Mapping G20 Decisions Implementation: How G20 is delivering on the decisions made

Talking points for presentation to the G20 sherpas

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The Objective

As the world still faces economic slowdown and the outlook for trade growth has again been revised downwards (to 2.5% in 2012, and 4.5% in 2013), there are a lot of organizations and individuals questioning G20 collective political will and capability to address the persistent imbalances and steer the economy towards strong, sustainable and balanced growth. Critics state that the G20 summitry is not delivering on its pledges. The Los Cabos Accountability assessment and the enhanced accountability assessment by the Framework working group have become major steps towards informing the world on the G20 progress towards achieving its main objectives.

Our report is an independent analysis to provide evidence base for a dialogue between a wide range of stakeholders and hopefully G20 governors on the future agenda of the forum. It is offered to general public, policy makers, scholars, researchers, civil society, the media, interested citizens and other stakeholders around the world in an effort to make the work of the G20 more transparent and accessible.

It is not meant to criticize but to help work out recommendations for G20 future actions. To stimulate the dialogue on the G20's future agenda, each section and respective pieces of the executive summary conclude with recommendations for the G20's future actions.

The scope

The review is focused on the commitments implementation and does not attempt to estimate the impact or effectiveness of the G20 actions. *Commitments are defined as a discrete, specific, publicly expressed, collectively agreed to statements of intent; a "promise" or "undertaking" by Summit members that they will undertake future action to move toward, meet or adjust to an identified welfare target (Kokotsis 1999).*

The analysis includes seven priority areas of the G20 cooperation: commitments on overcoming imbalances, structural reforms, reform of international financial institutions and financial markets regulation; the commitments to resist protectionism and to rationalize and phase out inefficient fossil fuel subsidies. Evaluation of development commitments includes key areas agreed at the 2010 Seoul Summit: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization and knowledge sharing.

The methodology

The evaluation methodology is specific to the policy area and concrete decisions. Two types of pledges have been included into the analysis: commitments, which require actions at the national level, or "G20 members' individual commitments"; and pledges and mandates, which require action by the G20 as an institution, or "institutional commitments". Each of the commitments was assessed using the following scoring system: +1 for full compliance, 0 for partial compliance or work in progress, and -1 for non-compliance.

The monitoring timeframe spans the period from the first adoption of a decision to October 31, 2012. Where there have been changes in the commitments, the dynamics are taken into account.

The analysis of implementation is based on official documents issued by international organizations and G20 countries, media reports and other publicly available information. To ensure accuracy, comprehensiveness and integrity, the draft has been circulated for comments. There has been a very substantive feedback, which is highly appreciated, some data has been amended and scores recalibrated. However, we have not been able to integrate all comments we have received as of today.

The findings

The average level of G20 members' individual compliance is 0.34 (Table I). The average level of G20 institutional compliance with collective commitments is 0.49 (Table II).

The G20 performance varies across countries and policy areas with the highest compliance level on the IMF reform and development at 0.71 and 0.62 respectively. The G20 average for actions on fiscal consolidation is 0.60 if the Toronto terms are applied to all G20 countries, and 0.80, if applied to advanced economies. Efforts on structural reforms (0.24) ought to be boosted substantially. The shot on financial regulation (0.23) is well below the target. Performance on the commitment to refrain from protectionist measures is lagging at -0.35, in spite of the consistent reiteration of the pledge at each G20 summit.

1. Promoting Rebalancing through Fiscal Consolidation

The G20 compliance on the commitment on fiscal consolidation, comprised of fiscal deficit reduction and debt stabilization components, has been generally high, with an average score of 0.80. Most advanced economies have fully complied. The US is projected to reduce its deficit and meet technically its 2016 debt target for the federal government, though the deficit level is expected to be much higher than the Toronto target, and debt is forecasted to increase thereafter. Japan is expected to meet its own national medium term plan on reducing primary deficit by 2015, however, on debt the upward trend questions the likelihood of its debt stabilization projection for 2021.

Having said that, I would like to highlight a couple of questions.

First, the commitment is regarded by a lot of experts as conflicting with the G20 objective to recover growth and a G20 turn from an expansionary mode to revive the global economy to a contractionary one. Indeed the Toronto declaration emphasized the risk of a "synchronized fiscal adjustment across several major economies", which could adversely impact the recovery, however, advanced G20 economies (Australia, Canada, France, Germany, Italy, Korea, UK and US) committed to halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016.

