



FALLING SHORT:

A Progress Report on the G-20's
Commitments to the World's Poorest

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JUBILEE USA NETWORK

Is an alliance of 75 religious denominations, faith-based networks, human rights, labor, environment, and development organizations working to build the political will for poor country debt cancellation and more responsible lending policies of international financial institutions.

I. SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Economic Crisis is Hitting the World's Poorest People Hard

All around the globe, people are suffering from the effects of the global economic crisis. The world's poorest countries – which had no hand in the poor decisions on Wall Street that brought about this crisis – are bearing the brunt of its ricochet effects. In low income countries (LICs), where the vast majority of the population live on less than \$2 per day, there is no safety net to help the most vulnerable weather the crisis – threatening to undermine the critical advances made toward achieving the Millennium Development Goals (MDGs) by 2015.

- The World Bank estimates that 55 million more people this year will be forced into extreme poverty due to the crisis.¹ Oxfam International estimates the number could top **100 million**.
- The World Bank has estimated that unless the crisis is resolved quickly, **an additional 1.4 million to 2.8 million children in the developing world will die of malnutrition between 2010 and 2015**.

The G-20's Promise to the Poorest

In April, at the G-20 summit in London, world leaders accepted their responsibility for addressing the social impacts of the crisis in the developing world.

As the G-20 leaders agreed in their final communiqué: “We recognize that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognize our collective responsibility to mitigate the social impact of the crisis to minimize long-lasting damage to global potential.”²

Leaders announced a series of bold new measures to deliver more than a \$1 trillion in resources to developing countries, of which \$50 billion would be dedicated to the poorest (low income) countries. At the time, Jubilee USA welcomed the acknowledgement by the G-20 of responsibility to help mitigate the impact of the crisis on the poorest and for their swift action and monetary commitments, but was critical of the means of delivery of the assistance (largely through the IMF) and argued that the G-20 plan didn't go far enough to meet the need.

More than five months later, and on the eve of a follow-up summit to be held in Pittsburgh, Jubilee USA asks in this report: Has the G-20 made good on its promises to the world's poorest countries? And, are the G-20's promises bold enough to mitigate the impact of the crisis for countries who were already struggling to meet the Millennium Development Goals? This report seeks to answer both questions and provides policy recommendations.

From Promise to Delivery: Falling Short

Our analysis finds that:

- **While important political agreements have been reached for the majority of the \$1.1 trillion commitment, just under half of the total has been delivered to date. Of the \$1.1 trillion in resources promised for developing countries, \$843 billion (77%) has been committed or further confirmed by legislatures or institution, yet only \$540 billion (49%) has been delivered to date.**³

- **Despite the urgent need in the poorest countries, just under half of the promised \$50 billion in resources promised for the world’s poorest countries have been delivered to date with further resources unlikely to come quickly without greater political will. Of the \$50 billion in additional recourses promised to low income countries, \$23.5 billion has been delivered to date.**

The G-20’s \$50 billion additional commitment to low income countries – what’s been delivered?

	G-20 Promise⁴	Delivery to date
Special Drawing Rights (SDRs)	\$19 billion	\$19 billion
SDR 4 th amendment	\$2 billion	\$2 billion
IMF Gold Sales	\$6 billion	\$0
Doubling IMF concessional lending	\$4 billion	\$1.5 billion ⁵
MDBs	\$6 billion	Unknown (likely close to \$0)
Trade financing	\$12 billion	\$1 billion
Total	\$49 billion	\$23.5 billion

- Rather than mobilizing significant new resources for the poorest from the sale of IMF gold, the IMF adopted a plan in late July to mobilize \$785 million from gold sales, far short of civil society’s requests for at least \$5 billion in additional resources from gold sales, and instead relying on requests from bilateral donors to pay for the bulk of its new support to poor countries. The reliance on bilateral contributions raises concerns that donors would direct already scarce aid resources into the coffers of the IMF, an institution with a dubious development record.
- The much heralded commitment by the IMF to provide “interest relief” to low – income countries is worth \$55-70 million between now and the end of 2011. While a welcome step, since that interest relief is spread over two and a half years and probably around 60 countries, on average it will save less than \$500,000 annually to each country that qualifies.⁶
- Of the \$100 billion promised in increased lending by the Multilateral Development Banks (MDBs), we estimate that there has been \$28 billion in additional lending by MDBs in 2009. According to the UK government, there was up to \$6 billion of this increased lending intended from MDBs to low income countries, but there is no evidence of additional lending from concessional windows of the MDBs so far in 2009.
- The G-20 also claimed it would support trade finance totaling \$250 billion over two years but an annex clarified only \$3-4 billion would be for low income countries, with the rest made up by existing public and private sources. The G-20 claims to have raised over \$5 billion, but we estimate only \$1 billion is clearly additional money for low income countries.
- The G-20’s welcome call for increased social protection for poor countries – through food security initiatives and contributions to the World Bank’s Vulnerability Financing Facility – was addressed primarily in the form of a \$20 billion food security initiative announced at the G-8 meeting in Italy, but it is unclear

if these funds are additional to existing aid commitments and through which institutions they will be delivered.

- While the G-20 promised to address the employment impacts of the crisis and positive steps have been taken by the International Labor Organization and some countries, the G-20 has not yet undertaken a concerted effort to enact active labor market policies with measurable benchmarks, particularly for low income countries that lack even basic safety nets for unemployed and informal workers.

Falling Far Short of the Need for Poor Countries

In terms of keeping its own promises, the G-20 has made strides in some areas and is falling short in others. But we cannot judge the G-20 against its promises alone, because the need for the world's poorest countries goes far beyond the G-20's modest commitments, particularly as they struggle to meet the MDGs.

Before the economic crisis began, the UN estimated that low income countries would need an investment of an additional \$40 to 60 billion per year to stay on target to meet the Millennium Development Goals by 2015.⁷ However, wealthy country members of the G-20 have delivered just \$9.4 billion this year in increased assistance to Sub-Saharan Africa, where the MDGs are furthest from reach.⁸

In sharp contrast, \$18 *trillion* dollars has been found globally to bail out banks and other financial institutions.⁹ Just the top 20 "too big to fail" companies on Wall Street received \$283 billion in bailout money from U.S. taxpayers – that's 10 times more than the entire G-20 has delivered in new resources to the 2.7 billion residents of the 78 low income countries.¹⁰ With the lives of millions hanging in the balance, the developing world is also "too big to fail".¹¹

Some of the key findings from this report include:

- **Less than 5% of the resources promised by the G-20 for developing countries were destined for 78 low income countries – who face the largest obstacles to meet the MDGs. And only half of those resources have been delivered.**
- The G-20 should be commended for delivering \$19 billion in Special Drawing Rights (SDRs) for low income countries because this form of assistance without conditionalities will provide the quick resources needed to fill financing gap for poor countries during the crisis. However, this represents just 7% of the \$250 billion total delivered in SDRs – mostly to G-20 countries themselves, and poor countries will continue to incur fees for accessing their SDRs.
- The G-20's pledge to "take action against non-cooperative jurisdictions, including tax havens" is an important step forward in stemming the annual illicit flight of \$1 trillion from developing countries – representing nine times the size of total development assistance. However, the OECD Global Forum – which the G-20 is relying on to identify non-cooperative jurisdictions – does not currently judge a single country as non-cooperating.

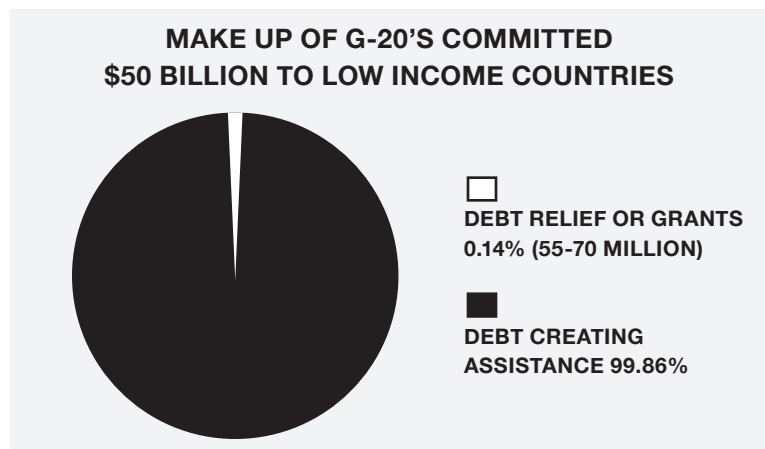
GOVERNANCE AND INSTITUTIONAL ISSUES

- The UN Conference on the World Financial and Economic Crisis, which brought together the 192 member nations of the United Nations in June, came out with a much stronger emphasis on the needs of low income countries, than did the G-20 Summit – which had no low income country representation among its members, highlighting a major inequity in global governance as the G-20 becomes the major forum for international economic negotiations.

- The G-20 channeled the overwhelming majority of funds through the IMF and World Bank despite the fact that the loans made by the IMF and World Bank have continued to come with harsh and ill-advised conditionalities on poor countries, such as forcing fiscal restraint when what is needed during a recession is fiscal stimulus. IMF Reform measures have fallen far short.
- While important steps have been taken to provide developing countries with more power in the governance structures of the IMF and World Bank, so far the progress has been slow and has not gone nearly far enough.
- The G-20's welcome promise to move forward on a "Sustainable Economic Activity Charter" misses key issues of economic activity that have broad impacts on low income countries, such as setting standards for responsible lending and borrowing to/from sovereign states and regulating the activities of so-called vulture funds which profiteer from poor country debt.

A NEW DEBT CRISIS?

Perhaps most troubling, nearly all the resources committed by the G-20 to low income countries are in the form of new loans, potentially pouring fuel onto already existing pressures towards re-indebtedness for the poorest countries due to declines in export income and remittance levels. New loans will only increase these countries' indebtedness and lead to a resurgent debt crisis, where countries will have to prioritize debt repayment over essential services to their populations.



- The IMF has found that 33 low income countries are at severe or moderate risk of debt distress – and thus at risk of default – as a result of the crisis.
- **However, only 0.14% of the additional resources committed by the G-20 to the poorest countries is non-debt creating.**¹²
- The G-20's call for a review of the Debt Sustainability Framework has resulted in minor technical tweaks to this flawed instrument, rather than the bold fundamental steps that are needed to address the renewed debt crisis.

The G-20's Responsibility – And Opportunity – To Act: Key Policy Recommendations

As G-20 leaders reconvene in Pittsburgh on September 24 and 25, they will assess their own progress and consider additional steps. The G-20 must keep its promises to the world's poorest and unveil new commitments to fight global poverty.

