# THE GROUP OF TWENTY: A HISTORY

**The study of the G-20's History is revealing. A new institution established less than 10 years ago has emerged as a central player in the global financial architecture and an effective contributor to global economic and financial stability.**

**While some operational challenges persist, as is typical of any new institution, the lessons from the study of the contribution of the G-20 to global economic and financial stability are important. Because of the work of the G-20 we are already witnessing evidence of the benefits of shifting to a new model of multilateral engagement.**

*Excerpt from the closing address of President Mbeki of South Africa to G-20 Finance Ministers and Central Bank Governors, 18 November 2007, Kleinmond, Western Cape.*

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## Executive Summary

In September 1999, the finance ministers and central bank governors of the Group of Seven countries (the G-7) announced their intention to "broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all." This announcement marked the official birth of what subsequently became known as the Group of Twenty countries (the G-20).

This new international group was launched primarily to address challenges to international financial stability posed by the widening crisis in emerging economies that had begun in Asia in 1997. Although ad hoc groups had been initially struck in an effort to deal with these issues, it became increasingly apparent that a permanent forum for informal dialogue between advanced and emerging economies was required. The G-20, whose membership consists of systemically important advanced and emerging economies, representing all regions of the globe, the European Union, and the Bretton Woods institutions, filled an important gap in the governance structure of the international economic and financial system.

The establishment of the G-20 recognised the considerable changes in the international economic landscape over the previous decades. The growing importance of emerging economies, along with the increasing integration of the global economy and financial markets, underscored the importance of broadening the scope of international economic and financial co-operation.

The G-20's mandate was to help shape the international agenda, to discuss economic and financial issues in areas where consensus had not yet been achieved, and to "lead by example." In particular, the Group was seen as an important forum for the discussion of ways to prevent and resolve international financial crises. A significant early achievement was its endorsement of internationally accepted standards and codes aimed at improving economic and financial transparency and strengthening financial systems. Following the

September 2001 terrorist attacks in the United States, member countries took a forceful stand against the financing of terrorism and encouraged all countries to follow suit. G-20 discussions also contributed to the introduction of collective action clauses in international bond contracts, and to the adoption of an informal code of conduct between major sovereign borrowers and lenders. Most recently, the Group has become an important venue for discussing quota reform and representation at the International Monetary Fund.

Although its initial focus was on issues related to international financial stability, the G-20 has also examined a broad range of longer-term economic issues of interest to its membership. The G-20 played an important role supporting globalisation, and efforts to ensure that its benefits could be shared by all, including the poorest developing countries. Other subjects studied included the effectiveness of aid programmes, abuses of the financial system, development of domestic financial markets, regional economic integration, demographics, and resource security.

Since its inception, its membership and outside observers have come to view the G-20 as an important addition to the international architecture that has made a valued contribution to better global governance. The Group has been particularly successful in sharing experiences and exchanging views on key global issues, especially those that lend themselves to specific outcomes. The keys to its success have been the ability of the Group to engage in meaningful debate, frankly and informally, and a commitment to seek consensus. The G-20 must continue to build on these successes, since its future role will hinge on the ability of its members to continue to collaborate in a collegial and effective manner.

# THE GROUP OF TWENTY: A HISTORY

## Preface

At a meeting of the Deputies of the Group of Twenty (G-20) countries held in Pretoria, South Africa on 24–25 March 2007, it was proposed that a Study Group be established to prepare a brief history of the G-20 since its inception in 1999. The proposal was supported by deputies, and most G-20 members later took part in preparing this report.[1]

Consistent with the theme for the South African host year, "*Sharing—Influence, Responsibility and Knowledge*," the initiative was motivated by several considerations. First, with the approach of the Group's tenth anniversary, it was an appropriate time to reflect on the forum's origins, its development and achievements.

Second, it was deemed useful to gather the views and perceptions of individuals who were key in the establishment of the Group before memories fade. While some remain in senior positions within their administrations, many have left the public service, or have retired.

Third, an overview of the Group's activities and operations since its inception provides a useful starting point from which to consider the effectiveness of the forum and its broader integration into the global economic and financial system.

In the preparation of this history, interviews were conducted with key officials who were involved in establishing this forum, and who took part in G-20 meetings during its formative years (Annex B). In addition, G-20 members provided their views on the objectives, work programme, operational procedures, and the perceived effectiveness of the G-20. Past chairs also supplied brief summaries of their host years, along with supporting documents and communiqués (Annex C). This information was

[1] The study group was chaired by Canada, with the participation of Argentina, Australia, Brazil, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Russian Federation, South Africa, Turkey, the United States, the United Kingdom, and the European Central Bank, along with the IMF and the World Bank as institutional members (Annex A).

complemented by other material from primary and secondary sources, including academic articles and other commentaries.

A draft report of the study group was presented to finance ministers and central bank governors on 18–19 November, 2007 in Kleinmond, Western Cape, South Africa.

**Background**

On 25 September 1999, G-7 finance ministers and central bank governors announced that they proposed "to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all." They then invited their "counterparts from a number of systemically important countries from regions around the world" to a meeting in Berlin in December 1999.[2] This announcement gave effect to a statement by G-7 finance ministers at Köln the previous June that "they would work together to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system."[3]

The announcement marked the official birth of what subsequently became known as the Group of Twenty countries (the G-20), consisting of 19 countries—Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States—and the European Union. The Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, along with the chairs of the International Monetary and Financial Committee (IMFC) and the Development Committee (DC), also participate in G-20 meetings of finance ministers and central bank governors *ex officio*. Collectively, the G-20 brings together systemically important advanced and emerging economies that represent roughly 85 per cent of global GDP and two-thirds of the world's population.

[2] G-7, *Statement of G-7 Ministers and Central Bank Governors* (Washington, D.C., 25 September 1999).
[3] G-7, *Report of G-7 Finance Ministers to the Köln Economic Summit* (Cologne, Germany, 18–20 June 1999).

The main motivation for launching a new international group was the crisis in emerging economies that had begun in Thailand in mid 1997, and which widened and intensified through the next two years, touching other important Asian economies, before spreading to Russia and Latin America. The birth of the G-20 also reflected the “tectonic” shifts in the global economy over the previous 20 years, shifts that continue today. While it had been possible for major industrial countries to address most global economic problems among themselves—through the G-5 or subsequently the G-7—during the 1970s, and even to a large extent during the 1980s, this had become increasingly difficult by the late 1990s, as the weight of the G-7 countries in the global economy declined, owing largely to the rapid growth of emerging economies, especially those in Asia (see Annex D).

The global economy was also becoming more integrated. Cross-border trade has increased sharply in recent decades in response to trade liberalisation under the auspices of the General Agreement on Tariffs and Trade (GATT) and, subsequently, the World Trade Organization (WTO). From 1991 to 2006 alone, world trade as a proportion of global GDP rose from roughly 40 per cent to 62 per cent. Much of this increase was again due to the growing importance of emerging markets, and importantly reflected the unprecedented additional momentum provided by the transition of largely closed centrally-planned economies to open-market economies. Between 1991 and 2006, the share of global trade involving G-20 members that were not part of the G-7 almost doubled from 11 per cent to 19 per cent.[4]

At the same time, the liberalisation of domestic capital markets and the opening of capital accounts, first in industrial and later in emerging economies, contributed to the growth of cross-border capital flows. Certain emerging economies, such as China, became major recipients of foreign direct investment. The international reserve holdings of emerging economies also increased significantly, especially in recent years. The non-G-7 G-20 members’ share of global reserves rose from 14 per cent in 1991 to 43 per cent by 2006, accelerating in recent years as part of an effort by many countries to self-insure against future crises.

[4] Consistent data for the G-20 prior to 1991 are unavailable.

The increasing interdependence of all countries stemming from the ongoing expansion of cross-border trade and capital flows, and the parallel rise in the exposure of countries to economic and financial shocks emanating from far beyond their borders, underscored the importance of broadening the scope of international economic and financial co-operation.

In 1989, Asia-Pacific Economic Cooperation (APEC) was established, under an Australian initiative, to improve the economic co-operation of countries along the Pacific Rim. Initially a grouping of 12 members, including three G-7 countries—Canada, Japan and the United States—the group has expanded to include 21 economies. The first APEC leaders' summit was hosted by U.S. President Clinton in 1993.

At the 1995 Halifax G-7 Summit, the support of a number of emerging and smaller industrial economies was sought to help strengthen the international financial architecture in the wake of the Mexican peso crisis. In addition to urging the establishment of a new standing procedure,[5] and encouraging work on an IMF quota increase, G-7 leaders looked beyond the traditional G-10 group of industrial countries to "other countries with the capacity to support the [international financial] system" to lend funds to the IMF in case of emergencies.[6] The New Arrangements to Borrow (NAB) established emergency lines of credit between twenty-six participating governments, or their central banks, and the IMF. The IMF's Executive Board adopted the decision establishing the NAB in 1997, which came into effect in November 1998.[7]

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[5] This new procedure, called the Emergency Financing Mechanism, was established in 1997. Under this mechanism, a member country that was experiencing a financial crisis could gain faster access than otherwise to an IMF arrangement with strong conditionality, and a larger upfront disbursement of funds.

[6] G-7, *Halifax Summit Communiqué*, 16 June 1995. See the IMF's website at <www.imf.org>.

[7] In 1962, the G-10 group of industrial countries (or their central banks), joined by Switzerland in 1964, established arrangements with the IMF under which the Fund could borrow specified amounts of currency if its own resources were insufficient to deal with global emergencies. An associated arrangement was negotiated with Saudi Arabia in 1983. Called the General Arrangements to Borrow (GAB), these facilities currently provide the IMF with access to SDR 17 billion in additional resources. Under the NAB, 26 economies (or their central banks) agreed to provide a further SDR 17 billion. The NAB did not replace the GAB but became the "first and principal recourse" of the IMF in the case of an emergency. In addition to the G-10 countries and Saudi Arabia, seven emerging economies (Chile, Hong Kong SAR, Korea, Kuwait, Malaysia, Singapore, and Thailand) participated in the NAB, along with seven additional industrial countries (Australia, Austria, Denmark, Finland, Luxembourg, Norway, and Spain). The NAB was

The inclusion of important emerging and other economies in the NAB was a deliberate initiative by the G-7, particularly the United States, to encourage economies that had substantial financial capability to assume greater responsibility for the effective operation of the international financial system, and to extend international economic and financial co-operation beyond the G-7 or G-10 groups of industrial countries.

In the summer of 1997, the Asian crisis began. It started in Thailand, and there was a contagious deterioration in economic and market conditions throughout the Asian region, affecting Indonesia and Korea in particular. The rapidly broadening crisis was characterised by large capital outflows from affected countries in response to negative market sentiment, the depletion of international reserves, large currency depreciations, sharply higher domestic interest rates, and marked declines in economic activity.

Several factors underlay the expanding crisis. Most importantly, the development of supervisory and regulatory systems in many emerging economies had not kept pace with the challenges posed by the opening of capital accounts and with the liberalisation of domestic financial sectors. Fixed or quasi-fixed exchange rate systems that had supported the massive inflow of portfolio capital in previous years proved brittle in the face of persistent capital outflows, as global investors became more risk averse and reduced their exposure to emerging economies. The increasing integration of markets, combined with a lack of transparency, which hindered the ability of investors to distinguish between risks, exacerbated the extent of the contagion.

In response to the growing crisis in Asia, the IMF and World Bank provided conditional financial assistance to several seriously affected countries. Some were given multilateral assistance through international support packages. In November 1997, finance ministry and central bank officials of 14 Pacific economies,[8] along with representatives of the

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activated to finance a Stand-By Arrangement for Brazil in December 1998. See the IMF's website at <www.imf.org>.

[8] Australia, Brunei Darussalam, Canada, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States.

IMF, the World Bank, and the Asian Development Bank, met in Manila, the Philippines to share information, promote discussion, and "develop a concerted approach to restoring financial stability in the region."[9] This forum, called the "Manila Framework Group," was especially noteworthy because of the direct participation of China.

The Manila Framework Group was almost immediately overtaken by events, as it became apparent that the crisis was not confined to Asia, but was spreading to emerging economies in other parts of the globe.[10] Heightened risk aversion was also affecting credit markets in advanced economies. In addition, the economic downturn in emerging economies was having a dramatic negative impact on commodity prices, affecting producers and consumers in different ways around the world.

*The G-22*

In recognition of the global dimensions of the crisis, at the APEC leaders' summit held in Vancouver, Canada in late November 1997, U.S. President Clinton called upon U.S. Treasury Secretary Robert Rubin to organise a special meeting of finance ministers from around the world to examine and debate the problems besetting the global economy and, where possible, to seek a consensus on solutions. According to a U.S. Treasury official, the idea for such a meeting "sprang from a discussion between President Clinton and Singaporean Prime Minister Goh."[11]

In response to President Clinton's call, the U.S. Treasury organised two meetings of what became known as the Group of Twenty-Two (G-22) —sometimes referred to as the Willard Group—composed of finance ministers and central bank governors from advanced and emerging economies to examine the functioning of the international

[9] Manila Framework, Meeting of Asian Finance and Central Bank Deputies, *A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability*, Agreed Summary of Discussions (Manila, Philippines: 18–19 November 1997).

[10] Despite the later creation of other globally representative groups, the Manila Framework Group continued to meet until 2004.

[11] M. Sobel and L. Stedman, *The Evolution of the G-7 and Economic Policy Coordination*, U.S. Department of the Treasury, Occasional Paper # 3, July 2006, 9.

financial system.[12] The U.S. Treasury believed that a collective, international response to the growing crisis in Asia was imperative if confidence was to be quickly restored. Moreover, it felt that “fire-fighting” would be insufficient. Given the nature and scale of the problem, something needed to be done to reform the international financial architecture, and that this would require a global consensus transcending the G-7, or even the G-10 group of industrial countries.

The first special meeting of finance ministers and central bank governors, which was addressed by President Clinton, was held in Washington D.C. in April 1998 on the fringes of the spring meetings of the IMF and the World Bank.[13] Ministers and governors informally discussed key issues facing the global economy. They also agreed that it was critical to strengthen the international financial system by trying to prevent financial crises and to improve their resolution should they occur.

Ministers and governors commissioned three working groups to examine possible action in three areas: increasing transparency and disclosure; strengthening financial systems and market structures, particularly in emerging economies; and achieving appropriate burden-sharing between the official and private sectors in the event of a crisis.[14] Consisting of representatives of both industrial and emerging economies, the working groups contributed to the global dialogue on these key issues. They reported back to ministers and governors at the second meeting of the G-22, again held in Washington D.C. in October 1998,[15] with their reports later released to the public.[16]

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[12] Countries invited to attend the G-22 included the G-7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) and 15 other important economies (Argentina, Australia, Brazil, China, Hong Kong SAR, India, Indonesia, Malaysia, Mexico, Poland, Russia, Singapore, South Africa, the Republic of Korea, and Thailand).

[13] Also in attendance were the Managing Director of the IMF, the President of the World Bank, the Secretary General of the OECD, and the Chairman of the IMF’s Interim Committee.

[14] Special Meeting of Finance Ministers and Central Bank Governors, *Chairman’s Statement*, 16 April 1998.

[15] Four additional countries attended this second meeting of the G-22. These included Belgium, the Netherlands, Sweden, and Switzerland.

[16] The reports of the three working groups can be found on the web site of the Bank for International Settlements at <www.bis.org> under “Other Publications.”

Although the two G-22 meetings were at times contentious, the reports of the three working groups were well received by the international community. The groups broadened international co-operation beyond the industrial countries, and gave emerging economies a sense of partnership in the process. Work of the G-22 also helped to provide direction and support to international financial institutions, such as the IMF, in their efforts to promote reforms aimed at strengthening domestic and international financial markets. These included greater disclosure and transparency, adoption of internationally-accepted standards and codes, and development of a framework for crisis resolution.

The work of the G-22 also contributed to the G-7 initiative announced by finance ministers and governors in October 1998 to examine arrangements for co-operation among international regulatory and supervisory bodies. In response to the report[17] drafted by Hans Tietmeyer, President of the Deutsche Bundesbank, at the behest of G-7 ministers and governors, the G-7 established the Financial Stability Forum (FSF) in February 1999.[18]

Through the autumn of 1998, G-7 Deputies discussed options for carrying forward the work of the G-22. One proposal was to hold an extraordinary meeting of the IMF's Interim Committee, [19] the Fund's direction-setting body that reported directly to Fund governors, and to establish a working group of deputies and senior officials to bring

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[17] H. Tietmeyer, *International Co-operation and Co-ordination in the Area of Financial Market Supervision and Surveillance*, 11 February 1999. Available at <www.fsforum.org/publications>.

[18] The first meeting of the FSF was held in April 1999 in Washington D.C. Its membership consists of deputy-level representatives of finance ministries, supervisory agencies, and central banks of each G-7 country, and the ECB. The IMF and the World Bank each has two representatives, while the OECD and the BIS each has one representative. International regulatory and supervisory bodies are represented by two representatives for each of the Basel Committee on Banking Supervision, IOSCO, and the IAIS, and one member from each of the Committee on Payment and Settlement Systems and the Committee on the Global Financial System. In September 1999, FSF membership was extended to include one representative from each of Australia, Hong Kong SAR, the Netherlands, and Singapore. Switzerland joined in 2007, with one representative. See the FSF's web site at <www.fsforum.org>.

[19] Members of the 24-member Interim Committee (and its successor body, the International Monetary and Financial Committee) are IMF Governors, usually finance ministers and central bank governors, and reflect the composition of the IMF's Executive Board. The Board is composed of five appointed directors (those from larger Fund members) and 19 elected directors. See the IMF's web site at <www.imf.org>.

together the main findings and recommendations of other international forums on how to strengthen the international financial architecture.[20]

Although this approach found support, some G-7 members had reservations since issues under discussion extended beyond the mandate of the Interim Committee. There was also a concern that the Interim Committee would not be an effective forum for debating reforms to the international financial architecture in the absence of constituency reform which would give Asian members a greater voice. There were also fears that an extraordinary meeting of the Committee and the establishment of a working group might unduly raise public expectations.

*The G-33*

As an alternative, the G-7 agreed in early 1999 to hold follow-up seminars on the international financial architecture, involving a much larger group of 33 countries. Finance ministers and central bank governors of those countries were invited to participate in two ad hoc seminars, with the first being held in Bonn, Germany in March 1999, and the second in Washington D.C. in April.[21] Issues covered at these seminars included improving prudential oversight of financial markets; strengthening financial systems, especially in emerging-market economies; and encouraging the adoption of policies to better protect the most vulnerable.

In addition to facilitating further meaningful dialogue with emerging economies on key issues affecting the global economy, the new seminars helped to address complaints about the representativeness of the G-22. It was hoped that an international consensus would coalesce around G-7 proposals under consideration ahead of the 1999 Cologne Summit that were aimed at strengthening and reforming the international financial institutions, as well as financial markets in industrial and emerging economies.

[20] A similar approach had been used to discuss reforms to the international financial system during the early 1970s following the collapse of the Bretton Woods system of fixed exchange rates.

[21] In addition to the original G-22 countries, Belgium, Chile, Côte d'Ivoire, Egypt, Morocco, the Netherlands, Saudi Arabia, Spain, Sweden, Switzerland, and Turkey were also invited.

The G-22 and the more inclusive G-33 were welcomed by invited emerging and smaller industrial economies, and were seen as strengthening the international financial architecture. The success of the G-22's working groups demonstrated "the value of fresh, practical, and less institutionally based dialogue and co-operation."[22] But many remained dissatisfied with the temporary ad hoc nature of these groups and called for the establishment of an "ongoing mechanism for inclusive dialogue."[23] Some G-7 countries were similarly dissatisfied with the process. There were also concerns about the number of participants at the G-33 seminars, which made it difficult to have a meaningful informal dialogue among key countries on important economic and financial issues.

Dissatisfaction with the ad hoc nature of both the G-22 and G-33 processes by both advanced and emerging economies was an important reason behind the establishment of the G-20. Also key was the awareness of G-7 countries of the merit in engaging systemically important emerging-market economies in a regular informal dialogue. These countries' growing importance in the global economy, and their vulnerabilities had been exposed by earlier crises.

While the establishment of the G-20 was a direct response to the global repercussions of the economic and financial crisis in Asia, it also gave tangible recognition to the marked changes to the international economic landscape that had occurred over the preceding decades. Emerging countries had become important economic powers. Moreover, owing to the increasing integration of economies and markets through globalisation, domestic developments in these countries could have significant repercussions far beyond their borders. The effective functioning of the international financial and economic system warranted their active participation in the governance structure of the global economy.

[22] G. De Brouwer, "Institutions to Promote Financial Stability: Reflections on East Asia and an Asian Monetary Fund" in *The International Monetary System, the IMF, and the G-20: A Great Transformation in the Making?* ed. R. Samans, M. Uzan, and A. Lopez-Claros World Economic Forum, The Reinventing Bretton Woods Committee (Houndmills, Basingstoke and New York: Palgrave Macmillan, 2007), 82.
[23] APEC Finance Ministers, *Communiqué*, Sixth Meeting ( Langkawi, Malaysia, 15–16 May 1999).

## The Formation of the G-20 and its Structure

Discussions within the G-7 on a replacement for the G-33 began almost immediately after the second G-33 seminar on the reform of the international financial architectural held in Washington D.C. in April 1999. Canada played an important leadership role. While the idea of broadening the international architecture beyond the G-7 or G-10 germinated during the early 1990s in the U.S. Treasury, it was Paul Martin, then Canada's finance minister, who championed the idea within the G-7. Martin believed that emerging economies had to "be at the table and be part of the solution."[24] Germany too was an early supporter of a new forum, and shepherded it through the G-7 summit process.

The key issue was creating a replacement ministerial-level forum similar to the G-22, which was small enough to facilitate informal and frank discussions akin to those at meetings of G-7 finance ministers and central bank governors since their early beginnings as the so-called "Library Group" in 1973. [25]

One proposal was to convert the IMF's Interim Committee into a Council of Ministers with decision-making powers, a move allowed under the Fund's Articles of Agreement.[26] Such a proposal would strengthen the Fund's position and keep it at the centre of the global financial system. The "Council" would also have the merit of being globally representative, with all Fund members represented, either directly or indirectly.

Others remained concerned that some of the issues under discussion were outside the mandate of the Interim Committee. As well, the IMF's constituency system meant that certain systemically important countries would not necessarily participate directly in Council meetings, and many Asian and other emerging economies remained under-represented in the Fund. Interim Committee meetings, which involved a very large

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[24] P. Martin, Interview conducted by Candida Tamar Paltiel, G8 Research Group, (Ottawa 18 November 2001). Available at <www.g8.utoronto.ca/g20/interviews/Martin011118.pdf>.

[25] For a comprehensive history of the G-7/8, see P. I. Hajnal, *The G8 System and the G-20: Evolution, Role and Documentation*, Global Finance Series (Aldershot: Ashgate, 2007).

[26] See Section XII, Section 1 and Schedule D of the IMF's *Articles of Agreement*.

number of participants, had also at that time become largely formulaic. Some G-7 members were concerned that a Council might reduce the effectiveness of the IMF's Executive Board.

While reform of the Interim Committee was seen as important to keeping the IMF at the centre of the international financial system, a consensus emerged that a distinct "G-X" needed to be created as a forum for debate among systemically important advanced and emerging economies. However, significant issues remained outstanding. These included the mandate of the new Group, its membership, and how it would be integrated "within the framework of the Bretton Woods institutional system" as called for by G-7 ministers in their June 1999 communiqué. These issues were jointly resolved in late August and early September 1999.

*Mandate of the G-X*

As initially cast by G-7 finance ministers in their June 1999 report to the Köln economic summit, the purpose of the new forum was to facilitate "dialogue among systemically important countries within the framework of the Bretton Woods institutional system." The report urged that a "broad range of countries should be involved in discussions on how to adapt the international financial system to the changing global environment."

In follow-up meetings through the summer of 1999, G-7 deputies fleshed out the proposed mandate of the G-X and examined various alternatives. These included i) the promotion of discussion, study, and policy actions by the G-7 and other key countries with an important stake and influence in the global economy and financial system; ii) the creation of a mechanism through which systemically important non-G-7 countries could contribute to the G-8 Summit process; and iii) the promotion of a consistent and coordinated approach, with work conducted by other bodies (such as APEC, the Manila Framework Group, and the Interim and Development Committees) on the financial crises in emerging economies and their impact on the global financial system.

Given the events surrounding the crises in emerging economies and the impact on global financial markets, the initial focus of deputies was clearly on financial stability issues. But by the time of the September 1999 statement of G-7 ministers and central bank governors, the proposed mandate had broadened to include the promotion of "co-operation to achieve sustainable world economic growth for all." This mandate was reviewed and ratified by ministers and governors of what became known as the "G-20" at their first meeting, held in Berlin in December 1999.

*Reform of the Interim Committee*

Along with agreement to establish the G-20, the G-7 also agreed to strengthen the Interim Committee of the IMF. On 30 September 1999, IMF governors replaced the Interim Committee with the International Monetary and Financial Committee (IMFC). The change signified the commitment of members to reinforcing the importance of the role played by this advisory body to the IMF Governors. A "deputies" process of Committee members was instituted on an "as needed" basis to help guide and prepare for the twice-yearly meetings of IMF governors held in the spring and autumn. Under the IMFC's chairman, Gordon Brown, then the United Kingdom's Chancellor of the Exchequer, efforts were made to streamline the meetings and improve their effectiveness.

*G-20 Links to the Bretton Woods Institutions*

Several options were proposed to link the new Group to the Bretton Woods institutions. One option was for the chairs of the IMFC and Development Committees to jointly preside over the new forum, with the Fund's Managing Director and the World Bank's President invited to the meetings as full participants. Another option envisaged the G-20 headed by the G-7 chair, with the chairs of the IMFC and Development Committees invited as observers. In this scenario, the IMF's Managing Director and the World Bank's President would be invited to attend as required. A third option saw a separate, rotating G-20 chair, with the chairs of the two Bretton Woods committees and the heads of the two institutions invited as *ex officio* members.

G-7 deputies adopted the third option. The governance structure of this option had the advantage of embedding the new Group strongly "within the structure of the Bretton Woods framework," while providing a degree of independence that might not have existed if it was chaired by the IMFC and Development Committees. It also gave all members, including emerging-market economies, an opportunity to chair the new Group.

*G-20 Membership*

There was no codified list of criteria to determine which countries would be invited to join the new forum. It was accepted, however, that countries had to be systemically important to the global economy and have the ability to contribute to global economic and financial stability. Other considerations were that the group be broadly representative of the global economy and be regionally "balanced." Also key was that the group be small enough to facilitate frank and open discussion. A small group would help foster close working relationships and raise the level of trust among its members. This distinctive feature of G-7 meetings was unanimously viewed as key to the G-7's effectiveness. As one observer noted "the G-20 can be seen as one point along a line representing the trade-off between the benefits of relatively small groupings and the need to be legitimate."[27]

It was important for country representation in the group to be at a very high level, consisting of finance ministers and central bank governors. High-level political backing was seen as essential if the group was to be effective. Given concerns about the number of participants, the size of country delegations to ministerial meetings was deliberately limited to three—the finance minister, the central bank governor, and one deputy.

Drawing up a membership list was challenging for G-7 deputies. Twenty countries, along with the IMF and the World Bank, were seen as the largest possible number of members

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[27] Lowy Institute for International Policy, "Geeing up the G-20," *Policy Brief* (Sydney, April, 2006), 10.

if the intimacy of the G-7 had any hope of being replicated. It was therefore inevitable that some participants in the G-22 and G-33 would be disappointed.[28]

One important issue was European representation. With the four European members of the G-7 invited to join the Group, the inclusion of other European countries, both smaller industrial and emerging, was ruled out. G-7 deputies did, however, agree to invite the European Union (EU), represented by the country holding the EU presidency, and the European Central Bank (ECB) to join the Group to provide indirect representation for the smaller members of the EU.[29]

African representation was also an issue. Although a number of possible candidates were discussed, only South Africa was invited to join the new forum because of its systemic importance, both globally and regionally. One consideration in this decision was the important focus of the new Group on financial stability rather than on development issues.

