

GLOBAL SOLUTIONS JOURNAL

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G20/T20 JAPAN 2018 SPECIAL

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Visions of global paradigm change



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Dear Reader,

After the impressive Argentinian T20 Summit in the G20 process, we look forward to a productive and inspiring Japanese initiative. It is already clear that the planning process for the Japanese T20 Summit is well-prepared, far-sighted and ambitious.

The global challenges addressed by the T20 require sustained, long-term policy responses and these in turn can benefit from a strong international network of research organizations that provide continuity of policy advice by analyzing the underlying global problems and opportunities and generating policy recommendations. From the challenges posed by climate change to financial stability to infrastructure development, the T20 community can become a research backbone in the global problem-solving process. The Global Solutions Initiative aims to support the T20 community in this regard, convening the relevant groups of research organizations, supporting the production of visions and recommendations, and disseminating the results.

Just as Issue No 2 of the Global Solutions Journal was launched in Buenos Aires, this third issue marks the beginning of the Japanese G20 Presidency and is being published at the Japanese T20 Inception



Global Solutions Summit 2018 closing plenary (from left) with Naoyuki Yoshino, ADBI; Laura Jaitman, Argentine Ministry of Treasury; Dennis J. Snower, GSI; Colin Bradford, Vision 20; Sebastian Turner, Tagesspiegel; Jose Martínez, CARI

Conference on December 4 in Tokyo. Naturally, the journal pays particular attention to the priorities of the Japanese G20 Presidency, as crystallized in the Japanese T20 Task Forces. These include new research foci, such as universal healthcare, cryptocurrencies and fintech in the global financial architecture, financial technologies for small and medium-sized enterprises, and the challenges of aging populations.

The portfolio of policy recommendations is meant to fit into a broader systemic framework of policy action. Accordingly, the Global Solutions Initiative will also focus attention on bringing together visions

of fundamental global paradigm change. Both researchers from the T20 community and potential implementers from the policy, business and civil society communities are invited to contribute to this endeavor at our next Global Solutions Summit on March 18–19, 2019, and in the next issue of the Global Solutions Journal, which will be released at that summit. We are excited to hear from you.

Yours, in hope and confidence,

Global Solutions Journal

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Seeking a resilient and equitable society

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Equitable and sustainable economic growth is the ultimate goal of society. The 2019 T20 will be the first time that the Think Tank Engagement Group will be led from Japan. The T20 Japan has set up ten task forces, which include new task forces on the topics “Aging Society” and “Small and Medium-sized Enterprises”. The T20 Japan will continue to discuss various topics that were dealt with at past T20 summits. Proposals made in Japan will be based on theoretical analyses and empirical investigations which will be conveyed to G20 policy-makers.

1. Mobilization of domestic savings for sustainable growth and need for financial education

Domestic savings must be increased in order to promote financing for domestic private investment and infrastructure investment. If a country borrows from abroad in excess of its capacity to repay, the country will eventually become bankrupt. The development of financial technology and the globalization of trade and finance generated massive capital flows among various part of the world. Traditionally, active capital flows were restricted mainly to developed countries. However, current financial technology enables anyone in the world to gain access to various financial products offered by financial institutions all over the world through mobile phones and the Internet.

The institution:



The Asian Development Bank Institute provides intellectual input for policy makers in ADB's developing member countries.

Huge capital mobility would then be created once a crisis hit a country. Exchange rate volatility would become very large. If the exchange rate depreciated on account of capital outflows from the country, prices of imported products would rise and the country would face high inflation. Keeping stable capital flows throughout the world promotes the continuation of stable global growth.

»Domestic savings must be increased in order to promote financing for private and infrastructure investment.«

Illegal financial institutions might sell their products across the border and innocent individuals would suffer. International regulations for financial institutions must be strengthened.

Technological progress is remarkable in financial industries. Through mobile phone and the Internet, people can make deposits from remote areas. Financial inclusion is remarkably increased by the use of mobile phones. At the same time, people can borrow money easily using mobile

phones, which makes them more vulnerable to the possibility of debt overhang. Financial education is needed to maintain people's ability to act responsibly under the fintech development. It is important to provide school education to understand existing financial products, compute personal interest burdens, and appreciate the importance of savings for one's future needs. Japan started children's savings accounts at primary school many years ago, which promoted useful attitudes to savings in children.

If the government spends too much beyond collectable tax revenues, it must issue government bonds or borrow from overseas, which might lead the country into bankruptcy. Similarly, if households or companies borrow much more than they can earn, they will enter bankruptcy. Circulation of domestic savings to domestic investment and domestic bonds are key for the sustainability of the economy.

The growth of the economy generates increases in tax revenues, and income growth of households and corporations enables them to reduce their debts. Each sector must keep the balance between revenues and expenses in order to avoid debt overhang. If the rate of interest payments on government loans is lower than the increase in tax revenues from infrastructure investment, borrowing from overseas will stabilize the government budget. If this condition does not hold, the borrowing from abroad to construct infrastructure will lead to the country's default.

Demographic changes are rapid in selected Asian countries compared with other regions. The number of children is declining as a percentage of the total population in many advanced nations. Elderly pension

payments and healthcare are increasing very rapidly. As for developing nations, human capital formation by providing good education and capital accumulation are urgently needed. Gender issues are addressed in Task Force 1 and several other task forces. Environmental pollution is growing in many developing countries alongside economic growth.

2. Sequencing of economic and social development

Proper sequencing of economic and social development is important for economic development. Various infrastructure investments are lacking in developing countries. Constructing physical infrastructure is not sufficient to generate economic growth. Infrastructure investment must induce

Figure 1.

	1956-60	1961-65	1966-70	1971-75	1976-80	1981-85
Direct effect	0.696	0.737	0.638	0.508	0.359	0.275
Indirect effect (Kp)	0.452	0.557	0.493	0.389	0.270	0.203
Indirect effect (L)	1.071	0.973	0.814	0.639	0.448	0.350
20% returned	0.305	0.306	0.261	0.206	0.144	0.111
% increment	0.438	0.415	0.410	0.404	0.400	0.402

	1986-90	1991-95	1996-00	2001-05	2006-10	
Direct effect	0.215	0.181	0.135	0.114	0.108	
Indirect effect (Kp)	0.174	0.146	0.110	0.091	0.085	
Indirect effect (L)	0.247	0.208	0.154	0.132	0.1250	
20% returned	0.084	0.071	0.053	0.045	0.042	
% increment	0.392	0.392	0.390	0.390	0.391	

Source: Yoshino, Abidhadjaev and Nakahigashi (2018)

economic activities not only for large businesses, but also for small businesses. Power, transport, communications, water supply and sanitation have to be provided to assist the stable growth of the economy. Good infrastructure will invite housing starts and the construction of office buildings in the region. Business sectors will start production, which will increase employment. Small businesses can start their own restaurants. Railway stations can be developed so that farmers can sell their own products at the station. Shopping malls can provide sales opportunities for SMEs in the region. These economic developments, alongside infrastructure, generate increased corporate, property, business, income and sales tax revenues. These increases in tax revenues are not generated by increases of tax rates, but arise from enhanced economic growth. If these increased tax revenues were partly returned to infrastructure investors and operating companies, their rate of return would increase in comparison to when the revenue was only based on user charges. The following figures are estimates of how much the spillover tax revenue would increase the rate of return from infrastructure investment if they were returned to infrastructure investors. The last row shows the percentage increase of the rate of return, which is about 39.0%–43.8%.

In order to increase spillover effects, financing for start-up businesses along road, railway, water supply and electricity supply must be provided, such as financing through hometown crowdfunding. SMEs must be able to borrow money through regional crowdfunding since banks are reluctant to lend money to risky borrowers. Women must have easy access to participating

in business supported by employment. Women can start businesses supported by hometown crowdfunding, as evidenced increasingly in selected Asian countries. This development can provide opportunities to low-income individuals.

»Proper sequencing of economic and social development is important for economic development.«

An empirical study of 44 countries shows that secondary school education and university education enhance the spillover effects of infrastructure investment. Secondary school education provides basic skills in the region and university education offers advanced skills. The Internet and smartphones can provide education programs to remote areas so as to promote human capital development. Modern technological progress will enhance the quality of education and interactive education programs can be created in remote areas. Technological progress will allow people to work at home and, as a result, lifestyles may drastically change in many developing countries.

3. Governance structure and role of the government

Small government is a desirable policy goal. However, many developing countries require government initiatives since the private sector cannot expand their business without the provision of basic infrastructure. Governance of the public sector is important. Incentive mechanisms to make the public sector efficient and productive are necessary. Bonus payments would provide some incentives for workers in public sector. The World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank and other multilateral financial institutions need to be involved in government infrastructure investment. They will make various public sector activities transparent and efficient.

International regulatory institutions might be needed to guard against global crime in financial products. Proper supervision and regulation of cross-border activities will be required. Global regulations must be introduced to cope with various crimes in fintech industries.

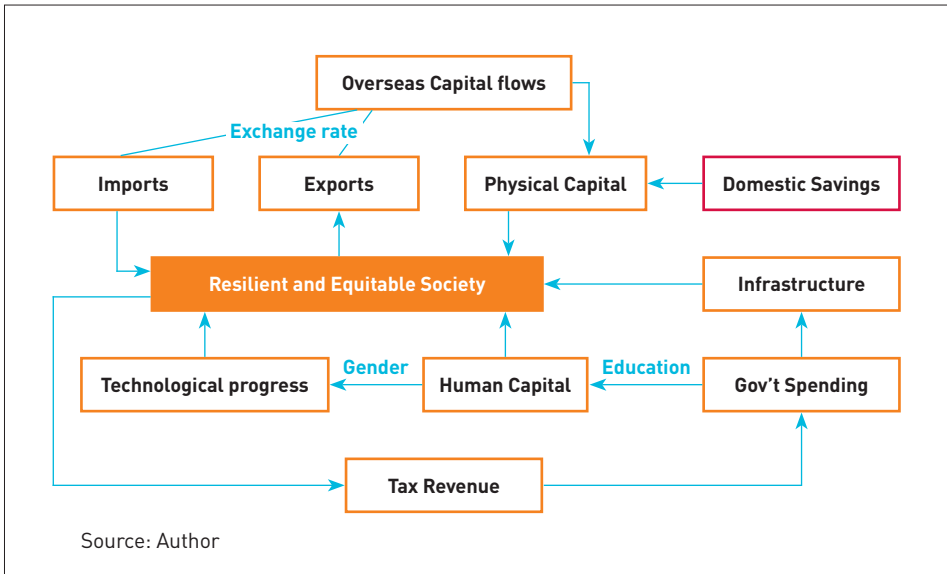
4. Structure of T20 Japan and brief descriptions of the ten task forces

The three leading research institutes of T20 Japan are

- the Asian Development Bank Institute (ADBI),
- the Institute of International Monetary Affairs (IIMA) and
- the Japan Institute for International Affairs (JIIA).

The themes of the ten task forces are as follows:

Figure 2.



Task Force 1: 2030 Agenda for Sustainable Development (Japan International Corporate Agency (JICA))

Since the adoption of the Sustainable Development Goals (SDGs) in 2015, the Group of Twenty (G20) have sought effective means of implementing the SDGs using various frameworks and fora such as the G20 Action Plan on the 2030 Agenda for Sustainable Development, and the G20 Development Working Group (DWG). This year, Task Force 1 will cover the following issues: universal health coverage (UHC), global institutional and/or financing issues, gender issues, and education in development. In addition, the Task Force will highlight new issues such as the role of the private sector in achieving the SDGs, while of course paying due attention to the continuity of discussions in the past T20 summits.

Task Force 2: International Financial Architecture for Stability and Development (Institute for International Monetary Affairs (IIMA))

Task Force 2 (TF2) aims to promote an international financial architecture for stability and development, with a focus on cryptocurrency and financial technology (fintech). To this end, the TF2 will review the T20's aspirations and achievements during the past decades with respect to the design and improvement of the international financial architecture. As a result of this review, TF2 will identify and recommend new priorities for policy action. Firstly, TF2 will introduce the topic of global financial instability in an era of changing monetary policies and financial crisis management. Lessons learned from the global financial crisis 10 years ago and global analysis of capital flows will be included. The effects

of the Federal Reserve Board's interest rate hikes on currencies and interest rates in emerging markets will also be discussed. Secondly, Japan's experience of introducing comprehensive regulations on cryptocurrency in April 2017 could serve as a starting point for discussing cryptocurrency regulations in the G20. Thirdly, TF2 will try to offer suggestions to strengthen global financial safety nets. Finally, TF2 will discuss the innovation and evolution of fintech. This includes how traditional financial institutions, fintech companies, and big tech players in the financial ecosystem can coexist harmoniously for consumers, and the future implications for society.

»**Women must have easy access to participating in business supported by employment.**«

Task Force 3: Climate Change and the Environment (Institute for Global Environmental Strategies (IGES) and Mitsubishi Research Institute (MRI))

The international community adopted the Paris Agreement and the 2030 Agenda for the SDGs in 2015. Today, the priority is how to implement these commitments. The Government of Japan has put forward the

concept of a Regional Circular and Ecological Sphere (Regional CES) in its 2018 Fifth Basic Environment Plan as key to realizing a paradigm shift towards a model sustainable society, fully compatible with the Paris Agreement and the SDGs. Regional CES emphasizes sustainable and optimal utilization of regional resources to form a self-reliant and decentralized society. The concept of Regional CES seems very relevant not only for Japan but also for other G20 members for implementing the Paris Agreement and the SDGs. T20 Japan will provide a good opportunity to disseminate these ideas and deepen discussions by developing concrete policy recommendations. Task Force 3 (TF3) plans to develop such recommendations underpinned by the following key ingredients of a Regional CES:

- an economic system and rules to establish a decarbonised and climate-resilient society,
 - sustainable community development using local resources,
 - improving the value of land as stock, and
 - a circular economy.
- TF3's briefs will include:
- policies for a decarbonised and climate resilient society,
 - resource efficiency and a circular economy at multiple levels,
 - revitalising local economies in harmony with nature, and
 - promoting renewable energy in South-east Asia.

Task Force 4: Economic Effects of Infrastructure Investment and Use of Spillover Tax Revenues (Asian Development Bank Institute (ADBI))

Development of infrastructure is a prerequisite to long-term sustainable economic growth. However, a sizable portion of GDP (about 10%) is needed to finance infrastructure-related projects in developing countries across the globe. It is also imperative that policies focus on sustainable investment in infrastructure. Task Force 4 takes this mandate forward in the T20 summit and organizes policy discussions under

»**International regulatory institutions might be needed to guard against global crime in financial products.**«

two themes: Theme 1 is “Challenges: How to increase the rate of return on infrastructure investment.” High quality infrastructure has large spillover effects. Spillover effects will further increase if SMEs and startups, alongside railways and roads, are provided loans. Theme 2 is “The Way Forward—Encouraging private participation in infrastructure investment for sustainable growth.” Participation by private investors will increase if returns from infrastructure

investment are distributed. Insurance and pension funds are potential sources of finance since infrastructure is a long-term investment. Hometown Investment Trust (HIT) funds can also provide financing for startup businesses.

Task Force 5: Cooperation with Africa (Japan International Cooperation Agency (JICA) and African Development Bank (AfDB))

African countries still face various development challenges such as fiscal and debt management, agricultural development, and with these the problem of food security, as well as the need to strengthen the international competitiveness of industries. However, Africa can take advantage of new trends such as the development of global value chains in agriculture and industry, and the leapfrogging impact of science, technology, and innovation (STI). The private sector's role is undoubtedly essential in many areas. This Task Force will promote the African Union's Agenda 2063 and sustainable development across the African continent by tackling the following policy issues: fiscal and debt sustainability, private sector and the G20 Compact with Africa (CwA), industrial development, agricultural development, and STI for Africa.

