

MAKING THE GLOBAL FINANCIAL SYSTEM WORK FOR ALL



Report of the
G20 Eminent Persons Group
on Global Financial Governance

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FOREWORD

WHY THE NEED FOR REFORM?

We were asked by the G20 Finance Ministers and Central Bank Governors in April 2017 to recommend reforms to the global financial architecture and governance of the system of International Financial Institutions (IFIs),¹ so as to promote economic stability and sustainable growth in a new global era; and to consider how the G20 could better provide continued leadership and support for these goals.²

At the heart of our review is the future of the open and competitive world order that has brought a large part of humanity out of poverty, raised living standards across nations, and provided the foundation for unprecedented global peace over the last 70 years. That open order remains critical to every nation's future. But the system of international governance and cooperation that underpins it is fraying. Left on its own, there is a real risk of drift into a fragmented world, with policies in different parts of the world working at odds with rather than reinforcing each other, and with all nations ending up losing.

“Our central challenge is to create a cooperative international order for a world that has changed irreversibly: one that is more multipolar and decentralized in decisions, yet more interconnected.”

in decisions, yet more interconnected, and with challenges ahead that are much larger and more pressing than we have seen in decades.

Getting national policies right is at the core of achieving inclusive societies and mutual prosperity. But international and national initiatives should reinforce each other in a way that creates a stronger future for all. An open, competitive and well-coordinated international order will enable win-win outcomes for nations. Its weakening will lead to lose-lose outcomes, as global growth and opportunities for new jobs are eroded over time, and as financial stability and the global commons become more fragile. Equally, cooperative internationalism will survive only if it helps the broad base of nations achieve inclusive growth.

The reforms that we propose in our report strengthen and add resilience to global financial governance for this new, cooperative international order. The present system lacks the coherence, joint capacity and effectiveness to support its most fundamental goals in global development and financial stability. It must be brought up to date with the realities of a new era.

We can achieve this by implementing decisive reforms to make the system work as a system. These reforms are within our reach.

We cannot return to the past. Our central challenge is to create a cooperative international order for a world that has changed irreversibly: one that is more multipolar and decentralized

They do not require new international bodies. They instead require that we take bold and defined steps to ensure that today's institutions – global, regional and bilateral – work together as a system. They require that we build trust and transparency among these different institutions, and leverage their combined strengths, so that the system as a whole delivers greater and more lasting development impact and reduces the frequency and damage of crises.

Our proposals build on various reforms that had been underway among the IFIs, and seek to take them further. But they also require a much greater sense of urgency and recognition among

- 1 The IFIs refer to the IMF and the Multilateral Development Banks, comprising AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB and the World Bank Group.
- 2 Information about the G20 Eminent Persons Group on Global Financial Governance and its terms of reference can be found at the end of this report.
- 3 Over the last 15 months, the Group had eight plenaries and extensive interactions in between.

their shareholders of the need for consistency and joined-up efforts among the IFIs and all other stakeholders so we raise our whole game.

We need a step change in the pace and scale of reforms to enable the growth, job opportunities and sustainability that are critically needed in the next decade. The consequences of failure will not be simply economic. We also need further reforms to avert major, systemic crises; and to make it possible for developing countries to finance sustainable current account deficits, where they are fundamentally needed at their stage of development, without the recurring bouts of instability that set back growth.

As an Eminent Persons Group, our task was to provide an independent assessment of the changes needed. We focused especially on system-wide reforms, rather than those in individual institutions. Our mandate also excluded issues to do with the capital and shareholding structures of the IFIs, which we believe are of central importance but are covered by other ongoing reviews in the G20 and the IFIs.

Importantly, we were guided by the request that our proposals could be acted upon by the G20 and the IFIs in coordination with the other bodies integral to the international monetary and financial

system. In this regard, besides drawing on our Group's collective experience in policy-making, our discussions benefited greatly from consultations with a broad range of national authorities, the IFIs, many other thought leaders from civil society, think tanks, academia and philanthropies, and private sector experts. These diverse interactions helped us arrive at proposals which we believe can be implemented within a reasonable time-frame, but which taken together should have a transformational impact.

The ambition is in the doing. Some of the reforms should be early wins in international coordination. Most are achievable within a few years, with focused effort. Some others go beyond current thinking. We urge that they be considered with an open mind, and developed further or adapted if necessary to enable their implementation.

We have deliberated intensively as a Group,³ supported by our very able Secretariat under the leadership of Siddharth Tiwari. We thank the G20 for the opportunity to review these important issues. We present our report with sober awareness of the challenges facing the international community, but also with hope for the collective resolve needed to take us into this new era of cooperative internationalism, with benefits for all.

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ACKNOWLEDGEMENTS



The Eminent Persons Group received valuable feedback from national authorities from a broad range of developing and advanced countries, and benefited from extensive consultations with the international financial institutions (IFIs). We also benefited from the contributions and perspectives of individuals with deep experience in national and international policy-making; thought leaders from civil society, academia, think tanks and philanthropic organizations; and private sector leaders and experts in infrastructure investment, financial technology and other areas.

The Group would like to thank all these organizations and individuals for their candid and constructive views, in discussions and written submissions. A list of contributions is in the Annex and on the website: www.globalfinancialgovernance.org

The Group wishes to acknowledge the generous support from the Bank of England, Banque de France, Deutsche Bundesbank, the Federal Reserve Bank of New York, and the Hoover Institution, Stanford University for hosting some of its meetings.

KEY THRUSTS

The next decade is critical.

We need substantially greater impact in helping countries achieve sustainable development and inclusive growth, and in managing the growing pressures in the global commons. The current pace of change will not get us there.

We need bolder reforms to harness complementarities and synergies in the development system:

- Refocus IFIs' efforts to help countries strengthen governance capacity and human capital, as the foundation for an attractive investment climate, job creation, and social stability.
- Exploit the largely untapped potential for collaboration among the IFIs as well as with other development partners to maximize their contributions as a group, including by convergence around core standards.
- Embark on system-wide insurance and diversification of risk, to create a large-scale asset class and mobilize significantly greater private sector participation.
- Strengthen joint capacity to tackle the challenges of the commons.

We must also leverage more actively on the work of the non-official sector, including NGOs and philanthropies.

I. ACHIEVING GREATER DEVELOPMENT IMPACT: COLLABORATING ACROSS THE SYSTEM

A decade after the global financial crisis, further reforms are needed to reduce the bouts of instability that set back growth, to keep countries on the path toward openness and to avert another major crisis.

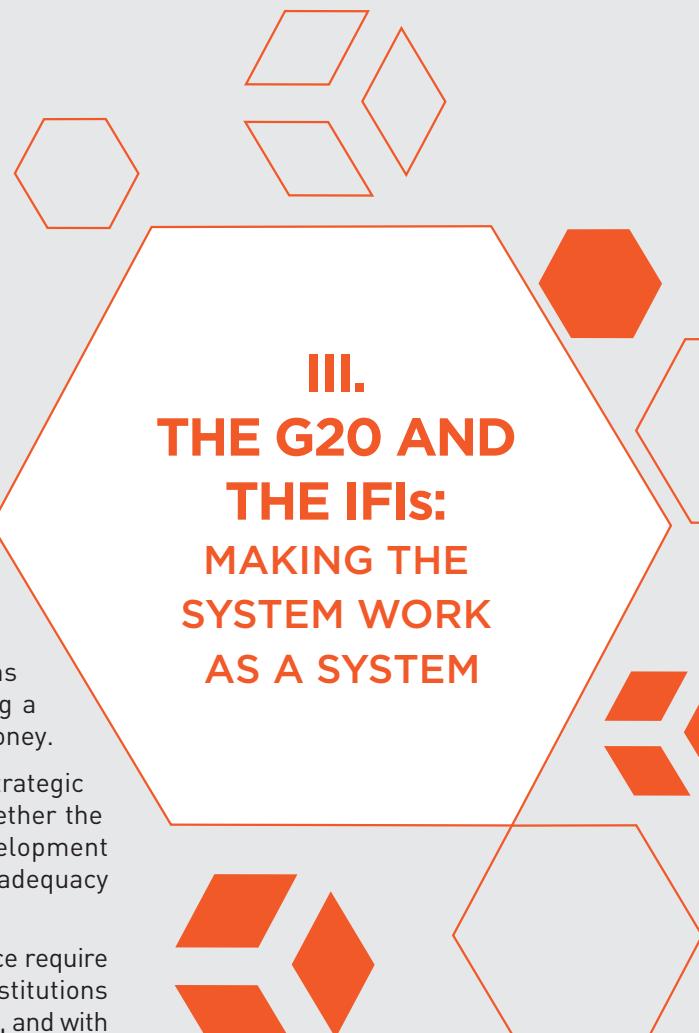
First, to get the full benefits of cross-border capital flows by strengthening support for countries in building deeper domestic financial markets; and developing and evolving a framework of policy guidance that:

- Enables countries to utilize international capital flows without risks arising from excessive market volatility.
- Enables domestic objectives to be achieved in sending countries while avoiding major spillovers.

Second, to create a more robust, integrated system of risk surveillance of a complex, interconnected global financial system, and systematically incorporate contrarian views.

Third, to create a strong and more reliable global financial safety net by stitching together its fragmented layers.

II. SECURING THE BENEFITS OF INTERCONNECTED FINANCIAL MARKETS: REFORMS FOR GLOBAL FINANCIAL RESILIENCE



III.

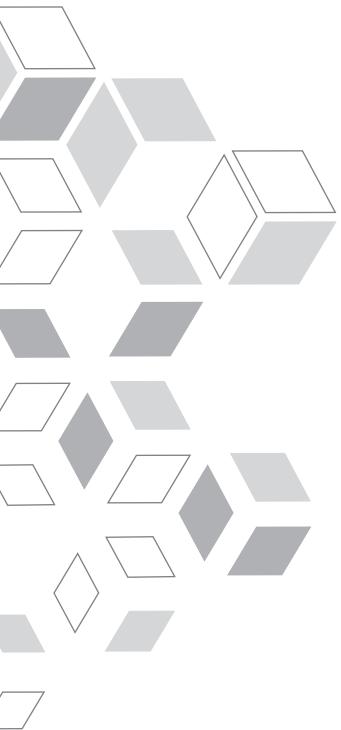
THE G20 AND THE IFIs: MAKING THE SYSTEM WORK AS A SYSTEM

The role of the G20 in the global financial architecture should be reset. It should focus on developing political consensus on key strategic issues and crisis response. This requires freeing up space from its current crowded agenda and devolving work to the IFIs.

We need governance to ensure that the system works as a system:

- Implementing the system-wide reorientation in development finance. A G20-led group, including key non-G20 stakeholders, should steer these shifts over the next three years, before handing the coordinating role to the IFI Heads. This should include achieving complementarity among multiple institutions (multilateral, regional and bilateral), and establishing a clear system of metrics to track impact and value for money.
- Addressing development challenges early. A biennial strategic dialogue, building on existing IFI fora, should bring together the IFIs and other key stakeholders to identify future development risks before they create lasting damage, and assess the adequacy of collective responses.
- The governance reforms to foster global financial resilience require the IMF to play a key role, in interactions with other institutions integral to the international monetary and financial system, and with regular updates to the IMFC.

Governance reforms within the IFIs themselves should cut back on today's significant overlap between Board and Management responsibilities. They should enable Boards to focus more on strategic priorities, and empower and hold Management accountable for outcomes.



OVERVIEW⁴

A. Building a Cooperative International Order for a New Era

We are at a critical juncture. Our fundamental challenge is to build **a cooperative international order suited to the 21st century: one that delivers win-win outcomes for nations in a multipolar world**. It is within our reach to do so. We otherwise face the prospect of fragmentation, and the steady weakening of our capacity to respond to the much larger national and collective challenges of the future.

Our realities today are very different from those of a few decades ago, and vastly reordered compared to when the Bretton Woods institutions were formed.

- **Domestic economic, social and political divides have widened in most advanced nations, undermining longstanding social compacts.** There have always been winners and losers in technological progress and international trade. But slower growth has accentuated these divides, and they have been left unaddressed for too long in too many countries. Trust in government and many other national institutions has declined. **These developments risk undermining support for international cooperation and an open world order.**
- A second, fundamental change has been the **steady and irreversible shift to a multipolar world**. This is the inevitable outcome of success through use of markets and greater openness, which both lifted global growth and led to convergence among nations in productivity and living standards – including a remarkable pace of catch-up among several emerging nations in the last three decades. We hence have new poles of global growth, more equal players and greater decentralization in international economic decision-making.
- Third, we however face a **challenge of unprecedented scale, urgency and complexity in the next decade** – especially in securing jobs and environmental and financial sustainability. The young populations that will enter the workforce – many in states with features of fragility – will be much larger than anything seen in past decades. So too the grave and multiple threats of environmental degradation, compounded by the growing risk of pandemics and other problems in the global commons.⁵ Further, today more than ever before, we face a challenge of financial sustainability in a broad range of advanced and developing countries, due to the significant increases in public and private debts.

⁴ This Overview provides the larger context and reasoning behind the Proposals developed in the full Report. It also provides a summary of the Proposals.

⁵ The Sustainable Development Goals (SDGs) and the 2030 Agenda that the global community has coalesced around aim to address these multiple challenges in growth and development.

- Fourth, we live in a world much more **deeply connected by capital flows and ideas** today. Together with trade, they are powerful engines of growth everywhere. But the complexity and interconnectivity of financial markets pose challenges to stability that cannot be tackled by nations on their own.

We need a credible and well-coordinated global financial architecture to meet the needs of a world that is **more decentralized in decisions, yet more interconnected, and more challenged in its future.**

There is no going back to the old multilateralism. There is no single conductor. There are already many more orchestras in play. The world needs a new harmony.

The new multilateralism must make this decentralized system more resilient and much stronger than the sum of its parts. We must leverage systematically on the strengths of the multilateral anchors, regional and bilateral institutions, and other key stakeholders that make up the system, and build trust and transparency amongst these different players. This new, cooperative international order must also help nations achieve more inclusive and sustainable growth, while enabling us to tackle collective challenges effectively.

Getting national policies right is at the heart of achieving inclusive societies and mutual prosperity. Most fundamentally, as the digital economy widens and advances in machine learning and big data gather pace, governments must help citizens equip themselves for the jobs of the future through both education and life-long learning. We must invest most urgently in skilling the large, youthful populations in developing nations, to avoid the prospect of new technologies derailing job creation and growth.

— “ —
*There is no going back to the old
multilateralism. There is no single conductor.
There are already many more orchestras in
play. The world needs a new harmony.*
 — ” —



However, the interplay of international and national initiatives is essential to a stronger future for all. There are several core roles for cooperation in the international monetary and financial system (IMFS), and for the international financial institutions (IFIs)⁶:

- **To promote mutually reinforcing policies between countries and minimize negative spillovers.** Policies aimed at growth and financial stability are most effective nationally when they are undertaken widely or coordinated internationally.⁷ However, it is also in the nature of today's highly interconnected markets that policies in some economies may have negative spillovers on others or reduce their policy space. A framework is needed to mitigate such spillovers and their effects as much as possible. There is also a role for international commitments to avoid 'beggar-thy-neighbor' policies, which benefit one country at the expense of another.
- **To take full advantage of the unique roles of the IFIs as multipliers of development** – especially by institution-building and spreading policy knowhow, by helping governments improve the investment environment, and by mitigating risks to unlock private investment.
- **To build joint capacity and coordinate actions to avoid systemic financial crises, and tackle the growing challenges of the global commons.**

There is hence no either-or choice between cooperative internationalism and national strategies to secure growth and financial stability. An open, competitive and well-coordinated international order will enable win-win outcomes for nations. Its weakening will lead to lose-lose outcomes, as global growth and opportunities for new jobs are eroded over time, and as financial stability and the global commons become more fragile. Equally, cooperative internationalism will survive only if it helps the broad base of nations achieve inclusive growth.

*There is hence no either-or choice
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6 The IFIs refer to the IMF and the Multilateral Development Banks, comprising the African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), Islamic Development Bank (IsDB), New Development Bank (NDB) and the World Bank Group.

7 For example, closer international cooperation on macro-economic policies during the Global Financial Crisis in 2008 was mutually reinforcing. Historically too, innovations and advances in productivity within nations have tended to feed into each other, and been a positive rather than zero-sum game.

The reforms that we propose in our report strengthen and add resilience to **global financial governance** for the cooperative international order that we believe is needed for a more decentralized and more challenged world. The reforms seek to **achieve significantly higher impact for sustainable and inclusive development**; to enable countries to preserve financial stability and **secure the benefits of interconnected financial markets**; and to focus governance on **making the system work as a system** rather than a set of individual agencies. We also propose **resetting the role of the G20 in the IMFS**, to free up space on its agenda for Ministers to focus on developing political consensus around the key strategic issues of the times and crisis responses.

B. Achieving Greater Development Impact: Collaborating Across the System

Bold and urgent reforms in development policies and financing are required to achieve the major step-up in growth, job opportunities and sustainability that the world needs in the next decade. **The current pace of reforms will not get us there.**

The challenges are complex, because they are interlocking. Conflict and insecurity, weak investment in human capital and infrastructure, and limited growth of jobs and incomes feed into each other. Environmental vulnerabilities and infectious disease threats, if not addressed, will also push large numbers into extreme poverty and forced migration. The required doubling of the world's infrastructure in the next 15 years to achieve the needed growth and jobs, highlights the risk of locking in unsustainable infrastructure for the much longer term. The interconnectedness of the system also means that success or failure in achieving sustainability in one part of the world will have profound effects on development prospects elsewhere.

There are at the same time major positives on the horizon. **A wave of entrepreneurship and innovation is sweeping across the developing world**, spreading into low-income countries too. Mobile technologies, cloud computing and e-commerce are opening up markets for small producers everywhere, improving productivity, and making finance more inclusive. Global health R&D, if sustained, also has the potential to deal with malaria and other major diseases, with important economic and social dividends. Technologies for urban management are enabling transport, utilities and other services to be provided in a more citizen-centered way.

To bend the arc of history, we must succeed in Africa.

Reforms to tackle these challenges and maximize the potential of technologies and markets are needed in every continent. But to bend the arc of history, we must succeed in Africa, where the poverty, demographic and environmental challenges are the largest – and so too the opportunities to contribute to world growth and the global commons. The consequences of failure will not be simply economic.

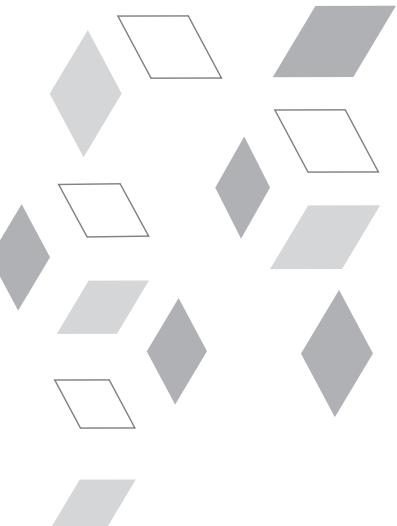
The magnitude of the development challenge will require **greater resources than before, from every source** – domestic savings and public revenues, and external financing from private, official and philanthropic sources. Even by conservative projections, the gap in infrastructure financing alone is well over US\$1 trillion annually. **This gap in financing must be closed**, to ensure the quality and scale of investments in economic and social infrastructure that will be critical in the next decade.

However, strategies to scale up development finance must also reckon with the **reality that public sector debts (including contingent liabilities) are reaching unsustainable levels in several developing countries**. The aspirations of the 2030 Development Agenda can be achieved only if financial stability is sustained. Primary reliance cannot be placed on sovereign loans to achieve development goals.

Two key strategies therefore need much greater priority. First, to strengthen public finances and domestic resource mobilization. There is significant potential to strengthen tax collection and reduce leakages through corruption and waste, at the levels of both central and local governments. These public resources underpin efforts to develop human capital and strengthen the investment climate. Together with efforts to build up local currency markets and stimulate domestic savings, they also provide the domestic financial resilience on which long-term investment depends. The international community must also support these national efforts by **closing opportunities for tax evasion and money laundering**.

Second, it is equally clear that we must stimulate a much larger scale of private investment than has been achieved historically. Given the significant increase in debt ratios in many countries, **much greater emphasis will have to be given to equity financing**. However, private investment in developing country infrastructure has so far been only a small fraction of its potential. On current initiatives, private funding is unlikely to scale up significantly, despite ample supply globally. **Investment risks, actual and perceived, remain too high** for all but the most specialized players, and the required returns are hence also too high for countries to bear. The market for infrastructure investments is too fragmented, and the tools to diversify project and country risks are limited.

We must therefore organize the world's multilateral development capabilities and resources in a new way to tackle these challenges and achieve greater and more lasting development impact. There is much potential to be unlocked by governing the system as a system rather than as individual institutions.



We have to **put risk at the center** of strategies to boost development finance, given the need for much larger volumes of private investment, and in particular equity financing. We must **maximize the IFIs' unique ability to help reduce and manage risk**:

- By helping countries to **de-risk their whole investment environment** (besides de-risking projects). The IFIs must collaborate to help countries take advantage of best practices in governance and regulation, and persist in reforms.
- By **pioneering investments in low-income countries and states with features of fragility**, in critical areas such as energy infrastructure, to reduce perceived risks and pave the way for private investments.
- By **mitigating risk** through instruments such as first-loss guarantees, and co-investments to catalyze private investment. Importantly, they must use their risk-mitigation tools to harness the **full potential of private investment in low-income countries** – not just in the middle-income countries where blended finance has so far been heavily concentrated.
- By **leveraging on the largely untapped potential to pool and diversify risks across the development finance system**, so as to create new asset classes for private investors.

We have to put risk at the center of strategies to boost development finance, given the need for much larger volumes of private investment, and in particular equity financing.

The scale and urgency of needs require decisive, **system-wide shifts**. We believe significantly greater development impact can be achieved by:

- **Refocusing on governance capacity and human capital.** Supporting countries' efforts in these areas will provide the critical foundations for an attractive investment climate, job creation and economic dynamism, and social stability, as decades of experience show.
 - Governance reform lasts only when it comes from within. But the IFIs, as trusted partners in the adoption of best practices and institutional innovations, have to work more closely together, and with countries' other development partners, to support enduring reforms.
 - The IFIs must also support governments in ensuring the broadest base in human capital development: providing equality of opportunity for all, regardless of gender, ethnicity and social backgrounds.

◀ **Proposal 1:**
Re-focus on
governance capacity
and human capital,
as foundations for a
stronger investment
climate.

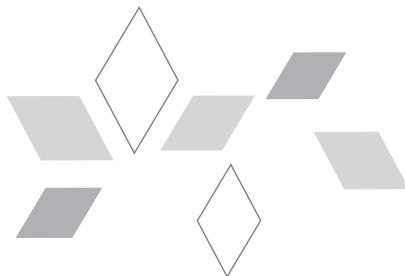
► **Proposal 2:** Build effective country platforms to mobilize all development partners to unlock investments, and maximize their contributions as a group, including by convergence around core standards.