The ability of Indonesia to participate effectively in the Group in light of the political instability in the country at that time was also initially an issue. However, such concerns had evaporated by the time of the first ministerial meeting in Berlin in December 1999. There was some discussion of inviting the Financial Stability Forum to join the Group, given the closeness of the mandates of the two bodies. But this idea was not pursued.

With 19 countries, one regional representative (the European Union), and four *ex officio* members (the chairs of the IMFC and Development Committees, along with the Fund's Managing Director and the President of the World Bank), the choice of a name for the new forum was not immediately obvious. One proposal was to call it the "G-19," consistent with the number of country participants. However, there was concern that this might lead to pressure for additional members. "G-20" was adopted on the basis that it

[28] Even 20 members, each represented by its finance minister and central bank governor, along with a supporting deputy, as well as institutional representation from the IMF and the World Bank, would imply a considerable number of participants.

[29] The Netherlands, although not invited to join the G-20, was a member of the Financial Stability Forum.

was a round number, suggesting finality, and was consistent with the number of countries represented plus the European Union.

*Chair of the G-20 and the Establishment of the Troika*

Paul Martin, then Canada's Minister of Finance, was chosen by the G-7 to be the new G-20's first chairman for a two-year term, ending in late 2001. Mr. Martin brought considerable experience to the job and had been a forceful advocate for the creation of the new forum. A number of other countries effectively ruled themselves out. The prominent role played by the United States in convening the G-22 and G-33 the previous year made it timely for another country to take the lead. With Europeans already in prominent positions in international financial institutions, including the IMF, and Germany holding the EU Presidency during the first half of 1999 and chairing the G-7 that year, a European candidate for the chairmanship was not advanced.

At the October 2001 ministerial meeting, Minister Martin informed his colleagues that he did not consider it in the best interest of the G-20 for him to remain as chair beyond his two-year term. In the absence of a consensus on a successor, Canada organised a sub-committee of treasury deputies from Brazil, China, and the United Kingdom to consult their counterparts in other member countries about their preference for a future Chair. Contact assignments were broadly based on geography, where possible.[30] Members were asked to think creatively about possible administrative arrangements that would ensure continuity and allow the selection process to encompass all members. Since Canada had supplied the first chair of the Group, it was seen as appropriate that the second chair of the G-20 come from an emerging economy.

After extensive consultations, a consensus emerged in early 2002 that Yashwant Sinha, India's Finance Minister, would become the G-20 Chairman for 2002. Mr. Sinha assumed this position at the end of February. The terms of subsequent chairs would begin at the beginning of each calendar year.

[30] Brazil contacted Argentina, Australia, Mexico, Turkey, and the United States. China contacted India, Indonesia, Japan, Korea, and Saudi Arabia; while the United Kingdom spoke to France, Germany, Italy, Russia, and South Africa.

A consensus also emerged on principles to guide the selection of future chairs. It was agreed that, as far as possible, future chairs would be selected well in advance to ensure continuity and allow a country time to prepare for its chairmanship. G-20 members also agreed that there should be an equitable annual rotation among all regions and between countries at different levels of development. In other words, the Group's chair would be vested in a country rather than an individual. Five notional groups of countries were established (Annex E) from which a particular year's chair would be drawn.[31] To highlight the high-level political support given to the G-20, all chairs have been finance or treasury ministers.

In 2002, G-20 deputies also agreed to establish a management "Troika," consisting of the previous, current, and immediately upcoming chairs. This innovation, which is virtually unique among international groupings, has strengthened the continuity of the group. Among its duties, the Troika proposes agenda issues for the G-20, selects speakers in consultation with members, and deals with the logistics of meetings. It also gives the current and upcoming chairs ready access to the experience of the previous year's chairman. This may have been particularly important with the first hand-off of the chairmanship from an advanced country (Canada) to an emerging economy (India) in 2002. Troika members for 2007 were Australia (2006 chair), South Africa (2007 chair), and Brazil (2008 chair).

The process to select the chair two years out is set in motion by the current chair. For example, South Africa, as the 2007 chair of the G-20, was responsible for starting the process that led to the selection of the United Kingdom as the 2009 chair.[32]

[31] For example, India, Russia, South Africa, and Turkey are members of Group 2, with India chairing the 2002 meetings. Five years later, Group 2's turn came around again, with South Africa tapped to chair. Brazil, a member of Group 3, will chair the G-20 in 2008.

[32] To provide guidance for chairing the G-20, Australia compiled a *"G-20 Policy Manual"* in 2006.

*Processes*

In many respects, the G-20 was modelled on the G-7, with the new Group providing an informal forum for debate among systemically important countries. Without a charter, votes, or legally binding decisions, members interact as equals. Emphasis is given to reaching consensus on important issues, and members are encouraged to debate freely, rather than speak from prepared texts. The Group has no permanent secretariat or staff. Secretariat services are provided by the chair country.

Like the G-7, the G-20 has a "deputies' process" that prepares the ground for meetings of finance ministers and central bank governors (the "ministerial"). G-20 deputies meet at least twice a year before the annual meeting of ministers and governors, which is typically held in the late autumn. The "ministerial" is the capstone meeting of the year, and is hosted by the chair country. Workshops and seminars for deputies are also organised through the year in support of the year's agenda. Such meetings are often hosted by other countries. While the number of workshops and seminars has varied over the years, three has become customary. For example, in 2007, three workshops were held—the first in Rio de Janeiro, Brazil on the Reform of Bretton Woods Institutions in March; the second on Commodities and Financial Stability in Washington D.C., United States; and a third on Fiscal Elements of Growth and Developments in Istanbul, Turkey in July. Academic experts and private-sector specialists are invited to workshops and seminars to share their expertise with deputies and officials and to debate relevant issues.

In 2006, following a proposal by Australia, study groups were introduced on an ad hoc basis. The purpose of study groups is to "maintain momentum of analytic work in the G-20 that may not be carried by the main agenda."[33] In 2006, the first study group was established to continue the work of deputies on labour market mobility and demographics.

One important and novel feature of the G-20 is its extensive use of the Internet. Each chairing country establishes a G-20 website for that year. In addition to background

[33] *G-20 Policy Manual*, 18.

information available to the public, a confidential members-only site is maintained to circulate background papers and other material for meetings, and to archive documents. Work of study groups is also posted for discussion.

*Response to the Establishment of the G-20*

Invited countries were pleased that a new, more inclusive, international forum had been established to better recognise their importance in the global economy; one that treated them as equals in the debate on international economic and financial issues. While there may have been some initial suspicion regarding the "costs" of membership, such concerns, if they existed, quickly dissipated. G-20 meetings provided an opportunity for ministers and governors of major emerging economies to meet their peers in other systemically important countries and engage in real debate on issues that were important domestically and internationally. Some also saw their role as representing other, smaller countries in the international debate.

Ahead of the 2000 ministerial meeting, Trevor Manuel, Minister of Finance for South Africa, stated:

> Next week, we go to the G-20 meeting in Canada – a group that includes 'systemically significant' countries. Countries like ourselves, influential, although not powerful; countries with a voice; with potential. The G-20 provides us with opportunity to make allies among the middle powers to engage with the G-7; to push for structural change in a world where the inequalities are often reinforced by what, in the post Cold War era, has been a completely lopsided balance of power. We do this for ourselves, but we also need to engage on behalf of our neighbours. Because if our neighbours fall by the wayside, we are dragged down too.[34]

There was, however, disappointment from many who were not invited to participate. This was most strongly felt by the smaller members of the G-10 countries. As participants in both the GAB and the NAB, contributors to the HIPC initiative of the IMF,[35] as well as

[34] T. Manuel, Minister of Finance, South Africa, *Notes for a Speech to the Seminar on South Africa's Foreign Relations and the Creation of National Wealth and Social Welfare*, Centre for European Study in Africa, Rand Afrikaans University, 20 October 2000.

[35] The Heavily Indebted Poor Countries (HIPC) Initiative was launched in 1996 by the IMF and the World Bank to help reduce the debt burden of the most heavily indebted poor countries to sustainable levels. See the IMF's web site at <*www*.imf.org>.

sizeable participants in multilateral support packages organised through the Bank for International Settlements (BIS) for countries experiencing financial difficulties,[36] they had demonstrated their ability to support the international financial system. Consequently, they felt that they deserved a seat at the G-20 table. Informal approaches were made to Paul Martin, as G-20 Chair, as well as to others to make their case. One suggestion was that the smaller European countries be given a chair that would rotate among them. But since Europe was already strongly represented in the new Group, and there was a desire to limit the number of members to 20, this request could not be accommodated.

While not opposed to the creation of the G-20, senior Fund officials did not see the need for another international grouping, especially when the existing Interim Committee, representing all Fund members either directly or indirectly, would, in their view, serve a similar purpose. But the Fund's constituency system, the under-representation of many emerging economies at the Fund, and the nature of the Interim Committee meetings at that time militated against using this Committee for informal dialogue and discussion among systemically important countries.

The early reaction of academics to the formation of the G-20 ranged from opposition, through scepticism, to mild optimism. Gerry Helleiner from the University of Toronto saw the G-20 as "a small step towards improved global governance" but argued that the G-20 "fails completely" on "all major requirements of appropriate process."[37] In his opinion, the G-20 was severely, if not irretrievably, flawed, since its G-7 architects had ignored the already-existing G-24 group of developing countries, had not included representation from the poorest or from "European 'like-minded' countries," and did "not possess any mechanisms either for reporting or for accountability to the broader international community." Helleiner called for a radical transformation of the G-20, or a total shutdown "to permit the earliest possible 'fresh start.'"

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[36] Multilateral assistance packages organised with the co-operation of the BIS were in support of IMF programmes.
[37] G. Helleiner, *"Developing Countries, Global Financial Governance and the Group of Twenty: A Note"* (Toronto: University of Toronto, March 2001).

For John Kirton, the G-20 represented the "'G7-ization' of international decision making, rather than a genuine broadening."[38] Roy Culpepper, President of the North-South Institute, was more hopeful. Noting that the G-20 was "as yet in its infancy," he argued that "the possibility exists of its non-G-7 members taking initiatives and broadening its agenda."[39]

The formation of the G-20 in 1999 represented the first step in the creation of a legitimate and important new element in the international governance structure. Although its membership was composed of systemically important economies and was broadly representative, the new forum had yet to demonstrate its effectiveness. As with all new organisations, its value would be judged by its achievements.

## G-20 Objectives, Work Programme, and Evolution[40]

The inaugural meeting of G-20 ministers and central bank governors took place on 15–16 December 1999 in Berlin, Germany. The meeting was hosted by Hans Eichel, Germany's Finance Minister, and chaired by Paul Martin, Canada's Finance Minister. A preparatory meeting of deputies had been held the previous month in Vancouver, Canada. The discussion focused on three issues—the mandate of the new group, how it would operate, and, most importantly, ways to prevent and resolve international financial crises.

G-20 members validated the mandate envisaged for the Group by G-7 ministers and governors in their September 1999 statement. The G-20 communiqué released at the end of the meeting noted that:

> The G-20 was established to provide a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the

[38] J. Kirton, *What is the G20?* Adapted from "The G7, China and the International Financial System," Paper presented at an International Think Tank Forum on "China in the Twenty-First Century," China Development Institute, 10–12 November 1999. Available at <http://www.g7.utoronto.ca/g20/g20whatisit.html>.

[39] R. Culpepper, *Systemic Reform at a Standstill: A Flock of "Gs" in Search of Global Financial Stability*, paper commissioned by the Commonwealth Secretariat (May 2000), 20.

[40] See Annex C for summaries of G-20 events and achievements, annually, from 1999 to 2007, prepared by host chairs.

> discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all.[41]

In essence, G-20 members envisaged that the Group's mandate would encompass both financial stability concerns and longer-term growth-related issues. Minister Martin, as G-20 chairman, stated that "there is virtually no major aspect of the global economy or international financial system that will be outside of the group's purview." Moreover, he anticipated that the Group would "focus on translating the benefits of globalisation into higher incomes and better opportunities for people everywhere."[42]

The new Group would not, however, be a decision-making body. Instead, its objectives were to help shape the international agenda, to discuss economic and financial issues in areas where consensus had not yet been achieved, and to "lead by example," by adopting measures developed in other forums but not yet in wide use. Agreement was also reached on operational and procedural issues, including the number of deputies and ministerial meetings and the size of delegations. It was decided not to have a permanent G-20 secretariat, which might bureaucratise the operations of the new forum.

The principal substantive issue for discussion at the first meeting of ministers and governors was crisis prevention and resolution, with the emphasis on prevention. A consensus was reached that in order to reduce a country's vulnerability to financial crises, sound macroeconomic policies, including appropriate exchange rate and debt-management policies, were essential. These needed to be complemented, however, by improved financial sector regulation and supervision, including the observance of internationally accepted standards and codes.

The key outcome of the meeting was the commitment of G-20 members to report to the IMF on their observance of internationally-accepted standards and codes (ROSCs) established by international standard-setting bodies, the IMF, and the World Bank, aimed

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[41] G-20*, Communiqué*, G-20 Finance Ministers and Central Bank Governors Meeting, (Berlin, Germany, 15–16 December 1999).

[42] E. Beauchesne, "Martin warns against complacency," *Montreal Gazette*, 26 September 1999, A9.

at strengthening domestic financial systems. Such codes and standards covered a range of issues that included data and policy transparency, financial sector supervision, auditing, accounting, and insolvency arrangements. Members also agreed to allow the IMF to examine their financial sectors under the Fund's financial sector assessment programme (FSAP). It was agreed that a summary report, or matrix, of members' progress would be circulated within the G-20. ROSCs and FSAPs, which are typically made public, provided a form of peer pressure on members to accelerate their adoption of internationally accepted codes and standards. As intended, this was also a source of encouragement for other countries to follow suit.

The Group's focus on the adoption by countries of "best practices" to reduce countries' vulnerability to financial crises continued through 2000 and 2001. Building on the discussions at the first "ministerial" meeting, ministers and governors at their second meeting in Montreal fleshed out their views in greater detail and reiterated their support for appropriate exchange rate arrangements, prudent liability management, private sector involvement in crisis prevention and resolution, and the adoption of international standards and codes. To further support a move towards a consensus on private sector involvement in crisis prevention and resolution, a "Round Table" was held with deputies and senior private sector participants to discuss relevant issues.

In 2001, deputies held their first workshop, involving prominent academic economists to share views and debate the merits of different exchange rate regimes, with a view to narrowing differences on this contentious issue. Although exchange rate flexibility was widely regarded as a means of reducing a country's vulnerability to financial crises, it was agreed that the optimal exchange rate regime depended on a country's particular circumstances. Regardless of the chosen regime, members concurred that strong domestic polices were essential. There was also broad agreement that capital account liberalization needed to be well sequenced, with a strong system of financial regulation and supervision in place.

Another prominent issue that emerged in 2000 was the challenges posed by globalisation. With the Seattle and subsequent anti-globalisation demonstrations as a backdrop, G-20 ministers and governors reiterated their support for global economic and financial integration in their 2000 press statement. They also emphasised the importance of social programmes in addition to sound macroeconomic policies and open markets to achieve broad-based and sustainable prosperity— the so-called "Montreal Consensus." Members agreed to prepare case studies illustrating how individual countries responded to the challenges posed by globalisation. A preliminary synthesis document that highlighted common themes and lessons learned was discussed at the 2001 "ministerial." This was followed by a workshop on globalisation, living standards, and inequality held in 2002.[43] A volume of 16 country case studies was published in 2003.[44] The purpose of the volume was to "reflect the diversity of G-20 members' experiences with, and approaches to, increasing global markets for goods, services, and capital."[45]

The 2001 G-20 meeting of ministers and governors was held two months after the terrorist attacks of 11 September. Initially scheduled to be held in New Delhi, India, the meeting was moved to Ottawa, Canada, following the cancellation of a number of international meetings and the Canadian government's invitation to host the autumn meetings of the IMF and the World Bank.

In response to the terrorist attacks, G-20 ministers and governors announced their determination to combat the financing of terrorism. They adopted "a comprehensive Action Plan of multilateral co-operation to deny terrorists and their associates access to, or use of, our financial systems and to stop abuse of informal banking networks."[46] Concrete steps were taken to freeze terrorist assets, implement relevant UN conventions

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[43] See Reserve Bank of Australia and the Australian Treasury, *Globalisation, Living Standards and Inequality: Recent Progress and Continuing Challenges,* Proceedings of a Conference (Sydney, 27–28 May 2002).
[44] G-20 Secretariat, *Economic Reform in the Era of Globalization; 16 Country Case Studies,* (Washington, D. C.: Communications Development Incorporated, 2003).
[45] J. Singh, Finance Minister, India, "Preface" to *Economic Reform in the Era of Globalization: 16 Country Case Studies*, (G-20 Secretariat, 2003).
[46] G-20, *Communiqué,* Meeting of G-20 Finance Ministers and Central Bank Governors, (Ottawa, 16-17 November 2001).

as soon as possible, co-operate through the exchange of information, provide technical assistance as required, and support surveillance and voluntary self-assessments through the IMF, the Financial Action Task Force (FATF), and other relevant bodies. They also encouraged all nations to join "the international effort."

The G-20's focus on crisis prevention and resolution, globalisation, and the interdiction of terrorist financing continued after the passing of the G-20 Chair from Canada to India at the end of February 2002. However, G-20 members also began to pay more attention to the second part of the G-20's mandate, namely "stable and sustainable world economic growth that benefits all," with the addition of development and aid to the agenda. With the "Monterrey Consensus"[47] on financing for development having been reached earlier that year, G-20 members at the New Delhi ministerial meeting that November reaffirmed their commitment to achieve the United Nation's Millennium Development Goals, and their continuing support for Africa through the New Partnership for Africa's Development (NEPAD). G-20 discussions on aid effectiveness complemented "the discussions that were taking place worldwide on innovative financing mechanisms to implement the Monterrey Consensus."[48]

Another important achievement during India's year as chair was the formation of the first G-20 Troika composed of Canada, India, and Mexico. The establishment of the Troika helped to ensure that the experience of the chair was passed on to successors, and to maintain continuity in the absence of a permanent secretariat.

Under Mexico's leadership during 2003, the G-20 continued its discussion of issues that were prominent during the previous year—crisis prevention and resolution, globalisation, combating terrorist financing, and financing for development. The prevention of abuse of the financial system and the promotion of transparency and information exchange were

[47] The Monterrey Consensus was the result of a U.N. conference held in March 2000 in Monterrey, Mexico on Financing for Development. The Consensus covered a range of subjects, including the mobilisation of international and domestic financial resources, debt relief, corruption, and policy coherence.

[48] V. Rubio-Márquez, *The G-20: A Practitioner's Perspective*, (University College, Oxford: Global Economic Governance Programme, 2007), 9.

added to the agenda. As well, ministers and governors reflected on the future priorities of the Group.

The principal achievement in 2003 was the considerable progress towards reaching a consensus on how to resolve financial crises. This extremely contentious issue had been under discussion in many forums, including the G-7, G-10, and the IMF, and had been the subject of innumerable workshops and seminars around the world involving private sector participants. A key breakthrough was the announcement by Mexico at the G-20 deputies' meeting in March 2003 that it had for the first time included collective action clauses (CACs) in an international bond. Collective action clauses provide a framework for restructuring debts in the event that the debtor is unable to honour its loan commitments.[49]

The inclusion of CACs had been recommended by a G-10 study (The Rey Report)[50] in 1996 and later by the G-22 working group on the resolution of financial crises in 1998. Although these clauses were commonly included in international bonds issued in London, they were a rarity in New York, where many developing and emerging economies borrowed funds. Many issuers and investors feared that a bond that included such clauses might suggest a heightened risk of default and, hence, elicit a penalty rate of interest.

Studies suggested that such fears were unfounded, but there was a "first mover" problem. To help break the logjam, G-7 countries indicated in 2000 their willingness to use CACs in their international bonds, with Canada leading the way. Minister Martin, as G-20 Chair, encouraged "all G-20 member countries to consider including collective action clauses in their own foreign-currency bond issues."[51] Because no emerging economy or

[49] Collective action clauses typically include a collective representation clause to facilitate debt-restructuring discussions, a majority action clause to prevent minority bondholders from blocking a debt-restructuring proposal, and non-acceleration clauses, which prevent individual bondholders from demanding early repayment of debts in the event of a default.
[50] G-10, *The Resolution of Sovereign Liquidity Crises, a Report to the Ministers and Governors prepared under the auspices of the Deputies* (May 1996).
[51] Canada, Department of Finance, *Canada to Adopt Collective Action Clauses*, Press Release, 13 April 2000.

developing country followed suit at that time, Mexico's decision to introduce CACs in a New York bond issue in 2003 was a major breakthrough.

With the Mexican bond issue well received by investors, and no premium charged, other G-20 countries, including Brazil, Korea, and South Africa, followed suit. So did several smaller developing countries. CACs soon become a standard feature of New York bond contracts. In their Morelia Communiqué, G-20 ministers and governors indicated that they welcomed "the increasingly widespread use of collective action clauses (CACs)," and that they supported "their inclusion in future sovereign bonds issued under foreign jurisdiction."[52]

The G-20 was also a venue for discussing the restructuring of sovereign debt, with a workshop on the topic held in May 2003. Initial focus was on the IMF's proposal, announced in late 2001 to establish a Sovereign Debt Restructuring Mechanism (SDRM) to "help countries with unsustainable debts deal with them in a prompt and orderly fashion—without forcing the international community to bail out private creditors in a way that encourages inappropriate lending."[53] When this proposal failed to receive sufficient support, the breakthrough in the introduction of CACs as a market standard (which was itself at least partly the result of the SDRM debate), prompted discussions to shift to a more modest Banque de France proposal aimed at developing a voluntary code of conduct that would be followed by debtors and creditors in the event of a sovereign default.

Major G-20 issuers of international bonds, most importantly, Brazil, Korea, Mexico, and Turkey, along with leading private sector creditor groups, including the Institute of International Finance (IIF) and the International Primary Market Association (IPMA), consequently developed the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets*. These Principles were announced in a press release

[52] G-20, *Communiqué*, G-20 Finance Ministers and Central Bank Governors, (Morelia, Mexico, 26–27 October, 2003).
[53] A. Krueger, *A New Approach to Sovereign Debt Restructuring,* Address of the First Managing Director of the IMF at the Indian Council for Research on International Economic Relations, (IMF, 22 December 2001).

on 22 November 2004, immediately following the 2004 G-20 meeting of ministers and governors in Berlin, chaired by Germany. The Principles focused on four areas: transparency and timely information, debtor-creditor cooperation to avoid restructuring, good faith behaviour, and fair treatment of creditors.[54]

In the press release, Henrique de Campos Meirelles, the Governor of the Central Bank of Brazil, was quoted as saying "the Principles build on a number of best practices by both issuers and investors alike…The Principles…capture key collaborative steps that investors and issuers can take to place a country back on the path of strong growth, balance of payments sustainability, and renewed market access."

However, in their Berlin communiqué, G-20 ministers and governors stopped short of fully endorsing the Principles, owing to reservations expressed by at least one member. Instead they "welcomed the results achieved between issuing countries and private-sector participants," and noted that the Principles, "which we generally support, provide a good basis for strengthening crisis prevention and enhancing predictability of crisis management…"[55]

Although the G-20's attention was focused on sovereign debt restructuring during 2003, it also continued to reflect on globalisation. Following up on views expressed by finance ministers and central bank governors at the 2002 New Delhi ministerial meeting, discussions centred on the importance of institutions in the functioning of markets. G-20 members prepared national case studies that examined various elements of the issue, including the benefits and challenges of financial deregulation and liberalisation, the institutional framework for sound domestic financial systems, and the role of international financial institutions. Those case studies were published in 2005.[56]

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[54] See IIF and IPMA Press Release, *Key Principles Agreed to Strengthen Emerging Markets Finance*, Washington D.C., 22 November 2004.

[55] G-20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors, (Berlin, 20-21 November, 2004).

[56] G-20 Secretariat, *Institution Building in the Financial Sector*, (Washington, D. C.: Communications Development Incorporated, 2005).

The G-20's focus on institution building continued through 2004 under the German chair. Of particular interest was how to strengthen domestic financial markets viewed as essential for mobilising domestic capital and reducing a reliance on foreign-currency denominated debt. A deputies' workshop, involving academic economists, was held on this subject.

Work continued on combating abuses of the international financial system, with particular attention paid to whether measures taken in the wake of the 11 September 2001 terrorist attacks had been successful. Attention was also given to harmful tax competition and the need for greater transparency and an effective exchange of information. Discussions on this topic within the G-20 helped to break a deadlock on the issue in other forums. G-20 ministers and governors issued a statement on transparency and the exchange of information for tax purposes that committed them to "enhancing good governance and fighting illicit use of the financial system in all its forms."[57]

Two new medium-term issues were introduced for discussion during the German chairmanship of the G-20—demography and growth, and regional economic integration—with workshops on these subjects aimed at deepening members' understanding of the issues and sharing perspectives. A notable innovation during 2004 was an economic surveillance session at the ministerial meeting, a practice that has continued under subsequent chairs. In the *G-20 Accord for Sustained Growth*, members set out a framework describing the requirements and priorities of sustained strong growth. As well, they issued a *G-20 Reform Agenda*, which translated the framework into concrete policy measures. Under this agenda, each member country highlighted specific policy actions that they intended to fulfil in the coming year. Members have updated their commitments annually.

In 2005, China assumed the Chair of the G-20. As in the past, the work programme featured a combination of legacy and new issues. Under Chinese chairmanship,

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[57] G-20, *G-20 Statement on Transparency and Exchange of Information for Tax Purposes* (Berlin, 21 November 2004).

development and growth took on a higher priority. Following a workshop on economic growth, G-20 finance ministers and governors issued a statement on global development in which they underscored the "diversity of growth models," and committed themselves to "strengthening the dialogue on development philosophies, strategies, and policies, from which all countries can benefit."[58] The statement called upon the international community to fulfil its commitments under the Monterrey Consensus. It also re-emphasised the importance of effective aid, and underscored the importance of trade liberalisation and global economic integration to economic growth and the reduction of poverty.

Demographics continued to be discussed in 2005, with a focus on the economic impact of aging populations, and a special focus on labour mobility. G-20 members noted the growing importance of migrant remittances to developing countries and the contributions that such remittances have made to economic development and poverty reduction. Finance ministers and governors called on the international community to improve remittance services.

Another new issue discussed under the chairmanship of China in 2005 was the reform of the Bretton Woods institutions (BWIs)—the IMF and the World Bank. The question of representation and voice at these institutions, especially the IMF, had been a major issue for several years for many fast-growing emerging economies, especially those in Asia. G-20 finance ministers and governors issued a statement on reforming the IMF and World Bank, in which they reaffirmed "the principle that the governance structure of the BWIs—both quotas and representation—should reflect such changes in economic weight." They agreed to "identify principles for quota reform, which could be an important input into the IMF's Thirteenth General Review of Quotas, scheduled to be completed by January 2008."[59]

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[58] G-20, *G-20 Statement of Global Development Issues* (Xianghe, Hebei, China 15–16 October 2005).
[59] G-20, *G-20 Statement on Reforming the Bretton Woods Institutions* (Xianghe, Hebei, China 15–16 October 2005).