Task Force 6: Social Cohesion, Global Governance, and the Future of Politics (Japan Institute of International Affairs (JIJA))

Task Force 6 deals with the unprecedented crisis in multilateralism at the global level, disruption of social cohesion at the domestic level, how nations could address these issues, and what the future of politics should look like. In recent years, there has been political backlash against globaliza-

tion in many parts of the world. If populism with its "we-first," protectionist approach were to spread globally, we may experience significant disruption in global supply chains, deterioration of trade and investment, if not a collapse of the liberal trading system. Therefore, political leaders must address these issues at global fora such as the G20. TF6 previously pointed out that social prosperity has become decoupled from economic prosperity (see Snower 2018). For countries with weak social safety nets, the redistribution of income from winners to losers becomes essential. For countries with sufficient social safety nets, income redistribution may not be enough to improve social prosperity; innovative policies will be needed. TF6 aims to conduct robust analysis of populism from a socio-economic perspective. It also seeks to identify implications for global governance to help the G20 consider optimal formula and institutional arrangements that will allow high levels of international economic cooperation while reducing conflicts. TF6 will produce concrete policy measures to address these issues and shed light on the relationship among social cohesion, global governance, and the future of politics.

Task Force 7: The Future of Work and Education for the Digital Age (Asian Development Bank Institute (ADBI))

Several major technological transformations (e.g., artificial intelligence or AI, fintech, the Internet of Things, Industry 4.0) are putting the global economy on a new track. They will bring immense economic opportunities, such as new ways of doing business, new industries, new and better jobs, higher GDP growth, and better living standards. At the same time, they will cre-

ate challenges for individuals, businesses, and governments. They are likely to change business models, patterns of comparative advantage, skill needs, the organization of work, and may further limit the room for maneuver of national policy. Policy actions are needed to harness the opportunities and ensure the benefits are shared by all. This Task Force will make recommendations on how to achieve well-balanced labor markets capable of matching the supply of and demand for skills in an environment of rapidly changing technology while reducing inequalities and promoting economic and social development. It also aims to provide policy advice to develop educational systems that promote equal opportunities, lifelong learning, and financial literacy. Finally, it aims to make recommendations in the areas of data security, so that the digital economy can be harnessed effectively to greatly improve prosperity and inclusiveness.

»In recent years, there has been political backlash against globalization in many parts of the world.«

Task Force 8: Trade and Investment + Globalization (Research Institute of Economy, Trade and Industry (RIETI))

Free trade and investment are facing various challenges such as rising protectionism, unequal opportunities to engage in global value chains (GVCs), and ill-equipped legal systems for digital trade. To address these issues, the Trade and Investment Task Force will discuss three main topics. First is on eliminating factors that disrupt fair competitive conditions, enhancing and updating World Trade Organization (WTO) rules, and preserving and improving the WTO Appellate Body's functions to strengthen and improve the free trade system. Second concerns the role of GVCs and policies for mutual benefit of developed and developing countries to achieve international collaboration on sustainable and inclusive trade and investment. Finally, the Task Force will explore how to establish well-balanced global rules that promote the free flow of data while also ensuring protection of personal information in an era of digital trade. Through these discussions, the Task Force expects to foster common understanding on global issues and contribute to employment, productivity improvement, and economic growth in every country.

Task Force 9: SMEs and the Development of Financial Technology (Research Institute of Economy, Trade and Industry (RIETI))

SMEs account for more than half of formal employment globally and are crucial for stimulating improvements in productivity. However, many SMEs face challenges related to their size, limited resources, and relationship with larger enterprises. The SME Task Force will discuss three universal

challenges related to SMEs. First, the Task Force will tackle inclusive policies to support and target businesses and entrepreneurs including women, youth, elderly, and non-nationals, as well as policies aimed to boost the healthy turnover of enterprises. Second, the Task Force will discuss measures to support strongly motivated SMEs and promote networked broad-array cooperation among universities, research institutes, and companies to foster R&D and innovation. Finally, the Task Force will deal with policies on development and shared use of financial techniques utilizing big data including timely information for companies to support the financial needs of SMEs. Through these discussions, the Task Force aims to promote better understanding of global challenges related to SMEs and foster employment, productivity, and economic growth.

Task Force 10: Aging Population, its Economic Impact, and Immigration (Asian Development Bank Institute (ADBI) and Korea Development Institute (KDI))

The rising trend of aging societies, a result of decreased fertility rates and longer life expectancies, signals drastic changes in the world's demographic structure, as Asia clearly demonstrates. This phenomenon of rapidly aging populations poses a serious challenge to the global economy. As the ratio of the aged to the total population increases and the working population declines, productivity is seriously affected, growth decelerates, and social security systems become less fiscally sustainable. G20 policy makers are mindful of the impacts of aging populations on the global economy. Thus, Task Force 10 (TF10) was established to focus on policy measures and actions aimed toward sustaining inclusive economic growth and well-functioning socioeconomic systems which provide social security to all people. The role of labor migration to alleviate the impact of declining labor forces and working populations will also be explored in the context of well-designed immigration policies that will support aging societies.

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Tackling issues together under multi-lateral cooperation

The author:



Takeshi Yagi

The Ambassador of Japan to Germany

PREFACE

In 2019, Japan will host the G20 Summit in Osaka for the first time. This will be followed by the Olympics and Paralympics Games in Tokyo in 2020, which Japan will host for the first time in half a century. In this way, Japan will be receiving much attention from around the world as the host of these major international conferences and events.

Even today, after some 10 years since the global economic and financial crisis, I am convinced that the idea, “We can achieve more together than by acting alone”, contained in the G20 Leaders’ Declaration in Hamburg, continues to hold true. While economic globalization has brought progress and great benefits, we have also heard voices of discontent and insecurity caused by widening inequality. Japan will be assuming the G20 presidency in this context, and is determined to lead discussions on challenges that the international community is facing, including global financial and economic issues and environmental issues.

TRADE

International trade and investment are important engines to enhance economic growth, productivity, innovation, job creation and development. After the Second

World War, Japan itself was a nation that enjoyed remarkable growth through basking in the advantages of a rules-based, free, fair and open multilateral trading system centered on the World Trade Organization (WTO). This free trade system enabled the countries of Asia to advance economically one after another, and fostered the middle class in these countries. Against this background of success, large-scale foreign direct investment from countries like Japan to these Asian recipient countries has played a role since the 1980s. Their success was only possible thanks to the free, open, fair and rules-based multilateral trading system.

»Japan is determined to lead discussions on challenges that the international community is facing.«

However, concern and dissatisfaction over rapid changes in the global economy at times have given rise to the temptation to move toward protectionist policies, generating acute conflicts of interest among

countries involved. As a standard-bearer of free trade, Japan, the country that reaped the greatest benefits of all under this system, is determined to exercise strong leadership aimed at protecting and spreading a rules-based, free, fair and open multilateral trading system throughout the world. Japan approved TPP11 in the Diet and achieved the signing of the Japan-EU EPA. In addition to Japan's commitment to the WTO, Japan will make all efforts towards RCEP negotiations, which will lead to the realization of an enormous free-trade area in East Asia.

ENVIRONMENT

Last summer's fierce heat in the West is still fresh in our memory. Japan also suffered from unprecedented torrential rain and powerful typhoons. Climate change is an issue the international community must address, and the steadfast implementation of the Paris Agreement is needed. As made obvious by the recent extreme weather, climate change is accelerating more quickly than expected. We must swiftly take more robust action. At the same time, investment in sustainable energy sources, clean energy technologies and infrastructure brings opportunities for innovation, sustainable growth, competitiveness, and job creation. We think that measures against climate change are no longer costs but have become opportunities to enhance competitiveness. Moreover, addressing climate change is a critical pillar for achieving the Sustainable Development Goals. Based on these ideas, Japan will focus on accelerating the virtuous cycle of environmental protection and economic growth. Japan will lead discussions aiming for full-scale implementation of the Paris Agreement, which will start from 2020.

Furthermore, we must not ignore the problem of marine plastic litter. Marine plastic litter may harm the oceans' ecosystem, and also could impact our health. This is an urgent problem that may affect livelihoods and economies that depend on the oceans, through its adverse impact on industries such as fishing and tourism. It is important for each country to address this issue through its own agenda. On a global level, as chair of the G20 Summit in Osaka, Japan will make ocean plastic waste a feature of the agenda. At the summit, Japan aims to announce a robust initiative for effective measures to tackle this problem and drive global action to help resolve it.

»It is essential that not only governments but also think tanks and civil societies mobilize their expertise.«

QUALITY INFRASTRUCTURE INVESTMENT

To achieve global economic growth and sustainable development in developing countries, it is essential to enhance physical, people-to-people and institutional connectivity and to stimulate the flow of people, goods and capital. On the other hand, sub-

standard infrastructure can be a bottleneck in the economic growth and in enhancing connectivity, and thus it is important to secure both the quality and quantity of infrastructure. Towards the G20 Summit in Osaka, building on international efforts in the international community until now such as G20, G7, APEC, OECD and TICAD, Japan would like to elaborate international principles of "quality infrastructure," including open access, transparency, economic efficiency in view of life-cycle cost, effective resource mobilization and debt sustainability.

EMPOWERMENT OF WOMEN

Furthermore, enhanced equal access to the labor market, property, quality employment and financial services for women and men is a prerequisite for sustainable and inclusive economic growth. Japan supports the "Women Entrepreneurs Finance Initiative (We-Fi)," which was announced at the G20 Summit in Hamburg. This initiative aims to support the financial independence of women and to promote their economic and social participation by helping overcome barriers that women entrepreneurs in developing countries face. In March 2019, Japan will host the fifth World Assembly for Women, WAW!, in collaboration with W20, one of the engagement groups of the G20, and will continue to lead discussions to realize "a society where all women shine" in the world.

SDGS/UHC

Moreover, Japan will achieve the United Nations' 2030 Agenda for Sustainable Development by addressing challenges the international community faces, in order to realize a society that leaves no one behind, based on the concept of human security.

For instance, Universal Health Coverage (UHC), which makes health services affordable for everyone, is essential for achieving these principles and is at the same time an investment for the future towards 2030 and beyond. The UN high-level meeting on UHC will be held in September 2019, at which time Japan would like to discuss its importance with other stakeholders. Japan would also like to discuss this at the G20 Summit in June, at the Seventh Tokyo International Conference on African Development (TICAD7) in August 2019 and at the G20 Health Minister's meeting in October, all of which will be held in Japan.

CONCLUSION

In addition to these challenges there are ample issues (the digitalization of the economy being just one example) that the international community should tackle together under multilateral cooperation. Moreover, I find it essential that not only governments but also think tanks and civil societies mobilize their expertise and cooperation. I welcome discussions on these issues by all involved in T20 and other affiliated events, including the Global Solutions Summit. Japan will exert leadership at the G20 in 2019 by taking various views into account to advance towards the resolution of global challenges.

Transforming education financing for SDG4¹

Results-based financing needs realistic policy and knowledge for “results”

The author:



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Professor,
Center for the Study
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Hiroshima University

In developing countries, more financial resources are clearly needed for achieving inclusive, equitable and quality education. This requires transforming the manner in which education financing mechanisms work.

ENSURING REALISTIC AND FEASIBLE POLICY PLANNING

Education has to play a fundamental role in realizing sustainable development goals under the United Nations transformative and ambitious 2030 Agenda, linking up with other sectors. The focus on learning outcomes is quite justified. In developing countries, when more children complete primary education with unsatisfactory learning, pressure on different levels of education is intensified: expanded pre-primary education, more efficient primary education, and secondary education that equip young people with the knowledge and skills required for life.

To realize these goals, not only old and remaining issues have be tackled – reaching unserved groups in the population, providing essential school inputs, employ-

The institution:



HIROSHIMA UNIVERSITY

Hiroshima University is a Japanese state university founded in 1949. It consists of 13 faculties and offers its students mainly socio-economic, law-related, technical and health-related degree programs.

ing more teachers, but also new issues as well – reorienting the curriculum, improving teaching and learning with innovative means. Here, equity and inclusion are concerned with both access and, more pressingly, learning.

This intensifies the pressure on governments for education to satisfy multiple expectations simultaneously and to crowd the reform agenda with new initiatives. It burdens the implementation capacity of the existing system and its key players, especially where teaching and learning take place. Moreover, the timeframe envisaged for implementation is often too short.

An education policy framework that accompanies this broad-ranged reform agenda should be realistic and feasible, particularly from the viewpoint of its implementers. We should pay close attention to the overall volume of work, timeframe, sequencing, and budget allocation.

OWNERSHIP AND INSTITUTIONALIZATION ARE KEY TO SUSTAINABILITY

Successful implementation of such a complicated education reform agenda requires that it be based on a sense of ownership among stakeholders, essentially those who implement it in the field. Reforms that add new tasks involving different ways of thinking and actions have to build on shared views and a vision for change from the beginning of the reform process. This requires bi-directional communication between the central policy makers and the rest of the system.

For the education reform results to be sustainable, each step of the reform process has to be internalized and institutionalized. It is desirable that issues are identified and solutions come from within, to

maintain motivation and ownership of the process. Where ideas of the reform and its measures are introduced from the top or by the pressures from external sources, as is often the case with education in developing countries, we have to be even more sensitive to make sure the reform process is not derailed.

»We have to be even more sensitive to make sure the reform process is not derailed.«

USE REFORM INSTRUMENTS THAT FIT THEIR PURPOSES

Achieving SDG4 calls for exponentially more investment in education. The debate goes beyond increasing domestic financing (expanding the tax base) or official development assistance, and proposes the establishment of a new financial mechanism for education such as the International Financing Facility for Education² or using “innovative financing” measures such as taxes, dues, impact bonds, debt swaps, and crowdfunding.³

Over the past few decades, we have seen the Program-Based Approach (PBA) gaining momentum for its advantages in ownership, harmonization and alignment, and for enhancing the effectiveness of aid. Evaluations show, however, that while this

modality has been instrumental in reducing the number of out-of-school children and gender disparities, it has yet to prove its effectiveness in improving learning achievement.⁴ Meantime, a review of projects in the education sector that use conditional cash transfers, another new modality, has shown improved enrollment and attendance, but no positive effects on student learning.⁵ PBA or commonly used aid modalities are not necessarily a panacea for redressing the current learning crisis.

The G20 is expected to stress that increases in financial resources should go hand in hand with an informed choice of reform measures that fit purposes supported by evidence, with room for adjustments to meet local contexts.

»Efficiency in the use of available resources is vital.«

USE RESOURCES EFFICIENTLY BY ENSURING CONDITIONS FOR SUCCESS

Equally important is to pursue wiser ways for using those resources, as well as to develop the capacity of the education system to deliver quality services. We experienced “aid fatigue” during the 1980s and 1990s, which reduced the amount of aid due to a lack of visible and lasting aid results. We have to avoid following the same path. Efficiency in the use of available resources is vital and requires a good understanding of conditions for success. Limited resources

must be used in such a way to maximize their effects.⁶

Due regard must be given to the contexts and conditions under which measures have been implemented successfully elsewhere and to adapting them to current cases.