- **Joining up IFIs' operations**, as well as with those of other development partners, to enhance development impact:
 - Country platforms can be transformational in their impact. **Effective country platforms will maximize the contributions of development partners as a group and scale up private investments, including by convergence around core standards.**⁸
 - > A country platform must be owned by its government, encourage competition, and retain the government's flexibility to engage with the most suitable partners. However, transparency within the platform is essential to avoid zero-sum competition, such as through subsidies or lower standards.
 - > Coherent and complementary operations between development partners will help scale up private sector investment. The adoption of core standards can also lower the private sector's costs in working with a range of partners.
 - > Priority has to be given to linking up security, humanitarian and development efforts in states with features of fragility, working with UN agencies and other partners.
 - > Cooperation within the country platforms would enable rapid response in times of crisis.
 - > Cooperation at the country level should be supported by global platforms for IFIs to cooperate on key thematic issues such as sustainable infrastructure.

Country platforms can be transformational. They maximize the contributions of development partners as a group and scale up private investments.

► **Proposal 3:** Implement regional platforms to facilitate transformational cross-border investments and connectivity.

- **Implement regional platforms to facilitate transformative cross-border infrastructure projects** that enable regional connectivity and open up new supply chains and markets.



⁸ This would be a set of five/six core development standards with appropriate sequencing for states with features of fragility. They could include debt sustainability, ESG standards, coherent pricing policies, local capacity building, procurement, and transparency and anti-corruption. As a pragmatic first step, the IFIs should agree to use each other's standards within a platform, which would enable early implementation and help provide a path towards consensus. Convergence towards core standards must be done in close collaboration with shareholders.

- **Multiplying private capital** by adopting **system-wide** approaches to risk insurance and securitization. Institutional investor participation in developing country infrastructure has so far been minuscule. The development of a standardized, large-scale asset class, that diversifies risk across the development finance system, will help mobilize this huge untapped pool of investments.

The development of a standardized, large-scale asset class, that diversifies risk across the development finance system, will help to mobilize this huge untapped pool of investments.

- **Reassessing regulatory capital and other prudential norms for the Multilateral Development Banks (MDBs)**, as well as institutional investors in infrastructure⁹, based on the evidence of their default experience.

We must strengthen joint capacity to tackle challenges of the global commons.

- **Strengthening joint capacity to tackle challenges of the global commons, through global platforms that bring together the players in each field** – coordinated by the designated UN guardian agency and the World Bank, which has the broadest reach amongst the MDBs. For specific commons, there will be Regional Development Banks (RDBs) and other stakeholders with significant capabilities that should play key roles.

◀ **Proposal 4:** Reduce and diversify risk on a system-wide basis to mobilize significantly greater private investment, including portfolio-based infrastructure financing.

Proposal 4a: Shift the basic business model of the MDBs from direct lending towards risk mitigation aimed at mobilizing private capital.

Proposal 4b: Develop system-wide political risk insurance and expand use of private reinsurance markets.

Proposal 4c: Build a developing country infrastructure asset class with the scale and diversification needed to draw in institutional investors.

◀ **Proposal 5:** 'Right-size' capital requirements for MDBs and other investors in infrastructure, given their default experience.

Proposal 5a: Establish tailor-made capital and liquidity frameworks for the MDBs.

Proposal 5b: Review the regulatory treatment of infrastructure investment by institutional investors.

◀ **Proposal 6:** Strengthen joint capacity to tackle the challenges of the global commons.

Proposal 6a: Integrate activities in support of the global commons into the IFIs' core programs, and coordinate them within country platforms.

Proposal 6b: Create global platforms with the UN guardian agency and the World Bank coordinating and leveraging on the key players in each of the commons.

⁹ Institutional investors currently face some regulatory disincentives in investing in infrastructure.



► **Proposal 7:** Integrate trust fund activities into MDBs' core operations to avoid fragmentation.

► **Proposal 8:** Plug shortfalls in data and research that hamper effective policymaking, especially in developing countries.

► **Proposal 9:** Leverage more systematically on the ideas and operating networks of business alliances, NGOs and philanthropies.

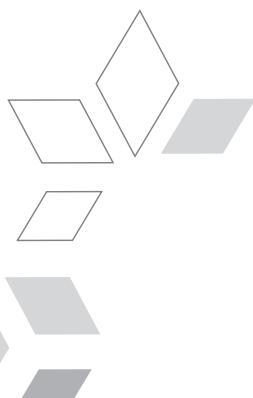
- **Mainstreaming activities in support of the global commons into IFIs' core country-based operations.** We must likewise **integrate trust fund activities with the MDBs' strategies and operations**, to avoid parallel structures that pose significant costs to efficiency and impact.
- **Investing in data and research** to support sound, evidence-based policies. Basic data still falls short in many developing countries. These are public goods in their own right. The International Monetary Fund (IMF) and World Bank should work with UN agencies and RDBs to strengthen efforts in these areas.
- **Achieving stronger synergies with business alliances, NGOs and philanthropies** so as to benefit from their on-the-ground perspectives, innovations and delivery capacity. The IFIs must work with governments to collaborate with and leverage on these actors more systematically, identifying key needs and providing space and co-funding where required so they can play their full roles.

These system-wide shifts will enable the international community to meet the vastly larger development needs of the future. **They will help mobilize private capital, which is a potential game-changer in development finance. However, private capital is unlikely to engage on the scale required without the involvement of the IFIs** – in project origination, risk participation, and staying engaged with governments on reforms.

While the G20 Eminent Persons Group's (EPG) mandate does not include making specific proposals to enhance the IFIs' capital bases, we underline the need for their official shareholders to review periodically the need for capital replenishments to ensure that they achieve their full potential in a world of growing challenges in development, growth and stability. The capital reviews must be supported by the reforms to the IFIs to ensure they can most effectively perform their roles as catalysts for private investment and multipliers of development. It is equally necessary for the effectiveness of the IFIs that their shareholding structures are updated regularly to reflect an evolving world economy.

C. Securing the Benefits of Interconnected Financial Markets: Reforms for Global Financial Resilience

Governance of the IMFS should be focused on its most fundamental goals: **enabling countries to reach their full growth and development potential; and averting the damage caused by financial crises.**



The IMFS has been strengthened in important respects since the crisis, especially through more robust prudential regulations and standards. But the system still has features that lead to crises occurring too often – in individual countries or in groups of similar countries through contagion, or globally. Reforms are needed to **make it possible for developing countries to finance sustainable current account deficits, where they are fundamentally needed at their stage of development**, without the recurring bouts of instability that set back growth. Such reforms should support countries' own efforts to strengthen the environment for long-term, reliable flows of capital.

We must make it possible for developing countries to finance sustainable current account deficits ... without the recurring bouts of instability that set back growth.

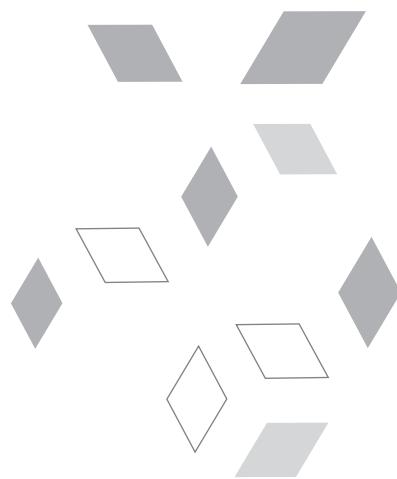
To achieve the fundamental goals of the IMFS, we must repair and strengthen three interdependent pillars of the system.

1. Getting the Benefits of International Capital Flows Without Risks Arising from Excessive Market Volatility

Both domestic financial markets and cross-border investments have brought major benefits globally. There is considerable potential yet for the developing world to utilize them to finance investments and growth.

Countries with sound macroeconomic policies, reliable rule of law and deep domestic financial markets have been best able to benefit from openness to international capital. However, **even well-run economies are exposed to spillovers from policies in advanced countries and shifts in global risk sentiment in today's highly interconnected global financial markets**. Excessive volatility reduces the room for maneuver in policy-making, and can lead to responses that hurt growth, both nationally and regionally. Experience has also shown that countries will only remain on a path towards openness if they can manage episodes of excessive volatility in capital flows and exchange rates, and protect domestic financial stability.

This remains a vexing issue in the IMFS. However, **policy thinking on the issue has often been shaped by whether one sits in sending or receiving countries. We have to move beyond this.** A rules-based international framework, drawing on a comprehensive and evolving evidence base, is needed to provide policy advice through which countries seek to avoid policies with large spillovers, develop resilient markets, and benefit from capital flows while managing risks to financial stability.



Our proposals aim at **enabling countries to move towards openness as a long-term goal**, at a pace and sequence that enables them to preserve financial stability:

► **Proposal 10:** The IFI community should strengthen and accelerate efforts to help countries develop deep, resilient and inclusive domestic financial markets.

► **Proposal 11:** The IMF's framework of policy guidance should enable countries to move toward the long-run goal of openness to capital flows and to better manage the risks to financial stability.

Proposal 11a:
Develop evidence-based policy options to enable countries to benefit from capital flows while maintaining financial stability, and to provide assurance to the markets that measures taken are appropriate.

Proposal 11b:
Develop an understanding of policy options that enable sending countries to meet domestic objectives while avoiding large adverse international spillovers.

- The IMF, World Bank and RDBs should strengthen and coordinate their technical assistance and partnership with the national authorities to **deepen domestic financial markets**. Efforts should focus on policy frameworks, including the legal and regulatory infrastructure, for development of sound banking, capital markets and the domestic institutional investor base, macro-financial stability, and financial inclusivity.
- **The IMF should evolve and extend its Institutional View to enable countries to benefit from capital flows while managing risks to financial stability.** It should involve a reliable assessment of a receiving country's capital flows at risk and macro-financial stability, and of 'push factors' and possible reversal of flows from sending countries. It should build on experience on the effectiveness of various instruments, including macro-prudential policies in particular. It should also aim at providing assurance to the markets when countries are pursuing a policy mix consistent with the framework.
- **The IMF should also develop a policy framework for sending countries** that enables them to meet their domestic objectives while avoiding large international spillovers. While ambitious, the importance of such a framework for sustaining support for an open international system, and for receiving countries to continue to liberalize, cannot be overemphasized.¹⁰ The development of this framework – with inputs from national authorities and the Bank for International Settlements (BIS) – should be built upon an extension of IMF's spillover work and integrated into the Article IV consultations of key systemic countries.
- The global financial architecture also needs **a standing IMF facility for temporary liquidity support**, as part of the package that enables countries to benefit from openness to capital flows. The facility should support good policy-making, and be accessed only in the event of global liquidity shocks or those arising from contagion.¹¹

¹⁰ The global adoption and evolution of prudential standards is a successful example of an internationally accepted policy framework agreed under the umbrella of the FSB, where the Basel, IAIS and the IOSCO standards – while not mandatory – provide a benchmark to assess the adequacy of financial institutions' buffers in different countries.

¹¹ See Proposal 15.

2. Strengthening Risk Surveillance to Avoid the Next Major Crisis

Every financial crisis has lasting costs. They disrupt investments in the future, tend to hurt poorer citizens most, and have consequences that can last a generation or longer.

We will not know where the next crisis will start. But **it will become a full-blown crisis, with broader global consequences, when we are not prepared for it.** It is therefore critical that we strengthen our ability to detect risks early, and anticipate how they can be transmitted through a complex and highly interconnected global financial system, so that we can contain them before they escalate.

The official community did not see the Global Financial Crisis coming. **Ten years on, risk surveillance has advanced, but is still too diffused. Much remains to be done to avert the next crisis.** We need a more integrated system of risk surveillance. It should bring the distinct surveillance lenses of the IMF, Financial Stability Board (FSB) and BIS together, to construct and continually update a global risk map of financial linkages and vulnerabilities.¹² **An integrated risk assessment must nevertheless preserve the independence of perspective of each of the three institutions, and avoid converging on a diluted consensus.** It must also solicit regular inputs from central banks and regulators, and **look out for contrarian views**, including those from the non-official sector.

We will not know where the next crisis will start. But it will become a full-blown crisis, with broader global consequences, when we are not prepared for it.

This global risk map should also be used to facilitate regular discussion of **policy actions to pre-empt crises.** The IMF-FSB Early Warning Exercise (EWE) should be extended to enable this follow-through.

3. Stitching Together the Fragmented Global Financial Safety Net

We also need an effective global financial safety net (GFSN), to sustain open markets and support global growth. A decentralized, multi-layered structure of global, regional and bilateral arrangements has evolved over the last decade. But it is highly uneven in scale and coverage across regions, has major components that are untested in crisis, and lacks coordination. As a result, it lacks the predictability essential to an effective financial safety net. **The incentive hence remains for countries to ‘self-insure’ by accumulating more reserves, or for developing countries in particular to avoid or reduce current account deficits even where they are fundamentally needed to achieve their full growth potential.**



◀ **Proposal 12:**
Integrate the surveillance efforts of the IMF, FSB and BIS in a coherent global risk map, while preserving the independence of each of the three institutions' perspectives.

Proposal 12a:
Incorporate non-official and contrarian views systematically for more robust risk surveillance.

◀ **Proposal 13:** Build on the IMF-FSB Early Warning Exercise (EWE) to ensure policy follow-up from the global risk map.

◀ **Proposal 14:** Stitch together the various layers of the GFSN to achieve scale and predictability.

¹² An integrated system of surveillance should retain the comparative advantages of the three institutions – the IMF focused especially on economic and macro-financial risks and sovereign vulnerabilities, FSB on financial system vulnerabilities, and BIS on global flows and market infrastructure risks.

It is critical to put in place a reliable GFSN before the next crisis. First, we must ensure an adequately-resourced global layer in the IMF through timely conclusion of quota reviews.¹³ Second, the IMF must work with Regional Financial Arrangements (RFAs) to enable consistent actions during a crisis so as to achieve the necessary scale and global impact. A properly designed and predictable GFSN can avoid moral hazard, minimize contagion between countries, and promote openness and growth.

► **Proposal 15:** Establish a standing IMF liquidity facility to give countries timely access to temporary support during global liquidity shocks.

Proposal 15a: Use a country's qualification for the IMF's liquidity facility in considering the activation of RFA support.

► **Proposal 16:** Enable the IMF to rapidly mobilize additional resources in large and severe global crises.

Third, it is important to **put in place a standing global liquidity facility**,¹⁴ drawing on IMF permanent resources, to strengthen countries' ability to withstand global liquidity shocks and avoid deeper crises. A reliable liquidity facility will also help them avoid building up excessive reserves as the price for being open to capital flows, and hence avoid hampering growth. The facility should be designed for countries with sound policies, and to minimize 'IMF stigma' when they draw on it.

We must also address the global safety net requirements in the event of a large and severe future crisis. Such needs are not catered for in the permanent resources of the IMF. There is no assurance that the solutions effected in the midst of the last crisis, especially the large liquidity swaps between selected central banks, will be available in future.¹⁵ We have to explore temporary mechanisms to mobilize resources on the scale required to ensure global stability in such systemic 'tail risk' events. However, the available solutions face governance and policy challenges, on which there are differing views. These must first be resolved through a process of consensus building. The EPG is hence not proposing a solution for endorsement at this stage.



13 The International Monetary and Financial Committee (IMFC) has called on the IMF Executive Board to work expeditiously towards the completion of the 15th General Review of Quotas by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019.

14 The support provided should be in line with the IMF's normal access policies, and for short durations.

15 During the last global financial crisis, around US\$500 billion were deployed through the US Federal Reserve's liquidity swaps with selected central banks. These interventions were critical in ensuring the integrity of the global US\$ payment system and in calming global markets – although the majority of emerging market economies did not directly benefit from them. Importantly, such actions cannot be taken as assured in the future. Furthermore, in response to a joint call by the IMFC and G20, a significant group of countries pledged US\$450 billion to temporarily augment IMF resources during the crisis. Participation was not universal. This option of bilateral borrowings for future major crises will require swift mobilization.

D. The G20 and the IFIs: Making the System Work as a System

The G20 has been a powerful impetus for change. Its members have equal standing within its consensus-based setting, which gives the G20 added credibility in a multipolar world. The G20 has used these advantages to promote several initiatives following the global crisis, for example in strengthening financial regulation through the work of the FSB and achieving tax transparency via the OECD.

However, the G20 does not have universal membership and unlike the treaty-based organizations, is not legally constituted to deliver on decisions. It has to work in coordination with the IFIs and other international organizations to advance many of its aims. The governance relationship between the G20 and the IFIs is hence key to effective global financial governance.

It is widely felt that the accumulation of initiatives and multiplicity of meetings within the G20 risks crowding out issues that require its strategic guidance and political consensus-building. The growth of the G20 agenda and activities has also meant an overlap with the governance and roles of the IFIs and other international organizations.

Our proposals fall in three areas and benefited from discussions with a range of stakeholders. First, for effectiveness in **the G20's role** in developing forward-looking thinking on global financial governance and crisis responses. Second, on the **governance of the IFIs as a system**, so that they collectively deliver much more than the sum of their individual contributions. Finally, to streamline the roles of **Executive Boards and Management within IFIs** to ensure greater effectiveness and outcome-driven oversight.

The G20 should refocus on building consensus on strategic global goals, prune its agenda significantly, and leverage more on the IFIs and other international organizations. G20 Ministerial meetings on the finance track should be convened once or twice a year in normal times, and focus on strategic issues and emerging threats that require international coordination, or on overcoming governance hurdles within the system. In a similar vein, two Deputies meetings a year as a norm would be adequate to support and ensure follow through of the Ministerial agenda. This two-tier system within the G20 should be sufficient for most purposes, and enable much of the work currently done in working groups to be devolved to the IFIs and other competent bodies. If the G20 needs to constitute a working group to drive major new system-wide initiatives, the group should ideally operate for a period of no more than three years.



◀ **Proposal 17:** The G20 should refocus on a multi-year, strategic agenda, rationalize workstreams, and devolve more work to the IFIs.

Governance of the system of IFIs itself requires **two significant step-changes** to deliver a much greater scale of development impact: to ensure synergy and complementarity in a more diverse, decentralized world; and to achieve an important shift in business models within the system as a whole so as to effectively catalyze private investments.

► **Proposal 18:** A G20-led group, with representation from key non-G20 constituencies and the IFIs, should steer the reorientation of development finance over the next three years before handing the coordinating role to the IFI Heads. This should include building complementarity among all development partners, and a clear system of metrics to track impact and value for money.

An effective forum is required to ensure this major reorientation of the system of development finance. However, there is currently no effective forum with universal membership that has the necessary system-wide remit – to steer the shifts required to ensure coherence and complementarity among the IFIs as well as with other major development partners. **It will require dedicated steering over three years to move to this new landscape, building on current initiatives in the IFIs. A clear system of metrics to track impact and value for money should be established, which will also ensure continuity of the reforms beyond that period.** A G20-led Group of Deputies, with representation from key non-G20 constituencies and the IFIs¹⁶, reporting periodically to Ministers, will be the most effective way to fill this gap over the next three years before handing the coordinating role to the heads of the IFIs.¹⁷

We must also strengthen system-wide collaboration to respond to major challenges and anticipate risks in development before they create lasting damage or spiral across countries. There are repeated instances where we have failed to do so in the recent decades.

We must respond to major challenges and anticipate risks in development before they create lasting damage or spiral across countries.

► **Proposal 19:** A biennial strategic forum convened by the IMFC and DC should identify development risks before they manifest, and the required collective responses.

It is critical that Finance Ministers be engaged in addressing these risks. A biennial dialogue on a **Global Development Risk Map** should be convened, comprising members of IMFC and Development Committee¹⁸ (who together represent 25 constituencies), as well as representatives from IFIs, the UN Development System, key civil society and philanthropic players, and the private sector. The risk map should enable stakeholders to assess the adequacy of responses and the future collective effort required.¹⁹

¹⁶ Apart from the IMF and the World Bank, this should include representation from the RDBs. Consideration should also be given to include the Chair of the International Development Finance Club, which comprises the major DFIs.

¹⁷ The principal focus of the G20-led Group would be to endorse objectives, milestones and associated system-wide metrics to evaluate progress made on achieving coherence and complementarity among the IFIs and with other development partners, and the crowding in of the private sector. The Group should also aid in removing the governance hurdles that impede progress, while operating in a manner that does not undermine the governance structure of individual institutions.

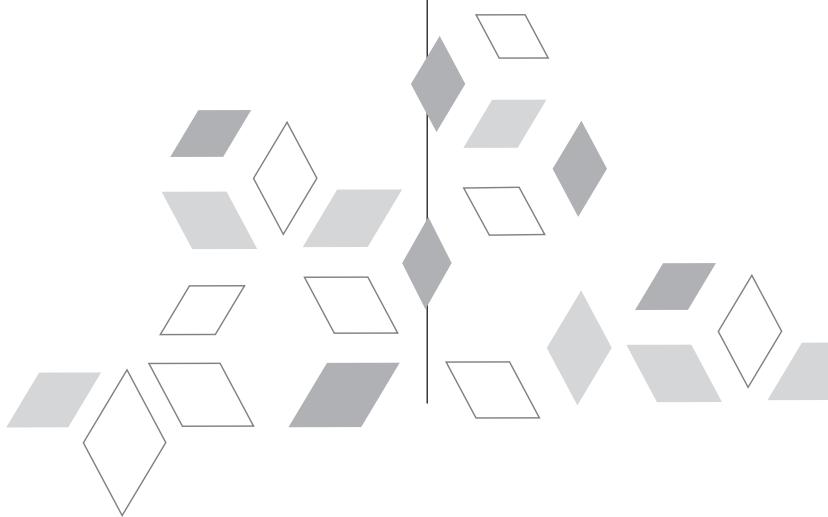
¹⁸ The IMFC is the key ministerial forum for providing strategic direction to the work and policies of the IMF. The Development Committee (DC) is a ministerial forum of the World Bank Group and the IMF for intergovernmental consensus-building on development issues.

¹⁹ The World Bank and IMF could provide the secretariat for the development of the Global Development Risk Map.

Reforms are also needed to the governance of the IMFS to foster **global financial resilience**. Responsibility for pursuing these reforms in three interdependent areas identified in Section C above, and discussed more fully in the Main Report, are summarized below for ease of reference:

- **On capital flows.** First, **the IMF, World Bank and RDBs** should accelerate efforts to help countries develop **deep, resilient and inclusive domestic financial markets**. Second, the IMF's framework of policy guidance should enable countries to move toward openness as a long-term goal, at a pace and sequence that enables them to preserve financial stability, and to manage episodes of excessive volatility. This involves (i) **evolving and extending the IMF's Institutional View** as a basis for developing policy options for receiving countries; and (ii) the IMF complementing this by developing a policy framework that **enables sending countries to meet their domestic objectives while avoiding large adverse spillovers**. This is best undertaken with inputs from national authorities and the BIS. Third, we must achieve consensus to put in place a standing IMF liquidity facility.
- **On risk surveillance.** The **IMF, FSB and BIS** should integrate their surveillance efforts in a coherent global risk map, while preserving the integrity of the three institutions' perspectives. A joint team from the three institutions should take inputs from various official sources including the money-center central banks, as well as from non-official sources. **The IMF-FSB Early Warning Exercise should provide the home for policy discussions and resulting follow-up.**
- **On the global financial safety net.** Timely conclusion of IMF quota reviews is necessary to ensure an adequately-resourced global layer of the GFSN. Further, **the IMF and the RFAs** should intensify their work to establish a **clear assignment of responsibilities and protocols for joint actions**, so as to create a stronger and more reliable GFSN. This includes discussions on coherence of ex-post conditionality in adjustment cases, the determination of liquidity needs, and the possible signaling role of an IMF liquidity facility. Further, the IMF should also explore **temporary mechanisms** to swiftly mobilize resources on the scale required to ensure global stability **in future crises of a large, systemic nature**.

