G-24 TECHNICAL GROUP MEETING
March 14-15, 2019
Lima, Peru

SUMMARY REPORT

The Spring 2019 Technical Group Meeting (TGM) was held in Lima on March 14-15, hosted by Peru, the current G-24 Chair. The themes discussed were Coping with Global Uncertainties, the Global Financial Safety Net (GFSN) and the IMF, Global Financial Governance and Development, Combatting Illicit Financial Flows, Sustainable Investments and Growth, Fiscal Reforms and Governance, Taxation of the Digital Economy, and Ensuring Adequate Social Safety Nets.

In his opening remarks, Governor **Julio Velarde** of the Central Reserve Bank of Peru, underscored the importance of the topics for the meetings. Following the 2008 crisis, the response of the central banks in advanced economies and the swap lines made available from the Fed were instumental in calming the FX markets and allowing countries to lower their interest rates again. The stimulus provided by China in the last quarter of 2008 was also key in helping commodity prices pick up in early 2009. The question is, what instruments would be available if there is another crisis—given that the Central Banks of advanced economies are likely to be in a more constrained position now? This heightens the importance of having new instruments and more resources for the IMF—for which it is also key that the growing weight of developing countries in the world economy be accepted by advanced economies. It is important that these issues be addressed if the IMF is to continue to play a central role in the global financial landscape.

Keynote: The Global Financial Safety Net and the IMF: The Unfinished Agenda
Moderator: Mr. Adrian Armas, Chief Economist, Central Reserve Bank of Peru

Jose de Gregorio opened the keynote session, drawing on the 2018 Geneva Report on IMF Reform: The Unfinished Agenda. There have been many new developments in the global context in recent years that have had implications for the role of the IMF—large, volatile movements of gross capital flows across countries; a growing number of Emerging Market Economies (EMEs) with intermediate exchange rate regimes; the creation of bilateral swap agreements among some central banks, and the growing importance of China in the global economy. The IMF has also continued to evolve. It has adapted its macroeconomic policy recommendations, improved bilateral and multilateral surveillance, and taken steps to enhance transparency. It has also introduced new instruments such as the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL).

Despite the progress, issues remain with respect to the adequacy of financing, the appropriateness of instruments, and governance. IMF governance, resources and lending are linked to the quotas of members. Revisions in quotas have lagged, and presently there are discrepancies between quotas and GDP shares and other elements of the formula. Addressing the current misalignment requires allocating roughly 12 percentage points of the voting rights away from advanced economies to developing countries.

On the adequacy of resources for a global financial safety net, while the existence of large bilateral swap agreements can be helpful, they cannot be relied upon to safeguard global stability. Their extension can be unpredictable and arbitrary. Hence the continued importance of ensuring adequacy of IMF resources.

It is not only a question of adequacy of resources that needs to be considered, but also the appropriateness of the currently available instruments. The problem with the precautionary arrangements such as the FCL is that they have been designed for countries with very strong economic fundamentals (but still have conditionalities attached to them—albeit lighter) but are needed by others. Moreover, there is a potential problem of adverse signaling (in which applying for a precautionary arrangement is seen as an admission of weakness) and of the exit strategy from the FCL (if a country that initially obtained an FCL sees a deterioration in macroeconomic conditions that leads to its subsequent disqualification, it could experience market turbulence or a crisis, discouraging the country from applying for the arrangement in the first place).

The Geneva Report suggests the creation of a "Fast Qualification Facility" that would have the same goals as the precautionary lines but would be *unconditional* as it would be designed for strong economies to support them in the face of sudden liquidity needs. It would be cheaper than a permanent commitment to a precautionary line and would be a temporary arrangement.

On governance, one of the recommendations is a change in structure, in which IMF management would be empowered to make operational decisions concerning program design and disbursements, and would be required to explain and justify its decisions periodically to a *non-resident* Board. It was felt that this would help the institution make timely decisions that are time consistent and congruent with the interests of the majority of shareholders (or the shareholders as a whole).

Amar Bhattacharya was in full agreement with the three central propositions made in the report, namely that capital flow volatility is here to stay, there is a lack of an adequate global financial safety net, and the currently available IMF facilities are suboptimal. He mentioned two additional areas where the IMF needs to focus: i) how to deal with debt sustainability issues at a time when countries are facing very large financing needs for infrastructure; and ii) how to deal with issues of climate change which are central to both growth and financial stability.

On the issue of governance and the Report's recommendation that the IMF Board be a non- resident one, he highlighted the dual function that the IMF Board plays. While one function is that of directors of an independent institution, the second function is as representatives of their countries who play an important role in norm setting, surveillance and peer reviewing, For the latter function, having a full resident Board is important.

On the issue of voice and representation, Mr. Bhattacharya underscored the importance for the G-24 to think about the strategy for the selection of the heads of the IMF and World Bank for the next round. He felt that it is important to do so in advance rather than when a particular case comes up, because the politics of the day are likely to dominate.

Tomas Gonzalez began by mentioning the issues that are typically discussed during IMF quota reviews: sufficiency of IMF resources; correction of quota misalignments; protection of the poorest members; and the possibility of undertaking reforms.

Following the Global Financial crisis, there was a threefold increase in quotas and a fourfold increase in New Arrangements to Borrow (NAB) as well as the Bilateral Borrowing Agreements. This resulted in a total of SDR 693 billion in available IMF resources as of 2018. However, as the Bilateral Borrowing Agreement is set to expire in 2020, and the NAB in 2022, only the quotas will remain at SDR 320 billion after 2022, compared to an IMF staff estimate of around SDR 700 billion required to ensure it has adequate resources.