G-20 members called upon the IMF and the World Bank to strengthen co-operation between the two institutions and welcomed the review of the division of responsibilities between the two institutions launched by their managements. G-20 finance ministers and governors indicated that the two institutions should enhance their effectiveness by improving their internal governance and stated that "The selection of senior management should be based on merit and ensure broad representation of all member countries." Ministers and governors indicated that they would revisit these issues in 2006 under the Australian chair.

Australia, as the G-20 Chair for 2006, had two main objectives for the Group. First, it wished to pursue relevant and practical issues in support of global development and growth. Second, it sought to strengthen the G-20's position as a key forum in the governance framework of the international economic and financial system.[60] Its work programme built on the previous year's discussions on the reform of the Bretton Woods institutions, and the challenges presented by demographic change. It also identified two other issues as important for consideration by the ministers—energy and mineral security in face of high commodity prices, and domestic economic reform, building on the G-20 Accord for Sustained Growth agreed upon in 2004 under the German chair. To support discussions on these issues, three workshops involving academics and the private sector were organised on the reform of the BWIs, energy and resources, and demographics and financial markets.

The G-20 played a catalytic role in the IMF's decision in September 2006 to begin a comprehensive reform of its quota arrangements and to enhance the voice of low-income countries. In a review of the Australian G-20 host year, senior Australian Treasury officials noted that G-20 pressure "helped break a long-standing deadlock within the IMF."[61] IMF Governors agreed to quota increases for the most seriously under-represented members—China, Korea, Mexico, and Turkey—as a down payment on

[60] By making the G-20 meetings a success, Australia would achieve a third strategic objective "to enhance Australia's international reputation and bring the best global policy analysis into domestic decision-making." See G. De Brouwer and L. Yeaman, "Australia's G-20 host year: a Treasury perspective," in *Economic Roundup*, Autumn 2007 (The Treasury, Australian Government, 14 June 2007).
[61] G. De Brouwer and L. Yeaman, op. cit., 41.

broader reform. In their November 2006 communiqué, G-20 ministers and governors indicated that they were "pleased that the G-20 has been able to make a contribution to this historic outcome." They also said that they were "committed to the successful completion of a comprehensive set of reforms under the second stage of this process, delivered within the time frames agreed by IMF Governors."[62]

In addition to substantive discussions and progress made on important international issues, the G-20 made improvements to its internal functioning and processes under Australian leadership. Most importantly, a *G-20 Policy Manual* was drafted to provide guidance for chairing the G-20.[63] The Manual contains useful information for incoming chairs on who participates in G-20 meetings, workshops and seminars, communications with G-20 members, the development of agendas and communiqués, and the handover of the G-20 chair. An Australian proposal to create study groups to support discussion at deputies' meetings was also adopted in 2006.[64]

South Africa assumed the chair of the G-20 in 2007. South Africa's work programme focused on IMF and World Bank governance, the role for fiscal policy in promoting growth and development, and commodity cycles and financial stability. There was also a discussion of the global economic outlook which took on added prominence in the second half of the year, owing to the turbulence in financial markets.

Debate continued through the year on ways to reform the IMF to help ensure that dynamic economies, many of which are emerging markets, have adequate voice and representation. While no agreement was reached, progress was made on narrowing differences. G-20 ministers and governors reiterated their commitment to strengthening the "credibility, effectiveness and legitimacy" of the IMF and World Bank.[65] As well, G-20 members underscored their view that senior management of the Bretton Woods

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[62] G-20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors (Melbourne, 18–19 November 2006).
[63] G-20, *G-20 Policy Manual, Guidance for Chairing the G-20*, December 2006.
[64] Australian Treasury, *Discussion Note on the Possible Use of Study Groups in G-20*, 2006.
[65] G-20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors (Kleinmond, South Africa, 17–18 November 2007).

institutions should be based on merit, and that the process for selecting the IMF Managing Director and the World Bank's president should be improved.

With respect to fiscal policy, the debate focused on ways of finding the "fiscal space" necessary for a country to finance its social and economic objectives. Issues addressed included mechanisms for improving the efficiency and effectiveness of government spending, the design of medium-term fiscal frameworks, and the co-ordination of spending across different levels of government.

Following up on work carried out during the Australian host year, the G-20 continued to explore issues related to commodity cycles. The value of sovereign wealth funds to buffer swings in revenues owing to commodity price volatility was noted. Members also agreed that more information about the management and operation of such funds would be useful. Hedging was seen as another valuable tool to reduce the volatility of resource-related revenues.

In addition to the three official G-20 workshops—the reform of the Bretton Woods Institutions, fiscal elements of growth and development, and commodities and financial stability—South Africa hosted two one-day African policy workshops on themes of particular interest to African policy-makers. Although these workshops were not held under the auspices of the G-20, senior G-20 officials participated. This initiative provided an opportunity for G-20 members to reach out to policy-makers in the region, to share information, and to understand better the challenges facing Africa.

*Members' Assessment of Objectives and Work Programme*

G-20 members were canvassed regarding the Group's objectives and work programme, its effectiveness, and its internal operations. Members overwhelmingly agreed that the Group's objectives have remained broadly unchanged since its inception in 1999. This likely reflects the wide scope of its initial mandate. But relative to early agendas and work programmes, the weight given to financial stability concerns has diminished over time, with more attention paid to longer-term economic issues.

This shift in emphasis partly reflected the fact that discussions on crisis prevention and resolution, the key issue when the G-20 was established, had run their course, at least for the time being. While the efficacy of measures adopted by emerging economies to reduce their vulnerability to financial crisis may be unclear at this stage, much has been achieved. Most emerging economies have increasingly pursued prudent domestic economic policies, have adopted internationally accepted codes and standards, and have taken steps to strengthen their domestic financial systems.

The range of topics discussed by the G-20 has been remarkable. This may partly reflect the perceived usefulness of the G-20 as a forum for discussion. It may also reflect the receptivity of the G-20's work programme to new global issues—a view widely shared by its membership. The G-20 demonstrated its flexibility to adjust quickly to events in its adoption of an Action Plan on Terrorist Financing in the wake of the 11 September 2001 terrorist attacks—an issue outside its established work programme. Subsequent discussions on development and aid were held against the backdrop of the Monterrey Consensus and the Millennium Development Goals. A reflection by G-20 members on energy and resource security in 2006 was held in an environment of high commodity prices and concerns about reliable supply.

Table 1 gives an overview of major themes discussed at G-20 meetings since its inception in 1999. The shift in emphasis from crisis prevention and resolution and the challenges of globalisation towards longer-term issues, such as the impact of demographic changes on the global economy, and the responsiveness of the Group to international developments are readily apparent. The emphasis on the reform of the Bretton Woods institutions since 2005 is also noteworthy.

G-20 members were also in broad agreement on the types of policies necessary for the G-20 to achieve its objectives. Sustainable development, market-based economic systems, good governance, and international openness were among the most important. This considerable consensus comes as no surprise in light of the G-20 Accord for Sustained Growth agreed to in November 2004. To achieve satisfactory long-term economic growth, members agreed on a range of policy measures, including the importance of price stability and fiscal discipline, strong domestic financial institutions, prudent debt management, competition, global trade liberalisation, flexible labour markets, education, and social safety nets.

**Table 1**

| **Major Theme**<br>*Chair* | **1999**<br>*Canada* | **2000**<br>*Canada* | **2001**<br>*Canada* | **2002**<br>*India* | **2003**<br>*Mexico* | **2004**<br>*Germany* | **2005**<br>*China* | **2006**<br>*Australia* | **2007**<br>*S.Africa* |
|---|---|---|---|---|---|---|---|---|---|
| Crisis Prevention & Resolution | X | X | X | X | X | X | - | - | - |
| Challenges of Globalization | - | X | X | X | X | X | - | - | - |
| Combating Terror Financing | - | - | X | X | X | X | - | - | - |
| Development & Aid | - | - | - | X | X | - | X | X | - |
| Financial Abuse / Financial Crime | - | - | - | - | X | X | X | - | - |
| Institution Building in Financial Sector | - | - | - | - | X | X | - | - | - |
| Demographics | - | - | - | - | - | X | X | X | - |
| Regional Economic Integration | - | - | - | - | - | X | - | - | - |
| Surveillance / Domestic Policies | - | - | - | - | - | X | X | X | X |
| BWI Reform | - | - | - | - | - | - | X | X | X |
| Commodities & Economic Impact | - | - | - | - | - | - | - | X | X |
| Fiscal Policies | - | - | - | - | - | - | - | - | X |

Members also indicated that issues discussed by the G-20 were relevant to them, although some suggested that a shift in emphasis from financial stability to longer-term economic growth and development issues was more in line with the interests of finance ministries and treasuries than with those of central banks.

Some concern was expressed by certain members regarding a lack of consultation in the development of the annual work programme. Some members indicated that the agendas had become too broad, and argued that a more focused work programme would improve the forum's effectiveness.

On balance, there was a high degree of satisfaction and agreement among the membership on the objectives and work programme of the G-20.

**Relationship of the G-20 to Other International Institutions and Groups**

The launch of the G-20 in 1999 represented the entry of a new grouping of countries into an already crowded field. In addition to a large number of formal international institutions with economic and financial mandates, the most important of which included the IMF and World Bank, regional development banks, the World Trade Organisation (WTO), the BIS, the Financial Stability Forum (FSF), the OECD, and various UN bodies, there was a panoply of committees and groups giving direction and advice to these institutions. [66] Some, like the IMFC and the Development Committee, are formal bodies, reporting to the governors of the IMF and the World Bank. Others are more informal and gain their credentials through their membership. While some, like the G-22 and G-33, were ephemeral, others have lasted for many years. The most well known is the G-7/8 group of advanced countries, which holds an annual Leaders' Summit. There is also the G-10 group of industrial countries, the G-15 group of non-aligned countries, the G-24 group of developing countries, the G-30 consultative group on international economic and monetary affairs, and the G-77 group of developing countries.[67] In addition, there are a number of country groupings, such as APEC, ASEAN, the Commonwealth, la Francophonie, Mercosur, and NAFTA.

The key distinguishing feature of the G-20 has been its membership. No other forum has brought together a regionally representative group of systemically important developed and emerging economies for informal discussion and dialogue. The G-20 filled an

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[66] See the IMF website at <www.imf.org/external/np/exr/facts/groups> for a useful "Guide to Committees, Groups and Clubs."

[67] Somewhat confusingly, a competing "G-20" group of developing countries was formed in 2003 to be an "interlocutor" for developing countries in agricultural negotiations under the auspices of the Doha Development Agenda. For more information on this alternate G-20, see <www.g-20.gov.br>.

important gap in the governance structure of the international economic and financial system.

From its very beginning, the G-20 was designed to be part of the Bretton Woods framework that oversees the international economic and financial system. As noted earlier, both the IMF and the World Bank are full members of the G-20, as are the chairs of the two most important committees of the two institutions, the IMFC and the Development Committee. These institutional members take an active part in G-20 debates, providing valuable technical expertise, in addition to cogent views and opinions. They also provide useful background documents for G-20 discussions, for example, the IMF's "economic surveillance" paper used in discussions of the global outlook and risks. Co-operation between the G-20 and the Bretton Woods institutions is close, a view shared by G-20 members, including the IMF and World Bank.

Because of its unofficial nature, the G-20 has no legal standing with respect to international financial institutions. But the importance and breadth of its membership in the international community make its views influential. It is able to provide the Bretton Woods and other institutions with support, encouragement and, at times, informal direction.

In the first G-20 communiqué in 1999, ministers and governors welcomed the "important work that has been done by the Bretton Woods institutions and other bodies toward the establishment of international codes and standards," and, to "demonstrate leadership in this area," they agreed to undertake the completion of Reports on Observance of Standards and Codes ("Transparency Reports") and Financial Sector Assessments."[68] Such G-20 support for the work of the IMF and the World Bank likely accelerated the pace at which countries adopted internationally accepted standards and codes.

[68] G-20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors (Berlin, Germany 15–16 December, 1999).

Similarly, the G-20 has encouraged the IMF to continue pursuing initiatives under way but not yet completed. In 2003, the Morelia Communiqué, for example, "encouraged the IMF to continue to enhance its capacity to identify vulnerabilities, such as currency and other balance sheet mismatches, and provide advice to member countries on policy reforms." Ministers and governors also "urged the IMF" to continue its work on "precautionary facilities or arrangements, conditioned on sound policies."[69]

The G-20 *Statement on Reforming the Bretton Woods Institutions*, released in November 2005, following the ministerial meeting held at Xianghe, China, is one case in which the G-20 provided useful direction to the IMF and World Bank. While the Group has no formal authority over the institutions, ministers and governors saw a need to "further strengthen efficient co-operation between the two institutions [the IMF and the World Bank]," and underscored "the critical importance of achieving concrete progress on quota reform."[70]

The fact that the G-20 is not itself an organ of the IMF may strengthen its ability to reflect on the international financial system.[71] Good governance requires independence and a degree of detachment.

Others have opined that while "the International Monetary Fund's Board remains the formal locus of decision-making on immediate questions of Fund policy, the G-20 appears to be evolving into the most influential forum for the exploration of longer-term issues and institutional reform…"[72]

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[69] G-20, *Communiqu*é, Meeting of Finance Ministers and Central Bank Governors (Morelia, Mexico 26–27 October, 2003).

[70] G-20,*G-20 Statement on Reforming the Bretton Woods Institutions* (Xianghe, Hebei, China, 15–16 October 2005).

[71] See P. B.Kenen, J. R. Shafer, N. L. Wicks, and C. Wyplosz,, *International Economic and Financial Co-operation: New Issues, New Actors, New Responses*, (London: Centre for Economic Policy Research, 2004),.1.

[72] R. Samans, M. Uzan, and A. Lopez-Claros, "The International Monetary Convention Project: A Public-Private Exploration of the Future of the International Monetary System," in *The International Monetary System, the IMF, and the G-20: A Great Transformation in the Making?* World Economic Forum, The Reinventing Bretton Woods Committee (Houndmills, Basingstoke and New York: Palgrave Macmillan, 2007), xvii.

The G-20 has no formal link with other international financial institutions, including the Financial Stability Forum (FSF). However, depending on the issue under discussion, the G-20 invites others to take part in its deliberations on an ad hoc basis. For example, in 1999, Andrew Crockett, chair of the FSF, was invited to a G-20 deputies' meeting to discuss the forum's work programme and to participate in discussions on finding ways to reduce the vulnerability of members to financial crises. Representatives of private sector groups are routinely invited to share their expertise with G-20 officials in seminars and workshops.

The G-20 had also provided important support and encouragement for initiatives under way in other forums. In 2000, the G-20 endorsed the FSF's recommendations on codes and standards. Similarly, in 2001 in their *Action Plan on Terrorist Financing,* G-20 members indicated that they would "support the activities of the UN Counter-Terrorism Committee," responded positively to recommendations of the Financial Action Task Force (FATF), and encouraged the FSF to "undertake work respecting the actions of financial sector regulators in the fight against terrorism at its next meeting."[73] In 2005, the G-20 "welcomed the efforts of the OECD Global Forum on Taxation to promote high standards of transparency and effective exchange of information for tax purposes."[74]

*The G-7 and the G-20*

The G-20 was created out of a desire of G-7 finance ministers and governors to "broaden the dialogue on key economic and financial policy issues among systemically important economies." While all G-7 countries are represented in the G-20, this does not imply that the G-7 is the "senior" group. Nor should the G-7 and the G-20 be viewed as competitors. Through its unique membership, the work of the G-20 complements that of the G-7.

Initially, by virtue of its newness, the G-20 took the lead from the G-7. The G-20's focus on crisis prevention and resolution during its early years was determined largely by the

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[73] G-20, *Communiqu*é, Meeting of Finance Ministers and Central Bank Governors (Ottawa, Canada, 16–17 November, 2001).
[74] G-20, *Communiqu*é, Meeting of Finance Ministers and Central Bank Governors (Xianghe, Hebei, China, 15–16 October, 2005).

G-7, although this issue was also very much in the domestic interest of other members of the G-20. With the introduction of the Troika, the transfer of the chair to non-G-7 members, and greater familiarity with the new forum on the part of all participants, the role of the G-20 has become increasingly independent from that of the G-7. Although all members provide input into the development of the Group's work programme, the chairing country takes the lead in consultation with the other two members of the Troika.

The G-20's comparative advantage over the G-7 lies in the global economic and financial issues that require broad international cooperation, including that of emerging-market economies. For example, the G-20 was an ideal venue to discuss energy and resource security since major consumers and producers of commodities were represented. The same is true for discussions on demographics, migration and remittances, and IMF quotas and representation.

Many academics have argued that as globalisation continues to gather momentum, the G-7 may be, or should be, superseded by the G-20 as the "steering committee" or "agenda setter" for the global economic system.[75] But such views remain speculative. Groups will be sustained as long as their members view them to be useful and continue to support them.

**Operational Effectiveness of the G-20**

Operational effectiveness refers to the efficacy of internal practices and procedures used by the G-20 to achieve its goals. All members expressed a high degree of satisfaction with how the Group operates and the procedures in place; those representing emerging countries particularly so.

There was broad agreement that two deputies' meetings per year and an annual "ministerial" meeting were appropriate. There was also agreement that the number of workshops held each year was about right, and that the involvement of outside experts at

[75] See, for example, E. M. Truman, The Euro and Prospects for Policy Coordination," in *The Euro at Five: Ready for a Global Role?,* ed. A. S. Posen (Washington D.C.: Institute for International Economics, 2005).

these workshops was very useful. But three workshops or seminars per year was widely seen as the maximum possible. Some would prefer two. Certain members also stressed that workshops could be better linked to discussions at the deputy and ministerial level and have a clearer policy focus. Others underscored the importance of flexibility, and argued that the number of workshops should not be fixed, but tailored to the needs of deputies.

Members broadly supported the use of study groups as an effective way to research topics. However, as study groups were established only in 2006, there has been limited experience on which to base strong opinions. It was suggested that more use of informal study groups might be a way of reducing the number of workshops and seminars.

Generally, members indicated their satisfaction with the level of representation at G-20 meetings. A decline in senior-level participation, should one occur, may signal that the Group is not living up to the expectations of its members, or that the G-20 agenda does not adequately reflect the needs of its diverse membership.

Some members expressed concern that the relatively large number of participants at meetings (roughly 45) hindered informal discussion. Nevertheless, most members were satisfied with the size of national delegations—finance minister, central bank governor, plus one additional representative.

Members were also satisfied with the timing of G-20 meetings within the cycle of international meetings. Some did, however, raise the issue of whether the G-20 ministerial meeting should be held before the IMF/World Bank autumn meetings, presumably to better influence outcomes in that forum. However, scheduling a meeting at that time might prove difficult, given already busy schedules. Moreover, a late autumn ministerial meeting might be better positioned to set the direction for debate and discussion over the coming year.

There was a broad consensus on the effectiveness of other G-20 operations. Members were very satisfied with the operation of the Troika and the one-year chair, and did not feel that the G-20 suffered from the lack of a permanent secretariat. They also felt that the right balance had been struck between confidential discussions and public dialogue and supported the release of communiqués at the end of ministerial meetings, although some underscored the value of brevity. Members felt that documentation on past and current G-20 issues was readily accessible. A number of members indicated that the outreach activities of the G-20, with non-member countries and with the non-governmental (NGO) and private sector communities, could be improved.

**Institutional effectiveness of the G-20**

Judgements regarding the G-20's institutional effectiveness, i.e., the extent to which G-20 goals are being met, must start from the Group's mandate as "a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all." Since its inception in 1999, finance ministers, central bank governors, and senior officials from systemically important advanced and emerging-market countries have met regularly to talk about key economic and financial issues. By itself, this is an important achievement. Once excluded from policy debates at the highest level, major emerging-market economies now have a seat at the table. Vanessa Rubio Márquez noted the G-20 has provided "space" for the interaction of advanced and emerging economies.[76] But while the G-20 has clearly become a valued forum for discussion, the question remains as to how much it has been able to influence the international debate on key issues, or has had an impact on the policies of its members and others, as well as on the activities of international financial institutions.

With respect to broad economic policies, the emphasis has been on developing a better understanding of the perspectives and experiences of member countries. Ngaire Woods of University College, Oxford, commented that the G-20 "has been particularly good [at] a

[76] V. Rubio Márquez, op. cit., 19.

peer-to-peer exchange of experience."[77] The focus has been on policy co-operation rather than policy co-ordination. With monetary policy in most countries focused on achieving low and stable domestic inflation, and fiscal policy directed at medium-term goals rather than short-term economic fine tuning, the scope for active coordination is limited.

It has been observed, however, that even if the potential for explicit policy coordination is limited, discussions among G-20 members make their policymakers "acutely aware of the interactions among their economies."[78] While difficult to measure, there is also considerable value in the personal contacts and trust that has developed among G-20 ministers, governors, and senior officials, which can be drawn upon in the event of a crisis. Moreover, if countries can reach "a shared diagnosis of a potential problem, preferably based on a common analytical framework," then "individual policy decisions are more likely to mesh smoothly."[79] The *G-20 Accord for Sustained Growth* reached in 2004 under the German chair provides that common analytic framework.

Similarly, strong G-20 support for the merits of economic and financial integration in 2001 and 2002 helped to counter growing anti-globalisation sentiment. In their 2002 New Delhi communiqué, G-20 ministers and governors "agreed that globalisation has been delivering rising living standards generally, including to many of the world's poorest." To realize the full potential of globalisation, they argued in favour of reducing "remaining trade and related barriers and phasing-out…trade-distorting subsidies" so that the benefits of globalisation could be spread more widely, including to the poorest developing countries. In the 2003 Morelia communiqué, the G-20 also called on the World Trade Organisation (WTO) to fulfil the Doha development agenda.

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[77] N. Woods, "Comment on "Proposals for a New Framework," in P. B. Kenen, J. R. Shafer, N. L. Wicks, and C. Wyplosz, *International Economic and Financial Cooperation: New Issues, New Actors, New Responses* (London: Centre for Economic Policy Research, 2004), 129.
[78] M. Sobel and L. Stedman, op. cit., 14.
[79] E. M. Truman, "Implications of Structural Changes for Management of the Global Economy," in *The International Monetary System, the IMF, and the G-20: A Great Transformation,* ed. R. Samans, M. Uzan, and A. Lopez-Claros, World Economic Forum, The Reinventing Bretton Woods Committee (Houndmills, Basingstoke and New York: Palgrave Macmillan, 2007) 55.

The G-20 has been less successful in putting these broad policy objectives into operation. While members have committed themselves since 2004 to specific actions described in an annual *Reform Agenda* to implement the *G-20 Accord for Sustained Growth*, there has been limited review of the extent to which members have met these commitments. Major international macroeconomic issues, such as global imbalances and further trade liberalisation, also remain unresolved. Exchange rate arrangements and foreign exchange intervention remain contentious issues, despite discussions and workshops aimed at narrowing differences.

The G-20 has been more successful in implementing microeconomic reforms. As noted in the previous section, all G-20 countries have made progress in implementing internationally accepted codes and standards developed by the Bretton Woods institutions and standard-setting bodies to improve transparency and strengthen domestic financial systems. All members have introduced measures to combat terrorist financing and other abuses of the international financial system. Emerging markets have taken strides in developing their domestic financial markets and improving debt-management practices. The introduction of collective action clauses in bond contracts, and the subsequent development by key G-20 borrowers in co-operation with private-sector bodies of a "code of good conduct" governing the restructuring of debts by sovereign borrowers, have provided a degree of certainty for investors in the event of a sovereign default, thereby reducing the severity of a financial crisis, should one occur. Although it is impossible to know what would have been achieved in the absence of the G-20, there is little doubt that emerging-market participation and ownership of the process has helped to expedite the adoption of financial market reforms.

Nevertheless, the extent to which such reforms have strengthened the international financial system and have reduced countries' vulnerability to financial crises is unclear. It is encouraging to note that despite recent serious problems in credit markets in many advanced economies, the spread to emerging-market economies appears so far to have been limited.

The G-20 was successful in 2005 and 2006 in helping to catalyse institutional reform at the IMF. It is widely acknowledged that discussions within the G-20 aimed at increasing the representation and voice of developing countries within the IMF contributed to the IMF's Singapore resolution in 2006 to raise quotas for the most seriously under-represented members.[80] In 2007, ministers and governors agreed that G-20 efforts had also contributed "to the IMF's efforts to find a solution to the second stage of IMF quota and voice reform."[81] There remains some disappointment, however, that the recent process to appoint the current World Bank President was not as open and transparent as that encouraged by the G-20 since 2005.[82]

Recent published commentaries by G-20 "insiders" have been largely positive. A U.S. Treasury paper described the G-20 "as a key forum for broader dialogue on key international economic and financial issues" and a "highly valuable…new piece of the global architecture."[83] Vanessa Rubio Márquez, formerly from the Mexican Ministry of Finance, argued that "its strength lies in its representativeness, its legitimacy and the systemic influence its members wield abroad,"[84] while the Australian Treasury sees the G-20 acting as a "circuit breaker," helping to broker consensus on issues that have proven intractable in other forums.[85]

Reviews from academic and other observers have, however, been mixed. Richard Samans, Marc Uzan, and Augusto Lopez-Claros suggested that the G-20 was only now "'coming of age' as a policy-making institution after a number of uneven, initial years."[86] John Kirton similarly concluded that during its first six years of operation, the G-20 "had

[80] It should be noted, however, that certain G-20 countries did not support the Singapore resolution.
[81] G-20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors (Kleinmond, South Africa, 17–18 November 2007).
[82] On 27 May 2007, Peter Costello, the Australian Treasurer and 2006 G-20 Chairman, Trevor Manuel, the South African Minister of Finance and 2007 G-20 Chairman, and Guido Mantega, the Brazilian Minister of Finance and 2008 Chairman, issued statements looking "forward to the IMF and World Bank continuing their modernisation process by opening up their appointment processes." The Commonwealth Treasurer, Press Release, *Reform of Process for Appointment of World Bank President*. See www.treasurer.gov.au/tsr/content/pressreleases/2007/045.
[83] M. Sobel and L. Stedman, op. cit., 11.
[84] V. Rubio Márquez, op. cit., 6.
[85] G. De Brouwer and L. Yeaman, op. cit., 41.
[86] R. Samans, M. Uzan, and A. Lopez-Claros, op. cit., xvii.

developed internally as a 'thicker,' still flexible, innovative instrument of 20 equal members, performing effectively in the deliberative, directional, decisional and development of global governance domains."[87] He argued, however, that it "did less to reach out beyond the international institutions in which it was nested to involve other increasingly consequential countries in its expanding governance tasks."[88]

Scholars of the Peterson Institute for International Economics in the United States and Lowy Institute for International Policy in Australia, while both positively disposed to the G-20, believe that its value will depend critically on its ability to focus on the right issues.[89] The Lowy Institute views the G-20 as being still "in the realm of potential" and cautions that it needs to avoid the "depressing prospect of failing to live up to its potential."[90] Similarly, Peter Hajnal from the University of Toronto contends that while the G-20 has become "an autonomous, informal group" and "its agenda has expanded considerably over its now seven-year lifespan," it "has not had the mandate and the capacity to deal with a host of global issues linked to international and financial matters."[91]

Several scholars have also suggested that the leaders of the G-20 countries meet at a political summit—a so-called "L-20" group—to further raise the profile of the Group and provide even higher-level political support.[92] Although this idea has received some interest in the past, there appears to be little current appetite.

