Financing for Sustainable Development Report 2020

Inter-agency Task Force on Financing for Development

United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development. The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective and should thus be read in conjunction with the online annex.

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The production of this report and the online annex of the Inter-agency Task Force are generously supported by the Federal Ministry for Economic Cooperation and Development of Germany.

How to cite this report:

United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2020*. (New York: United Nations, 2020), available from: https://developmentfinance.un.org/fsdr2020.

United Nations publication
Sales No.E.20.I.4
ISBN 978-92-1-101422-8

ADDRESSING SYSTEMIC ISSUES



Chapter III.F

Addressing systemic issues

1. Key messages and recommendations

The international monetary system remains vulnerable to volatility and contagion, such as the recent financial volatility as a result of COVID-19, as well as risks from increased leverage (see chapters I and III.E). Whether these have systemic stability implications depends on the nature of international financial linkages and the timeliness and effectiveness of policy responses.

The financial reforms undertaken in response to the 2008 financial crisis have been instrumental in bolstering the safety of the banking system and addressing the risks, channels and mechanisms related to the crisis. ***Regulatory and supervisory bodies should lead by example in promoting the timely, full and consistent implementation of remaining reforms. This will support a level playing field and avoid regulatory arbitrage.***

Yet, as is normally the case, changes to the financial regulatory system after a crisis tend to focus on preventing a recurrence of past problems, while future shocks may have different causes and transmission channels. Yet, a retreat from multilateralism by some makes coordinated responses to global crises more challenging.

Non-bank financial intermediaries are undertaking an increasing share of financial intermediation, potentially generating new risks that should be understood and addressed. ***Countries should continue to step up efforts to track and regulate financial intermediation based on the function it performs rather than the type of institution involved, including in regards to fintech.*** The financial instruments described in chapter III.B, while helping to finance the 2030 Agenda for Sustainable Development, can also create pockets of leverage that present economic and social risks. The Inter-agency Task Force on Financing for Development (Task Force) will aim to explore these relationships and ways to address the risks in future reports.

Financial technology is contributing to the growth of non-bank financial intermediation and is blurring the lines between settlements, software and credit intermediation/risk-taking. A challenge for policymakers is to manage growing risks without impeding innovation. There is growing experience with regulating fintech, and policymakers can build on the experiences of their peers to inform their decision-making.

One area of rapid innovation is in digital payments and currencies. Cashless economies are on the horizon. Digital payments, such as mobile money, can reduce costs and promote financial inclusion. Both the private sector and central banks are also proposing digital currencies. These could have efficiency benefits, but also have the potential to fundamentally alter the balance of risks and incentives in domestic financial systems, including financial integrity, financial stability, and sustainable development risks. ***Regulations on the operation of private digital currencies should be carefully considered in each jurisdiction, or regional currency zone, with policymakers considering financial stability, financial integrity, consumer protection, privacy, and broader impacts on sustainable development. Central banks considering the issuance of their own digital currencies should design systems that are well adapted to national contexts, and that contribute to sustainable development outcomes.***

Policymakers are also beginning to pay more attention to the interaction of climate change and the financial system. There is increasing recognition that climate risk is financial risk, and these risks need to be incorporated in risk-based regulatory frameworks, building on the advances made in voluntary disclosures. ***Policymakers should adopt global mandatory financial disclosures on climate-related financial risk to support long-term stability of financial systems.*** Some countries are also reforming their financial systems and regulation to ensure both financial stability and alignment with all aspects of the 2030 Agenda. ***Policymakers should also consider developing further policy frameworks and regulatory efforts to promote sustainable financial systems.*** Regulations impact incentives, and can encourage positive change in behaviours, such as promoting financial inclusion and reducing investment in climate-change-inducing or other environmentally risky activities.

The international community has brought together combinations of national and international policies to mitigate risk and cushion financial shocks when they do occur. These policies need constant adjustment if they are to provide sufficient protection against the most devastating kinds of financial crises. New stresses on financial systems can arrive from unexpected sources, much as the spread of COVID-19 in the first quarter of 2020 resulted in a flight to safety and widening spreads on bond yields of developing countries. ***Countries should explore coherent, integrated policy frameworks that bring together monetary, exchange rate, macroprudential, capital flow management, and other policies as part of integrated national financing frameworks (INFFs) to manage excess leverage and volatility in domestic and cross-border finance.*** Effective use of these policies can increase policy space and reduce the need of countries to resort to emergency financing from the global financial safety net. Meanwhile, ***Member States of the United Nations need to work to fill gaps in the global financial safety net, with stronger regional financial arrangements where they are insufficient***.

Finally, ***Member States should consider whether governance arrangements at various international institutions need further reform,*** especially those that have not undertaken reforms in many years. The ambitious 2030 Agenda requires institutions that allow careful consideration of coherence and coordination. This Task Force has become a mechanism to improve inter-agency coherence.

This chapter is divided into three sections: the first discusses international standards of financial regulation, including the implementation and impact of regulatory reforms taken after the 2008 world financial and economic crisis; the next section discusses macroeconomic management and crisis response; and the final section discuss how to strengthen global governance.

2. International standards of financial regulation

Although financial regulation is generally a national responsibility, as the world has become increasingly integrated financially, regulation is best performed in an internationally coordinated manner to prevent regulatory arbitrage. Since the 1970s, an increasing number of national regulators have met to agree on common regulatory standards, which individual countries then implement to a greater or lesser degree. Banking regulation has been strengthened since the 2008 world financial and economic crisis.

Achieving the Sustainable Development Goals will require a shift towards long-term investment and sustainability as a central concern of investment decisions (see chapter III.B). Such a shift demands aligning private and public incentives with sustainable development. Traditionally, financial regulation focused on safety and soundness of the financial sector. In the Addis Ababa Action Agenda, Member States agreed to "work to ensure that our policy and regulatory environment supports financial market stability and promotes financial inclusion in a balanced manner". Financial regulation must still aim at reducing systemic financial risks; however, all regulation affects incentives, and there has been growing attention to the impact of financial regulation on incentives for investment in sustainable development.

2.1 Implementation of agreed reforms

The Group of Twenty (G20) agreed to a number of financial regulatory reforms through the Financial Stability Board (FSB) in the wake of the 2008 world financial and economic crisis, with the final major policy reforms adopted by the global body of bank regulators—the Basel Committee on Banking Supervision—in late 2017. Some additional policy work remains, but most attention has now turned towards implementation of the reforms. Despite progress, implementation of the reforms is not complete and remains uneven.[1]

Large banks are better capitalized, less leveraged and hold more liquidity (figure III.F.1). Implementation of two standards—the leverage ratio and net stable funding ratio—were late in a limited number of jurisdictions, as both were to be implemented in 2018 (figure III.F.2). The supervisory framework for measuring and controlling large exposures, which took effect in January 2019, has been adopted by 10 FSB member jurisdictions, with the remaining 14 not having final rules in place.

Steps have been taken to address financial institutions that are considered too big to fail (TBTF). All developed countries now require that global systemically important banks (G-SIBs) meet targets for external total loss-absorbing capacity (TLAC).[2] Nevertheless, TLAC is just one part of the regulatory and supervisory framework that contributes to preventing insolvency. More work is still needed to operationalize resolution plans for TBTF institutions for when they fail.