The G-20 countries should deliver on their past commitments for assistance to low income countries to ensure continued advances toward the MDGs. The G-20 must:

- Ensure that their promises to fully deliver \$50 billion in assistance to the poorest are delivered without

further delay and without harmful conditionality.

- Ensure that all commitments are additional to existing aid commitments.
- Counter the inequalities of the SDR quota-system by voluntarily transferring some of their own SDRs into poor countries' accounts.

The G-20 should commit to providing additional non-debt creating assistance to help low income countries weather the financial crisis and avoid a new debt crisis for impoverished countries. The

G-20 must:

- As an initial step, agree to a two year freeze on all debt payments of low income countries and countries in crisis without the build-up of interest during the moratorium.
- Expedite debt cancellation for all MDRI-eligible countries, without requiring harmful economic policy conditions.
- Commit to deliver expanded debt cancellation beyond HIPC eligibility to all countries that qualify for International Development Association-only lending, as well as to all other countries whose debt levels currently prevent them from meeting their people's basic needs and who are servicing odious and illegitimate debts.
- Require that further initiatives for financing for low income countries be provided in the form of grants rather than loans.

The G-20 should deepen its commitment to global financial reform and reforms in global governance, with particular attention to the reforms that will benefit low income countries and provide space for investments to achieve the MDGs. The G-20 must:

- Insist upon far-reaching reforms in IMF and World Bank economic policy conditionality before delivering additional funding to these institutions.
- Call on the IMF and World Bank to adopt a double-majority voting system as an interim step to a more comprehensive reform leading to the inclusion of population size in determining voting shares.
- Channel future commitments of long term development assistance through multilateral agencies – such as the UN – with core competency in long-term development, rather than through the IMF.
- Continue work on the Sustainable Economy Activity Charter and move towards developing binding standards rather than non-binding codes of conduct, and initiate immediate efforts to engage with broad-based civil society organizations to input into the development of the such a charter.
- Commit to the creation of a binding framework for responsible lending and borrowing to ensure sovereign, democratic and responsible finance in the future.
- Condemn the practices of vulture funds that litigate against poor countries that have received debt relief and change national laws to outlaw profiteering by such funds.
- Insist that multinational companies publish a country by country breakdown of their profits and losses, taxes paid, and other information. The G-20 should change its approach to tax havens, replacing the current bilateral approach with a comprehensive multilateral, automatic information exchange model and it should deliver this new approach by the time G-20 finance ministries gather in November.

The G-20 should take immediate steps to mitigate the jobs impact of the crisis. The G-20 must:

- Establish a G-20 working group on the jobs impact of the crisis as well as provide more detailed commitments as suggested by the ILO Global Jobs Pact, with measurable benchmarks, and demonstrate its seriousness in granting a stronger monitoring role to the ILO by providing the ILO with timely data and engage in active cooperation with the ILO regarding its active labor market policy recommendations.

Finally, the G-20 should make commitments to help finance the fight against climate change, which has disproportionate impacts on the poorest countries. The G-20 must:

- Take ambitious steps forward in fulfilling their responsibility to provide new, additional, predictable and adequate financial resources for adaptation, enhanced mitigation actions, technology sharing, and capacity building in developing countries.
- Support the United Nations Framework Convention on Climate Change decision-making process where all parties are represented and respect basic equity principles when approaching these discussions.

II. DETAILED ANALYSIS OF G-20 COMMITMENTS ON DEVELOPMENT

This section offers an in-depth analysis of key G-20 commitments from the London summit in April that have a direct impact on poor country development. First, we quote directly from the London communiqué on what the G-20 promised and examine the success of the G-20 in delivering on their own commitments to the world's poorest since April.

We then compare those commitments to statements made by the United Nations Conference on the World Economic and Financial Crisis and Its Impact on Development, which was held June 24-26, 2009 in New York. The UN conference included a broader range of participating countries as all 192 member countries of the United Nations were invited to the June conference, with 142 delegations attending. The final outcome document from the June conference addressed many of the same issues as the London summit, but in several cases made bolder and more detailed commitments for the world's poorest countries.

Finally, based on the analysis of civil society experts and the more representative UN Conference, we make recommendations of what the G-20 should do in Pittsburgh and beyond to address the critical needs faced by the poorest countries.

COMMITMENTS WE ANALYZE ON THE FOLLOWING PAGES INCLUDE:

1. Strengthening Financial Supervision and Regulation
2. \$850 billion in Expanded Lending from the IMF and World Bank
3. \$250 billion Allocation of IMF Special Drawing Rights
4. Reform of International Financial Institutions' Governance Structure
5. Development of a "Charter for Sustainable Economic Activity"
6. \$250 billion to Facilitate Trade Finance
7. Commitment to the Millennium Development Goals, and Aid Pledges
8. Support for Initiatives to Enhance Social Protection in the Poorest Countries
9. Additional Resources from IMF Gold Sales for Poor Countries
10. Greater Flexibility in the Debt Sustainability Framework
11. Create a Mechanism at the UN to Monitor the Impact of the Crisis on the Poorest
12. Support for Employment and Income Support Measures
13. Use Fiscal Stimulus to Help Ensure a Clean Recovery and Address the Urgent Threat Posed by Irreversible Climate Change

1. Strengthening Financial Supervision and Regulation

ON TRACK? NO MEETING THE NEED? NO

WHAT THE G-20 PROMISED

"Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our financial system. We will take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which

will support sustainable global growth and serve the needs of business and citizens.”

“...We agree ... to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over. We note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information.”

WHAT HAS BEEN DELIVERED

The G-20's pledge to “take action against non-cooperative jurisdictions, including tax havens” is an important step forward in stemming illicit capital flight from developing countries. However, the OECD Global Forum – which the G-20 is relying on to identify non-cooperative jurisdictions – does not currently judge a single country as non-cooperating and movement towards stronger, multilateral measures has been slow.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“The current crisis has revealed many deficiencies in national and international financial regulation and supervision. We recognize the critical need for expanding the scope of regulation and supervision and making it more effective, with respect to all major financial centres, instruments and actors, including financial institutions, credit rating agencies and hedge funds. The need for tighter and more coordinated regulation of incentives, derivatives and the trading of standardized contracts is also apparent.

“We emphasize the need to ensure that all tax jurisdictions and financial centres comply with standards of transparency and regulation. We reiterate the need to further promote international cooperation in tax matters, including within the United Nations, inter alia, by promoting double taxation agreements. Inclusive and cooperative frameworks should ensure the involvement and equal treatment of all jurisdictions. We call for consistent and non-discriminatory implementation of transparency requirements and international standards for exchange of information. Illicit financial flows are estimated to amount to several times global ODA and have a harmful effect on development financing. Measures to enhance regulation and supervision of and transparency in the formal and informal financial system should include steps to curb illicit financial flows in all countries. Improving the transparency of the global financial system also deters illicit financial flows, including to international financial centres, and enhances the ability to detect illicit activities.”

BACKGROUND, ANALYSIS AND RECOMMENDATIONS

While many aspects of the “strengthening financial supervision and regulation” sections of the G-20 communiqué will ultimately impact developing countries, the G-20 pledge to address tax havens could have the largest direct impact on development. Annual illicit capital flight from developing countries represents nine times the size of total development assistance.

To date, the OECD Global Forum has given its sign of approval to countries with only minimal commitments from the countries themselves. According to Eurodad, to get the seal of approval, countries have had to commit to sign at least twelve bilateral Tax Information Exchange Agreements, which is a far too minimalist test. The model of information exchange is flawed, as obtaining information under these agreements requires governments to submit cumbersome dossiers about citizens' suspected tax malpractices. This means that this system is rarely used (in 2008 there were only 4 claims by the USA to Jersey to provide information). And the OECD's threshold of just 12 bilateral agreements that need to be concluded allows governments to escape

its blacklist merely by making agreements with another dirty dozen tax havens. The vast majority of countries are left without recourse. The G-20 finance ministers in their meeting on September 4 and 5 recognized the limitation for developing countries of current measures, saying that different approaches would be needed, "possibly including through a multilateral instrument".

However the deadline set by the G-20 for involving developing countries in tax discussions now looks likely to be missed. In their April communiqué leaders "committed to developing proposals, by the end of 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment." But the OECD Forum meeting in Mexico on September 1-2, 2009 said this has been pushed to 2010. The G-20 should stick to its timetable and use its St Andrews G-20 finance ministers meeting to deliver a new multilateral approach that will work for developing countries.

The proposal that transnational companies should publish a country by country breakdown of their profits and losses, taxes paid and other information needed to detect tax evasion is gradually gaining support, but has not been implemented. Country by country reporting would allow tax authorities and the public to spot where tax dodging might be taking place and follow up. Indeed there have been few improvements to international accounting rules. The G-20 should require the OECD to report on this issue by early 2010 and ensure that appropriate follow-up action is taken by the International Accounting Standards Board.¹

RECOMMENDATIONS

- Insist that multinational companies publish a country by country breakdown of their profits and losses, taxes paid, and other information, and require the OECD to report on the tax havens in early 2010, ensuring that appropriate follow-up action is taken by the International Accounting Standards Board (IASB).
- The G-20 should change its approach to tax havens, replacing the current bilateral approach with a comprehensive multilateral, automatic information exchange model and it should deliver this new approach by the time G-20 finance ministries gather in November

2. \$850 billion in Expanded Lending from the IMF and World Bank

ON TRACK? NO MEETING THE NEED? NO

WHAT THE G-20 PROMISED

"Emerging markets and developing countries, which have been the engine of recent world growth, are also now facing challenges which are adding to the current downturn in the global economy. It is imperative for global confidence and economic recovery that capital continues to flow to them. This will require a substantial strengthening of the international financial institutions, particularly the IMF. We have therefore agreed today to make available an additional \$850 billion of resources through the global financial institutions to support growth in emerging market and developing countries by helping to finance counter-cyclical spending, bank recapitalisation, infrastructure, trade finance, balance of payments support, debt rollover, and social support. To this end:

- We have agreed to increase the resources available to the IMF through immediate financing from members of \$250 billion, subsequently incorporated into an expanded and more flexible New Arrangements to Borrow, increased by up to \$500 billion, and to consider market borrowing if necessary; and
- We support a substantial increase in lending of at least \$100 billion by the Multilateral Development Banks (MDBs), including to low income countries, and ensure that all MDBs have the appropriate capital."

