G20

THE AUSTRALIA SUMMIT: BRISBANE

NOVEMBER 2014

MUNK SCHOOL OF GLOBAL AFFAIRS

G20 Research Group

UNIVERSITY OF TORONTO

Generating global growth

Strategies to stimulate economic recovery

Tony Abbott

Australia's PM on a pivotal moment for the G20

Focus on infrastructure

Perspectives on bridging the funding gap

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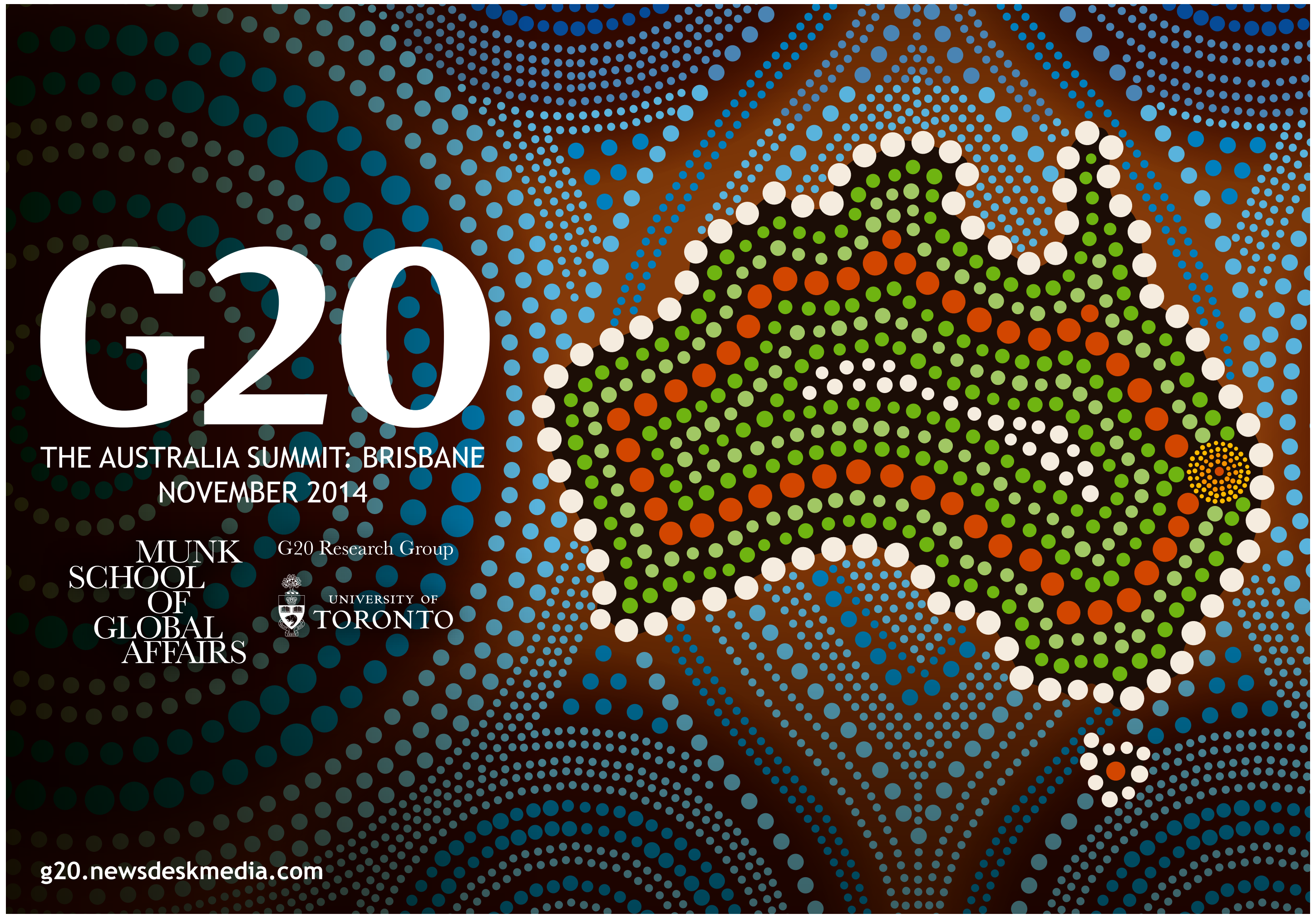

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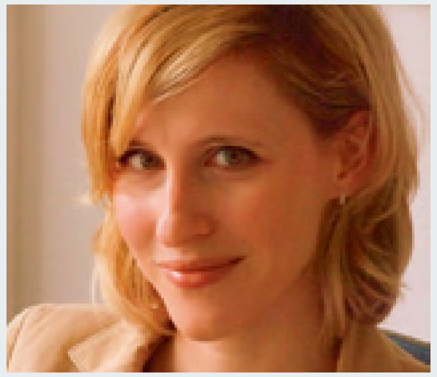
Contents

TOM GILKS/ALAMY

How do we outcompete the economic slowdown?

Competition is the keyword for a globally competitive digital economy and society



Erzsébet Fitori
Director

Boosting the European economy, creating jobs and increasing growth and investments are key priorities as well as challenges for European policymakers. Next-generation broadband infrastructure and innovative digital services are important enablers of all other sectors, as well as a connected and knowledge-based society. But how can Europe maximise investments and reap the economic benefits of digital innovation?

Nurturing competition and enabling all players to invest will drive broadband infrastructure investments and maximise benefits for end-users. We have to ensure that European consumers and businesses have the best choice and quality, and affordable prices of communications services, which in turn will get them connected, building a digital economy and society.

The global competitiveness of the European economy and society is driven by local competition. The economic gains of more competition in communications services for businesses alone would be €90 billion through increased business productivity and efficiency.

The biggest enemy of Europe's global competitiveness would be the return to monopolies and closed oligopolies. While today Europe is a world leader in basic broadband thanks to its pro-competitive policies, there is a real risk that European end-users and the economy will lose the competitive gains of the past decade. According to the European Commission's *2014 Digital Agenda Scoreboard*, in next-generation broadband the former monopolies have more than 80 per cent market share – a staggering figure. Promoting competition is more important today than ever, as it is sustainable and effective competition that drives investments, ensures end-user benefits and fuels the economy.

Investment in next-generation broadband infrastructure is clearly core to achieving a digital economy and society. Next-generation broadband investments are happening in Europe: there is 62 per cent next-generation access (NGA) coverage, but in order to maximise investments, telecoms policies should enable all players to invest. More players simply invest more. And challenger operators were the first fibre investors and are active NGA investors today.

Effective access to non-duplicable network assets (such as the local loop and subloop) and fit-for-purpose wholesale access products are the proven tools to ensure that all players make efficient investments and dominant operators do not misbehave.

In order for investments to generate returns and economic growth, the new networks must be used and taken up by end-users. But currently only 15 per cent of European homes subscribe to next-generation broadband. There is clearly a take-up gap and the vast majority of European homes are disconnected when it comes to next-generation broadband. History taught us that in traditional broadband it was competition that drove the take-up of the then new broadband services. Challenger operators – via their own investments and access to economic bottleneck network assets – brought innovative, new products to the market, drove down prices to affordable levels and increased broadband speeds. Growing take-up spurred more investments. This virtuous circle should be recreated in the transition to next-generation broadband.

Competition is the fuel of the digital economy and society, driving investments and growth. Our challenge and policymakers' responsibility is to keep competition alive and kicking. Deregulatory policies restricting competition would return Europe to the bronze age instead of a transition to a gigabit society. Indeed, monopolies and duopolies invest less and deliver less.

This is what will be discussed, among many other issues, at the ECTA Regulatory Conference 2014 taking place on 18-20 November (see below).

For more information, please consult www.ectaportal.com/regulatory2014

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G20 governance

A turning point for the G20

—— Now is the time to unleash the G20's growth potential through collective measures and individual reforms, says Brisbane Summit host Australian Prime Minister Tony Abbott

The Brisbane Summit is the culmination of Australia's year-long G20 presidency, but it also comes at a defining moment for the G20. The G20 has proved itself in difficult times. It helped prevent an economic collapse following the global financial crisis and, in the process, saved jobs, businesses and the economic prospects of an untold number of people. The crisis has receded and the G20 must now prove it can generate real and lasting economic growth.

However, the much-anticipated recovery in the global economy has not yet been delivered. Growth remains stubbornly sluggish, there is a shortfall in funds for infrastructure, unemployment is too high, and trade growth remains disappointing.

A stronger economy will not solve every problem. But it will make almost every problem easier to tackle. That is why Australia worked to gather agreement from all G20 countries to boost their collective economic growth by more than two per cent above 'business as usual' by 2018. We have kept G20 deliberations focused on this goal all year. Driving economic growth should be the core business of the G20.

The G20 must now prove it can generate real and lasting economic growth

The determination of G20 members to meet this goal is clear. As was announced at the recent meeting of G20 finance ministers and central bank governors, we are now about 90 per cent of the way to achieving our growth goal.

The best source of generating real, sustainable wealth for the world is the private sector. Private-sector-led growth requires getting government spending under control so that taxes can come down, and reducing regulation so that productivity can rise.

We have prioritised private-sector investment in infrastructure because better infrastructure is essential for more productive economies, and there is a $1 trillion annual infrastructure investment gap to fill.

We are prioritising freer trade and competition in our economies, because this makes business more efficient and innovative, and it drives faster growth and job creation. If we want growing economies in a growing world, we have to push ahead, not just to two per cent, but to the "more than" two per cent we agreed to in February.

Together, the members of the G20 can recharge the world economy, but it requires us to take dedicated policy actions to meet our goal. Australia is leading by example and getting on with the job of building a stronger economy. At home, we are demonstrating our own commitment to growth by undertaking actions to reduce taxes, cut red tape, increase trade and build a stronger economy.

We are getting our budget back under control by reducing projected debt by almost $300 billion over the next 10 years. The biggest infrastructure programme in Australian history is now under way. We have removed more than 10,000 pieces of unnecessary legislation and regulations to reduce compliance costs and streamline our decision-making. We have scrapped bad taxes, such as the carbon tax and the mining tax, and we are cutting the company tax rate to promote investment.

We are getting more young people into jobs through an emphasis on earning or learning. We are also committed to a paid parental leave scheme that will be good for working women, the economy and for employers. It will encourage women to stay connected with the workforce and their careers after their period of paid parental leave.

To encourage more international trade we have fast-tracked free trade agreements, and we are reducing obstacles to trade by reducing red tape at our borders and streamlining customs procedures.

Every country's circumstances are different, but this is what we are doing in Australia to boost our growth, participation and productivity, and to contribute to the world's growth.

If the largest economies can individually achieve higher growth and can cooperate to achieve higher global growth, every country should benefit.

In addition to individual country strategies, there are important reforms on the table in Brisbane that will further boost global growth. At the G20 labour and employment ministers' meeting in Melbourne in September, ministers recommended that leaders adopt the goal of reducing the current gap in participation between men and women in G20 economies by 25 per cent by 2025. Australia hopes that leaders will endorse this goal. It has the potential to bring 100 million more women into the workforce worldwide.

And the Global Infrastructure Initiative agreed to by G20 finance ministers at their meeting in Cairns could help drive quality infrastructure investment right across the G20 and beyond. This will accelerate growth, create jobs and lead to productivity gains.

Strongly influenced by the B20's recommendation for an 'infrastructure hub', the initiative will allow greater knowledge sharing and give us a consolidated database of infrastructure projects to help match potential investors with projects.

Tony Abbott, Prime Minister of Australia, says that the G20 is clearly determined to meet its growth target of two per cent above 'business as usual' by 2018

Building the resilience of the financial sector is at the heart of the G20's work: helping to prevent and manage the failure of globally important financial institutions, making derivatives markets safer and improving the oversight of the shadow banking sector.

Responding to risks

The leaders' meeting in Brisbane will be the turning point for a shift in the G20's focus from designing standards after the global financial crisis to responding to future risks where they emerge.

The G20 is on track to deliver on its two-year work plan to address tax avoidance. We will deliver on the first seven instalments of our action plan to modernise global tax rules and close gaps that have emerged in recent years, because the G20 wants to restore a sense of fairness and integrity in the international taxation system, including for developing countries.

It is within the power of every country to make changes that will boost domestic growth and help boost world growth. As hard as reforms may be, explaining that there is no plan to make things better will be harder.

In the economic history of each member of the G20 are hard decisions that delivered real and lasting economic benefits. We need to bring our forebears' grit to this year's G20 if we are to shake off the sluggish growth that is the legacy of the global financial crisis.

The G20 works best when it is true to its origins as an economic gathering. Other forums are better suited to deal with the security, social and environmental challenges the world continues to face. This year, we should create more opportunities for the whole world by encouraging economic policies that unleash the potential of our peoples.

The Brisbane Summit will be the most important meeting of global leaders Australia has ever hosted. I am confident it will make a lasting difference. ■

Building the world we want to live in

—— **Ahmet Davutoğlu, Prime Minister of Turkey,** says that the G20 can create a better world by acting together, focusing on common values and implementing commitments

We live in an era where rapid and profound changes are taking place. There has been a global shift in economic power and political influence that has not been accompanied by a parallel process of restructuring of the global governance architecture. This requires us to reflect upon the formation and functioning of existing global governance structures in order to make them more representative and inclusive.

All countries are looking for new ways to cope with a globalised world economy that is moving at an extraordinary pace. The global economic and political system is becoming ever more complex, with an increasing number of stakeholders demanding a voice. The increasing digital interconnection of people, so-called hyperconnectivity, has had a big impact not only on countries but also on industries, sectors and companies around the world. The key to harnessing the opportunities of this fast-changing international environment and addressing newly arising risks entails, first and foremost, closer cooperation at the global level. The G20 presents an appropriate platform to tackle this huge challenge.

The first G20 summit was held in 2008, in the darkest days of the global financial crisis. In response to the crisis, the G20 was effective in bringing together advanced and emerging economies to take a series of concrete steps that contributed significantly to restablising the global economy. Since then, the G20 has made significant progress towards overcoming the challenges that financial markets have faced and managed to fix the fault lines to a great extent. Even though there is still more that needs to be done, the rules of the game have been largely set. Now the challenge ahead is to put the world economy on a track of strong, sustainable and balanced growth. Furthermore, this growth also needs to be employment friendly so as to make a real difference in people's lives all around the world.

Turkey is looking forward to assuming the G20 presidency in 2015. Steering a comprehensive agenda with an inclusive approach and building on Australia's excellent work this year will be Turkey's principal aims when we take on this important responsibility. We are aiming to make 2015 a year of policy implementation. We intend to place decisive implementation of G20 members' commitments at the core of our discussions.

With the International Monetary Fund's (IMF) recent downgrading of the global economic growth forecast, there is a real urgency to keep our focus on growth. In this respect, it is particularly important to implement the target of boosting our collective gross domestic product by at least an extra two per cent over five years. G20 members have set such a concrete target for the first time and the Turkish presidency will give high importance to its robust and effective implementation. In order to secure this collective target, we need to focus on the principal areas reflected in our growth strategies: infrastructure, investment and trade.

The Organisation for Economic Co-operation and Development (OECD) estimates that $70 trillion need to be invested in global infrastructure over the next 15 years. The private sector's contribution is essential to meet this demand. Turkey has considerable experience in developing public infrastructure projects with private-sector support, as do other G20 members. We need to share our knowledge and experience to enhance cooperation in this important area. Investment plays a critical role in terms of unlocking growth and generating new jobs. Developing alternative and innovative financial instruments is necessary to pave the way for enhancing private-sector investments. Having a functioning multilateral trade system is essential to generate growth and create jobs. Free trade can provide a remedy to many problems. Bilateral, regional and plurilateral arrangements need to complement each other and be building blocks for an effective and open multilateral trade system. Furthering trade facilitation and fighting protectionism, as we have committed to in our growth strategies, will be high on our agenda.

The interaction between the G20 and developing and low-income countries needs to be strengthened if we wish to develop a truly global approach for growth. Low-income countries are struggling to make their voices heard. Our work on development in the G20 is an essential component of our efforts to achieve our shared objective of strong, sustainable and balanced growth across the world. As an emerging donor country providing over $3 billion in official development assistance, we will give utmost importance to reaching out to developing and low-income countries, which is essential both to ensure inclusive growth and to improve global security and stability. Therefore, development and reaching out to low-income countries will be a primary focus of the Turkish presidency and a cross-cutting agenda item.

An important part of the United Nations' post-2015 development agenda is our common commitment to free humanity from hunger. Turkey will be the first G20 presidency to implement the G20 Food Security and Nutrition Framework. We are planning to do this with particular focus on sustainable food systems. This should adjust into a larger framework of humanitarian efforts on a global scale. Turkey, one of the largest donors of humanitarian aid, is prepared to host the first World Humanitarian Summit in 2016, to build global awareness for further cooperation on this crucial topic.

INTRODUCTIONS AND LEADERS' PERSPECTIVES

Supporting small and medium-sized enterprises is also essential to achieve balanced and sustainable growth. For many countries, from both the developed and the developing worlds, SMEs are primary engines for growth and job creation. During our presidency, we will explore ways and means to encourage more support for SMEs, elaborate on financing opportunities for SMEs, enhance their inclusion in global value chains and remove obstacles to their growth.

As the major consumer, producer and transit countries of the world, we need to deepen our discussion on the evolving global energy landscape within the G20. Enhanced collaboration among our countries concerning energy must be a priority, with a particular focus on improving access to energy for all and encouraging energy investments to meet the increase in energy demand. We are planning to organise a G20 Energy Ministers' meeting in 2015 to give further impetus to our collaboration in the field of energy.

While monitoring and assessing the implementation of our commitments, we also need to face the new challenges before us. Our efforts to engage non-member countries, international organisations, civil society, and business and labour groups have yielded positive results. Dialogue, openness, inclusiveness will be the working principles of the Turkish presidency.

In this respect, it is essential to enhance the contribution of several international organisations, such the UN, the OECD, the IMF, the International Labour Organization and the World Trade Organization, to the work of the G20. After all, the G20 is not only a platform for members, but also a truly global forum representing different stakeholders and finding a common ground among them.

While discussing global issues, we mostly refer to our differences. We speak of developed and developing worlds, advanced and emerging economies, high- and low-income nations. These classifications may be necessary to understand and quantify what we face at the global scale. However, G20 leaders should define a common language reflecting our shared ideals and values. The world that we want to live in can only be built if we act together. Representing major economies from different parts of our world, the G20 can have a unique added value in building this world. This is what we will strive for in our 2015 presidency. ■

In 2015, Turkey will build on Australia's G20 presidency by putting implementation of growth targets at the core of discussions, says Prime Minister Ahmet Davutoğlu

Africa50: a game-changer solution to bridge the infrastructure gap in Africa

Neşide Taş-Anvaripour
CEO, Africa50 and Business Development Director, African Development Bank

Africa50 is a new, landmark investment vehicle, focused exclusively on Africa's infrastructure opportunities. It is incubated by the African Development Bank (AfDB) as an independent, profit-driven, commercially managed entity. It will provide attractive risk-adjusted returns to its investors throughout the project value chain, from project development to equity and debt investments in infrastructure assets. It has a double bottom line: to achieve commercial returns and to make an impact in building the Africa of the future.

Africa50 is designed to bridge the $50 billion annual market gap in African infrastructure and facilitate faster delivery of transformational infrastructure assets. In doing so, it will create opportunities for regional and global market players.

In early 2012, the G20 requested the Infrastructure Consortium of Africa, a facility managed by the AfDB, to review existing project-preparation facilities with the aim of finding a new approach. The review was completed in November 2012, and it suggested adopting a commercial approach in project development, which was reflected in the design of Africa50 coupled with other innovative ideas to fasten financing throughout the project life cycle. In 2013, Africa50's game-changer model was recognised by the G20. Encouraged by this support, Africa50 continued to update the G20 on its progress throughout 2014.

Africa is on the move

Africa's high and steady growth necessitates building new infrastructure and upgrading existing assets, which itself will generate further growth. The annual financing need for infrastructure is estimated at $95 billion, but only $45 billion is currently invested each year.

The source of financing is primarily from government budgets and donor-backed development finance institutions, with relatively small investments from the private sector. This leaves a gap of $50 billion annually, which constitutes an exciting opportunity for investors to participate at an early stage in a sector offering high growth with relatively low risk.

Noting this, African governments are urgently reforming and regulating infrastructure sectors to attract private investors for partnership. This reinforces the compelling opportunity for investors with the right combination of infrastructure, investment and experience in emerging markets.

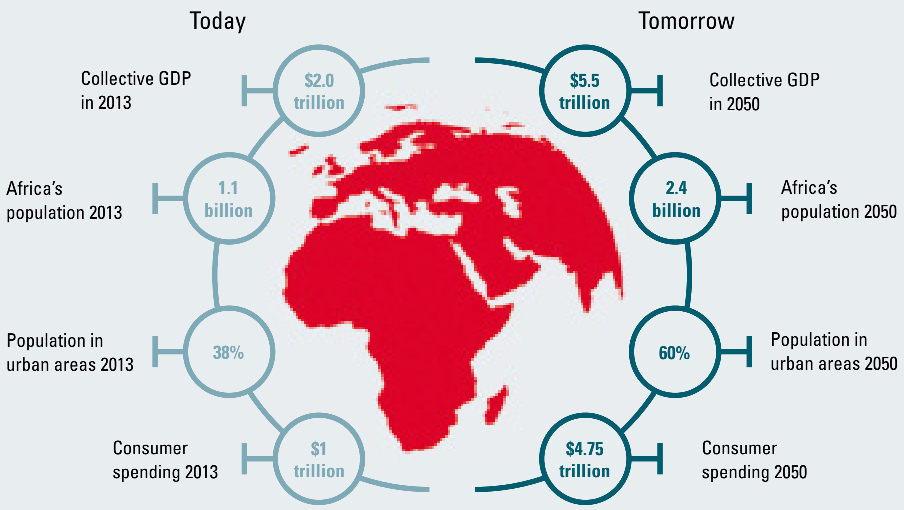
Attractive asset class: African infrastructure

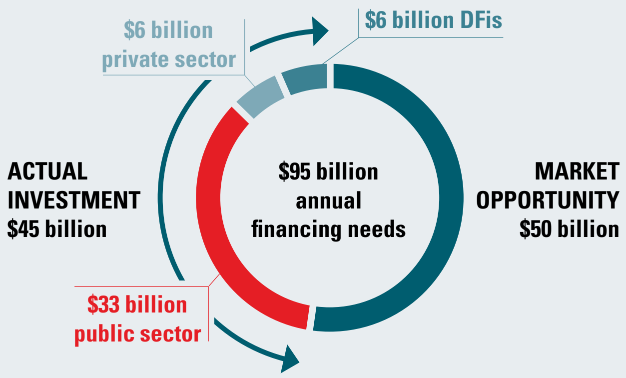
With substantial barriers to entry, infrastructure assets often supply essential services. They are therefore less exposed to economic cycles and offer an attractive risk-reward proposition. They share features of other asset classes, such as the long-term predictable cash yield of fixed income, the backing by physical assets of real estate and the use of financial gearing in private equity.

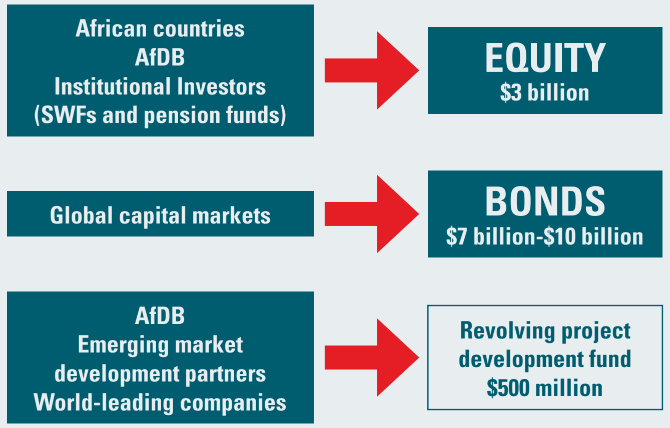
In Africa, well-structured infrastructure projects have yielded project returns of 16-18 per cent on average over the past decade. Power-generation projects have been backed by long-term power-purchase agreements and are not prone to merchant risk. Demand risk on transport projects has often proved to be lower than expected, with actual traffic exceeding initial projections, while some projects have traffic flow guaranteed by a public entity.

Noting that donor-relied investment vehicles will not be able to meet the financing need of African infrastructure, the AfDB designed a new fit-for-purpose vehicle that is responsive to the market's needs, operates across the spectrum of the project cycle, mobilises new public and private investors, leverages its capital base in an efficient manner, and targets an investment grade rating – single A – that allows flexibility.

Africa50 will intervene across the entire project life cycle as a one-stop shop, from inception to operation through two investment windows, each offering opportunities and risk-adjusted returns to different classes of investors with different objectives.







> Public-private ownership will ensure that the interests of the investors and the governments are perfectly aligned – significantly reducing investment risk

Project development and finance

Africa offers a significant pipeline of attractive infrastructure projects that already have feasibility studies completed but do not have access to capital to take them to the next stage. Africa50 will develop these projects on a commercial basis, making them ready to finance. The AfDB is committed to providing seed capital of up to $100 million in this window over the next three to four years. The project development facility is expected to reach $500 million. This capital will be further leveraged through joint development agreements. Exiting at financial close and continuously recycling its capital, this window will develop a dynamic pipeline of infrastructure projects to the market.

Using its $3 billion capital base, Africa50 will offer a variety of medium- and long-term financial products on commercial terms that are currently not available at sufficient scale in the markets. As the key investor, the AfDB is committed to invest up to $500 million into the project finance window, with an immediate $100 million injection of seed equity.

Africa50 is a pan-African initiative, responding to local and regional market needs, and learning from the collective experience of the AfDB and other market players. The participation of African governments and investors, the AfDB and other regional entities such as the African Union and Regional Economic Communities will build political convening power to overcome non-financial barriers, and also reduce the investment risk.

Independent but connected

Africa50 will be an autonomous entity, legally and financially independent from the AfDB. Despite being independent, it will retain the benefits (including political convening power and development focus) of being associated with the AfDB and other African governments.

Scalable funding

Africa50 will be established by paid-in capital with $3 billion of equity and will target an international single-A credit rating. This will enable it to tap into international capital markets with an appropriate level of flexibility, providing leverage to boost equity returns and scale up investment. Africa50's objective is to increase its capital base to $10 billion through single A-rated bonds, which will mobilise local resources such as African Central Banks and pension funds, as well as international capital markets.

Africa50 will provide an impact-making investment platform with attractive and sustainable returns. Public-private ownership will ensure that the interests of the investors and the governments are perfectly aligned – significantly reducing investment risk. Africa50 is certainly set to achieve its goals.

The AfDB

The AfDB is the foremost development finance institution in Africa, established to contribute to the economic development and social progress of the continent. Every African country is a member, with 24 non-regional member countries contributing funds and expertise while collaborating with African member states to aid Africa's development goals. Its 50-year institutional history is strengthened by its 24 regional offices spread throughout Africa. The AfDB enjoys a stable 'AAA' credit rating from all of the major rating agencies. For decades, the AfDB has been the largest infrastructure bank in Africa.

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AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

AFRICA50
FINANCING AFRICA'S INFRASTRUCTURE
POUR LES INFRASTRUCTURES EN AFRIQUE

Committed to inclusive strategies

—— Agreements made by the G20 members can benefit the world's most vulnerable people. **Enrique Peña Nieto, President of Mexico,** is committed to working towards balanced growth

The leaders of the G20 must reaffirm the role of our forum in promoting international economic cooperation. The G20 has proved its usefulness in difficult times. It helped prevent an economic collapse in the midst of the 2008 global financial crisis. Today, the G20's main purpose is to strengthen economic growth, promote employment generation and, overall, to create opportunities for the world's population, particularly the most vulnerable.

Strategies for a stronger economy

The current Australian presidency has done a remarkable job in preparing for the Brisbane Summit. Australia has set forth very important issues to help strengthen the world economy. G20 members have committed to developing new strategies, including implementing ambitious structural reforms, to boost growth by two per cent over the next five years. Australia has also emphasised the need to advance the infrastructure investment agenda, fight protectionism and enhance employment.

> By joining efforts, our countries will be adding more than $2 trillion to the global economy and creating new and better opportunities in labour markets

In this sense, over the past two years Mexico has forged ahead with a historic transformation agenda, covering, among other issues, its education system, labour market and public finances. Furthermore, to promote growth and increase productivity, other key reforms were approved in the areas of energy, finance, telecommunications and economic competition. The objective now is to guarantee their full and effective implementation.

Mexico's energy reform is the most transcendental economic transformation in the past 50 years. It modernises the constitutional framework in order to maintain state ownership of its energy resources, while opening the sector to private investment, technology and competition, allowing the country to take full advantage of its vast natural resources. This reform enables competition between state enterprises and private individuals in all energy activities, strengthens public-owned companies and regulators, and increases transparency and accountability, while protecting the environment and promoting the use of clean energy.

The financial reform will further contribute to Mexico's economic growth by granting more credit to Mexican businesses and families at lower interest rates. This reform will also encourage the development of Mexico's financial system by focusing on financial inclusion, reducing the cost of credit, strengthening financial education and the protection of financial services users, maintaining a solid financial sector, and making financial institutions more effective.

Meanwhile, under the telecom reform, Mexico continues to promote foreign direct investment. In the telecommunications sector, foreign investment can now represent up to 100 per cent of the total amount (it was previously limited to 49 per cent). This will increase telephone landlines, mobiles, internet and broadband coverage.

The economic competition reform grants new powers to the Federal Antitrust Commission, the new autonomous regulator. With its new faculties, the commission will enforce antitrust legislation by forcing divestment in sectors that are highly concentrated, promoting a culture of competition, and targeting and preventing monopolistic practices. Trade and competition are powerful drivers of growth that can deliver higher living standards.

On the reduction of protectionism, Mexico remains a firm believer in trade liberalisation, since it has experienced a positive development of its economy since the North American Free Trade Agreement with Canada and the United States of America, along with nine other free trade agreements, encompassing 45 countries in Mexico's free trade network.

Finally, public and private investment on infrastructure will be a key instrument in boosting Mexico's competitiveness. Infrastructure building is a concrete means of creating well-paid jobs, reducing costs and producing trickle-down effects for the benefit of the people.

Infrastructure and social well-being

In line with those objectives, in Mexico we have started an ambitious national infrastructure programme in order to increase our productivity, generate jobs and catalyse higher levels of social well-being by means of reducing the disparities among regions. This National Infrastructure Programme will channel almost $600 billion from public and private investment between now and 2018. Since our country has a privileged geographical location, we are determined to use these resources to consolidate our position as a high-value-added global logistics centre.

These reforms and actions go hand in hand with the G20's goal to increase growth by two per cent above the current trajectory over five years. By joining efforts, our countries will be adding more than $2 trillion to the global economy and creating new and better opportunities in labour markets.

I am certain that the Brisbane Summit will be a great success. Under the leadership of Prime Minister Tony Abbott, I am sure that we will reach significant agreements to improve people's lives through stronger growth and more high-quality jobs.

To achieve this goal, Mexico is firmly committed to working together with all the G20 members in order to ensure sustainable, inclusive and balanced global economic growth in the foreseeable future. ■

RONALDO SCHEMIDT/GETTY IMAGES

President Enrique Peña Nieto says Mexico's national infrastructure programme is designed to boost productivity and social well-being

Lead by example to stimulate growth

—— **Jacob Zuma, President of South Africa,** says that the G20 should continue in earnest with its ambitious, but realistic, growth goals in order to strengthen the global economy, while also encouraging infrastructure investment in emerging markets

It is always my pleasure to share South Africa's perspectives on the G20, and on why the group is important for South Africa and the African continent as a whole. We are fortunate that, in many areas, there is a congruence between what the G20 is aiming to achieve and the objectives for which we are striving in South Africa and on the continent.

Every time we prepare to gather for the annual G20 summit, I am struck by the fact that what we accomplish is as a result of a shared understanding about what needs to be done to boost global growth. We work closely together in partnership to overcome the collective and individual concerns and challenges that we are confronting.

The nature of the global economy is undergoing an extraordinary transformation. The International Monetary Fund anticipates that emerging markets and developing economies will continue to contribute more than two-thirds of global economic growth in the medium to long term. For its part, Africa is taking off and growing strongly, showing a remarkable resilience in the face of the consequences of the global economic crisis. Africa has also become a growing investment destination for both advanced and emerging economies. We, of course, recognise that for all of the good news coming out of the continent, the challenges of poverty, inequality and unemployment, especially among the youth – although not unique to Africa – remain at unacceptably high levels.

It is therefore important that the G20 focus its agenda on addressing major challenges to the global economy. It will also need to work in close partnership with those international organisations that have been requested to collaborate with the G20 in order to achieve agreed objectives. As the premier forum for our international economic cooperation, and building on the legacy of the previous G20 presidencies since this forum was elevated to the leaders' level, the Australian G20 presidency has structured our discussions in 2014 around the themes of promoting stronger and more inclusive economic growth and generating employment.

I believe that the G20 should lead by example: with a view to significantly raising global growth, through lifting our collective real gross domestic product by more than two per cent above the trajectory implied by our existing policies over the next five years, we have committed ourselves to developing new, ambitious and realistic measures and policies, which will need to be implemented in earnest for us to realise this goal. We are determined to match our high level of ambition with the right level of macroeconomic policy coordination, structural policy reforms and innovation.

Individual G20 country growth strategies will form the basis of the G20 Action Plan that we intend to consider and adopt at the Brisbane Summit. For South Africa, this is an important objective to help achieve strong, sustainable, balanced and inclusive global growth, in order to significantly reduce poverty and address global development challenges. Our partnership in this area will give our citizens even more opportunities to improve their living standards. In the case of South Africa, our government has set a national growth target of five per cent by 2019. We are embarking on various measures and interventions to jump-start the economy. In particular, the implementation of the National Development Plan is key to achieving our own national growth target.

While the G20 has continued its important work of building a stronger and more resilient financial system, it has also been working on measures that are aimed at boosting demand and removing supply-side constraints to lift growth through a multi-year agenda for the promotion of infrastructure investment. This has included the incorporation of key measures in our individual country growth strategies to improve investment climates and to support quality public and private investment. Again, the work of the G20 in this important area complements what South Africa is doing domestically, as we continue to implement the successful National Infrastructure Plan, under the supervision of the Presidential Infrastructure Coordinating Commission. During the past five years, we have invested about R1 trillion [$91 billion] in new infrastructure to provide water, energy, transport, sanitation, schools, clinics and internet connections to our people. Over the next three years, when several of our planned projects will either be started or completed, my government intends to spend a further R847 billion [$77 billion] on infrastructure.

> I trust it will be a summit in which the voice of Africa, a continent that is on the rise, is unmistakably heard

There are also opportunities for a G20 multi-year agenda on infrastructure to add value to Africa's strategy of championing regional and cross-border infrastructure projects with a view to enhancing regional integration and attracting additional investment. Over the past decade or so, the New Partnership for Africa's Development (NEPAD) has done extensive work to identify infrastructure projects that are geared towards boosting regional trade and supporting Africa's economic development. Africa's ambitious Presidential Infrastructure Champion Initiative, for which I have the honour of serving as Chair, is the continent's main infrastructure development programme. The Programme for Infrastructure Development in Africa aims to accelerate the delivery of current and future regional and continental infrastructure projects in transport, energy, information and telecommunications technologies, as well as trans-boundary waterways. I am optimistic that the ongoing work of the G20 to facilitate long-term infrastructure financing will lead to increased quality investment in emerging markets and developing economies, including in Africa.

It is my sincere conviction that the G20 development agenda and the tangible difference that it makes in the lives of the citizens of developing countries will, over the long term, underpin all the work undertaken by the G20 in the economic and financial spheres. It is a truism to say that growing and increasingly developed populations in Africa, Asia and South America will serve as critical drivers of economic growth around the world. The G20 development agenda therefore remains an important priority for South Africa, serving, as we do, as Co-chair of the G20 Development Working Group. In this regard, we welcome the emphasis placed by successive G20 presidencies, including Australia, on outreach to developing countries. We look forward to working with the incoming Turkish G20 presidency on initiatives to reach out to other developing countries, including in Africa.

South Africa, along with Mauritania and Senegal as observers representing the African Union and NEPAD, is fully committed to working with the Australian G20 presidency and our other G20 counterparts to ensure a highly successful summit in Brisbane. I trust it will be a summit in which the voice of Africa, a continent that is on the rise, is unmistakably heard. ■

DEAN HUTTON/GETTY IMAGES

South African President Jacob Zuma says that the G20 development agenda has a real impact on the lives of people in developing countries

Viewpoints from across the G20

Selected quotes from some of the leaders gathering in Brisbane for the 2014 G20 summit

United States | Barack Obama

"I indicated to the Prime Minister that I'm very much looking forward to visiting Australia – one of my favourite countries to visit – for the G20. And I assured him that we want to cooperate in any ways that we can to ensure that Australia's renowned hospitality is also coupled with a very productive set of G20 meetings to talk global growth."

Remarks made following a bilateral meeting with Australian Prime Minister Tony Abbott, Washington DC, 12 June 2014

Germany | Angela Merkel

"For a long time we Europeans took it for granted that economic development would, on the whole, be positive… However, the international financial crisis and the ensuing sovereign debt crisis in the euro area also made it clear that the foundations for growth and prosperity in Europe need to be constantly shored up and worked at… When it comes to tackling both the international financial crisis and the European sovereign debt crisis, it cannot simply be enough just to try to survive them somehow. We must set our sights higher. Our aim must be to come out of the crises stronger than we were at the start."

Speaking at the Houses of Parliament, London, 27 February 2014

Italy | Matteo Renzi

"For me, it is important to hope for a different approach because austerity is not sufficient. We absolutely must invest in growth in every field."

Remarks made during an interview with *The Washington Post*, 29 September 2014

India | Narendra Modi

"While we speak of an interdependent world, have we become more united as nations? Today, we still operate in various Gs with different numbers – G1, G4 or G20. India, too, is involved in several. But, how much are we able to work together as G1 or G-All?"

Speaking at the United Nations General Assembly, New York, 27 September 2014

Canada | Stephen Harper

"The growth of trade between nations, and the delivery of effective development assistance to ordinary people, simple, practical aid, these are the things that have become the signatures of our governments' outreach in the world. Trade means jobs, growth and opportunities. It has made great nations out of small ones. The story of my own country, Canada, is a case in point. Historically, trade has built our country, just as today, it is reshaping our world. Trade means ordinary people can support their families and even dare to dream of something much more."

Speaking at the United Nations General Assembly, New York, 25 September 2014

Japan | Shinzō Abe

"There can be no question that a prosperous Africa is in the interest of not only Africans, but also the entire world."

Speaking at the Second Japan-African Regional Economic Communities Summit Roundtable, New York, 24 September 2014

Brazil | Dilma Rousseff

"A new world economic growth cycle is currently under gestation. As the crisis recedes, we will certainly see emerging countries attracting greater attention. With a long-term strategy focused on fostering investments in education and in increased productivity, we hope to come out of the current international crisis even better off."

Speaking at the World Economic Forum, Davos, 24 January 2014

European Union | Jean-Claude Juncker
President of the European Commission

"Every day, Europe is losing out by not unlocking the great potential of our huge digital single market. Jobs that should be there are not being created. Ideas, the DNA of Europe's economy, do not materialise to the extent they should. Let us change this for the better."

Speaking at the European Parliament, Strasbourg, 22 October 2014

Argentina | Cristina Fernández de Kirchner

"Employment, creation, production and investment [are] the elements which will save the global economy amid a context of crisis."

Remarks on arrival in Russia for the G20 St Petersburg Summit in September 2013

Russia | Vladimir Putin

"The modern era is justifiably called the information age. New technologies and global communications networks now cover practically every area of human activity and society. Before our very eyes, they are changing peoples' quality of life and helping to globalize the economy and develop the humanitarian space."

Speaking at a Security Council meeting at the Kremlin, Moscow, 1 October 2014

United Kingdom | David Cameron

"We cannot be starry eyed about globalisation – it presents huge challenges as our economies and societies try to adapt. But neither should we take this pessimistic view. If we engage in the right way, if we get the fundamentals of our economies right, sort out our debts, maximise our competitiveness and build on our strengths, then globalisation offers our businesses the chance to win new contracts to export into markets that were previously closed and create jobs fulfilling the demands of new consumers thousands of miles away."

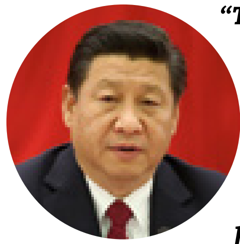
Speaking at the World Economic Forum, Davos, 24 January 2014

France | François Hollande

"Defending France's place in the world also involves advocating in the major decision-making bodies, notably the G20, for higher and more balanced growth. That's what we will do in Australia, in Brisbane. We will continue to put financial regulation and international tax cooperation on the agenda… it's in everyone's interest to ensure that black or gray financial activities are eradicated and that the tax conditions for competition are specified."

Speaking at the Elysée Palace, Paris, 28 August 2014

China | Xi Jinping



"The G20 should uphold and promote greater openness in the world economy. Countries should categorically oppose protectionism of all forms, promote an early harvest of the Doha Round negotiations and safeguard a free, open and non-discriminatory multilateral trading regime."

Remarks prior to the G20 St Petersburg Summit, September 2013

BARACK OBAMA: ACTION PRESS/REX; ANGELA MERKEL: AP/PRESS ASSOCIATION IMAGES; MATTEO RENZI: LANDOV/PRESS ASSOCIATION IMAGES; NARENDRA MODI: AP/PRESS ASSOCIATION IMAGES; STEPHEN HARPER: AP/PRESS ASSOCIATION IMAGES; SHINZO ABE: AP/PRESS ASSOCIATION IMAGES; DILMA ROUSSEFF: ZUMA/REX; JEAN-CLAUDE JUNCKER: DPA/PRESS ASSOCIATION IMAGES; CRISTINA FERNÁNDEZ DE KIRCHNER: MARCOS BRINDICCI/REUTERS; VLADIMIR PUTIN: AP/PRESS ASSOCIATION IMAGES; DAVID CAMERON: AP/PRESS ASSOCIATION IMAGES; FRANÇOIS HOLLANDE: AP/PRESS ASSOCIATION IMAGES; XI JINPING: LANDOV/PRESS ASSOCIATION IMAGES

Lessons learnt on the way to recovery

——The G20 has played a key role in rebuilding confidence in the global financial system following the recession, and growth in several countries, including Spain, is gradually returning, writes Mariano Rajoy Brey, Prime Minister of Spain

The G20, at the leaders' level, was created amid the worst economic crisis since the First World War, with unforeseen consequences in economic activity, international trade and job losses. At first, the crisis mainly affected developed countries. But increased global interdependence extended the crisis and it turned into a global and systemic crisis, threatening developing countries, too. The G20 played a key role: it provided a forum of dialogue and international economic cooperation that allowed an unprecedented global response with concrete policy actions. This was also forged out of consensus, bringing together both developed and developing countries, with strengthened legitimacy.

The G20's main outcomes

The G20 is a fundamental platform to share and comprehend everyone's experiences. Therefore, six years on, it has delivered important contributions and set the basis of global economic recovery as well as sustainable and more balanced growth.

Certainly, the Brisbane Summit takes place at a time when, from the Spanish perspective, the fruits of these efforts are becoming evident. Spain has experienced the global economic crisis in all its dimensions, and can share valuable experiences on the way towards recovery, led by decisive domestic policy action. In this process, the G20 has provided very valuable input by sharing experiences from other G20 members of developed and developing countries, as well as policy plans.

The G20 has delivered on key commitments. Financial regulation has been improved, drawing on the lessons learnt from the crisis. Countries are currently implementing financial regulatory reforms on bank capital, shadow banking, over-the-counter derivatives, hedge funds and bank resolution, among others. It is now time to enforce these commitments in a consistent manner in all G20 members. Fiscal sustainability and macroeconomic stability have been high on the agenda to establish mechanisms to reinforce policy coordination, which have been strengthened in successive presidencies. All these elements have had a positive effect on growth, which is now the top priority.

Specifically, fiscal cooperation has been a major achievement within the G20, with the endorsement of the action plan on base erosion and profit sharing, and on standards of exchange of information. It is a matter not only of efficiency, but also of morality, in times of great fiscal sacrifices for many of these countries' citizens, and with an important development dimension to strengthen revenue-raising capacity in developing countries.

During the Australian presidency, strengthened efforts on economic coordination have resulted in the Brisbane Action Plan and national growth strategies with ambitious domestic actions that can lift growth potential based on the private sector. Spain is a case in point regarding lifting growth through reforms.

Despite the efforts of G20 members, and even though a major economic collapse has been averted, the global economic recovery must still gain strength, as growth remains subdued in many countries. Global growth for 2014 may be lower than initially expected. And, while emerging markets offer, to a certain extent, a more sanguine outlook, developed countries need to step up their efforts. Growth is essential to curb unemployment, which still stands at unacceptable levels in many countries.

Moreover, some of the macroeconomic imbalances have not yet been fully addressed: it is urgent to rebalance global demand from deficit countries to countries that have accumulated large surpluses in previous years. Global rebalancing would be a growth driver. Spain accumulated large imbalances in the run-up to the crisis and has undergone major reforms in the last years to correct them; it strongly believes in the benefits of increased cooperation. This crisis has shown the interdependence of the market: large surpluses in some countries mirrored other countries' large deficits and, as a consequence, financial imbalances built up. Eventually, this lack of coordination unfolded in a crisis with major global losses. I am convinced that the G20 has a pivotal role to prevent such failures in the future.

A timely completion of the Doha Round of negotiations at the World Trade Organization and general progress towards trade liberalisation is also a high priority for Spain. The Bali agreements are a first step towards this, and the Trade Facilitation Agreement has the potential to boost global trade. Leaders must collectively support trade liberalisation and convey it to the public. Reforms to the governance structure of the International Monetary Fund – already decided – must be swiftly implemented.

Spain's reform agenda

The Brisbane Summit arrives at a time when decisive actions must be taken. The G20 aims to achieve strong, sustainable and balanced growth, and has set an objective of lifting the G20's collective gross domestic product by more than two per cent over the coming

REUTERS/YVES HERMAN

Spanish Prime Minister Mariano Rajoy Brey at a press conference in September 2014. Addressing the job shortage and increasing competitiveness remain key policy objectives in Spain

five years. Spain has been enforcing a vast reform programme, paving the way to a sustained recovery. And results are showing: growth is slowly resuming, net employment is being created, imbalances are closing and the Spanish economy is changing its growth model towards a more externally based one.

Job creation is at the centre of Spain's economic strategy: it is the main goal of my government. Therefore, all efforts and policy action put in place have the ultimate objective of creating new job opportunities. This requires both sound macroeconomic policies and ambitious market reforms.

Spain is deeply committed to preserving the sustainability of public finances, since it is a necessary condition to ensure growth and regain international confidence. Not only has Spain delivered one of the highest structural fiscal efforts among developed countries, but it has also enshrined this commitment by the introduction of constitutional fiscal rules and reform of the pension system. The ongoing fiscal reform will enhance revenue collection and foster growth and employment.

The financial sector reform and the restructuring process of the banking sector are restoring lending activity to the economy. As a member of the European Union, Spain is implementing a harmonised legal framework for bank supervision and resolution. In all this reform process, the G20 work on financial regulation has been highly valuable.

On the structural side, we have designed a comprehensive reform agenda focused on improving the functioning of goods and services markets, as well as input markets. Only by enhancing their flexibility and efficiency can we achieve higher competitiveness, job creation capacity and potential growth. One of these reforms is the deep labour reform implemented in 2012, which increased the labour market's flexibility; it is now being completed by strengthening active labour market policies and by promoting the creation of quality employment and more job opportunities for the young. In short, Spain has increased its competitiveness, and is correcting past external imbalances with external surpluses, contributing to stronger growth.

Turkey's G20 presidency

Although the urgency of the financial crisis has waned, it is important to sustain the momentum in the current action implementation phase. It is also a good opportunity to resume the debate on global imbalances and macroeconomic cooperation. I am sure that, as it assumes the presidency of the G20 in 2015, Turkey will forcefully pursue the ambitious agenda that we leaders have agreed to. Turkey can count on Spain's support and political will. ■

The G20: a source of economic resilience

Representing 75 per cent of global trade, the G20 is looked to by the rest of the world for economic leadership. **John Key, Prime Minister of New Zealand,** urges the group to demonstrate robust policies for boosting output

New Zealand has the privilege of participating in the G20 Brisbane Summit this year as a guest of host country Australia. While not a member of the G20, New Zealand has two major areas of interest in the work of this important group of economies. The first is in leadership, in both public policy and the response to major international crises, such as the global financial crisis, and the second is in the development of free trade.

The G20 has emerged as a powerful and significant force. It represents roughly two-thirds of the global population and the world's biggest economies. As such, other countries at various stages of development can, and do, look to the G20 for leadership in areas such as public policy, as well as their response to crises and other issues.

I look to the G20 members for signals on how they are responding to the big issues of the day. Because it controls so much of the world's wealth, the G20 plays a vital role in sending signals and coordinating responses to crises and issues. We live in a world where countries trade a lot more than they used to, capital and labour are both global and mobile, and information flow is instant. You can see from the impact of the global financial crisis just how connected we all are.

The G20 members, bound together by their financial clout, constitute one of the significant bodies to influence thinking about responses to such issues.

As a small economy, dependent on global economic activity for its prosperity, New Zealand welcomes the commitment that G20 economies made earlier this year to lift their collective output two per cent above current projections over the next five years.

Freeing up new growth

At the Brisbane Summit, New Zealand is looking for a strong message that the G20 has robust and credible policies to deliver on this commitment. The Comprehensive Growth Strategy process, introduced under the Australian presidency of the G20, will help support the reforms required to free up new growth in the major economies. Delivering on these strategies would boost global growth, and enhance the G20's credibility as a premier forum for international economic cooperation and decision-making.

With the G20 making up 85 per cent of global economic activity and 75 per cent of global trade, New Zealand's economic prospects as a small, open, trading nation are closely intertwined with G20 members. Fourteen of New Zealand's top 20 bilateral trading partners are in the G20.

The global economy is becoming increasingly interconnected and the global trade landscape, in particular, has changed dramatically over the past 20 years. Trade is, of course, an important driver of growth. Opening up an economy can make a significant difference to its economic prospects by creating more opportunities for businesses, growth and jobs. An active trade agenda can also enhance the resilience and responsiveness of an economy, helping it to withstand major shocks.

Given the importance of the G20's membership to global trade and growth, my government wants it to demonstrate leadership by taking action on trade through the Comprehensive Growth Strategy that will make a meaningful difference to global economic prospects.

I look to the G20 members for signals on how they are responding to the big issues of the day

In New Zealand's view, greater trade openness should be part and parcel of any domestic reforms aimed at boosting growth.

In this area, many success stories exist – including that of 1980s New Zealand, where, to address poor economic performance, we started a long process to open our economy to external competition, open trade, and to reduce and eliminate trade-distorting subsidies.

We only need look at Closer Economic Relations (CER) with Australia, to illustrate what is achievable and how important it has been to enhancing trade, investment and growth opportunities in both countries. CER, which took effect at the start of 1983, is one of the most comprehensive and effective free trade agreements in the world.

However, prospects for enhancing a growth strategy through trade are greatly improved and politically more saleable at home when progress is being made on global trade barriers.

Major results can be achieved through multilateral trade negotiations when these are comprehensive and ambitious. The gains made in the Uruguay Round were impressive. Of course, in recent times, tackling multilateral trade barriers has come up against a lack of ambition.

REUTERS/BRENDON THORNE/POOL

Prime Minister of New Zealand John Key says the G20's credibility is linked to its ability to deliver on growth commitments

A resumption of the Doha Round is largely in the hands of G20 members. New Zealand recognises that the timing and content of a resumption of serious multilateral engagement in Geneva will be heavily influenced by the conclusion of the various 'mega regional' free-trade agreements currently under negotiation, including the Trans-Pacific Partnership, in which New Zealand is involved.

Such agreements can support the World Trade Organization, but the criteria for them doing so are openness, comprehensiveness and ambition.

In conclusion, it is a privilege to be invited to attend the G20 summit, and I wish to thank the Australian Government for the opportunity. It shows the bond of friendship between New Zealand and Australia.

From New Zealand's perspective, the value of being at the table at such an event does not come just with the summit, but also the related events involving business, finance and other leaders. Engagement by the G20 with non-member economies is critical for the ongoing legitimacy of the grouping. Often, policies or approaches agreed at the G20 table can have profound effects on members and non-members alike.

Prosperity for all

Looking ahead, we urge the G20 to continue working to build a stronger and more resilient world economy for all – small and large alike. The G20's credibility and legitimacy depend on its ability to deliver on its commitments, act to address things that undermine progress on global issues and take on board the views of non-members. By demonstrating leadership on key global challenges, the G20 can make a huge contribution to economic and social prosperity for all. ■

ASEAN and the G20: shared objectives

—— With common goals in the areas of economic growth and development, the G20 and ASEAN are in an ideal position for strategic cooperation, says U Thein Sein, President of Myanmar and Chair of ASEAN for 2014

As Chair of the Association of Southeast Asian Nations (ASEAN) for 2014, Myanmar is invited to the Brisbane Summit and the related meetings under Australia's G20 presidency. Myanmar therefore participates in the G20 sherpa and Development Working Group meetings, representing ASEAN.

While ASEAN provides regional representation at the G20 meetings, Indonesia is the only ASEAN member state that is in the G20. ASEAN welcomes the consultative approach of the G20 in 2014 and the commitment of Australia to ensure that the views of non-member states are considered by the G20. Since 2010, ASEAN has benefited from the participation of its respective chairs at G20 summits.

ASEAN encourages the G20 to consider additional measures to ensure that development is clearly part of the G20's core agenda, and also to accommodate the views of developing countries in the Development Working Group.

Efforts to stabilise the global economy

The G20 is in transition from being a crisis-response institution to a world-leading institution that can develop a balanced and resilient global economy. After five years of the journey to stabilise the global economy and recover from shocks and crisis, the G20 has rich experience in how to cooperate and coordinate among its members.

The global financial crisis affected the jobs, incomes, pensions and savings of people everywhere. The financial crisis shocked the global economy on which people around the world depend. The G20 leaders have assumed public responsibility for economic outcomes that affect the public interest. Therefore, they must continue to act to protect that public interest in the name of financial stability and to promote the positive linkage of financial stability with the growth of the global economy.

The main focal points of G20 discussions are promoting stronger economic growth and employment outcomes, making the global economy able to withstand future shocks, maintaining a tight focus on practical outcomes that lift growth, boosting participation, creating jobs and building the resilience of the global economy. ASEAN therefore welcomes the G20's efforts to strengthen macroeconomic cooperation by deepening the policy frameworks of members and assessing the collective implications of national policies.

ASEAN also welcomes the G20's efforts to implement the Bali package of the World Trade Organization's Doha Development Agenda. Doing so could result in significant progress for trade facilitation. Since the characteristics of the ASEAN Economic Community (AEC) are a single market and production base, a competitive economic region, equitable economic development and integration into the global economy, as Chair Myanmar will endeavour to accomplish the targets set out in the AEC Blueprint.

As most of ASEAN's dialogue partners are members of the G20, ASEAN Plus One free trade agreements and the Regional Comprehensive Economic Partnership visibly demonstrate ASEAN's commitment to establish free trade not only within the region, but also with extra-regional partners.

Comprehensive development strategies

Equitable economic development is significant for a country and region, as well as for the world. This concept is crucial within the ASEAN region, and it is also focused on domestically. Therefore, ASEAN welcomes the G20's comprehensive development strategies, which include measures to address investment in infrastructure, trade and employment in order to boost growth. ASEAN also welcomes the Brisbane Action Plan to support strong, sustainable and balanced growth.

As international trade is a driving force of the G20's efforts to create growth and jobs, including the package of proposed policy actions under growth strategies to boost global trade, ASEAN welcomes the G20's ambitious but realistic target of lifting collective gross domestic product by more than two per cent above its current trajectory over the next five years.

Actions to support the G20's growth strategies include focusing on helping business, including small and medium-sized enterprises, and connecting better with the global economy. Doing so could include opening services, streamlining customs procedures and trade facilitation, introducing more efficient regulation and reducing tariffs. Policies that complement domestic reform processes are also strengthened by the strategy. Well-designed competition, labour, skills, investment and social policies enhance the ability of business and workers, including the participation of youth and women in the labour force. Opportunities created by trade lay the foundations for further growth of the global economy.

ASEAN recognises the particular complementarities between the G20 agenda in 2014 and that of ASEAN, such as removing barriers to trade, attracting private infrastructure investment through public-private partnerships, strengthening private-sector development and developing SMEs.

Actions designed to boost trade under the growth strategies could be an expression of the G20's commitments. Those commitments include reaffirming the G20's standstill pledge and rolling back protectionist measures. All the actions taken through national strategies should be mutually reinforcing and avoid negative spillovers. In welcoming the G20 members' desire to develop their growth strategies, ASEAN can make an important contribution to sustained growth in trade and prosperity. Accordingly, these strategies and the resulting Brisbane Action Plan should encourage greater connectivity to ensure that the benefits of increased trade and growth are widely shared with the rest of the global economy.

As ASEAN's integration into the world economy deepens, it is facing significant opportunities as well as challenges, particularly in integrating its newer members into the regional and global economies. One of ASEAN's key medium-term policy challenges is to narrow the gaps in the social and economic development of its members. Since the theme of Australia's G20 presidency is 'Strong, sustainable and balanced growth', it is in line with the trend that ASEAN is following as it moves ahead. The theme for Myanmar's 2014 ASEAN presidency is 'Moving forward in unity to a peaceful and prosperous community'.

Myanmar and the global community

Sharing prosperity and the equitable distribution of its benefits are essential for a country, as well as for the global community. With its own initiatives and speedy reform processes, Myanmar is promoting its country branding and cooperation with the regional economy, as well as the international economy. Its policy of 'people-centred development' focuses on poverty reduction and rural development for a large segment of its society. The economic potential of our country is a source of hope for Myanmar's people. Hence, the government has committed to building solid foundations for a market economy that is equitable, fair and based on a level playing field, and that maximises our abundant natural wealth while protecting our natural environment. To achieve this goal, Myanmar needs support from and cooperation with the regional and international community.

Sharing prosperity and the equitable distribution of its benefits are essential for the global community

ASEAN is moving forward with the two themes of 'People-centred ASEAN with inclusive participation for regional development through institutional connectivity, physical connectivity and people-to-people contact' and 'Narrowing the development gaps among members'. The same challenges face ASEAN and the G20: to ensure strong, sustainable and balanced growth and a growing middle class. The perspectives on new regional and global growth drivers are also the same.

Since the ASEAN development agenda beyond 2015 will also be relevant and in line with the G20's comprehensive growth strategies, ASEAN is in an ideal position to strengthen its cooperation with the G20 in the future. ■

LYNN BO BO/AFP/GETTY IMAGES

President U Thein Sein of Myanmar, the current Chair of ASEAN, believes that the association can make a significant contribution to global trade and prosperity

A formidable agenda for challenging times

—— Strengthening economic growth and job creation remain the top priorities of the Brisbane Summit, but climate change, health and security will also be central to discussions, says **John Kirton, Co-director, G20 Research Group**

John Kirton is Co-director of the G20 Research Group, the BRICS Research Group and the Global Health Diplomacy Program, as well as Director of the G8 Research Group, all based at Trinity College within the Munk School of Global Affairs, University of Toronto, where he is a Professor of Political Science. He is also a Non-Resident Senior Fellow at the Chongyang Institute for Financial Studies at Renmin University of China and author of *G20 Governance for a Globalized World*.

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The ninth G20 summit, taking place in Brisbane, Australia, on 15-16 November, is an unusually significant event. G20 leaders have a formidable, carefully constructed economic agenda, focused on the Australian host's priorities of economic growth and job creation, stronger financial regulation, tax fairness, freer trade and infrastructure finance. Yet they also face tough social and security challenges, including shaping development and climate change goals beyond 2015, responding to the Ebola epidemic, addressing the Ukraine crisis and countering the expanding brutal terrorism of the self-proclaimed Islamic State (ISIS).

In response, G20 leaders will make Brisbane a summit of significant but selective success. They will produce important advances on many of their well-prepared, increasingly ambitious economic priorities, from which all members benefit. Yet they will make less progress on their more recent social and security challenges, where divisions are unusually deep. While severe health and security shocks will direct attention to these areas, where the major multilateral organisations have largely failed, poor political cohesion among and within several key members could constrain and skew the summit's overall success.

On the economy, leaders will largely do well. On their central initiative of lifting growth by an additional two per cent or more by 2018, the members are expected to produce individual country action plans that – as the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) will confirm – will together meet this goal set by their finance ministers in February 2014. However, they are likely to struggle to add the greater growth they need to hit the target, given the persistent slower growth the global economy is experiencing.

Leaders will also cautiously call for more fiscal policy flexibility, including immediate stimulus in a Europe dropping towards deflation, while affirming the need for medium-term fiscal consolidation and control of a public and private debt burden that continues to compound. They are likely to pledge that the normalisation of quantitative easing in US monetary policy and its prospective intensification in Japan and Europe will be carefully communicated and sensitive to spillovers. However, they are unlikely to add many serious swap lines, new safety nets or other measures to counter any destabilising capital flows.

Financial regulation and supervision will be substantially strengthened. Based on the work of the Financial Stability Board (FSB), leaders will be likely to approve a new regime for systemically significant financial institutions formerly deemed too big to fail, by mandating additional loss-absorbing capacity within them so that taxpayers need no longer rescue them when they collapse. Guidance will be offered for dealing with complex derivatives and shadow banks.

Regarding tax, leaders will agree on the OECD's carefully prepared proposal to automatically exchange tax information on a multilateral basis using a common reporting standard starting in 2017 and to cooperate among members' tax authorities to enforce compliance.

The summit should also produce success in relation to infrastructure finance. Leaders will launch the Global Infrastructure Initiative, involving a database that matches potential investors with projects; a knowledge platform containing expertise, standardised documentation and best practices; country commitments to improve their investment climate; assistance for new sources of finance; and a global infrastructure hub as an implementing mechanism. This will be the first step in fostering the public-private partnerships needed to meet the additional two per cent growth target and in raising the estimated $60-70 trillion required for infrastructure projects over the next 15 years.

Elsewhere, smaller, more selective steps are in store. Leaders will boldly promise to reduce the gap between men and women in workforce participation by 2025. Structural reform will be selected as key to creating the jobs-rich growth that particularly helps youth and the long-term unemployed. Yet, few decisive steps to reform labour markets in most members can be expected. The enhanced endorsement of small and medium enterprises and young entrepreneurship will be backed by only limited measures to put this solution into effect.

On reforming international financial institutions, leaders will approve FSB reforms to give emerging countries a greater voice. But there will be no serious effort to get the US Congress to approve, and thus the IMF and World Bank to implement, the similar shift in representation and quota share that G20 leaders agreed to at the 2010 Seoul Summit.

On trade, leaders are expected to endorse the bilateral free trade deals recently concluded between several members and those being negotiated between the European Union and US and plurilaterally among the 12 countries in the Trans-Pacific Partnership. They will also welcome unilateral, bilateral and plurilateral efforts to implement the Bali trade facilitation deal forged at the World Trade Organization (WTO) ministerial conference in December. But they will not complete the overdue WTO multilateral agreement on trade facilitation, or the much more overdue Doha Round, or add to their standard condemnation of protectionist actions.

Beyond this economic core, success will be smaller still. It is unlikely that leaders will give the needed policy direction and political push to complete the existing Millennium Development Goals (MDGs) and shape their successors in advance of the United Nations summit scheduled for this purpose in September 2015.

On climate change, momentum can be expected to be given to important sectoral measures, such as the agreed phase-out of fossil fuel subsidies and enhanced energy efficiency and technology transfer. However, shaping an effective climate change control regime that includes all major polluters – the great challenge for the UN conference in Paris in December 2015 – will have to wait for leadership at the G20 summit hosted by Turkey in the autumn of 2015.

On health, G20 leaders will finally act in a meaningful, if highly selective, way by tackling the deadly Ebola virus that is infecting G20 countries. They will promise additional economic support to the poor, overwhelmed African countries where the contagion began. But little will be done directly on the MDGs for maternal, newborn and child health, or on the much bigger, broader, chronic threat to human life and fiscal sustainability from the major non-communicable diseases of heart and stroke, cancer, diabetes, and chronic respiratory disease.

On the security issues now seen as central to the success of the summit, advances will be smaller still. Steady progress will be made on the G20's ongoing work on anti-corruption, anti-money laundering and terrorist finance, especially where these are closely connected to the economic priorities and the financing of expanding ISIS terrorism in and from the Middle East. The latter subject and Russia's actions in Ukraine will be likely to dominate the leaders' private discussions, much as the use of chemical weapons in Syria did at their summit last year. But there is little hope that summit discussions will foster a solution as they did in 2013. Rather, the Ukraine crisis could intensify the divisions among G20 leaders elsewhere.

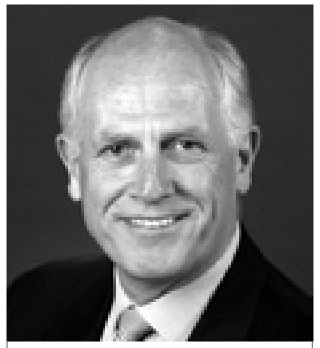
Overall, Brisbane will be a worthy successor to the eight, well-performing G20 summits that have gone before. It will make an essential, irreplaceable contribution to globally governing an interconnected, complex, crisis-ridden world. Yet, in order to maintain the momentum of G20 governance, leaders will need to deliver much-improved accountability for implementing their many important promises, strengthen their own ministerial-level institutions and stand ready to meet sooner than September 2015 should the problems of a fast-moving world not wait until then for solutions. ■

PETER PARKS/AFP/GETTY IMAGES

A hotel complex under construction in Sydney. Under the Australian presidency, the G20 is focusing on growth, jobs, trade and infrastructure development

Australia's agenda and the future

The Brisbane Summit represents a unique opportunity, but the G20 must maintain focus on its core agenda if it is to achieve its objectives, says **Russell Trood, Professor of International Relations, Griffith University**



Russell Trood is a Professor of International Relations at Griffith University and an adjunct professor in the Defence and Security Programme of the US Studies Centre at the University of Sydney, Australia. He is also President of the United Nations Association of Australia and recently completed an appointment as Special Envoy of the Prime Minister of Australia for Eastern Europe. Previously, Professor Trood was a Liberal senator for Queensland in the Australian Parliament.

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Hosting a G20 summit is a formidable challenge for any government. The logistics alone are a complicated exercise in multilateral conference management, delicate international diplomacy and careful security planning. Managing the policy agenda is hardly less exacting. Given the G20's unique administrative structure, devoid of a secretariat and revolving around a rotating leadership troika (Russia in 2013, Australia in 2014 and Turkey in 2015), managing the G20 policy agenda is both a precarious exercise in diplomatic manoeuvre and cooperation and a Herculean balancing act that seeks to accommodate members' political interests, their economic sensitivities and the institutional imperatives of the summit process.

Australia's 2014 presidency has been made all the more challenging by two specific factors: the relatively brief time the government of Prime Minister Tony Abbott has been in office, and the growing demand for the G20 to demonstrate its institutional value and utility at the apex of the institutional architecture of the global economy. As to the former, the Abbott government won office barely a year ago (in September 2013). Very clearly, in an election campaign dominated by domestic issues, it had given little more than passing consideration to the demands of hosting the G20 summit. It was poorly prepared for the magnitude of the task it had inherited and was forced to accommodate the requirements of the summit's relatively short, unforgiving lead-up calendar.

While the Australian Government's success in meeting these challenges awaits the outcome of the summit itself, there can be little doubt that it has been energised and disciplined in seeking to do so.

From the outset, the Abbott government's approach was to align the main aims of the summit with its own broad economic agenda. That agenda was focused on steps to repair the Australian economy from the enduring impact of the global financial crisis and the perceived mismanagement by the administration's predecessors; the reorientation of Australian external policy to give higher priority to economic diplomacy, particularly in international trade; and an emphasis on the importance of Asia to Australia's long-term prosperity and security. In the context of the G20, this agenda has served to draw the Brisbane Summit back to the G20's foundations as an organisation established to help coordinate the sound management and overall financial health of an increasingly complex global economy.

Setting the agenda

Accordingly, the Abbott government decided relatively early on that the Brisbane Summit should emphasise two broad themes: creating strategies to stimulate global economic growth, and developing the means to build greater resilience into the global economy. Each objective has been accompanied by mutually reinforcing actions removing obstacles to trade, stimulating investment in infrastructure, and lifting jobs growth and participation in work. Achieving greater resilience focuses on reforming the global financial system and its institutions, strengthening energy markets and improving the integrity of national tax systems.