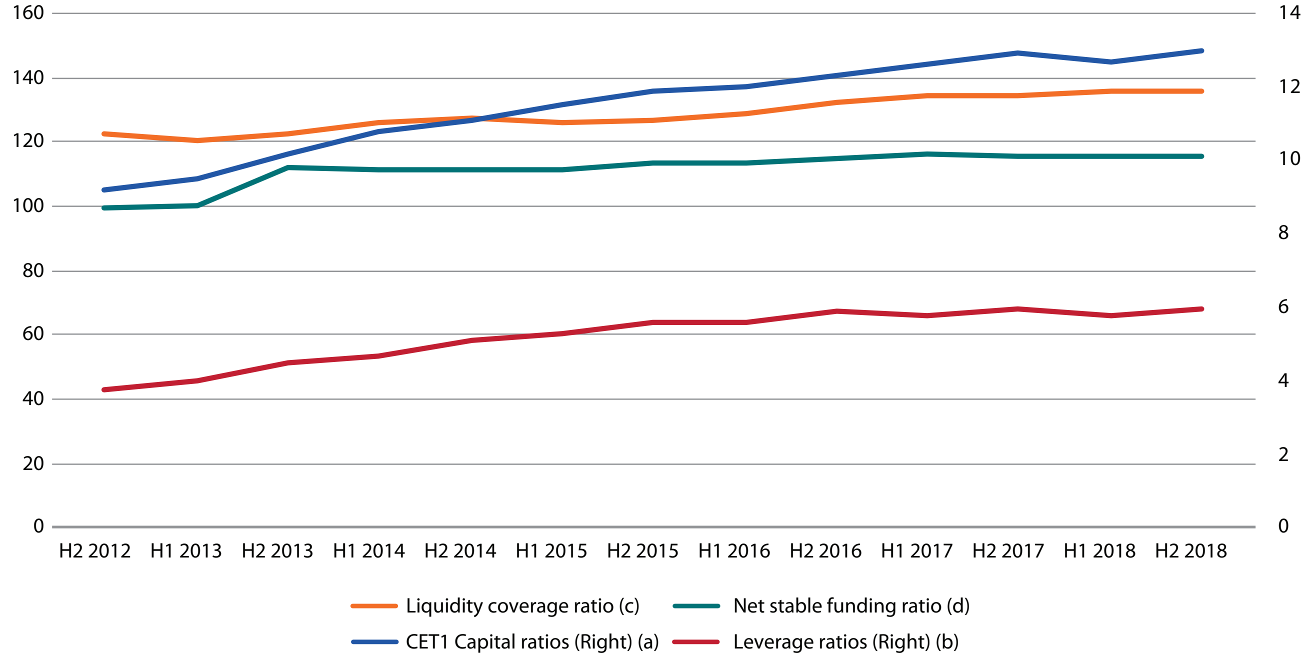
Insurance industry supervisory reforms, such as creating effective resolution regimes, are less advanced, while the sector is also facing new challenges from climate change. The majority of FSB jurisdictions do not have in place comprehensive insurance resolution regimes. The identification of global systemically important insurers (G-SIIs) has remained suspended since 2018 while the International Association of Insurance Supervisors develops a comprehensive framework to try to mitigate systemic risk in the insurance sector.

Derivatives markets have been another focus of regulators. The markets are now simpler and more transparent, although additional progress since 2018 has been limited. Standardized clearing of over the counter derivatives transactions through central counterparties (CCPs) is a pillar of the reform. It important to further strengthen the resilience and resolvability of CCPs. There has also been progress on reporting of derivatives trading to trade repositories (TRs), though challenges include a lack of globally harmonized data, uneven data quality, and access to TR data.[3]

Regulation of non-bank financial intermediaries (NBFIs),[4] including structured finance vehicles, investment funds, money market funds, hedge funds, broker-dealers, trust companies, and other non-bank and non-insurance lenders, has also been on the FSB agenda. These entities currently bear a greater share of financial risk (see chapter I) and can be important connectors that spread risk and volatility to other parts of the financial system.

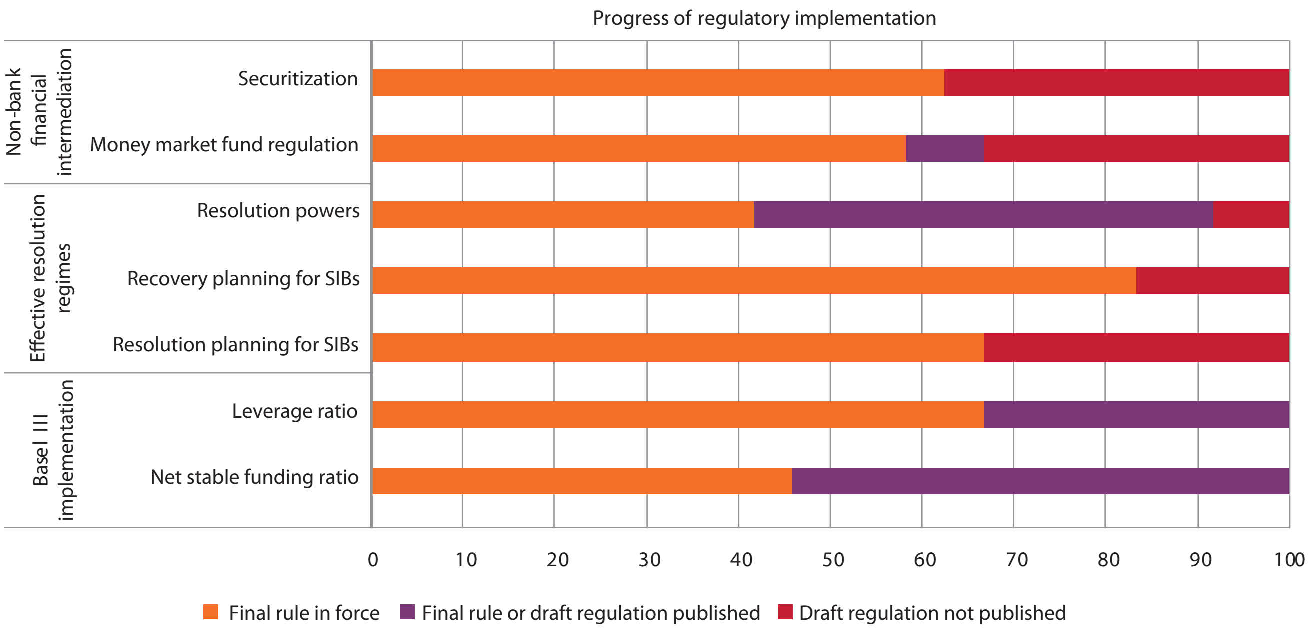
FSB members have adopted an internationally agreed NBFI monitoring framework and have advanced regulatory standards on two components

Figure III.F.1
Bank capital and liquidity provisions, 2012–2018
(Ratio, percentage)



Source: BCBS.
Note: (a) 81 banks, (b) 63 banks, (c) 69 banks and (d) 85 banks

Figure III.F.2
Progress of regulatory reform implementation, 2019
(Percentage of FSB member jurisdictions)



Source: FSB.
Note: For systemically important banks (SIBs), the six European Union members of the FSB are presented as separate jurisdictions.

of the universe: money market funds and issuance of asset-backed securities. Implementation of money market fund standards is most advanced in the countries hosting the largest markets for these funds. Measures to better align the incentives of institutions issuing asset-backed securities with the risks embedded in the securities have been implemented in the jurisdictions issuing the vast majority of them, where issuers are obliged to (directly or indirectly) retain typically 5 per cent of the credit risk of the securitization.[5] However, new products with similar risk profiles are continually developed, and application of the risk-retention rules to different product categories is not uniform. For example, in one systemically important country, while a bank creating a collateralized loan obligation (CLO) from its own portfolio of leveraged loans would be subject to risk retention, an open market CLO which is created by a third party would not be subject to the 5 per cent risk-retention rules.

Implementation of reforms in other policy areas is at an earlier stage. Vulnerabilities in asset management are the subject of ongoing standards implementation by securities regulators through the International Organization of Security Commissions (IOSCO). IOSCO and the FSB will assess if these recommendations have been implemented effectively by mid-2021 and the FSB will report back to the G20.

2.2 Impacts of reforms and risk factors

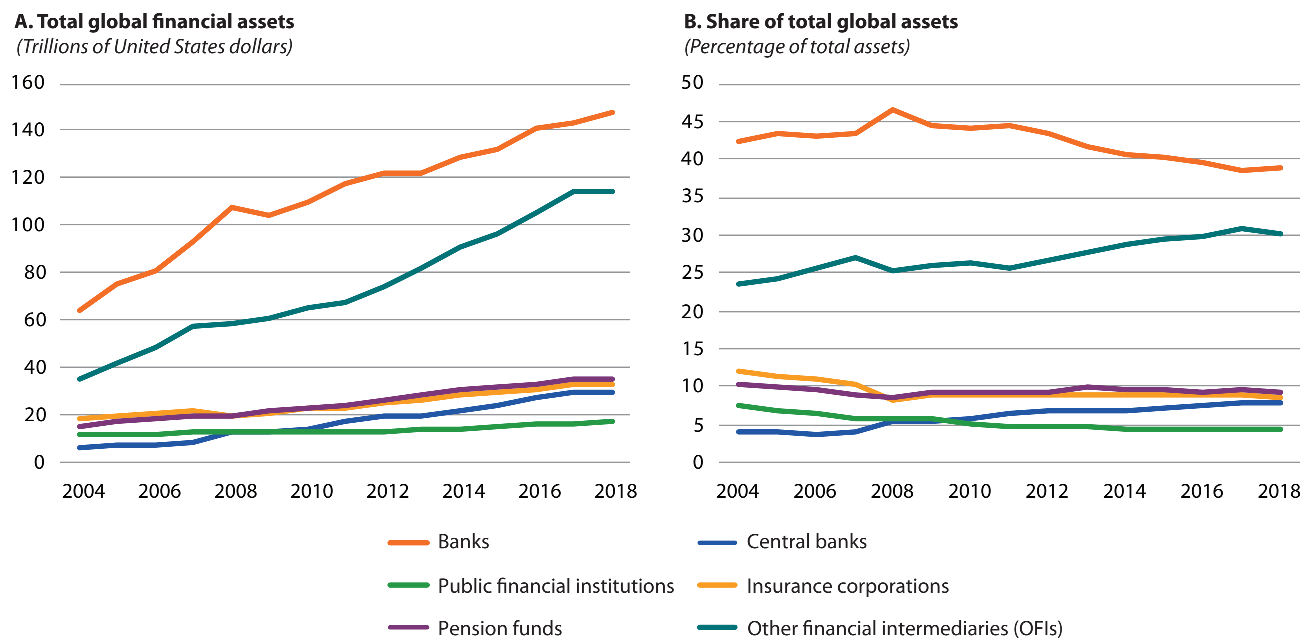
Total global financial assets have continued to increase since the global financial crisis (figure III.F.3). As noted in chapter I, risk in the financial sector has declined since the global financial crisis, while risk may have increased in NBFIs during the period of high global liquidity. Within the banking system, large banks are better capitalized, less leveraged and hold more liquidity than prior to the crisis. A remaining risk factor in the banking sector is the growth of systemically important banks' share of global banking assets, which has increased in recent years as the large banks continue to become ever larger and more complex.[6] This reemphasizes the importance of work to operationalize resolution plans (see section 2.1). The FSB is in the process of evaluating the effects of TBTF reforms for systemically important banks, and will launch a public consultation in June 2020.