WHAT HAS BEEN DELIVERED

IMF Funding

According to Bretton Woods Project, actual delivery of IMF funding commitments to date has only come from Japan, Norway, France, Canada, China and the United Kingdom, totaling about \$195 billion. The IMF has committed about \$173 billion overall (including loans made before the crisis), but it had about \$250 billion in available capital before the agreement to boost its resources. Thus, the boost in resources has not yet been used to support any developing countries.²

Overall, G-20 members have made commitments totaling over \$500 billion to the IMF. Notable developments since the April 2009 G-20 summit include the formal approval by the US Congress of the US' \$100 billion contribution, but the US contribution and others are to be delivered through the New Arrangements to Borrow. As governments are still negotiating the terms for an expanded and reformed New Arrangement to Borrow (NAB) framework at the IMF, no funds committed through this mechanism have yet been delivered. Tensions and debates over the need for IMF governance reform between developed and developing countries are slowing the process for agreeing changes to the NAB

Country	Amount	Status of Delivery
Japan	\$100 billion	Delivered
Canada	\$10 billion	Delivered
Switzerland	\$10 billion	Announcement Made (April 2009)
Russia	\$10 billion	Commitment to buy bonds (May 2009)
South Korea	\$10 billion	Commitment to buy bonds (May 2009)
India	\$10 billion	Commitment to buy bonds (May 2009)
Australia	\$7 billion	Commitment to buy bonds (May 2009) ³
US	\$100 billion	Approved by Congress (June 2009)
China	\$50 billion	Agreement signed to buy bonds (September 2009)
Brazil	\$10 billion	Commitment to buy bonds (May 2009)
Norway	\$4.5 billion	Delivered ⁴
EU	\$178 billion	Approved by EU Finance Ministers (September 2009) ⁵
Within EU: UK	\$15 billion	Delivered
Total	\$499.5 billion	

Multilateral Development Bank Funding

The commitment of \$100 billion in increased lending by MDBs is intended to be distributed over a three year period, according to US officials. To date, we can track an increase of \$28 billion in lending against the promised \$100 billion. The proposed \$6 billion in additional MDB support of the \$100 billion to be devoted to low income countries has not yet been forthcoming

The overall amounts and forms of funds contributed by specific countries is currently unavailable because

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discussions and negotiations between donors and MDBs are still in early stages, but the two charts below provide a preliminary overview of the current status of proposed lending and capital increases at key MDBs.

Lending Increases

World Bank	Before the commitment made by the G-20, the World Bank lent a total of \$38.2 billion in the 2008 Fiscal Year, which runs from July 1, 2008 to June 30, 2009. The Bank announced on July 1, 2009 that it would be increasing its lending by 54% to a total of \$58.8 billion for FY2009, an increase of just over \$20 billion. ⁶
Asian Development Bank	In April the ADB approved a 5.3% increase in annual lending for its upcoming fiscal year. Last year's lending total was \$8.7 billion, while this year the Bank plans to lend \$10.5 billion—the highest ever in ADB history. ⁷
Inter-American Development Bank	During the annual IDB Board of Governors meetings US Treasury Secretary Timothy Geithner encouraged the IDB to increase lending significantly in 2009 and 2010 to offset the affects of the crisis in Latin and South America. ⁸ Though there hasn't yet been an increase in lending from the IDB, there may be an uptick in lending by the end of this year.
African Development Bank	The African Development Bank plans to ramp up its lending to nearly \$11 billion this year. In FY2008, the AfDB lent a total of \$5.8 billion, which means lending could increase by \$5 billion. ⁹

Total Capital Increases

World Bank	The World Bank has agreed an increase in International Bank for Reconstruction and Development (IBRD) loan pricing and a reduction in capital adequacy policy limit over the next three years while discussions of a capital increase are underway.
Asian Development Bank	The ADB was the first MDB to see a significant capital increase this year. The increase was in the works before the G-20 summit, with Japan taking the lead in financial contributions. Canada, Australia, and other IMF members have also provided funds. Total capital at the ADB is now sits at \$165 billion, up from last year's \$55 billion—an increase of 200% ¹⁰
Inter-American Development Bank	The IDB will likely be increasing its capital by the end of the year, though according to government officials the amount of the increase is currently unclear. In August, Canada contributed \$4.34 billion in callable capital to the IDB. ¹¹
African Development Bank	Similar to the IDB, the AfDB will likely try to increase its capital between 100-200%. Last year, the AfDB's subscribed capital was \$33.52 billion.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“We acknowledge the G-20 summit held in London on 2 April 2009, and recognize its commitment to make available an additional \$1.1 trillion programme aimed at revitalizing the world economy. A major part of these funds will be available for use by emerging markets and developing countries. A limited share (\$50 billion) of these resources was targeted specifically to low-income countries. We call upon the G-20 to further consider addressing the financial needs of developing countries, especially low-income countries. We also call upon all G-20 countries to follow through with their commitments and to monitor the implementation of them. While recognizing the decisions taken by the G-20, we are resolved to strengthen the role of the United Nations and its Member States in economic and financial affairs, including its coordinating role.

Countries must have the necessary flexibility to implement countercyclical measures and to pursue tailored and targeted responses to the crisis. We call for a streamlining of conditionalities to ensure that they are timely, tailored and targeted and support developing countries in the face of financial, economic and development challenges. In this context we note the recent improvement of the lending framework of the International Monetary Fund (IMF), through inter alia, modernizing conditionality, and the creation of more flexible instruments, such as a flexible credit line, as a welcome step. New and ongoing programmes should not contain unwarranted procyclical conditionalities.

We acknowledge the G-20 summit held in London on 2 April 2009, and recognize its commitment to make available an additional \$1.1 trillion programme aimed at revitalizing the world economy. A major part of these funds will be available for use by emerging markets and developing countries. A limited share (\$50 billion) of these resources was targeted specifically to low-income countries. We call upon the G-20 to further consider addressing the financial needs of developing countries, especially low-income countries. We also call upon all G-20 countries to follow through with their commitments and to monitor the implementation of them. While recognizing the decisions taken by the G-20, we are resolved to strengthen the role of the United Nations and its Member States in economic and financial affairs, including its coordinating role.”

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

IMF

While developing countries and emerging markets desperately need resources in light of the global economic crisis, civil society groups and other observers have questioned whether the IMF should have been invested with such a huge increase in resources by the G-20. Some critics have pointed out that the IMF bailouts in Eastern Europe have been motivated largely by the need to protect the investments and exposure of large European banks in the region.¹²

Jubilee USA and other groups have argued that an alternative approach to investing funds in the IMF would be to pursue more of a regional approach, supporting nascent efforts such as the development, for example, of an Asian Monetary Fund.

Civil society groups have pointed out that given the IMF’s ongoing role in imposing onerous economic policy conditions in impoverished countries, the IMF should not be receiving a massive infusion of cash without first undertaking serious reform. During late 2008 and through the spring of 2009 when nine different countries required emergency funding from the IMF due to the financial crisis, instead of encouraging fiscal stimulus policies the IMF pressured countries to pursue fiscal restraint. IMF conditions which require countries to reduce spending, reduce fiscal and budget deficits, and freeze or cut public sector wages during a time of recession are inappropriate.¹³

Multilateral Development Banks

There are significant concerns from civil society that funding devoted to the MDBs will not be additional to other existing aid commitments. Any commitments must be purely additional. Moreover, Funds provided by MDBs to low income countries should come primarily as grants rather than loans to avoid a renewed debt crisis.

Jubilee USA and other civil society observers are also concerned that MDBs continue to impose harmful economic policy conditions as a requirement for loans, potentially undermining developing countries' capacity to provide stimulus in a time of global recession.

There are also serious trade-offs to consider as donor governments consider capital increases to multilateral development banks. In a time of scarce aid dollars, governments will need to weigh investments in bilateral aid programs against commitments to MDBs, and debt relief. Especially with the renewed debt crisis, G-20 leaders should consider prioritizing support to MDBs for grant support and debt relief.

RECOMMENDATIONS

- The G-20 should insist upon far-reaching reforms in IMF and MDB economic policy conditionality before delivering additional financing through these institutions;
- New initiatives for financing by MDBs for low income countries should prioritize grant support and debt relief over new loans.

3. \$250 billion Allocation of IMF Special Drawing Rights

ON TRACK? YES MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“To support a general SDR allocation which will inject \$250 billion into the world economy and increase global liquidity, and urgent ratification of the Fourth Amendment.”

WHAT HAS BEEN DELIVERED

On August 7, 2009, the IMF Board of Governors approved the general allocation of Special Drawing Rights (SDRs) worth US\$250 billion. This allocation was implemented as previously scheduled on August 28, 2009.¹⁴

Additionally, the Fourth Amendment, which refers to a special, one-time only allocation of 21.5 billion SDRs (about US\$33 billion) for member states who joined the IMF since 1982, was approved by the IMF Board in 1997.¹⁵ After awaiting action from the US Congress for 12 years, Congressional action this summer allowed the measure to go forward. This additional special allotment was implemented on September 9.¹⁶

Through the IMF quota system, countries receive their SDR allotment according to their size in the global economy. Out of \$250 billion, developed countries will benefit from over \$150 billion, middle income and developing countries will get \$82 billion, while low income countries will receive a total of \$18 billion.¹⁷ Currently, the UK is considering lending a portion of its own SDR allotment to the IMF for the purposes of increased low income country lending and other European governments are considering similar moves.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“We recognize that increases in global liquidity play a useful role in overcoming the financial crisis. Therefore, we strongly support and call for early implementation of the new general special drawing right (SDR) allocation of \$250 billion. We also call for the urgent ratification of the fourth amendment to the IMF Articles of Agreement for a special one-time allocation of SDRs, as approved by the IMF Board of Governors in September 1997.

We recognize the need for keeping under review the allocation of SDRs for development purposes. We also recognize the potential of expanded SDRs to help increase global liquidity in response to the urgent financial shortfalls caused by this crisis and to help prevent future crises. This potential should be further studied.

The crisis has intensified calls by some States for reform of the current global reserve system to overcome its insufficiencies. We acknowledge the calls by many States for further study of the feasibility and advisability of a more efficient reserve system, including the possible function of SDRs in any such system and the complementary roles that could be played by various regional arrangements. We also acknowledge the importance of seeking consensus on the parameters of such a study and its implementation. We recognize the existence of new and existing regional and sub regional economic and financial cooperation initiatives to address, inter alia, the liquidity shortfalls and the short-term balance-of-payment difficulties among its members.”¹⁸

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

Special Drawing Rights have much potential to cushion the effects of the financial crisis on poor countries because they provide immediate liquidity to countries to help bolster their reserves and balance of payments, without the imposition of economic policy conditions so typical of other IMF lending programs that may be counterproductive to recovery.

Jubilee USA and other global civil society groups have strongly welcomed the G-20’s commitment to and the IMF’s delivery of SDRs, including \$19 billion in SDRs for low income countries. While an excellent first step, low income countries need significantly more SDRs to meet their financing needs. The crisis has caused low-income countries to face a shortfall of between \$250 and \$550 billion this year.