One possibility to explore, is that the IMF obtain the necessary resources by borrowing. However, the implications of further borrowing (e.g. the NAB) which is more dominated by advanced economies, on IMF governance was raised.

The presentation also explored, going forward, which components of the quota formula might benefit G-24 countries the most: of the four components, (GDP at market prices, GDP at PPP, openness and variability), a greater weight on GDP at PPP may be of best interest to emerging and low-income countries.

Ligia Ennes Jesi mentioned that Brazil was strongly supportive of the discussions on IMF resources and governance reforms, particularly given the important role that the IMF has in responding to global shocks and crises. Brazil advocates a quota review and an agreement on a new quota formula as a basis for the realignment of quota shares. At present Brazil feels that one of two proposals can be adopted: i) increasing the NAB by tripling its amount and opening up the possibility of new entrants and ii) doubling the amount of NABs and replacing part of the existing Bilateral Borrowing Agreements with a new set of BBAs.

Floor discussions: Participants stressed the importance of the quota reviews and the need to continue to push for IMF governance reforms going forward. A suggestion was made that were the non quota-based resources (NAB and bilateral borrowing) to be increased, the G-24 could push for some elements of the 2010 quota review that were not addressed at the time in the context of these increases. A question was raised regarding what kind of cooperation in lending was envisaged in the report between the IMF and the Regional Financing Agreements (RFAs). Mr. de Gregorio suggested that the RFA could provide bridge financing when a country was in discussions for a loan with the IMF. He emphasized however that it would be important to have a good governance structure in place for such a bridge facility.

Session 1: Coping with Global Financial Uncertainties and the Global Financial Safety Net
Moderator: Mr. Adrian Armas, Chief Economist, Central Reserve Bank of Peru

Juan Pablo Medina's presentation discussed the different categories of uncertainties that exist and their different policy implications. Some uncertainties are easy to insure against while others more costly to insure (such as sudden stops in capital flows), and yet, others (the "unknown unknowns" or "black swans" —examples of which include the Great Depression and 2008 Global Financial Crisis) cannot be insured against. The appropriate policies for the latter uncertainty are precautionary and/or ex-post actions.

Eugenio Cerrutti's presentation examined the nature and characteristics of capital flows to EMDEs. Capital flows to emerging markets and developing countries (especially bond, portfolio equity, and bank flows) are much more driven by common global "push" factors than are flows to advanced economies. Moreover, the market characteristics and type of investor base is shown to have a strong impact on the extent to which countries' capital flows respond to global factors (those with a greater reliance on global investor funds have more sensitive capital flows).

The role of emerging market (EM) banks in the international banking system is growing and cross border flows among EMs is becoming important. Thus, while EMDE's dependence on AE banks has lessened, EM banks are now potentially new sources of contagion and propagators of stress. In sum, an understanding of the type, source and transmission channels of flows is important from a policy perspective.

Eric Koranteng discussed Maxwell Opoku-Afari's presentation on the impact of uncertainties in the global economy on Africa as well as the potential policy responses to enhance financial stability. The presentation also focused on Ghana's experience. One of the challenges for African countries with respect to the GFSN is the fact that it mainly comprises their FX reserves and IMF resources, and accessibility to the latter is limited. In addition to reforms in the IMF on quotas, governance, and emergency financing mechanisms, measures to strengthen the GFSN should include regional financing arrangements for Africa.

Domestic or country-level macro and macro prudential policies are also key. Africa's financial sector is predominantly bank based (the past decade has also seen the emergence of pan African banks), which heightens the importance of macroprudential policies, and the need to integrate macroprudential regulations with monetary policy—through financial stability departments and councils.

Nnanna Okwu Joseph provided Nigeria's experience in coping with global uncertainties. For Nigeria, the most important factor affecting its terms of trade is the price of oil. Nigeria has been prepared to deal with the volatility in oil prices and has been able to withstand the volatility in capital flows during the period of monetary policy tightening in the advanced economies. Measures that have been taken include strengthening the banking system, maintaining positive real interest rates, and intervening in the FX market—not only in the spot market, but also in the forward and swap markets.

Floor discussions: There was a discussion on the pricing of natural diaster insurance, which is complex since these uncertaintes cannot be fully insured. There can, however, be some pooling of uncorrelated natural diaster risks to achieve better risk diversification. Also, the IMF Rapid Credit Facility—which provides immediate financial assistance with limited conditionality—is available for natural disasters.

Special Session: Global Financial Governance and Development
Moderator: Mr. Philippe Buffle, Strategic Coordinator of the External Sector, MOEF, Ecuador

Kyle Peters presented the G-20 Eminent Persons Report on Making the Global Financial System Work for All. The world faces challenges of unprecedented scale, urgency, and complexity in the coming decade, especially in creating jobs and in ensuring environmental and financial sustainability. At the same time, the context within which we are operating is one of widening economic, social, and political divides, a trend towards a multipolar world and decentralized decisions, and a growing interconnectedness between countries through flows of trade, capital, and ideas. These trends have heightened the need for, and challenges to, creating a credible and coordinated global financial system that benefits all countries.

Reforms are needed in three key areas: i) *achieving greater development impact* in countries in the context of meeting the SDGs in 2030; ii) *strengthening the resilience of the global financial system* in the context of large volatile capital flows and the financial instability associated with these flows; and iii) *improving the governance of the system of international financial institutions*--there is much to be gained by governing the system as a system rather than as individual institutions.