Given that "fiscal sustainability for all G20 members will be assessed by current and projected government debt-to-GDP ratios", including for emerging economies, as indicated in the Interim report on Enhanced Accountability Assessment of the Framework Working Group of November 5, 2012, it seems useful to augment the debt-to GDP downward vector of the Toronto commitment with an assessment of what a sustainable threshold level could be.

To site an example, if Russia's performance is assessed based on the IMF projection Russia's debt-to-GDP ratio will gradually decrease to 9.9% in 2013 and subsequently increase to 12.9% in 2017. Using the Toronto terms, Russia's compliance would be assessed as partial, though its debt ratio is and will remain among the lowest in the G20. What are the threshold levels which would ensure that policy measures aimed at fiscal consolidation do not have negative effects on economic growth and long term fiscal sustainability? Obviously they should be debated and defined.

As some experts suggest, the G20 focus should be shifted to long-term measures, including institutional reforms: "fiscal consolidation through higher primary surpluses will have to be a permanent feature of the long term scenario of many advanced countries".[1] A combination of spending and deficit budget rules together with the creation of an independent fiscal watchdog to assess fiscal conditions and compliance with these rules can play an important role in consolidation.[2]

Thus, the Russian G20 Presidency should seek to promote compliance with the commitment by all relevant members within a long term perspective. The consolidation strategies and timetables to achieve them should underscore growth and equity objectives. Indicators should reflect these long term strategies. The agenda should shift the G20 debate focus to long-term fiscal adjustment measures, including institutional reforms.

2. Stimulating Structural Reforms

Structural reforms have become an integral part of the G20 agenda since the Pittsburgh Summit, when this issue was discussed for the first time. Structural reforms implementation in G20 is of special importance as the cornerstone of growth. However, effective implementation is stalled for several reasons. First, the G20 is focused on short-term crisis resolution actions; second, the agenda is dominated by fiscal consolidation debate; third, it is difficult to pin down the drivers of growth which could facilitate faster fiscal consolidation; fourth, there is a trade-off between structural reforms and fiscal consolidation; fifth, short-term costs of structural reforms are exaggerated; finally, there is a lack of understanding on how individual countries domestic structural reform policy can translate into global sustainable and balanced growth.

The analysis was carried out on the basis of 104 recommendations on structural reforms given by the OECD for 18 of G20 members. Average scores for different structural reform areas were calculated weighting members' average scores in each particular area by the number of structural measures each member was recommended to implement in this area.

The G20 average for all areas is 0.26. The performance is lowest on market liberalization measures at 0.03. Strengthening labor market and education development performance is 0.31. Compliance on financial regulation is highest (0.60), however, it should be noted that the OECD assessment includes only 5 recommendations in this area. Nevertheless, this result is very much in line with the findings of compliance performance on financial regulation for banking and non-banking sectors.

Drawing on the OECD assessment of the proposed structural reforms impact on reducing global and domestic imbalances, an overall effect of the reforms for economic growth has been estimated. Policy actions with the highest PE score were identified. Market liberalization and strengthening labor markets have the highest growth impact potential. G20 focus on these issues could facilitate their implementation. Tax reforms have lower expected growth effect, however, strengthening the structure of taxation can promote competition, job creation, support innovation and stimulate green growth. **Though impact of education development policies is perceived as comparatively low, this might be true for the short-term perspective, and education should**

[1] Pier Carlo Padoan. The Short Term, the Long Term, and How to Get From Here to There. Conference 'International Cooperation in Times of Global Crisis: Views from G20 countries'. October 19, 2012. http://www.bruegel.org/fileadmin/bruegel_files/Events/Presentations/121018_G20_conference_Moscow/Keynote_speech_Pier_Carlo_Padoan_01.pdf.

[2] OECD Economic Outlook. Volume 2010/2. Chapter 4. http://www.oecd.org/eco/monetaryandfinancialissues/46435606.pdf.

be incorporated into the G20 structural reform agenda, given its role for boosting jobs and growth.

The diversity of structural reforms priorities defined by the countries' individual circumstances precludes a one-fits-all list of commitments for all G20 members. However, given the centrality of the structural reforms to the success of the Framework for Strong, Sustainable and Balanced Growth, G20 should reinforce its direction setting efforts on structural reforms providing scope for individual but coordinated commitments.

3. International Financial Institutions Reform

On the International Financial Institutions (IFIs) reforms the analysis focused on four areas: modernizing governance and representation, reinforcement of surveillance, recapitalization of resources, and strengthening financial safety nets.

