A Rocky Road to Hamburg: B20 Highlights Need for more Decisive Actions

B20 Evaluation of the Baden-Baden Communiqué of the G20 Finance Ministers and Central Bank Governors

Following the meeting of G20 Finance Ministers and Governors of Central Banks in Baden-Baden on 17/18 March, the B20 welcomes progress on the ambitious G20 work program, particularly the references to guaranteeing financial stability and balanced growth. However, the B20 is disappointed with the declarations on trade issues. A strong commitment to open and inclusive markets as well as the protectionism standstill and rollback would have been of great importance in view of rising uncertainties. The way to Hamburg will remain rocky. The B20 calls on the G20 to take more decisive actions.

Trade and Investment

The B20 welcomes the G20's reaffirmed commitment to international economic cooperation and the overall goal of achieving "strong, sustainable, balanced and inclusive growth, while enhancing economic and financial resilience." In this context, the B20 particularly welcomes the acknowledgement that trade is central to economic development and the special emphasis placed on inclusive growth, which is a key theme of this year's B20. The B20 also welcomes the "Note on Resilience Principles in G20 Economies" and its notion to promote trade and investment openness.

However, the B20 is disappointed that there has not been a clear statement against protectionism. A strong commitment to trade as an engine for growth, prosperity, and innovation as well as against protectionism is very much needed – even more so in the current context of increasing geopolitical uncertainty and anti-globalization sentiment. The World Trade Organization (WTO) has highlighted over 1,600 new trade-restrictions introduced by G20 members since 2008, of which more than 1,200 are currently in force.

Trade promotes global prosperity. Between 1990 and 2014, world trade increased about fivefold, with global per capita income growing by a factor of 2.5. This had a very real and positive effect on people's lives: hundreds of millions of people have been moved out of poverty, with increasing incomes, welfare, and living standards. At the same time, an increasing number of communities feel they are on the losing end of greater competition as well as shifting production and demand patterns. More and more people find it hard to adapt to a rapidly changing world.

The B20 calls on the G20 to reaffirm its strong commitment to open and inclusive markets as well as to the standstill and rollback agreement on protectionism. At the same time, governments need to ensure that trade and investment are not merely free but also enable people to seize opportunities in a changing world, by ensuring social safety nets and strengthening efforts to improve education and lifelong learning. The B20 also calls on the G20 to reiterate its support for the WTO and its multilateral, rules-based trading system, including its dispute settlement mechanism. Given the changing nature of global trade, global rules should be modernized, paying greater attention to digital trade as well as investment facilitation. The G20 should also commit to concluding the unfinished business of the WTO's Doha Round. Only a modern, rules-based, global trade system will ensure that trade benefits all.

Financing Growth and Infrastructure

The B20 welcomes the confirmation by the G20 of its commitment to international economic and financial cooperation. The B20 agrees that "all policy tools have to be used – monetary, fiscal and structural – individually and collectively to achieve our goal of strong, sustainable, balanced and inclusive growth, while enhancing economic and financial resilience". The B20 also welcomes the support from Finance Ministers and Central Bank Governors to strengthening the international financial architecture.

The B20 agrees with the G20 that an open and resilient financial system is crucial to supporting sustainable growth and development. The B20 welcomes that the Finance Ministers and Central Bank Governors reaffirmed their commitment "to support the timely, full and consistent implementation and finalization of the agreed G20 financial sector reform agenda." The B20 also appreciates the endorsement of the Financial Stability Board (FSB) policy recommendations to address structural vulnerabilities.

The B20 believes in the importance of a well-functioning global financial system. International financial standard-setting bodies, such as the Basel Committee on Banking Supervision (Basel Committee), the FSB, the International Organization of Securities Commissions (IOSCO), the Financial Action Task Force (FATF) and the International Association of Insurance Supervisors (IAIS), have an important role to ensure resilient financial markets. At the same time, the B20 would also like to highlight the unintended consequences of financial regulatory reform. All international financial standards should be designed based on an explicit cost/benefit analysis, taking into account both financial stability and growth objectives. The economic consequences of proposed standards, between and within various jurisdictions, should be evaluated before their adoption.

The B20 endorses the views expressed by the Finance Ministers and Central Bank Governors confirming their support for the Basel Committee on Banking Supervision's (BCBS) work to "finalize the Basel III framework without further significantly increasing overall capital requirements across the banking sector, while promoting a level playing field". The B20 nonetheless remains concerned that the finalization of Basel III will have unintended consequences on already subdued economic growth and calls on the G20 to ensure that the BCBS complies with the mandate given by the G20. To ensure that the proposals are workable in terms of their impact on market liquidity, breadth, and depth, the FSB should carry out a Quantitative Impact Study. This would enable the final accord to appropriately address any unintended consequences and lead to a more effective framework globally.

