



G20 Sherpa and Finance Tracks: Commonalities and Opportunities

Background

As part of the G20 Leaders' Summit, the two tracks e.g. Finance Track and the Sherpa Track (Development track) constitute important Track 1 pillars. These two tracks actively contribute to formulation of ideas and priorities for the host presidency and steer the government-to-government negotiations during the course of the presidency. While the finance ministers and central bank governors of G20 countries (Finance Track) have been meeting regularly since 1999, it was only after the 2008 global financial crisis that a wider connect was established between the Finance Track and the governments of the member countries at the level of Heads of States leading to formalisation of the Leaders' Summit. In the initial years, the business of the Leaders' Summit was primarily Finance Track-centric as discussions focused on restoring global macro-financial stability. However, G20 gradually began to recognise socio-economic and development issues; hence diversified the scope of the summits to include the development issues.

Setting up of the Development Working Group (DWG) at the Toronto summit in 2010 and the adoption of Multi-Year Action Plans (MYAP) under the nine development pillars at the Seoul Summit in the same year added a new dimension to G20 framework, namely the Sherpa or the Development Track. After adoption of the UN Sustainable Development Goals and the Paris Climate Agreement in 2015, there was a significant

shift in opinion mobilisation on issues of global interest. In response to this shift, G20 further formulated an Action Plan to commit itself to implement the 2030 Agenda for Sustainable Development including Sustainable Development Goals (SDGs) during Chinese Presidency (2016) and the Addis Ababa Action Agenda (AAAA).

In general, both the Tracks rely on the technical and substantive work of a series of Expert Working Groups and the agenda is further developed through several Ministerial Meetings. The outcome documents of these meetings are generally presented to the G20 leaders in the form of Ministers' Declarations and Communiqués, across different work streams.

Motivation

The success of G20 as a global forum is contingent on its effectiveness in working towards its commitments and delivering the outcomes that it has envisaged for achieving development goals. The two tracks appear to be strongly committed to discussing relevant policy issues and setting priorities in their respective areas of expertise. But the question arises, how successfully the two tracks have prioritised development in their dialogues and whether they have exhibited coherence and coordination in their discussions. It is true that the Sherpa Track has been exclusively created to prioritise the G20 development agenda, but whether it has been formulating coherent international development policies

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in isolation or is doing so in close coordination with the Finance Track remains unclear. On the other hand, it is also important to examine the Finance Track's trajectory to determine whether its functions are confined to hard core macro-financial issues or it has evolved to recognise and include commitments that resonate with the G20 development agenda.

There appears to be some support for the two tracks to work in tandem instead of operating in silos. Several policy briefs prepared for T20 have called for the grouping to make its framework more coherent and inter-connected than segmented. Chaturvedi (2018) rightly underscores the importance of plurality, vibrancy and pragmatism in new thoughts and ideas in the T20 process under the framework of realism rather than engaging in discussion on dormant issues rejected in other forums, and cross-fertilisation of ideas on both macro agenda and sectoral specificities, which applies to the spirit of the finance and development tracks as well. In order to foster policy coherence, it has been suggested to reform the current G20 set up so as to lay emphasis on inter-track structures and increase cooperation and dialogues between the two tracks and their working groups, specifically in relation to 2030 Agenda. According to Carin (2013), even though the Development Track is committed to focus on "non-financial issues", it cannot overlook the crucial role of the Finance Track in the sphere of development. In this regard, it becomes important to review the presence and extent of coordination and examine if there is room for synergy between the two tracks.

One way of doing this is by analysing the trajectory of these two tracks separately and see if they have diversified when it comes to setting priorities that are inter-linked and aligned with G20's broader development agenda. It would also help to analyse and assess how active and successful the group has been in translating its commitments into actions, specifically those that involve cross-cutting or overlapping themes across the two tracks.