For the G20, Brisbane could be a groundbreaking meeting of historic importance

In the heavy schedule leading up to the summit, including two meetings of finance ministers and central bank governors, in Sydney (in February) and Cairns (in September), the Abbott government has remained steadfastly focused on this agenda. It has used deft diplomacy and a natural instinct for political pragmatism to secure some measurable targets for economic growth, most noticeably an aim to lift collective G20 gross domestic product (GDP) by a further two per cent over five years. If G20 leaders can embrace this and other clear targets and commit their governments to implementing them, the Brisbane Summit will not only help to stimulate the growth of the global economy, but also underscore the continuing importance of the G20 as a key part of the global financial and economic architecture.

Australia, of course, cannot dictate G20 outcomes. Its officials and representatives readily acknowledge the challenges of contemporary multilateralism. Even so, with economic objectives clearly in focus, Australia has been less sympathetic to the contingent agenda of the G20 – the almost irresistible tendency, when global leaders gather, to address non-core, high-profile political issues of the day. Just as Syria was unavoidable in St Petersburg, in Brisbane Ukraine, Ebola and the Middle East are unlikely to be far from leaders' minds. Nor will it be possible, despite Australia's preferences, to ignore the importance of climate change.

Australia will aim to ensure that these matters do not derail the summit from what Canberra regards as the more important economic agenda. Resisting the natural multilateral tide to widen the summit agenda may well prove beyond Australia's diplomatic strength, but heeding the call for greater discipline deserves more than passing attention, especially when the voices raised in criticism of the G20 seem to be growing louder.

The G20 may represent 85 per cent of global GDP, two-thirds of the world's population and 75 per cent of world trade, but its status as the key mechanism for global financial and economic management is not self-evident. Its widely praised role in ameliorating the huge costs and looming dangers of the global financial crisis stand as testimony of its undoubted importance, but G20 summits have since attracted increasingly vociferous critics. Their opinions span a wide range of concerns, including that the G20 can be effective only as an institution of crisis management; its agenda has become too diffuse and strays too far from its core financial and economic origins; its membership does not represent the character of the world's economies, raising questions of its legitimacy; and it stands outside the structures and processes of the time-proven, United Nations-based global economic architecture established after the Second World War.

The merit of these critiques may be dubious, but six years on and eight summits later, the G20 arguably has something to prove. As its agendas have strayed further from core issues of economic and financial management, summit statements and declarations have proliferated in length and comprehensibility. Perhaps most significantly, members' record of complying with and implementing summit decisions has been uneven at best. The need for a summit reset is manifest. While Brisbane is unlikely to test the G20's survivability, it represents an opportunity to reinforce its institutional foundations, recalibrate the content of its agenda and re-energise the commitment to action. In this sense, Australia's policy objectives and the G20's institutional good health are well aligned.

WILLIAM WEST/GETTY IMAGES

Australian Treasurer Joe Hockey delivers his opening remarks at the G20 finance ministers' and central bank governors' meeting in Cairns in September 2014, where delegates discussed ways to strengthen the global economy

Accountability and effectiveness

Previous summits offer numerous important lessons for G20 organisational success and failure. Australia appears to have taken many of these to heart in developing its strategy for Brisbane. The overriding objective – to secure action that will lead to stronger, more balanced and sustainable global economic growth – is undoubtedly ambitious, but so it should be, given the global economic challenges facing the world and their distressing impact on the daily lives of millions of people.

For the G20, Brisbane could be a groundbreaking meeting of historic importance. In order for this to be possible, the summit will have to go a considerable way towards achieving four broad goals: a high degree of political leadership in identifying and confronting the challenges ailing the global economy; resisting the temptation to wade too deeply into the political issues of the day; sustaining a focus on core global economic and financial challenges accompanied by a credible action agenda with modest and achievable objectives expressed clearly and succinctly in the summit's communiqué; and, finally, a strong consensus among the leaders on compliance, commitments to further action and paths to implementation. ■

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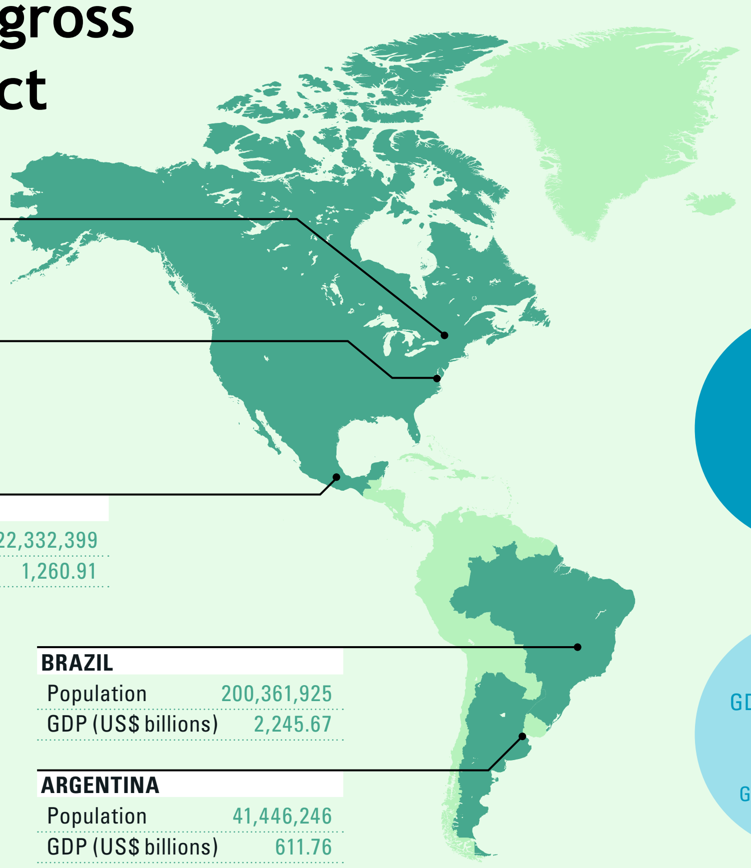
The G20 countries: population and gross domestic product



CANADA	
Population	35,158,304
GDP (US$ billions)	1,826.77

UNITED STATES	
Population	316,128,839
GDP (US$ billions)	16,800.00

MEXICO	
Population	122,332,399
GDP (US$ billions)	1,260.91

BRAZIL	
Population	200,361,925
GDP (US$ billions)	2,245.67

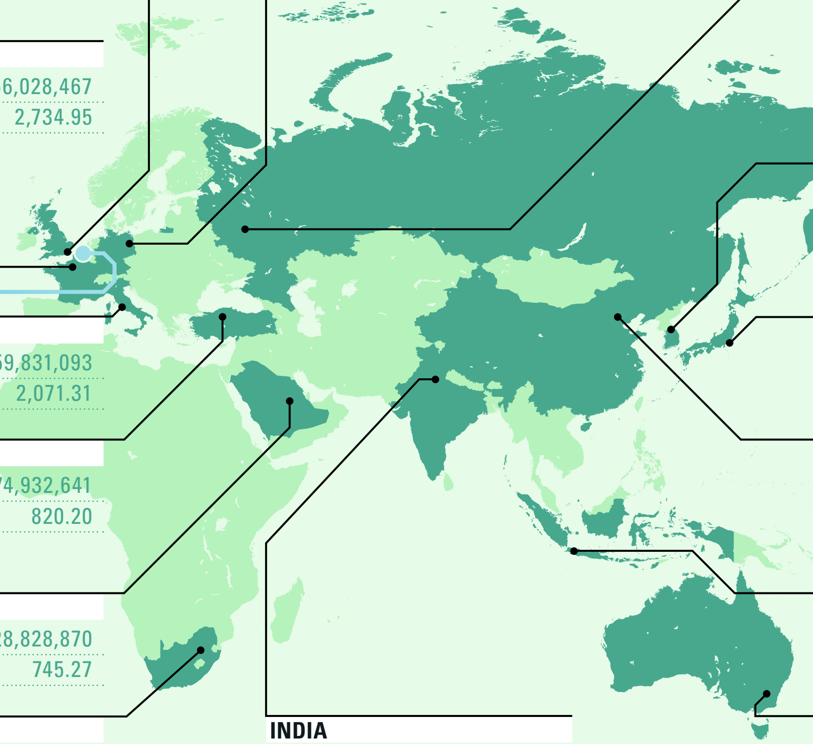
ARGENTINA	
Population	41,446,246
GDP (US$ billions)	611.76

European Union
Population
506.7 million

Eurozone
Population
334.0 million

European Union
GDP (US$ billions)
17,352.71

Eurozone
GDP (US$ billions)
12,749.67



UNITED KINGDOM	
Population	64,097,085
GDP (US$ billions)	2,521.38

FRANCE	
Population	66,028,467
GDP (US$ billions)	2,734.95

ITALY	
Population	59,831,093
GDP (US$ billions)	2,071.31

TURKEY	
Population	74,932,641
GDP (US$ billions)	820.20

SAUDI ARABIA	
Population	28,828,870
GDP (US$ billions)	745.27

SOUTH AFRICA	
Population	52,981,991
GDP (US$ billions)	350.63

GERMANY	
Population	80,621,788
GDP (US$ billions)	3,634.82

INDIA	
Population	1,252,139,596
GDP (US$ billions)	1,876.80

RUSSIA	
Population	143,499,861
GDP (US$ billions)	2,096.78

KOREA	
Population	50,219,669
GDP (US$ billions)	1,304.55

JAPAN	
Population	127,338,621
GDP (US$ billions)	4,901.53

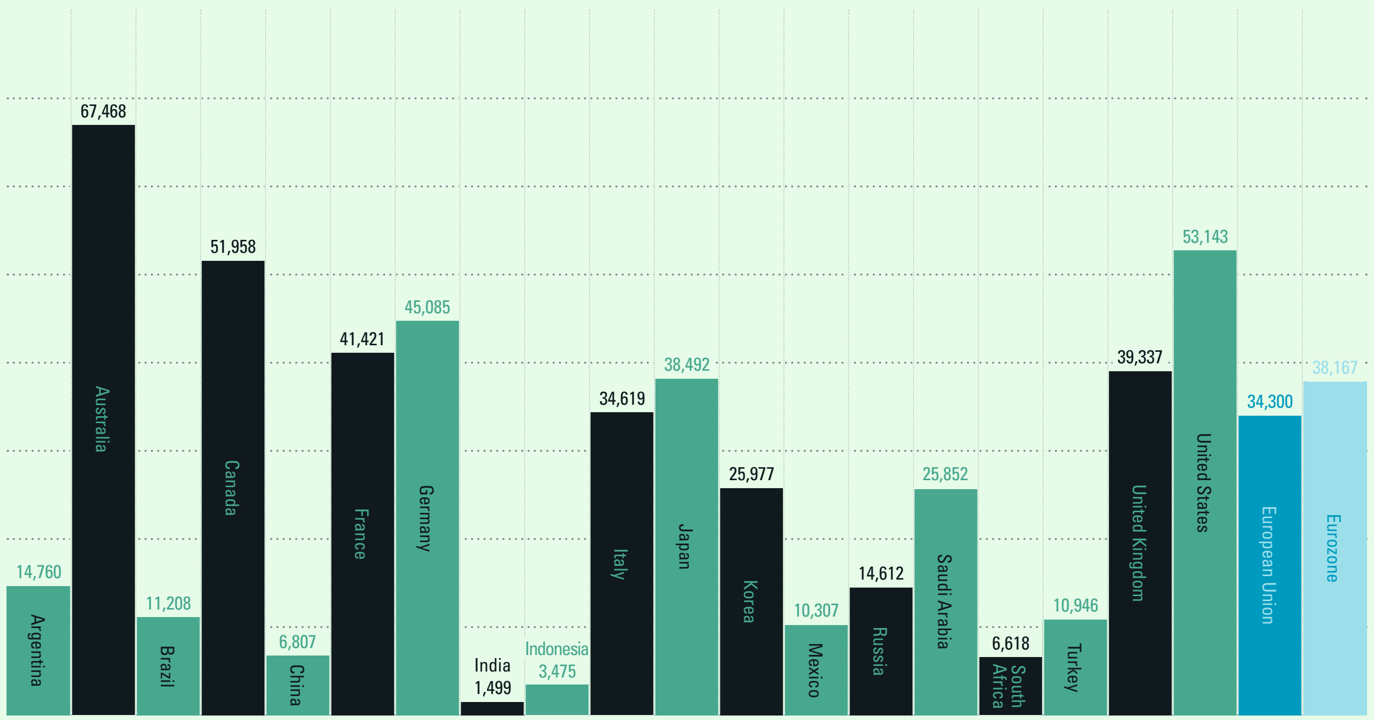
CHINA	
Population	1,357,380,000
GDP (US$ billions)	9,240.27

INDONESIA	
Population	249,865,631
GDP (US$ billions)	868.35

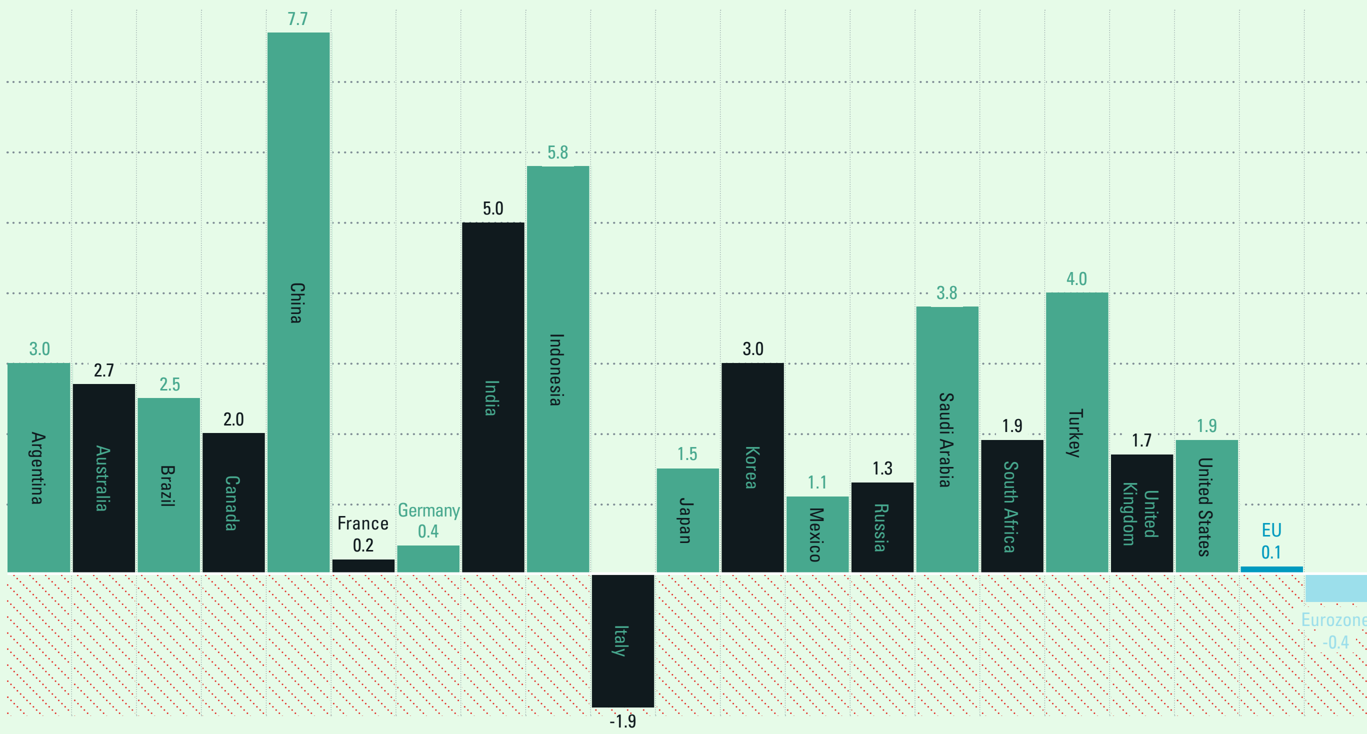
AUSTRALIA	
Population	23,130,900
GDP (US$ billions)	1,560.59

SOURCE: WORLD BANK, 2013

GDP per capita, 2013 (US$)



Annual GDP growth, 2013 (%)



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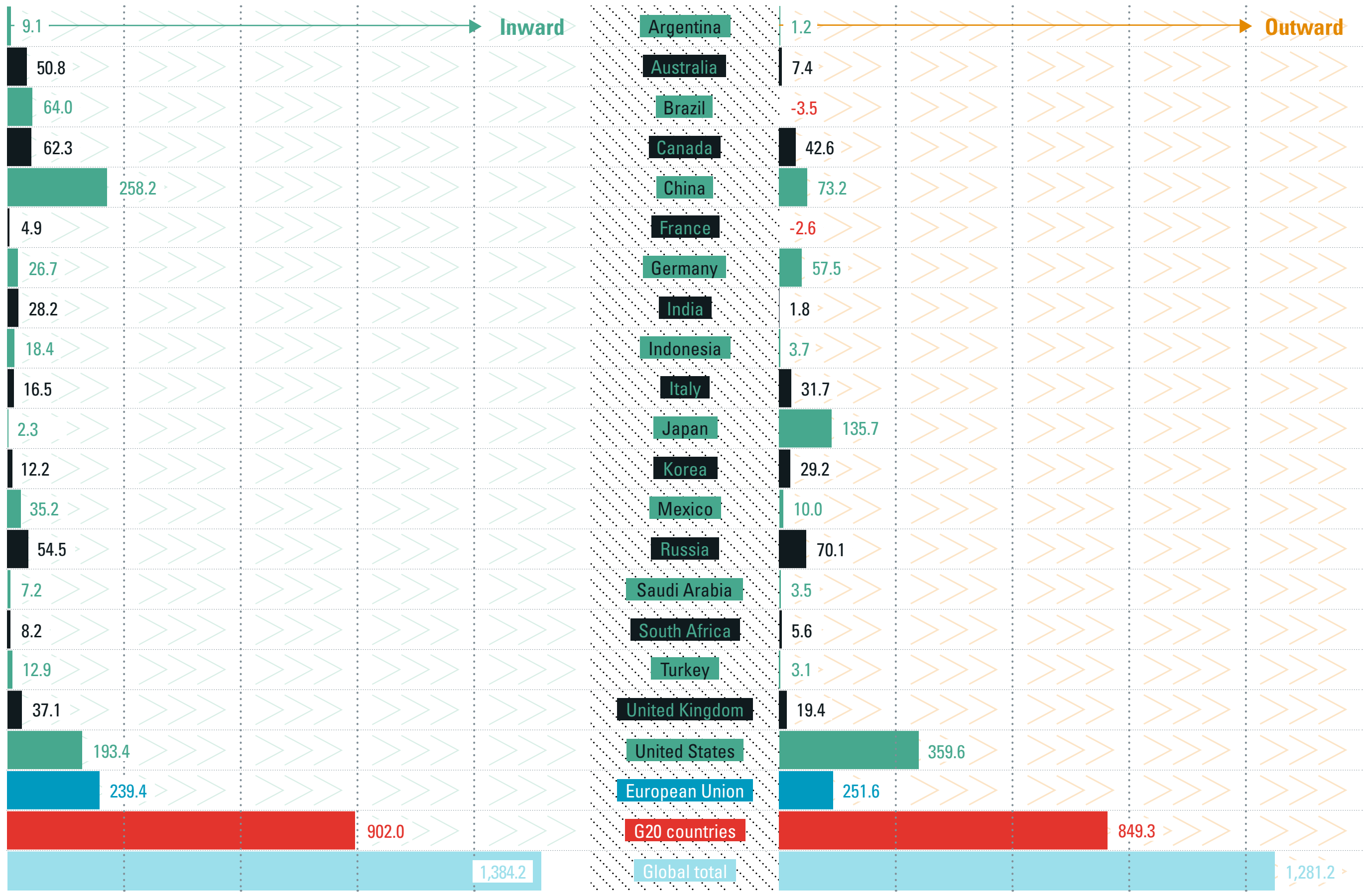
THE G20 IN NUMBERS

Foreign direct investment, 2013 (US$ billions)



SOURCE: OECD, FDI IN FIGURES APRIL 2014

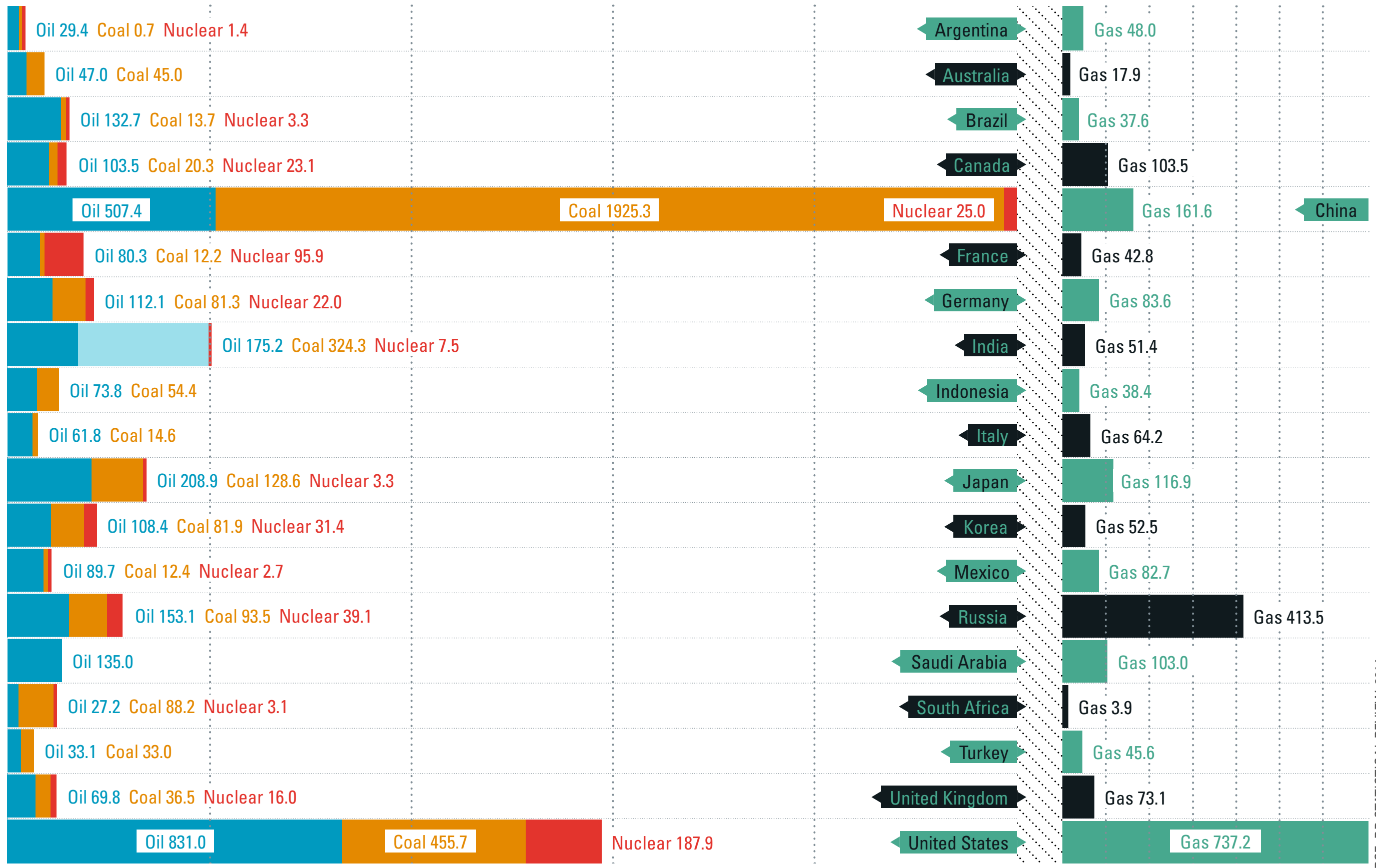
Balance of payments, 2013 (US$ millions)

	Current account balance	Capital account balance	Financial account balance	Net errors and omissions
Argentina	-4,635.23	31.65	-7,952.55	-3,348.97
Australia	-43,822.90	-456.92	-44,426.59	-148.90
Brazil	-81,062.95	1,193.44	-78,871.18	998.33
Canada	-58,584.14	-52.33	-56,687.15	1,949.31
China	182,807.19	3,052.01	108,228.25	-77,630.95
France	-40,226.94	2,403.56	-19,195.30	18,628.08
Germany	273,996.14	2,423.37	333,232.22	56,842.70
India	-49,225.97	961.83	-48,095.29	168.85
Indonesia*	-24,073.89	37.47	-24,690.87	-654.45
Italy	20,878.91	-101.07	33,005.19	12,227.35
Japan	34,068.23	-7,681.24	-16,564.92	-42,951.91
Korea	79,883.60	-27.80	76,881.10	-2,974.70
Mexico	-26,284.44	n/a	-43,173.18	-16,888.74
Russia	34,141.21	-394.94	22,905.80	10,840.47
Saudi Arabia	134,330.26	-335.20	130,151.09	-3,843.97
South Africa	-20,507.18	25.24	-13,854.31	6,627.64
Turkey	-65,110.00	-92.00	-62,670.00	2,532.00
United Kingdom	-114,209.78	8,459.69	-113,452.67	-7,702.58
United States	-379,276.00	-413.00	-351,230.00	28,459.00

*Data for **Indonesia** is from 2012

SOURCE: IMF ELIBRARY

Energy consumption, 2013

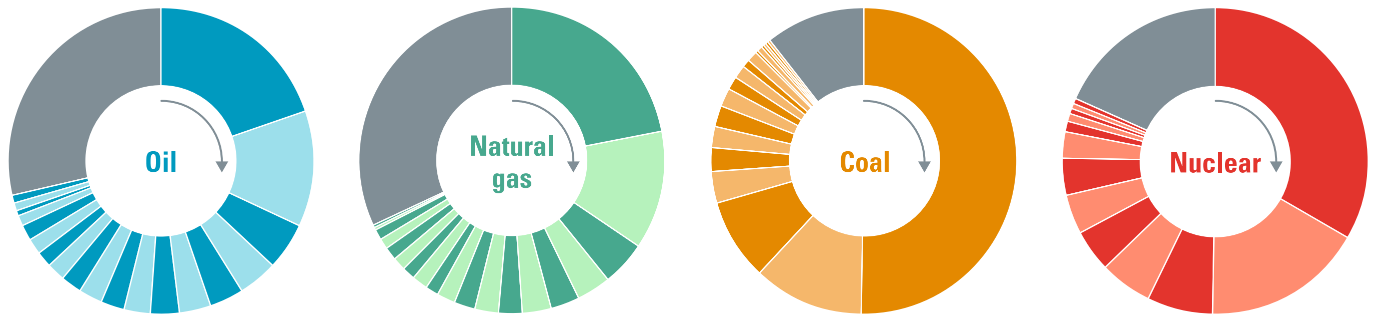


Oil (million tonnes) **Coal** (millions tonnes oil equivalent) **Nuclear** (millions tonnes oil equivalent)

Gas (billion cubic metres)

SOURCE: BP STATISTICAL REVIEW, 2014

Global share of energy consumption, 2013 (%)



Oil

01. United States 19.9
02. China 12.1
03. Japan 5.0
04. India 4.2
05. Russia 3.7
06. Brazil 3.2
07. Saudi Arabia 3.2
08. Germany 2.7
09. Korea 2.6
10. Canada 2.5
11. Mexico 2.1
12. France 1.9
13. Indonesia 1.8
14. United Kingdom 1.7
15. Italy 1.5
16. Australia 1.1
17. Turkey 0.8
18. Argentina 0.7
19. South Africa 0.7
20. Rest of the world 28.6

Natural gas

01. United States 22.2
02. Russia 12.3
03. China 4.8
04. Japan 3.5
05. Canada 3.1
06. Saudi Arabia 3.1
07. Germany 2.5
08. Mexico 2.5
09. United Kingdom 2.2
10. Italy 1.9
11. Korea 1.6
12. India 1.5
13. Argentina 1.4
14. Turkey 1.4
15. France 1.3
16. Brazil 1.1
17. Indonesia 1.1
18. Australia 0.5
19. South Africa 0.1
20. Rest of the world 31.9

Coal

01. China 50.3
02. United States 11.9
03. India 8.5
04. Japan 3.4
05. Russia 2.4
06. South Africa 2.3
07. Germany 2.1
08. Korea 2.1
09. Indonesia 1.4
10. Australia 1.2
11. United Kingdom 1.0
12. Turkey 0.9
13. Canada 0.5
14. Brazil 0.4
15. Italy 0.4
16. France 0.3
17. Mexico 0.3
18. Argentina 0.05
19. Rest of the world 10.55
Saudi Arabia Nil

Nuclear

01. United States 33.4
02. France 17.0
03. Russia 6.9
04. Korea 5.6
05. China 4.4
06. Canada 4.1
07. Germany 3.9
08. United Kingdom 2.8
09. India 1.3
10. Brazil 0.6
11. Japan 0.6
12. South Africa 0.6
13. Mexico 0.5
14. Argentina 0.2
15. Rest of the world 18.1
Australia Nil
Indonesia Nil
Italy Nil
Saudi Arabia Nil
Turkey Nil

SOURCE: BP STATISTICAL REVIEW, 2014

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AUSTRALIA AS HOST

Bolstering trade and investment

The G20 process helps to identify policy reforms that can be implemented with a view to improving global trade and spurring economic growth, says **Andrew Robb AO, Minister for Trade and Investment, Australia**

Andrew Robb AO was appointed Minister for Trade and Investment following Australia's 2013 election, having been elected to represent Goldstein in 2004. He has served as Chair of the Government's Workplace Relations Taskforce, Parliamentary Secretary to the Minister for Immigration and Multicultural Affairs, and Minister for Vocational and Further Education. Before entering politics, Robb worked as an animal health officer and an agricultural economist.

@AndrewRobbMP

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Many countries, from our observation, are looking at reducing government debt, looking at fiscal consolidation – as I travel around the world with my responsibilities for trade and investment, this is what I'm observing – which means they need alternative public policies to drive growth.

We are seeking to live within our means as governments; we are looking to drive growth, not only, but significantly, through trade and investment. We have to find new sources of income, and trade and investment has become of great interest to replace growth driven by debt-financed government spending. That certainly has been the case also in Australia.

As trade ministers, we need to create an enabling environment for the private sector that allows them to get on with growing their businesses by improving their competitive position so they can grow through trade, and improving their attractiveness to investments in their businesses. So much of this can be assisted by what changes we make to our own domestic policies.

Domestic policy reforms

We spend a lot of time as trade ministers talking about what we can do collectively, or between one another, or between regional groupings. But, in the end, so much of the benefit in the agreement is what structural adjustment it forces on our countries. In the end, that is where many of the benefits will arrive. It is why leaders at the G20 St Petersburg Summit last year agreed that this year we should all identify those domestic policy reforms we could unilaterally take to drive greater business activity and deliver higher growth.

ULRICH BAUMGARTEN VIA GETTY IMAGES

Volkswagen cars ready for loading at Bremerhaven, Germany. The streamlining of customs procedures is among the B20 recommendations

As the G20 president this year, Australia has taken up this challenge to put growth centre stage at this year's leaders' meeting.

In fact, the G20 finance ministers agreed on nominating the policy reforms their countries will take unilaterally to drive a two per cent greater level of growth in their own countries over the next five years.

Policy suggestions

Leaders have tasked us, as [trade ministers], to deliver a set of actions for own countries that will contribute to [the] extra two per cent growth target ... Some are extremely ambitious, some less ambitious, but certainly there are a number of new initiatives which will take political pain, but that is the nature of any change.

... A report and recommendations [from] the B20 business leaders [put forward policies] including:

- ways to free up trade in services;
- ... the benefits of unilaterally removing tariffs and behind-the-border barriers;
- streamlining customs procedures;
- investing in infrastructure;
- getting rid of destructive taxes – we have got rid of the carbon tax ... in our own parliament ... It was a trouble none of our competitors have, and that is very important for us in terms of driving growth;
- attacking red and green tape – one of the responses of so many governments, including our own, over the last six years since the global financial crisis, was to increase regulation in so many areas. Some people have got addicted to it, and it's starting to really choke a lot of business;
- effective competition policy to spur innovation – in our country we have a competition inquiry. Competition has been a lifeblood of so much of our success as a country, but we can't rest on our laurels;
- streamlining project approval processes; and
- concluding high-quality trade agreements.

... Global value chains ... absorbed 20 per cent of world output in the 1990s, and now we see over 50 per cent of world output featuring as input into ▸

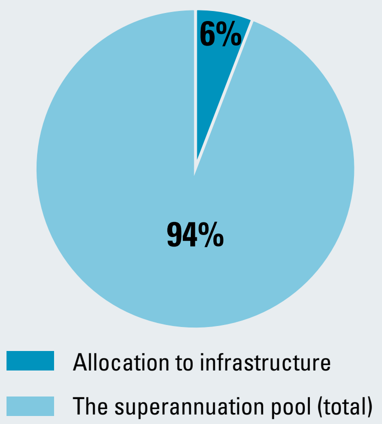
The role of superannuation

Pauline Vamos
Chief Executive Officer
The Association of Superannuation Funds
of Australia Limited (ASFA)

Over the coming years, there will be increased global demand for infrastructure investment, as governments seek to deliver projects that boost productivity and meet the needs of their growing populations. Government debt levels continue to constrain public investment, meaning the private sector is increasingly being asked to step in and fill the gap. As a fast-growing pool of global capital, superannuation and pension funds are an attractive proposition.

The size of the Australian superannuation fund pool is around $1.8 trillion and growing each day. At present, pooled superannuation funds allocate around seven per cent of their

Australian superannuation funds: current allocation to infrastructure



investment to infrastructure assets both in Australia and overseas. There is little doubt that there is strong appetite to increase this investment. With a growing superannuation pool and a possible higher allocation to infrastructure, up to $500 billion could be invested by super funds by the year 2030.

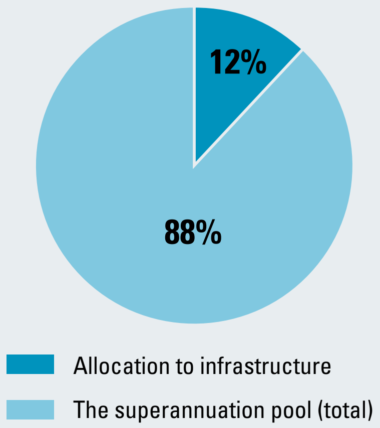
However, there are certain barriers that would need to be overcome for Australian funds to do this. This is why creating an enduring symmetry between the investment needs of long-term fiduciary investors and the infrastructure demands of government will be a key focus of the G20 over the coming years.

In Australia, the Association of Superannuation Funds of Australia (ASFA) is driving this conversation forward, by bringing together the voices of superannuation and pension funds globally to discuss ways to create an environment that helps facilitate investment in infrastructure assets. As the peak policy and research body for superannuation (pension) funds in Australia, ASFA's membership includes corporate, public sector, industry and retail funds, which represents over 90 per cent of the 14 million Australians with superannuation. The size and scope of ASFA's membership means it is uniquely placed to lead the discussion on how to help governments mobilise fund capital towards infrastructure investment.

In the course of these conversations, what has been made clear is that there needs to be at least some degree of global consistency in both policy and process in order for funds to increase their allocation to infrastructure. This includes creating guidelines for governments and policymakers that enable them to better understand the investment environment, fostering the development of structures that best meet the needs of long-term investors and facilitate cross-border investment, developing regulatory frameworks, which support and enhance long-term investments, and making data on infrastructure investments available across jurisdictions.

That being said, the most important factor is for governments to deliver a consistent pipeline of projects suitable for funds to invest in. In this regard, the recycling of assets by governments

Australian superannuation funds: potential allocation to infrastructure in 2030



worldwide will be a key driver for funds. The capital raised by these sales will rejuvenate government balance sheets and allow them to channel funds into new infrastructure projects, helping drive economic growth and productivity. The Australian federal and state governments should be applauded for their leadership in this policy area.

The establishment of a cross-border infrastructure hub, as proposed by the B20, is another mechanism that could help deepen the global pipeline of investable infrastructure assets. ASFA strongly supports this initiative. Creating a centralised hub of information regarding infrastructure projects, providing investors with the tools they need to make decisions about infrastructure projects, and improving efficiencies in the bid process will no doubt help funds lift their infrastructure investment.

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asfa
the voice of super

MARCO PROSCH/GETTY IMAGES

other goods. That has enormous implications and it is coming at us at a great rate, and is expected to grow to 60 per cent in the near future.

That … will shine a huge light on the need to accelerate the freeing up of trade and competition if we are to participate in this phenomenon. If you've got one product like a car, which has got 50 countries contributing in one way or another, there is traffic across borders three or four times – freeing up trade in competition and services is fundamental to participating effectively in this new global value chain phenomenon. The first candidate for action on this front is to see the implementation of the actions reached in Bali, starting with the Trade Facilitation Agreement … we all signed up to. G20 countries, representing 85 per cent of the world economy, have an important leadership role.

… We have … to identify what we can do jointly to strengthen the global trading system. We will start with a discussion of the realistic view of the whole trade system as it is. At this very moment, 370 different bilateral, regional, plurilateral and multilateral negotiations are in force around the world, with approximately another 100 under negotiation around the world. So, nearly 500 trade agreements [are] either in operation or in prospect. All of these negotiations are attempting to improve market access and the ease of doing business, in the absence of, in the past, an outcome from multilateral negotiations.

We need a frank discussion about where all this is heading and how we ensure that we don't end up with a mishmash of conflicting rules around the world. Is the role of 'open architecture' in these trade deals to encourage the eventual entry of more and more countries into each agreement? What mechanisms might the World Trade Organization (WTO) be given to facilitate the ultimate coalescing of many of these plurilateral and regional trade deals? How can the WTO be involved in recommending or encouraging common rules being used by the different trade deals?

All of these things, I think, are fundamental to the great attraction of multilaterals, and the great power of the multilateral deal … ■

Excerpts from Andrew Robb's speech at the G20 trade ministers' meeting in Sydney, Australia, 19 July 2014

The implications of the global value chain phenomenon must be considered in the facilitation of cross-border trade

We are seeking to live within our means as governments; we are looking to drive growth through trade and investment

Brisbane: ready to welcome the world

—— Hosting the G20 summit is a great opportunity to showcase Brisbane as a friendly, world-class city and a destination of choice for international business, investment and tourism, explains **Graham Quirk, Lord Mayor of Brisbane**

Graham Quirk was appointed Lord Mayor of Brisbane in 2011 following the departure of the incumbent, and was then elected to the post in his own right in the 2012 Brisbane City Council elections. He has been in local government since 1985, and, as a member of the Civic Cabinet for more than a decade, he has overseen key portfolios of infrastructure and finance, as well as serving as deputy mayor under Campbell Newman from 2008-11.

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Is Brisbane ready? It is a question I am often asked about our selection as host of the G20 summit in November 2014, and one that I can answer with a resounding 'yes'!

Brisbane is Australia's new world city and a natural fit for the coming together of world leaders to address challenges of international significance.

As a young and emerging city, Brisbane relishes the opportunity to host the G20 summit. It places us squarely in the international spotlight and allows us to facilitate meetings that have the potential to change the course of world affairs. For Brisbane, this is a once-in-a-lifetime chance to step up and take our place on the world stage.

A global city

The G20 summit is an opportunity to remind the world that our city has grown to become a major hub for large resource companies, a key international centre for research and innovation, and a driving force behind Australia's continued economic growth.

Our economy is on track to grow from an estimated current AU$135 billion (US$118.5 billion) to AU$217 billion (US$190.4 billion) by 2031, buoyed by a resources boom, a strong local government commitment to infrastructure, and growing trade relationships with key markets such as China.

Although global economic conditions have certainly provided challenges over the past few years, Brisbane has responded by diversifying and cultivating the innovation and creativity inherent in our city. We have truly embraced the digital age: we were the second city in the world, after New York, to appoint a chief digital officer to create a citywide strategy to engage local businesses and empower them to take advantage of the rapidly evolving digital economy. Another of our initiatives is the Brisbane Global Cafe – a first for a G20 host city and hopefully a concept that will be adopted by future G20 cities. The Global Cafe is a two-day thought-leadership event featuring world-class speakers and workshops designed to deepen the global conversation about the G20 and champion issues of particular importance to Brisbane. And this forward thinking is being recognised.

STEFAN MOKRZECKI/GETTY IMAGES

Brisbane's global reputation as a city of opportunity and growth was cemented by its selection as the host for the 2014 G20 summit

Innovating for the future

In May 2014, the 2thinknow Innovation Cities Index ranked Brisbane in the top 15 per cent of cities worldwide for nurturing innovation. Other recent accolades include the forecast by Jones Lang LaSalle that Brisbane would be the fastest-growing mature city in the world over the next decade. Earlier this year, travel bible Lonely Planet declared Brisbane to be "Australia's hippest city".

As Lord Mayor, I also believe a city is a reflection of its residents. Our locals are renowned for being friendly and accommodating, and I have asked them all to welcome international guests and to consider becoming a G20 volunteer or Brisbane Greeter. Our city already has more than 150 passionate volunteer Brisbane Greeters who speak more than 25 languages, including Spanish, Russian and Mandarin. They reflect our warm and welcoming heart. These numbers will continue growing.

Our 'Brisbane Welcomes the World' programme also encourages people to share what makes Brisbane special, so that our guests can take away a memorable personal connection with our city, our culture and our people. Furthermore, over the past year, I have been encouraging local residents to celebrate the extraordinary achievements of our city by becoming part of Team Brisbane. Team Brisbane is about passion and pride, and telling this story to wider audiences both online and in person.

Framing our central business district is South Bank – our cultural centre and home to the Queensland Performing Arts Centre and the Gallery of Modern Art (GOMA). GOMA is the southern hemisphere's largest gallery of modern art and one of Australia's most visited galleries. Surrounding this precinct is a buzzing riverside with restaurants, bars and parkland.

We have complemented this cultural precinct by becoming the host of the prestigious Asia Pacific Screen Awards, which recognises and promotes the cinematic excellence and cultural diversity of the world's fastest-growing film region. In 2014, shortly after the G20 summit, the city will introduce a new Brisbane Asia Pacific Film Festival to run in tandem with these awards.

For those who would like to travel further than Brisbane and take in more sights, the internationally renowned surf beaches of the Gold Coast and the natural beauty of the Sunshine Coast are both an easy one hour away, to the south and north respectively. Brisbane hosts a natural playground right on our doorstep, including the stunning Moreton Bay, the jewel of which is Stradbroke Island, the world's second largest sand island. The Greater Brisbane region features an abundance of unique wildlife, wineries, rainforests, wetlands, waterfalls, local food and wine trails. There are prime fishing spots, pristine beaches, arts hubs, heritage centres, dramatic mountain ranges and adventure sports opportunities such as skydiving, hot air ballooning and skywalks. Our city is also the gateway to one of the world's seven natural wonders: the Great Barrier Reef, which stretches 2,300km along the Queensland coast.

Brisbane is Australia's new world city and a natural fit for the coming together of world leaders

With all this to offer, it is easy to understand how Brisbane draws tourists from all over the world.

Building ambition and excellence

The G20 will be the perfect opportunity to showcase all we have to offer to the 4,000 delegates and 3,000 media representatives who are expected to arrive in Brisbane. It will be one of the largest events ever staged in our city, which has a history of hosting big events with style and, most importantly, outstanding success. Past major events include the 1982 Commonwealth Games, the 1988 World Expo and the 2001 Goodwill Games.

Brisbane has proven itself more than capable of stepping up to the global stage. Brisbane City Council, in its drive to build on our new world-city status, has set some long-term goals for 2031. Brisbane will grow and deliver a prosperous economy for its citizens. It will be regarded as a top-10 lifestyle city worldwide and a leading destination in the Asia-Pacific region for major events and business, tourism and global conventions. In less than 20 years' time, Brisbane will be ranked in the top 20 world cities on independent global city ranking indices. The G20 Brisbane Summit is the platform from which we will launch ourselves toward these bold and ambitious targets.

So the question should not be 'is Brisbane ready?' but rather 'what will Brisbane do next?' ■

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A blueprint for growth and jobs

—— Representing the voice of the business community, the B20 group's recommendations to G20 leaders are designed to help drive global economic recovery, explains **Robert Milliner, B20 Sherpa for Australia for 2014**

Robert Milliner is the B20 Sherpa for Australia for 2014, a Senior Adviser at UBS and Chair of the Board of the Foundation for Young Australians. Milliner recently retired after 28 years as a partner at international law firm Mallesons Stephen Jaques (now King & Wood Mallesons), having served as Chief Executive Partner from 2004-11. He was a director of the Business Council of Australia from 2005-11, Chair of the Business Reform Task Force and a member of the Global Engagement Task Force.

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When the G20 was elevated to a leaders' meeting following the financial crisis in 2008, the benefits of having all the major advanced and emerging economies working together to address global economic issues were obvious. The G20's decisive and coordinated action in 2009 was critical in boosting business and consumer confidence and preventing another great depression.

Financial markets are now more stable, but economic recovery has been slow. Recent evaluations by the International Monetary Fund, the Organisation for Economic Co-operation and Development, and the World Bank highlight the negative impact of lower than expected growth rates on job creation and unemployment. Successive updates have revised down projections for growth across developed and developing economies, while unemployment numbers rise.

Returning the global economy to a strong, sustainable growth path will require further coordinated action by developed and developing countries. The G20 is critically important for achieving the necessary level of coordination because it is representative enough to make decisions that change the direction of the global economy and small enough to make those decisions quickly and effectively.

Business input into the G20 agenda

The role of the B20 is to lead engagement with G20 governments on behalf of the international business community. It brings together international and domestic business groups, and multinational, regional and domestic businesses to focus on topics selected through consultation across the G20 members. It offers a real economy perspective to G20 deliberations and contributes practical recommendations to help guide G20 commitments from year to year.

The B20 was first convened as a business summit in Toronto as part of the Canadian G20 presidency, in June 2010. Since then, six B20 summits have been held in each successive G20 host country. Collectively, they have produced more than 460 recommendations for G20 leaders.

The B20 has played an increasingly active role in G20 deliberations since its first formal dialogue with G20 governments. But its effectiveness appears to have been blunted by a lack of focus, which dilutes the messages from business to government. B20 Australia has deliberately maintained a tightly focused agenda in 2014.

Addressing global challenges

The challenge put to G20 leaders following the St Petersburg Summit in 2013 was to take decisive action to return the global economy to a strong and sustainable growth path. Prime Minister Tony Abbott articulated a strong purpose for Australia's host year. He committed to focusing Australia's presidency on promoting stronger economic growth and making the global economy more resilient to deal with future shocks.

The February and April meetings of the finance ministers and central bank governors built on this clear agenda, with G20 governments pledging to work together to lift collective gross domestic product (GDP) by more than two per cent above trend over the next five years – more than $2 trillion more in real terms – and add tens of millions of jobs. They committed to achieving this target through concrete action to increase investment, lift employment and participation, enhance trade, and promote competition, in addition to implementing macroeconomic policies. The B20 strongly supports these objectives.

The recommendations for 2014

This year, the B20 concentrated on identifying the impediments to a more conducive environment for investment and growth through five groups focused on the core economic drivers of trade, infrastructure, human capital, finance and transparency.

The result of this work is 20 mutually reinforcing recommendations for action by G20 governments. These actions are mostly new structural reform measures that, if implemented, would drive growth in excess of the G20 target and form a blueprint for sustainable economic growth in the medium term. Structural reform is challenging because it requires fundamental changes in the conduct and operation of internal markets. In a global economy, structural reforms must also be carefully coordinated to achieve the best outcomes for all communities. This will require both collective actions and agreement for unilateral actions to increase economic growth: more trade, better infrastructure, accessible and affordable finance, and human capital in the right place, at the right time, with the right skills.

Business supports G20 leaders who embrace country growth strategies of sufficient ambition to achieve the two per cent additional growth target. The B20's recommendations are drawn from four common themes that are critical to success in a global economy:

- Structural flexibility so that governments and business can respond better to the need for change as it arises. The B20 proposes that governments enhance structural flexibility through reforms to promote more efficient and productive supply chains, infrastructure and labour markets.
- Free movement across borders of goods, services, labour and capital, which is the precondition of a truly global economy. The B20 proposes reforms that tackle trade protectionism, facilitate cross-border investment and improve the link between available labour and productive work.
- Consistent and effective regulation to ensure that markets work as efficiently as possible. The B20 supports completion of the stability-enhancing core reforms to global financial markets, but recommends improved rule-making processes, and also proposes domestic reforms to improve commercial efficiency.
- Integrity and credibility in commerce to ensure that corruption does not create perverse incentives, distort markets or stunt their growth. The B20 proposes action to encourage self-reporting, harmonise anti-corruption laws and align beneficial ownership regulation.

If G20 members commit to the proposed reforms, the gains will be large, but a failure by any of the members to commit to and deliver on the proposed reforms would mean a significant opportunity cost.

For example, the B20's four trade recommendations could lead to $3.4 trillion in GDP, which is akin to adding another Germany to the world's economy. Similarly, closing the infrastructure gap of $12–$22 trillion by 2030 could create 100 million new jobs and $6 trillion in economic activity.

B20 messages for G20 leaders

The B20 has five key messages for policymakers:

1. The urgent goal is growth and jobs to lift living standards around the world. There is no room for complacency.
2. The G20 is the right forum to pursue this goal, because it is the only forum capable of achieving the coordinated action necessary to drive and shape the global economy.
3. The G20 has set a realistic and necessary growth target, but now must focus on how that target will be achieved.
4. The B20 has identified policy principles to meet the target by focusing on the major impediments to growth and jobs creation.
5. The B20 recommendations require collective agreement by the G20 for unilateral action by each member.

The business community believes that the proposals delivered to the G20 are specific, practical and actionable. If implemented, they will lift inclusive growth, boost participation, create jobs and build the resilience of the global economy. The business community is committed to working with governments to achieve these outcomes, including through dialogue with governments and communities. ■

Speakers at the B20 Australia Summit trade address and panel discussion in July 2014. The B20 is a forum through which businesses can engage with G20 leaders and offer recommendations

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Knowledge-sharing for development

Like the G20 summit, universities strive to nurture a fertile environment for the exchange of ideas and expertise to develop solutions to the world's problems, writes **Ian O'Connor, Vice Chancellor and President, Griffith University**

Professor Ian O'Connor became Vice Chancellor and President of Griffith University in January 2005, taking the helm of one of Australia's largest and most innovative tertiary institutions. He is widely published in the fields of juvenile justice, child welfare and the future direction of social work and human services. He has held visiting fellowships at the United Nations and Asia Far East Institute, Cambridge University and Hong Kong Polytechnic University, and is a member of the Q20 group of high-level representatives from Queensland's business, community and government sectors.

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Universities, like political leaders, operate in both national and international contexts. Our shared rationale lies in identifying and attempting to solve what are now widely known as 'wicked problems'.

Universities, in one form or another and under various titles, have been doing this in almost all places around the world since long before the Common Era, creating, preserving and disseminating knowledge. In its modern form, the university is about a thousand years old and has become an internationally recognisable institution, regardless of the country in which one might be found.

Universities domiciled in one country are also increasingly operating as multinational organisations, offering expertise in teaching and research that is universally valued. What universities offer is a genuinely barrier-free window to the world. I can think of no Australian university that does not also have a presence elsewhere, either directly or indirectly through a partnership with some other institution. Griffith University, for example, has direct or indirect links on every continent. About a quarter of the 43,000 students on its five campuses in South-East Queensland are international students.

Cultivating future leaders

For the past millennium, universities have nurtured future leaders on the threshold of their careers as students of politics, the arts, the sciences, law, medicine, the humanities, teaching, commerce, the civil service, the military and every other profession. Universities often welcome back their graduates later in their lives as teachers and occasional guests to share their experiences with the next generation of leaders-in-waiting.

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Wicked problems are our shared business. In *Wicked Problems: Problems Worth Solving*, Jon Kolko of the Austin Center for Design offers a useful definition: "A wicked problem is a social or cultural problem that is difficult or impossible to solve for as many as four reasons: incomplete or contradictory knowledge, the number of people and opinions involved, the large economic burden, and the interconnected nature of these problems with other problems. Poverty is linked with education, nutrition with poverty, the economy with nutrition, and so on. These problems are typically offloaded to policy makers, or are written off as being too cumbersome to handle en masse. Yet these are the problems – poverty, sustainability, equality, and health and wellness – that plague our cities and our world and that touch each and every one of us."

This definition would get no disagreement from the world's leaders who will be meeting at the G20 summit in Brisbane in November. They deal with problems on this level of wickedness every day of their working lives.

The Brisbane Summit will focus on contemporary international economic issues. These are truly wicked, according to our definition. In addressing them, the leaders will be advised by large numbers of experts, almost all of whom will have learnt their craft at one of the world's universities. International leadership does not function in a vacuum; leaders work through a multitude of alliances, both formal and informal. Universities, likewise, do not function in a vacuum. There are some 14,000 institutions throughout the world that claim the title of 'university'. All are united by a commitment to the sharing of ideas through interlocking formal and informal alliances, and collaborations in teaching and research.

There is therefore a logical connection between the focus of the forthcoming G20 summit and the factors that unite leaders and universities in a common cause. Understanding problems is most effective when it is a collaborative intellectual exercise. It involves common attempts to appreciate the nature of problems, their boundaries, their effects and their costs in human and material terms. These are also the fundamental and necessary conditions for finding solutions that work.

> International leadership does not function in a vacuum; leaders work through a multitude of alliances

During this year, Griffith University is involved with partners in other universities, in civil society and with government agencies to host a suite of events relevant to the issues that will exercise the minds of the G20 leaders when they meet. In June, the university joined with Transparency International to hold a two-day workshop on the assessment and strengthening of anti-corruption capacity. This is a major issue around the world, as leaders try to ensure that international economic relations are based on fair common standards.

Universities teach the future leaders in areas such as the sciences. Some graduates use the expertise they acquire at university to advise governments

The university has engaged with one of Australia's premier law firms, Minter Ellison, to offer seminars to senior members of the business community and from government agencies on contemporary issues such as intergovernmental taxation protocols, infrastructure development and the levers of economic growth.

In time with the summit itself in November, the university, in partnership with the University of Sydney's United States Studies Centre, will host a Women in Leadership Dialogue that will feature some of the world's most senior and influential women.

Strategic partnerships

The arts and cultural activities play a very significant role in effective international relations, and Griffith University's film school and conservatorium of music will be the focus of activities involving world-renowned performers and directors around the time of the summit.

Through organising and participating in many such events this year, Griffith University recognises that there will often be different perceptions of what wicked problems are, let alone what the workable solutions might be. But rather than acting as a deterrent, this should encourage the G20 leaders, like scientists who work together on a single project in university laboratories in different countries, to keep searching for answers.

Griffith University takes great pleasure in being the host for many of the events surrounding the 2014 G20 summit. It joins with the residents of Brisbane in extending a warm welcome to the leaders, to their partners and to the thousands of delegates who will accompany them. ■

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Private-sector perspectives

——Senior figures from business and finance share their views on the prospects for growth within the G20 countries and beyond, identifying the next major emerging markets and offering opinions on the development of government strategies to facilitate new projects

Roland Diggelmann is Chief Operating Officer for the Diagnostics division of the Roche Group. As the head of the world's leading diagnostics company, he is responsible for a $10 billion-plus business and around 30,000 employees. He has close to 20 years' experience in the medical device and diagnostics industry. Prior to his current position in Switzerland, he led operations in EMEA, Japan and Asia Pacific.

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Geoff Cook is Chief Executive of Jersey Finance. He is a regular speaker at conferences and seminars around the world and writes frequently on the issues affecting Jersey and other finance centres. Previous to his role at Jersey Finance, he was Head of Wealth Management for HSBC, based in London, responsible for the delivery of financial planning services to 10 million customers in the UK.

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Adrian Walker is Global Co-Head of Infrastructure, Energy, Resources and Projects practice, Hogan Lovells, based in London. He has around 20 years' experience of advising governments, sponsors, contractors and funders on infrastructure projects, including substantial involvement in global transport and resource projects in emerging markets.

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This year, for the Brisbane Summit, the G20 is focusing strongly on private-sector-led growth at a time when governments' fiscal and monetary policy is heavily constrained. From your perspective, and that of your business colleagues in your sector, what are the prospects for growth in the G20 members over the coming year?

Geoff Cook: The G20 has been doing reasonably well. The US and UK are growing showing good growth and, while generally Europe is a little flatter, the G20 developing countries are still seeing a fair amount of growth. I would expect to see this continuing, however I would add a caution: it's important that we take care to avoid creating protectionist barriers that impact on the way that trade agreements are conducted.

Roland Diggelmann: While the US is expected to grow ahead of the European markets, the Asian economies will continue to post the largest growth. Other emerging markets will also lead the growth, but at a slower pace. In general, the overall financial constraints will prevail with the EU experiencing continuous pressure.

In terms of the healthcare market, we expect strong cost containment and pressure on the public healthcare sector, especially in Europe. Reforms will continue to be slow in implementation with the majority of the pressure on suppliers or providers.

Adrian Walker: Japanese outbound investment will continue to thrive, largely due to an aggressive initiative to use the government balance-sheet strength to support its main industrial and finance trading houses. Turkey and Russia would benefit from internationalisation, to avoid over-concentration on domestic industrial and financial markets. However, this is a political issue, more than an economic one.

Mexico will benefit from its political liberalisation, and attract significant inward investment, not least from global Spanish-based contractors.

What can G20 governments do as a priority to fuel strong, sustainable and balanced private-sector-led growth?

RD: From our perspective, as a provider of healthcare and diagnostic solutions, we believe investments in healthcare can not only sustainably improve the health of people, but also increase their productivity. A healthy society is the foundation for economic growth. As such, investments into private insurance, healthcare plans and public-private solutions can be further fostered.

In general, portfolio management, including the prioritisation of selected industries and the establishment of clusters for investments, could allow for better focus and efficiency. It also allows for more effective incentives and the creation of a better-suited legal framework for investments.

GC: There needs to be a focus on capital investment into infrastructure. Furthermore, the G20 needs to work to make economies more efficient and generate jobs and growth.

AW: Ensure political and regulatory stability: there is a global competition for capital and a value for money premium to be paid by those members that are less stable. Understand the economic arguments: private investment in public infrastructure does not mortgage the next generation with government debt: it fuels jobs and growth now, which are paid for by the long-term users of the infrastructure for years to come.

Understand that infrastructure is political: you would not cheat on your child's education and infrastructure investment needs to be sold in the same context, and not subject to political short-termism.

Recognise the value of your balance sheet: government doesn't have to spend current tax revenue to promote growth. In EMDEs (emerging markets and developing economies), there is a duty on government to focus on basic social need: power, clean water, education and healthcare. Private finance will be key to accelerating this.

Where do you expect the next big emerging markets to be, and how are you preparing to work in and with them?

GC: China, India and Africa, in particular. Over the past 10 years, Africa has seen its economy grow on average by 5.2 per cent a year, which makes it one of the world's fastest-growing regions. Furthermore, Africa's working-age population is set to double over the next 30 years, which has the potential to create an unrivalled boost to its economy. However, the flip side to this is there needs to be an $85 trillion investment into infrastructure, most of which cannot be generated locally. Encouraging foreign investors to allocate capital to the continent could go a considerable way to filling the investment gap and helping Africa realise its full potential.

AW: In infrastructure and energy, the term 'emerging markets' takes on a subtly different slant. The US has vast infrastructure needs. As shale gas means it becomes increasingly energy self-sufficient, we see significant development opportunity in the shale market and an increased focus on social infrastructure improvement driven by private capital.

Hogan Lovells has invested aggressively in the Mexican market as we see the increasingly progressive approach will lead to enhanced domestic and in-bound economic activity. Sub-Saharan Africa will grow rapidly, while Indonesia remains attractive, but resource-dependent. We are growing in South-East Asia to support this market. Brazil is in the same category.

RD: Emerging markets continue to provide opportunities. Currently, the largest emerging market is China and we anticipate this to remain. The China healthcare reform has moved into the next phase and is looking to provide healthcare access to the entire population. In addition to better access, the quality of healthcare can be further improved.

Long-term investment opportunities, as well as a set of well-financed and clearly defined healthcare policies, are key to stimulating growth and establishing a robust healthcare sector. Public-private cooperation could, in this case, significantly propel development and time to achieving results. The next emerging markets will be in Africa. We are expanding our presence in the region and putting focus on education and training.

New and improved infrastructure is a key driver of economic growth. How could current strategies for planning, financing and constructing new projects be developed to further enhance the needed international investment?

AW: Governments globally need to recognise two universal truths: there is plenty of 'finance' (private capital) to build infrastructure, but there is limited 'funding' (tax revenue or user charges) to provide a return on that capital. Long-term planning is key.

Like the major banks, large private infrastructure financing is 'too big to fail'. Some capital can and will be exposed, but governments need to be smarter in allocating the risk that private capital is asked to manage.

At a micro level, governments should be smarter in how they allocate their limited resources and plan better for the longer term. More generally, the more developed members of the G20 can grasp an opportunity to support their export market into the development of global infrastructure: a 'win-win' approach that boosts EMDE infrastructure while supporting domestic economic activity.

GC: We've already seen an influx of foreign investment driving infrastructure projects in other countries. ▸

Infrastructure for the future

Michael Izza
Chief Executive Officer

By 2030, global infrastructure investment will need to reach $57 trillion, a rise of 60 per cent on current spending levels. Infrastructure is a key driver of economic growth and, if done well, can promote new businesses, create jobs and connect communities.

G20 leaders are right to be pursuing better infrastructure. Projects such as Australia's Gold Coast light-rail system or Turkey's five new international airports highlight the opportunities – and the risks – ahead.

Despite this, international best practice on infrastructure remains underdeveloped, and it is easy to find poorly conceived projects or so-called 'bridges to nowhere'.

One major risk is the pace of technological or market change, meaning infrastructure can become obsolete within its own lifetime. Policymakers must now anticipate how the world will be in 20 or 30 years' time.

Another risk is that without sustainable finance, infrastructure projects may look good in year one but can deteriorate quickly. Good infrastructure needs not only good physical foundations, but also strong financial foundations.

ICAEW Chartered Accountants have the skills to help ensure infrastructure projects are done in a way that is sustainable and delivers a positive legacy for future generations.

The three main challenges ahead

1. **Bridging the skills gap:**
The best infrastructure demands that both partners, public and private, have high levels of financial literacy and business skill. ICAEW Chartered Accountants are world leaders in business, finance and strategy and can help support G20 nations in building the skills to secure long-term infrastructure.

2. **Bridging the funding gap:**
A funding gap has emerged as traditional investors, such as banks, for example, have withdrawn from infrastructure projects following the financial crisis of 2008. Governments now have the opportunity to create new investment relationships to attract capital from other providers, such as pension funds or sovereign wealth funds.

3. **Bridging the information gap:**
Clearer communication of the opportunities, costs, risks and long-term returns can help governments forge better investor relationships. Investors need detailed information on the lifetime value of a rail network or a hospital, rather than just its construction cost. ICAEW Chartered Accountants can help identify these long-term risks and value, which is why we support the B20 call to promote innovation in financial information. This will create greater levels of transparency and trust between investors and governments.

With these measures, we believe global leaders can ensure that today's infrastructure is fit for the future. ICAEW supports Australia's emphasis on good infrastructure, which we believe will provide a great foundation for Turkey's G20 presidency in 2015.

Case study:
Gold Coast Light Rail:
on time, on budget, with local support

Investment in infrastructure has the potential to create wider economic benefits. Research shows that for every $1 spent on infrastructure projects, a much higher return is expected in terms of growth and development. The new Gold Coast light railway, just down the road from Brisbane, is a recent example of the benefits that infrastructure can bring to a community. The project is a shining example of a successful public-private partnership, delivered on time and on budget. Sitting in the heart of a thriving community and with more than 90 per cent of the goods, services and workers sourced locally, the new transit system should serve as a reminder to G20 leaders on how to do it right.

ICAEW is a world-leading professional membership organisation that promotes, develops and supports more than 142,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

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Sovereign wealth funds have recently seen iconic buildings such as the Shard and Battersea Power Station, in London, being built and revitalised through monies originating in the Far and Middle East. Such investments are likely to become more commonplace and are going to be instrumental in generating growth in developed economies, like those in Africa.

In terms of strategies, these would benefit from clearer and more consistent rules, particularly with regard to public-private partnerships in infrastructure developments.

RD: Government subsidies for healthcare are the most prominent growth driver. Government investments are typically financed through tax income – or, in some countries, through the government's revenues from commodities.

Governments need to be able to address necessary reforms to drive system changes. Savings are only one element. Efficiency and access are critical for the long term. More people will require more and better healthcare; this is a positive trend as science progresses and allows for higher quality of life.

Beyond this, the private healthcare sector needs to be strengthened to allow for a tiered approach and to continue to establish a dual system of public and private healthcare. Private-sector investments need to generate profits. They need investment opportunities and a framework that is sustainable.

Have moves led by G20 governments since 2008 to strengthen financial regulation and supervision affected your business and sector, and what are the next steps that should be taken?

GC: The stabilisation of the financial system by the G20 is a major achievement. However, consistency and coherence of international regulation has lost shape in recent years and added a great deal of cost. It's important that the core regulatory agenda is embedded, but without proliferating new regulations and costs, which should be avoided. Also, some regulations have given rise to financial exclusion, which is not a desirable outcome and needs to be addressed.

AW: Greater financial regulation has increased the regulatory cost of capital for long-term lending. Infrastructure projects require long-term capital. This is not fatal, as some institutional investors are currently less exposed to the regulatory framework than banks, but it is a trend to be monitored.

Infrastructure investments, although long-term, are historically safe in relative default terms. Increased capital requirements will simply increase the cost of construction and deflate the rate at which new infrastructure can be built. We would advocate special treatment for long-term infrastructure lending, to avoid unnecessary capital cost increases that will simply constrict the rate at which new infrastructure can be afforded. This generates a direct transfer from consumers to bank shareholders, which does not reflect the actual risks being borne by the providers of capital.

RD: We did not see major impact on the healthcare sector. Transparency and line of sight are key for planning and investments. Best-practice exchange and swift adoption are also important.

What principles and priorities should guide governments' efforts to reform the rules on international taxation?

RD: Tax competition is a possible approach and could lead to better solutions. Every government has different priorities, so the adoption of a flexible investment and taxation environment may aid in the achievement of specific objectives. Importation and free flow of goods need to be strengthened and intellectual property rights should be maintained or further expanded to ensure research and progress.

> "Every government has different priorities, so the adoption of a flexible investment and taxation environment may aid in the achievement of specific objectives"

AW: From an infrastructure and energy perspective, domestic tax is a pass-through. Import tax, withholding taxes and corporation taxes are all neutralised by any international capital investor. Every dollar of tax goes on to the price so that the offshore returns are (when net of taxes) at an acceptable level. So, you can tax a specific investment, but the cost comes back to the consumer of the new infrastructure. There is no net gain to the local government or economy.

Internationally, the infrastructure and energy market will continue to take advantage of the arbitrage between different tax jurisdictions. Unless there is a global harmonisation of corporate and personal tax, which we think unlikely, then capital will continue to flow through the channels that ensure lowest tax leakage. This is not a bad thing. Investors of private capital set their return rates domestically. If international tax leakage can be minimised, then the cost to the ultimate consumer of an international infrastructure investment will be lower. Domestically, this should be welcomed.

GC: The current OECD transparency programme will deliver the necessary improvements through the establishment of a common reporting standard. Rules regarding base erosion and profit shifting need to be consistently communicated and applied, but beyond that further change should be avoided. The primary focus of the G20 should be jobs and growth. ■

Building resilience and boosting growth

With uneven recovery among G20 members, robust structural reforms and employment measures are needed to stimulate growth, says **Angel Gurría, Secretary General, Organisation for Economic Co-operation and Development**

Angel Gurría has been Secretary General of the Organisation for Economic Co-operation and Development since 2006, having been reappointed in 2010. He served as Mexico's Minister of Foreign Affairs from 1994-98 and Minister of Finance and Public Credit from 1998-2000. Gurría has participated in various international organisations, including the Population Council and the Center for Global Development. He chaired the International Task Force on Financing Water for All and is a member of the United Nations Secretary General's Advisory Board on Water and Sanitation.

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Six years after the global financial crisis, the global economy remains stuck in the 'repair shop', expanding at a moderate and uneven pace. Growth is picking up in some of the major economies, with countries such as the United States and the United Kingdom showing healthy growth rates. Yet euro area growth remains in low gear, China's growth is settling at a lower rate and Brazil's economy has gone into recession. The September Interim Economic Assessment released by the Organisation for Economic Co-operation and Development (OECD) revised growth forecasts downward for 2014 and 2015 for most major economies. Forecasts for growth in the largest G20 countries were lowered by nearly a quarter of a percentage point compared with the April forecast.

Two key cylinders of the global growth engine – trade and investment – remain sluggish and are not back yet to pre-crisis levels. In the euro area, credit continues to shrink, creating a drag on demand. Furthermore, the recovery faces various challenges and headwinds, from geopolitical risks to global market spillovers from the normalisation of US monetary policy.