The B20 welcomes the Finance Ministers and Central Bank Governors' support for "the FSB work to develop a structured framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms" to be presented by the time of the Leaders' Summit in July 2017. The B20 encourages the G20 to pay closer attention to policy coherence to avoid divergences between national regulations when implementing international standards. The G20 should mandate the FSB to set up a more formal mechanism for continuous and systematic cross-border dialogue with and between national regulators, including addressing possible unintended consequences of conflicting objectives across regulation.

The B20 welcomes the reference made to financial inclusion. Two billion individuals and 200 million businesses in emerging economies lack access to savings and credit. This is particularly the case in Sub-Saharan Africa, where more than 70 percent of the adult population is without access to formal financial services. Financial inclusion is a key enabler of reducing poverty and boosting prosperity. The B20 supports the encouragement of the Finance Ministers and Central Bank Governors that "G20 and non-G20 countries (...) take steps to implement the G20 High-Level Principles for Digital Financial Inclusion". The B20 shares the assessment that financial literacy needs to be strengthened. The B20 welcomes that the Finance Ministers and Central Bank Governors called for improving the environment for SME Financing while continuing to encourage non-G20 countries to join this effort.

The B20 notes that the Finance Ministers and Central Bank Governors reaffirmed their commitment to working towards a globally fair and modern international tax system and a timely, consistent and widespread implementation of the Base Erosion and Profit Shifting (BEPS) package. However, more attention should be paid to the issue of tax certainty. The consistent implementation of the BEPS measures is key to addressing uncertainty. To minimize compliance burden and any negative impact on global value chains, participating members should avoid national "gold-plating". Overall, the G20 members should enhance the certainty of tax systems to support a stable international tax environment by prioritizing consistency, simplification, support for investment, and capacity building in tax authorities.

The B20 welcomes the recognition of the role of the private sector to drive sustainable economic development given scares public resources and the work of the Multilateral Development Banks (MDBs) on mobilizing private capital. The B20 supports the call by the Finance Ministers and Central Bank Governors on MDBs to finalize the Joint Principles by the next meeting and develop ambitions on crowding-in private finance by the Leaders' Summit in July 2017. However, the B20 would also like to see a clearer focus on the construction phase of infrastructure projects and enhanced exchange with private stakeholders. The B20 calls on the G20 to encourage MDBs to develop common evaluation guidelines, so that they can be true enablers of added value projects.

The B20 is disappointed that the Communiqué does not address the issue of green finance, i.e. financing of investments that provide environmental benefits in the broader context of environmentally sustainable development. In November 2016, the COP21 Paris Agreement entered into force. To fulfil the agreed "well below two degrees" goal, substantial investment in renewable energy and energy efficiency is necessary. Green Finance can also play a crucial role in fulfilling the UN Sustainable Development Goals (SDGs).

The B20 would like the G20 to encourage global policy-makers to calibrate regulatory and prudential market-based frameworks to address disincentives for long-term green investment and to support their allocation to Green Finance. The G20 and G20 members should foster the growth of green finance markets through commonly accepted terminologies and concepts, improved publication of information, as well as encouraging the development of international standards for proportionate and consistent market regulation. On climate-related financial disclosure, G20 members should build on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and work towards its implementation, in particular through harmonized metrics endorsed by relevant industries and associations.

Energy and Climate

The B20 welcomes the continued commitment of the G20 finance ministers and governors to phase out fossil fuel subsidies and to establish a peer review of subsidies that support unnecessary consumption, also recognizing the need to support the poor.

However, the G20 had already committed to phase out inefficient fossil fuel subsidies over the "medium term" in 2009, with little real follow-up action. In addition to extending voluntary peer reviews to all G20 members, setting the time-frame and the scope of the fossil fuel subsidy phase out represents a key opportunity for G20 members to demonstrate their commitment to the Paris climate ambitions. Inefficient fossil fuel subsidies create a negative carbon price and represent a massive barrier to shifting infrastructure investment towards low carbon-emitting infrastructure.

Therefore, we call upon the G20 to agree on a concrete timeline for the phase-out of inefficient fossil fuel subsidies and to report progress on an annual basis. In this context, G20 members should commission international organizations (such as the IMF, OECD, or the IEA) with collecting fossil fuel subsidy data, analyzing the efficiency of the subsidy (such as on employment, income distribution, and energy security), and monitoring as well as reporting progress.

In addition, the G20 should discuss best practices regarding the redistribution of the savings from fossil fuel subsidy reforms. Possible options are financing climate change mitigation and adaptation measures, scaling up R&D support for climate-friendly technologies, or providing compensation for trade-exposed energy-intensive sectors. The G20 should also discuss options of how to ensure a fair transition to protect the poor from high energy prices and to manage the workforce transition that might arise due to the energy transition.