Role of the Two Tracks

Sherpa Track

Usually, the Sherpas of the member countries begin meetings much before the Summit so as to settle out any contentious issues among them and set out priorities for the incumbent presidency. These pre-summit consultations are helpful to bring forward the respective leaders' positions such that the overall G20 agenda can be determined through consensus at the political level. This track focuses on policy analysis and technical overview of a range of issues such as agriculture, anti-corruption, climate change, digital economy, education, employment, energy, environment, health, tourism, and trade and investment. The aim is to adopt an agenda that fosters inclusive and sustainable development, along with the objective of economic growth. As a result, the G20 platform now is considered as an important global forum as the 20 most influential economies work together to address and find solutions to the pressing challenges of the time faced by the world. For instance, under the Riyadh Presidency of 2020, the G20 has actively worked on the most developmental challenges in the wake of COVID-19 and provided implementable advice to both advanced and developing economies to successfully emerge out of the wear and tear of the pandemic. Various experts from international organisations and officials from each member country contribute to the process. Therefore, the track is responsible for upholding the procedural rules of the grouping and taking it forward in the run up to the G20 Summit.

Finance Track

This track particularly refers to the meeting of the G20 Finance Ministers and Central Bank Governors, as well as their Deputies. The primary business of the Finance Track has centered on fiscal and monetary policy issues such as restoring financial stability, infrastructure financing, promoting and ensuring financial regulation, scaling up financial inclusion, reform of international financial architecture and foster cooperation

in international taxation. The aim is to take coordinated steps to stabilise the global economy, promote growth through structural measures and provide efficient proposals for the international financial system. This pillar of the Finance Track aims at early and effective detection of crises and provides solutions and roadmaps to correct global financial imbalances. However, over the years, there has been significant diversification in the range of issues taken up by the Finance Track. In fact, the Finance Track is discussing more ‘development finance’ issues in recent times than ‘core finance’ issues as it was obsessed with in the initial years. It can be attributed to the fact that some issues should no longer be left only to the Sherpa Track to deal with rather should prominently feature in the Finance Track deliberations. In other words, the exclusive identification of both the tracks as Finance and Development could be a misnomer. In contrast, Finance Track can cover development issues suitably and the Development Track relates its commitments to financing aspects.

Coordinated action and coherence among the two tracks can lead to efficient implementation of the leaders’ commitments. This shift was brought to notice after the 2017 Hamburg Summit where the Finance Track actively engaged in areas related to climate change and energy transformation under the banner of green finance and fuel subsidies. According to the 2018 Finance Ministers and Central Bank Governors Meeting Communique, technological innovations were emphasised with respect to its impact on people’s lives and societies. Under the Japan’s presidency, the world witnessed that the Finance Track taking interest in the ongoing debate of demographic changes and the aging-related issues faced by the member countries as well as a strong commitment towards shared financing for universal health coverage in developing countries. It perhaps signifies the ‘within-track’ and ‘between track’ transitions in the functioning of the two G20 tracks as discussed above.