As the UN Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System points out, the IMF quota system causes “richer countries on average get a larger share of new allocations—i.e., the opposite to what a criteria on need would indicate.”¹⁹

Therefore, rich countries should purposely right the wrong in the quota system through transferring some of their SDRs to poor countries’ accounts to help meet the remaining financing gap.

SDRs would be more helpful and effective to low income countries if the variable interest charges associated with utilizing the funds were made fixed or removed for LICs. Right now, these charges are very low due to the historic lows in global interest rates. But as these rates climb again, poor countries should be protected against large new charges. The IMF should remove these charges to make SDRs more accessible to all IMF member countries.

RECOMMENDATIONS

- In order to counter the inequalities of the SDR quota-system and to help meet the financing gap of LICs, the G-20 (particularly developed country members) should voluntarily transfer some of their own SDR allocation to poor countries.
- The G-20 should call on the IMF to fix interest rates or remove the charges attached to the use of SDRs for low income countries

4. Reform of International Financial Institutions' Governance Structure

ON TRACK? UNLIKELY MEETING THE NEED? NO

WHAT THE G-20 PROMISED

"In order for our financial institutions to help manage the crisis and prevent future crises we must strengthen their longer term relevance, effectiveness and legitimacy. So alongside the significant increase in resources agreed today we are determined to reform and modernise the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalisation, and that emerging and developing economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making. To this end:

- We commit to implementing the package of IMF quota and voice reforms agreed in April 2008 and call on the IMF to complete the next review of quotas by January 2011;
- We agree that, alongside this, consideration should be given to greater involvement of the Fund's Governors in providing strategic direction to the IMF and increasing its accountability;
- We commit to implementing the World Bank reforms agreed in October 2008. We look forward to further recommendations, at the next meetings, on voice and representation reforms on an accelerated timescale, to be agreed by the 2010 Spring Meetings;
- We agree that the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process; and
- Building on the current reviews of the IMF and World Bank we asked the Chairman, working with the G-20 Finance Ministers, to consult widely in an inclusive process and report back to the next meeting with proposals for further reforms to improve the responsiveness and adaptability of the IFIs."

WHAT HAS BEEN DELIVERED

IMF

Following the G-20 meeting in April, the International Monetary and Financial Committee (IMFC) called on the Executive Board to report on governance reforms by the next Annual Meeting in October 2009. The Executive Board met to have an initial discussion on governance on July 21, 2009. With respect to quotas, it was emphasized that members should swiftly complete the domestic legal processes to allow the April 2008 quota and voice reform to come into effect. Work on the next quota negotiation is to be completed by January 2011. In terms of engagement, the Directors outlined steps to move away from formalistic IMFC meeting procedures to a more inclusive leadership model like the G-20 troika system, improving the communiqué drafting process and incorporating mechanisms for accountability. With regard to voting, a number of Directors were open to considering a lowering of the 85 percent threshold for special majorities to 70 or 75 percent. For management

and staff, there was consensus that selection of the Managing Director should be open and transparent, and without regard to nationality. On the size of the Executive Board, a few Directors considered that a reduction from 24 to 20 chairs could enhance Board effectiveness. A number of Directors saw merit in moving to a system of all elected Executive Directors, thereby removing the provision in the Articles for the largest five quota holders to appoint Executive Directors. A few supported consolidating European representation at the Board, which would increase relative emerging market and developing country representation. Most Directors emphasized that the principle of voluntary constituency formation should remain in place.

World Bank

At the Spring meeting in April 2009, the relevance of ensuring enhanced voice and participation of developing and transition countries in the governance of the World Bank Group was highlighted. Based on agreement at the last Annual meeting in October 2008 to develop principles, criteria and proposals for Bank shareholding, the Board agreed to accelerate work on the second phase of the reform with a view to reaching agreement by the 2010 Spring Meetings that involves all shareholders in a transparent, consultative and inclusive process. The progress report issued by World Bank staff prior to the 2009 Spring Meeting noted the following amongst other actions:

- **International Bank for Reconstruction and Development (IBRD) Voting Power and Shareholding.** As of April 13, 2009, 91 members holding 28.63% of the total voting power have accepted the amendment to the IBRD Articles of Agreement that would increase basic votes to 5.55% of total votes (an effective doubling) as a first step to enhancing the voice and participation of developing and transition countries.
- **IBRD Shareholding Review.** Under the Work Program for the IBRD Shareholding Review, as agreed by the Bank's Board in November 2008, the mandate review and shareholding principles would be prepared by 2009 Annual Meetings. The review would cover: historical origins and evolution of the different mandates of the Bank and Fund, and history of IBRD capital increases, including the relationship of IBRD shareholding and IMF quotas; and impact on the Bank and Fund mandates in the wake of the global financial crisis and response. The review would be accompanied by preliminary proposals for IBRD shareholding principles and illustrative calculations.
- **Institutional Reforms.** A high level commission, chaired by former Mexican President Ernesto Zedillo, will report at the Fall 2009 Annual Meetings on the modernization of World Bank Group (WBG) governance so the WBG can operate more effectively, efficiently and legitimately in a transformed global political economy. The next report for the October 2009 Development Committee meeting would provide a better opportunity to see how shareholders have progressed towards consensus on a second phase of WBG voice reforms.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

"We stress the urgent need for further reform of the governance of the Bretton Woods institutions, on the basis of a fair and equitable representation of developing countries, in order to increase the credibility and accountability of these institutions. These reforms must reflect current realities and should enhance the perspective and voice and participation of dynamic emerging markets and developing countries, including the poorest.

We call for an expeditious completion of the reform process of the World Bank's governance and of an accelerated road map for further reforms on voice and participation of developing countries, with a view to

reaching agreement by April 2010, based on an approach that reflects its development mandate and with the involvement of all shareholders in a transparent, consultative and inclusive process. We also call for inclusive consultations on further reforms to improve the responsiveness and adaptability of the World Bank.

It is imperative that the reformed World Bank emerge with the requisite technical capacities, credit facilities and financial resources needed to assist and complement the efforts of developing countries aimed at achieving their overall development needs.

We recognize that it is imperative to undertake, as a matter of priority, a comprehensive and fast-tracked reform of IMF. We look forward to this accelerated progress in order to increase its credibility and accountability. We acknowledge the agreement to accelerate the implementation of the package of IMF quota and voice reforms agreed in April 2008. We strongly support completion of the next quota review, which, based on current trends, is expected to result in an increase in the quota shares of dynamic economies, particularly in the share of emerging market and developing countries as a whole, to be completed no later than January 2011, thus enhancing the legitimacy and effectiveness of the Fund.

We agree that the heads and senior leadership of the international financial institutions, particularly the Bretton Woods institutions, should be appointed through open, transparent and merit-based selection processes, with due regard to gender equality and geographical and regional representation.

The United Nations and the international financial institutions have complementary mandates that make the coordination of their actions crucial. Accordingly, we encourage continued and increasing cooperation, coordination and coherence and exchanges between the United Nations and the international financial institutions. In this regard, we believe that this Conference represents an important step to ensure increased cooperation.”

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

Implementing IMF and World Bank governance reforms are a crucial step to increasing the voice and representation of emerging markets and developing economies within these institutions, but overall they are intended to bring greater dynamism, effectiveness and efficiency. Progress on IMF and World Bank reforms is note-worthy, but not sizeable enough to fulfill the commitments of the G-20 within the stipulated time frame. A far greater speed is required to achieve the desired outcomes.

Rebalancing representation at the international financial institutions (IFIs) is contingent upon both Europe and the United States reconsidering traditional prerogatives and controls. The extent to which this rebalancing will map out in reality is questionable.

RECOMMENDATIONS:

- The IMF and World Bank should adopt a double-majority voting system as an interim step to a more comprehensive reform leading to the inclusion of population size in determining voting shares.
- The IMF should improve its transparency, by quickly publishing transcripts of IMF board meetings and draft policy documents, working under the presumption of disclosure and basing exemptions on a clear description of the harm of disclosure, keeping them to a minimum.

5. Development of a “Charter for Sustainable Economic Activity”

ON TRACK? YES MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“In addition to reforming our international financial institutions for the new challenges of globalization we agreed on the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity. We support discussion on such a charter for sustainable economic activity with a view to further discussion at our next meeting. We take note of the work started in other fora in this regard and look forward to further discussion of this charter for sustainable economic activity.”

WHAT HAS BEEN DELIVERED

At the meeting of G-8 Finance Ministers in Lecce, Italy in June, ministers unveiled the “Lecce Framework,”²⁰ an agreement among the G-8 of the shared objectives in developing a shared set of global standards on sustainable economic activity.

Ambassador Giampiero Massolo, Italy’s G-20 sherpa, explained the next steps: “With a view to bringing the Lecce Framework and the Charter to the largest possible audience, our two governments [Italy and Germany] are now working together with the OECD and the G-20 Presidency to bring forward this issue to the Pittsburgh Summit in September.”

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

N/A

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

The idea of the “sustainable economic activity charter” originates from German Chancellor Merkel’s proposal for a Charter on Sustainable Development and Italian finance minister Tremonti’s proposal for a global standard on “propriety, integrity and transparency.”

The Charter would draw on existing standards and codes. Policy instruments that are being drawn upon in this effort include the UN Convention against corruption; the OECD Guidelines for Multinational Enterprises; the OECD Principles of Corporate Governance; International standards for transparency and co-operation on taxation to counter tax abuse; The Financial Action Task Force; IMF fiscal policy transparency; the ILO’s Employment Policy Convention, the World Bank’s Equator Principles on social and environmental risk in project financing; and the WTO Agreement on Government Procurement.

The OECD is doing the preparatory work for the “global standard.” These will be packaged into a “meta-standard” and reinforced with a cross committee peer review mechanism. Some are legally binding, others are “soft law,” and some merely best practice recommendations.

Nearly all observers would agree that irresponsible actions and speculative activity by large banks and other actors played a significant role in the development of the current financial crisis. A G-20 initiative to try to put stronger rules in place to curtail unsustainable and/or improper economic activity in the future would thus be warmly welcomed by civil society.

At first blush, however, it would appear that rather than developing strong, binding regulations, the initiative to develop a “sustainable economic activity charter” represents a move to a non-binding global “code of conduct.” While the initiative to attempt to unify and make more coherent existing codes and guidelines is welcome, ultimately without changes in national financial regulatory systems, such a charter may be little more than hopeful words on paper.

More optimistically, such a charter could form a “soft law” basis for the eventual development of binding standards, national laws, or international law. Seen as a step towards this broader goal, the charter could indeed be a useful starting point.