The tepid growth rate means that a substantial degree of labour market slack remains, especially in the euro area. Unemployment remains a concern, with approximately 100 million people unemployed in G20 countries. The jobs gap – the number of jobs that need to be created to restore unemployment to pre-crisis levels – has been estimated by the OECD and the International Labour Organization at 65 million. Particularly worrying are long-term unemployment and youth unemployment, which have reached very high levels in some countries. Rising unemployment has also contributed to the intensification of income inequality experienced during the crisis.

The crisis magnified some of the structural challenges that existed even before the crisis, notably ageing populations and slowing productivity. The old-age support ratio (the number of people of working age for every person aged over 65) is currently around four to one in OECD members, but will halve by 2060. In Brazil and China, the support ratio will fall from around eight now to approximately two to one by 2060. The OECD's recent long-term growth scenarios illustrate these challenges: in the absence of structural reforms, growth will slow down across the board between the next decade and the middle of the century. This is all the more worrying in a context where the growth potential of advanced economies has already been knocked by the crisis. To avoid being caught in an era of low growth – dubbed secular stagnation – G20 leaders must develop an ambitious yet attainable structural reform agenda, which unlocks growth potential and boosts job creation, especially among the youth and vulnerable groups.

Comprehensive growth strategies

G20 members should focus on reforms that eliminate structural bottlenecks and restore confidence. These reforms should also reignite productivity and workforce mobilisation, which drive long-term growth. The OECD therefore welcomed Australia's priorities of investment, competition, trade and jobs for its G20 presidency.

> G20 members should focus on reforms that eliminate structural bottlenecks and restore confidence, reigniting productivity to drive growth

But structural reforms must be tailored to each country's individual needs and circumstances. The OECD thus supported the leaders' call at their 2013 St Petersburg Summit to develop fully fledged, comprehensive, country-specific growth strategies by the Brisbane Summit. The OECD has been working very closely with G20 members, under Australia's leadership, to identify and define the reforms that will yield the highest growth and contribute to achieving the additional two per cent growth target committed to in Sydney, Australia, last February by G20 finance ministers and central bank governors. Ahead of that meeting, I launched, jointly with Australian treasurer Joe Hockey, the OECD *Going for Growth* report, with practical structural reform recommendations for governments to boost productivity and employment and escape a trajectory of low growth.

Bold measures on employment are also needed, including investing in people's skills, implementing activation policies and promoting gender equality. The OECD supports the Australian presidency in the G20's commitment to reduce the gender gap in

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employment by 25 per cent by 2025 – which could bring more than 126 million women into the G20 labour force. Such an increase would boost real gross domestic product (GDP) in 2025 for the G20 as a whole by between 1.2 and 1.6 per cent.

The OECD is also working on other policies to make growth more inclusive, so that vulnerable groups also enjoy its benefits. The OECD's Inclusive Growth initiative provides governments with guidance to

> The G20's commitment to reducing the gender gap in employment could bring an extra 126 million women into the workplace

improve access to health systems, unemployment insurance, public transport and other public services so that they reach those who need them the most.

The OECD was also tasked, with the International Monetary Fund (IMF), to assess the growth impact of the 1,000 policy reform commitments in the national growth strategies submitted by G20 members. Its 'verdict' is positive: the strategies represent a significant step forward in strengthening global growth and ▸

Financial transparency: smart for business, smart for development

At this year's summit G20 leaders will surely look for ways to bolster economic growth and create jobs, but wasteful loopholes in the global financial system are dampening their prospects. Roughly a trillion dollars leaves developing countries illicitly each year by way of corruption, tax evasion and criminal enterprises. This money could be used to spur investment, generate economic growth, and fund new roads, schools and hospitals. Instead, capital is hidden in bank accounts registered in tax havens, often in G20 countries.

> Establishing registers that collect information about who is really controlling a company would help authorities track tax evaders and criminals

In Brisbane, G20 leaders have a unique opportunity to address the financial secrecy that weakens prospects for growth. The current financial system is riddled with loopholes, from the ease with which you can hide company ownership to the hidden nature of a multinational corporation's profits and losses. This makes it hard for investors to tell whether profits are real or manufactured, hard for governments to invest in the infrastructure that drives growth, and hard for citizens to keep their leaders honest. The summit's Australian hosts have drawn attention to the problem, but now is the time for action.

Transparency for better investments

One cost-effective way of cutting illicit flows is to make it harder for perpetrators to hide. Establishing registers that collect information about who is really controlling a company and making that information public can facilitate the due diligence obligations of banks and other financial services at risk of seeing corrupt or stolen money. Registers would also help authorities track the corrupt politicians, corporate tax evaders and criminals who flourish in today's secrecy. Businesses gain from this type of disclosure because it would help prevent them from falling victim to the types of shams that shell companies can perpetrate. Transparency simply makes for better investments.

The benefits of disclosure

World leaders have begun to acknowledge the role that public disclosure of company ownership plays in better business practice.

The United Kingdom announced the decision to adopt a public register of beneficial ownership for all companies registered in the UK earlier this year, and in March, the European Parliament voted to support creating public registers throughout the European Union. The Business 20, Civil 20, Think 20 and Youth 20 have all identified beneficial ownership transparency as a priority for this year's summit.

Another promising measure is the Organisation for Economic Co-operation and Development's new standard for automatic exchange of tax information. Right now, countries exchange (or do not) financial information upon request, a cumbersome and bureaucratic process that often allows secrecy jurisdictions the ability to deny information to other countries. Authorities exchanging information automatically would cut down dramatically on red tape and help stop tax evasion. But the measure was drafted by a group of rich countries, leaving out most nations, meaning the standard will ultimately be disjointed, leaving loopholes in place to hide illicit cash.

Global business leaders are also calling for country-by-country reporting of profit, taxes paid, employees and other relevant data to ensure a fair global marketplace. A recent survey carried out by PwC showed that 59 per cent of CEOs around the world support making their financial information public, and the firm's recent research for the European Commission finds the reporting would boost stability and competitiveness.

Access to information provides a more predictable and stable business environment and generates trust between businesses, citizens and governments. These simple measures have the support of everyone from accounting firms to governments and civil society groups. Establishing clear and predictable rules for the global economy could recapture nearly a trillion dollars in wasted economic potential in developing countries alone. In Brisbane, G20 leaders must take their mandate to boost economic growth seriously and steer the global economy away from the shaky foundation of cooked books and murky transactions and toward genuine transparency and long-lasting growth.


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Last year, the Chinese Government announced plans to establish more property rights for farmers as part of its strategy to boost the economy. Growth continues, but is slowing down

creating jobs. But implementation will be key and will require strong political leadership.

Vigorous political leadership is exactly what the G20 demonstrated on the issue of tax. As US President Barack Obama stated: "The work on tax is the G20 at its best." From the person on the street all the way up to political leaders, over the last five years, fairness and transparency in the international tax system have been recognised as fundamental global concerns, with significant economic impact – starting with implications for public finances – and a bearing on citizens' trust in institutions.

Eliminating harmful practices

Through the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, and work to establish a single global standard for the automatic exchange of information (AEOI), the G20, with the OECD's support, is reforming an international tax system that has not kept pace with changing times. It is restoring integrity, fairness, coherence and effectiveness to it.

At the finance ministers' meeting in Cairns in September, the OECD delivered the first package of measures to address BEPS – agreed by all OECD and G20 members on an equal footing, in the framework of the BEPS Action Plan. This work will put an end to deficiencies that allow taxpayers to book profits in low- or no-tax jurisdictions, divorcing the location of profits from economic activities and value creation.

These measures address issues such as tax treaty abuse for double non-taxation, hybrid mismatches and harmful tax practices. They pave the way for country-by-country reporting by multinational enterprises and provide guidance for revising rules on transfer pricing in order to promote outcomes aligned with value creation in the key area of intangibles. They help address the tax challenges of the digital economy. The OECD also confirmed the feasibility of developing a multilateral instrument that will support a rapid, globally coherent implementation of BEPS measures and amend the existing network of more than 3,000 bilateral tax treaties in one go. The G20/OECD BEPS project builds on broad engagement, drawing on experience and perspectives beyond governments, including those of global business leaders, civil society and labour representatives. These first seven actions will be presented to the leaders at Brisbane. The remaining eight actions will be delivered to the G20 in 2015.

Excellent progress has been recorded in the fight against tax evasion and non-cooperative jurisdictions. Following the achievements in the exchange of tax information on request – obtained in the context of the Global Forum – the world is now moving towards the new frontier of AEOI. In Cairns, the OECD delivered to finance ministers – who endorsed it – the single common global standard, with all the technical details needed for effective implementation. G20 members are called upon to lead the way. Already more than 60 countries have committed to implementing the AEOI standard, and 45 have agreed to a specific and ambitious timetable for early implementation, with the first exchanges beginning in September 2017.

Through its work on tax compliance, the OECD has already made substantial and meaningful progress that is influencing taxpayer behaviour – the most prominent steps taken in a century. So far, a total of €37 billion ($47 billion) has been identified from voluntary-disclosure programmes targeting offshore evasion, involving 24 countries over a period of five years. More will come. The G20 made it happen – and without them, this would simply not have been possible.

The work achieved by the 44 OECD and G20 members on tax is not essential solely for them, but will also benefit other tax jurisdictions around the globe. The OECD is working with the G20 to ensure that developing countries can make the most of the new international tax environment, be it AEOI or measures against BEPS.

The remarkable progress of the OECD and the G20 on tax issues in such a short time demonstrates the possibilities that arise when political leadership, a sense of responsibility and technical excellence align in pursuit of a common objective. The tax success story can be replicated in other areas of G20 work – be it trade, investment or structural reforms. The OECD stands ready to continue to provide first-class technical analysis and policy options. We count on the G20 to continue to provide the necessary political leadership to achieve these ambitious goals. ■

Moving tax data transparency to the next level

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As governments around the world work together to combat perceived offshore tax evasion, it is clear that through transparency, governments aim to achieve tax compliance.

The automatic exchange of taxpayer information is a vital component to assist governments to achieve transparency. Ensuring profits are taxed where they arise and relieved from double taxation where appropriate, however, also contributes to tax compliance.

As part of this work, the OECD, commissioned by the G20 governments, has been working on a number of projects in the area of international taxation: these are the automatic exchange of information (AEOI), base erosion and profit shifting (BEPS) and treaty relief and compliance enhancement (TRACE).

Automatic exchange of information (AEOI)
The AEOI is an OECD initiative, which provides the global framework for automatic, systematic and periodic transmission of taxpayer information between countries to combat tax evasion.

In February 2014, with the formal endorsement of the G20 leaders, the OECD's Model Competent Authority Agreement (CAA) and Common Reporting Standard (CRS) were unveiled. In March this year, following an OECD meeting to discuss the CRS project, more than 45 countries – the so-called Early Adopters Group – committed to adopting the CRS from 2016. Dealing with the numerous reporting systems being put in place represents challenges for both governments and the financial institutions that are being asked to report account holder information.

Helpfully, on 21 July this year the OECD published commentaries on the CRS and CAA models. These commentaries are designed to assist both governments and business to implement the standard consistently.

Finally, on 21 September 2014, the G20 published the CRS implementation plan, which demonstrates its commitment to swiftly implement the CRS and translate it into domestic legislation.

In what governments describe as an aggressive but realistic implementation timetable, the CRS is expected to go live on 1 January 2016, with the first report expected by 30 September 2017.

Base erosion and profit shifting (BEPS)
The OECD's BEPS project is broadly focused on multinationals utilising tax-planning strategies to exploit gaps and mismatches in overseas tax systems to mitigate their exposure to local corporation taxes. Produced at the request of the G20 and introduced in July 2013, the OECD's Action Plan on BEPS identifies 15 specific actions aimed to provide governments with clear international solutions.

These 15 actions each have a different delivery timeline, starting from September 2014, with the project's end date being December 2015. The final outcome is expected to be a combination of reports, recommendations and changes to existing rules.

Treaty relief and compliance enhancement (TRACE)
TRACE is intended to improve cross-border tax-relief procedures by means of a standardised system for the claiming and reporting of withholding tax relief, under both a treaty and a source country's domestic law reliefs.

TRACE envisages a system to be used by any country that implements the proposed authorised intermediary (AI) system, for claiming tax relief under tax treaties and under the domestic law of a source country. It allows for foreign financial institutions to enter into an agreement with the source country's tax authority and claim tax relief for their customers on a 'pooled' basis. The system outlines the documentation and due diligence procedures that the financial institution must follow, and the information reporting that is required.

TRACE compliance is achieved through the automatic exchange of taxpayer information and notes that, to the extent that information is exchanged in a timely fashion, the residence country could quickly inform the source country of an investor who claims to be resident thereof, but is in fact not. It also argues that countries receiving detailed investor-specific information would be "equipped with additional tools to focus their enquiries on the specific taxpayers that may present issues".

While the focus of the global tax system has historically been on the elimination of double taxation, the focus of the BEPS work has shifted to preventing instances of double non-taxation, and source country taxation. However, it was not generally considered to have an effect on cross-border portfolio investment. In particular, if the first action (neutralise the effects of hybrid mismatches) and the sixth action (prevent treaty abuse) of the Action Plan

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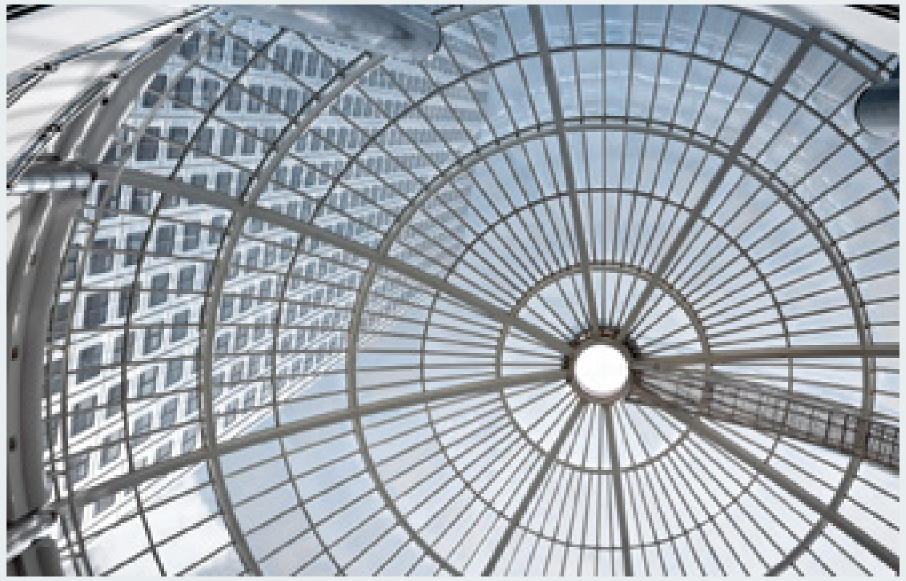

are implemented, collecting legitimate tax treaty entitlements would further be hampered, as they move away from the streamlined tax-relief-at-source system envisaged under TRACE.

CRS deals with residence country taxation and TRACE deals with source country taxation and tax treaty relief.

The many benefits that both initiatives bring to governments and business alike are indisputable. With regard to transparency, for example, it can:

- provide timely information on non-compliance where tax has been evaded on either an investment return or the underlying capital;
- help detect cases of non-tax compliance where previously tax authorities have not had any indication of non-tax compliance;
- increase voluntary compliance, encouraging taxpayers to report all relevant information;
- help with educating taxpayers in their reporting obligations, increasing tax revenues and helping to ensure the fair share of tax is paid in the right place at the right time; and
- conceptually, some countries may be able to integrate the information received automatically with their own systems, leading to pre-filled tax returns.

Each of the projects mentioned above share a key feature, which requires domestic financial institutions to routinely provide cross-border administrative assistance to a government outside the country in which it is located.

With the immense amount of current and proposed changes in relation to the transparency of investors, as well as ensuring that there are no abusive tax practices, it is clear that the OECD has much work ahead. It will continue to play a vital role in international tax matters.

While the OECD understands the synergies between TRACE, CRS and, to a lesser extent, BEPS, it is important that all involved understand where synergies arise and that they are leveraged to limit the duplication of effort.

The introduction of a more streamlined and cost-effective tax-relief-at-source process is a long-held goal of the EU Commission, the OECD and the wider financial community. To help achieve this goal, some bold steps from governments are required. Specifically, governments must recognise that cross-border investment is commonplace. Source country taxation is applied anonymously to income paid to the end investors, who, due to the costs associated with claiming it, may not claim tax relief.

This can adversely affect not only source countries that otherwise may be unable to attract cross-border investment, but also residence countries due to the lack of information about the income of their residents or the excessive foreign tax credits they may end up having to give.

Simplifying tax compliance
Significant efficiencies can be achieved for businesses and governments by aligning implementation covering both AEOI and TRACE simultaneously. The simplification benefits deriving from TRACE implementation would not only offset many of the additional compliance costs associated with new information-reporting requirements in AEOI, but would reduce many of the administrative burdens governments currently face in running tax-relief systems.

Overall, these tax initiatives of AEOI, TRACE and BEPS are fundamentally connected and will undoubtedly move tax data transparency to the next level.

The material contained in this article does not constitute tax advice, or any other business or legal advice, and it should not be relied upon as such.

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Interview

Creating a global growth strategy

—— **Lawrence H Summers, former US Treasury Secretary,** would like to see a more expansionary approach to macroeconomic policy

Q What is the current condition of growth in the global economy, both overall and in its main components of the United States, Europe, Japan, China and the emerging economies beyond?

A Growth is a major problem throughout the industrialised world. Japan and 'Abenomics' have been a welcome jolt, but whether Japan will achieve sustained economic growth at all remains less than completely clear. There are more signs of downdraughts in Europe than there are of updraughts. In the United States, there do seem to be real signs of reasonable growth, but the level of output that would have been expected from trends from the period up to 2007 seems very distant and unattainable.

Given all the challenges in the industrial world, emerging markets are not doing too badly. It is increasingly important to differentiate between them. There are major problems deeply rooted in political economy in both Brazil and Russia. India seems to be moving forward, but not relative to expectations that might have been set five years ago. China has a whole set of issues that it needs to work through.

Q What are some of the issues for China?

A China's issues include moving from export- and investment-led growth towards sustainable consumption growth. They include dealing with massive environmental challenges. There are also important financial overhangs. Of course, the challenge for the governing party of reducing corruption but maintaining the ability to dispense favours is very difficult.

Q As we look ahead, what are the prospects for growth, in the absence of significant policy changes by major G20 governments?

A I think for the reasons I just described, on the current path, growth is likely to be certainly not catastrophic on a global basis, but is not likely to be inspiring.

GROWING THE GLOBAL ECONOMY

Q How helpful is the G20's headline commitment to raise growth to two per cent above trend over the next five years?

A It is a laudable objective and a useful commitment because it galvanises action. But growth two per cent above normal trend appears to be a very remote prospect in the US, Europe and Japan. There is little evidence at all of growth strategies being undertaken on either the demand or the supply side in any of the key regions.

Q What additional steps are required? What challenges do G20 governments face in undertaking them?

A In the US, the focus of policy needs to become growth. Public investment and the reduction of barriers to private investment are two crucial aspects of that. Also, in Europe, there needs to be a more expansionary character of macroeconomic policy as well as skilled structural reform – in particular, repair of the banking system. In Japan, the focus has to be on growth, not on monetary and fiscal policy normalisation.

Q Are there steps that China or the other BRICS members could take?

A Each has its own individual challenges, but the large issues for the global economy are in the industrial world. It is the relative stagnation of the industrial world that matters.

Q What should the leaders themselves do at the Brisbane Summit?

A It is not what they do at the summit that matters; it is what they do at home. They should take the steps I have been talking about. Part of that is a matter of refocusing their economic discussions at home to focus on growth. In the US, we have had moments of preoccupation with long-run fiscal deficits, moments of preoccupation with inequality, moments of preoccupation with curbing financial excess. But we have not yet had a preoccupation with the overall rate of economic growth. Something similar is true in Europe, where debates about the allocation of fiscal burdens and about common financial responsibility have to give way to a dominant focus on economic growth.

Q Do you expect that the leaders, following the Brisbane Summit, will take the necessary steps?

A I never stop hoping.

Q Let's look at the G20 as an institution. In the years since 1999, when you founded the G20 finance ministers' and central bank governors' forum with Paul Martin, has it lived up to your expectations?

A It has actually exceeded the expectations I had. It played a crucial role in resolving the most important global economic crisis of the post-World War Two period. That is a larger positive contribution than I would have expected – even dared to hope for – when Paul and I worked together.

On the other hand, it was able to have that achievement because we had such a terrible crisis, and it has certainly missed opportunities to make a major positive contribution. The lurch by 2010 to fiscal consolidation as a major theme was an intellectual error that drove a misguided political strategy that contributed to unnecessary economic stagnation and substantial human suffering.

Q In the years since, have you seen any moves to correct that error?

A There has been a gradual unwinding of the error in a way that has been reactive to pretty dismal economic statistics. That should not be confused with leadership.

Q Have the Framework for Strong, Sustainable and Balanced Growth and the Mutual Assessment Process met the expectations you had when you pioneered them at the Pittsburgh Summit in 2009?

A I think you ultimately have to judge these devices by the results. By any measure of the world economy, the industrial world economy is functioning well below the level predicted for 2015 at the time of the Pittsburgh Summit. These processes matter to the extent they drive substance and influence substantive outcomes. That is my test.

Q Do you have any thoughts on how the G20 as an institution might be strengthened in order to meet these challenges of going for growth?

A I think really the most important thing is the degree of commitment that some of the largest nations in the G20 ultimately make to the G20 process. The G20 is not something that stands apart from its membership. It is a tool and a creature of its membership.

Q Who can make a bigger difference: the G20 leaders or finance ministers?

A Ultimately, it is the political leaders who make the most difference. One of the challenges is that central banks have a great deal to say about growth in a deflationary world. The current structure of the G20 does not involve any engagement between the priorities of leaders and the priorities of central bankers. Central banking is essential. I am not quite sure what to do about that – it is a disconnect that's worth reflection in the years ahead. ■

Lawrence H Summers is the Charles W Eliot University Professor and President Emeritus at Harvard University, and the Weil Director of the Mossavar-Rahmani Center for Business and Government at Harvard Kennedy School. Over the past two decades, he has served in a series of senior policy positions in Washington DC, including 71st Secretary of the Treasury for President Bill Clinton, Director of the National Economic Council for President Barack Obama, and the World Bank's Vice President of Development Economics and Chief Economist.

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Rising global investment highlights the key role of international finance centres

By Geoff Cook
Chief Executive, Jersey Finance Limited

Increasing global demand for infrastructure investment, which in turn prompts the need for high-quality, cross-border financial services, brings into sharp focus the value of international financial centres (IFCs) such as Jersey.

A report published this summer by TheCityUK estimated that the world's overall infrastructure investment needs for energy, road and rail transport, telecommunications and water were in the range of $50-70 trillion through to 2030, and that while most infrastructure investments were local, the sources of finances were increasingly global.

Meanwhile, wealth continues to migrate East with $12 trillion held by high-net-worth individuals (HNWIs) in the Asia-Pacific region, including Hong Kong, India and China, while wealth is increasing at above-average levels in the Middle East and Africa, according to the Capgemini *World Wealth Report* 2013.

Against this backdrop, many international investors, including those in the fastest-growing new economies, such as China and India, are looking for stable, well-regulated IFCs to support infrastructure investment, for progressing investment opportunities in Western markets or for asset protection.

Leading IFCs have a pivotal role to play in facilitating the free flow of capital to help generate that investment, but they also face challenges in a post-financial-crisis political world where concerns are regularly raised about tax evasion, money laundering and criminal uses of money.

Some critics consistently single out IFCs – or tax havens as they prefer to label them – as locations where these problems are prevalent. In criticising IFCs, however, these critics have ignored the independent, ongoing assessments of all financial jurisdictions undertaken by bodies such as the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and the World Bank, in which IFCs such as Jersey are acknowledged as having some of the most stringent regulatory and supervisory regimes, often superior to those in G20 countries, for instance.

> IFCs are among the most well-regulated, compliant and transparent marketplaces

Increasing evidence has been collated in the last 12 months, which adds further weight to the arguments about the positive role played by IFCs in global finance. A report entitled *Global Shell Games: Testing Money Launderers' and Terrorist Financiers' Access to Shell Companies,* which undertook to test the quality of the supervisory capabilities of jurisdictions, concluded that offshore centres were among the most compliant jurisdictions in meeting standards to prevent money laundering and financial crime, ahead of the United Kingdom and the United States for example, who were far less compliant.

More recently, an independent academic study commissioned by Jersey Finance has provided a powerful riposte to the critics of such centres and has demonstrated the value of having an open global financial market in helping to boost global trade and economic growth.

Authors Professor Richard Gordon, Director of the Institute for Global Security Law and Policy, and Professor of Law at Case Western Reserve University, and Dr Andrew Morriss, Dean of the Texas A&M University School of Law, show that many arguments against IFCs rest on a profound misunderstanding of how and why money moves around the international financial system.

Their analysis, in a report entitled *Moving Money: International Financial Flows, Taxes and Money Laundering and Transparency,* demonstrates that cross-border trade in goods and services is simply not possible without the international movement of money. This has become especially important now that globalisation has opened trade channels between all four corners of the globe, between developed and developing economies, evident in the forecasts for massive infrastructure investment highlighted earlier. Consequently, there is clearly huge value in reducing the financial costs of trade transactions.

In fact, according to the World Trade Organization, the removal of barriers to global trade has caused a doubling of income in 10 developing countries with a total population of 1.5 billion, while overall annual growth in the world economy – 1.9 per cent per annum since the Second World War – is mostly due to increased trade and global finance.

Adding value to trade transactions

As *Moving Money* explains, centres like Jersey act as important intermediaries in the flow of funds and can offer huge value in reducing the financial costs of trade transactions. In making these transactions possible by shifting resources from less to more efficient uses, Jersey has an important role to

play in facilitating the creation of new wealth and jobs, effectively enriching the lives of millions.

In another study commissioned by Jersey Finance, it was possible to highlight Jersey's value to the UK economy and to quantify, for the first time, exactly how significant this contribution has been. Produced by Capital Economics, a leading independent macro research firm, the report showed that foreign investors used Jersey as their preferred gateway to the City of London, with Jersey acting as a conduit for almost £0.5 trillion ($0.8 trillion) of foreign inward investment into the UK economy, or five per cent of the entire stock of foreign-owned assets. The report concluded that activity in Jersey supported around 180,000 UK jobs and generated significant net UK tax revenues of around £2.3 billion ($3.7 billion). All this quite clearly points to the fact that Jersey generates an overall net benefit to the UK and it is a role that looks set to become even more important. In July this year, UK Trade and Investment announced that Britain brought in a record number of foreign direct investment projects in the last 12 months, 14 per cent more than the previous year.

Maintaining high standards

IFCs are among the most well-regulated, compliant and transparent marketplaces. Jersey, for example, offers all the protection associated with the English common law legal system and remains at the forefront of regulatory developments in financial services. We are ahead of many other jurisdictions, including the UK, with the scope and features of our online register, which is fully accessible to the public and won a global award this year for 'secured transaction registry innovation'.

In addition, Jersey has captured beneficial ownership information on a corporate registry since 1999, and this information is available to law enforcement agencies, while Jersey's financial regulator, the Jersey Financial Services Commission, undertakes rigorous and regular on-site examinations of financial services firms, including trust companies, to assess compliance.

Jersey also adheres to the highest standards set by international bodies such as the IMF and the Financial Action Task Force. In addition to signing more than 40 tax agreements with countries worldwide, Jersey was an early adopter and signatory to the G5 pilot on automatic exchange of tax information and the OECD's Common Reporting Standard, and has committed to the US Foreign Account Tax Compliance Act. The authorities intend to expand its tax agreements with numerous developing countries, including Botswana, Ghana, Kenya and Nigeria.

Where Jersey does not have specific information-exchange agreements in place, the Joint Financial Crimes Unit participates internationally as a member of the Egmont Group of Financial Intelligence Units, to exchange information through secure systems.

When the actions and commitments of a jurisdiction such as Jersey are considered, I believe that the island can be held up as an example of an IFC that has a key role to play in facilitating cross-border finance, in safeguarding investments, and in contributing to the global economy, while meeting regulatory obligations and supporting global initiatives in fighting financial crime.

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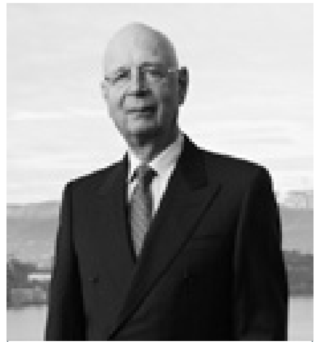
A multi-stakeholder approach to growth

—— Deeper cooperation between the public and private sectors, as advocated by the B20, is key to driving strong, balanced and sustainable growth, argues **Klaus Schwab, Founder and Executive Chairman, World Economic Forum**



Klaus Schwab founded the World Economic Forum in 1971 as a not-for-profit foundation and built it into the foremost international institution for public-private cooperation. In 1998, he and his wife, Hilde, founded the Schwab Foundation for Social Entrepreneurship, supporting social innovation around the world. In 2004, he founded the Forum of Young Global Leaders and then, in 2011, the Global Shapers Community. From 1972 to 2003, he was a professor of business policy at the University of Geneva, Switzerland.

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The world is changing at an unprecedented pace. The global economy, geopolitical landscape, environment and social systems are all experiencing constantly shifting conditions, each transforming the other in a complex web of interactions.

From an economic standpoint, the world is entering an era of diminished expectations and increased uncertainties, defined by a combination of lower global growth prospects and pervasive doubts about what the future holds. If, as predicted, average annual growth in gross domestic product (GDP) amounts to three per cent in the foreseeable future, it will take 25 years for the world economy to double in size – 10 years longer than it took before the global economic crisis, when average GDP growth was five per cent. This has a considerable impact on the speed at which wealth is created and, therefore, profoundly alters expectations of future well-being. Learning to live with slower growth will not be easy.

Economic growth prospects

The global deceleration of economic growth is taking place against a backdrop of rising inequality. This partly stems from the declining share of national income going to labour (in the form of wages and social benefits), which is a global and accelerating trend. This poses a real challenge for business and political leaders and policymakers.

Systems that propagate inequality, or seem unable to stem its rise, are not sustainable and harbour the seeds of their own demise. No society can prosper by exclusively favouring the interests of one group. But, in an interdependent world, there is no simple solution.

In such a context, reigniting high-quality economic growth is vitally important, societally and politically. But where will this growth come from? Technological progress is a distinct but highly uncertain possibility. Many positive yet disruptive advances are being made that could drive future economic growth, but whether they live up to expectations as currently envisioned remains to be seen.

Most governments are fiscally constrained and find it difficult to consider projects that might adversely affect the trajectory of public debt or electoral sentiment. There are, however, areas that will help generate long-term growth and therefore pay for themselves over the long term. These productive investments (in education or infrastructure, for example) have the dual advantage of contributing to short-term stabilisation (by creating jobs and increasing demand in the process), while also improving longer-term debt sustainability.

Gathering momentum

Ultimately, the path to sustained growth requires a transformation not just of policies and institutions, but also of mindset. Society must become more entrepreneurial, more focused on establishing gender parity and more deeply rooted in social inclusion. In this respect, innovation – and the talent that drives it – will be ever more critical to ensuring long-term economic growth and prosperity. Both talent and innovation are key factors driving competitiveness (or the lack thereof) for companies and countries alike. And both factors will only increase in importance, while also being among the most challenging to develop and maintain.

In the future, the distinction between high- and low-income countries, or between emerging and mature markets, will gradually fade and the focus on whether or not an economy can innovate will only increase. The challenge is, therefore, to move to long-term increases in productivity growth, which requires innovation, investment in new technologies, open economies and private-sector development. This transition is difficult and calls for bold leadership that advances collaboration between business, government and civil society to create a competitive ecosystem. If such policies are set, low growth and entrepreneurial stagnation can be avoided.

This also points to the critical role of cooperation, strategic thinking and adaptation. Many of the biggest challenges today are global in nature, and thus can only be truly addressed by engaging decision-makers from all related spheres. New partnerships must be forged – and this is where the private sector can play a key role.

For the business community in particular, the new global context amplifies the importance of having an integrated strategy for effective corporate engagement, working together with government and civil society to jointly address issues that have a significant impact on everyone's collective global future. Providing input into the G20 leaders' process is one important way for business to do so. Ever since the B20 was launched in 2010, the business community has responded strongly and engaged in a comprehensive process to provide insight and implement ideas in support of the G20 agenda.

EPA EUROPEAN PRESSPHOTO AGENCY B.V./ALAMY

The G20 has an important role to play in finding new approaches to infrastructure development, as part of a growth-oriented agenda

This year has been very encouraging. Under the leadership of the Australian Government and the business community, participating companies developed a focused set of proposals that, if adopted, will go a long way towards achieving the goal outlined earlier this year by the G20 finance ministers and central-bank governors. Specifically, it includes a commitment to boost the collective GDP of the G20 economies by at least two per cent above the current trajectory by 2018.

Effective cooperation

Strengthening this commitment is also the result of B20 recommendations for better policy and deeper public-private cooperation in five key areas: infrastructure and investment, trade, human capital, financing growth, and anti-corruption. This is a great example of corporate global citizenship, and the World Economic Forum is actively engaged in each of these areas. It is only through the collaboration of multiple stakeholders that these challenges can be addressed.

Taking infrastructure as an example Australian Prime Minister Tony Abbott, launching Australia's G20 agenda in Davos this year, said that, as an "infrastructure prime minister", his "hope as G20 host is to bring policymakers, financiers and builders together to identify practical ways of increasing long-term infrastructure financing". This is a critical issue. Today, the annual required expenditure for global infrastructure is estimated to be about $4 trillion, whereas actual current expenditure is only $3 trillion a year. Despite the significant number of critical infrastructure projects and strong interest from well-capitalised investors, countries are often faced with an unfunded pipeline of projects.

To help address this infrastructure gap, the World Economic Forum established the Global Strategic Infrastructure Initiative, which focuses on developing, sharing and disseminating frameworks and best practices at the global and regional levels. It involves partnerships of all key stakeholders, with the public sector providing the overall vision, adequate guarantees and regulatory frameworks to better manage and mitigate risks, and the private sector managing the financing, construction, operation and maintenance of the physical assets. The G20 has a critical role to play in advocating the urgent need for innovative approaches to infrastructure development, including agreeing on the necessary financing mechanisms that will allow increased private-capital investment in infrastructure.

Overall, this year's growth-oriented G20 and B20 agenda, and the related work of the World Economic Forum and other organisations represent an important opportunity for the G20 leaders and the wider international community. Using the multi-stakeholder approach to address global issues can point the way towards new models of effective international cooperation that best integrate business as a crucial stakeholder, transforming resources into products and services in the most efficient, balanced and sustainable way – yet always rooted in the spirit of global citizenship. ■

Many of the biggest challenges today are global in nature, and thus can only be truly addressed by engaging decision-makers from all related spheres

Growing the global economy

Insurers and pension funds can contribute to the solution

Scott Sleyster
Senior Vice President | Chief Investment Officer

The need for long-term investment in infrastructure is greater now than it has ever been. The McKinsey Global Institute estimates that $57 trillion in infrastructure investment will be required between now and 2030 simply to keep up with projected growth in global gross domestic product (GDP). This estimate far exceeds what has been spent on infrastructure over the past 20 years. The actual need, in fact, could be considerably higher given that years of underinvestment have intensified the need to modernise and maintain existing infrastructure in many established economies. Additionally, the rapid pace of urbanisation around the globe as well as efforts to meet basic human needs in many lesser developed countries have created a staggering burden.

Meanwhile, post-financial crisis, fiscal and political realities constrain public-sector budgets. Growth in most developed nations has slowed, and is not predicted to accelerate meaningfully in the short to medium term. The public sector will feel increased pressure from the growing liability associated with the ageing of societies as social well-being programmes continue to encumber an increased percentage of GDP. As public-sector options become more limited, new channels of financing will need to be opened to meet the growing infrastructure need.

Historically, banks and insurers have provided infrastructure financing. However, new regulatory frameworks for banks and insurance companies create disincentives to long-term investing. For banks, Basel III constraints are aimed at ensuring short-term resilience to potential liquidity disruptions. The framework penalises illiquidity and maturity transformation by levying high capital charges on less liquid long-term investments. In Europe, Solvency II applies significantly higher capital charges to longer-term and mid-investment grade assets such as infrastructure debt. Global systemically important insurers (G-SII) policy measures, Dodd-Frank and other macro prudential regulation to date has favoured shorter-duration, more liquid assets in a financial institution's investment portfolio.

Despite this challenging regulatory environment, infrastructure can be an attractive asset class for such long-term investors as life insurers and pension funds. Their liabilities have long maturity profiles, creating the need for stable, attractive assets with which to offset them. Long-duration assets help insurers and pension funds mitigate interest-rate risk, reduce required capital and support stable product profitability.

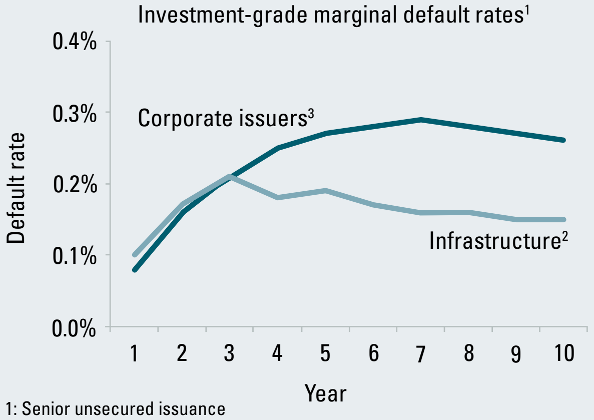
Infrastructure investment, apart from other long-term investments, can bring additional benefits to long-term investors' investment portfolios. First, it provides diversification. The supply of long-term assets (besides sovereign bonds) is relatively constrained and is in high demand. Infrastructure debt from new issuers, whether governmental, quasi-governmental or private, represents a new source of investment opportunity that allows investors to better diversify their portfolios. Infrastructure debt, by its very nature, tends not to be highly correlated with other investments in an insurer's or pension fund's portfolio.

Second, it brings stability – in cash flow and in credit performance.

Infrastructure relative to corporate credit

Lower defaults

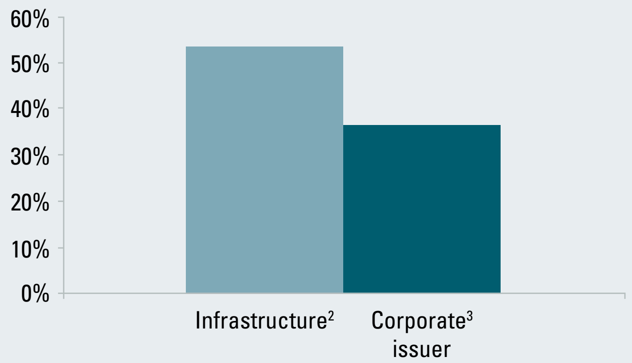
Investment-grade marginal default rates[1]



1: Senior unsecured issuance
2: Infrastructure includes project finance debt and excludes US municipal debt
3: Non-financial corporate issuers

Higher recoveries

Recovery rates for defaulted debt[1]



Source: Moody's Investors Service, *Infrastructure Default and Recovery Rates 1983-2012H1*, December 2012

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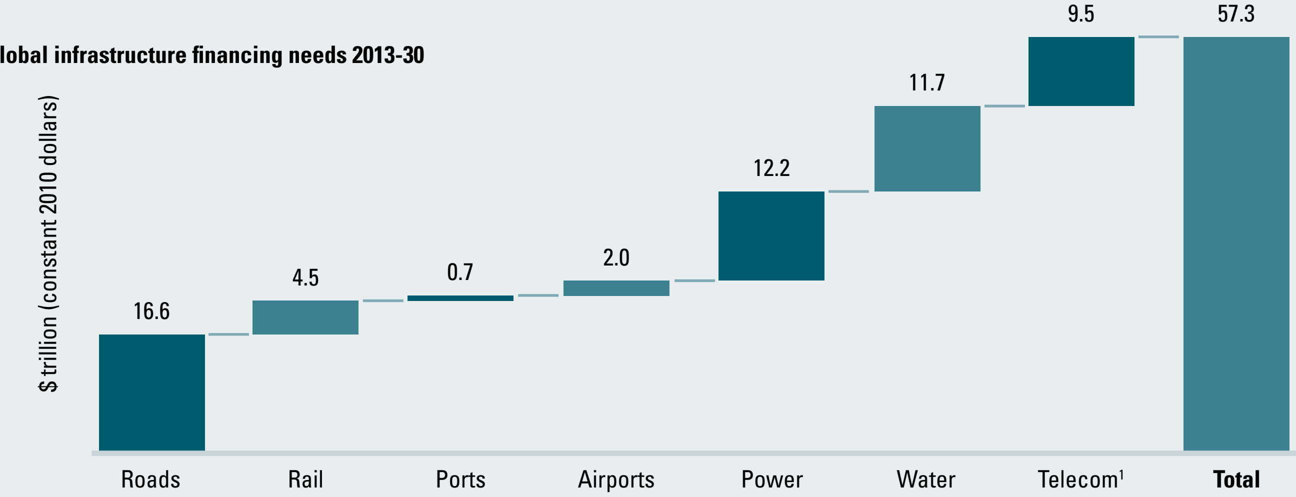
The world's infrastructure investment challenge

McKinsey Global Institute estimates by 2030

Annual needs will rise 70% to $4.5 trillion **Cumulative need of $57 trillion**

Global infrastructure financing needs 2013-30



[1] OECD telecom estimate covers only OECD members plus Brazil, China and India
NOTE: Figures may not sum due to rounding

Source: OECD; IHS Global Insight; GWI; IEA; McKinsey Global Institute analysis

As reported in Moody's Investors Service's *Default and Recovery Rates 1983- 2012H1,* historical rating agency default and recovery data indicates that infrastructure investing has lower risk than corporate lending. While risk can be high during the planning, permitting and construction phases of some projects, operating risk can stabilise or improve over time as the project goes into production, when long-term investors like insurers and pension funds can play a role. Infrastructure projects tend to have stable cash flows due to regulated revenue models which help to support the credit over time. This is unlike typical corporate credit where risks increase with duration. Unfortunately, evolving solvency regulatory regimes have, to date, penalised these very types of assets and may instead be incentivising greater spread reinvestment risk for insurance companies. In order to promote infrastructure investment, capital charges should reflect the lower-risk profile of infrastructure relative to corporate credit over the long term.

We at Prudential Financial, Inc (PFI) have been large providers of long-term capital to a broad range of infrastructure programmes, given the attractive risk profile of infrastructure debt and the fact that our liability profile aligns with long-term investments. Prudential Capital Group, our private lending business, manages an infrastructure portfolio of more than $9 billion for our insurance portfolios. In 2012, Prudential Capital Group, which also operates as Pricoa Capital Group in Europe, created a dedicated infrastructure team to source opportunities globally and in multiple currencies. We focus on investment-grade debt and are invested in energy infrastructure as well as the transport, social and water sectors. In the public markets, we estimate our portfolio holds more than $10 billion in infrastructure-related public debt and we also participate in infrastructure equity through our alternatives investing.

Notwithstanding PFI's significant infrastructure investment to date, the ability for long-term investors to source appropriate investments can be enhanced if market participants can work to better define infrastructure as an asset class in which investors of varying risk appetites can find suitable investments across risk and return spectrums. Additionally, public-private partnerships may prove to be a powerful vehicle for recycling proceeds from existing societal assets into new productive assets.

The infrastructure investment challenge is indeed large. PFI is committed to being part of the solution and we welcome the opportunity to engage in this important public-private sector conversation. Over the past few years, we have shown our support of this important initiative through active participation in a number of global industry forums where promoting long-term investing has been under robust discussion. PFI is pleased to continue and enhance our support of this initiative through a formal sponsorship of the Organisation for Economic Co-operation and Development's (OECD) Network on Institutional Investors and Long-Term Investment.

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GROWING THE GLOBAL ECONOMY

The business agenda for structural reform

Sound product and labour market reform is needed to facilitate international trade and investment, and allow innovation to flourish, writes **Bernhard Welschke, Secretary General, Business and Industry Advisory Committee**

Bernhard Welschke has been Secretary General of the Business and Industry Advisory Committee (BIAC) to the Organisation for Economic Co-operation and Development (OECD) since 2013. An economist, he joined BIAC after a successful career in the Federation of German Industries (BDI), leading the departments for European affairs and global governance, among other international assignments. He represented German industry and trade in Washington DC from 2006-10, and, from 2002-05, was a member of the European Union's Economic and Social Committee.

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The recovery of the global economy from the recent financial crisis and recession is still uneven and fragile. Now that the G20 has agreed to lift its collective gross domestic product (GDP) by two per cent above forecasts by 2018, the implementation of sound structural reforms is needed more than ever in order to achieve more sustainable growth and employment.

Worryingly, recent data reveals that, in many countries, the pace of reform across product and labour markets has been insufficient and largely piecemeal. And many have questioned whether the G20 process has resulted in sufficient policy changes, or if it has had sufficient impact on the recovery of the global economy beyond crisis management. According to a survey of national business organisations around the world conducted by the Business and Industry Advisory Committee (BIAC), more than 70 per cent of respondents believe that their governments need to look at product market reforms as an urgent priority. BIAC calls on governments to live up to their commitments and start reducing the regulatory burdens that stifle innovation and growth, and to finally lower the many barriers to investment and international trade. The lack of structural reforms in product and labour markets impedes the confidence of investors and, as a consequence, reduces the great potential of private-sector-led growth and job creation. Clearly, the credibility and consistency of the G20 process depend on governments honouring their commitments and implementing their jointly adopted strategies at the national level.

Reforms on labour markets and efforts to improve the long-term employability of the workforce are vital for the success of all economies. BIAC advocates that employment strategies be comprehensive – they must support job creation, activate people into work, and develop schemes for better skills and lifelong learning. In Melbourne, Australia, in September 2014, BIAC Chair Phil O'Reilly spoke to the G20 labour ministers on the importance of reforms that allowed for more flexibility in labour markets and of measures to promote gender equality in the workforce. Referring to a survey conducted by BIAC together with the International Organisation of Employers (IOE), he explained that many considered the implementation of commitments by the labour ministers in Moscow in 2013 as lacking. Of particular concern was that, in a number of countries, government action in the last year has not improved, but has limited the use of multiple forms of work.

Restoring confidence in taxation

In July 2013, the Organisation for Economic Co-operation and Development (OECD) launched its project on base erosion and profit shifting (BEPS), with a mandate from the G20. In the current context, the BEPS project presents an opportunity to restore public- and private-sector confidence in the corporate taxation system, by undertaking a review and analysis to ensure that tax rules are up to date, without dampening the potential for private-sector growth, trade and investment.

The OECD is the right place for the BEPS analysis to take place. BIAC is present at every step of the project. It is crucial to secure the broadest possible international basis through the G20 and beyond to ensure a level playing field in the global economy. This will be essential to harnessing the greatest potential for companies, stakeholders and consumers across the board. BIAC appreciates that the business community, and the OECD and its member governments are able to engage in a constructive and open dialogue that should produce an outcome in favour of competitive markets and more growth in all economies. BEPS must lead to an improved international tax framework that addresses key concerns of governments and business, one that encourages and does not hamper cross-border trade and investment.

The Australian B20 led by Richard Goyder AO, CEO of Wesfarmers, explained the business expectations for this year's G20 summit in its recommendations to the Australian G20 presidency. These recommendations were presented to Prime Minister Tony Abbott at the B20 summit in Sydney in July. They focus on trade, investment and infrastructure, financing, human capital and skills, and the fight against corruption. BIAC was actively involved in drafting the B20 recommendations and works with its members – the leading business organisations in OECD countries and observer groups in major emerging economies – to hold governments accountable to their commitments in Brisbane. It will be equally important to ensure that the incoming Turkish G20 presidency builds on these commitments and engages governments to develop an ambitious G20 agenda for 2015. The OECD and BIAC are in a unique position to support these efforts with cutting-edge knowledge about the efficiency of markets and the importance of global value chains for productivity. BIAC will continue to provide expertise from the private sector to succeed in our quest for better policies, better business and better lives. ■

Two recently released documents of interest are BIAC's *Economic Policy Survey 2014: Structural Reforms and Implementation* and the OECD's *Economic Policy Reform 2014: Going for Growth Interim Report*.

DIMAS ARDIAN/GETTY IMAGES

Assembly work in a PT Honda Prospect Motor factory, Indonesia. Business is urging G20 governments to act in support of private-sector-led growth and job creation

Working towards a digital single market

—— Constructive collaboration could pave the way for a transatlantic digital single market, but first cybersecurity must be addressed, says **Neelie Kroes, Former Vice President, European Commission responsible for the Digital Agenda**

Neelie Kroes served as Vice President of the European Commission responsible for the Digital Agenda for Europe from 2010-14, having been Competition Commissioner from 2004-09. Her political career started on the Rotterdam Municipal Council, and in 1971 she was elected to the Dutch Parliament for the liberal VVD party. From 1982 to 1989 she served as Minister for Transport, Public Works and Telecommunication in the Netherlands. Between 1991 and 2000 she acted as President of Nyenrode University, and served on various company boards.

@NeelieKroesEU

www.ec.europa.eu/commission_2010-2014/kroes

For any new technology it is easier to spot the threats than the opportunities. My approach is not to ignore those issues; still less to dismiss them. My approach is to understand and learn from them, in all their subtlety and complexity, and figure out what we can do – together – to make the threats benign and the opportunities beneficial.

I am an optimist on these issues. I see the positive side – because only then can we seize the great opportunities of digital – but I know not everyone does. And we need to engage with and talk to the sceptics, not ignore them.

Recent revelations about mass surveillance and recent examples of internet fraud, hacking and cybercrime have been deeply shocking to many in Europe and to many in the United States too. Shock is a natural reaction; so is outrage. But I look at it slightly more positively and pragmatically. Really, this was a wake-up call. Those recent events woke people up to the reality and the risk. It underlined what some have known for ages: we must strengthen our defences. And that is what I am pushing for Europe to do.

Because the real risk is a loss of confidence in the internet, we cannot allow poor planning – or bad sentiment – to endanger the huge economic and social benefits that flow from digital technologies and services ...

Hundreds of years ago, the first Europeans left home to sail west. They weren't afraid to take a risk, to leave their comfort zone, to break out somewhere new. That risk paid off. Now we need to learn that lesson back in Europe. If we are serious about nurturing innovation and innovators Europeans need to realise that it's OK to fail. It's not shameful, it's not a stigma, it's not a black spot on your career. Quite the opposite: it is absolutely needed. You simply cannot innovate without taking a risk. So if you never failed, you probably weren't ever trying.

JAMES THEW/ALAMY

You simply cannot innovate without taking a risk. So if you never failed, you probably weren't ever trying

That lesson is just one of many things we can share and learn from each other. And let's remember what the internet can do on the global stage. It is a powerful platform to promote freedom and democracy.

Bloggers in Egypt; activists in Azerbaijan; those challenging a Twitter ban in Turkey. Over the years, I have met all those people, and been inspired by them all. They are people fighting for freedom; and their weapon is the internet, [the] most amazing engine for spreading ideas ever invented.

These are not just European values; they are American too. When those same settlers left Europe, they were not afraid to change, but equally they did not abandon their vital values. And today, together Europe and the US are the world's natural home of freedom and democracy. Together we can ensure that helps the world.

The fact is, fundamentally, the European Union and the United States share many values. The differences between us show not how far apart we are, but how much we can learn from each other to promote those values. How much we have to gain by trade and exchange – of products, people, ideas.

Twenty-five years ago, a network first devised for the US military benefited from protocols developed by a British scientist working in Switzerland. Today, the internet is now used by three billion people across the world, the platform for billions of dollars of trade. That's what we got through the open exchange of ideas. Now that same spirit can help us make the most of that network.

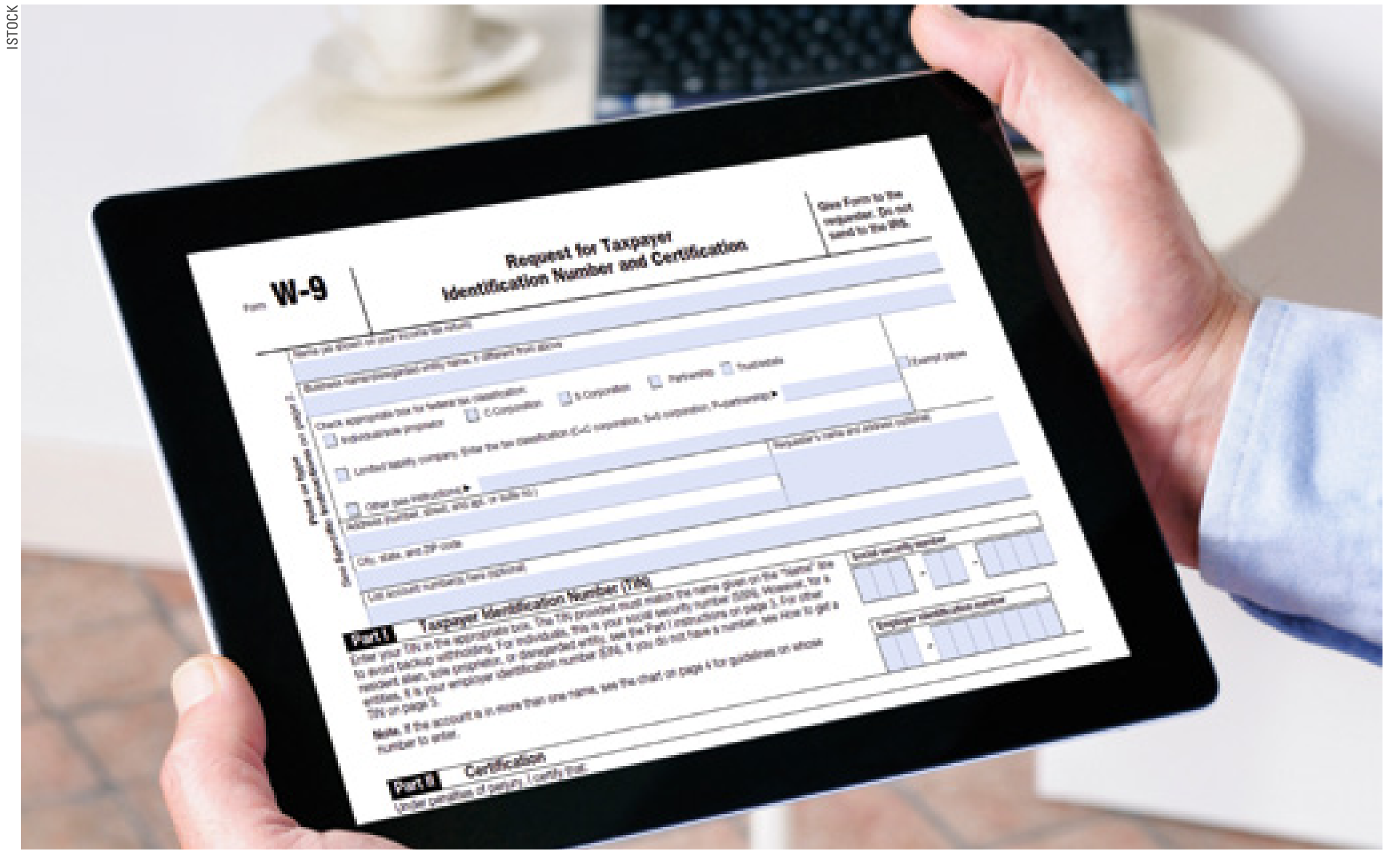
Major examples of cybercrime this year have highlighted the risks of the internet, leading to calls for stronger defences

Ultimately, what we share is greater than what divides us. We should not forget that. Working together can make us all stronger.

The internet succeeds because it is open. That is what makes it the natural home of innovation, the new frontier of freedom. As Vint Cerf put it, this is one of the most powerful amplifiers of speech ever invented, a global megaphone for otherwise feeble voices. The more open we are, the more we will benefit; within the EU, and within the US, but also between the two continents.

That is partly about removing barriers to trade, and opening up markets at all levels. That is what TTIP – the Transatlantic Trade and Investment Partnership – is all about. And that will need to have a strong digital component. But it's not just ▸

ISTOCK



A tax form being completed on a tablet device. Both the European Union and the United States are planning legislation to deal with cyber threats

about removing trade barriers and tariffs. We can work together in so many areas to enjoy this digital boost; constructively collaborating to make this platform work across the Atlantic. That is my dream – a transatlantic digital single market. Here's just a few ideas for where to start.

First, people and businesses need online transactions to be safe and trustworthy. Whether you are signing a contract or filing your tax return, it's often easier online. But you don't want to be hacked or impersonated.

> As the system of governance becomes more global, we must also have credible and efficient accountability

Those online services need to provide both confidence and convenience. In the EU, new rules make that possible: so you can use eIdentification across borders to prove you are who you say you are, and make the most of Europe's online services. I know the US is working in this area too.

But work together and we could expand those benefits even more – even towards mutual recognition of eIdentification – and open up a transatlantic market of online services for hundreds of millions.

Second ... as more and more of our economy goes online, protecting those networks and systems becomes essential policy. And as threats and outright attacks grow in number, we need to protect ourselves.

In Europe we are planning to do that through an EU Directive, to boost security and resilience; I know the US is preparing legislation too. Once again, if we cooperate and compare approaches, we could enhance the online economy, empower citizens, engender their trust...

In fact, these are just a couple of ideas. Indeed, we have been working hard in many areas to make the EU a digital single market. After I leave, the subsequent team of commissioners have made clear they will be working very hard at it too. From making it easier for telcos to operate across borders, in open competitive markets, to getting rid of the roaming surcharges that get in the way of holidays and business trips.

Those are all good ideas – too good to keep to ourselves. We should take all those ideas for a digital single market and consider whether they, too, could be transatlantic. That is the real way to spread this digital boost.

And finally, we can work together to ensure the digital boost reaches the whole world – with an internet that is governed for the world ... And as the system of governance becomes more global, we must also have credible and efficient accountability ... With mechanisms to ensure diverse interests are properly taken into account, preserving the legitimacy of the system. That is something where Europe and the United States need to work closely together ... ■

Excerpts from a speech made at the Lisbon Council in Washington DC on 19 September 2014

LEON NEAL/AFP/GETTY IMAGES

Interview

Meeting today's energy challenges

—— The International Energy Agency (IEA) and G20 are working to improve energy security, says Maria van der Hoeven, Executive Director, IEA

Q How does energy security contribute to economic growth and development?

A Ensuring energy security – both in the short and long terms – has been at the core of the mission of the International Energy Agency (IEA) since it was created in 1974. The IEA defines energy security as the uninterrupted availability of energy sources at an affordable price. I cannot stress enough how fundamental energy security is to the health of the economy and indeed to human well-being and development.

Short-term energy security focuses on the ability of the energy system to react promptly to sudden changes in the supply-demand balance. This aspect of energy security has traditionally been associated with oil markets. IEA emergency oil stocks have proven to be a reliable tool for responding to acute supply disruptions.

Long-term energy security mainly deals with timely investments to supply energy in line with economic developments and sustainable environmental needs. The IEA also works to improve energy security over the longer term by promoting energy policies that encourage diversification – both of energy types and supply sources – and that facilitate better functioning and more integrated energy markets.

Q What are the forecasts for demand and supply?

A The IEA produces a variety of long-term scenarios, each with different assumptions. Under the central scenario of the IEA's World Energy Outlook (WEO), global energy demand grows by one third to 2035. Demand expands in all sectors. Fossil fuels remain dominant overall, yet renewables account for nearly half of the net increase in power generation. Demand growth is concentrated in Asia, with China set to consolidate its position as the world's largest importer of oil and India projected to be the largest importer of coal by 2035. Among major energy supply trends are the United States moving towards energy self-sufficiency and the Middle East growing even more influential as both an energy consumer and producer.

Q How do the dominant scenarios contribute to ensuring sustainability? What are some key challenges?

A We are travelling on an energy pathway that is not sustainable. The WEO central scenario points to a rise in greenhouse gas emissions consistent with a long-term average temperature increase of 3.6°C – well above the 2°C ceiling that global leaders have pledged. The door to a more sustainable energy future is closing, which obviously raises the stakes for an agreement at next year's United Nations climate talks in Paris.

Another challenge is that modern energy for all is far from being achieved. In the WEO's central scenario, the number of people without access to electricity declines by more than one fifth by 2030, but it is still nearly one billion, or 12 per cent of the global population. This is clearly unacceptable.

It need not be like this. The IEA has shown how the world can transform and decarbonise the energy system in a way that is consistent with limiting the global temperature rise to no more than 2°C, while at the same time making energy more affordable and accessible. We must deploy the full suite of available fuel sources and technologies, while also striving to advance new, more efficient and low-carbon energy-supply technologies. And we must realise the potential of energy-efficiency savings – something we at the IEA often call the 'first fuel'.

Q How is the IEA working on its own and with the G20 to enhance this contribution?

A Energy is a complex issue. It is intertwined with issues of economy, geopolitics, development and the environment. To ensure that we cover the whole dimension of energy and maximise its contributions to national economic growth and development, the IEA has a fully fledged work programme providing energy data and statistics, analysis and policy recommendations on energy security, markets and economies, technologies, energy-savings opportunities and energy access.

Many of today's energy challenges are regional or global in nature and require shared responses. The IEA recognises the growing role of emerging and developing countries that are not members of the IEA, and has built strong relationships with a range of partner countries and regions. These ever-deepening relationships are mutually beneficial, enriching analyses and perspectives on both sides.

The rising importance of the emerging economies is also a chief reason the IEA has and will continue to work closely with the G20. The IEA has been consistently involved in supporting all major G20 energy deliberations since 2008. The analytical inputs of organisations such as the IEA can help to frame the deliberations of G20 members as they seek to develop political and policy solutions to the most pressing global challenges. This starts with improving the comprehensiveness, quality and timeliness of energy data, an area where there remains room for improvement among the G20 and indeed beyond.

Q What role should energy efficiency play? How is the IEA seeking to address this issue?

A As the IEA's recent *Capturing the Multiple Benefits of Energy Efficiency* report points out, scaling up energy efficiency can provide a wide range of benefits, from improving energy security to reducing local air pollution and greenhouse gas emissions, alleviating fuel poverty and improving competitiveness. However, in many countries, the opportunities for energy-efficiency gains are not being fully realised, posing significant and unnecessary costs on the economy. The IEA promotes energy-efficiency policy and technology in buildings, appliances, transport and industry, as well as end-use applications such as lighting. IEA analysis has led to 25 energy-efficiency policy recommendations that identify best practices, highlighting the opportunities for energy-efficiency improvements and policy approaches in each sector to realise the full potential of energy efficiency.

While these recommendations were originally targeted towards IEA members, the IEA is increasingly working with partner countries and regions to adapt these policy options to local circumstances. Recognising the importance of high-quality data to sound policymaking, the IEA also undertakes activities with both member and partner countries to improve energy-efficiency data at the local and national levels.

Q How have G20 leaders contributed to energy security at their past summits?

A The emergence of the G20 leaders' meetings in 2008 coincided with shifts in the global energy landscape that have seen the emerging economies, with their fast-growing energy demand, become increasingly important. Energy issues have been an important part of G20 discussions since those early days, with the 2008 leaders' declaration noting a commitment to addressing energy security, among other "critical challenges".

One key contribution of the G20 process in the area of energy has been the effort to improve global market transparency and functioning. The G20 has consistently highlighted the role of sound energy data – a point the IEA itself also regularly highlights. And it pledged to phase out the inefficient use of fossil fuel subsidies, commissioned extensive work on commodity pricing, and sought to encourage market transparency.

Pleasingly, the G20 has, more recently, begun to consider other elements relevant to global energy security, including renewable energy and energy efficiency, and the challenge of realising universal access to modern energy services.

Q What can the G20 leaders do to help meet energy needs?

A G20 members today account for around three-quarters of global energy demand and the lion's share of global carbon emissions. These trends look set to continue. For these and other reasons, the G20 economies share an interest in fostering energy systems and markets that possess enhanced resiliency, efficiency and sustainability. The G20 forum provides a unique opportunity for high-level support for action on critical global energy challenges. ■

Maria van der Hoeven took over as Executive Director of the International Energy Agency in September 2011. She has served on the advisory board to the United Nations' Sustainable Energy for All initiative, and participated actively with other major international organisations, including the International Energy Forum, the Clean Energy Ministerial, the Association of East Asian Nations, the European Union and the G20. She previously served in the Government of the Netherlands as Minister of Economic Affairs from 2007-10 and Minister of Education, Culture and Science from 2002-07, having been an elected member of the Dutch House of Representatives of the States General from 1991-2002.

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Bridging Asia's infrastructure gap

——Infrastructure projects are crucial to Asia's growth, but help from the private sector is needed to meet the region's infrastructure investment needs, says **Takehiko Nakao, President, Asian Development Bank**

Takehiko Nakao assumed the presidency of the Asian Development Bank (ADB) in 2013 and chairs its board of directors. Previously, he was Vice Minister of Finance for International Affairs at Japan's Ministry of Finance. In a career spanning more than three decades, Nakao has held other senior positions in the Ministry of Finance, including Director General of the International Bureau, where he fostered close ties with G20 members and leading figures in the Asia-Pacific region. He also served as an economist and adviser at the International Monetary Fund (IMF).

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To promote its vision for a region free of poverty, the Asian Development Bank (ADB) focuses on inclusive economic growth, environmentally sustainable growth and regional integration. Investment in sustainable infrastructure in the Asia Pacific region is critical to advancing these three strategic agendas.

Although the region's infrastructure has improved in recent decades, it is not keeping pace with the needs of Asia's growing population and the demands brought by rapid economic growth. An estimated 600 million individuals lack access to electricity, more than 360 million lack access to safe drinking water and 1.7 billion lack access to basic sanitation. The quality and reliability of infrastructure services, such as power and water, remain significant concerns. Regional connectivity through cross-border infrastructure is also essential to sustain the region's growth momentum.

Role of public-private partnerships

Asia's infrastructure investment needs are estimated at $8 trillion through to 2020. Public and multilateral resources are limited, and the region's vast domestic savings are not being effectively mobilised to finance these investments. Private-sector financing, including through public-private partnerships (PPPs), needs to be increasingly tapped in order to direct private money and skills into much-needed infrastructure projects.

To attract these investments, the region needs an enabling environment with well-developed local financial markets that can provide adequate long-term local currency financing and intermediate the region's high savings rate. Substantial resources are also needed for developing bankable PPP projects. From 2008-12, infrastructure operations accounted for 72 per cent of ADB operations. Working with the governments, private sector and other development partners, ADB is helping its developing country members prepare and implement PPPs through knowledge-sharing, policy dialogue and technical assistance, and by mobilising and unlocking new investment opportunities through innovative financing. ADB is collaborating with development partners to support national PPP facilities and develop bankable PPP infrastructure projects.

ADB in action

In Mongolia, ADB is helping the government structure a $1.2 billion power plant as a build-operate-transfer concession. ADB is working with the state gas companies of Turkmenistan, Afghanistan, Pakistan and India to attract a private partner to lead the consortium that will build, own and operate the planned Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline. This project will export up to 33 billion cubic metres of natural gas a year from Turkmenistan to unserved markets in South Asia.

ADB is innovating to catalyse infrastructure investment. In partnership with the India Infrastructure Finance Company Limited, ADB provided a $128 million partial credit guarantee for the credit enhancement of infrastructure bonds. In Laos, ADB developed an innovative hydropower project with a potential of 20,000 megawatts (MW), which could become the

> Regional connectivity through cross-border infrastructure is essential to sustain Asia's growth momentum

'battery' of the Greater Mekong Subregion. It includes a $50 million direct loan, a baht-denominated loan equivalent to $95 million and a B-loan of $72 million funded by private partners with ADB acting as the lender of record. In addition to exporting cost-efficient power to Thailand and generating revenues for Laos's economic and social development, the project will supply power domestically and raise the household electrification rate. In the Philippines, ADB successfully attracted institutional investors to establish the country's first and largest infrastructure fund. ADB invested in and helped structure a $625 million, 10-year private equity fund, dedicated to investments in domestic infrastructure projects. The fund's first investment was an 81MW joint-venture wind-farm project.

In Indonesia, ADB recently provided a financing package to support the construction of a geothermal power plant. This package innovatively used climate funds to bridge the gap between banks and investors and maintain the project's financial viability. This was the first commercially financed, utility-scale geothermal independent power plant project in the country in more than a decade.

In partnership with the Association of Southeast Asian Nations (ASEAN), ADB established the ASEAN Infrastructure Fund (AIF) to mobilise savings for regional infrastructure projects. AIF plans to lend around $300 million to ASEAN countries, with co-financing from ADB. Thus far, AIF has supported a power project in Indonesia, and has additional projects planned in 2014 for Indonesia, the Philippines and Vietnam.

