Introduction

In Hamburg in July 2017, Leaders of the G20 endorsed the “Hamburg Action Plan” and reasserted their commitment to “enhance the international financial architecture and the global financial safety net with a strong, quota-based and adequately resourced IMF at its centre”. In support of this objective, they agreed to extend the work of the International Financial Architecture Working Group into 2018, in order to follow up on the work done in 2017 in some areas and complete it in others.

The IFA WG has thus been working from December 2017 to September 2018 to fulfil the above objective. During this period of time, the IFA WG held three face-to-face meetings and focused its efforts on achieving concrete deliverables and articulating operational proposals. The work was strongly enhanced by the active participation and key contributions of the international organizations (see the list of IOs contributions in Annex 1).

The IFA WG focused its work under the Argentinian G20 Presidency on four main areas:

(i) Strengthening further the global financial safety net (GFSN), with a strong, quota-based and adequately resourced IMF at its center;
(ii) Continuing to monitor the risks associated with volatile international capital flows and the discussion on capital flow management and macroprudential measures;
(iii) Improving the effectiveness of financing for development in low income countries (LICs) and
(iv) Continuing the work on the optimization of multilateral development banks’ (MDBs) balance sheets and on the role of MDBs as a system.

In addition, the IFA WG provided a platform to exchange views on the outcomes of the Eminent Persons Group (EPG) on Global Financial Governance, discussed the broader use of the IMF’s special drawing rights (SDR) and received updates on the progress made on the development of local currency bond markets.

This final report, endorsed by the members of the IFA WG, summarizes the Group’s progress achieved so far and presents potential next steps for consideration by the G20 summit in Buenos Aires.
1. Strengthening further the global financial safety net (GFSN), with a strong, quota-based and adequately resourced IMF at its center

The GFSN is composed of the IMF (at the global level), Regional Financing Arrangements (RFAs – regional level), currency swap arrangements (bilateral level), and foreign exchange reserves (individual country level). In 2018, the IFA WG strove to help progress on the IMF 15\textsuperscript{th} General Review of Quotas (GRQ) and enhance the cooperation between the IMF and RFAs.

1.1. Helping progress on the IMF 15\textsuperscript{th} General Review of Quotas

In line with the resolution No. 72-1 adopted by the IMF Board of Governors on December 5, 2016, the IMF Board of Directors continued in 2018 the discussions to complete the 15th GRQ by the Spring Meetings 2019 and no later than the Annual Meetings 2019. The commitment is to conclude the 15th GRQ and agree on a new quota formula as a basis for a realignment of quota shares to result in increased shares for dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members. In order not to duplicate these discussions and the work already done by the IMF Board, the IFA WG focused on preparing the discussion among G20 Finance Ministers and Central Bank Governors to identify the specific elements where political guidance is necessary to help the IMF Executive Board progress towards reaching consensus.

Overall, members reaffirmed their commitment to further strengthening the GFSN with a strong, quota-based and adequately resourced IMF at its center and to completing the 15th GRQ in the agreed timeline. There was a broad consensus among members that sufficient technical background work for decisions to be made had been provided by the IMF staff. To complete the Review, political guidance is now needed on the overall size of the Fund, the size of any quota increase, the new quota formula and the distribution of any quota increase. While some members suggested advancing by agreeing first on some less contentious areas of the Review, many held an opposing view and underlined that the 15\textsuperscript{th} GRQ needs to be agreed on as a package.

1.2. Enhancing the cooperation between the IMF and RFAs

As stated by the IFA WG in its 2016 and 2017 final reports, enhancing effectiveness of RFAs and improving cooperation between the IMF and RFAs, while respecting their mandates, are part of the larger objective of further strengthening the GFSN.

Significant progress has been made on this matter in the last couple of years. Members welcomed the ongoing work undertaken between the IMF and individual RFAs as well as between the IMF and RFAs as a collective, and also among RFAs themselves, on many aspects including inter alia joint test runs, high-level RFA dialogue, exchanges of experiences and work on operationalizing a new framework endorsed by the IMF Executive Board in 2017, to ensure modalities of collaboration that respect individual mandates and reflect technical expertise. Cooperation between the Chiang-Mai Initiative Multilateralization (CMIM) and the IMF is being enhanced with shortcomings observed at the joint IMF-CMIM test runs being addressed.

