More Money for Good, Less Money for Bad: A Clash of Finance Objectives at the G20

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G20 Summit – Media Centre. The agenda for the G20 summit in Antalya, Turkey, faced a rapid shake up following the attacks in Paris, which left 129 dead and occurred the night before the Summit met. Discussion was comprehensively dominated by the immediate international security threat and the pressure was on to identify a coordinated plan of action for addressing the crisis. International media coverage centred entirely around the responses of world leaders, and the interactions between them. The need for urgency, combined with the readily established forum of the G20 summit, provided a perfect opportunity for clear global communication on the issue, and the hawkish media eye pursued the topic relentlessly, rarely asking questions that deviated from the recent attacks (see our blog).

Tackling terrorist finance was widely understood to be a fundamental priority, with recognition that the ISIL threat could only be reduced by 'killing the lifeblood of the organisation' by cutting off their financial flows. European Council President Donald Tusk encouraged more coordinated sharing of information on suspicious transactions, stressing that terrorist networks cannot plan or operate without money moving along financial channels in many countries. Think20, a network of think-tanks supporting the G20, issued a statement calling for prioritisation of the fight against financial support for terrorist activities, encouraging leaders to 'strengthen and make more open the exchange of information and the freezing of assets associated with terrorist activity.' As a result, the G20 Leaders communique mandated The Financial Action Task Force (FATF) to 'identify measures to strengthen combatting of terrorism financing and targeted financial sanctions'.

Nevertheless, a very different access to finance story was developing just one pressroom away, where the Business20 presented their recommendations for increasing access to finance for SMEs as a fundamental tool for promoting sustainable economic growth. The B20 called on the Summit to provide more opportunities for innovative finance, with a variety of options outside of the traditional banking sector, and endorsed the availability of telecommunications and internet access as a means to increase new opportunities for SMEs. The B20 encouraged the growth of financial technology as a viable alternative for financing SMEs, given that banks are often reluctant to provide loans and may be inaccessible for many. The Asian Development Bank estimated a $1.4 trillion shortfall of trade finance for SMEs, and with a global mindset intent on reducing reliance on the traditional banking sector, technological alternatives were hailed as a the finance of the future as well as the saviour of the SME finance crisis. Over the year, the G20 has pushed a focus on increasing access to finance, producing numerous outputs on how loans can be made more available for new business. The G20/OECD High Level Principles on SME Financing recognised a 'pressing need to develop a more diversified set of options for SME financing in order to reduce their vulnerability to changes in credit market conditions, strengthen their capital structure, seize growth opportunities and boost long-term investment'.

Increased access to finance for SMEs could be the answer to unlocking potential economic growth in a sustainable, equitable way. Employing over two thirds of the global private sector workforce and providing over 80% of net job growth, SMEs may have the ability to successfully achieve the G20s core aim of economic growth. The B20 states that 'digital technologies are removing traditional barriers to expansion and are enabling SMEs to enter new and bigger markets using flexibility to compete'. Given their importance, the Turkish B20 Presidency introduced the SMEs & Entrepreneurship

Task Force to address the biggest challenges for SMEs in the current economic climate. This Task Force identified access to the digital economy and innovation ecosystems as a key objective, stating that 'G20 countries and SMEs have yet to seize the full potential of digital, as the quality of the infrastructure and its use by companies vary significantly', but that SMEs face challenges from a lack of a 'thriving innovation ecosystem to provide the necessary infrastructure to support experimentation'.

Yet these two priorities, of cutting financial flows for terrorist organisations and encouraging alternative financial institutions may present a clash of objectives. Tackling terrorist finance means reviewing cross-border freezing requests and global agreement for international information sharing in order to achieve more transparent financial flows. At the same time, promoting more diversity in access to finance means providing space for technological innovations with the freedom to expand rapidly as well as unpredictably, which will leave the regulators always a step behind. This could create an environment for international financial flows to cross borders without the monitoring that comes with the traditional banking sector. Peer-to-peer lending and crowdfunding options have exploded onto the financial scene without an established regulatory framework. Due to the nature of rapid innovation, this could provide a forum for new, unobservable methods for financial transfers to occur before institutions have a chance to respond and develop a framework in which the technologies can safely operate. This could present a potential risk if this lack of regulation on a new financial system provides methods for terrorist organisations to access untraceable finance, and there could be difficulty in monitoring the new systems.

Terrorist finance is not a new addition to the G20 agenda. FATF was mandated in 2001 to identify funding sources for terrorist organisations, and in 2008 the organisation focused on determining the variety of methods used by terrorists to move funds. A report published by the FATF in February 2015 explored the financial structure of ISIL, but insight into the role of financial institutions and the international financial sector was limited due to sensitivity concerns around the data. Yet this leaves a need for clarification on what can realistically be done to cut terrorist finance. The topic is an appealing one for the G20; cutting the money supply is in theory a clean solution to a highly complex problem, using a language of finance that the G20 leaders understand. But the success of such an intervention relies on the correct identification of the money supply, and the implementation of agreed standards of transparency. With no means of accountability in the institution, there is a danger that the non-compliance of a minority could render any attempt worthless.

This is a scaled down demonstration of a wider clash that is becoming more apparent with each year of the G20, which was initially created as a forum for global coordination of economic and financial policy, with the objective of promoting sustainable economic growth. The G20 Turkish presidency opted for an agenda based on the 'three I's': investment, implementation and inclusiveness, and the G20 leaders reaffirmed their commitment to 'achieving our ambition to lift collective G20 GDP by an additional 2% by 2018'. Yet global coordination on long term economic growth requires space within the forum for debate and negotiation on how that can best be achieved. It needs a focused effort on narrowing down what this 2% growth should look like; who it should target and the kind of growth that would be most stable in the long term. But with an imminent threat of further escalation of the international security crisis, real direction on the economic agenda of the G20 repeatedly fails to rise to the top, as world leaders are required to immediately respond to urgent needs.

It is completely understandable that the G20 summit was focused on the current terrorism threat. A gathering of world leaders on the day after the Paris attack was the perfect environment for statements and discussions on the issue, and the agenda faced an absolute overhaul. But the fluidity of the agenda, which had been a year in formation and involved multiple sub-groups and organisations, calls into question whether the G20 can ever fulfil its intended economic mandate. Whilst the need for international coordination to tackle terrorism is without question, the slower aims for economic growth, financial stability, reduced inequality and environmental sustainability continue to fail to reach any kind of breakthrough agreement, leaving the G20 largely a 'firefighting' institution without accountability or long-term holistic perspective on how the economic objectives can be achieved. As a result, the potential conflict of interest between terrorism finance and SME finance may not only cause greater problems for the G20 as the situation develops, but also indicates a lack of a nuance needed to sufficiently respond to multifarious and increasingly interconnected economic and social concerns. That said, given increasing response pressure from ISIL, and in regards to financing SMEs, it may be necessary for the G20 to finally choose which objectives will take priority.

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