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87 J. Kirton, *From G7 to G20: Capacity, Leadership and Normative Diffusion in Global Financial Governance*, Paper prepared far a panel on "Expanding Capacity and Leadership in Global Financial Governance: From G7 to G20," International Studies Association Annual Convention (Hawaii, 1–5 March, 2005), 12.
88 Ibid. 11.
89 C.F. Bergsten, "The G-20 and the World Economy," Statement to the Deputies of the G-20, Leipzig, Germany, 4 March 2004, World Economics, 5, No. 3 (July-September, 2004) p. 27-36. Lowy Institute for International Policy, "Geeing Up the G-20," Policy Brief, (Sydney, April 2006).
90 Lowy Institute, op. cit., 3.
91 P. I. Hajnal, op. cit., 156.
92 See J. English, R. Thakur, and A. Cooper, eds., *Reforming from the Top: A Leaders' 20 Summit*, (New York: United Nations University Press, 2005) and P. I. Hajnal, *Summitry from G5 to L20: A Review of Reform Initiatives*, Centre for International Governance Innovation, Working Paper #20, March 2007. In a related proposal, some academics have recommended "thickening" the G-20 through the establishment of G-20 meetings involving ministers of other portfolios.

Broadly speaking, members view the G-20 as an effective forum for informal and frank dialogue that has contributed to better global governance. The Group's strengths include its size, its informality, its longer-term focus, and its flexibility to adjust its work programme to international developments.

But despite the successes noted above, members generally believe that G-20 support for global initiatives has had only a modest effect on members' behaviour, and even less impact on the behaviour of non-member countries. Concern was also expressed about the difficulty in following up on issues, a lack of continuity, and problems in translating consensus into concrete action. Some suggested that the agenda may be drifting away from core issues important to finance ministries and central banks.

Overall, both G-20 practitioners and external observers agree that the G-20 has become a widely respected addition to the international financial architecture. Although the forum may have had only a modest impact so far on the behaviour of members and non-members, it has become the premier forum for discussion on economic and financial issues for advanced and emerging economies. The G-20 is particularly valued by its emerging-market members.

**Looking Forward**

This retrospective of the work and operations of the G-20 offers an opportunity for its members to reflect not only on the Group's achievements, but also on the way forward. For example, the gradual shift of the G-20's agenda away from financial stability issues towards more long-term economic issues should be carefully evaluated by the membership to ensure that the work of the forum remains within the terms of reference of finance ministries and central bank governors. While this changing emphasis partly reflects the responsiveness of the G-20 to global developments, it is unclear whether an appropriate balance has been struck between financial stability concerns and other long-term economic issues.

While the value of the G-20 as a forum for informal and frank discussion on difficult global issues should not be underestimated, even when there is no formal outcome, the perceived effectiveness of the Group might be enhanced if more G-20 discussions were linked to demonstrable policy action. There may also be value in exploring the merits of more outreach to others as a way to explain G-20 initiatives and to encourage others.

To conclude, there is little doubt that the G-20 has filled an important gap in the governance structure of the global economic and financial system. It is a useful forum for debating economic and financial issues among systemically important countries, and has been a catalyst for advancing action in a number of areas to strengthen the international financial system. The main sources of its success have been the Group's ability to engage in meaningful debate in a frank, collegial fashion, and its commitment to seek consensus. The continued success of the G-20 hinges on the willingness of its members to continue collaborating effectively on issues of critical importance to global economic growth and financial stability.

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## ANNEX A

### Study Group Participants

| | |
|---|---|
| James Powell (Chair) | *Canada* |
| | |
| Isabela Andrade | *Brazil, Ministry of Finance* |
| Minoru Aosaki | *Japan, Ministry of Finance* |
| Analisa Bala | *South Africa, National Treasury* |
| Gilles Bauche | *World Bank* |
| Corso Bavagnoli | *France, Ministry of Finance, Economy and Industry* |
| Herfan Brillianto | *Indonesia, Ministry of Finance* |
| Antoine Brunelle-Coté | *Canada, Department of Finance* |
| Pavel Chernyshev | *Russia, Ministry of Finance* |
| Rizal Djaafara | *Indonesia, Central Bank* |
| Laura Doherty | *Australia, Treasury* |
| Ozgu Evirgen | *Turkey, Central Bank* |
| Marie Ewens | *United States, Treasury* |
| Richard Freeman | *United States, Central Bank* |
| Marcos Machado Guimaraes | *Brazil, Ministry of Finance* |
| Nikolai Gordeew | *Germany, Ministry of Finance* |
| Iss Savitri Hafid | *Indonesia, Central Bank* |
| Hua Hui | *China, Ministry of Finance* |
| Kate Langdon | *International Monetary Fund* |
| Christoph Lindemann | *Germany, Central Bank* |
| Sheila MacDonald | *Canada, Department of Finance* |
| Roberto Marino | *Mexico, Central Bank* |
| Louise Marshall | *United Kingdom, Treasury* |
| Michael Neal | *United States, Central Bank* |
| Diogo Nogueira | *Brazil, Central Bank* |
| Norberto Pagani | *Argentina, Central Bank* |
| Graydon Paulin | *Canada, Central Bank* |
| Raymond Ritter | *European Central Bank* |
| Lamorna Rogers | *Australia, Central Bank* |
| Amitava Sardar | *India, Central Bank* |
| Rita Schutt | *Germany, Ministry of Finance* |
| David Sevigny | *Canada, Department of Finance* |
| Mie Takahashi | *Japan, Ministry of Finance* |
| Marcel Turcot | *Canada, Department of Finance* |
| Francesca Valeri | *Italy, Treasury* |
| Margarita Perez Villasenor | *Mexico, Ministry of Finance and Public Credit* |
| Aidan Wakely-Mulroney | *Canada, Department of Finance* |
| Gokben Yener | *Turkey, Treasury* |
| Sawa Yoshioka | *Japan, Central Bank* |

## ANNEX B

**Officials Prominent in the Establishment of the G-20 who were Interviewed for this Project.**

| | |
|---|---|
| Ian BENNETT | *Canada* |
| Howard BROWN | *Canada* |
| Ted EVANS | *Australia* |
| Jonathan FRIED | *Canada* |
| Stanley FISCHER | *Israel, formerly IMF* |
| Tim GEITHNER | *United States* |
| Caio KOCH-WESER | *Germany* |
| Jean LEMIERRE | *France* |
| JIN Liqun | *China* |
| W. Paul JENKINS | *Canada* |
| Paul C. JENKINS | *Canada* |
| Vanessa RUBIO MARQUEZ | *Mexico* |
| Bruce MONTADOR | *Canada* |
| John MURRAY | *Canada* |
| Lawrence SUMMERS | *United States* |
| Sir Nigel WICKS | *United Kingdom* |

**ANNEX C**
**Past Chair Summaries, Communiqués and Background Documents**

# *Chair Summary, 1999 (Canada)*

## Meeting of G-20 Finance Ministers and Central Bank Governors
## Berlin, Germany
## 15–16 December 1999

*"The G-20 was established to provide a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all."*[1]

### Overview

The inaugural meeting of the G-20 focused on establishing strong working relationships among finance ministers and central bank governors that would take advantage of the group's broad policy experience and diversity. An important impetus for the formation of the group was the series of financial crises in major emerging market economies in the late 1990s. A key theme of the meeting was the scope to better respond to the challenges of globalisation and to reduce vulnerabilities to international financial crises.

### Work Programme

The G-20 was established in September 1999 in response to a perceived need by G-7 countries to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote increased co-operation. A meeting of G-20 finance and central bank deputies was held in Vancouver (Canada) in November to prepare for the inaugural meeting of G-20 finance ministers and central bank governors, which was held in Berlin (Germany) in December.

With respect to the range of issues that could be considered by the newly created group, there was a strong sense among G-20 members that the Group's mandate should be broad and that their discussions might usefully extend beyond international financial and stability issues. At the outset, however, it was agreed that the first ministerial meeting would be more narrowly focused on ways to better prevent and resolve financial crisis. This focus was broadly supported, given the continued crisis situations in several member countries.

[1] G-20, *Communiqué*, Meeting of Finance Ministers and Central Bank Governors, 16 December 1999.

In selecting topics for future consideration, it was agreed that the group had a comparative advantage in two broad areas. The first was a range of emerging issues where analytical work was still needed and an international consensus had not yet been achieved. It was believed that a broadly based informal dialogue could be helpful in these areas. The second was encouraging the implementation of measures, which had been developed by other international bodies, such as the IMF, the World Bank, or other international financial forums, but had yet to be widely adopted.

The December 1999 Berlin ministerial meeting demonstrated a deep conviction among G-20 members that, while sound macroeconomic policies were an important "first line of defence" against financial crises, such policies were not sufficient. Accordingly, the G-20 considered the scope offered by other domestic policies to help reduce the vulnerability to crises. This included a discussion of exchange rate and capital account policies, debt-management policies, and improved regulation and supervision of financial sectors.

The international community was also seen to have an important role to play through the widespread implementation of international codes and standards. In line with this, Sir Andrew Crockett, the Chair of the Financial Stability Forum, was invited to the G-20 deputies meeting to discuss the Forum's work plan and help in a stock-taking of measures to help reduce financial vulnerabilities.

**Key Outcomes**

G-20 finance ministers and central bank governors agreed to commit their countries to the completion of reports on observance of standards and codes and financial sector assessments. They also asked their deputies to consider ongoing work in other forums and to examine additional measures that might be used to help reduce vulnerabilities to crises.

**Chair's Assessment**

As inaugural Chair, Canada focused particular attention on practices and procedures that would better promote the group's effectiveness. At the outset, it was agreed that the G-20 Secretariat would be provided by the host country, which ensured a strong working relationship with Chair of the Secretariat. At the ministerial meeting, it was also agreed to limit attendance to the Minister and Governor and a single official per delegation to create the conditions for candid and confidential discussions.

It was also decided to identify lead speakers for each session, who could draw on home country experiences to stimulate discussion. And it was agreed to use the Internet—a novel practice at that time—to facilitate communications among members and to create a secure "G-20 Officials Forum," which allowed for exchanges of views among officials on topics relevant to the group's work programme.

At the conclusion of the meeting, Canada asked a number of countries to prepare short notes on a series of key issues for discussion by G-20 members over the course of the following year. These included work on exchange rate arrangements, prudent liability management, and private sector involvement in crisis prevention and resolution. As was clear from this first meeting, the strength of the G-20 resides in the diversity of its membership and the capacity of members to candidly discuss current policy challenges and their own country experiences.

**G-20 Chairs**

| | |
|---|---|
| The Honourable Paul Martin<br>Minister of Finance, Canada | Mr. Ian Bennett<br>G-20 Finance Deputy |
| Mr. Gordon Thiessen<br>Governor, Bank of Canada | Mr. W. Paul Jenkins<br>G-20 Central Bank Deputy |

# *Communiqué, 1999*

## G-20 Finance Ministers and Central Bank Governors Meeting

## 15–16 December 1999

## Berlin, Germany

1. Finance Ministers and Central Bank Governors of the G-20 held their inaugural meeting on December 15-16, 1999 in Berlin, Germany. The meeting was chaired by Canada's Finance Minister, Paul Martin, and hosted by German Finance Minister Hans Eichel.
2. The G-20 was established to provide a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all.
3. Ministers and Governors welcomed the improvement in global economic conditions. They reaffirmed the importance of continued progress by the WTO toward multilateral liberalization of trade in goods and services that would bring broad-based benefits to the global economy.
4. Ministers and Governors at this inaugural meeting discussed the role and objectives of the G-20, and ways to address the main vulnerabilities currently facing their respective economies and the global financial system. They recognized that sound national economic and financial policies are central to building an international financial system that is less prone to crises. They noted the importance of strengthening national balance sheets to help cushion against unexpected shocks. They encouraged steps to strengthen sovereign debt management, and greater attention to the impact of various government policies on the borrowing decisions of private firms. They recognized that unsustainable exchange rate regimes are a critical source of vulnerability, and that a consistent exchange rate and monetary policy is essential. They discussed a range of possible domestic policy responses to the challenges of globalization, and exchanged views on the role of the international community in helping to reduce vulnerability to crises.
5. They welcomed the important work that has been done by the Bretton Woods institutions and other bodies toward the establishment of international codes and standards in key areas, including transparency, data dissemination, and financial sector policy. They agreed that the more widespread implementation of such codes and standards would contribute to more prosperous domestic economies and a more stable international financial system. To demonstrate leadership in this area, Ministers and Governors agreed to undertake the completion of Reports on Observance of Standards and Codes ("Transparency Reports") and Financial Sector Assessments, within the context of continuing efforts by the IMF and World Bank to improve these mechanisms. This commitment will help mobilize support for measures to strengthen domestic capacity, policies and institutions.

6. Members of the G-20 asked their Deputies to consider existing work in other fora (including the Financial Stability Forum) and to examine further ways to reduce vulnerabilities to crises. Deputies will report on their progress at the time of the next meeting of G-20 Finance Ministers and Governors, to be held in Canada in autumn 2000.

## Annex: List of Participants

Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States of America

Presidency of the European Union, President of the European Central Bank, Managing Director of the IMF, President of the World Bank, Chair of the Development Committee, Chair of the International Monetary and Financial Committee

# *Background Documents, 1999*

Backgrounder: Financial Sector Regulation and Supervision

Backgrounder: Prudent Debt Management

Backgrounder: International Codes and Standards

Backgrounder: Exchange Rate Regimes

# *Chair Summary, 2000 (Canada)*

## Meeting of G-20 Finance Ministers and Central Bank Governors
## Montreal, Canada
## 24–25 October 2000

*"In Montreal, the G-20 has pioneered a significantly broader agenda far beyond financial management, likely laying the foundation for an enhanced G-20 role in global governance. The potential of this increased global role is ideally suited to the G-20's small membership and its representative quality."*[2]

**Overview**

Following the inaugural meeting of the G-20 held in Berlin, the challenge in Montreal was two-fold. First, to conclude the discussions initiated in Berlin on measures countries can take to reduce their vulnerability to financial crises, and, second, to reach a consensus on the role of both national policies and the international community in addressing the challenges of globalisation.

**Work Programme**

At their first meeting in Berlin in December 1999, G-20 ministers and governors asked their deputies to examine actions that countries can take to reduce vulnerability to crises and to report on their progress at the second ministerial meeting. In preparation for the second meeting of ministers and governors, deputies prepared stock-taking notes to identify "best practices" in exchange rate arrangements, prudent external liability management, private sector involvement in crisis prevention and resolution, and the implementation of international standards and codes.

G-20 deputies held a round table in Toronto with senior private sector representatives from a number of G-20 members to discuss the framework underlying the official sector's approach to involving the private sector in crisis prevention and resolution. A key point that emerged from this round table was that private sector participants accepted the inevitability of private sector involvement in the resolution of financial crises, but many were also concerned by a lack of transparency in crisis-resolution procedures and by what they saw as increasing resort to unilateral actions. Also, many market participants favoured the wider use, on a voluntary basis, of certain types of collective action clauses and trustee arrangements, and agreed that procedural guidelines or "codes of market conduct" could facilitate the co-operative resolution of debt-service problems.

The challenges posed by globalisation was a topic that become particularly relevant following the WTO Ministerial in Seattle, when the backlash against globalisation and the political challenge it presented became increasingly apparent. A consensus emerged in the G-20 that the benefits of globalisation vastly outweigh its costs. Ministers from

[2] Aaron Gairdner, G-8 Research Group, University of Toronto, 25 October 2005.

emerging markets argued that it was the inability of many developing countries to participate in globalisation, rather than the process itself, that was the main development challenge facing the international community in coping with globalisation.

The discussions in Montreal demonstrated a clear agreement that policies based on domestic economic stability and open markets were only one part of a policy framework to achieve broad-based and sustainable prosperity. Sound social policies were also essential to prosperity in a globalised world. This consensus on the general thrust of a policy approach to meet the challenges of globalisation was summarized in the official press release agreed on by ministers and governors. It was also highlighted in Minister Martin's remarks at the Chairman's Press Conference following the end of the meeting, in which he drew a parallel between the long-established Washington Consensus on appropriate domestic policies and what he characterized as a complementary Montreal Consensus on the international policies needed for successful economic integration.

**Key Outcomes**

The communiqué and its annex outlined "best practices" to reduce vulnerabilities to financial crises, including through appropriate exchange rate arrangements, prudent liability management, the development and implementation of international standards and codes, and the appropriate involvement of the private sector.

The discussion of exchange rate arrangements was the most contentious. There was general agreement that governments should not support an unsustainable exchange-rate level and that official-sector funding should not be provided to governments for that purpose. There was also consensus that, while countries were free to adopt the exchange rate regime of their choosing, any exchange rate regime must be supported by macroeconomic policies consistent with that choice. However, both the Deputies' meetings (Hong Kong in March and Toronto in August) and the ministerial meeting in Montreal revealed strongly held differences of view on the feasibility of the so-called "soft fix" exchange rate arrangements. These are arrangements in which the exchange rate is neither allowed to float freely nor is fixed through a "hard" arrangement like a currency board or monetary union. There was general support among G-20 members for Canada to organize a seminar on exchange rate issues before the 2001 ministerial meeting.

On the issue of globalisation, G-20 ministers and governors asked their deputies to review the institutional arrangements supporting the global economy, with the aim of identifying gaps and areas of overlap. In addition, G-20 deputies were tasked with preparing a report summarising the problems and opportunities offered by globalisation, including a series of case studies illustrating how individual countries have responded to the challenges associated with global economic integration.

The Montreal meeting also generated an agreement on the preparation of a "roadmap" for orderly capital account liberalisation.

**Chair's Assessment**

It was important to demonstrate that the group was not only a discussion forum, but also a forum which encourages the implementation of concrete policy measures. In Montreal, the G-20 demonstrated its capacity to develop consensus and deliver concrete results on potentially contentious issues (e.g., exchange rate agreements, and standards and codes) and reaffirmed the outcomes on private sector involvement that had been discussed at the IMFC through the Toronto round table.

The group also demonstrated its capacity to broaden its agenda beyond financial-management issues in the broad consensus that was reached on the challenges posed by globalisation and the policies needed to ensure that its benefits are as large and as widely shared as possible. Moreover, by identifying specific follow-up initiatives (globalization case studies, roadmap for orderly capital account liberalization and a review of institutional arrangements supporting the global economy), G-20 ministers and governors laid the foundation for further substantive progress at the 2001 ministerial meeting.

**G-20 Chairs**

| | |
|---|---|
| The Honourable Paul Martin<br>Minister of Finance, Canada | Mr. Ian Bennett<br>G-20 Finance Deputy |
| Mr. Gordon Thiessen<br>Governor, Bank of Canada | Mr. W. Paul Jenkins<br>G-20 Central Bank Deputy |

# *Communiqué, 2000*

## Meeting of G-20 Finance Ministers and Central Bank Governors

## Montreal, Canada

## 24–25 October 2000

We, the Finance Ministers and Central Bank Governors of the G-20, held our second meeting today in Montreal, Québec, Canada. We discussed the state of the world economy, particularly the associated policy challenges and ways of addressing potential vulnerabilities. We welcome the continued strengthening of global economic growth, but remain mindful of the importance of sound national economic and financial policies in building an international financial system that is less prone to crises.

Our meeting provided us with an opportunity to engage in a wide-ranging discussion of the opportunities and challenges posed to all of our economies by globalization – the increasing integration of national economies resulting from the greater international mobility of goods, services, capital, people, and ideas. The process of globalization has deep historical roots, but has been accelerated in recent years by unprecedented technological change, the increasing universality and acceptance of market-based economic systems, and the liberalization of international trade and capital movements.

We discussed the benefits of globalization. These include providing people and societies around the world with an unparalleled opportunity to achieve sustained and broad-based improvements in living standards through participation in world trade, further trade liberalization by all countries, including improved access for developing countries' exports to advanced economies' markets, access to cheaper consumption and capital goods, integration into international capital markets, and openness to technological change and innovation. We reaffirm our belief that the economic integration that is at the heart of globalization can continue to be an enormously powerful force contributing to improving the lives of hundreds of millions of people in industrial, transition, and developing countries alike, giving them greater access to goods, capital and ideas – and thus a much greater capacity to achieve rapid and enduring growth in the living standards of their citizens, and to attack income inequalities and reduce poverty.

At the same time, we are in agreement that the process of globalization, like any economic transformation, can also give rise to economic difficulties and social dislocations. Governments have an important role to play in formulating and implementing policies to promote financial and economic stability and harness the benefits of globalization. We agree that putting in place the right frameworks and policies for promoting a globalization process that works well for all of its participants will be the key challenge for the international community in the 21st century.

As G-20 Finance Ministers and Central Bank Governors, we are committed to working together to promote policies that successfully meet this challenge. In particular, we agree to:

1. Commit ourselves to further improve the effectiveness of international institutions, which are fundamental to a strong and stable global financial

system. These efforts include increasing the transparency of their activities and decision-making processes, and enhancing co-operation among them.

2. Implement the emerging international consensus on policies to reduce countries' vulnerability to financial crises, including through appropriate exchange rate arrangements, prudent liability management, private sector involvement in crisis prevention and resolution, and adoption of codes and standards in key areas including transparency, data dissemination, market integrity, and financial sector policy. A summary of our conclusions in these areas can be found in the Annex to this statement.

3. Improve integration into the globalized financial world. Emerging market economies should be supported with technical assistance and policy advice by the international financial community in opening their capital accounts in a well-sequenced manner to benefit from international capital flows while minimizing potential risks.

4. Create more favourable conditions for the integration of heavily indebted poor countries into the global economy by urging both bilateral and multilateral creditors to participate fully in the enhanced HIPC Initiative, and, where appropriate, call for those bilateral creditors that have not already done so to consider taking the additional step of committing to 100-per-cent reduction of ODA claims and eligible commercial claims. We further encourage all bilateral donors to improve the effectiveness of international assistance and direct aid to those poor countries that are serious about tackling economic reforms and poverty reduction.

5. Strengthen our efforts to combat financial abuse, including money laundering, tax evasion and corruption, given its potential to undermine the credibility and integrity of the international financial system, cause serious macroeconomic distortions, and jeopardize national financial sectors. Market integrity is an important pre-condition for financial stability, and we look forward to the joint paper by the IMF and World Bank asked for by the IMFC on their respective roles in combating financial abuse and in protecting the international financial system.

6. Contribute to international efforts to increase the provision of other global public goods to address serious issues such as infectious disease, agricultural research, and the environment, which cut across national borders and require concerted global co-operation.

7. Support continued efforts by the WTO to build consensus toward further multilateral trade liberalisation and strengthening of trade rules that would bring broad-based benefits to the global economy, by reflecting the needs and interests of both developed and developing countries, in particular those of the lowest income economies, so that all can realize the rewards of full participation in the global trading system. We also agree to promote domestic policies that help spread the benefits of integration to all members of society.

8. Promote the design and effective implementation of ‘social safety nets’ that protect the most vulnerable groups of society in the process of liberalization.
9. Ensure that efforts in the areas identified above, and in other areas, take account of a diversity of perspectives.

## *Background Documents, 2000*

Reducing Vulnerability to Financial Crises:

Exchange Rate Arrangements

Prudent Liability Management

Private Sector Involvement in Crisis Prevention and Resolution

International Standards and Codes

# *Chair Summary, 2001 (Canada)*

## Meeting of G-20 Finance Ministers and Central Bank Governors
## Ottawa, Canada
## 16–17November 2001

*"The G-20 is well placed to respond quickly to the pressing needs of a fast-changing global environment. These discussions are an important and timely step that builds on recent efforts in the international fight against terrorism."*[3]

**Overview**

The third meeting of G-20 ministers and central bank governors was slated to take place in India on 16–17 November 2001, with Canada as chair for the year. With the first two meetings held in industrialized countries, Canada had proposed that the 2001 meeting of G-20 ministers and governors take place in an emerging-market economy. However, the tragic events of 11 September 2001 led to the initial cancellation of a number of key international meetings, including the G-20 ministerial meeting. Following Canada's offer to host the G-20 ministerial meeting, as well as the IMF and World Bank Annual meetings, the ministerial was held in Ottawa on 16–17 November.

The Ottawa meeting demonstrated the flexibility and responsiveness of the G-20 by delivering an Action Plan on combating the financing of terrorism, while also maintaining momentum on the work programme laid out over the course of the year.

**Work Programme**

As a result of the events of 11 September, the work programme leading into the Ministerial meeting became centred on two major themes. First, the G-20 developed an Action Plan on Terrorist Financing in which each G-20 member committed to a series of domestic actions, including the ratification and implementation of a number of UN resolutions in order to deprive terrorists of the ability to finance their activities.

Second, efforts to promote economic and financial stability were pursued in several directions. This issue assumed greater importance following 11 September, as global financial markets looked increasingly fragile, capital flows to emerging-market countries began to reverse, and economic growth began to slow across a broad number of countries. The G-20 committed to undertake a stock-taking of the economic consequences of the tragic events of September and an assessment of the policies that could be used to help reduce global uncertainties and ensure an early resumption of global growth.

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[3] Paul Martin, Minister of Finance, 5 November 2001.

Recognising the importance of sound policy frameworks in dealing with challenges of economic and financial integration, at the Montreal ministerial meeting in 2000, a number of G-20 members committed to undertake case studies of their experiences with globalisation. The case studies were to draw out lessons and identify concrete policy recommendations and best practices that would be synthesized into a summary document. At the beginning of 2001, roughly half of the membership undertook case studies, and by the end of the year each country had committed to complete a study.

Following the difficult discussions on best practices for exchange rates in 2000, Canada volunteered to host a workshop on exchange rate regimes. The workshop, involving deputies and academics, was held in Ottawa in October. The discussions highlighted the difficulties in identifying an optimal exchange rate regime. However, there was agreement on the importance of strong domestic policies and the need for a gradual process of capital account liberalisation, as well as a recognition that a managed float was not the appropriate exchange rate regime for all emerging-market economies.

In previous years, G-20 members committed to undertake the Report on the Observance of Standards and Codes (ROSCs) and a Financial Sector Assessment Program (FSAP), but not all members had met the target. During the first deputies' meeting, several members underscored the technical demands and expertise required of these reviews and it was recognized that technical assistance was necessary for those countries with limited institutional capacity.

G-20 deputies held a round table discussion with the private sector on the margins of the October deputies' meeting to discuss ways to improve the efficiency and stability of international capital markets. While implementation of standards and codes was seen as important by private sector participants, emphasis was also placed on developing domestic capital markets, promoting the issuance of debt denominated in local currency, building strong institutions, and enhancing investor relations programmes.

**Key Outcomes**

The key outcome of the G-20 meeting of ministers and governors was agreement on an Action Plan on Terrorist Financing, annexed to the communiqué and endorsed by the IMFC. Countries committed to implement the relevant UN Security Council Resolutions, to ratify the UN Conventions on the Suppression of the Financing of Terrorism and Against Transnational Organized Crime, and to support the activities of the various international institutions in combating the financing of terrorism. G-20 members also agreed to establish or maintain Financial Intelligence Units, and to provide technical assistance for countries that required the expertise and resources to implement the Plan's commitments.

A number of case studies on globalisation were completed by the time of the G-20 ministerial meeting. Based on the results of the individual case studies, the G-20 Secretariat prepared a synthesis document highlighting common themes and lessons learned. The key conclusions reached were that globalisation has contributed to an enormous increase in global prosperity and welfare, and that successful experiences with globalisation require sound policies across a range of areas, including appropriate macro policies and efficient, affordable social programmes. Informed by the case studies and a synthesis document, the discussion of ministers and governors in Ottawa centred on the need to find ways to address the economic disparities that still exist, both within and across countries.

On crisis prevention, there was general agreement that recent reform efforts in emerging-market economies, including the adoption of standards and codes, made the global economy more resilient and lowered the risk of contagion. Ministers and governors agreed to continue to look for ways to improve private sector involvement in crisis prevention and resolution, and tasked deputies with developing a work plan focused on four key elements, including strong presumptive limits on official financing, a clear expectation of private sector involvement, a mechanism to prevent capital outflows where voluntary solutions are not forthcoming, and clarification of lending into arrears by official creditors. The majority of G-20 members had completed either a ROSCs or a FSAP by the time of the ministerial meeting, and there was consensus to continue implementation across the entire group.