Building on this example, several members proposed as a way forward to focus on areas where actual progress could be made, such as information sharing and consistency of procedures and modalities, and reiterated their support to continued policy coordination among RFAs and between RFAs and the IMF. Some members also identified gaps in the coverage by RFAs as a key issue to address, notably in Sub-Saharan Africa, where many countries are not part of any RFA or where these are not adequately resourced such as the case in Latin America. A few members expressed their disappointment with the recent failure to establish the Short-Term Liquidity Swap at the IMF. In their view, this instrument could have played an important role in mitigating risks stemming from the booms and busts in global
liquidity and could have helped to deal with protracted uncertainty in the international financial markets.

The IFA WG proposes the following recommendations for consideration by the G20 Summit in Buenos Aires.

Proposal 1:

(i) The G20 reaffirms its commitment to further strengthening the GFSN with a strong, quota-based, and adequately resourced IMF at its center. The G20 remains committed to concluding the 15th General Review of Quotas and agreeing on a new quota formula as a basis for a realignment of quota shares to result in increased shares for dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members by the Spring Meetings and no later than the Annual Meetings of 2019.

(ii) The G20 welcomes progress made to achieve more effective cooperation between the IMF and the Regional Financing Arrangements, while respecting their mandates, including joint test runs, high-level RFA Dialogue and further work on the consistency of intervention modalities, and calls for continued policy coordination among RFAs and between the RFAs and the IMF.

2. Continuing to monitor the risks associated with volatile international capital flows and the discussion on capital flow management and macroprudential measures

Against the backdrop of rising risks in the global economy, there was broad agreement on the need to strengthen resilience, notably with regards to capital flows volatility, particularly in emerging market economies (EMEs), as highlighted by the Bank for International Settlement (BIS) in its updates to the WG.

In this context, members of the WG agreed on the importance to continue improving the analysis, monitoring and surveillance of capital flows and associated risks. A key area of progress was the enhancement of the provision of robust and timely data to anticipate macroeconomic and financial stability risks and design proper policy responses to address them. Thus, the IFA WG welcomed a note, jointly prepared by the IMF and FSB, which describes advancements made under the second phase of the Data Gaps Initiative (DGI-2), launched in September 2015, and developed by the Inter-Agency Group on Economic and Financial Statistics (BIS, ECB, Eurostat, IMF, OECD, UN, World Bank, FSB). Many members agreed that DGI-2 recommendations are useful in enhancing the understanding of capital flows and international exposures. Members also agreed that assessing the impacts of crypto-assets on capital flows will be another area of increased interest for the years to come.

Members also continued exchanging views on policy responses to capital flow volatility, discussing on the approaches of the IMF’s Institutional View (IV) and the OECD Code of Liberalisation of Capital Movements (the Code) regarding the management of capital flows.

The OECD updated the IFA WG on the ongoing work on the review of the OECD Code and underlined that some non-OECD G20 members had started the process of adherence to it.

There were several discussions on the IMF’s and OECD’s approaches. Given current risks, some members emphasized the need to use prudent regulatory measures to mitigate capital flow volatility, especially in emerging countries. Some members also underlined that since the IV was developed in a context of large inflows to EMEs, a potential challenge would be to focus now on how to deal with outflows. While the IFA WG welcomed the ongoing review of the OECD Code, some members felt it
would benefit from enhanced flexibility especially regarding macroprudential measures (MPMs) and reaffirmed that the full opening of the capital account was not appropriate for all countries at all times. Other members stressed the need to maintain the Code’s high standards and broad scope. More broadly, some members called for enhanced consistency between both approaches, while others underlined that the two have different purposes, mandates and memberships and do not show inconsistencies. However, members agreed on the need to bring more clarity on how capital flow management measures (CFMs) and MPMs are assessed under the Institutional View and the OECD Code. Progress has been made in this area in 2018. In particular, members welcomed the note written by the IMF which describes how both kinds of measures are defined and differentiated under the Institutional View and how their appropriateness is assessed in practice, grounding its analysis on concrete illustrative examples. They also welcomed the note written by the OECD which presents to members how the same examples as the one used by the IMF in its note are assessed under the OECD Code. Finally, members welcomed the IMF stock-take of Capital Flow Management Measures released in September and the IMF macroprudential policy database launched in April.

