

  Beyond IMF reinforcement, it is essential that the G20 drive the construction of **a stable and multipolar international monetary system**. First, the G20 should encourage the convertibility and flexibility of relevant currencies for trade and investment. Second, the G20 should support the business efforts to address hedging challenges by ensuring that regulations do not hinder the use of hedging instruments, by enlarging the special drawing rights (SDR) basket, increasing the SDR's role as a reserve currency, and finally by developing private use of SDRs.

  The G20 has been instrumental in containing the 2008 financial crisis. Today, there is concern about the uncertainty of future financial regulation and its possible cumulative impact. What is at stake is not only the stability and profitability of financial institutions but also their ability to finance the broader economy. The G20 should then ensure that the current regulatory process evolves in two areas. First, regulators should take stock, before any new changes are made, of the current regulatory agenda, and set up an integrated roadmap informed by the impact assessment of regulatory measures, the state of implementation and potential unintended consequences, e.g., on trade finance, small and medium-sized enterprise (SME) finance, and in general, excessive pro-cyclicality. Second, tools and procedures should be defined to ensure the homogeneous implementation of regulatory changes, to prevent risk mutating (e.g., shadow banking across market segments and geographies) and provide clear information to market participants.

UNLOCK THE LEVERS OF ECONOMIC GROWTH

Many growth opportunities of global magnitude are still latent and will only materialize if states, international bodies and business leaders act together to remove roadblocks and create favorable conditions:

- **The G20 and the business community should collaborate to foster broader and more efficient markets:**

  Successfully fighting corruption is a crosscutting objective. It requires new multi-year public-private cooperation based on complementary commitments. G20 governments should commit to act individually and collectively to create a legal and institutional framework that prosecutes the "demand side" of corruption (intentional solicitation), encourages capacity building and establishes the correct balance between punishing wrongdoing and incentivizing compliant behavior. For its part, the B20 commits to accelerate private-sector initiatives to establish common rules, to improve compliance, and to eradicate the "supply side" of corruption. As an example of increased collaboration, we propose that the G20 enhance its existing peer review mechanism for evaluation of national anti-corruption programs to include meaningful private-sector consultations and input.

International trade and investment has been and will remain a key driver of global growth. Hence, we urge the G20 to make trade and investment a permanent item in its multi-year agenda and put all its weight on reaching practical targets, e.g., the World Trade Organization (WTO) rapidly finalizing a Trade Facilitation Agreement and the accession of Russia to the WTO.

We should ensure that global growth potential is not constrained by high price volatility and, more importantly, by supply and demand tensions of **commodities, raw materials and energy. Actions should be taken to** foster efficient and liquid markets (e.g., avoid barriers to trade and investment, ensure stable regulatory regimes, increase commodities markets transparency) and to encourage a more efficient use of resources through incentives or by removing harmful price subsidies.

Also, the G20 should redouble efforts at the international level to **enhance the functioning of labor markets** and stimulate job creation, by fostering flexibility and flexible forms of work, promoting global skills transfers and mobility, and developing real and effective public-private partnerships to identify and work together to meet job needs, skill gaps and education requirements.

- The business community and governments should join forces **to accelerate and more fully leverage innovation, with a priority on green growth as well as on information and communications technologies (ICT).** Generally speaking, all measures supporting entrepreneurship and SMEs – as mentioned above – will help, as entrepreneurship is the main source of innovation. For both green and ICT growth, public incentives will of course be instrumental in fostering R&D, developing infrastructure, and supporting long-term profitable areas. However, just as importantly, the business community and the G20 should work together to develop the stable and appropriate regulatory frameworks necessary to ensure an attractive and level playing field. This includes putting a price on carbon, freeing trade in green goods and services, harmonizing rules pertaining to ICT (privacy protection, cyber security, intellectual property, author rights).
- All countries should be encouraged to adopt **sound public finance as best practice** (applying golden rules adapted to the diversity of situations). Governments with large structural deficits should rapidly reduce fiscal imbalances to manageable levels. To improve the performance of public services – doing more and better with less – governments and the business community should work together to develop outsourcing and public-private partnerships, and to leverage the private-sector best practices (e.g., on education).
- The G20 should **promote long-term private financing of job-creating activities.** Restoring fiscal sustainability will help, but governments and regulators also need to improve prudential, accounting and taxation rules so that they are compatible with a longer time frame. For its part, the business community commits to focus on long-term value creation in reforming corporate governance principles and compensation systems.

ENSURE THAT THE BENEFITS OF GLOBAL GROWTH ARE SUFFICIENTLY SHARED FOR GROWTH TO BE SUSTAINABLE

Robust competition has always been and will remain the best possible growth engine. It is in the nature of things that some players are more successful than others. However, excessive imbalances can raise tensions between and within countries to a point where political and social instability endangers growth across the board and could potentially lead to large-scale crises.

- Efforts to reach the Millennium Development Goals (MDGs) should be redoubled not only for their own sake but also because development is potentially a massive source of global growth, as it will include new populations in global trade.

- **Food security is a global priority**. The business community and the G20 need to work together to reduce volatility and ensure adequate food production and access. This requires improving the efficiency of food and agriculture markets through implementing policy reform (including **ending export restrictions**), improving infrastructure, and increasing transparency. It also requires **improving productivity,** in great part through **increasing investment from public and private sources by 50% by 2015**, as well as through improved technologies and sustainable farming practices.

  Infrastructure development will also be essential to achieving the Millennium Development Goals. Although financing will of course play a role, it is as important to identify the right high-quality projects and secure their successful implementation building local competencies. To this end**, the business community and the G20 should work together to develop a framework for better projects** (e.g., Well Prepared Projects, new types of public-private partnerships, infrastructure attractiveness index).

- Social solidarity and social stability should be promoted. In this spirit, business leaders propose to develop real and effective cooperation among business, governments, education providers and labor unions to identify job needs, skill gaps and education requirements, and work in public-private partnerships to meet these needs and requirements.

- Corporate social responsibility (CSR) is key for growth and development. In this respect, business leaders reaffirm as a principle that companies should be responsible for the economic, social and environment impact of their business decisions. They commit to support broad-based CSR initiatives, such as the UN Global Compact and the Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises, and to encourage the full adoption of CSR principles on a global basis.

SPECIFIC RECOMMENDATIONS

The following are the specific recommendations by B20 leaders on the issues discussed in their working groups:

I – Global Economic Policy Imperatives

Since the 2008 financial crisis, the global economic context has substantially changed. Now, the priority for the G20 should be to focus on measures that will spur private sector growth, and lead to job creation and a healthier foundation for fiscal sustainability. During and after the crisis, this will require structural reforms in all G20 countries necessarily tailored for specific national conditions. Absent such policies, the social consequences of the continuing crisis stand to be considerable.

Therefore, the business leaders in this Working Group make the following recommendations:

- **Governments should reduce the uncertainty hampering economic growth by communicating clear objectives, increasing transparency and reinforcing International Monetary Fund (IMF) surveillance:**
  - Develop and communicate mid-term economic objectives, specifically for fiscal, monetary and exchange policies and the regulatory agenda.
  - Mandate IMF surveillance of macroeconomic imbalances, and strengthen the Mutual Assessment Process (MAP) and G20 guidelines.
  - Recognize the weight of emerging economies in the IMF and ensure the IMF considers a diversity of solutions to implement at country level.
  - Ensure regular and public assessment without political interference.
  - Embed MAP in stringent peer reviews on a 'comply-or-explain' basis.
  - Include in IMF Article IV status reports a standardized table of key indicators to assess sustainability of policies.
- **Ensure sound public finance to boost long-term economic growth:**
  - Rapidly reduce fiscal imbalances to manageable levels in countries with large structural deficits to improve long-term economic growth potential. Restore fiscal discipline by reducing public spending rather than by increasing corporate taxation.

- Encourage all countries to adopt sound public finance as a best practice (apply golden rules adapted to the diversity of situations).
- Implement credible reforms of entitlement programs consistent with demographic realities and the objectives of strong private-sector participation.
- Develop policies in emerging economies to facilitate economic convergence with developed countries.

- **Foster entrepreneurship, development of small and medium-sized enterprises (SMEs) and job creation:**
  - Remove unnecessary barriers to entrepreneurship and simplify processes to create jobs.
  - Implement measures to facilitate SME engagement in the global economy through better access to the global digital marketplace, modern transport and communication infrastructure, and all forms of capital market facilities.
  - Review Basel rules to ensure creditworthy SMEs have access to capital.

- **Expand capital markets to long-term private investments:**
  - Deepen and broaden capital markets in emerging economies to facilitate financially prudent private sector participation in long-term investments.
  - Business commits to focus on long-term value creation in reforming corporate governance principles.

II - Financial Regulation

Three years after the crisis, there have been many changes to financial regulation aimed at enhancing financial stability. Do these changes fit with current economic challenges, and demographic and social issues? Are they appropriate for today's and the future's environments? These question led business leaders to make the following recommendations:

- **Before any new changes are made, take stock of the current regulatory agenda and set up a structured roadmap for reform, considering the following:**
  - Impact assessments of regulatory measures;
  - The state of implementation and potential unintended consequences for trade finance and SME finance and, more generally, excessive pro-cyclicality; and
  - The opportunity to routinely use sunset clauses that require regular reviews of how well regulations fulfill their purpose, and either extend their sunset dates or automatically terminate them.

- **Enlarge the regulatory approach to other tools such as macroeconomic, fiscal policies and supervision, which have a key role to play. Regulation is not the answer to all current problems. Access to liquidity will not be solved solely through the implementation of the Liquidity Coverage Ratio (LCR).**

- **Define tools and procedures to ensure consistent implementation of regulatory change. Prevent risk mutating into shadow banking across market segments or regions. Provide clear information to market participants, while preserving the diverse banking ecology that brings resilience to financial systems. In particular:**

  – All policymakers should adhere to corporate governance norms of transparency such as publishing minutes from key meetings, regular consultations and peer reviews;

  – Reporting on the status of implementation should include a country-by-country comparison that indicates whether member states have under- or over-implemented the reform agenda; and

  – The country roadmaps would differ on the starting points and needs since those of emerging economies are significantly different from those of more mature markets.

- **Governments and financial institutions should create the right environment to allow financial services firms, within a proper risk framework, to innovate to meet the biggest social and economic challenges, including a $600 billion a year infrastructure investment gap, demographics, and pension/retirement needs. Financial innovation must address the needs of the "unbanked", the more than two billion people that have no access to financial institutions.**

- **Financial institutions will support industry-led initiatives such as the Equator Principles and the Carbon Disclosure Project.**

III - International Monetary System

Emerging from the 2008 crisis and overall changes in the global economic environment, reform of the International Monetary System (IMS) is a priority for the G20 and B20 in 2011. An IMS that acknowledges countries' and economies' interdependence while fostering growth, stability and fairness at the global level, is important for world prosperity and the operation and growth of companies.

The IMS has some major deficiencies: 1) exchange rate volatility, misalignments and excess reserve accumulation, 2) volatile short-term capital flows, and 3) the frequency and magnitude of financial crises.

A stable IMS requires that the G20 countries commit to sound domestic policies, macroeconomic coordination, the restoration of financial sector stability and pro-growth structural policies.

Specifically, business leaders suggest the following actions:

- **Support business efforts to address hedging challenges:**
  - In any new regulation of derivatives markets or banking, avoid penalizing hedging for supporting international trade.
  - Enlarge the basket of Special Drawing Rights (SDRs) with other convertible currencies, and increase its role as an official reserve and private investment currency. While a broad use of SDRs as a transaction currency is desirable, it may only be feasible in the mid to long term.
  - Implement measures to increase companies' access to financial and non-financial currency hedges, particularly by developing local currency debt markets to improve access to direct financing.

- **Support the move towards a multi-polar currency system encouraging the convertibility and the flexibility of relevant currencies for trade and investment.**
  - The structure and sources of trade and investment changed dramatically in the last decades. A multi-polar system would better fit this new reality and would be instrumental in reducing firms' transactions costs and uncertainties, and would lead to a more balanced global economy.
  - The current US dollar-dominated system amplifies the risks of the global economy. In a multi-polar system, the dollar and the euro should be followed by the Chinese yuan and other emerging currencies. For the business sector, a convertible RMB would enhance trade and investment with regard to China. For China convertibility is necessary to enhance the international importance of the nation's currency. The development of local financial markets and the transition to full convertibility should be intensified.

- **Strengthen the International Monetary Fund (IMF) in its roles of: a) surveillance and support in the coordination of policies, b) enhancing transparency about risks and exposures in the financial system, and c) supporting the liberalization of capital accounts and the development of efficient financial markets in mature and emerging economies.**

- **Collaborate with the B20 to promote better understanding of currency issues among all stakeholders, and notably institute global monitoring to prevent crises and imbalances:**
  - Develop studies of currency instability impact on individual companies and the global economy as a whole
  - Promote the production and communication of indicators (both macro and microeconomic) about currency risks to help businesses make well informed decisions

IV - Commodities and Raw Materials

The volatility and level of commodities and raw materials prices are a cause of concern. The Working Group believes that these conditions are mainly driven by economic fundamentals. We recommend that the G20 focus on reducing the tension between demand and supply especially at a time of increasing governmental restrictions on investment and trade. We propose the following:

- **Create a global level playing field for commodities and raw materials**
  - Remove and avoid barriers to investment and trade
  - Ensure stable regulatory regimes (fiscal, environmental, social)
- **Use resources efficiently to reduce price pressure and ensure sustainability**
  - Remove price subsidies
  - Support large scale innovation at every stage of a product's life cycle
- **Increase market transparency and visibility by reinforcing global dialogue in appropriate international forums (e.g the FAO, IEF, IRSG, etc.)**
  - Ensure timely information on supply, demand and storage flows
  - Develop dialogue between producers and consumers including governments and business
- **Foster efficient and liquid markets**
  - Focus on market abuses while avoiding overregulation
  - Prioritize ex-post control based on data accessible only to regulators

V – Development and Food Security

Key figures regarding development issues are appalling: 2.6 billion people lack basic sanitation facilities. More than 1 billion are hungry. More than 900 million do not have access to clean drinking water. In this context, collaboration between public and private sector becomes crucial to achieving the Millennium Development Goals (MDG). Business leaders make the following recommendations:

- **Set up food security as a global priority – The private sector plays a central role in agri-food production systems and in reducing the impact of price volatility across the supply chain, while working with governments to address broader issues of sustainability:**
  - Improve functioning of markets to ensure a stable and sustainable global food system. Coordinate agricultural policies at the global level, particularly focusing on export restrictions. This requires extensive improvements in policies and to infrastructure, as well as increased transparency through improved data collection, sharing and monitoring;

   - Improve productivity by increasing investment from public and private sources by 50 percent by 2015. With these investments, agricultural productivity should increase by 20 percent per decade in order to meet food and feed demand.

   - Integrate environmental sustainability into domestic food security policies. Water resource management and the expansion of sustainable sourcing practices to smallholding farmers should be an integral part of public-private collaboration;

   - Enable affordable and easier technology transfer and capacity building from developed to developing countries in the area of food and nutritional security.

- **Make infrastructure a strong enabler for development – Increased investment from the private sector - promoted by governments and multilateral institutions when needed - in cost-effective, efficient and sustainable infrastructure is a clear enabler for sustainable economic growth and development:**

   - Strengthen project design and preparation to ensure the availability of quality projects: design a model of a 'Well-Prepared Project' (e.g., taking into account whole life-cycle cost analysis) and create conditions for successful PPP projects. Both entail strong local capacity building. The WPP concept clearly establishes the requirements for a successful project in terms of quality of the work as well as respect for budgets and schedules;

   - Prioritize financing, project development and implementation, over an increase in ODA. The main challenges are a) to better leverage existing public resources – notably from multilateral development banks - in order to attract other sources of funding, particularly from the private sector b) to improve the relevance, quality and management of the projects to be implemented, and c) reduce the differences between contracts and their implementation;

   - Change the way multilateral development banks operate, notably to facilitate the private sector's involvement in project development and implementation. The most important changes should be in the way procurement rules are designed as they need to better reflect the reality of infrastructure investment and take into account the significant contribution that the private sector may have in helping the emergence of well-designed projects;

   - Improve information flow, notably through an infrastructure-attractiveness index managed by a public-private partnership;

   - Encourage governments to engage in a multi-stakeholder dialogue in all phases of infrastructure planning, development and implementation to enable more cost-effective and efficient development of infrastructure, which also addresses environmental and societal concerns. This will contribute to the emergence of well-designed and locally owned projects.

- **Make corporate social responsibility a key element for growth and development:**
  - Promote the adoption, on a voluntary basis, of CSR standards for businesses in developing countries, which will have a positive impact on development and promote competitiveness;
  - Create a public-private dialogue to define economic, social and environmental guidelines at the country level. The public and private sectors in every country should be able to decide which aspect of development they want to prioritize;
  - Encourage IFIs and bilateral development institutions or agencies to lead the way in the implementation of CSR standards. IFIs and bilateral development banks or agencies have an important role in defining a sustainable level of CSR in connection with their infrastructure tenders.

VI - Employment and Social Dimension

The financial crisis has emphasized two complementary issues that echo both national challenges and questions recently discussed in international organizations (e.g., ILO, IMF, World Bank). The first one, the economic challenge of growth, refers to the issue of employment and job creation – notably for young people. The second issue, the inclusion challenge, entails mostly the current issue around the creation and reinforcement of social protection floors.

In order to address these issues, business leaders recommend:

- **Urgently increase efforts to promote better functioning of the labor markets and stimulate job creation. Reforms are a national responsibility, but the G20 has to be entrusted to set up regular tracking, with a few key indicators to be determined in consultation with social partners. It also requires a sharing of practices and peer review exercises with the aim to:**
  - Foster flexible forms of work that facilitate job creation, address different needs of companies and consumers, and combat informal work;
  - Promote skill transfers and mobility from a global perspective, notably by easing free movement of people within and between companies in the G20 countries;
  - Develop real and effective public-private cooperation and partnership to better match recruiting needs, accelerate job transitions through national employment agencies or private operators, and better identify and plan to meet labor market demand, to enhance the employability of the workforce;
  - Specifically tackle young people's difficulties in the labor markets, by welcoming and encouraging business to participate in the education and training process and raise its relevance, and improve the image of enterprise.
- **Reinforce the interaction between social protection and job creation through social protection floors. The G20 must promote social inclusion and economic stability by advocating social protection floors along the lines of agreed conditions and principles, the implementation of which belongs to national governments. Among**

these conditions, the B20 wants to raise awareness on 1) a wide definition of beneficiaries, 2) job-oriented nets, 3) financial sustainability, 4) nationally financed schemes, and 5) consultation of social partners.

- **Promote the International Labour Organization (ILO) Tripartite Declaration for Multinational Companies as a business contribution, including at the B20 level. This will contribute to the respect of fundamental principles and rights at work and widen the solutions for improved working conditions and productivity.**

- **Build better, more concrete coherence between international actions through pilot projects between key international organizations, related to activities covering social and economic issues. The G20 could agree that these pilot projects target voluntary countries or specific issues, both addressed in the programs of international organizations**.

VII - Anti-Corruption

Corruption is an intolerable impediment to the efficiency of the global economy, to fair competition among companies of all sizes and nationalities, and to sustainable global development. Such illicit behavior is an obvious cause of distortion of competitive markets as well as the hampering of economic growth and efforts to eradicate poverty. We have identified four initiatives that can move the fight against corruption forward on a global basis. They are:

- **Create a G20/B20 joint platform, supported by an explicit business commitment and accountable to G20 and B20 leaders, to maintain an ongoing, multiyear dialogue.**

- **Building on the Seoul Action Plan, G20 governments should 1) accelerate their commitment to ratify, enforce and monitor the implementation of the OECD and UN conventions on anticorruption; 2) support negotiations within the WTO for a multilateral agreement on standards for procedures and transparency in government procurement; 3) incentivize enterprises to establish effective policies and procedures to prevent corruption, and 4) recognize public bodies and officials that demonstrate leadership in fighting corruption.**

- **Business must also play its part. The B20 undertakes to identify and launch appropriate collective action processes to address problems linked to specific country or regional contexts and industry sectors. The B20 also will promote the sharing of best practices, training materials and resources: 1) among the various sector-specific initiatives; 2) with public sector entities implementing integrity programs to combat the demand side of corruption; and 3) with small- and medium-sized entities lacking the experience and resources of multinational companies.**

- **Business and government must work together to raise awareness of the costs and risks of corruption, especially by promoting education on ethics and business integrity at all level of public and private education.**

VIII - Trade and Investment

Trade and investment, which are closely linked to the creation of value and innovation in the industrial, commodities and services sectors, are an important source of economic growth and job creation. They remain therefore a top priority for businesses. The B20 regrets that trade and investment are not incorporated into the official agenda of the G20 in 2011. We call for a permanent dialogue between the G20 and the B20 on these important issues.

We, the business leaders in the B20 Working Group on Trade and Investment, make the following recommendations:

- **The G20 should propose a path for the World Trade Organization (WTO) to pursue its core functions: trade liberalization and rule making – Completing an ambitious Doha Round would have provided an important stimulus to global growth and helped restore needed confidence in the rules-based multilateral trading system. However, given the likelihood that no progress on the main market access elements of the Doha Development Agenda (DDA) will emerge in the near future, we urge the G20 leadership not to put the WTO system at risk, and to develop a clear path forward in the WTO negotiations with a focus on the core tasks of the WTO, namely further trade liberalization and rule making. The conclusion and enforcement of WTO agreements are the best way to counteract protectionist tendencies and to keep trade open and fair. By focusing on the possible and the practical in 2012, G20 leaders can provide a needed boost to the global economy and demonstrate the WTO's continued vitality and relevance.**

- **The WTO should finalize rapidly a Trade Facilitation Agreement and develop its scope of negotiations to boost global trade – We call on the WTO to conclude trade facilitation negotiations, which are less politically sensitive, by the 2011 Ministerial Conference. In addition, the WTO should expand its agenda to achieve trade facilitation through the enhancement of the international logistics system. G20 countries must provide the leadership for global trade facilitation by adopting a common position at their Summit in Cannes.**

- **Accelerate the accession of Russia to the WTO to secure a truly global representation of a free trade agenda and to strengthen the multilateral trading system – Russia remains the only G20 economy that is not a member of the WTO. Given the size of its economy and its importance as both a major exporter and one of the world's biggest markets for imports, it is important to secure its adherence to the multilateral trade system. With almost all major negotiations now completed, Russia and its WTO partners should make a concerted effort to complete its accession by the 2011 WTO Ministerial Conference.**

- **The G20 should launch joint negotiations for a Framework agreement on investment – The G20 must adopt a statement in favor of open investment as a tool for growth, development and job creation. G20 support is essential in the current context of unsustainable government budget deficits and their potential negative impact on cross-border investment confidence. As a powerful political instrument, the G20 must open discussions to find a common vision and approach to the issue, and launch an international framework agreement for investment access and protection. In our view, the WTO is the best option among international organizations to serve as the multilateral platform for cross-border investment rules and standards.**

IX - ICT and Innovation

Four preliminary statements need to be kept in mind. Innovation is critical for growth, employment and economic recovery. Information and Communication Technologies (ICT) and Internet are key elements of innovation. Making decisions among stakeholders (governments and the private sector playing in partnership) is the best way to sustain and expand ICT and Internet impact. Innovation should remain a major topic of the next B20/G20 to encompass all other topics related to accelerating and spreading innovation.

With these positions in mind, business leaders recommend:

- **Encourage authorities to create stable and predictable regulatory frameworks to promote competition and investments from the private sector, complemented when appropriate by public initiatives in sectors such as fixed and mobile broadband, ultra-broadband, content, applications and services. Supporting usage of mobile broadband and ultra-broadband will accelerate the take up of Internet and its enabling effect on the next wave of economic growth, innovation, productivity and jobs. At the same time, new business models that are sustainable for all players in the Internet value chain should be developed and encouraged.**

- **Actively promote Internet usage for all in a sustainable manner to create economically and socially valuable ubiquitous new products and services by:**

  – Encouraging SMEs to use technology and the Internet to become efficient, competitive and innovative;

  – Deploying e-government services to set and example and play a catalyst role;

  – Enhancing cooperation to ensure the creation of the necessary infrastructure for cloud computing; enabling their competitiveness; maintaining interoperability of standards and technology; recognizing intellectual property rights protection; and ensuring trans-border data flows, information security and the privacy protection of citizens; as well as

  – Promoting access and re-use of public sector information, in accordance with privacy rules, making it available for individuals and business.

- **Promote harmonization in the field of privacy protection to guarantee a level playing field among players and to create the needed trust.**

- **Ensure Internet governance arrangements are multistakeholder by providing for the open, transparent and adequate participation of stakeholders and fostering the dialogue driven by industries, while avoiding creating a new inefficient bureaucracy. The objective should be to ensure the harmonization of rules at a global level to create trust and promote innovation and development, in particular by:**

  – Fighting against cyber criminality – global cooperation would be more effective than imposing filtering on citizens and businesses.

  – Improving harmonization of intellectual property rules and international cooperation to reduce the cost of intellectual property (patents, copyrights and trade secrets).

X – Global Governance

Emerging global challenges have reinforced the need for global cooperation on legislative and regulatory frameworks. Recent developments have demonstrated that, without coordinated action among governments around the world, it is not possible to come up with effective and efficient solutions. Businesses from the G20 countries have organized themselves to contribute to the international discussions. As national and international economic actors, we wish to be involved and positively contribute to the evolution of the framework for global governance, and therefore we make the following recommendations:

- **Improve global cooperation:**
  - The G20 should undertake a mapping exercise of the current architecture for global governance and identify where there are gaps to be filled, overlaps to be addressed or new channels of dialogue that need to be set up.
  - The G20 should base its recommendations for a potential and more efficient new architecture on a firm understanding that there is no single mechanism by which good global governance can be achieved. Sometimes, there may be a need for a new global institution or network. Often, the most effective way forward is by cooperation among national bodies. In some instances, regulations can be harmonized into one global standard; in other instances, a series of mutual agreements might work better. Global governance, by its nature, is not conducive to one "grand solution" or "silver bullet".
- **Improve G20 transparency and monitoring of outcomes:**
  - To ensure more transparency and reinforce the implementation of its proposals and agreements, the G20 should work on how to increase its visibility and how to cooperate with stakeholders during the whole process. Centralized functions – for example, a single website giving both background on the G20 and up-to-date information on current work flows – are necessary and will bring coherence and continuity to the G20 work under successive presidencies through the years.
  - The G20 should take steps to ensure that individual governments follow through on targets and policies agreed among members. This should be part of the thinking on any recommendations for a new global governance and how it is delivered. Publishing before each Summit a progress report on agreements reached would add to the accountability of this process.
- **Further develop the business sector's input to the G20 and the work of international organizations:**
  - The G20 should continue to develop an effective dialogue with the global business community by committing to systematic interactions with the B20 not only during the Summit, but also during the preparatory period. Representative business federations should be involved in the consultation process from the beginning, including on G20 priorities and agendas.
  - The G20 should encourage international organizations to foster cooperation with business representatives. Better participation of businesses in the discussions and

decision-making processes of international organizations would deepen engagement with stakeholders and increase transparency.

- The G20 should promote an open process for debate (including the private sector, relevant technical communities and broader civil society) about emerging global issues such as energy supply or Internet governance. This would allow better knowledge of the realities across markets and also a transparent debate, involve responsible stakeholders in the decisions to be taken, and ensure their commitment to the implementation of those decisions.

XI - Energy

Energy and industrial actors are facing unprecedented challenges. The drawn-out recovery period has consequences for the G20 countries, and economic and fiscal policies will affect the way energy supply and demand evolves. A secure and competitive energy supply, based upon a well-balanced energy mix is one of the main conditions for global economic growth, and no source alone can address today's growing energy needs. It is imperative to develop strong incentives to promote energy efficiency, technology-neutral threshold standards for generation technology, public research and development support for new energy technologies, reliance on scientifically-based metrics of the performance of energy sources, and a consistent, long-term framework for reducing energy-related carbon emissions. Business leaders, therefore, make the following recommendations:

- **Develop incentives to encourage deployment of energy efficiency**
  - Incentivize utilities to promote energy savings through efficiency measures and treat it as a generating resource;
  - Encourage active control systems (smart grids, smart control, smart displays, smart metering, speed drives in industry, energy management systems, intelligent energy storage);
  - Radically cut energy consumption in the real estate sector with a real transformation in design, use of technology and change in behavior, and resolve misaligned incentives (e.g., landlord / tenant misalignment) which discourage energy efficiency investments;
  - Transfer energy-efficient and innovative green technologies from industrialized to developing countries by including energy efficiency and energy technologies contributing to access to low-carbon energy in Clean Development Mechanisms, in compliance with industrial property rights.

- **Make sure that the regulatory framework does not prevent the implementation of new or existing energy projects and technologies**
  - Continue research programs for non-conventional hydrocarbon resources while enabling sufficient investment in scientific R&D to ensure that the development of these resources can proceed with environmental safeguards;

- Strengthen dialogue between producing and consuming countries by a greater use of the existing international forums, including the G20, IEA, OPEC; lead in the implementation of the Joint Oil Data Initiative and introduce another specific global information-sharing mechanism covering production, consumption and storage;

- Harmonize nuclear safety standards in order to help enhance public understanding of the instrumental role played by nuclear power.

- **Establish genuine market mechanisms to encourage investments and facilitate access to energy in developing countries**

  - Ensure that all technologies contributing to access to low-carbon energy or to energy efficiency are made eligible for Clean Development Mechanisms, which needs to be drastically improved;

  - Introduce an energy market framework in developing countries to incentivize the provision of energy services on a universal basis; integrate low-carbon energy sector plans into Nationally Appropriate Mitigation Actions (NAMAs).

XII - Green Growth

Building on the 2010 B20 work, the 2011 B20 Working Group on Green Growth believes it is time to accelerate the global transformation to a truly resource-efficient economy. We are committed to making the investments, taking the risks, and seizing the opportunities that pursuing the green growth economic transformation to which we aspire represents. In order to achieve green growth as rapidly and efficiently as possible, we urge the G20 to take the following actions:

- **Allow free trade in environmental goods and services**

  - Eliminating tariff and non-tariff trade barriers will accelerate deployment of green technologies, increase economies of scale, lower prices, encourage competition and innovation, and result in faster job creation.

- **Achieve a robust price on carbon and enhance flexible offset mechanisms**

- Market mechanisms and other forms of carbon pricing are the foundation on which a truly successful green economic transformation must be built.

- **End fossil fuel subsidies**

  - The G20 leaders have already committed to phasing out inefficient fossil fuel subsidies over the "medium term." While this is an important start, we believe faster and broader action is required to drive resource (especially energy) efficiency, given the economic and environmental benefits.

- **Dramatically scale up support for green technology development and innovation**

  - Finance for research, development and scale-up of clean energy, transport and sustainable, high-productivity agriculture is a critical factor in accelerating the green economic transformation to which we aspire.

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Working Group I

GLOBAL ECONOMIC POLICY IMPERATIVES

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Key Recommendations

Since the 2008 financial crisis, the global economic context has substantially changed. Now, the priority for the G20 should be to focus on measures that will spur private sector growth, and lead to job creation and a healthier foundation for fiscal sustainability. During and after the crisis, this will require structural reforms in all G20 countries necessarily tailored for specific national conditions. Absent such policies, the social consequences of the continuing crisis stand to be considerable.

Therefore, the business leaders in this Working Group make the following recommendations:

- **Governments should reduce the uncertainty hampering economic growth by communicating clear objectives, increasing transparency and reinforcing International Monetary Fund (IMF) surveillance:**
  - Develop and communicate mid-term economic objectives, specifically for fiscal, monetary and exchange policies and the regulatory agenda.
  - Mandate IMF surveillance of macroeconomic imbalances, and strengthen the Mutual Assessment Process (MAP) and G20 guidelines.
  - Recognize the weight of emerging economies in the IMF and ensure the IMF considers a diversity of solutions to implement at country level.
  - Ensure regular and public assessment without political interference.
  - Embed MAP in stringent peer reviews on a 'comply-or-explain' basis.
  - Include in IMF Article IV status reports a standardized table of key indicators to assess sustainability of policies.
- **Ensure sound public finance to boost long-term economic growth:**
  - Rapidly reduce fiscal imbalances to manageable levels in countries with large structural deficits to improve long-term economic growth potential. Restore fiscal discipline by reducing public spending rather than by increasing corporate taxation.
  - Encourage all countries to adopt sound public finance as a best practice (apply golden rules adapted to the diversity of situations).
  - Implement credible reforms of entitlement programs consistent with demographic realities and the objectives of strong private-sector participation.
  - Develop policies in emerging economies to facilitate economic convergence with developed countries.
- **Foster entrepreneurship, development of small and medium-sized enterprises (SMEs) and job creation:**
  - Remove unnecessary barriers to entrepreneurship and simplify processes to create jobs.
  - Implement measures to facilitate SME engagement in the global economy through better access to the global digital marketplace, modern transport and communication infrastructure, and all forms of capital market facilities.
  - Review Basel rules to ensure creditworthy SMEs have access to capital.
- **Expand capital markets to long-term private investments:**
  - Deepen and broaden capital markets in emerging economies to facilitate financially prudent private sector participation in long-term investments.
  - Business commits to focus on long-term value creation in reforming corporate governance principles.

BACKGROUND

Since the 2008 financial crisis, the global economic context has substantially changed. Now, the priority for the G20 should be to focus on measures that will spur private sector growth, which leads to job creation and a healthier foundation for fiscal sustainability. This will require structural reforms in all G20 countries necessarily tailored for specific national conditions. Absent such policies, the social consequences of the continuing crisis may become unacceptable.

These measures should be implemented within a consistent framework of economic policies that target growth in national incomes, productivity, investment, capital formation, labor participation and real wages, thereby increasing the standards of living. The crisis has demonstrated that domestic economic policy decisions can have far-reaching and extraordinarily fast-moving spillover effects on the global economy and may even negate the initial intent of policymakers.

Since the businesses of all G20 nations experience directly the full impact of G20 policies, including their unintended consequences, we must establish a credible mechanism of communicating with policymakers on the progress of economic recovery at both domestic and international levels. Without such feedback mechanisms and a pro-growth policy environment, business will find it more difficult to fulfill its role as the engine of sustained recovery.

In this context, we focus on four priorities:

1. Deepening efficient economic policy coordination to create a stable business environment

Over the past two decades, global imbalances and the resulting excess of liquidity combined with lapses in market supervision have produced economic bubbles with dire consequences for all. Ineffective coordination of economic policies among G20 countries has adversely affected the global economy and monetary and fiscal policy at national levels.

The G20's *Framework for Strong, Sustainable and Balanced Growth*, agreed at the Toronto meeting in 2010, remains a key instrument for restoring market confidence in all major economies. We urge the governments to focus on clear and consistent implementation of the Framework and communication to the markets. Closer coordination is not an end in itself, but a tool to provide a better environment for companies to grow, make profits and create sustainable and well paying jobs around the world.

Today, across all markets, businesses are facing many stopgap measures, which taken together, severely reduce the incentives for medium- and long-term investment. Policy coordination should produce a more consistent and predictable environment and become the norm that is underpinned by articulated commitments and communication mechanisms.

Policy coordination does not mean standardized approaches. As noted in the G20 Toronto Communiqué, policies need to be implemented at national level and tailored to individual country circumstances, which makes constant and open communication among G20 policymakers even more vital. Private sector input should be included in the assessment of how specific regulations, particularly those targeting financial services, actually advance or impede proclaimed macroeconomic objectives.

2. Restoring sound public finance to boost long-term economic growth potential

The private sector is gravely concerned with the unsustainable fiscal and debt positions of many of the world's principal economies. This has become a leading cause of volatility in debt and equity capital markets and is adversely affecting the ability of sovereigns and the private sector to raise financing. The private sector sees restoring sound public sector finances as key to the economic recovery. This cannot be achieved by raising taxes on companies. The ability of businesses to create quality jobs and contribute to social welfare would be severely hampered by burdening them with increased costs, particularly in the form of additional corporate taxes.

3. Fostering entrepreneurship, the development of small and medium-sized enterprises (SMEs) and job creation

According to the International Labour Organization (ILO), on a global basis, the number of unemployed stood at 205 million in 2010, essentially unchanged from the year before and 27.6 million higher than in 2007. The new uncertainties that the global economy is facing will likely make the employment outlook more challenging. Economic output, which is still well below potential, has not been sufficiently robust to generate enough new jobs. Entrenched structural unemployment may further undermine market confidence and threaten social stability.

Government leaders should recognize that they must restore conditions for new job creation as a necessary explicit objective of any recovery strategies going forward. Efforts to restore growth in private demand for goods and services should be accompanied by targeted measures to boost employment.

Policymakers should grasp the urgent need for measures to restore private sector job creation as the key goal of effective economic policies, with a focus on young people. Recognizing the particularly important role that entrepreneurs and SMEs play in creating jobs, we urge policymakers to consider initiatives to foster entrepreneurship and help SMEs as part of a comprehensive recovery program rather than through narrow and temporary measures that reach few and give little confidence to investors. SMEs will prosper and grow if macroeconomic policies are set for stable growth, financial markets offer a wide variety of services, and concerns about bubbles recede.

4. Promoting long-term financing of the private sector

To enable longer-term private financing of job-creating activities, G20 countries should encourage mobilization of long-term private savings towards productive investments by ensuring mid-term fiscal sustainability, removing regulatory barriers and expanding capital markets to encourage long-term private investments.

According to the McKinsey Global Institute, the global demand for long-term investments could increase from 21.4% of GDP now to 25% in 2030, while the gap between savings and investment demands could expand from $800 billion to $2.8 trillion, depending on global growth. According to CG/LA Infrastructure, the average annual global spending on infrastructure up to 2030 could be over $1.5 trillion, two-thirds of which would be in emerging economies. Given the new financial regulations agreed by the G20 and a growing concern about risks among investors, it is imperative that the G20 promote more effective mechanisms that channel financial resources towards the needs of the productive sector and for balanced regional development.

RECOMMENDATIONS

We make the following recommendations with respect to each of the four priorities.

Policy coordination

The priority of the G20 should now be to work vigorously to restore confidence in global and national growth agendas, market transparency, sustainability of public finances, and the commitment of policymakers to job creation. While the recent crisis has necessitated major G20 efforts to stabilize economies, it is time for the G20 to steer the global economy to the path of balanced growth. It is imperative for the G20 to begin building global consensus and construct policies that look beyond immediate crisis mitigation.

We recommend that the G20 should:

1. **Reduce the uncertainty hampering economic growth by communicating clear objectives, increasing transparency and reinforcing International Monetary Fund (IMF) surveillance.**

   - Develop and communicate mid-term economic objectives, specifically on fiscal, monetary, foreign exchange policies and the financial regulatory agenda. This will enable the private sector to adjust its investment strategies, consistent with the macroeconomic policy direction set by the G20.

   - Mandate IMF surveillance of macroeconomic imbalances and strengthen the Mutual Assessment Process (MAP) and the G20 guidelines. A mechanism is needed by which countries can agree on a collective approach to pursue mutually compatible economic policies. We urge the G20 to follow through on its April 20, 2011, commitments to develop guidelines for assessing persistently large imbalances. The agreement on a set of guidelines for economic policies is an important step towards an evidence-based discussion of adjustment needs and an identification of needs for action by governments and other authorities, such as central banks.

   - Reinforce the weight of emerging economies in the IMF and ensure that the IMF considers differentiated solutions to implement at country level.

   - Ensure regular and public assessment without political interference. Economic policy coordination implies a clear awareness by policymakers of the spillover effects of national decisions, compatibility of national decisions with multilateral objectives, and the cumulative effects of both national and international measures. It does not usually imply rigid universal standards. Business believes that the global diversity of opportunities and policy solutions adds to the systemic resilience of markets. Surveillance analysis, provided by the IMF, should be used explicitly by the G20 as the baseline for enunciating coordinated policy directions aimed at attaining more balanced growth and avoiding incentives for excessive short-term capital movements.

- Embed MAP in stringent peer reviews on a comply-or-explain basis.
- Include in IMF Article IV reports a standardized table of key indicators for assessing the sustainability of policies.

2. **Focus financial regulation on market transparency and oversight rather than piling up new capital requirements or new taxes, which push productive capital out of the marketplace. The G20 should avoid pro-cyclical policies. What may be good policy during a bubble or a stable recovery is likely to be counterproductive during the crisis. The G20 recognizes (Toronto 2010) that synchronized fiscal adjustment could adversely impact the global economic recovery. It has since become clear that a G20-wide excessive enforced contraction in deployed risk capital across the financial sector is bound to hurt growth momentum. While prevention of future crises is an important objective, it should not detract from the need to steer the global economy to the path of balanced growth. The cumulative impacts of new financial regulations should be assessed to ensure that they do not jeopardize economic growth.**

3. **Expedite the G20's work on developing guidelines for coordinated responses to large and potentially destabilizing swings in capital flows created by unbalanced growth patterns and macroeconomic policies. This is to prevent protectionist tendencies and costly policy errors. Much more open and deeper markets in financial services should be an essential part of any policy response to surges in capital flows. Structural reforms such as competition-friendly product market regulation, flexible labor markets, higher institutional quality and greater capital account openness will make the capital inflows to emerging markets more productive by shifting them towards more foreign direct investment (FDI) and less debt. This would be more stable and less prone to risk (OECD, May 2011).**

4. **Improve the governance of international institutions.**

- Each of the bodies tasked by the G20 with developing new policies should get private-sector input much earlier in the process of policy formulation.
- To make new policy development more credible, we urge the G20 to continue to reinforce the weight of emerging economies in international institutions.
- Transparency to stakeholders, particularly citizens of G20 countries, should be significantly increased.
- Independent reports on the progress in implementing decisions taken at the multilateral and national levels should become the norm.
- Coordination among the different international institutions (the IMF, Financial Stability Board and the World Trade Organization, among others) is necessary to avoid overlaps as well as lapses and ensure efficient action.

Public Finance

We make the following recommendations:

1. **Public spending should be economically efficient to encourage private sector productivity and job creation through:**

    - Permanent efficiency assessment: Improved performance of public services will allow them to do more and better with less, using tools such as clear mid-term objectives, performance measures, benchmarks, best practices, quality of management, and reduced cost through optimized procurements.

    - Greater investment in productive infrastructure that will provide a favorable environment for innovation and increase long-term economic growth potential. In that context, G20 countries should continue to innovate in the area of public-private partnerships, which stimulate economic growth in a fiscally responsible manner.

2. **Rapidly reduce fiscal imbalances to manageable levels in countries with large structural deficits to improve long-term economic growth potential. Restore fiscal discipline by reducing public spending rather than by increasing corporate taxation to enable private-sector growth and job creation.**

3. **Encourage all countries to adopt sound public finance as a best practice (apply golden rules adapted to national situations).**

4. **Implement credible reforms of entitlement programs and other public expenditures, consistent with demographic realities and the objectives of strong private sector participation.**

5. **Adjust taxation to achieve lower rates, broader bases, and flatter (fewer brackets) and simplified tax structures.**

6. **Develop policies in emerging economies to facilitate economic convergence with developed countries.**

Entrepreneurship and job creation

We make the following recommendations:

1. **Remove unnecessary barriers to entrepreneurship and simplify processes to create new jobs. Foster entrepreneurship through a radical simplification of "red tape" that prevents or slows down the creation of new companies, and more generally, develop an environment conducive to the emergence of new companies, many of which will be brought to life by some of the entrepreneurs devastated by the crisis.**

2. **Implement measures to facilitate SME engagement in the global economy through better access to the global digital marketplace (e.g., via broadband Internet and e-procurement systems), modern transport and communications infrastructure, and all forms of capital market facilities.**

3. **Review Basel rules to ensure creditworthy SMEs have access to capital and credit.**

4. **Encourage capital formation, including access to financial markets and venture capital, to enable SMEs to grow under the new conditions, and facilitate cross-border operations of venture capital investors in SMEs, with a particular focus on the simplification of international tax treatment of private venture capital instruments.**

5. **Stimulate youth entrepreneurship through education reforms, training, flexible labor market participation for young families, and the dissemination of "best practices" in G20 countries. Implement innovative public policies that engender the culture of entrepreneurship from the earliest stages of education and, through public awareness programs, motivate the next generation of entrepreneurs.**

6. **Develop deeper cooperation between businesses and universities to ensure that university courses are better adapted to evolving business needs and more graduates are offered jobs**

7. **Strengthen the adoption of new technologies by SMEs, including in public procurement processes.**

8. **Transform labor markets to facilitate supply-demand matching, including through the development of "virtual labor markets". Labor policies should be reformed to allow for faster and less onerous hiring practices across all the economies and sectors.**

9. **Provide tax incentives for the private sector, especially SMEs, to create jobs and targeted policies such as lower social charges and professional training programs to enable and encourage the entry of young people into the labor force.**

Long-term financing

We recommend the following actions:

1. **Develop regulatory, accounting and taxation rules to facilitate long-term private investment. Such rules should be compatible with the need for transforming short-term savings into long-term investment. This implies evaluating the default risk over the whole investment cycle, minimizing liquidity constraints and redefining financial reporting to take into account the need for long-term management.**

2. **Adjust tax treatment of different financing instruments such as debt and equity to encourage longer-term financing, in particular of "bankable" infrastructure projects, both domestic and international. G20 governments should also deliver on their commitment to attractive and stable fiscal rules for long-term investment and advance the work on harmonizing tax principles.**

3. **Implement mechanisms to facilitate debt capital market investment in private infrastructure projects. More generally, encourage the offer of new bonds and other instruments of longer-term maturity issued by strong institutional investors that have a long-term horizon. The ultimate aim is to tap new sources of long-term finance for capital-intensive infrastructure projects. In this context, we welcome the creation in February 2011 by the G20 of its public-private High Level Panel for Infrastructure Investment and look forward to its action plan.**

4. **Deepen and broaden capital markets in emerging economies to facilitate private sector participation in long-term investments. Encourage institutional investors to mobilize long-term private savings as a major engine of sustainable economic growth and implement mechanisms to facilitate debt capital market investment in private infrastructure projects, such as efforts to build local currency bond markets in emerging markets**

5. **Consult with business community on:**

   - Innovative ways to reduce long-term risk and ensure that credit ratings of private companies are judged independently from the sovereign debt rating.

   - How to assess the potential impact of financial regulations to ensure that the G20 economies will still benefit from enough bank financing to strengthen economic growth. Banks should have incentives to maintain minimum levels of lending, especially in countries where bank lending is central to the financing of companies.

6. **Business commits to focus on long-term value creation in corporate governance principles and compensation systems, as well as on other practical proposals to incentivize long-term private investment and reduce business reliance on short-term credit.**

Working Group II

FINANCIAL REGULATION

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Key Recommendations

Three years after the crisis, there have been many changes to financial regulation aimed at enhancing financial stability. Do these changes fit with current economic challenges, and demographic and social issues? Are they appropriate for today's and the future's environments? These question led business leaders to make the following recommendations:

- **Before any new changes are made, take stock of the current regulatory agenda and set up a structured roadmap for reform, considering the following:**
  - Impact assessments of regulatory measures;
  - The state of implementation and potential unintended consequences for trade finance and SME finance and, more generally, excessive pro-cyclicality; and
  - The opportunity to routinely use sunset clauses that require regular reviews of how well regulations fulfill their purpose, and either extend their sunset dates or automatically terminate them.
- **Enlarge the regulatory approach to other tools such as macroeconomic, fiscal policies and supervision, which have a key role to play. Regulation is not the answer to all current problems. Access to liquidity will not be solved solely through the implementation of the Liquidity Coverage Ratio (LCR).**
- **Define tools and procedures to ensure consistent implementation of regulatory change. Prevent risk mutating into shadow banking across market segments or regions. Provide clear information to market participants, while preserving the diverse banking ecology that brings resilience to financial systems. In particular:**
  - All policymakers should adhere to corporate governance norms of transparency such as publishing minutes from key meetings, regular consultations and peer reviews;
  - Reporting on the status of implementation should include a country-by-country comparison that indicates whether member states have under- or over-implemented the reform agenda; and
  - The country roadmaps would differ on the starting points and needs since those of emerging economies are significantly different from those of more mature markets.
- **Governments and financial institutions should create the right environment to allow financial services firms, within a proper risk framework, to innovate to meet the biggest social and economic challenges, including a $600 billion a year infrastructure investment gap, demographics, and pension/retirement needs. Financial innovation must address the needs of the "unbanked", the more than two billion people that have no access to financial institutions.**
- **Financial institutions will support industry-led initiatives such as the Equator Principles and the Carbon Disclosure Project.**

BACKGROUND

The Cumulative Impact of Financial Regulation

The framework for financial markets and bank regulation is being fundamentally modified on a very short timescale without any full cumulative impact assessment

Following the financial crisis, the G20 agreed on an ambitious reform agenda for the financial services sector. Business strongly supports financial market stability, which is key to economic recovery. There is now a significant body of work being undertaken to implement the G20 regulatory reform agenda, much of it focusing on banks to reduce future taxpayer exposure to bank failure.

Over the last two years, industry and official sector analysis has looked in some detail at the possible economic effects of individual reform proposals and the potential benefits to financial stability. While the official sector and industry may have used varying methodologies and reached different conclusions, there is a general agreement that additional regulation, in particular on capital and liquidity, brings additional costs to the price and supply of credit to businesses that can lead to muted economic growth and employment levels.[1] The idea that increased capital levels dampen economic activity is the principle that underlies macro-prudential policy and on which there is broad agreement. The disagreement is on the cumulative impact of these costs, their relative benefit in reducing future financial shocks and the interaction of the numerous reforms that are under way. To give a very incomplete list of changes that have been made or are in process:

1. New definitions for capital instruments. The Institute of International Finance ("IIF") estimates that as a result of the implementation of Basel III, banks will need to hold an additional $1.2 trillion in capital just to meet the new definitions even before the introduction of higher levels and the BCBS regime for Global-Systemically Important Banks ("G-SIBs") is implemented.[2]

2. A new framework for crisis resolution, particularly for large, cross-border financial institutions, is likely to result in requirements for banks to hold a certain amount of bank debt that absorbs losses and converts to equity at the point of a bank failure. Moreover, some proposals for additional taxes, depositor preference and resolution funds will lead to a significant change in the funding profile of banks.

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1 The Macroeconomic Assessment Group, established by the FSB and the BCBS, concluded in its December 2010 final report that "bringing the global common equity capital ratio to a level that would meet the agreed minimum and the capital conservation buffer would result in a maximum decline in GDP, relative to baseline forecasts, of 0.22%, which would occur after 35 quarters. In terms of growth rates, annual growth would be 0.03 percentage points (or three basis points) below its baseline level during this time." (www.bis.org/publ/othp12.pdf). The Institute of International Finance's recent net cumulative impact study concludes that economic growth in the United States, the Euro zone, Japan, the United Kingdom and Switzerland could be reduced by 3.2% as a result of regulatory interventions.

2 Institute of International Finance (September 2011), *The Cumulative Impact on the Global Economy of Changes in the Financial Regulatory Framework*

3. The newly proposed liquidity regime in the European Union is likely to cause shortfalls of €1.7 trillion of liquid assets ("LCR") and €2.9 trillion on stable funding (Net Stable Funding Ratio).[3]

4. Changes to the derivatives markets through the mandatory clearing of many derivatives contracts through central counterparties or the application of prohibitive capital requirements.

5. Suggestions for additional taxes, for example, a Financial Transaction Tax at the European Union level on top of existing levies and charges introduced post-crisis.

6. The introduction of Solvency II.

To date, no official sector assessments have considered the cumulative impact and interplay of all the reforms currently planned at international, regional and national levels, although some have been made by industry groups. There appears to be even less understanding of the impact that the reforms in different markets will have on a cross-financial sector basis, such as institutional investor appetite for bank equity or debt as a result of the reforms. For instance, in the EU, reforms to prudential standards for insurers (known as Solvency II), could reduce insurers' ability to invest in banks, which are being required to increase equity and debt levels to meet prudential requirements. In addition, the standards could hinder the ability of institutional investors to invest, more generally, in equity and corporate bonds at a time when companies may look to compensate for a reduction in bank financing through the markets.

It was clear that banks needed to raise their pre-crisis levels of capital and it was essential that changes were made to ensure that capital was more loss absorbing. However, it is important to remember that the recent crisis was driven by problems with liquidity, unsustainable business models, poor risk management practices, and inadequate supervision, not just capital adequacy. Failing banks, such as Lehman Brothers, were running comparatively healthy levels of capital. Beyond a certain point, additional levels of capital will have diminishing returns from a financial stability perspective, with a marked negative macro-economic impact. While it is impossible to be precise about where this point is reached, the BCBS estimates that at around 10-11% of Tangible Common Equity on a Basel I and II basis, there are diminishing returns from a financial stability perspective.[4]

The Basel III liquidity framework is an important step to creating a more robust platform for future financial stability, but it raises major concerns for the banking sector and the global economy. The proposed definitions of eligible assets under the LCR are very restrictive and risk creating a negative impact on SME lending. The European approach to the treatment of covered bonds is also restrictive and not consistent with international practice. Covered bonds are safe, liquid assets that should be treated as such.

Structural reforms to financial institutions may have the unintended effect of pushing risk into unregulated areas and reducing financial resilience. Different kinds of banking business models contribute to financial stability and provide greater consumer choice. Listed banks, savings banks

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3 Basel Committee on Banking Supervision (April 2011), *Basel III and the impact on financial markets*, speech by Nout Wellink

4 Basel Committee for Banking Supervision (August 2010), *An assessment of the long-term economic impact of stronger capital and liquidity requirements*, Annex 2, Table A2.1

and cooperative banks are closely linked to the economic models of each country. Many are based on customer relationships, across diverse sectors such as retail, SMEs and larger corporates, rather than on the intermediation of assets.

The further development of regimes for Systemically Important Financial Institutions (SIFIs), which will seek to reduce connections between financial institutions, may have wider impacts on the operation of financial markets. Policymakers must understand the relationship between reforms and their cumulative impact on markets. The Bank for International Settlements (BIS), IMF and IIF[5] have started to consider these risks, but more work needs to be done. Policymakers need greater clarity on how the reforms will impact financial markets.

Developing a regime to measure economic impact and the relative benefit of reform measures

G20 ministers must be confident that the reform agenda reinforces financial stability without disproportionately compromising economic growth. Additional proposals over and above those already in process need to be considered on the basis that they can only be justified where the marginal benefits to financial stability would be greater than the economic impact. Any impact assessments need to be conducted in a more sophisticated manner in which a range of policy measures are costed to see which solutions offer the greatest financial stability at the least economic cost. The recent BIS paper, *Weathering the financial crisis: good policy or good luck?*[6] sets out some of the factors that reduced the final economic impact of the last crisis on different markets. Future policymaking should take into account the relative costs and benefits of different measures. For example, should greater emphasis be given to tough micro- and macro-prudential supervision and sound financial management rather than additional levels of bank capital? Not all the potential unintended consequences will have a direct economic impact, but they may open up new channels of risk to financial stability. For example, operators of payments system could now sit in the regulated and un-regulated sectors.

Policymakers need to be aware of the risk of overlapping policies that could collectively lead to unintended consequences and undermine financial stability. We welcome the recent IMF paper[7] on the interaction between Basel III and Solvency II that highlights some possible issues on contradictory policymaking. The IMF should continue to highlight these issues.

An enhanced international body, such as the IMF, which is independent of regulators, should develop detailed impact assessments that consider international, regional and national regulatory reforms and their effect on economic growth and employment. This independent body should also conduct post-implementation reviews after a policy has been in place for a set period of time, for example two years, to consider whether the economic impacts were properly captured in the initial assessments and whether the policy is still valid given new data. Given the increasing role

5 Including Institute of International Finance (August 2011), *The Implications of Financial Regulatory Reform for the Insurance Industry*, Bank for International Settlements (July 2011), *Fixed income strategies of insurance companies and pension funds*, and IMF (August 2011), *Possible Unintended Consequences of Basel III and Solvency II*, (WP/11/187)

6 Bank for International Settlements (August 2011), *Weathering the financial crisis: good policy or good luck?*, Stephen G Cecchetti, Michael R King, and James Yetman

7 IMF (August 2011), *Possible Unintended Consequences of Basel III and Solvency II* (WP/11/187)

that will be played by macro-prudential policy in driving economic growth, there will be a much clearer link between prudential policy and economic indicators.

Once the independent body has assessed the cumulative costs of the reform agenda, it should ensure that the details and any recommendations are communicated to national and regional legislatures, regulatory bodies and the FSB. The FSB should then assess whether policymakers are pursuing the most appropriate policies and determine the need for peer reviews. The IMF and FSB should work together to develop best practice on impact assessment to assist policymakers in their understanding of the economic impacts of regulatory reform.

Before any new changes are made, take stock of the current regulatory agenda and establish a structured roadmap for reform considering the following:

- Cumulative impact assessments of regulatory measures,
- The state of implementation and potential unintended consequences, for example on trade finance, SME finance and excessive pro-cyclicality; and
- The opportunity to use sunset clauses that require regular reviews of how well regulations fulfill their purpose and either extend their sunset dates or automatically terminate them.

The G20 should **enlarge the regulatory approach to other tools such as macro-economic, fiscal policies and supervision, which have a key role to play.** Regulation is not the answer to all current problems. For example, access to liquidity will not be solved only through the implementation of the Liquidity Coverage Ratio (LCR). Macro-economic and fiscal policies together with effective supervision have a key role to play.

- Macro-prudential supervision is to be explicitly charged with identifying and addressing financial imbalances, among others to prevent herd behavior, especially in the building-up of asset bubbles.
- Circuit breakers can be useful in halting excessive market movements and in providing time for reflection to re-anchor investor views.
- Trading platforms should ensure that algorithmic trading systems are being stress-tested with respect to their systemic implications.

Ensuring regulatory reforms do not jeopardize economic growth

In the last financial crisis, global trade fell some 23% or $3.5 trillion in value according to 2008 figures. Of this fall, 10%-15%[8] stemmed from lower trade financing of 10%.[9] As a result, $350-525 billion of world trade was wiped out. If banks do not raise new capital and Basel III is implemented as crafted, banks could slash trade finance lending by as much as 6% a year,

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8 CEPR (June 2009), *Boosting the availability of trade finance in the current crisis: Background analysis for a substantial G20 package*, Marc Auboin

9 World Trade Organization (December 2009), *Restoring trade finance during a period of financial crisis: stocking taking of recent initiatives*, Marc Auboin

triggering up to a $270 billion drop in international trade and commerce based on today's trade value. Given the strong link between the development of international trade and global economic growth, there must be a special focus on the unintended consequences that the Basel Committee's rules may have on both trade finance and export credit activities. Basel III puts at risk the availability of short-term trade finance and medium- and long-term export credit. This could threaten international trade, as well as the economies of emerging markets that rely heavily on trade finance as an alternative to revolving bank loans. This unintended impact runs counter to the G20 goals for economic recovery.

We welcome the December 2010 BCBS commitment to undertake an impact study of the "regulatory framework on the availability of trade finance to low income countries" that will be finalized in time for the G20 summit in November. This followed directly from the meeting of the G20 in Seoul, where the Heads of State and Government asked the Committee to look into this matter. Concerns had been raised that the Basel III leverage ratios and liquidity requirements may have the unintended consequence of increasing the cost of credit or inhibiting low-risk activities such as trade finance and export credit.

Trade finance tools and export credits are vital for importers and exporters of all G20 countries. This is particularly true for SMEs, which need to be supported to strengthen their international footprint.

Defaults on trade finance obligations are generally minimal, even during stressed situations. Evidence from a survey conducted by the International Chamber of Commerce and the Asian Development Bank,[10] shows that over the last five years (including the period during the financial crisis), out of the 5.2 million trade-finance transactions registered and analysed, only a very low percentage encountered default (fewer than 500 defaults among 2.8 million transactions). In these rare occasions, loss recoveries were high; recovery rates average 60% for all product types.

Credit exports are officially supported export credit facilities that are either long-term credit insured or guaranteed by the national export credit agencies that are state-owned or acting on behalf of that state. As such, they should be recognized as low risk under the Basel II standardized approach.

G20 political leaders should work with the BCBS as it reaches its final conclusions on the capital treatment of trade finance and credit exports to ensure that the final recommendations will create a regulatory framework that will encourage the growth of trade finance.