What's missing?

While the list of existing codes and standards on which the charter will draw is impressive, there are some glaring omissions. For instance, there is no mention of the need for standards for responsible lending and borrowing. The current global crisis is a clarion call to policymakers to enact a global framework for responsible lending and borrowing as a key element of global efforts to develop a “sustainable economic activity” charter. Such a framework would include mutually agreed upon and binding terms for responsible finance, including enhanced transparency, attention to human rights, consumer protection, as well as more specific measures described below to restrict the practices of Vulture Funds, and create a resolution mechanism for countries in debt distress.

The charter should restrict the practices of so-called “Vulture Funds,” which buy sovereign debt in default of very poor indebted countries on the secondary market and then take legal action to seek repayment awards that are many times the amount of the original loan, have been increasing their activity over the past three years. These funds force some of the world's poorest countries to redirect resources freed up by debt relief agreed to by the international community and financed by the US and other developed country citizens and taxpayers to pay them instead. There is broad official consensus that the practices of Vulture Funds in the poorest countries must be urgently reformed but few meaningful policy changes have been undertaken to address the problem.

Finally, to date, work to develop the charter has been largely in the shadows, with no consultations with civil society or parliamentarians. Given the ambition of the project – as stated by Finance Minister Tremonti to develop one “global standard” – there has been shockingly little attention paid to the charter outside of a few carefully moderated discussions on the OECD blog. Italian G-20 Sherpa Massollo wrote on that blog in late July: “The discussion will also continue on a technical and academic level, involving civil society in the debate, following the ‘bottom up’ approach of the last few months, in order to receive the best information, advice and proposals from the international community of professionals, professors and civil servants.”²¹ To date, there have been no broad-based consultations with civil society.

RECOMMENDATIONS:

- The G-20 should continue work on the Sustainable Economy Activity charter and move towards developing binding standards, rather than non-binding codes of conduct
- The G-20 should include a framework on responsible lending and borrowing as part of any charter, and address the urgent problem presented by litigating Vulture Funds in countries that have received debt relief
- The G-20 should initiate immediate efforts to engage with broad-based civil society organizations to input into the development of the charter.

6. \$250 billion to Facilitate Trade Finance

ON TRACK? YES MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“We will ensure availability of at least \$250 billion over the next two years to support trade finance through our export credit and investment agencies and through the Multilateral Development Banks. We ask our regulators to make use of available flexibility in capital requirements for trade finance.”

WHAT HAS BEEN DELIVERED

According to G-20 Finance Ministers in their September progress report, \$65 billion in trade finance has been delivered since April.¹³ A \$50 billion Global Trade Liquidity Program (GTLP) to stop the shortage of affordable trade credit from slowing global economic recovery was launched on July 6, 2009. The program is kicking off with more than \$5.5 billion in new funds, \$2.5 billion from donors, the World Bank, the African Development Bank, and the rest from the first four participating commercial banks – Standard Chartered, Citigroup, Rabobank Nederland and Standard Bank of South Africa. GTLP funds will start to disburse through the first four participating banks providing trade finance through a network of more than 500 banks in over 70 developing countries across all regions.²³

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

The conference acknowledged that crisis severely impacted on international trade in most countries, especially developing countries. For many developing countries, these impacts include, among others, falling exports and loss of export revenue, diminishing access to trade finance, reductions in export-oriented and infrastructure investment, lower fiscal revenues and balance of payments problems. It called for harnessing the potential of trade as an engine of sustained economic growth and development in an effort to overcome the crisis.²⁴

BACKGROUND, ANALYSIS, AND POLICY RECOMMENDATIONS

Global trade is expected to decline 10 percent in 2009, marking the biggest drop in at least 80 years. Developing countries, which are particularly dependent on trade, are especially vulnerable.²⁵ The Global Trade Liquidity Program is designed to reduce that vulnerability by raising funds from international finance and development institutions, governments, and banks, and by working through global and regional banks to extend trade finance to importers and exporters.²⁶

While the G-20 appears to be on track to meet its overall commitment, it is entirely unclear how much of the \$65 billion delivered to date is additional, or whether much of it is recycled, existing pledges.

The public money being injected into the system to leverage this total is much less than the headline figures suggest. According to UK officials, the amount of public money delivered to support trade finance for LICs is \$4 billion to date, but of this we estimate that only the \$1 billion mobilized by the IFC is likely to be additional. The IFC has paid 1 billion dollars of the \$4 billion paid into its Global Trade Liquidity Pool (the main instrument for Low-Income Countries). The other funds put into the fund are from bilateral ECAs and is presumably pre-existing aid funds.²⁷

More broadly, civil society has concerns that funds devoted to trade finance may have dubious development impact as they could simply be devoted to supporting exporters who rich country governments want to help out.

7. Commitment to the Millennium Development Goals, and Aid Pledges

ON TRACK? NO MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“We reaffirm our historic commitment to meeting the Millennium Development Goals and to achieving our respective ODA pledges, including commitments on Aid for Trade, debt relief, and the Gleneagles commitments, especially to Sub-Saharan Africa.”

WHAT THE G-20 DELIVERED

The G-8 committed to increase aid to sub-Saharan Africa by \$28.3 billion by 2010, but so far has delivered only \$9.4 billion, which is \$20 billion short of the 2010 target.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“An effective response to the current economic crisis requires timely implementation of existing aid commitments. There is an urgent need for all donors to maintain and deliver on their existing bilateral and multilateral official development assistance (ODA) commitments and targets made.”, inter alia, in the United Nations Millennium Declaration, the Monterrey Consensus and the 2005 World Summit Outcome, at the G8 summit in Gleneagles, in the Doha Declaration and at the G-20 London summit. We underline that the fulfillment of all ODA commitments is crucial, including the commitments by many developed countries to achieve the target of 0.7 per cent of gross national product (GNP) for ODA to developing countries by 2015 and to reach the level of at least 0.5 per cent of GNP for ODA by 2010, as well as a target of 0.15 to 0.20 per cent of GNP for ODA to least developed countries. We recognize that many developed countries have established timetables to reach the level of at least 0.5 per cent for ODA by 2010. We encourage other donors to work on national timetables, by the end of 2010, to increase aid levels within their respective budget allocation processes towards achieving the established ODA targets. The full implementation of these commitments will substantially boost the resources available to push forward the international development agenda and to assist developing countries to mitigate and more effectively respond to the crisis in accordance with their national strategies. Donors should review and, if appropriate, increase or redirect their assistance to developing countries to enable them to mitigate and more effectively respond to the crisis in accordance with their national strategies.”²⁸

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

The G-20's reaffirmation of its commitment to help poor countries meet the MDGs is welcome. However, the aid commitments by richer members of the G-20 have fallen far short of the \$40 to 60 billion per year that the World Bank estimated would be needed to meet the MDGs, even prior to the economic crisis.²⁹ The G-8 committed to increase aid to sub-Saharan Africa by \$28.3 billion by 2010, but so far has delivered only \$9.4 billion, which is \$20 billion short of the 2010 target.³⁰ The G-8 is at risk of defaulting on its commitments to Africa and the prospects of reaching the Gleneagles targets remain dim.

Richer country governments have pledged since the 1970s to provide at least 0.7% of their Gross National Product (GNP) as development aid to poor countries. However, no developed member country of the G-20 has ever met this target. With the economic downturn, some G-20 countries, such as Italy and France, reduced their aid budgets even further in 2008 and 2009, while others, such as the US, UK and Japan, have increased but still fall short of the desperate need in poor countries struggling to meet the MDGs in an even more unfavorable economic climate.

RECOMMENDATIONS

- The G-8 and richer members of the G-20 should deliver on their commitments to increase aid to poor countries, as the increased needs of poor countries hit hard by the crisis call for going beyond existing commitments.
- The richer countries of the G-20 should move toward achieving aid targets of 0.7% of their GNP to ensure that low income countries can continue progress toward the MDGs despite the economic crisis.

8. Support for Initiatives to Enhance Social Protection in the Poorest Countries

ON TRACK? NO MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“We are determined not only to restore growth but to lay the foundation for a fair and sustainable world economy. We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential. To this end:

- We are making available resources for social protection for the poorest countries, including through investing in long-term food security and through voluntary bilateral contributions to the World Bank’s Vulnerability Framework, including the Infrastructure Crisis Facility, and the Rapid Social Response Fund.”

WHAT HAS BEEN DELIVERED

Food Security

At its summit in Italy in July, the G-8 launched a \$20 billion Global Food Security Initiative, described as “coordinated efforts to improve nutrition, provide safety nets and enhance emergency response, in addition to increasing food production.”³¹ US Secretary of State Clinton will be addressing the UN General Assembly about this commitment in late September. Plans for implementation of the initiative are still under development, but it may be channeled through a World Bank facility started to address the food crisis.

Vulnerability Framework

The World Bank’s Vulnerability Framework, which includes the Infrastructure Recovery Assets Platform and the IFC Private Sector Platform, was created to fund infrastructure projects, social safety net programs, and small and medium businesses.³² To date, few donors have committed funds to the framework. The UK has committed £200 million of pre-existing aid to be redirected to the Framework.³³ France and Germany have announced that their countries will partially fund the Infrastructure Crisis Facility, but have not specified the specific amount or when they plan to contribute.³⁴

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

At the UN Conference in June there was much concern over the vulnerability of poor citizens around the world to rising food prices in the face of the financial crisis. In the report there is a call for international support to prevent further hunger and other sources of human insecurity. “We call for the mobilization of additional

resources for social protection, food security and human development through all sources of development finance, including voluntary bilateral contributions, to strengthen the foundation for early and sustained economic and social recovery in developing countries, particularly least developed countries. Such additional resources should be channeled through existing institutions such as the United Nations development system, the World Bank-proposed vulnerability fund and framework.”³⁵

BACKGROUND, ANALYSIS, AND POLICY RECOMMENDATIONS

Food Security

The strong focus and large monetary commitments to food security at the last G-8 summit have received mixed reviews from civil society. Promises of \$20 billion through the new initiative have been praised as an important step; however, no concrete plans have yet been made to implement the commitment, and funds may not actually be additional aid.³⁶

Critics also point out the faulty logic in the G-8's emphasis on trade liberalization to alleviate hunger, arguing that further liberalization of agricultural and food markets has not yet delivered on the promised gains in growth and stability in poor countries. Organizations such as the Oakland Institute³⁷ criticize these measures as hurting low-income and rural populations, creating vulnerability to changing food prices, and setting a double standard between liberalized poor countries and domestically-subsidized rich countries. Funding for food aid channeled through the G-8 and G-20 should not be tied to an enforcement of liberal economic policies, which may in fact hurt the hungry. Instead, the UN Economic and Social Commission for Asia and the Pacific has recommended funding directed towards to local, small-scale farmers who grow biologically diverse and sustainable products.³⁸

Vulnerability Framework

The Vulnerability Financing Facility (VFF) was created specifically to lessen the effect of events, such as the financial crisis, on the poorest citizens of the world. The money that has been committed to the VFF thus far has not been additional to already promised aid; the UK's £200 contribution is a redirection of funds already planned in the foreign aid budget.³⁹ A collective statement from UK civil society points out, “simply repackaging aid budgets into new funds and programmes is not going to be enough to help countries bridge these giant financing gaps, let alone undertake the policies needed to stimulate their economies.”⁴⁰ It is also critical that funding for VFF projects are free of the conditionality often attached to World Bank assistance.