For full compliance with the governance and representation reform individually members were expected to accept both 2010 IMF Executive Board reform and quota increase through appropriate national procedures. Given that the October 2012 deadline for IMF reforms was missed, *as three G20 countries, including the US, which acceptance is critical, have not ratified the necessary amendments to the IMF Articles of Agreement,* completion of 2010 IMF Reforms is testing the G20 decisions credibility. Compliance with the commitment of a 6% quotas shift in favor of dynamic emerging markets and developing countries (EMDCs) can be questioned as shares of three G20 emerging economies (Argentina, Saudi Arabia and South Africa) will be reduced. The average for G20 members compliance on the reform package commitment is 0.74. The collective commitment for a comprehensive review of the IMF quota formula by January 2013 to continue enhancing the EMDCs representation and completion of the next regular review of quotas by January 2014, is still work in progress, given the broad principles for the new quota formula agreed in Los Cabos and a late start of the formal discussions on the review in the IMF Executive Board in March 2012.

The Russian Presidency should prioritize the issues of the 2010 quota reform completion and promote a comprehensive review of the IMF quota formula to further enhance the EMDCs representation to enable completion of the next regular review of quotas by January 2014.

G20 could make a substantial contribution by moving towards bridging its members' positions both within the finance ministers' track, and through a special G20 Working Group, tasked to address the issues of quota formula variables.

For full compliance with the commitment on surveillance the members were to participate in Article IV consultations after 2010 and in Financial Sector Assessment Programme after November 2008. 14 members have participated in both consultations, and the average compliance performance score on this commitment is 0.65. Institutionally G20 Finance Ministers and Central Bank Governors agreed on the Indicative Guidelines for Assessing Persistently Large Imbalances to serve as a MAP instrument *(internal (public debt and fiscal deficits; and private savings rate and private debt) and external (trade balance and net investment income flows and transfers) indicators).*

Some experts point out that these indicators are insufficient and indicators relevant to labor markets and employment, which "is one of the two or three key objectives of macroeconomic policy", are needed. "Moreover, issues related to income distribution, social policies and the "quality" of government revenues and expenditures" are also important. To assess long-term sustainability the "quality" of adjustment may be even more important than its aggregate value.[3] Prioritizing economic policy for employment Global Unions proposed to "establish employment targets and indicators to be used in the MAP" as well.[4]

Indicators used in assessing national economic policies are insufficient and need to be strengthened by those relevant to labor and employment, as well as income inequality.

Transformation of the Forum on Financial Stability (FFS) into an enlarged Financial Stability Board (FSB) helped in building its capacity and improving transparency. Expansion of the Financial Stability Board and its subsequent institutionalization, including cooperation with non-members, are good examples of ensuring a broader consensus on financial regulation reforms affecting the majority of countries. **G20 should ensure that the FSB institutionalization, including its establishment as a legal entity, is finalized in 2013. This will both confirm the FSB role and enhance its capacity in monitoring G20 members' performance on financial regulation as the G20 members are moving from standards development to their implementation in most financial regulation areas (which requires legislative changes).**

The G20 performance on the IFIs resources replenishment is the highest with an average score of 0.75. Almost all members have participated in the New Arrangement to Borrow, the IMF 2012 resources increase and multilateral development banks recapitalization (International Development Association, AsDB, AfDB, IADB, IBRD, IFC). Thus the G20 contributed to IFIs resources and helped to create new financial safety nets (FCL, PCL). **However, the review of lending conditions and conditionality needs to be continued.**

4. Reforming Financial Regulation

4.1. Banking Sector

Strengthening financial regulation has been one of the main issues on the G20 agenda since its establishment in the leaders' format in 2008. The agenda is complex and diverse. The G20 has succeeded in establishing a comprehensive system for coordination of financial regulation, which involves relevant international institutions, in particular FSB and the Basel Committee on Banking Supervision (BCBS). Analysis of the regulatory reforms in this sector indicates that the level of compliance on commitments made by the G20 members is relatively high. However, the progress is uneven in different segments.

The compliance with the commitments on the new standards of banking capital and liquidity as well as on compensation practices is steady, with international institutions providing regular updates on the progress made by individual countries. The G20 has played a catalytic role in stimulating reforms in this area. Its members pursue the adoption of Basel II, Basel 2.5 and Basel III at the national level, with the FSB acting as a coordinator of the reforms and assisting the Basel Committee on Banking Supervision in assessing their impact on other elements of the financial system. However, not all G20 members have fully complied with the commitment to translate Basel II requirements into national legislation by end-2010, mainly due to differences in organization and regulation patterns of national banking sectors. 15 members fully complied with Basel II, 13 – with Basel 2.5 and 5 – with Basel III. Assessment of progress in adoption of the three Basel banking capital frameworks by G20 members based on the BCBS data shows that **despite the obvious progress in fostering the new standards development, G20 should make additional efforts to enforce their effective implementation.**