We recommend that policymakers take the following steps:

Regarding trade finance:

- All countries should use the Basel waiver that allows them to remove the one-year maturity floor for all trade products. The one-year maturity floor currently prevents trade finance activities, which are generally shorter than a year (on average around 115 days),[11] from receiving appropriate capital treatment.

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[10] International Chamber of Commerce (September 2010), *Report on findings of ICC-ADB Register on Trade & Finance*

[11] Ibid

- Introduce a special liquidity-funding requirement for off-balance sheet trade finance, distinctly lower than other off-balance sheet requirements and also not subject to national discretion.
- Allow the use of industry default data for capital calculations related to separate trade asset value correlations (AVC).
- Allow leverage credit conversion factors (CCF) for off-balance sheet trade, using industry data.
- Include transactional financial institution deposits as a stable source of funding.
- Assign higher inflow factors for trade finance in LCR calculations.
- Review the list of high-quality liquid assets for liquidity ratios.

Regarding export credits:

- The BCBS should consider the effects of the leverage ratio on the availability of trade and export finance. It should make this assessment and required changes before the details about bank leverage ratios are released, which is currently planned for 2015.
- Recognize the liquidity profile of export credits (cash inflows/repayments and the undrawn portion).
- Achieve a global level playing field in the implementation of Basel III, in particular by harmonizing provisions that allow export credits to be eligible for refinancing windows of central banks.

Regarding SMEs:

- We support efforts by European regulators to consider the risk weightings given to SMEs to ensure they are given an appropriate capital treatment. Although the SME sector can be subject to high levels of default, it is such an economically vital sector in many markets that it is essential the risk weights allocated for SME business are appropriate. Loans granted to SMEs, which are assets eligible for central bank refinancing, should be covered under the LCR numerator Level 3.

Helping corporates effectively manage their risk

Derivatives are essential in helping corporate clients manage risk. They play a key role in helping to deliver international trade and economic growth. Reforms must be considered in this context. We recognize the importance of central clearing and trade reporting to regulators to improve the safety and transparency of the marketplace. Derivatives markets operate globally, therefore, regulators should take a coordinated and cooperative approach to ensure that initiatives related to derivatives are harmonized. Regulators should use common standards and formats being promoted by ISDA and other industry bodies to reduce the need for local bespoke solutions to common, global requirements.

Regulators should ensure more clarity is provided on the capital impact to banks of trading with clearing-exempt corporate clients. Exempting some corporate entities from clearing for bona fide hedging is sensible, however if this introduces significant capital charges for banks for non-cleared trades the price of these important risk tools could increase. We hope to see continued leadership by the FSB and other international institutions in helping to co-ordinate derivatives legislation.

Review the potential for unintended consequences arising from the implementation of Solvency II

Just as it is essential for policymakers to undertake an assessment of the cumulative impact of reforms on the financial sector, so it is also important to consider the impact of policy in one sector on another. Policymakers should avoid negative unintended consequences that may emerge as large new bodies of financial services legislation are developed.

The IMF and the BIS have recently published papers setting out the need to consider the linkages between Basel III and Solvency II. It is essential the regulatory and legislative agenda in the banking and insurance sectors enforce each other and do not create negative unintended consequences or spill over effects into the other sector. Therefore, policymakers must consider both sectors when developing legislation. For instance, in developing Solvency II it is essential that European policymakers do not reduce the appetite of insurers, as institutional investors, for increased exposure to the banking industry. Any steps that compromise this interest are likely to make it more difficult for the banking sector to achieve the changes required under Basel III. The IIF has calculated that banks will need to increase capital levels by up to $2.2 trillion representing an increase in outstanding banking securities of 18%. It will be essential, therefore, that disincentives are not created for institutional investors seeking to invest in banks. Insurers are estimated to hold around 60% of bank subordinated debt. Any rules for insurers that affect these holdings will have an impact on banks.[12]

As the European Commission takes the next steps in the development of Solvency II, it should consider how to avoid these risks. It will be essential for the Commission to avoid pro-cyclical behaviour and restricting the supply of equity and long-term debt to the global economy. The Commission, European supervisory authorities and the FSB should consider the following steps to address these risks:

- Policymakers should assess the impact Solvency II will have on insurers' appetite for long-term debt given the change insurers will likely experience in the tenor of their debt portfolios as a result of the legislation. As currently drafted, there is a risk that Solvency II incentivizes European insurers to hold short-dated, lower-quality debt. The IIF has concluded that there is a risk "Insurers, with long-term liabilities, will be incentivized to hold shorter-term bonds, while banks, with shorter-term liabilities, are pushed towards long-term assets."[13] The authorities should engage with insurers to understand and quantify the impact Solvency II will have on their appetite to invest in bank equity and debt. If policymakers have concerns about the

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12 Institute of International Finance (August 2011), *The Implications of Financial Regulatory Reform for the Insurance Industry*

13 Ibid

appetite for bank equity and debt these should be considered as part of the BCBS reviews built into the implementation timeline for Basel III. The FSB should take into account these issues as it develops global standards for resolution plans for banks. There is also a need to assess the effect of Solvency II on insurers' appetite for corporate equity and bonds. If corporates' and SMEs' mid- and long-term financing by banks is strongly reduced and much more expensive and if insurance companies are discouraged from investing in equity and bonds, the impact on economic growth could be strongly negative as it will not be possible for enterprises to find long-term financing to innovate, invest, develop and create jobs.

- Policymakers should assess whether it is appropriate that both Basel III and Solvency II significantly increase the holding of sovereign debt at a time when sovereign debt should be reduced. Policymakers need to consider the extent to which policies may create overweight positions in portfolios, for instance the extent to which Solvency II could create incentives to hold significant amounts of EEA sovereign debt.
- Where other countries are looking to adopt proposals similar to Solvency II to strengthen their insurance sectors, the FSB should ensure that the cumulative impact of such proposals does not undermine Basel III.
- The equity dampener, which is meant to reduce pro-cyclicality caused by equity risk, should be reinforced by enlarging the -10%/+10% band on the down side. This would help to reduce the pro-cyclicality of the tool.
- A counter-cyclical premium, designed to solve issues of pro-cyclicality and artificial volatility, is a step in the right direction but not sufficient to provide insurance companies with enough confidence on their own solvency in crisis periods. Moreover, its determination must be clarified.

Reassessing the role of credit rating agencies (CRAs)

The crisis highlighted significant issues with the role CRAs play in the financial system, in particular the extent CRA ratings had been embedded into the regulatory system. Since the crisis attempts have been made to more effectively regulate them and policymakers are looking at what can be done to reduce the extent to which ratings are used by regulators. However, we think careful consideration should be given to a further range of measures which might include a much more radical approach, one that reduces the role of ratings and forces investors to conduct more of their own analysis. This would involve banning issuers from paying rating agencies and removing ratings from the regulatory system. We appreciate this would amount to a fundamental change in the role of ratings in the financial system and would need to be thought through very carefully, not least because the transitional issues would be significant, but simply shoring up the current system with more regulation may end up creating further problems for the future.

Risks of International Fragmentation

The last financial crisis demonstrated that risks can emerge from new sources and can be transmitted through unanticipated channels. We welcome the commitment of the G20 to coordinate its response to this crisis across national boundaries.

A level playing field is necessary to reduce risks mutating across sectors, regions and markets. Clarity on the financial market rules will help market confidence for both investors and counterparties. There is already a great deal of disclosure by many banks and financial institutions in many markets, for example under Pillar 3, but this is not the case in all jurisdictions. Many authorities have clarified the implementation timetable for rules following international agreements. However, this is not the case for all markets.

The creation of the FSB is a welcome step towards a more consistent financial regulatory framework and, most importantly, a peer review process that seeks to ensure compliance with international standards.

The G20 should **define tools and procedures to ensure consistent implementation of regulatory change to prevent risk mutating into shadow banking across market segments or regions, and provide clear information to market participants, while preserving the diverse banking ecology that brings resilience to financial systems**. This will guarantee a level playing field between all global financial centers and prevent outliers that might result in concentrated financial risks. Areas where a common approach is important include ensuring there is a harmonized approach to crisis resolution regimes so all jurisdictions have the necessary legal framework to take action against an agreed international approach.

The FSB should adopt best practice policymaking in terms of transparency and openness drawing from corporate governance norms and international best practice. For example:

- Give advance notice of meetings.
- Publish a clear organizational chart of decision-makers.
- Establish regular stakeholder meetings, similar to the European Banking Authority, with the ability to comment on upcoming agenda items.
- Publish meeting minutes, similar to the Bank of England's Monetary Policy Committee and interim Financial Policy Committee.
- Meetings should be held with stakeholders with short summaries of topics discussed being published, similar to the Federal Reserve.
- Undertake peer reviews of particular topics, for example the treatment of risk weights by regulators in different markets.

The regulation of global markets needs to be carefully coordinated. Discrepancies between regimes for derivatives markets, for example, would neither foster competition nor promote financial stability.

We welcome the FSB reviews and public reports every six months on the status of implementation in each jurisdiction against internationally agreed principles or standards. When publishing these reports the FSB should be clear on where countries have met the international standard, where they have not met them and where they have gone further than the recommended international standard. This market disclosure would add transparency and allow accountability for the decisions taken by the G20 and FSB. It would also aid financial stability by highlighting jurisdictions where agreed rules had not been implemented and provide an independent view of those countries that had chosen to go further.

Evolution of International Accounting Standards

The IASB should focus on ensuring it has a robust conceptual framework so that it can develop and set standards consistent with the requirements of that framework. The IASB should complete this framework before embarking on any new projects. Such a framework should be based on clear principles taking into account firms' underlying business models.

We support the IASB's intention to reduce complexity in financial reporting, but we note that recent pronouncements have significantly increased the volume of disclosures required in financial statements that may obscure rather than enhance the clarity of financial reporting and may reduce their usefulness. Financial reporting should not obscure the fundamentals of a business that investors need to consider when making decisions. We urge the IASB to reduce the complexity of financial reporting.

A number of the IASB's initial proposals released for comment will increase rather than reduce complexity. For example, the initial proposals for lease accounting contained a significant degree of complexity that appears to be disproportionate to the perceived concerns of investors, and would increase the reporting and administrative burden of preparers as well as introducing a high degree of management judgement. For other proposals, such as those relating to revenue recognition, it is not yet clear what the impact of the forthcoming changes will be. While some of these concerns have to some extent been addressed through the IASB's consultation process, proposals should be drafted with an appreciation of the ability to implement the requirements and with a view to creating a clear and simple financial reporting regime. As part of this process, the IASB should perform a cost/benefit analysis for each proposal.

Convergence between the International Financial Reporting Standards (IFRS) and the United States' Generally Accepted Accounting Principles (GAAP) is desirable and needs to be pursued with a realistic, but ambitious, timetable. The IASB's agenda should have been reprioritized much earlier to focus on emerging issues arising from the financial crisis rather than on the Memorandum of Understanding project, although we welcome the fact that this has now largely occurred. This underlines the need for the finalization of a core framework in which to set and develop standards.

Links to the regulatory agenda

While maintaining the IASB's independence, standard setters should engage with regulators to understand possible interactions between accounting standards and financial stability.

We support the evolution of the IASB's proposals on financial instruments, which focus more on the business models used by entities rather than applying an artificial structure, although we note this may impact comparability. In this area, we encourage more frequent dialogue with regulators to ensure accounting developments are in line with the evolution of the regulatory landscape, in particular to ensure there are not any inconsistencies.

We support the IASB in its decision to defer the implementation of IFRS 9 until January 2015, which will allow time for the development of a credible, high quality standard and also provide a sufficient transition period for preparers to implement its requirements.

While we support the principle of expected loss provisioning, the IASB's published proposals have not been operational and we await the IASB's further proposals in the autumn.

For the accounting of financial instruments, convergence between the IASB and Financial Accounting Standards Board (FASB) is of particular importance and although this project has been delayed, we welcome the statement by both Boards that achieving a quality, robust approach is more important than adhering to the G20 timetable. We believe that a lack of convergence in this area could impact the ability of banks to operate on a level playing field. We consider that the IASB should play a greater role in US Securities and Exchange Commission discussions on IFRS reform.

Following the Trustees' review in 2010, in July the IASB published a consultation on the future strategic direction of the IASB and the balance of its agenda and we welcome this development.

Facilitate Responsible Innovation

Financial markets help businesses invest and manage risk more effectively, and help consumers meet basic needs such as purchasing a home or saving for retirement. As emerging markets continue to grow and global demographics change significantly, financial markets will become even more important to help society meet these challenges. The trends are likely to include the need for increased levels of investment, often cross border. Producers will need to protect against increased commodities prices and demographic changes will result in different demands for financial markets.

The Asian Development Bank has estimated that Asia requires $300 billion worth of infrastructure investment per year. Governments will not be able to meet these significant additional levels of investment on their own. It will be essential for financial markets to create ways of helping to meet the needs of emerging markets. By 2030, we expect Asian equity markets to represent almost 50% of world market capitalization and Asian domestic bond markets to be bigger than the US bond markets.[14] Financial markets will have an even more important role in the coming decades to mediate global capital flows.

Banks play an essential role in helping businesses manage their risks. Over the coming decades significant population growth, high urbanization rates and the growth of the middle class in Asia will all lead to a significant increase both in the cost and the price volatility of commodities. Banks will be able to help businesses mitigate these risks and focus on growing their businesses.

As populations in both developed and developing countries see age dependency ratios increase, people will be looking for different ways to manage their assets. This is likely to mean a shift towards fixed income investments.

Businesses need to innovate and change to provide new goods and services. We need a framework in which financial services can help to drive wider economic growth and development through innovation, to reduce costs and develop new approaches to risk management. In retail banking, this means broadening financial inclusion, and simpler and faster banking to meet the needs of consumers by learning lessons from other consumer industries. For wholesale banking, this means helping clients manage their risks to grow their businesses.

At the same time, financial innovation must be prudent and not put the banking system at systemic risk. The Reserve Bank of India has proven to be a successful example of a regulator that

14 Standard Chartered (2010), *The Super-Cycle Report*

has managed to guide India through successive financial crises relatively unscathed while at the same time allowing more financial innovation.

Governments and financial institutions should create the right environment to allow financial services firms to innovate within a proper risk and control framework. Market participants should include the systemic consequences of new products and investment strategies in their product approval processes and risk assessments. They must meet large social and economic challenges, including an estimated $ 600 billion per annum infrastructure investment gap, demographics, and pension/retirement needs. Financial innovation must address the needs of the unbanked, the 2.5 billion people[15] that have no access to financial institutions. G20 leaders should work with the financial services sector to achieve these goals.

Approaches to innovation include:

1. **Broadening access**

Mobile banking allows customers from Africa to Asia to access financial services where bank branches do not exist. Prudent regulatory measures that hasten the adaptation of mobile banking while ensuring that customers do not access products they are not ready for can accelerate financial inclusion.

2. **Mitigating risks**

The financial services sector has a key role in helping consumers, businesses and governments mitigate their risks, through effective use of currency or interest rate hedging and commodities derivatives.

This work will require development of deeper and more liquid capital markets in emerging economies. We support the G20 work streams that are developing these markets. We encourage policymakers and regulators to consider issues that affect successful development of capital markets in emerging economies:

a. The development of other markets will drive capital markets: policymakers and regulators should recognize that actions and consistent rules that enable large investors, such as asset managers and pension funds, will aid the successful development of capital markets.

b. Common and consistent regulation: it is crucial that regulation of capital markets be standard across regions. Today, accounting, legal, and market regulatory requirements are inconsistent and have led to counterintuitive behavior in order to meet regulatory requirements.

c. In developing capital markets policymakers should ensure currency flexibility with access to both local and foreign currency.

d. Set-up costs: in emerging economies, participants tend to incur set-up costs independently, which reduces participants, liquidity and innovation. Mature economies should consider how to offset these costs to encourage greater participation and market development.

[15] Financial Access Initiative (October 2009), *Half the World is Unbanked*

3. **Global technology hubs**

These hubs can bring benefits through increases in efficiency, productivity, and in better risk and control infrastructure that can be accessed and leveraged throughout the financial institution. While there is a need to ensure effective governance mechanisms for offshoring, regulators should avoid prohibiting the use of global hubbing, as this could weaken governance arrangements. Such hubs need to be spread across the globe to ensure they are meeting the needs of both developed and emerging economies.

4. **Infrastructure finance**

Financial innovation must address the significant funding need, estimated at over $ 600 billion annually, to build infrastructure. Private-public partnerships (PPPs) need to be encouraged with learnings from previous experiences incorporated in new PPPs, in order to mobilize funding to ensure completion of these important projects. Two critical elements drive successful PPP programs. G20 leaders should ensure their PPP programs:

a. Have strong central government financial and regulatory backing, including fixed revenue undertakings and capacity payments for projects.

b. Promote long-term sustainability through skills development. PPP programs are not just about building infrastructure. They also include a service delivery component. Investment in advisory and analytical work at the outset, and capacity-building for the public and private sector partners, will identify the projects that are best suited for private investment, ensure that they are delivered cost-effectively, and provide valuable service for the public.

Increasing access to finance

1. **Removing barriers**

This helps to deliver banking services to larger populations and for lower unit costs. This is particularly important in emerging markets where a limited physical presence of financial institutions can prevent the growth of financial products and services. Mobile technology can help communities leapfrog the need for physical access to financial services. However, older legislation or regulation does not always take account of developments in technology and needs to be updated. When developing rules on disclosures to consumers, policymakers should ensure that disclosures can be made via different technology channels and without necessarily requiring disclosures on paper. Such solutions will reduce the costs of providing services without reducing the levels of consumer protection. Another example of broadening access is India’s Unique ID program where individuals receive biometric cards that serves as proof of identify and a form of bank account.

2. **SMEs**

Economic growth is driven by SME growth in many markets. In OECD member states, SMEs account for over 95% of enterprises, 60%-70% of employment and generate a large share of new jobs.[16] However, the APEC Business Advisory Council believes that in the Asia Pacific region

[16] OECD (November 2006), *Financing SMEs and Entrepreneurs*

SMEs make up less than 30% of exports. There are a number of steps G20 governments should take to address these issues:

a. Bank lending to SMEs could be enhanced with more consistent and transparent SME financial statements and with more independent third party information providers in the marketplace. The sharing of credit data through credit bureau helps to reduce the costs of borrowing by making the process for risk assessment more effective and streamlined.

b. SMEs can benefit from the expertise and knowledge of bigger corporates to increase their knowledge, viability and competitiveness. Much good work has already been undertaken by G20 governments to share best practice between larger corporates and SMEs. Further steps should be taken by sharing these examples of best practice between G20 governments.

Reinforce the contribution to sustainable development

1. **Environmental and social impacts**

Some financial services organizations have made substantial progress improving the management of environmental and social impacts associated with their business and financing decisions. **Global financial institutions will support industry-led initiatives, such as the Equator Principles and Carbon Disclosure Project.** This sector can play a crucial role in the shift to a global low-carbon economy. Policymakers should work with the private sector to create an attractive investment environment with international regulation and market mechanisms that will catalyse the scale-up of low-carbon infrastructure and solutions.

2. **Enable social investing**

Sustainability is critical for financial markets and the economy. Initiatives are needed to encourage investors to integrate sustainability considerations into their investment decisions. Some policy mechanisms include:

a. Embedding ESG criteria in financial analysis and investment decisions.

b. Building ESG criteria into the companies' overall performance in corporate management.

c. Fostering long-term financing by addressing household and corporate needs through long-term savings and new financial instruments.

d. Encouraging long-term investors, including sovereign wealth funds, to integrate ESG considerations into their investment strategy.

Consumer protection and education

The OECD has formulated common principles on consumer protection for financial products and services. We welcome the drive towards an international approach. We think this is best aimed at high-level principles focussed on retail consumers that will give guidance to national regulators, as they give effect to these in their jurisdictions given the very different legal and regulatory frameworks already in place. Effective protection of financial consumers involves both education and disclosure. Policymakers and firms should work together to ensure levels of consumer education are sufficient to meet the needs of consumers and appropriate to the sophistication of the market. They should learn from examples of international best practice, both those developed by the official sector and also the approaches adopted by firms. They should work with industry to ensure financial product disclosures are transparent, targeted, risk-related and sufficient so customers clearly understand the products they are buying and any associated risks.

RECOMMENDATIONS

The financial services sector has an essential role as the world economy seeks to recover from the crisis. A well-regulated, efficient and innovative sector will help drive economic growth and prosperity. Ensuring this can be achieved will require commitment on the part of the sector and an effective balancing of regulatory priorities by policymakers.

Need for a global impact assessment of financial regulations on the economy, employment and growth

The business community strongly supports reforms to reinforce financial stability, such as those measures to improve prudential standards, corporate governance, risk management and regulatory supervision. For reforms to be efficient without hampering economic recovery, regulators must assess regulatory coherence and the cumulative impact on crucial drivers of economic growth, like trade finance, long-term financing and capital availability to small- and medium-sized enterprises (SMEs) and adapt them where necessary to mitigate detected negative consequences and take additional measures to promote economic growth.

To achieve this, the G20 should:

1. **Before new changes are made take stock of the current regulatory agenda and develop a structured roadmap for reform considering the following:**

   - Cumulative impact assessments of regulatory measures;
   - Potential unintended consequences, including impacts on trade finance, SME finance and, more generally, excessive pro-cyclicality; and
   - The opportunity to routinely use sunset clauses requiring regular review of how well regulations fulfill their purposes and either extend their sunset dates or automatically terminate them.

2. **Expand the regulatory approach to macroeconomics, fiscal policies and supervision. Regulation is not the answer to all current problems. Access to liquidity will not be solved solely through the implementation of the Liquidity Coverage Ratio (LCR)**

3. **Commission an authoritative body, independent from regulators – perhaps the International Monetary Fund (IMF) – to carry out detailed impact assessments on the economy, growth and employment and to track the costs of implemented regulations. These assessments should:**

   - Capture significant reforms being undertaken at national, regional and international levels before assessing the cumulative impact of regulatory reforms and how the reforms affect economic growth or conflict with one another.

- Conduct post-implementation reviews after a policy has been in place for a set period of time, for example two years, to consider whether the economic impacts were properly captured in the initial assessments and whether the policy is still valid given new data.

- Ensure that details of those studies and any recommendations are communicated to national and regional legislatures, regulatory bodies and the Financial Stability Board (FSB).

- Capture initiatives, such as the development of the Financial Transaction Tax (FTT), which potentially could reduce economic growth and undermine regulatory measures designed to increase financial stability.

- The FSB should assess whether policymakers are pursuing the most appropriate policies or if changes are required, and determine the need for peer reviews.

4. **Regarding trade finance and export credit businesses, the Basel Committee on Banking Supervision (BCBS), which the G20 has assigned to examine the impact of regulatory reform, should introduce the following amendments to the prudential rules adopted or being considered in order to preserve international trade:**

- Remove the one-year maturity floor for all trade products rather than leaving the decision to national discretion.

- Introduce a special liquidity-funding requirement for off-balance sheet trade finance, distinctly lower than other off-balance sheet requirements and also not subject to national discretion.

- Allow the use of industry default data for capital calculations related to separate trade asset value correlations (AVC).

- Allow leverage credit conversion factors (CCF) for off-balance sheet trade, also using industry data.

- Include transactional financial institution deposits as a stable source of funding.

- Assign higher inflow factors for trade finance in LCR calculations.

- Review the list of high quality liquid assets for liquidity ratios.

For export credit:

- The effect of the proposed leverage ratio on the availability of trade and export finance should be fully evaluated,

- The liquidity profile of export credit should be taken into account; and.

- These entities should be eligible for the re-financing windows of central banks.

5. **Regulators must consider the risk weightings given to SMEs to ensure they receive appropriate capital treatment. Small businesses, an economically vital sector in many**

markets, should be given appropriate risk weights. For instance, loans granted to SMEs, which are assets eligible for central bank refinancing, should be covered under the LCR numerator 'Level 3'. Covered bonds are safe, liquid assets that should be treated as such.

6. **The IMF and FSB should work together to develop best practices on impact assessment to assist policymakers in their understanding of the economic impacts of regulatory reform.**

7. **Policymakers should ensure Solvency II and Basel III are not contradictory. There have been a number of reviews that suggest the potential for unintended consequences and spill over effects arising from the implementation of the two sets of rules at the same time. It is necessary to avoid encouraging pro-cyclical behaviour or restricting the supply of equity and long-term debt to the global economy.**

Risks of international fragmentation

The G20 should **define tools and procedures to ensure consistent implementation of regulatory change, prevent risk mutating into shadow banking across market segments or regions, and provide clear information to market participants, while preserving the diverse banking ecology that brings resilience to financial systems.** In particular:

- Policymakers should adhere to corporate governance norms of transparency such as publishing minutes from key meetings, regular consultations, peer reviews, etc.
- Reporting on the status of implementation should include a country-by-country comparison with a clear indication on whether member states have under- or over-implemented the reform agenda.
- The roadmaps will differ on the starting points and needs of different countries. The needs of emerging economies and their starting points are significantly different to those of more mature markets.

Evolution of international accounting standards

8. **Before embarking on new projects, the International Accounting Standards Board (IASB) should ensure it has a robust conceptual framework so that it can develop standards consistent with the requirements of that framework. Such a framework should be based on clear principles taking into account firms' underlying business models.**

9. **While maintaining the IASB's independence, standard setters should engage with regulators to understand the interactions between accounting standards and financial stability in proposed reforms.**

10. **Convergence between the International Financial Reporting Standards (IFRS) and the United States' Generally Accepted Accounting Principles (GAAP) is desirable and should be pursued with a realistic, but ambitious timetable focused on priority issues that take into account business needs.**

11. **We support the evolution of IASB's proposals on financial instruments, which focus more on the business models used by entities rather than applying an artificial structure. We encourage more frequent dialogue with regulators to ensure accounting developments are in line with the evolution of the regulatory landscape, in particular to ensure there are no inconsistencies.**

Facilitate responsible innovation

1. **Governments and financial institutions should create the right environment to allow financial services firms to innovate to meet pressing social and economic challenges, including an estimated $ 600 billion annual infrastructure investment gap, demographics, and pension/retirement needs. Innovation should occur in a proper risk framework. Market participants, in their own interest, should include the systemic consequences of new products and investment strategies in their product approval processes and risk assessments. Financial innovation must address the needs of the "unbanked", the more than two and a half billion people that have no access to financial institutions.**

1. **Financial services firms working together with governments should promote customer education and high quality standards of transparency of product information to meet the needs of customers.**

1. **Global financial institutions will support industry-led initiatives, such as the Equator Principles and the Carbon Disclosure Project.**

1. Business is committed to accelerate initiatives that encourage investors to integrate sustainability considerations into their investment decisions. Some policy mechanisms include:

- Embedding economic, social and governance (ESG) criteria in financial analysis and investment decisions.
- Integrating ESG criteria into reporting and ongoing communication to boards and shareholders.
- Building ESG criteria into companies' overall performance in corporate management.
- Fostering long-term financing by addressing household and corporate needs through long-term savings and new financial instruments.
- Encouraging long-term investors, including sovereign wealth funds, to integrate ESG considerations into their investment strategy.

Working Group III

INTERNATIONAL MONETARY SYSTEM

Conveners

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Key Recommendations

Emerging from the 2008 crisis and overall changes in the global economic environment, reform of the International Monetary System (IMS) is a priority for the G20 and B20 in 2011. An IMS that acknowledges countries' and economies' interdependence while fostering growth, stability and fairness at the global level, is important for world prosperity and the operation and growth of companies.

The IMS has some major deficiencies: 1) exchange rate volatility, misalignments and excess reserve accumulation, 2) volatile short-term capital flows, and 3) the frequency and magnitude of financial crises.

A stable IMS requires that the G20 countries commit to sound domestic policies, macroeconomic coordination, the restoration of financial sector stability and pro-growth structural policies.

Specifically, business leaders suggest the following actions:

- **Support business efforts to address hedging challenges:**
  - In any new regulation of derivatives markets or banking, avoid penalizing hedging for supporting international trade.
  - Enlarge the basket of Special Drawing Rights (SDRs) with other convertible currencies, and increase its role as an official reserve and private investment currency. While a broad use of SDRs as a transaction currency is desirable, it may only be feasible in the mid to long term.
  - Implement measures to increase companies' access to financial and non-financial currency hedges, particularly by developing local currency debt markets to improve access to direct financing.
- **Support the move towards a multi-polar currency system encouraging the convertibility and the flexibility of relevant currencies for trade and investment.**
  - The structure and sources of trade and investment changed dramatically in the last decades. A multi-polar system would better fit this new reality and would be instrumental in reducing firms' transactions costs and uncertainties, and would lead to a more balanced global economy.
  - The current US dollar-dominated system amplifies the risks of the global economy. In a multi-polar system, the dollar and the euro should be followed by the Chinese yuan and other emerging currencies. For the business sector, a convertible RMB would enhance trade and investment with regard to China. For China convertibility is necessary to enhance the international importance of the nation's currency. The development of local financial markets and the transition to full convertibility should be intensified.
- **Strengthen the International Monetary Fund (IMF) in its roles of: a) surveillance and support in the coordination of policies, b) enhancing transparency about risks and exposures in the financial system, and c) supporting the liberalization of capital accounts and the development of efficient financial markets in mature and emerging economies.**
- **Collaborate with the B20 to promote better understanding of currency issues among all stakeholders, and notably institute global monitoring to prevent crises and imbalances:**
  - Develop studies of currency instability impact on individual companies and the global economy as a whole
  - Promote the production and communication of indicators (both macro and micro-economic) about currency risks to help businesses make well informed decisions

BACKGROUND

The reform of the International Monetary System (IMS) is one of the priorities for the G20 and B20 in 2011. It is a need that emerged from the 2008 crisis and overall changes in the global economic environment.

An international monetary system that acknowledges countries' and economies' interdependence and that fosters growth, stability and fairness at the global level is important for world prosperity and the operation and growth of companies.

A predictable international monetary system: A necessity for sustainable growth and fair competition

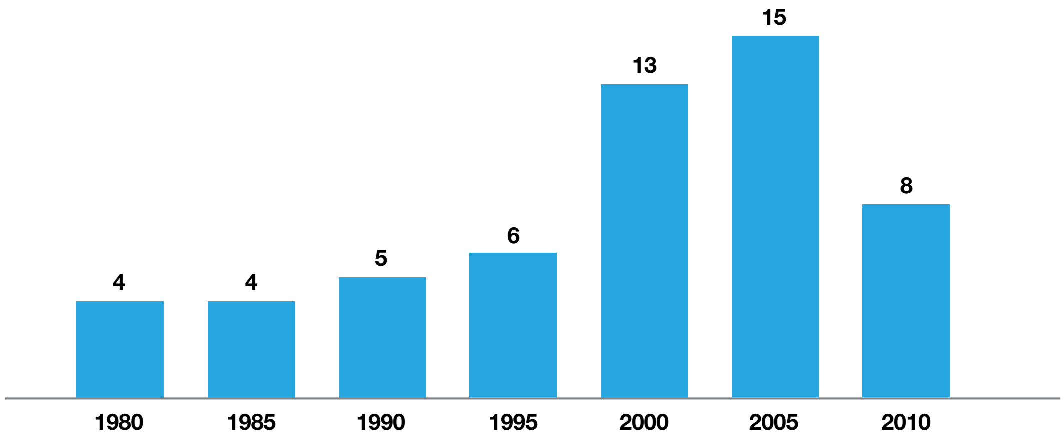
In the last decade the IMS has provided ample liquidity and, until 2008, was accommodative for growth, employment and international trade. But while we saw periods of strong global growth, the world also experienced two major economic and financial crises. Recently, growth has leveled off again as the large amount of private and public debt that was accumulated in many western economies in the boom years has to be worked off.

The system has shown some major deficiencies:

- **Exchange rate volatility** has been an impediment for international investment and trade. Currency instability creates costs for the corporate sector, affects real investment decisions (e.g. relocations), and can distort competition and resource allocation.
- **Short-term capital flows** have contributed to destabilizing national economies. Strong capital inflows carry the risk of creating financial bubbles and overvaluation of currencies. To cope with these effects countries raise interest rates, implement capital controls or intervene in exchange markets. When financing or capital flows are cut off, balance of payments crises, devaluation and deflation of assets take place.

Cross-border capital flows*

In % of global GDP



* Inflows defined as net purchases of domestic assets by non-residents, consist of FDI, portfolio investment and lending inflows
Source: McKinsey Global Institute; Economic Research & Corporate Development

There are also some consequences:

- The **frequency and magnitude of financial crises** has had economic and social costs for the global economy in terms of losses of GDP, employment and financial wealth. The uncertainties combined with such crises weigh on investment decisions and the supply of risk capital, and therefore have long-term consequences.

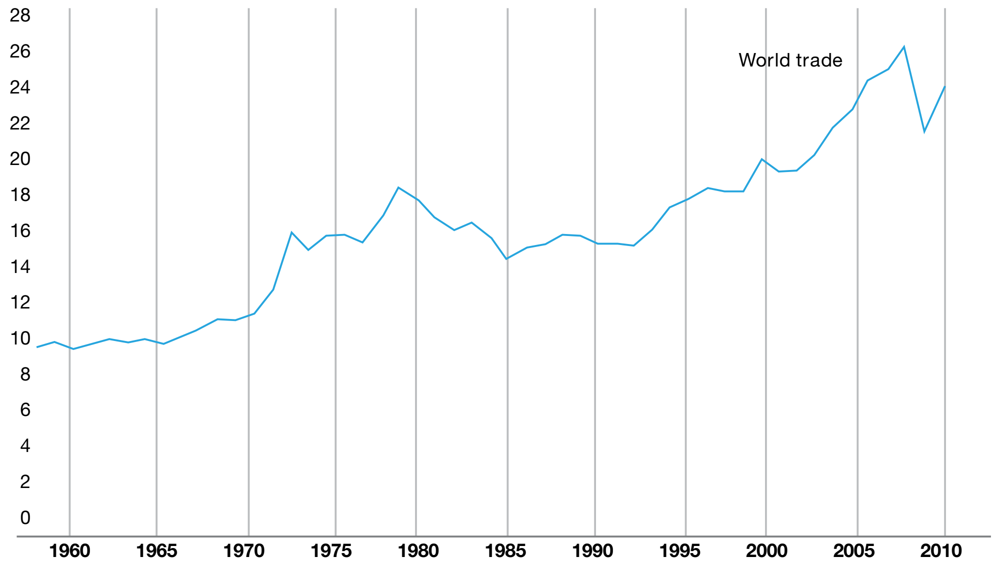
The G20 needs to come to a shared view on how to reform the IMS. The B20 stresses the need to take appropriate action to improve the functioning of the IMS in a manner that promotes sustainable growth, employment creation, fairness and financial soundness. The system should ensure price stability and economic growth reducing macroeconomic imbalances and risks of financial crises. Exchange rates should be flexible but not excessively volatile, reflecting macroeconomic fundamentals.

The IMS needs to adapt to a new economic reality:

The **globalization of exchanges and entrepreneurial players** is a trend, already noticeable for several decades, which has seen a strong acceleration since the 2000s (see charts below). The business community is now no longer approached as national, but rather as international. This change in scale makes the **stability of the economic environment and, above all, the volatility of currencies a shared concern for all business leaders.**

Trade development

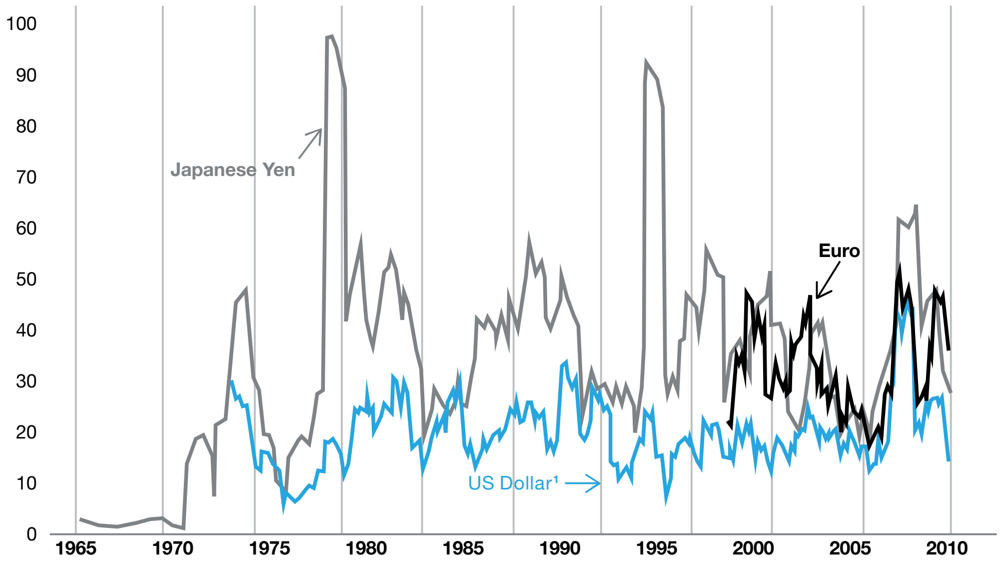
Total merchandise trade as a percentage of GDP, 1960-2010, ratio at current prices



Source: WTO

Exchange rate volatility across most major currencies is within historic ranges

Exchange rate volatility, 1970-2010
1-year rolling average of standard deviation of growth



1: US Major Currency trade-weighted index
Source: Haver analytics

Volatility between currencies has always existed, but with the explosion of international trade, foreign exchange volatility translates into a true financial burden on companies, big or small, as soon as these make sales to another monetary zone.

RECOMMENDATIONS

Proposals for the construction of an IMS fostering stability, growth and fairness at the global level

The stability of a global monetary system depends on the soundness of domestic economic policies and stronger efforts towards international coordination. We believe that the G20 is the appropriate forum for reaching an understanding about the right policy coordination that serves the common interest of rebalancing the world economy. In today's highly integrated economy, policy spillovers from one country to another have become much stronger. Therefore, the policies in individual countries should increasingly take these repercussions into account. Policy coordination can lead to a better overall result. For example, in the present situation a reduction of the twin deficits in the US and some European countries should be accompanied by growth-oriented policy reforms in other countries to limit the negative impact on global growth.

General proposition: A stable IMS requires that the G20 countries commit to sound domestic policies, macroeconomic cooperation, the restoration of financial sector stability and pro-growth structural policies.

Coordination is particularly important in the field of financial regulation. This was a clear and welcome message of the first G20 in Washington DC. Leaders of the G20 are welcome to define a global approach to regulation and to ensure a level playing field in the implementation of said regulation.

Besides these general points some specific steps have to be taken:

1. Support business efforts to address hedging challenges.

   Exchange rate volatility has a significantly negative impact on international business. It affects businesses which sell in currencies different from the currency of their cost base, and distorts competition. Companies can hedge their exposure in the financial market against short-term fluctuation of the currencies. The cost of hedging is spiraling, as currency volatilities continue to rise and as counterparty risks considerations by the banks hinder or even prevent many companies from accessing hedging tools. However, the long-term consequences of currency unrest cannot be dealt with by financial hedging alone. Companies need to react by constantly adapting their cost base, by increasing their "natural hedging" through outsourcing which has inevitable social consequences.

   The swings of the USD as the predominant trade currency have had a particular impact on business around the world:

a. Against the euro in the last 10 years the dollar first appreciated to 87 cents per euro in 2002 and then depreciated to 1.60 USD/EUR in 2008. Since inception of the euro, the dollar has lost 30% of its value against it.

b. The change in exchange parities has also been a problem to emerging economies. The Brazilian currency, for example, has had a long appreciation trend. Since 2005, the real has gained over 40% against the dollar, from a level of 2,70 real/dollar in January 2005 to the level of 1,56 real/dollar in July 2011. More recently, the real has depreciated somewhat to 1,80, due to the current deterioration of the world economy.

   - These exchange rate movements have had consequences for the competitiveness of suppliers on a global scale and for the price of many commodities.
   - We recommend:

New regulation on derivatives markets or new bank regulation should not jeopardize hedge instruments for international trade purposes.

To enlarge the basket of the SDR by other important convertible currencies, and to increase its role as an official reserve and as a private transaction and investment currency. Exchange rate risk for public and private investors could then be mitigated.

2. The B20 endorses the efforts of the G20 and various international and regional organizations to foster the development of local currency bond markets in emerging countries. Broader and more efficient national bond markets have various positive effects, if combined with stable domestic economic policies: They improve the financing capabilities of economies which are needed for investment and growth, and reduce the dependence on foreign loans with their corresponding exchange rate risks. Due to lower foreign currency debt, national bond markets can be a cushion against volatile capital flows and can dampen exchange rate volatility. From a corporate perspective – domestic as well as international – these are important potential benefits of well functioning national debt markets.

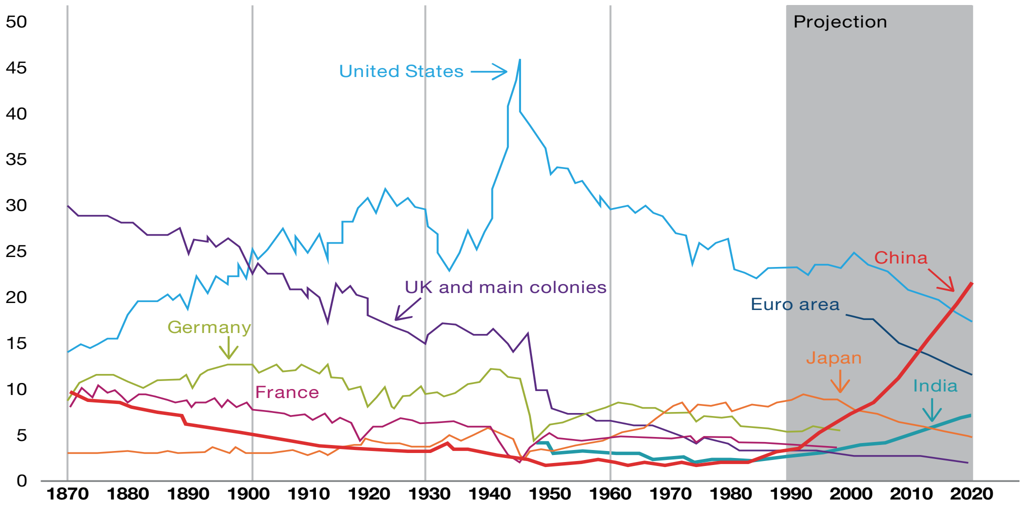
3. **Support the move towards a** multi-polar currency system **encouraging the convertibility and the flexibility of relevant currencies for trade and investment.**

   The structure and sources of trade and investment have changed dramatically in recent decades. A multi-polar system would better fit with this new reality and would help reduce firms' transactions costs.

   The overwhelming importance of the US dollar in the present monetary system means that domestic policy objectives in the US have a dominant impact on liquidity and interest rates in world markets. This may, depending on circumstances, not be in the interest of other countries. A larger role for the euro as reserve currency and the Chinese yuan (once convertible), would be beneficial for IMS stability.

GDP Split by key geographies

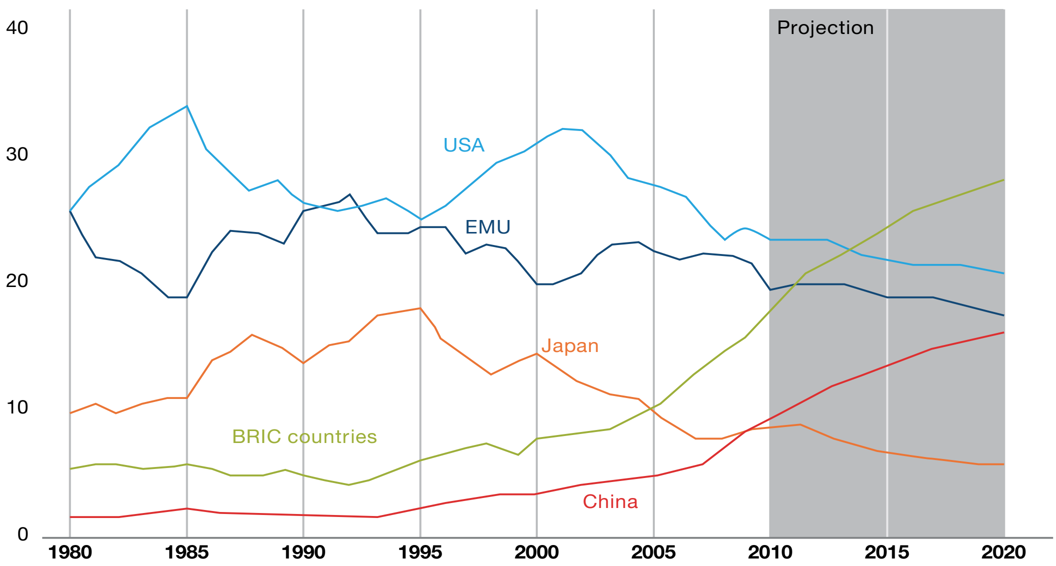
Percentage of GDP, 1870-2050e, purchasing power parity



Source: CEPII

World GDP

Composition, shares of country groups, %



Source: World Bank own forecasts; Economic Research & Corporate Development

4. **The G20 should** strengthen the International Monetary Fund (IMF) in its efforts to promote sound economic policies and the financial stability.

The IMF is needed in its function as a crisis manager and lender in case of balance of payment crisis. Its financial firepower has been rightly increased in this respect. With the escalation of the sovereign debt crisis in some euro countries, the IMF has moreover become involved in supervising fiscal adjustments. Increased SDR allocation could play a role in this respect and should be considered among the possible future reforms to improve the role of the IMF.

Over and above that, the IMF can play a positive role in:

- Providing technical support to foster macroeconomic coordination, and supervise monetary and fiscal policies, structural policies and exchange rate policies.
- Encouraging financial stability (in cooperation with the FSB) and restoring confidence in financial markets. This would require transparency about risks and exposures in the system.
- Supporting the development of efficient financial markets in the emerging and developing world. This would be a benefit for trade and real investments as funding and hedging options would improve.

To perform these roles, a wider mandate for the IMF would be required. Pursuing these actions require an acceptance by the IMF members. In addition, the representation of the emerging market has been enhanced but will need to be further enhanced in the future.

5. **Stability of the IMS requires a lasting solution to sovereign debt problems.** The IMS is negatively influenced by the uncertainties concerning fiscal consolidation in the US and some EU countries. Monetary authorities have become heavily engaged on government debt markets and are keeping interest rates extremely low in order to facilitate fiscal consolidation. This imposes risks for price stability and the independence of central banks in the long term. The major developed economies therefore need to make progress in fiscal consolidation. In particular, major steps have to be undertaken to lastingly stabilize the euro as a crucial pillar of the IMS. The blueprint for a more stable euro, which would be supported by effective institutions for a coordinated and more integrated fiscal policy to balance the structure of the monetary union, is widely accepted. However, the overhaul of the monetary union's institutions and national structural reforms require some time to bear fruit. Therefore, it is of great importance to build a strong defense to shield the euro against speculative attacks in the meantime. Seeing as further enlargement of the European Financial Stability Facility (EFSF) or continued central bank debt market intervention does not seem to be politically acceptable (and not very sensible either), a more effective use of the EFSF funds should be considered. A clever way to leverage the EFSF – but without damaging the independence of the European Central Bank – could be the idea that the EFSF acts as a sovereign bond insurer for new funding. By covering part of the default risk of debt issues by troubled countries, markets should reopen at reasonable terms. By demanding an insurance fee, incentives for consolidation should remain in place. In short, the insurance mechanism would have a similar short-term effect as the Eurobond proposal,

but it does not require the unrealistic presumption of a fiscal union in Europe and it preserves the right incentives.

6. Develop studies of currency instability impacts on individual companies and the global economy as a whole, via a collaborative effort of B20, G20 governments and relevant international institutions to institute global monitoring and prevent crisis and imbalances**. To this end, the B20 will start assembling a fact base and will share initial results with the G20 in November.**

   - **Promote the production and communication of indicators (both macro and microeconomic) about currency risks**, to help businesses make well-informed decisions. B20 will initiate a **study and develop a methodology** with a business school (HEC Paris) to create a dashboard, and would like to **launch an international study with developing countries** to improve these indicators.

   - **Encourage international institutions and G20 government agencies to issue reports and publications on currency-related topics** that are tailored for a business audience. In particular, these should be accessible for entrepreneurs and SMEs.

   - **Implement measures to increase companies' access to financial and non-financial currency hedges** (notably, develop local debt markets to improve businesses' access to direct financing). Domestic policies should take note of the importance of hedging for trade on the regulation of derivatives.

CONCLUSION

With the basic requirement of sound economic policies on a national level and stronger efforts towards international coordination the proposals in this paper are helpful in our view to restore shattered confidence in the IMS and to foster trade and international investment via stable monetary conditions.

Working Group IV

COMMODITIES AND RAW MATERIALS

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Key Recommendations

The volatility and level of commodities and raw materials prices are a cause of concern. The Working Group believes that these conditions are mainly driven by economic fundamentals. We recommend that the G20 focus on reducing the tension between demand and supply especially at a time of increasing governmental restrictions on investment and trade. We propose the following:

- **Create a global level playing field for commodities and raw materials**
  - Remove and avoid barriers to investment and trade
  - Ensure stable regulatory regimes (fiscal, environmental, social)
- **Use resources efficiently to reduce price pressure and ensure sustainability**
  - Remove price subsidies
  - Support large scale innovation at every stage of a product's life cycle
- **Increase market transparency and visibility by reinforcing global dialogue in appropriate international forums (e.g the FAO, IEF, IRSG, etc.)**
  - Ensure timely information on supply, demand and storage flows
  - Develop dialogue between producers and consumers including governments and business
- **Foster efficient and liquid markets**
  - Focus on market abuses while avoiding overregulation
  - Prioritize ex-post control based on data accessible only to regulators

BACKGROUND

INTRODUCTION

The members of the B20 Working Group on Commodities and Raw Materials, CEOs from leading international mining, commodities and manufacturing companies, discussed the challenges facing commodities and raw materials markets today. Against a backdrop of sharp and sudden price rises, there is much public concern about volatility and the role of speculators. The Working Group, however, believes it is important to consider a much broader set of issues and understand their longer-term economic impact. This has led us to make recommendations aimed at increasing the overall efficiency of commodity and raw material markets.

Price Increases, Volatility and Limits to Supply

Raw materials markets have undergone important changes in recent years. Prices for all commodities have risen sharply, with many currently trading at near-record levels. Volatility is also high compared with the recent past, though not when viewed over a longer time frame. And there are concerns about the supply of certain commodities.

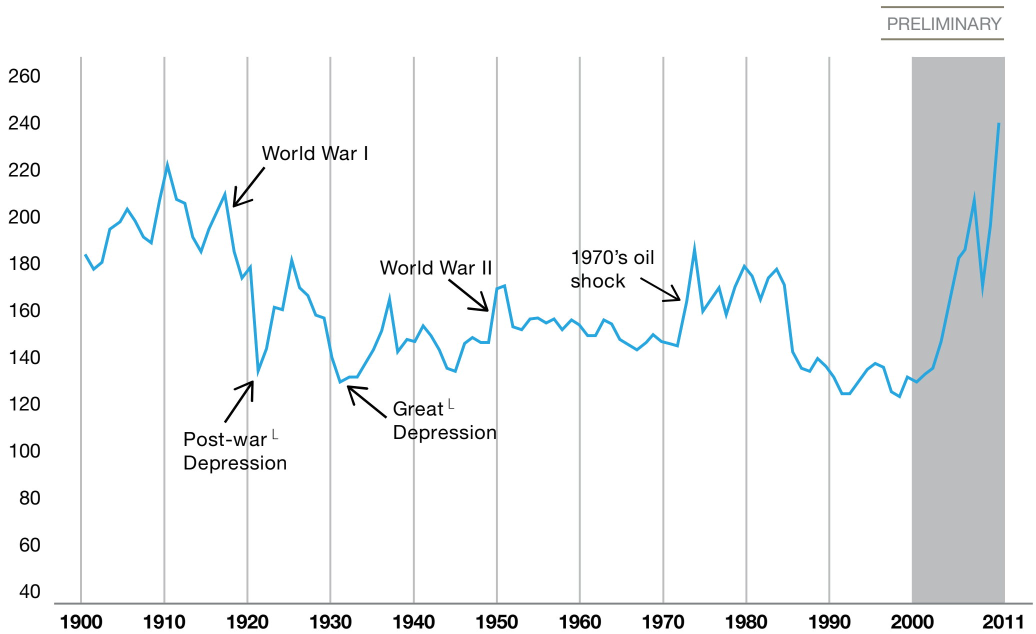
Price increases

Since 2003, commodity prices have tripled, a dramatic contrast to the previous four decades when real prices fell steadily following the oil price shocks of the 1970s. A broad spectrum of commodities have been affected, including food commodities such as coffee and palm oil, agricultural raw materials such as cotton and rubber, metals such as steel and aluminum, and energy commodities such as oil and coal.

While businesses and consumers tend to adjust to higher prices over the long term by using materials more effectively or by using other cheaper materials, higher resource prices can nevertheless impact the economy. They create inflationary pressures that are often met with restrictive monetary policies, which in turn dampen economic growth. The International Monetary Fund (IMF) estimates that a 10% increase in the price of crude oil reduces global GDP by between 0.2% and 0.3% a year.

In addition, higher commodity prices tend to affect poorer households disproportionately, given that a large share of their expenditure goes towards energy and food. The World Bank estimates that food price increases since June 2010 drove 44 million people into poverty. According to the IMF, rising food prices are also associated with increased civil unrest in low-income countries. Higher commodity prices, however, can have positive side effects. They encourage investments in new supply. In recent years, an increasing share of the supply of commodities has come from developing regions, which has meant growth and employment in emerging economies.

Since the turn of the century, commodity prices have significantly increased, eroding all of the gains since 1900



1 Based on arithmetic average of 4 commodity subindices of food (coffee, cocoa, tea, rice, wheat, maize, sugar, beef, lamb, bananas and palm oil), agricultural raw materials (cotton, jute, wool, hides, tobacco, rubber and timber), metals (steel, aluminum, tin, copper, silver , lead and zinc), and energy (oil, coal, and gas) with each subindex weighted by total world export volumes 1999-2001 at indexed prices over the same time period in real terms – note that gas prices are only available since 1922 and are therefore excluded from the index before this timeframe

2 2011 prices based on average of first four months of 2011

Source: Grilli and Yand, 1988; Pfaffenzeller et al, 2007; World Bank Commodity Price Data; IMF primary commodity prices; OECD statistics; FAOStat; UN Comtrade; MGI Analysis

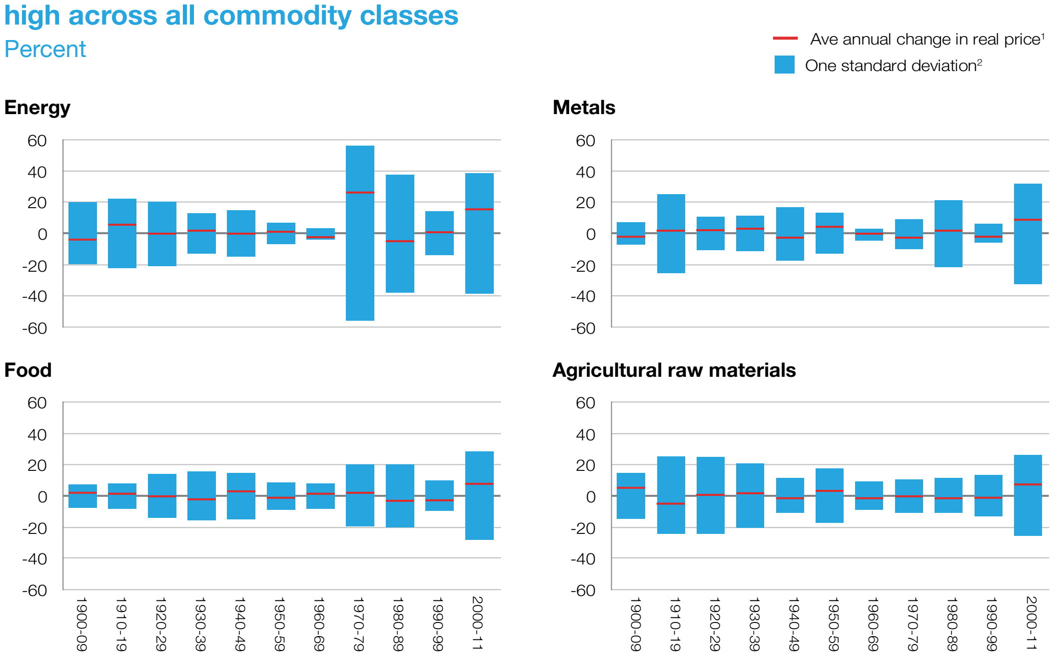
Price volatility

Since the energy price hikes in the 1970s, the volatility of commodity prices is at an all-time high. This level of volatility poses a range of challenges for businesses. It increases the risk exposure of transforming businesses, drives large swings in financial results as a consequence of stock price fluctuations, and makes managing enterprises and production more complex. Companies are often unable to pass on the full cost of price rises to their customers, lowering returns and even putting their sustainability at risk.

High volatility can also weaken economic growth. Real options theory holds that companies tend to delay investment plans or abandon them completely as uncertainty about the rewards increases. Uncertainty of course arises from price swings in either direction. For example, sharp rises and sudden steep falls in oil prices can both have a negative impact on GDP growth. While it is accepted that commodity prices will always show some degree of volatility, extreme price spikes could cause economic dislocation.

With the exception of energy in the 70s, volatility is at an all time high across all commodity classes

Percent



1 Calculated as the arithmatic average of the annual change in prices ac ross that timeframe
2 Calculated as the standard deviation of the commoditysub-index divided by the average of the sub-index over the timeframe
Source: Grilli and Yand, 1988; Pfaffenzeller et al, 2007; World Bank Commodity Price Data; IMF primary commodity prices; OECD statistics; FAOStat; UN Comtrade; MGI Analysis

Supply

Throughout the late 1980s and the 1990s, low commodity prices and modest demand growth led to structural under-investment in exploration and resource development. Hence, when demand surged unexpectedly at the beginning of this century, supply has sometimes struggled to keep pace.

The availability of certain commodities has also been affected by protectionist measures. Government intervention using tariffs and non-tariff barriers to the trade of raw materials has increased in recent years. Such actions put at risk the supply of raw materials. Export quotas placed on energy resources, agricultural goods and most recently rare earth minerals are examples. These moves have raised concerns about the future supply of natural resources. Unilateral government intervention risks limiting private sector capital investment, while sudden and unpredictable resource constraints that may occur will lead to extremely volatile prices. Certain commodities are of course more at risk than others.

Longer-term business fundamentals

These are some of the fundamental business dynamics of commodity companies.

Historical over-supply and low investment

Throughout the 1980s and 1990s, investments by companies in most commodity sectors were limited by the relatively low economic returns that resulted from over-supply. In metals and mining, any demand growth was outpaced by operational efficiencies that improved supply. Prices were set by the cash cost of the marginal producer on the cost curve, which was detrimental for producing countries and producing companies alike. Only with oil were prices closer to full cost as a result of efforts by the Organization of Oil Exporting Countries (OPEC) to balance supply and demand.

As a result, investments in frontier exploration and large-scale development projects were scaled back. But there were other knock-on effects. The numbers employed in the industry fell as companies restructured, and many universities and high schools removed commodity-related courses such as mining engineering from the curriculum. Students had their sights set on jobs in technology or other fast-growing sectors, not in what they perceived to be sunset industries.

Surge in demand from developing countries

The start of this century marked a strong and unexpected surge in demand for commodities and raw materials from developing countries as they transformed their economies at a pace and scale never seen before. The surge began in China, feeding rapid urbanization, industrialization, and the buying power of a burgeoning middle class. But other countries have since followed to the extent that the share of global demand for key commodities from developing regions increased from about one third to two thirds between 2000 and 2010. This ratio may increase further still, as some developing countries and regions are only now embarking upon their commodity-intense growth phases.

Steepening cost curves

There are still abundant reserves of many important commodities. For example, proven reserves of conventional oil, gas, and coal can meet demand for 40, 50 and over 100 years, respectively. Nevertheless, real price increases are likely as cost curves continue to steepen over the next decade.

A number of drivers underpin the trend of higher costs:

- Existing deposits of higher-quality commodities are becoming depleted, while the intrinsic quality of new resources being developed is diminishing because of lower ore grades and higher ore complexity, requiring more costly beneficiation.
- New deposits tend to be smaller and deeper, and are located in more remote regions, such as the Arctic, or politically less stable regions. These deposits tend to require larger investments in infrastructure and a higher cost of capital.

