

Eminent Persons Group on Global Financial Governance: Update for the G20 Meeting of Finance Ministers and Central Bank Governors

Washington, DC, October 2017

This Note provides an initial update from the Chairman of the G20 Eminent Persons Group (EPG) on Global Financial Governance on the Group's work¹. The EPG will be briefing G20 Finance Ministers and Central Bank Governors (FMCBGs) at their meetings over the next year on its interim findings and recommendations, leading to its final report by October 2018.

In keeping with its mandate, the EPG is delineating the challenges and opportunities of a new era, which define the optimal roles of the International Financial Institutions (IFIs); the governance reforms to ensure that the global financial architecture and system of IFIs can deliver effectively and efficiently on these needs; and the ways in which the G20 can best support global financial governance.

The EPG's review is guided by the fundamental objective of global financial governance: to promote the effective functioning of an open, rules-based international financial and monetary system (IFMS) that promotes strong, sustainable, balanced and inclusive growth and financial stability, in conjunction with sound national policies.

I Key Challenges, Opportunities and Governance Implications

The Group's key areas of inquiry include the implications for global financial governance of the following key demands:

Attaining strong, sustainable, balanced and inclusive growth, which is at the core of the Sustainable Development Goals and vital to global stability. Investments in infrastructure and human development are the key enablers. While sustained economic reforms, resilient domestic institutions, and regulatory frameworks remain critical to strengthening the investment environment, the financing gaps are very large. The big opportunity lies in crowding in private and institutional capital flows, which will outstrip the availability of official development finance under any achievable scenario. This is amply recognised by the multilateral development banks, but also requires supporting actions by governments. The collective challenge is to deploy resources to catalyse vastly more market funding, and

¹ See Annex for the EPG's terms of reference and membership.

ensure the governance structures and incentives to enable this new phase in development finance.

Assuring financial stability. Greater financial connectivity has brought significant benefits but also risks associated with volatile capital flows and exchange rates, and cross-border transmission of shocks. Clear mandates for the IFIs are needed for an effective internationally agreed framework to mitigate these risks, ensure countries are not borrowing growth from each other, and sustain the benefits of openness for economic development and growth. Financial openness also necessitates a resilient global financial safety net, including clearly articulated links between national, regional and international arrangements (recognising that no one shape fits all regions). Further, tight coordination between the IMF and other responsible bodies is essential to minimise gaps in implementation of standards and ensure dynamic macro-financial surveillance.

Financing global public goods. Non-financial spillovers can have a major impact on growth and stability for regions (e.g. pandemics and migration) and for the world (e.g. climate and cybersecurity). Clearer identification of responsibilities among the IFIs within the international system will mitigate the impact of these cross-border spillovers, provide early warning of possible macro-critical implications and guide national policies that contain the crisis, as well as prevent contagion, in a timely fashion.

Overall, the IFMS, and corresponding system of global financial governance, needs to be shaped for a new era. Taken together, the challenges of the future will be of a scale greater and more complex than in the past, but will still require rapid responses. They occur together with an irreversible trend towards **multi-polarity**, and an environment of **constrained public balance sheets**, crisis legacies that have reduced room for policy manoeuvre, more **challenging domestic socio-economic realities** and in many instances diminished trust in institutions. The IFIs and their stakeholders collectively play a critical role in underpinning a multilateral system that contributes to both the national and global goals of this new era. The G20 in this context has a unique role in forging and maintaining the political consensus to sustain multilateralism and the needed roles of the IFIs.

II Reforms to Global Financial Governance

Mandates and coherence. The IFIs play critical roles in the global system, in delivering policy advice and spreading best practice, financing development and reforms, and providing a financial safety net and framework for rules of the game. There has, however, been a growing number of institutions with similar roles as well as growing overlap in roles. While both developments are to be expected and have their advantages, there needs to be deeper **complementarity** so that the IFIs as a system deliver outcomes that are much larger than the sum of their individual contributions. This will also require greater coherence of shareholder objectives, policies and compliance standards across institutions.

There should be clear visibility of institutional responsibilities across the IFIs in keeping with their comparative advantage; strong incentives and effective platforms to enable the interoperability of their operations, and governance mechanisms to avoid a competitive loosening of standards. Clarity of responsibilities is also important with regard to frameworks for capital flow management; financial stability oversight and surveillance; and in the inter-linkages between global and evolving regional safety nets.