Table III.F.1
Classification by economic function for monitoring NBFIs

	Definition	*Typical entity types*
EF1	Management of collective investment vehicles with features that make them susceptible to runs	Money market funds, fixed income funds, mixed funds, credit hedge funds, real estate funds
EF2	Loan provision that is dependent on short-term funding	Finance companies, leasing/factoring, companies, consumer credit companies
EF3	Intermediation of market activities that is dependent on short-term funding or on secured funding of client assets	Broker-dealers, securities finance companies
EF4	Facilitation of credit creation	Credit insurance companies, financial guarantors, monolines
EF5	Securitization-based credit intermediation and funding of financial entities	Securitization vehicles, structured finance vehicles, asset-backed securities

Source: FSB.
Note: The entity types listed should be taken as typical examples, not a comprehensive list.

Figure III.F. 3
Assets of financial intermediaries, 2004–2018



Source: FSB.
Note: Based on 21 jurisdictions plus the Euro area; banks includes all deposit-taking corporations; share of total calculated as a weighted average based on total national financial assets.

Box III.F.1
Impact of regulatory reform on small and medium-sized enterprise financing

In November 2019, the Financial Stability Board (FSB) published an evaluation of the effects of financial regulatory reforms on financing of small and medium-sized enterprises (SMEs) in FSB jurisdictions.[a] The evaluation was motivated by the need to better understand the effects of the reforms on the financing of real economic activity and their contribution to the of the Group of Twenty (G20) objective of strong, sustainable, balanced and inclusive economic growth. Given that banks are the primary providers of external SME financing, the most relevant reforms implemented to date are the initial capital and liquidity requirements agreed in 2010 (Basel III). These have been evaluated using both qualitative and quantitative analysis; other relevant reforms that are at an earlier implementation stage or that are national or regional regulations were only analysed qualitatively, consistent with the FSB evaluation framework.

The evaluation found no material or persistent negative effects on SME financing in general, although there was a degree of differentiation across jurisdictions. Some evidence showed that the more stringent risk-based capital requirements under Basel III slowed the pace and, in some jurisdictions, tightened the conditions of SME lending at those banks that were least capitalized ex ante relative to other banks. These effects were not homogeneous across jurisdictions and they were generally found to be temporary. The evaluation also provides some evidence for a reallocation of bank lending towards more creditworthy firms after the introduction of reforms, but this effect is not specific to SMEs.

SME lending has grown in recent years, although volumes remain below the pre-crisis level in some jurisdictions. Access to external finance for SMEs also appears to have improved, particularly in advanced economies. Stakeholder feedback suggests that SME financing trends are largely driven by factors other than financial regulation, such as public policies to address SME financing constraints and macroeconomic conditions.

Any potential costs found in this evaluation need to be framed against the wider financial stability benefits of the G20 reforms estimated in ex ante impact assessments. These studies generally found significant net overall benefits in terms of reducing the likelihood and severity (lost output) of financial crises.

a Financial Stability Board, "Evaluation of the Effects of Financial Regulatory Reforms on Small and Medium-Sized Enterprise (SME) Financing: Final Report" (Basel, Financial Stability Board, November 2019). Available at https://www.fsb.org/2019/11/evaluation-of-the-effects-of-financial-regulatory-reforms-on-small-and-medium-sized-enterprise-sme-financing-final-report/.

Overall, the share of assets in banks fell to 39 per cent (or $148 trillion), while the share of assets held by NBFIs grew (figure III.F.3). This reflects average annual growth of a narrow measure of NBFIs of 8.5 per cent from 2012-2017 (the narrow measure compiles data on NBFIs that are involved in five types of credit intermediation activities that may pose bank-like financial stability risks (table III.F.1)). In 2018, growth significantly slowed, to 1.7 per cent year on year, reaching $50.9 trillion in 2018, and representing 13.6 per cent of total global financial assets.[7] In 2018, assets of other financial intermediaries (one component of NBFIs) declined for the first time, mainly as the result of stock market declines towards the end of the year and, to a lesser extent, outflows from certain subsectors.[8]

A 2017 FSB assessment concluded that those aspects of the non-bank intermediation that contributed to the 2008 global financial crisis, including various forms of structured finance (e.g., sub-prime mortgage-backed securities), have declined significantly and generally no longer pose financial stability risks. However, there are new instruments and evolving market structures, such as leveraged loans, which have grown significantly since the crisis. As noted in chapter I, 80 per cent of new leveraged loans issued in the United States of America are "covenant-lite"—that is, they have fewer protections for lenders. In addition, new financial technologies (fintech) are blurring the lines between software, payments and credit intermediation (see chapters II and III.G). These innovations are making positive contributions to sustainable development, but could create systemic risks, particularly in countries where fintech has a high penetration (often coinciding with underdeveloped financial institutions and weak regulatory capacity). The challenge for policymakers is to regulate these risks without stifling innovation (see chapter II). There is growing experience in regulating these innovations—including through regulatory sandboxes in both developed and developing countries—that would be valuable to share. One lesson is to develop regulations focussed on the function actors are performing rather than on the type of institution.

The FSB is continuing to conduct evaluations on different aspects of the reforms. The next evaluation, to be completed by end-2021, will be on the effects of money market fund reforms. These studies are intended not only to monitor the impact of FSB reforms, but also identify possible unintended effects of the reforms. One such evaluation was completed in 2019 on the impact of the reforms on the access to finance of small and medium-sized enterprises (SMEs) (box III.F.1).

2.3 The growth of digital currencies

Digital currencies have thus far been a minor phenomenon in global finance, despite being a source of significant hype and media attention. There are three types of digital currencies: crypto-assets, so-called "stablecoins", and central bank digital currencies. Chapter II discusses their benefits but also notes that as these technologies advance, their application has the potential to be a source of systemic risk. Yet the risks and benefits differ significantly based on the type of instrument, backers and design.

Crypto-assets

Currencies are typically defined as having three functions: a store of value, a unit of account, and a medium of exchange. While proponents argue that crypto-assets can be substitutes for currencies issued by central banks, no crypto-asset serves these three functions reliably to date. Excessive volatility is a key reason preventing such assets from fulfilling the functions of money.

Most crypto-assets rely on distributed ledger technology, which means that there is no one central authority that keeps track of the balances. Instead, this information is distributed among all users in the system. Some crypto-asset promoters suggest that decentralized payment processing could bring greater efficiency and speed to international transactions, which currently rely on correspondent banking relationships. Yet, this decentralized nature of crypto-assets, combined with anonymity and cross-border reach, also raises concerns around illicit finance. Currently, bitcoin and other crypto-asset transactions cannot be authoritatively traced to real identities due to anonymizing service providers, and there is evidence that crypto-assets have proven fertile ground for financial crimes (see chapter III.A). Crypto-assets have also facilitated the retail trade in illicit drugs through anonymous marketplaces.

In October 2018, the Financial Action Task Force (FATF) updated its standards and recommendations regarding crypto-assets. It defined a new group of "virtual asset service providers" and called on jurisdictions to include these providers in anti-money laundering and countering the financing of terrorism (AML/CFT) regulations. This challenges their suitability to replace correspondent banking, where the loss of relationships is often due to the costs of compliance with AML/CFT regulations.