Riyadh 2020

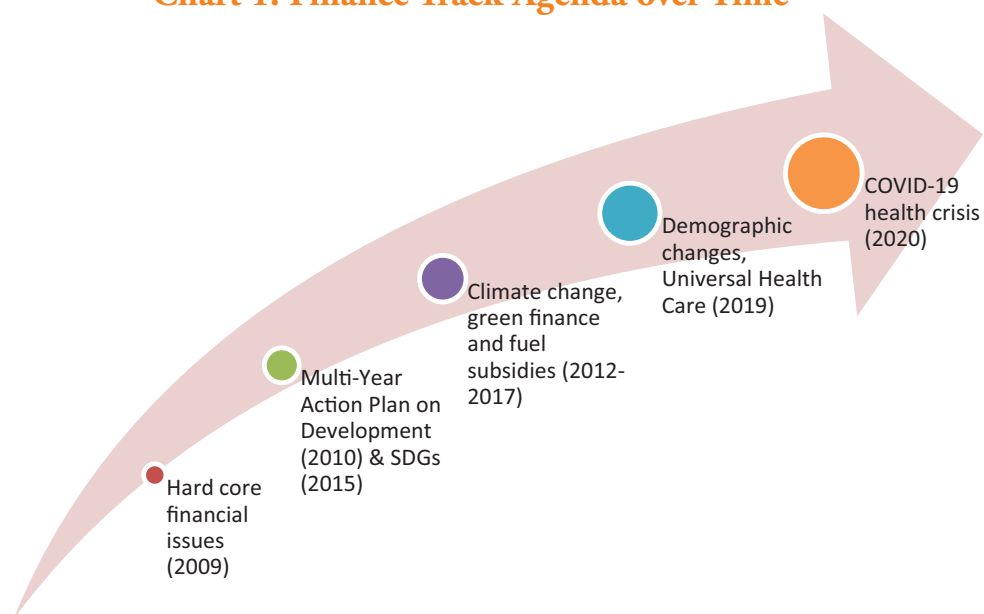
The Riyadh Summit happened at a time when the world is facing a major pandemic and this has provided a great opportunity for G20 member countries to come together and act collectively. The health sector has seen the contribution of both the Development Track via the health ministry and the Finance Track since 2019 as mentioned above. However, the current crisis has fostered a stronger convergence between the two as can be seen from the Joint Statement from the Finance & Health Ministers Meeting held on 17 September 2020. As the document states, the lack of investment in the health sector has been brought to light and consequently the lack of a resilient health infrastructure in most member countries has exacerbated the impact of the virus. Therefore, it is important to recognise how investing in the health system has positive externalities in the form of a strong and resilient economy. The two tracks have rightly focused on resource mobilisation so as to address the financing needs, particularly of developing nations. Moreover, it has been seen that the crisis has had the worst consequences for the most vulnerable segments of the society such as women, youth and the elderly. It is only when joint policy making is done through a process of constructive debate that we can address this disproportionate economic and social impact. The One Health Approach adopted by the members is expected to prepare the countries better for such uncertain events in the future and this clearly shows us how the coming together of the two tracks in such a scenario can prove to be beneficial to all.

Chart 1 shows us how the finance track has included other issues over the years, apart from fiscal and monetary policy:

Performance of the Finance Track in Prioritising Development Goals

In 2014, the Development Working Group (DWG) agreed to set up an accountability framework to enhance credibility, transparency and effectiveness of G20 development commitments, among G20 members and non-members. In this regard, a Comprehensive

Chart 1: Finance Track Agenda over Time



Accountability Report (CAR) gets published by DWG every three years under the guidance of G20 Sherpas. Besides covering current status and progress of G20 commitments and priority areas, it also evaluates policy coherence across G20 tracks and working groups. Likewise, the G20 Research Group at the University of Toronto and the Centre for International Institutions Research of the Russian Presidential Academy of National Economy and Public Administration (RANEPA) jointly brings the Compliance Report which provides compliance by member countries to various commitments made by the G20 leaders during past few presidencies. This report monitors and scores G20 member countries' progress in implementing a selected number of priority commitments. An analysis of these reports may provide some evidence of convergence in policy discussions between the two tracks.

It can be seen that Finance Ministers have expressed their strong commitments towards various development issues from time to time. Some of these commitments and G20's actions on these commitments are discussed below in detail:

Climate, Environment and Energy

The finance ministers expressed their commitment towards climate change by

incorporating climate financing in their agenda in 2012 and establishing Climate Finance Study Group to consider ways to effectively mobilise resources and support the operationalisation process of the Green Climate Fund. In addition to this, Green Finance Study Group (GFSG) was launched in 2016 under the Chinese Presidency with the aim to identify barriers to green finance and produce country-specific recommendations to enhance the functioning of financial systems so as to facilitate movement of private capital towards green investment. This seemed to have produced positive outcomes for the countries concerned. G20 countries have been increasingly active in green finance and investment (OECD 2019). According to the Climate Bond Initiative Report (2019), Global green bond issuance increased by a whopping 63 per cent between 2012 and 2018.

Yang et al (2017) cover actions taken by some of the G20 countries towards reforming their financial systems and aligning them with sustainable development. These include introduction of green bond standards and green banking regulation by the People's Bank of China, introduction of mandatory climate-change-related reporting for institutional investors by the French government in 2016, preparation of Green Finance Roadmap in 2014 by Indonesian financial regulatory

authority, and inclusion of lending to small renewable energy projects by the Reserve Bank of India. The policy brief further proposed for the forum to promote the standardisation of green finance practices, adopt public disclosure strategies to enhance transparency of information, support green investment development of global market, and assist developing countries in developing their own national green finance framework.

