

India's G20 playbook offers the world pathways for a recovery

Innovative financing options should be adopted for the global economy to recover evenly and all sustainability goals to be met



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Economic headwinds after covid continue to affect most countries across the world. Countries' efforts to tackle the post-pandemic impacts on their economies have been stymied by the Ukraine conflict, which has created inflationary pressures and macroeconomic insecurity. The countries of the Global South have particularly been affected, as their rising debt burdens have hampered efforts at promoting sustainable development, placing a question mark on their ability to meet the sustainable development goals (SDGs) or respond to the effects of climate change.

On top of that, rising interest rates, especially in the developed world, are leading to depreciating currencies. This creates a dual challenge. First, the cost of debt increases due to higher interest rates, and second, for each dollar of debt, countries pay more in local currency, owing to depreciating currency value.

For its part, India managed to emerge from the pandemic relatively quickly through a steady V-shaped recovery, and is now one of the world's fastest-growing economies. However, the widely divergent impacts of these multiple crises on various countries are leading to an ever-widening gap between nations, with dire implications for a globally sustainable future. India is using its presidency of the G20 to put forward the voice, perspectives and priorities of the Global South, pitching an accelerated recovery through the forging of stronger links with the Global North, by calling for reform of the multilateral system, and focusing on the financing of climate and SDG action.

Much of the discussion on the global economic recovery has centred around the need for a renewed multilateral system—especially multilateral development banks (MDBs) such as the World Bank, International Monetary Fund (IMF) and other international financial institutions—to adequately support post-pandemic economies and help them achieve the SDGs. These institutions, set up to rehabilitate economies in the aftermath of World War II, have adapted to deal with diverse economic events over the decades. Yet, their responses in recent years—though significant in their own right—shows they do not adequately reflect contemporary realities of the 21st century, which is no doubt a herculean task.

India is taking on a leadership role in advocating MDB reforms at various fora, including G7 and G20 meetings. India's Prime Minister Narendra Modi, in a recent joint statement with US President Joe Biden, called for strengthening the multilateral system to keep pace with contemporary trends, for MDBs to expand their traditional mandate to include transboundary issues, and for collective action against climate change. They agreed to work together to secure a G20 agreement to cre-



ate resources for concessional lending to address global challenges and enhance crisis response for International Development Association countries.

It is increasingly recognized that government finances may not be enough to help countries out of the current situation. The G20 is looking at innovative and sustainable financing strategies to assist smaller and poorer nations. These include attracting private capital through appropriately designed incentives, devising ways to reduce investment risks, and increasing access to sustainable finance through blended financing, sovereign green bonds, and other instruments.

The Independent Experts Group Report on *Strengthening Multilateral Development Banks* underscored that it is a 'now or never' moment. It proposes a threefold strategy for MDBs: First, to adopt a mandate that focuses on eradicating extreme poverty, promoting shared prosperity and supporting global public goods; Second, to triple sustainable lending by 2030; and lastly, to establish a new funding mechanism that facilitates versatile and creative collaborations with investors eager to back elements of the MDB agenda.

By fully adopting recommendations from the *G20 Capital Adequacy Frameworks* report (July 2022), there's potential to create additional lending capacity of \$80 billion annually. As that study shows, the leverage of each MDB can be further enhanced by optimizing the use of callable capital, preferred creditor status, and by revising statutory lending caps, all the while safeguarding their credit ratings. The introduction of hybrid capital strategies, including the recycling of special drawing rights (SDRs), and risk reallocations to both private and public entities can substantially boost available capital.

A paramount opportunity for transformation lies in the collaboration of MDBs with the private sector. Currently, for every dollar MDBs lend, they only mobilize \$0.6 worth of private capital. This ratio should be ambitiously aimed to double at least. The global development finance framework should be structured to facilitate spending towards achieving the SDGs, aiming to provide an additional \$500 billion annually in official external financing by 2030. This should be paired with efforts to galvanize a matching amount of private capital, leading to a total supplementary external financing goal of \$1 trillion. Workforce incentives should be aligned to support private capital mobilization. By recalibrating their accounting practices to evaluate exposure based on anticipated loss estimations, MDBs can significantly enhance their effectiveness.

India's G20 presidency positions it to play a leading role in extending debt relief by boosting financial resources and accelerating technological transfers. India can build on its record of providing humanitarian assistance and 200 million covid vaccine doses to countries in the Global South. All G20 countries must reach for reforms that meet the moment and respond to the great needs that have been articulated by both leaders and experts around the globe.

India will continue to champion the concerns of the Global South, with a strong call for innovative financing mechanisms not usually available to smaller nations. Systemic challenges call for at-scale systemic solutions, which require collective action involving all stakeholders, as embodied in India's theme for the G20 presidency: One Earth, One Family, One Future. Or *Vasudhaiva Kutumbakam*.