ADB is committed to expanding its support for the private sector, developing projects to attract co-financiers for bankable PPP projects. Support for advocacy and capacity development, an enabling environment, and project development and financing will also increase. ADB's newly established Office of Public-Private Partnerships will enhance PPP operations, including the provision of transaction advisory services to developing member countries. ADB is also proposing to establish the Asia Pacific Project Preparation Facility (AP3F), a dedicated revolving finance facility, to provide legal, technical and financial expertise to developing member countries with projects at early stages of development. AP3F will focus exclusively on project preparation, and build on ADB's ongoing support for PPPs and its unique knowledge of the infrastructure needs of the region. It will support regional cooperation and integration and will focus on green investments. It also includes an indicative list of projects.

The way forward

Continued growth and poverty-reduction efforts depend heavily on infrastructure development. PPPs are being pursued by many countries as a result of the growing demand for infrastructure services. While ADB actively supports these efforts, PPPs are not a panacea. Preparing bankable projects and attracting private financing remain key challenges.

ADB has been an active participant in the G20 Development Working Group (DWG), particularly under this year's theme of infrastructure. The DWG is addressing obstacles to infrastructure investment, including project pipeline development and facilitating greater finance and investment for infrastructure. In 2014, ADB has been an adviser for the DWG's assessment of project preparation facilities in Asia and has incorporated lessons learned into the design of the new AP3F.

ADB is committed to promoting infrastructure investment to enable strong and sustained growth. Its support, combined with an established record in the Asia-Pacific region, will reinforce and complement the ongoing work of the G20 in this area. ■

ASIAN DEVELOPMENT BANK

ASIAN DEVELOPMENT BANK

Via public-private partnerships, the Asian Development Bank has helped to finance infrastructure projects in Asian countries including the Philippines (above) and Indonesia (top)

INVESTMENT IN INFRASTRUCTURE

Facilitating private-sector investment

Infrastructure public-private partnerships play an essential role in Africa's continued development, but are not as common on the continent as they are elsewhere, explains **Donald Kaberuka, President, African Development Bank**

Donald Kaberuka is serving his second five-year term as President of the African Development Bank Group (AfDB). His career has encompassed banking, international trade and development, and government service. He was Rwanda's Minister of Finance between 1997 and 2005, overseeing the country's economic reconstruction after the civil war and implementing systems for structural, monetary and fiscal governance. At the AfDB, Kaberuka has presided over a major redirection in its strategy for development and poverty reduction in Africa.

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The African Development Bank (AfDB) has initiated several innovative regional infrastructure projects in Africa in recent years. A consortium of multilateral development banks, including the AfDB, has estimated that Africa needs to invest about $93 billion a year in infrastructure to meet current demand. However, current investments, financed mostly from public sources, cover only about $45 billion annually, leaving a deficit of some $48 billion. About a third of this could be reduced by eliminating inefficiencies, but a gap of $31 billion – some five per cent of Africa's gross domestic product (GDP) – would remain. This gap will need to be financed mostly by the private sector.

The high infrastructure deficit has imposed major costs on the continent in terms of foregone growth and missed opportunities for poverty reduction. Various studies and estimates suggest that if sub-Saharan Africa were to reach the level of infrastructure of Mauritius, its growth of real GDP per capita would increase by about 2.3 percentage points a year. Generating new and innovative sources of finance, especially from the private sector, is thus a key development challenge.

Risk mitigation

However, private capital does not flow easily into infrastructure. The reasons are well known: high transaction costs, political risks and the lack of bankable projects, among others. Still, where sound policy and regulatory frameworks are in place, public-private partnerships (PPPs) and 'smart' subsidies can help attract private investors. The AfDB has had risk-mitigation instruments in place for some time, and is developing new ones. The institution, which commits 60 per cent of its annual total lending to infrastructure, estimates its leveraging capacity to be about one to six.

In 2012, at the 18th Summit of the African Union, African leaders endorsed priority energy projects to be implemented by 2020 as part of the Programme for Infrastructure Development in Africa. Nine hydropower projects were identified. To date, the AfDB has been involved in five of them, including the Inga hydropower projects in the Democratic Republic of Congo (DRC) and the Ruzizi III Regional Hydroelectric Project currently promoted by Energies des Grand Lacs, an organisation fostering regional cooperation in energy projects.

The Ruzizi III project, which benefited from cross-border facilitation, will provide additional electricity capacity in Rwanda, Burundi and the DRC. It is the first regional PPP power project in Africa and a model of successful implementation. Transparency and focus on the technical, legal and economic problems that must be overcome were key to success. The project has also benefited from the support of development finance institutions, which financed the initial steps in its development, and are likely to offer political risk guarantees against the risk of sovereign defaults.

Finding private partners for transformational projects, such as the Inga III project, requires innovative approaches to mitigating the key risks. One way of doing this on large infrastructure projects is to utilise political risk guarantees, which have become a common feature of regional PPPs on the continent. In the case of Inga III, preparation costs are estimated to be $1.5 billion. The AfDB, the World Bank, the Agence Française de Développement (AFD), the European Investment Bank

AFDB

The Bumbuna hydroelectric project in Sierra Leone is among the projects to have received financing from the African Development Bank. Several more are under way

JACQUES FERNANDES/AFDB

The African Renewable Energy Fund committed $100 million to support small- to medium-scale independent power producers

and the Development Bank of Southern Africa have all shown interest in financing the project. In the case of the West African Gas Pipeline, equity and shareholder loans were used rather than debt finance.

Overall, though, infrastructure PPPs – broadly defined as contractual agreements between the public and private sectors geared towards developing infrastructure assets and encouraging service delivery – have been much less common in Africa than in other regions of the world. The AfDB cites the lack of skills, in particular investment, financial planning and coordination capacity, as the major constraints on the successful implementation of PPPs in Africa.

In a bid to address some of these challenges, in 2010 the Nigerian Government launched a $31 million capacity-building programme, which is partly funded by the AfDB. Its objectives include providing specialised training to key public-sector personnel in areas such as project feasibility studies, procurement processes and hands-on project management training.

Channelling investment into energy

The launch of the African Renewable Energy Fund (AREF) is an example of how private investment can be channelled into the energy sector. AREF, focused on Africa, committed $100 million to support small- to medium-scale independent power producers (IPPs). AREF will be managed by Berkeley Energy, a fund manager focused on developing and investing in renewable energy projects in emerging markets.

Finally, the AfDB, with the Dutch development bank FMO, the Development Bank of Southern Africa and France's Proparco, recently signed the $142 million project-financing facility for the development of the 120MW Itezhi Tezhi power project. This project is the first PPP in the energy sector in Zambia and is being developed jointly by Tata Africa and ZESCO as an IPP and the Itezhi Tezhi Power Company.

Launching a successful PPP requires governments to find the political will to make critical decisions quickly and transparently. This challenge can be addressed with the help of quality advisors such as the AfDB's forthcoming PPP advisory hubs in the South African Resource Centre and North Africa.

> Launching a successful PPP requires governments to make critical decisions quickly and transparently

The AfDB as investor and founder recently established Africa50, a $100 billion infrastructure fund, to fast-track the continent's industrial development. This one-stop shop and special vehicle for African institutional investors, endorsed by African leaders, will prepare transformational infrastructure projects and sell bonds to raise funding for project investment. With the critical objective of reducing the time required to develop infrastructure projects in Africa, Africa50 is the result of experience and innovation. It will require African countries to undertake the requisite reforms geared towards facilitating the private sector to invest in infrastructure development and maintenance. ■

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ANDY RAIN/ALAMY

Interview

Financing development strategies

—— A global infrastructure facility is key to mobilising investors, says **Dr Ahmad Mohamed Ali Al-Madani, President, Islamic Development Bank**

Q What is the distinctive mandate and mission of the Islamic Development Bank?

A The purpose of the Islamic Development Bank (IsDB), which was established in 1975, is to foster the economic development and social progress of its 56 members, spread over four continents. The IsDB provides loans and grants to finance productive activities in key economic sectors, including infrastructure, agriculture, health and education. It is a South-South international financial institution with distinctive features: its members are all from the South, it operates on Islamic principles and solidarity among members as all its beneficiaries are considered partners, its modes of financing comply with Sharia (no interest is charged on loans and finance is linked to the real economy), it provides assistance to Muslim communities in non-member countries, and it contributes to the development of the Islamic finance sector. IsDB is the only multilateral development bank without G8 members that has been continuously rated AAA by all major rating agencies.

Q What are its guiding principles and how have they been inspired by the model of Islamic finance?

A IsDB operates under a Sharia-based finance model that integrates ethics into finance by prohibiting usury, gambling, injustice, speculation and deceit. The model works on the basis of partnership and cooperation among the financiers and investors or entrepreneurs, with risk sharing to ensure market discipline. It requires greater transparency and disclosure and is designed to link financial transactions to the real economy. It operates purely on five major Islamic instruments:

1. Ijara (or leasing): sale of an asset's usufruct. The lessor retains the ownership of the asset, together with all the rights and responsibilities that go with ownership;
2. Istisna'a: a contract in which a manufacturer (or contractor) agrees to produce (or construct) and deliver, at a given price on a given date in the future, a well-described good (or building) according to specifications;
3. Instalment sale: facilitation of the purchase of assets for the benefits of clients who will pay in instalments over a pre-determined duration;
4. Mudarabah: a contract of profit- and loss-sharing partnership between capital and work – that is, between two parties, one or more capital owners or financiers; and
5. Murabahah: sale agreement whereby the seller purchases the goods desired by the buyer and sells them at an agreed marked-up price.

These Islamic finance principles promote social justice, encompassing economic justice and distributive justice, such as the fair and equitable distribution of wealth, the provision of basic necessities of life to the poor and needy, and the protection of the vulnerable against economic exploitation, as well as the elimination of exploitation.

Q How does the IsDB support economic growth and development in the Islamic world?

A The IsDB Group fosters the economic development of its members through project financing, technical assistance for capacity building, private-sector development, trade financing and the insurance of investment to promote economic cooperation. Its financing has high multiplier impacts on the economies of its members. To this end, the volume of financing since inception has continued its upward trend and cumulatively reached $102 billion, financing 8,059 projects and operations as of June 2014. It has targeted strategic themes such as poverty alleviation, comprehensive human development, capacity development and private-sector development.

In 2013, infrastructure received the largest allocation of IsDB's Ordinary Capital Resources (OCR), totalling $3.1 billion or 73.1 per cent of total financing. In addition to using its OCR for infrastructure, the bank has launched other new facilities and funds, including the Public-Private Partnership (PPP) Division, the Arab Financing Facility for Infrastructure; the New Mudaraba Infrastructure Investment Facility: Islamic Infrastructure Fund; and the IsDB Infrastructure Fund I and II. Through these efforts, it aims to facilitate affordable access to energy, foster urban development and improve transportation networks.

IsDB accords high priority to the private sector in its efforts to help members sustain stronger economic growth, create jobs and reduce poverty. It also contributes to the development of the private sector through its entities, the Islamic Corporation for the Development of the Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC) and the Islamic Corporation for the Insurance of the Export Credit and Investment (ICIEC). In 2013, ICD's support for the private sector totalled $426 million, and ITFC's trade-financing operations for both the public and private sectors was $5 billion. In the same year, ICIEC's business operations reached $3.4 billion.

Deepening regional cooperation and economic integration is pursued through trade financing and investment promotion in order to facilitate exchanges of goods, capital and services among members and PPP initiatives. In addition, the IsDB Group uses a new modality called 'Reverse Linkage' through which members themselves become the agents in providing specific expertise, knowledge, know-how, investments and best practices, as well as financing.

“IsDB accords high priority to the private sector in its efforts to help members sustain stronger economic growth, create jobs and reduce poverty

The IsDB Group is at the forefront of promoting and advancing Islamic financial services through providing technical assistance for creating the requisite legal, regulatory, supervisory and Sharia frameworks, improving access to Islamic finance for the poor, developing the Islamic finance architecture, supporting Islamic infrastructure institutions, participating in equity investments, and creating a common platform for the regulators of the Islamic financial services industry to enhance constructive dialogue. In this context, it has contributed significantly to the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions, the Council of Islamic Banks and Financial Institutions, the Islamic Financial Services Board and the International Islamic Liquidity Management.

IsDB also provides assistance to Muslim communities in non-member countries in supporting education and health.

Q What progress has the Arab Financing Facility for Infrastructure made?

A The Arab Financing Facility for Infrastructure (AFFI) is a flagship initiative by the World Bank Group and IsDB to support in-country and cross-border infrastructure projects, in particular PPPs, in the Middle East and North Africa (MENA). It is an integrated facility aiming at fostering infrastructure development and country dialogue in the Arab countries through holistic approaches for financing and implementing PPP projects. It is an opportunity to share PPP experiences and lessons learnt, as well as to address infrastructure bottlenecks (such as regulation or project preparation).

The IsDB is actively involved in implementing the $8 million Technical Assistance Facility (TAF), to which it has contributed along with the World Bank, International Finance Corporation, European Investment Bank and Arab Fund for Economic and Social Development. TAF resources have been fully committed in supporting 12 projects in five different countries, of which four have already been completed. ▸

Institutional investors in infrastructure: an opportunity missed?

Andrea Echberg
Partner, Infrastructure

When the first infrastructure funds were raised, institutional investors had no asset class allocation for infrastructure and it was booked under private equity, real-estate and even fixed-income allocations. Two decades on, and infrastructure has emerged as a stand-alone asset class. Research and consultancy firm Preqin reports that infrastructure fund-raising peaked at $45.5 billion in 2007[1]. Following a trough post financial crisis, fundraising soon recovered and 2013 saw growing investor allocations to infrastructure funds as well as significant amounts of capital put to work by Sovereign Wealth Funds and pension funds investing in the asset class directly.

Institutional investors are typically attracted to infrastructure for the stable, predictable cashflows, inflation protection, cash yield and diversification from other asset classes. The emergence of infrastructure debt funds to compete with project finance banks has now opened a further investment route for institutional investors.

The global need for investment in infrastructure is huge, with estimates standing at $57.3 trillion[2] of investment needed by 2030. Institutional capital available for investment into the sector is estimated at $194 billion[3]. Yet by far the greatest concern for investors in the infrastructure market today is the lack of investment opportunities and the high valuations that are being paid for assets. Why is this? The answer is that all of the capital is chasing a small subset of investment opportunities: trophy, operating and core infrastructure in developed economies. We call this the 'crowded core' and we are seeing valuations in the space in some cases exceed those seen at the peak of the market prior to the global financial crisis.

An opportunity missed?

During the past five years, we have seen significant institutional allocations into infrastructure debt and equity offering an extremely competitive overall cost of capital available for infrastructure assets. At the same time, we have seen a significant slowdown in deal flow globally for both greenfield (construction) and brownfield (operating) projects. Arguably, this is an opportunity missed for governments in the developed world.

Where leaders globally have been seeking measures to boost economies, investment in infrastructure could provide a stimulus to economic growth. The IMF estimates that every incremental dollar invested in infrastructure in advanced economies has the potential to add 40 cents to a country's GDP in the first year and $1.50 four years after the initial spending increase[4].

And the problem is getting worse. In the first half of 2014, as the cost of infrastructure equity and debt fell further and capital available increased, we saw a close to 30 per cent year-on-year drop in infrastructure projects to reach financial close[5]. Deal flow is now at its lowest level since the financial crisis.

So what needs to be done to direct institutional capital into infrastructure?

A strong pipeline of projects is required with clear legal and regulatory frameworks and simplified procurement processes. Government focus should be on delivering the deals – there is no need to spend time developing complex new initiatives to attract institutional investors.

Private capital currently accounts for just 15 per cent of total infrastructure investment[6]. With investor allocations to infrastructure expected to double in the next five years[7], the capital is there to bridge the gap. It is the policies and pipeline that are needed.

Footnotes
1 *Preqin as of October 2014*
2 *McKinsey Global Institute Infrastructure Practice 3*
3 *Campbell Lutyens*
4 *IMF World Economic Outlook October 2014*
5 *Freshfields Bruckhaus Deringer*
6 *Bain & Company Research*
7 *Standard & Poor's: 'Global Infrastructure: How to fill a $500 billion hole'*

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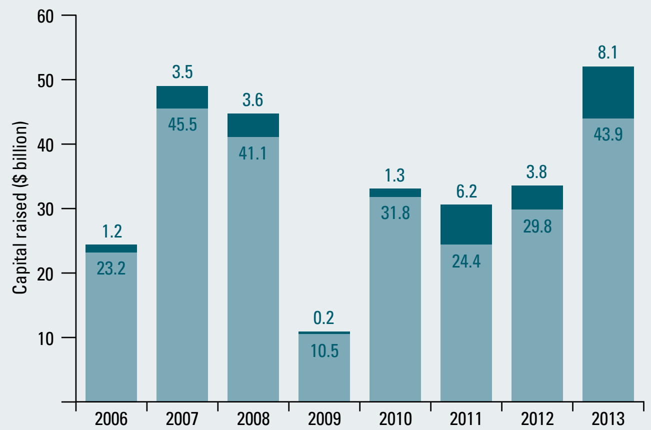
Equity and debt fundraising statistics

Debt
Equity



Source: Preqin, accessed on 20 October 2014


REUTERS/ZOUBEIR SOUISSI

Mobile phone communication in Tunis. The Technical Assistance Facility has helped fund communications technologies projects in Tunisia

Q How has the TAF been working with the private sector to support the key infrastructure needed for development?

A TAF focuses on financing transaction advisory services to assist members in creating an enabling environment for infrastructure investments and to support project preparations by addressing the policy and institutional constraints. The grants have been successfully used in providing expertise to countries to develop PPP-based infrastructure projects and help governments address barriers to investments and legal framework issues. The pre-feasibility studies and documents prepared with TAF's assistance are expected to improve the quality of project bankability and mobilisation of resources from the private and public sectors.

Q What particular infrastructure projects and innovations has it pioneered through the use of PPPs?

A TAF is the first collaborative initiative of its kind in the region. TAF has also significantly helped in building the PPP framework and policies in the region, which provide legal and political transparency to the private sector by setting the PPP rules and procedures openly before the parties enter into any commitments. TAF is also raising awareness about the PPP modality in the MENA region through its activities. TAF has helped the governments of Morocco and Tunisia draft their PPP laws. Specific projects using TAF funding include power and health projects in Egypt; projects involving water, sanitation and information and communications technologies in Tunisia; municipal services (solid waste management) in Palestine; and water treatment in Lebanon.

Q What challenges lie ahead?

A The key elements of PPP success in any country are a balanced sharing of risk between the public and private sectors, as well as the legal infrastructure. The AFFI assists in creating the required enabling environment. IsDB is actively working with various MENA governments to develop the legal instruments, procedures and laws necessary for that enabling environment. Governments also need to address infrastructure funding structures – who pays for infrastructure services (user fees, taxation, and so on). TAF was designed to address financing issues, but governments must address the more politically difficult funding issues.

To be more specific, on the government side, better governance is needed to ensure effective management for PPP projects and stronger initiatives to realise those projects. On the private sector side, the private sector's unwillingness to accept the political risk in the region needs to be tackled.

Q How can the G20's Brisbane Summit best support and take advantage of this work?

A The G20 can help promote best practices in delivering infrastructure services, including funding and financing. It can partner with the multilateral development banks to set up larger preparation facilities that can have deeper and longer-lasting engagement with governments. The creation of a global infrastructure facility is key to attracting investments in this sector. Finally, the G20 can encourage the promotion of innovative financing instruments, such as Islamic finance (including sukuk, or Islamic bonds) to mobilise financing for infrastructure projects. ■

Dr Ahmad Mohamed Ali Al-Madani has been President of the Islamic Development Bank (IsDB) since 1975. A Saudi Arabian national, he began his career as Director of the Scientific and Islamic Institute in Yemen. He returned to Saudi Arabia to assume the position of Acting Rector of King Abdulaziz University from 1967-72. Dr Ali served as Saudi Arabia's Deputy Minister of Education from 1972-75. Upon the initiative of the late King Faisal Bin Abdulaziz, when the Organization of the Islamic Conference decided to establish the IsDB, he was chosen as its first president.

www.isdb.org

A social licence for development

—— The discourse on infrastructure investment needs to take into account environmental and community impacts, says **Kathryn Hochstetler, CIGI Chair of Governance in the Americas, Balsillie School of International Affairs**

Kathryn Hochstetler is the CIGI (Centre for International Governance Innovation) Chair of Governance in the Americas at the Balsillie School of International Affairs and a professor of political science at the University of Waterloo. She has published widely on environmental politics in developing countries and in United Nations negotiations, as well as on South-South economic relations. Her most recent book is *Greening Brazil: Environmental Activism in State and Society* (with Margaret E Keck).

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Infrastructure has been at the top of the G20 agenda since 2010, when it was one of two priority areas identified in the Seoul Summit's Multi-Year Action Plan on Development. A year later, at Cannes, leaders wrote that "the lack of infrastructure dramatically hampers the growth potential in many developing countries". They pledged prompt action to help low-income countries, especially those in sub-Saharan Africa, overcome this serious development bottleneck, made even more urgent as finance dried up in the wake of the global financial crisis. The multilateral development banks and the G20's High Level Panel on Infrastructure Investment were to develop action plans to facilitate more investment.

From the standpoint of the would-be recipients of this investment, the initiatives so far have been a big disappointment. They have focused mostly on how the recipients should remake their economies to be more attractive to private foreign investment, with recommendations that are familiar from years of structural adjustment programmes – and it would be difficult to locate any new sources of infrastructure finance that have been committed in response. The World Bank and the regional banks have largely continued with the practices and quantities of development finance they had before the initiative. Private financial resources also continue to be scarce, especially for the countries that have the deepest infrastructure needs.

Not surprisingly, the problems have not gone away either. The African Development Bank sees the need for at least $93 billion annually through to 2020 just to bring Africa's roads, sanitation, irrigation and other infrastructure up to the levels of developing countries elsewhere. It would take considerably more money to bring them up to a standard where they would provide adequate support for real economic development – which would in turn require even more infrastructure to grow at the same pace as developed economies. Brazil, Russia, India, China and South Africa – the BRICS, which have grown quickly through much of the 21st century and made considerable investment in infrastructure already – still have an estimated $4.5 trillion in infrastructure needs to be met in the next five years. That estimate came from South African President Jacob Zuma at the 2013 BRICS Summit in Durban, where members announced their plan to create the New Development Bank (NDB) in response.

A new way of funding

The NDB has targeted exactly this gap in finance, with member states pledging to make infrastructure and sustainable development projects the focus of their new programmes. Commentary on the NDB has often stressed that the new BRICS bank was created as an expression of these emerging powers' frustration with the non-implementation of governance reforms at the International Monetary Fund (IMF) and the World Bank. But the dissatisfaction is not only procedural. BRICS members are also looking for new content from the international financial system, not least a stronger focus on making more and more diverse resources available to countries to resolve their development needs as they define them. They also plan to grant funding in ways that make fewer demands for economic structural changes first. Yet, other than agreeing to create an office for Africa that will be based in South Africa, it is not clear yet what the BRICS will do for countries outside its own membership.

Infrastructure is already on the agenda for the G20 in 2014. The Brisbane policy note *Increasing Investment in Infrastructure* expands the agenda in useful ways, noting that underinvestment in infrastructure is an issue not only for a subset of countries, but for developed and emerging countries alike. For some, the infrastructure agenda involves primarily refurbishing and updating existing infrastructure, while others are building infrastructure for the first time – many countries will do some of both. While the expansion is welcome and should help to raise the profile of the topic, it is important not to lose sight of the special needs of developing countries in infrastructure and, especially, infrastructure finance. The BRICS approach appears to be different from that of more traditional economic leaders in the G20. Consequently, the Brisbane Summit is likely to see extended debate over how best to provide development finance for low-income countries.

MARTIN HARVEY/ALAMY

Development of a water-treatment facility in South Africa. Without massive investment in infrastructure, countries across Africa will not grow at their full potential

The current G20 infrastructure agenda focuses on the financing of projects. Yet it leaves out some of the thorniest questions related to carrying them out. Unlike governments of the post-war infrastructure boom, today's builders of infrastructure projects need a 'social licence', in the form of the acquiescence of the communities that are directly and indirectly affected by them. Many communities regard the more diffuse and often national benefits of infrastructure projects to be poor compensation for the direct costs they pay locally. They are more inclined to resist projects, and typically have – or make – new tools to do so. Citizens are also increasingly likely to express their criticisms of infrastructure plans they see as misguided, as with the recent protests in Brazil on the country's spending on hosting the World Cup.

Private financial resources continue to be scarce for the countries with the deepest infrastructure needs

Assessing the consequences

On a related issue, many of the infrastructure projects prized by governments and economic actors carry inherent costs in environmental degradation. Building roads in pristine forests is strongly associated with deforestation, hydroelectric dams may flood large ecosystems, and many infrastructure projects can generate pollution in both their construction and operation phases. Some of this environmental degradation is inherent in projects of this kind, requiring serious national conversations about priorities and trade-offs. Some degradation can be avoided with strong regulations and planning, perhaps making the projects more economically viable. Moreover, the G20 could also discuss how to reorient infrastructure finance to make more environmentally benign technologies more feasible, for instance, by building transmission infrastructures, which are currently one of the biggest blocks to bringing wind power into national grids.

The G20 needs to add community and environmental impacts to its discussion of infrastructure. While the handling of these issues primarily involves country-specific action, the G20 could signal their importance by considering these impacts, as well as collecting reports of best practices for responding to them, and supporting ongoing efforts by multilateral and regional development banks to incorporate environmental and social concerns in their own finance for infrastructure. ■

Reinvigorating investment

International financial institutions can help stimulate infrastructure investment through mitigating policy risk and improving local financing, say **Erik Berglöf and Alexandru Chirmiciu, European Bank for Reconstruction and Development**

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Infrastructure is the battle cry of the day. The International Monetary Fund, of all institutions, even made it a theme of its recent annual meetings. In advanced economies with currently very low interest rates, infrastructure investments are viewed as an opportunity for governments to stimulate growth and improve competitiveness, but in emerging economies infrastructure needs are existential – the pressures from high growth expectations, environmental and climate-related challenges, and, in many cases, expanding populations are immense.

At first glance, there seems to be an easy solution. There just needs to be a way to connect the gigantic institutional investors seeking long-term assets with the emerging economies craving such long-term capital. The problem, however, is that financing is only one of the many challenges facing infrastructure investments. These projects require planning and implementation capacity, models for sustainable funding and, perhaps most of all, commitments to a particular policy framework. What can be done to address these challenges? And in particular, what can investing international financial institutions (IFIs) do?

Rethinking infrastructure funding

The planning and implementation of infrastructure investments in emerging economies normally end up within the realm of public authorities, because market-based solutions are too complex and require more coordination than these authorities can handle. Climate change mitigation and adaptation have added yet another layer of complexity, stretching their administrative capacity and governance arrangements.

SAJJAD HUSSAIN/AFP/GETTY IMAGES

Janpath metro station under construction in New Delhi, India. The public sector is usually responsible for the delivery of infrastructure investments in emerging economies

Structuring these projects also requires substantial upfront costs – understandably it is often difficult to incentivise investors to incur these costs before having been granted the contract. Increasing the institutional capacity of the public authorities is key to addressing all these planning and implementation challenges.

Funding normally requires some combination of contributions from taxpayers and market-based user charges throughout the life cycle of an asset. Fiscal capacity is often limited and the willingness and ability to raise incremental tax revenues for infrastructure investments are also constrained. Selling off existing infrastructure assets can be a way to create fiscal space. So-called value capture, where those benefiting from particular investments (such as landowners from railway construction) can be taxed in a differentiated fashion, combines the two approaches. This method has worked well in sophisticated environments, but it places high demands on institutional quality because selective taxation invites corruption and special treatment.

Financing infrastructure is increasingly challenging in the aftermath of the global economic crisis. Infrastructure investment requires long-tenor debt and equity. But the availability of such finance varies across advanced, emerging and developing countries. Since the global financial crisis, banks provide less of such funding and alternative financiers have emerged, such as pension funds and insurance companies with long-lived assets.

At the same time, the need for equity has increased as risk levels have been rising significantly. One important way to encourage these investors is to bring down risk levels, particularly policy risk.

Creating a favourable environment

The financing question is closely tied to that of policy risk. Perhaps the best illustration of policy risks is in the energy and climate sector. Obviously, there are risks related to the price of different fuels – both short and long term – and in technological development,

> IFIs can serve as vibrant incubators and instigators of institutional innovation

but arguably the biggest risks are in the consistency of policies over time. Policy risks emanate from both the cost and the revenue. Returns to investment in this area are very sensitive to policy variables, for example a carbon price floor, feed-in tariffs and various capacity mechanisms. The support for different policies obviously depends on the fuel price. These risks have to be allocated between consumers and producers, or ultimately absorbed by the government or IFIs.

In other words, good projects – those with an implementable structure, a sustainable funding model and moderate policy risk – can attract finance. However, there are still important financial risks that could be reduced, in particular through the developments of local financial markets. Many infrastructure investments earn the bulk of their revenues in local currency and should ideally be financed locally. Banks and non-bank financial institutions as well as financial markets can play a role in channelling finance to these projects.

What can investing IFIs, such as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank and the International Finance Corporation (IFC), do to facilitate infrastructure investments? To some extent they can help mitigate policy risk by absorbing some risk on their own balance sheets, although the global financial crisis has demonstrated the limits of this option. They can also help structure projects and support project preparation, as the EBRD is now doing with its new infrastructure project preparation facility, combining financing, technical assistance and policy dialogue. The aim is to develop a pipeline of good projects that will attract contractors, concessionaires and financiers.

But perhaps the most important role for the IFIs is to reduce policy risk. Through their unique multilateral governance structure, with recipient countries as shareholders, IFIs can help reduce this risk. Moreover, they can leverage multiple investments in sectors to improve the local policy environment and develop the local financial system to encourage greater local finance. None of this is really new, but the scale and scope of interventions have increased considerably through better cooperation among IFIs in responding to the global financial crisis.

More novel are the mechanisms through which they can leverage their local knowledge and global experience to play an important role in intermediating long-term institutional capital and facilitating transformational finance in transition and developing economies. The IFC has done this through the creation of a special asset-management company that co-invests in selected IFC investments. EBRD has chosen another route, a 'passive fund', where institutional investors are offered to co-invest a pre-set share (20-30 per cent) in all qualifying EBRD equity investments – in other words, there will be no cherry-picking of underlying investments and investors will have to rely on EBRD's own project selection and governance structures.

Most of the investments in infrastructure critical to global growth and climate change will happen in countries with weak institutions, great political risk and limited access to long-term institutional capital. Finding innovative ways to mitigate these risks and to ensure that these investments come about in a way that helps to address the global challenges is absolutely critical. In a shifting global political landscape, reinvented IFIs can serve as vibrant incubators and instigators of institutional innovation. ■

Infrastructure investment – no better time than the present

Infrastructure investment is key to economic growth. Looking ahead, demand greatly outstrips the funding sources available. Recognising infrastructure investment as an asset class will help long-term investors meet this funding gap and support growth. It is time to act.

Michel M Liès
Group CEO, Swiss Re

As global economic recovery continues but remains weak, and national debt levels are high, pro-growth measures are urgently needed. Numerous studies document the positive impact of infrastructure investment on economic output, both over the short and long term, so it is not surprising that infrastructure investments are currently on many agendas. Policy and market changes are needed, but we should not wait for them to happen. We must act today for our own benefit and that of coming generations.

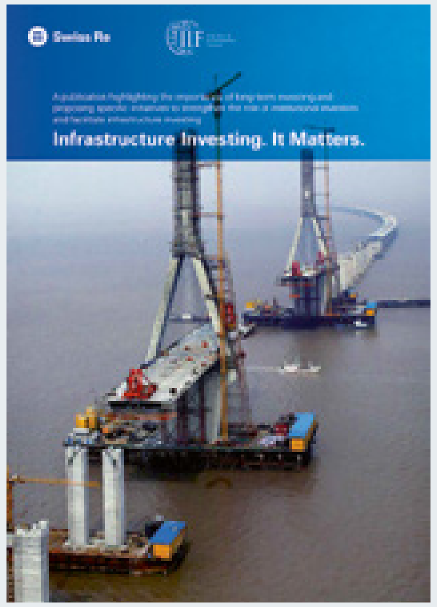
To increase infrastructure investments, the private sector is needed. Big infrastructure investments are often regarded as the responsibility of governments. However, this was not always the case. The private sector has historically played a key role in very important infrastructure projects, such as in railway construction in the United States in the 19th century.

Incorporating the private sector early on would provide many advantages: it eases squeezed state budgets, increases the project's productivity through private-sector involvement and opens up infrastructure investments to institutional investors as an alternative investment opportunity. This latter point is important as these investors are grappling with extremely low interest rates imposed by central banks and various regulatory measures favouring government bonds. Consider, for example, Europe's upcoming Solvency II capital regime: the proposed calibration for infrastructure debt under the regime's standard formula should be revisited to better reflect market reality and not discourage infrastructure investments.

Stable framework needed

A stable and legally reliable framework is needed to improve the integration of capital market solutions in infrastructure project financing, thus enhancing the financial market's contribution to society. Long-lived infrastructure investments are utilised for 20 years or more and are therefore exposed to numerous political administrations and regulatory reforms. Institutional investors frequently cite these issues, along with political risks, as obstacles to additional investment. This highlights the need for a stable legal environment. Ideally, the state should put an optimal framework in place for private-sector activities, and its citizens, to flourish. In addition, infrastructure investment needs a legal framework in which the private sector is not placed at a disadvantage by being exposed to numerous political cycles within an investment's lifespan.

Without private-sector investment, estimates from the Organisation for Economic Co-operation and Development on additional infrastructure spending required by 2030 cannot be met. By that year, required annual expenditure is expected to increase annually by roughly half its current total of $2,600 billion. Even in the US, where, unlike in Europe, the capital market is the primary form of raising funds, the demand for infrastructure investments greatly outstrips the funding sources available. Simply to maintain its existing level of infrastructure investment, the US needs to invest around $4,000 billion by 2020. The current funding capacity from the US municipal bond market would need to be enlarged. Thus, the US also needs to look into alternative forms of investment.



A joint publication by Swiss Re and the Institute of International Finance highlights the importance of infrastructure growth and partnerships to fund its investment. Available for download at www.swissre.com/IIF/

Create an asset class

So what else is needed? Insurers have always ranked among the most important long-term-focused institutional investors, especially given their risk-transforming and market-stabilising role. But they struggle to find appropriate investments that can be used for asset-liability matching purposes while offering balanced risk-adjusted returns. A lack of long-term financial market instruments could have serious consequences for both the financial system and the real economy.

Policy and market actions needed to support infrastructure investing

Given the numerous hurdles for infrastructure investing, specific market and policy adjustments are needed in order to establish an infrastructure asset class and to shape an environment that attracts long-term institutional investors.

Swiss Re has developed a wish list to support the development of infrastructure investments as an asset class. Within this wish list, changes include the standardisation of infrastructure debt investments, the pooling of projects and the adoption of a sensible approach to credit enhancement.

Policy adjustments are also important. Regulatory treatment of capital should consider the specific risk-return characteristics of infrastructure debt. Multilateral/national development banks, together with the private sector, should adopt and follow minimum standards for the debt documentation and reporting.

	Today's reality	Tomorrow's ideal investment environment
Needed market changes	■ No standardisation, mostly non-marketable securities ■ Low credit rating ■ No benchmark ■ More floaters than fixed-rate structures	■ Global infrastructure debt asset class, addressing the current fragmentation ■ Global passport for investments in infrastructure with common governing law, in particular for developing markets ■ Need to have common understanding of infrastructure debt reporting and documentation, best practices ■ Marketable, standardised securities; potentially more fixed structures ■ Assigned credit rating and definition of performance benchmark ■ Bonds to be issued on a pool of projects, not on a deal-by-deal basis
Needed policy adjustments	■ Weak investors' rights ■ No preferential tax treatment ■ Punitive capital charges	■ Establish and promote a transparent, harmonised and accessible infrastructure asset class on a global level: global infrastructure hub, multilateral and national development banks could disseminate best practices and monitor proper establishment and application ■ Enhance information sharing/disclosure on infrastructure projects (such as a global database maintained by the World Bank, for example) ■ Establish rules-based framework for investor rights in general ■ Reduce policy uncertainty through coordinated global regulatory roadmaps ■ Review regulatory capital charges, tax treatment and collateral eligibility for central banks

Infrastructure investments should be recognised as an asset class (see box above). Having liquid and tradable assets with standardised disclosure/documentation and recognised dispute practices would increase the attractiveness of infrastructure investment for institutional investors.

However, it is not so easy to establish an asset class, and the hurdles for investments are multifaceted. On the one hand, regulatory factors such as erratic changes in tariffs/tax policy or the high capital holding requirements must be considered. On the other hand, an asset class would also require the aforementioned standardisation of documentation and reporting for infrastructure project bonds. In order to move towards a well-functioning infrastructure market, measures must be undertaken to achieve this. Here, the onus is on the private sector to promote standardisation through best practices. Ideally, policymakers would catalyse this by working with the private sector to define it and then apply standardisation for project lending through multilateral and national development banks.

Furthermore, today's infrastructure market is very fragmented. The pooling of infrastructure projects of similar size and/or industry could achieve a critical mass and result in diversification benefits for investors. Such a pool could be brought to capital markets, possibly involving a multilateral organisation and/or national development agencies, which provide a credit enhancement and enforce best practice standards. Under certain conditions, the reinsurance industry could provide targeted insurance capacity to underwrite such pools.

Swiss Re recently signed collaboration with the World Bank's Global Infrastructure Facility, which could help to unlock more infrastructure investments. We will act as an advisor in order to help establish infrastructure investments as an asset class. Furthermore, we will continue to provide innovative insurance risk solutions to lower developing economies' public balance sheet vulnerabilities associated with natural catastrophes to accompany sustainable infrastructure investments.

Faced with a financial market environment where central banks do not just play the music but also set the tone in their role as primary buyers in many market segments, it is time again to shore up conditions for long-term investors. This is the only way to get everyone to play towards their primary strength and thus ensure that global growth regains momentum. We do not only need to think long term, we also need to act that way, too.

Infrastructure: some universal truths

Given the current global infrastructure deficit, governments and multilateral bodies can do more when turning to the private sector for financial support to plug the gap, writes **Andrew Briggs, Hogan Lovells**

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On 20-21 September 2014, the meeting of the finance ministers and central bank governors of the G20 group of countries reinforced the G20's commitment to global infrastructure investment. The G20 recognises that infrastructure investment boosts demand and lifts growth.

The economic arguments to support infrastructure growth are compelling. But, more fundamentally, infrastructure investment is at the core of political responsibility. Infrastructure investment is a social entitlement and needs to transcend short-term political pressures. Education is a core global priority, even though the return on that investment is measured in generations, not political cycles. Infrastructure investment needs to be assessed on the same basis.

The G20 clearly appreciates that there are significant challenges to accelerating infrastructure investment, particularly in emerging market and developing economies (EMDEs). The Brisbane Summit will consider how best to meet these challenges. One key theme is that of encouraging private institutional investors to play their part. They will do so, but to maximise this potential requires a shift in the way that government and multilateral institutions approach their infrastructure, energy and industrial development.

Build it, and they will come

There is no shortage of institutional investors willing and able to deploy private capital to infrastructure development; it just needs to find the right home. Understandably, the G20 places great emphasis on the potential to leverage institutional investors' commitment to the sector, as the natural source of capital for public investments that are, by their nature, long-term opportunities. But to achieve this will require an understanding of the legitimate needs of those investors, and constructive engagement by governments and multilateral bodies. In other words, to achieve the multi-trillion-dollar investment that is needed globally will require public institutions to work more proactively in partnership with the private sector, and make use of emerging and established best practice in a more committed and coordinated way.

Two universal truths

Experience of both successful and unsuccessful infrastructure partnerships, in both developed and EMDE markets, suggests that there are two universal truths that public and private sectors should recognise in developing this 'new' partnership, to maximise the latent appetite of the institutional investor market for infrastructure investment.

Financing and funding infrastructure are not the same thing

Starting with the money, the infrastructure market distinguishes fundamentally between the funding of infrastructure and its financing. 'Financing' refers to the upfront capital needed to design, construct, commission and maintain an infrastructure asset, whether public or privately provided. 'Funding' is what pays for the infrastructure over its useful life.

The hard part is the funding: those providing the finance need confidence in the long-term revenue funding that will underpin their return. Ultimately, there are only three sources of funding: general taxation, sale proceeds for commodities, or asset-user charges (for example, bridge tolls or water tariffs).

1. **Government revenue streams:** common in the classic public-private partnership model and underpinned by general or specific taxation, these provide a predictable and secure revenue model, maximise the infrastructure project's credit (up to, or at least close to, the sovereign rating) and are perceived as low risk. But in all countries (and in EMDEs in particular), this funding source is constrained and subject to short-term political pressures.
2. **Offtake charges:** these can work well to develop commodities infrastructure or even support general infrastructure, and can enhance a project credit rating at or above the relevant sovereign rating, dependent on project structure. But some EMDEs do not have sufficient commodities for this to provide a meaningful answer, and political instability can skew sensible long-term planning around the application of these resources.
3. **User charging:** this works well in the energy, transport and utility sectors, but can be politically sensitive and volatile. Specifically for EMDEs, concerns over the affordability of charges (particularly around essential needs such as water), enforceability of charges and the regulatory environment to control charges bring additional challenges for the user-charge model.

If funding is limited (which it universally is), but still needs to be applied to generate infrastructure investment, there are two key priorities for public bodies:

1. First, make sensible and informed procurement decisions about the most effective way to apply it. This will be both qualitatively and quantitatively driven, noting the current trend towards supporting 'economic' infrastructure, which more readily generates identifiable cost benefits. But there are macro-social and political policy issues to consider, too. The cost-benefit advantage of investment in education and health is less clearly demonstrable than it is in energy, water and transportation in the short term – but that is not to say that these sectors should be ignored. In fact, it is the more qualitative factors driving social infrastructure priorities that need the most careful analysis.
2. Second, make sensible and informed procurement decisions about the long-term sustainability of any investment. Publicly supported infrastructure involves a long-term commitment. It follows that this works best where the infrastructure is capital-intensive and there is a clear long-term need for the relevant assets. Limited funding should not be applied to support a 30-year commitment for infrastructure that may not be required halfway through its useful life. Understanding demographic shifts is vital.

Government can never fully step back from critical infrastructure

Government is never truly remote from critical public-service infrastructure. Public-private partnerships using institutional investor capital to promote infrastructure can accelerate development, and pass economic risk and reward to the private sector in a way that lowers whole-life infrastructure costs to the general public – clearly, a good thing. Significant amounts of private capital can be exposed to, and rewarded for, the risks associated with efficient infrastructure provision. But there are limits.

The appetite of private capital controllers to deploy funds sits on a risk spectrum. Basic economics tells us that the greater the risk that capital is exposed to, the greater the return it will require: a day at the Melbourne Cup illustrates this perfectly. So the level of risk a private partner is required to take will feed directly into the value for money of that relationship.

At a macro level, certain risks (particularly in EMDEs) are set by the investment environment: for example, if you are relying on a government credit, it will be hard to exceed the relevant sovereign rating as a backstop for your risk pricing. This is where the G20 may be able to make a real and immediate difference, as we describe below. And, at a micro level, certain infrastructure delivery risks are better priced (or supported) by government, so models that seek complete risk transfer, such as the early UK private finance initiative model, may not prove to be best value.

There is no shortage of institutional investors willing and able to deploy private capital to infrastructure development

Classic examples include land acquisition, planning, price regulation and legislative interference.

But this universal truth is even more fundamental than a basic value-for-money argument. By analogy with the large national banks during the global financial crisis, most public infrastructure is 'too big to fail'. So, even if private capital is structurally exposed to infrastructure risk, complete private failure will simply require the public sector to step in. This de facto backstop needs to be recognised in developing public-private partnership models that get the most out of a private partner, but at best value. Upfront finance, better risk management, efficiency of delivery and whole-life costing are readily achieved. But total risk transfer is not required to achieve these benefits and, for the reasons described above, total risk transfer is illusory in any event. Government needs to be smart in determining the level of risk transfer that achieves best value for its limited available funding.

Application to EMDEs

These universal truths are relevant to any public-private infrastructure development. But they become even more acute when applied to EMDEs. This is because:

1. The infrastructure need is greater, more urgent and more challenging to deliver. So, marginal gains in the efficient use (and cost) of private capital are so much more important to maximise the leverage of all available funding. The aggregation of these marginal gains can make a significant difference to social innovation at no marginal cost.
2. The credit environment of many EMDEs is clearly less favourable than that of more developed markets. So, again, the most efficient application of the tools available to government institutions, to maximise leverage of available funding and minimise any 'country risk' adjustment to the cost of private capital, is vital.
3. The institutional and legal framework of many EMDEs is less secure than that of developed markets. Smart use by governments of development finance institutions (DFIs), international finance institutions (IFIs), political risk insurance, export-credit enhancement, offshore structures and resource-backed financing can assist private partners to get increasingly comfortable with their investment environment. This is enhanced further by the use of best-practice procurement techniques.
4. Perceived political, contractual and regulatory stability is key: infrastructure investment has ▸

a long time horizon. If private capital is to be tempted into EMDEs outside the current remit (of largely private IPPs and resource-backed developments), then taking seriously the need for economic stabilisation is a fundamental and necessary requirement.

Leveraging the G20 balance sheet: PPPPs – the new way forward?

Post global financial crisis, many members of the G20 have their own financial challenges – short-term fiscal policy is having a drag effect on their own infrastructure development. But the G20 initiative to promote EMDE infrastructure offers an opportunity for a symbiotic, 'win-win' approach: let's call it a public-public-private partnership or PPPP.

Export investment opportunities will play a key role in developing domestic economic growth among the G20 group of countries. And G20 support will be central to developing EMDE transport, utility and energy infrastructure. G20 governmental support to key domestic export industries – manufacturing, project management, equipment supply and advisory services – in partnership with local EMDE governments could rapidly expand the export market in EMDE countries for those industries. This support could be in the form of upfront grants, domestic tax incentives, multilateral finance, export credit guarantees or political risk cover, or a combination of these techniques. Many G20 members are already active in this area. But an enhanced focus would accelerate the ability of institutional capital to invest in EMDE infrastructure.

Properly structured, EMDE country risk can be managed (or mitigated to a material extent). And enhancing the appetite of institutional capital to invest in EMDE infrastructure will have the triple effect of boosting domestic G20 economic growth, providing employment on the ground in EMDE countries and kick-starting the development of key social and economic infrastructure in those parts of the world where it is truly needed.

Many G20 countries are focused on infrastructure development that is carbon neutral, but will 'keep the lights on'. For many parts of the EMDE community, the challenge is to turn the lights on in the first place. Intelligent leveraging of the G20 balance sheet could help to achieve this, without real or substantial cost to the G20 population.

Making the most of the G20 initiative

It is clear from the official communications that there is a real opportunity to engineer a step change in the use of private capital in developing EMDE infrastructure.

And there is no shortage of capital available. Sovereign wealth funds, pension funds, insurance providers and private capital are seeking infrastructure investment in greater volumes than ever before. The key is to use the vast array of current experience to accelerate the development of investment structures in EMDEs that will be attractive to that capital. And the G20 can make a real difference to this initiative.

In the view of Hogan Lovells, this boils down to five key principles:

1. **Encouragement and assistance with the continual development of the rule of law:** whether contractual, legislative or treaty driven, a stable risk environment in EMDEs will drive the appetite of private capital to invest in infrastructure and reduce the cost to local consumers of doing so.
2. **Education – both of public bodies and private citizens:** all governments can learn from experience elsewhere, and the G20 and its associate partners should continue to facilitate this education process, to promote best use of limited resources. But there is also a political debate – one that is often ignored in more developed economies. It will be important to bring the population along with the increasing use of private capital. Privately financed infrastructure can be bad, but is not inherently bad for consumers. PPP infrastructure does not 'mortgage the next generation', as is sometimes alleged, but rather builds now for the next generation to benefit, spreading the cost fairly across those who use it.
3. **Economics:** infrastructure is a long-term investment, but one that also brings short-term economic benefits. Infrastructure programmes can invigorate the local industrial and supply-chain market, promoting SMEs where most needed. They can enhance and mature local capital markets. And, most immediately, they can bring jobs and economic activity where it is most needed.
4. **Equality:** infrastructure investment is vital to minimising the gap between rich and poor countries. While the need is great in many G20 nations, the need is immediate in EMDEs. But this need not be an 'either/or' choice. PPPP techniques can kick-start the much-needed investment in EMDEs at a negligible cost to the more developed nations, while boosting domestic growth for those G20 members. Truly, this could be a win-win initiative.
5. **Execution:** bad outcomes are often the result of bad execution. The G20, along with DFIs and IFIs across the EMDE geographies, can and should assist to ensure best practice in the way in which private capital is deployed to develop public infrastructure. Many lessons have already been learnt – they now need to be applied. ■

The G20 initiative to promote EMDE infrastructure offers an opportunity for a symbiotic, 'win-win' approach

Delivering the Qatar 2022 FIFA World Cup legacy: using sport as a catalyst to drive economic diversity, growth and social transformation

Dr Shaun McCarthy, Executive Director of The ICSS Enterprise, is also an Advisor to the Qatar Ministry for Youth and Sport

Inevitably, debates around the right of a country to host a major international sporting event (MISE) raise questions and expectations about the legacy that the event in question, or the host government, will deliver to the populace of that country. The word 'legacy' is generally interpreted to mean something that is left over – an inheritance, heritage, remnant or remains. This interpretation of legacy is possibly a key reason why most host governments tend to focus their efforts on delivering legacy in the aftermath of the event, and are remiss in applying efforts to deliver legacy at the earliest conceptual stage of the event itself.

Legacy is not only delivered in terms of developing a strategic plan to maximise the return on investment (ROI) on the hard or infrastructure assets. Legacy also has reputational significance in that it should also deliver positive returns on reputation (ROR) of the host nation or city.

This is an approach that lies at the heart of the Qatar National Legacy Committee's (NLC) strategy to deliver results in the build-up, duration and aftermath of the Fifa World Cup in 2022.

The NLC has developed a framework that will focus its efforts to deliver a truly amazing legacy, both in terms of ROI and ROR, not only to its population, but to the region and international community, too. As well as being in line with and in support of the Qatar National Vision 2030, this is an approach that is based on four pillars.

Physical: delivering high-quality infrastructure and sporting facilities that are both visually exciting and inspiring to encourage active participation in sport and physical activity, aimed at both local as well as elite sports athletes. Design of these physical structures will be done with a view to pushing the country forward in terms of modernisation, while simultaneously integrating the culture and heritage of the Qatari population.

Social: delivering active and highly motivated communities that work, socialise and play in a manner that makes Qatar a destination of choice because it is recognised as a safe, secure and modern environment, underpinned by excellent education, health and high standards of well-being, which is welcoming of all cultures, but where respect for Qatar's heritage and culture is cherished.

Economic: the creation of world-class economic centres of excellence that will pre-deliver and build on the World Cup's success in order to stimulate and promote education, innovation and business. To also deliver a well-thought-out strategic plan that is evidence-based for the development of the World Cup stadia and their precincts into attractive and competitive sports legacy parks, upon which Qatar will build a robust sports sector and industry. This industry will promote and develop business across a broad range of sectors, underpinned by world-class innovation and entrepreneurship (especially among youth and women). It will provide opportunities for the disabled so that they too can play a role in the economy, as well as providing opportunities for small and medium-sized enterprises (SMEs), where knowledge and research can flourish in a robust and transparent regulatory environment.

Environment: leverage the investment and attention of the World Cup to adopt, promote and maintain the highest standards in environmental awareness and stewardship using innovative, creative green technologies in infrastructure development and to encourage environmentally conscious lifestyles.

In order to make these pillars of the NLC a reality, six key strategic initiatives will be implemented.

> Qatar is the first among Gulf States and the Arab World to host a World Cup

First, the design and delivery of World Cup stadiums replete with sporting facilities and surrounding commercial, social, and relevant facilities that will inspire and enable future generations to play an active role in economic and social activities.

Second, to design and geographically position sports facilities in line with the overall Qatar National Vision 2030.

Third, the role of government in the coordination of targeted investments to incubate sports-related assets as a foundation upon which attractive and competitive economic zones can be nurtured and then spun-off to qualifying private-sector investors who will own, operate and maintain these product spaces in a healthy, competitive environment.

Construction of the stadiums that will host matches in the 2022 World Cup in Qatar is already under way

Fourth, encourage and drive sustained long-term utilisation of the asset base for the purposes of encouraging and promoting sport and entertainment in a manner that is commensurate with the transformation of Qatar into a destination of choice for people and families seeking a healthy, balanced and secure lifestyle.

Fifth, creating new social and community destinations such as schools, clinics, adult education centres and facilities to host SME start-ups replete with innovation and incubation centres.

Sixth, leveraging the sports asset base as a catalyst to drive economic diversity, through private-sector development and commercial growth and returns.

It is evident that a key consideration of the Qatar National Legacy Committee is to design a highly coordinated approach that will maximise the ROI from its hard assets and infrastructure. It seeks to do so in a manner that will also maximise its ROR. Qatar is the first among Gulf States and the Arab World to host a World Cup. This event aims to be regarded as the spearhead and model example of how a nation with a distinctly different culture and proud heritage of tradition can leverage a MISE as a powerful catalyst for transformation and modernisation in a manner that demonstrates the nation's intellectual, physical and cultural capabilities.

Qatar's approach is not focused on reaping these benefits after the final whistle blows at the end of the World Cup. Rather, it is intent on starting now to design, build and transfer ownership of as much of its asset base to the private sector prior to the first whistle. This is not an easy task that lies ahead. There are a number of fundamental elements that will need to be in place in order to enable this strategy, which include the following points.

- Assessing, identifying and addressing shortcomings in the overall economic complexity of the nation. Initiatives to structure a rational plan to further diversify its economy while also enhancing the sophistication of Qatar's knowledge base that will enable the nation to broaden its manufacturing, services and commercial sectors.
- Understanding which institutional dynamics and relationships need to be strengthened and developed in creating a more cohesive and coordinated public-private-sector partnership to enable government to act as the initiator and champion of new product spaces while encouraging the private sector to step up to the table and acquire these newly developed sports precincts, as well as sports-related facilities, products and services.
- Cultivating a broader sports culture among not only the indigenous population, especially its youth and women, but also among the expatriate community as well. In this way, a greater interest in sports participation is encouraged and a commercial and entrepreneurial spirit is fostered to help expand and grow a sustainable and robust sports industry.

The International Centre for Sport Security (ICSS) is working with the Minister of Youth and Sport and the NLC to ensure that an evidence-based approach underpins a carefully thought out and integrated legacy strategy. Through sponsored research with the Harvard Kennedy School Centre for International Development, the ICSS is applying a systematic methodology that will use data-driven analysis to achieve the appropriate configuration in the design and structure of each of the eight World Cup Stadia and precincts so that they offer the best opportunities for entrepreneurs and service providers. Through the application of the ICSS Index, a Sports and Economic Assessment Survey, the ICSS will work with local populations to understand the economic complexity, institutional variables and sports environment so that development gaps can be identified and addressed.

This approach needs to factor in the existing economic complexity and configuration of the nation's economic and intellectual assets and all within the context of Qatar's cultural heritage. Sport and the investments required to host a MISE can be used as a powerful catalyst for driving economic growth in the sports sector and across a range of other economic sectors. Ultimately, this challenge is not just the responsibility of the NLC, but of all key stakeholders across Qatari society. Making sport an activity conducive to a healthy lifestyle is not enough. All of the key stakeholders have a responsibility to create a viable, attractive and competitive sector. This is the core and fundamental objective behind a lasting legacy.

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Next-generation telecommunications

As information and communication technologies are key drivers of socio-economic development, extending access to them must remain a global priority, says **Dr Hamadoun Touré, Secretary General, International Telecommunication Union**

Dr Hamadoun Touré has been Secretary General of the International Telecommunication Union since 2007, having been re-elected for a second term in 2010. He has wide professional experience in both the public and private sectors. A national of Mali, he is committed to ITU as an innovative, forward-looking organisation adapted to meeting the challenges created by the rapidly changing ICT environment. He is also committed to spearheading ITU in implementing the resolutions of the World Summit on the Information Society and in achieving the Millennium Development Goals.

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In the 21st century, information and communication technologies (ICTs) have become nearly ubiquitous, and they now play an important role in the lives of almost every person on the planet. As truly transformational drivers of social and economic progress, ICTs have incredible potential to make the whole world a better place for all people – wherever they live, and whatever their means.

Even though there has been extraordinary progress in terms of ICT development in the past 20 years or so, there still remain important divides, notably in terms of access to the internet, with more than four billion people worldwide still offline. If equitable and sustainable socio-economic development is to be delivered across all nations, then this gap has to be closed, and the benefits of the online world must extend to everyone.

ICTs in general, and broadband networks in particular, deliver proven sustainable and balanced growth, as well as untold social and economic benefits, including acting as incredibly effective delivery vehicles for health, education, good governance, trade and commerce, and energy efficiency, as well as helping to measure and mitigate climate change.

With clear benefits such as these on the table, high-speed broadband networks must be rolled out ubiquitously, and access to them must be affordable as well as universal. This message needs to be widely advocated as the cusp approaches between the Millennium Development Goals (MDGs) next year and the beginning of the post-2015 development process.

This is one of the main reasons why 'Broadband for Sustainable Development' was chosen as the theme for the World Telecommunication Development Conference of the International Telecommunication Union (ITU), which took place in Dubai in early 2014, as well as being chosen by ITU's membership as the theme for this year's World Telecommunication and Information Society Day (WTISD) in May. The WTISD Awards were presented to three eminent laureates in recognition of their leadership and dedication to promoting broadband for sustainable development: Park Geun-hye, President of the Republic of Korea; Paul Kagame, President of the Republic of Rwanda; and Carlos Slim Helú, President of the Carlos Slim Foundation.

The power of partnership

Broadband network rollout tends to be highly capital intensive, particularly in the early stages of rolling out complex technical infrastructure. As a result, the right investment incentives must be put in place, including clear returns on those investments. This has been a key topic of discussion at the Broadband Commission for Digital Development, which was set up in 2010 by ITU and UNESCO to help world leaders see the ways that broadband can accelerate the achievement of the MDGs. The Broadband Commission brings together a rare mixture of expertise from the public and private sectors, including the leaders of some very well-known industry players, as well as government ministers and the heads of United Nations agencies.

One of the main focus areas within the commission in recent years has been a series of working groups, with the most recent one, on financing and investment, created in New York in September 2013. Its first face-to-face meeting was held in conjunction with the commission's ninth meeting in Dublin in March 2014.

That meeting brought a reminder that just two decades ago, investments in telecom networks were the concern of governments alone, but that the changing nature of the sector, and in particular liberalisation, privatisation and competition, had increasingly shifted the responsibility towards industry. Indeed, over the past two decades ICT networks have become highly commercial enterprises.

There was general agreement that in the 21st century the public and private sectors will have to continue working hand in hand. This is partly because of the unprecedented scale of the investments needed if broadband is to become ubiquitous and affordable to all, and partly because today's networks are already being used for so much more than merely commercial ends – they are also being used as platforms to deliver fundamental services such as education and healthcare.

As the Secretary General of ITU – the UN's specialised agency for ICTs – I have a unique perspective on this issue, because at ITU we almost have partnership written into our DNA, with our 193 member states and more than 700 private sector and academic members. At ITU we have seen how – with the power of partnerships – governments and industry can work together to help deliver the infrastructure and the necessary services that people need. We have also seen that, together, they can start off a virtuous circle of investment, uptake, return on investment and further investment that will reward all stakeholders, including, of course, consumers.

SEYLLOU/AFP/GETTY IMAGES

A woman using the internet at a cafe in Senegal equipped with tablet devices. Public-private partnerships are vital to delivering internet access

Broadband networks deliver sustainable and balanced growth, as well as untold social and economic benefits

Challenges and opportunities ahead

Partnership alone, however, will not be sufficient to meet all the goals. Other questions must be properly addressed – including in particular how the long-term needs of network planning are matched with the short-term horizons of most investments, as well as what incentives can be created to encourage the investment of what amounts to many billions of dollars a year.

Within these discussions, the real issues facing investors must be managed. They include taxation and tariffs, universal service obligations, and harmonised policies that will attract and encourage investment. In order to succeed, and this is widely recognised by both the public and private sectors, sound and effective regulatory frameworks are needed, including regulatory harmonisation at the regional level, which will facilitate integration and the creation of common markets.

Clearly, investment is the oil that ensures the economic engine keeps running smoothly. As an optimist, I have tremendous faith that the public and private sectors will continue to work together to invest in, and to roll out, ICT infrastructure – in the G20 members and across the rest of the world.

Everyone stands to benefit, because broadband networks deliver efficiencies across so many areas, from education and healthcare to transportation, water and energy, and can therefore quickly pay for themselves, creating a powerful cycle of investment, productivity and human development.

With almost unlimited opportunity in this exciting field, let me therefore encourage the G20 participants in Brisbane to put broadband at the top of their agendas, and to take active steps to ensure our bright broadband future. ■

CROZET M./INTERNATIONAL LABOUR ORGANIZATION

Interview

Generating decent jobs

—— Put employment at the centre of recovery efforts, advises **Guy Ryder, Director General, International Labour Organization**

Q How serious is the global unemployment problem, especially for young people and vulnerable groups?

A I remain deeply concerned about the unemployment situation. Also, employment is not expanding fast enough to keep up with the growing labour force in developing countries. These trends pose a real risk of a jobless recovery.

The global economy has shown signs of a modest recovery, but, for most countries, this has not translated into good news for labour markets. The International Labour Organization (ILO) foresees the global unemployment rate edging up in 2014 and remaining broadly unchanged at around six per cent in 2015.

Young people continue to be particularly affected. Last year, some 74.5 million people aged 15-24 were unemployed. The global unemployment youth rate – at 13.1 per cent – is almost three times as high as the rate for adults. Certain groups are particularly vulnerable not only to unemployment, but also to the lack of decent work and quality jobs. This is particularly the case for women, older and migrant workers, or workers from developing countries where informal employment remains widespread. In these countries, fewer people are moving out of working poverty.

Q How is generating good jobs a fundamental source of strong, sustainable and balanced growth, development and other social goods?

A The major cause of the weak growth and employment prospects is an aggregate demand deficit. Around three-quarters of G20 economies consist of household spending, driven to a large extent by earnings from work. Reversing rising inequality and the long decline in the wage share of G20 economies, for example by boosting minimum wages and helping the unemployed back to work, is vital for recovery.

ILO research shows that developing and emerging countries that invested the most in job quality from the early 2000s have grown nearly one percentage point faster than others every year since 2007. Promoting labour policies that lead to quality jobs is a good way of reversing the current cycle of slow growth, low job creation and low investment. But it's not enough. At the same time, we should also invest in skills and training, promote social dialogue and boost social protection – which can have a valuable effect in helping people cope in tough times of economic crises.

Q What are the challenges, proven interventions and policy options for creating more good jobs?

A More than half of workers in the developing world are in vulnerable employment. There was a significant reduction in the incidence of working poverty in the developing world. However, 839 million workers in developing countries still live on less than $2 a day. This equates to over a quarter of the global workforce unable to lift themselves and their families above the poverty threshold.

But diminishing job quality has also become a problem in developed countries. This is reflected by the rise in involuntary part-time and temporary employment. Many people are forced into taking these jobs because they can't find full-time, permanent jobs.

I am convinced that countries can generate more good jobs by putting in place well-designed labour policies that rethink the relationship between employment and growth. Small and medium-sized enterprises should be given more access to credit, since they are often the ones generating new jobs. Labour market institutions and labour standards should be strengthened rather than reduced. Meanwhile, governments should ensure that greater resources are devoted to private and public investment.

Q How is the ILO working to meet these goals?

A The ILO is well placed to support countries in their efforts to create more and better jobs through the technical advice we can provide. We are increasingly seen as a reference point for expertise on labour market and social issues. The ILO can recommend policies tailored to the need of each country, based on solid research and evaluation. This has been a central pillar of my mandate since I took over as Director General two years ago.

At the country level, the ILO can also facilitate social dialogue and research on programmes for youth, including skills development, apprenticeship schemes and enterprise development, to name a few.

Q How can the United Nations' post-2015 development goals help advance employment?

A There is a growing recognition in the debate on the development agenda that achieving inclusive and sustainable development will not be possible if millions of people are denied the opportunity of decent work – that is, to earn their living in conditions of equity and dignity.

The recent proposal by the United Nations Open Working Group on Sustainable Development Goals for a goal on inclusive growth, employment and decent work is encouraging, as it addresses the question of full employment and suggests action in several target areas. These areas include reducing youth unemployment and boosting education and training.

It also refers to ending child labour in all forms and eradicating forced labour; protecting labour rights and ensuring safe working conditions for all workers, including migrant workers; and encouraging entrepreneurship and innovation, plus the formalisation of micro, small and medium enterprises.

I would stress that employment and decent work as a target area in the post-2015 development agenda should include promoting social-protection systems and social-protection floors – crucial policy tools for reducing poverty and inequality, and fostering resilience and social cohesion.

Q How have G20 leaders contributed to employment and jobs-rich growth at their past summits?

A At their 2013 summit in St Petersburg, G20 leaders acknowledged that more should be done to reduce unemployment. They agreed on the urgent need to boost the momentum of the global recovery.

In September this year, G20 labour ministers met in Melbourne and made ambitious but essential pledges to work to create more and better jobs, which can drive economic recovery and stave off a slide into a slow growth trap. The annexes to their declaration outline more than 50 policy commitments on creating more and better jobs, including measures to promote youth employment, address informality and underemployment, create safer workplaces, and support gender equality.

A particularly welcome feature was the G20's emphasis on reducing informality and underemployment, and acknowledgement that this is vital for poverty reduction and sustainable development. The declaration also acknowledges the importance of occupational safety and health, both to protect workers and reduce costs to economies of work-related injuries; it asks the ILO to take a key role in coordinating technical cooperation on improving workplace safety.

Ministers also recognised the importance of gender equality and boosting women's participation in the world of work. There was also genuine and universal concern about the youth employment crisis and the difficulties young women and men have in finding a decent job that reflects their capabilities and aspirations.

Q What can the G20 leaders at the Brisbane Summit do to improve the situation?

A With growth slowing in many parts of the G20, the quantity and quality of employment remain major concerns. We need a renewed sense of coordination among G20 members because the crisis has shown that the global economy remains very highly interconnected. Remedying the current demand deficit by encouraging increases in minimum wages needs to be part of avoiding a low-growth trap.

Looking ahead, we need a strategy that puts jobs at the centre of recovery efforts. We need a medium-term approach to stabilising public finances that safeguards employment and social measures, while encouraging productive investment. I strongly believe that well-designed employment, labour and social protection policies, applied in conjunction with supportive and strong macroeconomic policy mixes, can reverse the current self-reinforcing cycle of slow growth, poor job creation, low wage growth and low investment. ■

Guy Ryder has been Director General of the International Labour Organization (ILO) since October 2012, having held various senior positions in the ILO from 1999-2002 and again from 2010. Ryder leads the organisation's action to promote job-rich growth and to make decent work for all a keystone of strategies for sustainable development. He has a background in the trade union movement and is the former General Secretary of the International Trade Union Confederation.

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GROWING THE GLOBAL ECONOMY

Enhancing education to change lives

Ensuring that all children have access to education and are equipped with transferable skills has long-term effects on their economic success and well-being, writes **Claudia Costin, Senior Director for Education, World Bank**

Claudia Costin is Senior Director of the education global practice at the World Bank. Before joining the World Bank in July 2014, she was Secretary of Education for the city of Rio de Janeiro. She has been Vice President of the Victor Civita Foundation, and helped to create the civil society movement Todos pela Educação. Former positions in Brazil also include Secretary of Culture, São Paulo State, and Federal Minister, Public Administration and State Reform.

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I have asked many policymakers, "What is the single most important thing you need to address in your country?" Nearly all have said that they really need to address problems in the education sector. However, if I were to get all of them together in one place and ask them to suggest ways in which this could be done, it would be very difficult to get to an answer that everyone agreed with.

So, what is known? Here are a few stylised facts for consideration.

Education matters for human development and future employment at every level of the education system, from preschool all the way to university or technical and vocational programmes. A child's readiness for learning and what she or he actually learns in school and in higher-education institutions are, in fact, critical for progress at the family level and for entire economies.

Returns on investment in young children are large, whether in terms of the right nutrition for mothers, infants and children; complete immunisation for babies; prevention and treatment of infectious diseases, such as malaria; or improvements in access to safe water and sanitation. All of these activities have helped to reduce child mortality in developing countries, ensuring that children from poor families survive past their fifth birthday.

Policymakers are increasingly paying attention to early-childhood development programmes, which cut across both health and education, and can not only help children to learn better once they enter primary school, but can also influence their future earnings as adults. These programmes include activities covering nutrition, stimulation and basic cognitive skills, and their impact is being felt in diverse settings, as various studies have recently illustrated. For example, one groundbreaking 20-year study of groups of children in Jamaica showed that combining health and education interventions in early childhood increased the future earnings of these disadvantaged children by 25 per cent.

The long-term impact of programmes addressing the needs of children in the first 1,000 days of life could have profound significance in countries that have a large share of disadvantaged children from poor or marginalised households. Levelling the playing field at a very early stage helps to break the cycle of poverty, improve productivity later in life and achieve shared prosperity.