Given the significance of these three sets of reforms and the key roles of the IMF in effecting them, the **IMFC should be regularly updated** on the status of their implementation and challenges faced.



► **Proposal 20:** The Executive Board of each IFI should focus on strategic priorities for the institution and advancing system-wide goals.

► **Proposal 21:** Adopt a practical, risk-based approach to delegate greater responsibility to IFI Management, and hold them accountable for outcomes.

► **Proposal 22:** Ensure diversity and better match the skills available to IFI Boards and Management to the shift in the business models and increased complexity of challenges.

The governance of IFIs themselves has to be brought up to date, reflecting the complexity of the strategic challenges and the needed shifts in MDBs' business models for a new era. Individually, the IFIs should develop a framework to **streamline the roles of the Executive Board and Management** to avoid overlaps and ensure clarity of responsibilities and accountability. Boards should focus on strategic issues and directions and move away from a disproportionate tilt towards operational decision making and transactional functions. **Management should be empowered and held accountable** for ensuring that the strategic priorities of the IFI and the system as a whole are effectively translated into policies, operations and incentives.

In keeping with this objective, consideration should be given to IMF, World Bank and other MDBs amending their Articles of Agreement where necessary, to allow for delegation of appropriate decision-making responsibilities to the Managements of the respective institutions. A practical and risk-based approach should form the basis for such delegation of responsibilities.

For Boards to optimally perform their roles, they need access to the **right skills, diversity and expertise**. The Boards should define skills sets relevant for constituencies' own selection of Executive Directors; as well as to guide processes for selection of Management. The Boards should also invite external experts to contribute in Board committees requiring specialized knowledge (for example, in audit and risk assessments and strategies to catalyze private investment).

With a new clarity of roles and responsibilities, shareholders should also consider the different models of Executive Boards across IFIs, with a view to evaluating their effectiveness, cost structure and frequency of meetings.

An open, transparent and merit-based process for the selection of IFI Heads is also essential to the sustained legitimacy and effectiveness of the IFIs.

E. Conclusion

Taken as a whole, the reforms serve a common agenda: to enable nations to create the jobs of the future and achieve more sustainable and inclusive growth, to eliminate extreme poverty and enable youthful populations to achieve their aspirations, to avert financial crises and the lasting damage they inflict on societies, and to tackle the pressing challenges in the global commons that affect us all.

The international monetary and financial system must be brought up to date with the realities of a new era. We can achieve this by implementing reforms to make the system work as a system. These reforms are within our reach.

The present international monetary and financial system lacks the coherence, joint capacity and effectiveness to support these goals. It must be brought up to date with the realities of a new era. We can achieve this by implementing decisive reforms to **make the system work as a system.** These reforms are within our reach.

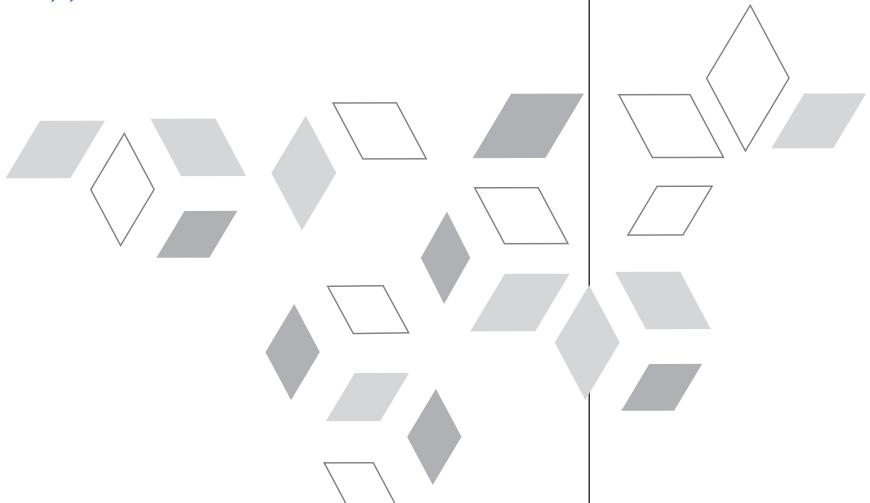
They do not require new international bodies. They require that we take bold and defined steps to ensure that today's institutions – global, regional and bilateral – work together as a system. They require that we build trust and transparency among these different institutions and leverage on their combined strengths. These changes will be critical to meeting the development challenges of the decade ahead, and helping countries experience fewer crises that set back reforms and growth.

The proposals in this report build on reforms that had been underway among the IFIs, and take them further. But they also **call for a much greater sense of urgency and recognition among their shareholders of the need for consistency and joined-up efforts among the IFIs and all other stakeholders, so that we raise our whole game.**

The ambition is in the doing. Some of the reforms are low-hanging fruit. Most are achievable within a few years, with focused effort. Some others go beyond current thinking. We urge that they be considered with an open mind, and developed further or adapted if necessary to enable their implementation.

Achieving these reforms will also contribute to **a larger goal that every nation has a vested interest in.** They enable us to build **a cooperative international order for a new, multipolar era** – one that enables nations everywhere to fulfil the aspirations of their citizens, and serves the global good.

The ambition is in the doing.

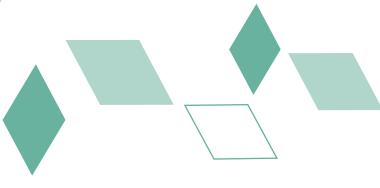






I.
**ACHIEVING
GREATER
DEVELOPMENT
IMPACT:
COLLABORATING
ACROSS THE
SYSTEM**

The background image shows a wide-angle aerial view of a rural area. In the foreground, there's a large, light-colored dirt road or construction site where several vehicles like trucks and tractors are visible. The surrounding land is divided into various agricultural plots, some green and some brown, suggesting different stages of cultivation or fallow periods. The sky is blue with scattered white clouds. A large, semi-transparent teal hexagon covers the central portion of the image, containing the main title text.



I. ACHIEVING GREATER DEVELOPMENT IMPACT: COLLABORATING ACROSS THE SYSTEM

The next decade is critical.

We need substantially greater impact in helping countries achieve sustainable development and inclusive growth, and in managing the growing pressures in the global commons. The current pace of change will not get us there.

*We need **bolder reforms to harness complementarities and synergies** in the development system:*

- Refocus IFIs' efforts to help countries strengthen **governance capacity and human capital**, as the foundation for an attractive investment climate, job creation, and social stability.
- Exploit the largely **untapped potential for collaboration** among the IFIs as well as with development partners to maximize their contributions as a group, including by convergence around core standards.
- Embark on **system-wide insurance and diversification of risk**, to create a large-scale asset class and mobilize significantly greater private sector participation.
- Strengthen **joint capacity** to tackle the **challenges of the commons**.

We must also leverage more actively on the work of the non-official sector, including NGOs and philanthropies.

Bold and urgent reforms in development policies and financing are required to achieve the major step-up in growth, job opportunities and sustainability that the world needs in the next decade.

We must achieve significantly greater development impact in every continent. The road to achieving the Sustainable Development Goals (SDGs) must pass through Africa, in particular. It has great potential to contribute to global growth in the coming decades. But Africa also faces unprecedented poverty, demographic, jobs and environmental challenges (see Box 1). **The consequences of failure will not be simply economic.**

We must **organize the world's multilateral development capabilities and resources in a new way to address these challenges and achieve greater and more lasting development impact**. The IFIs are uniquely positioned as multipliers of development – by supporting good policies, strengthening institutions, promoting innovation, taking programs to scale and mobilizing private sector investment. **There is much further potential to be unlocked by governing the system as a system rather than as individual institutions.**

Given the critical need to attract much larger volumes of private risk capital, and in particular equity financing, we must **maximize the IFIs' unique ability to help reduce risk in order to draw in private investment by:**

- Helping countries to **de-risk their whole investment environment** (besides de-risking projects). The IFIs must collaborate to help countries take advantage of current best practices in governance and regulation.
- **Pioneering investments in lower income countries and states with features of fragility**, in critical areas such as energy infrastructure, to reduce perceived risks and pave the way for private investments.
- **Mitigating risk** through instruments such as first-loss guarantees, and co-investments to catalyze private investment.
- **Leveraging on the largely untapped potential to pool and diversify risks across the development finance system**, so as to create new asset classes for private investors.

To achieve these objectives, IFI governance must place **rigorous emphasis on additionality** – ensuring that guarantees and concessional resources are deployed where they have the greatest catalytic role in attracting private capital and addressing market failures. Importantly, they must use their risk-mitigation tools to **attract private investment to the least developed countries**, in addition to the middle-income countries in which blended finance has been heavily concentrated so far.



Box 1: Africa's Opportunities and Challenges

Africa has grown well over the past decade, expanding at over 4 percent on average. But there are major challenges ahead, and setbacks in some parts of the continent that need to be overcome.

The coming decades offer great opportunity. With strong reforms in governance, human capital, and the investment climate, an environment can be created that brings greater job opportunities for Africa's burgeoning youth population and spurs sustainable and inclusive growth.

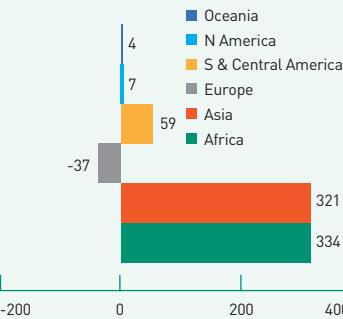
However, poverty and environmental challenges remain severe and could worsen without continuous reforms and investments to create jobs, and to pre-empt the implications of climate change for food security and the spread of diseases.

The pace of growth in the young, working age population in Africa will be unprecedented in global history. It offers the

Africa will see the largest increase in working age population from now to 2030.

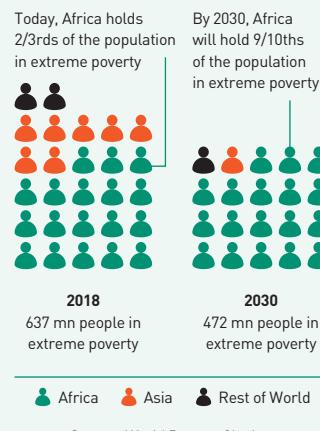
By 2030, nine in ten of the world's extreme poor are projected to be in Africa.

Growth in Working Age Population by 2030



Source: Department of Economic and Social Affairs, Population Division (2017), UN; The 2017 Revision.

Global Population in Extreme Poverty – 2018 and 2030



Source: World Poverty Clock

possibility of a significant market for global goods and services, with Africa's middle class expected to grow by 100 million.

However, at the current pace of economic growth, job creation will still be short of needs, which in turn implies a persistent difficulty in reducing extreme poverty. By 2030, nine in ten of the world's poor are expected to be in Africa. A young population that is not gainfully employed could also become a source of instability.

Growth in agriculture has tremendous potential, given Africa's vast tracts of arable land. Its realization will

depend on the adoption of improved techniques, commercialization, and better utilized water resources. There are also huge opportunities for digitalization of Africa's economies and developing resource-based manufacturing to increase domestic value-added.

Mobilizing the private sector to support these goals will be critical. Thriving African economies, connected to global markets, can become a new engine of growth and will contribute to tackling the challenges of the global commons.

The scale and urgency of needs require decisive, **system-wide shifts**. We believe significantly greater development impact can be achieved by:

- **Refocusing on supporting countries' efforts to strengthen governance capacity and human capital, both critical tasks.** Decades of experience in development have shown these to be the critical foundations for **an attractive investment climate**, job creation and economic dynamism.

- Governance reform lasts only when it comes from within. But the IFIs, as trusted partners in the adoption of best practices and institutional innovations, have to work more closely together, and with countries' other development partners, to support enduring reforms.
- The IFIs must also support governments in ensuring the broadest base in human capital development: providing equality of opportunity for all, regardless of gender, ethnicity and social backgrounds.
- **Joining up IFIs' operations**, as well as with those of other development partners, to enhance development impact:
 - **Build effective country platforms to mobilize all development partners to unlock investments, and maximize their contributions as a group, including by convergence around core standards.**
 - > The platforms must be owned by governments, encourage competition, and retain the government's flexibility to engage with the most suitable partners. But transparency within the platform must serve to avoid zero-sum competition, such as through subsidies or lower standards.
 - > Coherent and complementary operations between development partners will help scale up private sector investment. The adoption of core standards can lower the private sector's cost in working with a range of development partners.
 - > Priority has to be given to linking up security, humanitarian and development efforts in states with features of fragility, working with UN agencies and other partners.
 - > Cooperation within the country platforms would enable a rapid response in times of crisis.
 - > Cooperation at the country level should also be supported by global platforms for the IFIs to collaborate on key thematic issues such as sustainable infrastructure.
 - **Implement regional platforms to facilitate transformative cross-border infrastructure projects, that enable regional connectivity and open up new supply chains and markets.**
- **Multiplying private capital** by adopting **system-wide** approaches to risk insurance and securitization. Institutional investor participation in developing country infrastructure has so far been minuscule. The development of a standardized, large-scale asset class, that diversifies risk across the development finance system, will help mobilize this huge untapped pool of investments.
- **Reassessing regulatory capital and other prudential norms for the MDBs, as well as institutional investors in infrastructure**,²⁰ based on the evidence of their default experience.
- **Strengthening joint capacity to tackle the challenges of the global commons through tighter and more effective coordination mechanisms** among the diverse organizations in each field, to enhance response capacity and to ensure adequate financing.

20 Institutional investors currently face some regulatory disincentives in investing in infrastructure.



- The IFIs must also **mainstream activities in support of the global commons into their core country-based operations**. We must likewise **integrate trust fund activities** with the MDBs' strategies and operations, to avoid parallel structures that pose significant costs to efficiency and impact.
- **Investing in data and research** to support sound, evidence-based policies. Basic data still falls short in many developing countries. These are public goods in their own right. The IMF and World Bank should work with UN agencies and RDBs to strengthen efforts in these areas.
- **Achieving stronger synergies with business alliances, NGOs and philanthropies** so as to benefit from their on-the-ground perspectives, innovations and delivery capacity. The IFIs must work with governments to collaborate with and leverage on these actors more systematically, identifying key needs and providing space and co-funding where required so they can play their full roles.

Proposal 1: Re-focus on governance capacity and human capital, as foundations for a stronger investment climate.

Governance and human capital development have been at the core of the successful development stories of the last half century.

This agenda succeeds only when it is owned by countries themselves. However, the IFIs should refocus their efforts, individually and collectively, on assisting countries in strengthening governance capacity, spreading best practices more quickly, and spurring the adoption of new technologies that improve productivity and enable more inclusive access to education and healthcare.

Strengthened governance capacity is essential to mobilizing domestic financial resources and creating an attractive investment climate, both at the national and local levels, by:

- **Improving domestic tax administration** and reducing leakages.
- **Reducing corruption** which is a major constraint on economic development.
- Developing the domestic financial system, particularly by **deepening local currency capital markets**.
- **Strengthening the rule of law and increasing regulatory certainty** to provide confidence for long-term investors.

The IFIs can also be effective in sensitizing governments to a **critical unfinished task in human capital development**: the need for equality of opportunity for all, regardless of gender, ethnicity and social backgrounds.²¹ They should also encourage governments to **leverage on the initiatives of the non-official sector**, including NGOs and philanthropies, and the private sector, to spread opportunities widely.

²¹ The recent compilation of a comprehensive Human Capital Index by the World Bank will help countries benchmark their policies and measure progress.

However, building governance capacity and developing human capital take time. Special attention must be paid to countries with significant elements of fragility, to help reformist governments to achieve progress in creating jobs and widening access to services, and thereby build public support for continuing reforms. There is otherwise a real risk of governance reforms being undermined by a lack of demonstrated success in improving welfare.

Proposal 2: Build effective country platforms to mobilize all development partners to unlock investments, and maximize their contributions as a group, including by convergence around core standards.

Country platforms, owned by governments, will enhance contributions from all development partners including the private sector. They can be transformational in their development impact:

- **Exploiting the complementarity among a country's development partners** – the IFIs, UN agencies, bilateral official agencies, and in some cases philanthropies and NGOs – hence taking advantage of their combined strength and knowledge.
- **Enabling development partners to provide more consistent and better coordinated support for policy and institutional reforms.**
- **Scaling up private sector investment** through coherent and complementary operations between development partners.
- **Facilitating adoption of common core standards** to ensure sustained development impact and lower the cost of working with the range of partners.
- **Strengthening crisis response capacity** as they provide a coordinating mechanism that can be utilized for immediate response.

Importantly, the platforms **must not be a straitjacket on either the government or development partners**:

- To be effective, they must have strong **government ownership**, preserving the government's flexibility to engage with partners with appropriate strength. The platforms should also be able to evolve differently across countries, depending in part on governments' planning capacities.
- However, country platforms also have the potential to help governments in **planning through the life cycle of public assets, and to enhance coordination across agencies within government** with Ministries of Finance usually playing a coordinating role.
- For development partners, transparency within the platform and convergence on core standards will encourage **healthy competition around innovation, efficiency and speed to market and improve the investment climate**.

The use of country platforms has so far been fragmented and selective.²² They have been mainly used in post-conflict reconstruction or at a sectoral level (see Annex 1 for an overview of existing forms). None yet combine the transparency, convergence around common development standards, and the standardized approaches needed to achieve a major step-up in private sector investment. Developing such country platforms will hence **require a significant shift in the way the development community operates.**

Effective country platforms require **a high level of transparency**, to ensure that all partners have access to and share relevant information. They will involve **the partners adopting a set of agreed core standards** to ensure sustainability, and to **avoid competition of a zero-sum nature** such as in subsidies.²³ The adoption of common core standards will improve the **ease with which the private sector can collaborate with different development partners** (see Box 2).

Box 2: Core Standards

Core standards should aim at achieving coherence amongst the multiplicity of today's actors in development finance, and enable them to focus on unlocking synergies in the system. It would also enable both governments and the private sector to work more effectively with different development partners and at lower cost.

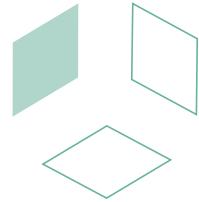
This would involve the system agreeing to a set of five/six core development standards with appropriate sequencing for states with features of fragility. They could include:

1. Debt sustainability.
2. Environmental, social and governance standards.
3. Coherent pricing policies.
4. Local capacity building.
5. Procurement.
6. Transparency and anti-corruption.

Currently the IFIs broadly adhere on the principal components of the core standards. The development of and **convergence towards core standards must be done in close collaboration with shareholders**. With regard to **certain standards (e.g. transparency and anti-corruption, debt sustainability and pricing policies)** – convergence needs to be accelerated. In other areas, convergence should start with a broad equivalence approach, with agreement on principles and outcomes. This would allow for different approaches aimed at the same objective of protecting citizens today and in the future, and enable convergence over time.

²² Rwanda, for example, has developed a well-functioning donor coordination mechanism encompassing many of the key attributes of an effective country platform. Other examples exist of mechanisms that capture different key elements of the EPG's proposal, such as sectoral platforms in Brazil for private sector participation, the 4G in Colombia, and the National Slums Upgrading Program in Indonesia (see Annex 1 for further illustration).

²³ As a pragmatic first step, the IFIs should agree to use each other's standards within a platform, which would enable early implementation and help provide a path towards consensus.



Importantly, this effort to converge on a set of core standards should **form the basis for bringing on board major bilateral lenders/development finance institutions (DFIs)**, as they have collectively become much larger players in development finance. The IFIs should collaborate with the International Development Finance Club (IDFC) and private sector entities in their ongoing work on standards.²⁴ Cooperation among shareholders is critical in this regard.

Special consideration will need to be given to **states with features of fragility**, as they will require a more customized approach to standards, tailored to their capacity, and with greater support for implementation.²⁵

Country platforms are often more effective when governments have the support of coordinating development partners. Selection of such coordinators should be based on practical considerations regarding the country's development priority areas. To encourage wider ownership, the coordinator role should ideally be rotated on a regular basis.

Importantly too, the country platforms will **ensure that the RDBs continue to play active roles based on their comparative strengths** – especially their regional knowledge and relationships.

The coordination and coherence achieved on such platforms will help significantly scale up private sector investments. This would follow from coordination to strengthen government capacity in project selection, preparation and implementation; to build regulatory certainty; and to **standardize contract documentation** to enable the development of an infrastructure asset class.²⁶ The platforms will also enable the IFIs themselves to integrate their project preparation facilities.²⁷

Country platforms will also be effective instruments in the case of crises. When they are functioning well, they will provide a coordinating mechanism to bring together the government and relevant IFIs, bilateral agencies, relevant UN agencies and other non-governmental actors at the onset of a crisis. They can provide organizing frameworks for humanitarian and other assistance as their operating principles will facilitate coordination and collaboration in real time.

Proposal 3: Implement regional platforms to facilitate transformational cross-border investments and connectivity.

Regional approaches help promote economic opportunity by allowing countries to overcome economic constraints resulting from geography such as lack of access to ports, lack of infrastructure connectivity especially in transport, and poor energy and water availability.

²⁴ Members of the IDFC – 23 DFIs with assets of US\$3.5 trillion and loans of over US\$0.8 trillion annually – have recently embarked on a process to align policies across their institutions. Their assets are larger than all the MDBs together.

²⁵ Acknowledging the circumstances of states with fragility, MDBs could prioritize operations that help kick-start job creation and enhance access to basic healthcare and education – and hence help governments win support for continuing reforms – while working on raising standards over time. See also Report of the Commission on State Fragility, Growth and Development, *Escaping the Fragility Trap*, April 2018 (in particular the discussion at Recommendation 7).

²⁶ Private financing requires the standardization of the underlying project descriptions, documentation/templates, and financial and non-financial data and build upon templates already agreed by major market participants, such as SOURCE and GEMs. SOURCE is a joint global initiative of the MDBs and private-public partners, in response to the G20, to close the infrastructure gap by delivering well-prepared projects. GEMs is a database which collects default histories and other data on B-loans from 13 development finance institutions and is maintained by the European Investment Bank.

²⁷ Currently, the IFIs' infrastructure preparation funds include: the Global Infrastructure Facility; the Arab Financing Facility for Infrastructure; IDB's InfraFund; EBRD's Infrastructure Project Preparation Facility; ADB's Asia-Pacific Project Preparation Facility; EIB and EU JASPERS initiative for the Eastern and Southern neighborhood; AfDB's Project Preparation Special Fund; and AfDB's Africa 50.