- Factor costs in the production process, such as the prices of energy and water, are rising.
- Higher safety standards and better environmental practices entail additional costs.
- A lack of skilled workers is pushing up labor costs.
- The distance between producing and consuming regions is expanding, leading to higher transportation costs.
- Political and regulatory barriers, including higher taxes and controls on availability and exports, are limiting supply of certain commodities.
- Regulatory requirements and stakeholder concerns are leading to delays and added costs in developing new and existing resources.

Higher costs will only be partially offset by the introduction of new technologies that lower operational costs, such as those that allowed the development of shale gas deposits in North America or the solvent extraction/electrowinning (SX-EW) method for processing copper sulphate.

Long lead times for new supply to market

The lead times needed to bring new commodity supplies to market have always been long. For example, it takes seven years before rubber can be produced from a tree. Today, lead times are longer still. Although energy and mining companies have announced record levels of new investment to meet higher demand, their plans are being hampered by a shortage of equipment and engineering capacity.

Consider these factors:

- Lead times for mining equipment are currently at record levels. Companies can wait as long as five years for certain critical types of equipment.
- The structural shortage of mining engineers limits the number of new projects that can be developed.
- More than 20 years of under-investment in exploration have led to the "pipeline" drying up, providing additional bottlenecks.

New pricing dynamics

Commodity prices have traditionally been determined by the long-run cost of the marginal player in the cost curve when supply and demand are largely in balance (or the short-run cost in case of over-supply). When they are imbalanced, prices temporarily disconnect from the curve, often rising to levels well above underlying costs due to the low short-term price elasticity of demand. However, in recent years, the absolute volume of demand growth has meant that we have witnessed a sustained period of stronger pricing, indicating the existence of hard bottlenecks, such as lack of infrastructure, that prevent new supply coming onto the market.

Increasing involvement of new actors such as financial players and traders

The structural pricing mechanism for many commodities such as oil and aluminum has evolved over time. Typically, prices were first agreed on the basis of long-term, fixed contracts. The trend has since been towards ones that allow for price fluctuations over much shorter time frames. Hence, mechanisms shifted first to shorter-frequency contracts, then to over-the-counter (OTC) trading, and finally to pricing via regulated commodity exchanges. Today, a high-volume representative product is used as the pricing reference for many commodities. Other products are priced using premiums and discounts that reflect supply and demand cost structures. Crude oil is the pricing reference in petroleum markets.

The development of such highly transparent and liquid markets attracts financial players offering a variety of financial products, and traders looking at exploiting arbitrage opportunities. In such markets, the importance of financial products grows exponentially, typically reaching gross volumes more than ten times that of the underlying physical markets. Trading volumes on the London Metal Exchange (LME) are between 20 and 30 times greater than physical production.

It is very difficult to separate "speculators" – that is, those who trade based on their view of future prices for financial gain rather than to acquire commodities – from other market participants. Recent historically low interest rates may have increased the involvement of financial investors into commodities and may have contributed to price rises. Low interest rates correlate with weaker currencies and higher inflation, putting pressure on nominal commodity prices. They also discourage resource owners from selling now rather than later, putting additional pressure on real prices.

Financial actors are inclined to buy commodity assets to hedge against these risks. But such purchases are not necessarily the reason for rising prices. When interest rates rise, investors are likely to sell commodities and resource owners are expected to accelerate the development of new resources, lowering commodity prices. However, this will likely be a slow process, as neither the US nor the European economy is expected to grow strongly in the short term, reducing the likelihood of higher interest rates.

Access to new resources is critical

Access to new resources is essential for the industry to be able to deliver continued supply as existing resources are depleted and as demand continues to grow. The efficient development of new resources, which are often located in more difficult operating environments, depends on two factors:

- **A stable regulatory framework:** Resource development often takes more than a decade and the investment horizon for a resources company can be well over 20 years. A stable regulatory framework is therefore critical to encourage investments and guarantee supply.

- **A global level playing field:** Many commodities are globally traded. Free trade and effective competition are basic requirements for efficient markets for raw materials. Business needs a level playing field in trade, investment, access to markets, and transparency.

RECOMMENDATIONS

Commodity price volatility is a major cause for concern, prompting calls for market intervention such as price capping, a trading tax or trading limits. We believe that direct intervention on prices would be the wrong answer because of the likely harmful effects on the economy. Capping prices when supply is constrained both supports demand and discourages supply, encouraging further price rises.

The right answer is to implement mechanisms that increase supply and reduce demand, including efficiency improvements and adaptive choices by consumers. At the same time, government intervention in the raw material markets through trade restrictions and investment barriers must be removed to improve efficiency of the markets. Transparent and efficient markets help the economy make the right choices in the process.

With regard to volatility, the more transparent and liquid a market is, the less the volatility will be. Diversified supply can help achieve this transparency and liquidity. But we believe that uncertain market conditions are the main cause of volatility.

The proposals of the Working Group, aimed at increasing supply and reducing demand, and damping volatility by reducing uncertainty, are as follows:

1. **Create a global level playing field for commodities and raw materials**

Ensuring that the maximum possible number of viable players participate in physical markets, enables the efficient allocation of capital to explore and develop new resources, and reduces global supply-demand imbalances. To encourage participation, economic barriers to investment and trade need to be removed. We therefore make the following recommendations:

- Remove and avoid barriers to investment and trade.
- Governments should eliminate and refrain from imposing any export taxes, quotas and other market-distorting measures that restrict global supply and prohibit a global level playing field. This does not mean that all tariffs need to be removed.
- Effectively enforce World Trade Organization (WTO) rules (principally the Technical Barriers to Trade) requiring countries that introduce new regulations controlling raw materials exports and imports, be they temporary or permanent, to justify them from a scientific and least-trade-distorting perspective.
- Ensure raw material industries (both exporters and importers) are consulted fully on proposals for environmental, health and safety regulations that could affect supply.
- Increasing governmental intervention in recent years makes it clear that a global perspective for the trade in raw materials is needed. A dialogue within the G20 would provide a unique opportunity to reach a consensus. The aim must be to establish clearer rules to eliminate, or to limit, import and export restrictions to trade in raw materials.

- Ensure long-term, efficient and stable regulatory regimes, stimulating investment and trade. We would urge the G20 to include fiscal, environmental and social matters in this effort.

- Encourage supply expansion. Additional supply will put downward pressure on absolute price levels. As substantial new supply will come from emerging regions, either from countries with political or infrastructure issues (notably two thirds of announced greenfield capacity in copper in the world is in such countries, while 70% of worldwide natural rubber production comes from just three Asian countries), the G20 should launch specific initiatives to encourage supply development in these areas.

- Set up an exchange forum for G20 governments and companies and collect best practices on the development of resource bodies in emerging regions.

- Promote the development of infrastructure and create favourable conditions for business in resource-rich emerging regions. For example, a sovereign risk insurance agency could finance infrastructure in emerging economies.

- Introduce measures to reduce barriers to storage expansion. Storage buffers can play a crucial role in smoothing price spikes. However, unless the lack of supply of a commodity would create a humanitarian crisis or endanger national security, we believe countries should not hold large stocks because of the cost, moral hazard and deterrence to investments in substitute products. Storage buffers by commercial actors are more desired, because they are directly related to companies' economic activity. They therefore help prevent economic damage from a price spike. Barriers to storage include planning restrictions and taxation. The benefits of such regulations or restrictions should be reviewed and weighed against the benefits of increased storage buffers.

2. Use resources efficiently to reduce price pressure and ensure sustainability

A large opportunity for reducing demand, and hence prices, lies in more efficient consumption of raw materials. Commodity producers and consumers are already focusing on eliminating waste from their production processes and are putting in place full life-cycle business models. This reduces consumption of both energy and materials, and maximizes recycling. Moreover, this will maximally contribute to the sustainability efforts already ongoing in different commodities. The G20 should therefore:

- Remove price subsidies that distort efficient consumption patterns or pathways that would lead to more efficient consumption.

- Encourage efficient consumption and recycling practices, and help ensure that cost-effective, eco-friendly practices are integrated into every stage of a product's life-cycle, including procurement, manufacturing, usage, and disposal. An appropriate fiscal and regulatory framework would incentivize businesses to increase the scale of innovation efforts in this area.

- Introduce mechanisms to enforce quality requirements, such as labelling and standards, for commodities and their intermediate products.

3. Increase market transparency and visibility by reinforcing global dialogue in appropriate international forums

Transparent and efficient markets improve capital allocation efficiency, as they provide better signals for investment and production. The Working Group calls for the establishment of a global dialogue in recognized international forums aimed at increasing commodity market transparency. We would propose that the G20:

- Expand participation and recognition of existing forums or, if needed, set up new forums that would allow producers and consumers, both governments and business, to exchange views and information on market issues such as supply and demand fundamentals, the lack of qualified people, and regulations. This would increase transparency of demand, supply, trade and storage dynamics, including over the middle and long terms.

- Request, collect and broadcast timely information on supply, demand and storage flows, which improves short-term understanding of market dynamics.

Appropriate vehicles could be international agencies modeled along the lines of existing organizations such as the Food and Agriculture Organization of the United Nations (FAO), the International Energy Forum (IEF) and its Joint Organizations Data Initiative (JODI), both including producing and consuming countries, or the International Rubber Study Group (IRSG).

4. Foster efficient and liquid markets

A direct dialogue among stakeholders and greater transparency of markets and market statistics can reduce both short- and long-term uncertainty, thereby combating volatility. The G20 should therefore:

- Develop a fact base and achieve consensus among all stakeholders on the sources and implications of price volatility for both spot and future prices.

- Focus their interventions on market abuses while avoiding regulation that could limit liquidity such as restricting market access of non-industrial actors, fixing ex-ante position limits for bona fide hedging industrial actors, or forcing all OTC transactions to central exchanges.

- Prioritize ex-post control based on data accessible to regulators only. To achieve this, public authorities should be enabled to share information and enforce market abuse rules. The administrative burden for the regulator and related market participants should be minimized.

- When national regulators introduce new measures, they should be mandated to submit a review of the impact of the measures on market liquidity. An international body such as the Financial Stability Board should audit this review to ensure accuracy and compliance with rules for an international level playing field.

Working Group V

DEVELOPMENT AND FOOD SECURITY

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Key Recommendations

Key figures regarding development issues are appalling: 2.6 billion people lack basic sanitation facilities. More than 1 billion are hungry. More than 900 million do not have access to clean drinking water. In this context, collaboration between public and private sector becomes crucial to achieving the Millennium Development Goals (MDG). Business leaders make the following recommendations:

- **Set up food security as a global priority – The private sector plays a central role in agri-food production systems and in reducing the impact of price volatility across the supply chain, while working with governments to address broader issues of sustainability:**
  - Improve functioning of markets to ensure a stable and sustainable global food system. Coordinate agricultural policies at the global level, particularly focusing on export restrictions. This requires extensive improvements in policies and to infrastructure, as well as increased transparency through improved data collection, sharing and monitoring;
  - Improve productivity by increasing investment from public and private sources by 50 percent by 2015. With these investments, agricultural productivity should increase by 20 percent per decade in order to meet food and feed demand.
  - Integrate environmental sustainability into domestic food security policies. Water resource management and the expansion of sustainable sourcing practices to smallholding farmers should be an integral part of public-private collaboration;
  - Enable affordable and easier technology transfer and capacity building from developed to developing countries in the area of food and nutritional security.
- **Make infrastructure a strong enabler for development – Increased investment from the private sector - promoted by governments and multilateral institutions when needed - in cost-effective, efficient and sustainable infrastructure is a clear enabler for sustainable economic growth and development:**
  - Strengthen project design and preparation to ensure the availability of quality projects: design a model of a 'Well-Prepared Project' (e.g., taking into account whole life-cycle cost analysis) and create conditions for successful PPP projects. Both entail strong local capacity building. The WPP concept clearly establishes the requirements for a successful project in terms of quality of the work as well as respect for budgets and schedules;
  - Prioritize financing, project development and implementation, over an increase in ODA. The main challenges are a) to better leverage existing public resources – notably from multilateral development banks - in order to attract other sources of funding, particularly from the private sector b) to improve the relevance, quality and management of the projects to be implemented, and c) reduce the differences between contracts and their implementation;

- Change the way multilateral development banks operate, notably to facilitate the private sector's involvement in project development and implementation. The most important changes should be in the way procurement rules are designed as they need to better reflect the reality of infrastructure investment and take into account the significant contribution that the private sector may have in helping the emergence of well-designed projects;
- Improve information flow, notably through an infrastructure-attractiveness index managed by a public-private partnership;
- Encourage governments to engage in a multi-stakeholder dialogue in all phases of infrastructure planning, development and implementation to enable more cost-effective and efficient development of infrastructure, which also addresses environmental and societal concerns. This will contribute to the emergence of well-designed and locally owned projects.

- **Make corporate social responsibility a key element for growth and development:**
  - Promote the adoption, on a voluntary basis, of CSR standards for businesses in developing countries, which will have a positive impact on development and promote competitiveness;
  - Create a public-private dialogue to define economic, social and environmental guidelines at the country level. The public and private sectors in every country should be able to decide which aspect of development they want to prioritize;
  - Encourage IFIs and bilateral development institutions or agencies to lead the way in the implementation of CSR standards. IFIs and bilateral development banks or agencies have an important role in defining a sustainable level of CSR in connection with their infrastructure tenders.

BACKGROUND

Development is an important issue on the G20 agenda and the current situation in Africa requires an adequate response. According to the United Nations, 2.6 billion people lack basic sanitation facilities, more than 1 billion are hungry and more than 900 million do not have access to clean drinking water. Our estimates indicate that at least 200 million people lack formal employment. A large part of the underdeveloped world is in sub-Saharan Africa.

The challenge is to implement good governance, to stress the development of a strong, organized private sector and, above all, to create the transport, power and telecommunications infrastructure needed to accelerate economic growth and improve well-being, all while respecting the criteria for responsible, sustainable development.

The consensus reached at the G20 meeting in Seoul last November recognized the need for shared growth in an increasingly globalized economy. While acknowledging the continued necessity of traditional forms of development assistance, it called for the establishment of a new paradigm for sustainable economic development, particularly in low-income countries. Furthermore, like the June 2010 Toronto Declaration, it noted the importance of the private sector in promoting development. Private-sector participation will be a key factor in achieving the Millennium Development Goals (MDGs).

Repeated food crises

The pattern of price volatility and price spikes of many food commodities seen recently may continue in the coming years. Following commodity and energy price increases and a series of unfavorable weather events, food prices have risen significantly since mid-2010 and are approaching their 2008 peaks, while stocks-to-use ratios in the developed world are at historic lows. Food price inflation has a macro-economic as well as human impact and the uncertainty created by volatility creates a disincentive for investment. At the same time, the G20 is debating the functioning of these strategic markets, which have become global and appear increasingly beyond the control of national governments.

The 2007-2008 food crisis affected the world's poorest, non-oil-producing countries, particularly in Africa. The crisis was primarily the result of a surge in prices for commodities, especially imported staples such as rice, grains and maize (corn). The crisis affected most of the developing countries that, paradoxically, hold the world's greatest untapped agricultural resources (Africa, for example, has 60% of the world's uncultivated arable land). At the same time, these countries are experiencing an unprecedented rural exodus. In addition, they face high import and even higher distribution costs; inefficient, insufficient or non-existent infrastructure and, a lack of competitiveness.

The fluctuations seen in recent years are likely to continue if the underlying factors that drive them are not addressed. For example, by 2030, water scarcity may significantly increase the volatility of staple food supplies and lead to a structural loss of 30% of global crop production. In addition to developing specific tools to better manage volatility and risk, we need to ensure that underlying supply and demand factors are addressed by sustainable measures to improve global food security. This should include the impact of biofuels production on food security.

Boosting crop yields requires the adoption of modern farming methods, training, adequate equipment and an efficient infrastructure, together with appropriate national and regional policies. Women have a high potential to increase productivity in agriculture. Realizing the productive potential of rural women represents a major opportunity to boost food and nutrition security because women are the main producers, processors and traders of food in many developing countries. Investments in agricultural supply chains would benefit from a gender component in support programs.

Lack of infrastructure

One of the keys for achieving the MDGs is to develop infrastructure programs. The impact would be threefold: Massive investments in energy, water, communications and transport would have a certain Keynesian effect. Living conditions would improve. Countries and regions would eventually gain the capacity to increase investment, both domestically (through increased saving) and internationally.

Developing countries are in tremendous need of infrastructure, particularly basic public service infrastructure. According to the Sustainable Infrastructure Action Plan issued by the World Bank in 2008, the construction of new infrastructure in developing nations, as well as the maintenance and management of existing infrastructure, requires some USD 900 billion of investment every year. The lack of infrastructure severely constrains development. The three challenges for infrastructure development are: 1) Raising the required finance, 2) Developing an inventory of viable projects, and 3) Timely decision-making and effective implementation.

Africa is a good illustration of how mobilization of funding and project success is more closely tied to medium- and long-term qualitative factors than to funding-specific issues. Africa would attract more international public and private investment if there were "good" projects with appropriate risk management. Furthermore, insufficient financing can be offset by private investment and increased overseas development assistance (ODA) from emerging economies like the BRIC countries. Africa already receives extensive capital inflows from these sources.

The G20 has decided to address this problem very concretely within the Development Working Group. The High Level Panel (HLP) for Infrastructure Investment was established in January, 2011, and composed of 17 representatives from the G20 who have strong experience and knowledge in the areas of private investment and infrastructure development in developing countries. It has been tasked with preparing recommendations for the G20 summit in France, in order to scale up and diversify financing for infrastructure needs, including from public, semi-public and private sector sources, and identify, with multilateral development banks (MDBs), a list of concrete initiatives. In addition, the HLP has been asked to identify with the support of MDBs, a list of exemplary projects that could illustrate how to take infrastructure investment in the developing world to the next level. This list of projects is being prepared by the MDBs with the involvement of the appropriate regional institutions as well as national governments. There is thus no point for the B20 to enter into the discussion of which infrastructure projects to choose to accelerate development, notably in sub-Saharan Africa. However, we should be concerned about how these major projects will be implemented. The main challenge is to improve the relevance, quality and management of the projects, and reduce the extent of differences between the contracts and their implementation.

Among the main shortcomings are poor preparation of the phases prior to contract award: setting up of the budget, selection of consultants, timing of the studies in the overall implementation process, and quality of the studies. There is also poor follow-up to the phases after the contract is awarded. Other obstacles concern debt capacity and risk analysis. The B20 would also like to emphasize the need to make sure financial resources are planned in order to support the appropriate maintenance of the infrastructure developed. In too many instances in the past, this has not been the case.

Innovative financing of infrastructure projects is an important part of the G20 agenda. It is imperative to find innovative management models that make the best of these financing solutions. The B20 believes this can be achieved with an appropriate balance of risk sharing between the public and private sectors. With these solutions and models, it would be possible in many countries to add several percentage points of GDP, with the additional benefits of improved governance and greater local development.

The failures of the 1990s in implementing and managing public service infrastructure discouraged many project investors and builders or managers from pursuing commitments in developing countries. In the absence of viable models, the executives of some companies, such as banks, reacted by freezing or rejecting most projects. However, by drawing on a wealth of past experience, we should be able to develop the ways and means for managing these projects satisfactorily. The World Bank has sought to breathe new life into infrastructure projects, beginning with its first Sustainable Infrastructure Action Plan (SIAP) in 2003. Nevertheless, current attempts such as the Infrastructure Commission for Africa (ICA) and the New Partnership for Africa's Development (NEPAD) are largely inadequate.

Adequate infrastructure projects can contribute to solving the issue of food security. The development of regional and local transportation can make surplus quickly and easily available in consumption areas or to the global market. The construction of storage capacity can help to smooth out price changes. Irrigation, which includes the construction of ponds, dams or specific infrastructure to transfer water, sometimes over very long distances, and the provision of irrigation facilities, the processing and agricultural use of wastewater, and desalination of seawater, are all important vectors. Adequate energy supply, in all its forms, its transport and distribution in rural areas, will contribute to securing the agro-food supply chains.

Promote Corporate Social Responsibility

The business community has to consider more seriously private-sector investment in underdeveloped countries to enable them to develop their local economies. The implementation of corporate social responsibility (CSR) standards, on a voluntary basis, should have a positive impact on local development and promote competitiveness in developing countries. However, the public and private sectors in every country should be able to decide what aspect of development they want to prioritize, and define national guidelines accordingly.

It is likely that CSR concepts will in the future become generalized at the global level. A practical way to make progress in this field would be to use, in addition to general principles, a contractual approach, in particular for works financed by development banks or agencies. International financial institutions (IFIs) and bilateral development banks or agencies have an important role in defining a sustainable level of CSR in connection with their infrastructure tenders.

The private sector and, as much as possible, G20 governments and other public organizations should help developing countries to implement CSR, on a voluntary basis. This would ensure better socioeconomic development of developing countries in terms of creating local employment, transferring technology, improving competitiveness, and so on.

By doing so, companies show their commitment to contributing to the future of developing countries and the protection of their resources, inhabitants and culture. They demonstrate their dedication to ensuring their long-term future and meeting stakeholders' needs, while mindful of the obligation to comply with local legislation and the legitimacy of international rules in economic, financial, environmental and social areas.

RECOMMENDATIONS AND COMMITMENTS

The role of private sector is crucial to achieve the MDGs. Therefore, business leaders make the following recommendations:

Short-term food security

1. **We support the conclusions of the G20 Agricultural Ministers meeting in Paris in June 2011, regarding innovative risk management tools to be developed by the World Bank Group.** We believe that the "pull-mechanism" instrument could be used in pilot projects in order to spur the development of products and services with ex-post incentive payments. The private sector proposed to continue a multi-stakeholder dialogue and partnership on risk management for food security and agricultural development.

2. **Improve the functioning of markets**. Well-functioning markets create the right incentives to expand production levels. Trade is a key market enabler, contributing to improved access to food supplies. There is an imperative need to improve coordination of agricultural and food security policies at the global level**.**

3. **Developing countries that face severe food security issues would benefit from domestic programs with economic incentives to enhance food and nutritional security. Early involvement of the private sector in the implementation of these programs is recommended.**

4. **Establish emergency reserves to reduce volatility** and ensure availability for the most vulnerable. Such "emergency reserves" should be managed by international institutions.

5. **Support public-private partnerships in risk management** for fostering greater availability of innovative financing across the entire food value chain. The tools for risk management should include:

   - Cost-effective insurance models.

   - A system for mitigating the consequences of crop failures, and a futures contract system to enhance predictability for the operators in the supply chain (producers, processing industry and consumers). Contracts should guarantee that contracting parties have the physical capacity to deliver goods.

Medium and long-term food security

6. Increase investment

- Adopt a 50 percent increase in investments in agriculture and agri-food supply chains by 2015 by the combined efforts of public and private sectors, reversing decades of chronic underinvestment in the developing world. This should include the fulfillment of previous commitments of public sector funding. With these investments agricultural productivity should increase by 20 percent per decade in order to meet food and feed demand. This increase in investments can be achieved by 1) fulfilling public-sector funding commitments and 2) by incentivizing private investment. An important step will be to develop public-private partnerships at regional and national levels, and to scale-up effective risk-management tools to accelerate responsible investment. A public-private working group should immediately start work to expand and apply risk management solutions (including innovative finance and affordable index-based insurance) in target countries.
- Prioritize specific value chains or regions for increased public-private investment.
- Remove barriers to investment, particularly through innovative financing mechanisms (catalytic finance, patient capital, credit guarantees and insurance) and property rights.
- Develop intellectual property protection policies, where they are currently lacking.
- Strengthen the capacity of smallholding farmers (particularly women) through extension, financing, information access, organizing support and property rights.
- Encourage the process of consolidation of land. The most significant barrier to investment in agriculture is fragmentation of land holdings. Also, there are vast chunks of vacant and fallow lands, which need to be garnered both for expansion of agricultural production and bio-fuels. PPI/PPP format can offer useful institutional mechanism for this purpose.

7. Improve markets for agricultural products

- Improve trade policies at global and national level, including finalizing the WTO Doha Round. The elimination of trade-distorting support and protection, including export bans which have a direct impact on the world food supply, remains a high priority.
- Establish transparent monitoring and data sharing on availability, stocks, demand, price and quality of agricultural commodities.
- Improve access to markets for smallholding farmers through investments in transport and storage infrastructure, training programs, as well as information access.

8. **Accelerate research and development investment and expanding technology access**

- Develop public-private partnerships for technology R&D and for expanding technology access.
- Encourage consistent, well-formulated government policies to incentivize technology approvals, regulation, R&D and safety.
- Strengthen agriculture and nutrition science in institutions of developing countries.

9. **Ensure environmental sustainability**

- Include sustainable sourcing and supply chain management of crops and commodities relevant for long-term nutritional security in food security policies.
- Encourage sharing of best practices and technologies for environmentally sustainable agriculture. Ensure sustainable use of fertilizers and pesticides. Protect and restore soil fertility.
- Improve water resource management, including irrigation, through increased public-private collaboration and incentives, including water pricing, to strengthen water management strategies and technologies.
- Scale up sustainable supply-chain management for specific commodities, through effective policies, including the application of preferential import duties.
- Reduce post-harvest losses and food waste by improving transport, storage, energy efficiency and waste recycling along the value chain, and reduce consumer food waste.
- Reduce greenhouse gas emissions from agriculture, through policy and financing incentives including the Clean Development Mechanism (CDM).
- Develop technologies that will help minimize the adverse impact of climate change on the agricultural sector.

10. **Meet nutritional needs**

- Increase availability of nutritional foods through R&D, improve distribution and integrated production strategies linking agriculture, nutrition and health goals.
- Support the Scaling Up Nutrition (SUN) program.
- Encourage consumers to choose diets that offer a healthy nutritional balance as well as environmental efficiency, based on an integrated approach.

11. Suggested public-private pilot initiatives

- Establish national partnerships in developing countries that engage government, the private sector, civil society and other key actors to develop and implement sustainable, market-based solutions to improved food security.

- The G20 countries should look at redirecting existing financial and institutional mechanisms towards improving agricultural practices and technologies in the developing world, and also supporting the distribution network among low-income food-deficit countries. These programs should have appropriate guidelines on social and environmental impacts.

Infrastructure proposals

12. The B20 should create an ad hoc working group to define a "Well-Prepared Project" (WPP) concept for infrastructure projects

- The WPP concept clearly establishes the requirements for a successful project in terms of quality of the works as well as respect of budgets and schedules. The concept of "Well-Prepared Project" would basically consist in drawing up recommendations or guidelines for IFIs and their clients such as national or local authorities on how to best prepare and implement infrastructure projects. Balanced and credible recommendations or guidelines can only be achieved through the involvement in their preparation of as many stakeholders as possible, and notably clients, consultants and contractors. The B20 proposes to create an ad hoc working group to deal with the issue. This joint Working Group (WG) would be established between the main representatives of worldwide associations concerned with the "Well-Prepared Road Project".

- The objective of the WG would be to provide a set of recommendations or guidelines for countries and institutions (notably the MDBs) involved in infrastructure investment in the developing world. These recommendations will aim to improve the quality of preparation and implementation of projects. The involvement of all stakeholders would ensure that these recommendations are balanced, realistic and not biased towards any party.

- The WG needs to consider the establishment and management of National Public Investment Systems (NPIS), supported by IFIs and bilateral development institutions or agencies, as well as – when relevant – by the private sector from the G20 to effectively manage and magnify infrastructure projects. It is anticipated that the introduction of new management systems can provide standard guidelines for IFIs and bilateral development institutions or agencies to develop, implement and evaluate projects, and then apply this whole process for future project plans.

- The WG may also discuss the establishment of educational programs for training professionals who have a good grasp of both development and business in order to overcome challenges to understanding cultural differences and discovering local experts and partners. This could possibly include exchange programs between countries. This proposal is in accordance with the WPP concept in terms of enhancing the quality of the works.

13. **Foster the Development of Public-Private Partnerships**

- Public-private partnerships (PPPs) continue to fall far short of expectations despite a flurry of initiatives in developing countries. Without appropriate institutional and legal frameworks, most of the PPP projects currently proposed for developing countries have a high likelihood of failure. In addition, today's growing financial sophistication cannot make up for a lack of economic or contractual viability in projects being considered.

14. **Prioritize financing, project development and implementation before an increase in ODA. In our view, worldwide taxes are not the best approach to financing. What is needed, more than anything, is to further invest in building local capacity as well as to better leverage existing public resources.**

- Support local capacity building in developing countries, and especially in low-income countries (LICs), through technical assistance or financial resources. The experience of B20 companies involved in infrastructure investment in the developing world is that for well-designed projects, it is not difficult to gather the appropriate funding support. The existence of appropriate local resources to develop and own the projects is the key driver for success;

- Review the use of and target existing resources to catalyze investments from the private sector, as well as from other sources of funding such as sovereign wealth funds, rather than seeking an increase in public financial resources (notably from the MDBs) committed to infrastructure investment;

- Promote making available appropriate risk-mitigating instruments, including credit enhancements, to the private sector. While the B20 believes that the actual level of risk is often much lower than perceived, one element hindering an increased investment by the private sector is often the perceived level of risk associated with investing in infrastructure in developing countries, especially for LICs, as these investments are widely considered to be vulnerable to high political, regulatory and execution risks. This could be done through multiple avenues: one could be a review of the existing guarantee mechanisms from MDBs, which for most of them have been so far used in a very limited way. Another area to consider is the use of ODA resources to help mitigate risk or to improve lending conditions.

15. **Change the way multilateral development banks operate, notably to facilitate the private sector's involvement in project development and implementation**

- Promote flexibility in MDBs' procurement policies. A recurring issue identified by the Working Group is that the procurement policies at MDBs often lack the flexibility required to accommodate the specific contribution that the private sector can play in driving the emergence, development and implementation of infrastructure projects. The B20 understands the concern that such flexibility may generate in terms of its potential adverse impact on transparency. It believes, however, that solutions could be found to reflect the reality of some projects without jeopardizing the need to ensure a high degree of transparency and the continued application of standard procurement principles;

- Ensure better coordination among MDBs and/or bilateral development agencies to avoid the duplication of efforts that can be generated in many instances by the involvement of several public entities, each requiring for their own set of rules (notably in terms of procurement) to be applied. The B20 encourages MDBs and bilateral agencies from the G20 to learn from coordinated approaches taken by commercial banks when acting together. These include the reliance upon standardized practices and principles or the use of a lead bank whose rules are recognized by all the participants. The B20 notes that mutual reliance is already applied by some bilateral agencies when working together and urges the MDBs and G20 institutions to generalize this principle of action.

16. **Improve information flow because the private sector will only invest if and when an appropriate level of information is available.**

- The B20 encourages initiatives from public or private sources to share and disseminate information about infrastructure investment in the developing world. This could cover many areas, ranging from information about the local environment for investing to more specific details about projects under consideration;

- Promote a combined and coordinated approach involving both the public and private sectors to establish an agreed multidimensional measurement methodology that could serve as a benchmark for potential investors. This could involve the World Bank, the IMF as well as other MDBs to work closely with a private-sector representative from entities having already developed some form of methodology (such as the World Economic Forum's Infrastructure Private Investment Attractiveness Index).

- The B20 calls upon the G20 to continue the mandate of the High Level Panel (HLP) for Infrastructure beyond the Cannes summit in order to enable the dialogue to be continued and progress in contributing to changes in infrastructure investment to be tracked. The B20 believes that the High Level Panel for Infrastructure Investment is making an important contribution on the crucial subject of infrastructure. The creation of the HLP has helped generate an active dialogue between the private sector, the G20 countries and the Multilateral Development Banks on how to increase the level of resources allocated to investment in infrastructure for the developing world, starting with the countries where the poorest populations in the world live.

CSR proposals

In order to promote the CSR activities of B20 companies and create a synergy effect, the B20 urges all G20 states and foreign companies to follow the principles listed below.

17. **Foster economic responsibility**

- Identify the added value and resources that could contribute to a country's development over the long-term, such as research and development and increased wealth.

- Reject corruption or any practice whose aim or effect is to distort healthy and fair competition; raise staff awareness of the risks of corruption, and introduce appropriate training to prevent such risks; deliver on the company's anti-corruption commitments and make them known;

- Adopt good governance and manage company business transparently;

- Select partners (suppliers, subcontractors) who comply with local legislation and are informed of international rules regarding business practices and who reject any form of corruption or any practice whose aim or effect is to distort healthy and fair competition;

18. Increase social responsibility

- Promote corporate social responsibility principles regarding people's rights and labor rights by applying the four internationally recognized basic principles: prohibition of child labor, prohibition of forced labor, non-discrimination, freedom of association, and the effective recognition of the right to collective bargaining;

- Hire primarily local labor; increase the qualification and employability of local staff, particularly through continuing education and the development of new skills;

- Improve material working conditions; provide sanitary and safety conditions for staff that at least comply with local legislation;

- Inform staff and, wherever possible, their families of epidemic and health risks in the region;

- Conduct activities while respecting the culture of the country in which the company operates and educate staff to this end; Increase the company's commitment to society by carrying out social, educational and health projects to prevent or reduce the consequences of natural or health risks in the communities where the company operates.

19. Emphasize environmental responsibility

- Minimize the impact of the company's activities on the environment, especially by controlling consumption of water, energy and raw materials, and respecting other users of such resources;

- Adopt a waste management policy promoting selective sorting and recycling and promoting liquid waste and wastewater treatment; communicate and raise awareness of the company's environmental commitment to protect biodiversity;

- Educate staff about the impact of their activities on the environment and encourage them to adopt simple behaviors to limit the amount of household waste;

- Include respect for the environment in the criteria for selecting partners (suppliers, subcontractors) and encourage them to abide by these principles;

- Develop financing possibilities with carbon funds (emission allowances) as sustainable development project tools.

20. Enable and foster the establishment and/or investment in social enterprises by foreign investment in developing countries

- Change government regulatory and policy measures, considering support policy such as tax credits as the incentive for investment.
- Enable IFIs and bilateral development institutions or agencies to play the role of an investment intermediary and provide investment information about social enterprises to ease entry and exit into the field of social enterprise in developing countries. Many people recognize that the development level of capital markets in developing countries is not good enough to perform this function. The participation of foreign companies in social enterprises in developing countries can create more synergy through active cooperation with IFIs and bilateral development institutions.
- Educate and train skilled employees in social enterprises. This builds a better investment environment in the field of social enterprise and enhances the sustainability and quality of social enterprises.

Working Group VI

EMPLOYMENT AND SOCIAL DIMENSION

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Key Recommendations

The financial crisis has emphasized two complementary issues that echo both national challenges and questions recently discussed in international organizations (e.g., ILO, IMF, World Bank). The first one, the economic challenge of growth, refers to the issue of employment and job creation – notably for young people. The second issue, the inclusion challenge, entails mostly the current issue around the creation and reinforcement of social protection floors.

In order to address these issues, business leaders recommend:

- **Urgently increase efforts to promote better functioning of the labor markets and stimulate job creation. Reforms are a national responsibility, but the G20 has to be entrusted to set up regular tracking, with a few key indicators to be determined in consultation with social partners. It also requires a sharing of practices and peer review exercises with the aim to:**
  - Foster flexible forms of work that facilitate job creation, address different needs of companies and consumers, and combat informal work;
  - Promote skill transfers and mobility from a global perspective, notably by easing free movement of people within and between companies in the G20 countries;
  - Develop real and effective public-private cooperation and partnership to better match recruiting needs, accelerate job transitions through national employment agencies or private operators, and better identify and plan to meet labor market demand, to enhance the employability of the workforce;
  - Specifically tackle young people's difficulties in the labor markets, by welcoming and encouraging business to participate in the education and training process and raise its relevance, and improve the image of enterprise.
- **Reinforce the interaction between social protection and job creation through social protection floors. The G20 must promote social inclusion and economic stability by advocating social protection floors along the lines of agreed conditions and principles, the implementation of which belongs to national governments. Among these conditions, the B20 wants to raise awareness on 1) a wide definition of beneficiaries, 2) job-oriented nets, 3) financial sustainability, 4) nationally financed schemes, and 5) consultation of social partners.**
- **Promote the International Labour Organization (ILO) Tripartite Declaration for Multinational Companies as a business contribution, including at the B20 level. This will contribute to the respect of fundamental principles and rights at work and widen the solutions for improved working conditions and productivity.**
- **Build better, more concrete coherence between international actions through pilot projects between key international organizations, related to activities covering social and economic issues. The G20 could agree that these pilot projects target voluntary countries or specific issues, both addressed in the programs of international organizations.**

BACKGROUND

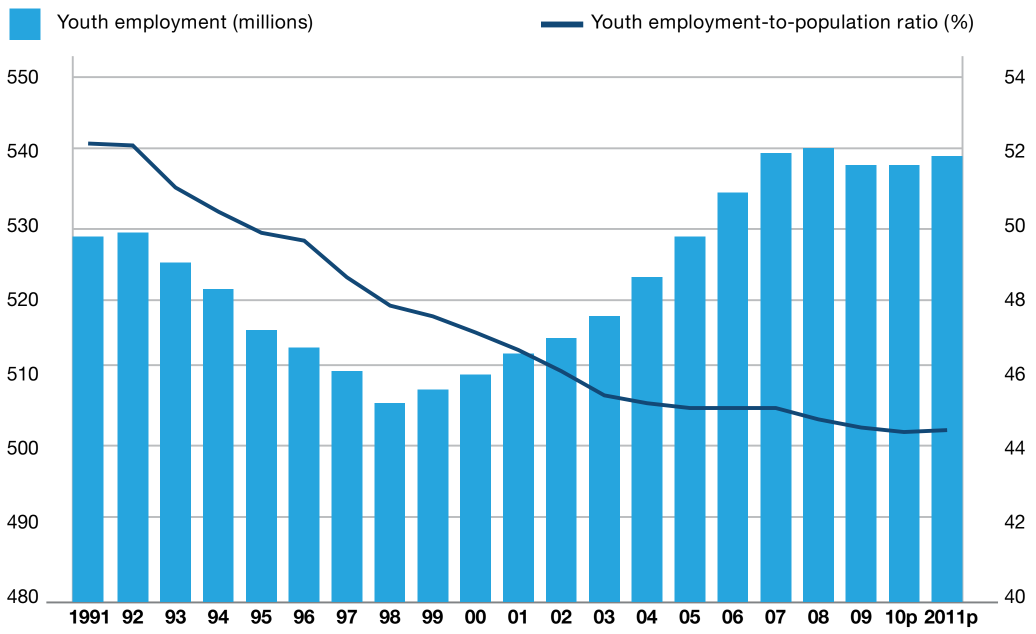
In only a short time, the G20 has become a major arena in which the determination to take on international crises and, where possible, to outline principles for coordinating economic and financial policy in different regions of the world, can play out. For this reason, it increasingly appears that the right path is for the challenges brought forth by the financial crisis and recovery to be addressed from the broadest angle, with G20 leaders keeping in mind the initial need to implement sound macroeconomic policies.

As a consequence of the crisis, some developed and emerging countries are experiencing a critical situation in terms of employment. Even now, almost three years after the crisis started, earlier improvements in the labor markets are no longer visible, new hiring is diminishing, and there are greater risks that high unemployment will last many years in a wide area of the world. This affects in particular young people, who could become long-term unemployed. It does not entail only individual problems, but also structural and sociological challenges that threaten to lead to a possible “lost” generation. The issue of confidence is at the heart of a recovery and it needs strong action.

Employment was addressed previously by the G20, with the recommendations adopted in Seoul. The French Presidency of the G20 has expressed its intention to continue the discussions initiated by its predecessors on employment as well as on the social protection floor, and address a new field: fundamental principles and rights at work. It also wants to tackle the connections between economic and social policies at the international level and in G20 countries. The B20 thinks there is value in having a discussion on those issues. The B20 is a forum with a different mind-set and has the chance to convey useful contributions in this field to the G20.

That being said, it is also important and useful to consult and rely on the main representative business organizations at national and international levels such as the International Organisation of Employers (IOE), and, perhaps, consider a joint discussion with the International Trade Union Confederation (ITUC), partner to the IOE at the International Labour Organization (ILO).

Global youth employment and employment-to-population ratio, 1991 to 2011



Stepping up private and public efforts to increase employment, notably for youth employment, was the first social issue brought up at the G20. It applies to all participating countries. The B20 considers job creation as the overarching priority of the G20 for the social dimension.

The economic and financial crisis had a deep impact on the labor market. The number of unemployed increased by 27.7 million people during the crisis to 205 million in 2010. Likewise, the global unemployment rate rose from 5.6% in 2007 to 6.2% in 2010 However, labor market deterioration was uneven within the different groups of countries. Developed economies and the European Union experienced the highest unemployment increase, from 5.8% in 2007 to 8.8% in 2010. On the other hand, South Asia/Southeast Asia and the Pacific reduced their unemployment rate from 4.5% to 4.3% and 5.4% to 5.1%, respectively.

Nevertheless, the youth employment rate is more permanently worrying. In 2007, the global youth unemployment rate was 11.8%, more than twice the rate for the whole population. The crisis caused this number climb to 12.6% in 2010, but it went over 20% in the Middle East and North Africa, and close to 20% as well in the European Union. The real outsiders remain people deprived of a job, and they should be the priority target of public policies.

Asked about those dramatic figures, company CEOs often insist that an important factor in the unemployment problem is education and training. All G20 countries identified skills development as a strategic objective at their summit in Toronto, and the leaders welcomed a G20 training strategy. However, we need action now.

It is essential to be able to rely on flexible labor markets that are constantly updated with changes in society, markets and consumer behavior. These reforms remain an urgent matter in many countries. Furthermore, the need to anticipate and implement new and various forms of employment will be critical to fostering sustainable job recovery. Indeed, various forms of contracts (flexible contracts, part-time, outsourcing, temporary agency work, etc.) address different needs and therefore facilitate the process of job creation. The Global Jobs Pact unanimously supported and adopted in the ILO in 2009 creates a good basis to promote sustainable growth and job creation. At the same time, considering employment challenges, it is of utmost importance to keep in mind both the short-term and long-term picture, such as demographic trends, and potential workforce and skills shortages.

There are many examples of how to achieve smart, sensible and efficient reforms of the labor market, creating or strengthening the basis for a real and integrated approach to employability. The "flexicurity" approach, if properly focused, could be one of them, but there are many others. In many countries, private sector and employers' organizations face many obstacles and need to be respected and strengthened.

Attractive frameworks will also be essential to addressing the problems raised by a large informal sector in the economy, which can be observed in many developing countries and emerging economies. The need to reverse the growth of the informal sector is also an important challenge for many countries where the sector exceeds 50 percent of the economy, and sometimes as high as 80 percent or 90 percent.

The 2010 Summit in Seoul placed emphasis on youth employment, along with a series of recommendations. These now need to be followed up with action, because the issue of labor and young people is an increasingly prominent topic of universal concern, both in the developed world and in developing countries. The influence of the young generation is tremendous, as exemplified in the Arab world over the past 10 months. A negative perception of companies has to be addressed in the educational system, and partnerships with the private sector need to be developed as well as integrated solutions regarding how to prepare young people to take part in the labor market. This can only be achieved through a holistic approach in public policies, and coherence has to be ensured between the actions of employment, finance, education and other relevant ministries.

Education, vocational training and lifelong learning remain mainly a national and public policy issue. The efforts made at an international level to tackle the youth employment problem, notably young women, still do not address the magnitude of the issue. Hence, business is conscious that it can contribute through skills expertise and investment to raise the employability of young people.

Social protection floors

The idea of building a social-protection floor received the endorsement of the United Nations System's Chief Executives Board for Coordination two years ago. Many United Nations agencies are at work on this problem, and a joint International Labour Organization-World Health Organization (ILO-WHO) working group, chaired by the former president of Chile, Michelle Bachelet, was expected to hand in its conclusions in September 2011.

The business community first and foremost points out that no social protection can exist without employment. The B20 supports the idea of such a floor, provided that the concept is stated according to principles that are rational and in line with companies' interests. The content and conditions for creating this foundational protection have been reviewed at the International Labor Conference of the ILO in June, 2011, and will also be the focus of the Bachelet Group recommendations.

Social protection is playing an important role during the crisis to secure income, to stabilize the economy and maintain social peace. Nevertheless, the crisis has also put restrictions on state budgets. States should reform their social protection schemes to promote job transition and the return to employment, while at the same time protecting people. This policy relies first on job creation, and has to be consistent with the general economic policy decided by the government.

Instilling basic labor rights more deeply in society

The current Presidency of the G20 has also expressed its intention to take up a major aspect of the ILO's activities: implementing fundamental principles and rights at work. Even if specific proposals have not yet been disclosed, the G20 Presidency wishes to see progress in ratification of the eight fundamental conventions, and better concrete implementation of the principles that the ILO Declaration took up in 1998. This declaration, the B20 wants to remind the G20, was two-fold: promote principles, be aware of conventions.

Several ideas are being discussed in the ILO, which would need to be elaborated upon before relevance and feasibility can be considered: reasserting the reasons why the 1998 declaration was adopted, running a campaign to encourage ratification, revising the mechanism by which these rights and principles are overseen, involving extra-state players such as companies in the promotion of the principles, adopting a statement to call on the international community to better incorporate the principles into various policies. Those issues are in the hands of democratically elected governments.

The B20 will promote the ILO Tripartite Declaration of principles for multinational enterprises, whose implementation could progress further and already includes a call to states to ratify the fundamental conventions. Companies are not ready to endorse, under the 1998 Declaration, responsibilities belonging to states. Nor do they support an extension of the present Declaration in its current content. However, beyond the awareness of the tripartite declaration, the B20 wants to emphasize the positive day-to-day impact brought about by the activities of multinational enterprises delivering not only jobs but also above-average working conditions, training opportunities, wealth and social welfare, both in developed and in developing countries. It is crucial that both governments and society appreciate this contribution to the community and acknowledge its value.

Building more concrete coherence

UN agencies, as well as certain organizations outside the UN system, are today engaged in a sort of political debate. However, their activities are not always coordinated and those organizations cooperate on a limited basis -- sometimes locally, sometimes between leaders, and rarely through signed cooperation agreements. More clearly since the creation of the G20, the idea is emerging that organizational effectiveness could be based more on coordination between organizations upstream from their actions or programs.

Many ideas are starting to spread. However, it is important to stress that the differences in analysis, approach, field of action and influence on beneficiary countries are easily understandable. Moreover, a degree of competition between ideas is healthy and helpful. Nothing would be worse than the emergence of an international-level ideology, one not taking into account local realities and suffering severely impaired effectiveness as a result.

It is also important that each organization clearly defines its area of skill, and avoids the risk of becoming too intertwined, and thus move towards concrete but limited coherence of action. The B20 wishes to suggest the idea of targeted, so-called pilot cooperation projects. In these, a number of organizations motivated by the prospect of working together, would choose a number of shared "targets" in their work program – either countries, or specific issues such as the social protection floor, youth employment, etc. -, and adopt a time-frame, synchronize their efforts upstream and design joint initiatives on the targets. An independent evaluation should mark any cooperation, to measure effectiveness and provide guidance into the future.

RECOMMENDATIONS

As the result of the financial crisis and its damage to employment worldwide, the working group calls on the G20 to take the following action:

1. **Increase efforts to create jobs through a modern and flexible labor market**

   - The B20 calls for implementation of policies aimed at easing job creation in SMEs, which capture most of future growth and employment. For this reason, it is vital that the G20 and states in general try to avoid policies that will increase the cost of employment or create disincentives to recruiting. Moreover, public and private cooperation to improve the functioning of the labor market is needed. Smart institutional and regulatory frameworks aimed at creating jobs through private employment agencies could substantially contribute to this aim.
   - The B20 underlines the importance of carrying on further and ambitious reforms using the "flexicurity" approach and calls on G20 governments to promote efficient progress in this field.
   - Social dialogue could also be an extremely useful instrument to tackle the needed reforms, but this requires a responsible approach by social partners and movements.
   - It also underlines the importance of establishing an environment conducive to job creation, notably through the introduction of entrepreneurship in all curricula.

2. **Take action on education and job training to tackle youth unemployment**

The B20 calls for an effective reinforcement of education and training systems, which have to be more responsive to market needs and productivity, and become a top priority of governments. The B20 emphasizes that a good-quality basic education is closely correlated to economic growth, although it cannot definitively be stated to follow from it. Such education is a foundation for further skills development in productive employment, both initially and throughout lifelong training.

The B20 would like to see the G20 discuss youth unemployment with its social partners because this is a fundamental issue for many societies. Universities and local authorities should be included, in order to be in accord with the Seoul recommendations. Depending on how formal the G20 wishes to structure the discussions, regular tracking, sharing of practices and peer review could be undertaken, with a few indicators being chosen to benchmark the action of the public authorities in the G20 and beyond. In addition it would make sense that each government analyzes the impact on employment when considering any new regulation.

3. Take the lead in establishing skills corridors

In order to bridge the skills gap, the G20 governments should take the lead in enabling "skill corridors," which are opportunities and/or vehicles to promote cross-border mobility. Mutual recognition of skills among the G20 countries would be relevant, especially considering youth unemployment.

4. Support the creation or reinforcement of social protection floors

The B20 advocates the idea of a social-protection floor. If properly focused, it could be relevant for the sustainability of the economy and for social solidarity and stability. Indeed, employment provides the first social protection. Any social protection scheme must encourage ongoing active labor market participation and employability wherever possible. The B20 wishes to set a variety of clear principles:

- The floor must not be the same for all countries and should leave each the ability to develop its own model. There will be different social protection floors.
- The floors must be based on lessons learned through the efficient experience of other countries.
- The floors must be financially viable and, therefore, nationally financed. There must be a close connection between economic development and the development of social protection.
- A link must be established between contributions and subsidies, encouraging unemployed people to come back to work and ease the transitions between jobs.
- The floors should provide tools to encourage companies and workers to move from the informal sector to the formal sector whenever possible.
- Social partners must be at least consulted in every country.
- International organizations must support social protection floors (SPFs) using a coordinated approach, and finance capacity building to promote efficiency of the floors through different benchmarks.

5. Progressively build coherent and concrete actions at the international level

The B20 calls for more concrete cooperation between the International Labour Organization and international economic organizations when they work in the same field. Each institution has to stay in its core area, but when there is an overlap (as frequently happens in social protection, for instance), we think the respective teams of the organizations should be instructed to work together to get a fully documented picture of the country where they both work, and thus can analyze each other's solutions. The B20 suggests that no systematic approach be taken, but rather pilot projects be undertaken on a voluntary basis where the economic and social situation leads to an intervention by international organizations.

Working Group VII

ANTI-CORRUPTION

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Paolo Scaroni, CEO, Eni S.p.A.
David T. Seaton, CEO, Fluor Corporation
Peter Solmssen, Member of the Managing Board & General Counsel, Siemens AG
Christopher A. Viehbacher, CEO, Sanofi-Aventis
Luc Vigneron, Chairman and CEO, Thales

Key Recommendations

Corruption is an intolerable impediment to the efficiency of the global economy, to fair competition among companies of all sizes and nationalities, and to sustainable global development. Such illicit behavior is an obvious cause of distortion of competitive markets as well as the hampering of economic growth and efforts to eradicate poverty. We have identified four initiatives that can move the fight against corruption forward on a global basis. They are:

- **Create a G20/B20 joint platform, supported by an explicit business commitment and accountable to G20 and B20 leaders, to maintain an ongoing, multiyear dialogue.**
- **Building on the Seoul Action Plan, G20 governments should 1) accelerate their commitment to ratify, enforce and monitor the implementation of the OECD and UN conventions on anticorruption; 2) support negotiations within the WTO for a multilateral agreement on standards for procedures and transparency in government procurement; 3) incentivize enterprises to establish effective policies and procedures to prevent corruption, and 4) recognize public bodies and officials that demonstrate leadership in fighting corruption.**
- **Business must also play its part. The B20 undertakes to identify and launch appropriate collective action processes to address problems linked to specific country or regional contexts and industry sectors. The B20 also will promote the sharing of best practices, training materials and resources: 1) among the various sector-specific initiatives; 2) with public sector entities implementing integrity programs to combat the demand side of corruption; and 3) with small- and medium-sized entities lacking the experience and resources of multinational companies.**
- **Business and government must work together to raise awareness of the costs and risks of corruption, especially by promoting education on ethics and business integrity at all level of public and private education.**

BACKGROUND

Corruption is an intolerable impediment to the efficiency of the global economy, to fair competition among companies of all sizes and countries, and to global sustainable development. Such illicit behavior is an obvious cause of distortion of competitive markets and a serious obstacle to economic growth and efforts to eradicate poverty. More generally, corruption undermines the rule of law and democratic institutions and creates conditions that may lead to social unrest and increased criminality, including organized crime.

Even if the global fight against corruption has made significant progress over the last 10 years, corruption – in all its forms - continues to be pervasive. The World Bank estimates that between USD 1 trillion and USD 1.6 trillion dollars are lost to the global economy each year because of corruption and bribery. Estimates are that that corruption adds up to 10% to the total cost of doing business globally, and up to 25% to the cost of procurement contracts in developing countries. More significant, over half of the respondents to Transparency International's Global Barometer 2010, a worldwide public opinion survey, say that corruption has increased in their country over the past three years.

The Anti-Corruption Action Plan adopted at the Seoul G20 meeting marked a paradigm shift in this fight by recognizing the need for public-private partnerships and the proactive role played by the private sector. Discussions have already begun at a conference organized by the G20 French Presidency in Paris in April, 2011 where high-level business executives from the B20 and G20 officials discussed the importance of implementing effective programs to ensure integrity.

Few government undertakings can succeed if they are impeded by corruption. The fight against corruption cannot be conducted in isolation from other policy objectives. A clean business environment is an important prerequisite for effective action by the G20 across its entire agenda – from development to economic growth and the reform of financial markets.

The G20 and B20 have a significant opportunity – and a shared responsibility – to develop and implement new initiatives that will further improve the effectiveness of the global anti-corruption regime.

RECOMMENDATIONS

For a robust and efficient implementation of the G20 action plan

The B20 welcomes the progress that G20 leaders have made in formulating the G20 Agenda for Action on Combating Corruption, Promoting Market Integrity, and Supporting a Clean Business Environment, adopted at the Seoul Summit in 2010. In particular, we support the invitation to engage with G20 governments in support of their work.

In furtherance of these objectives, B20 recommends:

1. Create a G20/B20 joint platform, supported by an explicit business commitment and accountable to G20 and B20 leaders (reporting back at subsequent G20/B20 summits), to maintain dialogue between G20 governments and business and advance key public-private actions and initiatives over a multiyear period.

   Establishing this ongoing forum for consultation between the B20 and G20 would both demonstrate commitment to public-private cooperation in the fight against corruption, and provide a forum in which business and governments could work together to advance the G20 Anti-corruption Action Plan and further develop the practical and innovative recommendations highlighted in this document in support of a clean business environment.

2. Invite the private sector to participate in peer reviews required by the United Nations Convention Against Corruption (UNCAC) and publish the results of these reviews.

   In order to ensure forward momentum on the anti-corruption agenda, G20 governments should accelerate their commitment to ratify, enforce and monitor the implementation of the OECD and UN conventions on anti-corruption. It is also important to monitor progress in implementing the work plan, and to invite the participation of business. While this recommendation highlights the UNCAC review process, the G20 also should publish an annual report on the progress that each G20 country has made in implementing the G20 Action Plan.

3. Create a business program to encourage cross-fertilization between public and private sectors for sharing best practices, training materials and resources to implement integrity programs, control procedures, and to raise awareness in both the public and private sectors.

   The private sector has dedicated significant resources to the development of effective programs to ensure that employees share a culture of compliance, have the technical knowledge to understand what is demanded by ethical business conduct, and have the tools needed to execute an effective compliance program. Many governments have developed similar programs aimed at ensuring integrity and ethical conduct on the part of their officials. Business commits to share its learning and experience with the public sector and within the private sector, both within and beyond the G20 countries, so that it can assist in the development of effective public sector programs to eradicate the demand side of corruption. Business reciprocally calls on governments to also share their programs with the private sector. Sharing best practices in executing compliance programs with the each other could be a low-cost and immediate measure to improve the compliance environment.

Build a level playing field by strengthening the legal and regulatory framework

The B20 urges G20 governments and, where appropriate, the B20 also commits to support the development and the implementation of the following tools:

4. Commit to ratify and implement the OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions by a date certain.

   Full adherence and implementation of the OECD Convention and its monitoring mechanisms by all G20 countries is essential to establish the tone of leadership required of G20 governments.

5. Re-initiate the negotiations within the World Trade Organization (WTO) for an agreement to provide worldwide standards for transparency and procedures in government procurement.

   Such an agreement would be independent of any considerations of market access in government procurement, but should apply to all procurement in WTO member states. To demonstrate leadership in this initiative, the G20 should commit to adopt and employ standards for transparency governing their own government procurement.

6. Promote international recognition of, and effective prosecution of, intentional solicitation through national anti-corruption laws, and propose actionable recommendations to help businesses resist solicitation.
   Key steps should be to:

   - Promote knowledge sharing between developed and developing countries, to support the development of institutional and legal frameworks in developing countries.

   - Establish appropriate forms of "High Level Reporting Mechanisms" to address allegations of solicitation of bribes by government officials.

     Such a mechanism would be intended to provide a means for cleansing procurement processes when there are substantive allegations of corrupt behavior. The establishment of a national high-level reporting mechanism to deal with allegations of solicitation of bribes is proposed in response to longstanding business concerns about the lack of effective methods to address the demand side of bribery. The objective would be to resolve concerns about bribe solicitation in a timely manner, so that government procurement can proceed without prolonged delays and without lingering suspicions of impropriety.
     Countries could choose in accordance with their national institutional and legal systems, the particular form in which to introduce such an "ombudsman." Additional elaboration of the principles of the mechanism would be an appropriate subject for continued consultations.

7. Reinforce procurement transparency and auditing mechanisms for internationally funded projects (by, among others, international financial institutions) and help the beneficiary states organize their calls for tenders and properly control their due

execution.

G20 governments should encourage the provision of capacity building assistance to developing countries for improving their procurement processes, both directly and through the support of G20 governments for such activities in international financial institutions.

Toward this end, the current approach known as "Well-Prepared Projects" could serve as a starting point to improve the quality, transparency and due execution of procurement processes in the field of large and complex infrastructure projects. Business input is important to the World Bank in its design of procurement processes, the monitoring of the due execution of projects and in its support of procurement capacity building.

8. Enhance inter-governmental cooperation concerning multijurisdictional bribery cases in order to avoid double jeopardy (principle of *ne bis in idem*).

   Violations of anti-bribery laws should be vigorously investigated, prosecuted, and remedied in all affected jurisdictions. It is important, however, that enforcement authorities coordinate prosecutions to avoid, where possible, inappropriate multiple proceedings concerning the same offense. Avoidance of duplicate proceedings could in many cases accelerate remediation of the underlying causes of the offense.

   The principle contained in article 4.3 of the OECD convention and in article 42 of the UNCAC should be "translated" into a more immediate and effective rule of international *ne bis in idem* to be introduced in the various anti-bribery national acts and legislation.

9. Review national anti-bribery laws to ensure that they strike the proper balance between punishing wrongdoing and incentivizing compliance and disclosure.

   National laws and procedures should include mechanisms for plea bargaining and other forms of out-of-court settlements. Some examples include:

   - Establishing appropriate incentives for companies that have adequate procedures to prevent corruption and or that self-disclose, or that cooperate in investigations of wrongdoing;
   - Adopting the "self-cleaning" process for public procurement, recognizing companies that promptly and effectively remedy past problems;
   - Introducing positive mechanisms in public procurement, public bidding, export financing and project financing procedures to recognize companies that take the lead in the fight against corruption. To be eligible, companies should meet factors such as the existence of a robust compliance program based on common global principles and participation in collective action initiatives/sectoral initiatives and projects with industry peers and other stakeholders from government and civil society.

10. Recognize and reward public officials who have taken action and demonstrated leadership in the fight against corruption, including positive incentives as part of their appointment, compensation and promotion.

It is important to recognize public officials who demonstrate effective leadership in helping to eliminate the demand side of corruption. Such leaders should be acknowledged both publicly, through the establishment of one or more national and international awards for exceptional contributions to the fight against corruption, and personally, by incentives as part of their appointment, compensation, and promotion. In addition to recognizing individual efforts to fight corruption, there needs to be an incentive for government as a whole to fulfill its obligation to provide good governance to its citizens. The aid community, including bilateral and multilateral donors, should commit to provide additional development assistance to low-income countries that are taking action and have demonstrated results against corruption as a way to reward them and incentivize others.