To date, most crypto-assets have been traded on underregulated exchanges and used as speculative assets. The 2019 *Financing for Sustainable Development* Report highlighted evidence on the high frequency of fraudulent activity related to initial coin offerings as well as concerns of market manipulation on crypto-asset exchanges. However, due to their limited reach they do not currently represent a material risk to financial stability.

Payment services and stablecoins

As noted in chapter II, payment systems and the ability to send and receive payments across borders are the backbone of the financial system. Recognizing the importance of efficient and inclusive payment services for global growth, the FSB will coordinate the development of a road map for improving cross-border payments to be delivered to the G20 in October.

A number of interbank and payments processing systems have existed for decades (e.g., card-based retail electronic domestic and cross-border payment systems operated by companies such as Visa and Mastercard, who dominate the developed-country market). Interbank (or wholesale) payments are most frequently handled by the correspondent banking network which relies on the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network—a cooperative payments messaging utility, set up in 1973 by 239 banks from 15 developed countries. More recently, payment services in some developing countries, often established jointly by Governments and the banking sector, have sought to capitalize on their rapid domestic growth by developing cross-border networks and partnerships, such as those pursued by UnionPay (China) and RuPay (India). These payments systems are bank-based and thus integrated with the well-regulated parts of the financial system.

Some private actors have argued that these systems are too slow or outdated. New technology innovations on the retail side are bringing more speed and efficiency to consumers by allowing payment with text messages, so-called mobile money, or via mobile phone apps or mobile wallets, such as Apple Pay or Alipay. Mobile money is still usually backed by cash, meaning it is available to consumers without bank accounts, while apps and wallets are tied either to card-based payment networks or directly to bank accounts. These innovations can bring benefits in the form of financial inclusion and faster, cheaper payments operations.

A new proposal, which has not yet been implemented, is issuance of private digital tokens using the distributed ledger technologies that undergird other crypto-assets. This is the design of the libra, a global stablecoin, proposed in June 2019 (box III.F.2). Unlike earlier efforts, which facilitated payments through the banking system, this new type of network would be outside the well-regulated parts of the financial system. As the proponents plan to tie the value of the tokens to a single currency (or a basket of currencies) backed by a reserve fund of liquid assets, they have given the token the name "stablecoin". Such a global stablecoin could come much closer to fulfilling the functions of a currency.

In addition to the efficiency and potential inclusion benefits of the electronic systems discussed above, stablecoins could provide lower cost and faster cross-border payments. Moreover, payments could be easier because they could be embedded into digital applications that many people already use. There are, however, a plethora of operational and consumer protection risks associated with stablecoin proposals that

Box III.F.2
The Libra Association and libra token

In June 2019, Facebook, the world's largest social media network, and other financial sector and digital business partners announced a joint initiative under the umbrella of the Libra Association to create a new global so-called "stablecoin" called libra that could be used like a currency. The association proposed to stabilize the value of the libra against a basket of currencies, keeping a reserve of liquid assets with full backing for every libra token created. The libra is meant to promote financial inclusion, allow easier movement of money globally, and secure digital financial assets on mobile devices through use of distributed ledger technology.

Because the major backers already have large user bases, libra presented concerns of a different order of magnitude than previous crypto-asset and fintech innovations. While the project is still being developed, the Association is facing challenges. Major payments processors, including Visa and Mastercard, and some major e-commerce websites, which had been original backers of the Libra Association, decided to withdraw from the group in October 2019.[a] There are also regulatory hurdles, as a number of jurisdictions have indicated that they would not authorize use of the libra.[b]

a Visa, "Visa Statement on Involvement in the Libra Association", October 11, 2019. Available at https://usa.visa.com/visa-everywhere/blog/bdp/2019/10/11/visa-update-1570828991831.html; Mastercard, "Mastercard's Principles for Blockchain Partnerships", October 16, 2019. Available at https://newsroom.mastercard.com/news-briefs/mastercards-principles-for-blockchain-partnerships/.

b Bundesfinanzministerium, "Joint Statement on Libra", September 13, 2019.Available at https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Financial_markets/Articles/2019-09-17-Libra.html.

should be addressed by regulators.[9] First, distributed ledger technology uses significantly more energy in the processing of transactions, creating potential climate risks. Second, similar to crypto-assets discussed above, stablecoins could facilitate greater illicit financial flows, especially if money-laundering regulations are not implemented. Third, private stablecoins, if successful, could have implications for macroeconomic policies and financial stability in both developed and developing countries.[10] The reserve backing could retain large volumes of the world's money supply, with potential implications for the reserve currency issuers. Developing countries could face a particular challenge, given the potential ease with which their residents could store their financial assets in stablecoins, rather than in the local banking system. Stablecoins could severely hamper the ability of central banks to effectively transmit monetary policy changes to the economy, increase capital flow volatility and facilitate instantaneous capital flight whenever confidence begins to ebb in the domestic currency. Proponents say that this would put pressure on Governments to enact better policies, but as with any herd behaviour of investors, this could cause self-fulfilling prophecies and wild swings in exchange rates, which can precipitate financial crises, which impact the real economy.

An effective regulatory and supervisory approach to stable coins needs to be able to identify, monitor and address potential risks in a reasonable range of scenarios and uses. The United Nations General Assembly has already urged regulators to carefully consider the potential implications for the international and domestic financial system when formulating the appropriate regulatory treatment for crypto-assets and stablecoins in their jurisdictions.[11] FATF will report to the G20 in 2020 on the money-laundering and terrorist financing risks from global stablecoins and other emerging assets. The FSB will publish a consultation paper on addressing regulatory issues of stablecoins in April 2020, and a final report, which will be delivered to G20 Finance Ministers and Central Bank Governors, in July 2020. The International Monetary Fund (IMF) will produce a paper for the G20 on the macroeconomic implications, including monetary sovereignty issues, of stablecoins.

Central bank digital currencies

Central banks representing a fifth of the world's population say they are likely to issue the first central bank digital currencies (CBDCs) in the next few years, with greater interest from developing countries.[12] CBDCs would be a digital form of national fiat money, intended to be used as legal tender similar to cash, and that could possibly completely replace cash in the future.

One of the main benefits of a CBDC, or any cash-free system, would be to reduce the costs of producing cash. Estimates of the costs of maintaining the cash system range from 0.3 to 0.7 per cent of gross domestic product for developed countries,[13] although these costs can only be eliminated if an economy goes entirely cashless. Another benefit of a CBDC could be greater traceability of transactions, which can assist in combatting illicit financial flows as well as potentially increase the tax base.[14] A principal consideration for central banks should be financial exclusion, as public interventions may be needed to assist those without access to the requisite technology.

Two main types of CBDC are being explored: token-based (similar to cash) and account-based (similar to commercial bank accounts). The difference hinges on the method of authenticating the validity of payment.[15] Other CBDC design choices include (i) how open the payment network is; (ii) the degree of anonymity of users and traceability of transactions; (iii) the ability to earn interest; and (iv) the immediacy of settlement.[16]

A CBDC has similarities to private stablecoins, but also has unique characteristics because it is tied to the central bank.[17] For example, if a central bank designed its CBDC to provide account-based digital currencies directly to individuals, those people may have lower incentives to use a private commercial bank for ordinary deposits. This could reduce the role of private banks in financial intermediation, which would likely increase banks' funding costs. This disintermediation could impact the availability of capital for productive investment and could incentivize a shift from debt-based financing to equity financing, fundamentally changing the financial system. Some have argued that crypto-asset-based banks might emerge, but also that such banks would likely have different risks and need different types of regulation.[18] A central question is who ultimately holds the risk of financial intermediation. For example, a central bank account-based CBDC could, depending on the design characteristics and regulations, put the central bank in the intermediation chain between depositors and lenders, meaning some risk concentration in the central bank. Alternative designs could mean that individuals hold all the risk (see chapter II). Central banks are currently studying the potential effects of such a shift, as well as alternative models, and should be carefully considering the designs of CBDCs to address risks of different models of financial intermediation.

Countries may not need a CBDC to go cashless. In many countries, existing bank-based electronic payment systems can be scaled up to meet demand. In general, policymakers need to develop the design of a CBDC with regard to the existing institutions and economic, social, and even environmental conditions of a country.

2.4 Financial policy interaction with climate change

The Addis Agenda brought environmental and social issues into the discussion on the coherence and consistency of international policies and institutions. Since 2015, concerns about climate change have intensified, as evidence shows increased climate instability and frequency of weather-related disasters, as well as rising economic losses from them. In 2019, the Task Force highlighted the need for the regulatory system to be congruent with measures to boost the sustainability of the private financial system. Since then, there has been increased focus on macroeconomic and financial risks posed by climate change, and the potential role of central banks and financial regulators.[19] As discussed in chapter III.B, the relationship between climate risk and finance is defined by two related issues: (i) the impact of climate risks on financial stability; and (ii) the impact of financial investments on climate risks.