Regional projects are usually complex and expensive. They require the involvement of multiple countries and investors, coordination of difficult policy issues, and the resolution of complicated fiduciary, environmental and social arrangements. **Establishing regional platforms, based on the same principles as country platforms, offers a good approach to accelerating the implementation of regional projects.**

The regional platforms will allow for better collaboration and division of labor among the development partners operating in a region.²⁸ They can also be used to accommodate small countries' projects and programs, where individual country platforms may not be as viable.

Proposal 4: Reduce and diversify risk on a system-wide basis to mobilize significantly greater private investment, including portfolio-based infrastructure financing.

The IFIs' efforts to help countries to strengthen government capacity (Proposal 1) and to derive synergies among development partners from well-functioning country and regional platforms (Proposals 2 and 3) are critical to strengthening the investment environment and project pipelines. However, **to mobilize the vastly greater resources required to meet the coming development challenges, we must maximize the potential of capital markets and institutional investors.** Greater private financing in infrastructure must also be achieved without adding significantly to sovereign liabilities in countries where debt sustainability limits have been reached.

The G20 Hamburg Principles²⁹ affirm the need for MDBs to crowd in private investors through credit enhancement and other means. Private investments in developing country infrastructure assets are today minimal. Investors' risk perceptions of developing country infrastructure investment and expected returns are high. **Risk must be reduced and managed so that returns and pricing sought by private capital can be brought down** to a level that is viable and sustainable to developing countries.

There is **significant scope for system-wide approaches to reduce, manage and diversify risk, to open the gates to private investment.** These must involve:

- **Re-orienting MDBs' business models to focus on risk mitigation.**
- **Using system-wide political risk insurance and private reinsurance markets.**
- **Developing a large and diversified asset class that enables institutional investors to deploy funds in developing country infrastructure.**

²⁸ Examples of such regional platforms include the Western Balkans Investment Framework and the Africa Investment Forum.

²⁹ The *Hamburg Principles on Crowding-in Private Sector Finance* were issued in April 2017 and endorsed by the G20. They provide a common framework for MDBs to increase private investment levels to support development objectives.

Proposal 4a: Shift the basic business model of the MDBs from direct lending towards risk mitigation aimed at mobilizing private capital.

The MDBs, which have traditionally focused on lending, should shift to using their balance sheets to mitigate risk. MDBs (and bilateral development partners) have a **unique ability to manage risks** in developing countries through their multilateral ownership and ability to influence governments. They are hence well placed to provide credit enhancement (e.g. taking the first loss piece in a synthetic securitization structure) with institutional investors coming in to take a standardized senior debt exposure which can be priced lower to reflect the lower risk.

MDB credit enhancement can be a more efficient use of their capital than direct lending. Further, **the benefit goes not to private investors – who receive a lower return commensurate with the lower risk they bear – but to the borrowing country through a lower financing cost.**

Proposal 4b: Develop system-wide political risk insurance and expand use of private reinsurance markets.

Political risk insurance coverage is critical to draw international investors into many developing countries – through FDI and both debt and equity financing.

The MDBs should, as a system, leverage on MIGA³⁰ as a global risk insurer in development finance. MIGA has significantly expanded its political risk insurance coverage provided to private investors in developing countries over the last five years.³¹ Its capacity has been boosted by utilizing the private reinsurance market. We can build on MIGA's existing risk insurance capabilities to take on risk from the MDB system as a whole, and achieve the benefits of scale and a globally diversified portfolio. Collaboration among the MDBs and MIGA can take different forms, e.g. the MDBs connecting investors to MIGA; or MIGA reinsuring MDBs' insurance/guarantee products. Greater use of private reinsurance markets will also allow the scaled-up use of political risk insurance.

MIGA should establish a joint advisory board involving participating MDBs to guide joint activities and oversee standards and pricing norms to support collaboration.

MIGA and the MDBs should significantly scale up current risk insurance operations by:

- **Standardizing contracts and processes.** Standardized contracts will help facilitate scaling up the provision of risk insurance. They can aid in the creation of programmatic underwriting and pricing processes for insurance/reinsurance on a portfolio basis (instead of project-by-project review), **thereby improving efficiency and speed to market and lowering costs.**³²
- **Expanding the use of private re-insurance.** A system-wide risk insurance platform would in the long term require a significant increase in the amount of risk ceded to private sector reinsurers so that MIGA and the MDBs can recycle their capital for more projects. A reinsurance panel could be selected and renewed through a competitive process. Reinsurance can be arranged on a portfolio basis using pre-agreed criteria.

³⁰ Multilateral Investment Guarantee Agency (MIGA) is an IFI that is a part of the World Bank Group whose primary operational business is to provide political risk insurance and credit enhancement guarantees.

³¹ MIGA's outstanding gross exposure grew by 73% (US\$7.5 billion) between 2012 and 2017.

³² Idiosyncratic risks can be addressed through add-on cover to standardized contracts.



Proposal 4c: Build a developing country infrastructure asset class with the scale and diversification needed to draw in institutional investors.

Institutional investors³³ represent an **enormous pool of potential investment that has so far evaded developing country infrastructure**. With the exception of a few specialized players, they can only be drawn into developing country infrastructure if markets provide a large, simple and diversified asset for them to invest in. Thus far there have been promising but piecemeal efforts to structure investible products for private investment. The Argentine G20 Presidency has asked the Infrastructure Working Group to look at opportunities for mainstreaming this asset class.

We can only achieve scale by taking a system-wide approach: by pooling and standardizing investment from across the MDB system into securitized assets or fund structures that enable easier investor access. The IFC's Managed Co-Lending Portfolio Program (MCPP) is an example of a loan portfolio from a single MDB that has successfully garnered private sector interest. Standardizing and pooling across the system will generate larger, more diversified loan portfolios that will significantly scale up institutional investor participation. Equally important, the pooling of diversified portfolios of MDB loans for private and institutional investment **confers significant benefits upstream in the project cycle, by driving commercial discipline.**

There is a significant amount of loans in the MDB system, infrastructure-related and others, that could be pooled for private and institutional investment. This could start with **the US\$200-300 billion of non-sovereign loans**,³⁴ sufficient for an asset class of reasonable scale. The eligible loan pool can be further widened to include **commercial banks' infrastructure loans, of which there are about US\$200 billion issued annually**. The growth of **green bonds and green bond funds** is another opportunity for MDBs and commercial banks to originate infrastructure loans that respond to the needs of institutional investors.

New sovereign loans can also be pooled for investment, which should ideally be done once the market is familiar with the asset class. This can be done by clean sales of loan portfolios to private and institutional investors which would not involve a transfer of preferred creditor status (see Annex 2 for more details).

Proposal 5: 'Right-size' capital requirements for MDBs and other infrastructure investors, given their default experience.

A set of prudential norms specific to and applied across all MDBs need to be established, based on their unique characteristics and default experience. Currently, the regulatory capital and liquidity standards and rating methodologies applied to MDBs are adapted from those developed for commercial banks and do not sufficiently reflect their distinctive shareholding structures, preferred creditor status and default experience. The different rating agencies also adopt varying methodologies for the MDBs. As a consequence, the MDBs each have different adaptations and capital and liquidity buffers. The larger the buffers, the more constrained the MDBs will be in their financial capacity.

³³ These could include insurance funds, sovereign wealth funds and public pension funds.

³⁴ Based on reported data, AfDB, ADB, EBRD, EIB, IBRD, IDB and IFC have an average of 25% of their loans going to non-sovereign entities, although the proportion of non-sovereign exposures can vary significantly between MDBs.

In a similar way, the regulatory capital treatment for infrastructure investment applied to banks and institutional investors such as insurers do not differentiate such investments from generic corporate debt. This has acted as a disincentive to investors to take on infrastructure investments. Evidence however shows that long-term investments in developing country infrastructure have a better default experience than corporate debt. The case for carving infrastructure investment out as a separate asset class distinct from corporate debt in the capital treatment for insurers and certain other institutional investors should be revisited based on the evidence.

Proposal 5a: Establish tailor-made capital and liquidity frameworks for the MDBs.

MDBs should collectively **approach the Basel Committee to seek guidance on the regulatory capital and liquidity standards for MDBs, considering their unique operating models**. An independent review by the Basel Committee and the development of a tailor-made regulatory framework would promote the adoption of harmonized capital and liquidity approaches across the system, and provide a basis for rating agencies to also review their rating methodologies for MDBs. The aim is for MDBs and rating agencies to more accurately quantify the risk taken on by the MDBs and so determine the appropriate capital and liquidity requirements. Should some balance sheet capacity be freed up, this can be deployed to take on risk. The issues that could be addressed include:

- Taking into account the key elements that differentiate MDB operating models from commercial banks, including the recognition of preferred creditor treatment, callable capital and concentration risk.³⁵
- Actual default experience across the MDBs.
- The treatment of credit guarantees/enhancement and insurance as compared to more traditional loan instruments should be risk and evidence-based.

The MDBs also currently do not have access to any support facility in case of extreme liquidity stress and are treated by the rating agencies as such. As a result, they are holding more liquidity (excessive self-insurance) and/or pay a higher cost of capital (the rating agencies treat the MDBs as financial institutions without access to liquidity backstops) than needed if the MDBs were viewed as a system.³⁶ As part of their approach to the Basel Committee on the establishment of a regulatory framework for the MDBs, **they should also seek guidance on the appropriateness of a liquidity back-stop**.

From time to time, the system as a whole should be stress-tested with a view to strengthening its overall resilience, and better understanding resource needs both in normal times and in crisis.

³⁵ An important step towards productive engagement is to pool exposure and default data across MDBs and to make these transparent to shareholders, the investment community and rating agencies.

³⁶ Estimates suggest that for the World Bank such a facility would allow it to expand lending by at least 10 percent and the regional MDBs by significantly more.



Proposal 5b: Review the regulatory treatment of infrastructure investment by institutional investors.

Institutional investors from both developed and emerging markets³⁷ are constrained by regulatory standards from investing in infrastructure. Home country institutional investors can bring to bear superior contextual knowledge and a strong alignment in investment objectives (e.g. in a requirement for local currency investment), if regulation also facilitates and recognizes their potential value-add to the infrastructure development ecosystem. Using an evidence-based approach to review regulations may identify opportunities for incentivizing long-term investment.

There is scope to review the regulatory treatment of infrastructure debt based on the evidence, and to consider it as a distinct asset class from corporate debt with its own differentiated risk profile. There is also scope for risks to be differentiated between the construction and operation phases, with the latter posing a lower level of risk.

Proposal 6: Strengthen joint capacity to tackle the challenges of the global commons.

The global commons face a wide range of challenges, including environmental threats related to climate change, degradation of ecosystems, loss of biodiversity, water scarcity and threats to oceans and specific health-related threats from pandemics and the rapid spread of antimicrobial resistance. The poor are often more exposed and invariably more vulnerable. Another related challenge involves forced displacement of people because of conflict, natural disasters and lack of security. These are challenges for all countries, but the international community has **a critical role to play both in supporting developing countries in protecting the global commons and through their own national actions.**

Total infrastructure capital round the world will double in the next 15 years. How that investment takes place will have a profound influence on the global commons. The IFIs have an essential and urgent role to play in ensuring the quality and sustainability of that investment.

These challenges all span national borders and **require international action to provide the public goods (transnational and local) and relevant policies and investments to respond to these threats with greater urgency, scale, coherence and impact.** The appropriate responses for the different challenges differ greatly in scale and scope as well as in the complexity and speed of delivery.³⁸

The differences across the global commons also have **important implications for how efforts should be coordinated, and for the allocation of responsibilities across institutions.** As the system shapes the response, coordination must look at the scope of the spillovers and the nature of public goods, policies and investments needed to respond.

³⁷ These regulations often make, for example, simple distinctions between OECD and non-OECD countries or between investment-grade and non-investment-grade economies.

³⁸ Each threat may require the production of several public goods. For example, climate-related environmental threats must be met by climate change prevention and mitigation, which are pure global public goods where everyone's contribution matters, but also by adaptation and enhanced resilience to the changing climate, which involves mostly private goods or national and regional public goods. Health-related threats often require attention to the "weakest link", e.g., preventing the spread of viruses, but sometimes what matters is really the effort of one actor, e.g., to invent a vaccine or a cure for a specific disease.

While these challenges to the global commons are very real, technology has also been advancing at a rapid rate. There are **huge opportunities to make progress on a broad range of issues critical to quality of life and sustainable growth**. Environmental limits create imperatives for change, but they also spur creative thinking on how to design livable cities with citizens living healthier lives and working in high-quality sustainable jobs. IFIs have a particular responsibility in spreading innovation. Innovation in sustainable development is already generating growth opportunities.³⁹

Proposal 6a: Integrate activities in support of the global commons into the IFIs' core programs, and coordinate them within country platforms (Proposal 2).

IFIs have a critical role to play, in the context of country-based programs, in setting global standards and developing market-based approaches that would crowd in the private sector into action on the global commons. The World Bank has exercised leadership working in partnership with the private sector through, for example, the Carbon Price Leadership Coalition; and the RDBs have taken similar initiative in specific areas.⁴⁰ The IFIs should encourage the adoption of standards regarding the disclosure of risks associated with the challenges to the global commons. The 2017 recommendations of the FSB-initiated Task Force on Climate-related Financial Disclosures (TCFD) have begun to be implemented by investors and companies, supported – and in some cases required – by their governments.⁴¹

IFIs should also help countries incorporate their programs for the global commons into their growth strategies and investment plans and assist them in adopting a consistent approach across the government.

Proposal 6b: Create global platforms with the UN guardian agency and the World Bank coordinating and leveraging on the key players in each of the commons.

An effective international response to the challenges and opportunities of the global commons requires strong action within and across countries, and across the UN agencies, IFIs and other relevant bodies including philanthropies and the private sector. The current scale of activities falls far short of what is needed given the urgency and magnitude of the challenges. The **designated UN guardian institution for each of the commons and the World Bank**, which has the broadest reach among the MDBs, should be responsible for identifying gaps in the global response, such as climate change adaptation, and coordinating and leveraging on the key players. For specific commons there will be **RDBs and other stakeholders with significant capabilities that should play key roles**.

The current global efforts to tackle the challenges of the global commons have significant degrees of duplication between agencies, overcrowding in certain fields and gaps in others. We need clearly delineated roles to strengthen impact.

39 The Global Commission on the Economy and Climate, *Unlocking the Inclusive Growth Story of the 21st Century: Accelerating Climate Action in Urgent Times*, New Climate Economy, 2018, Washington DC.

40 For example, the EBRD's Green Economy Transition (GET) approach which was launched in 2015, aimed at mitigating and building resilience to the effects of climate change and environmental degradation across its sectors and countries of operations.

41 By December 2017, 237 companies, with a total market capitalization of over US\$6.3 trillion, committed to support the TCFD. Large institutional investors are also starting to disclose.



While the system must be capable of responding in a decentralized fashion, it must be more tightly coordinated to leverage the joint capacity of the IFIs, UN agencies and other development partners. The **UN agencies** have a normative function in most areas, defining goals, setting standards and providing political legitimacy. They are also in many instances first responders in emergencies and crises. The **IFIs** play different key roles, based on their comparative advantage in policy advice and de-risking, mobilizing finance, building resilience and strengthening countries' implementation capacity. The **private sector** has a crucial role to play and its collaboration with the MDB system should be strengthened. The **philanthropies**, often working with the private sector and **NGOs**, are also a source of important innovation, experimentation and establishing systems for measuring impact.

The alignment of responsibilities of each institution should be based on its comparative advantage in each stage of the 'value-chain' of activities: investments in R&D and innovation, mobilization of finance, prevention, resilience and crisis response. The illustrations below indicate the potential of collaboration leading to greater impact.

a. R&D and innovation: The IFIs together with the specialized UN agencies, should collaborate to collect data and undertake the analytical work necessary to develop early warning indicators, and prevention and resilience plans. The philanthropies with more risk absorption capacity play an important role in funding R&D and innovation.

- In response to the West African Ebola virus epidemic (2013-2016), Wellcome Trust played an important role in the development of vaccines – a risky activity which is difficult for MDBs to engage in.
- The Bill and Melinda Gates Foundation (BMGF), in partnership with the AfDB and ADB, is funding efforts to scale up financially and environmentally sustainable sanitation services for urban poor communities. The BMGF is providing grant funding to support R&D in innovative technologies, and AfDB and ADB plan to scale up deployment of those technologies that prove viable.

MDBs can contribute to scaling up innovations which have passed the initial high-risk development stage.

b. Mobilizing finance: The MDBs are best positioned to crowd in private resources into the global commons. In addition to their regular financing, MDBs should develop contingent public finance facilities and system-wide insurance instruments which are key to fast disbursement and launching support operations. Important examples are the World Bank Pandemic Emergency Financing Facility, supported by bilateral aid agencies and the WHO; and the Africa Risk Capacity, a weather-based insurance mechanism to enable food security and involving partnership between the African Union (AU), bilaterals and the World Bank. There is substantial scope to scale up such initiatives.



- c. **Prevention and resilience:** There is significant untapped potential in the combined data and knowledge of the IFIs that can be used to develop early warning indicators and design appropriate prevention and resilience programs. IFIs are also uniquely positioned to ensure that their programs and projects embed appropriate prevention, preparedness, and resilience mechanisms, including helping the most vulnerable adapt to climate change, and early and effective response to pandemics or famine. A good example is the IDB's Emerging and Sustainable Cities Program which aims at strengthening resilience by combining environmental, urban and fiscal sustainability and governance, particularly in relation to sustainable infrastructure.
- d. **Crisis response:** Intrinsic to effective crisis response is tight and speedy coordination between the IFIs, UN agencies and other development partners. The World Bank's Global Crisis Response Platform is an important element of such an integrated approach. The WHO-led, Gavi-supported, effort to combat the recent outbreak of Ebola in the Democratic Republic of the Congo is an example of how an integrated approach can effectively staunch a dangerous pandemic outbreak.

The evolving architecture for global health to combat pandemics, and anti-microbial resistance (AMR), with the WHO playing a normative role and performing a coordinating function, provides a good model for how a global platform could be structured for each of the commons (see Annex 3).

A new cooperative international order must also enable mobilization of flexible coalitions of countries and institutions around specific global or regional commons. One such initiative is the UN-World Bank High Level Panel on Water. The Bangladesh Delta Plan 2100 was launched on this common undertaking and is an example of how multilateral organizations, bilateral partners and national authorities can join forces and avoid fragmented efforts for greater long term impact.⁴² The Global Commission on Adaptation, soon to be established, is another example of how a coalition of partners can come together on a critical challenge.⁴³

Proposal 7: Integrate trust fund activities into MDBs' core operations to avoid fragmentation.

MDBs currently operate with considerable resources outside of their balance sheets, mostly in the form of trust funds.⁴⁴ These funds represent donors or coalitions of donors that are willing to provide additional financial support to achieve specific development objectives. However, **the large number of trust funds and their alternative governance structures are fragmenting MDB activities**, driving a misalignment between trust-funded activities and the MDBs' strategic objectives, and engendering administrative and operational inefficiencies. Moreover, trust fund activities can complicate and reduce country-ownership as they are generally earmarked for specific purposes and are non-fungible.

⁴² The Bangladesh Delta Plan is a long-term integrated plan that brings together programs for water and food security, economic growth and environmental sustainability. The World Bank and the Netherlands have worked together to draw on the experience of the latter and adapted to Bangladesh's need.

⁴³ The Commission is being supported by the Global Center on Adaptation and the World Resources Institute in close collaboration with other partners.

⁴⁴ The funds held in trust for the World Bank Group totaled US\$10.5 billion at end-FY17: there were 544 standard trust funds in the World Bank (IBRD/IDA) and 217 at the IFC. See *2017 Trust Funds Annual Report A Brief Overview*, March 23, 2018.



Some trust funds are achieving results in important and difficult areas, especially in situations of fragility. For example:

- The ***Global Facility for Disaster Reduction and Recovery*** – a global partnership of 400 partners – has provided just-in-time assistance to 20 countries vulnerable to climate-related hazards and helped them integrate climate resilience measures in their development strategies and programs during FY17.
- The ***Afghanistan Reconstruction Trust Fund*** – a partnership of 34 donors – channels 50 percent of all development expenditures in Afghanistan and has benefited 9.3 million people by providing access to schools and health clinics in thousands of villages across the country.

However, the MDBs must work with shareholders to ensure that trust funds do not create parallel structures, at significant cost to the efficiency and effectiveness of countries' programs and MDBs' operations.⁴⁵

There are some examples of approaches that integrate additional resources with MDBs' core operations:

- The ***Global Concessional Financing Facility***, which is part of the Global Crisis Response Platform, blends donor grant resources with World Bank non-concessional IBRD resources to provide support to refugee populations in Jordan and Lebanon.
- The ***International Finance Facility for Education (IFFEd)*** is a new initiative targeted at supplementing MDB financing for lower-middle income countries as they lose access to concessional financing.

Proposal 8: Plug shortfalls in data and research that hamper effective policymaking, especially in developing countries.

There are major deficiencies in basic social, economic and environmental data, especially in developing countries. We must address these deficiencies in order to design and implement effective national programs for inclusive growth and human capital development.

The IFIs have a unique and globally important role to play in the generation, analysis and dissemination of data (including big data) and policy-relevant research. These are true public goods that are critical to understanding and tackling global challenges, fostering sound, evidence-based approaches to economic development and meeting the SDGs. The IMF and the World Bank are ideally placed to undertake these roles, and to work closely with the UN agencies and the RDBs that play similar roles in areas related to their specific mandates.⁴⁶

⁴⁵ Currently, the World Bank is attempting to improve the efficiency and alignment of its trust fund portfolio by working with the donors to group them into umbrella-type arrangements and to take a more strategic approach in the dialogue between trust fund donors and the World Bank.

⁴⁶ The UN-WBG Strategic Partnership Framework signed in May 2018 includes a commitment by the UN and WBG to work with governments, development banks, civil society and the private sector to strengthen national statistical systems and enhance countries' digital data capacity, focussed on collection, analysis and use of data for evidence-based decision making.

With the production of data and research come a responsibility to share. The IFIs have often played a leading role in promoting transparency, but they must go further, particularly in sharing information with each other, with governments, and, wherever appropriate the public at large.⁴⁷

Proposal 9: Leverage more systematically on the ideas and operating networks of business alliances, NGOs and philanthropies.

There is significant scope to leverage on business alliances, NGOs and philanthropies to improve development impact. They contribute new ideas, grassroots perspectives, and can mobilize expertise and resources that complement those available to the IFIs. They can also enhance delivery capacity in situations where the IFIs have difficulty engaging, such as in situations of fragility and conflict.