**The IFA WG proposes the following recommendations for consideration by the G20 Summit in Buenos Aires.**

**Proposal 2: The G20 underlines that volatility in financial markets and capital flows underscores the importance of continued monitoring of cross-border capital flows and examining tools to help countries harness their benefits while also managing risks. In this view:**

(i) The G20 supports the ongoing work towards enhancing the analysis and understanding of capital flows and stocks, and of international exposures. It reasserts the importance of enhancing data collection, welcomes the Third Progress Report by the FSB and the IMF on the second phase of the Data Gaps Initiative (DGI-2) and supports its timely implementation.

(ii) The G20 welcomes the ongoing review of the OECD Code of Liberalisation of Capital Movements, including work on appropriate flexibility, while maintaining the Code’s current strength and broad scope. G20 Countries that have not yet adhered to the Code are encouraged to participate voluntarily in the current review and to consider adhering to the Code, taking into consideration country-specific circumstances. The G20 also supports efforts to continue to deepen the understanding of how CFMs are assessed under the OECD Code and the IMF’s Institutional View and to promote consistency, while respecting their differences in purposes, membership and mandates. In that regard, the G20 welcomes the notes prepared by the IMF and the OECD on the Institutional View and the OECD Code in practice.

### 3. Improving the effectiveness of financing for development in low income countries (LICs)

Building on the work undertaken in 2017 and on the Addis Ababa Action Agenda, the IFA WG explored ways to improve the effectiveness of financing for development in LICs. Rising debt levels in many LICs have led to concerns about debt vulnerabilities, while they still face substantial development needs. To contain debt vulnerabilities and address these development challenges as well, the IFA WG has been working on two main areas: (i) promoting transparency as well as sound and sustainable financing practices, both on the side of borrowing countries as well as on the side of sovereign and private creditors; (ii) supporting reforms and capacity building in developing countries to improve their domestic resource mobilisation and public financial management, and strengthen their governance.

Throughout its three meetings in 2018, the IFA WG strove to liaise with LICs and built on the active contributions of the G24, the UNDESA and UNCTAD. While noting the major role of debt in financing of infrastructure and the need to balance debt levels with growth opportunities associated
with projects financed by debt, these institutions, with feedback from LICs to the IFA WG, underlined that debt vulnerabilities appears as a matter of concern for LICs, and highlighted transparency and sustainable financing practices as well as domestic resource mobilization, capacity development and local currency bond markets as possible ways to address them.

3.1. Promote transparency as well as sound and sustainable financing practices, both on the side of borrowing countries as on the side of sovereign and private creditors

Enhancing debt transparency among borrowing countries and sustainable financing practices is instrumental to address debt vulnerabilities. Members stressed the need to fill data gaps on the side of borrowing countries, including improving the reliability of debt statistics, the coverage of state-owned enterprises debt and of contingent liabilities. Against this background, the WG discussed two notes, jointly written by the IMF and the WB, on ways to strengthen debt transparency and technical assistance in debt recording and reporting. The note on public debt recording, monitoring and reporting outlines a work agenda to address identified issues in debt management capacity of borrowing member countries as well as in the scope and type of technical assistance being provided. The note on the role of the IMF and the WB in strengthening public debt transparency also identifies room for progress in collecting debt data, conducting and publishing public debt analysis, and supporting and promoting sustainable borrowing and lending practices. Members of the WG welcomed these two contributions and called for the implementation of their recommendations.

While the primary responsibility for transparent debt recording, monitoring and reporting lies with the borrower, official bilateral creditors also have a role to play in ensuring sustainable lending. Therefore, in addition to promoting debt management capacity of borrowing countries, members of the WG agreed to continue to improve sustainable financing practices by creditors. In this area, significant progress has been made in 2017 when the G20 Operational Guidelines for Sustainable Financing (OGSF) were welcomed by Finance Ministers and Central Bank Governors, in Baden-Baden in March 2017. They were welcomed by Finance Ministers and Central Bank Governors in Buenos Aires in July 2018. These guidelines provide an operational implementation framework to the general orientations that are set out in the Addis Ababa Action Agenda. In 2018, members of the WG discussed ways to ensure their swift and effective implementation. To that end, members discussed a possible voluntary creditor self-assessment of adherence to the OGSF and to share policy options related to the implementation process. Supported by the IMF and the WB, members discussed a questionnaire to be completed by the end of 2018 / beginning of 2019.