RECOMMENDATIONS

- Instead of proliferating new financing facilities, the G-20 must ensure that any resources for social protection are additional resources and not just a redirection of foreign aid budgets.
- Financing for social protection should be provided in the form of grants rather than loans and should not impose economic policy conditionality.

9. Additional Resources from IMF Gold Sales for Poor Countries

ON TRACK? UNLIKELY MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“We have committed, consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide \$6 billion additional concessional and flexible

finance over the next 2 to 3 years. We call on the IMF to come forward with concrete proposals at the Spring meetings.”

WHAT HAS BEEN DELIVERED

On July 29, the IMF Executive Board approved an agreement to provide “up to \$8 billion in concessional assistance to low-income countries over the next two years.”

According to the IMF, the package agreed by the IMF’s Board includes:

- “Scaled-up concessional financial assistance to low-income countries to boost the Fund’s concessional lending capacity by up to \$17 billion through 2014, including up to \$8 billion in the first two years. This exceeds the G-20 call for \$6 billion in new lending over two to three years.
- “Interest relief, with zero payments through end-2011 on the IMF’s concessional facilities to help low-income countries cope with the crisis.
- “In order for the IMF to meet the new financing commitments, additional loan resources of SDR 9 billion will need to be mobilized from bilateral contributions. In addition, new subsidy resources of SDR 1.5 billion will need to be mobilized from the IMF’s internal resources—including from the use of revenue from the envisaged gold sales, and through bilateral contributions—to help cover the cost of concessional interest rates.”⁴¹

The commitment of desperately needed assistance is welcome. At first glance, it would appear that the IMF met or even exceeded the G-20’s pledge – but a closer look reveals less clarity:

- In 2009 so far, the IMF has only doubled concessional lending from \$1.5 billion to \$3 billion, representing a total increase of \$1.5 billion so far in additional support.⁴²
- Donors have not yet delivered the SDR 9 billion in loan resources or new subsidy resources of SDR 1.5 billion needed to deliver the IMF pledge to the poorest, and gold sales have not been formally approved by the IMF’s Board, making the pledge a promise as to date undelivered.
- The G-20 communiqué asks specifically for \$6 billion in additional concessional lending but IMF lending to date in 2009 is not drawing on any additional resources because of the above. The IMF could actually have met the promise to deliver \$7 billion over the next 2 years without the G-20 commitments.
- If and when such bilateral commitments for subsidy resources come, they may come from existing aid budgets, potentially robbing Peter (limited aid budgets) to pay Paul (the IMF), an institution whose development mandate is in question.
- The figure of \$17 billion by 2014 is also misleading as the IMF already had sufficient lending and subsidy resources to be able to deliver \$7 billion over that same period, making the additional figure of \$10 billion over the next 5 years, or \$2 billion per year.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“Countries must have the necessary flexibility to implement countercyclical measures and to pursue tailored and targeted responses to the crisis. We call for a streamlining of conditionalities to ensure that they are timely, tailored and targeted and support developing countries in the face of financial, economic and development challenges. In this context we note the recent improvement of the lending framework of the International Monetary Fund (IMF), through inter alia, modernizing conditionality, and the creation of more

flexible instruments, such as a flexible credit line, as a welcome step. New and ongoing programmes should not contain unwarranted procyclical conditionalities. We call upon the multilateral development banks to move forward on flexible, concessional, fast-disbursing and front-loaded assistance designed to substantially and quickly assist developing countries facing financing gaps. While doing so, multilateral development banks need to assure the application of agreed safeguards to ensure their financial stability.”

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

IMF: A Development Institution?

A number of governments, analysts, and civil society organizations have questioned whether the IMF is an appropriate institution for delivering long-term development assistance. The IMF's founding mandate was to provide short-term balance of payments support and to monitor global exchange rates, fiscal, and monetary stability. The IMF has only been involved in longer-term development oriented lending since the founding of the ESAF facility in 1987, which later evolved in to the Poverty Reduction and Growth Facility (PRGF). Civil society organizations have pointed out that PRGF loans have shorter repayment terms (10 years vs. 40 years for World Bank – International Development Association (IDA) loans); are insufficiently concessional;⁴³ and come with onerous conditionality attached. The Government of Norway echoed these concerns in a May 2009 statement:⁴⁴ “The government is critical to the way the PRGF-arrangement has developed characteristics of long term development finance. Such development finance should instead be left for the World Bank and the UN-system. In light of this it is the Government's view that Norway should not provide funds for the PRGF now.”

Fueling the Debt Crisis?

In advocacy pushing for the IMF sale of gold for development purposes, leading civil society organizations urged the IMF to devote “a significant portion of ...resources [from gold sales] ...on non-debt creating terms in order to help ease growing debt distress levels of low income countries. The IMF should devote some of the fresh resources it mobilizes for LICs to support a moratorium on all debt service payments (principal and interest) for low-income countries affected by the crisis.”⁴⁵ Low income country governments issued a similar request.⁴⁶

In partial response to these calls, the IMF package announced in late July offers interest relief for low income countries for the next three years, and a reduction of interest rates from .5% to 0% on new concessional loans. Although welcome, this is insufficient to address the mounting debt challenges that the poorest countries are facing. The much heralded commitment by the IMF to provide “interest relief” to low income countries is worth between \$55-70 million between now and the end of 2011. Since that interest relief is spread over two and a half years and probably around 60 countries, on average it will save less than \$500,000 million annually to each country that qualifies.

The interest relief on offer from the IMF falls well short of calls from civil society and of the proposal put forward by former WTO chief and current UNCTAD Secretary General Supachai Panitchpakdi for a full moratorium on all debt payments – principal and interest – for the duration of the crisis.”⁴⁷

Strings Attached

Civil society organizations and low-income country governments have long been critical of policy conditions imposed by the IMF as a condition for its lending assistance. In recent months, the IMF has announced a number of reforms to its lending instruments to streamline conditionality. These changes include the development of a new conditionality – free facility – the Flexible Credit Line – for high performing countries, but only a very few countries are eligible for this line of credit.

Even with the modest reforms made by the IMF, civil society is concerned that the IMF's core policy advice on issues including monetary and fiscal policy remain little changed from the past – meaning poor countries have too often been unable to stimulate their economies in a time of recession. A recent report by Eurodad found that out of ten low and middle income countries assessed, five loan programs required wage bill freezes or cuts, including in Cote d'Ivoire, Ethiopia and Malawi, and all had to make spending cuts.⁴⁸ This inhibits these impoverished countries from pursuing policies that stimulate their economies like the US and wealthy countries have – spending extra money to create jobs and provide services. In a recession, the world's poorest countries should be allowed to invest more in education, healthcare, and infrastructure, not less.

In order to get their IMF loan earlier this year, El Salvador was forced to raise taxes and cut gas and transportation subsidies – this at a time when developed countries are increasing similar public investments to stimulate their own economies.

RECOMMENDATIONS

- The G-20 should ensure that IMF commitments to low-income countries are truly additional and are delivered on time and as promised, quickly moving to cover commitments with internal resources should bilateral contributions not be forthcoming.
- The G-20 should channel future commitments of long term development assistance through multilateral agencies – such as the UN – with core competency in long-term development, rather than through the IMF.
- The G-20 should direct the IMF to make concessional loans to low income countries available without conditionality except for fiduciary conditions.

10. Greater Flexibility in the Debt Sustainability Framework

ON TRACK? YES MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“Agreed to review the flexibility of the Debt Sustainability Framework and call on the IMF and World Bank to report to the IMFC and Development Committee at the Annual Meetings.”

WHAT HAS BEEN DELIVERED

The World Bank and IMF Boards approved changes to the Debt Sustainability Framework (DSF) in late August, as proposed by the institution's staff. In their internal review, the staff acknowledged the problem that some countries may potentially be caught in a trap of low public investment, low growth if they are unable to borrow to support public investment in positive projects. They proposed that the DSF provide some flexibility for increased borrowing in countries with strong institutions for approved public investment projects. The review also included some additional minor tweaks to the DSF, such as including remittance levels in the formula; smoothing the thresholds for countries whose institutional assessment through the Country Policy and Institutional Assessment (CPIA) tool locates them close to a higher risk threshold; excluding some of the state-owned enterprise debt when firms can borrow without government guarantee and their operations pose of limited financial risk; and taking into account the OECD discount rate.⁴⁹

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“The deepening crisis threatens to increase the debt and therefore threatens the debt sustainability of developing countries. This growing pressure limits the ability of these States to enact the appropriate fiscal measures to mitigate the impact of the crisis or engage in development financing. We affirm that the appropriate measures must be taken to mitigate the negative effects of the crisis on the indebtedness of developing States and to avoid a new debt crisis. In that regard, we support making full use of the existing flexibility within the Debt Sustainability Framework.

“We call upon States to redouble efforts to honour their commitments regarding debt relief and stress the responsibility of all debtors and creditors on the issue of debt sustainability, and emphasize the importance of equivalent treatment of all creditors. Donors and multilateral financial institutions should also increasingly consider providing grants and concessional loans as the preferred modalities of their financial support instruments to ensure debt sustainability. We will also explore enhanced approaches to the restructuring of sovereign debt based on existing frameworks and principles, broad creditors’ and debtors’ participation and comparable burden-sharing among creditors. We will also explore the need and feasibility of a more structured framework for international cooperation in this area.”⁵⁰

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

Low income countries desperately need additional finance in the context of the global economic crisis, and the G-20 commitment to review the flexibility of the Debt Sustainability Framework (DSF) may allow low income countries to borrow more to meet their financing needs. In lieu of other forms of needed finance for low income countries, such as increased grants and debt relief or SDRs, this additional borrowing may be necessary for many poor countries. However, this is a mistaken approach – not unlike raising the credit card limit for an individual with overwhelming credit card debt – as it proposes only minor tweaks to a fundamentally flawed framework and will only lead to increased indebtedness of already highly indebted poor countries, leading to a future “debt crisis.”

