International Financial Architecture

G20 Commitments

Fiscal Transparency, Illicit Financial Flows, Taxation and Inequality

The G20 have committed to enhancing transparency as a tool in the fight against illicit financial flows, by: (i) advancing beneficial ownership transparency of legal persons and trusts; (ii) implementing automatic exchanges of information, and (iii) considering defensive measures against jurisdictions that do not comply with international standards on tax transparency.

The G20 have committed to addressing the taxation of the digital economy and to working for a globally fair and modern international tax system, implementing the OECD Base Erosion and Profit Shifting Reports (BEPS Reports) and supporting developing countries in building their tax capacity.

Financial Regulation, Financial Inclusion and Debt

The G20's 2008 promises to ensure effective regulation of the whole of the financial sector have not been fulfilled. G20 summit commitments include regulating too big to fail banks and addressing the risks from shadow banking so that they cannot disrupt the financial system. The G20 agenda now focuses mainly on implementation and tackling related effects such as problems with remittances.

To avoid over-indebtedness, the G20 has adopted the Operational Guidelines for Sustainable Financing. These commit G20 lenders to share more information with the IMF, but not media, parliaments and civil society. In 2019 the G20 is discussing measures to enhance debt transparency and ensure debt sustainability.

Challenges

Fiscal Transparency, Illicit Financial Flows, Taxation and Inequality

Tax havens, especially major financial centres, continue to offer secrecy provisions and are not being compelled to improve towards automatic exchange of information, beneficial ownership registration and country-by-country reporting (the ABC of fiscal transparency).

The international financial and tax systems have failed to solve the increasing inequality between countries and within countries. Digitalisation has exacerbated the fundamental flaws of the international tax regime, further facilitating tax avoidance by multinationals. The proposals resulting from the BEPS Reports have patched up existing rules, but have not ensured that multinationals will be taxed 'where economic activities occur and value is created'. There is also growing evidence confirming that tax systems are not gender neutral.

Financial Regulation, Financial Inclusion and Debt

The finance sector is far bigger and more interconnected today than it was before the crisis, with a significant rise of the asset management industry. Shadow banking is still not adequately regulated but anti-money laundering measures have resulted in restrictions and the financial exclusion of non-profit organisations. Hyper-financialisation of the global economy continues to advance while specific financial needs of developing countries remain unaddressed. It augments existing inequalities, exacerbating women's structural limitations in gaining access to finance. Overall, finance continues to evolve in directions not consistent with the sustainable development imperatives for people and planet. Increased financial risks, financial market volatility, and downward economic forecasts all generate concerns for new financial instability and a global crisis. Additional challenges come from investments needed to tackle climate change and disinvestment in unsustainable activities. This requires the G20 to take concerted and bold action, beyond the cautious steps and watered-down regulations in place so far, in a context marked by de-regulation and lack of international cooperation.

The past months have exposed the worrisome combination of commodity price, interest rate and exchange rate shocks and currency instabilities. This raised debt payments and increased risks of unsustainable debt levels in many countries. The variety of creditors and types of debt makes debt restructuring and default resolution more difficult.

Recommendations

Fiscal Transparency and Illicit Financial Flows

The G20 should introduce a proposal within a truly democratic institution where all countries have an equal voice in developing a multilateral Convention establishing minimum standards, including a requirement for all countries to:

a) Implement the OECD's Common Reporting Standard for Automatic Exchange of Information, to exchange information with all interested parties (including non-reciprocal exchanges with developing countries during a transition period, if necessary). In addition, to publish statistics on the total values of deposits held in their territories by jurisdiction of origin of the account holders (at the legal and beneficial ownership level of the account holder);

b) Establish beneficial ownership registries for all legal vehicles (e.g., companies, partnerships, trusts, foundations) to be publicly accessible online and for free, in an open data format, and to ensure that registered information will be verified;

c) to publish country-by-country reports of all multinational enterprises headquartered in their territories to be publicly accessible online and for free, in an open data format;

d) Establish collective counter-measures (developed with inputs from countries of the Global South and civil society organisations) against non-cooperative jurisdictions, starting with major financial centres, while allowing more time and providing technical and financial assistance to low-income countries.

Taxation and Inequality

G20 Countries should commit to achieving comprehensive taxation reforms fit for the 21st century to ensure all companies and high-net worth individuals pay due taxes, not just a patch-up applied to a few large highly digitalised multinationals, including by:

a) Developing a new definition for taxable presence based on significant economic presence combined with a holistic approach in attributing profits to relevant jurisdictions in order to take into account the combined contributions of all the affiliates of a multinational enterprise within each jurisdiction;

b) Agreeing principles for allocation that would be (i) fair, by balancing production and consumption factors, and (ii) easy to administer, reducing compliance costs for both taxpayers and tax administration and providing certainty for business.;

c) Accepting all the BEPS' Multilateral Instrument provisions, or publicly explaining their reasons for any reservations;

d) Undertaking spill-over analyses, where they assess the tax impact of their own tax system and bilateral tax treaties in relation to other countries, especially developing countries.

e) Undertaking gender analysis of tax measures and addressing gender barriers and gaps.

f) Developing a global asset registry to allow for measuring inequality, identify illicit financial flows (people who cannot justify the origin of their wealth), and apply wealth taxes, as appropriate.