With respect to achieving greater development impact, reforms are needed in both the functioning of development finance and in development policy. In particular—recognizing the need to crowd in private finance—the report recommends that IFIs refocus their efforts on helping countries strengthen governance, reduce regulatory hurdles and build human capital to improve the investment climate. The IFIs should also help in de-risking investment climates and individual projects in order to attract private investment. The report emphasizes the need for MDBs to strengthen collaboration across development actors, including bilateral financial institutions, and recommends improving the joint capacity of IFIs, MDBs, and other stakeholders to respond to the challenges of the global commons.

Two ideas within this set of recommendations were highlighted. The first is that countries consider building country platforms. These would enable countries to ensure that development partners provide more consistent and better coordinated support. It could also help in standardizing contract documentation to facilitate and attract private investment. At the same time, since these platforms would be government-led, governments would have the flexibility to engage with different partners to varying degrees as they wish. The second recommendation mentioned was that the MDBs focus more on risk mitigation approaches and instruments that can help diversify risks and create broad asset classes that would help mobilize and scale up private capital, especially in infrastructure.

With respect to strengthening the global financial system, a key recommendation is that three IFIs most involved on the financial side (i.e. IMF, BIS, FSB) look at the policies of capital-sending countries, not just those of the capital-receiving countries. On the capital-receiving side, in addition to providing continued policy advice for strengthening domestic financial markets, the report recommends that the institutional view be extended, and that a framework for the use of macro prudential policies be developed. It would also be important that, when a country's policies are consistent with this framework, this be communicated to them, because countries sometimes feel that when they take measures to deal with volatile capital flows, they risk getting the feedback from the IFIs that their policies may not be appropriate or sound. The report recommends that a similar policy framework be developed for the capital-sending countries that would enable them to meet their domestic objectives while avoiding large international spillovers.

Carolina Soto praised the report for its thorough and technically robust recommendations. She underscored however that these were ambitious recommendations—although the report does suggest that the recommendations be adapted to suit individual country conditions and capacities

Regarding the implementation of the recommendations contained in the section on Achieving Greater Development Impact, much would depend on a country's institutional capabilities, legal framework, and the rule of law, as well as the political will to enact reforms. As mentioned, the report focuses on the importance of human capital and infrastructure and emphasizes the need for the availability of stable financing to achieve these goals. The latter, in turn, depends on strong public finances and on attracting private investors—highlighting the potential role of the IFIs and MDBs in helping to reduce actual and perceived risks for the private sector.

In this regard, Colombia's experience is pertinent. Colombia had undertaken strong fiscal adjustments following a macro crisis in 1999, and now has the conditions for financial stability mentioned in the report—namely sound public finances and a strong legal and regulatory framework. Colombia also implemented a very ambitious public private partnership (PPP) infrastructure program—the 4G (4^{th} generation) program—in which institutional investors can invest through the development of a country platform of the type suggested by the report. Recently, some institutional and governance issues have stalled the project. This highlights another point raised in the report, namely that many of the risks are interlocking—although the necessary regulatory changes can be made to reduce risks, other unforeseen risks can arise, and can impact each other.

On the section on Strengthening Financial Resilience, Ms. Soto sees the lack of resources as being the main challenge—although the report's mandate did not include looking at the capital and shareholding structures of the IFIs, this is a huge challenge that must be tackled. Just to illustrate: in the 1970s the IMF quotas represented almost 5% of gross global liabilities, today they amount to less than 0.5%.

Naomi Rono provided Sub-Saharan region's (SSA) perspective on some of the issues raised in the report. On the issue of collaboration among different partners, several sub-Saharan countries have announced that they would be willing to work with any partner who may be interested in working with them for the mutual benefit of their countries. However, the case has been made that, because of the imbalance in power in the negotiations of some of the agreements with private financiers, some countries may have been left in a precarious position. In this regard, there is a role for the MDBs to help strengthen the capacity of countries to negotiate (i.g. PPPs) on a more equal basis.

On infrastructure, the recommendation in the report of creating regional platforms to facilitate cross border investments is strongly supported. In particular, some countries are facing considerable security problems, and if infrastructure investments supported by the MDBs were to span across several countries, it would benefit these countries and could help in addressing some of the drivers of conflict.

On de-risking, SSA supports the approach of recommending a shift in the focus of MDBs towards risk mitigation. However, sometimes risk mitigation insurance is more costly than it should be, partly because the private sector does not know the landscape. The IFC is developing a diagnostic toolkit to establish the landscape that exists in many fragile countries, and this should help in bringing down costs of de-risking.

The need for focusing on job creation mentioned in the report is extremely important in the SSA context, given the bulge in youth population. Lastly, there is a need to focus on the issue of debt sustainability and appropriate deficits in the context of the investments needed to achieve countries' development agendas. The report rightly focuses on national debt systems and national debt sustainability frameworks—as long as countries are adhering to their agreed upon fiscal deficits, it is important that MDBs support them.

Philippe Buffle discussed Ecuador's experience in the past decade in terms of the debt incurred during the period of loose monetary policy in advanced economies in the aftermath of the global financial crisis and the difficulties of going to the markets more recently in the face of interest rate normalization. The experience highlights the importance of debt sustainability frameworks.

