

G20 International Financial Architecture Working Group
2019 Final Report to the Osaka Summit

Introduction

In continuation of the work done in 2018, the G20 International Financial Architecture Working Group (IFA WG) has been working from December 2018 to June 2019. During this period of time, the IFA WG held two face-to-face meetings and a thematic workshop on country-platforms. It focused its efforts on achieving concrete deliverables and articulating operational proposals. The work was strongly enhanced by the active participation and key contributions of the international organizations (see the list of international organisations' (IOs) contributions in Annex 1).

In 2019, the IFA WG focused its work on three main areas, ahead of the G20 Leaders' Osaka Summit:

- (i) Helping the International Monetary Fund (IMF) to conclude the 15th General Review of Quotas (GRQ) within the agreed timeline;
- (ii) Following up on the recommendations delivered by the G20 Eminent Persons Group (EPG) on Global Financial Governance, and continuing the work undertaken by the IFA WG over the last few years on monitoring of capital flows as well as on multilateral development banks (MDBs) related issues;
- (iii) Strengthening public debt transparency and sustainability.

This final report, endorsed by the members of the IFA WG, summarizes the Group's progress achieved so far and presents potential next steps for consideration by G20 Finance Ministers and Central Bank Governors in Fukuoka and ultimately by the Leaders at the G20 Summit in Osaka.

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1. Helping the IMF to conclude the 15th GRQ within the agreed timeline

In line with the resolution No. 72-1 adopted by the IMF Board of Governors on December 5, 2016, the IMF Executive Board continued in 2019 the discussions to complete the 15th GRQ no later than the Annual Meetings of 2019. To avoid any duplication of these discussions and the work already done by the IMF Executive Board, the IFA WG focused on identifying the specific elements where political guidance was necessary to help the IMF progress towards reaching consensus.

The WG was briefed by the IMF staff on discussions on IMF resources and governance reform at the IMF Board and International Monetary and Financial Committee meetings. There was broad agreement that the IMF should remain a quota-based institution. It was noted that, while there was a large support within the IMF membership for a quota increase under the 15th GRQ, it fell short of the total voting power necessary under the Articles of Agreement to approve any changes in quotas. In light of this development, members discussed possible options to maintain a strong, quota-based, and adequately resourced IMF at the centre of the global financial safety net, and the way forward on IMF resources and governance reforms.

The IFA WG proposes the following recommendation for consideration by G20 Finance Ministers and Central Bank Governors in Fukuoka and ultimately Leaders at the G20 Summit in Osaka:

Proposal 1: The G20 reaffirms its commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the centre of the GFSN. It remains committed to concluding the 15th General Review of Quotas (GRQ) no later than the Annual Meetings of 2019 and calls on the IMF to expedite its work on IMF resources and governance reform as a matter of the highest priority. It also calls for the full implementation of the 2010 governance reforms.

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2. Following-up on the recommendations delivered by the G20 EPG on Global Financial Governance, and continuing the work undertaken by the IFA WG over the last few years on monitoring of capital flows as well as on MDBs related issues

2.1. Following-up on the recommendations delivered by the EPG

Established by the G20 Finance Ministers and Central Bank Governors (FMCBG) in April 2017, the EPG delivered its final recommendations to the G20 FMCBG in the margins of the 2018 IMF/WBG Annual Meetings in Bali.

In 2019, the G20 has focused its work on on items identified as promising for tangible results by the Summit in June (“A+ items”), which are: building effective country platforms; enhancing risk insurance in development finance; convening a joint session of G20 Health and Finance Ministers; strengthening the delivery of Technical Assistance (TA) for debt transparency and management; streamlining G20 works; and holding an expanded session at the Deputies level and a dedicated session at the Ministerial level on development finance. In particular, the IFA WG has focused on producing tangible results on the first two items: building effective country-platforms; and enhancing risk insurance in development finance.

Items not selected for delivery at the June Summit will be reviewed for follow-up as appropriate from the second half of this year. In this regard, the third IFA WG meeting of the year will be held in the fall 2019.

• A) Building effective country platforms

Discussions on country-platforms built on a workshop held on this topic on February 25, the day before the first IFA WG meeting. The workshop involved G20 members as well as a large set of stakeholders, including multilateral development banks, the International Fund for Agricultural Development, the International Development Finance Club, former members of the EPG Secretariat and several think tanks. It helped to highlight the key factors of success and pitfalls to be avoided in building such coordination mechanisms.