There are numerous examples of the value created by such actors. For example:

- Self Employed Women's Association (SEWA) is a grassroots organization and movement of poor, self-employed women workers. It has grown from 30,000 to 1.9 million women as members in two decades. SEWA has worked to empower women, organized health services for the poor and been active in micro-finance. It has served as a model for unleashing technology to spark innovation and enterprise at the grassroots level.
- BRAC is a non-governmental organization to help the poor originally in Bangladesh but now with activities around the world. Through innovative, evidence-based approaches to development it has affected the lives of millions and changed both thinking and practice around development.
- The campaign for debt relief for heavily indebted developing countries around the turn of the millennium provides a powerful example of how a civil society coalition, Make Poverty History, built momentum for the IMF, World Bank and ADF's HIPC initiative that made important contributions to achieving education and health objectives.

The IFIs have begun working more with civil society and philanthropic actors. The IFIs can **leverage more systematically on their efforts and capabilities**, identify key needs and gaps, connect them with official initiatives, and provide space and co-funding for these actors to play their full roles. A key role of the IFIs in this context is to take good ideas to scale.



⁴⁷ The IDB and World Bank's joint work in the 1990s to improve household surveys and their accessibility in Latin America has been instrumental in the measurement of poverty, inequality, and their determinants.





II.

SECURING THE BENEFITS OF INTERCONNECTED FINANCIAL MARKETS: REFORMS FOR GLOBAL FINANCIAL RESILIENCE

II. SECURING THE BENEFITS OF INTERCONNECTED FINANCIAL MARKETS: REFORMS FOR GLOBAL FINANCIAL RESILIENCE

A decade after the global financial crisis, further reforms are needed to reduce the bouts of instability that set back growth, to keep countries on the path toward openness and to avert another major crisis.

*First, to get the full benefits of cross-border capital flows by strengthening support for countries in **building deeper domestic financial markets**; and developing and evolving a **framework of policy guidance** that:*

- *Enables countries to utilize **international capital flows without risks arising from excessive market volatility**.*
- *Enables domestic objectives to be achieved in sending countries while **avoiding major spillovers**.*

*Second, to create a **more robust, integrated system of risk surveillance** of a complex, interconnected global financial system, and systematically incorporate contrarian views.*

*Third, to create a **strong and reliable global financial safety net** by stitching together its fragmented layers.*

A. GETTING THE BENEFITS OF INTERNATIONAL CAPITAL FLOWS WITHOUT RISKS ARISING FROM EXCESSIVE MARKET VOLATILITY

A key goal of the international monetary and financial system (IMFS) must be to facilitate investments that allow countries to achieve their full growth and development potential, while meeting the needs of savers worldwide.

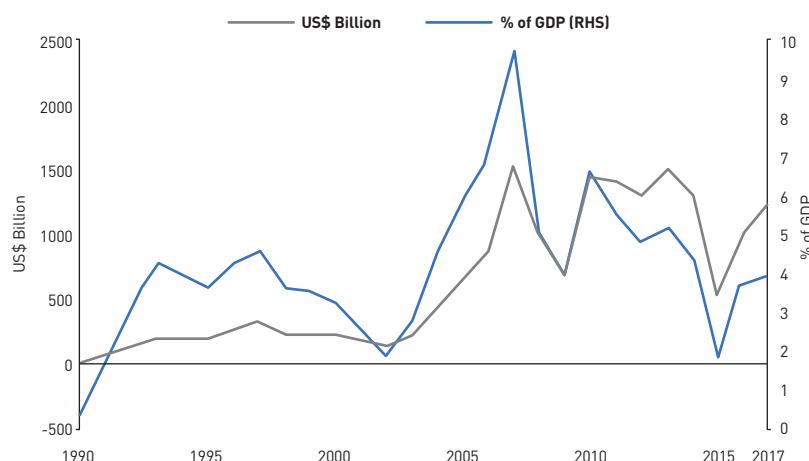
Achieving this **requires a stronger enabling environment, both domestic and international**. In particular, it requires stronger domestic financial markets in developing countries, so as to mobilize greater domestic savings as well as utilize global savings in the most productive ways, especially in long-term investments. Equally, we must find ways to mitigate excessive financial volatility, especially that associated with short-term capital flows, and reduce its effects on domestic economies.

Focusing on these two priorities will strengthen the resilience of the system, and address two pressing international challenges:

- Helping developing countries to break out of recurring cycles of instability that hamper growth: inadequate long-term investments and overdependence on short-term flows; vulnerability to sudden shifts in global risk sentiment and capital flows; and consequent instability that deter long-term investment. Reforms to the IMFS, together with efforts to strengthen countries' investment environment, must **enable developing countries to run sustainable current account deficits where they are fundamentally needed to achieve their full growth potential.**
- Enabling savers, especially in populations that are ageing and seeing extended longevity, with opportunities to diversify risks and earn reliable long-term returns.⁴⁸

The post-World War II experience of industrialized countries demonstrates that **openness, particularly to trade and foreign direct investment (FDI), has brought substantial benefits worldwide, contributing to enhanced physical and human capital and the rise in living standards.** Capital flows have also grown significantly for emerging and developing countries over the last 15 years (Chart 1) and **offer considerable potential to countries that can utilize them effectively.** In particular, FDI has been a major force in the spread of knowledge and best practices in all economies, and an effective engine for growth and development.

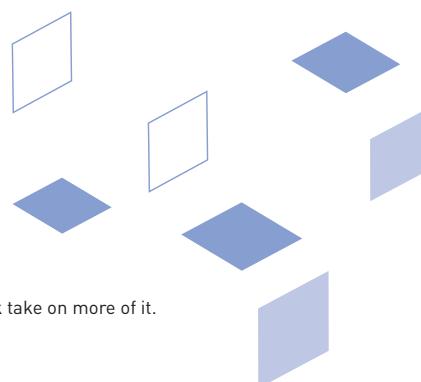
Chart 1: Non-resident Net Capital Flows to EMDCs*



Source: IMF

* This comprises FDI, portfolio investment, derivatives, and other flows, including cross-border banking flows.

48 Financial market reforms should also enable risk to be shared in such a way that those best able to bear the risk take on more of it.



Countries with deeper domestic financial markets and credible macroeconomic strategies have been best able to catalyze local and foreign financing for development, while demonstrating greater resilience to financial shocks when they occur.

However, spillovers from policies in major economies and shifts in global risk appetite have led to surges or sudden stops in capital flows, and bouts of excessive volatility in exchange rates and domestic asset markets (see Box 3). **These fluctuations can interfere with sound policy-making or lead to interventions that hurt growth.** The sources of such instability include deviations from sound policies in either sending or receiving countries for capital flows, as well as the structure and technologies of today's global markets.

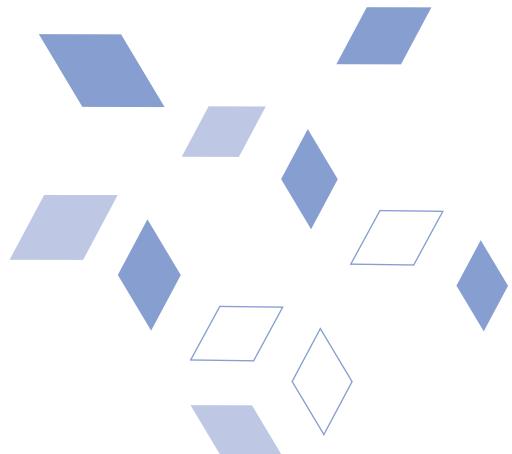
Policy thinking on the issue has often been shaped by whether one sits in sending or receiving countries. We need to move beyond this. A rules-based international framework, drawing on a comprehensive and evolving evidence base, is needed to provide policy advice through which countries seek to avoid policies with large spillovers, develop resilient markets, and benefit from capital flows while managing risks to financial stability.

The IMFS must **enable countries to benefit from international interdependence and move towards openness as a long-term goal, while managing risks to financial stability.** It needs to accommodate economies at each stage of development, and include both sending and receiving countries. In particular, it should:

- Support countries' efforts to deepen domestic financial markets, and to tap international markets while managing volatility. This would enable an ongoing liberalization of capital flows at a pace and sequence in line with a country's circumstances; the OECD's Code of Liberalization of Capital Movements, originally developed for advanced countries, offers an aspiration in this regard.
- Develop a regular dialogue aimed at building international understanding around a policy framework for **achieving domestic objectives while avoiding large adverse international spillovers** that reduce the policy space available to other countries.
- Ensure the availability of temporary liquidity support for countries with sound policies.

Proposal 10: The IFI community should strengthen and accelerate efforts to help countries develop deep, resilient and inclusive domestic financial markets.

Deep, resilient and inclusive domestic markets are critical to growth and development and must be a key priority, especially for emerging and developing economies. They help countries to better absorb capital flows and enable an efficient allocation of funds to productive uses in the real sector.

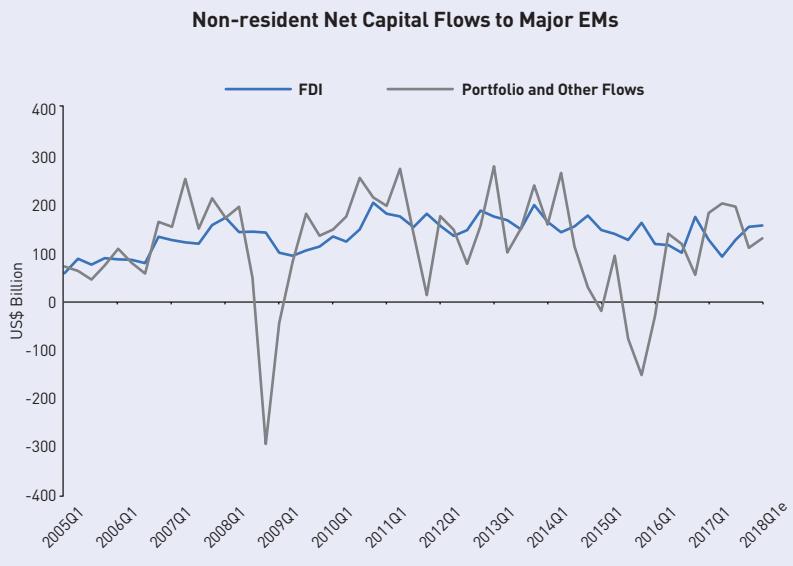


Box 3: Capital Flow Volatility in Emerging Markets

Broadly speaking, capital flows take a few predominant forms: foreign direct investment (FDI), portfolio investments and other flows which take place mainly through banks.

- FDI has been a major force in the spread of knowledge, techniques and best practices in all markets, and hence an effective engine for growth.
- Portfolio and other flows play an important role in financing investments, enhancing liquidity in financial markets and enabling risk to be hedged. However, they are significantly more volatile than FDI* (see chart) and subject to swings in global risk appetite, besides factors associated with the receiving country.

Surges and sudden stops of short-term flows can lead to sharp bouts of volatility, and may significantly reduce the room for maneuver in policy-making.



Source: Institute of International Finance

Note: Data captures the 25 largest EMs across Africa, Middle East, Asia Pacific, Emerging Europe, and Latin America.

This is particularly pertinent for emerging markets (EMs), where capital flow volatility has generally been higher than in advanced markets. Those bouts of volatility have also been accentuated by changes in market microstructures and behavior, such as the growth of exchange-traded funds (ETFs) and use of algorithmic trading. Further, while aggregate measures of EM capital flow volatility have in recent years been broadly comparable to their mid-2000s average, volatility has increased for many individual EMs, especially among some of the larger EMs.

Studies show that 'push' factors (reflecting developments in sending countries and shifts in global risk sentiment) have been playing an increasingly active role in volatility of capital flows and asset prices. At the same time, 'pull' factors (e.g. a receiving country's own policies and circumstances) still explain a significant part of why the impact of a global volatility event varies across EMs.

* Portfolio and other investments are respectively two and four times more volatile than FDI. See Pagliari, M. and S. Ahmed Hannan, *The Volatility of Capital Flows in Emerging Markets: Measures and Determinants*. IMF Working Paper WP/17/41, Feb 2017.

The IMF, World Bank and RDBs should strengthen and coordinate their efforts in partnership with national authorities to meet this need. Capacity building should give emphasis to developing policy and regulatory frameworks for:

- Sound banking, and local currency debt markets. This should include implementation of prudential regulations as recommended by international standard-setters, which will also reduce risks stemming from capital flow volatility.
- A strong domestic institutional investor base.
- An ecosystem to accelerate financial inclusion through the use of technologies.

Efforts in this regard should tie in closely with the policy recommendations of the framework described in Proposal 11a.

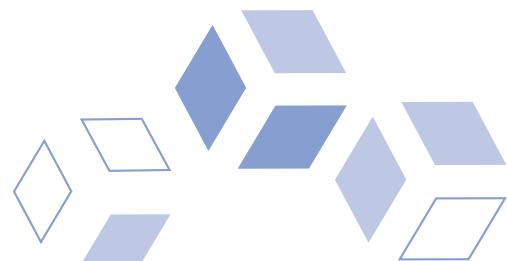
Proposal 11: The IMF's framework of policy guidance should enable countries to move toward the long-run goal of openness to capital flows and to better manage the risks to financial stability.

A more comprehensive framework of policy guidance is needed to help countries preserve macroeconomic and financial stability, and thereby enable them to make consistent progress towards openness. Experience has shown that countries will only remain on such a path if they can manage episodes of excessive volatility in capital flows and exchange rates and protect domestic financial stability. A framework of policy guidance should help them prevent the build-up of risks in normal times, and to avoid market disruptions and contagion during times of stress.⁴⁹

Proposal 11a: Develop evidence-based policy options to enable countries to benefit from capital flows while maintaining financial stability, and to provide assurance to the markets that measures taken are appropriate.

The IMF's Institutional View should evolve and be extended by bringing several assessments and elements of policy advice together:

- A comprehensive understanding of the drivers of capital flows and their interaction with monetary, exchange rate and macro-prudential policies.
- A reliable assessment of the receiving country's **capital flows at risk and macro-financial stability.**



⁴⁹ While the proposed framework subscribes to a gradual and appropriate liberalization of the capital account in line with country circumstances (i.e. a time-dependent path towards openness), it equally emphasizes the need for appropriate measures at each stage if financial stability is at risk (i.e. state-dependent policy actions), with the objective of returning to the original path of openness after pressures have receded.

- An **assessment of ‘push factors’ from sending countries**, especially with regard to the cyclical context and possible reversals.
- The Article IV process should develop policy options from the above assessments on how countries can absorb capital flows to mutual advantage, building on evidence on the effectiveness of various tools and instruments, including in particular macro-prudential policies. These options should be updated regularly so that a country has a readily available menu of options in the event of sudden financial pressures.

Over time, adopting such a framework would aim to achieve broad international acceptance. It should also aim at providing assurance to the markets when countries are pursuing a policy mix consistent with the framework.

Proposal 11b: Develop an understanding of policy options that enable sending countries to meet domestic objectives while avoiding large adverse international spillovers.

We need an internationally-accepted policy framework that enables sending countries to **adopt their own policies to meet domestic objectives (in some cases set by legislative mandates), while avoiding large international spillovers that reduce the policy space available to others**. The framework should evaluate the different domestic policy options with regard to their interactions with capital flows, exchange rates and shifts in global risk appetite. **This includes how different policy mixes – including monetary, fiscal and macro-prudential policies – have different implications for international spillovers.**

This remains a vexing issue in the IMFS. **While ambitious, the importance of such a framework for sustaining support for an open international system cannot be overemphasized.**

The IMF should develop this framework, with inputs from national authorities and the BIS. This can be an extension of the IMF’s work on spillovers, and integrated into Article IV consultations for systemic countries.

The policy framework should evolve with evidence and experience. The global adoption and evolution of prudential standards, supported by the G20 and driven by the FSB, is a successful example. Notably, the Basel, IAIS and the IOSCO frameworks – while not mandatory – provide a benchmark to assess the adequacy of financial institutions’ buffers in different countries. Peer and market judgments act as a disciplining device when countries depart from such a framework.

We must build on existing initiatives to develop the needed international framework as described in Proposal 11. The IMF’s Institutional View has been developed to address issues of capital flow volatility and has taken into account countries’ experiences. The Institutional View should evolve and be extended to include:

- The objective of enabling countries to move toward the **long-run goal** of openness to capital flows at a pace and sequence in line with country circumstances, while managing risks to financial stability.

- A more comprehensive framework for evaluating capital flows, including the incorporation of **assessments of capital flows at risk, exchange rate policy, and macro-financial stability** into policy recommendations. It needs to support countries' efforts to derive the benefits of maintaining consistent progress on a path to openness, by advising them on the most effective options for managing excessive short-term volatility and its consequences.⁵⁰

The evolved and extended Institutional View should also be complemented by the development of a policy framework that enables **sending countries** to meet their domestic objectives while avoiding significant adverse international spillovers.

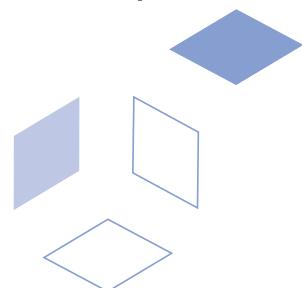
A further need in the global financial architecture is temporary liquidity support for countries with sound policies. Increasing financial interconnectedness has also exposed more economies to significant fluctuations in liquidity, capital flows and risk appetite influenced by global factors, which could reduce their policy space. Evidence shows that flexible exchange rates provide only partial insulation from such fluctuations. **Policy makers from emerging economies with sound policy frameworks have hence had concerns that in the absence of predictable sources of international liquidity support, they need to build up further reserves or adopt other policies that will hurt growth.**

The liquidity facility should be designed to support good policy-making in countries, and help to reduce incentives to accumulate excessive precautionary reserves. It should also be accessed only in the event of liquidity shocks of a global or regional nature and for a short duration.

The key features of the liquidity facility are set out in Proposal 15.

The IMF's formal mandate, established in an era when capital flows were small, includes only the current account. On the other hand, the OECD, which has a formal mandate to guide country policies on capital flows, does not have universal membership. There is hence no institution with universal membership that has a formal responsibility to guide countries' policies on capital flows. This is a lacuna in global financial governance, in a world deeply interconnected by finance, not just trade.

Over the long term, as the IMF and international community build up experience with the proposed framework (Proposal 11), and **once there is strong international acceptance developed around its policy advice on capital flows, the goal should be to bring the IMF's formal mandate up to date** to include its role with regard to capital flows.



⁵⁰ As well as an integrated repository for the assessments and advice as set out in Proposals 11a and 11b.



B. STRENGTHENING RISK SURVEILLANCE TO AVOID THE NEXT MAJOR CRISIS

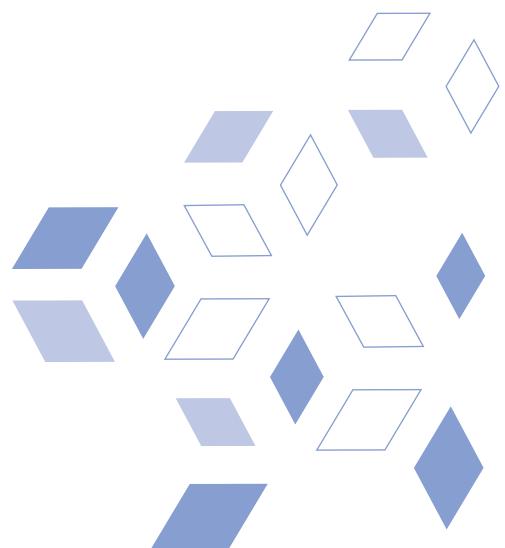
We will not know where the next crisis will start from. But it will become a full-blown crisis, with broader global consequences, when we are not prepared for it. It is therefore critical that we strengthen our ability to detect risks early, and anticipate how they can be transmitted through a complex and highly interconnected global financial system, so that we can contain them before they escalate.⁵¹

The official community did not see the Global Financial Crisis (GFC) coming. While the IMF, FSB, BIS and major central banks and regulators have significantly expanded their surveillance capacities, much remains to be done to avert the next major crisis. We should seek to fill the remaining gaps as a key priority, especially in view of current elevated debt levels as well as asset prices, and the prospective tightening of monetary conditions.

Further, the complexity and interconnectivity of the system are continually evolving – with changing business models, new players spread out more widely geographically, and new technologies. Given this rapidly changing landscape, **no one international body – the IMF, FSB or the BIS alone – can have a comprehensive grip on the risks in this system. However, existing responsibilities for global financial stability are still too diffused**. The last crisis illustrated the consequences.⁵²

Proposal 12: Integrate the surveillance efforts of the IMF, FSB and BIS in a coherent global risk map, while preserving the independence of each of the three institutions' perspectives.

Effective and integrated global surveillance and risk identification will reduce the likelihood of future crises. We must bring the distinct lenses of the IMF, FSB and BIS together, while retaining their comparative advantages – the IMF on economic and macro-financial risks, spillovers and sovereign vulnerabilities; the FSB on financial system vulnerabilities, including the effects of regulatory adaptations and resulting incentives; and the BIS on global flows and market infrastructure. Illustrative contributions by the three institutions are sketched in Annex 4.⁵³



51 The mandate of the EPG excluded review of prudential regulation. However, the issues we address include the IMF's relationship with the FSB and the BIS in the surveillance of risks and in responses aimed at averting future crises.

52 For example, in the run up to the GFC, the risks associated with a widened regulatory perimeter exploiting cross border regulatory arbitrage were under-appreciated. As a consequence, shocks in the US transmitted rapidly to Europe especially to countries intermediating in US\$. Contagion spread further as banks liquidated US\$ positions globally affecting US\$ liquidity in emerging markets. The BIS had pointed out the cascade relatively early, but the root causes were missed by the Financial Stability Forum (the predecessor to FSB), and the IMF was late in recognizing the spillover channels to countries globally.

53 The roles described in Annex 4 reflect the comparative advantages of the IMF, FSB and BIS in the various dimensions of risk identification. They are purely illustrative and not intended to be confining.

The three institutions should develop jointly a global risk map that is continually updated and incorporates the interactions between:

- Underlying macroeconomic and financial conditions, and policy spillovers.
- The emergence of technology-enabled risks to financial stability⁵⁴, and their implications for an evolving regulatory perimeter.
- Changes in business models of bank and non-bank financial intermediaries⁵⁵.
- Shifts in the structure of capital markets that may lead to greater pro-cyclicality or reduced ability of markets to prevent large drawdowns.⁵⁶
- The implications of the above for capital flows and their volatility.
- The impact of these developments on market infrastructure (e.g. payments, settlement systems and clearing depositories).

These interactions generate risks that only joined-up surveillance can capture. The global risk map would highlight a range of risks and possible pockets of vulnerability with the potential of leading to new crises.

A joint team from the three institutions – taking inputs systematically from various official⁵⁷ and non-official sources but remaining independent in its analysis – should be tasked with developing and continually updating the global risk map. **Critically, the process must preserve the independence of the three institutions' own assessments and staff views**, including the appropriate flagging of risks identified by each of them. It must avoid converging on a diluted consensus.⁵⁸ While the integrated global risk map would help to synthesize the risks identified by the three institutions, it would also be useful if the joint assessment highlights any differences in perspectives of the three institutions.

Proposal 12a: Incorporate non-official and contrarian views systematically for more robust risk surveillance.