Floor discussions: Some participants thought that some of the report's recommendations are very ambitious and rely on actions of advanced countries. Concern was also expressed that some of the recommendations of the EPG report have not had much traction during the first half of the current G-20 presidency—notably the recommendation to integrate the surveillance efforts of the IMF, FSB and BIS to build a coherent risk map, the recommendation of building on the IMF-FSB early warning exercise forum to ensure policy follow-up from the global risk map; and the recommendation to establish a standing IMF liquidity facility to give temporary assistance to countries facing liquidity shocks. On the latter, it was felt that it is important to address the shortcomings of the previous liquidity facility that was not approved by the Board and improve its design to make it acceptable to the majority of IMF board members. Since these recommendations could be very beneficial to developing countries, it was suggested that the G-24 also actively pursue these EPG recommendations.

Discussions also covered the issue of transition from concessional financing to non-concessional financing: a country may already be incurring significant debt in order to meet its development agenda, and as soon as it does well enough to be classified as a lower middle-income country, its debt burden increases through higher borrowing costs. It was suggested therefore that there should be a grace period before a country is required to borrow at non-concessional terms.

Participants also highlighted the importance of ensuring additionality in availability of finance for development—any measures that the MDBs could take to crowd in private investment and bilateral financing would be a welcome step. However, were MDBs to substitute risk mitigation instruments for direct lending, this would be a step back from the development and climate agenda.

Finally, some concern was expressed with respect to the proposal of country platforms; while the value of greater coordination and coherence among IFIs and other development partners was appreciated—it would also be important to allow for flexibility in dealing with individual institutions which have their own goals, instruments, and clients, since this diversity also enhances innovation and creativity. The need to ensure that the design of country platforms suit the country's objectives and conditions. Overall, it was felt that the report is important for the G-24, and that the Group could refer to these recommendations, especially with respect to the IMF quotas, governance and global financial safety net issues—to strengthen its position in discussions.

Session 2: Combating Illicit Financial Flows
Moderator: Ms. Marilou Uy, Director, G-24 Secretariat

Nadim Kyriakos-Saad discussed the IMF's perspective and work in combating illicit financial flows (IFFs). He stressed the importance of approaching the issue holistically, as the IMF is doing by engaging with a number of stakeholders.

Defining what is meant by IFFs is the first step in combating them, and there is no consensus on the definition. There are however a few broad categories that constitute illicit flows: i) funds derived from illegal acts; ii) funds transferred using illegal means; iii) and funds used for illegal purposes. There is a big debate as to whether or not funds transferred using illicit means or tax avoidance should be captured in the broad definition. Given the debate on the definition and their nature, IFFs are difficult to quantify. This can lead to inaccuracies and over estimates with respect to cross border activities.

IFFs can have several negative impacts, including undermining financial and economic stability, political stability. They can also lead to operational setbacks for the Fund.

The Fund has committed to the SDG for reducing illicit financial and arms flows, strengthening the recovery of stolen assets and combating all forms of organized crime by 2030 and has stepped up its efforts including strengthening the AML/CTF framework and providing technical assistance and capacity development. Other policy measures include enhancing entity transparency, addressing governance and corruption issues, strengthening tax compliance and enforcement, and monitoring IFFs by addressing payment gaps.

Mr. Kyriakos-Saad also discussed the related issue of decline in Correspondent Banking Relationships (CBRs) across several jurisdictions. Pressures on CBRs are driven by concerns with banks' ability to manage IFF-related risk and AML/CTF related compliance costs. The Fund has tried to address this using a multipronged approach, including monitoring trends, risks and drivers, facilitating dialogue, and tailoring capacity development.

Jean Pierre Brun provided the World Bank's perspective on the issue. He underscored the importance of defining IFFs in order to tackle the various aspects. He highlighted how illicit can mean different things. There is the illegal aspect as mentioned by Mr. Kyriakos-Saad. There are also cross border movements of funds which are not illegal but have negative implications due to tax. The definition of IFFs matter, as each element requires different policy responses. Moreover, reforming tax policies to fight these activities at both the international and national levels is difficult—in order to enforce policies needed to combat tax avoidance, there needs to be a link between the tax aspect and the criminal aspect of the activity.

The World Bank defines IFFs as money and assets illegally earned and transferred/controlled overseas. Its approach to fighting IFFs is to develop the tools necessary to assess them, to provide technical assistance at the country level, and to shape the global agenda by working with a number of partners in the IFF space.

Lucas Diaz Suarez discussed the IFC's approach to IFFs in the context of the private sector. The IFC tries to manage risk, and wherever possible steer clients towards higher integrity standards. The IFC's approach to integrity is essential to ensuring project sustainability. The Business Risk and Compliance unit of the IFC provides advice regarding non-financial or integrity risks and deals with three risks related to IFFs: i) corruption (which is addressed through Integrity Due Diligence); ii) money laundering and terror financing; and iii) tax evasion and avoidance. He highlighted the fact that, in the face of a problematic project, the IFC works with the counterparty to enhance integrity, solve any compliance issues, and mitigate the risks in an effort to make the project feasible. If they are unable to do so, they do not proceed with the project.

Floor discussions: Participants inquired how to tackle illicit financing flows in cases where fintech (e.g. crypto currencies) is used to finance terrorism. Mr. Kyriakos responded that the IMF is actively discussing opportunities and challenges associated with fintech with a view to improving the framework for financial intermediation and integrity. FATF has also been adjusting the standards to reflect changes in fintech. Mr. Brun mentioned that regulations and supervision exist that are being balanced by the need to ensure that they do not kill any financial inclusion opportunities. Countries should also not to overlook the use of cash in IFFs. There were also questions on how countries can develop the political will to tackle the issue. Mr. Brun stated that FATF standards have become more stringent and countries that are not compliant risk being blacklisted by international standards and stakeholders. FATF has also partnered with the World Bank and Secretariat of the Monetary Committee of the Franc zone to look at the main weaknesses of a group of African countries and establish an action plan to help governments adopt the needed reforms.