SHARE KNOWLEDGE ON PATHWAYS FROM INTERMEDIATE TO FINAL RESULTS

Trends in favor of RBF risk shifting the responsibility for the remaining and most difficult push to achieve the final results. This is because the agreed “results” that trigger release of external resources to recipient governments are in most cases intermediate ones.⁷ Moreover, there are no clear-cut quick solutions to achieving learning outcomes. This means that neither aid recipient countries nor the international community that support them have ready answers for the final results. To face this challenge, the international community turns to learning assessments (such as PISA, TIMSS, SAC-MEQ, EGRA, or national assessment) as one approach, hoping they will help verify the effectiveness of policy measures or identify enabling factors, or other systemic factors that show promise for improving learning.

We have to remember, however, that a conventional input-output model of education production function has been criticized for not presenting a systematic relationship to learning outcomes.⁸ We need to go beyond identifying enabling factors even if they may be useful for targeting investment (“what” to invest in) and combine them with knowledge on the practical process and methods of improving learning (“how” to achieve results). As an illustration, one approach would be to combine knowledge on what key competencies are required in the

21st century with knowledge on how to equip learners with those competencies and what conditions are required for learners to use them as required.

We are short of knowledge on pathways to move from intermediate to final results. But knowledge does exist, because learning is indeed taking place in other parts. We need to pool such knowledge for ready reference, adjusted to meet local conditions and share it among stakeholders through collaboration among the various players.

DEVELOP MORE USEFUL “OUTCOME” INDICATORS

At the same time, developing more useful “outcome” indicators is an urgent task. Take for instance, “the number of teachers who received new in-service training,” used in a real case as one outcome indicator.⁹ This assumes that the new in-service training satisfactorily incorporates orientation to the curriculum. It further assumes that those teachers who received the training apply better teaching methods in their respective and more difficult teaching and learning conditions. Input-output actions (curriculum revised, teachers trained) need to be consistently translated, along with their embedded concepts such as student-centered, problem-solving, self-efficacy, etc., into process actions (teaching and learning practices). Capturing such a complex series of changes in a single “outcome” indicator is an unrealistic challenge, although outcome indicators, once adopted, certainly attract the attention of policy makers sometimes excessively and may unintentionally undermine concerted efforts.

Good “outcome” indicators for RBF need to be used with other measures so that together they are placed in implemen-

tation plans that clearly elucidate actions and considerations to be undertaken concurrently and consistently.

UNDERSTAND THE COMPLEX REALITY FROM MULTIPLE PERSPECTIVES

Useful methods have been developed for education planning – analyses of policy issues, identification of solution factors (investment priorities), policy appraisal and learning assessments – all of which benefit countries greatly. These methods are mostly crafted outside developing countries, often introduced by international partners who are influenced by certain theories close to them. This can cause the process to depend on the support of external experts who tend to own most of the knowledge used in the reform process, and fail to take advantage of valuable opportunities for wider participation, to build the capacity and to ensure ownership of stakeholders.

For instance, education sector planning is guided by parameters (“benchmarks”) which are obtained from cases of countries that have successfully achieved common educational goals.¹⁰ Education sector analysis that justifies international financial support, and that provides a basis for reform agenda setting and clues for solutions is often influenced by external partners. However, such approaches may fail to capture other positive or negative consequences of the educational reform agenda, or to respond to the multi-faceted realities behind the issues.

As the educational issues we are tackling become increasingly complex and, therefore, require wider participation of enlarged groups of stakeholders, there is great room for using valuable local knowledge and multiple perspectives for analysis,

planning and solution of educational problems. Such knowledge and perspectives will enable us all to understand the complex realities of issues and the entire process of educational development.

¹ A full text appeared as Yoshida, K., Hirotsato, Y. and Tanaka, S. "Transforming education finance for inclusive, equitable and quality learning outcomes for the 2030/SDG4 Agenda" in Cardini, A. (comp.) (2018) *Bridges to the future of education: policy recommendations for the digital age*. Buenos Aires: Fundación Santillana.

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**Data governance and
the Global South**

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The G20's agenda on cryptocurrencies

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The Centre for International Governance Innovation is an independent, non-partisan think tank. Their research programs focus on governance of the global economy, global security and politics, and international law.

Over the past year, policy makers have been scrambling to understand cryptocurrencies and their implications for the financial system.

While central bankers and finance ministers have been discussing the merits and risks of cryptocurrencies for several years, the rapid proliferation of uses and abuses of blockchain-based tokens and associated products and services pushed the issue to a top priority for the G20's finance track under the 2018 Argentinian Presidency.

Despite a common view among billionaire investors and economists that cryptocurrencies are fool's gold, financial policy makers around the world remain concerned about virtual currencies' potential implications for the global financial system. While a few member nations of the G20 have introduced regulation for cryptocurrency-related activity, the topic has yet to be included in a leaders' summit communiqué.

The cryptocurrency craze appears to have passed for now, but the use of these assets for financing criminal activity is rising and concerns over consumer protection persist. In addition, the possibility that these assets will have widespread use in the future has not and should not be ruled out. Continued efforts to understand the risks to existing financial institutions and

infrastructure and to financial system stability are therefore warranted.

Work is being done by international organizations and standard-setters to understand the risks and opportunities of cryptocurrencies and the underlying technology. But no agreements have been reached about an appropriate course of action. The emergence of a patchwork approach to regulation of this jurisdiction-less asset is creating a perfect breeding ground for regulatory arbitrage and criminal activity.

WHAT ARE THE G20'S CONCERNS ABOUT CRYPTOCURRENCY?

Cryptocurrencies' possible impact on the global financial system spark three main concerns for policy makers. Each of these concerns carries a different probability of materializing and will become relevant at a different horizon. Regulatory action is therefore likely to develop quicker in some areas than others.

1) Cryptocurrencies can facilitate criminal activity

The first concern, which is of an immediate nature, is that cryptocurrencies are facilitating criminal activity. The combination of anonymity and borderless transactions means that cryptocurrencies can be exploited for money laundering, the financing of terrorism, avoidance of international sanctions and international tax evasion.

One study estimates that while less than one percent of all transactions entering conversion services (such as cryptocurrency exchanges) were estimated to be illicit activities, this type of activity increased fivefold from 2013 to 2016 (Fanusie and Robinson 2018). In a report to the G20 finance ministers and central bank gover-

nors in July, the Financial Action Task Force (FATF) also concluded that the link between cryptocurrencies and crime appears to be growing (FATF 2018).

Cryptocurrency-related cyber attacks and fraud have also been pervasive over the past year; hacks of initial coin offerings, exchanges, mining platforms and wallets have cost investors hundreds of millions of dollars. Coupled with concerns over speculative trading and price manipulation, such incidents highlight the need for better consumer and investor protection in cryptocurrency activity.

»Cryptocurrencies have largely been disconnected from the traditional financial system.«

2) Cryptocurrencies pose risks to financial system stability

Policy makers' secondary concern is the potential risk to financial system stability. Since the launch of Bitcoin in 2009, cryptocurrencies have largely been disconnected from the traditional financial system. As Yves Mersch, a member of the executive board of the European Central Bank, points out, the proliferation of cryptocurrency derivative products – including futures con-

tracts and exchange-traded funds – and their increasing acceptance among investors are creating potential nodes of systemic risk.

As of October 2018, the Financial Stability Board (FSB) maintains that cryptocurrencies do not pose a risk to global financial system stability (FSB 2018). But the cryptocurrency space continues to evolve rapidly: policy makers must remain alert to how quickly these assets could become integrated within financial market infrastructure and major financial institutions.

3) Cryptocurrencies could distort the monetary system

A third concern is the longer-term prospect that cryptocurrencies could distort the monetary system and functioning of the economy. The Bank for International Settlements (BIS) released a report detailing why cryptocurrencies are not yet suited to compete with fiat currencies as means of transaction or store of value. Among other issues, the report emphasized a lack of trust, non-finality of payments, inefficiency of transactions and issues with scalability (BIS 2018).

The BIS has been particularly antagonistic to this new type of asset. Other finance and economic institutions are less dismissive about the potential and risks of cryptocurrencies. Christine Lagarde (2017), Managing Director of the IMF, agrees that cryptocurrencies currently pose no risk to fiat currencies, but cautions against dismissing the possibility in the future.

The world's largest central banks are taking a similar stance. While confident that cryptocurrencies pose little risk to the monetary system, central banks are actively exploring how blockchain technology can be

harnessed to improve the efficiency, stability, accessibility and usability of the financial system. Most are also exploring the possibility of a central bank digital currency. Central banks in advanced economies are likely to proceed slowly and cautiously on introducing this new technology because trust remains one of their most valuable assets. Any hiccups in the implementation of a central bank digital currency could cause that trust, and the value of the fiat currency, to deteriorate.

»The use of these assets for financing criminal activity is rising and concerns over consumer protection persist.«

HOW DOES CRYPTOCURRENCY FIT INTO THE G20 AGENDA?

The G20 was created in 1999 as a forum for finance ministers and heads of central banks in global systemically important economies to facilitate cooperation on financial and economic policies.

After the September 2001 terrorist attacks, anti-money laundering and anti-ter-

terrorist financing have been key focal points of the members' policy cooperation. The G20 renewed its emphasis on this agenda item during the Turkish Presidency of the forum in 2015 and the German Presidency in 2017, both countries having recently experienced terrorist attacks.

Given the immediate threat of criminal activity facilitated by cryptocurrencies, and the fact that the G20 already has these issues within its purview, a discussion about the interrelation between cryptocurrencies and illicit financial flows is likely to take place at this year's leaders' summit.

The G20's efforts have also been highly successful when it comes to financial regulation. In the midst of the 2008 global financial crisis, the G20 was hoisted to the leader's level and shortly afterward proclaimed itself "the premier forum for our international economic cooperation." The heads of state and financial policy makers subsequently worked together to develop and implement strengthened harmonized international financial regulation. Their aim was to fill the gaps in the regulatory framework that had allowed the vulnerabilities that led to the financial crisis. Cooperation toward sustaining global financial system stability has remained a central component of the G20's efforts ever since.

Regulatory guidelines for cryptocurrencies could become an add-on to the G20's ongoing financial regulatory reform efforts. Given that cryptocurrencies have no legal jurisdiction of issuance and transactions can easily be worked around jurisdictional boundaries, effective regulation will have to be globally harmonized. While work on harmonizing international financial regulation has largely come to a standstill in the current political climate, cryptocurrencies

are one area where all jurisdictions appear eager to make progress and are willing to cooperate.

WHAT TO EXPECT FROM THE G20 ON CRYPTOCURRENCY

The G20 has worked closely with the FATF to identify and monitor the implementation of international standards for anti-money laundering and anti-terrorist financing. The FATF has a membership of 37 jurisdictions, including 18 members of the G20; Saudi Arabia and Indonesia have been granted observer status. The organization has a much wider reach: there is a network of FATF-style regional bodies that promote policy implementation, and 190 jurisdictions have committed to implementing its recommendations.

One of the FATF's objectives during Argentina's G20 Presidency is to assess the potential uses of cryptocurrencies for money laundering and terrorism financing. The FATF will be releasing a report to the G20 in October detailing how its standards for anti-money laundering and counter-terrorist financing apply to cryptocurrencies. The G20 leaders are likely to endorse the implementation of these recommendations. A FATF report released in 2015 might preview some of these recommendations, in which the institution suggested that international anti-money laundering and counter-financing of terrorism standards be applied to institutions that act as nodes between cryptocurrencies and the financial system – that is, companies that convert cryptocurrencies to fiat currency, such as wallets or exchanges (FATF 2015).

Some G20 jurisdictions have already begun introducing such regulation. South Korea now requires transactions on cryp-

to currency exchanges to be linked to real-name bank accounts subject to anti-money laundering obligations. And European Union policy makers reached an agreement last year to amend the EU directive on anti-money laundering and terrorist financing so that it applies to cryptocurrency exchanges and wallets.

»Regulatory treatment of cryptocurrencies varies widely among G20 member states.«

But regulatory treatment of cryptocurrencies varies widely among G20 member states.

China has taken a hard stance against cryptocurrencies. As early as 2013, Chinese authorities began to clamp down on the use of cryptocurrencies as a means of payment by prohibiting financial institutions from handling Bitcoin transactions and by banning payments companies from working with Bitcoin exchanges. Among other measures, China has since banned cryptocurrency initial coin offerings, frozen bank accounts with ties to cryptocurrency exchanges and shut down exchanges.

Japan has been proactive in creating open standards for cryptocurrency activity. It deemed cryptocurrencies a legal method of payment and issues licences for cryptocurrency exchanges. However, the theft of around US\$530 million from Japan's Coincheck exchange earlier this year – which had not yet received a license but was legally allowed to continue offering its service – led Japan's financial regulators to start clamping down on unlicensed activity and to impose stricter requirements to obtain a license.

Many other jurisdictions, such as Canada and South Africa, have been taking a wait-and-see approach to implementing regulatory standards.

The FATF (2018) report to the G20 finance ministers and central bank governors in July expressed concern about the lack of consistency in the regulation of cryptocurrencies. The fact that the asset has no jurisdiction of issuance and is highly mobile creates heightened concerns about regulatory arbitrage.

The FATF is not the only financial standard-setting body that has been scrambling to identify the risks related to cryptocurrencies and best practices for regulation. The FSB and the Committee on Payments and Market Infrastructures have identified metrics for monitoring the financial system stability implications of cryptocurrencies (FSB 2018a). These will likely be refined as new information and data become available. The Basel Committee on Banking Supervision has been working to identify risks associated with the exposure of banks to cryptocurrencies and appropriate prudential regulations to address these risks. The International Organization of Securities Commissions is developing a framework to help

support its members in dealing with issues related to initial coin offerings.

Efforts to identify appropriate regulatory guidelines to address consumer protection, prudential risk and systemic risks associated with cryptocurrencies have only just begun. No concrete decisions on this front are expected at this year's G20 meetings, but international standard-setting bodies are expected to continue to work on these issues into next year.

While understanding the risks of cryptocurrencies to the financial system took some urgency in the G20's finance track this year, it is nowhere near the top of leaders' minds. The issue will, however, likely make an appearance in the leaders' com-

muniqué for the first time, as they are expected to announce their support for the ongoing efforts of the world's financial standards-setting bodies. This issue will also likely remain on the agenda for the next few years, as Japan – a country that is both eager to lead in the cryptocurrency space and has suffered major damages from the industry – takes over the G20 leadership in 2019.

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Data governance and the Global South

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The digital transformation enables new industrial models (“Industry 4.0”) and more broadly underpins the emergence of a new kind of economy, the data-driven economy (DDE), based on the specific characteristics of the essential capital of this age – data. For the Global South, this opens up new opportunities for convergence, including by leap-frogging the intermediate infrastructures of the industrial age, drawing on the vast knowledge spillovers from the Internet, and taking advantage of new markets enabled by digital platforms and new production possibilities enabled by digital technologies. At the firm level, digital infrastructure provides the means to launch micro-multinational enterprises from anywhere in the world, skirting traditional operating environment problems faced by would-be entrepreneurs in less-developed economies.

At the same time, as with all technological revolutions, the opportunities will be captured initially mainly at the leading edge, which will also pioneer the management of the new economic and social governance issues that the DDE engenders. The trailing edge, meanwhile, will face a new challenge of sustaining convergence, while coping with the waves of disruption.

INITIAL DIVERGENCE

For the Global South, the likely initial ex-

perience in the DDE will be divergence, as the technological and income gaps to the most advanced countries widen on several grounds.

First, the digital transformation enables the industrialization of learning, as innovation shifts into machine learning space. This will accelerate the pace of change in the DDE. For example, the initial efforts to train a computer to play Go based on human patterns eventually defeated a human grand master. A second version, Alphabet's AlphaGo Zero, which learned from first principles, unaided and unencumbered by human experience, playing some 4.9 million games against itself in a few days, not only beat a human grandmaster, but also beat the first version 100-0 in match play.¹ This acceleration of innovation will naturally spread the field across numerous dimensions of economic performance since diffusion takes time.