Conventional official wisdom has tended to be behind the curve, particularly in detecting major disruptions in the global financial system. The last crisis was a case in point, where it was the minority view that warned of the coming disruption. Furthermore, given the complexity and decentralization of today's global financial system, a systematic way of tapping market views and intelligence on potential disruptions is required.⁵⁹ The surveillance framework in Proposal 12 should seek out such views.

⁵⁴ Examples include potential risks arising from high-frequency financial market activity; the growing use of artificial intelligence; crypto assets and new payment mechanisms; and cyber intrusions.

⁵⁵ This also includes studying if/how the differential speed and approaches to meeting the reforms in countries create opportunities for arbitrage by financial institutions (e.g. booking transactions from one jurisdiction to another).

⁵⁶ For example, the shift from active to passive or trend-following investment models; the increased sectoral concentration in major equity indices; and reduced market making liquidity.

⁵⁷ In particular, inputs from the FSB Plenary and the IMF's WEO and GFSR. Inputs from the money-center central banks should also be sought.

⁵⁸ To overcome institutional arrangements pertaining to confidentiality and disclosure, which currently pose a hurdle to systemic risk monitoring, robust protocols for knowledge and data-sharing need to be developed – with source authorities and the IFIs – on how to handle these concerns.

⁵⁹ Opportunities also exist to seek inputs from regional systemic risk boards that have evolved since the GFC.

Proposal 13: Build on the IMF-FSB Early Warning Exercise (EWE) to ensure policy follow-up from the global risk map.⁶⁰

The IMF-FSB EWE should provide the home for policy discussion of global risks among Ministers and Central Bank Governors.⁶¹

Following from the global risk map (developed through Proposal 12), the EWE should bring together a discussion of risk drivers and outcomes, to raise awareness of both major conjunctural risks and tail risks in the global system. Most importantly, it would facilitate discussions about policy directions and concrete actions to mitigate the key risks and vulnerabilities flagged. Where possible, distinction should be made between risks that require national attention and those that warrant coordinated international efforts, including through further collaboration between the IMF, FSB and BIS.

The exercise should retain the EWE's closed-door nature, which allows for sensitive assessments and discussion among principals. This will help avoid the risk of triggering market reactions that become self-reinforcing. Nonetheless, in the interest of transparency and accountability, after an initial period the institutions should assess options for disclosure – for example, around the risks identified and recommendations made. This should be in addition to other inputs to the global risk map that are already published.⁶²

The IMF should continue to cooperate closely with other relevant bodies, especially the OECD and the Financial Action Task Force on Money Laundering (FATF), to tackle the challenges to the integrity of the global financial system. The **threats posed by tax evasion, money-laundering and terrorism financing are ever-present**. Further, they could **interact with cyber-security risks, and innovations that may not be negative in themselves such as new payment platforms and crypto assets**, but together bear close watching and could require tighter global governance in the future.

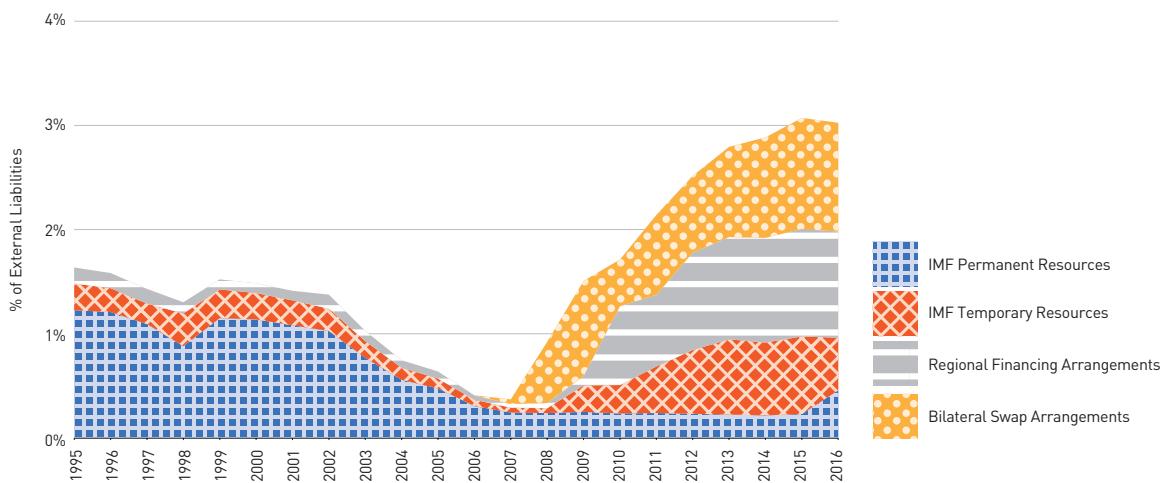
C. STITCHING TOGETHER THE FRAGMENTED GLOBAL FINANCIAL SAFETY NET

Sustaining openness and policies aimed at global growth requires a more predictable global safety net, in which various layers cohere, based on a clear articulation of roles and responsibilities and viable safeguards. Resources should also be adequate and responsive to different stress situations, including systemic global crisis episodes. **We do not currently have this safety net.**

⁶⁰ Since the Annual Meetings of 2009, the IMF and the FSB have collaborated in a biannual EWE. The EWE largely assesses low probability but high impact risks in the global economy and financial system and has been extremely useful in raising awareness around tail risks. Given the type of risks identified, policy recommendations do not always fall within the policy realm of IMFC members. There is also limited continuity in topics over time.

⁶¹ Current collaboration between the IMF and the FSB is based on a Joint Letter between the Managing Director of the IMF and the Chairman of the Financial Stability Forum in November 2008.

⁶² As prospective inputs to elements of a Global Risk Map, the IMF currently publishes its GFSR, WEO, ESR, Fiscal Monitor and Article IVs. The CGFS of the BIS publishes various reports on potential sources or stresses in global financial markets, while the BIS itself also hosts public data platforms on global financial flows including by currency. The SCAV of the FSB periodically publishes reports on risks and vulnerabilities in the financial system.

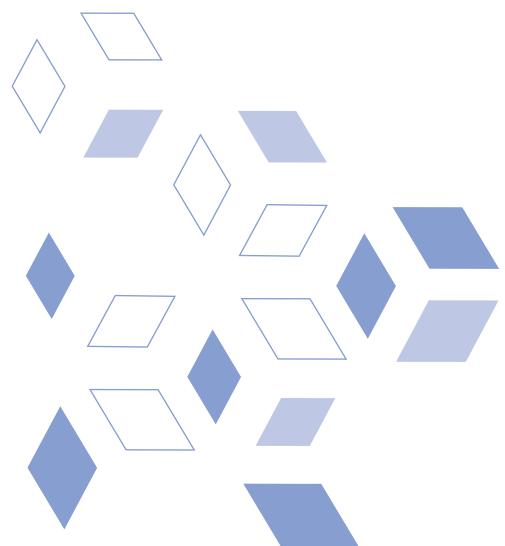
Chart 2: Evolution of the GFSN

Source: IMF and Bank of England

In the last decade, a **multi-layered safety net has evolved** arising from growth of country reserves, bilateral swap agreements (BSAs) and regional financing arrangements (RFAs) (see Chart 2). However, the **current decentralized structure has several key shortcomings**:

- **The safety nets are highly uneven in scale and coverage across regions.** About 70 percent of global RFA resources are concentrated in the Euro Area, which has a political underpinning and a common currency that allows the RFA to function quickly and effectively. Other RFAs lack similar underpinnings. There are also large regions which have no access to RFAs, or on any adequate scale.
- **Much of the GFSN's growth has comprised of BSAs and RFAs which have not been crisis tested,** and are subject to conditions prevailing in providing countries and regions. The RFAs and BSAs also do not cover several systemically significant countries.⁶³
- **The system as a whole lacks the necessary coordination** to effectively use its aggregate financial capacity.

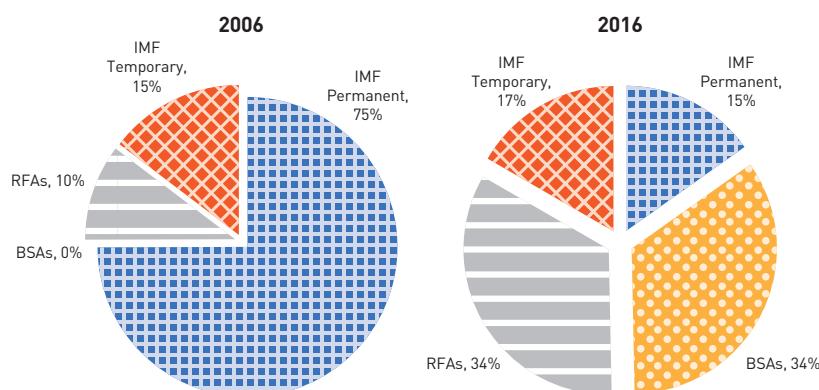
It is therefore critical to have a strong and reliable global layer in the GFSN in place before the next crisis.



63 The jurisdictions with systemically important financial sectors are: Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Hong Kong SAR, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Norway, Poland, Russia, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

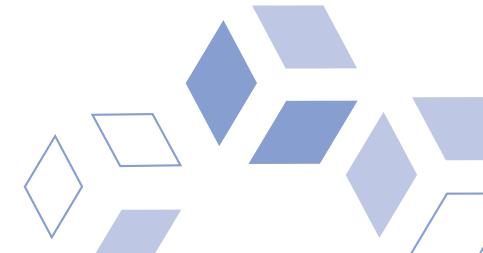
The IMF provides this key **global layer** in the GFSN. The **IMF's permanent resources (i.e. quotas), supplemented by standing borrowing arrangements (i.e. NAB) should meet the needs of balance of payments crises and contagion episodes in most circumstances** and enable the IMF to perform its role as the lender of last resort.⁶⁴ Quota and NAB resources thus form the first and second “lines of defence” of the IMF.⁶⁵ The IMF also raised bilateral borrowings in the wake of the GFC as a third “line of defence”. These combined resources at the IMF equalled 90 percent of total GFSN resources before the GFC and fell to one-third of total GFSN resources in 2016.⁶⁶ (See Chart 3.) **When the current bilateral borrowings expire, the IMF's resource base would fall short of the needs of the global layer of the GFSN that it provides.**

Chart 3: Share of IMF Resources Before and After the Global Financial Crisis



Source: IMF and Bank of England

Proposal 14: Stitch together the various layers of the GFSN to achieve scale and predictability.



It is crucial to stitch together the various layers of the safety net well before any major crisis occurs and resources are needed. Effective governance arrangements should encourage **sound country policies, and, under specified circumstances, effect joint use of financial resources**. A properly designed system, applied in an even-handed manner, can avoid moral hazard, minimize contagion⁶⁷ and avoid excessive self-insurance.

⁶⁴ While respecting existing lending policies including the Exceptional Access Framework.

⁶⁵ The proposed liquidity facility (Proposal 15) would also fall under this category.

⁶⁶ The IMF's financial resources today are about US\$661 billion from quota subscriptions; about US\$253 billion from the NAB; and, approximately US\$450 billion in bilateral borrowings that expire in 2020.

⁶⁷ Coordination during the 2013 IMF program in Cyprus and the engagement of the European Commission and the ESM was deemed exemplary, guided by the 2011 G20 Principles for Cooperation between the IMF and RFAs and building on lessons learnt from preceding European crisis programs. Coordination benefitted from important complementarities such as knowledge for immediate crisis support on one hand and a longer term structural agenda on the other hand, as well as appropriate burden sharing.

No one design will fit all regions. However, a clear assignment of responsibilities between the IMF and each RFA and protocols for joint actions are needed to make the GFSN effective.⁶⁸ Work has already begun and should be concluded urgently, respecting key principles as follows:

- When macroeconomic adjustments and reforms are necessary, the **GFSN must agree on appropriate ex-post conditionality** and avoid postponing adjustment.
- In case of a **temporary liquidity need**, without conditionality, the provisions outlined in Proposal 15 would operate.
- **IMF is the most credible and independent party to lead in making these assessments.** It alone conducts macro-financial surveillance at a global level and bilateral level, and operates financing facilities which places it in a unique position to provide required assessments.

Proposal 15: Establish a standing IMF liquidity facility to give countries timely access to temporary support during global liquidity shocks.

It is critical that we build and achieve consensus on a 'standing' global liquidity facility, drawing on IMF permanent resources (see also Chapter II, Section A). Without a reliable liquidity facility, countries will build up excessive reserves, which will hamper global growth. Timely access to such a facility would also strengthen countries' ability to withstand liquidity shocks and avoid a deeper crisis.

The facility will provide predictable support to, in line with the IMF's normal access policies, a set of countries that have been qualified in advance at their request.⁶⁹ In the design of this revolving facility, the IMF needs to ensure that: (i) lending decisions follow a separate process rather than being part of an Article IV discussion, thereby maintaining the integrity of the surveillance process; and (ii) the IMF does not act as a de facto rating agency.⁷⁰

This process would give a broad set of countries with sound policies timely access to temporary liquidity support, without the need for protracted negotiations with the IMF. The ability of a country to do so is critical in dealing with 'IMF stigma'.

Proposal 15a: Use a country's qualification for the IMF's liquidity facility in considering the activation of RFA support.

A stitched together GFSN could include parallel activation of temporary liquidity facilities by the RFAs, which would:

- Leverage each other's resources to substantially increase the capacity to support their respective membership.

⁶⁸ This work should build on ongoing cooperation efforts such as the regular dialogue between IMF and RFAs on test runs, exchanges of experiences, and work on the consistency of intervention modalities.

⁶⁹ Assessment of re-qualification will be done annually.

⁷⁰ Unlike a rating agency, all countries would not be assessed unilaterally and the assessment process would be kept confidential thereby protecting those countries that either did not qualify or expressed an interest to join.

- Involve a regional layer to address ‘IMF stigma’ concerns, and thereby encourage countries to access support more promptly.
- Promote common operating protocols and hence improve speed of crisis response.

Proposal 16: Enable the IMF to rapidly mobilize additional resources in large and severe global crises.

There is a critical need to plug the gap in the GFSN with regard to future crises of a systemic, ‘tail risk’ nature. This requires exploring the possible **temporary mechanisms** through which the international community can **rapidly** access a significant amount of liquidity to ensure or restore financial stability.

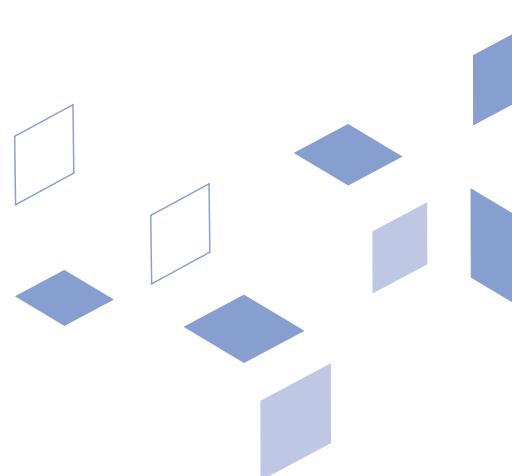
During the last GFC, around US\$500 billion were deployed through the US Federal Reserve’s liquidity swaps with selected central banks. These interventions were critical in ensuring the integrity of the global US\$ payment system and in calming global markets – although the majority of emerging market economies did not directly benefit from them. Importantly, **such actions cannot be taken as assured in the future.**

Furthermore, in response to a joint call by the IMFC and G20, **a significant group of countries pledged US\$450 billion to temporarily augment IMF resources** during the crisis. Participation was not universal. This option of bilateral borrowings for future major crises will require swift mobilization.⁷¹

There are other solutions that should be explored to enable the IMF to **swiftly mobilize** resources **on the scale required** to ensure global stability in the event of a major, systemic crisis. The illustrative options are described in Annex 5.

However, while these options are feasible in financial terms, they pose governance and policy challenges (as identified in Annex 5), on which there are differing views. A period of **consensus building** within the international community will be required for them to be overcome. Consequently, **the EPG is not making a proposal for immediate endorsement.**⁷²

Given the significance of the reforms proposed in this chapter and the key roles of the IMF in effecting them, the **IMFC should be regularly updated** on the status of their implementation and challenges faced.



⁷¹ This temporary financing round was launched in April 2012. Pledges by lending countries were received in June 2012 and the first set of agreements came into effect in October 2012. In August 2016, the bilateral borrowings were extended to end-2019, with the option for a further one-year extension.

⁷² In similar vein, the option of coordinated central bank swap lines has been assessed to be not feasible at this stage, and is not being considered.





III.

THE G20 AND THE IFIS: MAKING THE SYSTEM WORK AS A SYSTEM

III. THE G20 AND THE IFIS: MAKING THE SYSTEM WORK AS A SYSTEM

*The role of the G20 in the global financial architecture should be reset. It should **focus on developing political consensus on key strategic issues and crisis response**. This requires freeing up space from its current crowded agenda and devolving work to the IFIs.*

We need governance to ensure the system works as a system:

- **Implementing the system-wide reorientation in development finance.** A G20-led group, including key non-G20 stakeholders, should steer these shifts over the next three years, before handing the coordinating role to the IFI Heads. These should include achieving complementarity among multiple institutions (multilateral, regional and bilateral) and establishing a clear system of metrics to track impact and value for money.
- **Addressing development challenges early.** A biennial strategic dialogue, building on existing IFI fora, should bring together the IFIs and other key stakeholders to identify future development risks before they create lasting damage, and assess the adequacy of collective responses.
- **The governance reforms to foster global financial resilience** require the IMF to play a key role, in interaction with other institutions that are integral to the international monetary and financial system, and with regular updates to the IMFC.

*Governance reforms within the IFIs themselves should cut back on today's significant overlap between Board and Management responsibilities. They should enable **Boards to focus more on strategic priorities, and empower and hold Management accountable for outcomes**.*

Governance of the system of IFIs requires **two significant step-changes – to ensure coherence and synergies in a more diverse and decentralized world, and to achieve a critically needed shift in business models to catalyze private investments and enable greater development impact**.

We are not taking off from a standing start. However, while progress is being made to align initiatives and operations to the new priorities, the weight of legacy business models remains substantial. There has also been an **accumulation of governance in the wrong areas** – resulting in overlapping responsibilities and inefficient decision-making – **taking attention away from governance of strategic issues**. Given the scale and urgency of needs identified in previous chapters, **decisive shifts in governance are needed to drive a system-wide re-orientation**.

There is also a need to reset **the role of the G20 in global financial governance** to make more effective use of its core strengths, avoid duplication of work, and maximize the effectiveness of the system as a whole.

Our proposals pertain to three broad sets of changes:

- **The role of the G20** in developing forward-looking thinking and on global financial governance and crisis responses.
- **Governance of the IFIs as a system**, so that they collectively deliver much more than the sum of their individual contributions.
- **Governance within IFIs**, in particular streamlining responsibilities for Executive Boards and Management to ensure effectiveness and outcome-driven oversight.

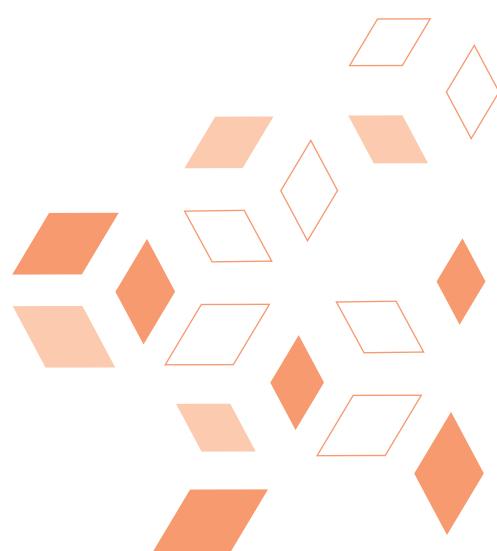
A. THE ROLE OF THE G20 IN PROVIDING FORWARD-LOOKING STRATEGIC GUIDANCE IN GLOBAL FINANCIAL GOVERNANCE

The **G20 can be a powerful impetus for change**, in particular during crises or imminent crisis situations, with an ability to respond more quickly to major strategic challenges than the individual institutions are often able to. Members also have an equal standing within its consensus-based setting, which gives the G20 added credibility in a multipolar world. The G20 has used these leadership advantages to promote change in several important areas since the global crisis, for example in strengthening financial regulation via the FSB and achieving tax transparency via the OECD.

However, the governance relationship between the G20 and the IFIs is key to effective global financial governance. The G20 does not have universal membership. Unlike the treaty-based organizations, it is also not legally constituted to deliver on decisions. It has to work in coordination with the IFIs and other international organizations to advance many of its aims.

As for the G20 itself, it is widely felt that **the weight of its legacy agenda and the significant expansion of its activities over time have made it increasingly difficult to focus on strategic issues**.

Important steps were taken this year by the Argentine Presidency to gather G20 members' views on the way forward for the Group's agenda. **Our proposals follow in that spirit.**



Proposal 17: The G20 should refocus on a multi-year, strategic agenda, rationalize workstreams, and devolve more work to the IFIs.

Over time, the number of G20 workstreams and the frequency of meetings have grown substantially⁷³ (see Table 1). In addition, the growing G20 agenda and activities have overlapped with the governance of the IFIs. **The accumulation of initiatives and activities risks crowding out issues that require the G20's strategic guidance** – those where governance hurdles in the system need to be overcome, and where decisive shifts can only be implemented when they are effected across institutions, not just in individual institutions.

The G20 needs to **refocus on strategic global goals while leveraging more on the IFIs and other international organizations**.

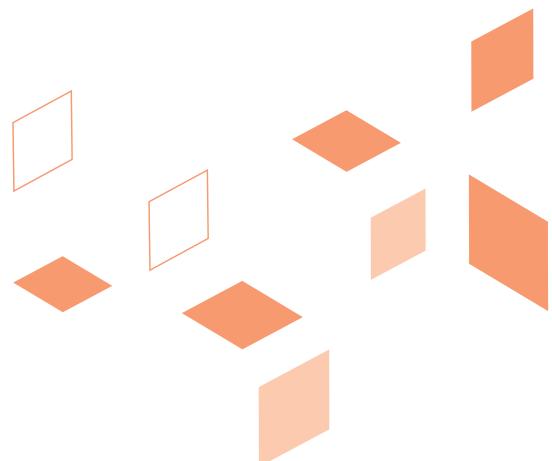
In keeping with this objective, **a two-tier system within the G20 could be sufficient for most purposes, comprising Ministerial meetings focused on strategic challenges and Deputies' meetings to support the former and ensure follow through**.

- **Ministerial meetings should refocus on critical strategic issues and emerging threats that require international coordination.** One to two meetings of FMCBGs per year may be adequate in normal times, with further meetings if crisis circumstances require.
- With the tasks of the work streams devolved to IFIs and other competent bodies, **two meetings of Deputies per year should be the norm**.

Much of the work being done in working groups can and should be devolved to the IFIs, individually or jointly, in accordance with their mandates and comparative strengths, together with establishing a process of exchange between the institutions and the G20.

However, from time to time, to drive major new system-wide initiatives, the G20 might need to constitute a Working Group. Such groups should always be time-bound. **The G20 should in such situations have the explicit aim of running the first leg and passing the baton to an existing institution within a three-year period.**

While our proposals are, in keeping with our mandate, focused on global financial governance, we note that they may have relevance to the rest of the G20's work.



