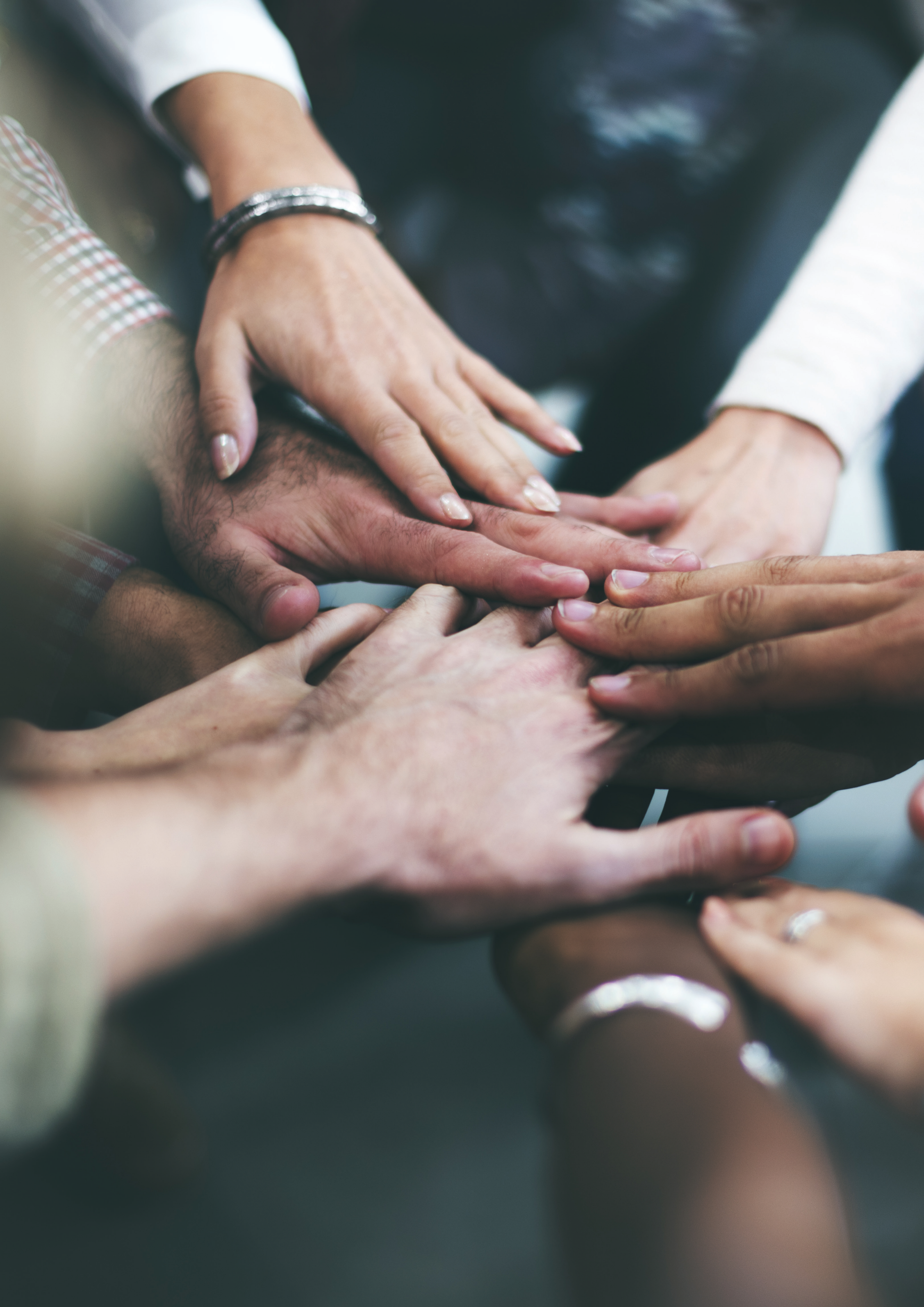

III. THE G20 AND THE IFIS:

MAKING THE SYSTEM WORK AS A SYSTEM

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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 substantially[73] (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 Time[74]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Leaders										1	2	2	1	1	1	1	1	1	1	1
Sherpas														5	6	4	4	5	5	4
Finance Track																				
FMCBGs	1	1	1	1	2	1	1	1	1	2	4	4	4	3	4	5	2	4	3	5
Deputies				1	2	2	2	1			2	3	1	5	6	6	3	4	5	5
Global Economy/Framework											1				3	4	4	3	4	2
Green /Sustainable Finance											1						2	4	4	4
Int. Financial Architecture															4			4	5	3
Infrastructure																4	3	3		4
Financial Inclusion																3	2	3	3	2
Data Gaps																				4
Compact with Africa																			2	1
Sherpa Track																				
Labor /Employment M												1	1	1	1	1	1	1	1	1
Foreign M													1	1	1		1		1	1
Agriculture M&D													1	1			1	3	4	3
Trade M														1		1	1	1		1
Energy																	1	1	1	1
Health M																			2	1
Digital M																			1	1
Education M																				1
Development											1		1		4	3	4	3	3	3
Anti-Corruption															3	3	3	3	3	3
Employment															4	4	3	3	4	4
Energy Sustaintainability/Transitions															2	3	3	3	1	2
Trade & Investment																		3	3	2
Steel Capacities (+M)																			4	3
Digital Economy																			4	2
Sustainability																			3	2
Health																			3	3
Education																				4

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 DC[78] 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 Map[79] 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.