A second factor is investment costs. Assembly of data is a library function and a cost center; it is the exploitation of data that creates profit centers. Given the costs, many early data applications, especially in the Internet of Things (IoT), leverage free open public data. Since the advanced countries are also the data-rich regions, they will likely pioneer most commercially valuable applications, gaining first-mover advantages.

Further, the DDE builds on the knowledge-based economy (KBE), in which the essential capital is intellectual property (IP). Endowments of protected IP are already highly skewed and promise to become even more skewed as data-related IP proliferates, including copyright protection for databases, and the leading data-driven firms to use their financial leverage to ex-

pand their data portfolios. IP generates rent; in the DDE, the Global South will tend to be a rent payer, not a rent earner.

Are there countervailing centrifugal forces?

»The exploitation of big data on super-computers is not likely to be fragmented into value chains.«

In the industrial era, the business model of mass production to attain scale economies favoured international trade to gain access to global markets. These served to integrate developing countries into the global economy through the progressive unbundling of the production-distribution process² – first, by separating the locus of production from the locus of consumption (1820s); second, by distributing the supply chain regionally or globally, thus creating global value chains (1980s); and, third, by distributing tasks globally through telecommuting (currently underway). Developing countries were able to plug into supply chains and capture productive tasks that provided the export earnings to finance imports and opened up opportunities for

“learning by exporting”. Foreign direct investment (FDI) in industrial sectors tends to introduce technology and knowledge spillovers into destination countries enabling copy-cat catch-up. Even when processes or products are patent-protected, the protective IP is transparent – publication is the quid pro quo for protection – and competitors can work around or license the protected feature. In any event, IP protection eventually expires.

In the DDE, these saving graces will be lacking. The exploitation of big data on supercomputers is not likely to be fragmented into value chains. FDI in the DDE tends to be extractive: established major firms buy up promising start-ups for their technology and/or to prevent the emergence of peer competitors; and key personnel or entire companies are expatriated with negative consequences for the dynamism of innovation ecosystems that spawned them. Most importantly, unlike IP, data is not transparent – proprietary databases are not accessible and algorithms are protected trade secrets. And there is no time limit on this secrecy.

Accordingly, the Global South may benefit from the technological revolution both as consumer and user of diffused technology, but will face difficulty in participating in its production. Barring profound changes in the technological or institutional setting, insofar as flow of rents underpins prosperity in the DDE, the prospects for the Global South in this era are for greater divergence.

GOVERNANCE CHALLENGES

The DDE has a propensity for market failure, because it powers “superstar firms”, and for government failure, because it expands the coercive power of governments

by facilitating surveillance. The governance challenges posed by these features are immense. To put the issue metaphorically, Odysseus faced a similar problem in sailing between Scylla and Charybdis: he chose to pass close to Scylla, the multi-headed monster (which may be likened to a world dominated by “sinister new centers of unaccountable power” in the form of technology firms³), preferring to lose a few sailors than to lose his ship in the whirlpool of Charybdis (which may be likened to the emergence of authoritarian government). Adapting this metaphor means charting a course between Lord Bezos and Lord Stalin – the middle course, which leads us to a pluralistic, democratic, and competitive world, appears to be perilously narrow in the DDE.

»The explosion of surveillance has created truly Orwellian possibilities for suppression of dissidence.«

As regards market failure in the DDE, contributing factors include the following:

- Economies of scale, which reflect the large up-front investments required to capture and assemble data.
- Economies of scope, which emerge from the increase in the value of data when

cross-referenced against other data, with network externalities often compounding the problem.

- Information asymmetry, which reflects the exploitation of informational advantage. The asymmetry between the human mind and AI is the “original sin” of the DDE.⁴

As regards the potential for government failure, information is power and the DDE represents the full realization of the information age:

- The explosion of surveillance has created truly Orwellian possibilities for suppression of dissidence and, by the same token, the suppression of checks and balances.

- The advent of quantitative psychology (psychometrics/psychographics) and its application to social media has created powerful new tools for political influence.

The tools and techniques of surveillance are described in the literature on “surveillance capitalism” and it goes almost without saying that these tools are being used by governments as well. In developing countries, the lack of internal capacity to deploy these tools is hardly a barrier – they are being marketed aggressively by firms in advanced countries. The path from concentrated power to convergence-killing kleptocracy is well trodden.

TRADE RELATIONS

The characteristics of the DDE that promote the emergence of dominant firms naturally lead to strategic trade and investment policies aimed at capturing global rents. In this regard, the DDE is echoing the behavior seen in the 1980s technology wars between the United States, Japan, and the European Union. The geo-economic stakes are large and the Global South will be entangled

through trade relations with the leading DDE states.

Strategic rivalry has emerged at the very outset in the DDE in the form of digital trade wars.⁵ In this contest, the United States is seeking to leverage its first mover advantage by the free flow of data across borders and bans on data localization requirements. The European Union, which shares these views on the organization of markets, but which trails in the development of data-driven firms, has focussed on regulation to address downsides, especially in terms of privacy through the General Data Protection Regulation (GDPR), which has extra-territorial reach for firms servicing EU markets. China, meanwhile, has developed globally competitive data-driven firms behind its Great Firewall, leveraging its large capacity to generate data. The digital rivalry has now escalated to an all-out trade war between the United States and China, in which the main casus bellum is China’s “Made in China 2025” strategy, which targets high-tech sectors, such as advanced robotics and artificial intelligence.

The rivalry will spill over into the Global South in at least two ways: the roll-out of 5G telecommunications networks, which are key for IoT applications and represent a technological step that has been described as resembling the invention of the Gutenberg press, and through trade agreements with provisions governing data. In the 5G contest, the rivalry between US and Chinese suppliers involves diplomatic pressure on potential client states to exclude the rival companies, given the significant national security dimension. As regards trade agreements, developing countries face large information and power asymmetries vis-à-vis advanced countries in

negotiations. Since there is no established way to assess the value proposition of commitments on data, countries could be effectively exchanging beads for Manhattan, but really have no idea.

»The Global South will face alignment pressures, including through trade agreements with digital chapters.«

MACHINE KNOWLEDGE CAPITAL

Artificial intelligence and machine learning introduce a new factor of production into the economy – machine knowledge capital. The deployment at scale of machine knowledge capital will resemble the shock to labour markets of the vast expansion of unskilled labour enabled by the integration of China and India into the global distribution of work, and by the advent of robots. However, unlike the case of robots, which are expensive to build and to distribute, once the first truly proficient AI is generated in any field, it can be reproduced in arbitrarily large amounts at near zero marginal cost and distributed globally with near frictionless ease.⁶

MKC both complements and competes with human capital, enhancing returns to some human skills but eroding returns to others. It also enhances the performance of robots, intensifying the competition with unskilled labour. For the Global South, which leveraged the capture of out-sourced service tasks to drive development, machine knowledge capital will likely prove to be a powerful competitor for the more routinized tasks that can be codified and thus offshored. Meanwhile, for domestic production in the Global South, widely available low-cost machine knowledge capital might sharply reduce problems of labor-force skills shortages and enable economic development that was hampered by those shortages. This could in turn drive demand for labor in other areas.

CONCLUSIONS

Historically, the rise in living standards globally has largely been a phenomenon of technological advance; convergence between developing and developed countries has been a function of technological diffusion. Many of the features of the industrial era that provided opportunities for developing countries to converge will not likely be present in the DDE. The exploitation of big data does not lend itself to global value chains; opportunities to capture out-sourced tasks may be reduced with the emergence of machine knowledge capital. Inward FDI in the DDE tends to be extractive rather than contributing knowledge capital and, unlike IP, data is not transparent – proprietary databases are not accessible, algorithms are protected trade secrets, and there is no time limit on this secrecy as there is with patents.

The global economic environment is also being impacted by the DDE. The “winner take most” economics predicts ruthless strategic rivalry to capture global rents. No need to predict – it’s happening. The Global South will face alignment pressures, including through trade agreements with digital chapters, in a context where value propositions are not self-evident; information and power asymmetries make for troubling prognoses as to outcomes. And the domestic governance challenges – already severe, given the propensity for market and government failure in the DDE – will be

compounded by geopolitical rivalry and the vulnerability of developing countries to manipulation. Again, no need to predict – it’s happening.

In this context, it will take a rare combination of strong leadership, clever digital economy industrial strategies, and leveraging the possibilities that the digital transformation provides for participatory democracy to counter the power centrifuge of the DDE to enable developing countries in the Global South to navigate the course to a sustainable future, sailing between the DDE’s versions of Scylla and Charybdis.

¹ Silver, David, et al. 2017. “Mastering the game of Go without human knowledge.” *Nature* [550]: 354–359.

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⁵ Ciuriak, Dan and Maria Ptashkina. 2018. “Started the digital trade wars have: Delineating the regulatory battlegrounds.” Opinion, RTA Exchange, International Centre for Trade and Sustainable Development.

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Future of Work and Education

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**A new deal to finance
LATAM education**

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**Navigation as a key
to quality content**

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A new deal to finance LATAM education

Promoting the right level and distribution of resources to increase quality and equity

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CIPPEC (Center for the Implementation of Public Policies for Equity and Growth) is an organization that strives to create an efficient, democratic, and just state to improve the quality of life for all Argentine citizens. It focuses its efforts on analyzing and promoting public policies that encourage equity and growth in Argentina.

Education learning outcomes in Latin America and the Caribbean (LATAM) are still insufficient and unequally distributed. Several factors are behind this situation, many of which relate to education funding: low absolute expenditure per student; increasing gaps in spending levels between developed and developing countries; unequal distribution of key education inputs; inefficient use of pedagogical resources and low levels of innovation; and inadequate institutional frameworks that weaken the public sector. Recommendations to address these problems are presented in order to provide not only more investment, but also a more effective and equitable use of resources.

CHALLENGE

• **Absolute per-student spending is insufficient and lower than expected according to LATAM's economic development.**

While the average annual expenditure per student in OECD countries is US\$9,258, it only reaches US\$4,076 in Chile, US\$3,824 in Brazil, US\$2,877 in Mexico and US\$2,459 in Colombia (OECD, 2016). This is relevant since comparative evidence on secondary education shows that there is a strong re-

relationship between learning outcomes and expenditure, up to US\$8,000 per student per year (Vegas & Coffin, 2015).

- **The gap in per-student spending levels is increasing between developing and developed countries.** Although LATAM countries have increased the levels of absolute public expenditure in education in the last two decades, the rate of growth has been slower than that of leading developed countries. For example, the annual per-student expenditure gap between Finland and Chile increased from US\$2,995 in 2000 to US\$5,116 in 2013 (SUMMA, 2017).

»The gap in per-student spending levels is increasing between developing and developed countries.«

- **The distribution of key education inputs is unequal across schools and between different socioeconomic groups and geographic areas.** Richer students are consistently exposed to more teaching hours and better-qualified teachers than their poorer peers. Additionally, headmasters in low-income schools declare high levels of concern about the low quality of their staff,

infrastructure and pedagogical materials (Bos et al, 2016). Furthermore, there is a lack of mechanisms to prioritize low-income students. Bezem (2012) shows that most educational supplies are distributed homogeneously in Argentina, without taking into account the socioeconomic composition and needs of students.

- **The use of resources is inefficient and schools show low levels of pedagogical innovation.** High rates of teacher absenteeism and bureaucratic decision-making processes jeopardize the capability to deal with the increasing complexity of the education systems (Hanushek, 2001; Murray et al, 1998). Furthermore, education systems experience low levels of innovation and insufficient use of effective pedagogical practices in the classroom, such as feedback, collaborative learning, metacognition, etc. (Jacob & Parkinson, 2015; Johnson et al, 2000; Kingston & Nash, 2011).

- **Inadequate and ineffective institutional frameworks hinder education systems.** Institutions, understood as formal and informal rules, are crucial for the determination of property rights, collaboration/competition dynamics, transaction costs, social outcomes and their distribution (Acemoglu & Robinson, 2012; Knight, 1992). These rules have a strong impact on education systems. Indeed, institutions that promote deregulation, marketization and privatization of the education sector, fostering student selection, vouchers and cost-sharing schemes to fund education, have had tangible negative effects on education outcomes, both in terms of equity and quality in LATAM (González, 2017).

Given the above challenges, actions should be taken on several fronts.

INCREASE INVESTMENT THROUGH DOMESTIC TAXATION AND REDUCTION OF EVASION

Governments need to increase their education budget, through lower tax evasion and higher direct taxes (personal and corporate tax rates), which are low in LATAM compared to the OECD, even in a historical perspective when controlling by GDP (González, 2018).

»The G20 should encourage governments to invest more in education due to the high social rates of return.«

The G20 should encourage governments to invest more in education due to the high social rates of return

Increasing per-student spending is crucial given the positive rates of returns from investment in education, observed across countries [Becker 1975, 1995; Psacharopoulos 1994, 1995; Cunha & Heckman 2007; Montenegro & Patrinos 2014]. Evidence demonstrates that rates of return are particularly high in early years of education because what is learned at that stage facilitates future learning, generating dynamic

complementarities in education (Heckman, 2008).

In order to finance the extra spending, governments could take advantage of several opportunities that are present in current tax systems. For example, Arelano & Corbo (2013) argue that in Chile implementing an efficient tax and transfer system is feasible by improving the tax administration, reducing evasion and avoidance, and reducing exemptions, franchises and special regimes. Nonetheless, LATAM is lagging behind in terms of direct taxation (Goñi et al, 2011). There is also a long way to go in the construction of more progressive tax systems in the region.

Regarding the amount of per student spending that should be publicly financed, empirical research has shown that the positive correlation between level of education spending and student achievement is statistically significant up to a threshold of US\$8,000 per student annually (Vegas & Coffin, 2015). Above that level, the association between expenditure and performance is not conclusive and experts recommend not focusing on resources, but on improving the way these are invested.

Also, the role of civil society organizations in monitoring progress towards investment goals and advocating for higher and more efficient investment should be fostered. The cases of Todos pela Educacao in Brazil and CIPPEC in Argentina are examples of effective advocacy in this direction.

PROMOTE POLICIES THAT ENSURE EQUITABLE INVESTMENTS AMONG STUDENTS

It is essential to establish focalization criteria to deliver extra funding to excluded groups and underperforming students. In

Chile, the Preferential School Subsidy is delivered from the government to schools for each student who is identified as a priority according to their socioeconomic status. It also provides higher levels of autonomy and technical support to schools. Empirical research has found a positive impact on reducing the socioeconomic achievement gap (Carrasco et al, 2015).

The G20 should promote the implementation of differentiated subsidies according to the socioeconomic status of students

In LATAM, a child who is born in a family that is poor, indigenous, lives in a rural area, has a mother with little or no education, or a combination of these, will surely attend poor-quality schools and will have lower educational outcomes than their peers. For example, in Peru the Young Lives longitudinal study has followed two cohorts of students and shows that by age five, there are already large gaps between poor and non-poor children. These gaps are slightly reduced after several years of schooling (Cueto et al, 2016). Accordingly, governments should also strongly invest in pre- and in-service teacher training for developing the necessary pedagogical skills to face diversity in the classroom.

In federal countries, the gaps between jurisdictions result in unfair schemes of teacher retribution and other types of investment. In Argentina, historically rooted fiscal inequities are mirrored by inequities in educational investment. As a result, some provinces invest per student almost five times more than others (Rivas & Dborkin, 2018). The compensatory role of national states in these cases is necessary to build a more homogeneous map of educational investment.