**Chair's Assessment**

The G-20 demonstrated its capacity to catalyse broad international agreement through the Action Plan on Terrorist Financing. In its communiqué, the G-20 called on other countries, on international institutions such as the IMF and World Bank, and on FATF and regional FATF-style bodies to undertake steps towards global implementation of the Action Plan. In doing this, the G-20 demonstrated the flexibility to address urgent issues outside of the established work programem.

**G-20 Chairs**

The Honourable Paul Martin
Minister of Finance, Canada

Mr. Jonathan Fried
G-20 Finance Deputy

Mr. David Dodge
Governor, Bank of Canada

Mr. W. Paul Jenkins
G-20 Central Bank Deputy

# *Communiqué, 2001*

## Meeting of G-20 Finance Ministers and Central Bank Governors

## Ottawa, Canada

## 16–17 November 2001

We, the Finance Ministers and Central Bank Governors of the G-20, held our third meeting today in Ottawa, Ontario, Canada against the backdrop of a global economic slowdown whose effects have been exacerbated by the tragic events of September 11th, 2001.

The barbarous attacks on the United States were attacks on all of us intended to shake global economic confidence and security. We will ensure that these efforts fail.

We are committed to combating terrorism by cutting off its financial sources. There should be no safe havens for the financing of terrorism. To this end, we have agreed on an Action Plan to deny terrorists and their associates access to our financial systems. We call on other countries to take similar steps.

We are confident that the attacks of September 11 will not undermine our future economic prospects. We have taken policy actions to maintain liquidity and stabilize markets. We stand ready to take additional actions as necessary. These measures will provide the foundation for an early resumption of growth without undermining our future economic prospects. We agreed that heightened security measures should be implemented in a manner that facilitates the cross-border flow of legitimate trade in goods and services. We reaffirm our commitment to free trade and open international markets as a key source of global prosperity. In this context, we welcome the Doha Development Agenda agreed to at the WTO Ministerial Conference launch of a new WTO trade round and commit to work together to achieve multilateral trade liberalisation that accelerates progress against poverty and promotes growth.

The reduction of capital flows to emerging markets underscores the need for sound policies to provide and to maintain a positive investment environment in member countries. We remain committed to this endeavour. Adopting the best practices embodied in international standards and codes also will help support strong, stable growth and reduce the risk of future financial crises. A majority of G-20 members have already participated, on a voluntary basis, in assessments under one or both of the IMF/World Bank-led Financial Sector Assessment Program (FSAP) and Reports on Observances with Standards and Codes (ROSCs) consistent with our undertaking at our inaugural meeting in Berlin in December 1999. We will continue to promote adoption of international standards and codes for transparency, macroeconomic policy, sound financial sector regulation and corporate governance in consultation as appropriate with relevant international bodies and with the private sector, and thereby strengthen the integrity of the international financial system. We will continue our work on appropriate exchange rate regimes, prudent liability management, and orderly liberalization of the capital account. These efforts reduce susceptibility to financial crises.

Borrowing countries, creditors and the international community have a common interest in efficient and well-functioning international capital markets. We would welcome the earliest possible resolution of Argentina's debt problem. We recognize that lenders are increasingly differentiating between different international borrowers, be they private or sovereign. Good communication between borrowers and their creditors can play an important role in sustaining capital flows to emerging markets. Building on the recent G-20 Roundtable with private sector representatives on promoting efficient international capital markets, we have asked our Deputies to report to our next meeting on improving the way financial crises are resolved, taking into account the lessons learned from experience in emerging markets. A common objective is to reduce uncertainty and ensure the sustainability of capital flows to emerging markets.

We recognize that the world's poorest and most vulnerable are facing acute challenges in the midst of the global economic slowdown, in particular the increased uncertainty resulting from the terrorist attacks. We look forward to participating constructively in the International Monetary and Finance Committee and Development Committee meetings with a view to ensuring that appropriate international support is available to complement the sound national policies needed to generate economic recovery in those countries most affected.

Building on our discussion at our last meeting in Montreal, we reviewed our experiences in responding to the challenges of globalization. We agreed that greater economic integration has led to demonstrable improvements in living standards for the vast majority of our citizens. The G-20 and other countries that have integrated into the global system have in general made significant progress in raising real incomes and reducing poverty. But globalization also poses a number of challenges and risks, which call for enhanced international co-operation. We recognise the need to work with the international financial institutions and World Trade Organisation to ensure that the benefits of globalisation are shared by all, including the poorest countries. To obtain the full benefits of globalization, our governments have a critical role in creating well-developed domestic institutions, good governance and sound domestic macroeconomic, social, and structural policies. As reflected in the Montreal Consensus, by sustaining such policies we ensure that our economies are better able to maximize the contribution of open markets to growth, equity, and well-being for all our peoples.

We accepted the generous invitation of India's Finance Minister Sinha to hold our 2002 meeting in New Delhi.

## *Background Documents, 2001*

G-20 Action Plan on Terrorist Financing:

Freezing Terrorist Assets

Implementation of International Standards

International Cooperation: Exchange of Information and Outreach

Technical Assistance

Compliance and Reporting

# *Chair Summary, 2002 (India)*

## Meeting of G-20 Finance Ministers and Central Bank Governors

## New Delhi, India

## 22–23 November 2002

**Overview**

The G-20 ministerial meeting on 23 November 2002 in New Delhi (India) reaffirmed members' conviction that the increasing integration of the global economy was producing benefits, including an improvement in living standards and a reduction of poverty. The meeting also underscored members' commitment to maximise these benefits through sound domestic policies, strong institutions, and enhanced international co-operation by way of establishing strong working relationships among finance ministers and central bank governors that would take advantage of the group's broad policy experience and diversity.

Based on a consensus that emerged among G-20 deputies at their New Delhi meeting (15–17 July 2002), the following four themes were selected for discussion by G-20 finance ministers and central bank governors at their meeting on 23 November 2002 in New Delhi (India). These included:

1. Globalisation
2. Crisis Prevention and Resolution
3. Development and Aid
4. Combatting the Financing of Terror

It was noteworthy that discussions among the G-20 members extended beyond international financial and stability issues, to the promotion of co-operation to achieve stable and sustainable world economic growth.

The G-20 forum has allowed developed and emerging-market economies not only to develop a consensus on ways to reduce global financial vulnerabilities, but also to discuss new and innovative ways of spreading the benefits of globalisation. It was also clearly brought out in the deputies' meeting (15–17 July 2002) that aid had been effective in many countries and that it can be made even more effective provided that it is adequate, considerate of local circumstances, investment oriented (physical and human), and evaluated effectively. There was agreement that the Monterrey Consensus represented a substantial step forward. Deputies also agreed that both industrialised and developing countries must work together to implement it.

Although much had been achieved by the G-20 in the areas of "globalisation", "crisis prevention and resolution," and "development and aid," much remained to be done. Deputies therefore agreed that these topics be retained as themes for the 2002 ministerial meeting in order to maintain the momentum generated so far in reaching a consensus on them.

A remarkable leadership role was played by the G-20 at its previous meeting in Ottawa (Canada) in November 2001 in combating the financing of terrorism, particularly in leading the international response to the attacks of 11 September 2001 on the United States. In a bid to maintain the momentum achieved at that meeting on this issue, deputies also retained "combating financing of terror" as a theme, for the G-20 2002 ministerial meeting. All agreed that a global collective action was needed more than ever. Given its broad representation, the G-20 was well positioned to effectively address such issues.

## Work Programme

Meetings of G-20 finance and central bank deputies were held on 15–17 July 2002 and 22 November 2002 in New Delhi (India) to prepare for the meeting of G-20 finance ministers and central bank governors held on 23 November 2002 in New Delhi (India).

## Themes

### *Globalisation*

It was observed that globalisation has potential implications for economic growth, poverty, employment, inequality, financial stability, sustainable development, and socio-cultural harmony. Of the several visible adverse effects of globalisation, widening income inequality and the risks to the most vulnerable in society have attracted the particular attention of the international community. Policy frameworks, at both the national and international levels, need to be appropriately redesigned to contain these adverse effects. In order to do this, conditions that created potential winners and losers across countries and within countries, between skilled and unskilled workers, and between the organised and unorganised sectors, needed to be identified. It was also important to explore ways to deal with cross-country inequality, including the role of greater market access, technological assistance, and international aid as transfer devices to compensate the losers. Within national economies, measures to strengthen social safety nets appeared particularly relevant. A system of global governance was required where all members participate equitably in the decision-making process that drives globalisation. Stronger and more accountable institutions were required to provide assistance to those who need support to cope with the changing environment that globalisation brings. International institutional support was also required to ensure easier cross-border movement of labour so that the benefits of globalisation are extended to all parts of the globe.

In May 2002, the Reserve Bank of Australia and Australian Treasury organised the Sydney Workshop on globalisation.

*Crisis Prevention and Resolution*

At the G-20 meeting held at Ottawa (Canada) in November 2001, finance ministers and central bank governors underscored the need for sound policies to provide and to maintain a positive investment environment in member countries. Deputies were asked to report at the next meeting on improving the way financial crises are resolved, taking into account the lessons learned from experiences in emerging markets, with a view to reducing uncertainty and ensuring sustainability of capital flows to emerging markets. Accordingly, at the G-20 deputies meeting held at New Delhi in July 2002, members were asked to prepare brief notes on the origins of the recent crises and lessons for improved crisis management. G-20 ministers and governors took note of the policy recommendations on improved crisis management that emerged out of these notes. They felt that countries have become more exposed to external shocks, owing to the process of globalisation and are consequently more susceptible to the consequences of inappropriate domestic policies. Past experience demonstrated the need to strengthen the capacity to prevent financial crises, and to develop efficient, expeditious, socially and economically effective responses to a financial crisis when it occurs. It was believed that effective and accountable international financial institutions (IFIs) and worldwide surveillance are essential for a healthy global financial system. Sustainable exchange rate regimes, prudent asset-liability management, and the implementation of agreed standards and codes were important components of an effective strategy for crisis prevention. Ministers and governors felt strongly that a more orderly process of crisis resolution would help to mitigate the social and economic costs of financial crises and would maintain, or restore more quickly, access to international capital markets.

*Development and Aid*

At their meeting in Montreal in October, 2000, G-20 finance ministers and central bank Governors had encouraged bilateral aid agencies to improve the effectiveness of international assistance and to direct aid to those poor countries that were serious about tackling economic reforms and poverty reduction. They had also agreed to create favourable conditions for the integration of heavily indebted poor countries (HIPC) into the global economy and urged bilateral and multilateral creditors to participate fully in the enhanced HIPC Initiative. At their New Delhi meeting, Ministers and Governors reaffirmed their shared commitment to achieving the Millennium Development Goals. They recognised that it was important to initiate measures for enhancing official development assistance (ODA) flows to implement the Monterrey Consensus. They also recognised that the disbursement of aid must lead to an effective transfer of real resources from the developed to the developing world. Insofar as recipient nations were concerned, Ministers and Governors agreed that it was essential to enhance their capacity to make aid effective. It was felt that such capacity building would not only require the enunciation of appropriate economic policies and the creation of proper institutional frameworks, but would also demand a strong and credible commitment to undertake policy reforms by national governments. Greater involvement of local governance institutions, and enhanced community participation in the implementation and design of aid programmes, would yield positive results and should be encouraged.

*Combating Financing of Terror*

Following the G-20 Summit held in Ottawa in 2001, members pledged to work with the international financial institutions, the Financial Action Task Force, the Financial Stability Forum, and other relevant international bodies, to prevent abuses of the financial system, and threats to its integrity, by promoting international standards relevant to terrorist financing, money laundering, and the regulation and supervision of the financial sector. In New Delhi, ministers and governors recognised that there was a need to share new insights into the modus operandi of terrorist groups and their financiers who have sometimes succeeded in subverting established financial systems. Members discussed the necessity of sharing knowledge and understanding the systems and technological innovations required to deal with these complex challenges. The importance of technical assistance to upgrade skills and build capacity in emerging economies was also highlighted. The role of international groupings and bodies in disseminating such information on a regular basis was also discussed. Discussions centred on the need to strengthen the formal channels of money transfer, to develop and employ monitoring mechanisms and warning signals, to simplify transaction procedures and develop new tools in order to eliminate the need for informal systems that operate outside of existing laws, to monitor the funding of charity organisations and the end use to which their funds are employed, and to achieve universal coverage of anti-terrorist financing measures.

**Key Outcomes**

The benefits of globalisation can be maximised and associated risks mitigated, through the pursuit of appropriate domestic policies, strong institutions, and good governance. Supportive social policies also have a key role to play in this process. Australia presented the highlights of the Sydney Workshop (May 2002) on globalisation at the deputies' meeting held on 15–17 July 2002 in New Delhi. A synthesis of case studies prepared by G-20 countries (Australia, Canada, China, France, Germany, Korea, Mexico, Russia, South Africa, the United States, and the United Kingdom) on globalisation was released at the press conference at the conclusion of the ministerial meeting on November 23, 2002 in New Delhi. The 2002 Troika was constituted with India, Mexico, and Canada at the deputies' meeting (15–17 July 2002) in New Delhi.

G-20 members agreed on the need for sound national financial systems, effective supervision, and corporate governance in line with global best practice. They also agreed that capital account liberalisation should proceed in an appropriately sequenced manner. They supported further work by the international community, in consultation with debtors and creditors, on comprehensive and market-compatible approaches to crisis resolution, including collective action clauses, a sovereign debt restructuring mechanism (SDRM), and a code of good practices.

Recalling the partnership between developed and developing countries reflected in the Monterrey and Johannesburg Conferences, G-20 members reaffirmed their shared commitment to achieving the Millennium Development Goals, particularly in Africa through supporting the New Partnership for Africa's Development (NEPAD). The G-20 recognised that development assistance can enable poorer nations to build capabilities for exploiting the benefits of more integrated markets, reduce economic distance between nations, and enhance the exchange of global information and knowledge. Development assistance can play a valuable catalytic role, including in the provision of global public goods. The G-20 welcomed the increase in international development assistance announced by some countries, recognising the need for higher official development assistance (ODA). The G-20 also welcomed the commitment made by the Development Committee at its September 2002 meeting to implement and fully finance the enhanced heavily indebted poor countries (HIPC) initiative. It was underlined that both industrialised and developing countries must work together to reduce poverty in the wider interest of all.

When G-20 members met in Ottawa (Canada) in November 2001, they resolved to deny terrorists, and their associates, access to, or use of, their financial systems. To this end, the G-20 reviewed in New Delhi the progress made in implementing the Action Plan, including the freezing of terrorist assets, the implementation of international standards, the exchange of information, the provision of technical assistance, and the reporting of member actions. The G-20 also agreed to continue its efforts to eliminate other abuses of the financial system, particularly money laundering. Members pledged to carry forward their work in this regard, through their support of the activities of international financial institutions (IFIs), and other relevant international fora, and through appropriate domestic actions. Members, by and large, had also taken steps to implement the various requirements of relevant UN resolutions. Most countries had enacted domestic legislation that criminalised the financing of terrorism in its various forms. It was agreed that Canada would circulate a template, which members could use to report on their measures taken to combat the financing of terror. Members committed themselves to support international efforts towards further strengthening of systems to deal with the complex challenges of terrorist financing.

The National Council of Applied Economic Research (NCAER), New Delhi organized a round table discussion jointly with the Reinventing Bretton Woods Committee based in New York on "Breaking the cycle of crisis in emerging markets, responsibilities of the official sector and the private sector and the role of the G-20" on 22 November 2002 in New Delhi.

**Chair's Assessment**

This was the first time that a prestigious international forum, composed of both developed and developing countries, had been chaired by a developing country (India).

In the deputies' meeting (15–17 July 2002), the Chair suggested the preparation of case studies on the origins of recent crises and, accordingly, encouraged member countries to prepare case studies that examined their individual experiences. Members believed that special attention needed to be paid by the international community to the condition of the world's poor, and to provide financial support to heavily indebted poor countries. Emphasising the common objective of the G-20 to ensure sustainable capital flows to the market economies, a small group was constituted to develop the modalities of a suitable strategy to achieve this objective. At the New Delhi Ministerial meeting, Ministers and Governors deliberated on options that could further strengthen the international architecture designed to deal with national, regional and global crises. The importance of greater co-operation among the G-20 members for ensuring better management of an increasingly integrated global economy was stressed. Sound macroeconomic policies, strong institutions, and good national governance were viewed as being critical for reducing the vulnerability of countries to financial crises.

**G-20 Chairs**

The Honourable Jaswant Singh
Minister of Finance, India

Mr. S. Narayan
G-20 Finance Deputy

Dr. Bimal Jalan
Governor, Reserve Bank of India

Mr. Rakesh Mohan
G-20 Central Bank Deputy

# *Communiqué, 2002*

## G-20 Finance Ministers' and Central Bank Governors' Meeting

## Delhi, India

## 23 November 2002

1. We, the Finance Ministers and Central Bank Governors of the G-20, held our Fourth Meeting today on 23rd of November 2002 at New Delhi, India. We reviewed the global economic situation and outlook, and deliberated on matters concerning crisis prevention and resolution, globalisation, the challenge of achieving sustained growth and development and combating the financing of terror. We reaffirm our conviction that increasing integration of the global economy is producing benefits, including improvement in living standards and reduction of poverty, and our commitment to maximize these benefits through domestic policies, strong institutions, and enhanced international cooperation.

**Economic Situation and Financial Stability**

2. We met against the backdrop of continued uncertainty concerning the global economic outlook. The global economy faces significant challenges and problems associated mainly with slower than expected recovery and heightened risk aversion. However, we have confidence in the underlying prospects and potential of our economies, and in our capacities to achieve higher growth and prosperity. Recent events reaffirm our belief that sound macro-economic policies, strong institutions and good governance are critical for realising this potential while containing vulnerability to financial crises. Stronger and more effective international institutions can contribute significantly towards the creation of a robust global economic environment, thereby complementing national efforts for sustained growth and prosperity.

3. Interdependence among national economies and increased integration of financial markets have brought significant advantages and enormous opportunities for enhanced growth in many countries. However, countries have become more exposed to external shocks and susceptible to the consequences of inappropriate domestic policies. Recent experience has demonstrated the need to strengthen our capacity to prevent financial crises and to develop efficient, expeditious, and socially and economically effective responses to a financial crisis when it occurs.

4. We believe that effective and accountable International Financial Institutions (IFIs) and worldwide surveillance are essential for a healthy global financial system. Sustainable exchange rate regimes, prudent asset-liability management, and implementation of agreed standards and codes are important components of an effective strategy for crisis prevention. We agreed on the need for sound national financial systems, effective supervision, and corporate governance in line with global best practice. We also agreed that capital account liberalisation should proceed in an appropriately sequenced manner.

5. A more orderly process of crisis resolution would help to mitigate the social and economic costs of financial crises and to maintain, or restore more quickly, access to international capital markets. We therefore support further work by the international community, in consultation with debtors and creditors, on comprehensive and market compatible approaches to crisis resolution, including collective action clauses, a sovereign debt restructuring mechanism (SDRM), and a code of good practices. We note that proposals are to be tabled by the IMF at the Spring Meetings, 2003.

**Globalisation, Trade and Development**

6. We reviewed the nature and pace of economic integration, which is at the heart of globalisation, and its implications for the world community. We agreed that globalisation has been delivering rising living standards generally, including to many of the world's poor. The benefits of globalization can be maximized, and associated risks mitigated, through the pursuit of appropriate domestic policies and a healthy external environment. The IFIs also have a role to play in this process. Our own experience, as revealed by the G-20 case studies which are to be published shortly, and by the evidence presented at the Globalisation Workshop in Sydney, shows that strong institutions, a climate that fosters savings and investment, transparency, and the rule of law, coupled with increased investments in infrastructure and human capital in developing countries are essential ingredients for promoting growth and reducing poverty.

7. The process of globalisation, however, has not yet delivered its potential in reducing poverty in some of the world's poorest countries. Reduction of the remaining trade and related barriers and phasing-out of trade-distorting subsidies would contribute to spreading further the benefits of globalisation, including to the poorest developing countries. Trade-related technical assistance is also important to support developing countries' capacity building efforts.

8. Recalling the partnership between developed and developing countries, reflected in the Monterrey and Johannesburg Conferences, we reaffirm our shared commitment to achieving the Millennium Development Goals, particularly in Africa through supporting NEPAD. We recognize that development assistance can enable poorer nations to build capabilities for exploiting the benefits of more integrated markets, reduced economic distance between nations and greater exchange of global information and knowledge. Development assistance can play a valuable catalytic role, including in the provision of global public goods. We welcome the increases in international development assistance recently announced by some countries recognizing the need for higher ODA. We also welcome the commitment made by the Development Committee at its September meeting this year to the implementation and full financing of the enhanced HIPC initiative.

**Combating the Financing of Terrorism, and other Abuses of the Financial System**

9. When we last met in Ottawa, Canada, in November 2001, we resolved to deny terrorists and their associates access to, or use of, our financial systems. While that meeting was shadowed by the events of September 11, 2001, today the recent

tragic events in Bali and Moscow reinforce our resolve to combat terrorism and those that would fund it. To this end, we reviewed the progress made in implementing our Action Plan, including the freezing of terrorist assets, implementation of international standards, exchange of information, provision of technical assistance, and reporting on our actions. We also agreed to continue our efforts to eliminate other abuses of the financial system, particularly money laundering. We pledged to carry forward our work in this regard, through support of the activities of International Financial Institutions (IFIs) and other relevant international fora, and through appropriate domestic actions. We will review progress on these matters at our next meeting.

**2003 Chairmanship**

10. We welcome Mexico’s assumption of the chairmanship of our group in 2003 and look forward to our next meeting to continue our work toward a more stable, prosperous, and equitable global economy.

## *Background Documents, 2002*

Annotated agenda for meeting of G-20 finance and central bank deputies (15–17 July 2002 New Delhi)

Agenda documents for meeting of G-20 finance ministers and central bank governors (22–23 November 2002, New Delhi)

Assessing the impact of globalization: A synthesis of case studies prepared by selected G-20 countries.

Brief note on discussions held at the G-20 Workshop on globalisation, living standards and inequality during 26–28 May 2002.

# *Chair Summary, 2003 (Mexico)*

## Meeting of G-20 Finance Ministers and Central Bank Governors

## Morelia, México

## 26–27 October 2003

**Overview**

Mexico proposed a work programme that incorporated topics that were already under consideration by the G-20 but that required further analysis and discussion, as well as new issues. The agenda included the main concerns of policy-makers prevailing in the international financial system at the time and reflected to a large extent topics being discussed by the Bretton Woods Institutions, namely:

1. **Crisis Prevention and Resolution:** In keeping with the mandate of the G-20, crisis prevention and crisis management and resolution were central subjects of G-20 work during 2003. Discussions focused on the main topics of crisis prevention (sound macroeconomic policies, transparency, best practices embodied in key codes and standards, and Contingent Credit Lines) and crisis resolution (Collective Action Clauses, Sovereign Debt Restructuring Mechanism, Code of Conduct for Sovereign Debt Restructuring and payment standstills). The discussion of these issues sought to improve the framework for crisis management.

2. **Globalisation - Economic Growth and the Role of Institutions Building in the Financial Sector:** This topic was approached under two new and different perspectives: i) the challenges arising from what seemed to be unbalanced sources of global economic growth and the risks from policy co-ordination failures between different economic blocks and ii) institution building and its role in the promotion of financial deepening and economic growth. The objective of this theme was to identify valuable lessons to assist member countries on how to attain greater benefits from globalisation.

3. **Preventing Abuses of the International Financial System - Promoting Transparency and Information Exchange:** Discussions were aimed at promoting co-operation among members to improve efforts to combat tax evasion, counterfeiting and money laundering, and in general, to address members' concerns with the use of financial institutions for illicit purposes.

4. **Combatting Terrorist Financing:** There was an agreement on the need to continue implementing the G-20 Action Plan on Terrorist Financing, adopted in Ottawa in 2001, and discuss how to increase the co-operation between countries so as to prevent these criminal activities. An important aim was to advance in the implementation of AML/CFT standards.

5. **Financing for Development:** The discussions focused on how to deal with financing needs and make aid more effective. A fundamental goal was to follow up on the commitments made at the International Conference on Financing for Development (Monterrey, Mexico, 2002) and the Millennium Development Goals.

6. **Future Strategic Priorities of the G-20:** Mexico included this topic in the ministerial Meeting. We recognized that it was an excellent opportunity to look back on the work done since 1999 and discuss with greater precision a medium- and long-term agenda. We also considered it important to have a debate on what kind of forum we wanted the G-20 to become in the future. A complete session was dedicated to this purpose, with ample feed back from ministers and governors.

**Work Programme**

To implement the work programme, Mexico produced discussion papers for each topic on the agenda which included an outline of the key elements and issues for discussion to guide the participation of members during the meetings. Given the broad nature of the topics under consideration, these documents were very useful to focus the discussions.

The IMF, the World Bank, and the Institute of International Finance, among others, provided valuable inputs for different topics of the agenda. Several staff members of these international financial institutions (IFIs) also participated actively during the different seminars and meetings.

In 2003, under the stewardship of the Mexican chair, the G-20 launched an initiative to share member countries' experiences on the role of institution building in the financial sector. The objective was to contribute to a better understanding of the institutional setting required for establishing stable and efficient financial sectors and the most important policies needed to support this process. This initiative continued in 2004, under the German presidency. The case studies and cross-country reviews prepared by a broad range of G-20 members were published as a book in 2005.

Mexico hosted in May 2003 a workshop on Debt Restructuring, which was a central topic of the Group's agenda during the year. This workshop was fundamental for the discussion among G-20 members and private sector participants on the Code of Conduct for Sovereign Debt Restructuring. As is well known, this process led later on to the adoption of the "Principles for Stable Capital Flows and Debt Restructuring in Emerging Markets."

**Key Outcomes**

During Mexico's Chairmanship, several outcomes stand out. These included: a) Collective Action Clauses were included in bond issues of emerging countries in the New York market for the first time; b) important progress was made in developing a voluntary code of conduct for sovereign debt restructuring; and c) ministers made a strong commitment to effectively fight abuses of the financial system, and made a strong call on all countries to allow access to bank information.

We should recall that the inclusion of Collective Action Clauses (CACs) in emerging countries' bond issues was expected to generate a yield premium, increasing costs. Once an agreement between issuers and investors was reached on a set of acceptable clauses, there was a "first mover problem." The G-20 promoted consultation to advance on this matter and on February 2003, Mexico announced the first issue of this kind for a developing country which received a very good response from investors. Soon, Brazil, South Africa, and Korea, among other developing countries, followed.

Discussions on a possible Sovereign Debt Restructuring Mechanism (SDRM) intensified during Mexico's presidency in 2003. While the IMF dealt with the technical discussions, the G-20 focused on some of the political issues involved. Owing to the lack of progress with the SDRM, the idea to establish a voluntary code of conduct was launched, initially by the Banque de France, and later followed up and promoted by the Institute of International Finance. The announcement of the "Principles for Stable Capital Flows and Debt Restructuring in Emerging Markets" was finally made in 2004, during the G-20 German Presidency.

**Chair's Assessment**

The first G-20 Troika was created in 2002 by Canada, India, and Mexico as an executive body that would ensure a swift transition from one presidency to the next. An important innovation was the emphasis on reducing travelling for coordination purposes. Communication among troika members was mainly through electronic means, such as teleconferences, and encounters only in the context of regular G-20 meetings. It proved to be a very effective mechanism to discuss the best ways to handle a forum that had no written rules.

The experience with the discussion of the SDRM and the Code of Conduct highlighted the fact that the G-20 was an effective forum with a significant political-level participation to promote effective consensus building, and with the technical expertise to carry out discussions on complex international financial issues. As we have seen throughout the years, reaching agreements in the G-20 is instrumental to later push forward initiatives in the IFIs.