Businesses should create a level playing field by setting-up common rules of behavior

The B20 commits to work to improve private-sector compliance and eradicate the supply-side of corruption by leading business initiatives, on a national or regional basis that:

11. Extend, implement and promote the development of voluntary compliance programs and sectoral standards.

    Private sector-driven initiatives are among the most promising approaches to address corruption. They associate companies with the same customers and same characteristics (e.g., in terms of risks) to accept the same rules of behaviors and to establish relevant and harmonized integrity standards. Such sectoral actions also facilitate discussions with stakeholders, either governmental or non-governmental organizations.

    Each sectoral initiative would define its procedures and enhance its establishment by adopting a peer review mechanism and sharing best practices with other various sector-specific initiatives. Features that characterize effective initiatives could include senior management commitment, appointment of dedicated managers, and implementing procedures, including due diligence, audit, internal controls and internal training programs.

12. When projects and local situations require, identify and launch appropriate collective action processes to address problems linked to specific country or regional contexts and industry sectors to enhance the detection and remediation of illicit behavior.

    Such collective action initiatives should combine and leverage the competencies and capacities of public, private and civil society actors, and have meaningful procedural and other safeguards. Multilateral and bilateral agencies (including embassies) should also be engaged, as they can provide an important source of expertise and resource support.

13. Establish a program to encourage companies and public bodies to establish effective policies and procedures to prevent, detect, and remedy corruption.

    Governments should require a commitment to an effective compliance program as a prerequisite to participating in public procurement tenders or receiving other benefits such as export credits, when appropriate.

14. Eligibility criteria could include, for example, existence of a robust anti-corruption program, based on common global principles and participation in collective action initiatives and projects with industry peers and other stakeholders in government and civil society.

States and businesses should enhance awareness of the legal and economic risks of corruption and the benefits of compliance programs

It is vital that the G20 countries encourage their business communities to adopt common ethical behavior and values applicable throughout the world. This action needs to have full governmental support and include a strong political signal from the national authorities toward their respective business sectors.

B20 businesses and G20 governments should work together to address corruption at its roots and develop awareness at the ground level:

15 Heighten awareness of the costs of corruption.

   The G20 governments should work with stakeholders, including the World Bank, other international financial institutions, and civil society, to develop an index that measures the societal costs of corruption on a country-by-country basis. The G20 also should encourage the World Bank to add to the "Doing Business" survey an indicator that measures the transparency and effectiveness of the public procurement system.

16. Encourage the adoption of business codes of conduct based on internationally recognized and accepted principles for companies in all countries, especially in developing economies.

    Several model codes already exist, promulgated by international, regional or national business or intergovernmental organizations such as: International Chamber of Commerce, World Economic Forum, Transparency International and OECD.

    Guidance can also be found in a number of universally accepted principles applicable to ethical and other forms of risk management, such as:

    - Actions should be commensurate to the identified corruption risks;
    - A formal risk assessment process should be required to establish the potential for corruption to manifest itself in the targeted environment;
    - The code should require proper due diligence processes to be adopted when entering into new relationships or markets;
    - The code should be backed by proper compliance programs that not only include effective communication and training, but also provide for ongoing monitoring and review of both the risks and the countermeasures adopted to address the risks.

17. At the national level, advocate that sectors and companies develop their own codes of conduct or join existing international ones.

18. Business associations or organized business bodies should support voluntary aspirational codes of conduct. There might be a simple process in which companies commit their support and a mechanism is provided to ensure that exposure is given to supporting organizations and businesses. Extensive public support for a code of conduct by major players in a specific market or market sector can serve as an effective form of peer pressure to obtain support from the remaining players in the market.

19. Businesses should publicly affirm their stand on ethics and integrity, ensure consistent discipline of all categories of employees, encourage and provide employees with resources to report ethics and integrity violations, including corruption, and take decisive action to prevent and respond to retaliation.

20. Both public and private sectors should adopt open reporting systems in which employees and others are encouraged to report internally all allegations or suspicions of improper practices without fear of retaliation, and systematically investigate all such reports.

21. Establish a private "Internal Review Mechanism" in which bidders may raise integrity concerns directly with each other and reach a mutual understanding that legitimate concerns will be investigated and, if necessary, remedied.

22. Promote education on ethics and business integrity at all levels of public and private education.

    Business and government should work together to develop, disseminate, and promote the use of a comprehensive curriculum for general ethics education and an advanced curriculum for the training of compliance professionals.

    Educational programs on the subject of compliance and anti-corruption have developed significantly over the last few years. There are now multiple offerings of certification programs, conferences and advanced degrees in United States and in Europe (or in many other countries), and the availability of such programs continues to increase. The target audience for this training is experts such as lawyers and compliance officers, as well as decision-makers or specially exposed personnel both in the public or private sectors. The availability of such curricula should be extended in scope to include earlier stages of education, beginning at the elementary level, and geographically to include students globally, particularly in the developing world. The B20 and G20 should work together to develop educational programs that are appropriate for all levels of education and cultures, and to facilitate their widespread dissemination.

Working Group VIII

TRADE AND INVESTMENT

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Key Recommendations

Trade and investment, which are closely linked to the creation of value and innovation in the industrial, commodities and services sectors, are an important source of economic growth and job creation. They remain therefore a top priority for businesses. The B20 regrets that trade and investment are not incorporated into the official agenda of the G20 in 2011. We call for a permanent dialogue between the G20 and the B20 on these important issues.

We, the business leaders in the B20 Working Group on Trade and Investment, make the following recommendations:

- **The G20 should propose a path for the World Trade Organization (WTO) to pursue its core functions: trade liberalization and rule making – Completing an ambitious Doha Round would have provided an important stimulus to global growth and helped restore needed confidence in the rules-based multilateral trading system. However, given the likelihood that no progress on the main market access elements of the Doha Development Agenda (DDA) will emerge in the near future, we urge the G20 leadership not to put the WTO system at risk, and to develop a clear path forward in the WTO negotiations with a focus on the core tasks of the WTO, namely further trade liberalization and rule making. The conclusion and enforcement of WTO agreements are the best way to counteract protectionist tendencies and to keep trade open and fair. By focusing on the possible and the practical in 2012, G20 leaders can provide a needed boost to the global economy and demonstrate the WTO's continued vitality and relevance.**

- **The WTO should finalize rapidly a Trade Facilitation Agreement and develop its scope of negotiations to boost global trade – We call on the WTO to conclude trade facilitation negotiations, which are less politically sensitive, by the 2011 Ministerial Conference. In addition, the WTO should expand its agenda to achieve trade facilitation through the enhancement of the international logistics system. G20 countries must provide the leadership for global trade facilitation by adopting a common position at their Summit in Cannes.**

- **Accelerate the accession of Russia to the WTO to secure a truly global representation of a free trade agenda and to strengthen the multilateral trading system – Russia remains the only G20 economy that is not a member of the WTO. Given the size of its economy and its importance as both a major exporter and one of the world's biggest markets for imports, it is important to secure its adherence to the multilateral trade system. With almost all major negotiations now completed, Russia and its WTO partners should make a concerted effort to complete its accession by the 2011 WTO Ministerial Conference.**

- **The G20 should launch joint negotiations for a Framework agreement on investment – The G20 must adopt a statement in favor of open investment as a tool for growth, development and job creation. G20 support is essential in the current context of unsustainable government budget deficits and their potential negative impact on cross-border investment confidence. As a powerful political instrument, the G20 must open discussions to find a common vision and approach to the issue, and launch an international framework agreement for investment access and protection. In our view, the WTO is the best option among international organizations to serve as the multilateral platform for cross-border investment rules and standards.**

BACKGROUND

Introduction

Trade and Investment, which in the past were at the top of the international agenda and constituted an important pillar of the G20 dialogue, do not figure in the official G20 agenda in 2011. The G20 business community is concerned and calls for a permanent dialogue between the G20 and the B20 on these important issues.

Trade and investment are closely linked to the creation of value and innovation in the industrial, commodities and services sectors. They are an important source of economic growth and job creation, and therefore remain a top priority for businesses, which want to express their views on this topic through the B20.

The B20 Working Group on Trade and Investment provides our political leaders with consistent policy recommendations, based on previous G20 commitments, global trade and investment trends, and the best possible way towards more dynamic, open, balanced and fair international trade and investment.

1. Protectionism

We regret that G20 leaders have systematically failed to deliver on previous G20 statements to contain protectionism and conclude the Doha Round of multilateral trade negotiations under the World Trade Organization (WTO).

Since the recent economic crisis, some G20 countries have raised tariff barriers, export taxes on raw materials and restrictions on public procurement, among others, to protect their national industries. Political leaders claimed that these measures were designed only as temporary safeguards. Yet tariffs, non-tariff barriers (NTBs) and other restrictions have been maintained, preventing trade volumes from returning to their pre-crisis levels.

Recent analysis shows that a new generation of non-tariff barriers, more difficult to perceive and to tackle, has emerged and tend to persist and worsen the already existing gear of non-tariff barriers, with damaging consequences for global trade. Examples of these barriers include discriminatory standards, industry-specific market-distorting subsidies, regulatory distortions and other restrictions that prevent or inhibit effective trade and investment flows.

The main trading actors have already highlighted their impact on international trade, which is still to be measured.

The role of distortive long-term promotion of domestic production through varied means, including subsidies and the use of capital and labor flow restrictions, is also a source of concern.

The short-term relief provided by protectionist measures will damage both the global economy and national economies in the long term. They negatively affect economic growth rates around the world – in both developed and developing economies – and delay the revival of the global economy. As open, rules-based trade and investment are generally accepted as the most effective approach to overcome the crisis, impediments are a brake to global recovery. In addition, these measures create imbalances and uncertainties in the markets.

These negative effects have already begun to emerge, jeopardizing future trade liberalization after the setbacks in the Doha Round. G20 countries should remove these protectionist measures as a step towards overcoming the global crisis.

The B20 believes that efforts to liberalize trade are no longer optional. **The G20 should commit to concrete actions in the short term to establish common principles for open and fair competition across G20 countries.**

2. The WTO

The Doha Development Agenda (DDA) negotiations are at an impasse. Despite the commitments made by the G20 countries in Seoul to conclude the round in 2011, the latest talks among key WTO partners did not break the current deadlock.

Businesses from G20 countries have always showed strong support for concluding an ambitious and balanced agreement. For them, the DDA would be the best way to guarantee an open and fair international trading system. The multiplication of bilateral free trade agreements can only be a second-best option for businesses as the proliferation of different rules of origin creates inefficiencies for global supply chains. Such diversification of rules can be very burdensome to businesses, for multinationals and small and medium-size enterprises alike. The so-called "spaghetti bowl" is in conflict with businesses' need for simple and common rules which should ideally be agreed at the WTO level.

Businesses call on the G20 to ensure that the deadlock in the DDA negotiations does not put the WTO system at risk. The business community is concerned that the WTO's trade liberalization and rule-making functions have diminished in the past 10 years. No matter what the outcome of the DDA, the WTO needs to reassert those core functions. A collective effort is therefore necessary to reassess seriously the path forward for WTO negotiations.

Multilateral rule making and further trade liberalization are necessary to provide for economic growth and world recovery. Completing an ambitious Doha Round would provide an important stimulus to global growth and help restore needed confidence in the rules-based multilateral trading system. However, given the likelihood that no clear path forward on the main market access elements of the DDA will emerge in the near future, the WTO must at a minimum demonstrate that it can finish negotiations in areas where there is widespread support from governments and business, including, for example, trade facilitation negotiations.

By focusing on the possible and the practical in 2012, G20 leaders can provide a needed boost to the global economy and demonstrate the WTO's continued vitality and relevance.

Government Procurement Agreement (GPA): The current revision of this plurilateral agreement, which was signed in 1996, is an opportunity to ensure market-access reciprocity in the signatory countries. This should be possible through a revision of the various exception clauses negotiated by each country. It is also desirable that interested G20 countries which are also members of the WTO sign up as soon as possible to the agreement on comparable terms to other major economies, especially China.

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): Effective protection of intellectual property (IP) is fundamental to ensure innovation and growth in the increasingly knowledge-based economies of the G20 countries. International recognition of the value of knowledge and internationally consistent rules of IP valuation will spur greater investment in innovation.

The TRIPS agreement establishes minimum levels of protection that each government has to give to the intellectual property of fellow WTO members. Copyright, trademarks, geographical indications, industrial designs, patents and undisclosed information and trade secrets are some of the issues covered by the agreement that are of great interest for G20 businesses. Nevertheless, intellectual property laws without adequate enforcement do not ensure the necessary protection for companies.

The agreement's signatory countries exhibited considerable variation in their approach to TRIPS implementation. They took varying degrees of advantage of the legal safeguards and options commonly known as TRIPS "flexibilities". Since those flexibilities are allowed by the agreement, signatory countries may use them as they deem necessary. Nevertheless, signatory countries must respect the agreement by providing effective action and expeditious remedies against infringement of IP rights under their law, as required by the agreement.

Business representatives from all around the world have already drawn attention to the fact that there cannot be industrial development based upon innovation without an effective and fair implementation of the regulations protecting intellectual property rights. One of the consequences of the lack of enforcement of the rules is the dangerous spread of counterfeiting practices in the major trading countries. Counterfeiting represents a serious problem for the development of G20 economies and businesses.

To address this important global issue will require more political will and determination.

Dispute settlement: Dispute settlement is an essential part of the multilateral trading system and is extremely important for the stability of the global economy. Without a means of settling disputes, the rules-based system would be less effective because rules could not be enforced. The WTO's Dispute Settlement Body (DSB) monitors the implementation of the rulings and recommendations and has the power to authorize retaliation when a country does not comply with a ruling.

To provide member economies with more rapid solutions to trade irritants, a mediation mechanism comparable to "out-of-court settlement" in some legal systems could deal with non-controversial NTBs such as customs problems or implementation issues related to sanitary and phytosanitary measures or technical barriers to trade. This new mechanism should be designed to provide its advice in a much shorter term than the DSB, which it would complement. The mediation mechanism advice would therefore help countries find a solution to these non-controversial trade irritants.

Trade facilitation: Red tape, lack of regulatory transparency and harmonization, quotas, import licensing and heavy border procedures are examples of burdens on trade that require action.

Due to onerous and inefficient customs procedures, international logistics (transaction) costs are very burdensome for international trading companies. An important service industry, logistics typically account for 10-20% of a nation's GDP. Reducing delays at the border and in transit can have a dramatic impact on reducing import and export costs, thereby improving competitiveness. A one-day border delay drives up costs on average by about 0.8% around the world.[17] A World Bank study of 126 countries shows that each day in transit reduces trade volumes on average by slightly more than 1%.[18]

Efforts to improve the logistics and the trade facilitation performance of low-income countries (as measured by the World Bank's Logistics Performance Index and Doing Business "cost of trading" indicator) would increase trade by 15%.[19]

International organizations such as the Asia-Pacific Economic Cooperation (APEC) forum and the WTO have called attention to the issue of non-tariff barriers in terms of trade facilitation and reducing trade-related costs.[20] Trade facilitation negotiations at the WTO only cover a narrow part of the entire logistical supply chain. WTO members formally agreed to hold negotiations to clarify and improve the General Agreement on Tariffs and Trade (GATT) rules on movement, release and clearance of goods; to provide technical assistance and capacity-building support to developing and least-developed countries; and to improve cooperation between the customs authorities of WTO members. However, no further progress has been made on the issue due to the deadlock in the Doha Round.

Meanwhile, the International Air Transportation Association (IATA) in cooperation with customs authorities, airlines, and freight forwarders are making actual improvements in air transportation. The IATA's e-freight project aims to simplify transportation processes through the implementation of a standardized electronic data-exchange system in each part of the logistical supply chain. This initiative is notable because businesses, airports and customs department are collaborating to integrate, simplify and standardize a transportation process. To facilitate trade, this kind of effort should not be restricted to air transport but needs to be expanded to sea and surface.

It is high time that the WTO take this initiative for trade facilitation in addition to its current trade facilitation negotiations. The WTO's Aid for Trade program should also target trade facilitation to improve logistics.

The B20 would like to emphasize the need to develop the WTO negotiations agenda by looking at the entire logistical supply chain in a holistic manner. These negotiations, less politically sensitive than the negotiations on tariffs, should be a priority on the G20 agenda.

Accession of Russia: To maintain its relevance and leadership in maintaining the multilateral rules-based free trade system, the WTO needs to include all major global economies. For this

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17 Hummels, David. (2001) *Time as a Trade Barrier*. Mimeo, Purdue University. Time as a Trade Barrier GTAP Working Paper No. 18

18 Djankov, S., Freund, C. and S. Pham Cong. (2006) *Trading on time*. Policy Research Working Paper 3909, The World Bank.

19 WTO-OECD. (2011) *Aid for Trade at a Glance 2011*: Showing Results.

20 According to the APEC report *Measuring the Impact of APEC Trade Facilitation in APEC Economies* (2002), Asia-Pacific countries can expect about $17.1 billion in annual profit from deregulation of customs clearance, service and investment between countries.

reason, and with the global free trade agenda in mind, the G20 countries should promote the accelerated conclusion of the negotiations for the accession of Russia to the WTO.

Russia is a significant player in world trade with approximately 2% of merchandize trade, 10% share of exports in mineral fuels, 14% in fertilizers products and 6% in iron and steel products. In addition to being a significant exporter, Russia is also one of the biggest and most attractive markets in the world. With GDP (PPP) per capita at USD 16,000 and a population of 142 million people, Russia presents a sophisticated demand for a diverse range of goods and services and was recently ranked as the world's second most attractive retail market in the Global Retail Development Index. Imports to Russia have been growing at an annual rate of 19% over the past decade, making it one of the fastest-growing destinations for WTO exporters.

Nevertheless, Russia remains the only G20 country still not a member of the WTO 17 years after applying, the longest application period in WTO history. All major governmental players have expressed their strong support for solving the few remaining issues and finalizing Russia's accession in a few months' time. Business communities in Russia and around the world, especially in the US and EU, are actively promoting Russia's accession, and working closely with their respective governments to demonstrate the value and opportunities of Russia's membership in the WTO.

Accession is a national priority for Russia as it continues to work on further liberalization of its trade policies to bring them in line with WTO requirements, including addressing the outstanding issues related to its custom union with the Republics of Belarus and Kazakhstan.

Accession to WTO will not just improve trade relationships and promote a more even global playing field, but it will also help to boost investor confidence in fair and rules-based competition and hence promote investment flows both within and outside Russia.

3. Investment

Global foreign direct investment (FDI) flows have risen very rapidly in the past two decades and have become critical in sustaining the global trade of goods and services. The recent crisis led to a fall in global investment flows in 2008 and 2009. In the first half of 2010, FDI had a modest but uneven recovery. This sparked cautious optimism for FDI prospects in the short run and for a full recovery in the longer term. The UN Conference on Trade and Development (UNCTAD) expects global inflows to reach USD 1.3-1.5 trillion in 2011 and head towards $1.6-2 trillion in 2012. However, the prospects for this rise in FDI are fraught with risks and uncertainties, including the fragility of the global economic recovery.[21]

Governments must refrain from raising barriers or imposing new barriers to both outward and inbound investment, and must keep high standards of investment protection. Foreign direct investment can come in multiple forms. These include investment in greenfield operations, both in joint ventures and through acquisitions. Multiple countries have increased barriers to FDI through acquisition in the last few years. This inhibits broader FDI, as acquisition is often a way to leapfrog to critical mass in a market and is generally followed by significant follow-up investment.

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[21] UNCTAD. (2010) *World Investment Report 2010 Overview: Investing in a Low-Carbon Economy*, Geneva: UNCTAD.

FDI is a major source of capital, liquidity, best practices and, ultimately, growth. G20 countries should hold each other to a high standard when imposing restrictions on FDI, to ensure these are only put in place when strictly necessary (e.g. for reasons of national security) and not in the interests of economic nationalism.

A renewed effort to strengthen multilateral investment rules is the best way to build common ground and to ensure strong engagement towards free investment. Open investment policies to promote outward and inbound investment, and to guarantee high standards of investment protection are both necessary and should be discussed at a multilateral level.

A G20 statement in favor of open markets for FDI would be an encouragement for companies looking to invest globally. In addition, the G20 statement should be supportive of bilateral and multilateral efforts to liberalize investments notably based on:

- Organisation for Economic Co-operation and Development (OECD) FDI guidelines
- The WTO's Trade-Related Investment Measures (TRIMs) Agreement
- Updating bilateral investment treaties based on high standards of investment protection and improved market access.
- A common G20 approach on FDI issues would also serve as a powerful incentive to promoting global standards. Such a multilateral framework would provide more predictability and transparency for companies investing across borders.

RECOMMENDATIONS

We make the following recommendations to the G20:

1. **Protectionism**

- Governments should reiterate their commitment to free and open trade and investment and fair competition based on a level playing field as prerequisites for global economic growth, job creation and development. They should back their commitments with concrete measures including the promotion of high-standard trade and investment liberalization agreements, and continued efforts to roll back protectionism. Particular attention should be paid to restrictions in public procurement markets, which have multiplied in recent years.
- Make the necessary efforts to put the multilateral trading system back on track. The conclusion and the enforcement of WTO agreements are the best way to counteract protectionist tendencies and to keep trade open and fair.
- Recommend that the international organizations continue regularly to provide analytical reports on the evolution of protectionism. G20 Leaders mandated the OECD, WTO and UNCTAD to publish twice a year until 2013 monitoring reports on trade and investment measures in G20 countries. The B20 recommends an extension of this mandate as protectionist pressures are unlikely to weaken in the present economic context.

2. The WTO

- The B20 urges the G20 leadership not to put the WTO system at risk and to develop a clear path forward in the WTO negotiations with the focus on the core tasks of the WTO, namely further trade liberalization and rule making.
- Enforce the Government Procurement Agreement (GPA) among signatories and promote the accession of interested major economies to this agreement on ambitious terms.
- Enforce the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- Create a non-tariff barrier mediation mechanism, disconnected from the DDA negotiations, to treat trade irritants in this area.
- Conclude trade facilitation negotiations by the 2011 Ministerial Conference. G20 countries must provide the leadership for global trade facilitation by adopting a common position in Cannes. The following topics could be discussed in the framework of a G20 common position on trade facilitation:
  - Harmonization of all trade-related nomenclature among G20 economies.
  - Support for the World Customs Organization's Globally Networked Customs (GNC) initiative to integrate systems, including message exchange, among all customs departments of G20 member states.
  - Support for the integration and standardization across G20 members of transportation processes in each area of the logistical supply chain.
  - Implementation of global best practices in ports, customs, and other trade-related regulatory agencies. The creation of a "Knowledge Sharing Center" could help developing countries to get aid for the implementation of these best global practices and provide a basic framework for logistics development.
  - Identification and reduction of market access barriers and other investment restrictions to global logistics services.

The G20 should also look at the high costs of maritime piracy for governments and companies. This issue has become a serious impediment to maritime transport of goods and persons in some regions of the world.

- Accelerate the accession of Russia to the WTO to secure a truly global representation of a free trade agenda and strengthen the multilateral trading system. With almost all major negotiations now completed, Russia and its WTO partners should make a concerted effort to complete the accession by the 2011 WTO Ministerial conference.

3. **Investment**

- Adopt a G20 statement in favor of open investment as a tool for growth, development and job creation. G20 support is essential in the current context of unsustainable government budget deficits and their potential negative impact on cross-border investment confidence.

- Refrain from raising barriers or imposing new barriers to both outward and inward investment, and ensure that FDI restrictions or reviews are limited to properly defined national security concerns, and are applied in a transparent and non-discriminatory manner. It is necessary to improve the monitoring of conditions for private foreign direct investment to ensure they are not de facto disguised protectionism. The G20 should look at hard and soft barriers to acquisition-based FDI with a view to rolling them back to at least the levels prior to 2008. Barriers imposed in both developed and developing countries have proved to be, in the medium and long terms, harmful for economies and negative for social welfare.

- Support a multilateral approach to negotiations for investment access and protection (including a clear definition of investment, principles for state-owned enterprises, dispute settlement procedures, and minimum standards for investment protection, among others). The G20 has no legal standing and, for this reason, is not able to negotiate an investment treaty. Nevertheless, the G20, as a powerful political instrument, must open discussions to find a common vision and approach to this issue. In our view, the WTO is the best option among the international organizations to serve as the multilateral platform for cross-border investment rules and standards.

- Launch long term programs in cooperation with multilateral institutions to build and share better understanding of the positive impact of long-term, commercially driven foreign direct investment. Foreign investment benefits both the recipient and the investor country. While the benefit to the former is evident and measurable, that to the latter is more difficult to perceive (job creation and increased exports, for example). FDI is a win-win activity for the countries concerned – and not a zero-sum process.

Working Group IX

ICT AND INNOVATION

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Key Recommendations

Four preliminary statements need to be kept in mind. Innovation is critical for growth, employment and economic recovery. Information and Communication Technologies (ICT) and Internet are key elements of innovation. Making decisions among stakeholders (governments and the private sector playing in partnership) is the best way to sustain and expand ICT and Internet impact. Innovation should remain a major topic of the next B20/G20 to encompass all other topics related to accelerating and spreading innovation.

With these positions in mind, business leaders recommend:

- **Encourage authorities to create stable and predictable regulatory frameworks to promote competition and investments from the private sector, complemented when appropriate by public initiatives in sectors such as fixed and mobile broadband, ultra-broadband, content, applications and services. Supporting usage of mobile broadband and ultra-broadband will accelerate the take up of Internet and its enabling effect on the next wave of economic growth, innovation, productivity and jobs. At the same time, new business models that are sustainable for all players in the Internet value chain should be developed and encouraged.**

- **Actively promote Internet usage for all in a sustainable manner to create economically and socially valuable ubiquitous new products and services by:**

  – Encouraging SMEs to use technology and the Internet to become efficient, competitive and innovative;

  – Deploying e-government services to set and example and play a catalyst role;

  – Enhancing cooperation to ensure the creation of the necessary infrastructure for cloud computing; enabling their competitiveness; maintaining interoperability of standards and technology; recognizing intellectual property rights protection; and ensuring trans-border data flows, information security and the privacy protection of citizens; as well as

  – Promoting access and re-use of public sector information, in accordance with privacy rules, making it available for individuals and business.

- **Promote harmonization in the field of privacy protection to guarantee a level playing field among players and to create the needed trust.**

- **Ensure Internet governance arrangements are multistakeholder by providing for the open, transparent and adequate participation of stakeholders and fostering the dialogue driven by industries, while avoiding creating a new inefficient bureaucracy. The objective should be to ensure the harmonization of rules at a global level to create trust and promote innovation and development, in particular by:**

  – Fighting against cyber criminality – global cooperation would be more effective than imposing filtering on citizens and businesses.

  – Improving harmonization of intellectual property rules and international cooperation to reduce the cost of intellectual property (patents, copyrights and trade secrets).

BACKGROUND

Introduction

Information and Communication Technology (ICT) is a key enabler of an economically, environmentally and socially sustainable world. As we struggle with a recovery from one of the most serious economic crisis in recent times, innovations powered by ICT are a transformative force, which is changing how we do things, driving economic growth and productivity, and creating new possibilities for businesses, consumers and citizens.

ICT provides the underlying infrastructure that powers today's globalized economy. It has also become a key transformative force in social innovation by enabling the development, implementation and deployment of innovative solutions addressing societal needs and supporting human and socio-economic development opportunities.

Consequently, ICT and innovation have become central issues on the international agenda and are being discussed in all major arenas such as the United Nations, the World Economic Forum, the Organisation for Economic Co-operation and Development (OECD), G8, eG8 and G20. Investing in innovative sectors with high added value enhances profitability, generates employment, fosters global economic growth and ameliorates social inequalities, while favouring a win-win solution for business competitiveness and environmental sustainability and growth.

With reports indicating that the penetration of mobile phones has crossed the five billion mark worldwide, the development of ICT and the Internet can be seen as a critical enabler of innovation, and as an example of how innovation changes the lives of billions of people. These developments very clearly impact humankind’s development path. For example, mobile and fixed broadband connectivity provides access to underserved populations, extends information flows, and establishes the digital citizen at the centre of government and other service flows. It enhances commerce by enabling digital exchanges of products, services, payments and information. It also allows for widespread communication and collaboration across the globe.

Recent research[22] indicates a strong correlation between a country’s Internet maturity, ICT usage and growth of GDP per capita. The rise and development of the Internet has been one of the major revolutions of the late 20th and early 21st centuries. It demonstrates how innovation powered by technology can change our lives. Today, two billion people are connected to the Internet and almost five billion are mobile phone users. In addition, 15% of all advertising now goes to a media that did not exist 15 years ago. Clearly, the Internet has changed the way we live, the way we work, the way we socialize and meet, and the way we conduct politics.

The Internet accounts for approximately 3% of global GDP.[23] As a sector, the Internet would be larger than agriculture or energy; as a country, it would be larger than Spain and would grow faster than Brazil. The Internet is credited with more than 20% of GDP growth over the past five

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22 *Internet matters: The Net’s sweeping impact on growth, jobs, and prosperity*, McKinsey Global Institute, May 2011.

23 Ibid.

years in mature countries.[24] Estimates show that a 10% increase in mobile phone penetration is associated with a 1% growth in GDP.[25] ICT and the Internet also played a critical role in the recent Arab Spring.

Innovations in ICT have also impacted many critical sectors of the economy. In the health sector, more and more applications leverage ICT to remotely serve patients with the necessary care and monitoring services, safely and at substantially reduced costs. ICT also enables the efficient use of resources. ICT reduces CO2 emissions through various innovations, including the virtual design, simulation and optimization of all types of products and industrial processes. ICT facilitates the creation of smart buildings and smart grids, which drive energy efficiency in homes and in industry. ICT also enables green transport solutions. ICT creates new possibilities that can be leveraged to enhance environmental protection, economic growth and human progress.

At the heart of the ICT and Internet revolution is a new paradigm – ubiquitous, local access to global content and services. While local access implies local actions (investment, deployment, promoting usage and training), the transnational, cross-border nature of global content and services requires harmonizing rules at a global level. Harmonizing rules will facilitate trade, provide legal certainty, reduce compliance costs and create trust.

To accomplish this, well-focused and long-term policies are needed at the local and global levels to tackle a number of important issues. These policies will need to work across territorial and sectoral borders and should involve a large set of political, legal, cultural and technical aspects. Therefore, a multi-stakeholder approach bringing together players from the private sector and governments is necessary to define the right policies that will foster innovation and increase investment. A multi-stakeholder approach will also enable players to align priorities and take decisions.

We recommend that innovation should continue to be on the agenda for the B20/G20 to ensure that we continue to shape policies that foster and highlight innovations arising out of ICT and other areas, as well as help accelerate their spread and adoption.

RECOMMENDATIONS

Encourage authorities to create stable and predictable regulatory frameworks to promote competition and investments.

Realizing the true promise of the impact of innovations leveraging ICT and the Internet will require ubiquitous access to the technologies, the network and the availability of necessary skills to use them. To accelerate the enabling effect of the Internet, governments must encourage and support private investment, complemented when appropriate by public initiatives in fixed and mobile broadband and ultra-broadband in all countries.

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[24] Ibid.

[25] *Global Information Technology Report 2010*, World Economic Forum.

Because the Internet is a fundamentally important societal infrastructure, it is essential to foster its development by creating regulatory frameworks aimed at creating incentives for investments, developing competitive markets, and ensuring ubiquitous access. To this end, barriers to private sector investment, both domestic and international, should be removed to create ubiquitous Internet access.

As wireless broadband technologies are often the most effective way to connect remote areas, network rollouts – including fiber backhauling – should be encouraged in all areas with efficient spectrum allocations and government support.

The public sector should play the role of a catalyst and contribute to creating demand for broadband services.

The potential of next generation broadband networks lies in the opportunities they create for innovative applications, benefits to consumers, educational institutions, governments, businesses, society and the economy via a wide range of technological solutions.

Policy-makers must enable and nurture an environment that supports innovation as well as investment and competition in broadband infrastructure, content, applications and services.

At the same time, new business models that are sustainable for all players in the Internet value chain should be developed and encouraged. Innovations that result in bringing down the costs of rollout should be encouraged and, when possible, incentivized.

Comprehensive policy reviews must include relevant changes in policy to suit the nature of emerging services and products in the virtual realm.

Role for governments

- Encourage and support investments from the private sector, complemented when appropriate by public initiatives in fixed and mobile broadband and ultra-broadband in all countries.
- Encourage network rollouts, including fibre backhauling in all geographies with efficient spectrum allocations and government support.
- Set up regulatory frameworks aimed at creating incentives for investments, developing competitive markets and ensuring ubiquitous access.
- Enable and nurture an open and interoperable environment that supports innovation, investment and competition in network, content, applications and services, leveraging existing investments in this area.
- Ensure comprehensive policy reviews that suit the nature of emerging networks services and products, also taking into account local circumstances.
- Ensure all citizens are equipped with basic ICT skills.
- Ensure balanced curricula in schools from early on, with a focus on science and mathematics education to cultivate future innovators.

Role for the private sector

- Invest in technological and other innovations to offer new products and services.
- Contribute and invest in network deployments and rollouts through sustainable business models.
- Sustain innovations that result in bringing down the costs of rollout.
- Encourage and incentivize access to and interoperability of applications and services where possible.
- Ensure deployment and merchandizing of services.

Actively promote Internet usage for all in a sustainable manner to create economically and socially valuable ubiquitous new products and services.

Promoting small and medium enterprises (SMEs) to boost growth

SMEs constitute the majority of businesses in many countries. Together with global players and large companies, SMEs are key to driving economic growth and reducing unemployment.

Recent global surveys have demonstrated that Internet-intensive SMEs tend to grow twice as fast, export twice as much and be 10% more productive.[26] However, many SMEs have untapped opportunities to use technology and Internet to become more efficient, competitive and innovative.

To enable SMEs to become even more dynamic drivers of economic growth, governments must encourage and support them to adopt ICTs. This could include information campaigns, training and tax incentives for investments in Information Technologies (IT). An example of the latter is accelerated depreciation schedules for IT equipment.

Government role – setting an example and playing a catalyst role through e-administration and access to public sector information

Governments have a critical role to play in piloting and modelling the adoption of new technologies. Research indicates that countries with the highest public expenditure in Internet also see the highest contribution of Internet to GDP.

Therefore, we encourage governments to foster the diffusion of innovations through promoting services such as e-government, e-health and e-education. Adopting and diffusing innovations will require private sector support.

Governments should also encourage computerizing administration as an instrument of modernization and as a way to improve accountability, transparency and performance. ICT can be a key enabler for reforming the state. For example, ICT can provide fast and easy access to public sector information.

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[26] McKinsey Global Institute, May 2011, *op.cit*.

Providing open access to and re-use of public data should be a priority. Open access to public data enhances transparency of government. Open access to public data can also enable the development of new services for the daily lives of citizens, such as transit routing services that combine government data with mapping and traffic congestion data. Open data can be a driver of innovation and enhance economic and scientific competitiveness.

International cooperation on cloud computing services

Through the expansion of the Internet and the evolution of ICT, cloud computing can extend the availability of applications globally. Within a cloud-computing environment, computing resources and data can be accessed across geographical boundaries.

To encourage the development of new business models through cloud computing, governments and the private sector should cooperate to ensure the creation of the necessary infrastructure, encourage the development of interoperability standards and technology, while ensuring competitiveness. They should also cooperate to establish rules for treating digital content, reducing barriers to trans-border data flows, promoting information security and protecting the privacy of consumers.

The public sector can lead by adopting cloud-computing infrastructure for services and applications, thereby serving as an example for other users.

Harmonizing regulations across geographical borders will facilitate the deployment of cloud services. Laws and rules are often national, however services and applications on the cloud are global. For example, it is likely that a company in Asia or in Europe could deliver healthcare services to consumers in their home countries with data residing on servers in the United States. There needs to be a strong common framework to manage the delivery and fulfilment of these services.

Role for governments

- Encourage and support SMEs to adopt ICT. This could range from information campaigns and training to tax incentives for investing in information technology (IT). An example of the latter is accelerated depreciation schedules for IT equipment.
- Set an example and play a catalyst role through e-administration and access to public sector information and lead adoption of cloud computing infrastructure for their own services and applications.
- Partner with the private sector to ensure the creation of the necessary infrastructure and encourage the development of interoperability standards and technology.
- Provide open access to and re-use of public data.
- Establish international cooperation on rules for the treatment of digital content, reduce barriers to trans-border data flows, and promote information security and the privacy protection of consumers. Harmonize these regulations across geographical borders.

Role for the private sector

- Encourage and support the adoption of ICT.
- Partner with the public sector to invest in the necessary infrastructure and encourage the development of interoperability standards and technology.
- Participate in government-led initiatives to increase the adoption of ICT, including e-administration and access to public sector information.
- Leverage public sector information for developing new services that impact the daily lives of citizens. An example is transit routing services that combine government data with mapping and traffic congestion data.

Promote harmonization in the field of privacy protection

It is important to recognize that in the digital economy there will be trade-offs between ubiquitous connectivity and security, interoperability and privacy. These trade-offs will need to be resolved across geographical boundaries. Adequate mechanisms will also need to be put in place to manage the risk of compromising the safety and security of citizens. Regulations will need to consider the varying values and attitudes across cultures.

Regulations and guidelines governing privacy must reflect the fundamental rights and civil liberties of individuals, especially concerning issues of online freedom of expression, privacy, trust and security. However, regulations and guidelines must also take into account the benefits that personalized services can provide. Protecting privacy and encouraging the flow of global data should not be seen as mutually exclusive objectives. It is imperative that they go hand in hand.

Individuals need clear privacy protection rules equally applied by all of the Internet services providers in the market. Companies need understandable privacy policies based on well established and globally accepted privacy standards. Such a global privacy framework would enable both fair competition and equal treatment for individuals.

Role for governments

- Find a balanced approach between privacy and security.
- Implement adequate mechanisms to manage and mitigate the risk of compromising the safety and security of citizens, while not prescribing specific technology solutions.
- Ensure a level playing field among players along the Internet value chain from different geographical areas, encouraging the flow of data globally to create and deliver relevant, personalized services through implementing privacy rules at the international level. To this end, initiatives aiming at overcoming national privacy regulation fragmentation should be encouraged.

Role for the private sector

- Businesses should take privacy into account when designing products and services.
- Businesses should partner with governments to ensure adequate mechanisms are in place to manage the risk of compromising the safety and security of citizens.

Ensure Internet governance arrangements are multi-stakeholder

It is critical that policy frameworks spur innovation, creativity, investment and competitive market dynamics across the Internet ecosystem. Policy frameworks must also remain relevant in the long term, particularly given the rapid pace at which technology evolves. In this context, a multistakeholder approach is needed both at global and local level. This is key to driving consumer demand and new sources of growth. This includes protecting and enforcing intellectual property rights, encouraging the development and availability of legal content, offering the free flow of information and knowledge, protecting privacy, as well as generally having an innovation focus in developing and implementing policy and regulation.

It also involves avoiding new disincentives to innovation and entrepreneurship. Governments should refrain from over regulating, which could otherwise stifle innovation, to the detriment of all stakeholders. Governments should focus on advancing technology-neutral and sustainable principles, consumer protection, transparency and fundamental rights.

At the same time, governments should be mindful of balancing various public policy goals and approaches at the local level, and therefore recognize the importance of local, multi-stakeholder policy development processes. Governments should be particularly judicious in balancing competing interests. An example is finding in the geographical area where the services are used the right local balance among competition, privacy protection, law enforcement concerns and the free flow of information.

International harmonization to exploit the potential of the global Internet economy

The Internet knows no borders. Information is readily accessible and can be published from anywhere. Yet, laws and regulatory regimes are necessarily jurisdictionally limited and are either regional or national. This creates considerable legal uncertainty and increased costs for businesses – especially SMEs. We believe that a harmonization of rules with a focus on nurturing the digital ecosystem in fields such as data protection, privacy, intellectual property (IP) protection and cyber security, can unlock additional innovation and growth.

In this context, we also need to streamline the procedures for international data transfers, especially within the same group of companies. While this may appear to be a challenging goal, similar fruitful cooperation has already been demonstrated by the international community in areas such as defining international telecommunication standards or in regulating frequencies (by the International Telecommunications Union), setting some common ground in IP (by the World Intellection Property Organization) or addressing environmental challenges. An example of the latter is the Montreal Protocol on Substances that Deplete the Ozone Layer.

International multi-stakeholder and Internet governance

Internet governance arrangements should provide for the open and transparent participation of all – government, the private sector, civil society and technical stakeholders. Public policies should recognize the global nature of the Internet. Transparent policy-making processes must involve all stakeholders, including governments and business.

To avoid inefficiencies due to additional layers of bureaucracy and new regulations, we must build on existing institutions and engage in an open policy dialogue among all involved stakeholders, guided by a philosophy of self-regulation. Multi-stakeholder existing bodies should be accepted and recognized.

Cyber criminality

International cooperation is indispensable to address cybercrime and malicious actors, for example those involved in child pornography, organized crime and terrorism. International cooperation is also critical to effectively stop offenders.

Governments must focus on methods of cooperation, engaging the private sector to ensure timely and technically scalable responses. Consumers and youth must be educated in the use of the Internet. Moreover, restrictions on freedom of information must be strictly supervised and must respect due process and the role of judicial authorities. Such cooperation, while addressing malicious actors, should not hinder innovation and the free flow of information.

Innovation and intellectual property and fighting against counterfeiting and piracy

We consider innovation to be a broader domain and deem that a better and more harmonized protection of IP (patents, copyright and trade secrets) is crucial to more innovation as it influences innovators' trust and their financial returns to innovation, as well as access to and use of new technological discoveries. The transfer and flow of technologies should encourage and respect IP rights, while enabling new innovations to be developed on the foundation of other technologies.

Laws and structures to support and protect IP rights and open markets are essential to help encourage the development of breakthrough solutions and give innovative companies a means to distinguish their products from those of their competitors. They are critical to innovation and fair, market-based competition as they allow innovative companies to put a "price" on such innovation, and be rewarded for the efforts made to commercialize the best products and services. This is critical not just for established companies, but also for developed and developing economies around the world, as they begin to build or try to sustain knowledge-driven, high value-added economies and industries.

Counterfeiting and piracy also discourage investment, especially in innovative sectors, thereby hindering competitiveness and economic growth at the global level. Furthermore, counterfeiting is highly dangerous for human health and safety. Revenues from counterfeiting and piracy often feed criminal organizations to the detriment of society. Companies need a better harmonization of IP. International cooperation may have a role in reducing the cost of IP rules. In particular, we must strengthen cooperation between patent offices to reduce costs and delays, as well as improve patent quality.

Role for governments

- Establish policy frameworks that spur innovation, creativity, investment and competitive market dynamics throughout the Internet ecosystem.
- Encourage an innovation bias in developing and implementing policy and regulations, and avoiding any new disincentives to innovation and entrepreneurship.
- Ensure international consistency and enforcement of privacy regulation.
- Harmonize rules with a focus on nurturing the digital ecosystem in fields like data protection, privacy, security, IP protection and cyber security.
- Recognize the global nature of the Internet and provide for open, transparent participation of all stakeholders (government, private sector and civil society) in innovation based on the Internet.
- Ensure transparent policy-making processes, involving all stakeholders, including the private sector.
- Focus on methods of cooperation, engaging the private sector to ensure timely, economically and technically scalable responses.
- Educate consumers, including youth, on using the Internet.
- Supervise restrictions on freedom of information and respect due process and the role of judicial authorities.

Role for the private sector

- Engage with government to establish policy frameworks that spur innovation, creativity, investment and competitive market dynamics across the Internet ecosystem.
- Drive consumer demand and create new sources of growth.
- Protect and enforce IP rights, encouraging the development and availability of legal content offers and supporting the free flow of information and knowledge.
- Protect privacy.
- Streamline procedures for international data transfers.
- Build on existing institutions and engage in an open policy dialogue among all involved stakeholders, guided by a philosophy of self-regulation.
- Support IP rights and open markets.

CONCLUSION

Both the public and the private sector have important roles to play in ensuring the Internet and ICT flourish. The Internet has connected the world in ways that were unimaginable a few decades ago. Technological advances such as broadband cloud computing and mobility have made it possible for governments and businesses around the word to reach out to the farthest consumer to meet their needs.

In a world where austerity seems to be the order of the day, innovations driven by ICT can help measure, monitor and drive the kind of efficiencies required to ensure long-term growth and sustainable development. ICT can bridge the gaps between businesses and governments, as well as with citizens, in delivering information or data, services and applications in a safe, cost-effective way. New models for consumption and delivery are emerging that can change the world and impact every aspect of our lives.

The onus is on governments as well as on businesses to come together to harness, leverage and deliver the promise held out by these technologies.

Working Group X

GLOBAL GOVERNANCE

Conveners

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Key Recommendations

Emerging global challenges have reinforced the need for global cooperation on legislative and regulatory frameworks. Recent developments have demonstrated that, without coordinated action among governments around the world, it is not possible to come up with effective and efficient solutions. Businesses from the G20 countries have organized themselves to contribute to the international discussions. As national and international economic actors, we wish to be involved and positively contribute to the evolution of the framework for global governance, and therefore we make the following recommendations:

- **Improve global cooperation:**
  - The G20 should undertake a mapping exercise of the current architecture for global governance and identify where there are gaps to be filled, overlaps to be addressed or new channels of dialogue that need to be set up.
  - The G20 should base its recommendations for a potential and more efficient new architecture on a firm understanding that there is no single mechanism by which good global governance can be achieved. Sometimes, there may be a need for a new global institution or network. Often, the most effective way forward is by cooperation among national bodies. In some instances, regulations can be harmonized into one global standard; in other instances, a series of mutual agreements might work better. Global governance, by its nature, is not conducive to one "grand solution" or "silver bullet".
- **Improve G20 transparency and monitoring of outcomes:**
  - To ensure more transparency and reinforce the implementation of its proposals and agreements, the G20 should work on how to increase its visibility and how to cooperate with stakeholders during the whole process. Centralized functions – for example, a single website giving both background on the G20 and up-to-date information on current work flows – are necessary and will bring coherence and continuity to the G20 work under successive presidencies through the years.
  - The G20 should take steps to ensure that individual governments follow through on targets and policies agreed among members. This should be part of the thinking on any recommendations for a new global governance and how it is delivered. Publishing before each Summit a progress report on agreements reached would add to the accountability of this process.
- **Further develop the business sector's input to the G20 and the work of international organizations:**
  - The G20 should continue to develop an effective dialogue with the global business community by committing to systematic interactions with the B20 not only during the Summit, but also during the preparatory period. Representative business federations should be involved in the consultation process from the beginning, including on G20 priorities and agendas.
  - The G20 should encourage international organizations to foster cooperation with business representatives. Better participation of businesses in the discussions and decision-making processes of international organizations would deepen engagement with stakeholders and increase transparency.
  - The G20 should promote an open process for debate (including the private sector, relevant technical communities and broader civil society) about emerging global issues such as energy supply or Internet governance. This would allow better knowledge of the realities across markets and also a transparent debate, involve responsible stakeholders in the decisions to be taken, and ensure their commitment to the implementation of those decisions.

BACKGROUND

The business community strongly believes that globalization is a force for good and that increased globalization leads to better life outcomes around the world. But we stress that for maximum benefits to be reaped and any downsides to be minimized and managed, better global governance is required. We need global governance that can tackle common international challenges and provide the basis for fully realizing the world's economic growth potential.

Recent developments such as the global financial crisis have reinforced the need for more global cooperation on legislative and regulatory frameworks. They have demonstrated that, without coordinated action among governments around the world, it is not possible to come up with effective and efficient solutions to emerging issues.

Prior to the crisis, it was already obvious that increasing numbers of policy issues that are important to global growth could only be tackled in a coordinated and collaborative way. No country alone can solve challenges such as Internet governance or climate change.

Our existing framework for global governance could be largely improved. Some international institutions have faced difficulties in shaping policy to address some of the most pressing global needs. For an important number of issues treated by the G20, international organizations and regulatory bodies have not been able to execute fully or efficiently their mandate for various reasons including:

- A lack of political impetus even when decisions have been taken by the G20. An example is the World Trade Organization (WTO), which has been unable to conclude the Doha Round of negotiations despite the fact that at the Seoul Summit last year the G20 stated this as an objective for 2011.

- The architecture of global governance insufficiently maps onto the complex international context we have today, meaning that some key issues are not dealt with at all or are subject to overlapping jurisdictions. For example, emerging issues around raw materials and commodities, water and energy are not being efficiently tackled.

- International organizations have difficulty providing timely and flexible answers once a problem is detected, due to the long procedures needed to approve actions or initiatives. This situation can have negative effects on society as a whole and should be addressed so that response processes are better suited to tackling the problems we face today.

Businesses from the G20 countries have begun to organize themselves to contribute to emerging global discussions and provide input to international organizations and dialogues. In the past, for example, there have been G8 business summits, regional summits such as the MED Business Summit, African conferences, business delegations to the Conference of the Parties (CoP), and G20 business summits in the UK, Canada and Korea, among others.

This year, MEDEF organized the B20 as a mirror of the G20 by ensuring business representation from all the G20 countries. Building on the foundations set by the Federation of Korean Industries (FKI) in Seoul in 2010, MEDEF set about creating a representative and high-profile business forum for 2011. To ensure the durability of this important new business forum, MEDEF worked collaboratively with 23 national and regional business confederations from around the world (representing small, medium and large enterprises) and senior representatives of important companies, representing a large number of sectors of business activity.

This global business mobilization shows that we have a great interest in participating directly and indirectly in the G20 discussions and decisions. As national and international economic actors, we wish to contribute positively to the evolution of the framework for global governance. We therefore offer the following principles and recommendations to the G20 summit in Cannes. They are in three broad areas:

- The need for a better overall framework for global cooperation
- The need for the G20 to improve its processes
- The need to improve consultations with the representative business community

1. Improving global cooperation

The global business community believes there is a need for much better cooperation between governments. The political, economic, social and demographic setting of the 20th century no longer holds true. Today, we live in a multipolar world, in which one can observe significant shifts from developed to emerging market economies, from West to East, and from North to South.

The world is also substantially more connected than it was in the last century. The rise of new capabilities in information and communications technology, in particular the Internet, has led to a flourishing of communication among individuals, organizations, companies and communities that previously would have been divided by geography.

Companies have been able to take advantage of these new opportunities, and now, even the smallest enterprise can have customers, suppliers or even workers around the world. By contrast, politics is still fundamentally grounded in the nation state unit. National laws or regulations should take into account the global dimension of a specific issue.

The G20, in our opinion, should lead the debate on the new global governance and provide the necessary political impetus for necessary reforms in the future.

2. Improving G20 transparency and consistency of outcomes

We very much welcome the emergence of the G20 as a forum for discussion and agreement among the major world economic powers. However, in its current format as a meeting at the head-of-government level – as opposed to its previous form as a gathering of finance ministers and central bankers – it is a very new organization, and its structure and processes have yet to catch up with its importance in the policymaking process.

The G20 needs to improve its transparency. Its member governments should seek to remedy this, both collaboratively and individually, so that key partners – the business community among them – can have a good grasp of what topics the group is considering and what policy recommendations are being formulated.

The G20 also needs to address the problem of the lack of delivery, noted in certain areas, by its own member governments. We accept that this is not a body with its own political legitimacy; rather, it is a coming together of legitimate governments. Nevertheless, it is a problem when the G20 agrees to collective action but then individual governments fail to deliver on their promises.

The failure to conclude the Doha Round of trade negotiations under the WTO is an egregious example of this. In their deliberations on a new framework for global governance, the G20 should seek ways to avoid this, for example, by giving specific mandates to national regulators to work collaboratively with counterparts across the G20, or by ensuring that the mandates given to multilateral negotiators match those agreed within the G20.

Member governments can also do more to achieve better delivery of outcomes agreed at G20 meetings. They should improve their own internal coordination and seek to ensure that all their various departments, agencies and other national institutions understand the goals to which they have committed. On occasion, different departments of the same national government express varying views on G20 policies and take different approaches to implementing them. This leads to unhelpful confusion and a lack of progress.

3. Improving the business community's input into the G20 and the work of international organizations

Closer dialogue between the G20 and the B20 is crucial for two reasons:

- The issues discussed by the G20 most directly concern businesses. The business community can therefore provide solid analysis and concrete recommendations to G20 leaders.
- The policies and regulations agreed by G20 governments often apply to businesses or to issues of importance to the business sector. Involving the business community in the decision-making process enhances the chances for smooth implementation of policies and regulations, without negative or unexpected consequences.

Interaction between the G20 and the B20 is particularly desirable in the working groups or areas of direct concern to companies: energy, ICT and innovation, commodities and raw materials, financial regulation, and trade and investment. Making these working groups more structured in the G20 process will guarantee that these urgent issues will continue to get the attention they require and that business is involved in making related decisions and is committed to their application and implementation.

Under the French G20 presidency, there has been good progress in improving the quality of business input into the G20. The G20 itself has encouraged a systematic interaction with business, not only during the Summit itself but also crucially in the preparatory period, at meetings of ministers and senior officials or sherpas. Under the leadership of MEDEF, the business community has similarly moved to increase the quality and frequency of business input to G20 governments. We hope this interaction can develop further in the future.

The business community has come together in discussions that involve business groups and trade associations, as well as individual companies. We believe that this is an effective way of ensuring that our inputs represent broad business thinking rather than the views of particular CEOs, and that all sectors of the economy and all regions of the world are brought into the process.

RECOMMENDATIONS

4. Improving global cooperation

- The G20 should undertake a mapping exercise of the current architecture for global governance and identify where there are gaps to be filled, overlaps to be eliminated by revising organizational remits, or new channels of dialogue that need to be set up. The G20 might seek to do this itself or by appointing a committee of "wise persons".
- The G20 should base its recommendations for a potential and more efficient new architecture on a firm understanding that there is no single mechanism by which good global governance can be achieved. Sometimes, there may be a need for a new global institution or network. Often, the most effective way forward is by cooperation among national bodies. In some instances, regulations can be harmonized into one global standard; in other instances, a series of mutual agreements might work better. Global governance, by its nature, is not conducive to one "grand solution" or "silver bullet".

5. Improving G20 transparency and consistency of outcomes

- To increase transparency, the G20 should reflect on how to become more visible for all the stakeholders. While the creation of a permanent secretariat is a decision for member governments, we believe that some centralized functions, such as a single website that gives both the background of the G20 and up-to-date information on current workflows, are necessary. These will bring coherence and continuity to the G20's work under future presidencies.
- The G20 should also take steps to ensure that individual governments follow through with agreed targets and policies. This should be considered when making any recommendations on the new global governance and how it should be delivered. Publishing before each Summit a progress report on implemented agreements would enhance the G20's accountability.

6. Improving business community input into the G20 and the work of international organizations

- The G20 should continue to develop an effective dialogue with the global business community. It should also commit to systematic interactions with the B20 not only during the annual Summit but also during the preparatory period before it.
- Representative business federations should be involved in the consultation process to ensure the legitimacy of the B20's work. They should be involved in the process from the beginning, including consultations on G20 priorities and agendas.
- The G20 should encourage international organizations to foster cooperation with business representatives. Greater participation of businesses in the discussions and decision making of international organizations would enhance stakeholder engagement and transparency in their work.

- The G20 should promote an open process for debate, involving the private sector, relevant technical communities and the broader civil society, for discussing emerging global issues such as energy supply or Internet governance. This would allow better knowledge of the realities across markets and transparent debate. It would involve responsible stakeholders in the G20 decision-making process and ensure their commitment to the implementation of those decisions.

Each of our fellow B20 working groups has issued recommendations aimed at improving global governance in various sectors and on a range of issues. These recommendations highlight some areas in which the B20 believes gaps in the global governance framework are causing policy failure. These deficiencies should be addressed.

Working Group XI

ENERGY

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Key Recommendations

Energy and industrial actors are facing unprecedented challenges. The drawn-out recovery period has consequences for the G20 countries, and economic and fiscal policies will affect the way energy supply and demand evolves. A secure and competitive energy supply, based upon a well-balanced energy mix is one of the main conditions for global economic growth, and no source alone can address today's growing energy needs. It is imperative to develop strong incentives to promote energy efficiency, technology-neutral threshold standards for generation technology, public research and development support for new energy technologies, reliance on scientifically-based metrics of the performance of energy sources, and a consistent, long-term framework for reducing energy-related carbon emissions. Business leaders, therefore, make the following recommendations:

- **Develop incentives to encourage deployment of energy efficiency**
  - Incentivize utilities to promote energy savings through efficiency measures and treat it as a generating resource;
  - Encourage active control systems (smart grids, smart control, smart displays, smart metering, speed drives in industry, energy management systems, intelligent energy storage);
  - Radically cut energy consumption in the real estate sector with a real transformation in design, use of technology and change in behavior, and resolve misaligned incentives (e.g., landlord / tenant misalignment) which discourage energy efficiency investments;
  - Transfer energy-efficient and innovative green technologies from industrialized to developing countries by including energy efficiency and energy technologies contributing to access to low-carbon energy in Clean Development Mechanisms, in compliance with industrial property rights.
- **Make sure that the regulatory framework does not prevent the implementation of new or existing energy projects and technologies**
  - Continue research programs for non-conventional hydrocarbon resources while enabling sufficient investment in scientific R&D to ensure that the development of these resources can proceed with environmental safeguards;
  - Strengthen dialogue between producing and consuming countries by a greater use of the existing international forums, including the G20, IEA, OPEC; lead in the implementation of the Joint Oil Data Initiative and introduce another specific global information-sharing mechanism covering production, consumption and storage;
  - Harmonize nuclear safety standards in order to help enhance public understanding of the instrumental role played by nuclear power.
- **Establish genuine market mechanisms to encourage investments and facilitate access to energy in developing countries**
  - Ensure that all technologies contributing to access to low-carbon energy or to energy efficiency are made eligible for Clean Development Mechanisms, which needs to be drastically improved;
  - Introduce an energy market framework in developing countries to incentivize the provision of energy services on a universal basis; integrate low-carbon energy sector plans into Nationally Appropriate Mitigation Actions (NAMAs).

BACKGROUND

The energy sector is facing unprecedented challenges. Although the recent economic crisis appears to be easing, the foundation of the recovery is still shaky. Expectations of continuing austerity measures in some economies imply a drawn-out recovery period. This situation has consequences for G20 countries, and their economic and fiscal policies will have a major impact on the way energy supply and demand will evolve. A well balanced energy policy is one of the main preconditions for global economic growth.

World energy demand is forecast to increase by 1.2% per year for the coming decades. More than 80% of this increase will take place in non-OECD countries. No single energy source can alone address today's growing energy needs. A reasonable path must consist in improving energy efficiency, while continuing to diversify energy supply sources and related technologies. Over the next 20 years, all existing and potential energy resources must contribute to addressing demand growth. However, the supply mix will inevitably be a function of how different national jurisdictions assess the performance of different energy sources from economic, cost competitive, environmental, security and technological perspectives.

The approaches that the G20 governments choose for investment and regulation will determine to a great extent the long-term prospects for energy. From the standpoint of the business community, it is imperative that energy should be supplied in a stable and cost-competitive manner that will result in sustainable GDP growth and job creation. Good energy policy will be underpinned by a set of guiding principles that provide a basis for certainty and sound, long-term business investment decisions. These principles should include:

A. Strong incentives to promote energy efficiency, both for utilities and end-users;

B. Technology neutral "threshold standards" for generation technology, which would allow for a level playing field between different technologies, provided that they meet the performance requirements and offer certainty to the market (e.g., with respect to carbon or conversion efficiency);

C. Public R&D support for new energy technologies, combined with time limits on subsidies for the market deployment of these technologies;

D. Support for expanded market mechanisms, underpinned by much stronger energy control and information systems, across the energy value systems;

E. Scientifically based metrics on the end-to-end environmental performance of different energy sources;

F. A consistent, long-term framework for reducing energy-related carbon emissions; and

G. Private-public incentives to expand access to energy.

While many of these policy principles can be enacted in a purely domestic context, some (e.g., around carbon emissions, measurement systems) require more international coordination. The next 20 years will be critical for the development of the global energy system. Massive investment – over USD 1 trillion per year – is required in the energy sector. Of that, over 65% will be required in developing countries. A large percentage of the investment funding will be from the private sector. This scale of investment will be available if policy and institutional frameworks create strong incentives and sufficient predictability of returns, if the role of governments is clear, if there is a balanced approach to different energy technologies, and if there is sufficient policy focus on energy efficiency. In this sense, national governments should generate active financing policies, both as a funding provider and as an interlocutor between the private sector and international organizations. While most of the action needs to take place at the domestic level, there are some important areas where international coordination is essential to strengthen energy security, to harmonize nuclear safety standards, to accelerate technological innovation to address climate change risk, and to strengthen information sharing (potentially reducing extreme energy price volatility) and best-practice sharing.