Alex Cobham brought Tax Justice Network's (TJN) perspective to the discussion. He made the distinction between the old view of illicit financial flows and the new view. The former view considered illegal activities (laundering proceeds of crime and abuses of power) and was seen as a developing country problem. The newer IFF view considers market/regulatory and tax abuses and is being recognized as a global issue.

The new view of corporate abuses, while illicit in the nature of transaction (shifting across borders), is not necessarily illegal (origin of transaction is legal). Both types of activities, however, reduce country revenues and undermine governance. The policy agenda on IFFs is gaining consensus on the new view (with Mbeki report and SDG target).

However, multinational corporations are pushing back against this reform, lobbying to return to the old corruption agenda. This pushback should be resisted as the substance of what was agreed upon in the SDGs clearly includes corporate avoidance as a central piece.

One of the difficulties with the SDG Indicators is that it aims to measure total value of inward and outward flows, which is problematic since it doesn't give a country or channel breakdown. This makes it difficult for designing effective policy. TJN proposes two indicators: i) misaligned profits with two-sided accountability; and ii) undeclared offshore assets that capture tax evasion as well as broader criminal illicit flows (measuring assets held by other jurisdictions that are not declared at home). Both indicators provide a global number based on country-by-country reporting and accountability. Other policy measures include conventions that raise international standards on financial transparency and international tax reform. In terms of tax reform, the OECD is moving away from the old transfer pricing method of tax rules towards a unitary taxation and formula apportionment process. Mr. Cobham noted the G-24 submission to this inclusive framework process and urged the Group to continue its efforts to ensure that taxes are being paid where economic activity is taking place and restore confidence in those systems.

Stephanie Blankenburg continued the session by sharing UNCTAD's work on the topic, specifically with measuring illicit financial flows. UNCTAD primarily has three work areas on IFFs which tackle different aspects of the issue; one of them being a co-custodian with UNODC of the SDG Indicator 16.4.1. This is a Tier 3 indicator of assessing "total value of inward and outward illicit financial flows," which doesn't yet have internationally established methodology or standards.

The challenge in constructing indicators is that there are issues of relevance, subjectivity, and incomplete information that need to be addressed. In this regard, increased participation by developing countries is essential and multi-level operationable indicators at the case study, sectoral, country and global levels are useful in highlighting areas of particular relevance for developing countries. In terms of additional policy implications, participation, as well as financial transparency in the UN context, and increased regulation on abusive practices are necessary.

Sergio Espinosa discussed how Peru has been dealing with IFFs. Mr. Espinosa stated that Peru is very actively participating in networks of combating money laundering and terror financing to accomplish international standards. This includes trying to improve the legal framework, making necessary legislative changes, conducting national risk assessments, and building two national strategies based on these evaluations. Peru is a very open economy, which poses issues for dealing with IFFs. Moreover, there are sectors that are still not covered by regulations, although progress is being made in this area.

Mawakani Samba discussed the Democratic Republic of Congo's experience and approach to fighting IFFs. He gave an example of the problem in the telecoms sector, where firms' declared sales for 2017 amounted to only $375 million, while, based on the number of subscribers, and, assuming that they pay only $5 per month, the estimated sales for the year should be closer to $2.4 billion.

DRC's measures to deal with IFFs fall under the main pillars reflecting the sectors most affected by IFFs—fiscal, trade, and natural resources. There is also a finance pillar, which includes a law against money laundering and financing of terrorism, as well as an anti-corruption pillar. He stressed that having a policy framework is not enough—the success in addressing IFFs depends as much on the effectiveness of implementation. It is therefore also important to create the right incentives for those who are responsible for implementing the policies.

Session 3: Fiscal Reforms and Governance
Moderator: Mr. Armando Morales, Senior Advisor, IMF and Chair of the G-24 Bureau

Paola Alvarez presented Philippines' experience in implementing its recent Comprehensive Tax Reform Program. The reform aims to redesign the tax system to make it simpler, fairer and more efficient. It has a multipronged approach and is being implemented in stages. Package 1 deals with the lowering of personal income taxes. The package also involves a tax amnesty program complemented by tax transparency measures. Package 2 addresses the corporate income taxes—gradually lowering these to be more in line with neighboring ASEAN countries, and rationalizes fiscal incentives. It also increases excise taxes on alcohol and tobacco. Package 3 tackles property taxation, entailing reforms in property valuation to promote a more equitable, efficient and transparent system. Finally, in Package 4, the Government proposes to rationalize capital income taxation to address multiple rates and differing tax treatments and exemptions on capital income and other financial instruments.

The Government engaged in consultations with the relevant stakeholders during the process—for instance on the corporate tax reforms. These reforms are beginning to show results—revenues for the first three quarters of 2018 have reached almost 95% of the target.

Emphasis is also being placed on infrastructure development and social protection programs. These include targeted unconditional cash transfers to protect poor households from the fuel price increases. The delivery of these social services was complemented by legislation that established a national identity system.