The discussion during Mexico's chairmanship on the "Future Strategic Priorities of the G-20" was fundamental in underpinning the cohesiveness of the Group, and setting on a firm footing the permanence of the G-20 as a high-level forum for the discussion of international monetary and financial issues.

**G-20 Chairs**

| | |
|---|---|
| Mr. Francisco Gil Díaz<br>Minister of Finance | Mr. Agustin Carstens Carstens, followed by<br>Mr. Alonso García Tamés<br>G-20 Finance Deputy |
| Mr. Guillermo Ortíz Martínez<br>Central Bank Governor | Mr. Javier Guzmán Calafell<br>G-20 Central Bank Deputy |

# *Communiqué, 2003*

## Fifth G-20 Finance Ministers' and Central Bank Governors' Meeting

## Morelia, Mexico

## 26–27 October 2003

We, the Finance Ministers and Central Bank Governors of the G-20 held our fifth meeting in Morelia, Mexico. We reviewed the current world economic situation and noted that, while risks remain, a global economic recovery is underway, aided by supportive macroeconomic policies in many countries. We welcomed the recent positive performance of several economies.

We discussed ways to promote economic growth that is more balanced among major regions. We emphasized the need to reduce fiscal and external vulnerabilities and imbalances in both industrial and emerging market economies. We agreed that the adjustment of significant imbalances in systemically important regions or countries requires robust implementation of appropriate policies. Further efforts, including the acceleration of structural reforms to foster potential growth and improve macroeconomic stability, are needed. We confirmed that those countries with efficient and solid markets and institutions are the ones that are best prepared to make the most out of their participation in the global economy. We also noted the importance of a policy framework to provide medium-term sustainability, flexibility and fairness. We are determined to work together to deepen our commitment to these goals.

We, Finance Ministers and Central Bank Governors, are committed to giving impetus to the multilateral trade approach as one of the most effective ways to promote global growth, reduce poverty and ensure that the benefits of globalization are broadly shared by all, particularly the poorest countries. We therefore called on all World Trade Organization (WTO) members to quickly re-energize the negotiation process toward the fulfillment of the Doha development agenda, recognizing that flexibility and political will from all are urgently needed. We also encourage the International Financial Institutions (IFIs) to continue to develop their initiatives to support this aim.

Our understanding of the significance of institution building in the financial sector has benefited from a number of case studies provided by members on this subject. By reviewing these case studies, we have compiled a number of valuable lessons to assist countries in attaining the benefits of globalization. In particular, the case studies highlighted the positive effects on the whole economy of reforms in the financial sector and provided insights into the appropriate management of the process of reform. Increased financial liberalization, integration, and effective regulatory policies and supervision, with due regard to the appropriate timing and sequencing, are means to enhance the development of the financial system. Our analysis has underlined the fact that solid institutions and sound, deep and sophisticated domestic financial markets are key elements to maximize the benefits of globalization, promote growth and significantly reduce the risk of financial crises. We will continue to address these issues in our future agenda.

We reaffirm our mandate to review and promote crisis prevention and resolution measures. We encourage the IMF to continue to enhance its capacity to identify vulnerabilities, such as currency and other balance sheet mismatches, and provide advice to member countries on policy reforms. We welcome the increasingly widespread use of collective action clauses (CACs), and we support their inclusion in future sovereign bonds issued under foreign jurisdiction. We also encourage the adoption of the best practices embodied in key international standards and codes, which will help support strong, stable growth and reduce the risk of future financial crises. With a view to promote the development of a workable code of conduct, we encourage an inclusive group of issuers and market participants to engage in further discussions, with G-20 members participating on a voluntary basis. We ask G-20 Deputies to review the progress made by the issuers and market participants at the next G-20 Deputies meeting in March. We discussed the future of the CCL and the role that precautionary facilities or arrangements, conditioned on sound economic policies, could have in crisis prevention. We urged the IMF to continue its work on these issues.

We took note of the diversified ways for individuals and companies and other entities to abuse the international financial system to undertake illicit activities including tax evasion. We discussed and explored ways to enhance the bilateral exchange of fiscal, financial and customs information needed by countries to enforce their own fiscal and other laws. These measures will contribute to efforts to combat abuses of the financial systems such as fiscal evasion, fraud and money laundering. We are committed to cooperate to effectively fight such abuses and make a strong call on all countries especially those OECD countries that have not taken necessary steps- in particular in allowing access to bank information- to join us in this effort and look forward to having regular reports on the progress of international initiatives in this area. We also agreed to monitor developments in Offshore Financial Centers (OFCs), based on the IMF's work.

We remain committed to disrupting terrorist financing networks. We recognized that this effort requires a focus on both the formal and informal financial sectors. Therefore, while we will continue efforts to improve our formal financial systems, to expand their scope, and to protect them from this abuse, we will also concentrate efforts to subject informal financial sectors to appropriate monitoring and enforcement actions. We pledged to carry forward our work in this regard, through support of the activities of IFIs and other relevant international fora, and through appropriate domestic actions. We resolved to advance our implementation of the AML/CFT standards. We welcomed the good progress on the IMF/World Bank pilot program in cooperation with FATF, and we look forward to making terrorist financing and money laundering assessments a permanent part of IMF and World Bank work. In this context we urged FATF to make progress, as appropriate, in the enlargement of its membership.

Aware of the need to make progress in fighting global poverty and promoting economic growth, we discussed the framework for advancing the implementation of the Monterrey commitments. This framework consists of a partnership among developed and developing countries, which are dedicated to sound policies and the mobilization of resources, both domestic and international, and is needed to meet the internationally agreed development goals, including the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration. We believe that trade liberalization is critical to providing conditions for developing countries to meet the MDGs. The G-20 is uniquely placed to deepen the linkages between aid, good governance, financing and trade. We welcomed the further work commissioned on financing for development at the recent IMF/World Bank Annual Meetings, including the commitment to closely consult emerging markets and developing countries. We look forward to considering the outcomes of this process at our next meeting. Considering the importance of full financing of the Enhanced HIPC Initiative, we welcomed the support received from many bilateral creditors, and urge all who are not currently doing so to provide their share of debt relief.

The G-20 thanks Mexico for its excellent leadership throughout this year and its generosity in hosting the Morelia, G-20 Ministerial. We will continue our work next year under the presidency of the Federal Republic of Germany and welcomed their invitation to host our next gathering in Berlin. We have also agreed today to work during 2005 under the chairmanship of the People's Republic of China.

## *Background Documents, 2003*

Discussion Paper for Ministerial Meeting on Future Strategic Priorities for G-20 (October 2003)

Agenda of the Workshop on Debt Restructuring (26–27 May, Mexico City, Mexico)

Report to Finance Ministers and Central Bank Governors on Institution Building in the financial Sector (October 2003)

# *Chair Summary, 2004 (Germany)*

## Meeting of G-20 Finance Ministers and Central Bank Governors
## Berlin, Germany
## 20–21 November 2004

**Overview and Work Programme**

Germany played a significant role at the inception of the G-20 in 1999 in Berlin and held the G-20 Chair in 2004. Our Chair's general focuses were the continuing enhancement of international financial stability and the promotion of sustainable global growth.

The German work programme in 2004 included the following issues for the following reasons:

1. **Promoting stability and growth in the context of globalisation:** The differences in economic performance of various regions of the world called for a thorough analysis of the underlying causes. Building on the different experiences of emerging-market economies in East Asia and Latin America, and with emphasis on macroeconomic stability, G-20 members should discuss the key elements of a successful strategy for stability and growth and develop common principles.

2. **Institution building in the financial sector:** In 2003, the G-20 started a comprehensive analysis of their own institutional foundations conducive to stability and efficiency in their financial sectors. Substantive input has been delivered by means of case studies that have raised several issues and questions that deserve further and more in-depth consideration. One focus of particular interest for the G-20 in 2004 was the question of how to strengthen domestic financial markets. Deep and efficient domestic financial markets are essential for both mobilising domestic savings and reducing the reliance on external financing (and the resulting vulnerabilities, such as a currency mismatch). The G-20 discussion was to cover, *inter alia*, the sequencing in developing such markets, including supervisory issues, trying to identify lessons and principles to strengthen domestic financial markets.

3. **Regional integration in a global framework:** Regional integration as a practical step towards promoting global integration gained wide acceptance. The G-20 was to explore the different objectives appropriate for different regions, the proper sequencing to be recommended, and the conditions to be fulfilled at each stage.

4. **Strengthening the framework for crisis prevention and resolution:** This issue has been at the heart of the G-20 agenda since it was created. Our attention was

focused on proposals for introducing a voluntary Code of Conduct aimed at crisis prevention and facilitating orderly crisis resolution.

5. **Combating the abuse of the financial system:** The abuse of the international financial system threatened both its integrity and ability to function properly.

   In this regard we decided to focus on two issues:

   a. *Harmful Tax Competition:* Competition of tax systems can enhance welfare as it may strengthen efficiency. It may be harmful, however, when tax systems directly encourage tax evasion. In such cases of "beggar-thy-neighbour-policy," the global community should aim at fostering transparency and ensuring an effective exchange of information.
   b. *Money Laundering and Terrorist Financing:* Two years after the G-20 Action Plan on Terrorist Financing was adopted in Ottawa, members needed to examine whether the measures taken have been successful and what steps should be taken next.

6. **Demographic challenges and migration**: The discussion of demographic developments in the G-20 offered a very broad range of perspectives. While all G-20 members were facing ageing societies, the stages of demographic transition strongly differed. Also addressing the issue of migration promised to be fruitful in a global forum.

The **Meeting of G-20 finance ministers and central bank governors** took place in Berlin on 20–21 November (agenda and communiqué attached). The two **deputies' meetings** were in Leipzig on 3–4 March and in Frankfurt on 18–19 October.

There were three **workshops** in 2004:

- 26–27 April: Workshop on Developing Strong Domestic Financial Markets in Ottawa
- 1–2 July: Seminar on Demography and Growth in Paris
- 22–23 September: Workshop on Regional Economic Integration in a Global Framework in Beijing

**Key Outcomes**

The key outcomes of Germany's 2004 G-20 Chair were the following three agreements:

*G-20 Accord for Sustained Growth*

The Accord's intention was to set a framework, based on members' experiences, describing the priorities and requirements of strong and sustained economic growth. It should promote employment, welfare, and development in the G-20 countries.

*G-20 Reform Agenda*

The Reform Agenda translates the G-20 Accord for Sustained Growth into concrete policy measures for G-20 member countries. In the Reform Agenda, each member has to identify adequate policy measures in accordance with the principles of the G-20 Accord and to review the progress on a regular basis. The following reviews have taken place at the Ministerial meetings 2005 in China and 2006 in Australia.

*G-20 Statement on Transparency and Exchange of Information for Tax Purposes*

This statement's intention was to enhance good governance and to fight illicit use of the financial system in all its forms. The core of the document is a commitment to transparency and exchange of information for tax purposes.

**Chair's Assessment**

Germany sees the G-20 Accord for Sustained Growth as a very important agreement on common principles involving both industrialised and emerging economies – it is the first of its kind. Through the annual follow-up of the Reform Agenda, G-20 nations are able to learn from each other's reform experiences. The continuation of the Accord and regular follow-ups on the Reform Agenda are of great importance to us.

Also on the positive side, we think it was important to have introduced a surveillance discussion on current economic and financial situations during our Chair. The open discussion between G-20 finance ministers and central bank governors on up-to-date macroeconomic issues built confidence and was, in fact, a very good introduction to the more detailed sessions of the meeting. It is good to see that this surveillance discussion at the opening session has already become a tradition in the G-20.

Unfortunately, there has been no follow-up on the Statement on Transparency and Exchange of Information for Tax Purposes in the G-20 framework.

**Lessons learnt**

- The ambition of the G-20 should be to suit the action to the word. This includes that the issues for the Ministerial Meeting should have a close connection with financial markets, fiscal policy, and macroeconomic issues, since these issues are within the areas of political influence and responsibility of finance ministers and central banks.

- The G-20 is a very suitable forum for the exchange of "best practices for good policy." A precondition for this exchange is a peer review, along with the implementation of measures on a regular basis.

- Continuity of G-20 attention to issues is also essential. The G-20 Troika is a very useful instrument in this regard, but it might be worth thinking of how continuity could be further enhanced.

- Given the growing number of issues of common interest, emerging and industrialised countries should strive for further improvement of communication and interaction between existing international groups and financial forums.

**G-20 Chairs**

| | |
|---|---|
| Hans Eichel<br>Minister of Finance | Caio Koch-Weser<br>G-20 Finance Deputy |
| Ernst Weltecke,[4] Dr. Axel Weber<br>Central Bank President | Dr. Jürgen Stark<br>G-20 Central Bank Deputy |

[4] Until April 2004

# *Communiqué, 2004*

## Meeting of Finance Ministers and Central Bank Governors

## Berlin, Germany

## 20–21 November 2004

1. We, the Finance Ministers and Central Bank Governors of the G-20, held our sixth meeting in Berlin, Germany. Our meeting confirmed the growing sense of common purpose and shared views and responsibility which has developed within the G-20 over the last years.

2. We welcomed the favourable macroeconomic environment in the world economy with high growth at low inflation rates. We expect that the macroeconomic environment will remain favourable in the next year. Many countries are implementing structural reforms to foster sustainable growth and financial stability. However, downside risks have increased due to oil price volatility, persisting external imbalances and geo-political concerns. Co-operation between oil producers and consumers to ensure adequate supply, investment to expand oil production capacity, improvements in oil market transparency, greater energy efficiency and wider use of alternative sources of energy will contribute to improving the resilience and sustainability of the international economy and to more moderate oil prices in the medium term. We also discussed the impact of current macro-economic conditions, in particular oil prices, on many of the poorest countries and the adverse effects on their development prospects. We underscored the importance of medium-term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and, in emerging Asia, steps towards greater exchange rate flexibility, supported by continued financial sector reform, as appropriate.

3. We reaffirmed our commitments made in Morelia towards the progress of developed and developing countries on implementation of the Monterrey Consensus and the Millennium Development Goals. We welcomed recent work by the World Bank and the IMF on the need and mechanisms for financing for development.

4. We agreed that our goal of improving welfare and employment in our countries calls for strong and sustained growth worldwide. We therefore had a thorough exchange of views on growth-enhancing strategies. Building on our own experiences as well as on our discussions on institution-building in the financial sector, on regional cooperation and integration and on demographic challenges, we today reached an accord on a number of common principles for domestic policies which would help to foster sustained economic growth if implemented consistently and with due regard to country-specific circumstances. We will translate this G-20 Accord into concrete action through measures such as found in the attached G-20 Reform Agenda, and we will regularly review the progress towards implementation. We are agreed that such policy reforms need to be supported by a robust and effective international financial and trade architecture

that delivers fair access to markets. In this respect, we are committed to a quick resolution and effective implementation of the Doha Round.

5. Based on an exchange of experience over the past two years, we emphasised that strong domestic financial sectors are essential in supporting economic growth and reducing external vulnerabilities. We agreed that high priority should be given to establishing stable and efficient institutions. Progress in institution building is also important for a well-sequenced liberalisation of the capital account. Emphasis must be given to implementing the relevant internationally recognised standards and codes. We highlighted the crucial role of financial sector supervision, which should pay due regard to efficiency, operational independence and accountability of the agencies involved. We welcomed the efforts of the World Bank to develop principles and guidelines for effective insolvency and creditor rights systems and we commend efforts to develop a unified international standard in this area, in collaboration with UNCITRAL, that takes into account different legal traditions. We identified stable and efficient payment systems as pivotal for the financial infrastructure and emphasised the role of central banks as a supplier and overseer of payment services. We welcomed the efforts of the IMF, the World Bank and others in promoting institution-building and the development of local capacity and agreed on the importance of closely coordinating such activities.

6. We agreed that regional cooperation and integration can be important steps for national economies in opening up to global trade and financial flows and in achieving gradual improvements in competitiveness. We emphasised that regional arrangements should be designed with due regard to multilateral objectives. While trade has historically been the initial step of regional integration, we highlighted the formation of regional integrated financial markets for bonds and financial services. The reduction of barriers to foreign direct investment in the financial sector within the necessary regulatory framework, can, if appropriately sequenced, enhance the efficiency and stability of national financial systems. We agreed that G-20 countries, as systemically important economies, have a special responsibility in their regions. We undertake to play a leading role in advancing regional and global integration.

7. Against the backdrop of global demographic changes, we assessed trends in our countries and the challenges they present for economic policy. As all our countries will be affected by ageing-related budgetary pressures in the coming decades, we are well aware of the need for fiscal consolidation and further structural reforms. However, policy challenges differ greatly among countries in the short-term. Countries that will encounter ageing problems first need to integrate a larger part of their working-age population into the labour force, expand individual working life and implement life-long learning. Countries that will experience a rise in the working age population before the problematic impact of ageing becomes apparent should increase investment in human-capital and infrastructure while pursuing prudent fiscal policies. We emphasised the importance of a stable and efficient international financial system that allows smooth flows of capital between regions at different demographic stages. We are committed to strengthening the monitoring of economic challenges of an ageing

population and surveillance of respective policies and call on the IMF to regularly include, e.g. every four years, in the context of its Article IV consultations a thorough and integrated analysis of these long-term challenges and policy responses. Building on this, the G-20 will review demographic, migratory, and other long-term challenges regularly at a global level.

8. We reaffirmed the importance of an international financial architecture that sets incentives for pursuing sustainable policies and prudent risk-taking. In this regard, we welcomed the results achieved between issuing countries and private-sector participants on "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets". Such principles, which we generally support, provide a good basis for strengthening crisis prevention and enhancing predictability of crisis management now, and as they further develop in future.

9. We reaffirmed our commitment to fight the abuse of the international financial system in all forms. To this end, we have committed ourselves to the high standards of transparency and exchange of information for tax purposes that have been developed by the OECD's Committee on Fiscal Affairs as set out in the attached statement. We will work to implement the high standards of transparency and effective exchange of information through legal mechanisms such as bilateral information exchange treaties, and we also call on those financial centres and other jurisdictions within and outside the OECD which have not yet adopted these standards to follow our lead and take the necessary steps, in particular in allowing access to bank and entity ownership information.

10. While we have made progress in fighting money laundering and the financing of terrorism since 11 September 2001, much remains to be done. FATF regional style bodies are expected to be an important element of our efforts and we welcome the recent establishment of the Eurasian Group on Money Laundering and Financing of Terrorism (EAG). We look forward to the early admission of China in the FATF. We are committed to implement the revised FATF Forty Recommendations and the FATF Special Recommendations. We welcomed the decision by the IMF and the World Bank to make comprehensive assessments on money laundering and terrorist financing a regular part of their work. We are agreed on the importance of responding to the challenges posed by illegal cash couriers and by the use of the informal sector for remittances and we supported the FATF's current efforts to address these issues more effectively. In this context we welcomed the new FATF Special Recommendation IX on cash couriers and urge its efficient implementation.

11. We expressed our appreciation to the German authorities for their excellent stewardship of the G-20 this year and for the effective arrangements for this meeting. We will continue our work under the Chinese presidency in 2005 and we welcome the invitation to our next meeting in Beijing. We have also agreed today that the G-20 will be chaired by Australia in 2006.

## *Background Documents, 2004*

Agenda

G-20 Reform Agenda

G-20 Statement on Transparency and Exchange of Information for Tax Purposes

# *Chair Summary, 2005 (China)*

## Meeting of G-20 Finance Ministers and Central Bank Governors

## Xianghe, Hebei, China

## 15–16 October 2005

**Overview**

By 2005, the world economy continued to face large and increasing imbalances with accelerating economic globalisation. The prolonged global imbalances gave rise to concern because uncertainty existed regarding how far into the future they could continue to be financed, and whether the eventual adjustment would take place in an orderly fashion. To reduce this uncertainty and achieve orderly unwinding of the imbalances, sustained policy actions across major countries were called upon. Against this backdrop, the G-20 members, under the facilitation of China, the Chair of 2005 G-20 meetings, decided the theme of the 2005 meetings: "Global Co-operation: Promoting Balanced and Orderly World Economic Development."

**Work Programme**

To prepare for the finance ministers and central bank governors meeting which was held in Xianghe, Hebei, China in October, two G-20 finance and central bank deputies' meetings were held, the first one in Chongqing on 13–14 and the second in Dalian on 1–2 September. After consultation with Troika members, it was decided that three workshops would be held to prepare for the discussion at the deputies and ministerial meetings. Three countries, namely Brazil, South Africa, and Australia, volunteered to host the three workshops: one on an Innovative Financing Mechanism for Development in Brazil on 29–1 June, one on Economic Growth in South Africa on 4–5 August, and one on Demographic Challenges and Migration on 28–29 August in Australia.

Several Troika meetings were held both on the margins of the deputies and ministerial meetings and in the form of video conference to discuss the policy and administrative issues in preparation for the deputies and ministerial meetings. Five topics were chosen for discussion at the ministerial meeting: Current Economic and Development Issues; 60 years of Bretton Woods Institutions: Strategic Review and Reform Agenda; Achieving the MDGs: Development Assistance and Innovative Financing Mechanism; Demographic Challenges and Migration; and Innovation of Development Approaches for Sustained Growth (G-20 Accord).

In selecting the topics for the year, it was widely agreed that volatility in oil prices was a serious concern and might play a role in shaping global economic and political development. As a result, issues related to oil prices and production were put on the agenda under the traditional heading of current economic and development issues. The strategic review and reform agenda of Bretton Woods Institutions were conducted with a view to making their roles and responsibilities more responsive to the changing international economic and financial landscape, given the fact that the G-20 was well-placed to discuss global economic governance. Development assistance and an innovative financing mechanism were also included in the agenda in consideration of the inadequate development financing that may endanger the realization of MDGs. To enhance the continuity of G-20 meetings, Demographic Challenges and Migration was chosen with a focus on migration and the resulting remittance in the context of ageing. In addition, building on our Berlin commitment to translate the G-20 Accord into concrete action by regular reviews of the progress towards implementation, a separate session on Innovation of Development Approaches for Sustained Growth was established.

**Key Outcomes**

Three documents were endorsed at the 2005 meeting of G-20 finance ministers and central bank governors, including the Communiqué, G-20 Statement on Reforming the Bretton Woods Institutions, and G-20 Statement on Global Development Issues. An updated Reform Agenda of G-20 members was also circulated.

**Chair's Assessment**

The 2005 G-20 ministerial meeting was productive and fruitful. The meeting discussion was mainly focused on two areas: the international development agenda and the reform of the Bretton Woods Institutions (BWIs).

The UN Millennium Review Summit in 2005 was concluded just one month before the meeting of G-20 finance ministers and central bank governors. The discussion of development issues at the G-20 meeting, therefore, was both timely and necessary. Through discussions, members reached consensus on some key points, including that there is no one-fits-all development approach, and countries shall mobilize resources for development so as to help developing countries to achieve MDGs before 2015.

The G-20 ministerial meeting also brought the reform of Bretton Woods Institutions onto the agenda for extensive discussion and deliberation. Finance ministers and central bank governors exchanged views on general issues like the mission and functions of the BWIs, as well as more detailed ones like quota and voting power, and adopted the G-20 Statement on Reforming the Bretton Woods Institutions. The Statement outlined the missions and reform directions for improving governance, management and operational strategies of the IMF and World Bank, hence, providing useful guidance on the review of the BWIs reform. The productive deliberation at the 2005 G-20 ministerial meeting, to a large extent, contributed to the successful conclusion of the first step of IMF reform at the Singapore World Bank/IMF Annual Meeting in the following year.

**G-20 Chairs**

Mr. JIN Renqing
Minister of Finance, P.R. China

Mr. LI Yong
G-20 Finance Deputy

Mr. ZHOU Xiaochuan
Governor, People's Bank of China

Mr. LI Ruogu / Madam HU Xiaolian
G-20 Central Bank Deputy[5]

[5] Madam HU Xiaolian succeeded Mr. LI Ruogu as the G-20 Central Bank Deputy after Mr. LI Ruogu left the position as the Deputy Governor of the People's Bank of China in May 2005.

# *Communiqué, 2005*

## Meeting of Finance Ministers and Central Bank Governors

## Xianghe, Hebei, China

## 15–16 October 2005

1. We, the Finance Ministers and Central Bank Governors of the G-20, held our seventh meeting in Xianghe, Hebei province, China. Under the theme of "Global Cooperation: Promoting Balanced and Orderly World Economic Development", we discussed a wide variety of critical global economic issues and reconfirmed our shared vision and responsibility for achieving balanced and sustainable growth.
2. We welcomed the ongoing expansion of the world economy, while recognizing low growth and increasing poverty in some developing countries. We also emphasized that the risks - long lasting high and volatile oil price, widening global imbalances and rising protectionist sentiments - are to the downside and could exacerbate uncertainties and aggravate global economic and financial vulnerabilities. We agreed addressing them must be done in a way that sustains strong global economic growth and takes account of shared responsibilities. Bearing in mind our shared responsibilities, we are determined to implement the necessary fiscal, monetary and exchange rate policies, and accelerate structural adjustments to resolve these imbalances and overcome these risks.
3. We are concerned that long lasting high and volatile oil prices could increase inflationary pressures, slow down growth, and cause instability in the global economy. We agree to strengthen our cooperation on these issues and stress the need to increase investment, production, and refining capacities, and to enhance dialogue between oil suppliers and consumers through the relevant fora, such as International Energy Forum (IEF). We also need to strengthen oil market transparency to improve market efficiency. We stress the importance of promoting energy conservation and efficiency, including adopting and transferring new technologies, developing alternative and renewable energy sources, and reducing subsidies on oil products. We welcome the work launched by the World Bank and partners on the creation of a long-term investment framework for clean energy and sustainable development and the upcoming creation by the IMF of a new window in the Poverty Reduction and Growth Facility (PRGF) to help poor countries respond to commodity shocks, including oil price hikes.
4. We agreed a successful WTO Doha Development Round is critical for ensuring globalization truly benefits all countries, and would make a key contribution to achieving the Millennium Development Goals (MDGs). We urge all parties concerned to provide the necessary political impetus to promote trade liberalization, fight protectionism, and make real progress at the WTO Ministerial Conference to be held in Hong Kong, China, later this year, with the view to concluding the negotiations by the end of 2006. We are committed to significantly

increasing market access for goods and services, reducing trade-distorting domestic support, eliminating all forms of export subsidies in agriculture, providing effective special and differential treatment for developing countries, and increasing aid for trade to enhance the capacity of developing countries to take advantage of expanded trade opportunities.

5. We acknowledge the Bretton Woods Institutions (BWIs) have made significant contributions to growth and development, and the improved functioning of the international monetary systems. However, the evolution of the international economy and global financial markets requires a continuing review of the representation, operations, and strategies of the BWIs. We have discussed the necessity for, and committed our strong support to, reforming the BWIs. We have issued a "*G-20 Statement on Reforming the Bretton Woods Institutions*", which underlines the importance of improving governance, management and operational strategies of these institutions, and aims at providing support to the reform of the BWIs.

6. We noted the outcomes of the UN Millennium Review Summit and the progress that the international community has made toward achieving the MDGs. We are concerned that a number of developing economies may not be able to attain the MDGs without substantial additional support. We call on the international community to fulfill its Monterrey Commitments and on recipient countries to make further progress in implementing sound policies. We note efforts from some of the G-20 countries to implement innovative financing mechanisms[6]. In order to demonstrate the G-20's firm commitment toward achieving the MDGs, we have issued the *"G-20 Statement on Global Development Issues*" which represents our shared understanding on development approaches and financing, aid effectiveness, trade for development, and global partnership for poverty reduction, and will be reviewed by the G-20 over coming years.