Overall, there was a broad agreement that platforms are useful mechanisms to catalyse private sector investment and enhance coordination among development partners (both public and private), particularly in infrastructure, human capital and capacity building. They emphasized the wide variety of country platforms and therefore the need to adopt a flexible approach in the implementation process, based on country specific circumstances and country ownership and leadership. There was also a general agreement to build on existing activities, institutional coordination mechanisms or networks, such as the Compact with Africa, where possible, to avoid risks of overlaps and duplication.

Regarding next steps, members felt the need to continue deepening the understanding of the various models of country platform and their effectiveness to address development needs, recognizing that

adopting a pilot approach will help make further progress in this area (i.e. with the launch of a few pilot projects in volunteering countries, reflecting a wide diversity of situations). Some members also asked the IOs concerned to present an inventory of the country platforms which exist in the world today to the Group for better understanding. Members discussed possible principles for effective country platforms. Some members stressed these principles should be reviewed and agreed by the Sherpa Track considering the mandate of the Finance Track, and that the G20 should solicit the comments from developing countries before finalizing these principles.

- **B) Enhancing risk insurance in development finance**

As part of the EPG follow-up process, while recognizing the key role of MDBs in direct funding of development projects, members exchanged views on ways to improve risk insurance in development finance, building on the Multilateral Investment Guarantee Agency’s (MIGA) existing risk insurance capabilities. Members welcomed MIGA’s action in political risk insurance and stressed that MIGA’s operation should crowd in, rather than crowd out private sector resources, while some cautioned against the possibility that scaling up current risk insurance operations substantially could create market distortion by subsidizing the private sector. Overall, members welcomed MIGA’s recently produced new standardized contracts, noting the progress made with signed memorandums of understanding with EBRD and ICIEC, cooperation agreement with ADB, and MIGA’s plans to convene the MDBs to an annual guarantee meeting this October 2019. They also underlined the need to further enhance cooperation between MIGA and MDBs, and looked forward to further work to identify the way forward.

The IFA WG proposes the following recommendations for consideration by G20 Finance Ministers and Central Bank Governors in Fukuoka and ultimately Leaders at the G20 Summit in Osaka.

Proposal 2: The G20 welcomes the progress made on work to follow up the key development recommendations of the EPG’s report, recognizing its multi-year nature. In particular:

- (i) The G20 underlines that achieving the Sustainable Development Goals will require significant efforts to strengthen coordination among all development actors (both public and private) with the view to enhance capacity building support and private sector investment mobilisation, and improve development outcomes. The G20 welcomes the progress made towards developing possible principles for effective country platforms and looks forward to further work to consolidate our views and build consensus.
- (ii) To address financing needs in developing countries, the G20 calls to intensify efforts to enhance domestic resources mobilization, strengthen public financial management and better catalyse private sector investment. To improve risk insurance in development finance, the G20 welcomes ongoing efforts by the Multilateral Investment Guarantee Agency (MIGA) to enhance political risk insurance in development finance, including with the release of new standardized contracts and jointly executed cooperation arrangements with ADB, EBRD and IsDB’s ICIEC. It calls to further enhance cooperation between MIGA and other MDBs, looking forward to further work in this area, including the planned guarantee meetings to be convened annually by MIGA.

2.2. Continuing the work on monitoring capital flows and on MDBs related issues

The WG pursued the work undertaken under former G20 presidencies in two areas: (a) capital flows; (b) MDBs' common framework on value for money.

- **A) Capital flows**

While risks and uncertainties remain significant in the global economy, there was broad agreement on the need to continue the work on monitoring and understanding capital flows and strengthening resilience, notably with regards to capital flow volatility. Most members looked forward to further discussions in this area in the relevant international organizations and fora.

Members were also updated by the Organisation for Economic Cooperation and Development (OECD) on the finalization of the Review of the OECD Code of Liberalization. They discussed the changes in the Code and User's Guide resulting from the Review, based on a report issued by the OECD ahead of the second IFA WG meeting (see appendix). They [*depending on the result of ongoing discussions:* [welcomed] / [takes note of]] the completion of the Review and the progress made under this framework to modernize the Code to support liberalization of capital flows and financial stability.