Jens Kristensen presented the Public Expenditure and Financial Accountability (PEFA) framework that assesses the state of countries' public financial management (PFM) at the national and subnational levels. The framework is based around seven pillars of the PFM process and is one of the few tools that covers the entire PFM cycle. It evaluates how well PFM systems deliver on three outcomes of well-functioning public financial management: i) overall public expenditure management; ii) allocation of resources between policy objectives; and iii) efficient delivery of government outputs.

The framework has been widely used (150 countries, 24 are G-24 countries). The average overall PEFA scores show that there has been progress in PFM performance over time. It is important however, to also look at the 31 indicators and 94 dimensions that underlie the average scores, since countries may perform well on some aspects but poorly on others. Looking at the average score by pillar (from 2015-2017) accounting and recording and reporting show a downward trend; whereas, transparency has been the best performing pillar over time.

In view of debt sustainability issues arising in many countries, MDBs are increasingly focusing on debt management, transparency and disclosure and accounting standards. A PEFA Gender Module is currently being piloted as is guidance on how to use PEFA reports for PFM reform design and implementation. It is important for countries in undertaking their fiscal reforms, to involve a broad group of stakeholders, link and prioritize PFM reforms to achieve their development objectives and continue to monitor, obtain feedback and adjust accordingly through the implementation.

Session 4: Managing Sustainable Investments and Growth: Some Perspectives
Moderator: Ms. Maria Candelaria Alvarez Moroni, Advisor, Ministry of Treasury, Argentina

Amar Bhattacharya underscored the growing risks of inaction on climate change and the centrality of sustainable infrastructure in supporting inclusive economic growth, increasing access to basic services and promoting environmental sustainability.

The stock of infrastructure in the global economy is expected to double in the next 15 years, and we have a small window of opportunity to make the shift to a new growth path that does not rely on polluting technologies and inefficient capital. Despite its central importance, the quantity and quality of investment needed is not being realized. This reflects two fundamental gaps. The first is the inability of most countries to translate the needs for investment into realized demand—due largely to the inherent complexities of infrastructure investment and policy and institutional impediments. The second is the challenge of mobilizing long-term finance—despite the large pools of available savings globally—at a reasonable cost to match the risks of the infrastructure project cycle.

Mobilizing capital from all sources—domestic, international, public, and private—is needed. Robust public finance is essential, but the biggest opportunity is to mobilize large savings of private investment, especially institutional investors. For the latter, it is important to make infrastructure an asset class.

Country platforms, as discussed in the special session, can play a key role in this regard by ensuring i) a well-articulated investment strategy (demand side); ii) the standardization of documentation that helps in project preparation; and iii) financing models that bring together both intermediaries and long-term investors (supply side). In this regard, several tools and standards have been developed and there are platforms available for project preparation for countries to use.

MDBs can play a development role that other financial structures cannot, because of their mandate, instruments and shareholding structures. In addition to policy and institutional support and help in project preparation and implementation, they can help in reducing and mitigating risk, especially in the difficult early stages of an infrastructure project.

Elsa Galarza highlighted both the adverse impacts of climate change and also the potential benefits from climate change action—including boosting jobs and increasing women‘s participation in the labor force.

It is estimated that US$5-7 trillion per year over the next 15 years is needed to meet the SDGs. Despite the commitments made at the UNCC COP 24, there is still a huge financing gap. However, institutional investors have shown a willingness to invest in projects that can achieve strong financial returns while achieving environmental goals—the issue is how to effectively engage these private flows.

Government policies and instruments are key to encouraging sustainable investments—such as carbon pricing, ensuring that prevailing technologies are priced at their full environmental and economic costs, using blended finance where the private sector can be compensated for incremental risks, and creating markets (e.g. as has been done for intellectual property rights, biodiversity prospecting and carbon offsets). It is also important to develop data and indicators to incorporate environmental risk into decision-making.

Heba Abu Mustafa provided Egypt‘s perspective on the issue of sustainable investment and climate change. Egypt has launched a comprehensive national strategy on sustainable development until 2030. It expects that by 2022 about 20% of its electricity needs will come from renewable sources—hydroelectric, wind and solar—and that this percentage will increase to 42% by 2025.

Floor discussions: The need to look at the efficiency of investments and not only at raising revenues to finance investments, was highlighted. Improving the efficiency of investments can release significant resources—a study has shown that it can save up to 2-3% of GDP in many countries. A question was posed as to how to evaluate what individual countries are doing with respect to climate change and how to ensure that these are consistent and add up at the global level towards meeting the Paris Climate Change Agreement; Mr. Bhattacharya responded work is being done in this area in the lead up to the UN Climate Summit and the One Planet Lab.

A question was also raised regarding the extent of MDB engagement in sustainable infrastructure investment—given that in the past they had been moving away from infrastructure investments. Mr. Bhattacharya responded that the MDBs are engaged on both sustainable infrastructure and climate action. In the run up to COP 24, the World Bank also made a commitment of 200 billion in terms of climate finance. However, he stressed that delivering on this commitment will be difficult given the 30% rule that the World Bank has adopted (no more than 30% of IBRD lending will go to middle income countries). While the Bank clearly needs to help the poorest countries build resilient infrastructure, it also needs to scale up its lending to the larger middle- income countries. The panelists also highlighted the potential for learning among the MDBs: for example, the IADB has put in place a pioneering program to deal with climate change which could be adopted in other MDBs, while the EBRD has a been a leader in energy efficiency which could also be replicated elsewhere.