Finally, full participation of students is another challenge that countries in LATAM must face in order to reduce gaps in access and learning. According to UNESCO (2017), there are 3 million children out of school in primary schools and 10 million children out of secondary schools in LATAM. Therefore, further investments and programs to reduce school dropout rates are needed. Conditional cash transfer programs have played a role in increasing coverage and attendance, and reducing dropouts, particularly in secondary schools, although the effects seem small (Garcia & Saavedra, 2017).

ENCOURAGE THE EFFICIENT USE OF RESOURCES, PROMOTING EFFECTIVE PEDAGOGICAL PRACTICES

SUMMA and the Education Endowment Foundation have been working together in synthesizing global and LATAM evidence on pedagogical strategies that have considerable impact on learning outcomes. Based on more than 10,000 academic articles and 200 meta-analyses, several key classroom strategies have been identified. Collaborative Learning and Feedback are among the most cost effective strategies.

Collaborative Learning develops a strategy in which students work together in groups to develop learning tasks. This model incentivizes collaboration among students to reach a common objective. Feedback consists of giving information to the learner and/or the teacher about the learner's performance relative to learning goals. The aim is to redirect actions, and to align efforts and activities. Evidence demonstrates that this practice has a positive impact. In fact, compared to a control group, students whose teacher provides adequate and timely feedback tend to progress eight

additional months in an academic year in terms of their learning outcomes. Moreover, this practice is one of the cheapest to implement, among more than 30 identified strategies (SUMMA, 2018).

Implementing the most cost-effective pedagogical practices identified by empirical research is the key

The G20 should promote focusing public resources on effective pedagogical practices to allow LATAM countries to catch up several additional months of learning a year. Nevertheless, this is not likely to happen by itself. Governments should push forward a national agenda addressing the most pertinent practices for each locality, and providing resources and technical advice for a successful implementation.

Additionally, the G20 should encourage governments to increase the access to information and communication technologies. However, research shows that just providing technology, without considerations to pedagogical planning, will not deliver higher levels of learning. Thus, use of technology under a guided model would seem to be more promising (Arias & Cristia, 2014).

ESTABLISH ADEQUATE AND EFFECTIVE INSTITUTIONAL FRAMEWORKS IN EDUCATION

Evidence suggests the need to promote national policies that strengthen public education and collaboration among schools, instead of privatisation and competition. Cooperation networks among schools seem to be a crucial factor behind quality improvement (Muijs, 2010). Comparative evidence shows that when these networks exist, schools help each other by discuss-

ing relevant topics, evaluating each other in order to identify weaknesses, and most importantly, sharing resources, experiences and strategies (Hill and Matthews, 2010).

»Governments should strongly invest in pre- and in-service teacher training«

The G20 should promote a change of the prevailing education paradigm to foster more collaborative school systems

Students in LATAM would also benefit from integrated interventions that combine programs addressing nutrition, health, and the reduction of poverty. Perhaps the first obstacle is the lack of integrated information systems; thus, strengthening these systems is proposed.

Also, LATAM countries would benefit from educational pilot projects that are rigorously tested and carefully expanded. A good example is the MINEDU Lab, developed by the Ministry of Education in Peru, which has carefully tested several interventions in that country, in collaboration with academia and the private sector. Accordingly, developing capacity to do high-quality and policy-relevant research in education would be beneficial to LATAM.

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Navigation as a key to quality content

If education is about navigation, will employability mean awareness?

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Fresenius University is a private, state-recognized University of Applied Sciences. It is divided into five departments: Chemistry & Biology, Business & Media, Health & Social, Design and Onlineplus. The university has 10 locations in Germany and abroad. The non-profit skip. Institute for Applied Digital Visualization e.V. at Fresenius University was founded in 2016 and acts as a practice-oriented and scientific institute of the university in Cologne.

In the process of digitalization there appears to be a growing feeling that the older we get, the sooner new technologies will overtake us. The gap of technology progress and those who can master it has shrunk dramatically over the past 30 years. University graduates of today are already far away from new digital developments which teenagers manage, and these teenagers are also divided by a gap that even younger kids playfully master. In all cases, intuitive design and gamification serve as a guide rope if we lose our way on the most recent digital gadgets or software. However, there is also a significant re-entry to coming technologies by the generation over 40. Figures show that sufficient income and wealth ignite the motivation to actively explore current and coming technologies.

How will this correlation of innovative, established and dissolving technologies affect education and employment? It is evident that the flood of information and the access to ever growing sources has strongly influenced our understanding of quality and content. Recent studies (statista 2017/18) show that social media platforms, databanks and Internet sources are growing in relevance as information access for children between nine and 14 years. Nine-

ty-two percent of 12-13-year-olds have a smartphone, and 93 percent of those use this device daily, whereas 33 percent of 6-13-year-olds name YouTube as their favorite Internet channel. In terms of quality content for educational reasons, 84 percent of the 16-18-year-olds use the Internet as a reference source and 52 percent to read news. Since 2006 the daily Internet activity for 12-19-year-olds has more than doubled to almost 4 hours. Consequently, we are looking at a new dimension of information access for coming generations. This new dimension also consists of algorithmic gatekeeping. As already mentioned in 2011 by Eli Pariser on TED, information quality is challenged by the growing demand for customized news and services.

This is not only a challenge for quality but also a challenge against convenience. So how do we remain in control of our “filter bubble” in which we allow and decide what we want to know and how it is served? Algorithmic gatekeeping is a technical – non-ethical – editor, purely designed to match information and services with the very individual Internet behavior of each, very individual person. We enjoy receiving news and services that match our demands and our personality – it makes life easier. It helps choose or decide. It can emphasize our political position and attitude without too much thought. It delivers options that we have not considered and supplies us with knowledge and entertainment that may offer an emotional thrill or convince us that what we believe in is the truth. Room for doubt is diminishing (...and also poses questions we would rather avoid).

This is basically where the problem begins; if we have no reason for doubt or question, how are we able to judge and de-

fine quality? Another difficulty is imminent. How do we keep track of what is entering and leaving our minds and views? Our built-in verifier for right or wrong, false or true, good or bad is our memory and experience. Our memory feeds us with perception. David Aaker explained the increasing development of tailor-made marketing in his model on Brand Equity in 1991. Brand values are defined in 5 categories. Perception is our own personal category in which we verify quality according to our very personal demands and memory. So if we continuously feed our memory and experience with positive and enjoyable issues, we’re hardly going to be able to define quality – let alone for others. What does this mean for education and how will educational quality survive?

Throughout the past 10 years in my university lectures, I have had the great opportunity to follow the progress of students in their pursuit of efficient results and sources. I have led a variety of minor experimental tests with students to find out their general approach to research. Only a few years ago, classic library literature was a substantial source for acknowledged work and academia – this obviously still counts, but we can observe the continuous switch to online search as a primary activity. Understandable, but this is where we begin to lose track. Current educational standards are beginning to crack – a viral string released through deep digital channels. It is growing hard to re-establish particular quality concern among students who benefit from the comfort and convenience of gaining tailor-made information. Even though tests showed clearly how algorithmic gatekeeping feeds them with different and individual results on a pre-defined

subject, they have a growing belief that most of what they receive on information is near enough to the truth. Near enough is a quality issue. The media overkill challenges our selection skills and we face an ocean of information, in which we can only skim the surface to gather news and results. How on earth can young people judge the impact of quality and why should they risk a deep-sea dive that will cost them time and energy? Additionally, we can also observe this superficial skimming in terms of text and image. Pics, images, clips and links offer a combustion of information that also reach us more dramatically than any written word.

»»We can observe the continuous switch to online search as a primary activity.««

This creeping development is a fact we have to face and this will ultimately force us to rethink educational input and how we can set it up for kids in the future.

Two-hundred and twenty new emoji were released in summer 2018 to help us understand what short messages really mean. We are returning to the ages of hieroglyphics and cave drawings, simply because we have to communicate so much to so many. Managing a high volume of mes-

saging should be convenient and time saving – and we want to keep up with the rest.

Worldwide, WhatsApp messaging has risen from five billion messages per day in 2012, to an incredible 65 billion per day as of May 2018 (statista). The demand for communication and information flow is evident. The task is to cut it down to a reasonable size with which we can cope. This inevitably leads to the questions of how we can define quality in the future and how we can select it. Apparently, it's not a question of whether enough valuable information is available, but whether we have the skills to find it. How do we do deep-sea fishing and expect to catch the big fish without casting the line from the boat in the right area? Education in the future will rely on navigational methods and suitable tools to identify its quality. One of these tools could be adapting the right skill to enter the perfect keyword or question – a kind of bait to attract the quality result. We have to be aware that knowledge is no longer a back-up of learnt and memorized material within our heads. Google or other gigantic search engines will memorize for us. All we have to learn is how to use that memory engine properly. Navigational skills like commands, enter, short cuts, scanning, targeting and routing will become the new education skills children and students have to apply. Modern students are increasingly prepared to gather and learn just for the particular exam with minor thought given to the long-term memorization of that knowledge. This is more familiar under the term bulimic learning, and reflects the desire and demand for convenience and quality in one short step. Quality is reached when the results are sufficient. In fact, this new approach is exactly what economy and

industry expect from their new recruits. Getting the right results in a short space of time and adapting skills on how to get them

»The media overkill challenges our selection skills.«

effectively. The more experience you gather in optimizing your search skills via Internet access, the more this will make you an efficient and successful employee. Awareness and enthusiasm in hunting down the big fish lying in the depths of this new ocean of information will prove the ideal skills for both school and work. Within this scope of education we should also risk a view to the gaming industry. Similar behavior in the quest for greater effectiveness and swift access into next levels is a driving instinct, which is reflected in innovative companies employing even younger people to create gaming-related strategies for business and production. Gamification is a quality feature for the benefit of enjoyable employment and occupation. The ever-growing aspect of technological mobility combined with the desire for convenience will offer future employees a spectrum of a new quality of work-life balance. Despite the worries of doom that parents, teachers and professors may have regarding the impact of media consumption and possible drain of verified quality standards, we have to

clearly consider the positives digitalization is offering. The invention of the wheel and the advantages it offers are factually comparable to this, and without this invention we might not have realized how wonderful life has become ever since – and the wheel is roughly 5000 years old. Now digitalization has appeared on our screens and it has changed life dramatically and will go on doing this forever.

We should look ahead in aspiration and optimism to the change of quality perception. Life should offer joy and freedom for everyone. This is how we should treat the change in education and future occupation. Living new standards through navigational skills, exploring the results collected by search engines, discovering quality and creating new ideas of how to relieve the world from the threats of pollution, poverty and violence.





Social Cohesion

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Civil society organizations

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Fostering social cohesion

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Social cohesion and human flourishing

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Civil society organizations

In need of new regulatory models

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The Hertie School of Governance prepares exceptional students for leadership positions in government, business, and civil society. Interdisciplinary and practice-oriented teaching, first-class research and an extensive international network set the Hertie School apart and position it as an ambassador of good governance, characterised by public debate and engagement.

CHALLENGE

For several decades, most developed market economies and transition countries have seen a general increase in the economic importance of civil society organizations (CSOs) as providers of health, social, educational and cultural services of many kinds. They account for 5-10 percent of GDP in most OECD countries (Anheier 2014), and are crucial for civic participation and social engagement. What is more, CSOs are important sources of social innovations to address public problems. This applies widely across many countries that otherwise differ much in economic structure, politics, culture and social fabric. Generally, CSOs are well positioned to pursue certain roles within three policy perspectives:

- First, nonprofits are increasingly part of new public management approaches and mixed welfare economies with quasi-markets and competitive bidding processes (Salamon and Toepler 2015). Expanded contracting regimes in health and social service provision, voucher programs, and public-private partnerships are examples of this development. In this policy approach, CSOs are more efficient providers than public agencies and more trustworthy than businesses.

- Second, CSOs are central to building and maintaining social cohesion as well as social capital and economic development. They do so through strengthening communities, and enhancing civic mindedness and engagement, including volunteering and charitable giving. With the social fabric changing in all G20 countries, civic associations serve as the glue holding a diverse society together: People embedded in dense networks of associational bonds are not only less prone to social problems but also economically more productive and politically more involved (Putnam 2001).

- Finally, CSOs are sources of social innovation, addressing intractable problems across a broad range of public policy fields. Their smaller scale and greater community-rootedness and closeness to clients makes them creative agents in developing new solutions. Governments are accordingly seeking new forms of partnership with CSOs and their social entrepreneurs aimed at identifying, vetting and scaling social innovations to build more flexible, less entrenched, public responses.

Importantly, these perspectives cast CSOs in strikingly different roles. At one level, they become parallel actors that may substitute, even counteract, state activities. At another, the state and CSOs are part of ever more complex and elaborate public-private partnerships and typically work in complementary fashion with other parties, public and private. Yet how can policy help CSOs be efficient service providers, innovators, and sources of social cohesion at the same time?

PROPOSAL

Many G20 countries still have limited and outdated policy approaches and regulatory

frameworks (Phillips and Smith, 2011) that expose CSOs to contradictory policy environments and the 'push and pull' factors entailed in the three policy perspectives. In essence, no G20 country has an explicit, normative approach to civil society to guide regulatory frameworks towards

»Many G20 countries still have limited and outdated policy approaches and regulatory frameworks.«

fully realizing CSO potentials. Instead, regulation is either almost exclusively fiscal and rests on notions of public utility; or is controlling in the sense of state authorities closely overseeing CSO operations and governance. While the former typically implies some form of a 'light' hands-off regulatory framework with little general government supports other than tax benefits as typified by the US, the latter is a stricter hands-on regime, albeit with more financial and other contributions by the state for qualifying CSOs, as in the dual government postures towards NGOs in Russia (Benevolenski and Toepler 2017) and China (Zhang 2015).

For the fiscal regulatory regime, the key governance question is: is the organization entitled to preferential tax treatment; and for the control regime, it is: does the organization fit into government policy and priorities? Clearly, most G20 countries fall somewhere in between but most are closer to the fiscal framework. Yet, they share three key deficiencies in view of the policy approaches above, and hence the developmental potential of CSOs:

CSOs perform different functions or roles that allow them to realize their comparative advantages:

- Service-provider role: CSOs substitute for or complement services offered by government and businesses, often catering to underserved minorities;

- Vanguard role: closer to the front lines of many social problems, CSOs can take risks and experiment, thereby increasing the problem-solving capacity of society;

- Value-guardian role: CSOs foster and help express diverse values, contributing to expressive diversity and pluralism and easing potential tensions;

- Advocacy role: CSOs serve as public watchdogs and advocates, giving voice to grievances, reducing conflicts and effecting policy change.

While NGOs can bring advantages, they also have inherent weaknesses, including:

- Resource inadequacy, whereby voluntary contributions cannot generate adequate resources to cope with many of the problems facing member states.

- Free-rider problems, whereby those who benefit have little incentive to contribute, and also stand in the way of sustainable resourcing.

- Particularism, whereby CSOs serve particular subgroups only, which can lead

to service gaps or unnecessary duplication, and legitimacy problems if they attempt to expand.

- Paternalism, whereby CSO services represent neither a right nor an entitlement but are at the discretion of particular interests that may not necessarily reflect wider social preferences.

- Accountability problems, whereby CSOs, while acting as accountability enforcers and pushing transparency, are themselves affected by such insufficiencies.

The challenge is clear: how can the advantages that CSOs bring be strengthened while minimizing any disadvantages? What is the right policy framework to balance the respective interests of governments and civil society while realizing the potential of civil society? Current frameworks seem unable to achieve such a balance.