7. We noted population-ageing has become a serious global challenge that requires comprehensive research. We discussed the impact of an ageing population on economic growth, social security, and financial and labor markets. We recognized national efforts are essential to address these challenges. We also recognized global cooperation is indispensable in this regard. We noted access to foreign labor markets could provide strong incentives for people in developing countries to acquire education and skills. We also acknowledged migrant remittances have become an important and stable source of income and made significant contributions to economic development and poverty reduction in home countries. We urge countries and the international organizations to work together to improve remittance services, enhance access to, and knowledge of, formal financial systems, and collect better data, which should facilitate a reduction in transaction costs.

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[6] Such as the International Finance Facility (IFF) and its pilot – the IFF for Immunization, a contribution on air travel tickets, the Millennium Challenge Account, and other financing measures.

8. We underscored the importance of the G-20 Accord for Sustained Growth adopted in Berlin in 2004. We note development approaches are evolving over time, and thus need to be updated as economic challenges unfold. We will continue to review the G-20 Accord through sharing our experiences in implementation. We recognized there is no uniform development approach that fits all countries. Each country should be able to choose the development approaches and policies that best suit its specific characteristics, while benefiting from their accumulated experience in policy making over the last decades, including the importance of strong macroeconomic policies for sustained growth. Our current policy priorities are outlined in the attached G-20 Reform Agenda.
9. We reaffirmed our commitments to the purposes of the "*G-20 Statement on Transparency and Exchange of Information for Tax Purposes*" that was endorsed last year. In this context, we welcome the efforts of the OECD Global Forum on Taxation to promote high standards of transparency and effective exchange of information for tax purposes.
10. We noted progress has been made recently in increasing the use of Collective Action Clauses (CACs) in international bond markets. We welcome the efforts by borrowing countries and private-sector creditors to broaden the consensus on the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets,* which could contribute to strengthening crisis prevention and enhancing predictability of crisis management.
11. We are grateful to China for its excellent stewardship of the G-20 meetings in 2005, and will continue our joint efforts under the Australian chair in 2006. We agreed today that South Africa will chair the G-20 in 2007.

## *Background Documents, 2005*

G-20 Accord for Sustained Growth

G-20 Statement on Reforming the Bretton Woods Institutions

G-20 Statement on Global Development Issues

G-20 Reform Agenda 2005

# *Chair Summary, 2006 (Australia)*

## 2006 Meeting of the G-20 Finance Ministers and Central Bank Governors

## Melbourne, Australia

## 18--19 November 2006

**Overview**

The 2006 G-20 meetingMeeting of finance ministersMinisters and central bank governorsGovernors was held under the overarching theme "Building 'building and Sustaining Prosperity."'sustaining prosperity'. The then Australian Treasurer chose this theme because it encapsulated his view that the G-20 should address the key issues at play in the world economy in a practical, substantive, and sustainable manner.

Australia had a number of key objectives for 2006. The first objective was to pursue relevant and practical issues under the then Treasurer's overarching theme to support global development and stability. The second was to strengthen the G-20's position as a pre-eminent forum in the global economic and financial architecture, with a strong focus on encouraging rules-based and market-focused national policies and international co-operation among members. Australia also sought to use the forum to bring the best global policy analysis into domestic decision -making.

**Work Programme**

In determining themes for our host year, Australia saw it as particularly important to have a mix between legacy items, and cultivating discussions on relevant new issues.

The major legacy issues from China's host year in 2005 were reform of the Bretton Woods Institutions (BWIs) and the challenges of demographic change. Two other issues were identified as being relevant for ministersMinisters and governorsGovernors to examine. The first was energy and minerals security: with rising and volatile energy and minerals prices, uncertainty in markets, and increasing concern about the reliability of supply and demand this was (and remains) a key international issue. The second issue was maintaining the focus on, and momentum for, domestic economic reform within G-20 countries, building on the *G-20 Accord for Sustained Growth* agreed in 2004 under Germany's leadership.

To support the development of these themes, three workshops were held in 2006. The first workshop on Reform of the BWIs was held in Tokyo, Japan in February; the second workshop on Energy and Resources was held in Banff, Canada in June; and the third workshop on Demography and Financial Markets was held in Sydney, Australia in July. The workshops provided opportunities for G-20 officials, and representatives from the private sector and academia, to discuss issues relevant to the themes and to assist G-20 officials to determine how these themes could be progressed and presented to G-20 deputies, ministersDeputies, Ministers and governors.Governors. These themes had aspects that related to the responsibilities of both finance ministersFinance Ministers and central bank governors.Central Bank Governors.

In addition to these themes, Australia maintained the regular session on examining current challenges in the global economic and financial outlook. Australia sought to encourage policy-relevant discussion through a theme-based conversation on the challenges of managing monetary and fiscal policy in the face of sustained above-trend global growth. The IMF and World Bank prepared short background papers on this subject, and selected countries were invited to open the general discussion.

Early in 2006, Australia proposed the use of informal study groups within the G-20 to support discussion at deputies' meetings. We proposed that study groups could be used to collect technical analysis on a specific issue being considered by G-20 deputies. In Australia's host year, a Study Group was established to collect information on demographic change and labour mobility, which then fed into Deputies' discussion.

Australia also pursued the issue of aid effectiveness in 2006. This was to welcome the recent increases in aid and debt relief and, at the same time, recognise that achieving the Millennium Development Goals will require greater effort by donors, aid recipients, and international development institutions to improve aid effectiveness.

**Key Outcomes**

The then Australian Treasurer, the Honourable Peter Costello MP, and the Reserve Bank of Australia (RBA) Governor, Mr. Glenn Stevens, chaired the Meeting of Finance Ministers and Central Bank Governors in Melbourne, 18–-19 November.

Through providing a forum for a frank exchange of views, the G-20 made an important contribution to the IMF's historic decision in September 2006 to undertake, in a two-stage process, comprehensive reform of its quota arrangements and enhance the voice of low-income countries. In their September decision, IMF governorsGovernors agreed to a package of reforms comprising early quota increases for the most significantly under-represented economies (China, Korea, Turkey, and Mexico) as a down -payment under a first stage of reform. At the G-20 Meeting, ministers and governorsMinisters and Governors agreed on the importance of ensuring that the second stage of reforms is comprehensive and delivered on time; South Africa, as the 2007 G-20 chair, is taking this matter forward in their host year as a key legacy item.

The G-20 also agreed on the need for further consideration of IMF and World Bank key policies and instruments, giving priority to: IMF surveillance; the Fund's role in emerging- market economies, including a possible new liquidity instrument; and collaboration between the Fund and the Bank. In addition, members agreed that they can play an important role in the renewed debate within the IMF and World Bank aimed at modernising its governance arrangements.

The G-20 discussion of energy and minerals security led to a number of important outcomes. Members agreed on the importance of well-functioning markets characterised by clear price signals, transparency, sound governance, open trade and investment, and effective competition among firms. Indeed, ministersMinisters and governorsGovernors committed to encourage the development of clear principles to guide trade and investment in extractive industries, and for the efficient and effective governance of both private and state-owned extractive firms. Further, in dealing with key challenges, such as resource security and climate change, there was a commitment to ensure that international and domestic policies are directed towards investment in new supply, innovation, and efficiency.

The G-20 noted the benefits of the Extractive Industries Transparency Initiative (EITI), which aims to ensure that revenue from oil, gas, and mining contributes to sustainable development and poverty reduction, rather than being lost to corruption or mismanagement. The G-20 also called for the Joint Oil Data Initiative (JODI) to be extended to other energy sectors, such as natural gas, and for further work on incorporating a common definition of energy reserves.

Also for the first time at a G-20 meeting, a select delegation of leaders in global energy and minerals industries[7] were invited to inject business perspectives on ways to strengthen energy and minerals markets at a working lunch with ministersMinisters and governors.Governors.

Building on past discussions on the demographic theme, the G-20 reiterated calls for international co-operation to improve remittance services and reduce transaction costs. In Australia's host year, members also considered the financial market aspects of demographic change and came up with some specific initiatives to gain more information on the adequacy of financial market instruments to manage long-term pension liabilities. The G-20 also discussed the potential for improved portability of social security and health care payments to reduce the cost of migration, particularly for temporary migrants, and invited the World Bank to quantify the costs and benefits of improved portability as a basis for further discussion in the G-20.

[7] Mr. Charles Goodyear, CEO, BHP Billiton Limited; Mr Leigh Clifford, CEO, Rio Tinto Limited; Dr. Ali Al-Naimi, Minister for Petroleum and Mineral Resources of Saudi Arabia and Chairman of Saudi Aramco; Mr. Roger Agnelli, Managing President of CVRD; Sir Mark Moody-Stuart, Chairman, Anglo American plc; Mr. Ron Brenneman, President and CEO, PetroCanada; and Sir Robert Wilson, Chairman of BG Group.

The G-20 had a wide-ranging and pragmatic discussion, sharing experience on implementing and consolidating domestic economic reform. Discussion by Ministers and governorsGovernors focused on the politics of reform and on practical ways to implement the reforms embodied in the *G-20 Accord for Sustained Growth*.

The G-20 welcomed recent increases in aid and debt relief and emphasised the importance of avoiding a new build -up of unsustainable debt. The then Australian Treasurer gave an important presentation to the Meeting on the effective use of aid, encouraging the G-20 to use the platform provided by its officials' discussions this year to push forward with further consideration of this issue in future years. By the 2006 Meeting, all G-20 members had pledged their support for the Paris Declaration on Aid Effectiveness.

**Chair's Assessment**

Preparations for the 2006 Meeting began as soon as Australia was selected as Chair in November 2004. Secretariats were set up in the Treasury and the RBA, and the long process of budget and financial preparation, staff recruitment and development, preparation of analysis and policy advice, and logistics preparation and implementation began.

To operationalise the themes for Australia's host year, we found it important to set the themes early and to build support throughout the G-20 membership. For these reasons, in mid-2005 Australia's G-20 Finance Deputy, Dr. Martin Parkinson, and Central Bank Deputy, Mr. Glenn Stevens, undertook meetings with representatives of many G-20 members (both finance ministries and central banks) with the aim of eliciting feedback on, and garnering support for, Australia's proposed themes. This also helped ensure that Australia's themes were relevant for all G-20 members, particularly for both finance ministers and central bank governors.Finance Ministers and Central Bank Governors.

While maintaining the regular session on the global economic and financial outlook, we decided to further encourage policy-relevant discussions by ministers and governorsMinisters and Governors, and by deputies, through the introduction of theme-based conversations in this session. We found this format a useful way to focus discussion, and to differentiate it from similar discussions occurring in other forums. In implementing this, it was important to provide clear direction to the IMF and World Bank, to ensure that the desired input was demand-driven rather than supply-driven, and that it genuinely added value. This format started with discussion by deputiesDeputies in Adelaide. We are pleased that South Africa has continued with this format.

The Study Group on demographic change, co-ordinated by Australia as Chair, proved a useful vehicle for informal and frank exchanges on the demographics theme. This was the first time the study group Study Group format had been used in a G-20 host year. In recognition of this, the initial proposal for a study group was accompanied by a discussion of the general principles for running a group, including that G-20 deputiesDeputies would need to decide the termsTerms of reference.Reference. The informal, web-based, approach proved to be a very useful and practical way to advance frank debate, with the Study Group making a valuable contribution to deputies' Deputies' discussion, and there is merit in this initiative continuing. However, there are issues that future hosts need to consider. Chairing a study groupStudy Group can be both time and resource consuming and may detract from preparations, policy development and other aspects of a country's host year. For this reason, we consider that study groupsStudy Groups should generally be limited to one per year. While other G-20 members could chair study groups, it is important that study groupsStudy Groups remain focused and contribute to the development of policy themes for ministersMinisters and governorsGovernors; this may be difficult to ensure if not under the control of the host country. Future hosts may also wish to consider the product the study groupStudy Group is asked to produce. If a report is intended to go to ministersMinisters and governorsGovernors in some form, it is essential to allow adequate time and capacity for deputies'Deputies' consideration and input; this is particularly important where the process is not co-ordinated by the host country.

Australia found the format of the Troika management group particularly useful throughout the year. Building on a proposal for enhanced Troika co-ordination (presented at the Dalian G-20 deputies' meeting meeting in September 2005), The Troika's support and consultation roles were strengthened during Australia's Chair year, including through the development of the "Proposal for Coordination of G-20 Workshops."". Bringing together the previous, current and next year's hosts enabled us to "learn the ropes,"", ensure some consistency in themes being brought to ministers and governors, and allowed us to encourage and assist in the development of themes being taken forward by future hosts. In South Africa's Chair year, Troika has played a similar role, acting as a useful sounding board and repository of institutional knowledge for both the current and incoming G-20 chairsChairs.

It was important that the attendance at the workshopsWorkshops included representatives from the private sector and academia. This ensured that discussions drew on the best thinking and experience from around the world. This was also true for the meeting of ministers and governors where we invited leaders of key industries to the working lunch on energy and minerals markets. In the case of the Sydney workshop, we were able to leverage off the Reserve Bank of Australia's existing conference arrangements, with the workshop on Demography and Financial Markets replacing the RBA's annual research conference. This meant that the existing infrastructure, including publication of a conferenceConference volume, could be utilised. While not all workshop topics will be amenable to publication, we would encourage it where practicable. It could be a conference volume or it could be publication, in a timely manner, of workshop papers on the public G-20 website. We see this as a means of demonstrating the G-20's active engagement in live policy issues and, more generally, promoting the activities of the G-20.

We found it was important to ensure that logistical arrangements for meetings supported policy theme development. Unique to the G-20 are the informal and frank discussions the forum encourages. We found that logistics can be very useful in facilitating this, for example through size of meeting rooms, and table configuration, in order to facilitate greater intimacy between participants at the meetings.

We also directed substantial effort to building a comprehensive website, which included a full set of archives from previous years. This provided a timely, centralised information source, as well as a vehicle for virtual discussion during the inaugural study group.Study Group. We are pleased to see that South Africa has continued with a similar framework, and regard this as a valuable tool for enhancing transparency, communication, and information sharing within the G-20.

Another useful innovation during Australia's host year was the introduction of a Chair manual. This provides guidance for future chairsChairs in organising their host year and has been placed on the G-20 members website. South Africa has favourably mentioned the assistance this manual has provided in their host year, and Turkey also noted that they found it helpful in their workshop preparations. Our aim was that the manual be institutionalised within the G-20 as a "living document,"", with each year's chairChair updating it at the conclusion of their host year for the benefit of the next chair.Chair.

Australia particularly values the specific make -up of the G-20 membership and the opportunity this affords the forum to act as a circuit breaker for difficult global issues. For example, the G-20's role in the outcome on reform of voice and quota issues at the IMF helped break a long-standing deadlock within the IMF. The G-20 was able to make progress on this issue due to broader representation than within the G-7.

The ability of the G-20 to reach consensus on issues that other forums cannot reflects on the nature and balance of country membership in the G-20. The G-20 comprises the systemically significant countries of the world rather than just the big economies. Also, having mid-sized economies at the meeting strengthens the forum, by providing a higher degree of legitimacy to decisions, and can facilitate reaching consensus.

While the G-20 has maintained its core policy discussions relating to strengthening the Bretton Woods Institutions and domestic financial systems and monetary and fiscal frameworks to help ensure international global financial stability, over time we have seen an increased breadth of issues included for discussion by ministersMinisters and governors.Governors. The inclusion of the energy and minerals theme in Australia's work programme is a good example of this. We believe the broadening coverage of discussions by the G-20 reflects the value that its members accord the forum. That said, it is also important that there is an appropriate mix of new and legacy themes in each host year, and that topics engender the interest of both finance ministries and central banks. In this regard, it is also useful to strike a balance between issues thatwhich require deeper analysis, and issues where the G-20 can contribute to building political consensus for reform. This will ensure a continuation of interest and debate among all G-20 members in the G-20 themes of each year.

The Australian Treasury wrote a paper on Australia's experience as G-20 host which goes into further detail on many of these issues.

**G-20 Chairs**

The Honourable Peter Costello MP
Treasurer

Dr. Martin Parkinson
G-20 Finance Deputy

Mr. Glenn Stevens[8]
Central Bank Governor

Dr. Malcolm Edey7
G-20 Central Bank Deputy

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[8] Mr. Glenn Stevens was Australia's central bank deputy until his appointment as Governor of the RBA in September 2006. Dr. Malcolm Edey, Assistant Governor (Economic), fulfilled the role of Australia's central bank deputy following Mr. Stevens's appointment.

# *Communiqué, 2006*

## Meeting of Ministers and Governors

## Melbourne, Australia

## 18--19 November 2006

We, the Finance Ministers and Central Bank Governors of the G-20, held our eighth meeting in Melbourne, Australia, under the theme of 'Building and Sustaining Prosperity'.

Sustained economic growth is delivering rising living standards and permanent reductions in poverty. Deeper linkages are being forged between nations through trade, investment and the movement of people and capital. These developments provide unprecedented opportunities to spread the benefits of growth widely. Yet we also face shared challenges, including those arising from ageing populations in many countries and rapid population growth in much of the developing world. Meeting these challenges requires effective domestic policy responses supported by effective international policy cooperation and strong and inclusive international institutions.

**Global outlook**

G-20 members noted that the world economy continues to expand at a solid pace, with growth above its long-term average for the fourth consecutive year. The outlook remains positive. Global economic growth is expected to slow slightly from the rapid pace of the past few years. Growth in industrialised countries is expected to moderate slightly from its recent strong pace. Among emerging market countries, output growth is expected to remain strong, with key economies like China and India continuing their rapid expansion. Above average growth in the global economy has seen spare capacity decline which, combined with buoyant energy and mineral prices, has increased the risks to inflation.

Maintaining strong world growth and containing inflation will require ongoing adjustments to monetary and fiscal policies while ensuring appropriate exchange rate flexibility and structural reform. We need to take advantage of the present strength in the global economy to get policy settings right. Faced with potential inflationary pressures, the normalisation of monetary policy underway in many G-20 countries will need to continue. Fiscal policy needs to ensure that public-sector balance sheets are not vulnerable to slower revenue growth and higher expenditure when growth rates resume more normal trajectories, and that there is sufficient room for policy to respond if growth slows more sharply than currently anticipated. We are determined to implement these policies, which are also required to enable global imbalances between countries to unwind in an orderly manner.

Stable global economic growth depends on open trade. G-20 members warned of the threat to global prosperity from rising protectionism in trade and investment. The success of the Doha Development Round is essential to securing freer, more open trade, reducing the risk of economic and financial instability, and achieving faster economic growth, development and sustained reductions in poverty. G-20 members call for an early resumption of WTO negotiations and the achievement of an ambitious outcome for the benefit of all.

**Global energy and minerals markets**

G-20 consideration of global energy and minerals markets reflects the importance of resource consumption, production, investment and trade to the world economy.

Global demand for energy and minerals commodities is set to increase significantly over coming decades driven by a strong world economy, rising incomes, and ongoing industrialisation and urbanisation in many economies. While physical stocks exist to meet demand and investment is increasing, the expansion of supply to date has struggled to keep pace with demand growth, resulting in significant increases in prices. We agreed that enhancing global trade by strengthening markets, and ensuring sustainability by promoting investment and encouraging efficiency, are the best ways to deliver lasting resource security.

We discussed the challenges to macroeconomic policy presented by energy and minerals price cycles. Monetary authorities remain vigilant in keeping inflation low and stable and stand ready to contain second-round price effects. Flexible domestic economies and exchange rates help facilitate adjustment to large movements in traded goods prices. Finance ministers are also focused on key fiscal challenges such as managing revenue surges and the appropriate level of energy subsidies. We agreed that further reform of energy subsidies is a priority in order to improve fiscal sustainability, better target poverty, and ensure that price signals work to expand supply and induce efficiency.

We reaffirmed the commitment we made in the *G-20 Accord for Sustained Growth* in 2004 to direct domestic policies toward creating a favourable overall investment climate and enhancing domestic and international competition. We discussed how the current resources boom can be harnessed for growth and development, highlighting the importance of sound domestic policy and effective governance for boosting investment. We welcomed further work on principles for the efficient and effective governance of extractive firms, both private and state-owned. We noted the benefits of the *Extractive Industries Transparency Initiative* (EITI), a voluntary initiative to strengthen transparency, governance and investment-led development in resource-rich countries, and encourage governments and firms to support the initiative. We support continued progress on the World Bank-led Clean Energy Investment framework.

Long-term resource security and dealing with key global challenges, such as climate change, require effective international policy frameworks and actions. Well-functioning markets—characterised by clear price signals, open trade and investment, market transparency, good governance, and effective competition among firms—will support investment in new supply, bring forth efficiencies and new technologies, encourage the use of alternative and renewable energy sources, and allow knowledge and resources to flow across borders. We note the International Energy Agency's *World Energy Outlook* and its recommendations.

We support the *Joint Oil Data Initiative* and see value in it being extended to other energy sectors, like gas, and incorporating a common definition of energy reserves. We encourage the development of clear principles to guide trade and investment for extractive industries. We agreed that the G-20 will work toward articulating these principles. We discussed the links between energy and climate change policy, including the role of market-based mechanisms, and agreed that the G-20 would monitor this issue.

We recognised the need for continued and enhanced dialogue between producers and consumers. We also met in a working lunch with global business leaders to discuss ways to strengthen energy and minerals markets.

**Demographic change**

While G-20 countries are at different stages of a major demographic transition, we recognise the importance of early consideration of policies to smooth the inevitable adjustments that will need to be made. This year we focused on the implications for financial markets, as well as further aspects of labour mobility.

Well-functioning and open financial markets can help smooth the economic impacts of demographic change. Improving the efficiency of financial markets and promoting financial innovation are important in facilitating adjustment. We also agreed to work together to raise people's awareness of their retirement income needs and improve their understanding of the available options.

We considered the role of labour mobility in the demographic change underway, recognising the potential benefits to both developed and developing countries. We reiterate our previous calls for international cooperation to improve remittance services and reduce transaction costs. We discussed the potential for improved portability of social security and health care payments to reduce the cost of migration, particularly for temporary migrants and invited the World Bank to quantify the costs and benefits of improved portability as a basis for further discussion in the G-20.

**Reform of the Bretton Woods Institutions**

The G-20 believes that the effectiveness and legitimacy of the IMF and World Bank must be enhanced through comprehensive governance reform and strategic policy review.

A strong, credible IMF that reflects today's global economic realities is in our shared interest. As such, we welcomed the support given by IMF Governors in Singapore for reform of quota and governance aimed at reflecting members' relative positions in the world economy and enhancing the voice of low-income countries in the Fund. We are pleased that the G-20 has been able to make a contribution to this historic outcome.

We are committed to the successful completion of a comprehensive set of reforms under the second stage of this process, delivered within the timeframes agreed by IMF Governors. To this end, we identified key issues on which agreement needs to be achieved in order to implement second-stage reforms, including: the main considerations underlying a new, transparent and simple quota formula which captures IMF members' relative economic positions; how to implement the new quota formula; and agreement on the increase in basic votes and how the share of basic votes can be protected over time.

We had candid discussion about these issues and agreed that the G-20 remain closely engaged with this work over the next year to achieve significant progress on the second stage of reform.

We progressed other issues addressed in our October 2005 *Statement on Reforming the Bretton Woods Institutions*. We welcomed the Development Committee's call for the World Bank to work with its shareholders to consider voice and participation in the governance of the Bank and agreed that the G-20 can play an important role in this renewed debate. We also agreed on the need for further G-20 consideration of strategic and policy issues facing the IMF and World Bank. These include: IMF surveillance; the Fund's role in emerging market economies, including a possible new liquidity instrument; the Fund's role in low-income countries; and collaboration between the Fund and Bank.

We emphasised the importance of modernising and strengthening IMF surveillance to meet the demands of globalisation and agreed to further consider broad directions in surveillance, focusing on desirable objectives and medium-term priorities, as input to IMF discussion on a remit for surveillance in the first half of 2007. We also welcomed the IMF review with a view to updating the 1977 decision on surveillance over exchange rate policies.

We welcomed the initiative taken in March 2006 by the heads of the two institutions to establish an External Review Committee on World Bank-IMF collaboration. We were joined by the chair of the Committee, Mr Pedro Malan, in our discussion of key issues around the responsibilities of the two institutions.

We reiterated the position expressed in our October 2005 Statement that the selection of senior management of the IMF and World Bank should be based on merit and ensure broad representation of all member countries. We welcomed consideration of any steps to ensure a fully transparent process for the selection of the IMF Managing Director and the World Bank President.

**Advancing economic reform**

The *G-20 Accord for Sustained Growth* provides robust principles for domestic growth-enhancing policies. We had a wide-ranging and pragmatic discussion, sharing experience on implementing and consolidating reforms. Our current policy priorities are outlined in the attached *G-20 Reform Agenda*.

**Aid commitments and effectiveness**

Building on the G-20 Statement on Global Development Issues in 2005, we welcome recent increases in aid and debt relief and underscore the importance of pledges of further aid increases being fulfilled, along with renewed efforts to improve the quality of aid. We also underscored the importance of helping countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. Increased development financing must be accompanied by improved aid effectiveness to achieve the Millennium Development Goals. All G-20 members have pledged their support for the Paris Declaration on Aid Effectiveness. We agreed that the G-20 will work toward improving aid effectiveness and good governance in the period ahead.

**Other business**

Further to our 2004 commitment to achieving high standards of transparency and exchange of information for tax purposes, we welcome the release of the Global Forum on Taxation 2006 assessment which shows that progress has been made in the implementation of those standards. Further progress is needed and we encourage continuing implementation efforts and call on those countries and territories that have not yet implemented high standards of transparency and exchange of information to do so.

We welcomed ongoing efforts by a growing number of borrowing countries and private-sector creditors on the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* to improve financial stability and enhance market access of emerging market economies.

We reaffirmed our commitment to take action against money laundering and terrorist and illicit financing. We commend and encourage closer cooperation between the IMF and World Bank and the Financial Action Task Force (FATF) as well as FATF-style regional bodies in promoting stronger implementation of international AML/CFT standards. We call on FATF and FATF-style regional bodies to continue to broaden the support base for their work and for all countries to strengthen their AML/CFT regimes and publish their comprehensive country evaluations.

We thanked our Australian hosts for their leadership of the G-20 this year and hosting us in Melbourne. We look forward to further effective collaboration in the G-20 next year under South Africa's leadership. We welcome Brazil as the chair of the G-20 in 2008.

## *Background Documents, 2006*

*Economic Roundup*: Australia's G-20 Host Year: A Treasury Perspective

Report of the G-20 Study Group on Labour Mobility and Demographics

Economic Round Up Article: Australia's G-20 Host Year: A Treasury Perspective

Proposal for Coordination of G-20 Workshops

Discussion Note on the Possible Use of Study Groups in the G-20

G-20 Policy Manual: Guidance for Chairing the G-20

G-20 Workshop on Reform of the Bretton Woods Institutions: Agenda

G-20 Workshop on Reform of the Bretton Woods Institutions: Summary of Discussion

G-20 Workshop on Demography and Financial Markets: Agenda

G-20 Workshop on Demography and Financial Markets: Summary of Discussion

G-20 Seminar on Energy and Resources: Agenda

G-20 Seminar on Energy and Resources: Chairman's Summary

IMF Background Paper: Group of Twenty Finance Ministers' and Central Bank Governors' Meeting

# *Chair Summary, 2007 (South Africa)*

## Meeting of G-20 Finance Ministers and Central Bank Governors

## Kleinmond, Cape Town, South Africa

## 17–18 November 2007

**Overview**

In 2007 South Africa assumed the Chair of the G-20, under the banner *Sharing - Influence, Responsibility, Knowledge*. The theme was selected to reflect South Africa's objective to facilitate multilateral cooperation and dialogue on global economic and financial issues. South Africa endeavoured to achieve this by creating a work programme that would help facilitate the sharing of knowledge and experience, and would strengthen the cooperative nature of the forum.

**Work Programme**

In the second half of 2006, South Africa consulted widely among G-20 members to assemble a work programme for South Africa's chairing of the G-20 in 2007. South Africa intended that the work programme for 2007 contain elements of continuity with past work programmes, but also bring new issues to bear.