Equal access to education

According to the 2013/14 Education for All Global Monitoring Report, there are still 58 million children out of school across the world. While there have been great gains in getting children into primary school, those who remain out of school today are among the hardest to reach. The international community must redouble its efforts to reach these remaining children and give them equal access to opportunities that may otherwise be denied to them throughout their lives.

Getting girls into secondary school is also a serious challenge in some parts of the world, calling for facilities and safety for girls to be improved, and for families to be incentivised to send girls to secondary school – interventions that have proved successful in countries such as Bangladesh. This is important as a basic human right. Education can empower girls both personally and professionally and can benefit economies as more women join the workforce.

SCOTT WALLACE/WORLD BANK

Students in a classroom in Bangladesh, one of the few developing countries to have met the third Millennium Development Goal of achieving gender parity in primary and secondary education

Basic education should, at a minimum, equip students with the literacy and numeracy skills that they need in order to function in today's society.

Yet the sad reality is that not all children who are in school are actually learning. Many go through primary school without learning how to read. Much more needs to be done globally to keep faith with parents and children, and to ensure that being in school delivers the learning results and the eventual life benefits that they expect from education.

India is allocating $29 billion to improve education outcomes for 200 million elementary school children. This is a smart investment because the programme will bring more disadvantaged children into school while also engaging teachers, ensuring that they are in schools and supported in their work. Tanzania's Big Results Now in Education programme aims to raise the quality of primary and secondary education, as the country builds on its recent achievement of universal primary education. The World Bank Group is proud to support initiatives such as these. Schooling should open the door to a brighter future for every child.

Countries are also experimenting with innovative learning and teaching tools. In Brazil, the Lemann Foundation has made a Portuguese version of the Khan Academy's free online education content accessible to thousands of students and teachers. Educopédia, an online platform used in Rio de Janeiro, is also providing alternative learning and teaching approaches. While the impact of these platforms must be evaluated rigorously and the debate about technology in education continues, early results have been encouraging, raising attendance, learning outcomes and self-esteem among students.

> Education matters for human development and future employment at every level of the education system

Creating skilled workers

At the tertiary level, there are a number of gaps and challenges. In some countries, particularly in sub-Saharan Africa, it has been difficult to meet the increasing demand for university and technical or vocational programmes as more students complete school. Yet it is education that has the power to unleash human potential and make broad contributions to development, from advances in health and science to agricultural innovation, industrial development and private-sector growth.

It is not sufficient for economies to generate jobs. Countries must also ensure that higher education is aligned with the current and foreseeable needs of society, so that there is a steady supply of skills. Employers in many parts of the world complain that it is difficult to find adequately skilled workers. For example, in East Asia, research has found that at least half of firms surveyed reported worker skills as an obstacle, and that the 'skills gap' has significantly increased the time required to fill professional vacancies.

Higher-education institutions have to become more entrepreneurial and more connected to the economic realities of the communities they serve. This includes partnering with industry to create, innovate, incubate, and disseminate new ideas and technologies. In addition, demand will continue to shift from workers with routine, non-cognitive skills towards those with non-routine, analytical skills, such as teamwork, problem-solving and other practical skills.

The World Bank has adopted two strategic goals: to end extreme poverty by 2030, and to achieve shared prosperity for the poorest 40 per cent of people living in developing countries. To cite just one statistic that highlights current disparities, only 68 per cent of children from families belonging to the poorest 40 per cent complete primary school, compared with 92 per cent from the top 60 per cent. Education, as renowned French economist Thomas Piketty has noted, is a key tool to counter the widening income inequality seen around the world.

Achieving 'learning for all' and 'learning for life' is central to delivering faster progress for both individuals and economies, and ensuring sustainable development in the decades ahead. ■

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Unite for quality education – better education for a better world

An open letter to the G20 from the world's teachers

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A year ago, on World Teachers' Day 2013, Education International launched the Unite for Quality Education campaign, our global effort to demand quality education for all. We have witnessed first-hand that efforts to meet the basic goal of education for all are falling short. Globally, nearly 60 million children remain out of school; the world has not delivered on its promise to ensure universal access to quality education.

Over the past year, we have been assessing the progress towards the Millennium Development Goals and Education for All Goals, with a view towards informing, and bringing an educator's perspective to, the deliberations around a post-2015 development agenda. Our vision of quality education rests on three pillars: quality teaching, quality tools for teaching and learning, and quality environments for teaching and learning.

Quality teaching means that all students are taught by trained and qualified teachers who enjoy basic labour rights, decent working conditions and salaries, and have access to continuous professional development.

Quality tools include relevant and inclusive curricula as well as basic materials, such as pencils, notebooks and computer equipment. Our education systems must provide our students with the critical knowledge, abilities and skills that they need to conceptualise, question and solve problems that occur both locally and globally.

Quality learning environments should be safe and supportive with adequate numbers of education support personnel; our students should enjoy the benefits of basic infrastructure such as clean drinking water and sanitation facilities, including separate toilets for boys and girls, and the appropriate learning facilities for all subjects, including science and physical education.

All of these elements are necessary if we want our students to be able to focus on learning – and if we want teaching to be effective. None of this can be taken for granted in the world we live in today.

Teachers' qualifications and continuous training, support and, importantly, motivation are fundamental to the delivery of quality education. It is well known that quality education transforms lives and societies. Claudia Costin, Senior Director for Education at the World Bank, says so very clearly in her contribution to this publication. Yet many governments have so far failed to fund their systems sufficiently, effectively and equitably, tolerating substantial shortages of qualified teachers, and the use of unqualified teachers to make up the shortfall. Millions of teachers and education support staff live in poverty and teach and work in severely under-resourced schools and overcrowded classrooms, with little influence over matters affecting their daily work.

On behalf of the teachers of the world, we would like to commend the United Nations and especially its Secretary General, Ban Ki-moon, for the Global Education First Initiative. The Unite for Quality Education Campaign is Education International's contribution to this effort. As the world is formulating a new development agenda, we call on all actors, intergovernmental agencies and national governments alike to renew their commitment to quality education, and to teachers specifically. The world cannot wait any longer – there must be a stand-alone goal on quality education, which is accessible and free to all, in the new sustainable development framework. Such a goal must include comprehensive targets, encompassing all levels of education, from early childhood to higher education, and clear commitments on investing in sufficient numbers of appropriately trained and qualified teachers.

Many of our concerns and demands are reflected in the proposal of the Open Working Group on Sustainable Development Goals. In particular, we welcome the target on the completion of free and equitable quality primary and secondary education. However, this ambition must be more closely related to teachers; our struggle for quality education will not stop until every child is taught by a teacher who is highly trained, professionally qualified, well supported and motivated.

Finally, we thank everyone who has worked to ensure a stand-alone goal on quality education for all in the post-2015 development agenda, and we reaffirm our commitment to the process; Education International and its affiliates will continue to be their allies in the common struggle for quality education for all.

Susan Hopgood
President, Education International

Fred van Leeuwen
General Secretary, Education International

UNITE FOR QUALITY EDUCATION
Better education for a better world

Unite for Quality Education is a campaign of Education International (EI), the voice of teachers and other education employees across the globe. The 30 million members EI represents (through its 400 affiliated organisations in 170 countries and territories) ask for your support to ensure that quality education for all remains at the top of the agenda for a sustainable, peaceful and prosperous future.

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The voice of future business leaders

—— The G20 Young Entrepreneurs' Alliance (YEA) offers recommendations to promote entrepreneurship – the key to solving the global employment crisis, according to **Jeremy Liddle, Victor Sedov and Ali Yücelen**

Jeremy Liddle, President of G20 YEA Australia, specialises in entrepreneurship ecosystems.

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Victor Sedov was President of G20 YEA Russia in 2013 and is currently President of the Center for Entrepreneurship in Russia.

Ali Yücelen is President of G20 YEA Turkey for 2015.

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In December 2013, Australia assumed the role of chair of the G20, a position that came with immense responsibility and complexity, but also, more importantly, the potential for a significant and enduring positive impact on the world's future.

The priorities under Australia's G20 presidency (sustainable and inclusive growth, employment, investment in infrastructure, trade, the commercialisation of innovation, and women's participation in the workforce) are all outcomes that result from building ecosystems that create and enable high-growth, entrepreneurial small and medium-sized enterprises. Investment in SMEs will be essential for the G20 to achieve the two per cent increase in global gross domestic product (GDP) to which it committed in 2014.

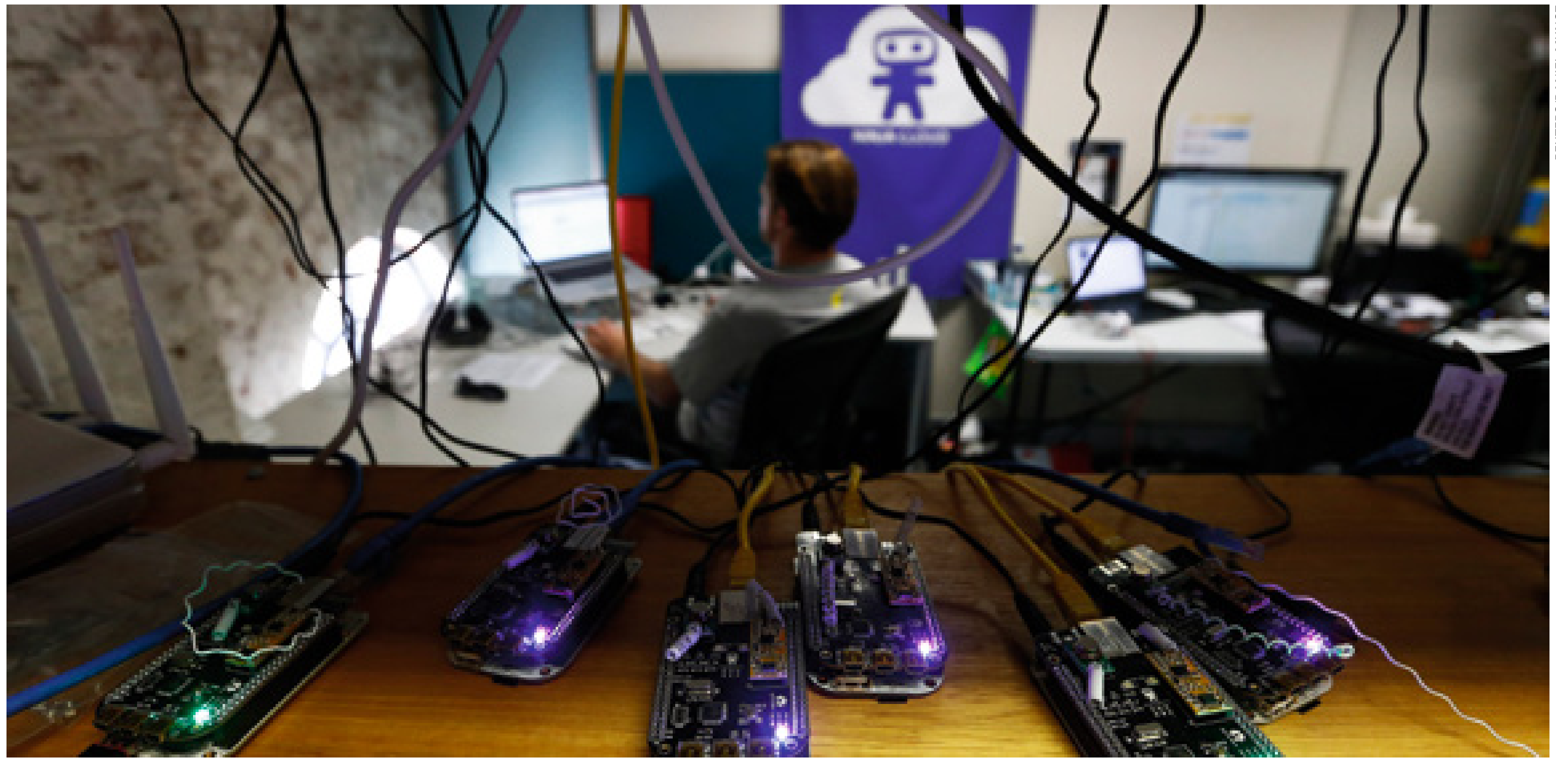
The G20 has accomplished much since its inception, when the finance ministers and central bank governors successfully combatted the Asian financial crisis of the late 1990s. Its evolution into an annual meeting of 20 leaders, supported by regular meetings of many other ministries and stakeholders, has resulted in the successful abatement of the more recent global financial crisis.

Despite these momentous achievements, the world still faces a global employment crisis that disproportionately affects youth. While the G20 leaders acknowledge this crisis, it remains to be seen whether the G20 will again succeed in taking swift and specific actions to generate economic growth and net employment gains. The global employment crisis must be addressed with the same urgency and priority as the global financial crisis. Strategies to address youth employment must be implemented immediately. In 2014, when the G20 leaders meet in Brisbane, the G20 Young Entrepreneurs' Alliance (G20 YEA) hopes to see clear, specific recommendations in the leaders' declaration acknowledging entrepreneurship ecosystems as a solution for youth and employment.

G20 YEA is a collective of leading entrepreneurship non-governmental organisations (NGOs) representing the more than 500,000 entrepreneurs across G20 countries and the European Union that have already created an estimated five million jobs. In 2014, more than 400 young entrepreneurs and leaders from 34 countries, selected to represent the voice of the world's future business leaders, attended the G20 YEA summit in Sydney from 18-21 July.

The recommendations delivered to G20 leaders, finance ministers and central-bank governors in the 2014 G20 YEA communiqué were:

1. **Reform the global financial system to provide investment and access to capital:** facilitate the development of a methodology for financial institutions to provide affordable finance to SMEs, which should be accompanied by educational programmes, and create regulations to accommodate the development of new and innovative forms of financing, including online cross-border platforms and networks of investors and entrepreneurs, such as crowd-sourced equity funding.
2. **Forge education, training and business links:** promote close cooperation between the business and education sectors in order to link educational pathways better with labour market needs and address the skills mismatch, with renewed focus on STEM (science, technology, engineering and mathematics) education.
3. **Foster an entrepreneurship culture:** install experiential entrepreneurship education programmes, with a focus on gender equality, values, ethics and business morals, at all levels of the education system.
4. **Support innovation and technology:** implement or expand legislation that encourages the commercialisation of innovation and new technology; support programmes that connect research, development and commercialisation with entrepreneurs and SMEs.



REUTERS/DANIEL MUNOZ

New products by Ninja Blocks, an Australian start-up, are tested in the company's Sydney office. The G20 YEA represents the voice of young entrepreneurs across G20 members

More than 400 young entrepreneurs and leaders from 34 countries attended the 2014 G20 YEA summit

5. **Improve regulation and strengthen tax systems:** reduce the regulatory and tax burden on labour for both employers and employees, as well as reduce tax and regulations for the creation of new companies.
6. **Encourage trade and globalisation:** create a G20 multilateral start-up visa to improve the ability of entrepreneurs to travel and conduct business internationally, and to increase labour mobility by allowing high- and sustainable-growth SMEs to hire overseas skilled labour more easily.
7. **Attract private infrastructure investment:** Ensure that government procurement processes are made more open to small businesses owned by young entrepreneurs.
8. **Empower development:** support the United Nations and ensure that there is a major goal in the post-2015 development agenda on youth employment and entrepreneurship, especially for young women.

This year, Aaron McNeilly, Sherpa for G20 YEA Australia, led a positive engagement with Bruce Billson, Australia's Minister for Small Business. The G20 YEA is very pleased to assist and build on the acknowledgement of youth and entrepreneurship in the 2013 St Petersburg G20 Leaders' Declaration, the B20 Human Capital Taskforce, and the T20 and Y20 recommendations. The commitment of the G20 Employment Working Group to address youth unemployment in its employment plans has been very encouraging, as have the acknowledgements for youth and entrepreneurship in the 2014 labour ministers' declaration.

G20 YEA is very grateful to be able to extend its sincerest appreciation for the acknowledgement and support of Tony Abbott, Prime Minister of Australia; Joe Hockey, Treasurer; Senator Scott Ryan, Parliamentary Secretary to the Minister for Education; Heather Smith, Australian G20 Sherpa; Robert Milliner, Australian B20 Sherpa; Kate Carnell, CEO of the Australian Chamber of Commerce and Industry (ACCI); Mike Callaghan, Australian T20 Chair; Holly Ransom, Co-Chair, Australian Y20; and Richard Andrews, Director of Engagement for the Australian G20 presidency.

In 2014, the G20 YEA created and extended enduring partnerships with the United Nations Development Programme and Helen Clark; the Organisation for Economic Co-operation and Development and Angel Gurría; the United Nations Millennium Campaign and Ravi Karkara; the United Nations Secretary General's Envoy on Youth Ahmed Alhendawi; the G20 Research Group; EY and Maria Pinelli; Accenture and Pierre Nanterme's office; the International Labour Organization and Gianni Rosas's youth employment division; Junior Chamber International (JCI); and Microsoft Australia.

Moving forward, the G20 YEA will continue to work with its partners on research and thought leadership, and on executing the G20 YEA Action Plan on Youth Employment developed at its Sydney summit. This action plan outlined at least six key actions that all stakeholders in the entrepreneurship ecosystem, in every G20 country, will take in order to enable entrepreneurs to grow their companies and create jobs.

G20 leaders, finance ministers and central bank governors must also focus increasingly on action on innovation and entrepreneurship to create private-sector-led growth and the industries, products and services of the future. With more focus on these areas, the G20 members can, in the long term, not just achieve but exceed the additional two per cent GDP growth currently targeted. ■

SPONSORED FEATURE

The unemployment imperative

High unemployment, especially among youngsters, has become a major scourge for policymakers. Attitudes among jobseekers toward long-term employment are also changing. Private employment services groups, working with public employment agencies in public-private partnerships, can help meet those challenges

By Patrick De Maeseneire
CEO, Adecco Group

During the Great Depression, mass unemployment was the powder keg for social discontent and, in Europe, totalitarianism, war and subsequent division. The 'Great Recession' we have just lived through has, thankfully, been much less convulsive. But its repercussions are still being felt in the labour market, especially in Europe.

For our grandparents, probably even our parents, a job was a job for life. Japan's 'salaryman' may have become a cliché. But the employee of the big corporation, offering loyalty in return for a secure, long-term position, was stereotypical of much of the developed world.

That world, as we know, has changed beyond recognition. Global economic, demographic and social factors have had massive repercussions on those in labour, whether in mature economies or in fast-industrialising countries. But if there is one common thread, virtually irrespective of location, it is that employment has become far less predictable and that mobility and flexibility – for both employer and employee – have gained importance.

Greater flexibility has made individuals more employable, and companies more competitive. Greater mobility has increased options – particularly vital amid spiralling skills shortages – but also highlighted barriers to open markets.

I see four overriding trends defining how the world of work is changing, what this means for policymakers, and the role of providers of human resources solutions in coping with ever-faster transition and the challenges of lasting unemployment.

Living with high unemployment

First, and most worrying, is that high unemployment in much of the developed world is not a passing cyclical phenomenon, but here to stay. Sadder still is that youth unemployment is more than double average unemployment in mature economies, and this may also endure for at least a decade.

There are a number of reasons. Among the most prominent are mismatched skill sets: the sharpest surge in unemployment in the European Union, for example, has hit the least well qualified amid a steady shift of manufacturing industry to lower-cost locations. Globalisation has offered employers once virtually unimaginable opportunities to transfer not just blue collar, but even some white collar, jobs abroad. Further disadvantaging Europe and North America are demographics, with both regions facing some of the world's oldest populations as the century progresses.

Demographics may eventually ease long-term unemployment, as the relative number of working age citizens declines. But such momentous adjustments are still decades away. And by then, who knows what leaps in robotics and automation will have done to traditional, worker-intensive manufacturing and production processes? One just needs to think about the implications of 3D printing or driverless cars.

As a way of tracking trends, Adecco, in collaboration with INSEAD, launched an annual global competitiveness indicator (GTCI) on how countries attract, retain and develop talent to stay competitive.

Serious mismatches

Bizarrely, however – and this is my second point – higher unemployment in many mature economies has been accompanied by a significant number of unfilled vacancies: some four million in the US and three million in Europe, stemming from increasingly serious mismatches in skills and geography.

The unemployment issue in the US has actually been somewhat mitigated. Compared with Europe, the US economy is recovering – albeit gradually – from the financial crisis, whereas unemployment in Europe may only just have passed its peak.

This growing gulf between a recovering US and a Europe still requiring fundamental reforms is the third key point.

America's 'return' has been boosted by greater flexibility, lower average salaries and significantly longer working periods than in Europe, boosting competitiveness compared with lower cost rivals. And, more recently, what can only be described as the shale gas 'revolution' has reinforced US manufacturing competitiveness.

How hiring has changed

All these factors have been reflected in significant changes in hiring practices, with profound consequences for the labour market – my fourth point. US companies have often been trendsetters here. Many quickly grasped the value of flexibility in remaining competitive – in other words, the ability to adjust workforces relatively fast to rapidly changing market circumstances.

While, years ago, all employees might have been permanent, the mix today between permanent and temporary labour – used to tackle periods of higher demand – has shifted radically. Economic data for the current US upturn strikingly demonstrates this upheaval.

Such momentous changes in labour relationships have, inevitably, affected popular behaviour and attitudes. Not only have former bonds between employee and employer loosened, but ever more people, who may once have sought long-term company positions, have become self employed – partly in reaction to the structural changes mentioned. Some have gone so far as to identify generational change, referring to both Generation Y or Generation Me – a new cohort of people with more entrepreneurial, or even 'happy go lucky' attitudes to long-term labour relationships.

The new paradigm

Behavioural changes, along with the structural economic shifts leading to higher unemployment, present harrowing challenges for G20 policymakers, notably in Europe. Already, some refer to a 'lost generation' of school leavers, or even university graduates, facing the bleak prospect of potentially years without a fixed job. Action is urgently needed.

It is here that companies like Adecco, with its global network, have a bigger role to play. In 2012, nearly 36 million people worked for private employment services groups, occupying 11.5 million full-time positions. On average, that accounted for around 0.9 per cent of the total working population.

Significantly, on average, a relatively large proportion of such agency workers were young, with 61 per cent under the age of 30. The fact that only 32 per cent had previously been in work spotlights how private employment services providers are stepping stones from education to work, and from unemployment to jobs. Some 68 per cent of agency workers secured permanent, full-time contracts after occupying temporary positions. By contrast, just 14 per cent returned to the dole. In total, about 22 million young people were employed as agency workers in 2012.

Private employment services providers can also cooperate with governments, stimulating and reinforcing active labour-market policies and working with public-sector employment agencies. One area, already established but well worth expanding, lies in using private employment services groups for training schemes to develop or upgrade skills and boost workers' employability. Such groups are particularly well placed given their precise knowledge of labour-market needs based on close contacts with user companies.

Private-sector employment services providers have unique insights into employment trends and developments. Working more closely with public employment agencies would allow speedier and more effective implementation of government policies – whether aimed at exposed groups, like older workers, women, ethnic minorities, the disabled or the long-term unemployed – or focused on raising labour participation in general. Most recently, Adecco, with its Adecco Way to Work programme, joined the Nestlé Alliance for YOUth initiative, which combines private companies, European institutions and national governments in the fight against youth unemployment.

An evolving relationship

As the classic working relationship evolves due to global structural factors, so the importance of human resources solution providers rises. Industry data demonstrates countries with an above average penetration rate for private employment services providers consistently perform better and show more efficient labour markets than those with less developed or more restricted systems.

Companies like Adecco cannot, of course, resolve core policy issues, like stimulating growth, dealing with demographics, assessing immigration, or even determining national education and training policies. That is a matter for government. But we can assist in easing – for individuals and employers – the frictions and changes the vast upheavals in the world economy are forcing on us all, helping to create new jobs and, for youngsters in particular, facilitating the move into the labour market by providing an initial taste of the world of work.

Steps towards financial stability

——A consolidated regulatory framework and coordinated structural reforms are needed to ensure financial stability, argues **Christian Noyer, Chairman of the Board, Bank for International Settlements, and President, Banque de France**

Christian Noyer has been Chairman of the Board of the Bank for International Settlements (BIS) since 2010, and Governor of the Banque de France since 2003. From 1980-82, he was Financial Attaché to the French delegation to the European Union. Appointed Director of the French Treasury in 1993, he was an adviser to Édouard Balladur, Minister of Finance, in 1986-88, and, later, Chief of Staff for two other finance ministers. He was Vice-President of the European Central Bank from 1998-2002.

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Six years after the collapse of Lehman Brothers, and more than three years after the most difficult phase of the sovereign debt crisis in the euro area, financial markets are again buoyant. Yet the macroeconomic outlook is distinctly uncertain. In this environment, the biggest threat to stability is complacency. The experience of the crisis and its aftermath has shown that shocks come from various sources – whether changes to the macroeconomic outlook, geopolitical developments or unexpected developments within the financial system itself.

This calls for actions on several fronts. Policymakers need to monitor and analyse the risks facing the global economy and financial system; build resilience in the system, including by completing the financial regulatory agenda; and pursue structural reforms in their economies, in order to strengthen macroeconomic resilience and foster strong, sustainable growth. The G20 has played, and must continue to play, a vital role in supporting coordinated international action in all of these areas.

Monitoring evolving risks

For most of the past two years, financial markets have seen rising equity valuations, narrowing corporate and sovereign credit spreads, and increased risk-taking (see figure 1). Market volatility has reached extraordinarily low levels on the back of a strong search for yield. To some extent, these results are the desired effects of public policies, which proved their efficiency in calming down the markets.

However, this positive development does not obliterate the risks weighing on the financial system, and stands in stark contrast to the unsettled state of the macroeconomy. While growth has resumed in advanced economies, the persistence of the recovery remains uncertain. Growth in emerging economies has stabilised after several years of rapid expansion, but in some cases the outlook is cloudy. Markets are watching central banks carefully.

At the same time, public- and private-sector debt have continued to rise steadily worldwide in nominal terms (see figure 2). Households in countries that were most affected by the 2007-09 financial crisis have resumed borrowing. Non-financial corporations came out of the crisis with generally healthy balance sheets, but have since become more leveraged; some have been active in buying back shares and in pursuing leveraged mergers and acquisitions. Even in countries less affected by the crisis, including several large emerging markets, household and corporate debt has risen since the crisis, sometimes alongside strong increases in property prices. Public-sector debt has also increased, including as a percentage of gross domestic product (GDP).

A renewed build-up in financial imbalances – were it to occur – would threaten the return to sustainable global growth. In these conditions, policymakers need to anticipate what form a normalisation of monetary policy and other policy choices could take, and the effects on public- and private-sector balance sheets, both within countries and across borders. Discussions at international forums such as the G20, the Bank for International Settlements and the Financial Stability Board (FSB) help to broaden the perspective and to understand the factors motivating the decisions made around the world.

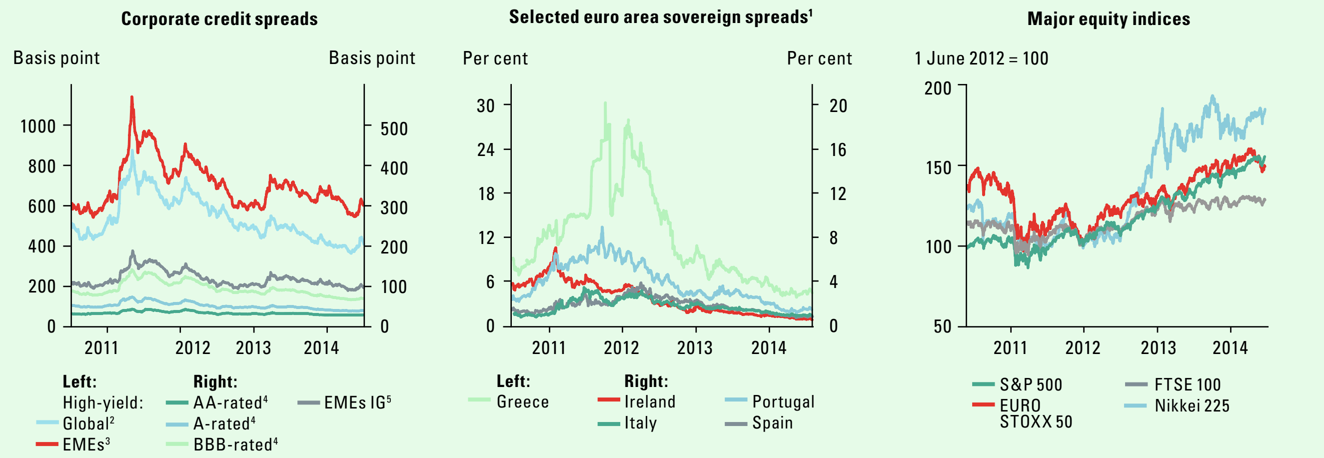
The 2007-09 financial crisis pointed to a long list of shortcomings in financial regulation and supervision. Many of these have an international component. In the immediate aftermath, the G20 played an important role in setting the agenda for addressing these issues.

A great deal has been accomplished since then. The Basel III framework requires that banks maintain a greater quantity of high-quality capital and deeper liquidity buffers. Globally, systemic banks are required to maintain higher loss absorbency and are subject to more intensive supervision. Other important steps include the shift of many over-the-counter derivatives contracts to central clearing and organised exchanges, and work to improve resolution regimes in order to end the perception that some banks are 'too big to fail'.

However, there are still important items on the agenda. One is to address potential risks arising from outside the banking system, such as the insurance industry and shadow banking. The work on resolution needs to be carried through, particularly the cross-border aspects. The implementation of the agreed reforms must be monitored, not least to ensure that they are consistent across jurisdictions. Consistency could also be greatly improved by harmonising accounting standards, and progress is still needed on that front.

International groups, especially the FSB and Basel Committee on Banking Supervision, have taken the lead role as platforms where authorities can agree on these steps. The G20 has played an important part in this process, by identifying priority areas and by expressing members' commitment at the highest level to carry through on this agenda.

Figure 1: Ongoing optimism in financial markets



1. Ten-year government bond yield spread over the comparable German bond yield.
2. Option-adjusted spreads on the Bank of America Merrill Lynch Global Non-Financial High Yield Index, which tracks the performance of sub-investment-grade corporate (non-financial sector) debt denominated in US dollars, Canadian dollars, sterling or euros and publicly issued in the major domestic or international markets.
3. Option-adjusted spreads on the Bank of America Merrill Lynch High Yield Emerging Markets Corporate Plus Index, which tracks the performance of non-sovereign emerging-market economy (EME) debt rated BB1 or lower, denominated in US dollars or euros and publicly issued in the major domestic or international markets.
4. Option-adjusted spreads on the Bank of America Merrill Lynch Global Broad Market Industrials Index, which tracks the performance of investment-grade corporate (industrial sector) debt publicly issued in the major domestic or international markets.
5. IG = investment grade. Option-adjusted spreads on the Bank of America Merrill Lynch High Grade Emerging Markets Corporate Plus Index, which tracks the performance of non-sovereign EME debt rated AAA to BBB3, denominated in US dollars or euros and publicly issued in the major domestic or international markets.

Sources: Bank of America Merrill Lynch; Bloomberg; Bank for International Settlements calculations

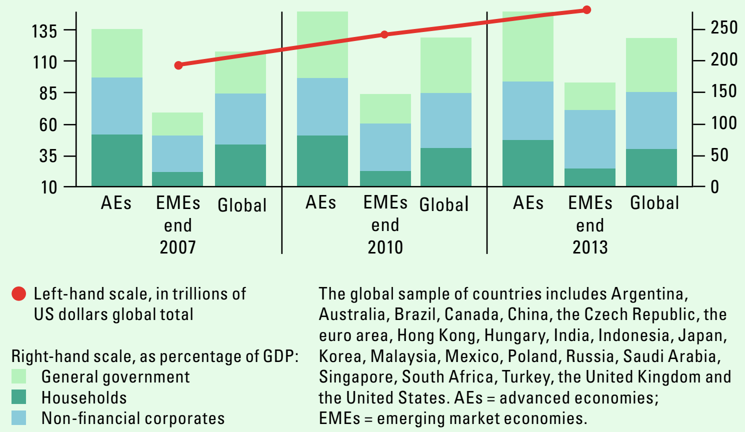
Since the financial crisis, growth in the advanced economies has been disappointing. In part, this is because of the unusual nature of a balance-sheet recession. But there are signs that growth in the underlying productive potential of the economy has itself declined. A lack of flexibility in labour and product markets has made it harder for economies to make the necessary adjustments to bring about a strong recovery.

Pursuing structural reforms

The G20 has taken the right approach in emphasising the need for a coordinated programme of structural reforms. Stronger growth is, of course, the key to higher living standards, as well as to addressing the troubling increase in inequality that has taken hold in many countries. But it will also contribute to financial stability, by allowing for a more rapid adjustment of balance sheets and the restoration of sustainable debt levels. There needs to be a move away from a debt-driven growth model to sustainable growth based on productivity and innovation. The menu of reforms will differ across countries, but they are an appropriate subject for international discussion and coordination. The G20 is an excellent forum through which to share experiences about what works and what does not, and to understand potential spillovers.

The components of the policy framework have shifted since the financial crisis. Authorities have become more aware of the importance of macroprudential policies to build resilience and mitigate systemic risks. Fiscal, monetary, macroprudential and structural policies need to work together to achieve the common goals of macroeconomic and financial stability.

Figure 2: Debt continues to rise



The global sample of countries includes Argentina, Australia, Brazil, Canada, China, the Czech Republic, the euro area, Hong Kong, Hungary, India, Indonesia, Japan, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Turkey, the United Kingdom and the United States. AEs = advanced economies; EMEs = emerging market economies.

Sources: International Monetary Fund; national data; Bank for International Settlements estimates

Progress in these areas will require actions at the national, regional and global levels. The steps taken towards banking union in Europe – including the establishment of a single supervisory mechanism and a single resolution mechanism – are critical to breaking the link between banking and sovereign risk. Other countries and regions have made similarly bold institutional changes to strengthen the policymaking framework in ways that recognise systemic linkages that cross geographic and sectoral borders. The G20 must continue to take the lead in stimulating coordinated policy action in all of these areas at the global level. ■

Taking steps to raise the quality of regulation in global markets

Christian Mouillon
EY Global Vice Chair, Risk Management

In the past 10 years, much progress has been made in improving the quality of global standards and regulation. Better cross-border financial communication has benefited international investors, auditors and regulators. Increasingly widespread use of the International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB), has helped to improve the comparability of reported information, confidence in its reliability and the efficiency of capital flows between markets. More than 120 jurisdictions now either require or permit to some extent the use of IFRS, including nearly all of the G20 countries.

What is still missing, however, is a commitment by global standard-setters to ensure genuine consistency between regulations in different jurisdictions. Despite the many benefits of common accounting standards, for example, there remain concerns among some stakeholders about the loss of national sovereignty that a global set of standards could entail. Resistance to change, embodied in a tendency among national and regional actors to cling to accepted traditional approaches, stands in the way of full-scale adoption of supranational standards.

It is an issue that G20 leaders meeting in Brisbane would do well to contemplate. Five years ago, when G20 leaders met in Pittsburgh, they highlighted their commitment to "adopt a set of policies, regulations and reforms to meet the needs of the 21st-century global economy". Shocked by a crisis that had laid bare the highly interconnected character of global business, they promised action on a range of fronts, from financial reporting and corporate governance to public-sector accountability and strengthened cooperation on macroeconomic policies.

> Global business needs to be able to operate within a consistent framework

A proliferation of regulation

Five years on, there has been a lot of talk and much action. But from the point of view of international business, progress has been insufficient overall. Instead, we are seeing a proliferation of regulation that in the worst cases is contradictory and an unnecessary source of additional confusion.

One of the key objectives set by the Pittsburgh Summit was the completion by June 2011 of a convergence project by international accounting bodies to achieve a single set of high-quality, global accounting standards. That deadline was notoriously missed and the objective, far from drawing nearer, now seems to be receding like a nighttime will-o'-the-wisp. The inability of the IASB and its US counterpart, the Financial Accounting Standards Board (FASB), to reach a common standard on financial instruments such as loans and mortgages marked the breakdown of efforts to achieve convergence between US Generally Accepted Accounting Principles, or US GAAP and IFRS, and means accepting different standards for assessing the financial statements of banks in the United States and in the rest of much of the world.

Disagreements over such issues as reporting standards for financial instruments, insurance contracts and leases underscored the cultural obstacles to finding a single approach to accounting in corporate finance. For standard-setters, the debate over such obstacles may be their daily bread and butter. But for global corporations, and US multinationals in particular, the abandonment of proposed convergence between US GAAP and IFRS and the persistence of different reporting requirements for subsidiaries, especially for statutory reporting, in different jurisdictions is a vexation that adds to, rather than reduces, the complexities and cost of doing business.

In other areas, similarly, good intentions with regard to standards often go in the opposite direction from convergence. More than 100 jurisdictions use the International Standards of Auditing, or ISAs, issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). But following the Sarbanes-Oxley legislation in the US, public companies must have auditors report on internal control over financial reporting (ICFR). Some jurisdictions outside the United States also have some level of reporting, specifically on internal controls, but this is another area where, globally, there are varying requirements, making it potentially confusing for investors and challenging for companies.

Similarly, differing approaches in Europe and the US to auditors' independence have led to a complex set of requirements around many areas, including rotation of audit firms. The European Union has taken the view calling for a rotation of auditors after a specified number of years while leaving it open to individual national regulators to decide how to put this into practice, thus raising the prospect of different requirements in different countries. For a multinational company with operations in Europe and elsewhere, the result is a headache of conflicting requirements.

The effect of actions

Such examples underscore the need for regional and national regulators to carefully consider the effects of their actions beyond regional and national boundaries. While the adoption of international standards is growing, national customisations continue to appear, reflecting the nationalistic focus of sovereign governments to regulation. The unintended consequences of such initiatives can create uneven playing fields, undue regulatory burdens and greater confusion for users of financial statements.

Ironically, governments themselves have inconsistency in financial reporting. While some countries, such as France, use accrual-based accounting, others, including Germany, produce their public accounts on a cash basis. One of the consequences for investors is it is made difficult to get a clear comparative view of the health of different countries' public accounts. In a letter to the G20 leaders, IFAC recommends that public-sector institutions and governments move to accrual-based accounting in order to improve financial management in the public sector. Changing long-established practices will not be easy, but over the long term the health of the global economy depends as much on clearer and more transparent public accounts as it does on clearer and more transparent accounting in the commercial sector.

As the global economy expands, meanwhile, consistency of regulation and transparency are becoming an increasingly important issue in developing and emerging economies. In these countries, too, approaches to corporate governance, financial market transparency and public accounting will need to be strengthened and enhanced. The availability and maintenance of high-quality international standards will be critical to their ability to attract capital in competitive global financial markets.

If G20 leaders are serious in their ambition to put the global economy on an even keel, they need to take a much firmer stance with regard to global standard-setting. Regulators need to move fast to issue regulation when market circumstances require it. Speed to market, in terms of the delivery of new regulation, and due process, with regard to the reflection required to ensure coherent and consistent decisions, are inherently conflicting forces and in standard-setting and regulation it is important to achieve and maintain a balance between them.

But international standard-setters, regulators and the politicians that guide them must also accept the need to fight resistance to change for the global good and to accept some compromises in the drive for global financial market stability. Global business needs to be able to operate within a consistent framework of standards and regulation worldwide, rather than having to navigate through a maze of conflicting regulations. It took a global financial crisis to bring us to the point where we are now, where the desirability of globally consistent accounting standards is viewed as important. It would be a tragedy if we don't continue forward with this goal, despite the many challenges.

Quality not quantity as China deleverages

—— The top-down structural reform of China's commercial banks is beginning to show results, but the real economy is still overleveraged, requiring further action, writes **Zhang Yanling, Former Executive Vice President, Bank of China**

Zhang Yanling is a Senior Fellow of the Chongyang Institute for Financial Studies at Renmin University of China, a member of the executive board of the World Council of the International Chamber of Commerce (ICC), Vice Chair of ICC-China, and director of the Negotiable Instruments Law Research Centre at China University of Political Science and Law. Having joined the head office of the Bank of China in 1977, she was appointed Executive Assistant to the President in 2000 and, from 2002 until retiring in 2011, served as Executive Vice President.

While China has been adjusting its model of economic growth, on the international stage three issues regarding its commercial banks have received broad attention. The first is the cash shortage of June 2013, when both short-term interbank interest rates and the Shanghai interbank offered rate (Shibor) suddenly spiked to record levels. Second, in 2013, 42 state-owned enterprises recorded losses totalling ¥72.6 billion ($11.8 billion), while the 17 biggest banking enterprises in China earned ¥1.23 trillion ($200.7 billion) in profits. The third issue is the large volume of non-performing loans in the commercial banking system; by June 2014, non-performing loans reached ¥694.4 billion ($113.2 billion), having increased for 11 straight quarters.

Still, the performance of China's economy is one of the best in the world. But, from these data and events, it is clear that the task of reform is going to require considerably more effort. Commercial banks are at the centre of China's banking system. Building commercial banks that can control risk affects the management of systemic risk in the overall financial system. Due to the special relationship between the commercial banks and the government in China, any discussion about how to make China's commercial banks better must begin with a discussion about how to create a better financial ecosystem, and how to better run and manage the commercial banks as banks.

'Cash shortage' warning

China is undertaking economic reforms and deleveraging. Its goal is for assets to circulate in the banking system to flow towards the real economy. This is a top-down structural reform that has only just begun to take effect. During the cash shortage of 2013, the People's Bank of China refused to inject capital into commercial banks that were short on funds, which caused the overnight interest rate to shoot from 2.1 per cent in early May to above 13.4 per cent on 20 June. The banks were unprepared. Since then, the commercial banks have improved their management of liquidity and risk.

The goal of this action was to discipline the shadow banking activities of commercial banks. In 2014, it has already made a big impact. In the first quarter of the year, China's total social financing was ¥5.6 trillion ($913.4 billion), a decrease of more than ¥561.2 billion ($91.5 billion) from the first quarter of 2013. New bank lending as a proportion of total social financing increased by 9.1 per cent year on year, while trust lending (a form of shadow banking) fell 8.4 per cent. This demonstrates that the government moved effectively to standardise and control the shadow banking activities of commercial banks.

High leverage, local-government debt issues and policy reform

In reality, it is hard to say that the commercial banks have made no mistakes, but these problems are probably inevitable. Responding to government easing policies after the 2008 global financial crisis, commercial banks provided massive lending support for various infrastructure projects through local-government financing vehicles.

The increased lending of the commercial banks supported China's growth after the global downturn, and China has been the driver of global growth since the financial crisis. The growth slowdown and a low rate of return on these projects produced a chain reaction. In order to finally solve the problem of shadow banking, commercial banks need to return to lending that serves the real economy, while at the same time resolving the difficulties caused by the local-government financing vehicles. On 21 May 2014, the government initiated a pilot programme for local-government bonds issuance by allowing Shanghai, Beijing, Qingdao and Shenzhen, among other selected provinces and cities, to issue local-government bonds within a certain limit.

> The problem of overcapacity in numerous industries such as steel, cement, glass, chemicals and coal remains

This pilot programme attempts to resolve the local-government debt problem in three ways. First, it severs the local debt's implicit guarantee from the central government. Second, it gives local governments the authority to raise their own funds and to take on their own risk. And third, setting the duration of the local-government bonds at five, seven and ten years, when currently only three- and five-year durations are available, solves the problem of the mismatch between bond durations and long-term investment projects.

CARLOS BARRIA/REUTERS

Customer service at a branch of the Industrial and Commercial Bank of China in Shanghai. A series of reforms has been launched to tackle issues facing China's commercial banks

Targeted macroeconomic management and deleveraging

Even though these measures are starting to bear fruit, because such a large amount of credit previously flowed into long-term infrastructure investment projects, the problem of overcapacity in numerous industries such as steel, cement, glass, chemicals and coal remains. The real economy is still overleveraged. Commercial banks must coordinate with the People's Bank of China to solve these existing problems, such as deleveraging overcapacity industries while continuing to proactively contribute to employment, improved quality of life and sustainable economic growth.

The central bank has initiated two rounds of targeted cuts in the reserve requirement ratio and one round of targeted interest-rate cuts. It allowed county-level rural cooperative banks, commercial banks and financial institutions to lower the reserve requirement ratio under certain conditions. This was intended to improve financial support to the agricultural sector, rural areas and farmers, an underserved sector responsible for a large number of crucial jobs.

The first targeted interest-rate reduction was implemented through the Pledged Supplementary Lending (PSL) plan. It will provide more than ¥1 trillion ($163.1 billion) to the China Development Bank to rebuild shanty towns and help improve conditions for those living in poverty.

The yield on one-year AA-rated urban-construction investment bonds has fallen to 5.3 per cent from a rate of 7.4 per cent in early 2014. The seven-year urban-investment bond yield has fallen to 6.7 per cent from 7.9 per cent. The two-week Shibor has fallen from 5.2 per cent early in 2014 to about 3.5 per cent, indicating that deleveraging measures have started to take effect.

China's economy under the 'new normal'

These targeted changes reflect the 'new normal' of China's macroeconomic management efforts. In the medium term, as China takes the initiative to deleverage, it will guide the economy away from a path that once emphasised quantity towards one that emphasises quality.

China is moving from being a manufacturing power to an innovation power. The commercial banks will do their part to provide support and be an active and crucial participant in the reform process, fostering the growth of the real economy. ■

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Global reform after the financial crisis

Collective efforts towards increasing regulation have made strong progress, yet obstacles remain as markets become increasingly complex, writes **David Wright, Secretary General, International Organization of Securities Commissions**

David Wright became Secretary General of the International Organization of Securities Commissions (IOSCO) in 2012. He worked in the European Commission from 1977-2011. From 1989-92 he was a member of EC President Jacques Delors's Forward Studies Unit, and, from 1993-94, a member of European Commissioner Sir Leon Brittan's cabinet. In 1995, he became an adviser to EC President Jacques Santer and, from 2000-10, he was in the Directorate General Internal Markets and Services, eventually becoming Deputy Director General for all financial services policy.

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The global financial crisis is now more than seven years old. Global economic growth is patchy, and particularly weak in the European Union. Unemployment in many members of the Organisation for Economic Co-operation and Development remains historically high and many government debt levels have surged. It is estimated that the world has lost as much as 15 per cent of gross domestic product (GDP). Has the huge post-2007 reform effort made the global financial system safer, more sustainable and less prone to such savage shocks? Has the world witnessed seven years of productive global regulatory feast – or famine?

There has been a massive collective regulatory and supervisory effort by the G20, the Financial Stability Board (FSB) and the sectoral standard setters over these last seven years, significantly increasing capital requirements for banks, tackling the concept of 'too big to fail', building critically needed resolution and recovery frameworks, regulating over-the-counter (OTC) derivatives, reducing exposures and making regulatory inroads into the shadow banking system, now estimated to be as high as 50 per cent of traditional banking activity and growing fast. International policymakers are still working intensively on numerous difficult technical issues. The International Organization of Securities Commissions (IOSCO) alone has around 90 work streams, half related to the crisis, the G20 or the FSB.

A positive appreciation of this work would point to improved-quality capital in the banking system, with significant add-ons for global systemically important financial institutions (G-SIFIs). Liquidity standards have been established. Capital levels in banks have risen five years in advance of the deadlines. Much stricter stress-testing is now de rigueur. The US Federal Reserve has been the pioneer; the European Central Bank's asset-quality review tests are eagerly awaited, and the United Kingdom and United States are testing their bilateral arrangements for dealing with a G-SIFI failure. The FSB's work on loss-absorbing capacity is particularly significant for the G20's Brisbane Summit, because the resolution of failing financial institutions is the key determinant in judging whether global financial reform has succeeded. The latest International Swaps and Derivatives Association protocol, on 'stay of execution' rights for cross-border derivatives when a global bank fails, is also important. Efficient, ruthless resolution of failed institutions not only ends the too-big-to-fail problem, but also eliminates the great social risk that future innocent generations pay for gross financial corporate incompetence. The attributes and guidance for recovering and resolving financial firms and market infrastructures agreed to by the Committee on Payments and Market Infrastructures (CPMI), IOSCO and the FSB are also major steps forward.

Slightly more than half of OTC interest rate swaps are now being cleared, although slightly fewer are traded. Additional margin requirements have been agreed on non-cleared derivatives to provide the right incentives to move OTC derivatives onto exchanges and electronic platforms and be cleared. Trade repositories have been set up. However, many do not yet fit together, so there is no overall global data on exposures for regulators to monitor. The FSB, CPMI and IOSCO are working together to harmonise the data and address the legal and regulatory issues regarding data aggregation.

> Has the world seen seven years of productive global regulatory feast – or famine?

On shadow banking, there has been some useful regulatory progress at the international level led by IOSCO and the Basel Committee on Banking Supervision on encouraging sensible, transparent and simpler long-term securitisation structures, on money market funds and on minimum haircuts for securities lending and repos.

Other important global achievements concern establishing principles for financial benchmarks following IOSCO's lead, plus further accounting convergence between the International Accounting Standards Board and the US Financial Accounting Standards Board, although not on how to account for impaired assets.

Two other achievements need mentioning. First, the FSB's Standing Committee on Standards Implementation and IOSCO's Assessment Committee are now at the forefront of implementation-monitoring work. Second, a major improvement is under way in understanding emerging risks in financial markets, led by the FSB's Standing Committee on Assessment of Vulnerabilities and IOSCO's Committee on Emerging Risks in securities markets. High-level research analysis is focusing more on interconnectivity, transmission and contagion risks across sectors – with deeper horizontal and macroprudential policy reflection. This makes sense, as financial shocks know no sectoral boundaries, borders or ring fences.

SPENCER PLATT/GETTY IMAGES

Wall Street during the financial crisis in 2008. The G20 has worked with international groups to establish stricter regulation of the financial industry

But many challenges remain. Concerning resolution, will ring-fencing for countries with systemic branches or subsidiaries become a thing of the past? What comfort levels of capital in systemic branches and subsidiaries will be necessary?

How much more time will it take to get a wider range of standardised derivatives on to exchanges and electronic platforms and cleared, and for some of the remaining 50 per cent of interest rate swaps and other derivatives to be brought into the fold? How can the lack of progress on trade repositories be solved – for example, dealing with proprietary data, data protection and other confidentiality concerns – so as to be able to aggregate the data effectively?

Risks in shadow banking are shifting, but are they fully understood? The interconnectivity, contagion and innovation channels remain under-researched and the data are still incomplete. There remains much to do to determine systemic risk in the non-bank, non-insurance sectors, for which a further FSB-IOSCO consultation is planned later in 2014.

Need for vigilance

Also concerning is a cluster of issues that could be labelled the 'fifth column' of global regulatory priorities – the culture, behaviour, ethics and corporate governance in financial firms. The financial industry has not focused sufficiently on the quality of people. A swathe of major manipulative scandals and probes – the IBORs (interbank offer rates), foreign exchange and some commodities – have further eroded trust in financial markets. In addition, there is the perennial conduct question of whether ordinary retail customers are being treated honestly and fairly. Fraud, compensation greed and mis-selling cases remain prevalent in financial markets. The situation is not helped by sanctions regimes that in many countries are simply too weak to deter the worst forms of behaviour.

On the bright side, IOSCO's Multilateral Memorandum of Understanding (MMOU) has been effective in assisting cross-border enforcement cooperation – with 103 signatories and nearly 3,000 exchanges of information occurring in the last year.

Vigilance and continuous alert therefore seem to be the global regulatory watchwords. As the walls of financial stability continue to be built, international policymakers must deepen their understanding of global financial markets, improve the data and join up even more monetary, financial, macroprudential and regulatory policies. This is very challenging, particularly as new, big financial markets are emerging in Brazil, India, China, Russia, Nigeria, South Africa, Turkey and Indonesia.

New challenges arising

There is a major transition towards market-based financing of the global economy, with profound implications for the financial regulatory and supervisory communities. Global finance will become more, not less, complex with a growing role for securities regulators.

That said, the general public will become decreasingly tolerant of a financial system that does not serve the needs of society and economic development as a whole. This requires assisting emerging markets in developing good regulatory and supervisory bases for local capital markets to emerge, thrive and finance local economic development; finding ways to finance – sustainably – small and medium-sized companies; assembling and supplying long-term financing instruments for infrastructure development that can help fill a huge multi-trillion-dollar financing need in many parts of the world; and allowing capital markets to play a much bigger role in managing pensions.

Analysis in the IOSCO *Securities Markets Risk Outlook 2013-14* points to key risks that merit full regulatory attention. These include increased risk-taking and leverage, concentration risk in central counterparties, increased use of collateral and risk transfers, the impacts on emerging markets of increasing interest rates, and corporate governance practice in financial firms. Cybercrime and resilience against it are also major concerns.

Overall resilience is as strong as the weakest link. Audit quality also needs improvement, and IOSCO will shortly begin work on this. How to minimise and resolve cross-border conflicts is also high on its agenda.

Finally, nothing any global financial standard setter does is legally binding. What exists instead is a consensus-based system of best political efforts, peer pressure, transparency and monitoring. It has had its successes. But, as global markets become increasingly complex and intertwined, will this be sufficient? Senior policymakers could begin a high-level reflection on practical options to strengthen the current system – to consider the tools that may be needed decades from now in order to develop and sustain well-functioning global capital markets that can benefit everyone, in every corner of the globe. ■

Regulating the insurance industry

As insurance becomes increasingly globalised, the International Association of Insurance Supervisors is working with the G20 to develop policy measures for global systemically important insurers, says **Secretary General Dr Yoshihiro Kawai**

Dr Yoshihiro Kawai has held the position of Secretary General of the International Association of Insurance Supervisors (IAIS) since 2003, having joined as deputy secretary general in 1998. His professional career began with the Tokio Marine and Fire Insurance Co and Japan's Ministry of Labour, and he later served at the secretariat for the Organisation for Economic Co-operation and Development's Insurance Committee in France. From 1995-98, Kawai was an adviser to Japan's Minister of Finance.

www.iaisweb.org

It is undeniable that the business of insurance is global, and global issues demand global responses. Accordingly, the International Association of Insurance Supervisors (IAIS) has worked tirelessly over recent years to promote globally consistent supervision of the insurance sector, identify and address systemic risk, and assist its members in achieving the shared goal of policyholder protection.

The IAIS is a voluntary membership association composed of insurance regulators and supervisors from more than 200 jurisdictions in nearly 140 countries, accounting for 97 per cent of the world's insurance premiums. The association's mission is twofold: first, to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and, second, to contribute to global financial stability.

The insurance marketplace has steadily become more global. According to figures released by Swiss Re, in 2007 almost 75 per cent of the global insurance market was attributable to two regions: North America and Europe. At the time, Asia accounted for just a little more than 20 per cent. Only a few years later, the landscape is dramatically different. Europe and North America are still the two largest markets, but together they have lost more than 11.5 per cent of market share to the rest of the world. The three largest regions – Europe, North America and Asia – now account for more or less equal market shares of around 30 per cent.

The regions with the biggest increases over this period are no surprise, with Asia and Latin America leading the charge. These figures are supported by the most recent report on global insurance market trends by the Organisation for Economic Co-operation and Development (OECD). What has followed these trends is not surprising. As growth within established markets remains weak, large insurers have increasingly looked to emerging markets to fuel growth. This has led to increased globalisation and consolidation of the industry as well as increased risk transfer between regions.

A global approach

The question then becomes what insurance supervisors should do in response to these trends. The answer is quite simple, and fits squarely within the mission of the IAIS. As the insurance sector grows more global, IAIS members' supervisory focus must continue to expand globally. As an international standard setter, the IAIS must support this by tailoring supervisory methods to deal with large, complex and international firms, and by supporting supervisors in emerging markets as they develop the competencies and skills needed to be part of a global supervisory network. More and more markets are becoming relevant from a business perspective and, consequently, from a supervisory perspective as well.

As this trend continues and business operations get more and more interlinked globally, a pure jurisdiction-by-jurisdiction approach with regard to standards and implementation is no longer sufficient. In other words, it is not enough simply to focus on the country level in dealing with highly complex international insurance groups and highly interconnected insurance markets.

These trends and realities have not been lost on the IAIS. For some time, it has increased its focus on improving group supervision. It must continue to support its members in communicating, cooperating and coordinating better with supervisors in other sectors.

> A pure jurisdiction-by-jurisdiction approach with regard to standards and implementation is no longer sufficient

In this context, one of the association's main initiatives over the last few years has been the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). This is a set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups. ComFrame expands upon the high-level requirements and guidance currently set out in the IAIS Insurance Core Principles, which generally apply on both a legal entity and group-wide level.

A solid supervisory framework is necessary to protect holders of insurance cover

ISTOCK

The IAIS and the G20

The IAIS has also been significantly involved in the G20's global initiative to identify global systemically important financial institutions. In collaboration with the Financial Stability Board (FSB), the IAIS has developed an assessment methodology and policy measures for global systemically important insurers (G-SIIs), and has led annual data collections to assist the FSB and national supervisors to identify G-SIIs.

Furthermore, in accord with the belief that a sound capital and supervisory framework for the insurance sector is essential for supporting financial stability and protecting policyholders, IAIS members have committed to developing a global group-wide risk-based capital standard for internationally active insurance groups. This work has been divided into three steps.

First, IAIS is preparing basic capital requirements for G-SIIs for delivery to the G20 summit in November 2014. The basic capital requirements will provide a common capital measure to be used as a globally comparable foundation for the calculation of the second capital standard of higher loss-absorbency requirements for G-SIIs. It will apply to all group activities, including non-insurance activities, and will be calculated on a consolidated group-wide basis, including all holding companies, insurance legal entities, banking legal entities and any other companies that are relevant for consolidation. The sum of the basic capital requirements and higher loss absorbency will form a consolidated group-wide minimum capital requirement that reflects the G-SIIs' importance in the international financial system. The key principle is that G-SIIs should be required by their group-wide supervisors to hold higher levels of regulatory capital than would be the case if those firms were not identified as globally systemically important. The development of the higher loss absorbency is due to be completed by the end of 2015.

Finally, a risk-based group-wide global insurance capital standard is at the conceptual development stage. It is due to be completed by the end of 2016 and, after testing and refinement in 2017-18, will be applied from 2019. The development of the basic capital requirements and higher loss absorbency, and the related field testing, will inform and help shape the development of the insurance capital standard, which is a key element of ComFrame.

The IAIS is committed to promoting globally consistent insurance supervision and contributing to financial stability. It shares fully in the G20's mission to reduce the moral hazard posed by globally significant international financial institutions, values the opportunity to contribute to these efforts in a manner specifically designed for the insurance sector, and stands ready to continue to provide the G20 with the expertise of its members. ■

Accounting for sustainability

—— Accounting standards need to reflect the growing importance of social and sustainability issues to investors, write **Robert G Eccles, Jean Rogers and Mary Schapiro, Sustainability Accounting Standards Board (SASB)**

Robert G Eccles is Professor of Management Practice at Harvard Business School, and Founding Chair of SASB.

Dr Jean Rogers is Chief Executive Officer of SASB, with 20 years' experience in sustainability and management consulting.

Vice Chair of SASB Mary Schapiro is Former Chair of the US Securities and Exchange Commission.

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It has long been recognised that financial accounting standards and transparency create trust among investors, resulting in the increased depth, liquidity and stability of capital markets. However, the world is evolving, and so too are the information needs of market participants.

Economic growth cannot be sustained if the underlying environmental and social capital upon which wealth creation depends is depleted. Global megatrends – including population growth, climate change, resource scarcity, disease migration, nutrition and inequality, as well as other critical dimensions of sustainable development – are on a sobering trajectory. Governments are no longer comprehensive catalysts for positive change. The power of the capital markets is needed to help address these global challenges. This will require capital allocation decisions by investors that reward companies for reducing negative externalities, such as carbon emissions and the unwarranted use of scarce and non-renewable resources, and for increasing positive externalities, such as job creation and the development of human capital. But, in order for investors to direct capital to sustainable outcomes, they need good information.

G20 members have led the movement to arm investors with information on corporate sustainability performance. In 2010, France passed a law called Grenelle II, which mandates all listed companies on French stock exchanges to incorporate information on the 'social and environmental consequences' of company activities, or publish a justification for exclusion. In 2011, South Africa became the first country to require companies to prepare an integrated report (a report that documents both financial and sustainability performance) on an 'apply or explain' basis, in order to trade. This year, the European Union passed an amendment that requires large companies to disclose environmental and social issues in their annual reports. Brazil's BM&FBOVESPA and India's Bombay Stock Exchange have taken steps to encourage listed companies to use sustainability reporting. These are just a few examples of the extraordinary leadership of G20 members.

The role of SASB

As capital markets around the world continue to advance sustainability disclosure, there is an opportunity to ensure that the needs of the principal economic actor at hand – the investor – are being met. In order for investors to use sustainability disclosure,

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India's Bombay Stock Exchange has implemented measures to promote sustainability reporting

Economic growth cannot be sustained if the underlying environmental and social capital are depleted

they need standardised, comparable metrics on the issues that are most relevant to a firm's operating environment. The key to achieving this goal is materiality. This important legal concept is crucial to aligning the needs of global capital markets; however, its definition is not universally shared. In the United States, for example, the Supreme Court's long-established definition of materiality has a singular and unwavering focus on the 'reasonable investor's' decision to buy, sell or hold a security.

In the US, Regulation S-K – as prescribed under the Securities Exchange Act of 1934 – requires companies to disclose material information. While the disclosure of material sustainability information is already mandated, until recently companies lacked the accounting infrastructure to comply with this requirement. This is the market need that the Sustainability Accounting Standards Board (SASB) was created to fill. SASB's mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material factors in compliance with the requirements of the US Securities and Exchange Commission. The standards – which average five topics and 14 metrics (79 per cent quantitative) per industry – are designed to be cost-effective for ▸

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Health workers document fake medicines during a raid on a factory in Pakistan. Counterfeit drugs eat into corporate revenue, as well as posing health risks

issuers and useful for investors' decision-making. SASB standards have been issued for 35 industries in five major sectors. By 2016, standards for some 80 industries in 10 sectors will be available. SASB's work on standards has revealed trends in the sustainability issues that reach the materiality threshold across industries. Climate change, product stewardship and social utility, resource intensity and scarcity, access and affordability of services, and financing and responsible lending have emerged as trends that are of material interest to investors.

These trends also relate to the themes of the G20's Brisbane Summit, promoting stronger economic growth and making the global economy more resilient to future shocks. With regard to counterfeit drugs, for example, the global market for counterfeits is estimated at $431 billion, representing one per cent of US pharmaceutical supply, and 10-15 per cent of the world's pharmaceutical supply, eating into corporate revenue and carrying a deadly toll. SASB standards promote disclosure on critical dimensions of sustainability, informing industry outlooks and corporate valuations, enabling peer-to-peer comparison, and facilitating a race to the top.

G20 members are working to ensure the financial stability of capital markets. Transparent, reliable information is essential for enabling investors to determine which industries face headwinds and how companies are adapting to a changing reality. As valuations have changed – 80 per cent of the assets in the S&P 500 index are now intangible, and just 20 per cent are tangible – investors are looking for a more complete picture than that which traditional financial statements can provide.

As G20 members continue to promote sustainability disclosure, everyone must pay attention to aligning their efforts. This can be done by tailoring the information to the needs of the investor, the primary actor in the global capital markets. It can also be done by designing approaches to sustainability reporting that allow for jurisdictional specificity – markets are at different stages of development, and regulatory and listing arbitrage must be avoided. As this momentum carries the world forward, let's ensure that new initiatives provide investors with useful and material information in a cost-effective manner that complements the existing regulatory requirements and disclosure mechanisms to which corporate issuers are bound. ■

SPONSORED FEATURE

Audit facing transformative change

Larry Bradley Global Head of Audit, KPMG International

Mark Vaessen Global Head of IFRS, KPMG International

Independent auditors around the world are on the cusp of a transformative change. These may seem like bold words for an inherently conservative profession, but there are strong reasons for saying this. We believe the kind of far-reaching change we envisage will be good for auditors, for audited companies and for society as a whole. Governments and regulators will play their part, we hope, by engaging in an open dialogue with audit firms about where the audit profession should be heading, and by helping to create an environment in which healthy innovation can flourish.

Drivers of change

Two factors are driving the transformation, and auditors can either seize the initiative to shape the future of corporate reporting, or they can be swept along in its wake. Clearly, the former is preferable.

One driver of change is rising expectations; stakeholders are demanding more transparency from companies in the wake of the economic crises and scandals of the past few years. **The public's trust in the integrity of business is at a low point and the audit profession can and must play an important role in the restoration of confidence.** It should do this by continuing to improve audit quality and by consulting stakeholders such as investors about whether and where to extend its mission of independent assurance into new areas of corporate reporting.

The other driver of change is technology. **Data and analytics promises to transform the audit profession as profoundly as in other areas of business.** Accountants have always analysed data; it is the coin of their realm. But the volume of business data, and our ability to analyse it, has grown rapidly in recent years – opening the possibility of auditors providing independent assurance on areas of corporate activity, hitherto outside the audit purview, that are of great interest to a wide range of stakeholders.

Data and analytics help us to explore more deeply and widely historical financial information to gain fresh insights into the areas of corporate reporting that audit firms have traditionally focused on. But it also gives auditors the tools to go beyond the current financial statements in three ways: first, to examine critically and independently corporate managers' projections of future business trends that can impact reported financial balances; second, to analyse non-financial data that are often regarded by investors as more significant drivers of value than financial data; third, to examine external data that affect the company being audited, such as trends in relevant markets.

All three of these areas raise a host of issues for auditors, regulators and the public. The global financial crisis has taught us that history is no longer a reliable guide to future financial results; this has implications for the way in which valuations of tangible and intangible assets (both on and off balance sheet) are derived. We must think outside the traditional parameters so that companies, auditors, regulators, lenders and investors will be better prepared for the next crisis. Auditors as a profession need to find better ways of assessing business risk as part of our audit engagements and we have to develop more sophisticated techniques for doing so.

Questions of data use

We will need to establish a conceptual framework for deciding what type of data can be accepted as audit evidence. A retail company, for example, may project its future revenue based on external data, such as using traffic patterns collected through the use of satellite images and weather data. Such external information could become a powerful tool for the independent auditor, but there needs to be a debate about the quality and reliability of the data and the extent it can be used to support an audit opinion on the financial statements of a company.

Data and analytics can provide us with new tools to find correlations that were not considered before, but this kind of innovation raises a number of questions. How can and should auditors test the relevance and reliability of externally produced data before it is used as a key component of an audit procedure? To what extent can externally produced data constitute audit evidence to test management's internal valuations? There are no easy answers to these questions, but with the rapid proliferation of available data, there is a need for an open discussion among auditors, regulators, standard-setters, companies and investors to find common ground.

Auditors will continue to have a mandate to report on historical information, and several aspects of a company's financial statements are already dependent on management's forward-looking views of financial performance (such as the impairment model of intangibles, including goodwill, which depends on forecasts of future cash flows). More broadly, the valuation of a business is dependent on an assessment of future performance, and this depends on weighing alternative financial scenarios and stress-testing the company's balance sheet by assessing the risks it faces. Historical financial performance only provides part of the information needed to assess a company's future prospects. While it is not necessarily the responsibility of outside auditors at the moment, there is a growing need for an independent assurance of corporate-reporting aspects beyond the statutory summaries of profit and loss, cash flow and balance sheet.

Open dialogue required

Government, regulators and standard-setters can help by providing a forum for debate. We have approached standard-setters to launch a discussion on the issue of utilising data and analytics to derive better audit evidence and the need for a corresponding evaluation of relevant auditing standards. But this is not the only area of audit where more discussion is required. Some argue that auditors do a poor job of communicating with some of their key stakeholders and that they narrow their focus on (very necessary) discussions with the Audit Committee and on a binary pass-fail opinion of a company's accounts communicated to the outside world.

Stakeholders, particularly investors, say they want more information from the auditors about an audited company, in particular a risk assessment. The UK's regulator, the Financial Reporting Council, has already mandated enhanced auditor reporting, and the International Auditing and Assurance Standards Board is working on an international standard on the matter. Improvements to the corporate-reporting model are being proposed by the Integrated Reporting Council. We welcome an open dialogue on all these developments; especially to the extent that audit quality is enhanced.

These initiatives do not have to be adopted fully in every jurisdiction; accounting is not a one-size-fits-all discipline. Some capital markets might resist independent auditors seeking a broader mandate depending on the focus of investors. US investors tend to emphasise comparability on the concept of efficient market theory, whereas Europe may focus more on the stewardship and sustainability of corporations. Such differences should be included in any global discussion about what generates corporate value and how to seek common denominators of value among capital markets. A B20 panel of six international accounting networks recently recommended to the G20 that governments should encourage corporate-reporting innovations that provide investors with a longer-term and broader perspective on shareholder value creation. And it called on each G20 finance minister to address any practical, legal or statutory barriers to the improvement of corporate reporting.