⁷³ From 2009, G20 Finance Ministers and Central Bank Governors (FMCBGs) have met four times a year on average. There have been similar increases in other Ministerial meetings: 50 meetings involving G20 working groups and task forces took place in 2016 – 20 within the Finance Track – compared to a total of three working group meetings in 2009.

Table 1: G20 Meetings Over Time⁷⁴



⁷⁴ Estimates of the number of meetings during the early Presidencies (2008-2011) are based on available data.

B. GOVERNANCE OF SYSTEM-WIDE REFORMS

Achieving greater development impact

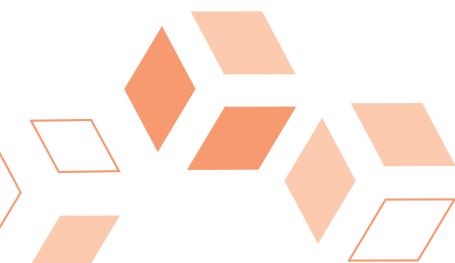
Governance of the IFIs as a system should be focused on **ensuring coherence and synergies in a more diverse and decentralized world, and on collectively catalyzing private investments, so as to enable greater development impact.**

Proposal 18: A G20-led group, with representation from key non-G20 constituencies and the IFIs, should steer the reorientation of development finance over the next three years before handing the coordinating role to the IFI Heads. This should include building complementarity among all development partners, and a clear system of metrics to track impact and value for money.

An effective forum is required to ensure this major reorientation of the system of development finance. However, there is currently no effective forum with universal membership that has a system-wide remit in development and that can steer the important shifts to ensure coherence and complementarity among the IFIs as well as with other major development partners. The G20, which has a system-wide focus as a result of major countries being represented in the Group, does not have universal membership. The Development Committee (DC), which has universal membership, primarily focuses on one institution.

It will require dedicated steering over three years to move to this new development landscape, building on current initiatives in the IFIs, and to establish the appropriate systems and metrics to ensure continuity of the reforms beyond that period.

A G20-led group of Deputies, with representation from key non-G20 constituencies and the IFIs, reporting periodically to Ministers, is the most effective way to fill this gap over the next three years before handing the coordinating role to the heads of the IFIs. **A G20-led group is best placed to effect coordination among member countries who are stakeholders in multiple institutions: multilateral, regional and bilateral.** In addition, the proposed group should include representation from the RDBs and **major providers of bilateral development finance that are not G20 members.** Consideration should also be given to include the Chair of the International Development Finance Club, which comprises major DFIs.



A key task of this group would be to propose **system-wide objectives, milestones, and associated metrics to evaluate progress** (see Annex 6 for illustration).⁷⁵ It should focus on:

- Strategic guidance on the **risk appetite** appropriate to IFIs' roles in achieving development impact.⁷⁶
- Stronger **system-wide collaboration**, including through country platforms which leverage on the strengths of all development partners, and convergence around core standards.
- The shift in MDB **business models** and mobilization of private finance.
- Metrics of **value for money** to ensure that the MDBs, individually and collectively, are achieving the best value for their clients, shareholders and other stakeholders.⁷⁷

Proposal 19: A biennial strategic forum convened by the IMFC and DC⁷⁸ should identify development risks before they manifest, and the required collective responses.

We have to **do better in anticipating risks to development before they manifest, spiral across countries and create lasting damage**. There are repeated instances where we have failed to do so in the last few decades.

It is also essential that Finance Ministers be engaged in addressing these risks. A **biennial dialogue on a Global Development Risk Map should be convened jointly by the IMFC and DC** (who together represent 25 constituencies), and include representatives from IFIs, the UN Development System, key civil society and philanthropic players, and the private sector. The Global Development Risk Map⁷⁹ should be prepared by a joint secretariat from World Bank and the IMF, in cooperation with the RDBs. The risk map would look at emerging trends and challenges and should also include insights from the system-wide metrics to be developed. The risk map should enable stakeholders to assess the adequacy of responses and the future collective effort required.

Achieving global financial resilience

Chapter II has set out reform proposals on fostering global financial resilience in three interdependent areas, including: (i) getting the benefits of capital flows without risks arising from excessive market volatility; (ii) strengthening risk surveillance for a more complex and interconnected global financial system; and (iii) creating a strong and reliable global financial safety net (GFSN). For ease of reference, the governance imperatives stated in Chapter II are summarized below.

⁷⁵ The July 2018 report by the Joint MDB Task Force on a harmonized framework for additionality is a useful development, in addition to the earlier work of the DFI Working Group on Blended Concessional Finance for Private Sector Projects. Further work needs to be done to establish common indicators to enable evaluation of system-wide progress and comparison between IFIs.

⁷⁶ Particular attention is needed with regard to the IFIs' roles in states with features of fragility. In such an environment, taking on higher risks to kick-start investments and mobilize resources could lead to higher development impact and potential returns over time, as is being attempted by IDA's private sector window, for instance.

⁷⁷ The G20 IFA working group has developed a framework for measuring value for money. The value for money concept includes measures of the MDBs' efficiency in achieving their strategic objectives, including their engagement in fragile states.

⁷⁸ The International Monetary and Financial Committee (IMFC) and the Development Committee (DC) of the World Bank and IMF.

⁷⁹ This should be viewed broadly to include risks to development progress and risks of missed opportunities.

On capital flows. First, **the IMF, World Bank and RDBs** should accelerate efforts to help countries develop **deep, resilient and inclusive domestic financial markets**. Second, the IMF's framework of policy guidance should enable countries to move toward openness as a long-term goal, at a pace and sequence that enables them to preserve financial stability, and to manage episodes of excessive volatility. This involves (i) **evolving and extending the IMF's Institutional View** to integrate an assessment of a country's capital flows at risk and macro-financial stability, the cyclical context of 'push' factors from sending countries, and evidence on the effectiveness of various instruments, as a basis for developing policy options for receiving countries; and (ii) the IMF complementing this by developing a **policy framework** that **enables sending countries to adopt their own policies to meet their domestic objectives while avoiding large adverse spillovers**. The IMF should develop this with inputs from national authorities and the BIS. Third, we must achieve consensus among shareholders to put in place a **standing IMF liquidity facility**.

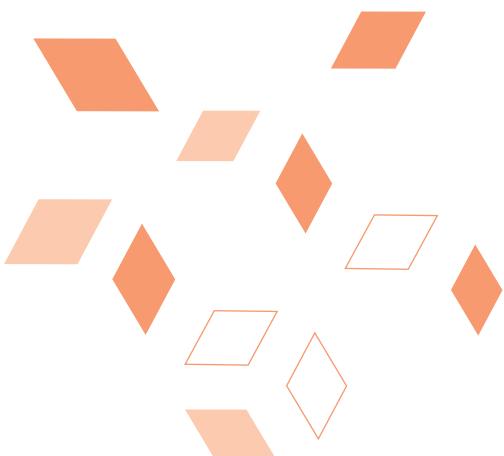
The IMF's formal mandate, established in an era when capital flows were small, includes only the current account. Over time, as the IMF and international community build up experience with the proposed framework, and once there is strong international acceptance developed around its policy advice on capital flows, the **long term goal should be to bring the IMF's formal mandate up to date to include its role with regard to capital flows**.

On risk surveillance. **The IMF, FSB and BIS should integrate their surveillance efforts in a coherent global risk map, while preserving the integrity of the three institutions' perspectives.** A joint team from the three institutions should take inputs from various official sources including the money-center central banks, as well as from non-official sources. **The IMF-FSB Early Warning Exercise should provide the home for policy discussions and resulting follow-up.**

On the GFSN. Timely conclusion of IMF quota reviews is necessary to ensure an adequately-resourced global layer of the GFSN.⁸⁰ Further, the **IMF and the RFAs** should intensify their work to establish a **clear assignment of responsibilities and protocols for joint actions**, so as to create a stronger and more reliable GFSN. This includes discussions on coherence of ex-post conditionality in adjustment cases, the determination of liquidity needs, and the possible signaling role of an IMF liquidity facility.

Further, in addition to the needed strengthening of its permanent resources, **the IMF should explore temporary mechanisms to swiftly mobilize resources on the scale required to ensure global stability in future crises of a large, systemic nature.**

Given the significance of these three sets of reforms and the key roles of the IMF in effecting them, the **IMFC should be regularly updated** on the status of their implementation and challenges faced.



⁸⁰ The International Monetary and Financial Committee (IMFC) has called on the IMF Executive Board to work expeditiously towards the completion of the 15th General Review of Quotas by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019.

C. GOVERNANCE WITHIN IFIs

The governance of IFIs themselves has to be brought up to date. The IFIs should each develop a framework to streamline the roles of the Executive Board and Management to avoid overlaps, and ensure clarity of responsibilities and accountability on the part of each.

Current governance arrangements are tailored to an era of traditional banking operations and need transformation. There are well-established regulatory and supervisory standards with regard to corporate governance within banks. Current IFI governance structures and processes do not accord with these established standards and require transformation.⁸¹

Key priorities in governance reforms should include:

- **Eliminate overlap of responsibilities** between Executive Boards (representing shareholders) and management so as to reduce inefficiency in decision-making.⁸²
- Focus the agendas of Executive Boards on **governance of strategic issues and country strategies** and away from a disproportionate tilt towards operational decision-making and transactional functions.

Proposal 20: The Executive Board of each IFI should focus on strategic priorities for the institution and advancing system-wide goals.

The Executive Board should focus on articulating and implementing system-wide policies and standards and setting directions for the institution in line with the agreed goals. The re-orientation of responsibilities in the case of the MDB boards could include determining:

- **Risk appetite** appropriate to a shift of business models, and achieving development impact.
- **Capital adequacy and liquidity policies.**
- **Country strategies.**
- **An appropriate risk-based framework** for delegation of operational issues to management (Proposal 21) and compliance policies.

With greater clarity of roles and responsibilities, shareholders should also evaluate the different models of Executive Boards across IFIs based on effectiveness, cost structure and frequency of meetings.

81 Past studies of IFI governance have also identified these gaps.

82 An example of an initiative aimed at efficient and effective decision making is the AIIB's new accountability framework, described in its *Paper on the Accountability Framework*.

Table 2: IFI Executive Board Budgets

Organization	Size	Membership	Budget (US\$ mn)	Frequency of Meetings
IBRD	25	189	88	Twice / week
IMF	24	189	70	Several times / week
EBRD	23	69	20	2 -3 times / month
ADB	12	67	34	Several times / month
IDB	14	48	23	Once a week
AfDB	20	80	17.5	As required
EIB	29+6*	28	1.5	10 times / year
IFAD	24	176	2.5	3 times / year
AIIB	12	86	2.7	4 times / year (plus 4 virtual meetings)
IsDB	18	57	2.0	5 times / year

* In addition to the 28 members and the European Commission (with voting rights), the EIB's board also comprises 6 permanent experts (without voting rights).

Sources: Stilpon Nestor, 2018, *Board Effectiveness in International Financial Institutions*, AIIB Yearbook of International Law; and IFIs.

Proposal 21: Adopt a practical, risk-based approach to delegate greater responsibility to IFI Management, and hold them accountable for outcomes.

There is significant scope for Boards to delegate greater responsibility to IFI Management, on a practical and risk-based approach. As part of a holistic review, consideration should be given for the IFIs to amend their Articles of Agreement, where necessary, to support this.⁸³

The clarity of roles and responsibilities will enable Management to be empowered and held accountable for ensuring that the strategic priorities of the IFIs and the system as a whole are effectively translated into policies, operations and incentives. The major strategic shifts in business models within the IFIs will not be achieved without profound changes in organizational culture. These reforms in policies, operations and incentives have to be **focused on achieving two step changes:**

⁸³ In the case of MDBs delegation of project approvals could be based on size and whether there are special features of the project that raise broader policy issues. In the case of the IMF, surveillance and lending programs may involve broader considerations that require Board discussion.

- **Complementarity and synergy amongst IFIs** and other development partners through collectively operating on country platforms.
- **Fundamental change in MDB business models** to refocus on policy and institutional capacity in countries, and risk mitigation to catalyze private investment.

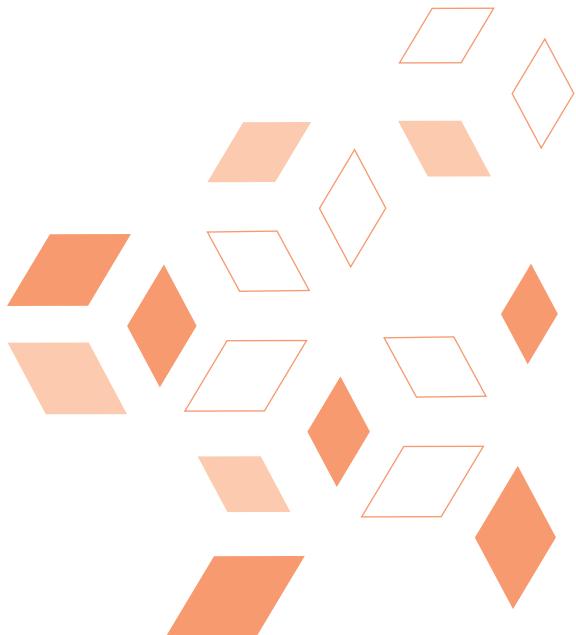
Management would have to guide this process of transformation within each institution.

Proposal 22: Ensure diversity and better match the skills available to IFI Boards and Management to the shift in business models and increased complexity of challenges.

The Executive Boards should adopt modern corporate governance practices to ensure the IFIs' effectiveness in a more complex environment. This should include:

- Defining skills sets relevant for constituencies' own selection of Executive Directors, as well as for the Board's selection of Management.
- Complementing this with regular feedback and self-assessment of the Board's effectiveness.
- Seeking external input for Board committees requiring specialized knowledge (e.g. in audit and risk assessments and strategies to catalyze private investment) to ensure that appropriate considerations are factored into decision making.

An open, transparent and merit-based process for the selection of IFI Heads is also essential to the sustained legitimacy and effectiveness of the IFIs.





The background features a large, irregularly shaped hexagon in the center, composed of several smaller white hexagons. This central shape is surrounded by a network of white lines forming a larger hexagonal pattern. Interspersed among these lines are white diamond shapes of varying sizes, some pointing upwards and others downwards. The overall effect is a modern, abstract geometric design.

ANNEXES



Annex 1: Categories of Existing Platform Arrangements

Development partner coordination platforms serve as mechanisms to help governments develop comprehensive public investment projects/programs, prioritize them and match development partners to needs based on their comparative advantages. Successful coordination platforms are usually characterized by strong government ownership, transparency and consultation with participants in the platform. (See Box 1 on the Rwandan example.)

Box 1: Rwanda - Development Partner Coordination

The Government of Rwanda has developed a successful development partner coordination mechanism that has several features of the proposed country platforms. The Government's long-term development goal is to transform Rwanda into a middle-income country, through a series of five-year development strategies. It has a strong emphasis on sustainability and inclusivity. Development partner support is achieved through a coordinating mechanism that embodies several principles of good governance – strong country ownership with coordination by the Minister of Finance; the alignment of partners around a coherent development strategy; mutual accountability of Government agencies and the development partners; transparency; and a system within Government (including local government) of managing for development results. This coordination mechanism also facilitates an agreed division of labor among the development partners, to reduce transaction costs and ensure engagement in line with comparative advantage. It has **resulted in greater focus by each development partner and continuity in their programs, and scale efficiencies**. To date, it involves largely official development partners and NGOs but the Government is now focusing on incorporating DFIs and the private sector. Doing so will broaden its reach. Convergence among all the development partners around core standards would also enhance development impact and sustainability.

Reconstruction platforms tend to be formed to address specific post-conflict or fragility needs. Two recent examples are: Ukraine reconstruction activity, in the immediate aftermath of the conflict, which was led by the EBRD and the EU with the involvement of the EIB and the IBRD/IFC as well as bilaterals and philanthropies; and the Jordan Response Plan for the Syrian crisis which brings together the main MDBs, bilaterals, UN agencies and NGOs.

Single sector platforms have been successful in bringing together projects for private sector financing alongside official financing. The Colombia 4G program and the associated DFI Financiera de Desarrollo Nacional (FDN) is a successful example, involving an investment program to create a nationwide toll road network through up to 40 different public private partnerships (PPPs) with mostly greenfield infrastructure projects. Indonesia's national slum upgrading program is also instructive (see Box 2). The Brazilian Private Sector Participation Facility, a joint effort of IDB, IFC and BNDES, is another platform designed to enhance private sector participation in infrastructure by helping to structure projects from technical and economic feasibility studies to financial closing. A program/platform for ports in Ukraine was just started by the EBRD and the IFC.

Box 2: Indonesia - National Slums Upgrading Program (NSUP)

The Government of Indonesia has taken a 'platform approach' to the financing of some of its major development programs. This has enabled the Government of Indonesia to bring together financing consortiums of MDBs as well as the government's own program budgets. An example of this approach is the "National Slums Upgrading Program (NSUP)," which is a nation-wide program to improve urban infrastructure and services for 29 million Indonesian slum residents living in 239 cities throughout the country. The NSUP included financing from four MDBs (IBRD, IsDB, AIIB and ADB) and from community and government sources. The World Bank took the lead role in preparing the project and coordinating the financing. Project implementation is being overseen by a common project management unit and the project is applying the same policies and safeguards to all investments financed under the project, regardless of the source. This is an example of how a platform approach can be country-driven, attract financing at scale, build government capacity, use a set of common standards and bring together all tiers of government. Early evidence also indicates that it has improved the quality of government expenditures in a critical area for sustainable and inclusive growth. While this approach exclusively involved the Government and the MDBs, it does illustrate some clear advantages of taking a platform approach to development financing.

Source: World Bank staff and EPG secretariat

Global/regional infrastructure platforms are relatively new initiatives and have embodied aspects of the platform approach for infrastructure finance globally.

- The Global Infrastructure Facility (GIF) is a partnership among governments, MDBs, private sector investors, and financiers to support governments in bringing well-prepared and structured projects to the market. It offers four services: infrastructure project prioritization, project preparation support, preparation of transaction documentation, and support through the process of financial closure.
- The AfDB is developing the Africa Investment Forum (AIF) – a multi-stakeholder, multi-disciplinary regional platform. The AIF is designed to screen and enhance projects, attract co-investors, reduce intermediation costs, improve the quality of project information and documentation, and increase active and productive engagements between African governments and the private sector. The objective is to offer access to bankable, de-risked projects within an enabling environment.
- The Western Balkans Investment Framework (WBIF) is a multi-stakeholder, government-led coordination platform – including beneficiary governments, IFIs, 20 bilateral donors and the European Union (EU) – which supports the socio-economic development of the Western Balkans region.



Annex 2: Building a Large and Diversified Asset Class of Developing Country Infrastructure

There is large scope and a real need to mainstream infrastructure financing/investments into a recognized asset class to catalyze the participation of institutional investors. This can be achieved by developing simple, standardized instruments that allow investors to invest on a portfolio rather than an individual loan/entity basis. Thus far there have been promising but piecemeal efforts to structure investible products for private investment that lack the necessary scale. There are major possibilities for strong multipliers.

To achieve the scale of an asset class and meet vast development needs, **risk exposures have to be standardized and pooled from across the MDB system**, into securitization or fund structures that enable easier investor access. **Non-sovereign loans, infrastructure-related and others, would be a good group of assets with which to start.** In the MDB system alone there are US\$200-300 billion of such loans, which offers a critical mass for institutional investors. Including an aggregation of commercial bank loans would lead to much larger asset class (see two paragraphs down).

Individual MDB loans and portfolios of loans can potentially be transferred via a clean sale to private investors, in other words a complete transfer of the loan exposure to the private investor. MDBs are best placed to manage country and construction risk during the early phase of an infrastructure project, and hence should “hold” the loan during this phase. This early phase also coincides with the period when the MDBs add the most value. **Upon completion of construction, the risk of the investment is reduced substantially and can be sold with the MDB retaining no interest in the investment.** Should private investors demand slightly higher returns than what the MDBs price into the loan, a step-up pricing feature can be considered, such that loans have lower pricing during the construction phase but which are subsequently raised at project completion to commercial rates.

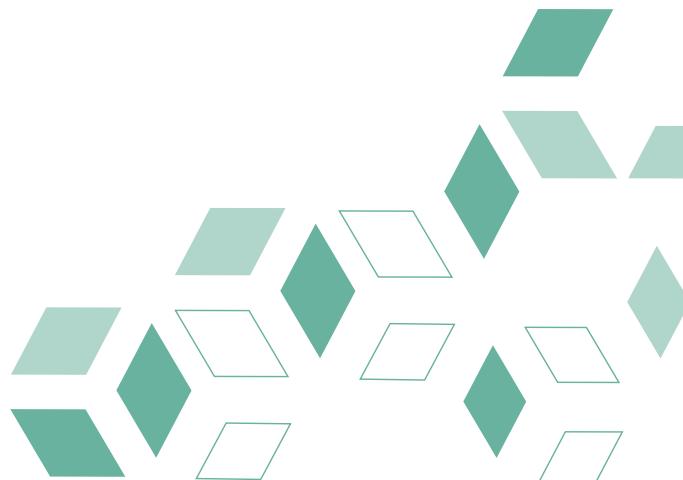
Beyond the loans originated by MDBs and bilateral agencies, **the pool can be expanded to include commercial banks' infrastructure loans or debt issued by commercial banks.** This frees up balance sheet space or provides funding for commercial banks to extend new infrastructure loans. The growth of green bonds and green bond funds is another opportunity for MDBs and commercial banks to originate infrastructure loans that responds to the needs of institutional investors.

- An example is the IFC-Amundi Green Cornerstone Bond Fund, a US\$2 billion initiative aimed at unlocking private funding for climate-related projects. The fund will invest in green bonds from emerging market financial institutions, which on-lend the funding to climate-related projects in emerging markets. Credit enhancement is provided via IFC investing in a junior tranche amounting to 6.25% of the total fund.

MDBs' sovereign loans could be potentially more challenging to pool and redistribute, compared to commercially-priced MDB non-sovereign loans and commercial banks loans. One challenge in pooling and redistributing sovereign loans to private investors is the wedge between MDB loan pricing and commercial loan pricing and the issue of preferred creditor status. While a clean sale of such sovereign loans would not involve a transfer of preferred creditor status, it may have to be done at lower than book value. This problem dissipates over time with better investor risk perception of developing countries and as implementation of the Proposals take effect. Sovereign loans can be pooled for investment at a later stage when commercial pricing and MDB pricing narrows.