The main proposal for finding better policy responses is to call for a more differentiated approach to CSOs that goes beyond the one-size-fits-all of current regulatory frameworks. These are largely based on regulatory notions of charity and public utility that are rooted in the late 19th and early 20th century, and in some cases even in medieval times. They are based on outdated notions of how organizations should to serve the public good, and they fail to consider the diversity of modern organizational forms and ways of collective action.

Instead, frameworks should be based on the functional differentiation embodied in the policy approaches above, and take into account the prevailing organizational forms, especially in view of their comparative advantages and disadvantages.

The first differentiation is for CSOs as service providers. An ideal regulatory

framework would differentiate entirely charitable, donative CSOs from CSOs that are part of public-private partnerships, from those participating in quasi markets and contracting regimes, and, more generally, from CSOs that operate in competitive fields alongside public agencies and businesses. Most CSOs here are corporations given the significant capital requirements, rather than membership-based associations. The main regulatory issue is to police the for-profit/nonprofit borderline, while facilitating access to capital markets. New hybrid legal forms are currently being devised to fix shortcomings of the nonprofit and for-profit forms, but seek leverage at the wrong end: Most of the regulatory challenges that CSOs face are not rooted in their basic legal forms, but in the nature of tax and fiscal regulations superimposed on those.

A second differentiation addresses the function of CSOs as an expression of civic engagement, typically in the form of an association. Here the main regulatory issue is between primarily self- or member-serving activities, on the one hand, and ensuring accountability on the other. Democratic legitimacy is frequently called into question when representation issues arise. For example, a lack of membership and community representation is frequently a basis for questioning the legitimacy of international CSOs (Brechenmacher and Carothers, 2018). In the West, there is a troubling decline in active association membership, as members fail to participate in association decision-making.

A third differentiation is about private support for the public good, which foregrounds the roles and contributions of philanthropic foundations. Foundations can

afford to take a long view and operate independent of expectations for quick returns or broad support. Their dual independence from economic and political considerations allows them to address complex and even controversial issues, and seek solutions where government and business cannot risk to do so. Accordingly, foundations are primed to pursue special roles, such as change and innovation, redistribution of wealth, building out societal infrastructure and complementing or substituting for government action (Anheier and Hammack 2010). Governments, however, often perceive foundations as just a source of private funds to fill budgetary shortfalls (Toepler 2017). A broader involvement of foundations in public affairs, however, also raises concerns about legitimacy (Prewitt et al, 2006). Striking a balance between the two is a key regulatory challenge.

»In the West, there is a troubling decline in active association membership.«

A fourth, cross-cutting differentiation is about social investments. Many innovations in civil society can be profitable for investors while having significant potential for the wider public – but in what direction the potential of a particular innovation will be

realized in terms of replicability and scalability – and for whom – is often uncertain. Therefore, a platform or clearinghouse to assess any such potential and a regulatory framework to help test social innovations are needed. The organizational form and legal status of a platform or agency can be varied but should aim at establishing a social investment market next to the investment and venture capital markets for businesses.

CONCLUSION

CSOs have long outgrown their regulatory frameworks, and it falls to policymakers to provide adequate modernized environments. We propose a fundamental rethinking of these traditional and largely outdated regulatory environments in favor of new approaches that take account of the functional differences among CSOs and the various organizational forms underlying them.

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Fostering social cohesion

How to conceptualize social cohesion and how to promote it?

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Since the 1980s, social cohesion has started to feature as a policy target for many governments around the world, notably Australia, Canada, Denmark and New Zealand. Today, the European Union has social cohesion as one of its strategic priorities, devoting one third of its budget to the objective of reducing inequalities between its regions. The T20 2018 Communique underscored the importance of creating a new social contract in which cohesion features as one of its pillars. But what is social cohesion?

A review of the literature reveals that this term has been used under widely different meanings. Bernard (1999) classified social cohesion as a “quasi-concept” because of its vagueness. Analyzing the etymology of the term may be useful. “Cohesion” originates from the Latin word ‘cohaerere’ that means “to stick, to be tied together”. Applied to society, social cohesion refers to the sense of community and the solidarity exhibited by members of a society. We embrace the definition offered in the Bertelsmann Foundation Social Radar Report, which defines a society as cohesive when it is “characterized by resilient social relations, a positive emotional connectedness between its members and the community and a pronounced focus on the com-

mon good” (Bertelsmann Foundation, 2013: 12). One can identify two vectors of social cohesion (Chan et al., 2005). One vector maps relationships between people (horizontal dimension) or between people and institutions (vertical dimension). The second vector distinguishes between individual perceptions (subjective dimension) and individual actions (objective dimension). The intersections of these two vectors generate twelve domains of social cohesion (see Table 1). Under the subjective dimension one finds (1) generalized trust in others and confidence that one will be helped in a situation of need, (2) willingness to cooperate and help others, (3) the sense of belonging to the community (horizontal dimension)

as well as (4) trust in institutions, (5) trust in leaders, and (6) a sense that the society guarantees equal opportunity (vertical dimension). Under the objective dimension, one finds (7) membership in associations, (8) community work and donations, and (9) acceptance of diversity (horizontal dimension), as well as (10) civic engagement, (11) political engagement and (12) respect for social rules (vertical dimension). These areas map both actual connections between people and activities aimed at pursuing the common good and solidarity, as well as individual perceptions of the same.

Some qualifications are in order. First, this definition and construction of social cohesion complies with methodological in-

Table 1: Identifying Social Cohesion

	Subjective component	Objective component
Horizontal dimension	1. General trust in other citizens and confidence of solidarity 2. Willingness to cooperate and help other citizens 3. Sense of belonging to the community and identification	7. Memberships in associations, trade unions, clubs etc. 8. Community work, donations 9. Acceptance of diversity
Vertical dimension	4. Trust in institutions 5. Trust in leaders and public figures 6. Perception of fairness in social mobility	10. Civic engagement 11. Political participation 12. Respect for social rules

dividualism in that all its dimensions are reduced to either attitudes or actions of individuals. Second, other approaches to social cohesion include additional dimensions. The OECD approach to social cohesion (2018) adds social inclusiveness and social mobility as aspects of social cohesion. Both aspects are measured at the macro-level through indicators of poverty, inequality, unemployment, income redistribution and subjective well-being. We prefer to restrict the definition of social cohesion to its core to neatly identify the causal influence of its factors.

»**Economic inequality, lack of access to education and racial diversity are factors negatively affecting social cohesion.**«

Empirically, it is indeed the case that macro-level variables such as economic inequality, lack of access to education and racial diversity are factors negatively affecting social cohesion. Racial diversity is problematic because it can lead to social fragmentation, lower propensity to join as-

sociations and lower levels of trust (Alesina and La Ferrara, 2002; Easterly et al. 2006) and because public goods are underprovided or distributed inefficiently (Alesina et al., 1999). Income inequality negatively affects horizontal trust (Kawachi et al., 1997), possibly because it reduces optimism that one will benefit from societal progress (Uslaner, 2002). These two factors may interact, because immigration appears to have a negative effect on social cohesion only in countries with high levels of economic inequality (Kesler and Bloemraad 2010). Education positively affects social cohesion (Helliwell and Putnam 2007) presumably because education facilitates the creation of a mutually shared identity and spurs cooperation.

Social cohesion has been found to have beneficial effects on economic growth, subjective well-being, and health. The positive effect on GDP is due to the huge economic costs of inter-racial conflict (Foa 2011), and to the fact that social cohesion permits better functioning of institutions and the rule of law, which are conducive to growth (Knack and Keefer, 1997; Easterly et al. 2006). Increased trust in others has a large effect on life satisfaction – quantifiable on the same magnitude as an increase by two-thirds of household income (Helliwell and Wang 2011). Social cohesion fosters mental as well as physical health, even moderating the positive effect of income inequality on mortality rates (Kawachi and Berkman 2001).

The Social Cohesion Radar of the Bertelsmann Foundation (2013) has strived to construct a longitudinal dataset of social cohesion across 34 OECD countries spanning the 1989-2012 period. The index shows substantial variability across countries, with Scandinavian countries topping the ranking

and Southern and Eastern European countries lying at the bottom. For most countries the index has not shown substantial variation over time, but notably the US, the UK, Canada, France, Greece, Bulgaria and the Baltic countries experienced a drop in their score of social cohesion. In light of other indicators showing a decrease of trust in institutions in recent years (Edelman, 2018), it would not be surprising if a replication of this exercise today showed levels of social cohesion being further eroded.

We now offer a set of recommendations to foster social cohesion [see Grimalda and Tänzer, 2018 for a more extensive account].

1) Comply with a strategy of inclusive growth

Inclusive growth rests on the idea that economic growth should benefit all individuals in a society, considering an expanded notion of well-being that goes beyond the purely material aspect of consumption (Boarini et al., 2018). Among the pillars of inclusive growth there lie the reduction of economic and social inequality as well as the access to education at all levels, which are both conducive to social cohesion.

2) Improve integration of immigrants in society

Discrimination rests on basic psychological propensities to categorize the self and others into groups, to identify the self with one – or more – of such groups, and to also categorize others into groups (Brewer, 1999). Education and cultural processes should prevent this “us vs them” perspective from becoming conflictual (Putnam, 2007). Discrimination may rest on the attribution of stereotypical beliefs to groups that may be factually false, such as the

belief that immigrants lack work ethic or hold too different values from those held by natives. The available evidence shows on the contrary that second-generation immigrants generally hold no different values from natives (Bisin and Verdier, 2011). This evidence suggests that fostering dialogue and integration between different groups should reduce discrimination.

Another effective way to break down such beliefs relies, in our view, on the establishment of community work programs involving both native citizens and first-generation immigrants. These activities would permit the transmission of relevant social norms from natives to immigrants, let alone language skills. Dissemination of information over such activities would also help remove natives’ prejudices over immigrants’ lack of work ethic, or their presumed reluctance to integrate into the natives’ community. Public authorities should encourage immigrants’ voluntary participation in such activities.

3) Include community work into educational programs.

So-called service-learning, i.e. the practice of including active participation in volunteer associations as a requirement of school curricula, has been implemented in some countries such as the US, though never on an extensive scale. The long-term impact of these programs is unambiguously positive on personal well-being and life satisfaction (Bowman et al. 2010), health and criminal conduct (Allen et al. 1997), educational achievements, political activity and attitudes toward civic participation (Hart et al. 2008). More generally, participation of citizens in associations should be actively encouraged by public authorities.

4) Facilitate citizens' political engagement

A wide range of democratic innovations has been implemented to increase and deepen citizens' participation in the political decision-making process (IPSP, 2018: Chapter 14). For instance, participatory budgeting involves citizens in the definition, formulation, decision, and control over several aspects of the municipal budget, especially infrastructure and investment. Relative poverty often enters as a key criterion for the transparent selection of various alternatives (Avritzer, 2009). Actual voting in political elections may also be encouraged, for instance increasing the number of polling stations or extending their opening time.

5) Empower individuals as consumers and workers

Citizens can be empowered not only in their social life but also as individual consumers and workers. Helping consumers to have a say in the patterns of production could be important to enhance their involvement in society (Micheletti et al., 2003). Improving the governance of companies and businesses organizations through enhanced collective bargaining and other forms of democratization may also be important, as well as fostering the activities of social enterprises (IPSP, 2018: Chapter 8).

6) Engage in a public dialogue with the media to discard the diffusion of so-called "fake news"

So-called "fake news" has come to the fore as a powerful tool to manipulate public opinion and corrupt the public debate with the introduction of divisive narratives. We embrace the view that media should be treated as a public good for society, as well as other sectors – e.g. education and

infrastructure (IPSP, 2018: chapter 13), because of their importance for the democratic functioning of societies and for self-expression. The increasing concentration in the media and information industry and the lack of transparency about actual ownership is in this sense worrying and should be countered by public authorities.

»Participation of citizens in associations should be actively encouraged by public authorities.«

Bottom-up control from civil society and self-regulation by the media should play a major role in combatting fake news. We endorse a national and global dialogue among governments, civil society and the media sector – broadly defined. The government should encourage the media sector to voluntarily subscribe to codes of conduct aiming to eradicate the phenomenon of false reporting or fake news – see e.g. the "Journalism Trust Initiative" (2018). This strategy may also rely on auditing and certification by credible authorities independent from the government regarding the reliability of a certain news source – be it an official

media company or a Twitter account. Empowering and legitimizing associations involved in “fact-checking”, whose aim is to highlight and disseminate the misreporting of information, should also be pursued.

Social cohesion is a multi-faceted concept and these recommendations target only some of its aspects. Public dialogue should be encouraged to ascertain which domains are considered relevant by social groups and how social cohesion may be further fostered.

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Social cohesion and human flourishing

A case study

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St Martin-in-the-Fields is an Anglican church sitting at the corner of Trafalgar Square in London. Throughout the 20th century, St Martin's has looked beyond its own doors and played an active role in wider social, humanitarian and international issues. As such it was involved in the Anti-Apartheid Movement and the founding of many charitable organisations, including Amnesty International, Shelter and The Big Issue.

INTRODUCTION

Among the items foremost on the G20 agenda are questions of human flourishing, particularly in relation to artificial intelligence and the future of work, and social cohesion, especially in relation to the prevalence of social media and the rise of populist reaction to globalisation. While multilateral initiatives must be undertaken to address these issues, good outcomes are primarily dependent on the suitability and adaptability of institutions within civil society – institutions small enough to retain a personal touch, but large enough for their example to come to wider attention and attract imitation. This article considers one such institution.

By scrutinising the character and dynamism of St Martin-in-the-Fields, a church on Trafalgar Square in central London, I wish to demonstrate what qualities agents in the civil economy require, and what goods such institutions generate. I also seek to show how such bodies experience many of the issues the G20 faces in personal and practical ways.

ST MARTIN-IN-THE-FIELDS: A HISTORY

In the thirteenth century St Martin's was a small church in the fields between the city of Westminster to the west and south and

the city of London to the east. It became the royal parish church when the king feared the encroachments of plague-ridden worshippers near the Palace of Westminster, and a new church was built in the sixteenth century, in which George Herbert worshipped in the seventeenth century. In 1726, looking for a way to legitimise the union of Hanover and Britain in 1714, George I built the third St Martin's, whose blend of architectural styles also affirmed the union of Scotland and England in 1707. In the nineteenth century Trafalgar Square was created and the National Gallery and Nelson's Column erected, and St Martin's attained an even greater prominence on the corner of the square.

»»**Good outcomes are primarily dependent on the suitability and adaptability of institutions within civil society.**««

In 1914 Dick Sheppard became vicar. His ministry to soldiers heading towards Charing Cross station and the trenches began the church's association with homeless people. He made the first religious broadcast in 1924; close ties with the BBC

made St Martin's famous nationally and, through the World Service, internationally. The creation of the Academy at St Martin in the Fields in 1958 made St Martin's as famous for music as for social outreach, and the inception of the commercial enterprise in 1987 enabled financial sustainability. A huge makeover, completed in 2008, transformed and upgraded the site. The institution continues to grow in profile and operations, based around what are known as the 4Cs – congregation, commerce, culture and compassion.