The Debt Sustainability Framework: Its Purpose and Limitations

The DSF was created in 2005 as an official response to the challenge of debt re-accumulation for poor countries. Under the DSF, the World Bank and IMF conduct regular debt sustainability analyses for each low income country, based on the country’s projected debt burden over the next 20 years, its vulnerability to external and policy shocks, and the World Bank’s assessment of the quality of the country’s policies and institutions (the CPIA index). International Financial Institutions utilize the debt sustainability assessment in determining their lending decisions for these low income countries.

While the concept of avoiding unsustainable debt is laudable, the DSF employs a flawed methodology in the following ways: (1) its definition of debt distress is centered solely on the inability of countries to repay, rather than inability to meet the MDGs or other human development targets; (2) its debt indicators such as debt-to-export and debt-to-GDP ratios fail to accurately reflect a country’s need for debt relief; and (3) it utilizes a subjective, one-size-fits-all Country Policy and Institutional Assessment by the World Bank, which denies the policy space for borrowing countries and their people to implement context-based, country-owned strategies that help them both develop and improve their debt situation. The World Bank and IMF boast of following a country-by-country approach but the entire methodology is a standardized one that excludes participation by the affected population in the preparation of their unique debt sustainability analyses, strategies and goals.

Particularly in the context of the global financial crisis, implementing a framework – however reformed – that prioritizes debt sustainability over human development goals will have dire consequences for the world's most vulnerable. Many low income countries were decades away from meeting the Millennium Development Goals (MDGs) before the financial crisis and now face even greater poverty reduction challenges. Recent empirical studies show a strong relationship between countries meeting the MDGs and their ability to carry debt, supporting the notion that countries should invest their resources in meeting the MDGs instead of prioritizing debt service.⁵¹

The DSF placement of responsibility for and consequences of unsustainable debt solely on the side of the borrower is also problematic. The DSF sanctions the borrower if it borrows above the debt ceiling, even though new borrowing is often the result of insufficient access to grants and irresponsible lending practices on the part of free riding creditors. The punishment given to debtors when they breach the ceiling (a reduction in access to IDA grants and concessional lending) actually makes it more likely that borrowers will ramp up their appeal to non-concessional sources of financing. As the DSF sanctions “irresponsible” borrowers, no attempt is made to address the moral hazard resulting from the creditor’s irresponsible behavior. The DSF does not entail any financial consequences for irresponsible lenders should countries fall back into unsustainable debt. Finally, the DSF focuses only on the quantity of new lending, rather than on quality, and therefore does not protect from a re-accumulation of odious debt. What is clearly needed instead is a comprehensive and orderly international debt workout mechanism that holds borrowers and creditors co-responsible for unsustainable debt burdens.

Minor tweaks to the DSF fall short

The proposed changes to the DSF by the World Bank and IMF staff and their subsequent approval in September failed to include any opportunity for input by civil society. In fact, the World Bank Board of Directors approved the changes before they could be reviewed or discussed at the G-20 summit or at the Annual Joint Meetings of the World Bank and IMF. This lack of consultation is evident by the minor technocratic tweaks to the DSF that were adopted. Some of these tweaks – such as consideration of remittance levels, smoothing the thresholds, and excluding state-owned enterprise debt – will allow more countries to increase borrowing than is currently possible under the DSF, which is necessary in the short term. But they do not address the fundamental flaws of the instrument listed above.

Neither will a more flexible DSF address the urgent need for non-debt creating foreign assistance for countries bearing the brunt of the financial crisis, so as to avoid further indebtedness and a future debt crisis. The UN Conference on the World Financial and Economic Crisis rightly recognized the need for meeting past commitments for debt relief, providing non-debt creating and concessional financing to low income countries, and establishing a framework for a restructuring sovereign debt.

Given that, in the immediate term, a more flexible DSF may be necessary to meet the financing challenges of low income countries, civil society organizations should have had the opportunity to provide input into the DSF review. The following substantive changes should have been made to the current instrument: (1) move away from the flawed one-size-fits-all “Country Policy and Institutions Assessment” (CPIA) instrument; (2) allow participation by the indebted country government and civil society in determining debt sustainability levels by employing an independent oversight board; and (3) incorporate definitions of debt sustainability that take into account the financing needs for a country to achieve the MDGs.

The G-20 should move away from the flawed framework of the DSF, however, and instead deliver non-debt creating financial assistance to low income countries to help them weather this financial crisis not of their making.

RECOMMENDATIONS:

- The G-20 should, as an initial step, agree to a two year freeze on all debt payments of low income countries and countries in crisis without the build-up of interest during the moratorium.
- The G-20 should expedite debt cancellation for all MDRI-eligible countries, without requiring harmful economic policy conditions.
- The G-20 should commit to deliver critical debt cancellation to all countries that qualify for International Development Association-only lending, as well as to all other countries whose debt levels currently prevent them from meeting their people's basic needs and who are servicing odious and illegitimate debts.
- The G-20 should begin creation of a binding legal framework that fairly allocates the burden of irresponsible borrowing to both creditors and debtors. Such a framework would: (1) guarantee that no creditor can take or expect to take financial advantage of acquired or newly awarded debt relief through the terms and rates of their new lending to beneficiary countries; (2) be binding on all creditors, whether multilateral, bilateral or private; (3) require that irresponsible creditors take an equitable share in the burden of any future debt relief needed by the sovereign debtor to whom lending was irresponsibly provided; (4) provide for decisions on irresponsible lending to be made by an entity independent from the creditors; and (5) provide fair opportunities for the people of the affected country to be heard.

11. Create a Mechanism at the UN to Monitor the Impact of the Crisis on the Poorest

ON TRACK? YES MEETING THE NEED? YES

WHAT THE G-20 PROMISED

"We call on the UN, working with other global institutions, to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable."

WHAT HAS BEEN DELIVERED

The UN system has started the development of what it calls a Global Impact and Vulnerability Alert System (GIVAS). An indicative draft report using info-graphics is being prepared by a consultant recruited by the Executive Office of the Secretary General (EOSG) for the Secretary General for a September launch. United Nations Development Program (UNDP) has been and is closely working with EOSG in terms of providing inputs to the consultant. The inputs include qualitative data in terms of human stories, wiki materials, impact analyses, synthesis reports and papers on transmission mechanisms.

UNDP has also made available a number of country assessments on the impacts of the crisis to EOSG for the use of the consultant in the report and by end of September, the UNDP will complete two sets of impact assessments reports— about a dozen country reports in Asia and a global comparison report; these will provide important inputs to the GIVAS.

Various groups of member states are currently in consultation with the UNDP, EOSG, and UN Department of Economic Affairs (UNDESA) and several policy advisors, and the Secretary General's office is in the process of recruiting a director for the GIVAS. UNDP is helping EOSG to identify potential candidates in addition to providing technical advice to EOSG in terms of putting a system of data, a structure for alert and mobilization of information from various sources – within and outside the UN system.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

“We stress the importance of the United Nations development system, given its broad field presence, in supporting the activities at country level to mitigate the impact of the crisis in developing countries.”

BACKGROUND, ANALYSIS, AND RECOMMENDATIONS

The GIVAS’s objective is to “ensure that in times of global crisis, the fate of the poorest and most vulnerable populations is not marginalized in the international community’s response. By closely monitoring emerging and dramatically worsening vulnerabilities on the ground, the Alert would fill the information gap that currently exists between the point when a global crisis hits vulnerable populations and when information reaches decision makers through official statistical channels.” This is a laudable goal, but civil society members have expressed concerns about whether this “early warning” system will translate into effective response.

RECOMMENDATIONS

- While positive steps have been made in the information collecting phase, mechanisms must be quickly put in place to coordinate and collate the information gathered.
- The G-20 should encourage a more rapid implementation of the GIVAS process.

12. Support for Employment and Income Support Measures

ON TRACK? UNLIKELY MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“We recognise the human dimension to the crisis. We commit to support those affected by the crisis by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the ILO, working with other relevant organisations, to assess the actions taken and those required for the future”.

WHAT HAS BEEN DELIVERED

Due to the general nature of the commitment, it is difficult to measure what the G-20 has delivered in terms of creating employment opportunities and providing income support for individuals affected by the crisis, particularly for the world’s poorest countries. On the positive side, the International Labor Organization (ILO) Director-General Juan Somavia has been invited to attend the G-20 Summit in Pittsburgh. The ILO has made some progress, focusing its Annual Tripartite Summit in June on the jobs impact of the crisis, which ended in the creation of the “Global Jobs Pact,” with official endorsement by Brazil and Argentina governments and later by the UN Economic and Social Council. The Global Jobs Pact also received support from the G-8 Summit in L’Aquila, Italy in July.

These positive steps do not appear to have been followed by active engagement by most of the G-20 countries yet. While G-20 countries such as Germany⁵² have employed some successful active labor market policies, lack of data or measurable commitments with respect to the ILO’s Global Jobs Pact thus far suggest that

there has not been significant progress made by most G-20 countries in ensuring investment in education and training and active labor market policies for the most vulnerable. While the London communiqué suggested that the G-20 might establish a working group on the jobs impact of the crisis⁵³, such a working group has not yet been formed.

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

"We recognize the human and social impacts of the crisis and the inherent challenges involved in addressing them. Short-term mitigation measures should take into account long-term goals, especially those related to poverty eradication; sustainable development, including environmental protection and clean and renewable energy; food security; gender equality; health; education; and sustained economic growth, including full and productive employment and decent work for all.

We invite the International Labour Organization to present the "Global Jobs Pact", adopted at the ninety-eighth session of the International Labour Conference, to the substantive session of the Economic and Social Council in July, which intends to promote a job-intensive recovery from the crisis, drawing on the decent work agenda, and to shape a pattern for sustainable growth."⁵⁴

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

In April, the G-20 rightly recognized the human dimension of the crisis and affirmed the need to support the millions who have lost their jobs and/or been driven further into poverty. Even as some countries are reporting the beginnings of economic recovery, it is widely acknowledged that the negative effects on labor markets will continue for many months or even years after the global recession subsides. The ILO Global Jobs Pact, adopted in June, outlines active employment policies that should be taken to help lead the global economy out of recession.

With industrialized countries facing record unemployment levels, low income countries – with already small formal employment sectors and few resources for even basic social safety nets – are facing even more catastrophic consequences for their vulnerable workforces. The London Jobs Conference recognized this in their communiqué, stating that "emerging economies and developing countries are also feeling the impact on their labour markets. The ILO suggests that vulnerable employment might increase by some 25 million between 2007 and 2009."⁵⁵ The G-20 statement of support for the London Jobs Conference and the Rome Social Summit is an important step in the right direction, but so far the G-20's commitments have been far too vague to measure real progress toward helping the most vulnerable working people through the global recession.