- **B) MDBs' common framework on value for money**

Against the backdrop of scarce public resources and huge development needs, members of the WG continued the work on the role of MDBs working as a system. The WG reviewed the efforts made by MDBs to develop a common framework on value for money, with common metrics to assess their activity. Members welcomed the MDBs' report on value for money, noting that progress had been achieved by MDBs to harmonize indicators and provide information to the G20 on ways to refine the framework. There was also broad agreement that MDBs should continue and prioritize their work on selected indicators where harmonization is relevant, affordable and provides clear benefits. In particular, some members proposed the MDBs to refine and increase harmonization of existing financial indicators and indicators related to the implementation of the Sustainable Development Goals, while other members proposed to consider harmonization in new areas (infrastructure, regional cooperation, technical assistance, knowledge transfer and domestic resource mobilization).

The IFA WG proposes the following recommendations for consideration by G20 Finance Ministers and Central Bank Governors in Fukuoka and ultimately Leaders at the G20 Summit in Osaka.

Proposal 3: The G20 welcomes the work undertaken by IOs on capital flows and on MDBs working as a system. It looks forward to continuation of this work. In this view:

(i) The G20 [*depending on the result of ongoing discussions:* [welcomes] / [takes note of]] the completion of the Review of the OECD Code of Liberalization of Capital Movements. The G20 also supports continued work on capital flows and further strengthening financial resilience and surveillance.

(ii) The G20 welcomes the MDBs' report on value for money and progress achieved to develop a common framework to assess MDBs' value for money. It calls on the MDBs to continue their efforts in the coming years by prioritizing their work on indicators where harmonization is relevant, affordable and provides clear benefits.

(iii) The G20 looks forward to further discussions on the implementation of the EPG's recommendations.

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3. Strengthening public debt transparency and sustainability

In line with the G20 Leaders' communiqué in Buenos Aires (December 1, 2018), the IFA WG continued to exercise guidance in order to address debt vulnerabilities in low income countries by supporting capacity building in public debt and financial management, and strengthening domestic policy frameworks. It also worked towards enhancing debt transparency and sustainability, and improving sustainable financing practices by borrowers and creditors, both official and private, including infrastructure financing.

To that end, and pursuing its efforts to liaise with LICs, the WG focused on four areas:

- (i) Supporting the implementation of **the IMF/WB multi-pronged approach for addressing emerging debt vulnerabilities** so as to enhance debt transparency and sustainability. Members of the WG received and welcomed an Update Note by the IMF and the WB on this multi-year work plan, and reiterated their support to this approach.
- (ii) Exchanging views and discussing possible policy options regarding **collateralized sovereign debt**. Some members noted that such debt instruments can offer benefits while others underlined that they can generate risks that need to be tackled. The WG asked the IMF and WB to continue to deepen their analysis and looked forward to further work and discussions in this regard.
- (iii) **Following up on the G20 Operational Guidelines for Sustainable Financing (OGSF)**, welcomed again by G20 Leaders in the Buenos Aires Action Plan. These guidelines provide an operational implementation framework to the general orientations that are set out in the Addis Ababa Action Agenda, with the view to improve sustainable financing practices by creditors. Members [*depending on the result of ongoing discussions*: [welcomed] / [takes note of]] the completion of the voluntary self-assessment of the implementation of the G20 Operational Guidelines for Sustainable Financing and [*depending on the result of ongoing discussions*: [discussed]] the IMF-WBG note on the survey results and policy options. They saluted the participation of non-G20 members in this follow-up process. Many members called to continue the implementation of these guidelines and its follow-up, building on the policy options highlighted by the IMF and the WB in their Note.
- (iv) Continuing to **follow up on the Institute of International Finance's (IIF) efforts to develop voluntary principles for the private sector** to improve the transparency and sustainability of private sector financing. The WG discussed the draft Principles for Debt Transparency presented by the IIF. They particularly welcomed the progress achieved to reflect the need for the private sector to take due account of debt sustainability, notably international financial institutions' debt sustainability analyses and debt ceiling set by the IMF Debt Limits Policy and the WB Non-Concessional Borrowing Policy.

The IFA WG proposes the following recommendations for consideration by G20 Finance Ministers and Central Bank Governors in Fukuoka and ultimately Leaders at the G20 Summit in Osaka.