Special Session: Taxation Challenges: A Focus on the Digital Economy
Moderator: Mr. Suresh Yadav, Senior Advisor, World Bank

Suresh Yadav introduced the topic for the meeting participants. There is no generally agreed definition of the digital economy or the digital sector. In general, the term digital sector is taken to cover the core activities of digitalization, ICT goods and services, online platforms and platform-enabling activities. Available evidence suggests that the digital sector is still still less than 10 percent in most economies, measured by value added, income or employment. The term digital economy is often used to indicate that digitalization has spread to all sectors of the economy. The lack of industry and product classification for internet platforms and associated services are hurdles to measuring the digital economy.

Digitalization has made it easy for firms to fragment the global production processes in a way that makes production location an ambiguous concept—and has allowed firms to separate the location of production and consumption of services. Thus, businesses can be heavily involved in a jurisdiction without physical presence. Since taxing rights are currently allocated to jurisdictions primarily on physical presence, market jurisdictions are losing out on their share of taxes.

Natalia Quinones provided an overview of the efforts undertaken so far with respect to the issue of taxation of the digital economy. Two proposals were put forward in the 2018 Task Force on the Digital Economy (TFDE) at the OECD—the User Participation proposal and the Marketing Intangibles proposal.

These two proposals differ in terms of the scope of application (ringfenced to only 3 types of companies in the former and no ringfencing in the latter). They also differ in terms of the nexus for taxation, with the User Participation proposal suggesting the use of presence of sufficient active users (although the threshold is yet to be determined) and the Marketing Intangible proposal suggesting the presence of market intangibles (although there is no agreement as to what constitutes a market intangible yet).

However, both proposals have suggested the Residual Profit Split as the methodology for allocating the profits to the nexus. This requires that profits associated with routine functions in the firm be allocated according to existing Transfer Pricing rules, and the remainder (after renumerating the routine functions) be allocated to jurisdictions where the non-routine functions occur, including in the market jurisdictions where the intangible or user participation are producing profits. The problem with the residual profit split approach is that it allocates minimum income and does so only when the company reports extraordinary profit. Most digital companies report operating losses. Therefore, in terms of tax revenue implications, it may be that in many cases only losses will be attributed to market jurisdictions, including in EMDEs.

In January 2019, the G-24 Working Group on tax policy and international tax cooperation submitted a third proposal based on the concept of significant *economic* presence (SEP) in considering the nexus for taxation. The proposal enumerates the conditions which would constitute SEP. The G-24 proposal also suggests different methodologies which could be considered for the allocation of profits. The two alternatives are a) a small withholding tax (1%) applied to a proxy such as gross sales or transactions, and ii) a fractional apportionment, which could be obtained by the firm by providing all relevant information to the local tax authority. In such a case, the enterprise could claim a refund for the withholding applied in excess of the tax allocated under the fractional apportionment. From a developing country tax administrator's perspective, the G-24 proposal is much easier to enforce than the other two proposals.

The three proposals were circulated for public consultation in March 2019. The next steps include a discussion of the proposal that will be taken forward for further work at the meeting of the Inclusive Framework Steering group in April and the Inclusive Framework meeting in May. It is expected that the consensus -proposal for a multilateral solution for taxation of digital enterprises will be presented in 2020.

Reshma Sheoraj talked about the opportunities and challenges associated with the growth of the digital economy and South Africa's experience. South Africa is being proactive in creating a sustainable space for the digital economy to thrive while ensuring that there are no potential fiscal revenue losses. South Africa's new (draft) VAT regulations on Electronic Commerce propose to extend the scope of inbound electronic services that are subject to VAT to potentially every service provided by means of an electronic agent, electronic communication or the internet. They also propose that intermediaries (e.g. Amazon or eBay) that permit smaller entities and individuals to supply services through their platform, register as VAT vendors and account for the VAT in South Africa on sales made through such intermediaries.

South Africa advocates for more collaboration between standard-setting agencies and development partners in this area. It values the work that has been undertaken by the G-24 in this area and sees the G-24 as a platform to articulate the needs of low and middle-income countries and to influence stakeholders and standard-setters to take developing country perspectives into account.

Manuel Montes mentioned that the South Centre has its own position on the taxation of the digital economy which is congruent to that of the G-24's position. He drew two bigger implications from the efforts in this area. To fight corporate tax avoidance, it is important to look at the standards at which the tax liabilities are determined. The problem is that a lot of the transactions that corporates undertake to reduce their tax liabilities are perfectly legal under the OCED standards—and the OECD standards can sometimes be very disadvantageous for developing countries. The enforceability of standards is also important. There are, for instance, at least two developing country approaches to transfer pricing that the OECD does not recommend but are simpler to enforce. In this context, he mentioned that the South Centre holds an annual forum of tax administrators from developing countries to discuss and share experiences. The goal is also to build the legitimacy of the body to be taken seriously in international fora.

Sanjeev Gupta highlighted the advantages that can be exploited from the digitalization of the economy, for instance by enabling third party reporting to improve tax collection, better targeting of expenditures, and strengthening tax administrations.

Floor discussions: A question was raised regarding the implications of the proposal for bilateral tax agreements and double taxation issues, to which Ms. Quinones responded that whichever proposal the OECD adopts will be reflected in the MLI (the instrument designed to modify all bilateral tax agreements). There was also a question as to whether any analysis had been done on the potential impact of the 1%

withholding tax on companies' profits-- as it would be important to balance tax revenue considerations with considerations of the tax burden on firms. Ms. Quinones said that such analyses will be undertaken, and the withholding percentage will be fine-tuned accordingly. Some preliminary work with a sample of companies suggests that a substantial part of the taxes that currently accrues to advanced economies would be shifted to developing countries, and that this would be a shifting of tax payments rather than resulting in higher tax burdens for the firms.