Fossil Fuels

Oil, gas and coal will likely remain the primary energy sources for the next few decades. According to the IEA's New Policies estimate, their share is expected to decrease slightly – from 80% to around 75% by 2030. In volume, the quantity of oil, gas and coal consumed in 2030 will be higher than today[27]. In order to meet this global demand, it is therefore imperative to develop new hydrocarbon resources. No solution should be overlooked.

Renewable Energy

Renewable energy is playing a significant and expanding role in many countries' energy mix. According to the IEA, its "New Policies" estimate envisages wind, solar photovoltaic, concentrated solar power, geo-thermal, biomass and waste energy will supply about 15 percent of global electricity demand by 2035, compared with 4 percent in 2008. This share is likely to be significantly higher by 2050.

Non-fossil liquid fuels and, notably, second - and third - generation biofuels present an opportunity to change the energy mix of the transport sector through such means as green diesel, green ethanol, and green jet fuel. Careful management of bioenergy growth represents a real opportunity to diversify energy sources. According to the Food and Agriculture Organization (FAO), safely integrating both food and energy production may simultaneously reduce the risk of food insecurity and greenhouse gas emissions, and Integrated Food-Energy Systems (IFES) can achieve these goals on both a small and large scale.

Nuclear Energy

The aftermath of the Fukushima nuclear incident has changed the way the public views the sector and underscores the importance of supply and energy safety.

No energy option, including nuclear power, should be excluded from a balanced and non-discriminatory energy-mix, which will contribute to tackling climate change as well as energy security. Nuclear energy is expected to represent a significant part of the energy mix going

[27] *International Energy Agency, World Energy Outlook 2010*

forward. Abandoning this option would have massive implications, given the constraints on resource availability, financing, energy price and CO2 emissions.

The IEA envisaged in its 2010 central New Policies scenario that nuclear power's share of world primary energy demand should increase from 5.8 percent in 2008 to 7.3 percent in 2035.

The Fukushima incident has prompted a movement towards a more responsible expansion of our nuclear capacity. At the Ministerial Conference on Nuclear Safety of the International Atomic Energy Agency (IAEA) in Vienna on June 20-21, 2011, the ministers of the member states agreed to act on the lessons of the Japanese nuclear crisis to strengthen nuclear safety, emergency preparedness and radiation protection for both people and the environment worldwide. The G20 should embrace the proposals made at the IAEA's Ministerial Conference and continue its efforts toward an improved nuclear safety framework.

The Vienna meeting also drew international attention to the need to improve worldwide agreements in energy matters at the global level.

Increasing Access to Energy in Developing Countries

Availability of energy and access to energy resources at an affordable price will define the level of energy security for nations. Energy security will also depend on how countries manage their relations in a bilateral or multilateral framework.

The increase in demand for energy is particularly pronounced in emerging economies, where growth in demand may reach over 4 percent per year. Since universal access to a modern energy service is one of the top priorities, the lack of electricity in developing countries should be a continuing concern. Governments and business leaders should work together to provide basic access for the 2-3 billion people excluded from modern energy services.

Current energy systems are clearly inadequate to meet the challenge of development (Millennium Development Goals). According to the United Nations[28], around 3 billion people rely on traditional biomass for cooking and heating, 1.5 billion people have no access to electricity and 1 billion have no access to reliable electricity networks. This has negative consequences for health (inadequately ventilated buildings), for productive activities and for the countries' economic growth. UN estimates suggest that an investment of USD 35-40 billion per year over the next 20 years (approximately 3-4 percent of total energy investment) will be required to achieve universal access to modern energy services. In the short term, around USD 10 to USD 15 billion per year of international concessional financial support would already drive universal energy access to modern and clean energy by 2015.

According to a World Bank study in 2009, countries with underperforming energy systems may potentially lose up to 1-2% of GDP growth per year as a consequence of electricity outages, over-investment in backup electricity generators and inefficient use of scarce energy resources.

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[28] Energy for a Sustainable Future – United Nations Secretary General's Advisory Group on Energy and Climate Change (AGECC) – Summary report and recommendations – 28 April 2010

RECOMMENDATIONS AND COMMITMENTS

Business leaders are both willing to commit their own leadership and call on the G20 Ministers to:

1. **Give priority to energy efficiency. To this end, develop incentives, market-based mechanisms, including the improvement of the current Clean Development Mechanism and full liberalization of trade, and technological infrastructure to encourage the deployment of energy efficiency.**

Stronger national incentives in favor of energy efficiency can be an effective way of addressing both domestic energy resource issues and the global challenge of climate change.

A number of economies have introduced CO2 emission reduction mechanisms. Giving a price to CO2, especially when combined with the introduction of low-carbon technologies, is a way to encourage emissions reductions, foster energy efficiency and stimulate the diffusion of decarbonized energies. Voluntary action plans as a social commitment by the private sector also play a significant role in effectively reducing CO2 emissions. The business community will continue to proactively tackle climate change and improve energy efficiency by taking part in CO2 reduction mechanisms, provided that these are designed in a competitively fair and transparent way.

Actions designed to improve energy efficiency need to focus on both production and consumption. On the consumption side, the potential for empowering energy consumers by providing active control (smart grids, controls, displays, smart metering, speed drives in industry, energy management systems, intelligent energy storage, etc.) should be encouraged by appropriate regulatory policies and investments. Smart grids give consumers an active role in energy efficiency by modifying the way they use and purchase electricity. Smart grids can also spur economic growth by creating new products, services and markets. Well-designed tools help match consumer preferences and make possible efficient power management and consumption decisions.

Enabling utilities to accelerate their evolution towards “energy solution” business models is also a critical step toward the improvement of energy efficiency. Incentives and supporting policy measures should be developed to enable utilities to promote energy savings through efficiency measures.

The potential energy efficiency of the transport and real estate (both residential and commercial) sectors is still underdeveloped and needs to receive top priority.

In order to deliver climate-change targets, it is important to transfer energy-efficient and innovative green technologies from industrialized countries to developing countries. The transfer should include effective protection of intellectual property rights. One of the ways of achieving this target will be to ensure that energy technologies contributing to energy efficiency and access to low-carbon energy are made eligible for Clean Development Mechanisms (CDMs), which need to be drastically improved. New market mechanisms, including bilateral offset credit could also be put in place to promote the deployment of low-carbon technologies to emerging and developing countries. Such mechanisms could play a complementary role to CDMs. Technology is a key factor in improving energy efficiency. It is critical to deploy existing energy conservation methods, as well as to promote research and development of innovative, cutting-edge technologies. The G20 should take the lead in ensuring fully liberalized trade (i.e., elimination of both tariffs and non-tariff barriers) in energy efficiency and conservation technologies. As an example, the recent ISO 50001 standard established a framework for the administration of energy in industrial plants, and commercial, institutional and public facilities.

2. **Make sure that the regulatory framework and standards allow the implementation of new energy projects with appropriate environmental safeguards**

Inefficient planning, regulatory uncertainty, and permit procedures can add years to the time required to bring renewable energy projects into service, delaying multiple benefits and substantially adding to the overall costs.

3. **Deliver on existing commitments to develop highly efficient fossil fuel projects, such as CCS, IGCC and A-USC, and do so in a way that enables the full participation of developing countries.**

It is necessary to continue research programs for non-conventional hydrocarbon resources, including both shale gas and oil, both of which have considerable potential but which raise unresolved environmental questions. G20 countries will need to take the lead in ensuring sufficient investment in research and development in these fields, paving the way to extract resources economically and under environmentally optimal conditions. This research will then need to lead to the development of regulatory frameworks and standards that ensure that the full development of these resources can proceed with appropriate environmental safeguards.

Emphasis should also be placed on carrying out the R&D necessary to mitigate the environmental impact of continued use of fossil fuels. In addition to specific technologies such as the integrated coal gasification combined cycle (IGCC), the advanced ultra-supercritical pressure (A-USC) or other comparable solutions, the G20 needs to follow through on an expanded program of research and demonstration projects on carbon capture and storage (CCS). These demonstration projects should not be located only in the developed economies, but international climate finance should be made available to enable developing countries to participate in the CCS program.

To help develop adequate resources to meet greater demand, it is also necessary to strengthen an energy dialogue with oil-producing countries. This should include:

- Greater use of the existing international forums, including the G20, International Energy Agency, and OPEC, as platforms where governments could discuss how to effectively bridge the gap between supply and demand ;
- Implementing the Joint Oil Data Initiative (JODI) and exploring how to generalize it to other commodities through the International Energy Forum (IEF) and other partners; and
- Creating a global information-sharing mechanism to cover production, consumption and storage.

4. **Continue to support the scaling up and grid integration of renewable energy technologies in a way that will lead them to become more cost competitive and rapidly integrated into the energy systems of both developed and developing countries**

To tap the full potential of renewable energy as a stable and cost-effective resource, it is essential to further promote research and demonstrate technologies that are not yet commercially deployable.

It is necessary to ensure adequate finance and address availability of sufficient affordable capital with the right level of tolerance for risk.

Develop cost-effective incentives for renewable energies in a way that is tailored to national circumstances. These include the appropriate use of feed-in-tariffs or other mechanisms (such as renewable portfolio standards), which encourage renewable energy sources to scale; drive down costs and get progressively integrated into the grid.

Reinforce and build out grids to bring distributed renewable power to the load centers where the power is consumed. Apply innovative controls, and information and communications technologies to create efficient power management and consumption decisions. Energy storage technology also needs to be developed in order to overcome the intermittent nature of renewable energy production. Also important is enabling cross-border and long-distance electricity trading as a means to even out intermittent power supplies.

5. **Improve international oversight frameworks for nuclear safety, while at the same time strengthening domestic capacities and regulatory systems**

The B20 calls for increased competence in the field of global cooperation on nuclear energy issues (exchange of good practices in the field of safety or public awareness on nuclear energy) to be given to the existing international organizations (e.g., IEA, IAEA).

These additional oversight accountabilities should be included in a revised international framework to assess nuclear safety and, in particular, additional efforts to harmonize safety standards. This will help enhance public understanding of the instrumental role played by nuclear energy, which must remain a full-fledged part of the global energy mix.

It is important to bear in mind, however, that nuclear safety is primarily a national issue for national authorities, involved operators and companies dedicated to that task. What is needed is more coordination and an exchange of information and good practices between national authorities.

6. **Encourage investment and facilitate access to energy in developing economies, with targeted financial support to achieve the goal of universal modern energy access by 2030. In order to facilitate greater access to electricity in developing countries, the business community recommends:**

The introduction of national action plans to accelerate the provision of modern energy services on a universal basis;

- The integration of these plans into Nationally Appropriate Mitigation Actions (NAMAs) in order to combine access to energy and the shift towards a lower-carbon energy mix;
- The use of market mechanisms to incentivize the required investment for expanded energy access, combined with a provision for blended (and concessional) forms of international finance to address upfront capital costs;
- A reorientation of energy policy, tariffs and market framework to increase involvement of the public and private sector, notably in energy utilities;
- The progressive introduction of low-carbon energy technologies as well as an effective use of bilateral offset credit mechanisms.

Working Group XII

GREEN GROWTH

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Key Recommendations

Building on the 2010 B20 work, the 2011 B20 Working Group on Green Growth believes it is time to accelerate the global transformation to a truly resource-efficient economy. We are committed to making the investments, taking the risks, and seizing the opportunities that pursuing the green growth economic transformation to which we aspire represents. In order to achieve green growth as rapidly and efficiently as possible, we urge the G20 to take the following actions:

- **Allow free trade in environmental goods and services**
  - Eliminating tariff and non-tariff trade barriers will accelerate deployment of green technologies, increase economies of scale, lower prices, encourage competition and innovation, and result in faster job creation.
- **Achieve a robust price on carbon and enhance flexible offset mechanisms**
  - Market mechanisms and other forms of carbon pricing are the foundation on which a truly successful green economic transformation must be built.
- **End fossil fuel subsidies**
  - The G20 leaders have already committed to phasing out inefficient fossil fuel subsidies over the "medium term." While this is an important start, we believe faster and broader action is required to drive resource (especially energy) efficiency, given the economic and environmental benefits.
- **Dramatically scale up support for green technology development and innovation**
  - Finance for research, development and scale-up of clean energy, transport and sustainable, high-productivity agriculture is a critical factor in accelerating the green economic transformation to which we aspire.

BACKGROUND

We take as the foundation for this report the excellent work done for the 2010 G20 Business Summit. Indeed, we endorse – ***and seek to build on*** – the main economy-wide recommendations proposed by the *Harnessing Green Growth – Creating Green Jobs* Working Group in Seoul. The sense of urgency and the need to act is even greater today than last year. Economic growth is expected to double global output every 20-25 years, and many natural resources are already straining under existing demands. The atmosphere's ability to absorb our carbon dioxide pollution is overstretched and made worse by rampant deforestation as pressure on land use intensifies. Demand for water is rapidly outstripping supply in many parts of the world, and groundwater is being depleted at alarming rates. Encouraged, among other things, by high agricultural prices, deforestation continues apace.

As noted in last year's report, the argument for action is not just environmental. Left unaddressed, it is only a matter of time before resource constraints severely impact welfare and economic growth. Growth in the 20th century was based on cheap fossil fuels, expansion of land under cultivation at the expense of forests/biodiversity, significant degradation of water and soil resources, and largely unregulated exploitation of oceans (both for fish resources and a pollution sink). In a world whose population is likely to reach nine billion by 2050, this model of resource-intensive growth is unsustainable.

Finite fossil fuel stocks cannot provide cheap energy forever. We are already experiencing the ill effects of overstretched natural resources that will only get worse in the future: high and volatile commodity prices; local air and water pollution leading to poor health; rising costs of adaptation to climate change; food and water shortages; and accelerating loss of biodiversity. Despite the worst economic crisis since the 1930s, rising demand for fossil fuels continues to outstrip supply, particularly in the booming emerging economies, which is keeping oil prices close to peak levels and hampering recovery. Fuel price volatility has economic consequences by imposing hedging costs as firms attempt to insulate themselves, and by affecting exchange-rate stability as import costs increase, putting pressure on the national balance of payments.

We, therefore, need to act now to lay the foundations for a green economic transformation that will lead to a resource-efficient model of economic growth. Green growth is the only way to lift billions out of poverty through expanded economic activity, while at the same time lowering the impact of that growth on the planet's finite resources.

As the largest source of investment, innovation, and job creation, business is an essential element in addressing these challenges and exploiting the opportunities that doing so creates. We urge our political leaders to create the transparent and predictable regulatory frameworks that business requires to make the long-term, often capital-intensive, investments required to make this transformation successful. It is also important to design policies that will attract necessary new sources of capital, such as private institutional investors, to more effectively mobilize traditional private and public funding sources. With the right policies and regulatory frameworks in place, business will make the investments, take the risks, and create new opportunities that the green economic transformation promises.

If the G20 leads, the rest of the world will follow.

Envisioning a "Green Growth" Future

Over the past 20-30 years, the widespread adoption of information technology has driven productivity and growth in the global economy as a whole. Over the next 20-30 years, the equally widespread adoption of greener, more resource-efficient technologies has the same potential to be an engine of growth for the global economy.

For example, the global economy will invest over USD 7 trillion per year over the coming decades in new energy, urban and transport infrastructure – approximately 35% of this total will be in Organisation for Economic Cooperation and Development (OECD) countries, with 65% in non-OECD economies. Resource-efficient investment at this scale can result in cleaner, safer, more affordable infrastructure. It can also trigger a significant improvement in infrastructure productivity, worth according to some estimates over USD 1 trillion per year.

It could lead to more attractive, efficient urban developments, not least through much better public transport infrastructure. It could accelerate access to distributed off-grid, renewable and other clean energy sources as well as accelerate growth in rural areas. And it could reduce environmental risks, both locally (e.g. in terms of air/water quality) and globally (in terms of climate change risk).

There are a multitude of opportunities across economic spheres as diverse as buildings; appliances; mobility and transport; agricultural productivity and sustainability; and energy production, distribution, and use, to name just a few.

In short, greening the economy and growing the economy are mutually reinforcing objectives. Greening the economy will provide a sustainable basis for long-term, resource-efficient growth. It has the potential to create many new jobs, as well as new business models and opportunities, much the same way as the global economy experienced in earlier economic transformations, such as those spurred by the transcontinental railroad, the interstate highway system, or the Internet.

As business and industry leaders, we therefore embrace – and urge the G20 leaders to do likewise – the transformational definition of green growth, as articulated by the OECD:

> "Green growth means fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our wellbeing relies. To do this, it must catalyze investment and innovation, which will underpin sustained growth and give rise to new economic opportunities."

Green growth is not some new-age philosophy. Nor is it a hidden agenda for increased regulation in the name of environmental security. Rather, it is a practical proposition to harness the market economy for a transformational growth agenda that explicitly accounts for natural resource capital and corrects for environmental externalities.

As such, green growth requires:

- The use of price mechanisms that reflect the full social, economic, and environmental costs of consuming scarce resources, both at the local level (such as water in many jurisdictions) and at the global level (i.e. the CO_2 capacity of the atmosphere/oceans), recognizing that countries will act in accordance with their respective national circumstances;

- "Investment grade" sectoral polices, including the use of risk-sharing financial instruments to attract both private venture and institutional capital into the newer technologies and business models needed to tackle environmental risks and resource constraints that are already causing high/volatile energy and food prices;

- Eliminating current policy distortions, especially fossil fuel subsidies, which encourage major resource inefficiencies across both advanced and developing economies;

- Rapid development of international markets for new green products and services, whether through harmonization of standards (e.g. for energy-efficient appliances), open public procurement rules, and the elimination of tariff and non-tariff barriers to trade; and,

- Significant shifts in consumer behavior supported by appropriate policy incentives and much improved information standards.

Many governments have already published strategies or adopted concrete plans for green growth: China's 12th five-year plan; Korea's five-year plan for green growth; and Japan's "New Growth Strategy to 2020," are among the more recent examples. For its part, the European Union's "20-20-20" package legally binds member states collectively by 2020 to reduce carbon emissions by 20% and to achieve 20% renewable energy usage; and also sets a target to improve energy efficiency by 20%. Common elements of each are ambitious plans for government investment in major infrastructure; support for research and development and innovation; and development of policy frameworks to support targeted industrial development – and an enduring political commitment, despite a challenging global economic environment.

For developed countries, these measures offer the prospect of renewed growth through innovation, entrepreneurialism and the export of goods and services. For emerging economies, they offer the opportunity to attract foreign direct investment and leapfrog over yesterday's technologies towards the transformational technologies of the future.

Emerging economies also have a unique opportunity to drive the next era of urbanization (with more than a billion people due to move to cities over the next 20-30 years), on a basis that is much more resource-efficient, with smarter energy, building, transport and regional management of waste recycling and transformation. With appropriate policy, capital, and technological support in the agricultural sectors, there are also multiple opportunities to stimulate rural development while at the same time protecting unique natural capital and associated biodiversity.

Some governments will emerge as "first movers" – making early moves to foster new industrial opportunities, balancing the burden of trailblazing with the potential barriers to later entry. Others will seek to be "fast followers," balancing the lower risks of later entry against the challenges of catching the leaders.

The pathway to the future

Creating the right policy framework for green growth requires a significant shift in approach – one that is already underway in a number of economies. It will require detailed changes in sectoral policy and regulations in order to create the opportunity for new, cleaner technologies to catch-up with and compete effectively with the installed base of incumbent, more resource-intensive technologies. It will also require public and private action to accelerate shifts in consumer behavior to emphasize more sustainable products.

To succeed, the green growth agenda must be anchored in the purchasing and investment decisions of individual private and business consumers. And it may require a set of new institutional arrangements to enable more effective, integrated resource planning.

However, the focus should be to build upon the four areas of cross-cutting, economy-wide policy action that were laid out last year in Seoul and that we continue to see as essential to accelerate the transformation to a green growth, resource-efficient economy.

The time is now to begin seriously implementing these policies, which we firmly believe will pave the way for igniting a green economic transformation. We acknowledge that this transformation will take place over time – it's not a "big bang," but an evolution. The measures recommended here are steps along the path to longer-term objectives. Allowing free trade in environmental goods and services is a step toward a global trade regime in which tariff and non-tariff barriers are eliminated. National and regional steps to achieve a price on carbon are similarly a step toward creating a global carbon market.

However, we cannot afford to wait to put these policies in place, given the long-term nature of transport, building and energy infrastructure. Indeed, there is a growing need to replace aging power plants, particularly in OECD countries. According to the International Energy Agency's (IEA) World Energy Outlook 2010, almost 17%, or 425 GW of installed power capacity in OECD countries, will need to be replaced by 2020. Similarly, emerging economies will invest hugely in the coming decades to install new transport, building, and energy infrastructure stocks. In the power sector alone, the IEA estimates non-OECD countries will invest approximately USD 4 trillion in new power infrastructure through 2035.

As a result, there is a huge opportunity to lock-in sustainable choices that can significantly contribute to the long-term resource-efficient economic transformation we envision. By putting the right policies in place, the G20 leaders can help ensure their countries reap those benefits.

RECOMMENDATIONS AND COMMITMENTS

1. Allow free trade in environmental goods and services

We continue to vigorously advocate the completion of the Doha Round of trade talks, as this will have the greatest and most immediate impact on trade liberalization and resulting economic expansion. Practically speaking, however, we acknowledge that the Doha Round discussions are not likely to conclude soon, and that the prospects are remote for near-term conclusion of environmental goods and services agreement (EGSA).

Therefore, the time is ripe for the G20 to pursue a modest but concrete reduction of tariffs on environmentally friendly products. For the G20, it would provide an opportunity to take positive action on both climate and economic growth – two subjects on which the G20 has repeatedly called for action.

Expanded international trade in environmental goods and services is an essential building block of the green economy. On the one hand, economies of scale drive down costs – and can be captured only through creating more global product markets. On the other, there is an obvious benefit available through more rapid diffusion of best-available environmentally friendly technologies. Green growth should be a role model for effective international policy coordination, with strong policy support for free trade, international investment and long-term financing flows (including the development of new funding instruments in the context of the Global Climate Fund).

As noted in last year's B20 report on Creating Green Jobs, tariff and non-tariff trade barriers restrict free trade in green goods and services and thereby increase prices, reduce competition, discourage innovation, and inhibit green job growth. Eliminating tariff and non-tariff trade barriers will accelerate diffusion of green technologies, increase economies of scale, lower prices, encourage competition and innovation, and result in faster job creation.

Free trade of green technology components is essential to ensure the necessary technology development and to push promising emerging technology down the learning curve. Policies such as local content requirements, export subsidies, restricted public procurement processes, compulsory sharing of intellectual property rights, and non-compatible certification requirements tend to inhibit technological development and innovation, restrict competition, and raise prices – the practical effect of which can be to increase the need for public subsidies rather than reduce it, and to slow down job creation.

Therefore, we urge G20 leaders to create a safe haven for the free trade of environmental goods and services by urgently agreeing first to eliminate such trade barriers among the G20 countries, and then using the power of that leadership example to expand that free trade safe haven to an ever-greater number of countries.

In April 2007, the "Friends of EGS" to the WTO submitted a list of 153 environmental goods, which formed the basis for the U.S. and EU-sponsored Environmental Goods and Services negotiations. The World Bank subsequently pared the list down to 43 climate-friendly technologies, based on a study of trade flows of those goods during 2002-2007. The resulting list consists of products that have enjoyed increased trade even among low- and middle-income countries.

Taking the World Bank list as a starting point, we urge each G20 member country to commit to reducing tariffs by whatever amount and on whichever products it wishes, so that the aggregate amount of tariff revenue foregone on the total basket of products is at least 50%. The G20 should correspondingly pledge not to impose non-tariff trade barriers that would undermine the benefits of such cuts.

The G20 should make clear that this action is only a first step in addressing trade liberalization in environmental goods and services. This simple approach has a number of advantages. First, it requires no negotiations on either what products are included or the level of cuts on particular products. Each country is free to select the products and level of cuts. Second, the common requirement of a 50% reduction in aggregate tariff revenues ensures a comparable level of commitment by each country (we would naturally support a higher level of ambition if the G20 leaders could agree on it). Third, and most importantly, it demonstrates G20 leadership in a tangible and easily communicated manner.

Free trade in environmental goods and services needs to be complemented by policies supporting foreign-direct investment. Also necessary are appropriate incentives to drive investment in green infrastructure in emerging and developing economies and the capital flows needed to support them. Specifically, emerging mechanisms to support investment in low-carbon development (Green Climate Fund, Technology Mechanism alongside the existing Clean Development Mechanism) need to be designed and implemented in such a way as to ensure the confidence of the business community and provide the growing volumes of finance that developed and developing countries need.

As a result, we encourage the G20 to strengthen financial flows for international investments in green growth, especially in the developing countries, whether through specialized "green investment" windows in the multilateral development banks, scaling-up the guarantee capacity of the export credit agencies, or the design of risk-sharing (e.g. first loss) instruments to encourage private finance into low-carbon infrastructure assets. These measures should be complemented by investment-friendly policies, particularly in the fields of taxation, intellectual property rights protection, and the free movement of capital.

We therefore call upon G20 leaders to:

- Reduce tariff revenues on green goods and services by an aggregate of at least 50%, using the World Bank list as a starting point;
- Refrain from introducing other tariff and non-tariff barriers that counter-balance the tariff reductions called for above; and from introducing other measures such as export subsidies that distort free and open trade;
- Ensure open public procurement processes;
- Harmonize inconsistent industrial standards and certification requirements to reduce technical barriers to increased trade and thus promote the global integration of green industry supply chains; and,
- Strengthen public-private partnerships to facilitate private investment in green growth and low-carbon technology and infrastructure; and accelerate the introduction of investment-friendly policies.

2. Achieve a robust price on carbon and enhance flexible offset mechanisms

We continue to vigorously advocate completion of an ambitious, legally binding global climate treaty that will put the global economy on a clear pathway to no more than a two-degree Celsius increase in temperature, as agreed upon at COP16 in Mexico. Practically speaking, we acknowledge this will take more time to achieve than we had hoped, which serves to highlight the critical need to make progress wherever possible. We encourage the G20 leaders to pursue pragmatic, bottom-up approaches to continue building momentum. Examples of such efforts could include agreeing on measurable, reportable, and verifiable standards with reference to national actions; devising a common recognition system on national adaptation and mitigation actions (NAMAs); and ensuring continuation of the Clean Development Mechanism or a successor, even in the absence of a second commitment period under the Kyoto Protocol.

Furthermore, we continue to support the proposition expressed in Seoul that achieving a price on carbon that is high and stable enough to change people’s behavior and investment decisions is an essential element in accelerating the transition to and reaping the benefits of sustainable resource allocation. Carbon pricing is the foundation on which a truly successful green economic transformation must be built. Consumers and industry at large will respond rationally and efficiently to the carbon price signal, but to motivate investment on the scale needed, the carbon pricing mechanism must be transparent and based on predictable, politically robust commitments, and must take account of competitiveness concerns.

Carbon pricing mechanisms can take a range of different forms. These include carbon taxes or emissions trading regimes, for example. While there is no single right approach to carbon pricing, in the long-run, business and industry will prefer market-based solutions driven by ambitious emission-reduction targets and overall emission limits. Strict emission caps will create the incentives to invest in more economically, environmentally, and commercially sustainable technologies. In short, strict emissions caps will create a carbon price sufficient to spur investments in green technologies.

The necessary element is a long-term price signal sufficiently predictable to create the conditions required for long-term investments. The key to policy effectiveness from a business perspective is always the same – transparency and predictability. With the right policy frameworks in place, business will make the investments, take the risks, and create the new business opportunities from which society as a whole will benefit.

In recent years, an increasing number of G20 countries have introduced carbon pricing mechanisms and/or pricing instruments to increase resource efficiency. These actions have come in the face of considerable headwinds from the global economy and reflect a recognition that carbon pricing mechanisms can contribute to increasing resource efficiency, reducing greenhouse gas emissions, enhancing energy security and promoting energy-sector innovation.

When combined with other policy measures, carbon pricing can also reduce deadweight losses in the economy as a whole, enhancing the quality of growth. In Australia, for example, despite the country’s heavy reliance on coal, the current government has commendably proposed a plan to price carbon, while at the same time raising the minimum threshold for filing taxes, decreasing other taxes, and increasing transfer payments to those most affected by the carbon price.

Conceptually, this approach shifts the fiscal burden to increase the cost of economic "bads," such as pollution, while decreasing the burden on economic "goods" such as labor and capital. These positive trade-offs are worth considering on a broader scale.

Furthermore, we believe that an enhanced, flexible offset mechanism is essential to create additional incentives for less-developed countries to embrace the green growth technological path. We highlight two complementary approaches.

In the first instance, there is a need to increase the attractiveness of the already established project-based mechanisms by radically reducing their complexity. This could include implementing standardized baselines that can either be easily calculated from readily available raw data or provided by suitable entities on a regular basis; simplified additionality tests, e.g. positive lists for technologies, which could be differentiated by region or performance benchmarks.

The second approach takes the offsets concept from projects to the sectoral level. Countries with a carbon cap could finance the additional costs of carbon-cutting policies in uncapped countries or sectors (e.g. feed-in tariffs for renewable electricity, incentive programs for improving energy efficiency of buildings) and be credited with the resulting emission reductions.

Clearly, both approaches require careful design to avoid overestimation of emission reductions and excessive reward of non-additional projects, but we highlight the need to explore new avenues in order to fully integrate developing countries (and uncapped and sectors) in the fight against climate change and achieve bigger reductions at lower overall costs. Among the examples of new instruments or evidence to price environmental resources more efficiently are:

- Globally, the value of national carbon markets has increased almost 15-fold, from around USD 10 billion to just over USD 140 billion in 2010. The vast majority of this value comes from the EU Emissions Trading System. New Zealand and 10 U.S. states in the northeast and mid-Atlantic areas operate emissions trading, and the California Air Resources Board is introducing a cap-and-trade program. China now plans emissions trading pilots in five regions. South Korea is expected to start emissions trading in 2015, and as noted above, the Australian government expects to introduce its flexible carbon pricing mechanism around the same time.

- The international carbon market (i.e. the clean development mechanism) is estimated to grow more than USD 5 billion per year – and more significantly, to catalyze more than USD 30 billion of private capital into low-carbon investments in developing countries, typically with significant benefits in terms of technology transfer.

- Countries as diverse as India, South Africa, Germany, Spain, and Japan have introduced or revised feed-in tariffs to promote renewable energy into the power sector. Implementing long-term and predictable feed-in-tariffs has proven to be a highly effective means to increase the penetration of renewable energy supplies in countries' energy mixes. Nearly 65% of the global wind-energy capacity, and a further 85% of solar photovoltaic supply, has been deployed based upon this support model. When feed-in tariffs provide for a clear, long-term perspective and decrease in line with market and technology development, they can help to integrate renewable energy in market-based structures.

- The first steps in pricing land-based ecosystem services (carbon sequestration, biodiversity) through the design of REDD+ programs, which have the potential to provide large-scale results-based payments into forest-based and other rural communities. While the simplest forms of these programs are focused on carbon sequestration, the REDD+ mechanism has the potential to become increasingly sophisticated, and can be extended into payments for more complex ecosystem services, as well as support for investments in more sustainable agricultural production systems.

- The application of a trading mechanism for energy efficiency, such as in India's innovative Perform, Achieve and Trade system that rewards businesses for increasing energy efficiency beyond target levels with tradable credits. These credits can provide additional incentives for utilities and energy users to save energy without prescribing specific technological solutions.

- We believe that this trend toward appropriate pricing of environmental resources is a key building block of green growth. It needs to be encouraged and accelerated. At the same time, we recognize that most countries individually – and the global community as a whole - are still at a relatively early stage in their approach to environmental resource pricing. There are very different views as to design of pricing mechanisms, as we have witnessed in the ongoing debate between carbon tax and "cap-and-trade" schools.

- Different countries also have understandably different perspectives on the right level of environmental resource pricing (both short- and medium-term), given their different economic circumstances and developmental priorities. There are also a number of both scientific and technological uncertainties that legitimately translate into a diversity of perspectives across the G20 countries. The good news is that this heterogeneity also translates into a rich portfolio of experiments, which (with the right G20 leadership) have the potential for learning, scaling and convergence.

We therefore call upon G20 leaders to:

- Expand and strengthen domestic carbon pricing mechanisms so that they provide a price signal that drives investments;

- Coordinate the measures that G20 countries are taking to develop carbon pricing domestically in order to facilitate the emergence of a global carbon market; national measures should be compatible with the long-term goal of having a functioning international carbon market providing for a level playing field across geographic boundaries;

- Further strengthen international carbon pricing mechanisms (e.g., the Clean Development Mechanism/any successor facility, REDD+ market mechanisms or climate finance models), which, by exposing developing countries to carbon prices, a) enable them to participate more systematically in the green growth opportunity; b) help them contain their emissions most cost-effectively; and 3) lower the global cost of getting onto a 450 ppm "two degree" CO_2e pathway;

- Harness the income that can be generated by carbon pricing mechanisms to support investment in R&D, demonstration, and pre-commercial deployment of green technologies; and

- Encourage G20 governments to extend the environmental resource pricing and trading approach beyond the CO_2 emissions, e.g. building upon the success of the Montreal Protocol for CFC emissions or to drive (commercial) building sector energy efficiency as in India. We see the development of these mechanisms to price environmental externalities as an essential element of green growth – and call upon G20 leaders to conduct a thorough review of these mechanisms for the next B20 in Mexico.

3. End fossil fuel subsidies

G20 leaders have already committed to phase out inefficient fossil fuel subsidies that encourage wasteful consumption. The IEA has reported a number of encouraging developments globally over the last year, including removal or reduction of subsidies in Angola, India, Iran, Malaysia, Mexico, Nigeria, the United Arab Emirates and Ukraine.

However, there have also been retrograde steps, with increases in subsidies in Bolivia, Chile, Jordan and Syria. Even in some of the more advanced economies, there are still significant forms of subsidy for fossil fuel suppliers. Typically, these take the form of investment incentives (e.g. accelerated capital depreciation) rather than consumer subsidies (other than related to fuel poverty). However, these tax-based incentives continue to tilt the playing field towards the production and consumption of fossil fuels, increasing climate risk, directing resources away from more productive purposes, and reducing energy security.

Weaning the global economy off its dependence on fossil fuels in the power, transport, and heating sectors, is a long-term agenda. Indeed, it is highly likely that fossil fuels will remain an important part of the energy mix for the next 50+ years. However, the benefits of eliminating fossil fuel subsidies in the immediate near-term are compelling and overwhelming.

According to the OECD, most countries or regions would record real income gains from unilaterally removing their subsidies to fossil fuel consumption, as a result of a more efficient allocation of resources across sectors. These real income gains could be as much as 4% in some countries. At the same time, global greenhouse gas emissions would be reduced by 10% by 2050, compared with business-as-usual.

The IEA reports in its World Energy Outlook 2010 that a universal phase-out of all fossil-fuel consumption subsidies by 2020 would cut global primary energy demand by 5%, compared with a baseline in which subsidies remain unchanged. This amounts to the current consumption of Japan, Korea and New Zealand combined. Oil demand would be cut by 4.7 million barrels a day by 2020, or around one-quarter of the current U.S. demand.

Phasing out fossil-fuel subsidies represents a triple-win solution. Doing so would enhance energy security, reduce emissions of greenhouse gases, and bring immediate economic gains, as the subsidies in many cases create market distortions, impose an unsupportable fiscal burden on government budgets, and weaken trade balances.

With respect to the role of fossil fuel subsidies in addressing energy access, many academic studies have concluded that they are not efficient in achieving this objective. In particular they tend to reduce incentives for investment in the major infrastructure required to extend access to energy (especially to remote or rural regions where costs may be higher); they introduce inefficiency into markets and produce unintended negative consequences; they do nothing to create incentives for the sustainable use of resources; and they are inefficient as a poverty reduction policy because they can result in benefits flowing outside the target group.

Instead, subsidies should be replaced with policies that are a) targeted directly on poverty alleviation and energy access for the most vulnerable; and b) encourage investment in clean power infrastructure to enable energy access for all.

Though energy poverty is by no means exclusively a rural phenomenon, the vast majority of those who lack access to modern sources of energy are concentrated in rural areas. One of the most exciting opportunities for accelerating green growth, and at the same time tackling the energy access challenge, would be to dramatically scale-up distributed, renewable and other clean power provision into rural communities, substituting for expensive, polluting diesel generators or for biomass obtained in unsustainable ways.

Estimates from the UN Secretary General's Advisory Group on Energy and Climate Change (AGECC) suggest that providing modern, clean energy access for the next two billion rural poor could cost approximately USD 35-40 billion per year for the next 20 years. This is 3-4% of the annual USD 1 trillion global investment requirement in energy infrastructure over the same period, and could help unleash green growth in rural communities and help to slow down migration to the cities.

We therefore call upon G20 leaders to:

- Take a comprehensive approach to measuring fossil fuel subsidies and provide a thorough report of all such subsidies by the time of the next G20 Summit in Mexico; this report should assess the fiscal benefits associated with eliminating these subsidies;
- Commit to eliminating these subsidies in the shortest possible time, ideally within the next five years;
- Review the cost and effectiveness of different measures to address the challenge of energy poverty in both advanced and developing economies; and,
- Commit to funding energy access at least at a level similar to the G20's 2010 REDD+ commitment (USD 10 billion per year by 2015), with a particular focus on large-scale deployment of clean, distributed technologies.

4. Scale up support for green technology development and innovation

The technologies required for green growth cut across all sectors of the economy and are found at all stages of development. Those technologies that are well developed but not yet commercially viable require demonstration and other pre-commercial support to further enhance their cost-effectiveness or to further develop surrounding technologies (smart grids enabling greater penetration of wind and solar power, for example). Other technologies that are promising but less well developed require different forms of support. The exciting part of this story is that there is an extraordinary range of green technologies already available and under development.

In almost every case, there are multiple pathways to improving the performance of these technologies and reducing their costs. Just consider one example – biofuels. There are legitimate questions about the economic and environmental performance of some "first generation" biofuels.

However, there are huge scientific and venture capital investments beginning to flow into biofuels with the result that there are now three further generations under development: 1) the second generation biofuels focus on lignocellulos sic-conversion technology; 2) third generation biofuels focus on algae as a biofuels technology that does not compete with food for either land or water; and 3) fourth generation biofuels use genetically engineered bacteria as both a carbon sequestration device and as a source of directly extruded, high-quality oil.

The biofuels example is potentially transformational and holds out the promise of substituting for up to 20% of traditional oil and gas supply by 2030. It shows that R&D support has to take a long-term approach if it is to succeed in bringing about basic technological change.

Another example is electro-mobility. Internal combustion engines will increasingly face growing competition by electric powertrains for most modes of road-bound mobility. To accelerate this process, strong promotion of R&D is crucial on the whole range of technical issues to be solved before electric vehicles can be competitive. These issues range from the battery technology and material sciences, to issues surrounding infrastructure and patterns of use. A systemic approach – a common vision shared by the scientific community, private sector, and public authorities – is needed for the R&D investment to produce the required system-wide changes. The German National Electro-mobility Platform is a good example for how to rally all the various players involved around one idea and set out on a clearly defined path.

Additionally, the encouraging progress made by the wind energy and solar photovoltaic industries in reducing the cost of these forms of energy shows that public policies creating the right market conditions can trigger private R&D investment on a massive scale. If the framework provides a long-term and stable market perspective, companies can invest in the large-scale R&D needed to achieve technological breakthroughs. This applies equally to other renewable energy forms as well, including photovoltaic modules, highly efficient offshore wind turbines, and concentrated solar power.

Capturing the benefits of green growth over the coming decades will require a very significant set of public-private investments both in upfront R&D and also in early-stage capital deployment. Most G20 economies have already recognized the case for measures to support the technology-driven aspects of green growth.

These measures include:

A. Pre-commercial R&D and demonstration support through platforms, such as the UK's Energy Technology Institute;

B. Enhanced cooperation between the private sector and the scientific/academic communities;

C. Strong intellectual property rights protection;

D. Feed-in-tariffs to enable accelerated deployment of clean-energy technologies;

E. Special funding support for carbon capture and storage;

F. Forms of public-private partnerships to increase investments in smart grids and EV infrastructure; and

G. Special purpose vehicles (such as the UK's soon-to-be launched Green Bank) to share investor risk in clean technologies across the public and private sectors.

The key to these different measures is that they go beyond traditional public sector support for R&D – and help to bring in private capital for the required early-stage technology scale-up.

Technological transformation is at the heart of green growth. New technologies – and the new business models they generate – have the potential to be an engine of growth with massive spillover benefits. Clearly, the G20 recognizes this opportunity; platforms such as the Clean Energy Ministerial should make it possible to strengthen the required policy coordination, and at the same time enable different countries to pursue their own areas of technological leadership.

We therefore call upon G20 leaders to:

- Dramatically ratchet up their public spending on "green growth" related science, technology, and innovation over the next decade;
- Create and expand domestic mechanisms to leverage scarce public finance into private capital mobilization for the demonstration and pre-commercial deployment of green technologies;
- Develop research and methodologies to assess life cycle environmental performance of large infrastructure projects to enable decision making beyond short term views;
- Encourage international cooperation by removing barriers such as weak intellectual property rights protection or unclear rules on cooperation between public research institutions and private researchers;
- Coordinate internationally via relevant policy coordination and advisory platforms such as the Clean Energy Ministerial and the IEA, to drive the development of green technology roadmaps, enhance the harmonization of international standards, and identify opportunities to maximize green technology spillovers among public, academic, and private sector actors engaged in the field. This could be done by regular meetings of Climate and Energy Ministers, common R&D programs or transparent mechanisms to foster technology cooperation and transfer; and
- Develop an explicit, measurable approach to the use of public procurement as a way of accelerating deployment/scale-up of clean technologies. This could include defining a percentage of public buildings to undergo energy-related renovation each year as well as specifying procurement policies for highly efficient appliances and electric vehicles.

Making green growth an enduring item on the G20 agenda

As leading members of business and industry, we stand ready to work with G20 leaders to maximize the impact of their actions across the whole green-growth agenda. We also strongly endorse the World Economic Forum/International Chamber of Commerce Green Growth working group report and recommendations, and encourage the G20 leaders to adopt those measures as well. In particular, we enthusiastically share their proposal that the G20 leaders commit to develop an Action Plan on Green Growth, including the following elements:

1. G20 leaders should formally acknowledge that shifting incentive structures to drive investors and consumers towards a new model of economic growth – green growth – is an important priority for both advanced and emerging economies that merits a central place in the agenda of international economic cooperation. As such, G20 leaders should commit to making green growth a standing item on their agenda, building on the strong base established by the Korean and French presidencies in 2010 and 2011.
2. G20 leaders should direct their finance, energy, environment, trade and industry ministers to develop a Green Growth Action Plan for the Mexico G20 summit. This Action Plan should include case studies and policy recommendations addressing all of the key elements that can be tailored by countries as they develop their national green growth plans, including research and development and innovation; key industrial sectors (transport, energy, industry, agriculture); and consumer engagement.
3. G20 leaders should also establish a separate public-private G20 Green Growth Partnership Network to support the action plan's G20 Working Groups by documenting and sharing successful national, plurilateral or sectoral case studies that involve significant public-private collaboration on green growth. The network will provide an intellectual commons for sharing practical experiences and public-private partnership opportunities that could support the realization of green growth. Private sector investors and project developers could leverage the network to offer practical support to governments seeking to develop and implement their national green growth strategies, and help them mobilize the investment and technology necessary to realize their plans.

Appendix B -
Contribution of the World Economic Forum and International Chamber of Commerce G20 Working Groups

International Chamber of Commerce
The world business organization

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

World Economic Forum and International Chamber of Commerce

G20 Task Force

Final Report

8 September 2011

Chapter on Green Growth written in collaboration with Accenture
Chapter on Infrastructure Development written in collaboration with PwC
Chapter on the Role of Business in Society written in collaboration with McKinsey & Company

Contents

Introduction

The Korean government's initiative to engage international business leaders in the G20 process last year was received positively by both government and business leaders. In their Seoul Summit declaration, G20 leaders stated that they "look forward to continuing the G20 Business Summit in upcoming summits" in recognition of "the importance of private sector-led growth and job creation".

Business leaders also expressed interest in continuing the process. In his closing remarks on behalf of business participants, SEB Chairman Marcus Wallenberg encouraged the World Economic Forum and the International Chamber of Commerce (ICC) to work together to bring this about. Following consultations earlier this year with the French government, the Forum and ICC formed a joint initiative to develop proposals for leaders on topics corresponding to the priorities President Sarkozy has identified for the G20's work in 2011.

This report contains concrete recommendations to increase economic growth and job creation, in particular in areas such as transparency and anti-corruption, infrastructure development, green growth, commodity price volatility and food security. These recommendations have been developed over the past half-year by seven working groups of the Forum's International Business Council as well as the ICC's G20 Advisory Group.

This initiative has involved a number of positive innovations.

First, as suggested by a number of G20 sherpas in a meeting with the Forum and ICC during the World Economic Forum Annual Meeting 2011 in Davos-Klosters, we are pleased to transmit these interim recommendations at a much earlier stage of the G20's preparations than last year, in order for them to be considered while the Cannes Summit's agenda and decisions are still being formulated. Many of the specific working groups, such as the food security working group, have been working directly with the relevant ministries to maximize their positive impact.

Second, this final report is being transmitted to President Sarkozy and other G20 leaders in September, following a full-day review by CEOs and G20 troika sherpas and ministers during the International Business Council's summer meeting in Geneva, Switzerland, on 25 August. This review helped ensured the rigour, relevance and realism of the proposals being put forward.

Third, this year's report goes beyond broad policy recommendations and focuses on specific, concrete actions. CEOs developed three types of proposals: those requiring government action, those that the private sector could implement directly, and those requiring public-private partnership. For example, the anti-corruption working group recommends G20 government action on fully implementing international anti-corruption commitments, private sector action in developing integrity assurance programmes and public-private cooperation in developing "white lists" to recognize companies that show consistent leadership in anti-corruption. Across the working group recommendations, companies make a number of specific commitments of actions, expertise and resources to support this new, more action-oriented agenda.

Fourth, these recommendations have been developed in a spirit of cooperation and openness to ensure that the best recommendations are put forward, regardless of origin. Working groups have worked closely with other organizations, such as the World Food Programme on food security and the OECD and Transparency International on anti-corruption. We have coordinated our efforts with the French Business Association, MEDEF, with the view that the B20 should reflect the opinions and recommendations coming from all different business task forces and present a consistent and coherent set of conclusions to the G20.

Most of the topics the joint Forum-ICC G20 Task Force has been asked to address are too fundamental and multi-faceted for governments or businesses to successfully address alone. Deeper, sustained cooperation between the public and private sectors encompassing both policy formulation and implementation – advice and action – is required if the G20's ambition of stronger, more sustainable and more balanced global economic growth is to be fully realized.

It is in this spirit that chief executive officers and chairmen of 80 of the world's leading corporations offer the following agenda of smart policy and practical action on some of the most pressing challenges of our time for consideration by leaders of G20 countries. These recommendations of World Economic Forum working groups reflect the views of working group members alone and do not represent an institutional position of the World Economic Forum, nor do they necessarily represent the institutional position of the companies of participating CEOs.

We applaud President Sarkozy and the French government for carrying the G20's engagement with the business community forward from Seoul. We commend these recommendations to the attention of leaders and look forward to having the business community play a constructive role before and during the Cannes Summit.

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Executive Chairman
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Maurice Lévy
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Recommendations

World Economic Forum G20 Working Group On Commodity Price Volatility

I. Framing the Issue

Commodity price volatility is justly on policy-makers' radar. While several credible studies[1] contend that volatility today is not higher than that observed in the 1970s and there is nothing extraordinary about today's situation compared to the historic context, some high-profile episodes in key markets stand out (the 2008 oil price spike likely the most prominent example). In addition, well-documented, recent price rises mean that upward fluctuations hit consumers that are already stretched. Volatility also affects investment decisions that can jeopardize future supply security.

Since another working group is examining food security, these recommendations exclusively deal with commodities related to (non-agricultural) energy, metals and minerals. Recommendations related to agricultural commodities can be found in their chapter of this report. The two working groups collaborated closely in creating their respective recommendations, so the results are well aligned.

We think that commodities markets are often not well understood in their intricacies and, therefore, first offer a section that lays out the challenges related to volatility but also give a broader overview of how those markets work from the professionals' perspective.

- Commodity markets exist in two dimensions
  - Physical markets, which are fundamentally dominated by supply, demand and storage, and by present transactions (spot markets)
  - Financial markets, which primarily provide users the means to hedge commodity risk, in other words to deal with uncertainty and time (futures markets)

- Many players operate in both financial and physical markets – as buyers, sellers and hedgers. It is very difficult to separate speculators (players who express a view on future prices for financial gain[2]) from other market participants – and often speculation is needed to create liquidity for hedging strategies.

- Financial markets routinely facilitate goals that are in line with government/society priorities – for example, the hedging of commodity-related risk for industrial or services companies. Financial markets can also help with price discovery and improve allocative efficiency, including better signals for investment and operations. It is worth noting that commodity derivatives are directly linked to physical goods and do not present the characteristics of bond or equity markets.

- Non-agricultural commodities have two important features: 1) new supply typically takes many years (up to a decade) to realize and is capital intensive; and 2) they have low short-run price elasticity of demand (due to limited substitutability, being essential economic inputs and a relatively small part of most final product and service costs) and low-price elasticity of supply (very high fixed to variable cost ratio, physical constraints on production modulation) which are prime drivers of short-run price volatility. It should be noted that similar dynamics, and volatility, are visible in markets where there is no storable commodity, such as in electricity markets.

- Price levels and volatility are primarily the result of fundamentals, structural shifts and resulting imbalances or uncertainty around key drivers. There is a need for clear forward prices that are unencumbered by political or regulatory distortion so that investments and behaviours can follow the right path to guarantee future supply security.

[1] Jacks, O'Rourke, Williamson (NBER WP 14748, Feb 2009); Calvo-Gonzalez, Shankar, Trezzi (World Bank, Oct 2010); Garry Smith (OECD, May 2011)

[2] See glossary for this and other terms used in this paper.

- Long-run prices are set by proven fundamentals of supply and demand. Over short time frames, both estimated supply-demand balance (where there is uncertainty or lack of transparency) and speculation (taking a view on prices) can influence prices and, therefore, introduce financial market volatility in addition to that driven by fundamentals. Storage capacity can mitigate short-term fluctuations, but only up to a point (primarily depending on the available capacity as a fraction of overall markets as well as speed of release). Futures markets per se do not have a conclusive influence on volatility in spot markets, as examined in a 2007 UN study[3]. It is worth noting that speculation normally has no or very little impact on prices in the spot markets (as opposed to futures markets) as spot transactions have to be backed by physical flows of commodities.

- Over the last decade, developments primarily in the physical markets but also in the financial markets have changed their dynamic, contributing to greater uncertainty and thus volatility:
  - Demand profiles in emerging markets (particularly China/India) have changed dramatically, adding to volatility because of the scale of this incremental demand, when related variables (such as economic growth forecasts) change.
  - New sources of supply for many commodities are becoming increasing remote, complex and challenged. There is also a lack of consensus over long-term resource availability, while strong global population growth is putting increased pressure on the world's resources.
  - New and disruptive drivers (e.g. clean technology, regulations on carbon mitigation related to climate change) change supply-demand fundamentals but are still highly uncertain and, therefore, introduce volatility.
  - The political environment of markets themselves has changed – significant uncertainty arises from states' fiscal positions and related tax or regulatory issues.
  - There is an increasing trend towards government interventions when shortages appear (i.e. export taxes, export restrictions, price controls) which disrupt markets and add to uncertainty.
  - In addition to the emergence of specialist investors (e.g. hedge funds), ETFs and index funds have allowed a new class of investors to add commodities to their portfolio.

- Commodity markets are extremely complex – and most "simple fixes" will have unintended consequences in such a dynamic system. Often, local interventions, which seem to work for a limited time, have detrimental effects on the global balance and exacerbate the problem further down the line.

- This is particularly true for some of the more extreme financial regulatory proposals: excessive margin or capital rules related to derivatives which would remove capital for investment in supply, forced clearing for all wholesale transactions which would adversely affect liquidity and the direct transposition of equities market abuse regulation to commodities which would restrict meaningful activities of players that act both in physical and financial markets (ignoring that the spot price already provides a meaningful reference against manipulation). Another notable example would be retail price caps (below full development costs) that jeopardize future production and risk supply shortages in the future.

- With regard to systemic risk, we caution against simplistic analogies between the financial sector and commodities markets. We believe that the concept of "too big to fail" does not apply in the primary markets for non-state actors, as they are backed by production facilities that can be used by others. In the secondary markets, where counterparty risk is an issue, many financial actors are already covered by regulation pertaining to banks and financial market-makers. Of non-financial companies, even the largest players (e.g. Glencore) control less than one-fifth of the market[4] – and appropriate trading repositories for niche markets can improve systemic stability without the need for "too big to fail" regulation similar to the banking system. We note that the spectacular collapse in 2002 of Enron and the near-collapse of Dynegy, both significant market players, did not create systemic market events similar to those in the financial crisis of 2008.

- There is no single measure (or combination thereof) that will solve the volatility issue without significant side effects on producers or consumers. However, some targeted measures can help mitigate or avoid certain aggravating conditions.

- In this spirit, constructive engagement between policy-makers and industry will be key.

[3] "Working Paper – Report of the UNCTAD Study Group on Emerging Commodity Exchanges: Development Impacts of Commodity Futures Exchanges in Emerging Markets", UNCTAD Expert Meeting, 3 September 2007, p. 38
4 http://www.reuters.com/article/2011/04/14/glencore-marketshare-idUSLDE73D14720110414

II. Key Policy Messages

In putting forward our recommendations, we consider the relevant problem to be damage caused to the economy by excessive price volatility ("spikes" well above the long-term development cost) – not price appreciation driven by fundamentals. We believe such price appreciation can only be solved by appropriate adaptive choices of consumers (or where possible, increased supply by producers) and not by market intervention; while it will cause short-term populist pressures, the economy can ultimately adapt to price appreciation. With regard to volatility, as a guiding principle, we believe that the more transparency and liquidity a market shows, the less risk of excessive volatility occurs. In addition, it is our belief that uncertain and worrisome market conditions (real or expected) are the main trigger of volatility.

Accordingly, G20 leaders should address the role of financial investors in commodity markets by:
- developing more predictable fiscal and regulatory frameworks that can ease volatility and prompt the markets to take a longer term view
- providing more up-to-date information about the fundamentals of the marketplace
- avoiding measures that may increase volatility such as over-regulating OTC deals

In particular, we recommend the following guiding principles for policy-makers seeking to strengthen market resilience against excessive volatility:

1) *Facilitate markets that allow access to the maximum number of players*
In line with our guiding principle, we believe that the more liquidity a market displays, the less volatile it is likely to be. We, therefore, argue against access restrictions for any type of players (unless they are proven to be abusive post-trade on an individual basis) – in particular, against access restrictions for purely financial players as have been mooted in some quarters. Financial players serve key roles as counterparties and in providing market liquidity. We acknowledge the benefits that exchange-based markets can have from a liquidity and transparency perspective, while strongly cautioning against the view that exchanges are the solution for all markets or transactions – existing structures have often developed for sound reasons and should not be changed for ideology's sake. In a similar vein, while trade repositories would generally enhance transparency, provide greater security and global comparability for OTC deals, there might be markets where those benefits would not outweigh the associated cost to set up and maintain the infrastructure.

2) *Remove barriers to investment and production*
We believe that physical markets should allow the maximum number of players for reasons of efficient capital allocation as well as reduction of global imbalances. This should not be read as advocating imposed limitations on the size of any one player, for example where economies of scale create efficiencies in production for the benefit of consumers. We are proponents of removing economic barriers to investment (particularly where cross-border issues are involved) and production (with the obvious exception of where a greater good for society or the environment is threatened).

3) *Avoid "regulatory volatility" that compounds market volatility*
While we appreciate variability in individual countries' fiscal regimes, short-term changes to regulation or taxes on a unilateral basis will increase uncertainty, potentially constrain investment and, therefore, increase volatility. For this reason, we worry about fiscal measures such as windfall taxes (most recently in the United Kingdom), rushed change/introduction of subsidies/incentives (as in several countries related to Climate Change) or retail price caps that are below supply costs.

4) *Coordinate national policy and regulation that affects commodity markets*
Regulatory arbitrage and, in particular, the existence of markets where abuse (e.g. dominant position abuse or hidden counterparty solvency issues) go unchecked, is a major concern for market participants and at the systemic level. We believe the Financial Stability Board should take the lead in coordination – ensuring regulation is targeted at specific risks and does not create unintended consequences (e.g. on capital treatment for certain derivatives which would not lessen volatility and would remove capital available for investment). Rather than directing price movements through market interference, proposals should focus on preventing market abuse.

   Market abuse is a serious consideration and needs to be addressed effectively. By market abuse, we explicitly mean[5] improper disclosure, misuse of information, manipulation of transactions or financial devices/structures, dissemination of misleading/false information, market distortion, misleading

[5] This is consistent with the EU Market Abuse Directive, among other regulatory frameworks.

behaviour and insider trading by non-physical actors. In our opinion, clear, upfront "code of conduct" rules with ex-post enforcement are the best way to regulate a market – as is currently done with good success in stock markets, for example. Ex-ante regulation is harder to define and implement effectively, more costly to administer, and can often carry unintended consequences – thus, potentially being harmful to both public and private interest. As an example, limits on the overall number of outstanding derivatives contracts can affect legitimate inflation hedging (where an energy commodity is used as a proxy for inflation), and thereby increase undesired inflation risk in other parts of the financial system (e.g. pension funds). We also note that, while presumed attempts by speculators to "corner" markets and thereby drive up prices make good headlines in the popular press, historically those attempts have almost always created losses for the speculators in free markets[6]. It therefore seems inappropriate to create regulation specifically for a behaviour that is already punished by markets over time.

Concrete examples of recommendations are:

- Create a level playing field by harmonizing market abuse regulation for commodities globally via a mandate to the Financial Stability Board
- Reviewing concentration of large positions with single market participants – taking action where either market abuse is suspected or a systemic risk might present itself (but not limit market concentration *a priori*)
- Reviewing trading patterns for conflicts of interest (e.g. between own account and client account trading)
- Improving transparency (e.g. through reporting requirements to regulators for large market-makers). We believe that transparency measures should be applied post-trade, rather than restricting markets pre-trade (and therefore reducing liquidity)
- Reinforcing the integrity of clearing houses
  - Where clearing houses are a beneficial feature of markets (for standardized products only and not for all OTC products) their strengthening can meaningfully contribute to reducing systemic risk
  - This should include portability of transactions (enabling a transfer of positions from one clearing house to another in case of failure) through an appropriate amendment of European (and at a second stage, global) bankruptcy laws
- Resisting the temptation to force clearing for all wholesale transactions, as this would badly affect liquidity
  - There are meaningful differences between purely financial instruments and energy derivatives. Prices of energy derivatives correlate to the spot price and supply-demand fundamentals, they are backed by physical assets, and fewer players are active in the markets
  - Contrary to banks, which have access to deep funding pools (if necessary through the central bank) corporate treasuries cannot deal with the funding/capital impact that mandatory clearing would bring (e.g. by way of margin requirements)
- In principle, it is desirable from a liquidity perspective to exempt certain commercial hedging transactions from requirements that are adequate in other derivative classes (e.g. for clearing or capital). Here, it will be of utmost importance to provide exact definitions and implementation criteria; otherwise, such measures can invite potentially systemically dangerous arbitrage

III. Proposed Actions in Cannes

Specifically, we propose the following agenda to translate these principles into action:

1) *Increase transparency in production, consumption and storage of commodities*
The G20 should actively support the International Energy Forum (IEF) in its drive for greater transparency of markets and market statistics through connecting consumers and producers by **leading in the implementation of the Joint Oil Data Initiative (JODI) and considering a similar approach for other key commodities markets on an ex-post but timely basis**. Storage flows warrant particular attention due to their influence on spot prices. Specifically, we propose that:
   a) **the G20 should engage the IEF and other JODI partner organizations in a dialogue to explore how the JODI initiative could be exported to other commodities beyond energy** (to include data on production, storage and demand) and what would be needed to achieve that in a timely

[6] A logical explanation for this can be gleaned from the fact that absent another trend, the market will be less liquid while the speculator corners it (when he has to buy the commodity) than when he needs to sell it to realize his profits. Particularly with commodities that have a replenishable supply, the market volume will be higher (and therefore prices lower) at the time of selling for the speculator than at the time of buying, creating a net loss.

fashion. The initiative is already expanding into natural gas and is considering expansion into other energy sources[7], but we think the G20 should lend weight and resource to help speed up the process, perhaps initially by organizing a call or meeting involving the French and perhaps other G20 sherpas.

b) **the G20 should foster a direct dialogue among stakeholders to reduce short- and long-term uncertainty by supporting the expert dialogue under the framework of the IEF** with an evaluation of relevant policy proposals. Producers should be encouraged to contribute their views whenever it is felt that (real or perceived) supply shortages are a factor in price spikes. Since demand and supply uncertainty hinders timely investment, and diverging expectations can eventually result in wider imbalances, a regular exchange of views among all stakeholders (notably importing and exporting governments, consuming and producing industries, national and international institutions) is of extreme importance. As a first step, we suggest a call between the IEF and the French G20 sherpa to explore how the envisaged dialogue between expert stakeholders and resulting evaluation of policy proposals could feed into the G20 ministerial meetings on an ongoing basis. This discussion should also cover which stakeholders (e.g. from the private sector) should formally participate in the dialogue.