For low income countries with already small formal employment sectors, there is an urgent need to support job creation as well as basic social protections as more people face extreme poverty as a result of the crisis. A successful guaranteed employment scheme that has been implemented in India –which created 1.4 billion person workdays on public infrastructure projects in 2007 and 2008⁵⁶ – has potential for low income countries but will require outside financing. The London Jobs Conference pointed to the need for a focus on food, fuel, and micro-finance markets in countries where formal employment markets are less extensive, given that most people are employed in many small informal enterprises.⁵⁷ Basic social protections, such a subsidized food programs and basic health care and education services, will also be critical as residents of low income countries weather the crisis.

RECOMMENDATIONS:

- The G-20 should establish a G-20 working group on the jobs impact of the crisis as well as provide more detailed commitments as suggested by the ILO Global Jobs Pact, with measurable benchmarks.
- The G-20 should demonstrate its seriousness in granting a stronger monitoring role to the ILO, by providing the ILO with timely data and engage in active cooperation with the ILO regarding its active labor market policy recommendations.
- The G-20 must increase delivery on past aid commitments and increase those commitments, without increasing the long-term indebtedness of the countries, in order to allow low income countries to invest in job creation and social protection for working people in their countries.

13. Use Fiscal Stimulus to Help Ensure a Clean Recovery and Address the Urgent Threat Posed by Irreversible Climate Change

ON TRACK? UNLIKELY MEETING THE NEED? NO

WHAT THE G-20 PROMISED

“We agreed to make the best possible use of investment funded by fiscal stimulus programmes towards the goal of building a resilient, sustainable, and green recovery. We will make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure. We encourage the MDBs to contribute fully to the achievement of this objective. We will identify and work together on further measures to build sustainable economies.”

“We reaffirm our commitment to address the threat of irreversible climate change, based on the principle of common but differentiated responsibilities, and to reach agreement at the UN Climate Change conference in Copenhagen in December 2009.”

WHAT HAS BEEN DELIVERED

In terms of the fiscal stimulus packages, a total of \$180 billion has been committed across the various countries, though there is a large divergence between nations regarding the amounts they have committed and the clarity of their respective policies for such expenditures. As most of this money has yet to be spent, there are few immediate results to report. Given the ambiguity of the policies, there is a need for continued pressure on governments to ensure that these funds are spent soon and in the appropriate ways. Such investment is necessary to lay the foundations required for low-carbon trajectories in these economies.⁵⁸

Progress on an international agreement on climate change has been rather limited. Since the last G-20, most of these conversations have been occurring through the framework of the United National Framework Convention on Climate Change (the official international negotiations on a post-Kyoto regime) though others have been occurring on a bilateral basis as well as the Major Economies Forum (an informal process hosted by the US involving the “major emitters”). Official negotiations have been progressing very slowly with little results to report to date. There has been some progress within the G-2 (between the US and China) but nothing that can be considered official as of yet as neither party would like to be seen to be circumventing the official international process.

The amount allocated of the multi-trillion dollar economic stimulus to renewable energy falls far short of the investment needed to meet carbon emissions targets, says Nobuo Tanaka, executive director of the

International Energy Agency (IEA). The IEA estimates that only about \$20 billion out of a total of \$2.6 trillion in economic aid announced in the economic crisis by the G-20 countries will go to renewable power, with only \$100 billion or 5% for the wider goal of cleaner and more efficient energy use. "The current stimulus packages are an important step," says Tanaka. "But they are insufficient to get us over the line to a cleaner more sustainable energy future..."⁵⁹

The US has shown signs of potential leadership in the run-up to the Copenhagen climate conference by passing climate legislation at the House of Representatives for the first time. The American Clean Energy and Security Act, which aims to reduce carbon emissions 17 percent by 2020 and 83 percent by 2050 has been sponsored by Rep. Waxman and Rep. Markey. For the Bill to become law, a similar Bill must pass the Senate where political and regional differences are even more pronounced.⁶⁰ The extent to which this is possible before the Copenhagen talks is doubtful.

The US and China, the world's top two emitters, signed a memorandum of understanding in late July that has been billed as a joint commitment to reach an international agreement on climate change in the areas of renewable energy, sustainable transportation and natural resource conservation.⁶¹

During trilateral discussions at the North American Leaders Summit on 10th August, the US, Canada and Mexico affirmed they would cooperate on efforts to fight climate change by agreeing to initiatives for carbon capture and storage (CCS), gas flaring reduction, energy efficiency and smart grids.⁶²

At the G-8 summit in L'Aquila, Italy, members agreed to set a goal to cut emissions by 80 percent for industrial countries by the year 2050. This is part of a global effort to cut emissions by 50 % from 1990 levels. They have also agreed to limit the rise in global temperatures to not more than 3.6 degrees Fahrenheit (2 degrees Celsius) above 1900 levels. Developing countries including China and India have indicated they want to defer any such promises until developed countries take more concrete steps in the near term to rein in their emissions.⁶³

Major Economies Forum leaders at the G8 meeting in Italy recognized that financial resources for mitigation and adaptation would need to be scaled up urgently and substantially. They agreed broadly that, "financing to address climate change will derive from multiple sources, including both public and private funds and carbon markets." They called on G-20 finance ministers to further these efforts by taking up climate finance issues and reporting back to them at the G-20 summit this fall. They also reaffirmed the objective, provisions and principles of the UN Framework Convention on Climate Change. In addition, they are establishing a Global Partnership to drive transformational low-carbon, climate-friendly technologies.⁶⁴

With its fast growing economy, India is not prepared to take any "legally binding emission reduction targets" says India's Environment Minister Jairam Ramesh. Rather it is proposing developed countries to transfer relevant technology and allocate 0.5 to 1 % of their GDP annually to assist developing economies to tackle climate change.⁶⁵

WHAT THE UN CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT FOUND

"The crisis must not delay the necessary global response to climate change and environmental degradation, taking into account the principle of common but differentiated responsibilities and respective capabilities. We acknowledge that the response to the crisis presents an opportunity to promote green economy initiatives. In

this regard, we encourage the utilization of national stimulus packages, for those countries in a position to do so, to contribute to sustainable development, sustainable long-term growth, promotion of full and productive employment and decent work for all and poverty eradication. It is important that global green initiatives and proposals be inclusive and address sustainable development and environmental challenges and opportunities including climate change mitigation and adaptation, financing and technology transfer to developing countries and sustainable forest management. We also encourage private-sector participation in these initiatives at the national level in accordance with national development strategies and priorities. We look forward to a successful outcome of the fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held in Copenhagen in December 2009, as part of our overall efforts for a green recovery from the crisis.”

Role of the UN

2009 is a crucial year in the international effort to address climate change. A series of UNFCCC meetings are taking place throughout the year, designed to culminate in an ambitious and effective international response to climate change, to be agreed at the United Nations Climate Change Conference (COP 15) in Copenhagen, 7-18 December. The first round of negotiations this year took place in Bonn, March 29 - April 8. The second meeting took place in Bonn, June 1-12. Informal consultations were held in Bonn, August 10-14. Two further sessions will be held prior to Copenhagen: September 28 - October 9 in Bangkok and November 2-6 in Barcelona.⁶⁶

Briefing the media on the last day of the informal consultations in Bonn, UNFCCC Executive Secretary Yvo de Boer said that while selective progress had been made to consolidate the huge texts on the table, “at this rate, we will not make it.” Negotiations needed to move much faster to deliver strong outcomes on areas such as adaptation, technology and building skills in developing nations, he said. Governments needed to buckle down and concretely identify how to achieve this.⁶⁷

As a response to the G8 meeting in Italy, UN Secretary General, Ban ki Moon said that G8 countries are not doing enough to tackle climate change. He stated that the industrialized world has a historical and political responsibility to help lead the campaign against climate change and support developing countries technologically and financially to undertake mitigation efforts.⁶⁸

BACKGROUND, ANALYSIS AND POLICY RECOMMENDATIONS

Climate change poses a significant challenge to the attainment of the Millennium Development Goals (MDGs), especially those related to eliminating extreme poverty and hunger and promoting environmental sustainability. An increasing body of evidence points to the disproportionate negative impact that climate change will have on the poorest countries, which, ironically, have contributed least to the problem.

The devastating effects of climate change and the growing international concern over it are causing both the developed and developing world to contemplate global climate change policies. These policies should not only deal with mitigation and adaptation, the buzzwords in the policy community on climate-related issues, but also climate finance. Resources, both financial and technological need to be readily available for both industrialized and developing countries to make the transition from a high carbon economy to a low carbon one in a reasonable amount of time.

Climate change is a development challenge, according to the World Bank. The upcoming 2010 World Development Report finds that developing countries are more vulnerable to climate change and suffer from

a lack of climate resilience due to their natural resource base, population, location and other factors. It is estimated that a 2 degree Celsius increase in world temperature would lead to a 1% annual world income loss, a 4% annual income loss for Africa and 5% for India. The need for “new finance” that will contribute to both climate investments and clean technology is crucial.⁶⁹

Because developing countries are more vulnerable to extreme weather conditions, droughts, floods and other natural hazards, they face greater risks for investment. The economic crisis may also make developed countries more risk averse to invest large amounts of money into climate-related issues. Therefore it is plausible that developed countries will hesitate to commit more resources for developing countries, making it difficult for the Copenhagen meetings to map out a common global climate change agreement that includes the needed finance for developing countries.

The G-20 dedicated the last two points of the final communiqué at the London Summit to address climate change, and has made no specific commitments. Environmentalists argue that climate change seems to have been an afterthought to the document. Officials stressed that the objective of the G-20 Summit was to agree to an economic strategy, but campaigners said that if tough measures to fight global warming are not agreed soon, the consequences would be far worse than the global financial crisis.⁷⁰

RECOMMENDATIONS:

- As the days get closer to the Copenhagen meetings, the Pittsburgh summit should provide a concrete direction to the climate change debate and steer it in a manner that compels G-20 members to commit more resources, both financial and technological to mitigate devastating effects and ease adaptation to climate change.
- The G-20 must take ambitious steps forward in fulfilling their responsibility to provide new, additional, predictable and adequate financial resources for adaptation, enhanced mitigation actions, technology sharing, and capacity building in developing countries. Decisions about the institutional arrangements should be decided in the UNFCCC process where all parties are represented. However, when approaching these discussions, finance mechanisms must respect basic equity principles.

ENDNOTES SECTION I

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