Session 5: Ensuring Adequate Social Safety Nets
Moderator: Mr. Jafar Mojarrad, Executive Director, IMF

Sanjeev Gupta discussed the Fund's approach to social safety nets in its policy advice and programs. Regarding definitions, it should be noted that the Fund's definition of SSN is broader than that of the World Bank's as it includes budgetary allocations for social spending (including health and education) and the Fund uses the terms social safety nets, social safeguards, and social protection interchangeably.

The instruments used for SSN's have included: i) protecting or creating fiscal space for social spending through floors; ii) social benefits and transfers (including through conditional and unconditional cash transfers) and generalized or targeted subsidies; iii) social security programs (old age, disability); iv) unemployment assistance/minimum wage; and v) active labor market policies. The choice of instruments used has depended on the availability of fiscal space, country preferences, appropriateness and adaptability of existing instruments and administrative capacity.

Empirically social spending has increased at a faster pace, or remained protected, under Fund programs. Over the medium-term however, spending floors appear to be ineffective in raising spending. On the other hand, structural conditionality such as arrears payment or accounting and financial reporting has a lasting impact on increasing social spending. Conditionality on increasing public investment is found to exert a downward pressure on the share of health spending, implying a tradeoff between spending categories.

According to IMF estimates, meeting the SDG agenda in the five key sectors (education, health, roads, electricity and water and sanitation) by 2030 will require additional spending of 15 percentage points of GDP in LICs and four percentage points in EMs. For LICs this means that the tax-GDP ratio must rise by five percentage points each year, and the remainder of the financing needs will need to come from public and private sources. This raises the question of how the SDG target 1.3 will be financed.

Margaret Grosh presented the Bank's engagement in social protection (comprising non-contributory social assistance, social insurance and active labor market policies). There has been a significant increase —with respect to the number of countries as well as programs—in social assistance (both conditional and unconditional cash transfers) supported by increases in expenditures at the country level. An increasing number of countries have also introduced non-contributory social pensions. However, the informal sector, which averages almost 65% of employment in low- and middle-income countries, remains a challenge—although there has been some modest progress in insuring informal sector workers.

There are choices and tradeoffs involved in social protection—coverage, adequacy of benefits, incentives, and fiscal sustainability are all elements that need to be considered. These choices need to be made in highly varied contexts—chronic poverty, economic crisis, energy subsidy reforms etc. Choices are also likely to be influenced by different approaches—for example, whether one gives more weight to growth and efficiency considerations, poverty and social justice, or human rights. The World Bank's approach is that, in the face of resource constraints, a country should begin by targeting the poor.

Fabio Duran-Valverde provided the ILO's perspectives on social protection. Approaching the issue from a human rights perspective, there is a need for a comprehensive approach to social protection systems with an aim towards achieving universal coverage.

The ILO strategy for the extension of social protection can be thought of as a ladder in which the base is a social protection floor that provides access to essential health care and basic income security for all, on top of which social security benefits of guaranteed levels can be given to households with slightly higher incomes. Finally, voluntary insurance can be offered to households at higher income levels. Social protection floors are affordable for most countries: the cost of cash transfers range from around three percent of GDP in SSA to less than one percent of GDP in East Asia.

In the G-24 countries, there is a very wide variation among countries in for example i) the percentage of people above the statutory retirement age receiving old age benefits; ii) active contributors to social security in the total labor force; iii) expenditures on public social protection as a percentage of GDP.

Simone Cecchini discussed ECLAC's views on social protection which also looks at the issue from a rights-based perspective—the aim is towards achieving universal coverage with sufficient benefits and targeting is an instrument to be used in the face of scarce resources. His presentation focused on the state of social protection systems in Latin America and the Caribbean. Conditional cash transfer programs cover 130 million people in LAC, with public expenditure averaging around 0.37% of GDP. Social pensions cover 25% of persons aged 60 and above, with public expenditures amounting to an average of 0.65% of GDP. In terms of coverage of contributory social protection, LAC has also made progress, although inequality persists in terms of income and gender. There has been a significant expansion of labor and productive inclusion programs in the region, with public expenditure on these estimated to average 0.45% of GDP.

In most LAC countries, non-contributory social protection is found to have a greater impact on poverty gap and severity than the headcount index (the percentage of population falling below the poverty line).

Nikita Cespedes provided an account of the Peruvian experienced in social assistance, with particular reference to those programs focused on poverty. Peru has been very successful in reducing the poverty rate from 60% in 2001 to 21% in 2017; it is estimated that 80% of this reduction has been due to the sustained economic growth that Peru has achieved in recent years, and 20% due to the whole set of social assistance programs introduced in the last decades. Total expenditure on social assistance amounts to 1.4% of GDP.

The Peruvian Conditional Cash Transfer program, Juntos, introduced in 2005, was a breakthrough program and now covers around 40% of the poor. Another important step the introduction of the National Development Strategy and Social Inclusion in 2015 which placed all social assistance programs under the executive direction of only two Ministries. This enhanced the efficiency in terms of policy interventions. This strategy takes a life cycle approach focused on the poor in rural areas. Most recently, however, the poverty rate has increased. This has prompted the Government to introduce a new Strategy which, while having many of the elements of the older strategy, will now cover both urban and rural poor.

Mr. Adrian Armas, Chief Economist of the Central Reserve Bank of Peru delivered the closing remarks.