



**TASK FORCE - 5** 

---

PURPOSE AND  
PERFORMANCE:

# REASSESSING THE GLOBAL FINANCIAL ORDER

वसुधैव कुटुम्बकम्

ONE EARTH • ONE FAMILY • ONE FUTURE

# WORKSTREAMS

---

- ENHANCING ACCESS TO INFRASTRUCTURE & DEVELOPMENT FINANCE
- TOWARDS MORE INNOVATIVE FINANCING MECHANISMS
- REFORM OF BRETTON WOOD INSTITUTIONS AND MDBS
- NEED AND ROLE OF REGIONAL AND PLURILATERAL FINANCING INSTITUTIONS

# ABOUT THE TASKFORCE

This task force will deliberate on how the global financial architecture can be made fit-for-purpose for the 21st century. The global financial architecture—dominated by international financial institutions such as the International Monetary Fund (IMF), World Bank, and the Bank for International Settlements—needs radical reforms to reflect the realities of contemporary times. Greater access to development finance, such as climate finance, infrastructure finance, and social sector investments, is more important than ever. The widening financing gap for the Sustainable Development Goals (SDGs) and climate adaptation requires proactive actions at the multilateral level, including at the G20. In addition to showcasing best practices in domestic resource mobilisation, innovations in funding sources—including local currency bond markets, and instruments by multilateral, regional, and national development banks—can be leveraged. There is a gap in expectations between central banks, multilateral development banks, and the IMF. There is a need for a coordinated and collaborative approach among the Bretton Woods institutions, and a push for fundamental changes in their mandates and ways of working. Can the G20 move beyond its post-financial crisis management approach to address the crises of today, and identify and remove the institutional and regulatory barriers to enhance developing countries' access to financing? What are the regulatory and policy changes that can encourage investments from multilateral institutions and the developed world into emerging and developing countries?

# ACKNOWLEDGEMENTS

---

This Task Force Statement collates the primary ideas and recommendations of the Task Force members, shared over the course of the year through meetings, convenings, and working groups. The Task Force comprises 15 members from 15 institutions.

# PREAMBLE



The current global financial order, created in the post-Second World War period, is no longer fit for a multipolar world that faces unprecedented global challenges, such as worsening climate change and stagnating Sustainable Development Goals (SDGs). The clarion call is to reimagine a global financial order that can channel increased financial flows at a lower cost and with greater predictability, especially to developing countries, to enable the significant increase in investments needed to achieve sustainable, inclusive, and resilient growth. Credible estimates indicate that the financing requirements will exceed US\$1 trillion annually. This requires, among others, that multilateral development banks (MDBs) triple their financing amounts by 2030. Reimagining the global financial order also includes addressing threats to financial stability to be able to reduce the risk of systemic crises.

Achieving these goals with the necessary urgency requires fundamental changes in the leadership, mandate, operating model, and governance structure of the institutions underpinning the current global order to facilitate a greater flow of private capital infused with innovations. The urgency of the problems, extensive discussions on solutions over the years, and technological breakthroughs, all make it possible to translate challenges into opportunities.

Three outcomes that are central to a credible new framework for change are: (i) a quantum leap in financial flows; (ii) a significant reduction in the cost and variability of capital; and (iii) fundamental implementation steps, including governance reforms. These outcomes can be achieved through three pillars: (i) official capital (including MDBs and debt frameworks); (ii) private sector capital; and (iii) financial innovations.

# ACTION POINTS



## **i. Official Capital**

### **a. Tackling Debt Difficulties for Emerging and Developing Economies**

Debt relief is critical to ensuring that low-income countries have the resources needed to recover from the economic impacts of the COVID-19 pandemic, mitigate and adapt to climate change, and achieve sustainable development. The G20 can play a key role in promoting debt relief.

- The G20 should set out steps towards developing a project finance framework for countries suffering from debt overhang.
- Both the Debt Service Suspension Initiative and the Common Framework (CF) are critical tools for debt relief. They need to be adapted, however, to the evolving landscape of the creditor base and the growing convulsion of financial instruments. The G20 should consider extending the CF to middle-income countries and incentivise the participation of private creditors. Mandating private participation in credit databases and court-based injunctions to prevent asset seizures under restructuring can also help.
- The G20 should coordinate efforts to restructure debt for countries in debt distress. This includes working with international financial institutions to develop a comprehensive framework for debt restructuring and debt sustainability analyses. Restructuring must be deep enough to enable the return of private creditors.
- The G20 could explore innovative mechanisms for debt relief, such as debt swaps and debt-for-climate swaps, and automatic climate-linked clauses that can help countries address debt sustainability and environmental challenges simultaneously.
- The G20 must augment financial support for debt relief programmes, such as the Catastrophe Containment and Relief Trust of the International Monetary Fund (IMF), to assist low-income nations in managing the economic repercussions of the pandemic.