Finally, the G20 should discuss carbon pricing as a means to both implement the Paris Agreement, especially Article 6, and deliver on its climate finance commitments. The B20 therefore calls for an intergovernmental G20 Carbon Pricing Platform as a forum for strategic dialogue to create a basis for global GHG emissions pricing mechanisms.

Digitalization and Finance

The B20 welcomes the G20's commitment to increase connectivity. The B20 recommends fostering affordable broadband access for all, hence strengthening global connectivity. In that regard, the B20 urges the G20 members to encourage private investment by considering the established and important principle of technological neutrality, as well as through a simplified, market-oriented, and transparent regulatory environment. Measures must take into account the needs and requirements of businesses of all sizes.

The B20 also notes the recognition by the Finance Ministers and Central Bank Governors of the role of technologically enabled financial innovation (FinTech) and supports the FSB work on the identification, from a financial stability perspective, of key regulatory issues associated with FinTech. While the G20 encourages the close monitoring of cross-border issues related to digital finance, it is not clear what is meant by monitoring and what action it would entail. The B20 therefore calls on the G20 to provide further information on its expectations and intentions in this area. Digital finance has great potential to enhance financial inclusion. It could provide 1.6 billion people in emerging economies with access to financial services, more than half of them women. It has the potential to transform the economic prospects of billions of people, reduce poverty, empower women, and help build stronger institutions. However, accessibility, usability, affordability, and sustainability remain challenges. The B20 therefore asks the G20 to more strongly promote digital finance, while at the same time finding a balanced regulatory approach, which ensures financial market stability. The B20 believes the Finance Ministers and Central Bank Governors should mandate the FSB to facilitate a dialogue on RegTech between financial institutions, regulators, and business stakeholders in order to appropriately address compliance requirements, tackle challenges, and agree on possible solutions.

The B20 welcomes the acknowledgement of the importance of cybersecurity by the G20. The B20 recommends that the G20 improves cyber-risk management by encouraging the development of a harmonized cybersecurity baseline framework, establishing a global interoperable information-sharing platform concept under OECD guidance, and support a process leading to norms for responsible state behavior. The B20 emphasizes that the issue of cybersecurity goes beyond financial services and is of high relevance for all economic sectors. Therefore, the G20 should make cybersecurity a permanent agenda item.

Investing in Africa

The B20 strongly welcomes the initiatives geared towards “international economic and financial cooperation with African countries to foster sustainable and inclusive growth in line with the African Union’s (AU) Agenda 2063.” The B20 welcomes “the intention of Côte d'Ivoire, Morocco, Rwanda, Senegal, Tunisia, the AfDB, IMF and WBG, and interested bilateral partners to work on investment compacts and develop strong investment climates”.

The African continent remains the second fastest growing economic region, after East Asia. According to the African Economic Outlook 2016, the continent’s average growth is expected to be 3.7 percent in 2016 and pick up to 4.5 percent in 2017, provided the world economy strengthens and commodity prices gradually recover. Yet, two-thirds of the investment required in urban infrastructure to 2050 has not yet been made. And per-capita growth is too slow to accommodate the continuously increasing African workforce. To seize existing opportunities, businesses need adequate framework conditions to invest.

The B20 would like to emphasize the opportunities of digitalization for the socio-economic development of African countries. The rapid advancement of digital technologies requires targeted and cooperative action to prevent a digital divide, both between and within countries. Respective investments should build on previously initiated development frameworks. Generally, ICT infrastructure investments can serve as a powerful horizontal enabler.

Investment in energy infrastructure is another area with considerable positive effects on economic growth and development. As pointed out in the SDGs, reliable and affordable energy services are a precondition for the functioning of modern societies. Energy access will be paramount for attaining the aspirations of the African Union's (AU) 2063 Agenda. The Compact with Africa should define policies that African countries could adopt to attract foreign private investment, such as clear rules to ensure the enforcement of commercial law, transparency in procurement, efficient and transparent PPP governance, and effective banking systems. Furthermore, the G20 should identify ways for enabling African countries to mobilize their own public and private domestic resources to invest in energy projects.

Business 20

The Business 20 (B20) is the official G20 dialogue with the global business community. On September 4, 2016, the leading German business associations BDI, BDA, and DIHK, mandated by the German Chancellery, assumed the B20 presidency. The Chair of B20 Germany is Dr. Jürgen Heraeus.

Since September 2016, more than 700 representatives from companies and business association developed recommendations for the G20 on a consensual basis. B20 Germany is organized in seven working groups: Trade and Investment, Energy, Climate & Resource Efficiency, Financing Growth & Infrastructure, Digitalization and Employment & Education, Responsible Business Conduct & Anti-Corruption and SMEs. In February, the B20 Health Initiative was launched. Each group is headed by a chair and several co-chairs. The approximately 100 members of each group represent all G20 members and economic sectors.

B20 Germany

www.b20germany.org
b20germany@b20germany.org