The work programme was given effect through the hosting of three G-20 workshops. The first workshop, co-hosted by Brazil and South Africa, was held in Rio de Janeiro on 2-3 March 2007. The theme for the workshop was the Reform of the Bretton Woods Institutions, a legacy issue from Australia's presidency in 2006 and China's presidency in 2005. South Africa's objective was to build consensus towards the completion of the second phase of reform, as agreed by IMF Governors at the 2006 IMFC Meeting in Singapore, and to open debate around the reform of the World Bank.

The second workshop theme was on Commodity Cycles and Financial Stability, which built on the discussion initiated during Australia's year on the topic of energy commodity markets. The workshop was hosted by the US Treasury and Federal Reserve in Washington, D.C. on 12-13 May 2007. The workshop broadened the discussion, which commenced in 2006, to include non-energy commodities markets; and explored in more detail the super-cycle being experienced by commodities markets and the impact on the financial sector and the global economy.

The third workshop was hosted by the Treasury and Central Bank of Turkey in Istanbul on 1-2 July 2007, on the topic of Fiscal Elements of Growth and Development. The aim was to discuss the role of public finance management and fiscal space in supporting and extending economic growth, and adjusting fiscal policy to meet the challenges of macroeconomic stability.

The discussions at the workshops helped refine the work programme themes, which were revised accordingly. All three themes, and the addition of discussion on current economic and development challenges, featured on the agenda for the Deputies meetings, as well as the Finance Ministers' and Central Bank Governors' meeting in November.

South Africa sought to promote linkages between the G-20 forum and Africa by hosting two seminars immediately preceding the Deputies' meetings on public policy issues pertinent to policy-makers on the continent.

South Africa also hosted a joint World Economic Forum and Reinventing Bretton Woods Committee roundtable on *New Features of the International Monetary System.*

The study group initiative, launched by Australia in 2006, was found to be a useful means of addressing key issues among senior decision-makers within the G-20. South Africa consequently developed proposals for two study groups – on the history of the G-20 and on the macroeconomic impact of climate change – to facilitate discussion between G-20 member countries on issues not on the formal work programme of the forum.

**Key Outcomes**

The G-20 Meeting of Finance Ministers and Central Bank Governors was held in Kleinmond in the Western Cape on 17 and 18 November. The meeting offered members an opportunity to take stock of the recent global financial turbulence, and to consider options to mitigate risks going forward.

The forum made significant progress in 2007 in contributing to the IMF's efforts to resolve the second stage of IMF governance reform. Members reiterated their commitment to continuing the discussion on IMF quota and voice reform in order to reach agreement on all elements of the package by Spring 2008. Participants also had a detailed discussion on the policy and institutional reforms necessary in both the IMF and the World Bank, noting important progress which had been made on the IMF's income and expenditure model, and on IMF surveillance; noting the need for the IMF to work further on establishing a Reserve Augmentation Line for emerging market economies; and welcomed the early steps taken by the new World Bank President to develop the Bank's strategic direction.

The 2007 G-20 Communiqué and an updated G-20 Reform Agenda were adopted at the Meeting of Finance Ministers and Central Bank Governors. The meeting also took note of two important internal reports, on Climate Change – prepared by a study group led by the UK; and on the History of the G-20, prepared by a study group led by Canada. Both reports will be taken up for further discussion in the early part of Brazil's host year in 2008.

**Chair's Assessment**

The troika management group met regularly throughout 2007, usually on the margins of the workshops, and at the Deputies' meetings to share ideas, and discuss any issues that arose from the events. The use of the troika as a mechanism for enquiry intensified when, at the request of the membership, the troika was given the mandate to draft a joint Working Group Report on Quota and Voice, which was presented to G-20 Deputies at an ad-hoc meeting in Washington. The report gave a range of recommendations on how to achieve a satisfactory commitment mechanism for the methodology used to determine future quota increases. A web-based discussion forum was set up for members to contribute to the report. The comments were collaborated and in some instances incorporated into the final recommendations. The use of a web-based application to facilitate dialogue amongst members on a complex issue may have practical use in the future of the G-20.

South Africa was able to give effect to the year's objective to promote the sharing of knowledge and experience through the use of peer exchange, initiated in 2006 under the Australian presidency. Members were offered opportunities to share their diverse experiences on a fiscal or commodities related theme, and to contribute to developing principles of best practice. This could be useful in the future in considering domestic policy formation.

There was a sense that the objective to keep a mix of both legacy and new issues in the work programme was successful. Through extensive collaboration, the legacy issues were given further momentum, whilst new issues were launched with the prospect of being taken further into the future. The fiscal theme for example has been taken on board by Brazil. The work programme also succeeded in balancing the interests of both ministers and governors.

**G-20 Chairs**

Mr. Trevor Manuel, MP
Minister of Finance, South Africa

Mr. Lesetja Kganyago
G-20 Finance Deputy

Mr. Tito Mboweni
Reserve Bank Governor

Dr. Renosi Mokate
G-20 Reserve Bank Deputy

# *Communiqué, 2007*

## Meeting of Ministers and Governors

## Kleinmond, Cape Town, South Africa

## 17–18 November 2007

1. We, the Finance Ministers and Central Bank Governors of the G-20, held our ninth meeting in Kleinmond, South Africa, under the theme of "Sharing – Influence, Responsibility, and Knowledge". We reiterated our collective determination to achieve balanced and sustainable growth; and deliberated on the global economic and financial outlook, on fiscal elements of growth and development in G-20 member countries, on policy issues pertaining to commodity cycles and financial stability, and on Bretton Woods reform. We recognized the valuable initiative made in 2007, to build an improved appreciation within the forum of some of the economic and financial policy challenges in Africa.

**Global Outlook**

2. G-20 members welcomed the continued strong growth of the global economy in the first half of 2007 but noted that downside risks to the near-term outlook have increased as a consequence of recent financial market disturbances. We were pleased to note the resilience of emerging market and other developing countries during the recent turbulence. While the likely slowdown in global economic growth is expected to be modest, its extent and duration remains difficult to predict. While the slower pace of growth is expected to moderate pressures on capacity and resources, rising energy and food prices will remain an important source of price pressures. Monetary authorities in G-20 countries will need to assess carefully the inflation outlook in light of both tight conditions in commodity markets and the downside risks to growth. We also agreed that an orderly unwinding of global imbalances, while sustaining global growth, is a shared responsibility involving: steps to boost national saving in the United States, including continued fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms and fiscal consolidation in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil-producing countries. The need to address rising pressures on health and social security spending and infrastructure was also stressed.

3. The recent financial market disturbances have highlighted the importance of sound macroeconomic and financial policies and continued vigilance. While the immediate policy priority has focused on restoring and maintaining orderly conditions in financial markets, we concur that recent events have emphasised the need for greater effectiveness of financial supervision and the management of financial risks as well as to increase transparency among financial intermediaries. The nature of the recent turbulence also suggests that there may be important new lessons for understanding the origins of crises, the way financial shocks are

transmitted; and the respective roles of regulators, rating agencies, the private sector and the international financial community. We agreed to pursue further work to improve our understanding of these issues and their application to G-20 members, in the year ahead.

4. We noted the medium-term challenges which need to be addressed to ensure future global prosperity, including climate change, energy security and protectionism. We reaffirmed our commitment to maintain open trade and investment regimes and to resist protectionist pressures. We committed to working with our trade authorities to reach a rapid and successful conclusion to Doha, to promote open and rules-based trade and investment regimes, improve productivity, create jobs, alleviate poverty and spur competition. We noted the critical importance of trade liberalisation and Aid for Trade for global poverty reduction.

5. We discussed the economic implications of climate change. We noted the relationship with other key economic goals as well as the important discussions in other fora on an international policy response to climate change. We agreed that the G-20 can play an important role in this debate.

**Fiscal Elements of Growth and Development**

6. Sound fiscal policies are essential for supporting strong and equitable economic growth and development. They affect the business cycle, helping to minimize output gaps and to smooth and sustain economic growth over time. We also discussed the importance of creating and maintaining fiscal space for the achievement of the objectives set out in the G-20 Accord for Sustained Growth, by providing the capacity to fund economic and social infrastructure necessary to aid growth and development, and reduce poverty. Sound fiscal policies will also ensure the best use of increased aid flows including those associated with the Millennium Development Goals.

7. We also reflected on the balance between fiscal policy as a counter-cyclical macroeconomic instrument and the best ways of creating fiscal space to finance social and economic development over time. We considered the macroeconomic implications of creating fiscal space, counter-cyclical aggregate demand management and the use of fiscal rules; and highlighted the importance of a sound medium- to long-term fiscal framework in creating and maintaining fiscal space. We resolved to explore how best these lessons of shared experience can be adapted in our member countries to create fiscal space, and to use it more effectively. Fiscal space also provides a key organising principle in the rationalisation of expenditure programmes, and in the efficient allocation of expenditure itself. G-20 discussions in 2007 have centred on how efforts to create fiscal space complement and facilitate efforts to achieve better spending outcomes and allocations. We agreed to do further work on assessing mechanisms to improve the efficiency and effectiveness of government expenditure.

8. We noted that several factors are important in finding and creating fiscal space, including the design of effective medium-term fiscal frameworks and the

institutional underpinnings of successful national budgeting; and that the coordination of expenditure across tiers of government can also be important for the overall coherence of efforts to create fiscal space. We also highlighted the important role long-term – or intergenerational – budgeting can play in helping to coordinate revenue and expenditure policies and in providing the resources necessary to respond to long-term challenges, including demographic change, climate change and the provision of infrastructure. In addition, a range of public services is critical for economic development, including social and economic infrastructure, institution building, and human capital and skills development; and agreed that it would be useful to explore further the identification of those needs, the returns to investing in them, and the most effective ways of implementing policy and institutional solutions to delivering them. We agreed to continue this discussion next year, emphasizing the quality and efficiency of public expenditure, macroeconomic stability and debt sustainability, as well as assessing the role of counter-cyclical fiscal policies as a stabilising and growth-sustaining tool.

**Commodity Cycles and Financial Stability**

9. We discussed a range of policy issues related to commodity cycles and financial stability, concentrating on the recent market developments, especially for energy. We reiterated our agreement from 2006 that well-functioning markets will support investment in new supply, bring forth efficiencies and new technologies, encourage the use of economically efficient renewable energy sources, and allow knowledge and resources to flow across borders. We recognized the need for continued and enhanced dialogue between producers and consumers; and noted the International Energy Agency’s recent World Energy Outlook. Commodity prices have increased remarkably in the current decade. Commodities have also developed as a new and important asset class. There is substantial room to develop new markets in additional commodities and with new instruments that should increase market liquidity, particularly as participation grows and broadens. Commodities markets have seen a dramatic rise in participation by non-commercial investors, which has improved the depth and liquidity of markets and contributed to improved price discovery.

10. Commodity price volatility can generate large terms of trade shocks, with widespread implications for the macroeconomic performance of affected countries including on the balance of payments, budgetary positions, liquidity management, asset prices, and monetary policy. We emphasised the importance of sound macroeconomic policies in moderating and managing the effects of such volatility and noted that volatility can also have implications for the stability of the financial system. We looked forward to the IMF examining best practices on fossil fuel subsidies. We also noted the importance of well-functioning commodities markets, underpinned by good governance and transparency, in managing resource booms. Appropriate institutional frameworks and policy guidelines for managing extractive industries can play an important role in improving the fiscal and investment response to commodity price volatility. For example, we encouraged broad participation in the Extractive Industries

Transparency Initiative (EITI), on a voluntary basis. We reiterated our support for the Joint Oil Data Initiative (JODI) and look forward to extended, deeper coverage.

11. We also noted the use of sovereign wealth funds (SWF's) to limit the pro-cyclicality of commodity-linked revenue and discussed more generally the challenge of ensuring such funds best serve their intended purpose. Coordinating fund spending with fiscal and monetary policy is also necessary. We agreed that SWF's are increasingly important participants in the international financial system and that our economies can benefit from openness to SWF investment flows. However, we would welcome further sharing of member countries' experience and insight on the management and operation of these funds. We noted the work by the IMF and World Bank to analyse issues for investors and recipients of such flows, including a dialogue on identifying best practices.

12. Hedging can represent an effective way to reduce the volatility of commodity-linked private incomes and public revenues. We noted that there remains significant potential for both public and private agents to make better use of hedging strategies. These benefits need to be balanced against the risks and challenges involved in utilizing hedges, including low market liquidity, high cost, substantial counterparty risk, and a lack of specialized financial skills. We agreed that among G-20 member countries, education of both public and private sector officials is needed to further promote the use of hedging strategies.

13. We also discussed the economic potential of biofuels and clean technology and their linkages with GDP growth, income and employment generation, emissions reduction and food prices and noted the benefit of further exploring these linkages, in the period ahead.

**Bretton Woods Reform**

14. Building on our statement on Reforming the Bretton Woods Institutions, issued in 2005 and following our work in 2006, we reiterated our commitment to strengthening the credibility, effectiveness and legitimacy of the International Monetary Fund (IMF) and the World Bank. The G-20 has made further progress in 2007 in contributing to the IMF's efforts to find a solution to the second stage of IMF quota and voice reform. We were pleased to note that the forum's efforts in 2007 have contributed to a convergence of views among the IMF's members. We reiterated that the reform should enhance the representation of dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. We also reiterated our commitment to continuing our discussion in order to develop a consensus within the timeframes set by the Governors in 2006. We encourage the Executive Board to continue its work in order to allow agreement on all elements of the package by Spring 2008.

15. We also noted further progress with other policy and internal governance issues raised in our statement in 2005 on Reforming the Bretton Woods Institutions, including the IMF's adoption of the new 2007 Decision on Bilateral Surveillance over Member's Policies, and the progress made in establishing a framework for developing a new income model for the IMF. The adoption of an income model

and the further reduction in expenditure through Fund-wide priority setting, which should be pursued simultaneously, can place the Fund's finances on a sustainable footing. We look forward to similar progress being made on the design of a new liquidity instrument. We welcomed the announcement that the IMF has secured sufficient financing pledges from member countries to allow the Fund to provide debt relief to Liberia. We welcomed the steps being taken within the World Bank to address the challenges of internal governance reform. We welcomed the early efforts of the new President to set out a comprehensive strategic policy direction for the Bank and look forward to contributing to the further development of this framework. We also welcomed the Bank's continuing efforts to improve the voice and representation of its emerging market and developing member countries, which should be part of this strategic framework. Within this framework we encourage its role in fostering lending in local currency as a means to develop domestic capital markets which will enhance better liability management.

16. We reiterated the position expressed in our November 2006 statement, that the selection of senior management of the IMF and World Bank should be based on merit and should ensure broad representation of all member countries; and urged the improvement in the process for the selection of the IMF Managing Director and the World Bank President. We reaffirmed our strong commitment to continue contributing to the reform efforts of the two institutions.

**Other Business**

17. We reaffirmed the importance of the G-20 Accord for Sustained Growth, adopted in 2004; and continued our tradition of engaging in detailed and candid discussion and sharing of country-specific experience in achieving sustained growth. We noted the significant value of the forum's shared knowledge and experience in establishing sound macroeconomic policies for sustained economic growth, reiterating that each country should choose its development approach, as well as the policies best suited to its needs, in accordance with its international responsibilities. Our policy priorities are outlined in the attached G-20 Reform Agenda.

18. We congratulated and offered our support to the President of the World Bank and the Managing Director of the IMF, both of whom have assumed their new responsibilities in recent months.

19. We thanked our South African hosts for their presidency of the G-20 this year and welcomed Brazil as chair in 2008. We have agreed that the United Kingdom will chair the G-20 in 2009.

## *Background Documents, 2007*

2007 Work Programme

Chairman's Summary of G-20 Seminar on Fiscal Policy

Chairman's Summary of G-20 Seminar on Commodity Cycles and Financial Stability

Chairman's Summary of G-20 Seminar on Reform of the Bretton Woods Institutions

Troika Working Group Report to G-20 Deputies on Quota and Voice

Proposal for G-20 Study Group on the Early History of the G-20

G-20 Study Group Summary on Climate Change

G-20 Reform Agenda for 2007

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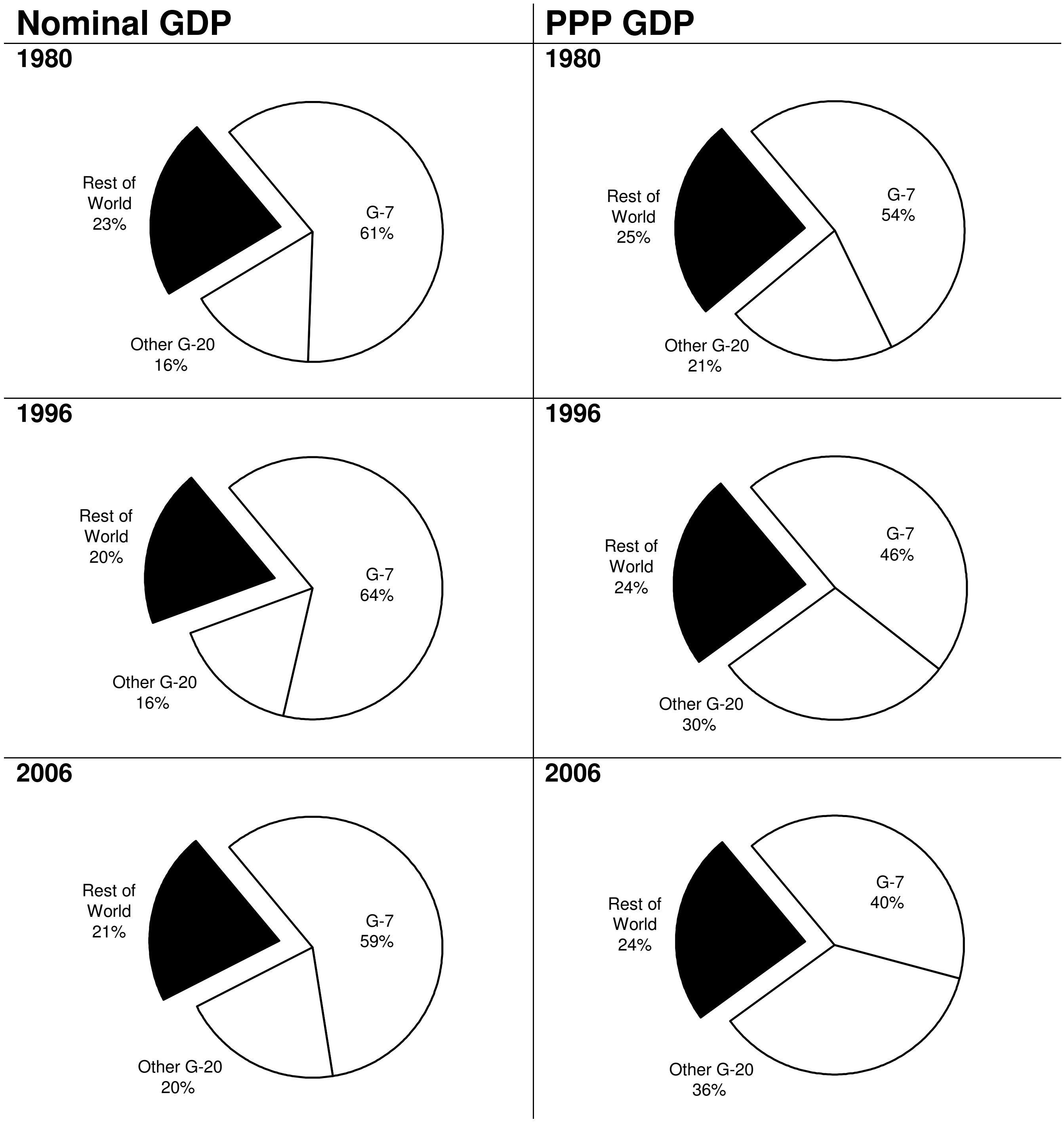
[7] Mr. Charles Goodyear, CEO, BHP Billiton Limited; Mr Leigh Clifford, CEO, Rio Tinto Limited; Dr. Ali Al-Naimi, Minister for Petroleum and Mineral Resources of Saudi Arabia and Chairman of Saudi Aramco; Mr. Roger Agnelli, Managing President of CVRD; Sir Mark Moody-Stuart, Chairman, Anglo American plc; Mr. Ron Brenneman, President and CEO, PetroCanada; and Sir Robert Wilson, Chairman of BG Group.

[8] Mr. Glenn Stevens was Australia's central bank deputy until his appointment as Governor of the RBA in September 2006. Dr. Malcolm Edey, Assistant Governor (Economic), fulfilled the role of Australia's central bank deputy following Mr. Stevens's appointment.

# ANNEX D
# Charts

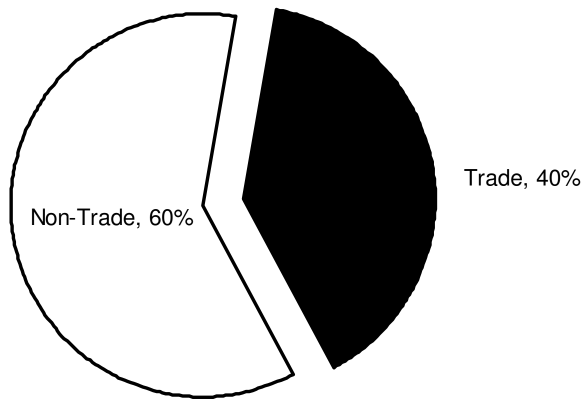



Source: IMF, *International Financial Statistics*, May 2007. Note: data for Russia are unavailable for 1980.

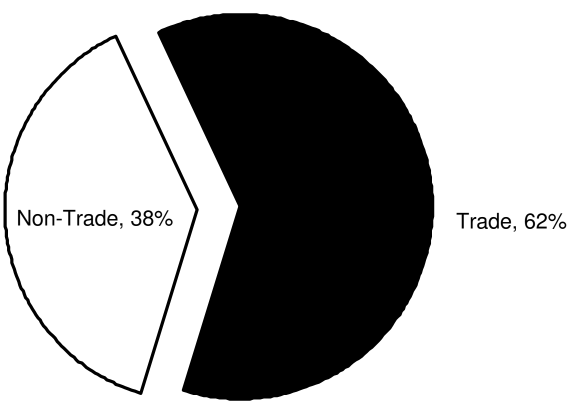
Purchasing power parity (PPP) is a concept in which the dollar equivalent will purchase the same bundle of goods in all economies. In calculating purchasing-power parity, adjustments are made to exchange rates to raise or lower the relative value of currencies to equilibrate purchasing power. The basis for the calculation is the U.S. dollar. (Source: USDA Economic Research Service, <http://www.ers.usda.gov/Briefing/Macroeconomics/glossary.htm>.

## Trade as a Percentage of Nominal Global GDP

**1991**

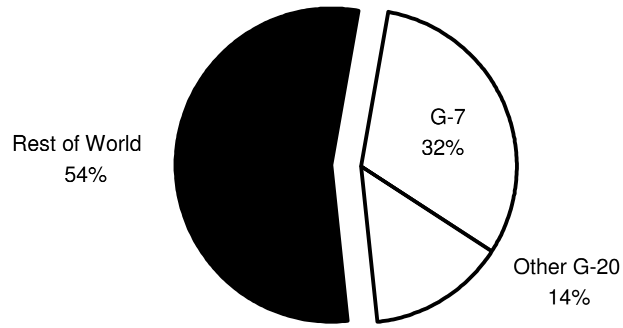



**2006**

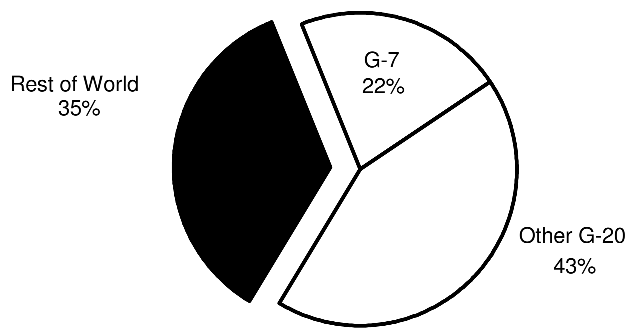



## Foreign Reserves

**1991**




**2006**

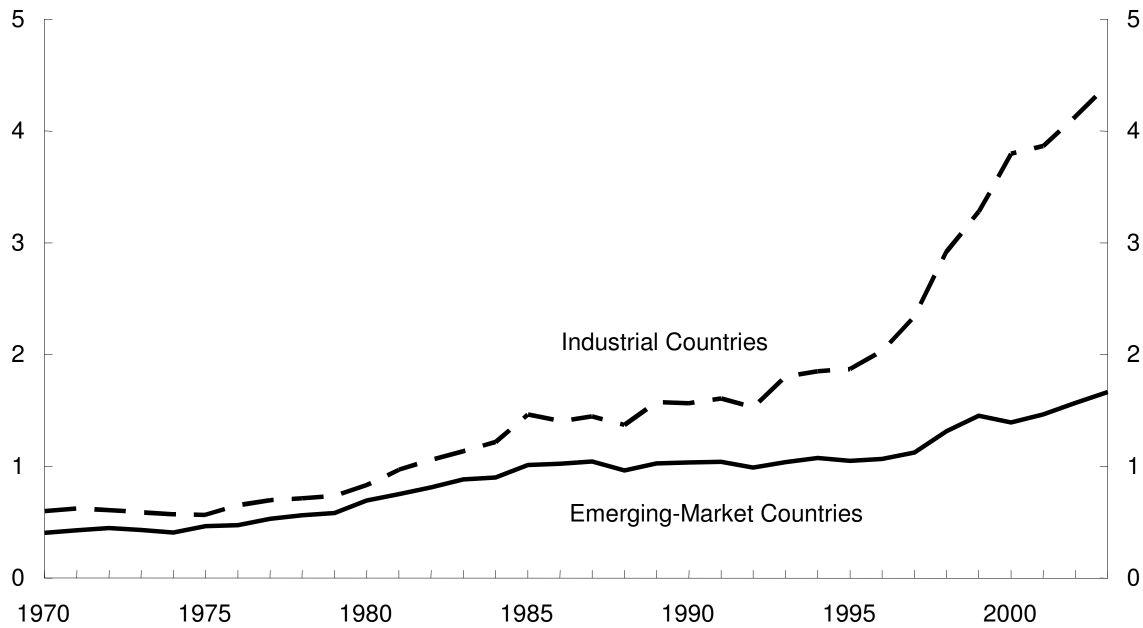



Source for trade data: World Trade Organization online database
Source for reserves data: IMF, *International Financial Statistics*, May 2007.

Reserves are defined as foreign exchange holdings of central banks in U.S. dollars; they do not include holdings of gold.

# Global Financial Integration

## Ratio of Foreign Assets plus Liabilities to GDP




Sources: IMF, *World Economic Outlook*, April 2005.
Parkinson, Martin, 2006. “The G-20 – Addressing Global Challenges.” Presentation to the Australian Business Economists Luncheon, Sydney, 8 November 3.

# ANNEX E
# Groups for G-20 Chair Rotation

| **Group One** *(2001, 2006, etc.)* | **Group Two** *(2002, 2007, etc.)* | **Group Three** *(2003, 2008, etc.)* | **Group Four** *(2004, 2009, etc.)* | **Group Five** *(2005, 2010, etc.)* |
|---|---|---|---|---|
| **Australia** | **India** | Argentina | France | **China** |
| **Canada** | Russia | *Brazil* | **Germany** | Indonesia |
| Saudi Arabia | **South Africa** | **Mexico** | Italy | Japan |
| United States | Turkey | — | *United Kingdom* | Korea |

Countries in bold characters have hosted G-20 meetings. Brazil is host in 2008, and the United Kingdom will be host in 2009.