Climate risk as financial and macroeconomic risk

Markets are beginning to realize that climate risk is financial risk. The risks stem both from physical risks to assets and operations, and transition risks related to changes of policies to address climate change. Indeed, in 2019 the first S&P 500 firm[20] declared bankruptcy due to the effects of climate change. As risks grow from impacts on individual firms to risks to the broader economy and financial system, a critical question is how central banks and financial regulators should react. The FSB announced that it will examine the financial stability implications of climate change in 2020.

Generally, central banks and regulators have two avenues to explore. First, they can continue to work with voluntary approaches and industry-promoted good practice standards. The Task Force on Climate-related Financial Disclosures (TCFD) was established by the FSB in December 2015 to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information (see chapter III.B). However, a June 2019 TCFD survey found that while disclosure is increasing, it is insufficient. In particular, the majority of companies do not disclose sufficiently clear information on the potential financial impact of climate-related issues nor on the resilience of their strategies. The FSB asked the TCFD to clarify guidance for reporting on business relevant climate-related scenarios and to deliver another status report to the FSB in November 2020.

Second, central banks, financial regulators and other policymakers are considering other measures beyond voluntary disclosures of private firms. These may be needed, for example, to reflect the increased risk of non-performing loans due to stranded assets (see chapter III.B). The Network for Greening the Financial System (NGFS)—an association of 55 central banks and supervisors including those from almost all G20 countries—seeks steps in that direction, starting with support for better assessment of risks and opportunities associated with climate change. It recommends including climate risk in stress tests for the banking sector or, at a minimum, lengthening the timeframe of existing stress tests to include long-term risks. Similarly, the IMF is working on incorporating climate risk in macro-financial stress testing.[21]

In April 2019, the NGFS published its first comprehensive report, proposing four recommendations to coordinate the efforts of central banks, supervisors and the financial sector: (i) integrate monitoring of climate-related financial risks into day-to-day supervisory work, financial stability monitoring and risk management by boards; (ii) encourage central banks to lead by example and integrate sustainability into their own portfolio management; (iii) collaborate to bridge data gaps to enhance the assessment of climate-related risks; and (iv) build in-house capacity and share knowledge with other stakeholders on the management of climate-related financial risks.[22] Important streams of work, as discussed in chapter III.B, are harmonizing corporate disclosures on climate-related issues and agreeing on standards for defining the "greenness" of business activities.

Climate-related risks can be particularly acute for the insurance sector due to the increasing frequency and intensity of disasters, particularly if insurance firms have concentrated risk in certain economic sectors or regions. Indeed, some insurance companies have been in the lead on efforts to price climate-related risks.[23] At the same time, big data is helping insurance companies better determine risk probabilities and price risk. This is leading to the development of new insurance products, but is also leading to concerns of financial exclusion, where those that most need insurance might be priced out of the market (see chapters II and III.B), raising the need for public support. Efforts to develop a comprehensive framework to try to mitigate systemic risk in the insurance sector will need to pay attention to the financial risks from climate change.

Financial policies to slow climate change

Central bank monetary policy mandates generally focus either solely on price stability or on price stability and other socioeconomic factors, such as employment. Thus, for many central banks, the primary question with regard to climate change is the extent to which it will ultimately impact these objectives. As a further step beyond monitoring and assessing risk, it is possible for central banks and financial regulators to take a more active role. Indeed, the second recommendation of the NGFS call to action mentioned above, on integrating sustainability into central banks' own portfolio management, begins to go in this direction. Since the 2008 financial crisis, developed-economy central banks have accumulated large portfolios of assets through quantitative easing. Some central banks have sufficiently large asset bases that concerted efforts to price climate risk in their own portfolios can potentially induce market-wide shifts in asset pricing. The NGFS also encourages regulators to develop a classification system to identify which economic activities contribute to the transition to a green and low-carbon economy.

Financial authorities have many options at their disposal, some more tested than others.[24] Policies that have been proposed include green quantitative easing; collateral frameworks and credit allocation policies that take climate change into account; and direct financial incentives. In the realm of unconventional monetary policy interventions, such as the quantitative easing programme, central banks could either screen out brown or carbon-intensive assets from bond purchases, or directly subsidize specific sectors of the economy by directing bond purchases to assets with certain environmental standards.

Sustainable development, including climate risk, could also be integrated into financial regulations beyond addressing the climate-related financial risk discussed above. International standard-setting bodies set minimum prudential standards commensurate to risk, aiming to promote global financial stability and prevent financial regulatory competition. Higher standards than the minimum can be applied, per national (or regional) discretion. In 2018, the EU High-level Expert Group on Sustainable Finance suggested that sustainability be incorporated directly into the capital requirements of regulated financial institutions. Some countries have also taken measures to encourage financial institutions to increase credit availability to green sectors and promote the growth of sustainable finance. As an alternative to unilateral changes in prudential standards, climate change-related standards could be incorporated into the Basel capital adequacy framework, or in parallel green asset minimums,[25] so that there is no weakening of prudential regulation. Analytical work on defining "green" and "brown" assets according to climate-related financial risk exposure, and quantifying the impact these might have on loan quality and financial stability, could support this effort (see chapter III.B).

Macroprudential measures, a policy tool to mitigate system-wide risks, could also be adapted for use in this area. An example of a financial-stability-oriented, macroprudential tool is loan-to-value requirements on mortgages based on system-wide indicators on housing prices. Similarly, supervisors could adopt loan-to-energy-efficiency benchmarks or requirements for mortgage portfolios, which could be used to incentivize banks to include energy efficiency retrofit requirements into mortgages.

Some countries have already issued guidelines for greening their financial systems which include combinations of guarantees, subsidies, environmental risk management rules, green standards for credit rating, and macroprudential measures.[26] To fully incorporate climate change in financial policies, policymakers may consider further clarifying the mandates provided to regulators and central banks so that they cover all dimensions of sustainable development.

3. Macroeconomic management and crisis response

Chapter I discusses how international financial spillovers—a consequence of unconventional monetary policies and prolonged low interest rates in major developed economies—raises concerns, including on capital flow volatility. Prior to the onset of the crisis, net capital flows to developing countries, in aggregate, were already expected to return to negative territory in 2019 (figure III.F.4), although this is due to the effects of just one region (East Asia) (figure III.F.5). However, higher demand for dollar liquidity following the global shutdowns as a response to COVID-19 led to an unprecedented shock to capital flows to developing countries in the first three months of 2020. Cumulative outflows from late January through March of 2020 surpassed the levels documented at the peak of the 2008 global financial crisis, indicating the largest capital outflows ever recorded. According to latest figures by the IMF, investors have removed around $83 billion from emerging markets since the start of the crisis.

International capital markets can transmit volatility and instability across borders, even when countries have sound national frameworks. In this context, countries should approach strengthening policymaking in a risk-informed and integrated manner. Integrated policy frameworks, which bring together appropriate combinations of different macroeconomic management policies, can be part of broader country development strategies. The international community has created and periodically upgraded a global financial safety net (GFSN) to assist countries with supplementary financing when national frameworks are insufficient.