2) *Improve market access and balance of markets – particularly in raw materials relevant to global challenges*
In line with our policy principles outlined earlier and as a meaningful pilot, we propose that the **G20 member countries commit firstly among themselves to provide markets with optimal access and balance for raw materials that are relevant to global challenges** (e.g., climate change) by

a) Avoiding interventions such as export quotas or taxes that are non-WTO consistent
b) Encouraging greater dialogue (potentially under the IEF framework), including with the private sector on issues related to access to raw materials
c) Committing to avoiding regulatory volatility (e.g., windfall taxes) that would be harmful for natural adjustment of the supply-demand balance

As a second stage within a credible time frame (e.g., a year), we would foresee this framework being expanded beyond the G20 countries

3) *Allow storage to play a smoothing role in the supply-demand dynamic, principally by removing barriers for commercial actors to develop storage.*
Storage buffers can play a crucial role in smoothing price spikes. Unless a commodity is deemed in the national interest and supply failures undermine national security, we believe that the practicalities of second-guessing national demand and establishing “strategic reserves” are not worthwhile because of cost, moral hazard and crowding out investment in substitute products. Storage buffers by commercial actors have the advantage of being smaller in scale, directly related to their economic activity and, therefore, acting directly to avoid economic damage from a price spike. Barriers to storage can be found in planning restrictions, taxation of storage versus production and use restrictions, among others which should be reviewed against the potential benefits of increased storage buffers.

To this end, **G20 leaders should provide a mandate to the IEF secretariat to identify barriers to the expansion of commercial storage capacity and recommend how they could be pragmatically removed over a one to two year time horizon**. A first view of that study might be available for informal discussion among stakeholders at the G20 ministerial meeting in early 2012, and a final draft could be submitted to the G20 summit later in 2012. While this proposal and the preceding one is primarily directed at energy markets, it could also be applied to other commodities (e.g. rare metals) where actors find it useful.

4) *Strengthen international monitoring of market conditions and related policies – focusing on market abuse through ex-post controls*
In addition to the specific initiatives on transparency, liquidity and storage outlined above, **we recommend that international monitoring of market conditions, practices and policies be enhanced**. In particular, we propose that G20 leaders:

a) **potentially under the auspices of the IMF, establish a group that monitors markets (physical and financial) for barriers to participation**, as outlined in our key policy messages 1) and 2). This group would publish an annual report with best practices as well as potential fault lines in commodity

[7] http://www.jodidata.org/_resources/files/downloads/reports/jodi_report_to_ief_extraordinary_ministerial_february2011.pdf

markets. It could follow some of the process the IMF has established in assessing economies and financial markets. It would also report suspected abuse to national regulators for investigation.

b) **potentially under the auspices of the FSB, establish a group that oversees coordination of regulatory efforts relating to commodity markets**. This group would be in continuous contact with national regulators, which would include our recommendation on liquidity impact). It would publish its findings on regulation and progress on coordination once a year.

5) *Consider the liquidity impact of new commodity market regulatory measures or changes*
Given the importance that liquidity plays in curbing volatility, **we propose that a liquidity impact assessment be undertaken for every significant proposed regulatory change or new rule in G20 countries**. This assessment should be submitted in public by national regulators to the Financial Stability Board (FSB), which would publish its comments. The proposed change should be implemented only if the assessment process finds that no harmful impact on liquidity is likely to ensue. G20 leaders should provide a mandate to the FSB to develop a process to institutionalize this recommendation on the liquidity impact of regulatory initiatives. In particular, the FSB should be directed to give particular consideration to how national regulators could be incentivized to comply with such a process, which would produce a concrete “quick win” towards the challenge of regulatory coordination.

IV. Contribution from the ICC G20 Advisory Group on Mitigating the Adverse Impacts of Commodity Price Volatility

Issue

Challenge: Commodity markets are inherently volatile, as evidenced by the 2007-2008 rise and fall of prices as well as by recent fluctuations because of global political tensions. Rising commodity prices, particularly for fuel and food, have placed millions at risk of malnutrition and hunger, and are exacerbating social and economic tensions worldwide. During the recent period of global economic expansion – 2002 to 2008 – the factors that drove prices were a combination of strong global demand in emerging markets for global commodities, slow supply responses and low inventories, thus reducing the ability of markets to react to events.

The post-quake humanitarian emergency in Japan and current unrest in the Middle East and North Africa remind us that we operate in a volatile world and must be ready to respond to external events. At the same time, we increasingly feel the effects of a long-term trend of surging global commodity demand, driven mainly by Asia’s vibrant economies. The recent volatility in commodity prices has been largely driven by underlying fundamentals, particularly in an environment of significant shifts in global supply and demand patterns. Much political, social and economic volatility is – by definition – short term. And the impacts are amplified by unprecedented speed of communication and by the increasing interconnectedness of the global economy. In addition, climate change impacts could add to worsening conditions in many areas.

Opportunity: In Cannes, G20 leaders have a historic opportunity to play a role in mitigating the adverse impacts of commodity price volatility. The ICC welcomes the G20 action plan on Food Price Volatility and Agriculture from the 22-23 June Meeting of G20 agriculture ministers in Paris. In particular, we stress the importance of the need for a significant increase in agricultural production and productivity; improved information in particular for agricultural markets; greater policy coordination; and critically brining the Doha Round to a successful conclusion and avoiding trade barriers. This is a step in the right direction but more needs to be done, not only in Cannes, but also in subsequent G20 meetings. The private sector is ready to work in partnership with G20 governments to achieve the recommendations that follow.

Analysis

1. Role of financial investors in commodity markets
Many have pointed to the role of financial investors in commodity markets as a crucial factor driving price volatility. An UNCTAD report on the role of speculation suggested that the acceleration and amplification of price movements can be attributed to commodities as a group[8]. Yet, others have demonstrated that spot prices cannot be influenced by financial investors as they “only participate in futures and related derivative markets; only if they take and hold physical commodities in inventories” will they have an influence on

[8] UNCTAD (2011). Policy actions to mitigate the impact of highly volatile prices and incomes on commodity-dependent countries and to facilitate value addition and greater participation in commodity value chains by commodity-producing countries. Note by UNCTAD Secretariat. 2 February 2011, Geneva

prices[9]. The increase in participation of financial investors in commodity markets deserves proper analysis but, in general, the addition of greater liquidity and product innovation should aid price discovery, provide enhanced risk tools and, with the right regulatory framework, help to reduce price volatility.

However, focusing solely on limiting the role of financial investors could have negative effects on volatility. The commodity markets reflect an understanding of the fundamentals of the marketplace today and tomorrow. It is primarily fiscal and regulatory uncertainty that discourages investment and it is inadequate investment that causes the long-term disjunction between supply and demand that leads to such marked price volatility. Regulating to limit the role of financial investors in the market would do nothing to address this.

G20 leaders should instead focus on ensuring competitive markets with improved levels of aggregate supply and demand information thus providing a strong basis for understanding price formation and thereby attracting additional market liquidity. Fundamentals are the key drivers of price volatility and the mix of rapidly changing demand patterns with long lead time investments in recent years has proved a significant challenge for the private sector.

Over-the-counter derivatives (OTC), which companies use to protect against future movements in the price of commodities, are traded privately between businesses and banks, without being processed through a central clearing house to safeguard against the risk of default. They allow companies to cope with the sector's volatility and increasing complexity.

In the wake of the global financial crisis, policy-makers have indicated their intention to increase the transparency of the derivatives market. One proposal is to push OTC transactions onto the public exchanges, while another is to require mandatory clearing of all trades through regulated central counterparties. While there is a clear need for greater transparency, governments and regulators must be wary of unintended consequences, particularly of limiting the ability of the private sector to hedge risks.

Eliminating OTC deals, or forcing them all to be cleared centrally, would drive down business investment. To meet exchange collateral requirements, companies might have to divert investments in new productive capacity and technology. That would increase, rather than moderate, volatility.

G20 leaders should address the role of financial investors in commodity markets by:

- developing more predictable fiscal and regulatory frameworks to ease volatility and prompt the markets to take a longer term view
- providing more up-to-date information about the fundamentals of the marketplace
- avoiding measures that may increase volatility such as over-regulating OTC deals

2. Food[10]

Historically, achieving food security was based on the expansion of agricultural land and productivity growth. Today, however, additional challenges exist which lead to a new agricultural production context causing increased pressure on both land and resources. Most agricultural commodity markets are characterized by a high degree of volatility. This is normal, as agricultural outputs vary due to natural shocks, demand elasticity relative to price and long production cycles. As in 2007-2008, the main concern today about food price volatility is principally its role in raising prices on basic staples, particularly for the poor. Moreover, in many developing and least developed countries, food security poses enormous challenge where even a marginal food shortage and its consequential adverse impact in terms of surging food prices can pose serious threat. Globally, there are about 1 billion people who are undernourished; every rise in food prices shifts millions of people below the poverty line.

Growing population and income in emerging and developing countries will also add significant demand for food in coming decades – by 2050 world population is expected to have reached at least 9 billion and the demand for food will increase from 70% to 100% – this alone putting significant pressure on commodity prices[11]. In addition, climate change impacts, including water scarcity or droughts, could make conditions worse in many parts of the world.

[9] IBID
[10] This section should be viewed concurrently with more detailed IBC-ICC G20 CEO Task Force – Food Security Working Group Recommendations for G20 Agricultural Action Plan
[11] "Price Volatility in Food and Agricultural Markets: Policy Responses. Policy Report with contributions by FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, WTO, IFPRI and UNHLTF, 2 June 2011

Furthermore, domestic fears of food shortages in many countries are encouraging hoarding and a consequent turning away from the market in many parts of the world. A whole host of bans, quotas, taxes and other restrictions on the export of food, and of other commodities and raw materials, is proliferating. Export restrictions distort an efficient domestic response to changes in food supply, exacerbate both price hikes and shortages and add to overall agricultural inefficiencies that leave hundreds of millions hungry.

G20 leaders have rightly made food security a high priority. The private sector has a key role to play in agricultural systems and is ready to work collaboratively with governments and civil society to address these challenges.

G20 leaders should address volatility in food commodity prices in the short term by:

- opening global markets to food trade by successfully concluding the Doha Round
- avoiding export restrictions, price controls and similar bans, as these will discourage the necessary additional investment required for agricultural production, impede access to agricultural raw materials and threaten food security
- eliminating trade-distorting subsidies to ensure a level playing field in the global marketplace
- avoiding limits on the use of technology which can hinder opportunities and deprive farmers of agricultural tools

Over the longer term, G20 leaders should address volatility in food commodity prices by:

- insuring cost-effective approaches to competition from other sectors for access to land, water, nutrients and energy sources
- boosting innovation, education and capacity building to better mitigate and manage price volatility through improvement in agriculture distribution and storage systems, among others
- focusing efforts on sustainable production and supply involving public-private collaboration and modern technologies integrated with local and traditional knowledge, as well as improving education and capacity building

3. Energy price volatility

Rising energy prices, particularly for oil, are a threat to the recovering global economy and will strengthen inflationary pressures and cause a negative impact on the private sector, especially in developing countries. In addition this impact will be particularly strong on energy suppliers, transport industries, energy-intensive industries and service providers.

Many governments, notably in developing countries, have taken measures such as fossil fuel subsidies to lessen the impact of oil price volatility. A long-term policy goal should be to replace these subsidies with effective social protection programmes leading to both economic and environmental benefits.

The view that speculators are the main force behind fluctuations in energy markets, especially crude oil, has been challenged by recent analysis[12]. Instead market fundamentals – factors that disturb the balance between supply and demand – are the likely primary drivers. High movement in the price of oil for example, is exacerbated by incomplete and obsolete market information. For instance, the International Energy Agency (IEA) can only publish oil statistics with a time lag of more than a year. In the absence of up-to-date information, the price of oil sometimes fails to reflect the underlying fundamentals of the marketplace.

G20 leaders should look to mitigate energy price volatility by:

- taking measures to diversify the energy mix to meet growing demand. No technologies or energy sources should be excluded as innovation may provide solutions to overcoming barriers that limit the use of some technologies today
- creating a policy environment that rewards energy-efficient choices and encourages innovation over the medium and long term; enhancing the interconnectedness of energy systems, both primary and secondary, to reduce risks and increase flexibility
- ending wasteful consumption subsidies while managing the phase out of targeted subsides for the poor – G20 leaders have already committed to phasing out over the "medium term" some of the US$ 557 billion spent annually (2008) on fossil fuel subsidies
- removing trade barriers, improving access to natural resources and opening markets to competition to help minimize potential disruptions
- reducing energy demand and energy needs along the supply chain, as well as extending resource life
- encouraging the International Energy Forum to press on with its Joint Oil Data Initiative

[12] "IEA experts examine fluctuations in Oil Market Report, www.iea.org, 21 March 2011

4. Access to raw materials

Government interventions such as export restrictions for certain critical raw materials (e.g. rare earths, lithium or other metal raw materials) can lead to supply constraints that induce excessive price volatility. As a consequence, increases of raw material prices combined with supply insecurities raise concern for producers and consumers regarding future production and ability to deliver finished goods. This uncertain environment drives consumers to change inventory management practices, thus exaggerating pricing signals, which in turn lead to increased volatility.

Overall government interventions such as export quotas or export taxes for critical raw materials like rare earths, lithium or other metal raw materials might hamper global competition and WTO rules. Trade restrictions enacted in one country risks exacerbating global trade tensions and could have negative consequences for the WTO ruled-based trading system.

Market access to certain raw materials is essential for the future development of innovative technologies to tackle global challenges such as climate change or e-mobility. In addition, research and development of new products based on foreseeable production technologies depend on it. Therefore, if we are to meet global challenges efficiently and create a future with sustainable products and production methods, a stable and secure supply of these raw materials is essential.

Recommendations

Finally G20 leaders should look to improve access to raw materials by:

- avoiding interventions such as export quotas or taxes that are non-WTO consistent
- encouraging greater dialogue, including with the private sector on issues related to access to raw materials
- enhancing market access to raw materials that are, for example, critical to deal with global challenges such as climate change

Annex I – Glossary

Capital intensity	The amount of long-term fixed capital required in relation to shorter term variable factors of production (e.g. labour).
Clearing	The procedure by which an intermediary assumes the role of buyer or seller for transactions to reconcile orders between transacting parties (e.g. for the settlement of accounts or exchange of financial instruments).
Clearing house	A centralized agency or corporation responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery of contracts and reporting trading data. Usually affiliated with a futures exchange.
Elasticity	The change in demand for a good given a certain price fluctuation (or in supply of a good, given a certain fluctuation in price of its inputs). “Inelastic demand” means that even in the face of a large price rise, there is no change in demand for a good.
ETF (Exchange Traded Fund)	A security that tracks an index, a commodity, or a basket of assets, but trades like a stock on an exchange. Different from mutual funds, an ETF’s price is influenced purely by the balance of buyers and sellers and not a net asset value (NAV) calculation. ETFs can be sold short or traded on margin like stocks. They might or might not be backed by physical assets.
Exchange	A marketplace in which standardized securities, commodities, derivatives and other financial instruments are traded. Exchanges are regulated and need to ensure fair and orderly trading, as well as efficient dissemination of price information.
FSB (Financial Stability Board)	An international body that monitors and makes recommendations about the global financial system, with particular focus on the regulatory aspects. It was established and given its mandate in 2009 by the G20 as the successor to the Financial Stability Forum. The board includes all G20 economies, Financial Stability Forum members and the European Commission. Its secretariat is based in Basel.
Forward price	The agreed-upon price of a commodity in a futures contract. It is closely linked to the spot price through a series of rational pricing assumptions (that among other variables, take into account the economics of storage).
Futures market	A market where futures contracts are traded. A futures contract obliges the buyer to purchase an asset from the seller at predetermined future date and price. Futures are standardized to be traded on exchanges. Some futures contracts stipulate physical delivery of the asset, while others can be settled in cash. Futures can be used for hedging as well as speculative purposes. Futures markets have been in existence for a long time, particularly for agricultural commodities so farmers can get certainty on a price for their produce – the first modern organized exchange began in 1710 at the Dojima Rice Exchange in Japan; in the US the Chicago Board of Trade (CBOT) was formed in 1848.
Hedging	An investment strategy to reduce the risk of adverse price movements in an asset.
IEA (International Energy Agency)	An international agency providing policy advice to its 28 member countries. It was founded as a response to the 1973/1974 oil crisis. Its mandate focuses on energy security, economic development and environmental protection.
IEF (International Energy Forum)	The world’s largest gathering of energy ministers. The 86 IEF countries account for over 90% of global oil and gas supply and demand. Uniquely, its members not only comprise IEA and OPEC countries, but also key players such as Brazil, China, India, Mexico, Russia and South Africa. Its permanent secretariat is based in Saudi Arabia.
Index Fund	A mutual fund that passively tracks the components of a market index.
JODI (Joint Oil Data Initiative)	Launched in 2001, an initiative to provide reliable monthly data on production, refining, trade, demand and stock levels for seven categories of oil and related products. The database (www.jodidata.org) covers over 90% of global supply and demand. The initiative also provides knowledge transfer programmes and events.
Liquidity	The degree to which an asset or security can be bought or sold in a market without materially affecting the price. When selling an asset for cash, the ability to do so quickly and without affecting the price is also known as “marketability”.

Margin requirement	The requirement for an investor to deposit a certain level of collateral (usually cash or highly marketable securities) into an account to cushion against a deterioration in creditworthiness caused by adverse price movements in the account's other securities. A particularly important feature for leveraged accounts involving derivatives.
Margin call	The request for an investor to deposit additional money or securities to restore the minimum maintenance margin for a leveraged account. A margin call is usually brought on by a deterioration in the price of the account's assets, but can also be caused by a reassessment of the investor's creditworthiness.
Market-maker	An intermediary that creates a market in a tradable product (physical or financial). In all but highly liquid markets, market-makers will carry inventory (so they can satisfy demands from buyers at short notice) that might expose them to risk should the price of that inventory change.
Market abuse	Unlawful behaviour, where financial investors have been unreasonably advantaged, directly or indirectly, by others who have disseminated false or misleading information, have distorted the price-setting mechanism (e.g. by way of abusing a dominant position) or have used classified and restricted information (insider dealing). The definition of market abuse and particularly what constitutes insider dealing, can vary significantly between markets depending on their underlying mechanisms and participants.
OTC (Over the Counter)	A security which is not traded on an exchange but through direct interaction between institutional market-makers (dealers). Most securities trading OTC do so because of a lack of the standardization that would allow them to be traded on an exchange (e.g. because they are a bespoke hedge for a client).
Price spike	A large, and quick, rise in price.
Speculator	A market participant that expresses a view on future price movements with the desire to make a financial gain. Usually, this assumes taking on a certain level of risk, for which the speculator hopes to be compensated by a commensurate profit. Speculation and hedging, like buying and selling, can often be complementary activities – for example a counterparty agrees with a farmer on an inflation-linked rise in future wheat prices (providing a hedge for the farmer against a drop in real wheat prices) and in the simplest case the counterparty will have an expectation that the price will rise by more than the inflation rate.
Spot market	A commodities or securities market where goods are sold for cash and delivered immediately. For certain commodities, immediately includes a timeframe of within one month (traded on the short-dated futures market).
Spot price	The price in the spot market, or the short-dated (less than one month) futures market.
Trade repository	A centralized source of detailed transaction data, both "stock" (i.e. inventory of market-makers) and "flow" (i.e. contracts exchanged) with the functionality to provide post-trade aggregation and reporting of data. A trade repository is different from an exchange as it has no listing requirements and less regulatory oversight. Trade repositories, with adequate reporting frequency, are believed to be beneficial for monitoring the build-up of systemic risk.
Volatility	The extent of fluctuation in an asset's return or price over time, usually expressed in statistical terms (e.g. standard deviation of returns in a given time interval).

World Economic Forum G20 Working Group on Food Security

I. Framing the Issue

Under the French Government's leadership, the G20 has established food price volatility as one of its priority issues in 2011, with a specific focus on developing countries. In this context, the Food Security Working Group has worked to develop proposals for G20 leaders that reflect the private sector perspective on issues that must be addressed to ensure global food security. A draft version of the paper was presented at a High-Level Workshop hosted by the French government with Working Group participation on 6 June 2011 in Paris.

In the global economy, the price and availability of food is influenced by a complex set of factors, such as fuel costs, weather patterns, trade policies and changing patterns of consumer demand. In 2007-2008, a confluence of these factors led to prices of food commodities reaching a new peak.[13] As a result, more than 40 countries experienced social unrest caused by food shortages and price increases; and over 100 million additional people were driven into hunger, raising the global total to 1 billion. Three years later the prices of many basic food commodities have spiked again, while stocks-to-use ratios in the developed world are at historic lows. These dynamics have had macroeconomic as well as human impacts. [14] Food price inflation contributes to broader inflation; the uncertainty created by volatility creates a disincentive for investment.

These developments have raised questions with regard to the global food security situation:

- Can we produce enough food of good nutritional quality to feed the growing population?
- Can we ensure access to food for all who need it, even in times of acutely high prices?
- Can we do this in an environmentally, socially and economically sustainable way?
- Have we entered a period of consistently higher prices for food staples?

The fluctuations seen in recent years are likely to continue if the underlying factors that drive them are not addressed. For example, by 2030, water scarcity may significantly increase the volatility of staple food supplies and lead to a structural loss of 30% of global crop production.

The private sector plays a central role in agriculture systems. In response to the ongoing challenges, companies are collaborating to develop innovative solutions and share best practices to mitigate the impact of price volatility across the supply chain, while working to address broader issues of supply chain sustainability. In some countries, the private sector has been supported or incentivized by government policies and instruments.

Currently, the strongest private sector operations and public sector enabling environments are largely found in developed markets. Emerging markets have greater challenges including poor infrastructure, underinvestment and inadequate functioning of the markets. This weakens productivity and particularly affects the situation of smallholder farmers. Some of these issues can be addressed through the greater availability of innovative financing across the entire value chain, including cost-effective insurance models. In addition to developing specific tools to better manage volatility and risk, we believe that underlying supply and demand factors must be addressed by structural and environmentally, socially and economically sustainable measures to improve global food security.

The Food Security Working Group has identified priorities for action by the private sector and public authorities, and proposals for their implementation, focusing largely on the underlying factors and structural solutions. In this report, we do not deal with financial instruments which could play a role with regard to food price volatility. In addition, while we recognize the need to address the challenges and opportunities posed by biofuels in view of global needs for food security, energy and sustainable development, this topic is not addressed here.

Our recommendations reflect the following "core principles" of our approach.

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[13] FAO
[14] See OECD-FAO Agricultural Outlook 2011-2020.

Core Principles

- We share an overarching goal with the public sector which is to **feed the world in an environmentally sustainable and socially beneficial manner**
- Implementing **market-based strategies** to strengthen the productivity and sustainability of food systems, engaging a full range of private sector actors (from entrepreneurs/SMEs to large firms) and market mechanisms to address the needs of both producers and consumers
- Taking an integrated approach to improving **whole value chains**
- Encouraging **multistakeholder collaboration** and innovation to optimize sustainability and impact
- Meeting **nutritional needs** through integrated strategies of agriculture and food production
- Focusing on **medium- and long-term solutions** for food system sustainability
- We believe agriculture can be a vital **engine of economic growth** in the developing world
- Many of the most **effective solutions are locally led and targeted**. Global partners must be willing to embrace the specificity and complexity required

II. Key Policy Messages

The Food Security Working Group believes that commitment to action, investment and innovative new models of collaboration are required from both public and private sectors in particular in the developing world. The Working Group has, therefore, developed recommendations for action through increased commitment among the public and private sectors in the following five priority areas. By November 2011, we will provide a time frame for the short- and medium-term actions, based on our consultations with public sector leaders and other stakeholders.

Summary of Key Policy Messages

The proposed actions outlined in Section III are summarized briefly below.

1. **Increasing investment**
   a) **Prioritize specific value chains or regions** for increased public-private investment
   b) Remove barriers to investment, particularly through **innovative financing** mechanisms (catalytic finance, patient capital, credit guarantees and insurance) and property rights
   c) Develop **intellectual property protection** policies, where they are currently lacking
   d) Strengthen the capacity of **smallholder farmers** (particularly women) through extension, financing, information access, organizing support and property rights

2. **Improving markets**
   a) **Improve trade policies at global and national level**, including finalizing the WTO Doha Round and prohibiting export bans
   b) **Establish emergency reserves** to reduce volatility and ensure availability for the most vulnerable
   c) **Establish transparent monitoring and data sharing** on availability, stocks, demand, price and quality of agricultural commodities
   d) **Improve access to markets for smallholder farmers** through investments in transport and storage infrastructure, training programmes as well as information access

3. **Accelerating R&D investment and expanding technology access**
   a) **Develop public-private partnerships** for technology R&D and for expanding technology access
   b) **Encourage consistent, well-formulated government policies** to incentivize on technology approvals, regulation, R&D and safety
   c) **Strengthen agriculture and nutrition science** in institutions of developing countries

4. **Ensuring environmental sustainability**
   a) **Encourage sharing of best practices** and technologies for environmentally sustainable agriculture
   b) **Improve water resource management** through increased public-private collaboration and incentives to strengthen water management strategies and technologies
   c) **Scale up sustainable supply chain management** for specific commodities, through effective policies
   d) **Reduce post-harvest losses and food waste** by improving transport, storage, energy efficiency and waste recycling along the value chain, and reduce consumer food waste
   e) **Reduce greenhouse gas emissions** from agriculture, through policy and financing incentives including the Clean Development Mechanism (CDM)

5. **Meeting nutritional needs**
   a) **Increase availability of nutritional foods** through R&D, improved distribution and integrated production strategies linking agriculture, nutrition and health goals
   b) **Support the Scaling Up Nutrition** (SUN) programme
   c) **Encourage consumers to choose diets** that offer a healthy nutritional balance as well as environmental efficiency, based on an integrated approach

Establishing Effective Mechanisms for Public-Private Coordination

- Establish **national partnerships** that engage government, the private sector, civil society and other key actors to develop and implement sustainable, market-based solutions to improved food security
- Establish a **global-level multistakeholder dialogue**, supported by the G20, to coordinate and strengthen public-private collaboration on agreed priority action areas

1) Increasing Investment

Goals

- Significant increases in both public and private sector investment are needed to raise agricultural productivity and food output in a sustainable manner, and to increase crop diversity. We propose that for the developing world, decades of chronic underinvestment be reversed through the adoption of a **50% increase in investments in agriculture and agri-food supply chains** by 2015 and implemented by the combined efforts of the public and private sectors.[15]
- Enabling significant increases in private sector investment will require, in many cases, improvements in the **business enabling environment** of individual countries. These include policies (including laws, regulatory requirements and customs regulations) that channel benefits back to the farmer. Such policies should include provisions to increase investment in transport, agricultural storage and other physical infrastructure, and to assist smallholder farmers with risk management through accessible agriculture statistics or innovative financing and information technology that results in greater price transparency and stronger domestic development programmes. Ensuring adequate property rights is an important enabler of investment.
- Improved natural resource management is urgently needed to enable increases in agricultural productivity over the long term. In particular a focus on improved water use efficiency and management of **water supplies** used in agriculture is an urgent priority. We believe this focus will require increased investments in infrastructure for improved water capture, irrigation and other water-saving technologies.
- Increasing **productivity, market access and opportunities for smallholder farmers** is critical in developing countries, where smallholders produce 80% of domestic consumption. Globally there are approximately 470 million smallholder farmers, supporting 1.2 billion people, largely living in poverty[16]. Improving training through better extension services, financing, property rights and access to modern technologies (including no-till technology) particularly for women is key to empowering and expanding the productivity of these producers.[17] The private sector acknowledges the important and unique role of civil society in these endeavours.

Proposed Actions

a) Actively support pilot projects that demonstrate the effectiveness of increased investment and can lead to best practices applicable in a variety of growing regions. The public and private sectors can work together in individual countries to **prioritize specific food value chains or regions for increased investment**. Examples include the SAGCOT initiative in Tanzania, the Malawi Agricultural Partnership, the Agricultural Transformation Agency in Ethiopia, the Beira Corridor and broader emerging efforts to engage private sector investment in alignment with African nations' CAADP plans, and the Public- Private Task Force on Sustainable Agricultural Development in Vietnam, focusing on five priority commodities.
b) **Remove barriers to investment** and establish investment enablers through joint action by public and private sectors. These could include catalytic financing measures (such as targeted low-cost loans, specific guarantee funds and matched grant facilities) to attract and leverage mainstream financing; development of "patient capital" to support demand-driven agricultural infrastructure needs; and credit guarantees and insurance programmes that reduce risk and promote investment across the entire agriculture value chain. Multilateral institutions are particularly well-suited to working with both public and private sector actors to increase the speed of implementation.

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[15] FAO
[16] FAO 2005
[17] IFAD

c) Encourage governments to work with industry to develop **intellectual property protection policies** to enable private sector investments and innovations in markets currently lacking such frameworks.

d) **Strengthen the capacity of smallholder farmers** by expanding dedicated extension services and financing programmes, enhancing access to reliable and transparent market price information, and supporting the formation and effective management of producers' organizations and property rights through expanded public programmes, government incentives and public-private partnerships. These actions should be especially targeted to women smallholders in those countries or regions where they have a dominant role in agricultural production. We will consult with smallholder representatives as part of the stakeholder consultations at local level.

2) Improving Markets

Goals

- **Well-functioning markets** create the right incentives to expand production levels in a sustainable manner and to motivate improvements in supply chain efficiency. The public and private sectors play distinct and complementary roles. Governments establish the framework for transparent, competitive, efficient and well-regulated markets – in terms of standards and safety, and for market-oriented price identification. Within this framework, the private sector is the key driver of investment, business activity, innovation and productivity.
- **Trade** is a key market enabler, contributing to improved access to food supplies. Improving global and intra-regional trade is an important priority for improving market functions.
- Extreme price fluctuations can be reduced through **adequate stock levels and storage facilities** to ensure availability during price surges and **improved transparency** of market information to reduce hoarding and speculation. A global framework for market information would facilitate a rapid response system and improved policy coordination. Public sector actions, such as restrictive export quotas, tariffs or embargoes, should be discouraged, as these measures often lead to serious market distortions.
- The movement of food is a determinant of food costs and food waste, which could be reduced through **infrastructure improvements**, including roads, bridges and storage facilities to better enable availability and movement of food.

Proposed Actions

a) **Improve trade policies at global and national level**. Strongly encourage G20 leaders to **finalize the WTO Doha Round** and eliminate market barriers, including import and export restrictions and allow both consumers and farmers access to the global market. **Prohibit export bans** of agricultural commodities to enable the effective functioning of global markets, particularly ensuring that humanitarian shipments are not affected by export restrictions to enable access to food for the most vulnerable in times of crisis.

b) **Establish emergency reserves**, supported by targeted financing and potentially managed under the auspices of the World Food Programme (WFP) to help reduce volatility and the impact of price spikes on the most vulnerable.

c) **Establish transparent monitoring and data sharing** services through public-private collaboration to provide accurate and timely information on availability, stocks, demand, price and quality criteria. The private sector will contribute to the initiative to set up a global framework for food security data by providing expertise.

d) **Improve the access to markets of smallholder farmers** through investments in public infrastructure (particularly for transport and warehousing) as well as information access through cost-effective information technology. We will develop risk-reducing solutions and training for smallholders through public and private partnerships at local level.

3) Expanding Technology Access and R&D

Goals

- New technology, including modern biotechnology, has an important role to play in ensuring adequate food supplies for the world. Increased investment in technology **research and development**, particularly for crops native to developing countries, is needed as are public sector efforts to assure consumers of the safety of biotech products. We share the objective to identify and communicate the benefits of new technology for civil society.
- Protection of existing stocks of **seed varieties and in germ plasm banks** is essential for future food security in the face of unpredictable climate change and diminishing natural resources.
- Significant progress can be generated just by improving **access to and use of existing technologies**, many of which are not currently available to, or employed by, smallholder farmers.

- We will benefit from **effective monitoring systems and data sharing** on food security indicators. Best practice initiatives to improve nutritional security should be rolled out by public-private collaboration. Public sector efforts to assure consumers of the safety of nutritional enhancement of food products should be further supported. Civil society has an important and unique role to play in this effort as well.

Proposed Actions

a) **Develop public-private partnerships** for technology R&D and to expand technology access, enabling the private sector and public institutions to share technology and implement best practices, with a goal of addressing food security needs. They will remove existing hurdles with regard to the application of R&D and to support initiatives to encourage R&D investments which offer sustainable solutions.
b) **Encourage consistent, well-formulated government policies** to incentivize and manage technology development and the application of adequate food safety standards. Such effective policies are needed to manage new technology approvals, provide a clear and efficient regulatory environment, incentivize and support effective R&D and to assure consumers of the safety of the products.
c) **Strengthen agriculture and nutrition science** in institutions of developing countries through public-private partnerships

4) Ensuring Environmental Sustainability

Goals

- **Ensuring the sustainability of food production systems** for future generations (soil, air, water quality and quantity, climate, land use and biodiversity) through strong commitment from all stakeholders. The private sector is engaged in sustainability initiatives and remains committed to invest in the sustainable sourcing of raw material. Internal standards and targets will help reduce the environmental impact of increased production levels.
- **Addressing water scarcity** is a particularly urgent priority. Significant improvements are needed in infrastructure, demand efficiency and R&D for drought-resistant crops.
- **Reducing losses and waste** of agricultural and food supplies can help expand food supplies without additional production. Post-harvest waste is estimated to exceed 30% of production worldwide, totalling approximately 1.3 billion tons.[18]
- **Enabling carbon sequestration and climate-change resilience through agriculture**, through improved water, soil and land management using science-based lifecycle assessments. At the same time, producers must strive to reduce greenhouse gas emissions from agriculture in a sector that both contributes to and is highly affected by climate change.

Proposed Actions

a) **Scale up sustainable supply chain management** for specific commodities. This can be accomplished through public policies such as standards, rules and preferential market access, without undermining overall competitiveness. Crops and commodities relevant for long-term nutritional security can be recognized and prioritized in public-private partnerships at national level based on an adequate market-based approach.
b) **Encourage sharing of non-competitive best practices and technologies** for environmentally sustainable agricultural practices, among private sector actors.
c) **Encourage public-private collaboration to improve water resource management**. This can include promoting **fact-based, cost-effective water management** (such as the World Economic Forum's Water Resources Group) and increasing investment in water capture, storage, distribution, and reuse, particularly in farming communities of developing countries. Economic incentives developed by the public sector can encourage the development of **technologies** and practices which improve the efficiency of water use in food production. These can include establishing investment funds and, where appropriate and well-studied, water pricing schemes. Multilateral institutions can play an important role in jump-starting these efforts across regional boundaries.
d) **Significantly reduce post-harvest losses and food waste** by investing in agricultural infrastructure and technology, and exchanging best practices for waste and loss reduction.[19] Such efforts should engage both public and private sectors, taking a value chain approach to improving transport and distribution, storage, cold chain technology, energy efficiency, and waste recycling along the chain. Consumer food waste must be reduced through consumer outreach, improved technology, and incentives.

[18] FAO, Global Food Losses and Food Waste, May 2011
[19] An example is the ADM Institute for the Prevention of Postharvest Loss at the University of Illinois, USA

e) **Reduce greenhouse gas emissions from agriculture,** leveraging incentives such as the Clean Development Mechanism (CDM) to include agricultural projects, and providing innovative financing for sustainable land use.

5) Meeting Nutritional Needs

Goals

- **Reducing nutritional deficiencies and imbalances** is urgently needed to address the needs of 1 billion undernourished people; 1 billion overweight or obese people; and those affected by micronutrient deficiencies and nutrition-related health issues such as diabetes and heart disease.
- **Improving nutritional status** is an essential component of food security. Nutritional interventions are widely recognized as some of the most high-impact, cost-effective interventions in the development arena.[20] This is particularly true of children under two years of age, for whom inadequate nutrition can have lifelong impacts on their health and their intellectual and economic opportunity. Improving the availability, access and affordability of appropriate high-quality nutritional foods is a key strategy.
- **Integrating agriculture and nutrition strategies** can help ensure access to good quality, affordable diets that contribute to the ultimate goal of strengthening human health and well-being. Such integrated approaches can simultaneously address hunger, micronutrient deficiencies and obesity/overweight. For example, increasing crop diversity can improve nutrition and provide environmental benefits such as enhanced biodiversity, soil fertility and water quality.
- Ensuring the application of adequate food safety standards throughout the supply chains.

Proposed Actions

a) **Increase availability of nutritional foods** through consumer-oriented strategies including research and development; improved distribution strategies to increase access (especially in poor communities); and integrated production strategies linking agriculture, food safety, nutrition and health goals.

b) **Support the Scaling Up Nutrition (SUN) programme**, led by the Special UN representative on Food Security and Nutrition, and invest in the core elements of the "1,000 critical days" strategy.

c) **Encourage consumers to choose diets that offer a healthy nutritional balance as well as environmental efficiency**, based on an integrated approach. This will have positive benefits on both human health and the environment.

III. Proposed Actions in Cannes

Key highlights of our recommendations are:

1. **A 50% increase of investments in <u>food value chains</u>, totalling US$ 80 billion from both public and private sectors, is critical to achieve by 2015.** This can be achieved by incentivizing private investment through improved risk management and policy solutions; and fulfilling public-sector funding commitments.
   <u>Proposed public-private actions:</u>
   - **National and regional partnerships to accelerate public-private investment in sustainable agriculture:** Vietnam, Indonesia, Mexico, Tanzania and pan-African partnerships are being facilitated by the New Vision for Agriculture initiative.
   - **Scale up effective risk management tools to accelerate responsible investment:** A public-private working group should immediately start work to expand and apply risk management solutions (including innovative finance and affordable index-based insurance) in target countries.

2. **Improving the functioning of <u>agricultural markets</u>** is a vital and immediate priority. This requires extensive improvement to policy and infrastructure, as well as increased transparency through improved data collection, sharing and monitoring.

3. **<u>Technology</u> innovation and distribution should be accelerated** through partnerships and policy reforms, to address local needs for improved productivity, sustainability and nutrition.

4. **Environmental <u>sustainability</u> must be integrated as a core objective into all agricultural activity,** addressing climate, water, land and waste issues through policy incentives, technology innovation, partnerships and best practices.

[20] See for example the recommendations of the International Food & Beverage Alliance.

Proposed public-private actions:

- **Public-private collaboration for improved water resource management:** the Water Resource Group is working in India, Jordan, Mexico, Mongolia and South Africa to meet economic, social and environmental needs sustainably.
- **Launch an ambitious expansion of sustainable sourcing practices** by leveraging public-private capacities to scale up best practices for sourcing agricultural products from smallholder farmers.

5. **A major shift to improve nutrition should be undertaken**, engaging private-sector technology, communications and distribution capacities also in partnership with other stakeholders.

Many of the policies recommended above will require deeper public-private cooperation to shape and execute them successfully. We propose that G20 leaders provide a mandate in Cannes for the following processes aimed at accelerating and scaling implementation of such policies:

- To effectively develop and coordinate public and private sector action on these priorities, we support the idea of a **multistakeholder dialogue** and partnership on food security and agricultural development that would meet and report annually to the G20. The World Economic Forum and other organizations can share best practices on multistakeholder dialogues and provide support for this effort.

- Building on initial models piloted by the World Economic Forum and others, we encourage governments, companies and local stakeholders to establish **country-level partnerships** in developing countries to accelerate sustainable, market-based growth in the agriculture sector. Actions and investments can be focused on mutually-agreed priorities, whether regionally focused (such as the growth corridors in Tanzania and Mozambique) or commodity-focused (seen in partnerships in Vietnam and Mexico). Such partnerships would benefit from the support of multilateral institutions, as well as investment and technical support from the global private sector. The industry is willing to take an active role in defining and implementing these programmes, in partnership with governments, farmers, civil society and other key stakeholders.

The Food Security Working Group stands ready to engage in further dialogue and coordination with G20 leaders to develop and implement the proposals outlined here.

World Economic Forum G20 Working Group on Improving Transparency and Eliminating Corruption

I. Framing the Issue

Where do we stand in the fight against corruption?

The glass is half full – The global fight against corruption has made significant progress over the last 10 years. The adoption of the United Nations Convention against Corruption (UNCAC) in 2003, together with sustained efforts by the world's major trading nations to meet their new obligations under the OECD Anti-Bribery Convention, has helped shape a legal and institutional response to the problem of corruption. Business engagement has been strong, as attested by the introduction of a 10th principle against corruption in the United Nations Global Compact, the proliferation of business-driven initiatives against corruption, and the growing number of companies that have established anti-corruption policies and compliance programmes.

… and half empty – Over half of the respondents to Transparency International's 2010 Global Corruption Barometer survey think that corruption has actually increased in their country over the past three years. The OECD has repeatedly warned about the wide disparities in the levels of enforcement activity across countries that are parties to the OECD Anti-Bribery Convention. Private sector engagement against corruption remains uneven and companies that have demonstrated leadership continue to operate in contexts where they are exposed to undue solicitations and unfair practices by their competitors.

A watershed moment – The launch of the G20 Anti-Corruption Action Plan at the last G20 Summit in Seoul marks a new phase in the global fight against corruption. The adoption in 2009 of a review mechanism to monitor the implementation of the UNCAC, and recent moves by China, Russia, Turkey and the United Kingdom to strengthen their legal framework against corruption, are all positive signs of a renewed commitment to action. The pressure from citizens around the world is mounting. From the Arab spring to the massive protests that took place in India, Mexico and Spain in recent months, the public outcry against corruption has been loud and clear.

Looking ahead – Governments, business and society have a joint interest in eliminating corruption. The G20 is uniquely placed to demonstrate leadership and take bold, collective action in support of a global economy based on common integrity rules and fair competition. The G20, together with business and other key stakeholders, has a significant opportunity – and a shared responsibility – to develop and implement new initiatives that will further improve the effectiveness of the global anti-corruption regime.

II. Key Policy Messages

Recognizing that poor governance, corruption and lack of transparency are among the greatest obstacles to social and economic developments, critical action is required from G20 governments to:

1) **Strengthen existing institutions and initiatives** to combat corruption by providing the political will and financial support that they need to effectively fulfil their mandate. In particular, G20 governments must secure adequate funding and operational support for ongoing efforts by the **United Nations Office on Drugs and Crime (UNODC)** and the **OECD Working Group on Bribery** to monitor the implementation and enforcement of the United Nations Convention against Corruption (UNCAC) and the OECD Anti-Bribery Convention. Governments of G20 countries must firmly establish anti-corruption as a core part of their **bilateral and multilateral aid programmes** and further support capacity building efforts to help developing countries establish a minimum legal and institutional framework to prevent corruption and foster collective action initiatives.

2) **Develop new innovative approaches** to substantially scale business engagement against corruption and develop practical solutions in support of a clean business environment. In particular, G20 governments should **introduce positive incentives** to recognize companies and high-level public officials who take the lead in the fight against corruption; support the establishment of a **high-level reporting mechanism** to assist and provide solutions to companies that are confronted with a solicitation for a bribe or extortion; and **initiate multistakeholder dialogues and collective action projects** to address the root causes of corruption and eliminate lingering problems of corruption related to specific country contexts and industry sectors.

III. Proposed Actions in Cannes

To drive this agenda forward, the G20 should consider launching, at its summit in Cannes, **a new global anticorruption partnership bringing together governments from the G20 and beyond, and drawing in the active involvement of business and the main organizations and initiatives addressing the "supply side" of corruption** (i.e. the World Economic Forum Partnering Against Corruption Initiative, the International Chamber of Commerce, Transparency International, the United Nations Global Compact and the OECD Working Group on Bribery).

Through this Global Anti-Corruption Partnership, the G20 would create an operational mechanism to:

- Agree on concrete steps to advance the G20 Anti-Corruption Action Plan and further develop the practical and innovative solutions which have been highlighted in this document in support of a clean business environment
- Continue the dialogue between governments and business on a regular and systematic basis, and identify policy gaps and opportunities to further advance the fight against corruption
- Encourage the use by companies from all over the world of the existing rules, principles and implementation tools for establishing and reporting on corporate anti-corruption policies and programmes
- Assess and report progress at future G20 business summits
- Cooperate on sustained public and business community advocacy to change mindsets and business cultures around the world

Four areas that require priority action from G20 governments and business, and which should constitute core pillars of the Global Anti-Corruption Partnership, have been identified. For each area, key recommendations and high-level policy objectives are followed by concrete implementation proposals for action by G20 governments and business on an individual and collective basis.

These foregoing policy recommendations and the following implementation proposals are interconnected and mutually supportive. To achieve lasting and effective results, it is essential that G20 governments adopt a comprehensive approach to the proposed actions, rather than picking and choosing among them.

A. Securing fair competition and common integrity rules across countries and between companies

Key Recommendations and Objectives

Implement the UNCAC and OECD Anti-Bribery Convention: All G20 countries should ratify and implement the United Nations Convention against Corruption (UNCAC) and become parties to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In addition, G20 governments should advocate and strongly pursue the adoption and implementation of the UNCAC by non-G20 countries. To this end, G20 governments should provide further financial and technical support to help developing countries meet their obligations under the UNCAC and by firmly establishing anti- corruption as a core part and required component of their bilateral and multilateral aid programmes. A special effort should be made to assist countries from North Africa and the Middle East who have recently engaged in political reform and have a strong interest in fighting corruption.

Enhance the review mechanism for the UNCAC: Governments of G20 countries whose implementation of the UNCAC is under review should ensure non-governmental participation (including business) in the preparation of their individual country reviews and allow business input to be channelled through national and international business representative bodies to the reviewing teams (i.e. the UNODC and reviewing countries).

Trace the proceeds of corruption: Governments from the G20 should fully support ongoing efforts by the OECD's Financial Action Task Force and the UNODC to promote the global implementation of minimum global standards for tracing and detecting suspicious transfers of funds across countries. In line with Chapter V of UNCAC, G20 governments should also adopt and implement measures aimed at the return of funds obtained through corrupt activities.

Support corporate anti-corruption programmes: Companies headquartered or listed in G20 countries and beyond (and their subsidiaries) must play by the same set of rules when competing in international markets. To facilitate compliance and benchmarking efforts, G20 governments and businesses should support the emergence of common global principles on the key elements of adequate corporate anti-corruption programmes based on the OECD 2009 Recommendation for Further Combating Bribery and its Annex II on Good Practice Guidance on Internal Control, Ethics and Compliance.

Implementation Proposals

Government actions

1) Every year, as part of its **annual monitoring reports** on the G20 Anti-Corruption Action Plan, the G20 should publish the status of each G20 country's adoption and implementation of the UNCAC and the OECD Anti-Bribery Convention, and identify issues that remain to be resolved by individual G20 countries.

2) G20 governments should agree to **increase their funding and operational support** for the UNODC and OECD’s ongoing efforts to review the implementation and enforcement of the UNCAC and OECD Anti-Bribery Convention and assist signatory countries with their implementation and enforcement efforts.

Business action

3) The business community should establish **a CEO business pledge** for companies of all sizes, industry sectors and countries, whereby CEOs and their companies commit to a number of specific actions, including:
   - Clear prohibition of corruption in company policies, including business-to-business corruption
   - Establishment of an effective anti-corruption programme, in line with the UN Global Compact’s 10th Principle against Corruption, the “Principles for Combating Bribery” developed by the World Economic Forum Partnering Against Corruption Initiative (PACI), the “Rules of Conduct to Combat Extortion and Bribery” developed by the International Chamber of Commerce, the “Business Principles for Combating Bribery” developed by Transparency International and the “Good Practice Guidance on Internal Control, Ethics and Compliance” developed by the OECD in its 2009 Recommendation for Further Combating Bribery
   - Action to increase transparency in their own procurement systems
   - Annual corporate disclosure of their anti-corruption policies and implementation measures (e.g. based on the “Reporting Guidance on the 10th Principle against Corruption” developed by the UN Global Compact and Transparency International).
   - Independent assessment of their anti-corruption programme through third-party verification

4) Larger companies, such as those participating in PACI, should offer capacity-building assistance to small and medium-sized enterprises (SMEs) to help them strengthen their anti-corruption policies and practices. Such capacity-building efforts may also take the form of public-private joint action through the organization of collective action initiatives aimed at scaling business engagement against corruption (see section D below).

B. Recognize those who play by the rules; penalize those who do not

Key Recommendations and Objectives

Create positive incentives: Governments and international development banks should introduce new measures to recognize companies, countries and high-level public officials who demonstrate leadership in the fight against corruption and create positive incentives that will boost public and business efforts to prevent corruption. Examples of positive incentives for business include the establishment of a “white list” mechanism (e.g. to be applied in the context of public procurement, government-funded programmes and project financing), and the institution of a compliance defence to liability to be made available for companies that can demonstrate that they have adequate compliance procedures to prevent corruption.

Penalize foul play: Active enforcement of existing anti-corruption laws remains the most effective way to deter illicit behaviour by public and private sector entities and their employees. G20 governments should lead by example, sustaining and, in some cases, substantially increasing their efforts to enforce existing national laws and measures to fight corruption, in particular those that prohibit the bribery of foreign public officials, the solicitation of bribes by public officials and corruption in the context of private commercial transactions.

Implementation Proposals

Government actions

5) G20 governments should develop and implement a **globally accepted assessment framework** to monitor the robustness of a company's anti-corruption programme (e.g. along the lines of the Draft TI

Framework for Voluntary Independent Assurance of Corporate Anti-Bribery Programmes) and introduce **white list mechanisms** to recognize companies that take the lead in the fight against corruption.

Such **white list mechanisms** should be used by:

- National and local governments in their public procurement and public bidding procedures
- Export credit agencies in their application procedures for the granting of export financing and insurance
- National and international development banks in their application procedures for project financing

To be eligible for white listing or preferred supplier status, **companies should meet the following requirements**:

- Existence of an effective anti-corruption programme, based on common global principles, subject to annual corporate disclosure, and verified through a globally accepted assurance mechanism
- Participation in collective action initiatives and projects with industry peers and other stakeholders in government and civil society
- Absence of company management previously convicted for corruption

Another positive incentive that governments should introduce on the basis of similar requirements is the institution of a compliance defence to liability based on the notion of "adequate procedures" recognized by Annex I of the OECD 2009 Recommendation for Further Combating Bribery and established by the UK Bribery Act and other similar laws.

Governments should also establish leniency policies to encourage voluntary disclosure and give credit and possible amnesty to companies that disclose misconduct themselves before an investigation begins.

6) G20 governments should introduce positive incentives **in their appointment, compensation and promotion policies** to recognize and reward high-level public officials, including government ministers and senior civil servants, who have demonstrated leadership in fighting corruption. The aid community, including bilateral and multilateral donors, should commit to provide **additional development assistance** to low-income countries that are taking action and have demonstrated results against corruption as a way to reward them and incentivize others.

7) G20 governments should demonstrate their political will to increase their level of enforcement activity by **providing adequate resources for corruption investigation and prosecution efforts**. Such enforcement efforts should equally punish the supply and demand side of corruption. In particular, G20 governments must demonstrate zero tolerance for the solicitation or acceptance of bribes by their public officials. As a preventive measure, governments should as far as possible remove opportunities for their public officials to exercise discretion in the course of their duties.

C. Make it safe to report acts of corruption

Key Recommendations and Objectives

Reporting solicitation and extortion of bribes: Governments should provide mechanisms that will facilitate the voluntary disclosure by companies of risky situations that they may encounter. In particular, governments should provide assistance and solutions to companies that are confronted with a solicitation and/or extortion of a bribe (whether by a public official or a company executive), and resolve other concerns on corruption that might arise in the context of public procurement, international projects and private commercial transactions between companies.

Whistle-blowing: Governments, intergovernmental organizations and companies should create effective and protective policy frameworks for whistle-blowing that protect individuals:

- Exclude those who report suspected acts of corruption in good faith from any form of retaliation
- Disclose whose behaviour has been reported, through the respect of the principle of presumption of innocence and other legal rights

Implementation Proposals

Government action

8) As part of their implementation efforts of UNCAC and the OECD Anti-Bribery Convention, G20 governments should demonstrate leadership by endorsing the idea of a **high-level reporting**

mechanism as proposed by the chief legal officers of four leading companies in power and supported by the Secretary-General of the OECD. The purpose of such a reporting mechanism, which could take the form of a “help line”, should be to investigate and resolve allegations of irregularities through speedy, informal and extrajudicial channels. To work smoothly, such a mechanism should:

- Be implemented at country level in accordance with national legal frameworks
- Operate in harmony with companies’ internal reporting systems
- Protect confidentiality so as not to harm individuals and companies that may be accused wrongly
- Provide adequate guarantees of independence
- Be subject to annual reviews of effectiveness

The business community stands ready to work with governments and relevant intergovernmental organizations to flesh out this idea over the coming year, with a view to formally present it to the G20 as part of proposals offered for the next G20 Summit, in Mexico in 2012.

Business action

9) Companies that have not already done so should introduce **practical channels** for their employees to internally report in good faith any suspected act of corruption without any fear of retaliation.

D. Promote public-private partnerships

Key Recommendations and Objectives

Address the root causes of corruption: G20 governments and business should work together to identify and develop solutions to overcome the root causes of corruption. A practical objective should be to help governments and intergovernmental organizations identify and work to eliminate policies and practices that unintentionally create the conditions for corruption. Working on the root causes of corruption requires addressing the underlying socio-economic factors that lead to the proliferation of bribery and abuse of power. To promote a culture of integrity around the world, G20 governments should also instil the teaching of ethics into educational systems, beginning at the elementary school level.

Promote collective action: G20 governments and business should join forces to develop practical solutions to problems of corruption affecting specific country contexts or industry sectors through collective action initiatives that combine and leverage the competencies and capacities of public, private and civil society actors.

Implementation Proposals

Public-private joint actions

10) G20 governments should mobilize their embassies and development assistance channels to **initiate and co-fund multistakeholder dialogues in specific countries** with a view to identifying and developing solutions to overcome the root causes of corruption. Such multistakeholder dialogues should have a strong business component and seek the participation and support of local business actors, including domestic and foreign companies as well as national and local business associations. The local chapters and networks of the UN Global Compact, the World Economic Forum and the International Chamber of Commerce can serve as important partners to facilitate business participation in such dialogues.

11) G20 governments and business, and other key players in the fight against corruption should **identify and launch new collective action initiatives** to address corruption problems linked to specific country contexts and industry sectors.

The establishment of such multistakeholder dialogues and collective action initiatives should draw on the experience of recent and ongoing programmes and projects involving government, business and civil society actors, for example:

- The World Bank Institute’s Working Group on Collective Action
- The Extractive Industries Transparency Initiative (EITI) and other similar programmes based on the “publish-what-you-pay” concept
- The "Clean Games Inside and Outside of the Stadium" project launched by the Ethos Institute and the UN Global Compact to monitor public spending and potential irregularities in connection with the 2014 FIFA World Cup in Brazil and the 2016 Olympic Games in Rio de Janeiro

- The Korean Pact on Anti-Corruption and Transparency (K-Pact), a principle-based initiative that was signed by public and private sector leaders and led to the conclusion of sector-specific pacts in the fields of construction, health social welfare, finance and education
- The Anti-Corruption Collective Action project launched by the Global Compact India Network and the UN Global Compact Office to mobilize Indian businesses to engage in collective action in support of the Central Vigilance Commission's anti-corruption strategy as well as the Government of India's policy on green economy.
- The Anti-Corruption Collective Action project launched by the National Business Initiative, South Africa, and the UN Global Compact Office to mobilize South African businesses to engage in the development of an integrity pact around major government procurement projects
- The Multi-Industry Customs Transparency Project, conducted by the PACI in Vietnam with the support of the Vietnamese Government and the World Customs Organization to address the issue of improper payment requests by customs officials
- The Multi-Industry Corporate Anti-Corruption Project, also conducted by the PACI in Mongolia with the support of the Mongolian president and the Mongolian business community to strengthen private sector engagement against corruption in the country

IV. Contribution from the ICC G20 Advisory Group on Fighting Corruption

Issue

As noted by G20 leaders, corruption threatens the integrity of markets, undermines fair competition, distorts resource allocation, destroys public trust and undermines the rule of law.

For decades, the International Chamber of Commerce (ICC) has taken the lead in denouncing corruption and in developing measures to combat it. World business welcomed the G20 leaders' recognition at the Seoul Summit of their special responsibility to prevent corruption and hailed the G20 leaders' call for public- private partnerships in countering corruption. Indeed, it is only through a combination of concrete action by governments, business both working together through public-private partnerships that effective progress can be made.

Analysis

The next G20 Summit will take place after the years of global economic turmoil that followed the financial crisis in late 2008 and following recent uprisings taking place in a number of countries. While the causes and consequences of these developments are still being assessed, it is clear that there is greater attention worldwide to the need for more transparency and accountability, and the desire of citizens to fight corruption.

In 1977, the ICC led the way in producing the first edition of the ICC Rules of Conduct to Combat Extortion and Bribery, which contained strong measures to end both bribery and extortion. These rules have been updated regularly since then and continue to be the leading private sector tool for fighting corruption today. The ICC has long been at the forefront of the drive for integrity in business, because only a corruption-free system makes it possible for all participants to compete on a level playing field.

It is estimated that corruption adds up to 10% to the total cost of doing business globally and up to 25% to the cost of procurement contracts in developing countries. Moving business from a country with a low level of corruption to a country with medium or high levels of corruption is found to be equivalent to a 20% tax on foreign business. Inversely, countries that tackle corruption and improve their rule of law can increase their national incomes by as much as four times in the long term *(source: World Bank).*

A recent study of 400 companies worldwide revealed that an increasing number of companies recognize their vulnerability to corruption. Among survey respondents, 63% indicate that they have experienced some form of actual or attempted corruption. This study reveals that there is a strong business case for having an anti-corruption strategy that goes beyond avoiding potential enforcement penalties. Almost 45% of respondents say they have not entered a specific market or pursued a particular opportunity because of corruption risks; 39% say their company has lost a bid because of corrupt officials; and 42% say their competitors pay bribes. In addition, 55% of respondents say that if corruption was discovered, the most severe impact would be to corporate reputation. More than 70% believe that a better understanding of corruption will help them compete more effectively, make better decisions, improve corporate social responsibility and enter new markets. *(Source: PricewaterhouseCoopers International)*

The ICC welcomed two major legal instruments for fighting corruption – the United Nations Convention against Corruption and the OECD Convention on Combating Corruption of Foreign Officials, which have strengthened the international legal framework. More effective enforcement in a growing number of jurisdictions has meant that companies find themselves increasingly liable for employees and agents engaged in corruption. This prompts more and more companies to implement complete corruption prevention systems.