As per the Osaka Summit Interim Compliance Report (2019), climate change commitment on climate financing for sustainable development, which represents a theme of interest for both the tracks performed fairly well with a compliance rate of 90 per cent. Countries that took actions to attract both public and private resources to promote climate change adaptation and mitigation were awarded full compliance. Countries that succeeded in mobilising either public or private finance received a partial compliance whereas non-compliance was awarded to the countries that failed to make any effort in this direction. With the exception of Argentina, Brazil, Korea and Turkey, which were awarded partial compliance, all the other 16 members received a perfect compliance score of +1.

However, not all overlapping commitments have fared well. According to the 2015 Final Compliance Report, phasing out of fossil fuel subsidies that has constantly been stressed upon by both finance ministers and energy ministers has received the lowest compliance rate of 33 per cent. Fuess and Mesner (2016) have called the implementation gap on G20's commitment to reform fossil fuel subsidies embarrassing. According to Kraemer (2016) energy sector issues should be prioritised in the Finance Track because of the risks energy sector transformation and climate change impose on global financial stability and economic development. Lay et al (2017) have proposed for an inclusive carbon pricing in addition to reducing fossil fuel subsidies in order to accelerate the transition to cleaner energy. They further recommended countries to emphasise on revenue recycling such as channelising the revenues from carbon tax to

fund projects that are aimed towards poverty alleviation.

Health

In 2019, G20 finance and health ministers jointly committed towards strengthening health financing for Universal Health Coverage (UHC) through a cross-government and whole-of-society approach (OECD, 2019). Owing to the damage inflicted by the coronavirus pandemic on the health systems, the need for health financing is being strongly reemphasised under the umbrella of UHC by Saudi Arabian Presidency. G20 joint finance and health ministers meeting was held in September this year to address the financing needs in global health and the authorities expressed their commitment towards effectively investing in COVID-19 recovery and public health systems to enhance preparedness for future health-related crises. As such, while serious actions with respect to health financing are yet to be taken and the outcomes remain to be realised, the joint commitment in itself is a significant show of solidarity on the part of two tracks.

Infrastructure

In 2019 Osaka CAR, DWG identified infrastructure investment as one of the cross-cutting high priority commitments, which has received considerable attention from the finance ministers. According to the report, Japanese Presidency in 2019 contributed to the *G20 Principles on Quality Infrastructure Investment* prepared in the Finance Track by establishing quality infrastructure as a priority in the DWG and producing *Key Elements of Quality Infrastructure for Connectivity Enhancement towards Sustainable Development*. This reflects presence of synergy between the two tracks. Among the 11 G20 development commitments on infrastructure reviewed in 2019 CAR, three are marked as complete and rest are marked as "on track". In 2019 interim compliance report, Quality Infrastructure Investment commitment received an average compliance rate of 78 per cent, representing full compliance by more than 50 per cent of the G20 member countries.

Financial Inclusion and Domestic Resource Mobilisation

Two more areas that link Finance Track to the development agenda are financial inclusion and domestic resource mobilisation. While the former provides a framework to strengthen financial inclusion (Financial Inclusion Action Plan) and remittance flows in developing countries the latter focuses on protecting tax revenues from tax avoidance and tax evasion in developing countries. All the four financial inclusion commitments have been marked as complete in 2019 CAR. In the case of domestic resource mobilisation, two out of six commitments are marked as complete whereas rest four are left as on track.

Conclusion

As the above examples indicate, development as an agenda has not been neglected by the Finance Track. There is visible diversification of its pool of issues over the years and both tracks are constantly finding innovative and practical solutions to various developmental issues. However, we cannot say with confidence whether the two tracks are coordinating with each other in implementing the cross-cutting commitments of G20. There also remains ambiguity over whether a stronger convergence between the operations of the two tracks will lead to any significant improvement in results. Therefore, it becomes important to conduct further research to conclude whether convergence between the tracks is necessary when both the tracks in their independent functioning do justice to their mandates.

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