Financial Regulation and Financial Inclusion

As a self-proclaimed guardian of global financial stability, the G20 needs a new strategy of global cooperation to prevent new global financial risks and crises, In addition, it should promote further financial reforms to ensure that the banking sector, and the financial system as a whole, support sustainable societies and economies, and adapt to developing countries' financial priorities, including SDGs. The G20 can agree on particular measures thereto, including:

a) Abstaining from unilateral deregulation measures and urgently further regulate Systemically Important Financial Institutions (SIFIs) to reduce their size, interconnectedness and complexity;

b) Undertake measures against new systemic threats and financial risks by strictly monitoring, regulating, supervising and limiting renewed expansion of securitisation and derivatives trading, unregulated shadow banking, concentration of credit rating agencies and the rapid development of fintech; ensuring, in addition, that entities that issue trade or exchange crypto-currencies (e.g. bitcoins) apply customer due diligence and anti-money laundering provisions to identify the beneficial owners of such crypto-currencies.

c) Addressing volatile financial outflows that negatively affect currencies of emerging and developing countries, by coordinated and effective capital flow management by central banks, flexible interpretation of the IMF's institutional view on capital flow management to adapt to external circumstances and discourage 'hot' inflows before crises occur, and revise articles in trade and investment treaties that forbid a flexible management of capital flows;

d) Reversing the financial exclusion of non-profit organisations (NPOs) due to risk and cost aversion by banks in order to comply with anti-money laundering and counter-terrorism financing (AML-CTF) laws, by effective steps by G20 states in collaboration with the Financial Action Task Force (FATF), the Global Partnership for Financial Inclusion (GPFI), the World Bank, and NPO experts.

e) Agreeing on coordinated measures and international standards that prudently direct financial flows to support the Paris Agreement, achieving the Sustainable Development Goals (SDGs) and promoting inclusive pro-poor economic development, amongst others, by:

- Designing, implementing, and promoting policies and regulations to re-orient investment and loans to socially and environmentally beneficial activities and companies,
- Introducing a legally binding duty on investors and banks to incorporate social and environmental impact in their risk assessments and investment decisions; such an impact assessment duty should also apply to central bank monetary policy,
- Ensuring that all large companies report at least according to the Financial Stability Board's initiated climate-related financial risks disclosure (TCFD),
- Introducing national and multi-jurisdictional International Solidarity Levy, including Financial Transactions Taxes (FTTs) and Solidarity Levy on Air Tickets, to finance SDG implementation and reduce the speculative nature and high frequency trading of financial assets (applying progressively larger levies depending on price volatility).

f) Agreeing on standards that promote a more diverse banking system in all countries, including state-owned and development banks at the regional and local levels, as well as cooperatives, savings and ethical banks and non-profit institutions. The banking system should address the gender barriers and gaps in women's financial inclusion, and ensure finance to rural economy, small and medium enterprises, non-formal sector and poor and marginalised people at large.

g) G20 Finance Ministers in addition to dialogues with the B20, should also consult with a broader range of stakeholders, particularly the C20, in pursuit of promoting the public interest in the financial architecture and discussions to reform it.

Debt

Bold action is needed to prevent debt crises from increasing poverty and inequality, including:

- Renewed discussions should begin to establish an independent, multilateral and transparent debt restructuring mechanism, to ensure timely and orderly debt crisis resolution and comprehensive creditor coordination as well as to prevent negative fiscal and social impacts of protracted debt crises.
- Debt sustainability assessments should cover all debt risks, including those coming from domestic debt, private external debt, Public-Private Partnerships and bonds issuance from "infrastructure as an asset class", and include key metrics such as total public debt service as a proportion of revenue.
- All loans to governments (of any income level), or with government guarantees, should be publicly disclosed when they are given, so that parliaments, media and civil society can hold governments and lenders to account. To assist in this the G20 should ensure that a publicly accessible registry of loan and debt data is created, commit to disclosing loan details in this registry and pass legislation in all relevant legislatures, to require all lenders to disclose loans to governments in this registry.
- The G20 should further encourage the introduction of state-contingent debt instruments by official and private creditors

Debt owed by the private sector is as, or more, risky than sovereign debt, including when bailouts lead to this debt being passed to the public sector. The G20 should support interventions by governments to manage private debt risks. The increase of corporate bonds calls for standard ('boilerplate') debt restructuring clauses in corporate bond contracts to be reviewed.

Supporting Information

BEPS Monitoring Group submissions; Tax Justice Network's reports on AEOI, BO and CBCR; Latindadd's report on debt; and the Inter-Agency Task Force report on financing for development.