Fighting corruption requires a robust, international legal framework with effective review mechanisms involving the largest number of countries, as well as effective legislation against corruption implemented on a national basis.

G20 leaders have rightly pointed to the importance of the UNCAC for ensuring the principles of an effective global anti-corruption regime. For business the UNCAC is essential because it has the potential for a global scope and, therefore, the promise for curbing corruption and creating a level playing field for all participants in the global economy.

In 2009, the ICC led a global business initiative joined by the World Economic Forum, TI and UNGC, rallying CEOs from around the world to write a letter to UN Secretary-General Ban Ki-moon urging the adoption of an effective monitoring mechanism for the UN Convention. This "CEO letter" initiative has been credited with helping to bring about the adoption of a monitoring mechanism at a UN conference of more than 140 UNCAC parties in Doha in November 2009. This represented significant progress but more can be done by governments, especially with the leadership of G20 governments, to ensure full and consistent implementation of the UNCAC.

The OECD is also a key forum for anti-corruption reforms. The private sector commends the achievements made by the OECD Working Group on Corruption and also notes the importance for business of the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance (Annex II) of February 2010 for the shaping of genuine corporate anti-corruption systems.

World business recognizes that doing business with integrity is the only right way of doing business. Companies seen to be doing business with integrity are more likely to attract and retain highly principled and motivated employees as well as ethically oriented investors. In contrast, companies confronted with corruption cases have faced reputational damage.

The risk of corruption faced by businesses varies according to a number of parameters, including their size, their international exposure and the nature, scale and diversity of their activities. More needs to be done for SMEs in particular, which are especially vulnerable and lacking in adequate resources to fully comply with anti-corruption requirements.

Fighting corruption within the private sector, among both MNEs and SMEs, is a progressive and incremental process. Combating corruption requires strong commitment from top management and high-quality, systematic organization to ensure that anti-corruption becomes part of the corporate culture at all levels. From a business perspective, what is needed now is thorough and pragmatic implementation of ethics and anti-corruption standards in business. This requires the building of real integrity awareness in all segments of society and in business in particular.

What international business has accomplished so far
World business appreciates the approach of the French presidency of the G20 to seek concrete and precise progress for the Summit in Cannes.

The ICC and other business organizations have taken a number of concrete actions already towards achieving greater integrity in business. Indeed, the private sector has a proven track record in fighting corruption and has developed a number of practical tools and initiatives that need to be known further, scaled up and implemented with the support of G20 governments. These include:

- **ICC Rules for Combating Extortion and Bribery** – As noted above, these ICC rules, first published in 1977, outline the basic measures companies should take to prevent corruption and constitute what is considered good commercial practice. They are presently being revised to integrate the latest anti-corruption developments in the UN and OECD. *(http://www.iccwbo.org/policy/anticorruption/id870/index.html)*

- **ICC Fighting Corruption Handbook** – These ICC rules are complemented by a corporate practice manual that provides practical advice on key areas such as corporate gifts, political contributions, accounting and facilitation payments. It is a handbook for all companies wishing to put into place an efficient and well-run integrity programme. *(http://www.iccbooks.com/Home/Home.aspx)*

- **RESIST** – This practical tool aims to train company employees on how to prevent solicitation of a bribe and/or how to respond in a safe, ethical and efficient way to a demand for a bribe. RESIST is the result of successful collective action among the leading stakeholders representing the private sector in the fight against corruption – the ICC, the World Economic Forum, Transparency International (TI) and the UN Global Compact (UNGC) *(http://www.iccwbo.org/policy/society/index.html?id=42784).*

- **Nine steps to responsible business conduct** – The ICC issued this concrete advice for companies to develop policies and practices for responsible business conduct. *(http://www.iccwbo.org/policy/society/id1188/index.html)*

- **Whistle-blowing Guidelines** – These ICC guidelines enable companies to put whistle-blowing systems in place, which make it possible for employees to report incidents without fear of retaliation, discrimination or disciplinary action. *(http://www.iccwbo.org/uploadedFiles/ICC%20Guidelines%20Whistleblowing%20%20as%20adopted%204_08(2).pdf)*

- **Business Case against Corruption** – The ICC, along with the World Economic Forum, TI and UN GC, has sought to demonstrate convincingly why it makes sense for business to fight corruption not just for moral reasons, but from a business point of view. *(http://www.iccwbo.org/uploadedFiles/The%20Business%20Case%20Against%20Currption19June08.pdf)*

- **Third-party guidelines** – Agents, intermediaries or third parties can present the "weak link in the chain" in terms of an enterprise's anti-corruption policies and practices. This is why the ICC developed and issued in 2010 the ICC Guidelines on Use of Agents, Intermediaries and Third Parties, which provide companies with essential advice on good commercial practice on how to select, remunerate and monitor third parties so as to obtain the best possible result without harm to the enterprise's reputation. *(http://www.iccwbo.org/uploadedFiles/ICC/policy/business_in_society/Statements/195-11%20Rev2%20ICC%20Third%20Parties%20FINAL%20EN%2022-11-10.pdf).*

Recommendations

What international business expects from governments and intergovernmental organizations

- All G20 governments should ratify and implement the UNCAC. G20 governments should also encourage work with non-G20 states towards a universal adoption and implementation of the UNCAC.

- All G20 governments should become parties to the OECD Convention on Combating Bribery of Foreign Public Officials.

- High-level reporting mechanism: Each national government should consider creating a reporting mechanism to provide assistance to companies that are confronted with a solicitation of a bribe and/or extortion, and to resolve other concerns that might arise in the context of public procurement and international projects. To be effective, such a mechanism, which could take the form of an "ombudsman" function, should provide adequate guarantees of independence and be subject to annual reviews of effectiveness.

What more can business do

- World business calls for the development of effective ethics and compliance training to embed best practices for fighting corruption among all levels within companies big and small. The ICC is committed to actively contribute to the development and implementation of such training.

- World business recommends extending sectoral initiatives that offer collective guidance and support targeted to the specific challenges of different industries and that share anti-corruption best practices.

What more can business do in partnership with governments

- World business calls for the further development of external certification, verification or assurance of the effectiveness of company anti-bribery procedures, as called for by the UNCAC and the UK Guidance to the Bribery Bill.

- World business further calls for public-private partnerships on the development of the “self-cleaning process”, as a positive anti-corruption incentive for business, wherein procurement rules are amended to allow for the re-entry into the market of companies debarred under public procurement rules if these companies can do an internal company “self-cleaning” exercise.

World Economic Forum G20 Working Group on Green Growth

I. Framing the Issue

A number of related challenges have accelerated during the last decade: the 2008-2009 economic crisis, precipitated by the financial sector; stresses on food and water supplies; and increasingly evident changes in the climate. These crises share a common thread – the misallocation of resources into non-sustainable assets. Existing policies and markets contributed to this situation, and also offer a path to a solution. With a concerted effort, governments and industry can work together to design a set of strategic policies and market-based approaches that direct limited public capital in such a way as to free up substantial private sector investment that is financially and environmentally sustainable. Sustainable economic growth, also called “green growth”, facilitates the generation of new jobs and improves national competitiveness from the bottom up, while also addressing the challenges of climate change and food/water security.

Greening the world economy is a long-term effort involving all aspects of the economy. In the power sector, existing infrastructure requires major change, and emerging economies need to invest in new systems that facilitate larger shares of low-carbon resources. Technological breakthroughs are needed to accelerate the shift to cleaner manufacturing and transportation options. Traditional and modern agricultural methods need radical overhauls to meet changing needs at manageable environmental and social cost.

With sufficient time, such challenges might eventually be overcome under business-as-usual conditions. However, time is not on our side. The International Energy Agency (IEA) reported in 2011 that over 30 gigatonnes of CO_2 equivalent was emitted in 2010. [21] According to IEA scenarios, to stay below the 2 degree Celsius increase that is targeted by the international community, global emissions must not exceed 32 gigatonnes by 2020. Even with a global economic slowdown in the West, it seems that this barrier might be breached in the very near future. Further, agricultural stocks and water resources are increasingly stressed.

Strategies to achieve greener growth are needed and particularly ones that are attractive to business. We must deal with increasing environmental impacts, while also delivering business value and commercially viable products and services. As the Organisation for Economic Co-operation and Development (OECD) states in its recent report on green growth:[22]

> “...we have to find new ways of producing and consuming things, and even redefine what we mean by progress and how we measure it .... Non-technological changes and innovation such as new business models, work patterns, city planning or transportation arrangements will also be instrumental in driving green growth. No government has all of the technological, scientific, financial and other resources needed to implement green growth alone. The challenges are global ...”

The United Nations Environment Programme has also endorsed this view in its recent *Towards a Green Economy*, which stresses that private sector innovation and technology development are at the heart of greening economies.[23]

II. Key Policy Messages

The private sector has already taken concrete actions in all sectors towards green growth, from reducing environmental impacts across value chains to increasing energy and resource efficiency, investing in low-carbon and renewable energy and reducing waste. To provide guidance for governments on key lessons learned, last year’s G20 CEO Working Group on Creating Green Jobs undertook extensive analysis on green growth. The group made four important economy-wide recommendations to G20 leaders:

- Set a robust price on carbon
- Dramatically scale up research and development
- End fossil fuel subsidies
- Allow free trade in environmental goods and services

[21] See www.iea.org/index_info.asp?id=1959.
[22] OECD (2011), *Towards Green Growth: A Summary for Policymakers,* OECD, Paris.
[23] UNEP (2011), *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*, Nairobi.

The 2010 Working Group also made specific recommendations for buildings, the power sector, the industrial sector and the transport sector:

- Buildings: promote energy efficiency, creating publicly funded fiscal incentives for green building investments
- Power: implement policies to accelerate renewables and clean energy uptake; streamline and expedite administrative processes such as planning and permitting; and expand and upgrade grids
- Industry: devise targeted incentives for energy efficiency; broker sector agreements for energy- and carbon-intensive industrial sectors; and foster market-based technology transfer (technology centres of excellence)
- Transport: introduce fuel efficiency standards that ratchet up over time; provide supply and demand side support for new technologies such as electric vehicles; and invest in energy-efficient public transport

This year's Working Group strongly endorses and builds on these recommendations. The aim now is to shift the debate from analysis and broad policy guidance to action, building on existing examples that G20 leaders can help to replicate and scale through the Cannes Green Growth Action Plan proposed below.

To render economies more resilient in the face of an increasingly variable climate and mitigate further increases in emissions, it will be necessary to catalyse a new pattern of economic growth – green growth – across G20 countries and elsewhere in the world economy. Since this transformation of economic activity must occur primarily in the private sector, it cannot be financed mainly through taxes or other public levies. G20 leaders have a unique opportunity to mobilize the necessary private finance by taking the initiative to coordinate the creation of a set of stable regulatory frameworks and targeted incentives that reduce investment risk and enlarge green growth market opportunities across their economies. By doing so, they can catalyse change from the bottom up – through the everyday decisions of investors, corporate managers and consumers behaving as rational economic actors – even in the absence of a formal multilateral treaty or national economy-wide cap-and-trade or carbon tax system.

The level of investment required to grow the global economy in a sustainable manner is considerable. Bloomberg New Energy Finance suggests that the global clean energy market will need to sustain about US$ 500 billion a year in private sector finance to mobilize the required scale of investment; this is over and above the estimated US$ 1 trillion needed in a business-as-usual case. The World Bank puts the annual incremental financing needs of developing countries for climate mitigation at US$ 140-175 billion over the next 20 years and an additional annual US$ 30-100 billion for adaptation over the same period.[24] These estimates exceed the US$ 100 billion a year in public finance that the Green Climate Fund (GCF) hopes to mobilize by 2020 for developing countries, and these funds have been slow to materialize.

While the trend of private finance in clean energy investment is upward (30% up in 2010 compared to 2009, against a growth trend of about 30% from 2000 to 2008), it is also clear that most developed countries face a protracted period of fiscal consolidation and slower economic growth. Further, although they are an efficient solution, political realities suggest that market-based greenhouse gas reduction approaches are not likely to proliferate greatly in the near future. An international climate (or green growth) strategy that relies too heavily on the appropriation of public monies and/or carbon finance is likely to encounter difficulty in gaining implementation within individual national legislatures, let alone on an internationally coordinated basis. National governments need to continue to pursue greenhouse gas market creation, but we believe there is a need to find other approaches to mobilizing the necessary finance to ensure green growth.

G20 governments can stimulate major, new momentum in this direction by working with the private sector in a structured manner to identify practical, replicable ways of attracting private capital into clean technology investment in different national and sectoral contexts around the world, and then mobilizing a public-private network to scale these models rapidly. In fact, most low-carbon or resource-efficient infrastructure and industrial projects are literally investments – i.e. they enhance economic productivity and generate potentially attractive streams of revenue. They, therefore, are natural candidates for private investment if the means can be found to manage the attendant risks and produce an acceptable return on investment. This is where governments and international financial institutions have a crucial role to play. They alone have the capacity to create incentive frameworks and target public resources as necessary to scale the "crowding in" of private investment into new and retrofitted resource-efficient infrastructure and industrial plant and equipment, learning from and replicating successful examples along the way.

[24] To put these figures into context, the total value of private finance deals in the global clean energy investment in 2010 market was US$ 247 billion (of which US$ 54 billion, or 22%, was invested in China).

Similarly, a sustainable green economy ultimately must be demanded by consumers themselves. Sustainable consumption patterns can be enabled by the creation of reliable, transparent methods to measure, compare and communicate the footprint of products and services over the value chain for easy reference by consumers. Here too, government has a crucial, arguably indispensable, role to play.

In this way, green investments, consumer markets and economic growth can work together, and a green economic growth agenda can be activated from the bottom up. For this reason, we propose a new leadership agenda for the G20 on green growth and climate change. G20 governments have an opportunity to demonstrate, in very practical terms, how limited public resources can be structured to attract private capital in a way that mobilizes the greatest possible amount of investment as quickly and efficiently as possible. An action plan to scale up workable case studies on this basis, covering key sectors such as clean energy, energy efficiency, land use and transportation, would shift discussion towards a set of practical public-private green growth investment discussions at the national level, helping governments to deploy their funds in the most strategic manner.

III. Proposed Actions in Cannes

We propose that G20 leaders commit to develop an **Action Plan on Green Growth** at their 2011 Summit, including, but not necessarily limited to, the following elements:

1. G20 leaders should formally acknowledge that shifting incentive structures to drive investors and consumers towards a new model of economic growth – green growth – is an important priority for both advanced and emerging economies that merits a central place in the agenda of international economic cooperation. As such, **G20 leaders should commit to making green growth a standing item on their agenda**, building on the strong base established by the Korean and French presidencies in 2010 and 2011.

2. G20 leaders should **direct their finance, energy, environment, trade and industry ministers to develop a Green Growth Action Plan for the Mexico G20 Summit.** This Action Plan should include case studies and policy recommendations addressing all the key elements that can be tailored by countries as they develop their national green growth plans, including research and development and innovation; key industrial sectors (transport, energy, industry, agriculture); and consumer engagement.

3. G20 leaders should also **establish a separate public-private G20 Green Growth Partnership Network** to support the action plan's G20 Working Groups by documenting and sharing successful national, plurilateral or sectoral case studies that involve significant public-private collaboration on green growth. The network will provide an intellectual commons for sharing practical experiences and public-private partnership opportunities that could support the realization of green growth. Private sector investors and project developers could leverage the network to offer practical support to governments seeking to develop and implement their national green growth strategies, helping them to mobilize the investment and technology necessary to realize their plans.

To help catalyse this process, we ask the World Economic Forum, ICC and Medef to convene companies, governments and international organizations (including the OECD, International Energy Agency, United Nations Environment Programme and the multilateral development banks, among others) to identify, catalogue and develop a set of green growth case studies.

IV. Contribution from the ICC G20 Advisory Group on Encouraging Green Growth

Issue

Challenge: The prospect of critical, interlocking crises for climate, energy, food and water presents the G20 with a significant challenge to secure and expand economic opportunities for a growing population, while ensuring that economic growth and environmental and social responsibility work together in a mutually reinforcing fashion. This challenge is exacerbated by increasing levels of government debt in some countries and international financial insecurity that is severely limiting investment resources.

Opportunity: While there has been some encouraging action in response to promises made in Seoul and Cancun, no meaningful progress has been achieved on green growth and climate change, and, for many countries, political rhetoric remains non-binding. In Cannes, G20 leaders have an opportunity to encourage green growth and accelerate a transition towards a green economy. Business will have a key role to play as there are, for example, between US$ 2.1 trillion and US$ 6.3 trillion of potential commercial opportunities related to environmental sustainability in natural resource sectors alone by 2050 (OECD, 2011).

Analysis

Context: Greening the world economy is a long-term effort involving all aspects of the economy. This process must deal with increasing environmental impacts, while delivering business value and commercially viable products and services. Thus, innovation, technology development and deployment are at the heart of greening economies as well as dealing with resource shortages.

For example, the International Energy Agency (IEA) estimates that the 17% (US$ 46 trillion) increase in energy investment required globally between 2010 and 2050 to deliver low-carbon energy systems would yield cumulative fuel savings equal to US$ 112 trillion (IEA, 2010). The private sector has already taken concrete actions in all sectors towards green growth, from reducing environmental impacts across value chains to increasing energy and resource efficiency, investing in low-carbon and renewable energy, and using ICTs to limit energy use, manage scarce resources and reduce waste.

Clarity: In business, activities must be measured and accounted for. Many companies have made commitments to further reduce their global environment footprints through corporate sustainability programmes with measurable goals, targets and deliverables to reduce their resource use and increase the efficiency of their production systems and design of their products. Consumers must ultimately lead, but governments have a critical role in establishing enabling frameworks.

Moving forward, green growth is a concept that ultimately needs to function in a self-sustaining way and become integrated in international and global markets, and in business balance sheets (taking into account individual company requirements), management systems and practices.

Business has already contributed to developing a range of tools and applications to measure environmental impacts and help assess response measures. A few examples include the World Business Council for Sustainable Development (WBCSD) greenhouse gas (GhG) protocol and water footprint tool, as well as other tools such as those of the Global Reporting Initiative (GRI) or the International Organization for Standardization (ISO).

The ICC and its partners will continue to deliver on the challenge of green growth across the global business community by providing frameworks for business action, such as:

- ICC's Business Charter for Sustainable Development – which provides companies (large and small) with the basis for sound environmental management
- Voluntary sustainability principles such as those of the United Nations Global Compact
- Sectoral approaches like the chemical industry's "Responsible Care"
- Long-term visions such as the World Business Council for Sustainable Development (WBCSD) Vision 2050
- ICC business principles to achieving a green economy
- Capacity-building activities for small and medium-sized enterprises via the ICC World Chambers Federation (WCF) network

Recommendations

From the G20 and government leaders, business needs a comprehensive green growth framework that is clear, stable and predictable. The G20 has a significant role to play, working with other intergovernmental organizations and processes (WTO, UNFCCC, Rio+20 conferences) to make this a reality.

Below is a series of critical objectives G20 leaders should aim for with concrete steps to achieve them.

G*20 leaders should strengthen multilateral rules-based trade and investment by:*
- Avoiding potential competitive distortions in international trade in the transition to greener economies
- Successfully completing the Doha development round and eliminating tariff and non-tariff trade barriers on all goods and services, including on environmental goods and services
- Providing a stable economic environment governed by the rule of law, including effective intellectual property rights protection (IPR), strong contractual arrangements and open, rules-based trade – all strong prerequisites to driving green growth

G20 leaders should promote effective enabling frameworks by:
- Coordinating domestic regulatory frameworks and incentive programmes to reduce investment risk and scale up green growth
- Encouraging the implementation of UNFCCC Cancun agreements at COP 17 in Durban and work towards a truly global agreement on climate change, but not let delays in such agreements slow establishment of effective domestic policies
- Continuing the fight against corruption, thus saving scarce resources

G20 leaders should support resource-efficient choices over the medium and long term by:
- Ending wasteful consumption subsidies while managing the phasing out of targeted subsides for the poor. G20 leaders have already committed to phasing out over the “medium term” some of the US$ 557 billion spent annually (2008) on fossil fuel subsidies
- Providing new financing solutions and clear market directions to help overcome funding barriers for high investments and/or long-payback periods
- Establishing clear and consistent standards to better measure environmental footprints and support benchmarking efforts and use of these standards in policy setting
- Promoting the harmonization of energy-efficiency standards to avoid market fragmentation and achieve economies of scale
- Developing energy and natural resource policies that reduce uncertainty in long-term investment

G*20 leaders should encourage the development of indicators that account for environmental externalities by:*
- Working with the private sector to develop common and non-discriminatory measurements and indicators
- Taking into account other dimensions, including economic growth and employment
- Pursuing market-based carbon pricing (either through a market-based, cap-and-trade approach or through taxation approaches) within the context of each country’s national circumstances

G20 leaders should promote innovation and creativity by:
- Increasing research and development spending to provide for the faster uptake of advanced technologies, leading to lower costs and increased efficiency
- Encouraging the utilization of market-based technology sharing agreements that respect IPR and maximize impact of R&D spending (e.g. ICC Model Contract on Technology Transfer)
- Providing effective public funding to encourage the private sector to commercialize risky but potentially viable and scalable pre-commercial technologies, though any subsidies must be time-bound and eventually phased out
- Striving to meet clear policy objectives (i.e. emissions reduction) and improving technological performance across the board (all technologies) – while avoiding picking “winners and losers” among technologies

G20 leaders should promote the shift to sustainable consumption by:
- Promoting education campaigns to raise consumer awareness about the transition towards a green economy
- Allowing an expanding global population to consume sustainably – sustainable consumption need not be a matter of consuming less but consuming differently
- Looking beyond short-term pressures and focusing on the development of long-term shared value

Collectively, the G20 is well placed to play a key role in catalysing action and proving a global framework for green growth. In Cannes, G20 leaders should make the following commitments:

1. Establish a platform to ensure the coordination of national measures and approaches to “green” economies and share best practices
2. Commit to holding regular, collective meetings of environment, energy, trade and finance ministers at the G20 level to deal with (integrated) green growth related issues

World Economic Forum G20 Working Group on Infrastructure Development

I. Framing the Issue

There is a clear requirement for increased investment in cost-effective, efficient and sustainable infrastructure (land, sea and air transportation, and Internet, telecommunications, energy and water networks) to support economic growth and address other challenges such as climate change and access to basic services. The private sector can and should provide most of this infrastructure (for example, utilities controlled by appropriate regulatory regimes) and is ready to support governments, many of whom are under tight fiscal constraints. However, in some sectors, new projects need to be promoted by governments.

The G20 Summit in Seoul in November 2010 identified a need for private sector input and help on how governments can optimize and prioritize their infrastructure expenditure across ***all*** types of infrastructure, and then deliver the selected projects as effectively and efficiently as possible. Green growth was one of the four themes particularly emphasized. Leaders called for such findings to be consolidated into a concise set of proposals that could be used by all governments to help spur growth.

The following recommendations seek to respond to this appeal, building on the recommendations presented in Seoul last year.

II. Key Policy Messages

To maximize societal returns from infrastructure, two key questions need to be addressed:

- How should governments prioritize which infrastructure projects create the greatest impact in terms of economic growth, social uplift and sustainability?
- How should they enable and, if necessary, (co-)fund, procure and monitor the building of assets most efficiently and effectively?

Following are three groups of recommendations: a general recommendation on the need for multistakeholder involvement; three recommendations on prioritizing infrastructure investments; and five recommendations on delivering infrastructure efficiently and effectively. Due to the prominence the G20 Summit in Seoul placed on green growth, encouraging substantial use of renewable and low-carbon energy, and closing the infrastructure funding gap, examples are given on how some of these more generalized recommendations can be applied to the energy sector (see footnotes).

Overall recommendation – the need for multistakeholder involvement

Decisions made today on infrastructure investments will have major implications on society, the environment and economic growth for decades to come. To create a path for cost-effective, efficient and sustainable infrastructure development, a multistakeholder approach is needed to align the partners and closely define, plan and execute an infrastructure plan. The evidence is that early engagement with stakeholders sets up a partnership that allows projects to be delivered more effectively and efficiently, and, in so doing, creates a "*win-win"* in which infrastructure truly benefits society and boosts economic growth. If not already engaged, it is recommended the three main stakeholders – government, the private sector and civil society/non-governmental organizations (NGOs) – have the following contributions to make, with the backing of the G20.

Government: Primary role is to provide the vision and then set up the enabling environment to encourage competition and attract investment.

Private sector: The private sector's role is typically to build and operate the infrastructure. While many countries have fiscal challenges, the private sector has the money, resources and keenness to invest, seeing infrastructure as both a great business opportunity and essential for economic growth. The private sector is also a potential partner for capacity building.

Civil society/NGOs: The role of civil society and NGOs, particularly environmental NGOs and NGOs representing marginalized groups of society, is to act as advisers and watchdogs to ensure investment is built and maintained to high standards. NGOs can also act as a potential partner for capacity building.

G20: The G20 should encourage governments to engage in multistakeholder dialogue with the private sector and civil society/NGOs in all phases of infrastructure planning, development and implementation to enable more cost-effective and efficient development of infrastructure that also addresses environmental and societal concerns.

Recommendations to help governments prioritize infrastructure investments

1) ***Governments need to provide national/transnational visions and strategies on infrastructure investment priorities to develop affordable, well-conceived and coordinated Infrastructure Plans that address economic, social and sustainability concerns.***

All too often, high-profile infrastructure projects are conceived but are never implemented due to regulatory hurdles, or they run out of money during the construction process. For investments in low-carbon infrastructure, it has been shown that policy uncertainty can increase risk by more than 10%. To avoid delivery problems and increase the investment attractiveness of a country, it is recommended that:

- Countries, supported by relevant stakeholders (the private sector, civil society and NGOs) should prepare National Infrastructure Plans (or, if the infrastructure development spans national boundaries, a Transnational Infrastructure Plan) underpinned by a needs assessment of the investments that are most economically effective. The scale of this task should not be underestimated, as the plan needs to encompass economic, social and sustainability drivers, be fully integrated and coordinated with other government priorities (for example, plans to move towards a low-carbon economy) and be incorporated into government budgets.

- A challenge in publishing and committing to a National Infrastructure Plan is that different political administrations might have other priorities. Frequent changing of the Infrastructure Plan creates significant investor uncertainty. Therefore, fostering wide political support for the plan and formulating an unbiased project evaluation methodology creates more confidence, and indirectly reduces the overall cost of infrastructure.

- The Infrastructure Plan should reflect the specific needs of the country concerned and focus on desired outcomes (e.g. sustainable water access or less congestion) rather than single projects or facilities. This allows countries to remain open-minded when considering solutions, for example a similar outcome may be achieved by just rebuilding a few network bottlenecks or charging users to use existing infrastructure. The plan should incorporate clear programmes for each infrastructure sector, for example transport, utilities, waste management and telecommunications.

Many governments seek assistance in making these difficult decisions during the project feasibility and preparation phase[25]. The World Economic Forum is developing guidance on how governments could approach this prioritization process. The report will draw on best practice and is due to be launched in the Forum's Annual Meeting in Davos-Klosters in January 2012.

The following stakeholders have roles and actions to perform:

Government: Responsible for catalysing the process of preparing an Infrastructure Plan and setting up multistakeholder dialogue.

Private sector: Role to fully engage in the dialogue process, identifying drivers for economic growth, and offering practical evidence-based guidance on ways to prioritize and manage risks, and accommodate other environmental and societal concerns.

Civil society/NGOs: Any infrastructure investment might generate some resentment from some individuals in society. Civil society and NGOs should understand the need for infrastructure, and be willing to engage in an open dialogue, remaining pragmatic in presenting their views and suggestions.

[25] In many countries, for example, there is a lack of a clear energy policy. Without clear government direction on the appropriate balance of energy supplies and uncertainty about government's commitment to renewable energy subsidies, investors will be reluctant to make the long-term investments in capacity and the supporting infrastructure. However, to formulate a National Infrastructure Plan means reviewing and updating the country's energy policy. By rigorously examining what the most efficient energy mix is, the distribution grid network infrastructure can be defined. Due to the intermittent nature of many renewable energy sources, there is ultimately a need for grids to extend beyond national boundaries and for transnational energy network plans to be formulated. For example, coordinated progress is being made within Europe for mid- and long-term plans for electricity grids.

2) ***Governments should prioritize infrastructure investment on a whole life-cycle performance basis***

Governments, NGOs and multilateral development banks (MDBs) sometimes base investment decisions on whether there are sufficient funds to build the assets. Once the infrastructure is built, there is often the realization that ongoing maintenance costs have not been provided for. Instead, projects should be evaluated on a whole life-cycle basis, i.e. considering all costs over the asset's life including repairs, renewals, decommissioning costs and their environmental and sustainability impacts[26]. In this way, there will be more reassurance that projects can be maintained over the longer term (for example, by including maintenance and life-cycle reserves in budgets), and different technological solutions may emerge.

A further benefit of basing investment decisions on whole-life costs is that solutions are often more sustainable. For example, trains that can recover braking energy are more expensive to build than conventional trains, but they generate significant cost and environmental savings during their operation.

Appropriately structured public-private partnerships (PPPs), where contractors build and then operate the assets, encourage the private sector to automatically consider whole life costs. In general, the lower the whole life costs, the lower the overall price the private sector will be able to charge the public sector, and, all else being equal, the more likely the tendering company is to win.

The following stakeholders have roles and actions to perform:

Government: Responsible for incorporating whole life-cycle performance analysis in evaluating and prioritizing infrastructure projects.

Private sector: Share methodologies for the evaluation of whole life-cycle scenarios and their financial interpretation, such as investments with longer payback periods but higher net present values. For example, the private sector is constantly developing new technologies and methodologies to reduce risks and costs to achieve greater operational efficiencies.

Civil society/NGOs: Should contribute advice on how to measure environmental impacts, e.g. impacts on ecosystems and the negative effects of congestion.

G20: Due to the challenges of evaluating the whole life costs and environmental impacts of infrastructure, it is recommended that the G20 set up a working group to consider the formulation or adoption of a recognized evaluation standard, seeking advice from the MDBs and select environmental NGOs and universities. The standard would provide a guideline for governments and contractors to prioritize the execution of projects.

3) ***Better risk allocation between the public and private sectors should enable projects to be built more efficiently and cost-effectively***

Given the fiscal constraints many countries face, creating more consistent and transparent procurement methodologies that allocate risks (both financial and environmental) to the party best able to manage that risk will reduce the overall costs of infrastructure and result in more effective contractual solutions. This might require changing regulations and tax incentives in the country to create more investor stability[27]. The methodology and guidelines should be prescriptive, to enable countries to undertake a multistakeholder project risk assessment, including how to price and allocate construction and operational risks of infrastructure.

Different procurement approaches include management contracts, concessions or opening the service up to the market. Costs are reduced (or quality improved) for two main reasons:

- Optimal risk allocation (including shared risks and rewards) can speed up the procurement process, lowering risk premiums, due diligence costs and therefore the overall cost of infrastructure.

[26] Because of the high costs of building new generation capacity and high voltage electricity grids, governments need to take a very long-term view when designing their national plant and grid infrastructure. For example, when strengthening a connection between regions, it might be better to accommodate sufficient capacity for the next 10 or even 50 years.

[27] Having an energy plan with clear risk allocation and a sensible pricing structure should incentivize energy supplies and demand to be more balanced. Many renewable energy technologies involve technology not previously deployed in the country. New UN mechanisms – the Green Climate Fund, the Technology Mechanism and Nationally Appropriate Mitigation Activities (NAMAs) – offer key channels for pooling and targeting public and private sector resources into infrastructure investments.

- By attracting more investors and major construction companies, there will be greater competition that will drive costs down and improve quality. Greater competition should also help reduce the equity and debt costs as more banks will be prepared to lend to the sector and hold loans (i.e. the project finance syndication market should re-emerge, allowing banks to more effectively diversify their risks).

Designing projects with a risk/return profile that is compatible with market requirements and stimulates enough competition can be challenging, and in some countries there is a need for risk management and project planning capacity to be enhanced to achieve an optimal solution. The private sector would welcome the opportunity to engage with government to explain its concerns and proactively propose solutions to develop the risk framework. For example, in cases where PPPs are the appropriate procurement route, governments and MDBs will typically retain *"political and regulatory*", currency and interest rate risks, with the private sector retaining the design, construction, operational and some of the financing risks.

As indicated, the outcome of the risk evaluation exercise may well entail the need for governments to change regulations and tax incentives in the country. Combining the risk assessment and allocation processes with the whole life-cycle performance analysis might also highlight the need for some government or MDB "*pump priming"* in a sector, for example increasing use of government and MDB guarantees, loans or subsidies. Many countries have national development banks to provide this support. For example, in the next three years, the Brazilian Development Bank is planning to invest an additional US$ 340 billion in national infrastructure projects and infrastructure related to the upcoming World Cup and Olympics. For certain untried technologies, governments also are considering jointly investing equity to reduce investor exposure.

It is also important for all parties concerned, including the private sector, to adopt clear risk mitigation strategies, e.g. designing modular networks, allowing extra space for expansion, designing infrastructure that is robust to potential climate change and securing performance guarantees from subcontractors.

The following stakeholders have roles and actions to perform:

Government: Responsible for engaging with stakeholders in identifying ways to allocate risks that make projects more viable and bankable for investors and preparing risk mitigation strategies for the risks government is retaining. For example:
- In projects involving traffic/demand risks, government can assume the macroeconomic risks and uncertainties that the private sector cannot easily price or insure
- Where necessary, certain catastrophic natural hazards can be assumed by government
- Changing necessary regulations and tax incentives in the country to create more stability for investors

Private sector: Responsible for developing innovative solutions to reduce the cost of projects and advice on preparing risk frameworks. For example:
- New financial products are being launched where a single financial company will undertake detailed due diligence of a project, and package the debt to achieve a better credit rating and hence lower the cost of debt
- New technological, process and risk assessment and mitigation approaches

G20: It is recommended that the G20 create a task force to consider appropriate project risk frameworks and risk management/mitigation strategies and guidelines for governments and the private sector. The guidance should include the project management techniques required to manage the construction and operation of infrastructure.

Recommendations to help deliver infrastructure more effectively and efficiently

4) ***Governments need to provide the enabling environment and the necessary mechanisms to help execute the selected projects***

Even when an Infrastructure Plan has been agreed, the amount of effort to execute infrastructure projects is considerable. For example, regulations and policies may need to be changed, disputed resolution procedures codified, cross-departmental agreements sought, *"right of way"* and planning permissions gained, output specifications defined, procurement routes finalized, risk mitigation strategies adopted, engagement with interested stakeholders undertaken, any financial support or guarantees provided and building progress monitored. These actions will strengthen the enabling environment and offer the private sector greater certainty.

Directing resources to effective project management and control generates significant cost and time savings, but building this capability and capacity is often not treated as a priority. It is recommended that:

- To save time, maintain project momentum and avoid cost inflationary pressures, relevant public sector bodies (for example, those responsible for planning decisions) should have clear lines of swift delegation, not only within their ministry, but also between ministries. One solution is for countries to set up a government ministry or implementation unit that has power conferred by the prime minister/president to drive the process.
- Clear dispute resolution processes are formulated to cover the cases where contractual issues arise.
- In developing countries lacking the necessary institutional and legal systems, NGOs and the private sector can partner with governments to help them achieve their goals.
- If the public sector does not have requisite project management and other technical skills such as the ability to manage PPPs, it should put in place intensive training courses and/or employ highly trained external project managers and consultants. For example, the South African Treasury Department established a PPP unit to provide technical assistance and staff to local governments and municipalities. Money spent on running a well-managed procurement is probably the biggest "*quick win"* governments can make to reduce costs. The private sector would welcome the opportunity to assist, recognizing that well-managed procurements benefit all concerned.

The following stakeholders have roles and actions to perform:

Government: Ensure that projects are properly managed and implemented, which may involve enacting new regulations.

Private sector: Offer expertise and resources in project management and procurement, and assistance in capacity building within government and strengthening the rule of law.

Civil society/NGOs: Possibility of assisting with capacity building of governments.

G20: The G20 should sponsor an information dissemination unit or rely on a recognized project management professional association to provide project management information and details about best practice project management. For example, governments should have and use indicators for monitoring and evaluating infrastructure projects.

5) ***Multilateral development banks should focus on accelerating project delivery***

MDBs have different approval criteria than commercial banks. These approval processes can often be very lengthy, slowing project implementation and adding costs. In some cases the delays are understandable, for example due to the additional environmental and social due diligence criteria that MDBs require, but often the delays are due to internal approval processes. Approval processes in MDBs should be streamlined and made more commercial.

While different MDBs have different investment priorities, if two MDBs are prepared to invest in a project, then one MDB should be appointed the lead arranger and conduct all the due diligence and negotiate terms. If the project passes the lead arranger's credit committee/board, then the other MDB should "*rubber stamp"* the authorization. For example, the Asian Development Bank is piloting a project design facility that aims to harmonize the World Bank and its own approaches. It is intended that the facility will speed up the project formulation and design phases of projects and provide more realistic project cost estimates, thereby reducing the need for loans with large contingencies. There are other cases during the financial crisis where individual MDBs transferred some of their risk appraisal practices and knowledge to commercial banks.

The following stakeholder has roles and actions to perform:

G20: The G20, as partial owners and funders of MDBs, should encourage national-level governments to engage with MDBs to discuss how MDB processes can be accelerated.

6) **Multilateral development banks should increase the use of guarantees (as opposed to loans) to increase market liquidity**

If an MDB lends or provides a guarantee to a project, this sends a strong signal to the market that significant due diligence has been performed. The investment is then regarded by the financing market as having lower risk. By providing a loan, the MDB may well be providing funding liquidity that could just as easily have been provided by a commercial bank. Structuring guarantees in innovative ways to leverage commercial lending is a valuable alternative way of participating.

The following stakeholder has roles and actions to perform:

G20: The G20, as partial owners and funders of MDBs, should encourage increased use of innovative MDB guarantees to increase market liquidity and help re-establish a thriving infrastructure investment market.

7) ***Governments should focus on smaller "quick-win" infrastructure projects within their country while being pragmatic and engaging in realistic, trans-border projects***

Trans-border projects (e.g. rail networks) often get delayed by complexities and the need for multiple approvals, for example by planning authorities in each country and by government departments responsible for technical designs and details. For countries with little experience in procuring infrastructure, it is recommended that local capacity and expertise is nurtured and fostered by focusing on relatively small quick-win projects – that is, infrastructure projects that are not technically complex and are deliverable within shorter timeframes.

As a country develops a track record in infrastructure, or already has a track record, it should retain the principle of keeping infrastructure ambitions manageable. Where new technologies or new procurement methodologies are required, pilot projects should be built before scaling up the project. Where trans-border infrastructure is a national priority (e.g. a road upgrade), countries should engage with one or two other neighbouring countries that also have a history of project success. For example, by creating the necessary infrastructure and subsequently importing gas from Mozambique, South Africa generated economic growth for both countries.

The following stakeholders have roles and actions to perform:

Government: Depending on the economic circumstances in the country, it is recommended that governments focus initially on the quick wins within the country. Then, with procurement experience and capacity in the country, governments would be advised to keep projects manageable and scalable when considering larger projects and cross-border projects.

Private sector: Timeliness of execution is essential in delivering quick wins. The private sector should be able to distinguish this class of projects from other, larger and more complex infrastructure investments and apply strict cost and schedule controls.

8) ***Governments should undertake a country-level infrastructure readiness/attractiveness self assessment***

To allow governments and stakeholders to reliably assess their country's infrastructure attractiveness, the use of an agreed multidimensional measurement methodology should be encouraged. The proposed approach is to provide a methodology for governments to gather subjective (or perceptual) views from key stakeholders (e.g. NGOs, civil society and construction companies). The methodology would enable a rigorous evidence-based understanding of the institutional, legal and financial environment for a country's infrastructure, and will then assist the country prioritize the steps needed to meet its infrastructure requirements over the coming years.

The results would provide value to all stakeholders: for investors, a measurement of investment attractiveness and project opportunities; for other private sector partners, a measurement of technical and operational capacity; for civil society, a measurement of societal readiness; and for government, a diagnostic to focus on improvement and how to attract infrastructure developers/investors.

Several methodologies have already been developed that could serve as a basis for discussion, such as the World Economic Forum's Infrastructure Private Investment Attractiveness Index and Global Competitiveness Index, and the CG/LA Country Infrastructure Capacity Model. Furthermore, such methodologies can also embed a number of discussion elements that capture the potential benefits of infrastructure development (improvement of health, restraint of poverty, etc.).

The following stakeholder has roles and actions to perform:

G20: The G20 should set up a task group to develop a methodology to assess a country's infrastructure readiness/attractiveness. The G20 should then promote country-level self-assessments using the methodology, thereby allowing the country to better evaluate opportunities and risks.

III. Proposed Actions in Cannes

If countries have well thought through, actionable and deliverable infrastructure plans, they will be able to secure more funding and interest from engineering, procurement and construction companies. This will reduce the cost of national infrastructure. If this infrastructure is strategic in nature and is aligned to the country's economic, social and environmental priorities, the infrastructure will then spur economic growth.

Many of the G20 Working Group's recommendations are therefore directed at the country level. However, out of the recommendations, six are proposed for action by the G20 in Cannes:

- The G20 should encourage governments to engage in multistakeholder dialogue with the private sector and civil society/NGOs in all phases of infrastructure planning, development and implementation to enable more cost-effective and efficient development of infrastructure that also addresses environmental and societal concerns.
- Due to the challenges of evaluating the whole life costs and environmental impacts of infrastructure, it is recommended that the G20 set up a working group to consider the formulation or adoption of a recognized evaluation standard, seeking advice from the MDBs and select environmental organizations.
- It is recommended that the G20 create a task force to consider appropriate project risk frameworks and risk management/mitigation strategies and guidelines for governments and the private sector. The guidance should also include project management techniques required to manage the construction and operation of infrastructure.
- The G20 should encourage national governments to engage with MDBs to discuss how MDB processes can be accelerated.
- The G20 should encourage increased use of innovative MDB guarantees to increase market liquidity and help re-establish a thriving infrastructure investment market.
- Building on the work that already exists, the G20 should set up a task group to develop a methodology to assess a country's infrastructure readiness/attractiveness. The G20 should then promote country-level self-assessments using the methodology, thereby allowing the country to better evaluate opportunities and risks.

World Economic Forum G20 Working Group on Reform of the International Monetary System

I. Framing the Issue

Background

Two developments have provided impetus for a reform of the international monetary system:

- First, the financial and economic crisis has exposed some weaknesses in the operation of the global monetary system which have contributed to the crisis.
- Second, the secular trend of a growing role played by emerging markets in the global economy. Their increasing importance should be reflected adequately in the international monetary system and its institutions, most importantly the IMF.

Against this background, and despite the rapid, concerted and beneficial actions taken by the G20 at the height of the crisis, improvements to the international monetary system appear justified. However, any changes must not only respond to what is economically warranted, but also respect what is politically feasible. Hence, any changes will probably be evolutionary and incremental rather than revolutionary. However, this does not mean that changes should be delayed as a recurrence of the weaknesses playing out must be avoided.

Design elements

The international monetary system is rightly called a “system”, because it is composed of several elements which interact and must be compatible with each other:

- Rules for macroeconomic coordination and adjustment
- Securing international liquidity
- Defining the reserve medium
- Rules for international capital flows
- Design of the exchange rate regime

In addition, any regime designed at the international level must be compatible with policy preferences at the national level, as regimes will not be sustainable over the long term otherwise. Hence, an international monetary regime must satisfy three objectives in order to be both useful and enduring:

- It must be economically effective and efficient, delivering the public good “international financial stability”.
- It must be perceived as internationally legitimate by giving due voice and influence to all players and by distributing the costs and benefits between participating countries in a manner perceived as fair.
- It must be perceived as legitimate and fair at the national level, and be compatible with domestic policy interests.

A stable international monetary system requires meaningful reform that will inevitably limit policy discretion for individual countries, including those of systemic relevance, for the sake of the common good, which will eventually result in more robust and sustainable economic growth for all countries. This may include restraining national policy choices by means of the multilaterally agreed rules, even if alternatives are considered preferable in the short-term by national electorates.[28] At the domestic level, these policy constraints on national economic policies must be acceptable to national electorates.

Deficiencies of the status quo

The financial crisis highlighted the following deficiencies in the operation of the current international monetary system. Many of these shortcomings are interrelated, pointing to the fact that any attempt to improve the structure and functionalities of the current regime must be construed as a comprehensive approach that addresses several issues simultaneously.

- **Balance of payments imbalances:** Balance of payments imbalances contributed to the development of the crisis. While the potential negative repercussions of large and persistent balance of payments

[28] To illustrate: Prior to the crisis, policy choices in the US – geared at increasing domestic consumption at the expense of greater indebtedness to foreign creditors – was not only compatible with policy preferences of the domestic electorate, but also compatible with policy choices in those surplus countries (in Asia, the Middle East and, to a lesser extent, some European countries) that accumulated claims on the US. However, both policy courses were clearly unsustainable from the point of view of global stability and should have been restrained by international rules – which, however, were considered inacceptable to national policy-makers.

imbalances were known, there were neither automatic nor political mechanisms that would have enabled the reduction of these imbalances. Underlying these balance of payments imbalances were unsustainable patterns of spending and saving, respectively, across countries. While rational from the perspective of each country, the collective outcome of such patterns is that the global economy as a whole runs the risk of abrupt and costly corrections. National policy frameworks, acting on their own, are insufficient to correct such imbalances and the current international framework for multilateral policy coordination is too weak to enforce action.

- **Excess reserve accumulation:** Related to the first issue, an extremely high accumulation of reserves occurred. This was a reflection of as much as a cause of the current account imbalances. Reserve accumulation had two motivations: On the one hand, they reflected a conscious policy by several countries to manage their respective exchange rates. Specifically, many countries in Asia have aimed at keeping their exchange rate low vis-à-vis the US dollar to support export-led growth models. On the other hand, reserve accumulation served as a means of self-insurance against potential balance-of- payments crisis. The latter reflects that, for many countries, recourse to IMF assistance has not been an adequate and acceptable alternative to self-insurance by means of reserve accumulation. In particular, many countries resented the prospect of being subjected to IMF conditionality. However, the remedy chosen aggravated the imbalances, as the scale of reserve accumulation was far in excess of the resources required for self-insurance.

- **Exchange misalignments:** Some exchange rates have been marked by persistent, substantial misalignments, without there being an automatic or, at least, a workable discretionary mechanism to remove these misalignments.

- **International capital flows:** There is a lack of consensus on appropriate tools to promote international capital flows, both with respect to inflows and outflows, while maintaining economic and financial equilibria. The renewed debate on the usefulness of capital controls is a reflection of this reality.

- **Provision of international liquidity:** The provision of international liquidity is currently based on a non-systematic regime of *ad hoc* measures in the shape of discretionary SDR allocation, bilateral swap arrangements between central banks, and regional arrangements. While it could be argued that these *ad hoc* measures have been successful in the crisis to forestall an even deeper global recession, it is undoubtedly true that relying on *ad hoc* measures is a sub-optimal way of running the international monetary systems and creates uncertainty in times of market stress and crisis as market participants question whether such ad hoc action will be forthcoming or not.

- **Representativeness/legitimacy**: Recent (re-)allocations of quotas and voting rights were an important step towards addressing the issue of voice and representativeness at the IMF which has emerged in response to the rise of the economic and political weight of emerging markets in the global economy. In other areas, e.g. the selection process of the IMF leadership, political commitments for procedural changes still have to be fully translated into practice.

II. Key Policy Messages

Based on the aforementioned analysis, the working group wishes to submit the following recommendations:

a) Macroeconomic coordination and adjustment

- There is a need to internalize the externalities of national policy choices. That is to say that a mechanism needs to be developed by which countries can agree more effectively than in the past on a collective approach to develop and pursue mutually compatible courses of economic policy and choices of economic actors.

- In this context, it is important to realize that market discipline, while effective, primarily comes to bear in the case of deficit countries (unless their status as a reserve currency allows them to defer such an adjustment), but does not exert influence on surplus countries and is unable to respond to the collective impact of imbalances on the global economy as a whole. Furthermore, even in the case of deficit countries, market discipline is often slow to materialize – and when it does finally materialize the economic and social costs of adjustment are substantial, especially in EM deficit countries.

- The IMF's multilateral surveillance is a useful tool to highlight potential incompatibilities in the policies of IMF member states. Similarly, the Mutual Assessments Programme (MAP), launched by the G20 at the Pittsburgh Summit, and the "G20 Indicative Guidelines", which build on the MAP and were agreed at the

G20 Finance Ministers' and Central Bank Governors' Meeting in April 2011, are useful steps towards identifying incompatible national policies *ex ante* and towards reducing the likelihood of massive balance of payments imbalances. These processes will help to establish a shared analysis of the problems created by national policies and the autonomous decisions of households and companies. The value of such a shared analysis should not be underestimated, as it can help to galvanize a common set of thinking among political decision-makers. Too often in the past, political action has not been forthcoming because policy-makers had different views of the underlying realities.

- In addition to identifying actual and potential spillover effects, i.e. the external dimension of imbalances, Art. IV must highlight the domestic policies and structures that give rise to such imbalances in the first place, i.e. the national dimension of imbalances. A special aspect to this is the issue of imbalances *within* currency areas, which, if left unattended, can ultimately give rise to external problems as well.

- However, while processes such as the MAP and the Indicative Guidelines can help to elucidate the potential repercussions of national policy choices, they can, by themselves, not prevent mis-developments nor rectify imbalances. Mere indicative guidelines are not sufficient, as governments will always choose to ignore them if opposition to them arises in the domestic policy context.

- Hence, the economic policy guidelines developed in the "G20 Indicative Guidelines" ultimately need to be hardened. The agreement on a set of guidelines for economic policies is an important step towards an evidence-based discussion of adjustment needs and an identification of needs for action by governments and other authorities, such as central banks. Indeed, we would note that the private sector, especially the financial industry regularly benchmarks countries' performance against such indicators to assess investment risks and opportunities. This analysis is geared not only to assessing the creditworthiness, but also to the sustainability of economic policies pursued by individual countries. Similarly, inspiration could be drawn from recent decisions within the EU and the euro zone for a more stringent framework for macroeconomic policy coordination based on clearly defined indicators.

- Multilateral surveillance and the MAP, as preventive instruments, must be complemented by mechanisms for an orderly adjustment of imbalances. We suggest that the following mechanisms might be conducive to make the preventive tools, currently available to the IMF, more effective:

  - Art. IV of the Articles of Agreement should be amended to codify explicitly that Art. IV surveillance must be comprehensive. Presently, Art. IV explicitly mentions only a country's exchange rate arrangements as the subject of Art. IV consultations. As mentioned above, this, however, is too limited, given the wide range of potential causes for imbalances that comprise both external and domestic policies and structures. Hence, a revised Art. IV should explicitly refer to domestic policies and economic structures that might have a bearing on external imbalances, internal imbalances, financial sector issues and exchange rate arrangements.

  - The IMF should become more autonomous in its Art. IV reports. While IMF member states should remain free to comment on Art. IV reports, the IMF should be fully entrusted to publish its assessment without clearance by the country concerned or the board of directors.

  - To facilitate a comparison of Art. IV reports across countries, it would be helpful if each Art. IV report contained a standardized table of key performance indicators that allow for an assessment of the sustainability of economic policies. The parameters used for the "Indicative Guideline" could be a useful starting point. A traffic light approach might be a useful instrument to indicate concerns.

    An important pre-condition for the effectiveness of such comparative analysis that the indicators used is gathered on a harmonized statistical basis in order to be comparable. For example, the definition of an indicator such as public debt/GDP needs to be fully aligned as regards the inclusion of exposures from swap arrangements and that of sub-sovereign debt.

    In this context, note should also be taken of the fact that enabling market participants to better assess sovereign risk by themselves on the basis of reliable assessments provided by the IMF would, as a side-effect, contribute to reducing investors' reliance on external ratings provided by rating agencies.

  - No matter how well structured and well-targeted such a framework is, the main challenge lies in implementation and enforcement. The MAP must be complemented by mechanisms that increase the likelihood of measures being implemented. Specifically, the MAP needs to be embedded in a stringent peer review procedure which identifies those countries in need of action and creates a disciplined approach for them to take action or explain why action is not being taken ("comply or explain"). Commitments to comply with the recommendations could be published, which would result in greater market discipline, as governments would then more easily be held accountable.

- Imbalances usually reflect underlying structural deficiencies. Consequently, short-term policy measures, in both deficit and surplus countries, aimed at correcting imbalances must always be embedded in a broader policy-approach that address these structural deficiencies. Specifically, deficit countries should not only pursue austerity policies but should complement these with structural policy reforms that create conditions for structurally higher growth rates and higher domestic savings. Similarly, surplus countries need to explore policies that increase domestic consumption and lower domestic savings; a reform of social security systems which allows households to lower their private savings might be one such measure. More generally, specific country circumstances such as the economic structure will need to be part of any comprehensive analysis of the causes of imbalances as well as measures to address these.

- Incidentally, a thorough analysis of the underlying reasons for imbalances will also help to highlight differences in policy focus. For instance, while at the global level, much of the focus is on surplus countries, in Europe the policies of deficit countries are in focus. It will also help to enable a more differentiated analysis of imbalances, as regards their underlying causes and sustainability. For instance, in the case of surplus countries it would differentiate whether reserve accumulation resulted from authorities' intervention in currency markets or from the export prowess of private-sector firms. Similarly, imbalances can reflect demographic developments which make it appropriate, indeed advisable for ageing economies to accumulate claims on growing economies, which can be drawn down at a later stage with a view to smoothing inter-generational consumption.

- More flexible exchange rates, especially in those countries that account for sizeable shares in the global economy, will play an important role in orderly adjustment processes. It is therefore desirable to chart a roadmap for greater exchange-rate flexibility in those countries that hitherto have managed their exchange rates. In this context, greater exchange rate flexibility does not necessarily mean a transition towards a regime of fully flexible exchange-rates, universally applied in all countries. Rather, it denotes a regime in which any exchange-rate regime – floating, managed, fixed – is flexible enough to avoid massive and lasting misalignments of a country's real (effective) exchange rate. These changes and adjustments should take place along a predictable path, in order to avoid the significant economic disruption that a rapid re-pricing of currencies would cause.

b) Securing international liquidity

- A credible and sufficient availability of international liquidity is not only necessary to deal effectively with balance of payments crises, should they occur. It is also an effective means to reduce the likelihood of imbalances occurring in the first place: The more countries feel comfortable with the availability of international liquidity and, equally important, the conditions for access to it, the less they will resort to excess reserve accumulation as a means of self-insurance. Such national safety-nets (reserves) have increased dramatically relative to collective safety-nets (IMF facilities) over the last decade. This process should be reversed. Recent initiatives taken by the IMF to re-adjust the facilities available to member states (i.e. the Flexible Credit Line, FCL, and the Precautionary Credit Line, PCL) as well as the framework of ex ante and ex post conditionality attached to these have been helpful in this respect and, in our view, strike the right balance between the need for conditionality that safeguards the interests of IMF creditor countries and deficit countries. However, in spite of the efforts to re-adjust the facilities, only three countries resorted to the FCL during the recent crisis. Perhaps because many countries had accumulated large amounts of reserves, the FCL was perceived as unnecessary. Another explanation might be that this facility inevitably came with the stigma associated with having to turn to the Fund for assistance. It is important to analyse these three experiences to better address the stigma problem, so that countries feel more comfortable with precautionary borrowing.

- Regional initiatives, such as the Chiang Mai Initiatives or the European Stabilisation Mechanism, ESM, can complement the multilateral system. Specifically, the bilateral swap agreements established on an ad hoc basis between central banks at the height of the crisis have been useful in dealing effectively with the closure of access to foreign currency funding that many financial institutions were facing at the time. While efforts must be made (indeed, have been made) be by financial institutions to address the underlying cause of this problem – i.e. inappropriately large currency mismatches on their balance sheets – such mismatches are to some extent a logical corollary of internationally integrated financial markets. Therefore, on a limited scale, permanent bilateral swap agreements could be an important feature in a broader framework for international liquidity.

- Regional arrangements for international liquidity are an expression of closer economic ties in certain regions. In addition, as they are an expression of a willingness to coordinate economic policies more closely than is possible at the global level, they offer the opportunity to embed the liquidity arrangement into a broader framework of policy coordination aimed at reducing the likelihood of economic imbalances occurring in the first place.

- However, regional arrangements suffer from three weaknesses: Firstly, by definition they run counter to a multilateral approach and have the potential to undermine global governance structures. Secondly, regional arrangements, too, require surveillance. But (outside of the EU) there is no such tradition and hence only weak enforcement. Thirdly, a grave crisis could overwhelm regional arrangements. To counter such potential deficiencies, it is desirable that the IMF be part of such a system in order to ensure that these regional systems are compatible with the multilateral approach.

- Management of international liquidity must work in both directions: not only is it necessary to ensure that there is sufficient liquidity in times of crisis; it is also necessary to ensure that international liquidity is withdrawn if it threatens monetary stability. The Working Group welcomes that IMF members were willing, at the height of the crisis, to bolster the confidence of economic actors in the stability of the global economy by means of an unprecedented special allocation of SDR. But this willingness and ability to increase global liquidity on an ad hoc basis needs to be balanced by a formal mechanism to assess whether any given level of SDR allocation is still justified by economic circumstances. However, outside of the rather routine exercise of regular SDR reviews, the IMF lacks a formal format for the potential withdrawal of such special SDR allocations. Such a mechanism should be established. One idea would be to task the FSB, in the context of its role as the global macro-prudential supervisor, to make an assessment of the adequacy of global liquidity and to make, if deemed necessary, recommendations on adjusting the amount. Another (non-exclusive) idea would be to have the IMF conduct a review if a certain quorum of member states – say 20% of IMF quotas – request such a review.

c) Reserve currency arrangements

- Essentially, two parallel processes are currently under way regarding reserve currency arrangements.

    - On the one hand, there is a more technical discussion on the inclusion of the RMB in the basket of currencies constituting the SDR.
    - On the other hand, there is a broader debate about the gradual shift of the global monetary system from a dollar-based system towards a multi-currency monetary system.

- As regards the former, this is already under discussion in the international community. We support these efforts as they will help to put the global monetary system on a more balanced footing and will help to enhance the representativeness of the system. However, we note that a pre-condition for an inclusion of the RMB in the SDR basket is the full convertibility of the RMB. A path should be set that charts pre-conditions and mile-stones for the inclusion of the RMB into the SDR.

- As regards the latter, the development of the reserve currency regime will ultimately depend on the choices of economic actors and thus be the result of a market-led (and presumably lengthy) process.

    - A global monetary system in which the role of the reserve currency is based more broadly than is the case in the present system is a logical corollary of the shifts in the economic weight amongst national economies. It also reflects a geographically more balanced structure of trade, production and investment at the regional level which creates incentives for countries to re-balance their currency reserves in light of these interlinkages.

    - A multi-polar reserve currency regime will be possible only if financial markets in those currencies currently used less become deeper and more liquid. Hence, the development of financial markets (indeed, in some cases the transition to full convertibility) will be a pre-condition for this process. Indeed, we would note that the share of the USD in international currency reserves has already started to decline; this, in our view, is a reflection of the greater attractiveness of non-dollar capital markets.

    - Compared to the dollar-standard, the transition towards as well as the existence of a multi-polar currency regime can, theoretically, be marked by greater instability, as major shifts in reserve currency allocation – and ensuing capital flows – can occur. Consequently, in a multi-polar currency regime, predictability, sustainability and transparency of economic policies by reserve currency countries (areas) become even more important.

- The role of the SDR in such a multi-polar regime is open. A case can be made that SDR might help to smooth the transition from the current system to a multi-polar regime. However, irrespective of what IMF member may decide concerning the official use of SDR, the extent to which SDR are used by private actors should be left to the autonomous decisions of private-sector market participants. Private-sector initiatives that would foster the private use of SDRs should be supported by the public sector.[29]

d) Capital controls

- Full capital account liberalization and free capital flows continue to remain a desirable objective of economic policies. This holds true for short-term capital flows as much as for long-term capital flows in the shape of FDI, where ownership restrictions are still prevalent in many countries. Policies that discourage FDI are especially of concern from the perspective of financial stability, as these long-term capital flows have proven to be particularly stable.