COHESION AND FLOURISHING

It's not that unusual for a church to run a business, although most outsource the operations to an external provider. It's not at all unusual for a church to run a significant arts programme, although not on the scale of 170 ticketed and 230 free concerts a year, with major art commissions and exhibitions. It's not unusual for a church to be so closely associated with a homeless centre or in some other way to engage seriously with a pressing social issue through voluntary and professional action. What makes St Martin's unique is that it does all three of these things all the time, while still maintaining a flourishing congregation and a wider public ministry, including large-scale memorial and other poignant worship services, a lively lecture programme and frequent BBC broadcasts. The whole project involves around 200 members of staff and at least 300 volunteers. Perhaps a million people come onto the site each year, of whom around 600,000 eat in the café and 100,000 attend a concert. The ministry and building upkeep are funded by the commercial surplus, congregational giving, small change from visitors and benefaction from

major donors; the social outreach is made possible by grants, local authority contributions, private donations, and proceeds from the annual BBC Radio 4 Christmas Appeal with St Martin-in-the-Fields, which has been running for over 90 years. There are two national networks, one of institutions seeking to dialogue with and in some respects replicate the St Martin's model, and another of homeless support workers seeking to share best practice and experience.

The uniqueness of St Martin's lies not so much in its geographical location, royal connections and broadcasting profile, nor in the extent and breadth of its operations, but in the way its activities and commitments catalyse and enhance each other. The following dimensions illustrate this central insight.

1. The congregation is committed to an unapologetic, practical, aspirational and inclusive form of Christianity. In a plural world, few in the public square are prepared to articulate a true telos or vision for the ultimate purpose of the world and human life within it. Meanwhile those who do often have a narrow perspective that foments hostility or fosters resentment. For St Martin's Christianity means generosity, gratitude, and humility; goodness, beauty and truth; all issuing from the love of God in Christ. There are few things the world needs more than the articulation of a telos that makes room for all and approaches the stranger with expectation and gentleness.

Because congregational life at St Martin's has for a hundred years been associated with engagement with the poorest in society, it has avoided the three main perceptions that have led people to become distant from institutional Christianity: a sense that it was too heavenly minded to be any earthly use, a view that it was judge-

mental and only concerned with its own righteousness, and an observation that it was hypocritical and failed to practise what it preached. The practical commitment of St Martin's is widely known and earns it an enviable reputation among those who would seldom consider attending a worship service.

Being aspirational and inclusive is a rare combination, because inclusion is widely thought to be a concession that inevitably entails a lowering of aesthetic and/or social standards. But St Martin's champions inclusion not out of pity or even justice but from a recognition that, to be the best it can be, it needs the involvement of every strand of society. There is no 'middle' that benignly includes the 'margin' – truth and beauty can't be attained without using all the gifts God sends.

One feature of the aspirational inclusivity is that by no means all of the staff or volunteers share an interest in or Christianity. The community is enriched by people from a wide variety of religious and secular commitments.

2. Being a social enterprise keeps the institution close to the uncompromising realities of the economic climate, geopolitical tensions, and tough commercial choices. Consider three kinds of social enterprise:

a. Instrumental – in which profits are made like any other business, but those profits all go to social good.

b. Exemplary – where the drive for profit is modified by the commitment to pay and treat staff well and embody best practice in regard to ecological concerns and neighbourly responsibility.

c. Social – where the need to generate profit is secondary to the organisation's desire to rehabilitate offenders, empower

people with disabilities, or train the socially excluded.

In recent years St Martin's has moved from (1) to (2); it is currently exploring ways to make one part of its business an agent for (3).

St Martin's is exposed to major public events and trends. It has members of staff from 25 countries, and is thus closely affected by Brexit and changes in migration patterns. It relies on income from tourists and other visitors, and has thus experienced downturns triggered by terrorist incidents in central London.

Meanwhile it has to make judgements about what it means for its business to be an exemplary organisation when the wider institution depends for its survival on the profits it makes. Moving to the London Living Wage was costly but unquestionably the right thing to do: working out a wise and just level of sick pay is a more complex exercise.

3. Working with homeless, destitute, and vulnerably housed people brings to the institution a host of stories, some troubling, some infuriating, some salutary, some enlightening, about the underside of life in London today and how people from different backgrounds come to find themselves there. It provides constant insight into human fragility, the flaws in welfare schemes, the resilience of those who have undergone arduous journeys, the suffering of those who prefer the unforgiving streets of London to the hardships of where they've migrated from, the survival instinct, self-destructive cycles, and the human cost of global change. Half the clientele come from beyond the UK, including a quarter from beyond the EU.

The greatest insight from this work is that the goal of social engagement is to

achieve 'with' rather than to settle for 'for.' That's to say the work is about building on the assets of the person in question, balancing encouragement and challenge – rather than concentrating on their deficits and providing resources and information. You can't change people's lives – you can only walk alongside them while they find confidence and aptitude to address their trials themselves.

»The goal of social engagement is to achieve 'with' rather than to settle for 'for.'«

4. A cultural programme, in this case music and visual arts, both reflects and shapes the wider culture. At St Martin's the arts are a medium of worship, a form of training, an expression of feeling, a means of generating income, a mode of teamwork, and a celebration of being alive. The music programme strives to be at the same time (a) Aspirational – with outstanding professional singers and emerging choral scholars (b) Participatory – with plenty of opportunity for those who are more willing than able and (c) Financially sustainable – with the income-generating parts broadly covering the costs of those aspects that are supported for their own sake.

The cultural programme is vital because it is the most accessible way in which

the institution displays and celebrates the joys of life – rather than simply alleviating life’s burden’s. Purpose can never be simply about making the bad less bad; it must equally about portraying and discovering what good looks like.

LESSONS

I have described above the what, how and why of St Martin-in-the-Fields because I believe it is on the vibrancy of such civil society institutions that human flourishing and social cohesion depends, and because I believe it is precisely such institutions that are best poised to model and propagate the initiatives the G20 seeks to promote.

Fundamentally St Martin’s believes that the future is bigger than the past.

Recent political movements have demonstrated that when people lose sight of a genuine telos, and lose confidence in their own ability to play a constructive role in advancing towards it, they resort to imagining a better past and seeking others to blame for inhibiting their ability to recreate it. At a place like St Martin’s people of immensely diverse social classes, racial backgrounds and experiences of flourishing and hardship cross paths, find common ground, and are enhanced by encounter. This is what human flourishing and social cohesion look like. The challenge is to study its lessons, replicate it as appropriate, and stimulate other communities to develop such institutions in their own context.



Climate Change

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**The G20 and its role
in driving low-carbon
transition through
private finance**

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The G20 and its role in driving low-carbon transition through private finance

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The Economic Research Institute for ASEAN and East Asia (ERIA) is an international organization established in Jakarta, Indonesia, in 2008. It focuses on conducting and disseminating policy research as well as providing policy recommendations for further economic integration in East Asia.

ABSTRACT

G20 economies will need some USD 500 billion in annual capital expenditure on low carbon energy supply and in energy efficiency to meet the Paris Agreement targets. The scale of this investment required to decouple carbon emissions from economic growth is still far from stable, and will inevitably have to rely largely on mobilizing private capital. The G20 comprises countries that are of utmost importance for global energy governance, climate action and financing the low carbon transition. The G20 has made initial steps to formulate a low-carbon agenda to be financed by private capital, but there is more to be done. Four interrelated solutions: a low-carbon transition fund, a financial performance warranty program, best regulations and a high-quality infrastructure program are proposed as concrete steps the G20 needs to follow in order to accelerate a low-carbon transition at the global level.

The four interrelated policies proposed here provide an important setting for coordinated actions, and the G20 can com-

plement their sustainability framework by entitling multilateral development banks to implement these initiatives.

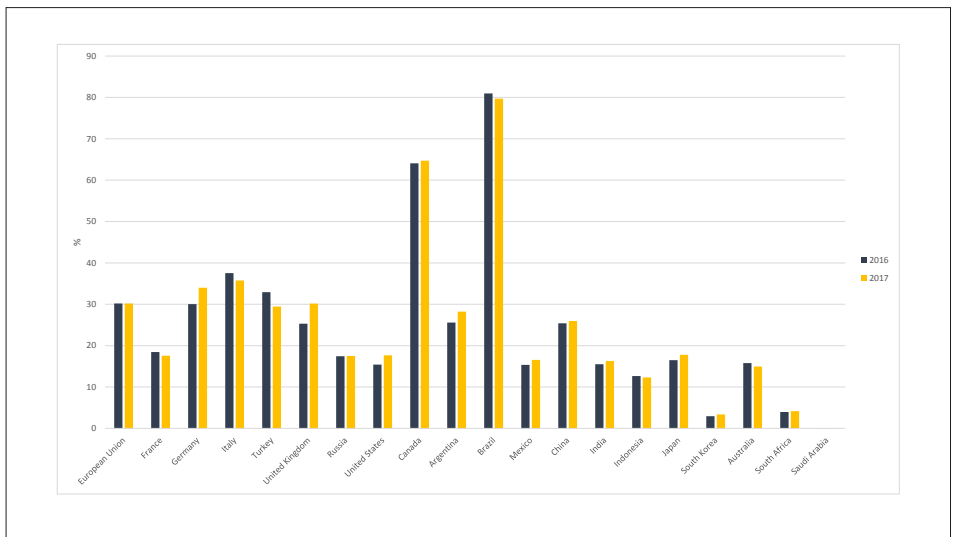
FINANCING NEEDS FOR A LOW CARBON ECONOMY

Decoupling economic growth from carbon emissions is a global challenge. Yet the challenge is vast for most G20 economies, given that their growth models have been very carbon intensive. Decoupling emissions from economic growth requires a fundamental and wide-ranging response from public and private sectors, targets and regulations, as well as deep investment. There is a need to implement adequate policies and targeted incentive mechanisms to create conditions that facilitate low-carbon energy transformation and thereby enhance sustainable economic growth. But

there has been a growing recognition that to achieve the goals of the Paris Agreement, it is also crucial to align the financial system with it. The carbon emission reduction targets expressed as Nationally Determined Contributions (NDC), part of global agreement achieved in Paris on reducing emissions, imposes structural changes on the energy system, which vary from country to country (Fig 1).

A failure to address systemic, low-carbon transition challenges will in the long run impinge on economic growth and returns of individual firms and economies, with repercussions for financial institutions and financial regulators to take account of governance risks (Kalirajan et al, 2016). With NDC targets coming into force, depending upon the extent to which governments pursue policies consistent with Paris

Fig 1. Share of Renewable Energy in Electricity Production of G20 countries



commitments, there is a risk that current investments in fossil resource development become stranded assets. Further, G20 aims for the progressive liberalization of markets to achieve an open and integrated investment regime. Hence, accounting for Paris Agreement targets and other risks need to be considered as an important factor with respect to safeguarding the stability of G20 financial systems and investment regimes.

Further, recognizing the limited global reserve of fossil energy and unstable world

prices of hydrocarbon products, it is essential for G20 countries to accelerate the transition towards a low-carbon economy, as well as to promote open trade, facilitation and cooperation in related low-carbon industries in the requisite infrastructure.

Against the backdrop of these commitments and the need for a low-carbon transition, huge investments are needed across the globe. These costs are estimated to be USD 200 billion annually (Anbumozhi and Yao, 2015; Anbumozhi et al, 2017; UNEP,

Table 1. Region and sector wide investments needed for low-carbon energy transition

Region	Wind	Solar	Biomass	Small Hydro	Geothermal	All Renewables	Electric Transmission & Distribution	Industrial Energy Efficiency	Buildings	Transport	Waste	Subtotal
South East and East Asia	231	517	48	34	16	866	392	143	13,235	1,357	53	16,046
Latin America and Caribbean	118	44	45	11	14	232	0	21	901	1,46	26	2,64
South Asia	111	211	16	0	0	338	0	85	1,541	255	13	2,234
Europe and Central Asia	51	39	6	7	7	109	0	57	410	78	11	665
Sub-Saharan Africa	27	63	3	3	3	123	0	0	153	499	8	783
Middle East and North Africa	50	46	0	1	1	97	21	1	92	50	4	265
Total	588	940	118	56	56	1,765	413	307	16,334	3,699	115	22,633

Source: UNEP, 2016

2016). As segregated and explained in Table 2, they primarily come from the power sector, which is particularly important in controlling carbon emissions through investments in renewable energy and energy efficiency. The transport sector is also important for the low-carbon energy transition through shifts from more carbon-intensive travel to less carbon-intensive. However, over the longer term, these shifts should be complemented by sustainable consumption and waste management strategies. The breakdown of the cumulative sectorial investment needs are presented in Table 1.

»A failure to address systemic, low-carbon transition challenges will in the long run impinge on economic growth.«

DYNAMICS OF LOW-CARBON FINANCING

Globally, cutting across sectors, the G20 will account for the majority of low-carbon investment needs through 2030. Most of the estimated investments required to scale up low-carbon energy systems will come from the private sector. In OECD countries,

private capital accounts for roughly two-thirds of financing, through debt or equity for low-carbon infrastructure. Public sector resources such as national and local governments and national development banks provide the remaining one-third. Private sector financing is divided between corporate sources such as state-owned companies and the financial sector with a market share of 40 percent and 60 percent respectively. Bank financing, such as project financing consists of approximately 60 percent debt and 40 percent equity and accounts for roughly 95 percent of the financial sector's contribution, consisting mostly of long-term loans. The remaining five percent is provided by non-bank entities, including institutional investors. The magnitude varies within G20 countries, where public and quasi-public institutions such as state-owned banks and autonomous, but government supported, corporations provide two-thirds of investment financing. However, concerted and coordinated efforts by national and local governments, and public financing institutions are essential to move the needle towards unlocking the potential of private sector. G20 governments can accelerate this trend by targeting more of their funds to leverage private finance.

In general, G20 economies are playing a growing role in scaling up private investment in low-carbon energy systems. Global investment in renewable energy in 2015 hit a record of up to 17 percent to USD 330 billion (Jones and Jonson, 2016). This, along with energy efficiency improvement, represented a six-fold increase from 2005. This investment is due in part to the creation of strategies by a number of G20 countries to advance energy security and implement carbon-emission mitigation measures.

Low-carbon asset financing originating from Brazil, Russia, India, China and South Africa (BRICS) countries has been on track for the past five years, and for the first time exceeded those of OECD economies in 2015.

There are several reasons for leveraging private finance to accelerate the low carbon energy transition and achieve the Nationally Determined Contributions (NDC). First, advanced countries have not yet agreed on any clear plans for meeting their commitment to provide USD 100 billion annually by 2020 to achieve the NDC targets by developing countries. Second, as current estimates indicate, more than USD 100 billion per year is needed to meet the low-carbon transition challenges. This includes not only investments in renewable energy, but also energy efficiency and other strategies like the deployment of clean coal and carbon capture and storage technologies at the scale required (Limaye, 2011; Newcomb and Sadelemen, 2015). Third, government budgets of both advanced and emerging economies are often constrained by the financial debts and other austerity policies, with little clarity on about when and how public financial flows will be scaled up to meet the Paris targets set for 2030.

Nevertheless, some G20 governments are using public finance to leverage, and thereby scale up, private finance for infrastructure investments. This becomes possible because institutional investors, such as pension, insurance and mutual funds, have large pools of capital to deploy with a long-term investment outlook that is suited to low-carbon energy infrastructure financing. Despite the interest in this approach, progress in mobilizing private capital is inadequate, as many regulatory barriers exist. Further, evidence is insufficient to show

what type of incentives encourage a change in private investment patterns to the extent required, particularly at the regional level.