Beyond sovereign creditors, many members underlined the importance of also enhancing transparency in private sector financing and called on the private sector to work on the same type of “guidelines” as the OGSF. As a result, they encouraged the development by the private sector of a coordinated and voluntary information sharing platform to improve the sustainability and transparency of private sector financing. Private sectors’ guidelines should also include elements to enhance sustainable financing practices and encourage the use of IMF-World Bank Debt Sustainability Analyses and their debt limits policies. Members of the WG also encouraged a more regular exchange of views on sovereign debt among official and private creditors.

3.2. Support reforms and capacity building in developing countries to build their tax capacity and strengthen their governance

Addressing the vulnerabilities facing most LICs requires further capacity building in debt reporting and management, enhanced domestic resource mobilisation and improvement in public financial management and governance, to maintain debt sustainability while ensuring that LICs can meet their development goals.

Therefore, members reaffirmed the importance of debt managing capacity and domestic resource mobilization. They encouraged the strengthening of technical assistance in that regard and further
enhancing the coordination among International Organizations (IOs). They welcomed the deployment of the Platform for Collaboration on Tax and called for further progress in the coordination and efficiency of technical assistance provided to countries. Some proposed to have explicit quantitative tax-to-GDP targets, or range of magnitude, while others reiterated the importance of adopting a comprehensive Medium-Term Revenue Strategy and argued that any quantitative targets should reflect country-specific circumstances. Members also supported finding ways to help LICs enhance their public financial management and strengthen governance more generally.

Finally, members welcomed the ongoing IMF Review of LIC facilities and the ongoing IMF Review of conditionality as a means to improve the lending and program design framework available to LICs and called for the creation of the appropriate incentives to the implementation of structural reforms in LICs with regards to domestic resource mobilization and governance. These are instrumental to ensure solid and sustainable development of LICs economies. Members also called for strong coordination between IFIs. Some members called for longer program duration and higher access for LICs to Fund’s resources where needed. Members stressed the importance of strong program ownership and implementation.

The IFA WG proposes the following recommendations for consideration by the G20 Summit in Buenos Aires.

Proposal 3: The G20 reiterates its concerns regarding debt vulnerabilities in many low income countries (LICs). To avoid new episodes of debt distress in LICs, it underlines the importance of building capacity in public financial management, strengthening domestic policy framework and governance, enhancing domestic resource mobilization and ensuring transparent, sound and sustainable borrowing and lending practices, both on the side of borrowing countries and creditors (whether official or private). In this view:

(i) The G20 highlights the importance of the IMF’s and World Bank’s work on strengthening public debt transparency, welcomes the recommendations issued in their notes (“Improving public debt recording, monitoring and reporting capacity in low and lower middle-income countries” and “Strengthening public debt transparency – the role of the IMF and the WB”) and calls for their implementation.

(ii) The G20 also supports the ongoing work of the Paris Club, as the principal international forum for restructuring official bilateral debt, towards the broader inclusion of emerging creditors.

(iii) The G20 encourages the adoption of sustainable financing practices by all borrowers and creditors (whether official or private), including the use, inter alia, of IMF-World Bank Debt Sustainability Analyses and IMF / WB debt limits policies. [It calls to follow up on the implementation of the 2017 G20 Operational Guidelines for Sustainable Financing through a voluntary creditor self-assessment and the identification by the IMF and the WB of policy options]. It encourages the development by the private sector of guidelines to improve the transparency and sustainability of private sector financing.