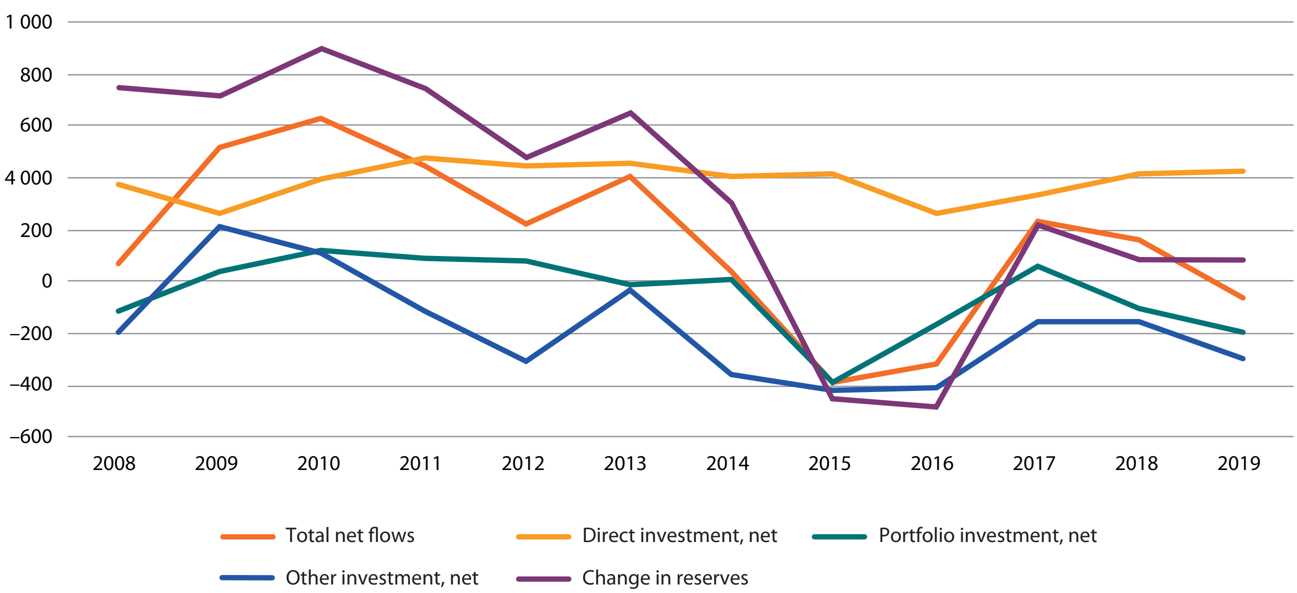
3.1 Prudent macroeconomic management

Cross-border capital flows can provide significant benefits, such as improving access to funding; however, capital flows—particularly when large and volatile—may also threaten financial stability, especially in the small, open economies of many developing countries. Risks are greater in the presence of underlying macroeconomic or financial vulnerabilities, but the risks exist in all countries. For example, non-economic factors, such as the spread of COVID-19, can lead to capital flight from affected countries or even broader flight to safety.[27] While policymakers should be ready to respond to new developments such as a pandemic or disaster, they can also consider introducing policies before crises arrive, so that they have a wider variety of tools and instruments at their disposal.

Many countries have adopted flexible exchange rate regimes that broadly follow the "textbook" prescription to allow exchange rates to adjust freely in response to capital flow swings. That frees monetary policy to focus on domestic cyclical conditions in the spirit of a "one target – one instrument" approach. However, large swings in the exchange rate can be disruptive to the real economy as they change domestic prices of exports and imports relative to non-traded goods and services. It can also raise the cost of external debt servicing relative to domestic revenues, sometimes precipitating a debt crisis. Many countries thus deviate from the textbook framework in a variety of ways. Central bank intervention in foreign exchange markets to influence exchange rates is fairly prevalent, particularly among emerging market economies, and particularly in response to persistent capital inflows.

Some Governments have adopted macroprudential measures, which aim to contain systemic risks by smoothing cyclical swings in domestic credit availability. As a by-product they can also smooth "booms" and "busts" in

Figure III.F.4
Net financial flows to countries in developing regions, 2008–2019
(Billions of United States dollars)

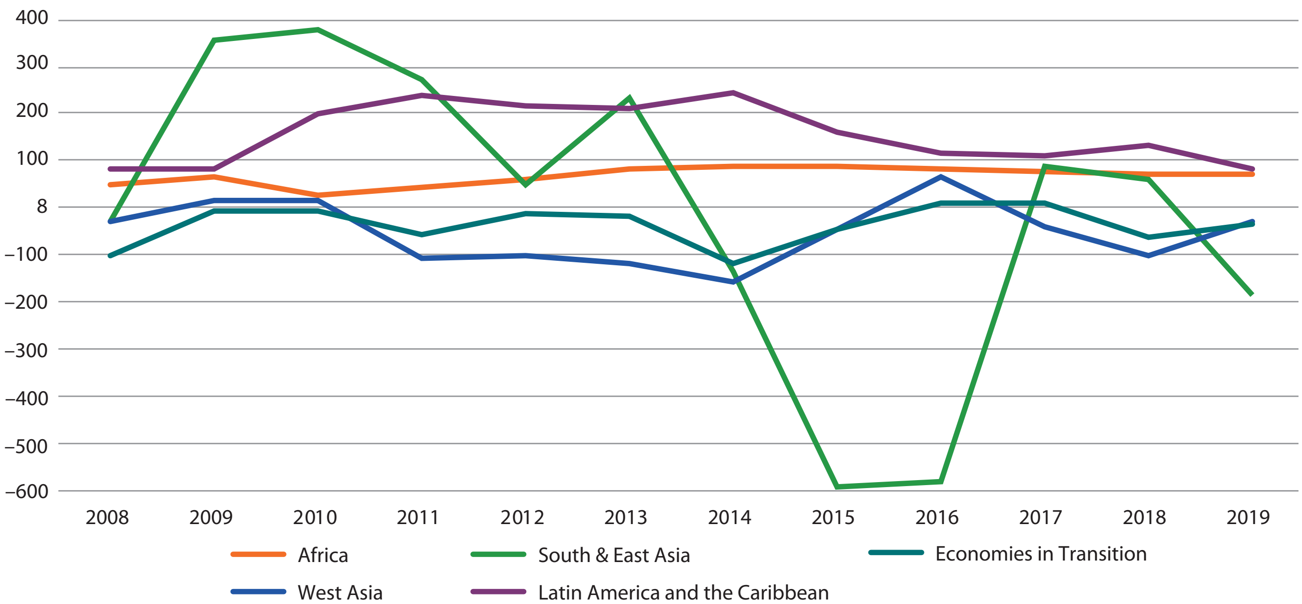


Source: IMF, World Economic Outlook (October 2019).
Note: Positive values denotes a net inflow of capital and an increase in reserves. A negative value indicates a net outflow of capital and a decline in reserves. 2019 value is a projection.

Figure III.F.5

Net financial flows, by region, 2007–2018

(Billions of United States dollars)



Source: IMF, World Economic Outlook (October 2019).

Note: Positive values denotes a net inflow of capital and an increase in reserves. A negative value indicates a net outflow of capital and a decline in reserves. 2019 value is a projection

economic activity. For example, capital requirements of banks can be increased in boom times to discourage rapid credit growth and eased during economic slowdowns to encourage banks to lend more, so that macroprudential measures are used to smooth the domestic business cycles. Some of the measures are discretionary, while others establish rules for policy change. Impacts on different economic sectors, including cross-border activity of banks, can also differ. In some instances, macroprudential policies may be more effective than using monetary policy, as macroprudential measures can focus exclusively on smoothing the domestic business cycle, while use of monetary policy can stimulate or discourage capital inflows. Overall, these policy options aim to target vulnerabilities and complement social protection systems and other domestic policies that promote resilience in the event of shocks.[28]

Governments also use measures from another class of policy tools known as "capital flow management measures". These measures come in a variety of types, including quantitative outflow restrictions, non-interest-bearing reserve requirements for financial inflows, taxes on inflows and/or outflows, or outright bans. The various measures have differing impacts and consequences, both intended and unintended.[29]

Preliminary studies suggest that the textbook approach is likely better suited for countries with deep foreign exchange markets in the absence of severe currency mismatches. On the other hand, foreign exchange intervention and/or capital flow management measures may dampen capital flow volatility and thus support output stabilization in countries with large balance sheet mismatches and relatively shallow foreign exchange markets, particularly if a large share of that country's exports is invoiced in foreign currency. That said, frequent exchange rate intervention may reduce the perception of risk by the private sector and lead to an accumulation of vulnerabilities.

This rich variety of policy options points to the importance of national planning in this area. The IMF has put forward the concept of an integrated policy framework (IPF) that draws on the host of alternatives to formulate the best policy set to meet different countries' needs. An IPF would consider the role of monetary, exchange rate, macroprudential and capital flow management policies, and their interactions with each other and other policies. The policies considered in the IPF should be components of a country-owned strategy within an integrated national financing framework (INFF), as laid out in the 2019 *Financing for Sustainable Development Report*. The country plans would aim to provide a more systematic approach to designing an effective macroeconomic policy mix to pursue growth and stability objectives, attuned to country-specific circumstances.

The IMF is working to develop tools to provide more nuanced guidance and advice to Member States on how to design integrated policies, using modelling, empirical work, and case studies. The case studies seek to identify patterns in country behaviour. Cross-country empirical analysis explores whether these insights generalize, helping to select key features and parameters for models that closely match country conditions on the ground. Ultimately, the work should also result in the IMF having a more nuanced approach in its own assessments in its annual Article IV consultations with member countries.[30]

3.2 Global financial safety net

At a time of high uncertainty and rising downside global risks, it is critical that Member States take action to strengthen the permanent international financial safety net, as committed in the Addis Agenda. Member States have called for a strong, quota-based, and adequately resourced IMF at the centre of the GFSN. Taking account of the challenges posed by higher interconnectivity and uncertainty in the global economy, all layers of the GFSN—countries' own international reserve buffers, bilateral swap arrangements (BSAs), regional financing arrangements (RFAs) and the IMF—have expanded substantially since the 2008 global financial crisis. Nevertheless, gaps in the GFSN remain, including the need to strengthen collaboration between the IMF and RFAs and the availability of appropriate financing instruments. The IMF Executive Board has also noted "many countries do not have reliable access to BSAs or RFAs".[31]

Regional financial arrangements

RFAs have become an important component of the GFSN, prominently in Europe, Asia and Latin America. The IMF is enhancing cooperation with RFAs to increase the effective firepower of the GFSN and ensure a timely and coordinated deployment of resources, as called for in the 2017 IMF Executive Board paper on collaboration between RFAs and the Fund. The framework lays out modalities for collaboration across capacity development, surveillance and lending, and forging operational principles to help guide co-lending by the Fund and RFAs so as to ensure it is done cohesively. These principles include seeking early and evolving engagement, the benefit of exploiting complementarities, the criticality of a single programme framework, and the need for mutual respect of institutional independence and capacity. In 2018, the IMF also amended its policy framework for the exchange of documents, allowing greater exchanges between the Fund and RFAs to help ensure timely information-sharing.