We, the authors of this article, support policy measures, regulatory or otherwise, that stimulate innovation and improve audit quality. If the measures lead to healthy competition among audit firms based on the quality of the service they offer, then we endorse these initiatives. We would support governments in providing an environment in which stakeholders can openly and freely discuss the future direction of corporate reporting. We believe that independent auditors perform the valuable role of being a trusted intermediary between the providers of business information and the users of that information. The type and scope of that information will change, and the only way we can be an effective intermediary is if auditors are of the highest integrity and perform their services with unquestionable quality. Amid the ups and downs of modern business, this must and will not change.

The views and opinions expressed are those of the authors and do not necessarily represent the views and opinions of KPMG. All information provided is of a general nature and is not intended to address the circumstances of any particular individual or entity.

Footnote

1 www.theiirc.org/wp-content/uploads/2014/06/unlocking-investment-in-infrastructure.pdf

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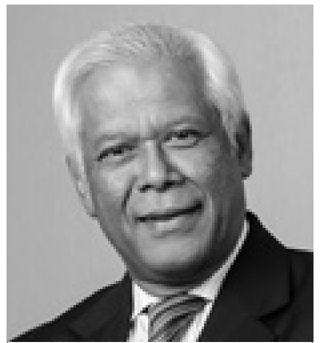
Building resilience in financial systems

The global convergence of accounting standards will play an integral role in restoring financial stability, writes **Fayezul Choudhury, Chief Executive Officer, International Federation of Accountants**



Fayezul Choudhury became Chief Executive Officer of the International Federation of Accountants (IFAC) in 2013. He was previously with the World Bank, where his last two positions were Vice President of Corporate Finance and Risk Management, and Controller and Vice President of Strategic Planning and Resource Management. Choudhury was a member of the Public Interest Oversight Board from 2005-10, and chaired the Global Steering Committee of the International Forum for Accountability Development.

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In meetings leading up to the Brisbane Summit, G20 finance ministers and central bank governors discussed cooperative measures as part of a multi-year agenda with an aim to stabilise and strengthen the global economy, foster growth and ensure the integrity of the international tax system.

Having set a goal of a two per cent increase in the level of global economic output over the next five years, achieving such an ambition will be likely to require improving the financial positions of both advanced and emerging economies.

The International Federation of Accountants (IFAC) continues to focus on its mandate to serve the public interest and contribute to the development of strong international economies, which is to be achieved by strengthening the accountancy profession and advocating for financial systems reform. A strong, vibrant accountancy profession is essential for advancing economic stability, promoting accountability, strengthening financial systems and architecture, and increasing long-term sustainability and growth – growth and stability that require integrity in the recognition, measurement, processing and reporting of financial transactions.

Trust, accountability and transparency are essential to lay the foundations for stronger and more balanced global growth. They are among the criteria mentioned by the International Monetary Fund (IMF) in a report prepared for the G20 meetings.

IFAC offered the G20 a set of eight recommendations supporting economic growth and building economic resilience in three key areas of focus: global consistency to achieve sound financial regulation; enhanced financial management, reporting, transparency and accountability by governments; and effective taxation systems.

Globally consistent and effective regulation requires the global adoption and implementation of high-quality standards. Such standards will assist in facilitating cross-border activity, promoting economic and financial stability, and strengthening transparency and accountability.

Notwithstanding the opinions of some that the opportunity for convergence of the International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles has passed, IFAC supports the G20 position that there is a need for a single set of high-quality, globally accepted financial reporting standards. In addition to the IFRS, IFAC recommends the adoption and implementation, across all jurisdictions, of International Standards on Accounting and International Public Sector Accounting Standards, as well as the auditor independence requirements set out in the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants.

Reigniting the momentum for regulatory consistency and high-quality regulation that developed during the global financial crisis promotes opportunities for measured and appropriate responses to avoid such crises and for greater unrestricted cross-border trade.

Financial management, reporting, transparency and accountability

Despite increasing awareness of the issue over the last few years, inadequate public-sector financial management and poor government transparency and accountability remain, in many parts of the world, a significant threat to global financial stability.

Government spending is a major component of gross domestic product (GDP). In some countries, it can equal 30 per cent of GDP. These expenditures highlight the importance of strong government financial management. But many governments produce financial information that does not reflect the full economic impact of their political choices. This lack of high-quality data means that key decision-makers in government are ill equipped to make sound financial judgements and fail to understand the consequences of their decisions. When governments mismanage financial resources, their citizens ultimately pay the price.

The global sovereign debt crisis has illustrated that governments need to improve transparency, consistency and communication. In many parts of the world, governments require that private-sector companies report high-quality financial information – but many do not follow these same standards.

Fundamental reforms to improve the level of transparency and accountability are urgently needed to create incentives for governments to manage their finances in a manner that protects citizens. The G20 can serve to actively encourage and facilitate the adoption of accrual-based accounting by governments and public-sector institutions. Accrual accounting provides a more comprehensive and accurate view of a government's financial position, increases accountability and transparency, improves financial management and decision-making, and, ultimately, increases financial

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stability. Improved financial stability can aid in reducing barriers to trade, one of the strategies identified by G20 members to promote global economic growth.

Additionally, a working group under the purview of the Financial Stability Board, for example, could be tasked with examining enhanced public-sector financial reporting, transparency and accountability, including transparency around deficit spending.

For many years, IFAC has advocated reform of public-sector financial management. 'Accountability. Now!' is a new campaign undertaken by IFAC and a wide range of stakeholders to further advance the issue. Through this initiative, IFAC is working to improve government financial transparency and accountability through the adoption and implementation of high-quality accrual-based accounting standards.

As businesses expand across borders, the public and private sectors alike are realising the benefits of operating within a commonly understood financial reporting system

Effective taxation systems

Sound, effective taxation systems are essential for the functioning of modern societies and economies. Ideally, they should have clear objectives, promote transparency, and be simple to apply and monitor. The effectiveness of taxation systems may be undermined when taxation outcomes do not reflect the economic substance of transactions, or where taxation considerations are the primary justification for the initiation of investments or transactions that otherwise would not take place.

A strong, vibrant accountancy profession is essential for advancing economic stability

Cooperation between jurisdictions, for example, through the use of international treaties and information-sharing arrangements, is important to promote the right accountabilities and long-term global sustainability and growth. Within the process, the needs of developing countries and emerging economies must be properly considered.

The route to global consistency

It is important that the G20 has identified taxation as a priority area. The G20 members should act cooperatively to support the work of the Organisation for Economic Co-operation and Development and address issues of base erosion and profit shifting (BEPS) to enhance the transparency and integrity of taxation systems and reporting, as well as enhance the design and effectiveness of such systems, as they apply to organisations of all sizes, as a means of encouraging economic growth. Taxation reforms should be balanced, properly considered, practical, and implemented in a coordinated and consistent manner. Meanwhile, the development of a properly resourced dispute mechanism should be considered.

Developing strong international economies by implementing financial systems reform is essential across all parts of the globe. This is a long journey and represents a substantial commitment from those at every stage of the process. Tough decisions will be required along the way, but the potential rewards will be great. IFAC will continue to support the efforts of the G20, and work in concert with it and other international consortiums to achieve global financial reform. ■

FINANCE AND REGULATION

Tackle corruption to release growth

—— Dealing with money laundering at all levels is necessary to foster a stable and secure financial system, helping to unlock economic growth, says **Lida Preyma, Director of Capital Markets Research, Global Finance, G20 Research Group**

Lida Preyma is Director of Capital Markets Research, Global Finance, with the G20 Research Group, and Managing Partner at PLP Group Risk and Research. She is also the Director of Trade Policy Research for the G8 Research Group. Preyma has held various positions in the financial services industry, including Head of Global DMA at Jitneytrade, and Director of Business Development and Marketing at the Canadian National Stock Exchange (CNSX) and Pure Trading, Canada's first alternative trading system.

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A robust and stable global financial system requires universal access, a level playing field and participants' confidence that the rule of law is being followed by all. Money laundering disrupts this system by facilitating crime, undermining the financial system, and imposing a burden on taxpayers and consumers.

Global economic growth and development have been key priorities for the G20 leaders since the financial crisis began. This year in particular, the leaders have set a lofty goal of boosting global growth by two per cent by 2018, which can be partly achieved by fireproofing the banking system, closing tax loopholes, fighting corruption, and closing in even further on money laundering and terrorist finance.

When a stable environment exists, free of corruption, global participants have the confidence to take part in the financial system because they feel their money is safe. In recent years, financial institutions have spent substantial capital to make sure that their regulations for anti-money-laundering and combating the financing of terrorism (AML/CFT) comply with regulatory frameworks. With these measures, they hope to prove that consumers' capital is safe in the financial system, thereby increasing the institutional capital that can then be lent to other consumers and grow the economy. Regulators are cracking down on non-compliant institutions by levying heavy fines. And this is not the only risk that financial institutions face by violating regulation: remediation costs can be very high; international reputational risk can come with dire consequences; senior leaders can lose their jobs; and, at worst, licences to operate can be revoked.

One example is BNP Paribas, which was fined $8.9 billion in the largest settlement to date for moving money through the US financial system to countries such as Sudan and Iran, which are subject to sanctions. The chairman has resigned and the bank recently reported a quarterly loss of nearly $6 billion in July 2014. That is a substantial amount of money that has been taken out of circulation from the financial system.

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Facing the risks of financial inclusion

Another area of importance to global economic growth and development, and a priority for the G20, is financial inclusion, especially for people who are marginalised in developing countries. However, stringent AML policies are proving to be a stumbling block. Often, these people have little or no access to the banking system, and many do not carry proper documentation for the verification of identity that underpins the AML effort. Regulatory compliance in these instances is nearly impossible, or carries increased costs and risk. Much work is still needed in this area, because mobile financial services, while a big part of the solution, are hard to regulate.

Given the risks to financial institutions, who will take them on and how will regulators handle them? The Financial Action Task Force (FATF) has recognised this disparity and is currently working on a solution.

The G20 Anti-Corruption Working Group was formed in 2010 to combat global corruption in order to help stabilise the global economy. Where AML standards are lax, so too are anti-corruption standards. In order to stop corruption, governments in all jurisdictions must have in place tough regulation. There exists a problem, however, when officials in some of those very same governments where standards are lax or non-existent are taking bribes. Thus far, only 41 countries have signed on to the Anti-Bribery Convention of the Organisation for Economic Co-operation and Development. Although a good start, this number needs to increase dramatically in order to reclaim some of the billions of dollars that are lost from the global economy each year.

This is where the government and the private sector must work together. To spend this money, corrupt officials launder it through the legitimate financial system. Names on accounts, along with beneficial owners and controlling parties, must be screened, and transactions of the politically exposed and their families and close friends must be continually monitored. AML vigilance is not an overall solution to be sure, but it is part of the overall package in the fight against corruption.

In recent years, financial institutions have invested significantly in remaining compliant with anti-money-laundering regulations

Financial transactions of the politically exposed and their families and close friends must be monitored

Virtual currencies

The FATF, although not a global regulator, is recognised as the international standard-setting body for AML/CFT. Under the current presidency of Australia's Roger Wilkins AO, it is beginning a fourth round of assessments. It has declared its priorities to be virtual currencies and the implications of de-risking by financial institutions. Having an Australian president at the FATF will help the G20 Australian presidency further its goals on anti-corruption and financial inclusion. The FATF is working closely with the G20 Anti-Corruption Working Group to focus on beneficial owners and customer due diligence in corruption and money laundering.

The FATF has also recently published a paper on virtual currency that recognises that clear definitions of the term, as well as the relevant nomenclature, are necessary to begin the discussion on its global regulation. Virtual currency brings the benefits of payment efficiency and decreased transaction costs. With every benefit, however, there comes a cost. Virtual currency also brings anonymity, no oversight body, and no clarity over AML/CFT compliance, supervision or enforcement. Although there have been some significant successes in law enforcement, transaction monitoring is nearly impossible, which means that transacting in sanctioned jurisdictions is relatively easy. Regulators and financial institutions are struggling with how to deal with this new disruptive technology and will no doubt welcome any recommendations made by the FATF.

For their part, G20 leaders must drive the agenda for combating money laundering and terrorist financing. They must lead by example and take the commitments made globally into their national legal arenas if they are to achieve their goal of global economic growth. Without stability, security and a level playing field in the financial system and investment environments, the growth agenda will merely be words on paper. Recognising that developed countries have already made this commitment and have empowered their law enforcement and regulatory bodies, all G20 members need to put pressure on the developing countries that have not. Only then will global growth truly be achieved and become sustainable. ■

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In support of TFA implementation

If implemented, the World Trade Organization's Trade Facilitation Agreement (TFA) could give a significant boost to international trade, says **Kunio Mikuriya, Secretary General, World Customs Organization**

Kunio Mikuriya has been Secretary General of the World Customs Organization (WCO) since 2009. Prior to joining the WCO, he worked for Japan's Ministry of Finance for 25 years. There, he served as Director of Enforcement, as well as Director of Research and International Affairs, paving the way for the conclusion of the first regional trade agreement for Japan. In addition, he spent time as a counsellor at Japan's mission to the World Trade Organization, and took part in the General Agreement on Tariffs and Trade (GATT) Uruguay Round trade negotiations.

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At the ninth ministerial meeting of the World Trade Organization (WTO) in Bali, Indonesia, in December 2013, ministers adopted 'the Bali Package' under the framework of the Doha Development Agenda. The Bali Package included the Trade Facilitation Agreement (TFA), which consists of measures that would increase the efficiency of border agencies such as customs.

In July 2014, however, the future of the TFA was thrown into doubt when WTO members were unable to adopt the protocol of amendment to insert the TFA into Annex 1A of the WTO Agreement.

Despite this setback, the World Customs Organization (WCO) remains committed to supporting customs administrations worldwide with their trade facilitation reforms, regardless of what happens in Geneva. In addition, as Secretary General of the WCO, I call on G20 leaders to do their utmost to put the TFA back on track. This article outlines the WCO's trade facilitation strategy going forward.

TFA benefits and the WCO's role

The WCO's TFA strategy was set in Ireland when the WCO Dublin Resolution was adopted in December 2013. The Dublin Resolution stipulates that the WCO will work in close coordination with the WTO, provide technical assistance and capacity-building to customs administrations based on WCO instruments and tools, and enhance communication activities to trumpet the importance of trade facilitation to policymakers and business leaders worldwide.

The potential gains from implementation of the TFA are substantial, especially for countries that have yet to apply its principles. According to some analysis, developing countries are expected to save around $325 billion a year, including the acceleration of their integration into global value chains. Moreover, according to the Organization for Economic Co-operation and Development (OECD), developed countries stand to gain a 10 per cent cut in their trade costs, including easier trade flows for businesses.

The TFA thus presents a great opportunity for modernising customs administrations, boosting international trade and strengthening the economic competitiveness of countries across the globe. The WCO brings to the table international customs standards, an understanding of divergent local conditions, the ability to coordinate with relevant stakeholders, a worldwide network of customs experts and long-standing support for trade facilitation globally.

The role of the WCO is specifically recognised in article 13.1 of section I of the TFA. It states that the WTO Committee on Trade Facilitation shall maintain close contact with the WCO "with the objective of securing the best available advice for the implementation and administration" of the TFA, and "to ensure that unnecessary duplication is avoided".

At the WCO, the practical aspects of meeting expectations arising from the TFA discussions are being taken up by the WCO Working Group on the WTO TFA, with the goal of ensuring a harmonised approach by customs in implementing the agreement. The group met for the first time in March 2014. It brought together

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Customs operations in the Democratic Republic of Congo (left) and Denmark (above). Customs administrations across the world receive tailor-made support via the Mercator Programme

delegates from WCO members' customs administrations, trade ministries and finance ministries, as well as representatives from the WTO, international organisations and the private sector, who shared views on the implementation of the TFA.

WCO instruments and tools

WCO instruments and tools are fully consistent with the TFA and would support its implementation. The WCO's Revised Kyoto Convention (RKC), the Harmonized System and many tools provide for simplified customs procedures and improved border-management processes, as well as a more predictable and transparent trade environment for legitimate cross-border trade.

> The TFA presents a great opportunity for modernising customs administrations

To support an understanding of the linkages between the TFA and WCO instruments and tools, the WCO released an implementation guidance tool on its website. For each TFA article, it contains the following categories of information: overview, text of the TFA article, relevant RKC standards and RKC guidelines; other relevant WCO tools; member practices; and performance indicators.

WCO instruments and tools support the adoption of a coordinated approach through mechanisms such as the 'Single Window' concept. Key tools in this domain are the Time Release Study guidelines that identify problem areas from the arrival of the goods to their release, and the WCO data model, which facilitates the efficient exchange of information between business and governments by offering standardised data required by customs and other border-control agencies.

Technical assistance and capacity-building

Section II of the TFA provides for assistance to be given to developing and least-developed countries in the WTO to support updating their infrastructure, training their customs officials, and assisting them in any way that would help in ensuring the implementation of the TFA.

The role of relevant international organisations, including the WCO, in providing technical assistance and capacity-building is also explicitly defined in the TFA context. In this respect, the WCO has launched the Mercator Programme, which is aimed at assisting governments worldwide to implement trade facilitation reforms by using core WCO instruments and tools. With a wealth of expertise and experience in global customs technical assistance and capacity-building, including a network of experts at its disposal and comprehensive donor-engagement mechanisms, the Mercator Programme provides tailor-made support. Based on a long-standing history of cooperation with the WTO, other international organisations and the private sector, it provides a consolidated platform for coordinating the needs and priorities of all stakeholders.

Although, at the time of writing, the TFA is regrettably in doubt, the WCO remains optimistic that the logjam will be broken. Regardless of future developments, the WCO will continue to provide trade facilitation, technical assistance and capacity-building to customs administrations under the WCO Mercator Programme. ■

The market for infrastructure financing

Founded in 2009, the Long-Term Investors Club (LTIC) has grown in the past five years from 14 to 19 major financial institutions and institutional investors from all over the world, in particular from the G20 countries, representing a growth of the combined balance sheet total from $3.2 to $5.4 trillion. It aims to bring together major worldwide institutions – including sovereign wealth funds, public- and private-sector pension funds and development banks – to assert their common identity as long-term investors to promote long-term sustainable investment among international regulators and political stakeholders and to facilitate greater cooperation between members. The members are convinced that long-term investors play an essential role in contributing to economic growth in the fields of infrastructure, urban development, renewable energies, small and medium-sized enterprises and innovation.

The Long-Term Investors Club contribution

The Club has contributed to the discussion around the green paper on long-term financing of the European Commission and to the high-level principles of long-term investment financing by institutional investors. This was released by the OECD in the framework of the G20 to adapt the international and European regulatory framework of accounting and prudential standards to the specificities of long-term investments. Investors and governments need to change their behaviour to favour long-term investment in the real economy:

- Governments should better consider the impact of regulatory decisions on long-term investments. They also have a fundamental role in creating the conditions to encourage the flow of capital from savers to long-term investments; and
- Investors have to promote long-term strategies and align their decision-making structures with their long-term mandates, as well as actively cooperating with other long-term investors.

The support of the G20 members to promote long-term behaviour is critical.

The LTIC's activities are notably focused on fulfilling the conditions for a well-functioning market for infrastructure finance. The Club has already developed an active cooperation strategy in this field and launched two infrastructure investment initiatives:

- The EU 2020 Marguerite Fund[1], to support strategic investments in the fields of energy, climate change and transport infrastructure in the EU's 27 Member States; and
- The Mediterranean InfraMed Infrastructure Fund[2], dedicated to long-term investments in sustainable transport, energy and urban infrastructures in the countries of the Mediterranean's southern and eastern shores. These funds are prototypes of new platforms that allow public investors to join the private sector to finance long-term investments.

Databases on infrastructure finance are underdeveloped so that infrastructure is difficult to value as an asset class by investors and the rating agencies. The LTIC addresses this in a joint project with the OECD, spearheaded by Algemene Pensioen Groep (APG), analysing the risk-return profile of LTIC members' infrastructure portfolios. The results can provide an important contribution to improving the functioning of the market for infrastructure investments.

Infrastructure finance is important

The LTIC puts great effort into these activities, because sustainable infrastructure projects are important for the creation of jobs and growth. Infrastructure can be a very interesting investment for long-term investors due to its long-term characteristic and the illiquidity premium that raises the return on these investments. With the constraints on public budgets and the retreat of banks from long-term investment, the role of institutional investors has become more important than ever before. However, to be able to raise capital for this type of long-term investment, the market for financing infrastructure projects needs to be improved, especially in the eurozone.

In general, new prudential and financial markets regulation should provide long-term investors the opportunity to invest more with a long-term perspective. This issue is key.

More specifically, four conditions need to be fulfilled to develop the market for infrastructure investment finance.

The first condition is that public-private partnership contracts, which stipulate the obligations and rights of the participating parties, are standardised. This would make the market more transparent for its participants and reduce the costs of negotiation and acquiring information.

Secondly, procurement procedures among the EU member states should be harmonised, and thirdly, there should be a pipeline of deals coming to the market. A volume of future deals makes it possible to do the investment with the knowledge necessary. If the investment in infrastructure is a unique event, the costs of negotiating the deal would be high, because what is learnt cannot be put into practice a second time. A repeated game of negotiating infrastructure projects diminishes the risk that lemons are sold due to the reputations of the negotiating parties at stake.

> The LTIC is contributing to financing jobs and sustainable economic growth

Finally, there should be databases developed to analyse the properties of infrastructure on which potential investors and rating agencies can base their opinions. This would make this market more transparent and accessible for both small and large long-term investors.

By pooling the resources of its members and facing the cross-border challenges of the real economy, the LTIC is contributing to financing jobs and sustainable economic growth.

1 *www.margueritefund.eu*

2 *www.inframed.com*

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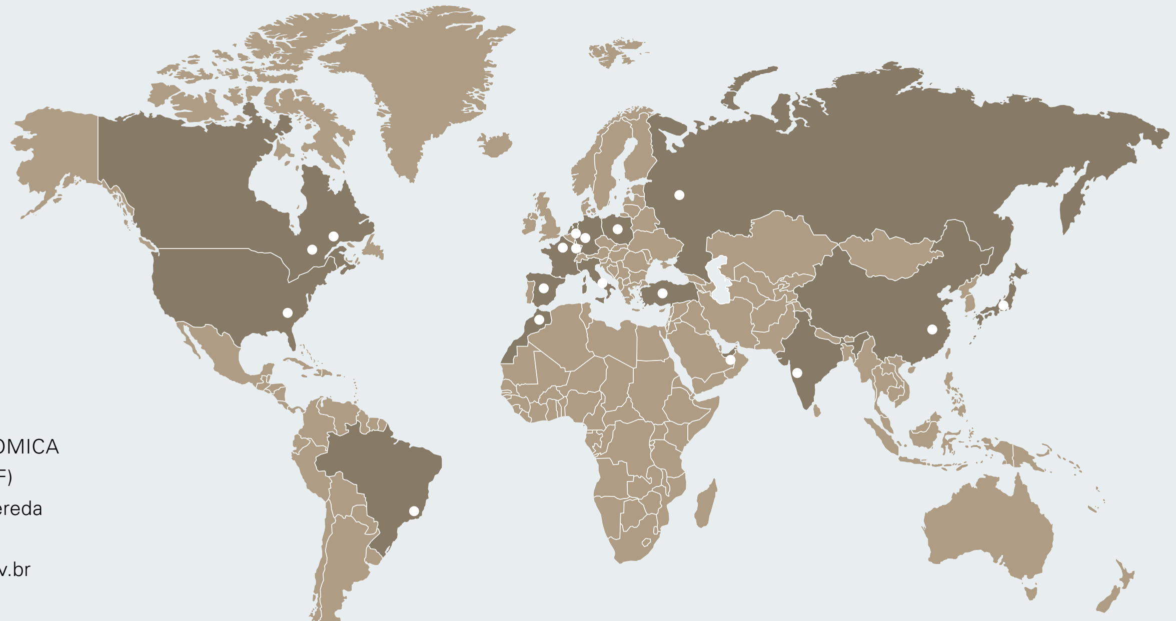

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Club Long-Term Investors

TRADE AND INVESTMENT

Tourism: global growth, local impact

—— Accounting for nine per cent of the world's gross domestic product and one in every 11 jobs, tourism is a formidable engine of economic growth and development, as **Taleb Rifai, Secretary General of the World Tourism Organization,** explains

Taleb Rifai was elected Secretary General of the United Nations World Tourism Organization (UNWTO) in 2010 and re-elected for a second four-year term in 2014. He has served as Assistant Director General of the International Labour Organization and held several ministerial positions in the Government of Jordan, including Minister of Planning and International Cooperation, Minister of Information, and Minister of Tourism and Antiquity. Previously, he was Director General of the Investment Promotion Corporation of Jordan.

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The year 2012 was a milestone year for tourism, as the world celebrated, for the first time in history, one billion tourists travelling in a single year. It was also in 2012 when G20 leaders gathering in Mexico first recognised tourism's global significance as a "vehicle for job creation, economic growth and development".

Tourism has shown a remarkable capacity to weather the global economic downturn, geopolitical tensions, and natural and human-made disasters, asserting itself as one of the world's leading social, economic and cultural phenomena. On average, international tourist arrivals have grown by five per cent a year since 2010 – a trend that has translated into economic growth, increased exports and employment.

Remarkable growth

In a mere six decades, international tourism has been marked by impressive and rapid growth: 25 million international arrivals in 1950, 700 million in 2000 and one billion in 2012. In 2013, this upward trend continued, surpassing the one billion tourist mark by five per cent, reaching a total of 1,087 million tourists and earning a record-breaking total of $1.4 trillion in exports.

Looking ahead, the World Tourism Organization's long-term forecasts show that the sector will keep growing at an annual average rate of 3.3 per cent from 2010 to 2030, to reach 1.8 billion tourists by 2030.

With such progress and expansion, tourism has become one of the leading sectors of the global economy – representing nine per cent of the world's gross domestic product (GDP), generating one in every 11 jobs and accounting for six per cent of the total exports in the world.

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Tourism has indeed come a long way since the 1950s, from being a leisure activity reserved for the privileged to being a worldwide movement participated in by over one billion people.

During this expansion, a significant shift occurred in the international tourism map. Whereas in the past, tourism was largely concentrated in the traditional, industrialised destinations in Europe

> The tourism sector is forecast to keep growing at an annual average rate of 3.3 per cent

and North America, today Asia is considered to be tourism's new epicentre, with the emerging markets of Brazil, Russia, India and China driving the global growth of tourism.

Emerging economies are today some of the fastest-growing tourism destinations and source markets, accounting for 46 per cent of the total number of international tourist arrivals. This trend is set to continue, with forecasts showing that, by 2030, 58 per cent of all international tourist arrivals will be in the emerging economies of Asia, Latin America, Central and Eastern Europe, Eastern Mediterranean Europe, the Middle East and Africa.

Many factors have contributed to this paradigm shift in international tourism, including advances in aviation, technological innovation, the rise of the middle class and the strong economic growth of emerging economies.

Making a difference on the ground

Such global growth has a local impact. Tourism's global expansion, particularly in emerging and developing countries, has made it a prodigious driver of development. Indeed, each time a person travels and uses local transport at a destination or buys products from a local market, that person contributes to a long value chain that creates jobs, provides livelihoods, empowers local communities and, ultimately, brings in new opportunities for a better future.

Rio de Janeiro (above) and the Great Wall of China (above right). Emerging markets such as Brazil and China are key drivers of the global growth of tourism

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World Tourism Day 2014 celebrated the transformative capacity of tourism, by focusing on tourism's role in building stronger, more skilled and resilient communities by engaging local populations in the tourism value chain and decision-making processes. Tourism is a people-based economic activity built on social interaction, and, as such, can only prosper if it engages local communities by contributing to social values such as participation, education and enhanced local governance.

At the same time, there can be no real tourism development if such development damages in any way the values and the culture of host communities or if the socio-economic benefits generated by the tourism sector do not trickle down to the community level.

Global solutions

Few sectors are as strategically positioned as tourism to address the world's most pressing challenges by making a significant contribution to job creation, poverty alleviation, environmental protection, and international peace and understanding.

As highlighted by United Nations Secretary General Ban Ki-moon on the occasion of World Tourism Day 2014, "harnessing tourism's immense benefits will be critical to achieving the Sustainable Development Goals and implementing the post-2015 development agenda".

As the focus of the G20 summit in Australia turns to strengthening development, promoting balanced growth and building a more resilient international economy, with the correct policies in place and the necessary support at the highest level from G20 leaders, sustainable tourism can be a major contributor to realising these goals. ■

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Welcoming business to Turkey's growing foreign investment market

Ilker Ayci
President, Investment Support and Promotion Agency of Turkey (ISPAT)

Turkey's economy has transformed over the past decade. In what ways have recent reforms made the country more attractive to investors, and what results have these reforms yielded in terms of foreign direct investment inflows?

Over the past decade, Turkey has been able to retain sound macroeconomic fundamentals thanks to the structural reforms made by the pro-business, stable government. As a result of these reforms, Turkey has emerged as one of the most appealing investment destinations in the world. The economy has been growing approximately five per cent per year since 2002. In the same time period, GDP per capita more than tripled and Turkey is expected be one of the fastest-growing economies in the world during 2014-15.

Economic performance, a young and dynamic population, a strategic location, as well as an investor-friendly environment have together created plenty of investment opportunities in Turkey and made it one of the most attractive destinations for FDI in the world. Being aware of its huge potential, Turkey has implemented a set of structural reforms to enhance the competitiveness of its economy, boost labour market flexibility and eliminate vulnerabilities. The key areas in which Turkey took action mainly focused on public finance reform, which gave the government the leverage for fiscal adjustment, price stability, banking reform, social security reform and healthcare reform.

The Turkish Government, which considers FDI to be the main component of its economic development, has significantly improved its investment environment through various reforms and new legislations. In 2003, an FDI law offering foreign investors legal guarantees by treating them equally with local investors was enacted.

Thanks to all of these developments, structural reforms, a strong financial sector and confidence in Turkey, the amount of FDI, which was around $15 billion during the 1923-2002 period, increased to $136 billion between 2003-13, while the number of companies with foreign capital rose from 5,600 to almost 40,000 during the same period.

Turkey's economic success over the past decade has impressed and encouraged many experts and international institutions to make confident projections about Turkey's future. For example, according to a recent report issued by the OECD, the Turkish economy is expected to be one of the fastest-growing economies in the world in 2014 and 2015.

Turkey has also undertaken various initiatives in close cooperation with the private sector in order to improve its investment climate. The Coordination Council for the Improvement of Investment Environment, a key structure where the private sector makes contributions to the process of improving the investment climate, was established in 2001. The council has rationalised the regulations on investments in Turkey, developed policies by determining the necessary arrangements that will enhance the competitiveness of the investment environment and generated solutions to the administrative barriers encountered by the local and foreign investors in all phases of the investment process, including the operating period.

Which countries or regions are responsible for most foreign investment in Turkey?

Turkey's FDI performance in 2013 was reassuringly fine and, according to year-end data, Turkey attracted $13 billion of FDI in 2013. Looking at these figures, 20 per cent of the current account deficit was financed through FDI in 2013.

On a country basis, Germany was the largest investor in Turkey in 2013, followed by the Netherlands, Russia, Azerbaijan and Austria. With regard to sectors, the most attractive sector in 2013 was financial services, with more than $3.7 billion, followed by energy and manufacturing with $2.5 billion and $2 billion respectively.

Moreover, a geographical breakdown of FDI inflows indicates that Turkey continues to diversify the sources of FDI inflows. The country is also attracting investments from new sources such as India, Japan, Russia, Malaysia and the Gulf countries, as well as the US.

The new investment incentives system defines certain investment areas as 'priority'. Which are these and why?

The Turkish Government has implemented a series of incentive schemes. The latest of these was announced in April 2012, and its main objective is to boost production and investment for high-import-dependent intermediate goods, as well as to increase investment in the lesser developed regions.

The new system comprises four different schemes: general incentives, regional incentives, incentives for large-scale investments and incentives for strategic investments. More specifically, Turkey offers investors value-added tax (VAT) exemptions and corporate tax reductions, as well as support for social security premiums, interest payments and land provisions. The new incentives system also gives priority to several specific sectors such as defence, automotive, aerospace and aviation, rail and sea transport, pharmaceuticals, education, tourism and mining.

This new system is expected to contribute to a structural transformation of Turkey's industries, particularly through strategic investments, by encouraging domestic production of goods that are imported. The main purpose of the incentives for strategic investments is to promote and support investments in sectors with considerable trade deficit. It is important to highlight that strategic investments are strongly supported in all regions with the same incentives.

Are there any other sectors in Turkey that you consider to offer significant investment potential?

Abundant investment opportunities are available in Turkey, ranging from real estate, finance, automotive, ICT, energy, renewable energy, and iron and steel to petrochemicals. The national and local authorities in Turkey have been implementing numerous investment projects through PPP, and they are also keen to realise further opportunities in education, energy, defence, healthcare, transportation and other public services. Similarly, opportunities are also available in the privatisation projects.

It is also a national target for Turkey to make Istanbul an international finance centre. Having been tested by the global economic crisis, Turkey has one of the most stable and profitable financial sectors in its region. The Turkish Government's Istanbul Finance Center project offers global companies a chance to run their financial operations in the region through Istanbul, thanks to various incentives, a skilled workforce, and a global, cosmopolitan city with a vibrant local economy.

Turkey's 2023 Vision includes an aim to become one of the world's top-10 economies by the year of the country's centenary. How important is foreign investment to achieving this?

As is well known, in parallel with globalisation, many countries are in fierce competition to attract more high-value-added, technology-intensive and greenfield investments. In terms of greenfield investments, Turkey is among the top-20 FDI recipient countries with $9.5 billion worth of projects, which were announced last year. Turkey enjoyed an eight per cent increase in greenfield investments and this made Turkey the 19th most attractive investment destination in the world for greenfield investments.

The government has set specific targets to achieve by 2023, ranging from healthcare to the economy, from defence to education, and from energy to transportation. The targets include becoming one of the world's top-10 economies, with a GDP of $2 trillion, and increasing export revenues to $500 billion. ISPAT's efforts will contribute to achieving these challenging targets by attracting more foreign FDI to the country, both in quantity and quality.

Turkey is ranked as the sixth most visited country in the world. What initiatives does ISPAT have in place to develop tourism even further?

The Turkish Government is well aware of the economic importance of tourism and has set specific targets to achieve in tourism by the year 2023, which coincides with the centennial celebration of Turkey. These targets, among others, are as follows:

- To make Turkey the fifth most visited holiday destination in the world;
- To host 50 million visitors;
- To obtain $50 billion in tourism revenues; and
- To have 1.5 million bed capacity for accommodation.

The Tourism Strategy of Turkey targets a wiser use of natural, cultural, historical and geographical assets that the country has, with a balanced perspective addressing both conservation and utilisation needs spontaneously and in an equitable sense and hence leveraging the share of our country from tourism business by evolving these possible alternatives.

In 2015, Turkey assumes presidency of the G20 and hosts the Leaders' Summit. What potential benefits do you foresee for Turkey's business environment and its relations with other G20 countries?

As a member of the G20, and with its global and regional connections and dynamic economy, Turkey gives utmost importance to expanding and strengthening the competiveness, effectiveness and visibility of its business environment.

In 2015, the G20 Leaders' Summit will be held in Turkey, and the country attaches great importance to its presidency. Turkey will also aim to further develop the relationship and cooperation between the G20 and the countries and organisations in its region.

What is your message to investors ahead of next year's G20 presidency and Leaders' Summit in Turkey?

As the president of the Investment Support and Promotion Agency of Turkey, I invite global investors to join Turkey's economic rise. The global economy is undergoing a profound transformation; the center of the world economy is shifting towards emerging economies like Turkey. At such a juncture, Turkey is differentiating itself economically with its robust and stable economic growth; hence it is the right time to invest in Turkey in order to seize opportunities. Global investors will benefit from the opportunities not only in Turkey but also in the emerging markets surrounding Turkey.

A power boost for the African economy

Investment in energy infrastructure in Africa will help unlock potential in what is already the world's fastest-growing continent, with positive results for global growth, explains **Andrew M Herscowitz, US Coordinator for Power Africa**

Andrew M Herscowitz is the Coordinator for US President Barack Obama's Power Africa and Trade Africa initiatives. He previously served as the United States Agency for International Development's (USAID) Mission Director in Ecuador from 2011-13, and Deputy Mission Director in Peru from 2009-11. After joining USAID in 2001, Herscowitz was the lawyer for USAID's Office of Development Credit, which has leveraged millions of dollars in private-sector funds through its Development Credit Authority loan guarantee programme.

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One of the most powerful ways in which the G20 can spur global economic growth over the next five years is by attracting private investment and capital to energy infrastructure in developing countries. Africa is the fastest-growing continent in the world, with one-third of its countries projecting growth rates of six per cent or higher through 2015. However, Africa is also where access to power is the greatest constraint to that growth being sustained.

To harness the potential for investment in energy infrastructure, new models of development are required to meet the enormous infrastructure needs of these economies – estimated by the World Bank at about $93 billion a year over the next decade. To develop this infrastructure, coordinated, investment-driven approaches should incorporate aspects of US President Barack Obama's Power Africa initiative. The private sector is critical to advancing development because only it has sufficient resources to meet development objectives.

Power Africa employs a model that addresses infrastructure gaps at scale. By working alongside the private sector, which has the resources and expertise, donors play a catalytic role to strategically guide private-sector investment across the African continent. Power Africa donor partners are prioritising support for innovative financing, technical assistance and capacity-building, and project preparation and structuring. Power Africa's new paradigm is driving private-sector investment towards development.

While Power Africa continues to scale up its operations and add new partners, its model serves as a best practice for G20 members as they look to attract investment to other economic sectors most likely to spur broad-based economic growth. Getting the public and private sectors to rally around specific projects attracts sustainable investment as well as successfully combining the best tools of both sectors.

Investment in energy infrastructure, particularly in Africa, is fundamental to achieving and sustaining projected world economic growth rates, and in achieving key Millennium Development Goals (MDGs). Almost half of the world's 1.3 billion people without access to electricity live in sub-Saharan Africa. If the continent can maintain an average of seven per cent growth (the level required to achieve the MDGs), Africa's overall contribution to global gross domestic product (GDP) could reach five per cent in two decades.

Supporting future productivity

There is a business imperative for investment in energy infrastructure as well. While risks remain high with large, complex energy projects, overall rates of return on foreign direct investment (FDI) in Africa are now unusually high. They average about 11 per cent for the most recent five-year period available, compared with five per cent for developed countries. Four of the top 20 economies with the highest rates of return on inward FDI are in sub-Saharan Africa.

However, for Africa to maintain current growth rates – and become a focal point for developed-country investment and growth – productivity must increase and income generation must spread across all segments of society. One key impediment to African productivity is inadequate energy infrastructure. This constraint impedes growth, as well as quality of life on all levels – from the ability of African businesses to produce or move products at globally competitive costs to the accessibility of modern healthcare, to the ability of children to learn to read or use a computer.

Investment in energy infrastructure, particularly in Africa, is fundamental to achieving and sustaining projected world economic growth rates

Studies suggest that inadequate infrastructure – including poor access to power – could be reducing African firms' productivity by about 40 per cent. The continent scores especially poorly in terms of the number of power outages per capita, with unreliable grids forcing businesses to spend as much as 60 per cent of their operating budget on back-up power generation.

Overcoming these significant constraints requires a new approach, not based primarily on government-to-government funding, but on attracting and leveraging private investment and capital, including foreign and domestic capital. The new paradigm must allow for increased business-government collaboration grounded in sustainable private-sector-led solutions. These solutions must bring to bear significant amounts of long-term capital and address the capacity needs and risk-mitigation tools relevant in emerging economies.

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A Maasai man stands in front of wind turbines in Kenya, one of Power Africa's six focus countries in sub-Saharan Africa

While several G20 pension funds have expressed interest in investing in African infrastructure projects, given the much higher rates of return that they can expect (compared with some investments offering only one per cent or lower), those institutional investors need to be willing to roll up their sleeves and get directly involved in Africa itself – where there is incredible opportunity. There is no shortage of capital available already on the African continent. As the pension funds in Nigeria and South Africa alone begin to mobilise billions of dollars of their own resources for infrastructure development, G20 pension funds run the risk of being left standing on the sidelines. Greater partnerships among G20 and African countries and their institutional investors will collectively drive Africa's rapid development.

A new model of development

Given that access to power in Africa's high-potential economies is significantly constrained, and the level of funding needed to address this constraint outstrips the capacity of the US Government, African governments or international donors, President Obama announced the Power Africa initiative in June 2013 in Cape Town, South Africa. Power Africa has set the goal of helping to add 30,000 megawatts (MW) of new generation capacity and 60 million new household and business electrical connections in sub-Saharan Africa.

USAID

Power Africa's Gram Power solar panels project helps communities in rural areas without access to the national grid

Power Africa's unique approach to development aligns incentives at the outset with the private sector, donors and governments to encourage collaboration and drive systemic reforms. These reforms, in turn, attract and facilitate new investment. As a result, Power Africa is successfully attracting private investment and capital; the initiative's launch attracted about $14 billion in private-sector commitments, a two-to-one match to the original $7 billion in official funding. The US-Africa summit in August 2014 generated additional financing, mobilising another $6 billion in private-sector loans, credit guarantees and direct investment, totalling $20 billion in private commitments, and an additional $9 billion-plus in extra funding commitments from the ►

World Bank, the African Development Bank and the Government of Sweden.

Not all solutions to Africa's energy challenge are large-scale. There are millions of Africans who are not even part of their country's master plan for grid development. Thus, during the June 2014 US-Africa energy ministerial, Power Africa launched Beyond the Grid, which combines the resources and expertise of investors, practitioners and donors on specific transactions. Beyond the Grid is a platform to aggregate investment commitments of 40 partners totalling approximately $1 billion. It incorporates new financial tools, such as investment structures that blend donor and private capital, aggregating and de-risking small energy projects, and creating a new asset class for investment at scale.

Power Africa's early project results are promising. Corbetti Geothermal, the first phase of what is likely to be the largest geothermal generation project in Africa, and Ethiopia's first independent power project, is advancing due to coordinated Power Africa financial, technical and legal assistance, which lowered the risk for investors. Other achievements, such as advancing nearly 500MW of wind projects in Kenya, financial support for a 10MW mini-hydro and a 5MW solar project in Tanzania, and supporting power-sector-wide privatisation efforts in Nigeria, suggest that this initial success will continue.

Challenges and lessons for the G20

The Power Africa development model is still nascent; identifying new projects will continue to be a challenge. Regional, cross-border projects offer great hope in terms of promoting power trading among neighbouring countries, which can increase efficiencies and reduce costs. But developing strong power pools for trading electricity among neighbours also requires strong political will and trust among countries.

There are high risks for many projects, particularly in the early stages, and innovative ways to share those risks across the public and private sectors are still evolving. Moreover, finance vehicles and structures that can raise significant capital at scale, particularly from institutional investors, are still needed.

Power Africa can share lessons learnt as other G20 governments look towards similar approaches:

- Investment is the key driver of economic growth. Governments are most likely to spur broad-based, inclusive economic growth by reorienting their economic development strategies away from direct funding towards attracting new investment to transformational sectors. The most effective way to use government funding as a magnet to attract investment, especially in high-risk sectors, is to organise public-sector efforts to support private-sector transactions, by sharing risk and coordinating efforts.
- Multi-stakeholder approaches that align investor, donor and government interests with specific transactions hold the greatest promise to attract investment at scale and incentivise policy reforms, attracting further investment.
- Government and international finance efforts are best focused on addressing the most common gaps investors face, by identifying significant and flexible early-stage project-related technical assistance, including project structuring and support; developing new, accessible credit guarantees and project-based bond issuances; scaling up grant resources available for project preparation; combining support in packages of assistance across government agencies; and considering pooled facilities or other mechanisms to help investors manage project risk.


USAID

Investment in energy infrastructure can spur development across all sectors, generating broad-based and inclusive economic growth

In sum, to meet the G20's recent commitment to raise collective GDP by two per cent above the current trajectory over the next five years, a new growth paradigm will be needed that departs from business as usual. Governments and international financial institutions must continue to learn from each other as well as coordinate and combine their efforts in ways that enable investment to flow at scale to the sectors, including power in Africa. ■

Meeting the energy challenge

Collaboration between businesses and universities can spark the required innovation

Chris Llewellyn Smith
Director of Energy Research, Oxford University; Director General of CERN, 1994-98

The challenge, which provides a big opportunity for innovative businesses and thinkers, is to meet future energy needs sustainably, given that:

1. World energy use looks set to rise by some 40 per cent by 2035.
2. More energy is needed to lift billions out of poverty: 1.2 billion people do not have access to electricity, and per capita energy use in Bangladesh is only three per cent of that in the USA.
3. The world should be radically reducing the use of fossil fuels (especially coal), which currently provide 80 percent of primary energy. It is a major source of air pollution, which the World Health Organization believes causes approximately seven million premature deaths annually, not all in the developing world. Indeed, a 2013 MIT study estimated that burning fossil fuels is responsible for some 210,000 premature deaths per year in the US. It is of course also driving climate change.
4. Use of fossil fuels and carbon dioxide emissions are in fact growing: see the comparison in the graph (right) of BP's projection of emissions with an IEA scenario designed to keep accumulated atmospheric carbon dioxide below 450 parts per million (ppm), the level at which the IPCC stated that there was a 50 per cent chance of keeping the global average temperature rise below 2°C.
5. Many low-carbon energy sources are still relatively expensive, and they are not yet able to replace a large fraction of the 80 per cent of primary energy provided by fossil fuels, although costs are falling rapidly.

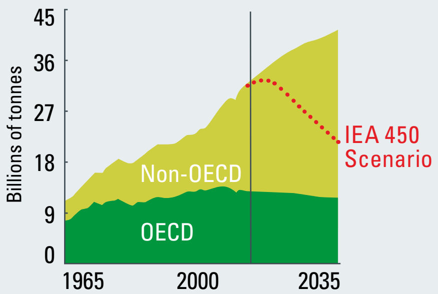
It is hard to ensure that energy supplies are simultaneously accessible and secure (so the lights stay on), affordable (by individuals and to foster industrial competitiveness and development), and environmentally acceptable (in terms of pollution, health and climate impacts). Trade-offs are almost always needed, making energy a highly political, economic and social as well as a technical issue.

Identifying and implementing the major transformative changes that are urgently needed will require even closer collaboration between industry, governments, civil society and universities. It needs a multidisciplinary approach, which takes account of the impact of energy systems on water resources, land use and the environment. Universities need to make special efforts to foster collaboration across traditional academic boundaries and engage with external partners.

The Oxford Networks for the Environment (**www.one.ox.ac.uk**) bring together research on energy, climate, water, food and biodiversity. Work – led by more than 180 senior researchers – that addresses the major technical, social, economic and policy challenges of providing secure, affordable and sustainable energy for all, is linked up through the energy network (**www.energy.ox.ac.uk**).

The Oxford Energy Wheel below shows the scope of this work, which is carried out across a wide range of departments and multidisciplinary groups, including the Oxford Institute for Energy Studies – rated the world's best resources and energy policy think tank by the University of Pennsylvania. The following are a few examples of our work.

Global CO_2 emissions



BP's projections show total CO_2 emissions, from OECD plus non-OECD countries, set to overshoot the IEA's 450 scenario (dotted red)

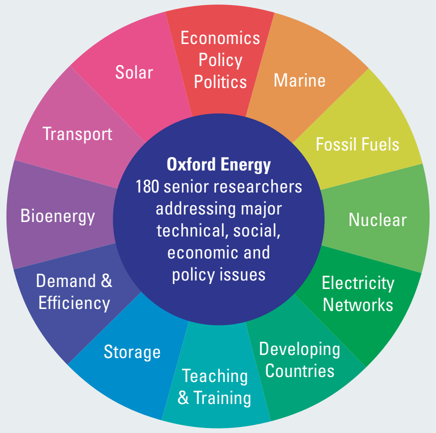
Breakthrough in solar energy

Oxford physicist Henry Snaith has pioneered the use of materials called perovskites in photovoltaic cells. Their efficiency is rising meteorically (as shown in the accompanying graph) and they have the potential to reduce the cost of solar energy dramatically. This work is being commercialised by Oxford Photovoltaics.

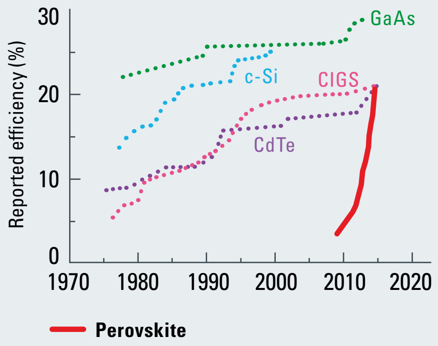
Game theory, energy policy and climate negotiations

Climate policies are disrupting many energy markets, leading to shifts in future business models for energy utilities. Among these policies, Oxford economists have shown – using game theory – that Border Carbon Adjustments (BCAs) could unblock the stalemate in climate negotiations. BCAs are taxes on carbon emissions associated with manufacturing articles in countries where carbon is not priced, that are applied when they are imported by countries where carbon is priced. They would level the industrial playing field between these countries, and encourage those that do not price carbon to start doing so (why let others derive revenues which they could collect themselves?).

The Oxford Energy Wheel



Rise of solar cell efficiencies

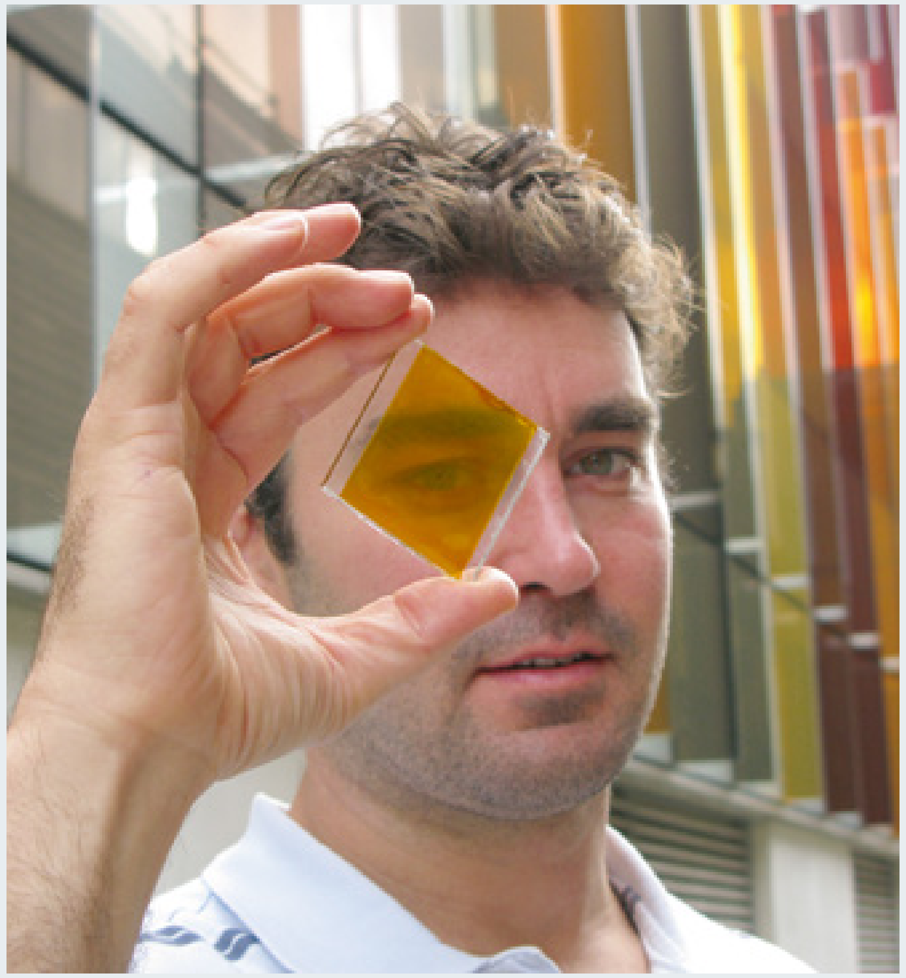


New thinking on bioenergy

Oxford scientists are studying crops that use very little water and are, therefore, adapted to grow in hot, arid conditions. These plants can be used in anaerobic digesters (ADs) to produce methane, for use in generating electricity on demand, which could provide back-up for intermittent sources. In parallel, Oxford engineers are studying ways (including mimicking cows, which digest much faster than man-made devices) to significantly reduce the cost of AD. This imaginative work could enable widespread generation of methane from agricultural waste, as well as feedstock grown on marginal land.

CHRIS MACHARIA

Euphorbia tirucalli – a little-studied plant (widely used for traditional medicine in Africa) gives impressive biomass yields in hot, semi-arid areas



Professor Henry Snaith – one of '10 people who mattered in 2013' according to *Nature* – and a graph (above left) showing the meteoric rise (in red) in efficiency of the perovskite-based solar cells he has pioneered

Holograms and better engines

Oxford engineers and physicists have developed a hologram-based method to measure temperature during combustion with unprecedented precision. They are working with Jaguar Land Rover, BP and Shell to design the next generation of more efficient and cleaner car engines and fuels, including biofuels. These measurements are also helping theoretical chemists develop computer models that could lead to reduced soot emissions that are harmful to health and the environment. Other work aims to improve aero engines and industrial gas turbine efficiency in collaboration with Rolls-Royce, Mitsubishi Heavy Industries and Siemens.

Transport in rapidly urbanising countries

Based on a study of Jinan, China, researchers at Oxford's Transport Studies Unit have developed normative and qualitative scenarios for urban transport. These were combined with a quantitative understanding of different city futures to develop pathways from the current highly oil-dependent future to alternatives that use substantially fewer carbon- and oil-based energy sources.

Many other examples of Oxford's energy research and engagement with industries, governments, government agencies, NGOs and other academics around the world can be found at **www.energy.ox.ac.uk**

Oxford University thanks the anonymous sponsor of this article.

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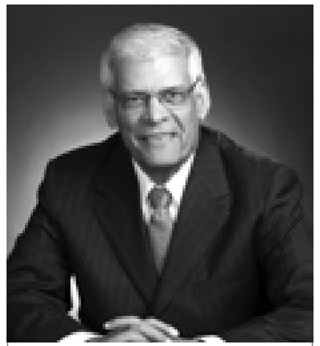
UNIVERSITY OF OXFORD

Energising the world, sustainably

——Global energy demand is expected to grow by 50 per cent over the next two decades. The dual challenge of broadening access to energy and reducing carbon emissions remains, says **Abdalla Salem El-Badri, Secretary General, OPEC**



Abdalla Salem El-Badri has been Secretary General of the Organization of the Petroleum Exporting Countries (OPEC) since 2007. In 1977, he joined the board of Libya's Umm Al-Jawaby Oil Company, and in 1980 was appointed Chair of the Waha Oil Company. He became Chair of the Libyan National Oil Company (NOC) in 1983 and Libya's Minister of Petroleum in 1990. He subsequently served as Libya's Minister of Energy, Oil and Electricity, and Deputy Prime Minister, before returning to NOC until 2006.

www.opec.org

With the world's population expected to reach more than 8.6 billion by 2035 – an increase of around 1.4 billion from today's level – and energy demand anticipated to expand by more than 50 per cent over the same period, the need to find sustainable energy solutions is profound. And in the search for solutions, it is important to appreciate what 'sustainable energy' means to people across the world. It is clear it means different things to different people.

Energy has been fundamental to a great deal of progress over the centuries. It has positively affected the lives of billions by providing fire, light, power and mobility. And the industrialised world has been built on a base of fossil fuels. However, this has not been the story for all. When each of us starts our car engine, switches on a light or turns on our mobile phone, we need to recognise that these everyday things are unknown to billions of people across the world who continue to suffer from energy poverty.

Today, around 2.7 billion people still rely on biomass for their basic needs, and 1.3 billion have no access to electricity. These are people whose voices need to be heard. They need access to reliable, safe and secure modern energy services to live and prosper. Without this access, many will continue to suffer as a result of health and environmental problems, and their economic opportunities will be limited. Energy enables sustainable development.

The basic challenge is twofold: first, to supply enough energy to meet demand and help provide access to modern energy services for those currently without. And second, to do so in a sustainable and efficient way that balances the needs of people in relation to economic situations, social welfare and the environment. In looking at the first challenge, it is evident that all forms of energy will be needed. However, it is crucial to appreciate just what each energy source can offer.

There is no doubt that some of this demand increase will be met by non-fossil fuels. Renewables, from wind, solar, hydro and geothermal, will play a role, but they are not the only solution, nor are they available at scale today. Of course, biomass and nuclear will also continue to be part of the energy mix, but again they are not expected to play more than a supporting role. It is fossil fuels that will continue to play the dominant role in meeting energy demand to help drive economic growth, although their overall share is expected to fall slightly, from 82 to 80 per cent.

By 2035, the shares of each fossil fuel – oil, coal and natural gas – are likely to be around the same level, at about 27 per cent of the overall energy mix. There are some who may ask whether this growth can be achieved. There is no doubt that it can. There are plenty of available resources.

Of course, having the resources available is only part of the story. To accompany this, oil and energy markets also need to be stable and predictable in order to help deliver investments and sustain the world's energy future.

TOM GILKS/ALAMY

Technicians install panels in one of Africa's largest solar farms, in Rwanda. The development of renewable energy will help address the energy needs of an expanding world population

The role of OPEC

From the perspective of the Organization of the Petroleum Exporting Countries (OPEC), its members continue to invest in order to maintain existing capacity and add new oil production. OPEC's projections see oil demand rising by around 20 million barrels per day during the period from now to 2035, with OPEC expected to supply slightly more than 50 per cent of this increase. It is committed to making sure there is a balanced market between supply and demand. However, like any investment, supply and demand will be influenced by various factors – such as policies, oil prices and overall economic conditions.

This leads to the second challenge concerning the importance of a sustainable and efficient energy future that takes into account the needs of all. Climate change, the need to protect the environment and the more efficient use of energy are obviously serious issues. This is something OPEC fully recognises. OPEC members have positively and constructively engaged in the United Nations' climate change negotiations and are committed to achieving an effective and comprehensive outcome based on full consensus – one that fully complies with the UN Framework Convention on Climate Change. ▸

FULL PUBLICATION: g20.newsdeskmedia.com

IAIN MASTERTON/ALAMY

A wind tower provides cooling at Masdar City in Abu Dhabi, designed as the world's first carbon-neutral, zero-waste city

Today, around 2.7 billion people still rely on biomass for their basic needs, and 1.3 billion have no access to electricity

Moreover, initiatives in environmental protection and sustainable development are being carried out every day in member countries. These include investing in carbon capture and storage, reducing gas flaring, constructing Masdar City (intended to be the world's first carbon-neutral, zero-waste city), developing hybrid solar-gas power stations and solar-powered desalination units, and producing cleaner petroleum products.

A balanced approach

With oil continuing to play a leading role in the global energy mix, it will be important to continually advance the environmental credentials of oil, in terms of both its production and its use, to improve operational efficiencies and recovery rates, and to push for the development and use of cleaner fossil-fuel technologies.

In all of this, however, it is essential to keep in mind the three pillars of sustainable development, which are economic growth, social progress and environmental protection.

For part of the world, the future is about looking to reduce carbon emissions and using energy more efficiently. But, for other parts of the world, it is clearly not. It is about having access to reliable and affordable energy services and receiving the energy that so many people take for granted; it is about reducing the burning of indoor biomass that prematurely kills hundreds of thousands people every year; and it is about the need for adaptation measures to reduce vulnerability, increase resilience and moderate the risk of climate impacts on lives and livelihoods.

The world needs to take a balanced approach to a sustainable energy future – one that takes into account the diversity of needs. This means continually evolving everyone's understanding of future energy challenges, and taking on board the viewpoints of all. When the G20 looks to discuss energy and sustainable development issues, this perspective should be kept in mind. ■

Climate change and financial stability

—— Policy that takes environmental issues fully into account would improve the stability of the global financial system, explains **Achim Steiner, Executive Director, United Nations Environment Programme**

Achim Steiner was elected Executive Director of the United Nations Environment Programme (UNEP) and Under-Secretary General of the United Nations in 2006, with his term extended until 2016. A German and Brazilian national, he was also Director General of the United Nations Office at Nairobi from 2009 to 2011. Before joining UNEP, he served as Director General of the International Union for Conservation of Nature (IUCN) from 2001 to 2006, and prior to that as Secretary General of the World Commission on Dams.

@UNEP

www.unep.org

Inaugurated in 1999, the G20 is a forum through which 19 countries and the European Union – making up 85 per cent of global gross domestic product and two thirds of the world's population – discuss, build consensus on and decide collectively to address major international challenges.

The G20 has, over its short life, embraced many policy issues, while maintaining a clear emphasis on economics. This year's G20 annual meeting in Brisbane, Australia, will headline the commitment to raise the G20's economic growth rate by two per cent above its current trajectory over the next five years. It will also touch on other key topics, from energy to anti-corruption and tax, to infrastructure and international development.

However, the G20's origins, and its focus today, are in finance. The financial crisis of 2008 was the catalyst that took the G20 to centre stage globally. In effectively providing a platform for orchestrating a coordinated short-term response to the crisis, the G20 helped to overcome the dangers of nationally focused policy actions that otherwise could have led to protectionism and, ultimately, the conditions for a damaging fragmentation of the global economy. At the same time, the G20's creation of the Financial Stability Board (FSB), which provides a mechanism for connecting the world's leading central banks to the G20 as an international policy process, has provided a longer-term vehicle to strengthen the governance of the international financial system.

Collective environmental security is, in many ways, also a matter of finance. Most obvious is the public finance needed to safeguard the environmental commons – from the water each of us drinks and the air we all breathe to the stewardship of vulnerable biodiversity essential to the world's circular economy. One such example is the endangered bee population, whose pollinating is vital to food production. Climate is another case in point, with ongoing international negotiations placing considerable emphasis on the question of how much developed countries will finance developing countries' efforts to reduce carbon emissions, and the costs of communities and economies adapting to climate change.

Yet, public finance is just one part of the nexus between money and the environment. Private finance, and specifically the $273 trillion of private capital worldwide, has considerable implications for the environment. Investment in clean technology, such as renewable energy, makes a difference to environmental outcomes, as does the continued investment in coal-fired energy, which pollutes the atmosphere and water, and is damaging to health. Indeed, the G20's focus this year on the challenge of financing long-term infrastructure globally, which is estimated to need $5 trillion annually until 2020, has profound environmental dimensions. Building energy-efficient and climate-resilient cities will be a defining feature of their future utility, both to their residents and to the global community. Likewise, investing in agricultural systems that can remain productive in the face of changing and increasingly volatile weather patterns will be the basis for securing adequate, affordable, healthy food for tomorrow's growing global population.

In the past, the G20 has considered aspects of the environment, including climate. Yet its focus on economic growth has tended to overshadow environmental concerns. Its decision to act collectively in 2009 in response to the global financial crisis, for example, was criticised by environmental groups for failing to 'green' the planned $1.1 trillion global stimulus. The launch of the new Global Infrastructure Initiative at the September meeting of the G20 finance ministers and central bank governors in Cairns, Australia, could have been – but was not – an opportunity to ensure that such a bold initiative would minimise pollutants, deliver infrastructure that made best use of limited natural resources and remain effective in the face of a changing climate.

Climate risks and the financial system

The quality of the environment is not just a matter for environmental ministers and policies. A growing number of financial regulators and central bankers are responding to the simple fact that the working of the financial system produces effects on the environment that can impact the health and, ultimately, the stability of the financial system. Brazil's central bank has a host of environmental regulations, and the China Banking Regulatory Commission's Green Credit Guidelines provide increasingly stringent directions regarding environmental risk management. While most central banks today remain ambivalent that climate represents a systemic risk to the financial system, the Bank of England has recently commenced a review of the relationship between insurance regulation and climate

The G20's focus on the challenge of financing long-term infrastructure globally has profound environmental dimensions

change. Governor Mark Carney signalled his growing conviction that the future of the financial system and our management of climate were closely interwoven at the recent IMF/World Bank Annual Meeting in Washington DC, declaring that the "vast majority of [fossil fuel] reserves are unburnable", and by implication of less value than markets currently think, if global temperature increases are to be contained to two degrees as recommended by the world's leading scientists. The United States Securities and Exchange Commission provides guidance to investors in assessing and reporting on climate risks. Indeed, hosted by the United Nations Conference on Trade and Development, the Sustainable Stock Exchange initiative currently has 16 stock exchange members, including London and New York, all of which are advancing new sustainability-focused disclosure requirements and, in some cases, indexes.

These and many other examples have surfaced during the initial phases of the Inquiry into Design Options for a Sustainable Financial System, established by the United Nations Environment Programme in early 2014. The inquiry, due to be completed in mid 2015, is exploring which rules governing today's financial system – including financial and monetary policies, financial regulation and private standards such as credit ratings and accounting standards – could be adjusted to ensure that lending and investment decisions take greater account of environmental and also social outcomes. As the examples above illustrate, the inquiry's approach is to identify and assess the broader potential of existing innovations, of which there are many. Its work is guided by an advisory council made up of financial regulators, central bankers and leaders from key private and international financial institutions.

The G20 is a promising global policy platform for advancing an improved alignment of the financial system with the long-term needs of the real economy, which requires environmental and social issues to be taken more centrally into account. Such a development would take time; it is not simply a matter of highlighting the nexus in the next communiqué.

Three practical steps would help to advance such a development. The first could be to request that the FSB consider the environmental aspects of financial stability for the first time. Given the milestone climate negotiations in Paris in late 2015, a suitable initial focus might be for the FSB to consider the impact of climate change on financial stability. Secondly, to encourage the environmental stress testing of key financial market policies. A starting point here might be to ask the Bank of International Settlements to consider the environmental impacts of the Basel III banking rules, which are thought likely to discourage long-term investing and therefore have an impact on investment in renewables. And finally, to explore the potential for 'greening' central banks' asset-purchasing activities, whether through residual quantitative easing, or, more broadly, because of the growing size and importance of the balance sheets of major central banks.

A healthy financial system is a keystone of an inclusive and sustainable global economy. Such a system must nurture and invest in the key drivers of its economy, which crucially include a supportive natural environment. The G20 is well placed to focus on this nexus, and, in so doing, to further its mandate of securing a sustainable financial system. ■

A blanket of dust and smoke envelops New Delhi, India. Investment in clean technology has a direct impact on public health

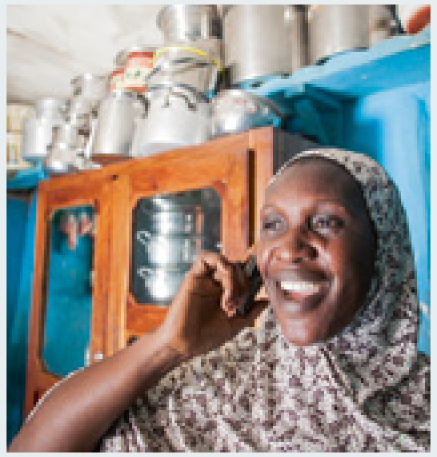
ALTAF QADRI/AP/PRESS ASSOCIATION IMAGES

Leveraging investments for inclusive healthcare

Healthy economies require healthy populations. Affordable and quality healthcare for all is one of the fundamentals for building inclusive, prosperous societies. The PharmAccess Group is working towards financially sustainable healthcare systems in Africa.

During the G20 summit in Seoul in 2010, US President Barack Obama presented Medical Credit Fund with the SME Finance Challenge Award. This global competition was aimed at finding the best models for public-private partnerships that catalyse finance for small and medium-sized enterprises. Medical Credit Fund is the first fund dedicated to providing training and loans for private health SMEs in sub-Saharan Africa. In August 2014, more than 500 clinics had obtained a loan and were working to improve healthcare quality for more than 400,000 patients a month at a 97.5 per cent repayment rate.

The innovative financing model, based on a layered capital structure, attracted attention all over the world. Thanks to an initial guarantee from the Dutch Government, Medical Credit Fund closed its first round of investments in 2012, with participation from the Overseas Private Investment Corporation (OPIC), Bill & Melinda Gates Foundation, Soros Economic Development Fund, Calvert Foundation, Deutsche Bank Americas Foundation and Dutch private investors. In 2014, the fund received the OPIC Impact Award for Access to Finance.



Improving access to quality care

Medical Credit Fund was initiated by PharmAccess in 2009. Loans and training for healthcare providers is one of the ways in which the PharmAccess Group is working towards inclusive, quality healthcare for people in Africa. It also mobilises public and private resources for the benefit of patients and doctors through quality improvements, clinical standards, mobile health, health insurance, consultancy and impact research.

The journey towards inclusive healthcare begins with enabling quality improvement. The SafeCare programme assesses and certifies clinical quality levels, and provides quality improvement support to clinics. This not only improves patients' health. It also reduces risks and increases transparency.