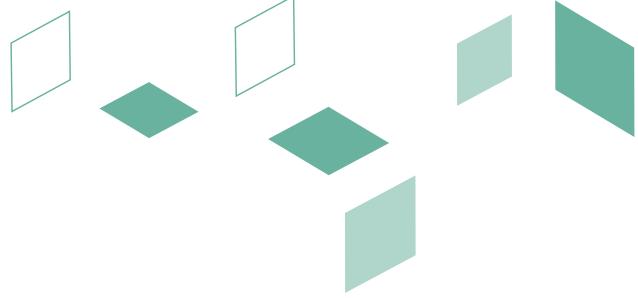
In the course of the EPG's consultations, a large body of feedback was solicited on tapping private capital markets and creating an asset class. This feedback can be summarized in the following key considerations for building a successful asset class⁸⁴:

- **Communicate clear commitment to build a credible asset class:** Investors will need certainty that the asset class being offered is part of a durable commitment by MDBs to engage with and support market development.
- **Standardize loan contracts and criteria:** Standardized loan documentation and disclosures would enable loans from across the MDB system to be packaged together more easily and help attract private investment. MDBs will also need to agree on a common underwriting framework for loans to be eligible for investment by private institutional investors, and also address investor expectations of 'permissible investments' and credit enhancements (e.g. guarantees, over-collateralization, liquidity facilities).
- **Build a broad database on loan performance:** For developing country infrastructure to become an established asset class, data on the underlying assets must be more readily accessible to build investors' comfort level and familiarity. Greater transparency⁸⁵ would also enable MDBs to engage regulators and credit rating agencies in a coordinated fashion, analyze the data to identify key risks that are preventing investments, and develop risk mitigation products to address these risks.
- **Start with a small pilot, then scale up:** For a start, two or three MDBs (partnering with private financial institutions) could be tasked to manage a pilot pooled program. Working with the MDBs, the investment community and credit rating agencies, the program manager(s) would decide on the investment vehicle structure, criteria for pooling assets, and the capital structure. In the longer term, pooling assets across institutions for greater diversification benefits should be considered.



⁸⁴ The feedback affirms a number of points highlighted in the *Roadmap to Infrastructure as an Asset Class* report by the G20 Infrastructure Working Group.

⁸⁵ MDBs can contribute their data in an anonymized fashion to preserve borrower confidentiality.



Annex 3: Preparing for Pandemics and AMR-related Public Health Emergencies

Pandemics and public health emergencies are high-probability, high-risk events the prevention of which are severely underfunded. The annual global cost of pandemics is estimated at US\$570 billion, or 0.7% of global GDP. Growing interconnectedness has increased the risk of national or regional events spreading globally quickly.

These threats require global as well as local and national responses to ensure early detection and adequate response facilities at the global level and within countries. This requires global financing that can be directed nimbly and swiftly, as well as stable funding to boost existing health systems in developing economies, especially those experiencing fragility. The nature of the desired response, of course, would depend on the pandemic, but would require global intervention to develop vaccines and treatments using primarily national delivery systems.

The current global architecture of readiness for public health emergencies has recently coalesced, but still is not fully fit for purpose. A succession of pandemics, most recently the outbreak of Ebola, and the specter of Antimicrobial Resistance (AMR) driving dangerous outbreaks have spurred efforts to organize the system and develop fit-for-purpose financing mechanisms (see Figure 1 for an outline of the actors involved):

- The bulwark of the system to protect against pandemics and AMR must be the **development of domestic health systems with the countries taking ownership**. The international community – MDBs, especially the World Bank, bilateral agencies, foundations, and the vertical funds – would need to provide financial and non-financial support.
- **WHO plays the role of guardian of the effort to control pandemics and AMR**, identifying global health emergencies and organizing the immediate response by other UN agencies, vertical funds, official agencies and foundations to provide medicines, other supplies and services.
- The **World Bank leads the effort to organize contingent finance** through insurance financed by bonds and derivatives, a cash window, and future commitments from donor countries for additional coverage.

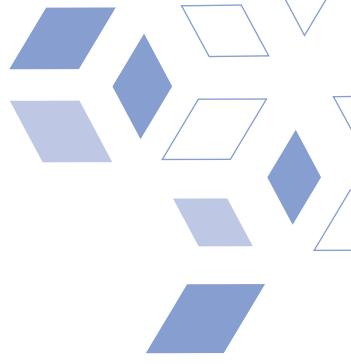
Building this emerging structure into a durable and fully effective international response to global health emergencies will require strong action within countries and collaboration among countries, IFIs and the UN agencies with the WHO at the center. The first line of defense against global health emergencies is building country health systems with the support of MDB country programs integrated with funding from donors, foundations and the vertical funds. In support of WHO's role as first responders, the IFIs also must invest in data, knowledge and analysis for risk identification and mitigation to help countries build resilience and reform programs.

Recent efforts to establish the new pandemic financing vehicles have led to a viable framework, but the system remains vastly unfunded. There is a need to:

- **Scale-up the Pandemic Emergency Facility**, which has proven to be a cost-effective approach, as its resources are inadequate considering potential estimates of a full-scale emergency.
- **Enhance existing contingent resources to enable a rapid disbursement of grant resources** in response to a crisis either directly to countries impacted or to international first responders.

Figure 1:
Global Health Architecture: Structure and Relevant Agencies





Annex 4: Illustrative Institutional Roles for Risk Identification

Note: The roles below reflect the comparative advantages of the IMF, FSB and BIS in the various dimensions of risk identification. They are purely illustrative and not intended to be confining.

	Credit Risk	Market and Liquidity Risk	Country Specific Risk (e.g. Emerging Market)	Macroeconomic Risks
Monetary Conditions	[IMF] Implications of loose/tight monetary policy	[IMF/BIS] Market interest rate deviations from interest rate parity	[IMF] Funding at risk: capital inflows [BIS] Inter-bank (cross-border) flows	[IMF] Adequacy of macro policies (e.g. overheating)
Regulatory Conditions, and Intermediation Environment	[FSB] Adequacy of prudential standards for credit (e.g. capital requirements) [BIS] Resilience of market infrastructure [FSB/BIS] Scope and impact of shadow banking	[FSB] Adequacy of capital and liquidity coverage ratios [BIS] Resilience of market infrastructure [FSB/BIS] Scope and impact of shadow banking	[FSB] Adequacy of buffers [BIS] Inter-bank (cross-border) flows	[IMF/FSB] Overall financial stability e.g. FSAP process
Financial Conditions	[IMF] Macro-fin: credit cycle in line with economic developments; leverage [BIS] Inter-bank (cross-border) credit exposure	[IMF/BIS] Excess liquidity, willingness and capacity of banks to lend	[IMF] Funding at risk: capital outflows; debt sustainability [BIS] Inter-bank (cross-border) flows	[IMF/BIS] Overall financial stability
Risk Appetite	[IMF/BIS] Asset price developments and investor behavior	[IMF] Willingness of intermediaries to adjust portfolios	[IMF/FSB/BIS] Assessment of investor behavior (safe haven vs search for yield)	[IMF/FSB/BIS] Assessment of investor behavior (safe haven vs search for yield)

Annex 5: Possible Options for IMF Funding in Large and Severe Global Crises

This Annex sketches out possible temporary mechanisms through which the IMF can rapidly access a significant amount of liquidity to ensure financial stability in the event of a global ‘tail risk’ event. However, a period of consensus building is needed to overcome the governance and policy challenges described below. The EPG is hence not proposing a solution for endorsement at this stage.

Option 1: On-lending of unused SDRs from member country savings

The IMF membership holds substantial SDRs with the IMF (i.e. positive balances), currently amounting to approximately US\$150-200 billion. Positive balances could be activated for IMF program lending purposes during times of heightened stress. Interested surplus countries would temporarily lend SDRs to the IMF or a special purpose vehicle, administered by it, at an appropriate fee and incentive structure.⁸⁶ The additional firepower would correspond to around US\$200 billion at maximum, possibly supporting programs in smaller to medium-sized countries (or programs with strong RFA components which the IMF is partnering with). This option could be an additional line of defence and complemented with other options in case of a full-fledged tail risk scenario.

Option 2: Market borrowing by the IMF

Market borrowing, with or without using SDR allocations or existing SDRs as equity, could be operationalized through a cooperative arrangement between the IMF and members to leverage their reserve assets (or issue own SDRs) to constitute a special purpose vehicle that would then issue highly-rated securities on global capital market.⁸⁷ This has some parallels with the approach taken by the European Stability Mechanism (ESM)⁸⁸ to leverage the capital contributions from Eurozone countries through market borrowing. Applying an illustrative (conservative) leverage ratio of five times for the IMF – the current leverage ratio of the ESM is about six – would yield up to US\$1 trillion additional resources from existing dormant SDR balances. Against this backdrop, the IMF’s Articles of Agreement allow the IMF to borrow on the market.

Market borrowing by the Fund faces important governance challenges. First, in the case of SDRs being used as equity by a vehicle that borrows on the market, the preservation of the reserve asset status of the SDRs held by central banks will need to be addressed. Moreover, the regulatory and fiscal treatment of capital contributions by the membership will need to be examined to ascertain permissible use of allocations. An alternative to this mechanism would be for the IMF to use its balance sheet to access the market directly – as allowed by its Articles.⁸⁹

Option 3: Replenishing NAB, and expanding it when needed

Coalitions of the willing have been mobilized in the past and while a repetition in the future is not guaranteed, experience has shown that countries are prepared to come together with additional resources, if needed, to overcome global challenges. There is merit in not phasing out existing arrangements and consider contingency plans for rapid expansions, which should include triggers depending on the severity of systemic crises.

⁸⁶ Pricing policies could be designed to ensure: (i) interest by surplus countries; (ii) sustainable finances for the IMF (i.e. borrowing below on-lending rates); and (iii) incentive to restore the balances during normal times.

⁸⁷ The proposed mechanism is an adaptation of IMF Staff Position Note 10/06.

⁸⁸ One important difference is that the equity for the ESM is provided by fiscal resources, and for the IMF from central bank reserves (including quota resources and SDR allocations).

⁸⁹ Article VIII, Section 1 of the Articles permits the IMF to borrow from private markets. As with other IMF borrowing, such a decision would be taken by the Board and no special majority is required. The consent of the member whose currency is being used in the borrowing operation would also be required.

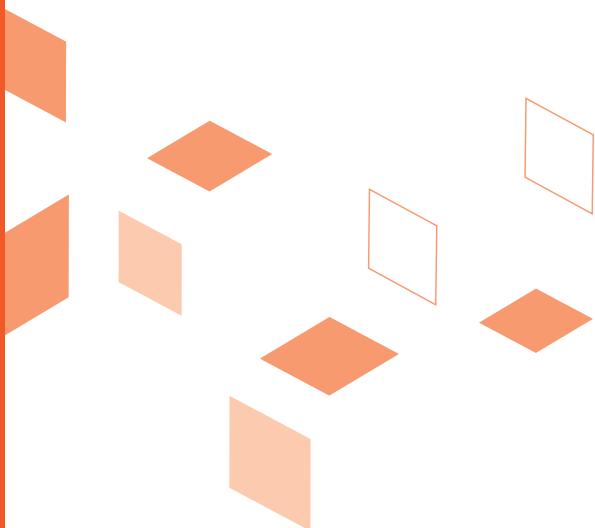
Annex 6: Illustrative Agenda for the G20-led Group of Deputies

The G20-led Group of Deputies (Proposal 18) should endorse the **strategic directions and priorities for the MDBs as a system**. In the initial stages, the focus would also be on tracking the implementation of the proposed reforms to the system. The **key priorities would include**: (i) **strategic guidance on the risk appetite appropriate to MDBs' roles in achieving development impact**; (ii) ensuring stronger **system-wide collaboration**, including through country platforms which leverage on the strengths of all development partners, and convergence around core standards; and (iii) **tracking the shift in business models, and mobilization of private finance** through system-wide initiatives.

Decision-making and accountability will be enhanced by developing and refining a system of common metrics amongst MDBs for (i) the planning, monitoring and execution of projects; and (ii) sound risk management. It will require establishing common principles and indicators upon which **efficiency and effectiveness** of the MDBs should be assessed enabling:

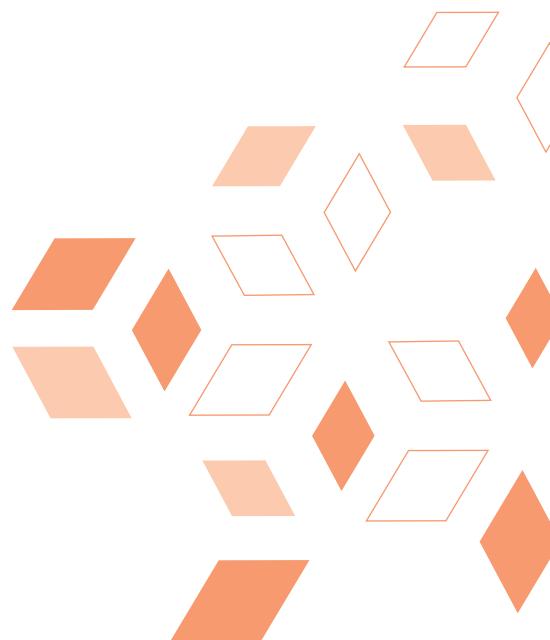
- A better **measurement and tracking of key outcomes and results**, including **value for money**.
- Comparisons across the MDBs while taking into account their roles in different areas – including geography, knowledge creation as well as over the project and development cycle.
- Establishing a common statistical base.

The **Group should endorse the core development standards** underpinning country platforms and leverage on the shareholders represented in the Group to promote convergence to those standards across MDBs and bilateral development finance agencies.



Risk management practices will have to develop significantly for MDBs to embrace the proposals in this Report. The Group should **establish a framework to be used by the individual MDBs to specify the risk appetite acceptable to shareholders and the development impact expected, and the trade-off between the two**. Implementing this common risk management framework will enable the MDBs to:

- Make decisions to take **higher risk for higher development return**, within an overall risk envelope.
- **Implement system-wide risk pooling and diversification**, including insurance, aimed at mobilizing much higher levels of private capital.
- **Collectively seek guidance from the Basel Committee** and engage credit rating agencies on capital and liquidity requirements, taking into account the MDBs' unique characteristics and default experience.



ABBREVIATIONS

ADB	Asian Development Bank
ADF	African Development Fund
AEs	Advanced Economies
AfDB	African Development Bank
AIF	Africa Investment Forum
AIIB	Asian Infrastructure Investment Bank
AMR	Antimicrobial resistance
AU	African Union
BIS	Bank for International Settlements
BMGF	Bill and Melinda Gates Foundation
BNDES	Brazilian National Bank for Economic and Social Development
BRAC	Building Resources Across Communities
BRICS CRA	BRICS Contingent Reserve Arrangement
BSAs	Bilateral Swap Arrangements
CDC	Center for Disease Control and Prevention
CEPI	Coalition for Epidemic Preparedness Innovations
CGFS	Committee on the Global Financial System
DC	Development Committee
DFIs	Development Financial Institutions
EBRD	European Bank for Reconstruction and Development
ECDC	European Center for Disease Prevention and Control
EIB	European Investment Bank
EMs	Emerging Markets
ESM	European Stability Mechanism
ESR	External Sector Report
ETFs	Exchange Traded Funds
EU	European Union
EWE	Early Warning Exercise
FDI	Foreign Direct Investment
FDN	Financiera de Desarrollo Nacional
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
G20	Group of Twenty
GEMs	Global Emerging Markets Risk Database
GFC	Global Financial Crisis
GFSN	Global Financial Safety Net
GFSR	Global Financial Stability Report
GIF	Global Infrastructure Facility

HIPC	Heavily Indebted Poor Countries
IDB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDFC	International Development Finance Club
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFFEd	International Finance Facility for Education
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IMFS	International Monetary and Financial System
IOSCO	International Organization of Securities Commissions
IsDB	Islamic Development Bank
JASPERS	Joint Assistance to Support Projects in European Regions
MDBs	Multilateral Development Banks
MIGA	Multilateral Investment Guarantee Agency
NAB	New Arrangements to Borrow
NDB	New Development Bank
NGOs	Non-Governmental Organizations
NSUP	Indonesia National Slums Upgrading Program
OECD	Organisation for Economic Co-operation and Development
PPPs	Public-Private Partnerships
R&D	Research and Development
RDBs	Regional Development Banks
RFAs	Regional Financing Arrangements
SCAV	Standing Committee on Assessment of Vulnerabilities
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SEWA	Self Employed Women's Association
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
UNICEF	United Nations Children's Emergency Fund
WBG	World Bank Group
WEO	World Economic Outlook
WFP	World Food Programme
WHO	World Health Organization

ABOUT THE G20 EMINENT PERSONS GROUP ON GLOBAL FINANCIAL GOVERNANCE

The Group was formally established by the G20 Finance Ministers and Central Bank Governors in April 2017. Its mandate was to recommend reforms to the global financial architecture and governance of the system of international financial institutions so as to promote economic stability and sustainable growth in a new global era; and to discuss how the G20 could better provide continued leadership and support for these goals. (See terms of reference.)

MEMBERS

Tharman Shanmugaratnam (Chair) - Deputy Prime Minister, Singapore; Chairman, Monetary Authority of Singapore; Chairman of the Group of Thirty; former Chairman of the International Monetary and Financial Committee; former Minister for Finance, Singapore

Sufian Ahmed - Advisor to the Prime Minister of Ethiopia; former Minister for Finance and Economic Development, Ethiopia; former Vice-Chair of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development

Ali Babacan - Former Deputy Prime Minister for Economic and Financial Affairs; former Foreign Affairs Minister and former Treasury Minister, Turkey

Marek Belka - Former Chairman of the Development Committee; former Prime Minister, Poland; former President of the National Bank of Poland

Jacob A. Frenkel - Chairman of JP Morgan Chase International; Chairman of the Board of Trustees of the Group of Thirty; former Governor of the Bank of Israel; former Chairman of the IDB; former Economic Counsellor and Director of Research of the IMF

Otmar Issing - President of the Center for Financial Studies, Goethe University; former member of the Executive Board and Chief Economist of the European Central Bank

Takatoshi Ito - Professor of International and Public Affairs at Columbia University; former Deputy Vice-Minister of Finance for International Affairs, Japan

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Lord Nicholas Stern - IG Patel Professor of Economics and Government at the London School of Economics and Political Science; former Chief Economist and Senior Vice-President of the World Bank; former Chief Economist of the EBRD

John B. Taylor - Mary and Robert Raymond Professor of Economics at Stanford University and George P. Shultz Senior Fellow at Stanford University's Hoover Institution; former Under Secretary of the Treasury, US

Jean-Claude Trichet - Chairman of the European Group of the Trilateral Commission; Chairman of the Board of the Bruegel Institute; former President of the European Central Bank

Andrés Velasco - Dean of the School of Public Policy at the London School of Economics and Political Science; former Sumitomo Professor of International Finance, Harvard Kennedy School; former Minister for Finance, Chile

Zhu Min - President of the National Institute of Financial Research at Tsinghua University; former Deputy Managing Director of the IMF

SECRETARIAT _____

Siddharth Tiwari (Executive Secretary) - Distinguished Visiting Fellow at Lee Kuan Yew School of Public Policy; former Director of the Strategy, Policy and Review Department of the IMF

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David Marston - Former Chief Risk Officer of the IMF

R. Kyle Peters - Former Senior Vice-President of Operations of the World Bank

The Secretariat was ably assisted by Christina Kolerus, and received organizational support from the Monetary Authority of Singapore and the Lee Kuan Yew School of Public Policy.

TERMS OF REFERENCE G20 EMINENT PERSONS GROUP ON GLOBAL FINANCIAL GOVERNANCE

- The G20 Eminent Persons Group on Global Financial Governance (the Group) was formally established by G20 Finance Ministers and Central Bank Governors on 21 April 2017.
- The Group comprises eminent persons with deep knowledge and experience in the area of the global financial architecture and governance.
- The Group will be chaired by Tharman Shanmugaratnam, Deputy Prime Minister of Singapore. Its members will contribute in their personal capacities. Collectively, their experiences reflect a broad diversity, geographically and of different stages of economic development.
- The work of the group will be centered around the following tasks:
 - to review current and possible future challenges and opportunities facing the international financial and monetary systems, and the current state of the global financial architecture and governance;
 - to consider, having regard to relevant past reviews, the optimal role of the international financial institutions (IFIs) comprising the IMF, the WBG, and other multilateral development banks, including how these IFIs interact and coordinate with one another, with the G20, and with their respective memberships; their capacity to catalyze private capital flows and domestic resources; and corporate governance and accountability structures, to ensure efficiency, effectiveness and transparency in addressing the challenges identified;
 - to recommend practical reforms to improve the functioning of the global financial architecture and governance so as to promote economic stability and sustainable growth; and to discuss how the G20 could better provide continued leadership and support for these goals.
- The Group's work will not duplicate existing efforts in the G20 and the IFIs related to Shareholding Reviews and the IMF General Review of Quotas.
- The Group will provide its findings and recommendations to G20 Finance Ministers and Central Bank Governors for their deliberation. Decisions on any proposals concerning the IFIs would have to be made by their respective governing bodies.
- The Group will provide an outline of its work to G20 Finance Ministers and Central Bank Governors at the IMF/WBG Annual Meetings 2017. A progress update will be provided by the IMF/WBG Spring Meetings 2018. The mandate of the Group will be fulfilled with the delivery of final recommendations by the time of the IMF/WBG Annual Meetings 2018.

LIST OF CONTRIBUTIONS

The Group received valuable feedback from national authorities from a broad range of developing and advanced countries.

The Group also benefited from consultations with the following institutions:

- African Development Bank
- Asian Development Bank
- Asian Infrastructure Investment Bank
- Bank for International Settlements
- European Bank for Reconstruction and Development
- European Investment Bank
- European Stability Mechanism
- Inter-American Development Bank
- International Development Finance Club
- International Monetary Fund
- Islamic Development Bank
- New Development Bank
- Organisation for Economic Cooperation and Development
- United Nations Development System
- World Bank Group

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- Timothy Adams (Institute of International Finance)
- Montek Singh Ahluwalia
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- Marc Andreessen (Andreessen Horowitz)
- Susan Athey (Ripple)
- Abhijit Banerjee (Massachusetts Institute of Technology)
- Tim Besley (London School of Economics and Political Science)
- Amar Bhattacharya (Brookings Institution)
- Nancy Birdsall (Center for Global Development)
- Gordon Brown (UN Special Envoy for Global Education)
- Sharan Burrow (International Trade Union Confederation)
- Mike Callaghan (Australian Aged Care Financing Authority)
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- Jacques de Larosière
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- Rafael del Pino (Ferrovial)

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 - Jeremy Farrar (Wellcome Trust)
 - Daniel Gros (Centre for European Policy Studies)
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 - Chris Heathcote (Global Infrastructure Hub)
 - Yiping Huang (Beijing University)
 - Bimal Jalan
 - Harold James (Princeton University)
 - Donald Kaberuka (Special Envoy of the African Union for Sustainable Financing)
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- Lindsay Coates (InterAction)
- Sara Harcourt (ONE)
- Andres Knobel (C20 International Financial Architecture)
- Paul O'Brien (Oxfam)
- Stephanie Segal (Centre for Strategic and International Studies)
- Elizabeth Summers (Bank Information Centre)
- Marc Uzan (Reinventing Bretton Woods Committee)
- Luiz Vieira (Bretton Woods Project)

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