## **b. Scaling-Up and Reforming the MDBs**

MDBs have a critical role in financing development and addressing the urgent challenges faced by developing countries. However, there are concerns that the MDBs are not doing enough, given the scale and urgency of the problems. MDBs can increase financing through a combination of more efficient capital utilisation, innovation, use of information, and risk mitigation to draw in private capital. Capital increases will follow success with these measures.

- The Indian G20 presidency has set up an Independent Expert Group (IEG), with a mandate to prepare a roadmap for reforming the MDBs. The purpose of the IEG is to update the MDB ecosystem and make it fit-for-purpose in the 21st century. The mandate includes three actionable points: equipping MDBs to finance a wide range of SDGs and transboundary challenges, assessing the potential for scaling up capital by and from MDBs, and identifying mechanisms for coordination among MDBs. The IEG's recommendations should be acted upon.
- The recommendations of the G20 Capital Adequacy Review to make more efficient use of existing capital should be implemented expeditiously with strict timelines.
- Innovative financing mechanisms can be built by leveraging the IMF's special drawing rights (SDRs). There is potential to expand the use of SDRs in the future. The African Development Bank is exploring promising approaches, which should be supported and replicated elsewhere.
- The capacity of MDBs to attract private capital can be increased by a more systematic deployment of risk-mitigation tools and by providing credit information to the market. This could involve the development of innovative financial instruments, such as platform and portfolio approaches for MDBs to share risk with private investors and opening access to the Global Emerging Markets Risk Database. The World Bank Group's Multilateral Investment Guarantee Agency can be expanded to provide efficient portfolio insurance solutions to the MDB system with the help of the IMF's vast information on exchange rate movements.

- It is crucial to increase MDBs' capital bases following some success in using them more effectively. This could involve increasing capital subscriptions from member countries and distributed across MDBs and regional banks in line with shareholder priorities to build a contestable system that best uses resources.
- Given that the G20 will be led by two developing nations (Brazil and South Africa) over the next two years, there is an opportunity to follow through on deeper governance reform of MDBs and international financial institutions to give more voice to emerging markets and developing economies (EMDEs) in line with their rising economic power, to ensure their concerns are met. These would include lending at affordable rates and providing a range of financial products that are tailored to the needs of these borrowers.
- MDBs could play a vital role in building the capacity of middle-income countries to develop harmonised definitions, standards, protocols, taxonomy, eligibility criteria, and pricing models to enhance their ability to utilise innovative financing mechanisms for sustainable and development finance.
- MDBs should improve their internal operations and management practices to ensure effective and timely implementation in line with the needs of client countries. This could involve streamlining internal procedures, investing in new technologies, or creating appropriate incentives for staff. MDBs' adoption of local standards can reduce their approval time.
- Regional Financial Institutions (RFIs) can provide additional sources of funding, technical expertise, and knowledge sharing to support infrastructure projects across a broader geographic area. RFIs such as the New Development Bank and Asian Infrastructure Investment Bank can add to existing national development financial institutions by providing additional financing and technical assistance to support cross-border infrastructure projects.
- The G20 can support technical assistance- and knowledge-sharing for RFIs, as well as coordination and two-way information flows between MDBs and regional and national development banks. This could include sharing best practices in areas such as risk management, project preparation and appraisal, and financial governance.

## ii. Mobilising Private Finance and Reducing Financial Instability

- The G20 must coordinate technology and investment-driven economic recoveries, particularly in the Global South, to promote sustainable development and generate new drivers of growth. This coordination involves merging climate and development policies in infrastructure sectors, such as energy, transportation, and water, to promote sustainable and inclusive growth.
- The G20 could encourage recipient countries to utilise a range of policy initiatives, such as providing risk guarantees and promoting public-private partnerships to allow greater private investment.
- Efforts can be made to define the scope of green financing, promote green bonds, discourage greenwashing, and develop a standard taxonomy.
- The G20 can enhance access to infrastructure and development finance by building capacity among emerging and developing economies. The G20 could promote capacity-building through initiatives such as training programmes, technical assistance, and knowledge sharing. Initiatives to build a set of bankable projects, such as those of the United Nations Development Programme, could be scaled up.
- Better information, measurement, standardisation, and data availability in EMDEs will reduce lender uncertainty and should be supported by the G20. It might also contribute to lowering volatility in EMDEs' asset prices, helping to reduce country risk premiums and borrowing costs, especially if combined with mechanisms that allow the international pooling of risk.
- One area where the G20 can be most productive is a uniform tax/regulation on mobile factors of production, which is required to prevent arbitrage across countries and financial institutions. This was discussed in previous G20 meetings, but taxation was considered an individual right. However, the G20 has demonstrated its capacity to drive collective action and agreement on