(iv) The G20 continues to support assistance to developing countries to build their tax capacity and welcomes the efforts undertaken to help developing countries enhance domestic resource mobilization and public financial management. It welcomes the ongoing Review of IMF’s facilities for LICs and the ongoing Review of conditionality as an opportunity to support effective reform implementation, including with regards to domestic resource mobilisation and governance.
4. **Continuing the work on the optimization of multilateral development banks’ (MDBs) balance sheets and on the role of MDBs as a system**

Against the backdrop of scarce public resources and huge development needs, members of the WG continued the work on the role of MDBs as a system, pursuing two objectives: continuing the enhancement of cooperation among multilateral lenders and encouraging MDBs to further optimize their balance sheets.

First of all, members followed up on to ensure the effective implementation of the G20 Principles for effective coordination between the IMF and the MDBs in case of countries requesting financing while facing macroeconomic instabilities, welcomed last year by G20 Leaders. These principles encourage the IMF and the MDBs to engage in regular dialogue and to ensure effective coordination when MDBs consider providing financing to address macroeconomic difficulties and more broadly when policy-based lending is envisaged, with differing degrees of coordination required based on the macroeconomic circumstances. These Principles also reaffirm that MDB financing should build on the countries’ engagement with the IMF. A note, jointly prepared by the IMF and MDBs, was circulated to the IFA WG describing achievements since the latest G20 Leaders’ Summit. Members welcomed progress made in the implementation of the G20 Principles and called for sustained efforts in this area. As needed, they also called for another update to Ministers and Governors on this endeavour in 2019.

Secondly, members pursued the work on balance sheets’ optimization and called on MDBs to work together as a system and develop common metrics to assess their activity. In particular, members discussed ways to foster additionality and value for money in MDBs operations. Substantial results were achieved in both areas in 2018. Thus, members welcomed the final report of MDBs’ task force on additionality which described common categories, definitions and guidance on additionality developed by MDBs which are now being implemented. They also saluted the report presenting progress made by the MDBs in developing a common framework on value for money, but called for further discussion to harmonize selected indicators where harmonization provides clear benefits.

The IFA WG proposes the following recommendations for consideration by the G20 Summit in Buenos Aires.

**Proposal 4: The G20 stresses the role of MDBs in advancing the development agenda and providing and catalyzing investments. In view of maximizing their development impact:**

(i) The G20 welcomes MDBs efforts to deepen their development impact, mobilize and catalyze private financing and optimize their balance sheets. It welcomes the development by MDBs of common categories, definitions and guidance to enhance additionality in MDBs’ operations with the private sector which are now being implemented. It also salutes the report presenting the progress made by the MDBs in developing a common framework on value for money but calls for further discussion to harmonize selected indicators where harmonization provides clear benefits.

(ii) The G20 reaffirms the importance of the Principles for Effective Coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities. It welcomes progress achieved in their implementation and calls for sustained efforts in this area. As needed, it also calls for another update to Ministers and Governors on this endeavour in 2019.
5. Other issues

_Eminent Persons Group (EPG) on Global Financial Governance_

While recognizing that the EPG would report directly to Ministers and Governors, the IFA WG discussed the preliminary and final outcomes of this Group throughout the year, based on updates and reports provided by the EPG.

The IFA WG proposes the following recommendations for consideration by the G20 Summit in Buenos Aires.

**Proposal 5:** The G20 welcomes the final report of the Eminent Persons Group and looks forward to the outcome of the discussion on the proposals among Finance Ministers and Central Bank Governors.

_Local currency bond and capital markets_

As regularly underlined by the G20, well developed local currency bond markets (LCBM) play an important role in improving the resilience of the domestic economy and financial system. Following the G20 call on the WB and the IMF, working with Regional Development Banks, the OECD and other international organisations (IOs) as appropriate, to continue developing actions and policy recommendations in support of the development of local currency bond markets, taking into account country circumstances, the IFA WG was updated in 2018 on recent developments on local currency bond markets in emerging countries. A note, jointly written by the IMF and the WB, described that emerging market LCBMs continued their growth in 2017, with significant issuance of local currency debt that increasingly relied on foreign investors’ purchases. Furthermore, domestic bond markets are growing in several LICs. Some countries had stepped up efforts to improve international investor access, while international organizations were continuing work to strengthen capital markets and promoting access to local currency financing.

The IFA WG proposes the following recommendations for consideration by the G20 Summit in Buenos Aires.