Proposal 4: The G20 reiterates its concerns regarding debt vulnerabilities in many low income countries (LICs). To avoid new episodes of debt distress in LICs, it underlines the importance of building capacity in public financial and debt management, strengthening domestic policy framework and governance, enhancing domestic resource mobilization and ensuring transparent, sound and sustainable borrowing and lending practices, both on the side of borrowing countries and creditors (whether official or private). In this view:

- (i) The G20 highlights the importance of the IMF's and World Bank's work on strengthening public debt transparency and securing debt sustainability. It welcomes the IMF-WB Update Note on their

multi-pronged approach for addressing emerging debt vulnerabilities and supports its further implementation. It calls on the IMF and the WB to continue their efforts to deepen their analysis and propose possible options with regards to collateralized sovereign debt. The G20 looks forward to the IMF Debt Limits Policy and the WB Non-Concessional Borrowing Policy Reviews.

(ii) The G20 continues to support the provision of assistance to developing countries, including by the IMF and the WB, to build their tax capacity and enhance domestic resource mobilization and public financial and debt management, and welcomes the efforts undertaken to help developing countries in those areas.

(iii) The G20 supports the ongoing work of the Paris Club, as the principal international forum for restructuring official bilateral debt, towards the broader inclusion of emerging creditors. In that regard, the G20 welcomes India associating voluntarily with the Paris Club to cooperate in its work on a case-by-case basis.

(iv) The G20 encourages the adoption of sustainable financing practices by all borrowers and creditors (whether official or private), including the use, *inter alia*, of IMF-World Bank Debt Sustainability Analyses and IMF / WB debt limits policies. The G20 welcomes the progress achieved by sovereign creditors in the implementation of the 2017 G20 Operational Guidelines for Sustainable Financing (OGSF). It [*depending on the result of ongoing discussions*: [welcomes] / [takes note of]] the completion of the voluntary self-assessment of the implementation of the G20 OGSF and the IMF-WBG note on the survey results and policy options [*depending on the result of ongoing discussions*: [, which could serve as a basis for further progress in this area]. In addition, it looks forward to the finalization of the Principles for Debt Transparency developed by the Institute of International Finance which will help improve the transparency and sustainability of private sector financing.

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Annex 1: List of IOs/think tanks' contributions

- On Capital Flows

BIS, "Presentation on trends and risks in capital flows", February 2019

OECD, "Presentation on the finalization of the Review of the OECD Code of Liberalisation of Capital Movements: update on developments", May 2019

OECD, "The Review of the OECD Capital Movements Code – the revised Code and User's Guide", May 2019

- On Strengthening public debt transparency and sustainability

IMF-WB, "Presentation on Costs and Benefits of Collateralized Sovereign Debt", February 2019

IMF-WB, "Update Note on the IMF/WB multipronged approach for addressing emerging debt vulnerabilities", May, 2019

IMF-WB, "Note on the implementation of the G20 Operational Guidelines for Sustainable Financing", May 2019

IIF, "Principles for Debt Transparency", as of May 22, 2019

Paris Forum, Chair's summary of the High Level Conference on "sustainable debt for sustainable growth", Paris, May 7th, 2019

- On MDBs related issues

Multilateral Development Banks, "Multilateral Development Banks' Final Report on value for money", February 2019

MIGA, "Presentation on MIGA's action in risk insurance", February 2019

Presentations on country and regional platforms during the workshop held on February 25 – IFC, ADB, EBRD, EIB, IDB, WB, CGDev, Brookings, AFD, European Commission, AfDB, SOURCE.

Annex 2: IFA WG internal documents

- Work program for the IFA working group in 2019, January 2019
- EPG A+ items under the Japanese Presidency, endorsed by G20 Deputies in January 2019
- Co-chair' summary of the workshop on country platforms and the first meeting of the International Financial Architecture Working Group, February 2018

Annex 3: G20 2019 IFA deliverables

- IFA WG, Workshop on building effective country platforms, Paris, February 25
- Multilateral Development Banks, "Multilateral Development Banks' Final Report on value for money", February 2019

- IMF-WB, “Update Note on the IMF/WB multipronged approach for addressing emerging debt vulnerabilities”, May, 2019
- IMF-WB, “Note on the implementation of the G20 Operational Guidelines for Sustainable Financing”, May 2019
- IIF, “Principles for Debt Transparency”, as of May 22, 2019 (finalized version to be circulated)
- OECD, “The Review of the OECD Capital Movements Code – the revised Code and User’s Guide”, May 2019”