PharmAccess builds trust throughout the health system and paves the way for investors to enter the market. By lowering the investment risk, it has been able to leverage public funds and generate large amounts of international and local capital for Africa's underfunded health systems. As such, PharmAccess has multiplied its development impact significantly.

mHealth

To further catalyse this impact, PharmAccess is pioneering mobile health innovations. The mobile phone is rapidly changing the economic and social fabric of Africa, offering unprecedented opportunities to improve access to healthcare for the poor by enabling healthcare exchange between individual citizens and providers of health entitlements. The distribution of healthcare entitlements to mobile phones empowers people to access quality healthcare, while at the same time clinics are paid without delay and transaction costs are reduced. We believe that the mobile phone will revolutionise healthcare delivery in Africa and bring quality healthcare within reach for all.

> Why is it that we are always talking about the problem of drug distribution, when there is virtually no place in Africa where one cannot get a cold beer or a cold Coca-Cola?

Prof Dr Joep Lange (1954-2014), founder of the PharmAccess Foundation
Joep Lange's groundbreaking work in the field of HIV/AIDS treatment and his pioneering approach to development changed the course of global health. He died in Malaysian Airlines flight MH17. His vision and determination to improve access to quality healthcare will forever remain an inspiration.

PHARMACCESSGROUP

PharmAccess FOUNDATION · Health Insurance Fund · MEDICAL CREDIT FUND AFRICA · SafeCare BASIC HEALTHCARE STANDARDS

www.pharmaccess.org

Realising the post-2015 opportunity

NOEL CELIS/AFP/GETTY IMAGES

Cooperation, adaptation and strengthened capacities across the world are vital for progressing the Millennium Development Goal agenda, writes **Helen Clark, Administrator, United Nations Development Programme**

Helen Clark became the Administrator of the United Nations Development Programme in 2009. She is also the Chair of the United Nations Development Group, a committee consisting of the heads of all UN funds, programmes and departments working on development issues. Prior to her appointment with UNDP, she served three successive terms from 1999 to 2008 as Prime Minister of New Zealand. Before being elected to New Zealand's Parliament in 1981, she taught in the Political Studies Department of the University of Auckland.

@HelenClarkUNDP

The year 2015 marks the target date for achieving the Millennium Development Goals (MDGs) and for the transition to a new global development agenda. The post-2015 Sustainable Development Goals (SDGs) are currently under discussion at the United Nations.

The UN General Assembly's Open Working Group on the SDGs has proposed a set of 17 goals, and many more targets relating to them. Among these are goals seeking to eradicate poverty and hunger, raise health status and improve access to quality education. Priority is given in the proposal to tackling inequalities, building peaceful societies and promoting inclusive growth. The environment also takes centre stage, with the objective of stopping the unsustainable use of natural resources, pollution and the rapid decline of biodiversity.

Taken together, the Open Working Group's proposals assert the primacy of poverty eradication, within the framework of sustainable development. They suggest goals that are universal, time bound and measurable. It is also widely recognised that the future agenda must aim to complete the unfinished business of the MDGs.

Residents of a shanty town in a cemetery in the Philippines. The eradication of poverty remains central to the post-2015 agenda

In the countdown to the end of 2015, many governments, development actors and other stakeholders have been working to accelerate progress. From these efforts, the United Nations Development Programme identifies five priorities for action:

1. **Staying the course on MDG acceleration**
MDG acceleration requires strong political leadership, broad-based country ownership and a commitment to inclusive growth. When coupled with action-oriented programmes, real progress is possible.
More than 50 countries are using the UN development system's MDG Acceleration Framework (MAF) to design and implement pragmatic action plans. Since 2013, a number of these have been receiving substantial support from the World Bank, as part of a special initiative being led by the UN Secretary General's Chief Executives' Board. ▸

It is time to give every child the chance at a healthy future

The G20's partnership with Gavi, the Vaccine Alliance

By Maree Nutt and **Dr Joanne Carter**


GAVI/KAREL PRINSLOO

The battle against Ebola reminds us that medical advances do little good if they fail to reach the people who need them most. As we fight this terrible outbreak, the global community must also lay the foundation for a future in which where you are born doesn't determine how long you live.

We can start with the basics. Pneumonia and diarrhoea claim one out of every four children who die today. If they were lucky enough to have been born in a place where a vaccine was available, many of them could have been saved.

Gavi, the Vaccine Alliance, is working to ensure that countries have the capacity to deliver lifesaving vaccines so that every child, everywhere, has the same chance at a healthy future. Since 2000, Gavi has united donor and endemic countries, vaccine manufacturers and civil society, private foundations and technical experts to transform vaccine delivery in the world's poorest countries.

Thanks in no small part to G20 leadership, Gavi has helped countries immunise nearly half a billion children, saving more than six million lives.

The G20's contributions to Gavi's mission are as essential as they are diverse. Led by the United Kingdom, G20 members provide over half of Gavi's donor financing. As a leader in innovative finance, Gavi has raised funding through vaccine bonds backed by long-term pledges from donors like South Africa. India and Indonesia are providing co-financing alongside Gavi investments to expand their vaccination coverage.

Gavi purchases vaccines manufactured in eight different G20 countries, including Brazil, India and Indonesia. This growing diversity of vaccine suppliers has contributed to the 37 per cent drop in cost since 2010 of a package of the newest childhood vaccines, including immunisation against leading causes of pneumonia and diarrhoea.

G20 leadership extends to vaccine research and development as well. Host Australia can be proud of its commitment to medical research and the development of a lifesaving vaccine against rotavirus diarrhoea and the HPV vaccine against cervical cancer.

As it helps vaccinate individual children, Gavi is also helping countries and communities build up routine vaccination systems – a leading edge in the delivery of health services more broadly. Unfortunately, one in five children globally still misses out on even the most basic vaccines.

G20 leadership is now more important than ever, as Gavi works to fund, and then implement, its ambitious plan to immunise 300 million more children by 2020. At a conference hosted by Germany in January, Gavi will invite donors to pledge their support. Bold financial pledges from G20 countries – including Australia and the United States – are needed to help fill a $7.5 billion funding gap. That investment will save more than five million lives, strengthen health systems in some of the world's poorest countries and produce between $80 billion and $100 billion in economic benefit.

With a successful Gavi pledging conference, we will see the return on our investment measured in healthier children, healthier communities, and a healthier world.

RESULTS is a global network of grassroots activists dedicated to ending poverty. Dr Joanne Carter is the Executive Director of RESULTS and the RESULTS Educational Fund in the United States (www.results.org). Maree Nutt is the CEO of RESULTS International in Australia (www.results.org.au).

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REUTERS/ANDREEA CAMPEANU

A girl with injuries sustained during childbirth rests in a hospital in South Sudan. Improving maternal health, one of the MDGs, can be facilitated through information-sharing between countries

2. **Engaging in cross-sectoral collaboration**
   MDG acceleration requires a combination of actions to be taken within sectors and across sectors. Often there can be significant impact from initiatives implemented outside the immediate relevant sector, but the incentives for pursuing them may be weak or nonexistent. To overcome that, the engagement of a cross-cutting ministry or set of ministries is needed, supported by the commitment of the most senior political leadership.
   In some countries, UN Resident Coordinators and World Bank Country Directors have engaged in joint planning, programme design and advocacy to support countries to accelerate MDG progress – exemplifying the kind of partnership that will continue to be important for implementing the SDGs.
3. **Finding 'multipliers' and realising the gains**
   As all the MDGs are interrelated, making progress on one has positive effects on others. The multiplier effects can be large, for example when investments are made in opportunities for women and girls, or in modern energy.
4. **Adapting innovative acceleration solutions across countries**
   Many countries face similar bottlenecks to making progress on a given MDG. For example, difficulty in reaching a well-equipped health centre in time for childbirth can be fatal. Each country finds solutions appropriate to its own context. Ghana addressed this through a reimbursable voucher programme that paid bus and truck drivers for transporting pregnant women to birthing services. Ethiopia set up maternal waiting homes near birthing centres.
   There are cases where solutions can be easily adapted to work in different country settings. An open-source system used to track the demand for family planning commodities and manage distribution in one country, for example, can be adapted and employed across countries and for different types of commodities. The sharing and adaptation of major poverty-reducing initiatives, such as cash transfers or employment guarantee programmes, beyond their countries of origin have benefited millions across the world.
5. **Minimising shocks and building capacity to cope**
   Short-term shocks to households, such as income or job losses or illness, can lead to long-term setbacks in human development. Measures for social protection need to be adapted to country circumstances, and there are many examples of successful schemes. Through its Social Protection Floor Initiative, the UN provides advice on what might work. Shocks can also stem from economic or financial crises, increases in the prices of fuel or food, major disease outbreaks, adverse weather events or prolonged conflicts, requiring society-wide resilience to be built.

Opportunities for G20 leaders

At the Brisbane Summit, G20 leaders can express their willingness and determination to accelerate progress on the MDGs in 2015. To this end, there are several things the leaders can do.

They can share knowledge about what works so that other countries could adapt in their own quest for progress. G20 members have moved the global figures for MDG progress through their successes in their own countries. These experiences are insightful for other countries and can inform new policies and programmes.

They can agree on measures for a strong, stable and diversified global economy. The growth goal to lift, by 2018, the G20's collective gross domestic product by two per cent more than what was projected in 2013 is expected to be a major deliverable at the Brisbane Summit. It offers the promise of more robust growth and accelerated human development. It is important that growth is inclusive, expands opportunities for decent work and livelihoods, and generates revenues to invest back into sustainable and human development.

> At the Brisbane Summit, G20 leaders can express their willingness and determination to accelerate progress on the MDGs in 2015

They can support the adoption of a focused and implementable global development agenda. The MDGs were a major step towards eradicating poverty in all its dimensions. That journey will continue after 2015. It will help enormously if G20 leaders can link and align their multi-year action plan for growth with the future global sustainable development agenda. ■

Accomplishing the unfinished education agenda: a call to action

Marcio Barbosa
Chief Executive Officer
Education Above All Foundation

At the turn of the century, the United Nations announced the ambitious Millennium Development Goals (MDGs) as a way of focusing collective action. One of the eight focus areas is universal primary education. With the MDG deadline now a year away, figures suggest that about 90 per cent of the world's children are receiving their fundamental right to a primary education. This achievement represents a worthy effort toward our collective aspiration to give the world's children a fair start in life. However, while congratulations are in order, let us not forget that 10 per cent of the world's children still lack access to what is a fundamental building block for personal, social and economic development and security.

Many of the G20 agenda focus areas are intricately and inextricably tied to education – from development and employment, to strategies to drive growth. We have achieved tangible results in health, notably in the fight against HIV/AIDs and improving and delivering access to basic sanitation. Now, it is time to turn attention to doing the same for education, which requires government support, new funders and innovation in educational programmes to close the 10 per cent gap.

The magnitude of the problem

According to the UNESCO Institute for Statistics, the situation has seen little improvement since 2007, with the global rate of primary out-of-school children remaining at nine per cent. Rather than accelerating towards the completion of this goal, the latest statistics show that the momentum has shifted, leading to an increase in out-of-school children from 57 million in 2011 to 58 million in 2014.

The lack of global progress is due largely to high population growth in sub-Saharan Africa and India, where very little change has taken place in access to education. The latest humanitarian crises in Syria and Palestine are only contributing to the need for action.

Barriers to education

For the children who remain out of school, there are eight universal barriers that must be addressed:

- **Poverty** keeps millions of families from being able to afford a primary education for their children, or, worse yet, drives children into the labour force instead of a classroom;
- **Geography** and distance can make access to schools challenging in many parts of the world;
- **Conflict, insecurity** and **social instability** are increasing barriers to children receiving a quality primary education;
- **Child refugees** have no access to the school system of the country from which they have fled and often none in their host country either;
- **Gender** continues to be a sticking point because of the widespread stereotypes of appropriate roles for men and women, as well as boys and girls;
- **Infrastructure**, or lack thereof, leads to overcrowding or inaccessibility, especially in rural and marginalised areas in the poorest countries;
- **Resources** – human, material and financial – are often in limited supply;
- **Quality** of critical components, such as teachers, content, methodology and administration, can be a barrier to enrolment or completion.

After taking account of available domestic and donor resources, estimates suggest that an additional $26 billion will be needed per year to make sure all children receive a basic education. Unfortunately, the trend lines are bending in the wrong direction. Aid flows to education have been on a slow but steady decline since 2010.

Rays of hope

In 2012, Her Highness Sheikha Moza bint Nasser, UNESCO Special Envoy for Basic and Higher Education, created Educate A Child (EAC), a global programme dedicated to providing access to quality education to 10 million out-of-school children by 2015/16. The concept was simple but the Sheikha was ambitious, and today her leadership and vision are returning results on the investment. After just over a year, through its implementing partners, EAC had achieved access for more than two million out-of-school children. With a particular focus on the hard-to-reach out-of-school children, EAC and partners are innovating new approaches that are yielding results.

> Aid flows to education have been on a slow but steady decline since 2010

Access in action: BRAC

In the Haor basin of Bangladesh, a permanent marshland, large sections of the area are almost entirely covered by water for six to seven months each year. In Sylhet, 42 per cent of the villages have no primary schools, forcing children and teachers alike to attend schools outside their settlements. Compounding the issue are the area's fragile transportation and communication networks that further hinder access to schools.

EAC and BRAC have partnered to address the barriers to accessing education in the Haor basin through high-impact, low-cost Boat Schools. BRAC Boat Schools for Rural Children serve an innovative dual purpose: they act both as transportation for children and teachers to reach schools, and as classrooms.

Through EAC co-funding, the BRAC Boat Schools project targets enrolling 13,000 out-of-school children over a six-year period. BRAC is one of more than 30 examples of how co-funded projects that are locally relevant and proven can efficiently and sustainably address the primary education gap.

Time to act

With fewer than 500 days before the close of the MDGs, it is time for a big push and long-term commitment to the children who remain out of education programmes. We need to raise awareness that universal access to primary education matters, and that it requires our collective will to finish the job post 2015.

An increasingly educated global population is not only a matter of moral responsibility but also a pragmatic pursuit. Educated countries tend to be economically stronger and socially more stable; the workforce can better contribute to global progress and innovation. The least educated nations also tend to be hotbeds of extremist thought and action.

"Education empowers people and transforms lives," says Ban Ki-Moon, Secretary General of the UN. "It gives them hope, confidence and dignity. It is the foundation for a more peaceful and sustainable future."

I therefore strongly urge policymakers to view education as an investment rather than a cost. Together, we will achieve the audacious but possible goal of universal primary education. Let us act strongly and decisively for our world's future – our children.

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التعليم فوق الجميع | education above all

A. AL SADA

BRAC

Driving growth in Latin America

—— The new global context and old policy challenges define the development agenda in Latin America, writes **Enrique García, Executive President and Chief Executive Officer, CAF – Development Bank of Latin America**

Enrique García has been the Executive President of CAF – Development Bank of Latin America since December 1991. He was Bolivia's Minister of Planning and Coordination, and Head of the Economic and Social Cabinet between 1989 and 1991. Prior to this, he was Vice Minister of Planning and Coordination, and a member of the Board of Directors of the Central Bank of Bolivia. In the private sector, he has occupied the position of Manager of Operations at Banco Industrial, and sat on the boards of several industrial and financial institutions.

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Growth is slowing in Latin America. The region can no longer rely on rising commodity prices and near-zero interest rates in the advanced economies to underpin high growth rates. Although an economic collapse seems unlikely, growth is converging to lower rates than previously anticipated. Considering the region's history of macroeconomic volatility and crises, avoiding a major economic downturn is good news. Sound macroeconomic policies made Latin American countries more resilient to external shocks, reducing the chances of a hard landing.

What is not good news is that potential growth rates did not rise significantly during the commodity bonanza of the last decade. Efforts to increase productivity and competitiveness faltered, while extraordinary external conditions drove growth. The focus of the policy agenda is shifting back to fostering growth and productivity as the tailwinds subside. Higher growth is crucial to sustaining the previous decade's unprecedented gains in poverty reduction and in the expansion and consolidation of the middle classes.

Macroeconomic stability is not enough. Structural challenges persist in Latin America. With few exceptions, manufacturing is highly concentrated in the production of low-valued-added goods, and exports are little diversified, largely depending on commodities. The boom in commodity prices only exacerbated this long-standing trend in the region, as terms of trade improved and exchange rates strengthened.

But currency appreciation is clearly not the only factor behind the region's lacklustre competitiveness, so the partial reversal of exchange-rate trends as global conditions change will not fully fix the problem. The list of issues to tackle is extensive. Investment rates are low in most countries. Significant infrastructure and logistic gaps prevail, increasing transportation costs and denting competitiveness.

Recent high growth rates contributed to the reduction of unemployment and the creation of formal jobs. Nevertheless, informality is still quite high. There are many entrepreneurs in Latin America, but only a small fraction of them create firms that expand fast enough to generate more formal and productive jobs. Engaging in self-employment remains an alternative to escape unemployment and poor-quality jobs. On the other hand, firms require well-trained human capital in order to innovate, become more productive and grow. Although there were important advances in terms of education coverage over the past two decades, the quality of education in the region is low compared with advanced economies and even other emerging regions. More high-school graduates enter the job markets every year, but they often lack the hard and soft skills demanded by firms. This is a bad equilibrium that caps productivity growth and potential welfare gains for society.

Persisting challenges

In spite of the unprecedented social progress of the previous decade, poverty and inequality remain high. About a third of the population in Latin America lives in poverty and, among those who have managed to rise out of poverty, some are vulnerable to sliding back into it if growth further weakens.

IVAN KASHINSKY/CAF

Well-trained human capital helps companies innovate and grow, but investment is required to improve education and boost the creation of formal jobs

Although credit conditions have improved over the last 10 years, financial markets remain underdeveloped, particularly capital markets. Access to financing continues to be a limiting factor for business development, particularly for new and small firms. Some of these firms have a high potential to grow and generate jobs.

Latin America lags behind in the adoption of energy-efficient technologies and in the promotion of economic development based on principles of environmental sustainability. In addition, state capacities and institutions are not strong enough to guarantee an adequate provision of high-quality public goods and services.

Overcoming the region's structural shortfalls is critical to reigniting the engines of more sustainable growth

Although some countries have increased investment over the past decade, it remains comparatively low. Moreover, foreign investment that takes advantage of Latin America as an export platform in non-traditional sectors and in industries with a high growth potential is scarce. Extractive industries attracted the lion's share of foreign direct investment (FDI) over the recent commodity cycle. Foreign investment continues to be tied to opportunities generated by changes in government policies, deregulation initiatives and the application of tax incentives and other concessions, or public-private partnerships in the case of infrastructure and services.

Positive trends

Nonetheless, some positive trends in FDI over recent years are worth mentioning. The sources of investment have diversified (initially, they were highly concentrated in Europe and the United States) to include Asia, most notably China, and other Latin American countries, as a result of the expansion of home-grown multinationals across the region. Latin America has attracted foreign investment, albeit only marginally, from venture capital and private equity firms that are focused on identifying dynamic and innovative companies and sectors.

The emergence of the middle classes has increased the size of domestic markets, and attracted investment in retail commerce and services, capitalising on growing consumption, as well as on the demand for infrastructure (airports, ports, highways, etc).

Finally, some foreign companies, though still few and far between, have chosen to set up centres of research and development in the region, which could help boost the potential for innovation and technological advances in non-traditional sectors of the Latin American economies.

In this context, what are the challenges for the policy agenda?

As the tailwinds that propelled growth wane, overcoming the region's structural shortfalls becomes critical to reigniting the engines of a more sustainable growth. This requires a comprehensive policy agenda. A productive transformation strategy oriented toward inserting Latin American economies in global chains of production is key to attaining export diversification and moving the region from comparative to competitive advantage.

Regional integration efforts should be strengthened to take advantage of more consolidated domestic markets and of intra-industry trade that can facilitate the insertion in global value chains. Scaling up in value chains will help fuel the creation of more productive firms that demand more and better jobs.

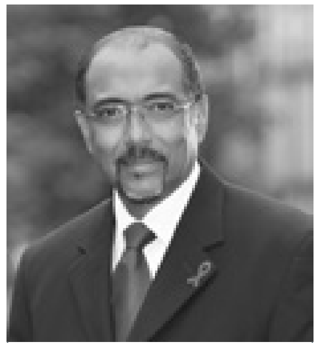
Increasing investment is crucial. The public and the private sectors should go forwards hand in hand in this endeavour. Governments should continue their efforts to build stronger institutions, support innovation and business development, and improve the provision of public goods and services – including infrastructure, health and education. This would make economies more attractive for domestic and foreign private investors in key sectors with potentially large spillover effects beyond natural resources, especially now that the commodity cycle is coming to an end.

Only productive growth will allow Latin American countries to escape the so-called middle-income trap, close the development gap and improve the welfare of its citizens. ■

GLOBAL DEVELOPMENT: 2015 AND BEYOND

Towards a world free of AIDS

Providing 80 per cent of external funding for the AIDS response, the G20 has a crucial role to play in achieving the United Nations' goal of ending the AIDS epidemic by 2030, writes **Michel Sidibé, Executive Director, UNAIDS**



Michel Sidibé was appointed Executive Director of UNAIDS and Undersecretary General of the United Nations in 2009, having joined UNAIDS in 2001. In 1987, he joined UNICEF in the Democratic Republic of Congo after working to improve the health and welfare of the Tuareg people and serving as Country Director for the Terre des Hommes International Federation. He was with UNICEF for 14 years, overseeing programmes in 10 African countries and acting as a country representative in several.

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REUTERS/EDWARD ECHWALU

Preparing for an HIV/AIDS test at a mobile testing unit in Ndeeba, Uganda. Scientific and medical advances have led to a significant fall in HIV transmission rates and AIDS-related deaths

In February 2014, G20 finance ministers committed to raising G20 output by at least two per cent above the projected levels for the next five years. At the Brisbane Summit, I urge G20 leaders to recognise the catalytic potential of the AIDS response in their drive to deliver inclusive growth and make the global economy more resilient to future shocks.

The world is at a critical juncture in the AIDS epidemic. The global AIDS partnership has delivered remarkable results, and, if everyone acts together and with urgency, ending the AIDS epidemic as a public health threat can be a shared triumph of the post-2015 era. But if we sit back and accept that where we are today is good enough, the economic, social and moral costs of inaction will be felt for years to come.

The cost of complacency was evident in New Orleans in 2005, where a levee system built for level-3 storms buckled under the pressure of level-5 Hurricane Katrina, wreaking at least $125 billion worth of damage and leaving 1,800 dead in its wake. AIDS continues to pose a level-5 threat to sustainable global health.

The next five years will be crucial. The G20 plays a pivotal role in determining the trajectory of the epidemic and whether the global economy fully benefits from the galvanising effects of investment in the AIDS response. The history of the AIDS movement has been marked by ambition, reach and daring to do things differently. Its past can guide investment priorities for the coming years.

Ending AIDS: a catalyst for inclusive growth

Over the past few decades, the AIDS response has achieved tremendous results in science, health infrastructure, community mobilisation and human rights. Based on recent breakthroughs, the scientific community is optimistic that ending the AIDS epidemic by 2030 is possible. Although major hurdles loom in dealing with drug resistance and discovering a cure and vaccine, the world is in the midst of a technological and data revolution that will change the face of the AIDS response.

Nonetheless, the number of people living with HIV remains large and growing. While the technology to end AIDS exists, renewed political leadership and commitment are needed to make it a reality. The Open Working Group on Sustainable Development Goals demonstrated such resolve: its proposal for the United Nations' post-2015 agenda includes the target of ending the AIDS epidemic by 2030. The UNAIDS board, of which several G20 countries are members, have endorsed this call. The UN Secretary General, the African Union and the 1.3 million medical students who signed the Hammamet Declaration have added their voices to a global movement for ending AIDS. Such a proactive political stance on ending AIDS marks a decisive break with the crisis mentality of the response to date, and a move towards more sustainable solutions that foster long-term inclusive growth.

The ground-breaking Lancet Commission on Investing in Health, convened by one of the world's leading medical journals in 2013, was unambiguous: investing in health is an investment in economic growth. The commission concluded that reductions in mortality accounted for around 11 per cent of recent growth in low- and middle-income countries (LMICs). The benefits from improved economic productivity through better health are even more impressive: additional life-years due to health improvements were responsible for as much as 24 per cent of the growth in LMICs between 2000 and 2011. The commission makes the case that achieving a 'grand convergence' in health outcomes would prevent 10 million deaths by 2035, and the estimated economic benefits would exceed costs by a factor of 9 to 20 over the period 2015-35. In the case of HIV, access to treatment generates economic returns of up to three times the investment.

Costs of inaction

If the growth rationale for investing in health and AIDS is not sufficiently convincing, the cost of inaction seals the deal. AIDS can have a devastating economic impact. Estimates suggest that when HIV prevalence reaches eight per cent – the level in 13 African countries – the ▸

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DAVID GOLDMAN/AP/PRESS ASSOCIATION IMAGES

National HIV Testing Day in the United States. Seven of the 15 countries accounting for three quarters of new HIV infections are G20 members, the US being one of them

cost to economic growth is about one per cent a year. The total lifetime cost of illness for Americans diagnosed with HIV is approximately $36.4 billion, of which more than 80 per cent accrues due to productivity losses. While the costs of antiretroviral therapy may be high, these costs are offset by extended productivity.

The time to strike is now. The danger of stagnation puts too many lives at risk to make inaction a viable option. If this opportunity is missed, the convergence of science, politics and resources to end AIDS may never occur again. The G20 will determine the future of AIDS. Of the 15 countries that account for more than 75 per cent of new HIV infections, seven are in the G20: Brazil, China, India, Indonesia, Russia, South Africa and the United States. Moreover, the G20 provides around 80 per cent of total external investments for the AIDS response. While domestic resources for AIDS financing are growing, many LMICs, where one billion poor people reside, remain dependent on development assistance.

Science fuels optimism for ending AIDS

- Since 2010, the HIV prevention landscape has been transformed, with more positive HIV prevention trial outcomes in the past three years than in the first 29 years of the epidemic.
- Treatment with combination antiretroviral drugs can reduce transmission of HIV to a sexual partner by 96%.

An end in sight: unprecedented progress

- The number of people acquiring HIV has declined by 38% since 2001.
- AIDS-related deaths have fallen by 35% since 2005.
- There were 12.9 million people receiving antiretroviral therapy at the end of 2013 – 32 times as many as in 2003.

Beyond this, the G20 is spearheading innovation in science: about 78 per cent of the $1.6 trillion invested in research and development around the world is accounted for by the US, China, Japan and Europe alone.

The G20 faces a political choice: invest now to end AIDS, or face the consequences for years to come.

The post-2015 opportunity for the G20

Coming to a close next year, the era of the Millennium Development Goals has been dominated by the economic leadership of G20 members. Let the post-2015 era be marked by a G20 legacy of leadership guided by a vision of social justice. Ending AIDS can provide the vehicle to drive such a social justice agenda. Investing in the AIDS response not only catalyses economic growth, but also has spillover effects for health, gender equality, human rights and development. AIDS is fuelling the creation of robust health systems and models for chronic disease management capable of addressing the growing burden of non-communicable diseases.

The AIDS movement has been defined by communities affected by HIV. Galvanising strong political leadership, including from G20 members, and keeping human rights at the centre have also been signature features. These actions can serve to inspire and inform concerted action on other global challenges of the 21st century, including improving gender equality, reaching marginalised and vulnerable populations, particularly women and girls, and working towards global health equity in the context of inclusive and sustainable economic growth. By investing in the AIDS response, the G20 can achieve development objectives while establishing itself as a champion for social justice and equity in a multipolar world.

> The time to strike is now. The danger of stagnation puts too many lives at risk to make inaction a viable option

Today's decisions about where to invest tomorrow will set the future path of the AIDS response and affect global health and development results. At its Brisbane Summit, the G20 faces the opportunity to forge a path that will make history. I urge its leaders to:

- add their voice to the movement for ending the AIDS epidemic by 2030: make this commitment in the Brisbane Summit declaration;
- support the G20 vision of growth and resilience through global health financing: step up health investments in an effort to stem volatile economic cycles; and
- establish the G20 as a champion for social justice: invest in AIDS as a springboard for broader health, development and rights outcomes, and set the tone for the G20 to exercise leadership on the social justice agenda in the post-2015 era. ■

Policy with a brain: challenges and opportunities for the new institutions

The costs of poor brain health to Europe are enormous. Traumatic brain injuries, mental illness and cognitive disorders afflict more than a third of European Union citizens – 165 million people. They cost Europe €798 billion per annum – more than any other medical area. This is *seven times* the €110 billion cost of the 2010 Greek financial rescue, and it is *every year*.

By Professor David Nutt
President, the European Brain Council

The economic crisis has put health back on the European Union (EU) agenda. Austerity, low growth and demographic change are calling into question the sustainability of our healthcare and social protection systems. Nowhere is the situation starker than in the area of brain health.

As the 751 newly elected members of the European Parliament begin their term, the European Brain Council (EBC) is launching its Year of the Brain to call for new thinking on European brain health and the quality, productivity and mental well-being of the EU workforce. There are practical measures we can take that would make a significant, long-term difference.

We need to focus on outcomes

Within the European Semester – the EU's new economic governance framework – the European Commission recommends Member States to improve the cost-effectiveness of their healthcare systems.

While the objective of sustainable health systems is essential, it is imperative that the emphasis is not just on cost-limitation, but on the outcomes that health systems deliver – for the patient and society.

- We need to understand the benefits that come from more active and productive populations, and less social exclusion.
- We need to recognise how investments now – for example, in early diagnosis and prevention – contribute to more sustainable health systems later.
- We need to analyse and understand how well our health systems are currently performing, and which investments deliver the most lasting value.

To make the transition to an outcomes-focused approach, we need data to provide us with indicators and benchmarks of best practice. In the area of mental health, the Organisation for Economic Co-operation and Development's (OECD) work on assessing health systems performance provides an excellent starting point.

Cost-effective investments are critical

But data alone is not enough. We also need a readiness to make investments that will deliver better outcomes and improve effectiveness in the future.

From a financial perspective, the message is clear: by improving the brain health of our citizens, we can enable them to live more active and productive lives, to the benefit of all our economies, including our public finances.

Given its relevance to the sustainability challenge, action to address brain-related disorders must be a high priority.

Sweden has led work to measure the cost-effectiveness of investments in health, taking into consideration the work of the OECD, World Health Organization (WHO) and European Commission. This work should continue and be shared. In their EPSCO (Employment, Social Policy, Health and Consumer Affairs Council) council conclusions in December 2013, EU health ministers said: "Enhanced economic policy coordination may necessitate stronger co-ordination at EU level in the field of health."

The EBC welcomes the initiative of the Italian presidency to make investment in health part of the review of the Europe 2020 Strategy, which will renew EU targets for smart, sustainable and inclusive growth.

The Year of the Brain

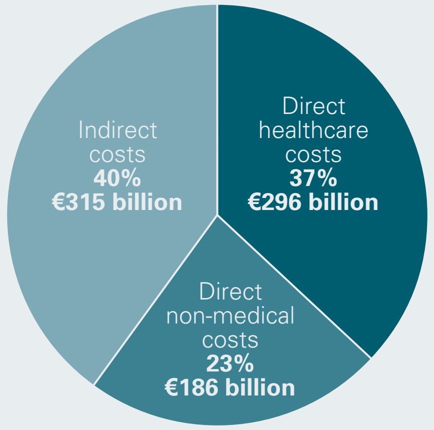
To support these initiatives, the EBC is now launching the Year of the Brain, which will bring together a multidisciplinary group of medical specialists, scientists, patient representatives and industry leaders to foster brain-health awareness, stimulate debate about more effective, outcome-oriented policy solutions, and promote coordinated action at the EU level.

> **Brain health is an economic necessity**
>
> - The OECD estimates* that the global cost of mental illness was nearly \$2.5 trillion – two-thirds in indirect costs – in 2010.
> - It is projected to increase to more than \$6 trillion by 2030.
> - This compares to the entire global health spend in 2009 of \$5.1 trillion.
>
> ** See* The Global Economic Burden of Non-communicable Diseases, *a report by the World Economic Forum and the Harvard School of Public Health, September 2011*

Through the Year of the Brain, we hope to alert policymakers and the European public to:

- the prevalence of disorders of the brain – affecting more than a third of European Union citizens;
- their cost to Europe – €798 billion per annum;
- the enormous work still to be done to understand the brain and its disorders;
- the unusual cost-effectiveness of brain research, returning profits conservatively measured at 50 per cent or more annually, as reported in the *European Journal of Neurology* in 2007; and
- the crisis facing European neuroscience with the withdrawal of almost all big pharma companies from the brain area, with the loss of hundreds of research and development jobs and millions in research investment.

The huge (hidden) cost of disorders of the brain



How can you help?

There are solutions. Through the Year of the Brain, the EBC will support policymakers in advocating for a longer-term perspective on health systems reform. This will include:

- **Supporting partnerships to identify disease management programmes** that deliver cost-effective diagnosis, prevention and treatment. Making a case for brain disorders is essential, as is adapting the regulatory process, building Europe's neuroscience infrastructure, promoting excellent science and incentivising translational research.
- **Encouraging governments to prioritise attention to disorders** that have a major economic impact. One in three people is estimated to experience mental ill-health during the course of his or her life, but between one-third and one-half of these do not receive treatment. This treatment urgently needs to be narrowed.
- **Developing an EU Chronic Disease Action Plan** to help reduce the burden of disease and deliver better outcomes. The EBC has been engaged in the EU's Chronic Disease Summit Initiative and, together with leading physicians, demonstrated to policymakers at the national and European level the value of stroke prevention. This is a model for how diagnosis and treatment, with relatively modest investment, can save countless lives.
- **Sharing knowledge and best practices,** such as the second joint Initiative on Innovative Medicines (IMI), between the European Commission and the European Federation of Pharmaceutical Industries and Associations (EFPIA). Building on its successful first phase (2008-13), IMI2 aims to fast-track the development of the next generation of medicines, especially in areas where there is an unmet medical or societal need, and expand the partnership to all players in the health ecosystem. This highly promising model should be replicated in other areas.

> We are helping to refine the vision and the targets for research in Horizon 2020, and we will continue to lobby for the benefits for brain science to be kept at a proportionate level of funding, commensurate with the huge problems of brain disorders
>
> **– David Nutt**

Working towards an innovative, healthy and productive Europe

The new European research-funding programme Horizon 2020, with its focus on cross-cutting thematic approaches, is a big step in the right direction. The innovations we see coming through for the prevention, diagnosis and treatment of brain diseases based on genetic make-up offer great opportunities.

However, Europe's incoming policymakers need to consider new and more flexible approaches to clinical trial design, marketing authorisation and pricing mechanisms to ensure the early access by patients to these valuable innovations.

We welcome an increasing focus on outcomes to evaluate value, and we look forward to working with regulators and payers on this. Patient participation in drug development will assist the assessment of what is acceptable in terms of risk and side effects. An informed patient is also more capable of self-managing his or her disease, and of making a contribution to cost-effectiveness.

We look forward to working with the European Commission and Parliament in the next five years to ensure that the legacy of the Year of the Brain will be a healthier, more productive and more efficient Europe.

The European Brain Council (EBC) is an independent, Brussels-based coordinating council working in partnership with patients, scientists, healthcare specialists, industry professionals and policymakers to harness science and innovation for better societal outcomes.

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Tough medicine for health governance

—— Questions need to be asked about the international response to the Ebola outbreak, and lessons must be learnt from its failings, urges **David P Fidler, James Louis Calamaras Professor of Law at Indiana University Maurer School of Law**

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States and international organisations are scrambling, from the United Nations Security Council to the streets of Monrovia, to triage the damage to social order, economic growth, development strategies and human dignity caused by West Africa's Ebola outbreak. It remains to be seen whether scaled-up – but still insufficient – responses can control this epidemic. But another reckoning awaits: the challenge of identifying what went wrong, where mistakes were made, why the crises ended up happening, and how to ensure that this nightmare does not happen again. This reckoning implicates the G20 as much as it does the World Health Organization (WHO).

The death, suffering and fear produced by the Ebola outbreak – and the ineffective reactions to it – reveal a massive failure of global governance. This failure affects more than the health sector. Over the past 15 years, global governance strategies increasingly emphasised health's importance to security, economic and development interests that states pursue individually and collectively. Connecting health with these political interests sought to ensure that countries do not treat health problems as 'merely humanitarian' issues. Global economic governance embraced this strategy by paying more attention to health in the G7/8, the International Monetary Fund, the World Bank, the World Trade Organization and – through its development agenda – the G20.

However, Ebola demonstrates how little these efforts have delivered in the West African states where the epidemic is undermining social order, damaging economic performance and diminishing prospects for development. In September, the G20 finance ministers and central bank governors expressed concerns about Ebola's impact on stability and growth in West Africa. In October, the World Bank warned that, without improvements in containing Ebola, the economic impact could be "catastrophic". Even the humanitarian response has been shockingly tardy, fragmented, underfunded and ineffective. To make matters worse, a small number of Ebola cases in the United States and Europe has shifted attention to the risks in developed countries.

On every measure, the outbreak has been a debacle for health's place in global governance. Getting past this calamity requires conducting outbreak forensics and devising reforms to address problems. To begin this scrutiny, the UN Security Council should establish an independent investigation into the outbreak and the international community's responses. The Security Council declared the outbreak a threat to international peace and security. Launching an investigation would underscore this decision's seriousness. The investigation should probe what happened from the local level to the office of the WHO Director General.

Focus areas for investigation

This investigation should gather information on when and how other actors – countries, regional organisations, non-governmental organisations (NGOs), airlines and other corporations – responded. It must probe how the UN Peacebuilding Commission, which has had all of the Ebola-affected West African countries on its agenda for many years, has addressed the weak health systems in these countries, which contributed to the outbreak's spread and impact.

Second, supported by the African Union, African countries should insist that WHO's executive board and Health Assembly revisit recent decisions on budget issues related to WHO reform. Media coverage has speculated whether cuts to the communicable-disease surveillance and response budget adversely affected WHO's ability to react effectively to the outbreak. As the Ebola crisis demonstrates, decisions about WHO priorities and budgets might have unintended consequences that fall disproportionately on countries least able to manage dangerous disease events.

Third, Margaret Chan, WHO Director General, should instruct the Review Committee established under the International Health Regulations 2005 (IHR) to analyse the functioning of the regulations during the Ebola outbreak, as she did in 2010 in connection with the H1N1 influenza epidemic. The IHR are the main international legal rules applicable to serious disease events. Many questions about the regulations have arisen during the Ebola outbreak. They range from how long it took the Director General to declare it a public health emergency of international concern to alleged IHR violations by governments imposing travel and trade measures that hurt West African nations and impeded efforts to get assistance into afflicted countries.

The Review Committee should revisit the recommendations it made after the H1N1 epidemic. The committee recommended, for example, that WHO strengthen its capacity for sustained responses to public health emergencies of international concern – which raises questions about WHO's budget cuts in this area. The committee also proposed establishing a contingency fund to support "surge capacity" for responding to international public health emergencies – a recommendation not taken up seriously anywhere in global governance, but one that, if it had been followed, might have helped responses to the Ebola outbreak.

Fourth, this tragedy must inform UN negotiations on the post-2015 Sustainable Development Goals (SDGs). The proposed framework finalised in July included lessons from the Ebola outbreak in the objective of strengthening capacity, especially in developing countries, "for early warning, risk reduction, and management of national and global health risks". While reporting and commentary lament the lack of public health capacity in affected West African countries, health experts have, for years, identified this problem in the developing world and worried about the lack of any strategy to address it. Development of the SDGs provides an opportune moment to focus on this neglected, festering weakness in global health.

Fifth, at its Brisbane Summit in November, the G20 must take advantage of the political and media attention this event generates to support ongoing Ebola response efforts and advance longer-term strategies on health and development. The G20 should highlight the economic and development implications of the outbreak, encourage members to address unmet needs in international actions to contain the epidemic, and task its Development Working Group to examine how the G20 can contribute more productively to mitigating the threats to economic growth and development posed by the health problems exposed by the Ebola outbreak.

EPA EUROPEAN PRESSPHOTO AGENCY B.V./ALAMY

Nurses bury an Ebola victim in Liberia. The G20 summit offers a chance to scrutinise how the world has responded to this outbreak

The death, suffering and fear produced by the Ebola outbreak reveal a massive failure of global governance

These suggestions are tough medicine for many communities with a stake in health as a global governance priority. But what has happened in West Africa requires more than crisis-driven expeditionary medical campaigns dependent on the military delivering inadequately resourced humanitarian triage in increasingly desperate conditions. In this awful context, the G20 has a responsibility it can begin to shoulder at the Brisbane Summit. ■

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The power of knowing: reaching a new phase of sustainable healthcare

Roland Diggelmann
COO Roche Diagnostics

While nations are under fiscal constraints, the need for addressing healthcare access continues to rise. After all, a healthier nation is a more productive nation. With rising life expectancy and higher incidences of lifestyle-related illness, chronic diseases have become the world's biggest public health challenge.

The World Health Organisation (WHO) reports that persistent conditions such as cardiovascular disease, cancer, respiratory disease and diabetes account for two-thirds of all global deaths. These conditions deprive people of their vitality and productivity, burden their families and hamper socioeconomic development. They are on the rise globally and increasingly so in African nations and emerging countries such as China, Brazil, Mexico and Russia.

Many nations are strengthening healthcare access by creating more primary care and community-based services. Whether the expansion is funded centrally or in collaboration with the private sector, increasing healthcare services will inevitably lead to more transactions. And we know that the healthcare sector is one of the biggest job creators and is comparatively less influenced by macroeconomic downturn.

So, how can we ensure the money spent on healthcare translates into better health? How can we improve healthcare efficiency while investing in access?

Improving efficiency through diagnostics: the power of knowing

The huge potential of modern diagnostics in the fight against disease is often overlooked. The value of diagnostics lies in knowing. Tests performed on patients' tissue samples, blood or other fluids provide crucial answers about a disease: whether it is the risk for a disease or a patient's response to treatment, a simple drop of blood gives physicians and caretakers critical knowledge, enabling them to intervene early and to actively manage health conditions. Today, diagnostics is no longer just a stepping stone to treatment. It is about intervention. It is about better disease management and better patient care. It is about preventing disease from getting worse or before it even starts.

Modern diagnostics reduce costs by diminishing health problems, decreasing hospitalisation and avoiding unnecessary treatment. The future of sustainable healthcare depends on diagnostics.

Putting an end to cervical cancer: the power of knowing to prevent disease

Innovation in diagnostics is enabling us to predict and prevent disease better than ever before. According to the WHO, cervical cancer, for example, develops slowly over years: the third most common cancer in women, it accounts for over half a million cases every year, half of which will prove fatal. Today, there are 2.3 billion women worldwide over the age of 15 who are at risk of contracting the disease. The peak incidence in developed countries is between 45 and 54 years of age, affecting women in the prime of their lives with significant impact on families, employers and communities. The estimated annual direct cost of treatment in the US is between $300 million and $400 million. Each component of care is associated with significant additive costs and they increase with disease severity.

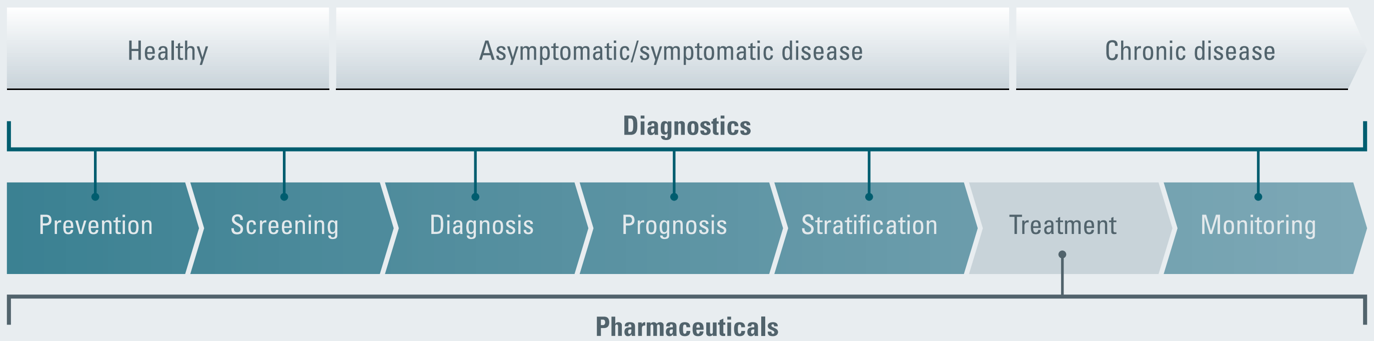
Cervical cancer has a known cause and is preventable. Almost all cases (99.7 per cent) are caused by human papillomavirus (HPV). When the disease is detected and managed early, it has a nearly 100 per cent cure rate.

Due to the lack of symptoms, screening is the primary mode of detection. However, studies show that up to one-third of cervical cancers occur in screened women with normal Pap results.

A new HPV DNA test has been developed to enable cervical pre-cancer to be detected earlier and more effectively than the current Pap screening test. The test detects not only the cancer-causing HPV, but also the most dangerous types – HPV 16 and 18 – that account for 70 per cent of all cervical cancer cases. It allows doctors to identify women with the greatest risks so that preventative measures can be started without delay, protecting women from the unnecessary burden of cancer and related treatments later on in life, and saving healthcare costs and lives.

Using the test for primary screening at three-yearly intervals reduces both the annual incidence of cervical cancers by over 50 per cent and annual mortality by 70 per cent.

Diagnostics is key to decision-making along the entire healthcare continuum



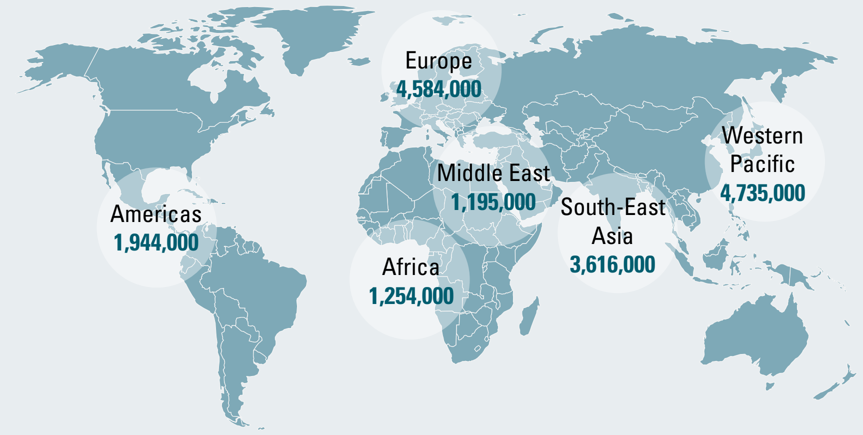
Better living with heart disease: the power of knowing to fight chronic diseases

Heart failure ranks among the most costly chronic conditions, challenging hospitals and private practice alike. An estimated 23 million people live with the disease worldwide. Heart failure is more malignant than some cancers and is a major burden on the healthcare system, with six out of 10 sufferers dying within the following half-decade. Once a patient is diagnosed, hospitalisation accounts for 80 per cent of the subsequent cost, due to the annual average of two-to-three admissions in patients' final years, with each re-hospitalisation costing almost $14,000. Developed countries devote between one and two per cent of all healthcare expenditures to heart failure.

By measuring the levels of a protein called NT-proBNP in the blood, doctors have the objective answers they need to accurately diagnose the disease.

Major health burden: cardiovascular disease (CVD)

Worldwide deaths per year due to CVD: 17,327,000[1]



- CVD causes 47 per cent of all deaths in Europe
- Overall, CVD is estimated to the EU economy almost €196 billion ($248.8 billion) a year
- Of the total cost CVD in the EU, around 54 per cent is due to health care costs, 24 per cent due to productivity losses and 22 per cent due to the informal care of people with CVD[2]

1 World Heart Federation, Global Facts
2 European Society of Cardiology, 2012 Cardiovascular Disease Statistics

This means the right treatments can be administered at the first instance, thereby reducing the likelihood of adverse events, worsening conditions and hospital stays. Studies conducted within the past 15 years have shown that the use of NT-proBNP for diagnosing heart failure patients reduces clinical indecision by 74 per cent, the length of hospital stay by 12 per cent, and direct medical costs by 10 per cent.

In addition, study results have shown that the use of NT-proBNP for guiding heart failure treatments – which drug to take and the correct dosage – can greatly improve outcomes for patients (42 per cent reduction in total cardiac events) and reduce unplanned hospitalisation by 50 per cent.

As science advances and new technologies continue to be discovered, diagnostics has evolved into an advanced weapon against diseases. Not only does it help translate healthcare investment into better health outcomes, diagnostics has also been proven to drive healthcare efficiency and alleviate cost burden. Diagnostics allows laboratories to be the reliable partners that healthcare professionals need. It empowers doctors to make the right decisions for their patients at the right time; it allows people to have improved control over their health and well-being; and it gives payers and policymakers the confidence that they are investing in the right solutions for patients and the future of healthcare.

We can't change the past or prevent the inevitable, but we can build a better future. And diagnostics is part of the answer, knowing the actions we take today translate into a healthier tomorrow.

Please visit: www.roche.com

Setting new standards of patient care

Roche's primary role in tackling the health challenges of today and tomorrow is to invent and develop new diagnostics and medicines to significantly improve people's lives. Roche is the global leader in biotechnology, cancer medicines, in vitro diagnostics, a pioneer in personalised healthcare, and among the top five investors in R&D across all industries, spending about $10 billion every year.

With our combined strength in diagnostics and pharmaceuticals, we develop novel solutions for treating cancer, cardiovascular and respiratory disease, diabetes, neurological disease and other areas of epidemic concern.

Interview

Building a sustainable future

—— Food security is linked to both productivity and growth, says **José Graziano da Silva, Director General, Food and Agriculture Organization**

Q In what ways is food and agricultural security key for generating strong, sustainable and balanced growth and development?

A The links between food security and economic growth are positive, but complex – and run two ways. Agricultural growth based on productivity-enhancing investments and the integration of family farmers into markets not only improves food security and resilience to excessive food price volatility, but also raises incomes and creates jobs in farming and the rural sector, and can be a foundation for growth and development generally. If agricultural growth is also 'nutrition sensitive', then there are further beneficial effects on productivity and growth.

Just as food security contributes to growth, growth can improve food security. However, that growth needs to be equitable and inclusive, providing employment and income-earning opportunities for the poor. Growth in the agricultural sector and rural economies has a higher positive impact on poverty reduction and food security than growth in other sectors – perhaps five times as much.

Conversely, hunger and malnutrition have devastating and long-lasting impacts on individuals, on societies and on economies. The cost of malnutrition to the world economy in lost productivity and healthcare costs could account for as much as five per cent of global gross domestic product. Hunger and malnutrition reinforce chains of poverty, leaving generations trapped in a vicious cycle.

These relationships have important implications for the G20. Food security is closely linked to economic growth and the other main concerns of the G20: jobs and finance. Productivity improvement requires the adoption of existing technologies as much as new research and development. But adoption will not happen unless the products and services offered in response are adapted to the needs of the family farmers, unless they are better integrated into markets, unless the necessary skills are available (especially among young people), unless risks can be managed, and unless there is an enabling environment, including adequate infrastructure, accessible finance and conducive policies.

So the G20's work on financial inclusion, domestic resource mobilisation, infrastructure and human resource development, and many of the G20's ongoing initiatives are all relevant to improving food security.

Q What steps are needed to foster food and agricultural security for the global community?

A More than 60 developing countries have already met the first Millennium Development Goal hunger target of reducing the proportion of their populations experiencing chronic hunger by half, or have brought it to under five per cent. Great care must be taken in drawing lessons from different countries, but experience shows that three factors are crucial to this sort of progress.

First, political commitment at the highest level is the necessary condition. It is needed to make the issue a government-wide priority and to address governance bottlenecks that inhibit progress.

Second, broad social participation is needed to sustain these efforts, even in the face of changes of government, limited budgets, and socio-economic and climatic shocks. It ensures the hungry are heard when programmes are designed and put into motion; it enhances accountability; and it distributes the burden of implementation.

Third, it requires a large-scale, comprehensive approach, linking macroeconomic, social, health, sanitation, environmental, agricultural and education policies. Investing in food security is a small price to pay for something that not only is an ethical imperative, but also brings benefits to society as a whole in the form of healthier, more productive citizens and by triggering other development dynamics.

Q How can food and agricultural security best be forwarded as part of the post-2015 development goals?

A Ending hunger and malnutrition must remain at the heart of the post-2015 Sustainable Development Goals (SDGs) – they are prerequisites for sustainable and sustained economic, social and environmental development. Food security is the common thread that links the different challenges the world faces in building a sustainable future. By boosting sustainable agriculture and strengthening food security, we can not only eradicate hunger and poverty, but also invigorate economies, improve health and education, encourage the more efficient use of natural resources, and promote peace and security.

Q In what ways is the Food and Agriculture Organization (FAO) working to meet these needs?

A Generally speaking, FAO has sharpened its focus around five strategic objectives that will directly contribute to a hunger-free and sustainable world: ending hunger, promoting the sustainable use and management of natural resources, reducing rural poverty, enabling inclusive and efficient markets, and building resilience in rural communities. The sharpened focus means that we are putting all our knowledge at the service of our members, acting as one organisation to support them.

Specifically regarding the post-2015 process, we are fully engaged. Our member states have helped us identify 14 thematic areas where we can contribute technical knowledge to support the Open Working Group (OWG) on SDGs. Five of the themes focus on social and economic issues, such as poverty eradication and social protection, with the remaining nine themes strongly related to natural-resource management.

FAO has also co-led the preparation of issues briefs for the OWG on sustainable agriculture, food security and nutrition with the other Rome-based United Nations food agencies, the World Food Programme and the International Fund for Agricultural Development, and, together with the UN Environment Programme, co-led the preparation of OWG issues briefs on oceans and seas, forests and biodiversity.

Q How have G20 leaders contributed to global food and agricultural security at their past summits?

A The G20 concern with food security goes back at least to the 2010 Seoul Summit where food security was one of the nine pillars of the G20 Multi-Year Action Plan on Development.

In 2011, G20 leaders adopted the Action Plan on Food Price Volatility and Agriculture and created the Agricultural Market Information System (AMIS) to improve market information and enhance transparency.

In 2012, the focus was on supporting smallholder productivity improvement, which is vital for food security and poverty reduction. In 2013, the focus was on social protection to ensure the food security of the most vulnerable.

So food security is an issue that the G20 can do – and has done – something about. But the G20 cannot and should not try to do everything. It needs to focus on where it has comparative advantage and can make a difference. However, the G20 has no capability to act directly – it has to work with and through other structures.

Q How can the G20 leaders at their forthcoming Brisbane Summit best help?

A G20 leaders can highlight food security and nutrition as major global issues that deserve their attention. They can support the new framework for G20 action on food security developed under the Australian presidency, which rests on the linkages between food security, growth and jobs, and justifies regarding food security as a priority in the G20 agenda. FAO is ready to continue working with the G20 and the international community as a whole in these areas. ■

José Graziano da Silva took office as the Director General of the Food and Agriculture Organization (FAO) of the United Nations in 2012, having served as head of the Regional Office for Latin America and the Caribbean since 2006. An agronomist and academic, in 2001 he led the team that designed Brazil's Zero Hunger (Fome Zero) programme. In 2003, he was put in charge of its implementation by President Luiz Inácio Lula da Silva, who named him Special Minister of Food Security and the Fight against Hunger.

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Interview

Developing agriculture through innovation

—— Food security requires groundbreaking solutions, explains **Kanayo F Nwanze, President, International Fund for Agricultural Development**

Q Is improving agriculture through innovation key to economic growth and development?

A Innovation is essential to agricultural development. With the global population set to exceed nine billion by mid century, and the challenges of climate change, environmental degradation, long-term water shortages and burgeoning urban populations, we need groundbreaking solutions and new ways of working in agriculture.

Inclusive, sustainable agricultural development – not just higher productivity, but decent employment for all rural people – is a key driver of economic growth, improved food and nutrition security, and poverty reduction. This is particularly true in low-income countries, where agricultural growth is at least three times – and in some cases 11 times – more effective in reducing extreme poverty than growth in other sectors.

If anything, demographic shifts have made rural areas more important. Although about half the global population now lives in urban areas, 75 per cent of poor people still live outside the cities and depend on agriculture for their food and income. In addition, urban areas depend on rural people and rural spaces for food, water and environmental services. Development cannot succeed if it leaves rural people out.

There are about 500 million smallholder farms in the world. They make a vital, though often unrecognised, contribution to global food security. In some regions, small farmers account for up to 80 per cent of production. Most have little access to services, inputs or innovations, yet studies show that small-scale farms are more productive per hectare than large-scale farms. Enabling these farming families to further increase their harvests and connect to value chains and markets has a direct positive effect on their livelihoods and on economic growth, for rural areas and for countries. Innovation and new technologies play a big role here.

But we must not get carried away by a desire to always be at the cutting edge of modern technology. Certainly, new breakthroughs have their place in agricultural development. Biotechnologies such as marker-assisted selection, marker-assisted breeding, tissue culture and embryo-rescue techniques offer many benefits. They can boost productivity, make nutrient use more efficient, and improve the tolerance of seeds and plants to drought, temperature stress and pests.

But technology is a tool, not an end in itself. As a scientist, I understand the excitement of new discoveries. But as a development practitioner, I have seen the miracles that take place when farmers have the tools to enhance existing – and sometimes quite traditional – technologies. Natural resource management, conservation agriculture or simple agronomic practices are all part of innovation for sustainable intensified production systems.

G20 members are hugely significant in agricultural development. They produce almost 80 per cent of the world's cereals. Yet half of the malnourished people in the world live in G20 members. This means that their progress in agricultural development could have a major impact not only on their own populations, but also on those in other countries.

Q How is the International Fund for Agricultural Development (IFAD) working to this end?

A Innovation alone is not sufficient to drive that development. Farming families in developing countries also need the basics, including all-weather roads, inputs such as fertiliser and good seed, functioning markets, access to extension services, and access to credit, to name a few.

In addition to cutting-edge advances in agricultural science, often conventional approaches – such as using fertilisers and micro-irrigation, or using trees to improve soil fertility and moisture content – can yield dramatic results. In fact, low-cost, existing technologies have huge potential to increase yields.

This is particularly true in Africa, where only about six per cent of all cultivated land is irrigated. This compares with 37 per cent in Asia. Irrigation alone could increase output by up to 50 per cent in Africa. Similarly, farmers in sub-Saharan Africa use under 13kg of fertiliser per hectare. In contrast, farmers in the Middle East and North Africa use about 73kg, while farmers in East Asia and the Pacific use 190kg.

Small increases in fertiliser use in sub-Saharan Africa can have dramatic effects on yields. A fertiliser micro-dosing technique developed by the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) and its partners has produced good results, using a bottle-cap system so farmers can measure out small, affordable amounts of fertiliser. In addition, greater use of high-yielding seed varieties could have great benefits.

What does all of this reveal? It tells us that what we might call 'subsistence agriculture' is basically an underperforming agricultural system.

Innovation is not just about what tools we use, but how we work with people. IFAD's experience has shown that groundbreaking ways of working with rural people can make vital contributions to inclusive agricultural development. In many cases, innovative approaches to empowerment, organisation and partnership are vital to helping poor producers take advantage of the opportunities that open up when the basic necessities are in place.

IFAD is working with partners in several African countries to pioneer effective ways of engaging with extremely poor families who are often excluded from project activities. Using an approach known as 'household mentoring', trained volunteers work within the family to help all members draw up a shared vision.

> "Technologies that the rest of the world takes for granted can be tailored to the needs of small producers in remote areas

Household mentoring shifts the focus from things, such as assets, resources and infrastructure, to people: who they want to be and what they want to do. The approach takes account of the reality that households are often not cohesive, egalitarian units that share resources and benefits. On the contrary, the women and men in a single family may pursue largely separate livelihoods, engage in different activities and enjoy different statuses. Household mentoring has improved gender relations and has had a measurable effect on social problems such as domestic violence and alcohol abuse.

IFAD is leading the drive to scale up household mentoring as a methodology. The approach is being spotlighted during the International Year of Family Farming 2014. It is being widely applied in Malawi, Nigeria, Rwanda, Sierra Leone and Uganda, with about 50,000 people participating. Reported benefits include greater resilience in the face of external shocks, more girls and boys in school, increased productivity and greater happiness. Household mentoring is included in the design of new projects in Ghana, Laos and Mozambique.

Innovation also has a big impact on access to financial services. In Bangladesh, an IFAD-supported project used innovative delivery mechanisms to give thousands of poor farming households access to financial services and vital agricultural technologies. More than 200,000 people previously excluded from microfinance coverage became active clients. Participants could invest in agriculture and take up innovative, environmentally friendly technologies such as deep placement of urea super granules, leaf colour charts and pheromone traps. With increased profits, farmers were able to buy or lease land, vaccinate livestock, and create employment opportunities for others in their villages. The project has now been scaled up within the country and has received the Development Impact Honors award from the United States Treasury Department.

Technologies that the rest of the world takes for granted can be tailored to the needs of small producers and microenterprises in remote areas. Mobile phones can give farmers in remote villages access to banking services or real-time information on the weather or markets. In Swaziland, a rural finance programme is partnering with a local mobile phone operator to pilot 'mobile money' and self-service, mobile-operated automated teller machines.

Even a space-age technology such as satellite imagery can help rural communities. An IFAD partnership with the European Space ▸

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The G20 members are working to develop a long-term strategy to overcome global risks to food and nutrition security

Agency in Botswana is applying this technology through a project to monitor land use and crop health. Data generated by satellites will help the Ministry of Agriculture objectively assess vegetation coverage in rural areas. The information will be used to determine the impact of agricultural practices that are being promoted and to suggest appropriate adjustments. It may also be used to set up an early-warning system focused on desertification.

Agricultural research and development, of course, should meet the needs of small producers. A long-term partnership with the International Network for Bamboo and Rattan has promoted innovative uses of bamboo and benefited poor rural people across Africa, Asia and Latin America. This fast-growing perennial crop is now processed into a huge variety of products, including furniture, boats, kitchen utensils, charcoal briquettes and footwear. The programme also enables communities to substitute wood-based fuels with bamboo, thus contributing to energy security and reducing environmental degradation.

Q How does IFAD engage stakeholders from civil society, smallholders and the business community?

A No one organisation or entity can tackle development challenges alone. To transform rural spaces and rural lives requires imaginative projects, partnerships and technologies. IFAD has gained a reputation as a trusted partner, not only among governments, but also among rural people themselves. It is therefore in a position to broker equitable investments in which rural people have a stake and also a voice. People are not objects of development; they must be engaged as agents of their own development.

The private sector – including smallholder farmers – has become the engine of growth in rural economies. This offers opportunities and risks to small producers, particularly when they are connected to larger, more powerful companies. IFAD plays a key role in reducing barriers, building trust and helping rural people create strong organisations that not only help them advocate for themselves, but also interact with private companies that can connect them to markets.

In Cambodia, a new project launched by IFAD and Intel Corporation is providing smallholder farmers with simple technologies that can make a big difference. In 2013, Cambodia was the world's fifth largest exporter of rice, and aims to become an even bigger global player. Yet its agricultural sector has hurdles to overcome. The combination of Intel's software and technology and IFAD's agricultural expertise and know-how can provide a major boost to small farmers, who have been held back by outdated methods, the use of chemical pesticides, and cheap or poor-quality seeds. This example shows how government, the private sector and producers can come together to find mutually beneficial solutions.

©IFAD/GUY STUBBS

A smallholder maize farmer uses sophisticated planting equipment and environmentally friendly pest controls to increase yield

Q How can the G20 leaders at Brisbane best help?

A The explicit integration of the agriculture sector in the G20 Brisbane Action Plan would be a significant achievement. This should include agricultural research and development – essential building blocks for effective innovation in the sector. The action plan would bring together the growth strategies developed by each G20 member to collectively reach a goal of two per cent growth in gross domestic product above the currently projected level in the next five years. In addition, the Food Security and Nutrition Framework has been developed this year by the G20 Development Working Group. The upcoming meeting is an opportunity to recognise the need to boost investment in agriculture and food supply chains, create quality jobs in the sector, and raise agricultural productivity. ■

Kanayo F Nwanze was appointed President of the International Fund for Agricultural Development (IFAD) in 2013 for a second four-year term. He had previously served as Vice President for two years. Before joining IFAD, Nwanze was Director General of the Africa Rice Center. In addition, he has held senior positions at research centres affiliated with the Consultative Group on International Agricultural Research (CGIAR) in Africa and Asia, and played a key role in establishing the Alliance of CGIAR Centers. He was also Chair of the World Economic Forum's Global Agenda Council on Food Security.

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Interview

From emergency relief to food security

—— We must find sustainable ways of dealing with hunger, says **Ertharin Cousin, Executive Director, World Food Programme**

Q What is the most significant challenge in the transition from emergency relief to sustainable food security and nutrition?

A To move from a situation in which hundreds of millions of people depend on emergency relief for their survival every year to one where we achieve sustainable food security and nutrition for all, we must first overcome the fundamental conceptual and institutional barriers that we as a community have erected between emergency and development approaches to international assistance. To do this, we need to step into the shoes of the people we serve and see the world from their perspective. People living in extreme poverty spend as much as 80 per cent of their income on food. In fact, more than 805 million food-insecure people do not have the luxury of distinguishing between their short- and long-term need for food. Neither should we. We must invest in food security and nutrition solutions for the most vulnerable, both before and between crises, to ensure that, when a crisis does hit, people are healthy and productive enough to withstand the shock.

When the impact of a crisis exceeds the ability of a population to cope, we [the World Food Programme] provide assistance for people to meet their food needs. We avoid negative coping strategies, for example by preventing families from selling productive assets, withdrawing children from school, or depriving infants of the calories, vitamins and minerals that their growing minds and bodies demand. Our effectiveness is directly related to our ability to provide assistance rapidly. Taking such preventive measures to reduce exposure to disaster risks and build a community's resilience is also more cost-effective than large-scale humanitarian response. Investment in resilience brings substantial returns in terms of reducing the cost of humanitarian response and supporting broader developmental outcomes.

Q How can the international community overcome this divide between development and humanitarian assistance?

A Achieving sustainable food security and nutrition for all will require a twin-tracked approach, one that gives equal priority to improving long-term, durable economic and agricultural productivity and the need to ensure access to nutritious food during a crisis. We must have an international aid architecture with financing mechanisms that reflect the reality faced by the people we assist. The Post-2015 Sustainable Development Agenda will only be successful if it is supported by a financial framework that breaks down the distinctions between development and humanitarian resources. This would include predictable, multi-year funding for food security and nutrition programmes that build the resilience of vulnerable populations before, during and after a crisis.

The need for appropriate financing mechanisms is even more critical given increasing climatic risk and extreme weather events. An innovative example is the Africa Risk Capacity, an African-owned, African Union-led financial platform that pools disaster risk and makes disbursements to participating states in the event of severe drought. By pooling risk across the continent, it can reduce the costs of accessing emergency contingency funds by as much as 50 per cent, and reduces reliance on international assistance. It puts governments themselves at the centre of disaster management and allows for a more timely and efficient response.

The World Food Programme [WFP] recently developed FoodSECuRE, a financing mechanism to leverage predictable, multi-year resources for resilience-building, disaster response and recovery. Traditionally, resources tend to be available when food security and nutrition indicators are already at their peak, and then decline before adequate measures to ensure disaster recovery and resilience-building have been effectively implemented. FoodSECuRE enables WFP and our partners, particularly governments, to respond earlier and implement coherent, sustainable, multi-year recovery programmes that maximise the opportunity to deliver longer-term impacts. FoodSECuRE reinforces preparedness within families and communities at chronic risk from climate-related disasters, while building resilience for the potentially affected to cope on their own in the future.

Q What can be done to improve the ability of governments to respond to food security and nutrition crises?

A Political will, good governance and peace are the most critical factors that determine whether a state can make sustained progress against food insecurity and nutrition objectives. Many countries have dramatically reduced hunger by making it a top priority of their domestic agenda. The allocation of resources is clearly important, but resources generally flow from serious commitments made at the highest levels of government.

José Graziano da Silva, Director General of the Food and Agriculture Organization (FAO), always reminds me that Brazil's dramatic progress in improving food security was only possible once the Brazilian people and their government decided that it was unacceptable for anyone to live with hunger. For this reason, it is critical for us to generate the political will to end hunger by advocating that food security and nutrition remain high on the agenda of policymakers and various international forums, including the G20.

Having travelled to countries affected by crises over the past few years, however, I have developed an appreciation for the fundamental role that local government plays in food security and nutrition response. Having the right policies and strategies in place and strong, centralised coordination mechanisms is incredibly important, but we often focus on these issues without attaching equal importance to the role of institutions at the local level.

Local government and civil society institutions represent the frontline in food security and nutrition response, acting as the primary source for early-warning information, planning, coordination and implementation. Local actors are the interface with the people affected by a crisis, voicing the concerns and needs of affected populations. Strengthening the technical and administrative capacity of local government and civil society institutions is a clear priority for WFP and our partners.

Q Hunger has been described as a multidimensional problem. What does this mean for you?

I could not agree more with that description. It is the multidimensional nature of hunger that makes it so challenging. If we look at undernutrition, there is no single, one-size-fits-all solution. Undernutrition is not simply caused by lack of access to nutritious food. Factors including access to clean water, sanitation, cultural and dietary preferences, and household economy all contribute. We need to engage at the community level with multiple partnerships to improve childcare practices, hygiene and sanitation conditions, education, and food consumption patterns.