- Free capital flows are in the interest of capital exporters – among them ageing societies that aim at investing present income in fast-growing economies as a means of inter-temporal consumption smoothing – and in the interest of capital importers that aim at financing investment or at bridging temporary shortfalls in income. Hence, policy-makers as well as the IMF should continue to strive to create the pre-conditions for a smooth development of international capital flows.

- Two important pre-conditions for these are:
  - (1) An adequate and effective supervisory system that has sufficient capabilities to analyse and, if necessary, control financial risks. Macro-prudential supervision is an important part of supervisors' tool-box in this respect.
  - (2) The development of local financial markets, especially local bond markets. The deeper and more developed domestic financial markets are, the easier it is to smoothly absorb capital inflows and withstand capital outflows.[30] Ongoing efforts, supported i.a. by the IMF and multilateral development banks and aiming at developing local financial markets, are therefore strongly supported. Financial firms stand ready to support such initiatives with their expertise.

- However, there can be circumstances in which international capital flows can be unstable and disruptive. In such circumstances, capital controls, especially on short-term flows, can be an effective tool to deal with distortions and a useful element to deal with the instability of capital flows.

- However, it is necessary to differentiate between controls on capital inflows and controls on capital outflows on the other hand, as their impact on investment decisions and investor confidence is different. In the case of controls on capital inflows, investors know the rules of the game and make investment decisions with complete knowledge of the impact of the controls on their investment. In contrast, controls on capital outflows constitute an ex post change to the original investment case and therefore undermine the original investment rationale. As such, controls on capital outflows are much more disruptive and should be strongly discouraged.

- Capital controls can have distortive effects. They hinder the ability of financial institutions, and financial markets more broadly, to intermediate efficiently and effectively and thereby to allocate resources to their most efficient use. Hence, their use should be limited. In particular, capital controls should only be used for limited time-spans. Moreover, countries that impose capital controls should be required to notify the IMF, clearly stating the rationale, objective and likely duration of the measures taken. The IMF should be tasked with monitoring the effectiveness of the measures taken by any member state; based on this it should report regularly whether the measures are adequate and still justified. Its assessment should explicitly include an analysis of the spill-over effects of the measures on other jurisdictions.

- Furthermore, it needs to be recognized that capital flows respond to economic incentives set by macro-economic policies. Therefore, the management and surveillance of capital controls must be embedded in

[29] One example would be the issuance of SDR-denominated bonds.
[30] This might be called the „big fish, small pond" problem: While it is rational and desirable that institutional investors – which overwhelmingly still reside in large, developed economies – diversify their portfolios and invest a greater share of assets in emerging financial markets, such capital inflows can quickly overwhelm an illiquid, small market.

a broader framework of analysing the underlying causes of capital flows, in particular monetary, fiscal and financial sector policies. An effective intertwining of this analysis with macro-prudential supervision is desirable given the pivotal role that financial systems and institutions play in intermediating cross-border capital flows. For instance, if excessive capital inflows reflected local asset price bubbles, in which foreign investors wished to participate, then addressing these capital inflows by means of supervisory tools (e.g. higher margin requirements, lower LTVs, etc.) or the use of monetary and fiscal policy measures can be more effective and less disruptive to international capital flows than the use of capital controls.

e) Delineation of tasks

- Mandate of the IMF on financial regulation: The IMF should refrain from entering into the area of financial rule-making. Rule-setting should be coordinated by the FSB, which has proven itself as an effective coordinator of G20 activities in the field of financial regulation. This delineation of task should be strictly maintained to avoid duplicative efforts and inconsistent messages to economic actors

- Similarly, the FSB, as agreed upon by G20 countries, should be entrusted with macro-prudential supervision at the global level. Importantly, in this role the FSB needs to coordinate effectively with other macro-prudential supervisors so as to avoid contradictory analyses and messages to financial markets.[31]

- The IMF has an important role in assessing the stability of financial systems in IMF member states. The Financial Sector Assessment Programme (FSAP) should be seen as a natural complement to the MAP surveillance, as real economy imbalances often have their origin in financial sector imbalances and, vice versa, real economy developments can affect the stability of financial sectors.

f) IMF governance

- The recently agreed (re-)allocations of IMF quotas are an important step towards responding to the shifting balances in geopolitical and economic power. However, given the pace of this re-balancing in the global economy and considering the tortuous process of arriving at quota reform, it would seem advisable to have a more automatic process of re-balancing IMF governance structures, quotas and voting rights. In addition, in other areas, e.g. the selection process of the IMF leadership, political commitments for procedural changes still have to be fully translated into practice.

- While the perception of fair governance structures increases the legitimacy of an institution such as the IMF, we would emphasize, though, that greater voice also comes with greater responsibility. It is our expectation that countries that are more influential in international institutions, such as the IMF, feel particularly committed to bringing into line their policies with internationally agreed standards.

- Greater representativeness must not come at the expense of effectiveness.

Improving Financial Market Characteristics

The issue

Market developments over recent years have underlined that financial markets are prone to exaggerations and herd behaviour. Financial markets are susceptible to self-reinforcing effects which can accentuate upward and downward movements. Underlying these phenomena is the fact that financial markets are on the one hand guided by fundamentals and on the other hand comparable to “beauty contests” in which investors’ actions are guided by those of other investors – making the system self-referential.

The relative balance between investors trading on the basis of fundamentals and uninformed noise traders following the herd depends on several factors. One such factor are market structures, such as the prevalence of algorithmic trading that follows market trends; another is the relative importance of investment strategies: thus, for example, it is obvious that a dominance of passive investment strategies would tend to favour herd behaviour in markets. Furthermore, the financial crisis starting in 2007 has undoubtedly left many market participants bereft of mental models that previously guided their investment decisions. Such models, which substitute fundamental analysis and rational decision-making with heuristic decisions based on experience and knowledge about historically applicable correlations and patterns of reactions, have, in the eyes of many market participants, become useless in the crisis. Many market participants may therefore be more inclined to follow market trends and the actions of other investors.

[31] In fact, the same point holds true for other macro-prudential supervisors which are currently being established at the national or EU level. Their messages, too, need to be aligned.

Recommendations
To avoid market disruptions and excessive movements of asset prices and volumes, it would therefore be desirable to strengthen the weight of fundamentally-driven investors with a long-term investment perspective. This will help to stabilize investment flows, thereby dampening the volatility of asset prices and the likelihood of bubbles.

Measures to achieve this would appear to be the following:

- First, macro-prudential supervision which is now being established as an explicit supervisory tool in many jurisdictions will undoubtedly be helpful to deal with the issue of herd behaviour. Macro-prudential supervision is explicitly charged with identifying and addressing financial imbalances. As a preventive tool, it can therefore help to act as a stop to herd mentality, especially in the building-up of asset price bubbles.
- Second, market participants themselves should, in their own interest, include the systemic consequences of new products and investment strategies in their product approval processes and risk assessments. Again, the systematic dialogue that will probably be established between macro-prudential supervisors and the industry may help to foster such a development. However, industry itself should collectively address these issues as well.
- Third, trading platforms should ensure that algorithmic trading systems are being stress-tested with respect to their systemic implications before being admitted to trading.
- Fourth, governments should intensify long-standing efforts to encourage long-term investment by increasing the importance of private pension systems and other forms of institutionalized savings. Insurance companies and pension funds tend to have a long-term investment horizon.
- Finally, regulation should eschew measures that discourage long-term investments. Thus, for instance, it might be considered counter-productive that Solvency II discourages insurers' investment into equity and long-term debt. Similarly, prohibiting CDS on sovereign debt will discourage investors from investing in long-dated government debt due to the lack of hedging options.

III. Proposed Actions in Cannes

We propose that G20 leaders advance the process of international monetary system reform at their Cannes Summit by agreeing to:

1. **Macroeconomic coordination and adjustment:** IMF surveillance, the Multilateral Assessment process (MAP) and the G20 "Indicative Guidelines" must be hardened to better ensure that national economic policy choices are compatible with multilateral objectives and the avoidance of imbalances. Specifically, we propose that:
    a. Art. IV of the IMF Articles of Agreement be reformed to explicitly broaden the mandate for the IMF to look beyond exchange-rate arrangements and include domestic imbalances, policies and other sources of potential instability
    b. … each Art. IV report contain a standardized table of key performance indicators that allow for the assessment of the sustainability of economic policies
    c. … the MAP be embedded in a stringent peer review procedure which creates a disciplined approach for countries identified in need of action on a "comply and explain" basis;
    d. ... countries that manage their exchange-rates chart a road-map for greater exchange-rate flexibility aimed at avoiding massive and lasting misalignments of real (effective) exchange-rates
    e. ... the IMF become more autonomous in its Art. IV reports

2. **International liquidity:** To ensure the provision of liquidity in times of crisis and to, simultaneously, reduce incentives for excessive reserve accumulation, multiple sources of international liquidity should be developed (further), incl. IMF precautionary lines, regional initiatives, and bilateral swap lines. To ensure the compatibility of these sources, the IMF should be given a coordinating role and set minimum guidelines for such initiatives. Furthermore, a formal format should be established for examining the adequacy, and, potentially, the withdrawal of IMF liquidity.

3. **Reserve currencies:** The development of local financial markets and the transition to full convertibility should be intensified and speeded up to create more alternatives to the US Dollar as international reserve currency. We stand ready to support efforts to develop financial markets.

4. **Capital controls** should only be used for limited time-spans; the IMF should be notified whenever they are imposed, clearly stating the rationale, objective and likely duration. Alternatives to capital controls, especially the use of macro-prudential policies, should be examined and used wherever possible. The IMF should be tasked to regularly report on the effectiveness and side-effects of capital controls.

IV. Contribution from the ICC G20 Advisory Group on Reforming the International Monetary System

Issue

The global economic crisis heralded, indeed accelerated, a transition towards a new world where emerging market economies play a large role on a par with advanced ones in driving global growth, a world that will be fundamentally multipolar and in which global monetary problems must be dealt with cooperatively.[32]

Analysis

The crisis caught many experts and policy-makers by surprise revealing vulnerabilities in the international monetary system. While these were principally in developed economies, their effects quickly spread to the entire monetary and financial system.

However, the crisis highlighted the need for effective international policy coordination. The G20 is a powerful response in this regard.

While the global economy may have avoided the worst of the crisis through the injection of massive amounts of fiscal and monetary stimulus, several broad issues regarding the current international monetary system remain, including the set of rules, norms and institutions that govern the world's currencies and the flow of capital across borders.

Dealing with these issues requires both fiscal and structural reform as one without the other is not sustainable in the long term. Structural reforms are critical at the micro level, including encouragement of innovation and reduction of youth unemployment.

In addition, G20 leaders should look to strengthen financial markets in emerging economies by developing capital markets and improving access to retail financial services to increase both domestic confidence and investment opportunities, both of which could stimulate consumption and help to offset global imbalances as well as reduce the risk of asset bubbles.

These are critical issues for business as increasing **global economic imbalances could lead to currency wars, bankrupt states and trade protectionism.** Moreover, persistent vulnerabilities remain in the international monetary system, including:

- Excessive economic imbalances, within both developed countries and developing countries. Currently, average government debt-to-GDP ratios in the G7 economies are at their highest level since the 1940s.

- Excessive exchange rate fluctuations. Since the beginning of generalized floating exchange rates in 1973, rates have failed to move consistently and have promoted imbalances.

- A need for more effective global governance to ensure that decisions are consistent and contribute to global stability. The International Monetary Fund (IMF), intended for this purpose, has not been able to achieve this task fully.

Recommendations

Excessive economic imbalances
Global liquidity conditions are influenced by monetary policy in major countries, exchange rates and innovation and risk-taking behaviour in the financial sector. Liquidity can change because of many conditions, including perceptions.

Thus a global approach is particularly difficult. One item which the G20 leaders can act on is enhancing economic surveillance to provide as accurate a picture as possible of economic flows and overall sustainable

[32] This paper draws extensively on the ideas contained in an article entitled "Beyond Bretton Woods 2" published in *The Economist* magazine of 6 November 2010; and on the report of the Palais Royal Initiative entitled "Reform of the International Monetary System: A cooperative approach for the twenty-first century", 8 February 2011.

economic development of an economy. G20 leaders must take into account that their countries' domestic policies interact and affect global stability and have spillover effects.

There also needs to be greater understanding and cooperation among central banks and finance ministries on macro policies that impact liquidity. Sound macro policies combined with time-limited interventions and capital controls may be effective to protect countries from large and volatile (short-term) capital flows, though measures should not create distortions and not affect countries negatively. The development of internationally agreed guidelines in this area would be critical, as well as joint monitoring to insure that interventions are limiting and not distorting. Working with the private sector is critical in this regard.

Excessive exchange rate fluctuations
Renewed leadership by G20 leaders to promote international exchange rate coordination is particularly important to avoid currency wars. Countries need to conduct their economic and fiscal policies with a goal to ensuring that exchange rates are broadly in line with market fundamentals and global balance. It should be recalled that, while IMF members, under its Articles of Agreement, have the right to choose their respective exchange rate policies, they also have a stated obligation to avoid manipulating exchange rates to secure a competitive advantage.

G20 leaders could consider making countries' obligations more specific, perhaps through the use of benchmarks to identify instability and misalignment. G20 leaders could further develop/integrate a joint monitoring system along the lines of that for capital controls to monitor excessive exchange rate fluctuations.

Global governance
In light of the experience of the recent crisis, further steps should be taken to make the IMF more receptive to being a global lender of last resort ready to act in a reliable, rules-based fashion with appropriate protections to limit moral hazard.

Rather than try to create a global reserve asset, G20 leaders might achieve more by reducing the demand for reserves. This can be done by improving countries' access to funds in a crisis. The IMF's lending facilities have already been overhauled so that well-governed countries can get unlimited funds for two years.

G20 leaders could develop a plan for rebalancing the world economy, perhaps with target ranges for current account balances and real exchange rates, supported by peer review rather than explicit sanctions.

A rebalancing plan would address many of the tensions in the monetary system. But shifting the resources of surplus countries from exports to consumption will take time. Meanwhile, capital flows into emerging markets are likely to surge much faster.

There is also a need for a more integrated architecture and decision-making structure in the international monetary system by developing a more formal framework for the relationship between G20 leaders and key intergovernmental financial institutions like the IMF. The IMF should play the role of neutral arbitrator in cases of exchange rate misalignments. It has the knowledge and authority to intervene more actively in disputes that cannot be mediated by individual countries. It also has a long track record of resolving various economic crises through multilateral coordination.

The economic crisis demonstrated that greater global coordination is needed. G20 leaders have taken the first steps in London and subsequent summits. It is essential that a reformed international monetary system should safeguard the gains of the past 65 years. We must ensure that whatever measures are taken preserve and indeed strengthen a system that maintains freedom of trade and current payments and that allows the benefits of financial globalization to be shared more widely.

World Economic Forum G20 Working Group on the Role of Business in Society

I. Framing the Issue

The challenges and opportunities confronting society today and over the next 5-10 years are immense and interlinked. These include historic shifts of economic activity to emerging markets; rapid and ongoing technology change; increased demand on limited resource supplies such as energy, food and water; increasing employment challenges (e.g. the need to create a large number of jobs for youth in developed and emerging economies); ageing populations in developed economies; and substantial fiscal and equity challenges on governments around the world. Each will put substantial pressures on leaders in both government and business.

We believe that these challenges and opportunities are too broad for any one sector or institution to tackle alone. These matters should not be left to government to resolve – business should take more responsibility and initiative to address them, working in partnership with government and civil society. As the B20 summit in Korea demonstrated, there is plenty of excitement on the part of business leaders to play this role.

As a task force, we have tried to identify a set of issues where we believe that business can make a difference and help put the global economy on a sustainable growth path. Our task force identified more than 20 broad ideas – but decided to focus on a few proposals where we believe the private sector can help accelerate a broader process and set of actions (and where we saw strong agreement).

We have outlined a set of recommendations in five areas. Four involve a much higher level of business-government cooperation to help deal with major issues and capture opportunities; and one involves business stepping up its game to act in a more long-term, multistakeholder manner. Our headline recommendations are as follows:

1. Improving Corporate Governance
Business and governments should collaborate on measures to help corporate boards focus on long-term value creation; work together on compensation systems to reward executives for long-term value creation; co-develop global corporate governance principles to satisfy all stakeholders of a level playing field; and establish a task force to propose measures to encourage longer-term investing. Business should develop a strategy that can help convey the public benefits of private enterprise, including how business is good for development and growth.

2. Building and Renewing Infrastructure
The world faces huge infrastructure requirements in the emerging and developed worlds, but we will not “get there” without substantial improvements in business and government cooperation. Business and governments should work together to establish independent national and regional bodies to identify overall infrastructure needs and evaluate and prioritize individual projects; and encourage flexible rules and contracts to reduce construction times, required capital and risk. Business should provide input on ways that governments can reduce barriers to private investment infrastructure.

3. Increasing Education for Employment
Creating jobs at scale is an imperative in both developed and emerging economies. Business, government and education providers, as well as labour unions should work together more closely to help identify job needs and requirements in each country. Specific recommendations include: the financial services sector helping to develop a policy environment that will better support SME financing; creating “learn and earn” opportunities for students, particularly girls, in occupations where candidates are in short supply, such as technical fields; companies and industry associations partnering with high schools, community colleges and universities to boost rates of post-secondary education and the number of graduates with job-ready skills (especially for women); and business, government and educational and training providers should create efficient programmes to enable middle-aged and older workers to retain and gain new skills faster, particularly in those countries that are ageing rapidly.

4. Increasing Energy Efficiency
Governments and businesses should implement national education and awareness programmes to help society understand real energy costs; and encourage industry associations to set voluntary industry-specific energy standards. Where possible, business should seek opportunities to collaborate with governments on

creating consumer incentives for energy efficiency. Governments should consider changing their approach to subsidies from broad price setting to direct subsidies targeted at the poor and selected industries.

5. Responsible Regulation

While business recognizes that more regulation is required in some areas, it is keen to provide more input and work more closely with government to ensure that regulation does not unnecessarily impede private sector investment and job growth. Specific recommendations involve asking for regular reviews by government of regulation on a holistic versus incremental basis to ensure that rules keep up with an increasingly dynamic environment and that cross-sector and second-order effects are fully taken into account. Efforts should be made to ensure that a level playing field is in place for all companies, including SMEs, by devoting greater resources to ensuring the consistent application and enforcement of regulation (e.g. by ensuring that regulators investigate how rules will affect different-sized firms). Business and the G20 should also work together on the future of international trade.

II. Key Policy Messages

1. Improving Corporate Governance

Context

- Trust in business hit historically low levels more than a decade ago and has deteriorated further during the recent financial crisis, especially in Western countries.
- While many factors triggered the crisis, the recession clearly revealed deficiencies on how businesses are governed.
- This realization has led to broad calls for improved regulation across many sectors and throughout the globe.

Challenges

- **Short-termism**: In an era when capital markets exert pressure for continuous near-term results, some corporate boards and executives tend to under-invest in efforts to plan for long-term value creation.
- **Transient investing**: The spike in equity churn in recent years by institutional investors and hedge funds has made it difficult for managers to know who company owners are, and for owners to know the business. Some short-term shareholders (the average owner now stays in a stock just seven months) essentially speculate on near-term company performance.
- **Effective oversight**: Instead of helping to insulate management from the pressures of transient owners, some corporate boards encourage the trend by compensating CEOs based on short-term measures.
- **Excessive leverage**: With corporate performance measured largely by earnings per share and returns on equity, management in some sectors has strong incentives to reduce equity to boost share prices and improve these metrics – even without any change in underlying corporate performance.

Recommendations[33]

- Business and governments should improve the ability of corporate boards to focus on long-term value creation. Options include:
  - Fiduciary duties are explicitly defined to guide corporate boards to maximize the long-term value of the company, rather than focusing on boosting short-term shareholder returns
  - Introduce skills-training mechanisms and guidelines for empowering corporate boards to create “ownership-based governance” (e.g. requiring that non-executive corporate directors commit sufficient time to their duties by agreement with the board chairman before accepting an appointment)
  - Establish a broader range of metrics for board oversight of corporate performance that reflects a longer-term strategy (e.g. metrics related to customer satisfaction, research and development, quality and brand value)
- Business and government should develop one global set of corporate governance principles to ensure a level playing field across all regions.
- Business and governments should define new ways of compensating executives to reward long-term value creation and focus on broader value impact, options include:
  - Linking variable compensation to basic drivers of long-term value and sustainability, such as innovation and efficiency, not just share prices; considering in detail the current and future risks of

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[33] These recommendations are informed by the work of the World Economic Forum’s Global Agenda Council on the Role of Business

the level of variable compensation across a company; evaluating executives on rolling multi-year periods

- Business and governments should establish a task force to study and propose measures to encourage long-term investing.
- Business should develop a strategy that can help convey the public benefits of private enterprise, including how business is vital for development and growth.
- Major regional and global industry associations should develop guidelines on responsible and sustainable local involvement through community social-investment programmes; for instance, the associations could recommend that:
  - Member companies consider devoting a certain percentage of net income to local partners for projects that deliver tangible and lasting socio-economic benefits to communities

2. Building and Renewing Infrastructure

Context

- Infrastructure is essential to functioning markets and economic growth. It connects businesses to consumers and enables the manufacture and delivery of goods and services. More broadly, infrastructure remains a key driver of productivity, competitiveness, economic growth and living standards.
- Huge gaps in infrastructure, ranging from non-existent roads to insufficient power generation, hobble many emerging economies. In developed economies, much infrastructure is poorly maintained.
- Inadequate infrastructure and weak provision of basic services such as transportation, energy, communication infrastructure, urban planning and production sites represent particular impediments for SMEs, which are crucial drivers of economic growth and job creation.
- The social and economic costs of inadequate infrastructure are substantial and growing: for instance, India's electricity generation falls 16-20% short of peak demand; gaps in Indonesia's infrastructure may be undercutting economic growth by 3-4% of GDP[34]; and, in the United States, road congestion costs more than US$ 85 billion annually.[35]
- To remedy these problems and accommodate the explosion in demand for new infrastructure in emerging markets will require massive new investment. Asia alone must spend US$ 8 trillion on infrastructure projects in the next decade. By 2030, annual global infrastructure demand is projected to more than double from today's levels, to US$ 3.7 trillion in real terms.[36]
- In an era of deficits and budgetary constraints, governments cannot mobilize such sums by themselves. Significant private investment is required.

Challenges

- **Barriers to private investment**: Much of the required infrastructure investment, especially in developing countries, will involve greenfield projects. Investment approaches lack clear rules, well-structured procurement processes and investor safeguards. Long-term, focused investors (such as pension funds) voice interest in such projects but face daunting concerns:
  - The permitted returns on these assets is insufficient (and subject to dramatic change) to compensate for the risks involved (including the risk of government-imposed pricing changes or capital controls over the project life).
  - Uncertainty from poor land acquisition and project approval processes can delay work (e.g. the Bandra-Worli Seal Link in Mumbai required more than 20 years to gain approval).
  - Legal and regulatory regimes in many emerging economies are weak. (e.g. top Russian government officials acknowledge that weak legal protections have dampened investments in the country, although they are working on this[37]).
  - Capital requirements for the financial sector are increasing at the same time as demand for infrastructure funding (see Korea B20 paper for more detail, including McKinsey Global Institute research).
- **Prioritization**: Some new infrastructure fails to generate long-term GDP growth and social benefits, largely because planners did not carefully evaluate the long-term payoffs (e.g. Japan's overbuild during its "lost decade"; Alaska's "bridge to nowhere").

[34] *Asia's US$1 trillion infrastructure opportunity*, McKinsey Quarterly, March 2011
[35] *Growth and Renewal in the United States*, McKinsey Global Institute (February 2011)
[36] *Farewell to cheap capital? The implications of long-term shifts in global investment and saving*, McKinsey Global Institute (December 2010)
[37] President Medvedev's top economic aide recently dismissed the failure of a BP investment in Russia by arguing that "Right now our investment climate is so bad that it won't be [further] affected", Reuters Newswire, 29 March 2011

- **Productivity**: Slow productivity growth – construction labour productivity in the OECD has fallen over the past 15 years[38] – worsens the infrastructure gap and raises the cost of projects.

Recommendations

- Business and governments should collaborate to create liquidity in infrastructure financing by developing holistic infrastructure markets that create incentives for equity and debt investors to participate in infrastructure projects, while emphasizing transparency in regulations (including tendering and approval processes). A comprehensive approach could also use centres of excellence (see below) to develop and promote best practices in financing and development.
- Business and governments should jointly establish centres of excellence to help develop best practices in infrastructure development. Such a centre may provide:
  - Reference cases, with complete model documentation, for various types of infrastructure (e.g. a high-speed rail network built using debt and equity capital)
  - Global knowledge and expertise on private financing and management of infrastructure
- Business and governments should work together to establish accountable bodies at the national and regional levels to identify overall infrastructure needs; evaluate and prioritize individual projects; and make decisions on an economic, not political, basis. Governments might develop:
  - A centralized body (along the lines of Infrastructure Australia) with the skills and capabilities to work across federal, state and municipal bodies to prioritize projects by their economic and social benefits
- Business and governments should work together to cut construction times by 30-70% and reduce capital and risk through more flexible rules and contracts. Project planners could segment activities to run in parallel, start construction while tendering, set high aspirations at all stages, and centralize and streamline planning and approval. Planners could devise flexible labour laws to protect workers' rights while addressing industry's needs.
- Business should propose measures by which governments can reduce the barriers to private investment by promoting revenue models that reflect the real costs of infrastructure projects, use public capital and involve flexible risk allocation approaches. For example, they might seek to:
  - Implement transparent bidding rules, standardized concession/project agreements and definitive bid award time lines (e.g. the success of water and power privatization in the Middle East is driven by international developer and lender confidence in a well laid out bidding process and meticulous adherence to timelines)
  - Establish an agency to develop and implement one comprehensive and coherent national public-private partnership policy
  - Upgrade public-private partnership risk allocation and incorporate adjustment processes (e.g. the 3-5 year adjustments that have kept Brazilian concessions relatively stable)
  - Provide stronger legal assurances that private companies and investors can retain earnings from their investments and control of their assets
  - Make private investment more attractive by minimizing or ending subsidies that distort the pricing for infrastructure consumption (e.g. road tolls to reflect the true cost of building and maintaining a highway)
  - Improve the case for projects by using public funds to leverage private investment, for example by offering government guarantees on minimum returns or tranching risk of investors so the public sector takes first loss
- Business and governments should collaborate with development financial institutions (DFIs) to rationalize environmental and sustainability policies. For instance, they could encourage DFIs such as the World Bank, the IFC and regional development banks to evaluate and categorize projects by consistent, rather than customized, yardsticks.
- Business and governments should address infrastructure market fragmentation through regional focus. Small, fragmented markets, such as those in sub-Saharan Africa, create inefficiencies through a lack of scale and varying legal and regulatory frameworks. Conceptualizing and implementing infrastructure projects on a regional level could address this market failure.

3. Increasing Education for Employment

Context

- Structural unemployment has risen significantly throughout the world since the financial crisis. By the end of 2010, global unemployment was estimated at 205 million workers (6.2% of the working-age

[38] Labour Productivity per Unit Labour Input, OECD Statistical Abstracts (www.oecd.org)

population). This number is 27.6 million higher than in 2007, when global unemployment was 5.6%. Younger workers have been particularly hard hit: at the end of 2010, 77.7 million young people (or 12.6% of the cohort) lacked employment, up from 73.5 million in 2007. Youth unemployment continues to plague many countries and regions (e.g. Spain 44%, Middle East 25%, USA 18%). In the Middle East and North Africa, almost 20% of youth were unable to find work in 2008. Many more remain unemployed.[39]

- The pressure on some countries like India to create new jobs for their youth is immense (over 200 million in the next 10 years)
- The consequences of high unemployment stretch beyond those directly affected. Prolonged unemployment can have significant economic and social consequences, including:
  - Increased political instability as a result of high youth unemployment
  - Reduced lifetime earnings trajectory and career prospects, and worse health outcomes
  - Reduced economic contributions, stemming from lower consumption and savings
  - Increased crime, mental-health problems, violence, conflicts and drug use[40]
- Ironically, even with high unemployment rates, many nations are experiencing a shortage of skilled workers. In the United States, for instance, 30% of employers in a recent survey report having positions open for six months or longer as they search for qualified candidates, despite the abundance of people looking for work.[41]
- While youth unemployment is a major issue in many developing and even some developed economies, ageing populations will also cause shortages of skilled workers in other parts of the developed world. In Japan, for instance, the working-age population is expected to decline by 9% by 2020. Within the EU15, it is expected to fall by 4% in the next 10 years.[42] This shift will lead to massive shortages of skilled workers, especially in technical fields.
- Increasing employment and creating jobs are critical to growth. In Africa, for example, the move from rural to urban employment accounts for 20-50% of productivity growth.[43]
- To address these challenges, business, government and education providers should work together to develop solutions that encourage job creation and tailored programmes ensuring a skilled and capable future workforce.
- Business and governments must seek ways to preserve and enhance the role of SME economic development, particularly in emerging countries. Indeed, SMEs are major employment generators and can surpass larger firms in net job creation: for instance, SMEs account for approximately half of total employment in the OECD and 70% in Japan.[44]

Challenges
- **Fast-growing populations**: In parts of the developing world, the population is growing much faster than the economy, thus increasing the unemployment problem.
- **Informed decision-making**: Some young people lack the information to make informed decisions about which jobs are being created and their skill requirements.
- **Skills mismatch**: Some universities and colleges are not producing students with the right mix of skills. For example, despite the need in the job market, the STEM fields (science, technology, engineering and mathematics) are growing at only 0.8% in the United States versus a 1.7% growth in business fields.[45]
- **Ageism**: Evidence suggests that older skilled workers are sometimes pressured to leave the workforce, although they account for a growing portion of it in Europe, the United States, South Korea, Japan and China.

Recommendations
- Business should work with governments, education providers and labour unions to identify job needs, skill gaps and education requirements (as Singapore, for example, has done).
- Business should work with the financial services industry to develop a policy environment that supports SME financing and further establishment of credit bureaus in emerging markets.

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[39] *Global Employment Trends for Youth: Special issue on the impact of the global economic crisis on youth*, International Labour Office, August 2010
[40] *Id.*
[41] *An Economy that works: Job creation and America's future,* McKinsey Global Institute (June 2011)
[42] *Growth and renewal in the United States,* McKinsey Global Institute (February 2011)
[43] *Lions on the Move: The progress and potential of African economies,* McKinsey Global Institute (June 2010)
[44] *Findings and Recommendations,* Seoul G20 Business Summit (November 2010)
[45] *Growth and renewal in the United States: Retooling America's economic engine,* McKinsey Global Institute, February 2011

- Business should establish a task forces at the national (and potentially regional) level to identify key barriers to promoting foreign direct investment as an engine of job creation, especially in emerging markets.
- Individual companies or industry associations should partner with high schools, community colleges and universities to boost post-secondary education rates while ensuring that students, particularly girls, who attend such institutions emerge with job-ready skills. Companies could, for example, encourage their employees to volunteer as mentors or guest speakers at schools. They should also partner with high schools, community colleges and universities to incorporate entrepreneurship into school curricula.
- Businesses should create “learn and earn” opportunities for students, especially girls, studying for occupations where candidates are in short supply, such as technical fields. Internships, scholarships and mentoring can increase the graduation rate in such fields and attract more students to them.
- Businesses should create new models to enable older workers to stay in the workforce if they choose, while making room for younger employees to advance. For instance, part-time positions and work-from-home programmes may be attractive to workers nearing retirement age.
- Business, government and educational and training providers should create more efficient programmes to enable middle-aged workers to retrain and gain new skills faster. Programmes allowing workers to obtain certification after short educational leaves or on-the-job training can improve their employability.
- Business should collaborate with governments to create an international framework recognizing standards for vocational training across countries.

4. Improving Energy Efficiency

Context

- An expanding population and fast-rising living standards in the developing world are driving global demand for energy.
- Energy needs will increase 2.1% a year until 2020, even by modest projections, eclipsing the unprecedented growth in demand (by 1.7% a year) since 1985. More than 90% of demand growth comes from developing countries,[46] although many developed economies have large opportunities to curtail energy demand growth by raising efficiency.
- In many countries, government subsidies hide the real price of energy from consumers and distort the market in ways that increase the likelihood of demand and supply imbalances.
- Reducing energy use can provide short-term relief for the widening gap between supply and demand. Businesses must help by improving their energy efficiency. This is also good business. On average, every US$ 1 spent on reducing energy use by businesses and consumers saves more than US$ 2 in incremental investments in supply.[47]

Challenges

- Differences in national energy regulations make it difficult for companies to identify and apply energy reduction best practices globally.
- Consumers have little incentive to improve their energy use, as regulations and subsidies mask real prices.

Recommendations

- Governments and business must implement national education and awareness programmes to help society understand energy’s real cost.
- Governments should consider changing their approach to subsidies from broad price setting to direct subsidies targeted at the poor and selected industries (such as fertilizers).
- Governments and business should encourage industry associations to set voluntary industry-specific standards; for instance, the US Consumer Electronics Association drove a standard for the maximum energy consumption of digital set-top boxes or PCs in “sleep mode”.
- Education providers, government and business should establish national panels to encourage the creation of innovative energy efficiency technology (e.g. by awarding loans or funds to support university research).
- International standards bodies should collaborate to define and implement consistent energy efficiency standards across countries. For instance, such a forum could drive the development of clearer, more consistent regulation within regions and throughout the world, as well as provide more transparency on the evolution of international standards.

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[46] *Averting the next energy crisis: The demand challenge,* McKinsey Global Institute (February 2009)
[47] International Energy Agency

- Government should create incentives for consumers to enhance the energy efficiency of their homes and vehicles (e.g. tax credits for green investments).

5. Streamlining Regulations

Context
- Efficient, effective regulation is good for both business and society; yet, governments often struggle to get it right – poor regulation is a primary inhibitor to productivity and growth throughout the world.
- For business, the stakes in getting regulation right are substantial: worldwide, an unprecedented US$ 3.6 trillion of earnings (EBITDA) is at risk from state intervention;[48] not surprisingly, CEOs consistently identify overregulation as one of the top three threats to business growth prospects.[49]
- Increasingly, businesses provide many services seen as public goods critical to the functioning of an integrated global economy – for instance, the international financial infrastructure. The oversight and regulation of these services must be designed to ensure their efficiency and effectiveness.
- At the same time, regulation must take into account the needs of all types of companies including SMEs – which contribute up to 45% of employment and up to 33% of GDP in developing economies[50], especially relating to their limited access to capital markets because of informational barriers, transaction costs, and a perception of higher risk regulations (for e.g. some of the existing regulatory changes, such as Basel III's treatment of trade finance, are disproportionately costly to SMEs[51]).
- Given the stakes, business needs to step up efforts to engage with governments and regulators in an open, fact-based dialogue on rule setting.

Challenges
- **Protectionism**: Regulation is frequently designed to save employment in particular sectors, to their long-term competitive disadvantage and often at the expense of job creation elsewhere in the economy.
- **Flexibility**: Governments rarely succeed in creating flexible frameworks that anticipate and respond to conditions as markets evolve. The result: cumbersome and outdated regulations that continually undercut competitiveness.
- **Differential impact**: In many countries, regulators ignore a large informal economy in which companies underreport employment, avoid paying taxes and ignore quality and safety regulations. This failure significantly disadvantages large, productive, law-abiding firms that faithfully follow regulations.
- **Coordination**: Limited coordination among and within regulators at the local, national and international levels frequently results in duplicative, unnecessarily burdensome and even contradictory rules.

Recommendations
- Business should propose measures to governments to help make regulation more dynamic; for example, business associations could recommend that regulators adopt:
  - Sunset clauses that require regular reviews of how well regulations fulfil their purpose and either extend their sunset dates or automatically terminate them
- Business should collaborate with governments to help develop impact assessments that systematically examine the advantages and disadvantages of regulations, including the cross-sector impact of regulations (e.g. five quantitative impact studies were carried out for European Solvency II insurance regulations)
- Business should establish task forces at the national and international levels to advise policy-makers on ways to create an enabling legal, regulatory and financial framework to favour SMEs – the most important source of job creation in most countries – and ensure that they are not disproportionately disadvantaged.
- Business should work with governments to ensure regulatory processes do not unnecessarily impede private sector investment and economic growth. Even at a time of high unemployment, companies may need years to obtain the necessary approvals for new construction and greenfield investments that would create jobs.
- Governments should level the playing field for companies, especially SMEs, by devoting more resources to consistent and adequate enforcement of existing regulations.
- Governments should establish independent consultative bodies to promote fact-based, transparent regulation and policy; for example, such a body might:

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[48] *The new value at stake in regulation*, McKinsey Quarterly, January 2010
[49] PwC 14th Annual Global CEO Survey
[50] *Scaling-Up SME Access to Financial Services in the Developing World,* G20 Seoul Summit (October 2010)
[51] See *Scaling-up SME access to financial services in the developing world*, released at the G-20 Seoul Summit, by the World Bank Group International Finance Corporation, November 2010; and Stein, Goland, and Schiff, 2010.

  - Make regulatory barriers more transparent by measuring levels of regulation against relevant international benchmarks and proposing improvements
  - Analyse how different regulatory options affect the economics of competition in a sector and the social and political implications
- Business and government should establish a joint forum to rewrite existing regulations in a simple and concise way while preserving their original spirit and intent; for example, such a forum might:
  - create a single, holistic regulatory framework overseen by a "one stop shop" authority; for instance, the United Kingdom's Health Research Regulatory Agency will combine and streamline approvals for health research now scattered across many organizations
- International standard setters, such as the Basel Committee on Banking Supervision or the World Trade Organization, should ensure that processes are in place to audit the implementation of regulation. The results should be made public to ensure that national jurisdictions apply rules in an equivalent way.
- Working with business and the WTO, the G20 should create a task force to consider the future direction of international trade and proactively identify next steps in developing a global trade regime, now shaped largely by bilateral and ad hoc measures.

Contribution from the ICC G20 Advisory Group on Trade, Investment and Development

Issue

The G20 has a key role to play in ensuring an open global economy that will facilitate cross-border trade and investment by business to nurture the economic recovery, job creation and sustainable development.

Analysis

The Doha Round
Over the past 60 years, the multilateral trading system has contributed to improving the standard of living of billions of people around the world by creating new economic opportunities and providing greater choice and lower prices to consumers. An open international trade and investment environment is fundamental to foster economic growth, job creation and prosperity.

The value of the rules-based multilateral trading system as an insurance policy against protectionism cannot be overstated. Without it, helping governments resist strong protectionist pressures and open trade commitments would have eroded even further than they have since the onset of the recent global crisis. The latest WTO-OECD-UNCTAD report reveals G20 governments implemented more *new* trade restrictive measures in the last six months than in any other previously reported period.[52] Of those measures, 30 consisted of new export restrictions, despite the 2010 Seoul commitment to roll back any new protectionist measure that may have arisen, including export restrictions. The G20 Seoul Summit Leaders' Declaration that "[w]hat we promise, we will deliver" has not borne true. In fact, the exact opposite is taking place.

The joint report further confirms an ICC-commissioned study, released by the Peterson Institute for International Economics in 2010, stating that all G20 countries have implemented protectionist trade measures since 2008.[53] G20 countries applied discriminatory measures worth US$ 1.6 trillion, or 10% of all world trade, in 2008 alone.[54] Therefore, locking in new multilateral trade liberalization commitments and strengthening WTO rules is especially needed to reign in strong protectionist pressures in the global economy. WTO members must take a long-term view of what is at stake in the Doha Round and remind themselves of their individual and collective responsibility as custodians of the rules-based multilateral trading system.

A sustainable economic recovery hinges on job creation. The International Labour Organization (ILO) estimates that unemployment rose between 30 and 50 million in 2009. Despite the recovery of global GDP growth in 2010, labour markets have started to improve only recently – and only marginally. Thus, unemployment remains very high compared to historic levels. The WTO, OECD, ILO and the World Bank predict further trade liberalization will lead to long-term employment growth worldwide, with lower-skilled employment rising from 0.9 to 3.9% and that of skilled workers rising by 0.1 to 4.0%.[55] Domestic policies that help accompany labour market adjustments should be implemented in conjunction with trade opening. In an era of high budget deficits, a multilateral agreement on trade constitutes a fiscally responsible method of creating employment.

A failure to reach agreement on a future work programme by the December WTO ministerial conference would cause serious damage to the credibility of the WTO and the multilateral trading system more generally. The absence of progress on the Doha Round combined with the proliferation of preferential trade agreements (PTAs) may lead to: a weakening of the multilateral trading system's capacity to deliver effective non-preferential global trade rules; the danger that such an environment could significantly restrict trade opportunities for developing countries; and an increasingly complex regulatory environment for companies engaged in cross-border trade. Businesses base their activity and competitiveness largely on a global network which requires long-standing commitments. A multilateral trade agreement can best guarantee the needed predictability of the business conditions on which such investment decisions are made. G20 leaders

[52] *Reports on G20 Trade and Investment Measures (mid-October 2010 to April 2011)*, OECD, ILO, WTO, released 24 May 2011.
[53] "Figuring Out the Doha Round", Policy Analyses in International Economics 91, by Gary Clyde Hufbauer , Jeffrey J. Schott and Woan Foong Wong, June 2010 • 128 pp. ISBN paper 978-0-88132-503-4.
[54] Global Trade Alert. www.globaltradealert.com
[55] *Seizing the Benefits of Trade for Employment and Growth*, OECD, ILO, World Bank, WTO Final Report, submitted to the G20 Summit in Seoul (November 2010).

acknowledged in Seoul that uneven growth and widening imbalances fuel the temptation to diverge from global solutions into uncoordinated actions, but that such uncoordinated policy actions only lead to worse outcomes for all. PTAs should be viewed as a complement to the WTO, not as a substitute.

Current WTO rules lack the effective checks on PTAs that have the potential to promote regional economic gains at the expense of multilateral trade. Efforts to make relevant WTO provisions more explicit and comprehensive with regard to PTAs have yielded limited practical results, yet only on a provisional basis. The role PTAs play in conjunction with the multilateral trading system fundamentally calls into question the founding precepts of the WTO. Given the proliferation of PTAs, both governments and businesses should seek effective ways to ensure complementary multilateral and preferential trade rules, and remind themselves of the primacy of multilateral rules-based trade.

The G20 was created to promote multilateralism and international economic cooperation. The multilateral trading system is the most successful example of international economic cooperation and there is simply no substitute to this system for locking-in the benefits of trade liberalization through effective rules and commitments that benefit all WTO members. G20 leaders must demonstrate the necessary leadership and collective will to deliver a substantive political response to the 10 years of work on the Doha Round. Failure to do so would constitute an abdication of responsibility on the part of G20 governments and an unfortunate admission that the G20 is not yet able to live up to its ambitions of being “the premier forum for international economic cooperation.”

Working towards a framework for FDI
Global FDI flows have risen rapidly in the past two decades.[56] FDI inflows worldwide more than quintupled from US$ 208 billion in 1990 to US$ 1.1 trillion in 2009. The total stock of inward FDI rose at the same time from just under US$ 2 trillion to nearly US$ 18 trillion by the end of 2009.[57] In that year, the stock generated sales by foreign affiliates of about US$ 29 trillion – almost twice the value of world exports (US$ 16 trillion). In other words, FDI has become critical in the delivery of goods and services to foreign markets.

The major changes in FDI patterns preceding the financial crisis will likely continue and gain momentum; the relative weight of developing and transition economies as both destinations and sources of global FDI will continue to increase as these economies lead current FDI recovery. While the majority of FDI continues to go to developed countries, the share dramatically eroded to 51% by the end of 2009. Simultaneously the share of FDI going to developing countries more than doubled from 17% to 43%. In addition, the outward FDI flows from developing countries rose from 5% in 1990 to 21% in 2009 and those of transition economies increased from a negligible amount to 5% of global FDI outflows during the same period.[58]

G20 leaders should recall that FDI and local investment are not alternatives to each other. Rather, they are complementary in a mutual partnership of cooperation and competition, with a key role for FDI in improving the growth impact of overall private investment. Successful and sustainable investments by companies enable employees, suppliers, customers/consumers, communities and host countries to participate in the value generated by these investments.

A concrete step for G20 leaders to take would be to build on the efforts of past G8 and G20 Summits aimed at “creating a predictable and stable climate for investment” and elaborate a reference framework for international investment, as a practical tool to help countries review their international investment agreements.

Such a non-binding framework could help to build common ground and understanding, and provide more clarity, predictability and transparency for companies investing across borders. Agreement on shared principles may serve as a basis for a more structured and wider process towards an agreed common multilateral framework in the long term.

Given the evolving nature of the international investment law regime and its multifaceted, multilayered nature, a first step towards such a reference framework would be to examine to what extent agreement already exists on key elements.

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[56] UNCTAD, *World Investment Report 2010 Overview: Investing in a Low-Carbon Economy* (Geneva: UNCTAD, 2010).
[57] UNCTAD FDI statistical database http://stats.unctad.org/
[58] “Encouraging and Strengthening Foreign Direct Investment”, B20 Working Group II Seoul, Korea (November 2011).

From a global business perspective, key elements to include in a reference framework for international investment would be:

- absence of violent conflict
- broad definition of investment
- transparency and predictability
- negative list approach for pre-establishment, including national treatment, MFN treatment and market access provisions
- national treatment and MFN treatment in the post-entry stage
- high standard of investment protection
- provisions for comprehensive and unrestricted transfer of funds
- requirement to provide for investor-to-state dispute settlement procedures

Strengthening the business contribution to sustainable development
Business contributes resources, skills, infrastructure, goodwill and technological innovation in support of economic and social development, even in the most adverse circumstances. Examples of sustainable business solutions that expand access to goods, services and livelihood opportunities for low-income communities in commercially viable ways include the creation of employment opportunities either directly or through companies' value chains as suppliers, distributors, retailers and service providers; the supply of affordable products and services to meet basic needs for food, water, sanitation, housing and healthcare; and innovative business models to enhance access to key development enablers such as energy, communications, financing and insurance.

The challenge now is to scale up these models to make faster progress in wealth creation and sustainable development. Meeting the needs of the developing world, and especially those of the bottom-half of the pyramid, represents a huge opportunity for business, given long-term demand for investment, infrastructure, products and services in these regions. Business is committed to sharing the benefits of such opportunities by creating jobs, building skills, developing new technologies and investing in communities.

Collaboration between business, government and civil society, especially through public-private partnerships, has succeeded in furthering the objectives of poverty reduction and sustainable development. Business is convinced that substantial private investment will flow to countries that can establish conducive business environments and a level playing field. Business can do more if it is more embedded in the economic fabric of societies and has a greater stake in their future development. This will only happen if companies have a predictable stable investment and policy environment. In this regard, business has consistently emphasized the importance of mobilizing domestic resources, encouraging local entrepreneurship and fostering foreign direct investment.

Business alone cannot develop sustainable market-based solutions to poverty challenges. The support of government to successfully deploy sound enabling frameworks and new innovative funding mechanisms requires collaborative action on issues such as:

- promoting open and competitive markets based on the principles of non-discrimination and national treatment
- establishing regulatory frameworks that uphold property rights, accelerating entry to the formal economy and rooting out corruption
- providing capacity building and general education
- facilitating access to finance and investment mitigation instruments, in particular for SMEs
- securing necessary investments in core infrastructure, such as roads, energy systems, telecommunications and ports
- creating a catalytic fund for new public-private partnership cooperation models, whereby financial support should be focused on those fields where there is a particular need for action and whereby those means are necessary to deploy cost-efficient and highly innovative approaches by companies on the ground. In particular, financial and public support is needed to reduce and jointly share investment risks for business and to enhance the regulatory framework and set standards where necessary

Business has a critical role to play in accelerating progress towards sustainable development as an engine of economic growth and employment; as a key contributor of government revenues; and as a driver of innovation, capacity building and technology development. The success of sustainable development and poverty alleviation depends on actively engaging the private sector. Business commits to partnering with governments to build capacity and supports strengthening the policy tools and indicator framework of the

Inter-Agency Working Group on the private investment and job creation pillar of the G20 Multi-Year Action Plan on Development.[59]

Recommendations

- The ICC strongly recommends that the G20 take concrete decisions to lay the groundwork for an ambitious, balanced and comprehensive Doha Round agreement under a single undertaking approach as originally envisaged, if possible. At the very least, the G20 should agree to implement a future work programme at the WTO's December 2011 Ministerial Conference.60 At the same time, G20 governments should re-engage substantively in negotiations among themselves and with other WTO members to produce better offers on agriculture, industrial goods and services.

- G20 leaders should build on the efforts of past G8 and G20 Summits aimed at "creating a predictable and stable climate for investment" and elaborate a reference framework for international investment, as a practical tool to help countries review their international investment agreements. Agreement on shared principles may serve as a basis for a more structured and wider process towards an agreed common multilateral framework in the long term. From a global business perspective, key elements to include in a reference framework for international investment would be:

    - absence of violent conflict
    - broad definition of investment
    - transparency and predictability
    - negative list approach for pre-establishment, including national treatment, MFN treatment and market access provisions
    - national treatment and MFN treatment in the post-entry stage
    - investor-to-state dispute settlement mechanism

- The G20 should create the conditions for scaling up the business contribution to sustainable development through public-private partnerships and the facilitation of conducive business environments. Business is committed to partnering with governments to develop solutions, build capacity and empower people to find the pathway out of poverty. Business also supports the G20 strengthening the policy tools and indicator framework of the Inter-Agency Working Group on the private investment and job creation pillar of the G20 Multi-Year Action Plan on Development through, among others:

    - technical assistance
    - investment policy reviews
    - exchanges of best policy practices
    - fostering linkages between foreign investors and domestic enterprises
    - advisory services on streamlining of investment facilitation
    - advisory services on improvement of governance in investment promotion
    - advisory work on international investment agreements to ensure coherence with national policy objectives[61]

[59] "Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains", Interim Report to the High-level Development Working Group (June 2011)
[60] Schott, Jeffrey J. "What Should the United States Do about Doha?" Policy Brief 11-8, Peterson Institute for International Economics (June 2011)
[61] "Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains", Interim Report to the High-level Development Working Group (June 2011)

Contribution from the ICC G20 Advisory Group on Strengthening Financial Regulation and Ensuring the Availability of Trade Finance

Issue

New global financial regulations should be complemented by effective international supervisory mechanisms and consistent implementation across jurisdictions.
Great care should be taken to avoid new regulations having a detrimental effect on the availability of trade finance, especially in developing countries.

Analysis

Strengthening financial oversight
Since the outset of the financial crisis, the focus of near-term policy action has been on strengthening the regulatory framework. But regulation is only part of the solution; it is through supervision that the authorities enforce compliance with the rules.[62]

To prevent the recurrence of financial crises in the future, G20 nations declared supervision a key pillar of the financial reform agenda and gave an explicit mandate to develop it. Thus:

- Every country should have a supervisory system that is up to the task of ensuring that the regulations, including new ones coming out of Basel III, are backed up by effective risk assessment and enforcement, especially as they relate to systemically important financial institutions (SIFIs). Supervisors are expected to detect problems proactively and intervene early to reduce the impact of potential stresses on financial institutions, and therefore on the financial system as a whole.[63]

- Each supervisory agency must have a clear mandate and timetable to supervise financial institutions and markets, with priority given to the maintenance of financial stability and the safety and soundness of the financial system.

- National oversight boards are unable to monitor effectively financial conglomerates active on a global scale. Only a unified global system would be able to detect and sanction off-balance sheet activities and regulatory arbitrage that overlap national borders and sectors. In terms of regulatory oversight, the prevention of coordination failures requires a transnational mandate. This can only be achieved through the creation of a global financial market oversight system.[64]

Balancing financial stability and the role of finance as a growth driver
Since the global financial crisis, policy-makers have been focusing on building a new regulatory bulwark to minimize the likelihood of another financial tsunami. The resulting atmosphere of caution, however, has led to the creation of various regulations that impose considerable costs on businesses and consumers and diminish the economic benefits of a competitive and dynamic financial services sector. A well-developed financial system is not only the product of economic growth but also a key driver of such growth. Therefore, regulatory authorities should always be mindful that striking an optimal balance between stability and innovation will remain a key challenge in their quest for more sustainable economic growth.

Improving rules on financial market integrity and transparency
The implementation phase of Basel III will require the transposition of the global framework into national rules. While the Basel Committee on Bank Supervision ("BCBS") and the G20 have pledged to adhere to the global framework, there are signs that implementation in individual jurisdictions might diverge in a number of important respects. Some jurisdictions are likely to "top up" Basel III minima and/or accelerate implementation timetables. Others might opt for implementing only portions of the new rules or local adaptations of the new rules. An undesired consequence could be that it might unbalance the playing-field and create market disruption.

[62] Shaping the New Financial System (2010). Vinãls, José; Fiechter, Jonathan; Pazarbasioglu, Ceyla; Kodres, Laura E.; Narain, Aditya; Moretti, Marina
[63] Reducing the moral hazard posed by systemically important financial institutions (2010). The Financial Stability Board (FSB)
[64] Agenda for a New Financial Market Architecture (2009). German Institute for Economic Research

The ICC is of the view that Basel III should be understood and implemented in a consistent manner across jurisdictions, building on the guidance published over the years by the Basel Committee on Banking Supervision (BCBS) but perhaps with additional guidance focused on the very different conditions created by Basel III.

Ensuring the availability of trade finance

The global financial crisis of 2007 was unique in many ways. Among its effects were unprecedented limits on the access to trade finance, an impediment that continued for more than two years (2007–2009) and significantly curbed import and export trade, one of the principal drivers of economic growth worldwide.

The G20 London Summit in April 2009 came up with a substantial package of measures to support trade finance – specifically, US$ 250 billion of funding to be made available through multilateral banks and export credit agencies, as well as a mandate for regulators to “make use of available flexibility in capital requirements for trade finance.”

At its December 2009 meeting, the BCBS approved for consultation a package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a “more resilient” banking sector. At the November 2010 G20 Summit in Seoul, a number of proposals were accepted and a timetable put in place for regulators to implement the new regulatory regime.

Defining new bank capital and liquidity standards

The recent crisis signalled the need to review the global financial regulatory framework to reinforce the banking sector’s ability to absorb economic shocks and to build a stronger, safer international financial system. The private sector has consistently voiced strong public support for these objectives.

However, in attempting to create a more robust regulatory framework and curb speculative and highly leveraged instruments, Basel III could significantly curtail the ability of banks to provide affordable financing to businesses.

ICC respondents to the ICC Global Survey on Trade & Finance 2011[65] were concerned about the unintended consequences arising from the new regulatory regime, which would indiscriminately put trade finance into the same risk class as high-risk financial instruments. According to many respondents, the new regulatory regime was obviously not taking into account the adverse effects of the proposed changes on global trade and growth. Specifically, the augmentation of the leverage ratio under the new regime will significantly curtail the ability of banks to provide affordable trade financing to businesses in developing and low-income countries and to SMEs in developed countries. Banks would now be required to set aside 100% of capital for any off-balance sheet trade finance instruments such as commercial letters of credit (compared to 20% under Basel II) which are commonly used in developing and low-income countries to secure trade transactions.

The concerns expressed by banks in the ICC Survey 2011 can be summarized as follows:

- **Banks moving away from trade finance**. There is a risk that small to medium size banks will move away from the trade finance market, thereby significantly reducing market liquidity. Regulatory capital under Basel III requires multiple times higher pricing than economic capital. This would first impact small and medium size enterprises that are the engines of economic growth in poor countries for which trade finance is critical to the sustenance of these emerging markets. The vast majority of trade financed from low-income countries is through traditional trade products such as letters of credit (LCs) and guarantees. For larger banks, with lower internal rates of return, trade finance may also be less attractive compared to riskier products, so banks will allocate more of their balance sheets to speculative leveraged instruments.

- **Unintended consequences on the timing of the implementation of the regulatory regime in different regions**. There is still quite a lot of uncertainty about the impact of Basel III because of the role of national regulators in deciding the local form of the rules. This uncertainty over local implementation was already a problem with Basel II rules, which have been implemented by many European banks, but were implemented much later or not at all in many countries. The non-implementation of the regulatory

[65] http://rebusparis.com/icc/ICC2011GlobalSurvey210311S144.pdf

regime in a consistent fashion would create competitive arbitrage opportunity for some financial institutions and may impact on the domiciling of banks.

- **Unintended consequences on cost of trade**. Those who remain in trade finance could naturally raise their costs as a result of the more stringent regulatory requirements. We have already seen what can happen when liquidity is reduced: during the crisis, markets such as South Korea and India faced a hike in letter of credit pricing from 0.2% to 6.5% per annum.
- **Unintended consequences on SMEs and banks in emerging markets**. Again, as a result of a reduction in the supply of trade financing and an increase in pricing, the most severe effects would be felt by small to medium size enterprises in the developing world, where trade financing is needed most to create jobs and alleviate poverty.
- **Unintended consequences on non-regulated sectors**. Banks may be encouraged to move high-quality trade assets and contingents into non-bank sectors such as hedge funds. For instance, banks may likely decide to securitize their trade assets – pushing them into higher risk, unregulated markets. This clearly would defeat the very purpose of Basel III, which was implemented to prevent another financial crisis and use of such practices.

Evidence has shown that trade finance is generally low risk, self-liquidating, and short term in nature, which is markedly different from most corporate or financial institution lending exposures, which tend to be larger in size and longer term. The difference is demonstrated in the ICC-ADB Trade Register. Created in November 2009, the register pools performance data for trade finance products from nine international banks, covering a total of 5.2 million transactions between 2005 and 2009 with a total value of over US$ 2.5 trillion. Analysis of the data largely supports the view that trade finance is a relatively low-risk asset class:

- Trade finance transactions have an average tenor of only 115 days
- Trade finance transactions typically have a low incidence of default, with less than 1,200 defaults reported for all 5.2 million transactions. Off-balance sheet trade transactions have an even lower default rate, with only 110 defaults reported for 2.4 million transactions
- Even during the global economic downturn, trade finance transactions experienced relatively low levels of default, with fewer than 500 defaults among 2.8 million transactions
- For written-off products, recovery rates average 60% for all product types, albeit with significant variance year to year and by product type

The collected data supports the view that trade finance should be given treatment that reflects business realities under Basel III, in terms of the capital, leverage and liquidity requirements. Indeed, grouping trade finance with other corporate asset classes suggests that default and recovery rates are similar, but this is clearly not the case. Restricting trade finance would be unwise under any circumstances and we can now see from the data that it would also be unwarranted.

Recommendations

Based on the above, business would like to make the following recommendations to G20 leaders:

- **Retain current CCF values**. Increasing the Credit Conversion Factor (CCF) to 100% for trade-related contingencies for the purposes of calculating a leverage ratio could significantly disadvantage trade finance-focused banks. As such, the ICC recommended that if a leverage ratio is to be adopted, off-balance sheet trade products should be allowed to retain the CCF values used by banks under the current "risk-weighted assets" calculation (Basel II). This would point in the same direction as foreseen in the "additional option for impact assessment" in the consultative document, which would allow financial institutions to "apply a lower (positive) CCF for unconditionally cancellable commitments or Basel II standardized CCFs." The ICC proposed to allow key risk attributes to be determined on the basis of industry benchmarking. As noted above, many banks have historically faced difficulties identifying and isolating sufficient data to produce validated estimates of risk attributes for trade lending. Today, the ICC register can provide evidenced-based information for this purpose. It is our view that such an approach would be consistent with the G20 agenda to promote trade finance, without compromising the overall objective of the BCBS proposals.

- **Reconsider maturity floor**. Business has asserted that there should be reconsideration of the Basel rules in respect of the maturity floor applied to trade assets under the advanced model. While trade financing is usually short term in nature, based on between 0 to 180 days maturity, the Basel II framework applies a one-year maturity floor for all lending facilities. Since capital requirements (naturally) increase with maturity length, the capital costs of trade financing are artificially inflated as a result. All regulators have the (national) discretion to waive this floor (so far only three regulatory agencies in the world have been inclined to waive – Germany, Hong Kong SAR and the United Kingdom). The ICC register clearly confirmed that the average LC has a maturity close to 90 days (a standard of payment in short-term international trade) so obliging financial institutions to back self-liquidating asset for a full year is a considerable waste of capital resources at a time when these are scarce.

- **Improve liquidity**. The ICC proposed to include trade instruments below 30 days and correspondent banking deposits as a stable source of funding. Practical considerations suggest that correspondent banking deposits have similar characteristics as operational deposits and are typically operationally complex and logistically difficult to move within 30 days.

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