On new stress testing models G20 can be credited for its institutional impetus to the Basel Committee to develop new approaches, however, G20 could promote the implementation of an integrated stress testing mechanism by both giving an impulse to further work of relevant

[3] K.Derviş, H.Kharas. Think Tank 20: Macroeconomic Policy Interdependence and the G-20. 11.04.2011. http://www.brookings.edu/reports/2011/0411_macroeconomic_policy_g20.aspx.
[4] Global Unions' Statement to the G20 Employment and Labour Ministers' Meeting. 26-27 September 2011. http://www.ituc-csi.org/IMG/pdf/Global_Union_statement__G20_Labour_meetings.pdf.

international institutions and committing to enforce implementation of an integrated stress testing mechanism at the national level (*combining «bottom-up» and «topdown» tests, by individual banks and national regulators*).

Though development of global regulatory requirements in the sphere of compensation practices based on the FSB Principles for Sound Compensation Practices and their Implementation Standards was completed by the Pittsburgh Summit following the G20 Washington decision. Not all G20 members manage to implement them effectively. The average implementation score is 0.42, with 11 members fully implementing the reviewed standards. **Thus, G20 future efforts should be focused on fostering implementation of the agreed standards at the national level and involvement of non-G20 countries in the process.**

Commitments concerning accounting standards and fair value accounting were reiterated at every G20 summit enabling G20 and international institutions to make significant progress towards a single set of high quality global accounting standards. Convergence of national standards with International financial reporting standards (IFRSs) is to be finished by end-2012. **The G20 could promote the process which is crucial for attaining financial market transparency, integrity and accountability by providing an additional impulse to the work of relevant standards setting and regulatory bodies and encouraging surveillance over their decisions' implementation. The G20 leaders may consider revisiting their pledge to improve the International Accounting Standards Board governance mechanism, and foster implementation**

4.2. Non-Banking Sector

Starting from 2008 the regulation of the non-banking sector of the global economy has undergone profound changes, many of which have resulted from the collective (or coordinated) efforts of the G20 and international financial institutions to combat the crisis and to prevent risks the global financial system can face in future. Track record of G20 decisions implementation in this sector indicates that progress has been uneven across non-banking sector areas.

A comprehensive set of reforms has been developed for the OTC derivative market. The commitment that all standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, cleared through central counterparties, and reported to trade repositories was reiterated at all G20 summits. Though the G20 leaders agreed in Pittsburgh that these measures should be introduced at national level by the end of 2012 the data from FSB progress reports indicates the need for G20 to make additional efforts to enforce effective implementation of the agreed reforms. With an average score of 0.50 for applicable legislation in place, the average score for implementing the regulations is -0.35. Given that appropriate regulations elaborated by international institutions, primarily the Committee on Payment and Settlement Systems and IOSCO, are in place and have been agreed, G20 has to stimulate their timely and full implementation at the national level.

The G20 has succeeded in stimulating the development of new global standards for hedge funds by IOSCO. As requested by the G20 leaders in Washington IOSCO issued its final report on hedge funds oversight systemizing the existing practice and giving recommendations on their improvement prior to the G20 Pittsburgh Summit. In Pittsburgh and Toronto, G20 Leaders acknowledged progress made in this area, but there has been no follow up on the IOSCO proposals, either in terms of G20 collective actions or a commitment on their implementation. Their adoption at the national level stalls as the G20 members have not made commitments on implementation and undertaken efforts aimed at establishing a mechanism to monitor progress**. For tangible and transparent progress the G20 should commit to implementation of the recommendations and continue its work on the hedge funds oversight in coordination with relevant international institutions. An option of mandating relevant institutions to monitor progress should be considered by the G20.**

On credit rating agencies regulation the G20 members' performance has been relatively modest. Though measures aimed at strengthening oversight over CRAs were agreed in the London Summit, the main problem of national authorities' and financial institutions' mechanistic reliance on credit ratings remains largely unaddressed. Although the FSB started to monitor progress in ending such reliance in accordance with the mandates given at the Toronto and Cannes Summits, the **G20 should prioritize the issue until tangible results are achieved. G20 might request IOSCO to renew monitoring of the CRAs compliance with the IOSCO Code of Conduct Fundamentals.** The G20 could consider support to establishing an international non profit credit agency, challenging the CRAs privileged status. A model for such a NPCRA has been developed by an international experts group led by the German Bertelsmann Foundation.