Organisations such as WFP focused on ensuring at-risk populations have access to nutritious food must coordinate with partners responsible for other sectors. Partners such as UNICEF, FAO, the World Health Organization and non-governmental organisations (NGOs) ensure we effectively address all the underlying causes of undernutrition in a given context. Also, the successful efforts of international organisations must reflect and respond to the national, local and individual direction of those we serve. Too often, we see ownership of nutrition programmes residing within a single ministry, such as health or agriculture, and poorly coordinated with the range of relevant actors. Unless steps are taken to develop comprehensive and strategic whole-of-government as well as whole-of-community approaches to addressing undernutrition, the overall impact of individual initiatives will be diminished.

Q What can be done to better coordinate global efforts to eradicate hunger and malnutrition?

A Successfully fighting hunger requires an enabling environment that creates incentives for key stakeholders to sharpen their focus on improving food security and nutrition outcomes. The United Nations Secretary General's Zero Hunger Challenge is a global multi-stakeholder platform that encourages the private sector, civil-society leaders, NGOs and governments to coordinate their actions at the country level. The Zero Hunger Challenge provides a global policy framework to integrate national and local food security and nutrition interventions, ranging from support for smallholder agriculture to maternal health programmes and the elimination of waste. This framework, already in place in more than 30 countries, reinforces complementarity and inter-sectoral collaboration, and provides a solid foundation for promoting sustainable development.

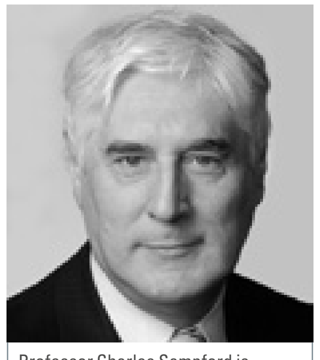
The Zero Hunger Challenge is tremendously helpful as a guide for where we need to go to eliminate hunger once and for all. However, we will only succeed if we can demonstrate the political will and commit the resources required for getting there. ■

Ertharin Cousin began her tenure as the Executive Director of the United Nations World Food Programme in 2012, and has more than 25 years' international non-profit, government and corporate leadership experience focused on hunger, food and resilience strategies. In 2009, having been nominated by US president Barack Obama, she became the US Ambassador to the UN Agencies for Food and Agriculture, and Head of the US Mission to the UN Agencies in Rome.

www.wfp.org

A question of integrity

—— From infrastructure financing to the governance of financial institutions, integrity is at the heart of long-term success and stability, writes **Charles Sampford, Director of the Institute for Ethics, Governance and Law, Griffith University**



WESLEY VAN DINTER/ISTOCK

Professor Charles Sampford is Director of the Institute for Ethics, Governance and Law at Australia's Griffith University, and a governance expert with extensive international experience of advising parliamentary committees, applied research, teaching, course development and programme delivery. In 2002-03, he was a member of a task force responding to threats to democracy; in 2003-04, he led a series of dialogues on governance values involving Western and Islamic scholars; and in 2009, he was a member of the Queensland Government's integrity round table.

www.griffith.edu.au

The G20 was established in the aftermath of the Asian financial crisis at a meeting of finance ministers and central bank governors in 1999. In 2008, it was upgraded to a leaders' meeting and played a pivotal role in responding to the global financial crisis, which was widely recognised as having been caused partly by serious ethical failures and a lack of transparency and integrity in significant financial markets. As Christine Lagarde, Managing Director of the International Monetary Fund, put it in a May 2014 speech: "Trust is the lifeblood of the modern business economy. Yet, in a world that is more networked than ever, trust is harder to earn and easier to lose… To restore trust, we need a shift toward greater integrity and accountability… The link is clear – ethical behaviour is a major dimension of financial stability."

As the G20 promotes effective global growth, especially in developing countries, it must address newly appreciated integrity challenges in the financial system, such as the LIBOR (London Interbank Offered Rate) and currency manipulation scandals, as well as long-standing integrity challenges posed by corruption, financial regulation, infrastructure funding, and base erosion and profit shifting (BEPS) in tax. The Global Integrity Summit, which took place in Brisbane in September, sought to address these and other integrity dimensions of the G20's Brisbane Summit. Background papers and the communiqué are available at www.integrity20.org.

Transparency International and others define corruption as "the abuse of entrusted power for personal gain" (where personal gain includes benefits to one's family, political party or other organisations). However, the mere avoidance of corruption is insufficient. The primary goal needs to be the promotion of integrity – namely, the use of public power for officially endorsed and publicly justified purposes. Institutional reform must place the promotion of integrity first and recognise that corruption is one of several forms of integrity failure (along with maladministration, inefficiency and institutional ossification).

Ethics involves giving honest and public answers to hard questions about values

Ethics involves asking hard questions about values, giving honest and public answers, and living by those answers. If you do, you have integrity. If you do not, the first person you cheat is yourself because you are not the person you claim to be – to yourself as much as others. As it is for individuals, so it should be for institutions – whether they be part of the government or the corporate sector, professional bodies, places of worship or non-governmental organisations.

The key integrity issues in three areas of the G20 Brisbane agenda are as follows.

Infrastructure integrity

The G20 recognises the importance of infrastructure in enabling development, especially in developing countries. However, all methods of infrastructure financing face integrity challenges. Public funding is often criticised for inefficient, collusive and corrupt tendering processes as well as dubious choices. Yet privatisation can involve selling assets below value to 'ensure its success' or for corrupt purposes. Such asset sales are often advocated as a universal solution, but generate risks in origin, contracting and corruption in developed as well as developing countries.

The practice of base erosion and profit shifting (BEPS) has raised questions of tax justice, and the ethics of the corporations involved in it

Over the last decade, there has been a strong push for public-private partnerships (PPPs). Given the higher borrowing costs and the burden of fees involved, roads and water projects are inherently more expensive as a result of higher interest rates, fees, transaction costs and the need to make a profit. Why should governments choose more expensive

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With high costs attached, transport infrastructure projects are expensive, and methods of financing pose integrity challenges

infrastructure? Expensive infrastructure is a problem for growth, not a solution. And why do those who secure fees and profits from such expensive infrastructure report as if they were experts rather than salespeople?

Financial integrity

The global financial crisis had an array of causes. Some clearly involved integrity failures: within banks and bankers, motivated by bonuses for fees and profits secured, and pursuing rewards by transferring risks to consumers and to the global system itself. Integrity failures also occurred within rating agencies, with conflicting interests in remuneration leading to high ratings given to very risky instruments. Integrity failures have continued. This may be because those whose behaviour lay at the heart of the problem continue to influence government policy. In most countries, all the solutions to the problems caused by the finance industry involve giving the industry more money. Does this indicate regulatory capture (or maybe 'deregulatory' capture)? Banks have greater knowledge and greater interest in certain outcomes. There may be a general belief in the efficacy of markets, but if the players are considered self-interested profit-maximisers, does this mean that their proposals will all be in their self-interest? Big questions must be asked about the role of the finance industry that the industry itself is unlikely to ask.

First, is banking too large a part of the economy, having risen from four to eight per cent of US gross domestic product (GDP) over the last 50 years? Does that mean banking takes a more important role, or make it a less efficient participant or just a successful rent extractor? If lawyers' income as a percentage of GDP doubled, no one would assume twice as much justice. And is the US healthier for spending almost twice as much of its GDP on health as comparable countries?

Second, should banking involve low risk, lower return? If not, why not? Banking involves lending on security. The bank gets paid out of its security first. All share capital is lost before the bank loses anything. If the risk to a company that borrows is greater, and the risk to the bank is less, and if markets operate in the way they are supposed to operate, bank return on capital ought to be less. If not, the bank is either engaging in risky behaviour or oligopolistic rent-seeking – or both. Should bankers be rewarded for risk-taking (whether the risks are on the banks, their customers or the economy)? No one wants lawyers, doctors and engineers to take big risks – indeed, high standards of care and disbarment for negligence are expected. Should the same be expected of banks/bankers – especially as some refer to themselves as 'finance professionals'?

Tax integrity

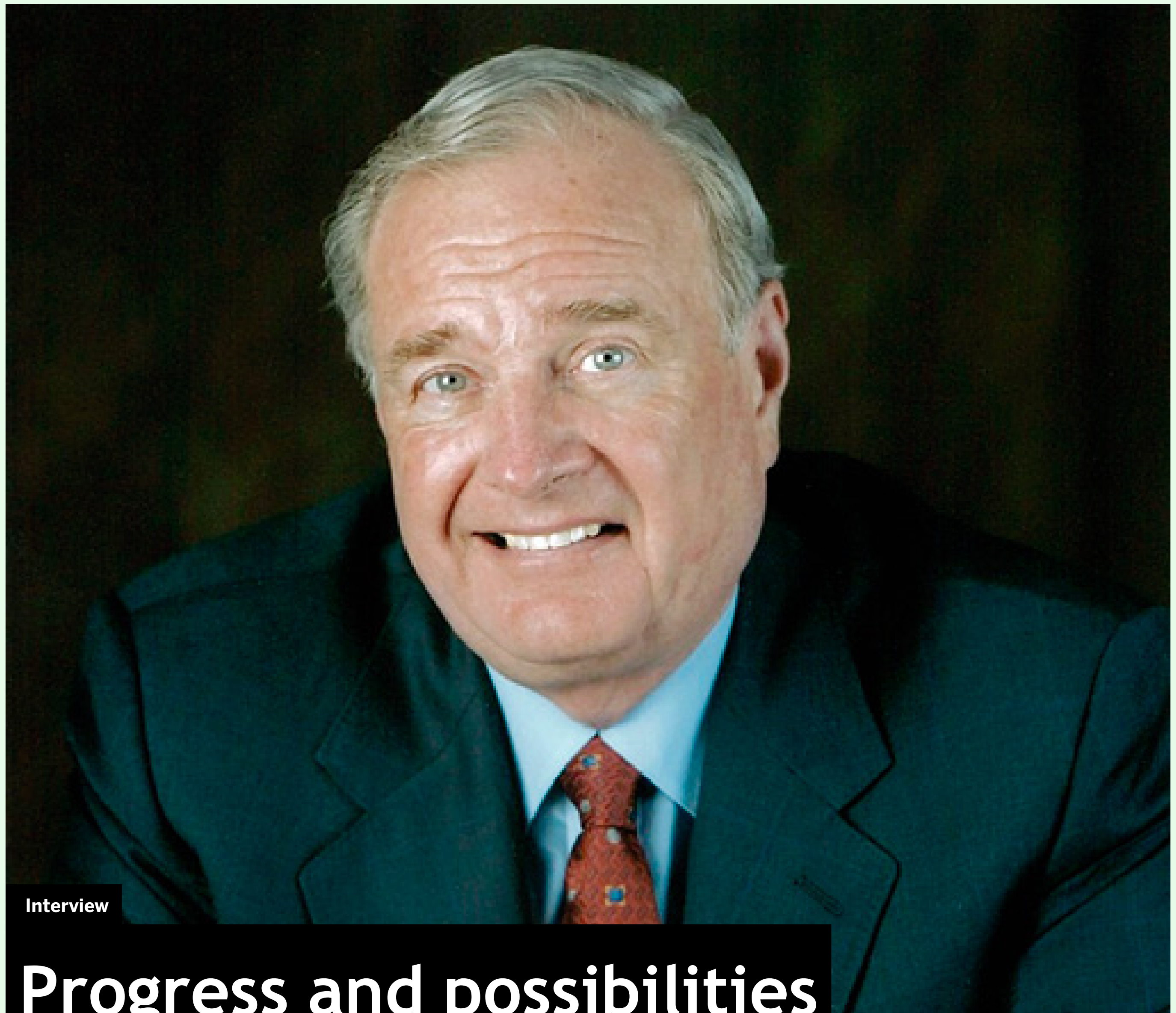
The globalisation of finance may have many benefits, but it has also provided more opportunity for BEPS – especially with the development of the digital economy. Lawyers and accountants have promoted means for eliminating tax for global corporations keen to do so, and those tempted to follow suit to avoid competitive disadvantage. Banks have facilitated and profited from the transfers. This hollows out the collection of tax for public purposes by rich and poor countries alike, giving them common cause to act. This compromises the integrity of national tax systems, and raises questions of tax justice and the ethics of corporations and the professionals who advise them.

But governments should not blame others. BEPS is a matter of common interest for G20 and non-G20 members that are not tax havens. Indeed, from the perspective of governments, BEPS is a classic collective-action problem, where each has individual reasons

In most countries, all the solutions to the problems caused by the finance industry involve giving the industry more money

to exploit the practice, but even greater reasons to come to a collective solution stymieing it. By failing to agree in principle on which countries should get what multinational corporate tax, governments may effectively ensure that none of them get any.

Integrity issues are raised by most items on the G20 agenda. Integrity is not, and never will be, an optional extra in governance or the G20. ■



Interview

Progress and possibilities

—— Paul Martin, former Prime Minister of Canada, was instrumental in the formation of the G20 and its later elevation to the leaders' level

Q What inspired you to take the initiative to create the G20 at the level of finance ministers and central bank governors in 1999?

A Beginning with Bretton Woods through to the G7, the global economic agenda was essentially set by the United States and a few others. However, by the time I became Canada's Finance Minister in 1993, the number of players influencing the global economy was expanding rapidly. If this growth was to occur positively, China, India, this year's host Australia, next year's host Turkey and the major emerging economies had to be at the table.

Any doubt I had disappeared when Canada's then weakened balance sheet was sideswiped by the Mexican peso crisis in 1994. Indeed, that was when I brought the concept of the G20 to the G7 finance ministers for the first time. I did not get very far then. But it was a different story when I raised it again three years later during the Asian financial crisis. The extent of that crisis, which included the Russian debt default and the Brazilian devaluation, proved the case for greater global collaboration. Plus I had discussed the concept with US Treasury Secretary Larry Summers beforehand, and it never hurts to have the US onside. Thus was born the G20!

Q What vision did you have for the new group?

A I hoped that it would play the role of a steering committee, building consensus, anticipating the challenges that lie ahead, and dealing with those that cannot be anticipated. In short, it was to be a catalyst. The G20 is not a rival of the great multilateral institutions and their universal membership. Indeed, I remember approaching those working on United Nations reform and discussing their eventual recommendation for the creation of a 20-nation catalyst to help drive the UN agenda.

The G20's primary role is to strengthen the multilateral institutions, and here it must pull up its socks.

It is unacceptable that the governance of the International Monetary Fund (IMF) is being questioned because the US Congress refuses to properly align the institution's quota system; that the World Trade Organization's one bright spot in recent years – the Trade Facilitation Agreement – is threatened by an agricultural dispute among G20 members; and that the Financial Stability Board (FSB) does not have true universal membership and a treaty giving it the ability to levy sanctions.

Q How much has your original vision for the G20 been fulfilled?

A In the early years, the finance ministers' G20 was very successful. From the beginning, the new ministers, many with extensive experience from time spent in Bretton Woods institutions, played important roles in resolving the Asian crisis and taking the steps required to prevent a recurrence.

But, as the euphoria that eventually led to the 2008 recession took its toll, the G20 lost some momentum – as did the G7. One reason for failing to see the bubble was the lack of initiative by the Financial Stability Forum (FSF), which the G7 had set up at the same time as the G20 but which was little more than a talk shop whose membership was limited to the G7 and a few friends.

Q What prompted your campaign to take the finance G20 to the leaders' level in 2004-05?

A I felt the G20 should be elevated to the leaders' level from the beginning, for the same reason it was required at the finance ministers' and central bank governors' level – the world had evolved beyond the G7.

I began to push for its elevation long before becoming Prime Minister, working with a number of think tanks in Canada, the US and elsewhere.

I also raised it whenever the occasion presented itself, as I did at a private dinner with China's Premier Wen Jiabao, just before I became Prime Minister. He immediately saw the merit.

When I took office, I raised the issue sometimes through officials but mostly personally with the G20 leaders themselves. Eighteen of the 19 agreed, many on the spot.

The only country that showed lasting reluctance was the US. President George W Bush would not say yes, but did not say no. Of course, later on he convened the first meeting at the leaders' level, for which I congratulate him.

Q Were you surprised when G20 summitry started in response to the 2008 financial crisis?

A No. I expected this would be the way the G20 would come about. I am no prophet, but most significant innovation occurs in response to a crisis and, unfortunately, financial crises seem to be a regular fact of global life.

Nor was I surprised when all the G20 members were convened. How do you justify dropping one? It is much easier to convene an existing membership and let the original convenors carry the burden of the choices made.

Q How successful has the G20 summit been since the first one was held in 2008?

A The G20 was extraordinarily successful in responding to the 2008 financial crisis, thanks in large part to Gordon Brown and the London Summit in 2009, which prevented the worst recession since World War Two from becoming the worst depression in anyone's memory. This success was due to two initiatives: first, the prevention of what would have been suicidal trade protection; and, second, the concerted stimulus packages of not only the mature economies but also the emerging economies, which would never have occurred without their membership in the G20.

Furthermore, the creation of the FSB out of the ashes of the FSF has been a major factor in dealing with the most serious institutional cause of financial crises: the banking sector. There have been many other successes as well. To name but one, Korea's hosting in 2010 was a success not only because it was the first Asian country to do so, but also because it succeeded in putting financial safety nets on the table as a viable alternative to the accumulation of excessive reserves. This might never had happened had Korea not been a member of the G20.

Q Should the G20 expand its agenda?

A Yes! Leaders should deal with the issues they want to. Whether we like it or not, this is what they will do, especially when attendance is limited to leaders, sherpas and interpreters, as should always be the case.

Furthermore, priorities will change as circumstances change. However, issues, once raised, should not simply drop off the table from summit to summit. They should be given the attention they deserve. Most issues of substance will require more than one summit in order to set the direction and confirm the actions to be taken. Financial institution regulation, for instance, requires a much firmer hand than is currently the case.

This, by the way, is but one reason why one-day meetings that are often little more than a dinner and a photo opportunity do not really work. Two-day meetings to make globalisation work hardly seems excessive.

Quite simply, issues such as food security, the migration of disease, refugees and oceans can no longer be ignored, and this is for more than one reason. Take climate change: given the increasing tensions between China and the US, were their leaders to cooperate and indeed take the lead on this crisis of all crises, where both have much at stake domestically, the mere fact of working together would not only benefit the UN climate change negotiations, but might well lead to other tensions easing between the world's two largest military powers. It is certainly worth a try, and the G20 is the place to do it. ■

Paul Martin was Prime Minister of Canada from 2003-06 and Minister of Finance from 1993-2002. He was named the inaugural Chair of the finance ministers' G20 in 1999. Today, he is Chair of the Congo Basin Forest Fund, a British-Norwegian-Canadian poverty-alleviation and sustainable development fund for the Congo basin rainforest, and sits on the Advisory Council of the Coalition for Dialogue on Africa, sponsored by the African Union, the United Nations Economic Commission for Africa, and the African Development Bank. Martin is also a commissioner for the Global Ocean Commission. Before entering politics, he was Chair and Chief Executive Officer of the CSL Group shipping company.

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From St Petersburg to Brisbane

The 2013 G20 summit made significant progress towards a stronger governance framework, paving the way for the 2014 summit, write **Marina Larionova and Andrey Shelepov, National Research University Higher School of Economics**

Marina Larionova is Head of the International Organisations Research Institute at Russia's National Research University Higher School of Economics (HSE) in Moscow, and Managing Director for International Relations at the Russian Union of Industrialists and Entrepreneurs (RSPP).

Andrey Shelepov is a Research Fellow at the International Organisations Research Institute at the HSE and Advisor for the International Relations Department at the RSPP. He is the author of several books and papers on the G20.

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Australia assumed responsibility for coordinating the work of the G20, accepting from Russia the rotating presidency of the forum on 1 December 2013. Most commentators argue that the Russian presidency was a success in terms of strengthening the G20's institutional framework, legitimacy and effectiveness.

G20 leaders met in St Petersburg under trying economic conditions. Sluggish global growth, persisting imbalances and downside economic risks demanded that they concentrate on developing and adopting a set of measures aimed at boosting strong, sustainable and balanced growth, along with job creation, around the world. As at previous summits, these traditional priorities constituted the core of the Russian G20 presidency's agenda.

Legacy of the 2013 summit

The Russian presidency managed to ensure a proper balance between its national interests and the partners' priorities, utilising the G20's capabilities to respond to key global governance challenges. Consolidating members' efforts to address core economic and financial issues, the G20 also launched work on such risks as increasing income disparities, chronic underinvestment in safe and secure modern infrastructure, and the unforeseen negative consequences of regulation.

To enhance the G20's legitimacy, transparency and effectiveness in addressing new issues on the agenda, Russia introduced several institutional and organisational innovations in the G20 process.

First, in preparation for the St Petersburg Summit, Russia released the *Outreach Strategy of the Russian G20 Presidency*, a comprehensive plan for extensive dialogue with "international organisations, the private sector, labour unions, youth, think tanks and academic institutions, non-governmental organizations and other actors of civil society". Their proposals would be "carefully studied, discussed and transmitted to the G20 decision-making level".

Active collaboration with social partners proved to be instrumental in harnessing their experts' potential. Analysis shows that many of the recommendations agreed at these meetings were subsequently reflected in the leaders' final documents. This success was largely facilitated by the new approach to the organisation of the outreach process: the final meetings of major outreach groups were held more than two months before the St Petersburg Summit.

The Russian presidency also managed the G20's collaboration with international organisations effectively. Consolidating the efforts of relevant international institutions over a short period helped advance the adoption of the comprehensive action plan on base erosion and profit shifting (BEPS), as well as the high-level principles of long-term investment financing.

Second, Russia introduced a new institutional format of a joint meeting for finance and labour ministers. This meeting resulted in a set of concrete labour-market policy commitments, focusing on stimulating job creation through investment, maintaining supportive macroeconomic environments and providing adequate social protection. Building on the outcomes of the joint ministerial meeting, the leaders at St Petersburg – for the first time in G20 history – stressed that the well-being of individual people should be at the centre of the growth agenda, emphasising that restoring strong economic growth and employment, and ensuring fiscal sustainability should be accompanied by policies aimed at increasing inclusiveness and social protection.

Third, important work was done to strengthen G20 accountability. In time for the St Petersburg Summit, the Development Working Group had forged a forward-looking development agenda responding to the aspirations of developing countries, especially low-income ones, and complementing the existing priorities. In this regard, the *St Petersburg Accountability Report on G20 Development Commitments*, the first such report, was a major achievement. The *St Petersburg Development Outlook* requested that the Development Working Group integrate accountability into its work and produce a comprehensive accountability report every three years. This would make the initiative launched under the Russian presidency a permanent one.

Finally, the Russian presidency demonstrated that the G20 could act as a flexible forum of global leaders that could respond to the burning challenges the world faces. The crisis in Syria, which had reached an acute stage for all summit participants, created a strong demand for the presidency to include a debate on a peaceful resolution in the agenda of 'the premier forum for international economic cooperation'.

IVAN SEKRETAREV/AP/PA IMAGES

G20 leaders at the St Petersburg Summit in 2013. Russia used its presidency to introduce various innovations in G20 processes

Responding to this demand, Russian president Vladimir Putin invited the G20 foreign ministers to meet on the eve of the summit. The leaders' opening dinner was followed by a three-hour discussion on Syria that offered an opportunity for all to express their views on ways to resolve the crisis. Each condemned the use of chemical weapons. Although the summit failed to produce a comprehensive political solution on Syria, the discussions among the foreign ministers and leaders sped up the elaboration of further measures to address the problem.

Existing priorities and new initiatives

Australia has kept the most important priorities of the Russian presidency, such as financing for investment and tackling BEPS, on its own agenda for Brisbane, and is working with international organisations to develop further policy measures on these issues. Improving job creation, labour force participation and social inclusion have also remained on the agenda. Although the Australian presidency has not organised a joint labour and finance ministerial meeting as in 2013, the labour and employment ministers met on 10-11 September 2014 and produced meaningful results, including the proposal to establish an employment working group, keeping social issues on the G20 labour agenda.

Australia's presidency has implemented an outreach programme similar to Russia's, with five groups of social partners holding their meetings several months prior to the Brisbane Summit. At the same time, it is still up to the Australian presidency to develop its own institutional innovations that will position the G20 as an international institution capable of finding long-term responses to economic and financial challenges,

The Russian presidency demonstrated that the G20 could act as a flexible forum of global leaders that could respond to the burning challenges the world faces

and flexibly addressing issues that demand urgent solutions. If such initiatives are launched at Brisbane, they will further strengthen the G20's institutional framework and its role as a major global leaders' forum. In particular, the G20 leaders could take steps to develop accountability mechanisms, revitalise the Mutual Assessment Process and institutionalise the work on long-term infrastructure financing. ■

Charting G20 compliance

—— Monitoring progress increases compliance and, while the G20 improves each year, there are still ways to increase accountability, write **Ella Kokotsis, Director of Accountability, and Caroline Bracht, Senior Researcher, G20 Research Group**

Ella Kokotsis is the Director of Accountability for the G20 and G8 Research Groups. She has consulted with the Canadian and Russian governments, and is the author of *Keeping International Commitments: Compliance, Credibility and the G7.*

Caroline Bracht is a Senior Researcher for the G20 and G8 Research Groups. She has researched and written on G20 and G8 compliance, and was the lead researcher on compliance with a priority selection of BRICS 2010 and 2011 commitments.

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G20 leaders will convene on 15-16 November 2014 for their ninth gathering, in Brisbane, Australia, where a broad range of increasingly urgent global issues will be addressed. Australia's economic priorities range from growth, employment and financial regulation to tax fairness and long-term financing for infrastructure. On the social and security front, G20 leaders will tackle the concerns brought on by the spread of Ebola, the escalating terrorist threat from the self-proclaimed Islamic State, and the ongoing tensions between Russia and Ukraine.

How effective the G20 is in governing these issues will largely depend on the extent to which the leaders are able to arrive at clear, strong, action-oriented commitments, as well as their ability to effectively deliver on the commitments they agreed to at prior G20 summits, including last year's in St Petersburg, Russia.

The issue of summit effectiveness and accountability is not new in G20 governance. At the very first leaders' summit in Washington DC in 2008, the leaders recognised the importance of "strengthening transparency and accountability". Here, the G20 tasked their finance ministers with the responsibility of ensuring that their commitments on financial and regulatory reform were "fully and vigorously implemented".

Subsequent summits have similarly emphasised the importance of implementation and delivery. Canadian Prime Minister Stephen Harper noted clearly from the outset in 2010 that the issue of accountability would be the "defining feature" of both the G8 and G20 summits that he hosted that June.

G20 sceptics have argued that the G20 has, in fact, fallen short on the delivery of its commitments, primarily those related to anti-protectionism, climate-conscious development, food security and increased equity in labour markets. Others contend that, unlike the G7 or G8, the G20 has largely failed in its capacity to produce a comprehensive accountability mechanism to track its effectiveness, given the group's lack of formal authority, absence of key accountability components, lack of cultural convergence and an overall dearth of normative consensus. Taken together, these perceived obstacles make delivering on core commitments challenging, at best.

Monitoring G20 performance

The G20 Research Group at the University of Toronto, Canada, and the International Organisations Research Institute at Russia's National Research University Higher School of Economics monitor the implementation of priority commitments from each summit. These commitments are selected according to the G20's core economic, social and political agenda, as well as the priority issues introduced by the host of each summit. While overall performance for all G20 members on those priority commitments has varied from year to year, the overall trend shows increasing compliance. Performance was highest with commitments from the 2008 Washington Summit, the 2011 Cannes Summit and the 2012 Los Cabos Summit. The highest compliance levels by issue have been those with social policy commitments, specifically those on labour and employment and on education, followed by macroeconomic policy, energy and financial regulation.

Nine months after the 2013 G20 summit in St Petersburg, the interim compliance scores across all commitments indicated a drop to 2010 levels of compliance. Compliance is strongest in the areas of food security and agriculture, labour and employment, and education and energy. Compared with earlier years, compliance is weakest with the G20's development commitments. However, the overall compliance

> The overall trend shows increasing compliance from all G20 members on priority commitments

average will be likely to increase in the final compliance report, which assesses the full year between St Petersburg and Brisbane. This projection is based on mounting evidence suggesting that G20 leaders are not only increasingly complying with the commitments they collectively agree to at their summits, but also that there are continued and

MARK GRAHAM/BLOOMBERG VIA GETTY IMAGES

sustained levels of G20 compliance in specific areas across a broad range of policy issues.

Australian Prime Minister Tony Abbott has chosen to focus on a few key areas and produce a short communiqué at Brisbane, rather than focus on accountability itself as a priority agenda item. However, the Think20 (T20), one of the G20's official outreach mechanisms, prioritised accountability at its conference on 25 June 2014. The Australian G20 Sherpa, Finance Deputy and Central Bank Deputy all participated in panels on strengthening accountability mechanisms in the G20, which was the main recommendation from the T20 to the leaders.

Advancing accountability beyond Brisbane

Several key opportunities are available for leaders to advance accountability at the 2014 Brisbane Summit. First, the G20 needs to build on its recent accountability reporting structure by tracking these commitments through a clear and transparent reporting mechanism. Although early reports of this nature show promise, future reports must include common benchmarks and the provision of reliable information.

Second, the G20 must continue to mandate its ministers, experts and working groups to report on progress. Evidence suggests that compliance increases when governmental bodies are tasked with rigorously monitoring commitments.

Third, an enduring accountability working group, similar to the one set up by the G8, could play a key role in ensuring quantifiable terms, consistent methodologies and rigorous assessments. This could provide a bridge between external evaluators' assessments and G20 self-assessments to highlight the shortcomings of each and to synchronise the various findings.

DEAN HUTTON/BLOOMBERG VIA GETTY IMAGES

Compliance scores from St Petersburg showed that G20 members have stuck to their clean energy commitments (top)

The highest compliance levels have included those relating to education commitments (above)

Finally, effective implementation goes beyond the boundaries of the G20. It requires global partnerships with non-state actors, civil society, academia, the business community and the private sector to deliver concrete and tangible results.

Brisbane thus provides a key opportunity for G20 leaders to build on their global credibility by not only providing an inventory of their collective accomplishments, but also engaging the broader international community and reporting on their successes in a clear, transparent and measurable way. ■

FULL PUBLICATION: g20.newsdeskmedia.com

Thinking ahead to stronger governance

—— As a forum for independent ideas and analysis, Think20 can help strengthen the G20 process and, by extension, global governance, says **Mike Callaghan, Director, G20 Studies Centre, Lowy Institute for International Policy**

Mike Callaghan is Director of the G20 Studies Centre at Australia's Lowy Institute for International Policy, which is coordinating this year's Think20. From 2008-12, he was Executive Director (International) in the Australian Treasury, and served as Australia's G20 Finance Deputy and the Prime Minister's Special Envoy, International Economy. He held various positions at the Treasury since joining in 1974, including Chief of Staff to the Australian Treasurer. He has also been Executive Director of the International Monetary Fund (IMF) and a member of the Financial Stability Board (FSB).

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A relatively new addition to the engagement groups that form part of the G20 process, the Think20 (T20) involves representatives from think tanks drawn from G20 members. The G20 first sought to formalise its outreach with the broader community at the Toronto Summit in 2010, holding consultations with business representatives from member economies. Since then, the consultation process has been expanded and become more organised. There are now five engagement groups in the G20: the B20 (business representatives); the C20 (representatives from civil society); the L20 (the organised labour movement); the T20 (think tanks and the academic community); and the Y20 (young people).

The first Think20 meeting took place in February 2012. It was organised by the Mexican G20 presidency in collaboration with COMEXI, the Mexican Council on Foreign Relations. Russia continued the process when it assumed the G20 presidency for 2013, and another Think20 meeting was held in Moscow in December 2012. It was organised by the Russian Presidential Academy of National Economy and Public Administration.

Australia continued with the Think20 process. The G20 Studies Centre at the Lowy Institute for International Policy organised the Think20 process in 2014. The Think20 activities that have taken place in the lead-up to and during Australia's G20 host year have included a regional (Asia) Think20 seminar; a Think20 meeting in December 2013 involving representatives from 30 think tanks; publication of *Think20 Papers 2014: Policy Recommendations for the Brisbane Summit*; publication of 13 issues of the *G20 Monitor* with papers covering all G20 agenda items; release of the *Think20 2014: Progress Report on the Australian G20 Presidency*; the hosting of workshops and conferences covering development, trade, energy, financial regulation and accountability; submissions and presentations on behalf of the Think20 to meetings of G20 officials, sherpas and ministers; and publication of an assessment by Think20 members of economic policy priorities for G20 members.

How the Think20 can contribute to the G20 and global economic governance

- **Provide ideas**
  The main contribution that think tanks can make to the G20 process, and to global economic governance more generally, is to contribute independent policy ideas and analysis. Of course, this is in keeping with the contribution that the think tanks can make on any public-policy issue. At the first Think20 meeting in Mexico City in 2012, the participants agreed that think tanks could serve as an 'ideas bank' for G20 governments. Moreover, think tanks are not advocates for a particular cause or item on the G20 agenda; their main interest is the advancement of good public policy, and the interests of individual Think20 participants will be wide-ranging. In addition, members of think tanks bring a unique perspective compared with many of the other engagement partners in the G20, in that they are particularly interested in global economic governance and how it can be strengthened through the activities of the G20.

> Think tanks can contribute significantly to the development of the G20

- **Contribute to the work of other groups**
  The other G20 engagement parties have acknowledged the role that the Think20 has played in providing input into their thinking, particularly at the early stage of their preparation. The G20 chair appoints a lead coordinator for each of the five engagement groups. The groups do not have a permanent secretariat so, each year, the body responsible for organising the process may face a significant learning curve. An advantage of many of those involved in the Think20 is that they have been working on G20 and international governance issues for a significant length of time, and their work can provide valuable institutional knowledge as well as highlighting key issues that should be considered. As noted, this has proved to be valuable input to the work of the other groups.

REUTERS/JASON REED

G20 finance ministers and central bank governors meet in Sydney, Australia, in February 2014. The Think20 group offers presentations and submissions to meetings of G20 officials, sherpas and ministers

Over the course of 2014, there has been close interaction among the various G20 engagement groups, with members participating in each other's summits and forums.

The Think20 is a loose association of think tanks from G20 members. There is no formal membership, and participation in Think20 events is by invitation from the think tank organising the function. Participants take part in the Think20 in an individual capacity and do not formally represent their countries. Unlike the other G20 engagement groups, the Think20 does not seek to negotiate an agreed set of recommendations that is formally conveyed to the G20 chair during the host year. However, the chair of the Think20 does forward to G20 officials a summary of the ideas discussed at Think20 meetings, seminars and conferences, and participates in meetings with officials.

Another distinguishing aspect of the Think20 is that, unlike those of other engagement partners, Think20 participants' research activities cover all the items on the G20 agenda while also focusing on the overall operation of the G20 process and how it could be strengthened.

- **Strengthen accountability**
  Other contributions that can come from think tanks are providing a potential source of strengthening the accountability of G20 members in implementing their commitments. The G20 Research Group at the University of Toronto, Canada, has for some time been coordinating work on assessing whether G8 and G20 members keep the commitments they make at their summits. In addition, many of the participants in the Think20 are actively involved in following and commenting on G20 developments, including the performance of members. An area where think tanks can make a contribution is, first, to assess whether countries are committing to undertake the reforms necessary to meet the G20 target of lifting global growth by two per cent over five years and, second, to monitor whether countries are implementing these reforms. In performing such analysis and making it public, think tanks help raise general public awareness about whether G20 commitments are being implemented. Another aspect of awareness-raising that can come through the involvement of think tanks is helping to explain the relevance of the G20 and the policies it promotes to a wider audience.

A focused approach

Think tanks can contribute significantly to the development of the G20 and its role in improving international economic cooperation. Think tanks can provide ideas, introduce fresh thinking and contribute to the public-policy debate.

To be effective, however, the work of the T20 think tanks must focus on advancing the priorities of the G20 and seek to produce meaningful outcomes in these areas, instead of continually trying to expand the G20 agenda. It is important that think tanks contribute to strengthening the G20 and global economic governance, and not undermine the process in anyway. This has been the focus of the Think20 in 2014, namely to contribute to achieving solutions to global problems and to avoid being a source of distraction. ■

China: the key to G20 success?

—— The international monetary system must be realigned to reflect today's less Western-centric global economy, argues **Wang Wen, Executive Dean of Chongyang Institute for Financial Studies at Renmin University of China**

Wang Wen is Executive Dean of the Chongyang Institute for Financial Studies, which was founded in 2013 at the Renmin University of China. He is also Standing Director of World Socialism Research at the Chinese Academy of Social Sciences, and a Visiting Professor at the Liberal Arts School at the Capital University of Economics and Business in Beijing. He previously worked as Chief Op-ed Editor and editorial writer at *Global Times*. His latest book, *Phantom of Powers*, was published in 2013.

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The G20 has been called the premier platform for global economic governance. It should be consolidated as the top-level planning body for the global economy. However, the reform of the International Monetary Fund (IMF) initiated by the G20 in 2010 has run adrift in the United States Congress. Now, the G20 is without the tools it needs to increase growth by an additional two per cent. In fact, at their September 2014 meeting, the G20 finance ministers and central bank governors acknowledged that their countries were on track to raise the rate of economic growth by only 1.8 per cent by 2018. The power of reform needs to be brought back to the G20.

There is a crisis of global governance today. The world must choose: should there be a meaningful overhaul of monetary governance, or just marginally better governance and regulation of financial markets? The original purpose of the G20 in its current form was to respond to the 2008 global financial crisis. Its agenda has focused on the management of financial markets, since it was 'market disorder' that caused the crisis. Recently, many in China have begun to suspect that the real cause of that market disorder and the global financial crisis was the international monetary system, specifically its over-reliance on the US dollar. It is time to consider putting reform of the international monetary system on the G20 agenda. China, as the largest holder of international foreign exchange reserves, holds the key to the success of global monetary governance through the G20.

The US and the European Union only consider domestic or regional economic conditions when making monetary policy. Other monetary authorities must consider not only domestic conditions, but also external conditions when they attempt to set their own exchange and interest rates. Countries with non-reserve currencies must try to avoid, or cope by other means with, the damage caused by the unconventional monetary policies of the US and the EU. Nevertheless, China has been the powerhouse of the global economy, contributing more than one-third of global growth during the five years from 2008-13. Without China, the G20 would have no means to execute its agenda for global economic governance.

China's perspective

In the next five years, the global economy will enter a key stage for sustainable growth. As a developing country, China is well aware of the urgent need to promote economic development and growth. Since promoting growth is still at the centre of the G20 agenda, China should host the 2016 G20 summit, so that it can better share its development experience with the world. China is the world's largest manufacturing country and its largest consumer market, and still expects to see significant growth well into the future. As the proverb goes: "If you want to go fast, go alone; if you want to go far, go together." In the future, it will be beneficial for both developed and developing countries to participate in global governance on a broader G20 agenda.

From a Chinese perspective, I would offer the following advice to the G20:

1. China offers its philosophy of comprehensive macro-finance – 'great finance' – to be part of the global dialogue on global financial values. The greatest risk in the future is that the pattern of economic growth from before the crisis continues unchecked. This necessitates a consensus for structural adjustment. Finance that serves the real economy is a core value that China will promote in the G20. Through the G20, a common framework can be created to integrate global finance and the real economy.
2. The G20 governance system should be expanded in all directions with 'variable geometry'. Various regional, bilateral and multilateral mechanisms as well as non-members should be given an opportunity to participate in the G20 process. Non-members should be welcomed into working groups on issues of concern to them.
3. The meeting of G20 finance ministers and central bank governors held in September 2014 emphasised that investment is critical to boosting demand and lifting growth. To increase long-term investment in infrastructure and to close the global infrastructure funding gap, the G20 should mount a public-private partnership (PPP) initiative. The G20-PPP initiative will include a jointly created capital pool and a project storehouse to match governments and projects with companies in the private sector. The Global Infrastructure Initiative agreed to on 21 September at the finance ministerial meeting should be undertaken with the full support and coordination of all G20 members.
4. As the global economy continues to evolve, the US dollar cannot continue to be so over-represented in global foreign exchange reserves. Early in 2009, Zhou Xiaochuan, Governor of the People's Bank of China, argued that global financial stability depended on reforming the US dollar-dominated system. The G20 should clearly state this reform as an objective, and think of appropriate and measured reforms to solve this problem.
5. The G20 needs to create more permanent institutions with the binding force of international law. The end goal should be to establish a G20 secretariat that can oversee the operation of the international system. This would permanently upgrade the G20 from a crisis-management mechanism to the centre of leadership promoting sustainable, long-term global governance.

DAVE HUNT/AAP/PA IMAGES

The importance of investment to boosting demand was discussed at the G20 finance ministers' and central bank governors' meeting in Cairns, Australia, in September 2014

Finance that serves the real economy is a core value that China will promote in the G20

The G20 should be a forum where developing and developed countries can engage in dialogue as equals to plan and implement an ambitious agenda in order to solve the complex problems of global governance in an age of ever-increasing globalisation. Even though the G20 in its current form is the product of a crisis caused by an old system dominated by developed countries, there is still a chance that further crises could be avoided and the demands of a changing era met by expanding the Western-centric worldview of the G7. It is time to give the G20 its chance to take on a greater and more authoritative role. ■

On track for inclusive growth

—— Integrating the thematic priorities of the 'sherpa track' into the broader G20 agenda will help tackle global economic and developmental challenges, explains **Güven Sak, Executive Director, Economic Policy Research Foundation of Turkey**

Güven Sak is the Founder and Executive Director of the Economic Policy Research Foundation of Turkey (TEPAV) and Vice Rector of the TOBB University of Economics & Technology. He is a founding member of the Monetary Policy Council of the Central Bank of Turkey, established after Turkey's 2001 banking crisis, and served until 2006. Between 1995 and 2006, he was a Professor of Public Economics at Ankara University. He began his career as a research officer at the Capital Markets Board of Turkey in 1984, where in 1990 he was appointed Chief Economist.

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Since the onset of the financial crisis, the G20, whose membership consists of systemically important advanced and emerging economies, has emerged as the principal forum for intergovernmental economic cooperation. At the 2008 Washington Summit, building on the momentum created by deteriorating economic conditions, G20 leaders committed to respond to the crisis collectively to restore global financial stability. The leaders also agreed to follow up on a broader policy response by cooperating more closely on non-financial issues including development, employment, trade, social issues and corruption. Thus, in addition to the finance track, which focuses on economic issues and financial matters, the G20 incorporated the sherpa track to deal with political, non-financial issues.

Key policy areas

The sherpa track is an important step towards setting up a more inclusive and sustainable growth agenda to address economic and development challenges at the global level. However, compared with the finance track, it is still in its infancy, and needs to be further developed to effectively address ongoing and emerging global challenges. One way in which to ensure a successful sherpa track is to identify sherpa-related policy areas that overlap with the finance track. Establishing linkages and setting a common agenda for the finance and sherpa tracks will also help bring focus to the G20. The following policy areas underpin the need to integrate the sherpa track into the finance track and the broader G20 agenda.

First, the G20 offers an important opportunity to promote small and medium-sized enterprises as key contributors to global job creation, and to support SME integration into the globalisation process. The World Bank's *World Development Report 2013: Jobs* notes that the financial crisis made a further 22 million unemployed in a single year, and 600 million jobs need to be created over the next 15 years in order to sustain current employment rates. Currently, SMEs generate more than 60 per cent of the global workforce, employ youth and women, and often operate at the grass-roots level, where income disparities and access to basic needs are most persistent. Therefore, SMEs are critical to creating jobs globally, as well as to social stability, equitable growth and poverty alleviation.

Inserting financial inclusion – fundamental in supporting SMEs – into the sherpa track can help ensure access to basic services and facilitate sustainable and equitable growth. However, with regard to the finance track, global macroeconomic policy coordination and a strong, consensus-driven global financial architecture are also critical for SMEs, which tend to be more vulnerable than large companies to external financial shocks. At the monetary level, for example, the United States Federal Reserve's recent unilateral decision to begin tapering asset purchases caused significant financial turmoil across some emerging economies, which experienced capital outflows and financial market volatility. Macroeconomic weakness, inflation, higher lending rates as well as borrowers' risk put considerable pressure on SMEs in emerging markets. Similarly, the lack of sufficient global policy consensus or coordination on the design of rules and regulations that govern global finance and investment threaten macroeconomic and financial stability, particularly in emerging markets. In this respect, the G20 can set up and administer a global financial safety-net mechanism to avoid negative spillovers to emerging and other developing markets.

Establishing linkages and setting a common agenda for the finance and sherpa tracks will bring focus to the G20

Second, increasing connectivity vis-à-vis investments in transportation networks and routes, as well as energy routes and infrastructure for information and communications technology (ICT) is central for a more inclusive and sustainable trade, employment and development agenda in the sherpa track. There are considerable connectivity disparities among G20 members, as well as between G20 members and non-G20 members. Moreover, North-North and North-South trade connections are generally stronger than South-South connections. Connectivity problems also affect SMEs far more than they affect large companies, preventing SMEs from participating in export markets and global or regional supply chains. Thus, improving trade connectivity will especially benefit emerging markets and other developing countries, boost South-South trade and increase SMEs' international operations. Connectivity in areas such as ICT infrastructure and the internet also provide a unique opportunity for emerging markets and SMEs.

At the same time, in order to improve connectivity, major investments in transport infrastructure and new transport corridors are required. In this regard, the G20's finance track can facilitate a cross-border investment framework to help sovereign states cope with financing problems and create incentives for the private sector to invest in complex and expensive infrastructure projects.

Third, the G20 plays a key role in tackling global imbalances and poverty and in addressing the inequitable distribution of income domestically. In order to tackle global imbalances and poverty, the G20 must adopt a more inclusive jobs and growth agenda that emphasises the needs of the most vulnerable and addresses how those people at the low end of the income distribution are affected by policy decisions.

Need for stronger cooperation

Three quarters of domestic income disparity depends on geographic location. In most instances, people born in poor countries are more affected than those in rich countries. Moreover, while jobs and growth will remain at the centre of national policy debates for years to come, intensified global interdependencies reinforce the need for greater policy cooperation.

The policy agenda envisioned by global governance structures such as the United Nations Millennium Development Goals (MDGs) focuses more on improving policies related to domestic income disparities and often favours middle-income countries; it discriminates against low-income countries. Therefore, stronger policy cooperation and a jobs and growth agenda with all countries' needs taken into account are critical to tackling global inequality.

Furthermore, the G20 must continue to promote effective global and domestic tax systems to combat both global and domestic inequalities. The finance track has been working together with the Organisation for Economic Co-operation and Development (OECD) to address international tax avoidance, and reform the global tax system through the action plan on base erosion and profit shifting (BEPS). At the same time, the finance track has been working with the Global Forum on Transparency and Exchange of Information for Tax Purposes to develop common reporting standards for the automatic exchange of taxpayer information (AEOI) between jurisdictions.

The G20's Development Working Group has also been supporting effective domestic resource mobilisation within developing economies, and works with the finance track on the implementation of BEPS and AEOI reforms in developing economies. The tax agenda is part of the broader G20 agenda to promote transparency and combat corruption, essential in strengthening the resilience of the global economy. Moreover, an effective tax regime is particularly important for developing economies to collect government revenue and address inequality.

By way of conclusion, the G20 must focus on setting a more inclusive jobs and growth agenda while continuing to promote global financial stability. Sherpa track issues including development, trade and employment still need to be integrated into the finance track and the broader G20 agenda. To this end, the G20 must set focused and concrete targets for a number of economic and development challenges at the global level. ■

HOANG DINH NAM/AFP/GETTY IMAGES

Workers at an urban railway development site in Hanoi, Vietnam. The G20's finance track can help incentivise private investment in infrastructure projects

Turkey 2015: focus on business

As the host of the G20 in 2015, Turkey aims to strengthen its engagement with the private sector to drive growth and job creation, says **M Rifat Hisarcıklıoğlu, President, Union of Chambers and Commodity Exchanges of Turkey (TOBB)**

M Rifat Hisarcıklıoğlu has been President of the Union of Chambers and Commodity Exchanges of Turkey (TOBB) since 2001. He is also Deputy President of EUROCHAMBRES; Vice President of the Islamic Chamber of Commerce, Industry and Agriculture; Vice President of the Confederation of Asia-Pacific Chambers of Commerce and Industry; a member of the board of the International Chamber of Commerce; and International President of Jerusalem Arbitration Center. He is also a board member of the Association of Balkan Chambers.

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The G20 platform was first established to respond to the economic crises in emerging markets at the end of the 1990s. At the time, those crises also posed a threat to the economies of developed countries. The finance ministers and central bank governors of G20 members met for the first time in 1999 to discuss the future of the global financial system.

With the onset of the 2008 financial crisis, the G20 rose to greater prominence and, for the first time, convened at the leaders' level in Washington DC in November 2008.

Since then, the G20 has evolved into a major mechanism for international economic cooperation. Today, G20 members account for 85 per cent of the global economy, 75 per cent of world trade and two-thirds of the global population. These figures alone highlight the G20's vast potential to become a global governance mechanism that will help strengthen international economic cooperation and spearhead economic policymaking.

The future of the G20

The G20 needs to be turned into a more effective mechanism for policy coordination to ensure the continued deepening of globalisation. Its success will depend on complementing its principal raison d'être of economic crisis management with a global agenda that addresses the needs of both developed and emerging countries, including those outside the G20.

At the same time, the G20, which has primarily focused on reforming the global financial architecture, needs to develop a broader growth and jobs agenda as well as a medium-term strategy to tackle problems facing the real sector.

KRISZTIAN BOCSI/BLOOMBERG VIA GETTY IMAGES

Australia's G20 presidency in 2014 charted a clear road map by setting a target of an additional two per cent global growth for the upcoming five-year period. G20 decision-makers welcomed the initiative and agreed to shape their respective future growth agendas and strategies to meet the target.

It is increasingly important to engage global business in this endeavour. In order to develop the policies towards the new growth target, the G20 must effectively engage with the private sector and listen to its concerns and recommendations.

Strengthening G20-B20 engagement

The B20 plays a key role in helping the global business community engage with G20 decision-makers and contribute to the G20 agenda. In recent years, however, there have been concerns that G20-B20 engagement is losing momentum and that the B20's influence is declining. The Australian presidency made considerable efforts to respond to these concerns in 2014. In 2015, when it is due to assume the G20 presidency, Turkey aims to bring new impetus to the B20 by adopting a more inclusive global business agenda. The following is an overview of B20 Turkey's priorities:

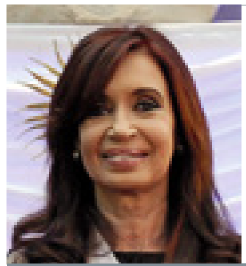
- Engaging with truly global issues, including tax inversion for multinational companies; regulation of risk in the finance sector, including the recent fines on banks and the potential impact of risk-averse regulation on small and medium-sized enterprises and institutional investors; and issues related to the digital economy, including cybersecurity, the protection of personal data, cross-border data transfers and internet governance.
- Engaging SMEs and start-ups along with large corporations by setting an agenda that focuses on the challenges they face, fostering more cooperation between start-ups and large corporations by promoting an entrepreneurial agenda for large corporations.
- Engaging business representatives in non-G20 and least-developed economies, including them in the B20 process, and encouraging the governments of these countries to adopt policies more conducive to private-sector development.
- Maximising the contributions of business leaders in the task forces and ensuring the direct interaction of business and government leaders at the G20 summit.

B20 Turkey's priorities for 2015 include issues related to the digital economy, such as cybersecurity, and the challenges faced by small and medium-sized enterprises and start-ups

Inclusivity and interactions among different actors will not only help to strengthen G20-B20 engagement, but also contribute to the growth-and-jobs-oriented G20 agenda. As the host of B20 Turkey, TOBB is looking forward to a year of inclusive and interactive high-level public-private dialogue with the aim of contributing to the global economic agenda in 2015. ■

FULL PUBLICATION: g20.newsdeskmedia.com

Argentina | Cristina Fernández de Kirchner



Cristina Fernández de Kirchner became President of Argentina in December 2007 after winning the general election in October, and was re-elected in October 2011. She replaced her late husband, Néstor Kirchner, who had been President since May 2003. She is Argentina's second female president, the first to be elected. Prior to her current position, she was Senator for the provinces of Buenos Aires and Santa Cruz. She was first elected to the Senate in 1995, and in 1997 to the Chamber of Deputies. In 2001, she won a seat in the Senate again. Born on 19 February 1953 in La Plata, Buenos Aires, Kirchner studied law at the National University of La Plata. She has two children and has attended every G20 summit.

Finance Minister: Axel Kicillof | Central Bank Governor: Alejandro Vanoli | Sherpa: Cecilia Nahón

Australia | Tony Abbott

Tony Abbott was sworn in as the Prime Minister of Australia on 18 September 2013. Prior to the election of the coalition government on 7 September 2013, he had been leader of the opposition since 1 December 2009. He was first elected as member for Warringah in 1994 and re-elected at seven subsequent elections. During the Howard government, Abbott served as a Parliamentary Secretary, Minister, Cabinet Minister and Leader of the House of Representatives. He also served as Minister for Employment Services (1998-2001), Minister for Employment and Workplace Relations (2001-03) and Minister for Health and Ageing (2003-07). Prior to entering parliament, Abbott was a journalist with *The Australian* and *The Bulletin*. Born on 4 November 1957 in London, Abbott holds economics and law degrees from Sydney University. He is a Rhodes Scholar and holds a Master of Arts (politics and philosophy) from Oxford University. He and his wife, Margaret, have three children.

Finance Minister: Joe Hockey | Central Bank Governor: Glenn Stevens | Sherpa: Heather Smith

Brazil | Dilma Rousseff

Dilma Rousseff was elected the 36th President of Brazil in 2010 and inaugurated on 1 January 2011. She was re-elected in a run-off election on 26 November 2014. In 2002, Luiz Inácio Lula da Silva appointed her Minister of Energy, and in 2005 she became Chief of Staff, remaining in office until 31 March 2010, when she stepped down to run for President. She was born in Minas Gerais, Brazil, on 14 December 1947. Rouseff studied economics at the Minas Gerais Federal University School of Economics and did postgraduate studies in economics at the Campinas State University. She is divorced from Carlos Franklin Paixão de Araújo, with whom she has one child. This will be Rousseff's fourth G20 summit.

Finance Minister: To be named | Central Bank Governor: Alexandre Antonio Tombini | Sherpa: Enio Cordeiro

Canada | Stephen Harper

Stephen Harper was elected Prime Minister of Canada in January 2006, and was re-elected in October 2008 and again in May 2011. He was first elected as a Member of Parliament in 1993. Harper served as leader of the opposition for several years before becoming Prime Minister. Born in Toronto, Ontario, on 30 April 1959, he studied at the University of Toronto and the University of Calgary, earning a master's degree in economics in 1991. He and his wife, Laureen, have two children. Harper has attended all the G20 summits.

Finance Minister: Joe Oliver | Central Bank Governor: Stephen Poloz | Sherpa: Simon Kennedy

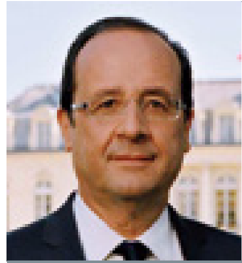
China | Xi Jinping

Xi Jinping was elected President of the People's Republic of China on 15 November 2012. Xi was appointed Vice-president in March 2008. Xi served in numerous local party and provincial positions, including serving as Deputy Provincial Party Secretary of Fujian from 1995 until 2002. Xi held several party positions before he was appointed to the 17th Chinese Communist Politburo in October 2007. Xi was born in Fuping, Shaanxi, in 1953. He earned a degree in chemical engineering and was later awarded a doctorate in law from Tsinghua University in Beijing. Xi is married to folk and opera singer Peng Liyuan and they have one daughter. Brisbane will be his second G20 summit.

Finance Minister: Lou Jiwei | Central Bank Governor: Zhou Xiaochuan | Sherpa: Li Baodong

LANDOV/PRESS ASSOCIATION IMAGES

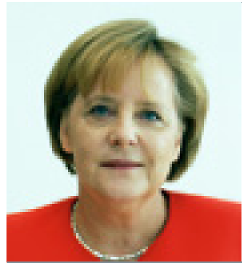
France | François Hollande



François Hollande was elected President of France on 6 May 2012. He served as First Secretary of the Socialist Party from 1997 to 2008. He was the Deputy of the National Assembly of France for Corrèze from 1988 to 1993 and has been again since 1997. Hollande also served as the Mayor of Tulle from 2001 to 2008. He joined the Socialist Party in 1979, and was an Economic Advisor for François Mitterrand. Born in Rouen on 12 August 1954, Hollande holds degrees from the École nationale d'administration (ENA), and the Institut d'Études Politiques de Paris (Sciences Po). He has four children with his previous partner, Ségolène Royal. Brisbane is Hollande's third G20 summit.

Finance Minister: Michel Sapin | Central Bank Governor: Christian Noyer | Sherpa: Laurence Boone

Germany | Angela Merkel



Angela Merkel became Chancellor of Germany in November 2005 and was re-elected in September 2013. Merkel was first elected to the Bundestag in 1990 and has held the cabinet portfolios for women and youth, environment, nature conservation and nuclear safety. Before she entered politics, Merkel worked as a researcher and physicist. Merkel was born in Hamburg on 17 July 1956 and received her doctorate in physics from the University of Leipzig in 1978. She is married to Joachim Sauer and has no children. Merkel has attended every G20 summit.

Finance Minister: Wolfgang Schäuble | Central Bank Governor: Jens Weidmann | Sherpa: Lars-Hendrik Röller

India | Narendra Modi

Narendra Modi, leader of the Bharatiya Janata Party (BJP), was sworn in as Prime Minister of India on 26 May 2014, replacing Manmohan Singh who had been Prime Minister since 2004. He had served from 2001 to 2014 as the Chief Minister of Gujarat state in western India and is currently the member of Parliament for Varanasi. Modi joined the BJP in 1987, and became General Secretary of the Gujarat branch of the party the following year. In 1995 Modi was made National Secretary of the BJP, and three years later was appointed as General Secretary (Organization). In 2001 he replaced the incumbent Gujarat Chief Minister, fellow BJP member Keshubhai Patel, and in 2002 won his first election in the Gujarat state assembly. He was re-elected in 2007 and 2012. Born on 17 September 1950 in Vadnagar, Gujarat, he completed an MA degree in political science from Gujarat University. This will be his first G20 summit.

Finance Minister: Arun Jaitley | Central Bank Governor: Raghuram Rajan | Sherpa: Suresh Prabhakar Prabhu

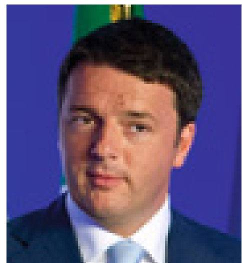
Indonesia | Joko Widodo

BAY ISMOYO/AFP/GETTY IMAGES

Joko Widodo, known as Jokowi, was sworn in as President of Indonesia on 20 October 2014, replacing Susilo Bambang Yudhoyono who had been President since 2004. Jokowi began his political career with the Indonesian Democratic Party of Struggle (PDIP) when he was elected Mayor of Solo, Java in 2005, and was re-elected in 2010. In 2012, he was elected Governor of Jakarta, a position he held until running for the 2014 presidential election. Before entering politics, he established a furniture manufacturing operation in 1988. Born on 21 June 1961 in Solo, Jokowi studied forestry at Gadjah Mada University. He and his wife, Iriana, have three children. This will be his first summit.

Finance Minister: Bambang Brodjonegoro | Central Bank Governor: Agus Martowardojo | Sherpa: To be named

Italy | Matteo Renzi



Matteo Renzi became Prime Minister of Italy on 22 February 2014 after the resignation of Enrico Letta. He became Secretary of the Democratic Party on 15 December 2013. In 2004 he was elected President of the Province of Florence, and in 2009, having joined the Democratic Party, he won the election for mayor of Florence, a position he held until March 2014. Before entering politics, Renzi worked in his family business and was very active in the Boy Scouts. Born on 11 January 1975 in Florence, he graduated from the University of Florence in 1999 with a degree in law. He and his wife, Agnese Landini, have three children. This will be his first G20 summit.

Finance Minister: Pier Carlo Padoan | Central Bank Governor: Ignazio Visco | Sherpa: Armando Varricchio

Japan | Shinzō Abe

AP/PRESS ASSOCIATION IMAGES

Shinzō Abe was elected Prime Minister of Japan on 28 December 2012, having previously served from September 2006 to September 2007, and has been President of the Liberal Democratic Party since 2006. He was elected to the first district of Yamaguchi Prefecture in 1993. In 1999, he became the Social Affairs Division Director and served in the cabinets of Yoshiro Mori and Junichiro Koizumi before becoming LDP Secretary General. In 2005, Abe was nominated Chief Cabinet Secretary in Koizumi's cabinet. Born on 21 September 1954 in Nagato, Abe studied political science at Seikei University and public policy at the University of Southern California. He is married to Akie Abe. This will be Abe's second G20 summit.

Finance Minister: Taro Aso | Central Bank Governor: Haruhiko Kuroda | Sherpa: Yasumasa Nagamine

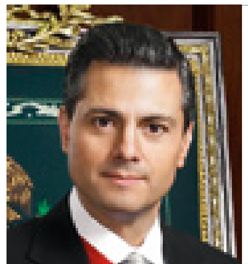
Korea | Park Geun-hye

SEONGJOON CHO/BLOOMBERG VIA GETTY IMAGES

Park Geun-hye became Korea's first female President on 25 February 2013, replacing Lee Myung-bak. The daughter of former Korean President Park Chung-hee, Park was thrust into politics at the early age of 22 when she became de facto first lady after her mother was killed in an assassination attempt on her father. In 1998, Park was appointed Vice Chair of the Grand National Party (GNP) and a member of the National Assembly, eventually serving five consecutive terms. In 2004, she was elected Chair of the GNP. Born on 2 February 1952, in Daegu, Korea, she received a bachelor's degree in electronic engineering from Sogang University in 1974. This will be Park's second summit.

Finance Minister: Choi Kyunghwan | Central Bank Governor: Lee Juyeol | Sherpa: Il Houng Lee

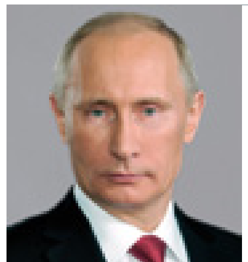
Mexico | Enrique Peña Nieto



Enrique Peña Nieto became President of Mexico on 1 December 2012. In 1999, Peña was appointed Administrative Secretary after working on the campaign for former Governor of Mexico State Arturo Montiel Rojas, who he succeeded in 2005. In 2011, he won the presidential nomination of the Institutional Revolutionary Party. Born in Atlacomulco, Mexico, in 1966, Peña received his bachelor's degree in law from the Universidad Panamericana and later received a master's degree in business from the Monterrey Institute of Technology and Higher Education. He has three children by his late wife, Mónica Pretelini. He married Angélica Rivera in 2010. This will be Peña's second summit.

Finance Minister: Luis Videgaray Caso | Central Bank Governor: Agustin Carstens | Sherpa: Carlos de Icaza

Russia | Vladimir Putin



Vladimir Putin became President of the Russian Federation for the second time on 7 May 2012, having been elected President in 2000 and re-elected in 2004. Putin became Acting President on 31 December 1999 and led the United Russia party from 2008 to 2012. He worked for the KGB from 1975 to 1991, and was Director of the Federal Security Service from 1998 to 1999. He was first Deputy Chair of the St Petersburg city government, Chair of its External Relations Committee, and Secretary of the Russian Security Council. Born on 7 October 1952 in Leningrad, Putin graduated from the law faculty of Leningrad State University. He has two daughters with his former wife Lyudmila. This will be Putin's third G20 summit.

Finance Minister: Anton Siluanov | Central Bank Governor: Elvira Nabiullina | Sherpa: Ksenia Yudaeva

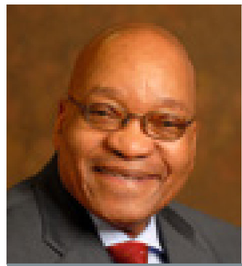
Saudi Arabia | King Abdullah bin Abdulaziz

ROGER L.WOLLENBERG-POOL/GETTY IMAGES

King Abdullah bin Abdulaziz has been in power since August 2005. He replaced Fahd bin Abdulaziz Al Saud. As crown prince, Abdullah had previously acted as de facto regent since 1 January 1996, after Fahd was debilitated by a stroke. He also serves as Prime Minister of Saudi Arabia and Commander of the National Guard. Abdullah is Chair of the Supreme Economic Council, President of the High Council for Petroleum and Minerals, President of the King Abdulaziz Centre for National Dialogue, Chair of the Council of Civil Service and head of the Military Service Council. He was born on 1 August 1924 in Riyadh and has a number of wives and children. The King has attended six summits and been represented by his Minister of Finance at the other summits.

Finance Minister: Ibrahim Abulaziz Al-Assaf | Central Bank Governor: Fahad Almubarak | Sherpa: Hamad Albazai

South Africa | Jacob Zuma



Jacob Zuma became President of South Africa on 9 May 2009, and was re-elected on 21 May 2014. He joined the African National Congress (ANC) in 1959 and its national executive in 1977. In 1994, he was elected National Chair of the ANC and Chair of the ANC in KwaZulu-Natal. He was re-elected to the latter position in 1996 and was selected as the Deputy President in December 1997. Zuma served as Executive Deputy President from 1999 to 2005. He was elected ANC President at the end of 2007. Born on 12 April 1949, in Nkandla, KwaZulu-Natal Province, he has received numerous honorary degrees. He has four wives and several children. This will be Zuma's eighth G20 summit.

Finance Minister: Nhlanhla Nene | Central Bank Governor: Lesetja Kganyago | Sherpa: Nozipho Mxakato-Diseko

Turkey | Ahmet Davutoğlu

Ahmet Davutoğlu was appointed Prime Minister of Turkey on 28 August 2014, replacing Recep Tayyıp Erdoğan, who assumed the presidency in the same election that returned the Justice and Development Party to power. Davutoğlu had served as the Minister of Foreign Affairs since 2009. He joined government in 2002 when he was appointed Chief Advisor to the Prime Minister and Ambassador at large. Before entering politics, he was a professor at Beykent University in Istanbul from 1995-2004, serving as Head of the Department of International Relations, and a visiting scholar at Marmara University, where from 1995-99 he taught at the Institute for Middle Eastern Studies, the Institute for Insurance and Banking, and the Political Science Department. Born on 26 February 1959 in Konya, he received a PhD from the Department of Political Science and International Relations at Bosphorus University. He and his wife, Sare, have four children. This will be Davutoğlu's first summit.

Finance Minister: Mehmet Şimşek | Central bank governor: Erdem Başçı | Sherpa: Ayşe Sinirlioğlu

United Kingdom | David Cameron

David Cameron became Prime Minister of the United Kingdom of Great Britain and Northern Ireland in May 2010. He was first elected to parliament in 2001 as the representative for Witney, and has served as party leader since 2005. Before becoming a politician, Cameron worked for the Conservative Research Department and served as a political strategist and adviser to the Conservative Party. Born in London, England, on 9 October 1966, he received a bachelor's degree in philosophy, politics and economics from the University of Oxford. He is married to Samantha and has three children; a fourth child died in 2009. This will be Cameron's sixth G20 summit.

Finance Minister: George Osborne | Central Bank Governor: Mark Carney | Sherpa: Tom Scholar

United States | Barack Obama

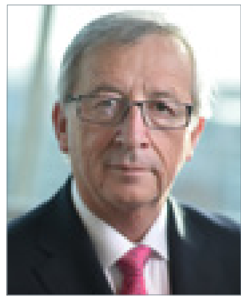
Barack Obama was re-elected President of the United States in November 2012, having been elected for his first term as President in November 2008. In 2005, Obama was elected to the Senate, after previously working as a community organiser, a civil rights lawyer and a state legislator for Illinois. He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and an American mother. He received his bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. He is married to Michelle and they have two children. This will be Obama's eighth G20 summit.

Finance Minister: Jacob Lew | Central Bank Governor: Janet Yellen | Sherpa: Caroline Atkinson

European Union | Herman Van Rompuy

Herman Van Rompuy was elected the first full-time President of the European Council on 19 November 2010. He was Prime Minister of Belgium from 2008-09. Before entering politics, Van Rompuy was a lecturer. Born in Etterbeek, Belgium, on 31 October 1947, he holds a master's degree in applied economics from Katholieke Universiteit Leuven. He is married to Geertrui Windels and has four children. This is Van Rompuy's sixth and last G20 summit as president of the European Council.

European Union | Jean-Claude Juncker



Jean-Claude Juncker assumed the office of President of the European Commission on 1 November 2014, having been nominated in June 2013. From 1995-2013 he served as Prime Minister of Luxembourg, having become Minister of Labour in 1984, and holding various positions including Minister of Finance, Minister of State and Minister for the Treasury. This will be his first G20 summit.

Sherpa: António José Cabral

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