

ODSG

For DSG's approval ☐
For DSG's attention ☒
For DSG's information ☒
For DSG's signature ☐

Subject: Note to the S-G
from Mr. Akhtar - G20
Sherpa Mtg under Russia's
Presidency, 11-14 December
2012.

CM

Date: 19 Dec
Comment (if applicable):

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DSG

For SG's approval ☐
For SG's attention ☒
For SG's information ☐
For SG's signature ☐

Date: 19 Dec '12
Comment (if applicable):

JZ

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Approved ☐
Noted ☒ *Hen*
Seen ☐
Signed ☐

Date: 20/12/12

DSG/cdc/R.002/HJM/LM (g.i)



Note to the Secretary-General

G20 Sherpa Meeting under Russia's Presidency, 11-14 December, 2012
(Detailed report attached)

Russia's Presidency attaches particular significance to outreach, prioritization and accountability of the G20 agenda. A broad spectrum of stakeholders (G20 thinkers, civil society, labor and business community) were invited to provide their inputs to G20 thinking.

Economic Prospects and Risks: On behalf of the UN, I submitted a summary of The World Economic Situation and Prospects 2013 (to be released by DESA on 18th December) and this was well appreciated by G20. IFIs were unanimous in their opinion regarding the weakening global outlook and the forecast has been revised downwards. While *fiscal austerity* cannot be ignored, priority has to be revival of aggregate demand and growth. The current fiscal adjustment is insufficient for Europe, the United States and Japan to achieve a significant reduction in *public debt*. Despite some stabilization, the *financial sector* has to be strengthened to reduce risks and jump-start financial intermediation as countries are caught in the liquidity trap and deleveraging is limiting the ability to stimulate economic growth. The *global prospects* are threatened by: (i) dragging political debates on the United States fiscal cliff; (ii) slow implementation of the European reforms; (iii) tight conditions in food markets; and (iv) spillovers of advanced economies slowdown to emerging markets.

Development Priorities: Priorities of G20 have been aligned to foster **Growth and Jobs**, through strong emphasis on investment and effective regulation of financial markets, energy, and labor markets. Accountability of the macroeconomic framework is to be strengthened and an evaluation process is to be structured to assess the impact of development priorities. A joint Finance and Labor Ministers' meeting will be held in July 2013 to discuss job creation. The UN is already involved in a number of development working groups and recently we have been working with IFIs on the diagnostic work on long term investment financing. Substantial discussion took place on the inadequacies of multilateral trade and investment regime.

G20 included Post-MDG as a topic for discussion, but lack of consensus held back its adoption as a G20 Initiative. On their request, I briefed them on the UN Post-2015 Development Agenda. I indicated the UN openness and sought guidance on how the G20 wishes to engage G20 members to support MDGs through meeting ODA targets and supporting development of alternate financing strategies for sustainable development and green growth. Some G20 members indicated that the UN should continue to lead the post-MDGs process. Japan proposed building political commitment through a special statement and discussion at the Leader's Summit. Russia's Sherpa has advised me that they will further deliberate on how G20 would move forward, and inform me.

Presidential Summit: Invitations are being issued to: Singapore (given their lead in Global Governance agenda) and Kazakhstan, the Chair of the IMFC in order to reinforce governance reforms of IMF, and some regional groups, including ASEAN, the African Union and the New Partnership for Africa's Development (NEPAD). On the sidelines, I was advised that the President of the General Assembly met with the Russian Foreign Minister and Sherpa to advocate setting in place enhanced communication mechanisms between the G20 and the UN Member States. The proposal is under deliberation and Russia stands by the Sherpa's briefing to the General Assembly, in line with already agreed framework. Russia's Presidency is off to a good start and there was a wide appreciation of their inclusive approach. Strong commitment was echoed by Deputy Foreign Minister in a few meetings for engaging the UN in the G20 process.


Shamshad Akhtar
17 December 2012

cc: Deputy Secretary-General
Chef de Cabinet
Mr. Wu

DEV/09/002

SG OFFICE
#3606 19 Dec.

Mission Report

Russia signaled a strong resolve for promoting G20's inclusiveness and openness during their Presidency. A broad spectrum of stakeholders was invited along the sidelines of the main Sherpa Meeting. Think20 (T20), led by the academics and heads of G20 Toronto and other research centers, reflected on how G20 policy agenda should be focused to reinvigorate growth, trade and foreign investment and how to prioritize the development agenda. Parallel sessions were run by: B20, with the involvement of business leaders and CEOs; C20, with civil society groups; L20, composed by labor and trade union representatives; and Y20, integrating the voices of youth.

Ms. Senia Yudaeva has been appointed by Mr. Putin as the head of the Expert Department of the Russian Presidency and is leading the Sherpa track. She has played an instrumental role in shaping the agenda. Mr. Sergei Storchak briefed participants on the priorities of the G20 Finance track. Russia's Sherpa stressed that the Presidency attaches particular significance to accountability, outreach and prioritization of the G20 agenda. This will feed into both the Sherpa and Finance Tracks. However, it was mentioned that the Finance Ministers and Central Bankers' track will operate in a traditional, "conservative" manner. Aligning priorities, Russia is emphasizing fostering *Growth and Jobs* by focusing on three areas: (i) employment generation; (ii) promoting investment by, among others, enhancing transparency and confidence; and (iii) effective regulation of financial markets and energy. At the G20 Sherpa meeting held on 12th December, three members of the T20 were invited to provide T20 feedback on growth, trade and investment, and fostering sustainable development in line with G20's key priorities.