Progress on establishing a global regulatory framework for global systemically important financial institutions has been tangible. The mechanism proposed by the FSB and approved by the G20, includes measures to prevent global systemically important banks potential failures and minimize costs of their resolution through creating Recovery and Resolution Plans (RRPs) for SIFIs, promoting international cooperation in the area and removing obstacles to resolvability. But the SIFI identified by the FSB have not yet filed such plans. **G20 might consider mandating the FSB to review RRP creation by the SIFI. Further G20 activities in the area of SIFIs regulation should be connected with the expansion of already existing measures to include global systemically important non-banking institutions, as well as adapting these measures to domestic systemically important financial institutions and enforcement of the agreed rules.**

The G20 has contributed to the establishment of the new rules mostly as initiator and endorser of new mechanisms. **The G20 can further promote financial regulation through enforcement of the new rules at the national level and establishment of a monitoring system by relevant international institutions action on the mandate from the G20. Such "leadership by example" can help boost the G20 status as an effective and legitimate global governance forum.**

5. Refraining from Protectionist Measures

The analysis of the G20 compliance with the commitment to refrain from protectionist measures shows that the institution's performance in this sphere has been low. The decisions taken and the commitments made by the leaders did not deter the rise of protectionism in the G20 countries. The G20 mandate to the WTO to monitor the members' trade related measures and the revisiting of the commitment in each summit have not produced the expected result. Nevertheless the WTO reports have been a positive development providing some degree of transparency on G20 trade related measures.

Since the Washington summit (November 2008 – October 2012) the G20 countries adopted more than 715 protectionist measures. On average each country is responsible for 44.69 measures. Individual performance of the G20 members varies from a minimum of 2 measures adopted by Japan and Saudi Arabia to a maximum of 92 measures. Manufactured goods have received greatest protection with 468 measures introduced by the members through the period, food and agriculture come second with 124 protectionist measures, services have been the least protected sector with only 11 enacted measures overall. The average compliance score is the lowest for all the areas assessed at -0.35. *The intensity of protectionist trend was the highest from London to Pittsburg and from Seoul to Cannes with 96 measures in 175 days and 208 measures in 356 days respectively. In the 119 days after Los Cabos 63 measures have been taken.*

It is gratifying that in the WTO last reporting period from November 2011 to October 2012 G20 imposed less protectionists measures (179), than in November 2010 to November 2011 (208), a 14% fall in the number of protectionist measures exceeds the 9% slowdown in the world for the same periods (308 measures compared with 339).

G20 should consolidate efforts to sustain the trend. G20 might consider supplementing the existing monitoring exercise led by an OECD/WTO/national authorities with diagnostic work aimed to identify the root causes of protectionism in each specific case and the alternatives available for invigorating trade.

6. Phasing-Out Inefficient Fossil Fuel Subsidies

The G20 Pittsburg commitment to rationalize and phase-out inefficient fossil fuel subsidies was considered an important step towards sustainable development and green economy. Though the pledge was reiterated at each subsequent summit, the institution's efforts in this field have been largely undermined by the inability to agree on a common definition, criteria for subsidies efficiency assessment and elaborate a transparent and uniform reporting mechanism. Without these components in place the G20 members interpret the commitment as they see fit and tend to either report no inefficient subsidies subject to phase-out, or report the measures which were previously targeted within national plans claiming compliance. Although in 2010 seven G20 members stated that they did not have inefficient fossil fuel subsidies, OECD and IEA identified existing mechanisms of fossil fuel production and consumption support in every G20 country except Brazil (on which neither OECD, nor IEA presented any data).

Several countries made progress in phasing-out the measures, identified as inefficient. However, the IEA report "World Energy Outlook 2011" states that some G20 members still retain subsidies "that appear to be inefficient, encourage wasteful consumption and are regressive, but are not earmarked for phase-out or better targeting".[5] And the OECD Inventory of estimated budgetary support and tax expenditures for fossil fuel subsidies data indicate that there has been a rise in the cost of consumer and producer support mechanisms in a number of countries.

In the absence of an agreed definition and standardized approach to measuring subsidies' efficiency the next progress report and a peer-review process on the commitment expected to be developed and presented to the leaders in 2013 (according to the G20 Finance Ministers and Central Bank Governors Communiqué of 5 November 2012) may prove a futile effort subject to further critique for non transparency and inconsistency.

G20 might consider a step by step approach focusing on the definition and efficiency criteria first, within the Working Group on Energy and Commodity Markets in engagement with relevant international organizations, or in other formats. Forging a common definition and criteria would be an important milestone towards credible reporting and hopefully future progress on the commitment.

[5] World Energy Outlook 2011, IEA. 2011