Transparency and accountability. Efficient compliance and decision-making processes within the IFIs are essential. Such processes and the resources they consume have grown, in many instances in response to shareholders. Reforms to ensure accountability should be focused on policy frameworks and outcomes, including establishing clear principles upon which the efficiency and effectiveness of the IFIs collectively can be assessed.

Leadership and role of the G20. Representing about 85% of the world GDP, comprising diverse economies across the globe, and with consensus-based processes giving members equal standing, the G20 plays a key role in global financial governance. However, as it does not have universal membership and unlike treaty-based organizations is not legally-constituted to deliver on decisions, the G20 has to work in coordination with the IFIs and other bodies to advance many of its aims. The appropriate role of the G20 in relation to the IFIs is therefore an important issue of governance, and should be aimed at ensuring a strong and credible IFMS, that can deliver on its fundamental objective as described earlier.

III Next steps

The EPG will be studying and developing the issues in this Note, and will present its conclusions in a report to the G20 FMCBGs by October 2018. The Group will regularly update the FMCBGs at their meetings over the next year, and will continue to consult with the FMCBGs and IFIs directly. The Group will in addition be inviting views from think tanks and academics, private sector institutions and civil society, at the EPG's Symposium in early December and over the next year.

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 centred 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 catalyse 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.

MEMBERS OF THE GROUP

Chairman: **Tharman Shanmugaratnam**
Deputy Prime Minister of Singapore; Chairman of the Group of Thirty; former Chairman of the International Monetary and Financial Committee

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

Ali Babacan
Former Chairman of G20 Finance Ministers and Central Bank Governors Meetings (2015); former Deputy Prime Minister for Economic and Financial Affairs; former Foreign Affairs Minister and former Treasury Minister of Turkey

Marek Belka
Former Chairman of World Bank Group Development Committee; former Prime Minister of Poland; former Minister for Finance; former President of National Bank of Poland; former Director of the European Department, International Monetary Fund

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 Inter-American Development Bank; former Economic Counsellor and Director of Research, International Monetary Fund; former David Rockefeller Professor of International Economics at University of Chicago

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 member of the Prime Minister's Council on Economic and Fiscal Policy of Japan; former Deputy Vice-Minister of Finance for International Affairs of Japan; former Senior Advisor at the Research Department, International Monetary Fund

Nora Lustig
Samuel Z. Stone Professor of Latin American Economics and Director of the Commitment to Equity Institute at Tulane University; nonresident Senior Fellow at the Center for Global Development and Inter-American Dialogue; founding member and past President of the Latin American and Caribbean Economic Association

Ngozi Okonjo-Iweala

Chairperson of the Board of the Global Alliance for Vaccines and Immunization (GAVI); former Coordinating Minister for the Economy and Minister for Finance of Nigeria; former Managing Director of the World Bank

Raghuram Rajan

Katherine Dusak Miller Distinguished Service Professor of Finance at Chicago Booth School of Business; former Governor of the Reserve Bank of India; former Chief Economic Adviser, Finance Ministry, India; former Economic Counsellor and Director of Research, International Monetary Fund

Fabrizio Saccomanni

Vice-President of the Institute of International Affairs, Rome; former Minister for Economy and Finance of Italy; former Senior Deputy Governor of the Bank of Italy

Lord Nicholas Stern

IG Patel Professor of Economics and Government at London School of Economics; former Chief Economist and Senior Vice-President of the World Bank; former Chief Economist of the European Bank for Reconstruction and Development

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 for International Affairs of the United States; former member of the US President's Council of Economic Advisers

Jean-Claude Trichet

Chairman of the European Group of the Trilateral Commission; Chairman of the Board of the Bruegel Institute; Honorary Chairman of the Group of Thirty; former President of the European Central Bank; former Governor of the Bank of France

Andrés Velasco

Professor of Professional Practice in International Development at the School of International and Public Affairs at Columbia University; former Minister for Finance of Chile

Zhu Min

President of the National Institute of Financial Research at Tsinghua University; former Deputy Managing Director, International Monetary Fund; former Deputy Governor of the People's Bank of China