Economic Prospects: IFIs offered their economic updates and country delegates provided their own perspectives. On behalf of the UN, I submitted *The World Economic Situation and Prospect Report 2013*, to be released on 18 December and this was well appreciated. IMF indicated that the *Global* situation is somewhat stabilizing as bond spreads, market sentiment indicators and capital flows seem to be improving. Developing countries are showing signs of renewed dynamism in economic activity. IFIs were, however, quick to stress that the global outlook has weakened and most IFIs have revised their forecast downwards. The extent of downward revisions varies among institutions, partly reflecting the timing of the corresponding forecasts – notably, UN estimates are the most recent. Emphasis was placed on

- (i) Managing better *fiscal austerity*, while focusing on stimulating aggregate demand and growth – a challenging proposition. How the process is arranged at country level will continue to influence the pace of fiscal adjustment in general.
- (ii) Focusing on *public debt*, it was acknowledged that the current rate of adjustment and approaches are insufficient for Europe, the United States and Japan to achieve a significant reduction in public debt.
- (iii) Recognizing that a range of global actions have contributed to the stabilization of the *financial sector* in the short term (as reflected in trends in bond yields and other market benchmarks). However, there is need to strengthen banking systems and launch nonbank sector reforms, while examining ways of addressing the liquidity trap. In addition, deleveraging is limiting the ability to stimulate economic growth.

Risks and Challenges: The global prospects are threatened by a number of risks. Emphasis was placed on swift resolution of the United States fiscal cliff issue as it has the potential to be disruptive if the political resolution requires too many compromises. European actions have been far-reaching, but the implementation of the reforms is still at risk. Tight conditions in food markets may induce fresh vulnerabilities, although right now the major issues seem to be confined to the maize market.

There was further recognition by advanced economies of the risks of spillovers to emerging markets. Many developing countries need to continue growing and enhancing their fiscal space. Evidence provided by the World Bank indicated that the number of countries reporting fiscal surpluses is down to 19 per cent in 2011, from 40 per cent in 2007. About half of the countries had deficits larger than 3 per cent GDP in 2011. Unemployment levels pose a substantial economic and social risk. In addressing this, the G20 will need to go beyond the working groups that focus on labor market policies and monitoring, to ensure that advanced economies remain focused on stimulating aggregate demand to utilize capacities, and that developing countries address structural constraints in order to strengthen their capacity to foster an adequate supply response.

Development Priorities: The realignment of priorities to reinvigorate growth and jobs featured prominently in the discussion through re-pooling and sharpening the focus, rather than altering the development agenda. Continuity in the development initiatives reflects Troika's (Russia, Mexico and Australia) agreement to essentially carry forward the dialogue on all areas. The G20 will have a strong focus on **JOBS**. Besides reinvigorating growth and investment, adopting labor activation strategies and programs, and monitoring labor market developments, the Presidency plans to hold a Finance Ministers and Labor Ministers joint meeting in July 2013, to examine the feasibility of the measures developed to foster job creation.

The diagnostic work on *long-term investment financing*, in which the UN is participating, will be presented in February 2013. Work on *financial regulation* will be deepened, particularly to get a better handle on the oversight of the non-bank sector and shadow banking. Empowerment of the Financial Stability Board to play an effective role in oversight implementation was emphasized. G20/T20 as well as the external review report have also emphasized the following priorities:

- Enhancement of G20 accountability, by introducing more rigor and extending structural balance indicators.
- Enhancement of *multilateral trade*, by emphasizing trade liberalization, discipline increasing protectionist measures,¹ promote trade facilitation and lend more support to the WTO.
- Phase out inefficient fossil fuel subsidies. Better targeting and savings generated will support fiscal austerity.
- Discussion on strategies and timetable for the realization of targets regarding debt to GDP ratios.
- The Russian Deputies indicated that new emphasis will also be placed on examining issues related to government borrowing and public debt sustainability.

G20 included Post-MDG as a topic for discussion, but lack of consensus held back its adoption as a G20 Initiative. On their request, I briefed them on the UN Post-2015 Development Agenda and emphasized the focus on the MDG-2015 acceleration and their enhancement and integration within a broader sustainable agenda. I mentioned that the HLP (co-chaired by two G20 members) and UN tracks are inclusive in outreach and are developing substantial thinking on a sustainable development agenda. I indicated UN openness to seek G20 guidance on how, and in which areas, the G20's would consider its engagement most effective and mentioned that G20 members could support MDGs through meeting ODA targets and supporting development of alternate financing strategies for sustainable development and green growth. G20 comments were diverse; some indicated that G20 should let UN lead post-MDGs process. Few countries proposed building political commitment through a special statement and

¹ The external evaluation report on G20 accountability shows that G20 countries have adopted more than 715 protection measures. Others also echoed concerns regarding the stalemate of the WTO round, given the lack of political agreement.

discussion at the Leader's Summit. Russia's Sherpa has advised me that they will further deliberate on how to go forward and inform me.

Presidential Summit: Consistent with current outreach priorities, initial invitations are being issued to Singapore (leading Global Governance agenda) and Kazakhstan in particular, as well as to the Chair of the IMFC(governance reforms of IMF), and some regional groups, including ASEAN, the African Union and the New Partnership for Africa's Development (NEPAD).

Conclusion: Russia's Presidency is off to a good start and a host of seminars and other outreach activities will be convened throughout the year. The Sherpa and the Deputy Foreign Minister have confirmed Russia's interest in fully including the UN in the G20 deliberations. The Leaders' Summit will be held on 5-6 September 2013 in St. Petersburg. Preceding it, a Joint Sherpa and Deputies meeting will handle the finalization of the background papers for the Leaders' Communiqué. A well orchestrated and coordinated event, incorporating a blend of new ideas and old G20 tradition, with strong outreach and accountability and evaluation debates, however, yet to be seen how sustainable this approach is and how this impacts G20 performance.