In line with its framework, the IMF has participated in several "test runs" with the Chiang Mai Initiative Multilateralization (CMIM) since 2017. These exercises improved the operating procedures of the CMIM and its coordination with the Fund, which will facilitate future co-financing operations should they become necessary. The IMF is also working to deepen collaboration with other RFAs and refine the modalities of how best to work together, including via similar test-run exercises.

IMF resources and facilities

The Fund is currently adequately resourced, with an overall lending capacity of about $1 trillion. Almost half of this capacity consists of permanent IMF quota resources. Quotas are the building blocks of the IMF financial and governance structure and have four roles: resource contributions, voting power, access to financing, and special drawing rights (SDR) allocations. The remainder of IMF lending capacity consists of borrowed resources that the Fund may draw upon from member countries in case of need under the New Arrangements to Borrow (NAB) and Bilateral Borrowing Agreements (BBA). In October 2019, IMF members endorsed a package on IMF Resources and Governance that will maintain the Fund's current $1 trillion resource envelope.[32] In the absence of an agreement on a quota increase under the Fifteenth General Review of Quotas (further discussion below), members committed to reach the $1 trillion target through a doubling of the NAB and a further temporary round of bilateral borrowing beyond 2020. The IMF membership also committed to revisit the adequacy of quotas under the Sixteenth General Review of Quotas, which should be concluded no later than 15 December 2023.

The Fund has also reviewed the policy conditions to which countries agree for IMF loans as part of its 2018-2019 review of "conditionality". The review found that three quarters of IMF-supported programmes undertaken between September 2011 and December 2017 were successful or partially successful in achieving their objectives, such as resolving balance-of-payment problems and fostering economic growth. With a view to raising the rate of success, the Fund agreed its staff would bring "more realism, granularity, gradualism and parsimony in programmes, as well as sharper debt sustainability analyses to mitigate any bias in judgment and ensure more balanced consideration of debt (and debt restructuring) operations, where warranted."[33]

IMF loans to low-income countries (LICs) are provided on concessional terms and are financed by member Governments. The IMF lends to LICs through three facilities—loans which are currently provided at zero interest and subsidized through the Poverty Reduction and Growth Trust (PRGT), which is financially self-sustainable as income from investments of the trust cover the subsidy costs of the concessional lending. To maintain the viability of the trust fund, there are limits on the size of PRGT-subsidized loans. Debt relief for the poorest and most vulnerable countries hit by catastrophic natural or public health disasters is financed by the Catastrophe Containment and Relief Trust.

The IMF reviewed its facilities for LICs in 2018 and in May 2019 its Board endorsed a set of reforms, beginning with a one-third across-the-board increase in LIC borrowing limits from the Fund, with a further increase in some cases to better support countries affected by conflict or disasters. In the light of limits to available subsidy funds, access to subsidized loans was tilted towards the poorest countries, with expanded blending of concessional and non-concessional financing for higher-income LICs that enjoy access to international financial markets. In addition, the key lending instrument (the Extended Credit Facility) was modified to (i) allow for longer programmes in countries seeking support for medium- and longer-term structural reform; and (ii) make clear that programmes in post-conflict countries with high uncertainty and low capacity should focus initially on a streamlined set of near-term reforms that support economic and political stabilization. Finally, the reform promised heightened attention to debt sustainability and transparency through strengthened safeguards for countries warranting "high" and "exceptional" loan access.[34]

4. Strengthening global governance

Global governance has changed significantly since the turn of the century, as the 2008 global financial crisis prompted multilateral coordination on a scale not previously witnessed. Yet, recently there has been some retreat from multilateralism which could make responses to any global financial and economic crisis more challenging. The international community has struggled with how to strengthen global governance and make it more inclusive for decades, not least in the Financing for Development process.

4.1 Governance reform at international institutions

The Addis Agenda recommitted Member States to broadening and strengthening the voice and participation of developing countries in international economic decision-making, and reiterated the commitment to further governance reform in both the IMF and the World Bank. While decision-making at any international institution is multifaceted, the formal rights to vote on policy frameworks and institutional designs matter.

Figure III.F.6 shows that over the last two decades voting rights in the major institutions have remained relatively stable, although two of the three institutions in which countries in developing regions have the lowest voting rights have seen increases in their shares since 2015. In addition, shareholders of the World Bank agreed in principle in April 2018 to measures that will slowly increase the share of votes of developing countries by about 0.8 percentage points in two main components of the World Bank Group, the International Bank for Recovery and Development and the International Finance Corporation.[35]

In February 2020, the Board of Governors of the IMF adopted a resolution concluding the Fifteenth General Review of Quotas with no increase in IMF quotas and providing guidance on the Sixteenth Review of Quotas.[36] The resolution requests the Executive Board to revisit the adequacy of quotas and continue the process of IMF governance reform, including a new quota formula as a guide, and ensure the primary role of quotas in IMF resources. It also states that any adjustment in quota shares would be expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members. Finally, the resolution establishes that the Sixteenth Review should be concluded no later than 15 December 2023.

The African Development Bank concluded negotiations on a capital increase in October 2019, resulting in the capital base of the bank increasing by $115 billion to $208 billion. This general capital increase will not change the distribution of voting rights at the bank but will allow the bank to increase its lending portfolio while maintaining a high credit rating. Neither the Inter-American Development Bank nor the Asian Development Bank shareholders have announced plans to discuss reforms to their shareholding.

In November 2019, the FSB agreed to a set of recommendations for enhancing the effectiveness of its six Regional Consultative Groups (RCGs), through which the FSB reaches out to approximately 70 additional jurisdictions. The review found that both FSB and non-FSB members value the RCGs as an important mechanism to exchange views on a wide range of financial stability issues and the implications for their regions. The measures will encourage greater input from non-member authorities into the work and agenda of the FSB and further strengthen the effectiveness of RCG meetings.

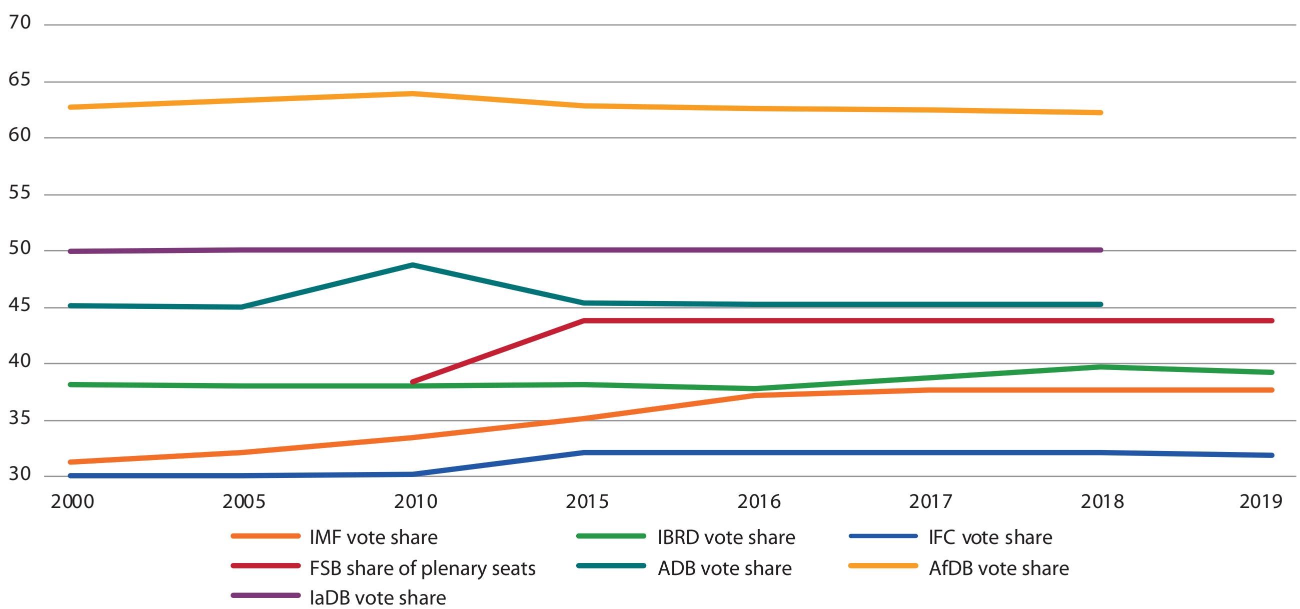
4.2 Financial standard-setting bodies

As discussed earlier in this chapter, a number of public and private bodies set international standards for financial regulation and supervision which countries may adopt into national frameworks. Members of these standard-setting bodies (SSBs) are usually national regulators. These institutions were generally set up by developed countries, but following the 2008 world financial and economic crisis, many of them gave developing countries a greater voice. In the Addis Agenda, Member States called for the main international SSBs to further increase the voice of developing countries in norm-setting processes, although reforms since 2015 have been minimal (figure III.F.7). Some SSBs have regional consultative committees or other mechanisms for taking input from developing countries to feed into norm-setting and/or implementation discussions, which are often held at an executive committee.