such issues with the minimum corporate tax. Progress in this area will contribute to reducing spillovers for emerging and developing countries, increasing the availability and reducing the cost of finance for them. A financial transaction tax can reduce volatility and raise resources for adaptation and mitigation. Furthermore, by preventing illicit financing, money laundering, and fugitive economic offences, the G20 can help create a more transparent and stable financial system, which is essential for development finance. Illicit financial flows, including tax evasion, and money laundering, are estimated to cost developing countries billions of dollars every year, reducing the availability of financing for development projects and worsening poverty and inequality.

### **iii. Enhancing Innovative Financing Mechanisms**

Since private financial flows are several times larger than official flows, an increased amount of these must become available to address global challenges. Innovative financing mechanisms can play a significant role in enabling this task.

- Innovative financial instruments, such as blended finance or risk-sharing mechanisms, can help MDBs deploy their capital base more effectively and mobilise additional resources from the private sector.

- Governments, sovereign wealth and pension funds, MDBs, and other stakeholders in emerging economies can work together to identify priority sectors and develop customised financial products and blended investment programmes tailored to the needs of these sectors.
- The G20 should seek to enable a substantial scale-up of private capital flows to the Global South by unblocking financial system obstacles (such as the absence of information and asset classes), using public digital infrastructure, building supportive regulatory frameworks for sustainable long-term financing, and creating innovative instruments and de-risking platforms.
- Instead of establishing new institutions, the G20 can focus on upgrading existing institutions and architectures to respond to emerging developmental challenges by enhancing coordination, learning, building project banks, and scaling up blended finance and innovative mechanisms.
- The G20 can support the use of other innovative financing instruments for development finance, such as municipal bonds and social impact bonds, which provide funding for social programmes and services, and combine public and private financing to leverage greater investments in development projects.

# TASKFORCE MEMBERS

---

## LEAD CHAIRS

### ASHIMA GOYAL

INDIRA GANDHI INSTITUTE OF  
DEVELOPMENT RESEARCH (IGIDR)

MUMBAI

### DEEPAK MISHRA

INDIAN COUNCIL FOR RESEARCH  
ON INTERNATIONAL ECONOMIC  
RELATIONS (ICRIER)

NEW DELHI

## CO CHAIRS

### AMAR BHATTACHARYA

BROOKINGS INSTITUTION

USA

### BAMBANG BRODJONEGORO

UNIVERSITY OF INDONESIA

INDONESIA

### CELESTIN MONGA

HARVARD KENNEDY  
SCHOOL

USA

### DANIEL COHEN

PARIS SCHOOL OF ECONOMICS

FRANCE

### HANS PETER LANKES

LONDON SCHOOL OF ECONOMICS  
AND POLITICAL SCIENCE

UNITED KINGDOM

### JUSTIN VAISSE

PARIS PEACE FORUM

FRANCE

## **MATTHIAS CATÓN**

FRANKFURT SCHOOL OF FINANCE  
AND MANAGEMENT

GERMANY

## **NAOYUKI YOSHINO**

KEIO UNIVERSITY

JAPAN

## **PRIYADARSHI DASH**

RESEARCH AND INFORMATION  
SYSTEM FOR DEVELOPING  
COUNTRIES (RIS)

INDIA

## **RENATO BAUMANN**

INSTITUTE OF APPLIED  
ECONOMIC RESEARCH

BRAZIL

## **SARAH COLENBRANDER**

OVERSEAS DEVELOPMENT  
INSTITUTE

UNITED KINGDOM

## **SHIKHA BHASIN**

COUNCIL ON ENERGY,  
ENVIRONMENT AND WATER

INDIA

## **VIDYA SHAH**

EDELGIVE FOUNDATION

INDIA

## **COORDINATORS**

### **ADITYA BHAN**

OBSERVER RESEARCH  
FOUNDATION

INDIA

### **SHRUTI JAIN**

OBSERVER RESEARCH  
FOUNDATION

INDIA



वसुधैव कुटुम्बकम्

ONE EARTH • ONE FAMILY • ONE FUTURE

Think20 India 2023 Secretariat



Observer Research Foundation  
20, Rouse Avenue Institutional Area,  
New Delhi, Delhi 110002, India