**Proposal 6:** The G20 reaffirms the importance of the development of local currency bond and capital markets, along with the monitoring of associated risks (capital flow surges, currency switching) and appropriate supervision, to improve the resilience of the domestic economy and financial system. It looks forward to further updates on this issue by the World Bank and IMF, working with Regional Development Banks, the OECD and other IOs as needed.

_Special Drawing Rights (SDR)_

In 2016 and in 2017, the G20 supported the examination of a possible broader use of the SDR, notably through publication of some international financial institutions’ and countries’ accounts and statistics in SDR and the potential issuance of SDR denominated bonds.

In 2018, the IFA WG was updated by the IMF on the outcome of work on the possible broader role of the SDR, following the IMF Executive Board’s discussion in March 2018. The IMF underlined that the greatest scope for SDR was as an official reserve asset albeit under a different legal framework. Further work is needed on how economic and technological developments could reshape the international monetary system in the future. On this occasion, some members called for enhancing the use of the SDR.
Annex 1: List of IOs contributions

- **On Capital Flows**
  IMF, “IMF’s Institutional View on capital flows in practice”, June 2018
  OECD, “Note on the treatment under the OECD Code of liberalisation of capital movements of illustrative examples of capital flow management measures”, September 2018
  IMF, “IMF stock-take on capital flow management measures”, September 2018

- **On LICs financing for development**
  IMF-WB, “G20 Notes on strengthening public debt transparency – Highlights and work agenda”, June 13, 2018
  IMF-WB, “G20 Note: strengthening public debt transparency – the role of the IMF and the World Bank”, June 13, 2018
  IMF-WB, “G20 Note: improving public debt recording monitoring, and reporting capacity in low and lower middle-income countries”, June 13 2018
  IMF, “IMF Board paper on macroeconomic developments and prospects in low-income developing countries”, February 2018
  IMF, “IEO Evaluation on the IMF and Fragile States”, February 2018
  IMF, “IMF Board paper on the 2018 Review of Facilities for Low-Income Countries”, June 20, 2018

- **On MDBs related issues**
  IMF-WB-IADB (in coordination with the staffs of the AfDB and the ADB), “Coordination between the International Monetary Fund and Multilateral Development Banks on Policy-based lending: update on the implementation of the G20 Principles”, June 5, 2018
  Multilateral Development Banks, “Multilateral Development Banks’ harmonized framework for additionality in private sector operations”, July 20, 2018
  Multilateral Development Banks, “Multilateral Development Banks’ harmonized framework for value for money”, September 2018 (tbc)

- **On other issues**
  IMF-WB, “Staff note for the G20 IFA WG on recent developments on local currency bond markets in emerging economies”, June 15, 2018
  IMF, “IMF Board Paper, considerations on the role of SDR”, March 2018
Annex 2: IFA WG internal documents

- Terms of Reference of the International Financial Architecture Working Group, December 2017


- Co-Chairs’ summary of the second meeting of the International Financial Architecture Working Group, June 2017
Annex 3: G20 2018 IFA deliverables


- IMF, “IMF’s Institutional View on capital flows in practice”, June 2018

- OECD, “Note on the treatment under the OECD Code of liberalisation of capital movements of illustrative examples of capital flow management measures”, September 2018

- IMF, “IMF stock-take on capital flow management measures”, September 2018

- IMF-WB, “G20 Notes on strengthening public debt transparency – Highlights and work agenda”, June 13, 2018

- IMF-WB, “G20 Note: strengthening public debt transparency – the role of the IMF and the World Bank”, June 13, 2018

- IMF-WB, “G20 Note: improving public debt recording monitoring, and reporting capacity in low and lower middle-income countries”, June 13 2018

- IMF-WB-IADB (in coordination with the staffs of the AfDB and the ADB), “Coordination between the International Monetary Fund and Multilateral Development Banks on Policy-based lending: update on the implementation of the G20 Principles”, June 5, 2018

- Multilateral Development Banks, “Multilateral Development Banks’ harmonized framework for additionality in private sector operations”, July 20, 2018

- Multilateral Development Banks, “Multilateral Development Banks’ harmonized framework for value for money”, September 2018 (tbc)