Figure III.F.6

Participation of countries in developing regions in the governance of international financial institutions and regional development banks, 2000–2018

(Percentage of voting rights or seats)

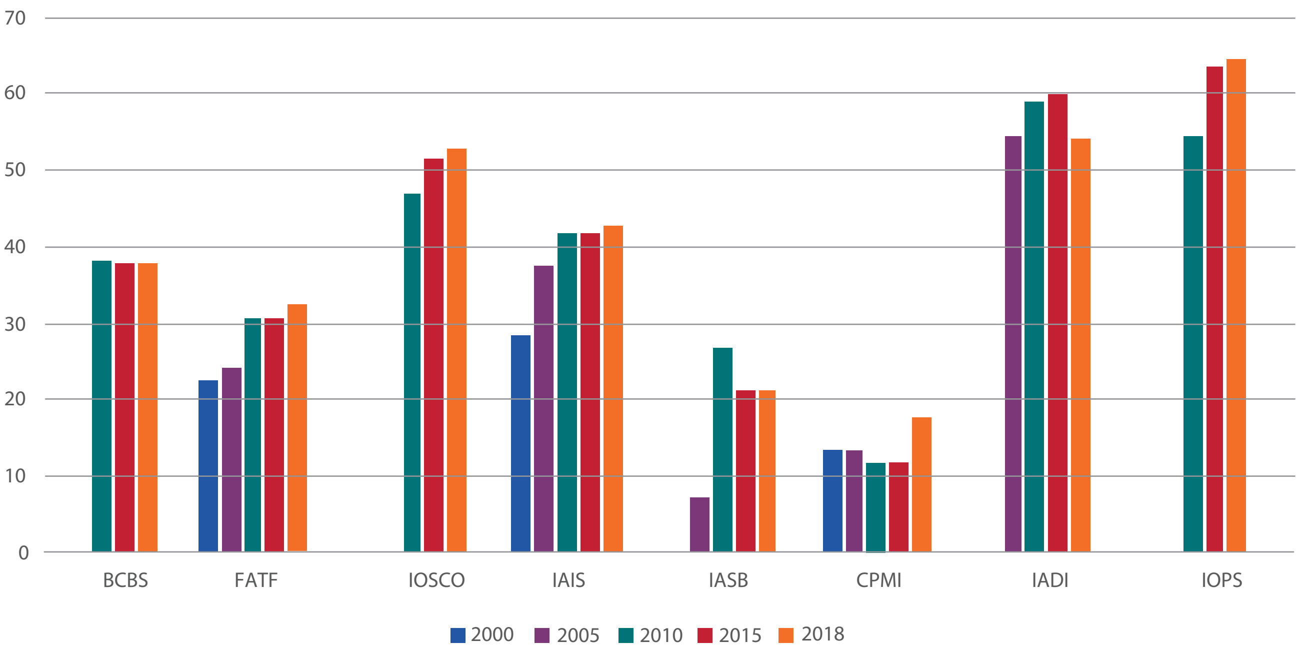


Source: UN DESA.
Note: International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IADB) show percent of voting rights. Financial Stability Board (FSB) does not have voting rights, and thus data shows number of seats at the plenary. All data categorised according to the M49 classification of developed and developing regions.

Figure III.F.7

Countries in developing regions in the governance of standard-setting bodies, 2000–2018

(Percentage of members or executive body members)



Source: UN DESA.

Note: The main international SSBs include the Basel Committee on Banking Supervision (BCBS) for standards on banking regulation; the Financial Action Task Force (FATF) for standards on combating money laundering, terrorist financing and other related threats to the integrity of the international financial system; the International Organization of Securities Commissions (IOSCO) for standards on securities regulation; the International Association of Insurance Supervisors (IAIS) for standards on insurance industry regulation and supervision; the International Accounting Standards Board (IASB) for accounting standards; the Basel Committee on Payments and Market Infrastructure (CPMI) for standards on payment, clearing, settlement systems and related arrangements; the International Association for Deposit Insurers (IADI) for deposit insurance standards; and the International Organisation of Pensions Supervisors (IOPS) for pension regulation. Basel Committee on Banking Supervision (BCBS) had no developing country members in 2000 or 2005; due to changes in governance arrangements IASB and IADI do not have data before 2005, and IOSCO and IOPS do not have data before 2010.

4.3 Improving cooperation, coordination and policy coherence

Almost every institution discussed above was created by a group of nations acting in concert to meet a need for global or regional cooperation around one or more specific issues. In each case, member Governments set the missions and designed the operations of the entity. They have differing degrees of continuing input from Member States—as well as non-Member States and other stakeholders—on their policies, budgets and operations.

The governing boards of the different institutions naturally focus on their direct responsibilities as governors of those institutions. Having these institutions embrace policy measures that seek to enhance coherence with global goals beyond their own specific mandates can require a broader vision. For example, in May 2019, the IMF adopted a new strategy on engaging in social spending issues in its member countries. The Fund's Independent Evaluation Office had taken up the matter in the aftermath of politically charged public responses in various countries to austerity policies, coupled with academic and advocacy studies. Under the new strategy, the Fund will further promote "adequate, efficient and sustainable" social spending in its member countries, and cooperate more intensively with other international institutions that work on social spending, such as the International Labour Organization, the United Nations Children's Fund (UNICEF) and the World Bank, while also inviting civil society organizations to engage more with the Fund.

International policy coherence can also be advanced when senior leaders take up an issue and raise its visibility. For example, the increased attention on central banks and regulatory authorities taking account of environmental risks (see above) may have been driven by executive vision. The issue was first raised at the international level in 2015 when the FSB, at the request of the G20, created the TCFD. While the TCFD has been successful, few would claim that the financial sector fully integrates climate risk. To raise the issue, the IMF organized a high-profile panel during its 2019 Annual Meetings, followed by a speech by the Chairman of the Board of the Bank for International Settlements at a major financial conference two weeks later. The need for financial policy to pay attention to the lack of sufficient progress on slowing climate change exemplifies the interrelatedness of the financial and climate issues and the need for stronger policy measures. That the former Chair of the FSB will now serve as the United Nations Secretary-General's Special Envoy on Climate Action and Finance[37] is a sign that coherence can be advanced, albeit sometimes only slowly.

The approach of the Seventy-fifth Anniversary of the United Nations presents an opportunity to consider the Organization's role in positive change. The Charter of the United Nations gives it formal responsibility for overall coordination of international cooperation in the economic and social field, mainly through preparation of global analyses and intergovernmental negotiation of agreed recommendations. Indeed, this Task Force has helped to strengthen coherence of analytical work across the system.

The United Nations General Assembly and the United Nations Economic and Social Council (ECOSOC) serve as the main forums for forging a global consensus around key economic and social policy norms and targets, most recently in the 2030 Agenda for Sustainable Development and its Sustainable Development Goals and the Addis Ababa Action Agenda on Financing for Development. The discussions—in particular in the ECOSOC Forum on Financing for Development Follow-up—of the full range of policies to advance financing of sustainable development illustrates how the United Nations can contribute to coherence by bringing different institutions, Governments and other stakeholders together through its convening authority. The United Nations forum is not empowered to force coherence on the policy choices of the global family of institutions and bodies, which are, ultimately, independent entities. To meet the needs of the 2030 Agenda, this system needs to both set rules that allow predictability and promote long-term thinking, while at the same time being flexible enough to respond to emerging opportunities and challenges and adjust to new realities, such as technological change. It needs to work with a measure of humility, often outside the limelight, quietly building consensus on the essential challenges of our day.

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