»G20 economies are playing a growing role in scaling up private investment in low-carbon energy systems.«

LIMITATIONS TO SCALING UP PRIVATE FINANCE

Given the opportunities for financial market growth, the question for prudent G20 finance ministers is how to direct the large and increasing private investments towards low-carbon energy systems. The major players in industry and the financial sector are bound by fiduciary duty to maximize the shareholder value of current assets, and existing regulatory pathways may slow the emergence and deployment of low-carbon energy systems at a scale required. However, policy makers could work on at least three regulatory factors that can unleash the potential of financial markets towards a low-carbon transition. First, private financial institutions operate in a market envi-

ronment where the prices for the commodity they replace, including energy derived from fossil resources, are volatile, and when prices for the externalities they reduce, such as emissions, are still very low, markets for high carbon-based inputs will be subject to downward pressure. Where permits and approval are required to implement low-carbon technology diffusions, delays are lengthy, because both banking and regulatory authorities grapple with assessing new investments based on precautionary principles and old methods. When the users are state-owned enterprises, individual mandates for NDC targets are not yet agreed and are not generally consulted during regulatory reviews, shareholder perceptions become negative. As a result, shareholders of those firms are not ready to increase their investments (Hongo and Anbumozhi, 2015).

Second, private investors in low-carbon energy systems operate a capital-intensive business model because the foundational capital stock is still being established for the low carbon economy. As a result, pioneering investors need to balance intense competing demands for capital within the firms. At the firm level, there is competing demand for other profitable investments. At the corporate level, these competing demands for capital are subject to intense management scrutiny, in an effort to allocate scarce capital for low-carbon risk investment. If public finance is leveraged and low-carbon investments transform into legacy investments, as specialization emerges, not every investor will need to be in the position they are in now.

Third, low carbon technology firms are often called upon to provide solutions for energy corporations with long-lived assets, which are subject to swings in commodity

prices. Some of these potential investors may also operate under reduced competitive pressures due to fiscal and public finance subsidies to high-carbon investments like oil, gas and coal. These subsidies contribute to high barriers to entry and hence, low market pressure to either procure finance from outside or mobilize in-house. These subsidies or incentives put low-carbon investors at a competitive disadvantage and subject them to unfair market conditions.

MAPPING THE RISKS TO PRIVATE CAPITAL INFLOW

There is no doubt that private finance should be enhanced to support actors enabling the low carbon economy. The question is how? The particular question for policy makers to consider is which policies and institutions will help complete the transition to the low carbon energy system by 2030. This is a challenge, given that these policies and institutions must be viewed not only with expectations for energy and climate stewardship, but also for job creation and productivity improvement across sectors. The banking and financial institutions are generally reluctant to provide loans even for highly profitable energy efficiency projects because of their lack of knowledge and understanding, and their perception of high risk with respect to energy efficiency projects (Wolf et al, 2016).

International financial institutions are using a leveraging strategy to scale up investments. Leveraging public finance for mobilizing private finance is generally measured in term of ratios. It implies that for every US dollar they put towards a low-carbon investment, the private sector has put ten US dollars, which would be a 1:10

leverage ratio (Singh et al, 2010). While leverage ratios are difficult to compare across projects, countries and instruments, ratios of 1:5 and above are not uncommon. There are some cases of instruments, such as grants, that deliver higher ratios. Nevertheless, there exists strong potential for increased lending, advancing and rolling out de-risking instruments, using carbon revenues, and targeting grant money combined with technical assistance to attract much greater private finance. Recent research (Anbumozhi and Kawai, 2015; Venugopal and Srivastava, 2012; Robin and Choudhry, 2015) on the returns of equity funds points to better returns for funds with lower carbon exposure to investments. At the same time, those studies have also concluded that economies and industries are both increasingly concentrated, with fewer and fewer private actors representing a greater share of low-carbon financing. Capital and regulatory barriers may be impeding the low-carbon energy transition, as markets continue to allocate capital rationally toward carbon-intensive systems, given the legacy of market structures and institutional arrangements.

Arguably, other direct and indirect non-fiscal measures could also support a coherent, low carbon investment agenda, including; addressing the overlapping jurisdiction of licensing, bolstering the legal liability for NDC in emerging economies by transnational investors or legally mandated resource-efficiency reporting (Simon and Zhang, 2015).

CATALYSING COORDINATED SOLUTIONS BY THE G20

Globally, the low-carbon energy transformation faces simultaneous challenges on

several fronts including the development of various interdependent technological systems, investment regimes and business models and related adjustments of regulations supporting free trade and investment. Such systemic change is unlikely to proceed smoothly without a proactive coordination at the G20 level. Nevertheless, four interrelated financing solutions could be considered for accelerating investment in low-carbon energy systems: establishment of a low-carbon fund that can broaden and deepen the risk-bearing capacity of the private sector; formulation of a financial performance warranty program that would target low-carbon technology providers, with an insurance and warranty of the financial availability and performance guarantee; the best regulations for a low-carbon economy program that recruits independent third parties to assess the effectiveness of new energy policies to spur private finance action domestically; and a quality infrastructure program that evaluates new energy infrastructure proposals for their net carbon impact and incorporates warranty systems that also bring job growth.

(a) A G20 low-carbon transition fund In order to accelerate the deployment of low-carbon technologies to meet the Paris Agreement target, a G20 fund will be established. This fund will be financed by unwinding fiscal and public finance subsidies currently provided to conventional energy sectors. This G20 transition fund would enable the investors in low-carbon assets, which will underpin the NDC targets to monetize the carbon credits and thus increase their financial resilience. The value of the fund would be proportional to existing fossil-fuel subsidies by the G20 countries.

(b) Financial performance warranty program The G20 financial performance warranty program would target manufacturers of low-carbon technology whose customers, such as engineering procurement and construction companies and public procurement actors, require insurance as a warranty for investment and performance. Low-carbon investments require entrepreneurial skills and pose new kinds of risks that highly influence investment returns. The transfer of these risks to the insurance market through the performance warranty program will improve project cash flows, thereby supporting investments and business models. The insurance provided would allow them to secure more favorable financing terms, particularly to raise the capital or receive debt that covers risks if their technology does not perform. This G20-wide program would target the formation of a critical mass of risk-underwriting opportunities to attract private sector underwriters to warranty the performance and availability of innovations and investments being procured. The overarching goal would be to enable the formation of a low-carbon risk underwriting market.

(c) Best regulations for low-carbon energy investments The best regulation program would enable G20 countries to request a third-party assessment of international policies and regulations within a G20 country that have enabled the commercial deployment of low-carbon investment. The intent of the program would be to recruit non-profit sectors to assess the effectiveness of current policies and regulations in order to determine and prioritize reforms with the potential to spur private investments across sectors. Their reports and

guidelines would be made public and would serve as evidence to determine and prioritize reforms. The scope of this approach will be guided by the NDC targets and draw on international best practices and experiences.

»The G20 transition fund would enable investors in low-carbon assets and increase their financial resilience.«

(d) High-quality infrastructure program Under high-quality infrastructure procurement, an approach with three stages would be taken to evaluate a new low-carbon infrastructure program. First, this will entail a full economic life-cycle cost assessment. Second, there will be a full carbon-cost assessment, accounting for embodied, operational, end-of-life sequestered carbon emissions. The impact of this approach would be more cost-effective infrastructure decisions, increased economic productivity and financial innovation spillover effects. Third, the best-available low-carbon infrastructure solutions – an assessment re-

quiring investors to undertake an analysis of whether the needs associated with the infrastructure project can be met through cost-innovative means or conventional approaches. Navigating the complex requirements of quality infrastructure is a daunting task. Standardizing common or at least similar process and transaction documents would decrease the transaction cost of environmental full-cost accounting. Collective action and a sense of partnership among the G20 central banks and private financial institutions will be necessary to scale up projects to qualify for the high-quality infrastructure program.

»Such systemic change is unlikely to proceed smoothly without a proactive coordination at the G20 level.«

CONCLUSION

The G20 unites a set of countries with a very distinct energy mix and diverse NDC commitments. Against this background, the group tends to focus on less-controversial issues affecting the financial architecture that affects global change such as climate change. Opportunities to raise capital from

the public are limited, which means that low-carbon project developers in G20 countries must rely on private financing. The scope of economic, energy and climate policies to unlock the private sector potential under G20 deliberations are broad, ranging from providing public finance, reforming bank regulations, activating market-based instruments, providing technical assistance, enhancing bond markets, etc. Continuing the current low level of investment equilibrium will create structural impediments to achieving the NDC targets. The four interrelated policies proposed here provide an important setting for coordinated action. The G20 can complement and add coherence to this framework by entitling multilateral development banks to implement these initiatives. If this is designed appropriately, with a clear long-term institutional mandate, then such an approach can ensure continuity and commitment by the G20 that is beyond individual agenda-setting by each revolving presidency.

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Economics and Trade

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German Alliance for Trade Facilitation

Enabling developing countries to reap the benefits of trade facilitation

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As a federal enterprise, GIZ has over 50 years of experience in a wide variety of areas, including economic development and employment promotion, energy and the environment, as well as peace and security. GIZ works in demand around the globe – from the German government to European Union institutions, the United Nations, the private sector and governments of other countries. The main commissioning party is the German Federal Ministry for Economic Cooperation and Development.

AN ANTIDOTE TO PROTECTIONISM

The current challenges to the liberal multilateral trade regime are on everyone's mind. Tensions between major trading partners have been rising over the last months and trade experts are increasingly calling for a modernization of the World Trade Organization (WTO). These developments seem to underline the current rise of protectionism as well as the potential for trade wars. Naturally, as trade builds the foundation of large parts of our modern economies, an aggravation of such tensions in the global trading system can threaten economic stability, jobs and growth. In the midst of these concerns, it is important to remember that there is a vivid example of how multilateralism can still work today: the WTO Trade Facilitation Agreement (TFA).

The WTO members adopted this agreement in the course of the Ninth Ministerial Conference in Bali in 2013. After ratification by more than two thirds of all WTO members almost four years later, it entered into force as the first multilateral agreement in the history of the WTO. By simplifying, modernizing and harmonizing import and export procedures with its customs formalities and transit provisions, the agreement is expected to substantially boost global

trade. On average, the WTO expects the implementation of the TFA to significantly reduce trade costs and thereby spur the growth of global trade by more than US\$ 1 billion a year.

»The removal of trade barriers is in the interest of both businesses and governments.«

SOLVING THE PROBLEM OF INEFFICIENT IMPORT AND EXPORT PROCEDURES IN THE DEVELOPING WORLD

International trade is an engine for economic development. Therefore, the removal of trade barriers is in the interest of both businesses and governments. Complex customs regulations, import controls, non-transparent procedures and a lack of appropriate IT systems are especially hard on developing and emerging economies, as great transaction costs impede the access of national businesses to global markets. Conversely, international enterprises see few incentives to invest in a country with an adverse trade and investment climate.

Therefore, the TFA makes an essential contribution to the United Nations' (UN) 2030 Agenda for Sustainable Development. This agenda includes 17 Sustainable Development Goals (SDGs) designed to achieve economic, social and environmental tar-

gets for people, planet and prosperity. By reducing the considerable trade costs in developing and emerging countries, implementing the TFA helps to better integrate these countries and their businesses into the global economy. Trade facilitation can thus be a substantial lever for creating jobs, stimulating growth and thereby alleviating poverty.

THE GERMAN ALLIANCE FOR TRADE FACILITATION AS A SUCCESSFUL MULTI-STAKEHOLDER PARTNERSHIP FOR THE 2030 AGENDA

Leveraging the resources and the expertise of international companies through a close collaboration between politics and business are a crucial means to achieving the SDGs.

The German Alliance for Trade Facilitation puts this approach into practice. The Multi-stakeholder partnership uses its strong network to contribute to the 2030 Agenda. Within the Alliance, corporations, business associations and the German and partner country governments work together to implement the TFA and eliminate bureaucratic burdens. This starts by leveraging the maximal engagement of Germany for TFA implementation support.

Firstly, the participating units of the German government contribute to the Alliance within the scope of their competences in the field of trade facilitation. The German Federal Ministry for Economic Cooperation and Development (BMZ) is responsible for funding and ensures political support for the Alliance's projects. The German Federal Ministry for Economic Affairs and Energy (BMWi) represents the Alliance in the context of Germany's contribution to the TFA. Other German border agencies provide their expertise on a demand basis. The

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH serves as project coordinator for all Alliance projects and shares its reliable contacts with all involved parties. Its world-spanning network builds the foundation for successful operations in developing and emerging economies.

Secondly, German companies collaborate actively within the Alliance, for example by initiating new projects or actively engaging in already existing ones. By doing so, private sector players are able to provide expertise to projects and cooperate with experts of the GIZ and local government authorities in finding solutions to existing trade barriers.

Thirdly, business associations assume an internal as well as external communication role both at the German federal and state levels and facilitate the involvement of small and medium-sized enterprises within the Alliance. They disseminate the Alliance's activities through various channels of communication, such as journals or information events.

THE ALLIANCE'S APPROACH TO TRADE FACILITATION REFORM PROJECTS

The Alliance's approach for implementing the TFA is project-oriented. It directly asks businesses about their trade and customs issues and offers them a chance to solve these problems by working together with partner countries. Corporations can thus actively contribute to implementing projects and to developing solutions jointly with partner governments. In the process, the Alliance combines the aims of development cooperation with business interests by creating mutual benefits for both the private and the public sector.

The three-tier structure of the Alliance network in Germany is replicated in project countries of the Alliance. The initial input and the trade facilitation challenges raised by the German network are scrutinized and re-confirmed together with local stakeholders. On the ground, the Alliance matches the priorities of the government and of border agencies with the priorities of international and national companies as well as business associations. Taking the concerns and the expertise of all stakeholders into account, a trade facilitation reform project that benefits all stakeholders is then agreed upon. Working together in a collaborative spirit to achieve a commonly agreed goal, the project partners from the public and the private sector each provide a unique set of skills and experiences that are essential to the joint implementation of the project.

»The projects significantly reduce time and costs for trade procedures.«

The projects significantly reduce time and costs for trade procedures. In addition, reform measures address the problem of informal customs payments: digitalizing customs procedures and developing standard operating procedures as foreseen in the TFA make border clearance less prone to corruption and facilitation fees. After suc-

cessfully concluding a project, the Alliance examines possibilities for a regional or global scale-up to include other countries.

Inspired by the success of first completed Alliance projects, three other BMZ-funded Initiatives rely on the Alliance project approach and the proof-of-concept for their own projects. Seven countries worldwide are profiting from this global up scaling and use the Alliance approach for reform projects.

The German Alliance also cooperates with its partner initiative, the Global Alliance for Trade Facilitation (GATF). The GATF pursues a similar approach at the global level. The Global Alliance for Trade Facilitation is a collaboration of international organizations, governments and businesses. The Global Alliance is led by the Center for International Private Enterprise, the International Chamber of Commerce and the World Economic Forum, in cooperation with GIZ.

The Global Alliance is funded by the governments of the United States, Canada, the United Kingdom, Australia, Denmark and Germany. It works to help governments in developing and least developed countries to implement the World Trade Organization's Trade Facilitation Agreement. This is done by bringing together governments and businesses as equal partners to identify opportunities to address delays and unnecessary red-tape at borders and design and deploy targeted reforms that deliver commercially quantifiable results.

TANGIBLE RESULTS OF ALLIANCE PROJECTS

The German Alliance's approach verifiably works. Reducing trade costs benefit businesses and governments alike. It strength-

ens local suppliers, facilitates their integration into global supply chains and supports the development of new markets. In this way, the Alliance contributes both to the implementation of the TFA and the achievement of the SDGs, since many measures in the TFA have a direct link with the SDGs.¹ For example, article 6 of the TFA includes the requirement to avoid conflicts of interest in the assessment and collection of penalties and duties, which can help to reduce corruption and bribery, covered by SDG target 16.5.

The successfully concluded German Alliance project in Montenegro serves as an example for the Alliance's impact and illustrates how the Alliance approach works. Montenegro had notified to the WTO that it needed assistance to implement "pre-arrival processing", one of the reforms required by the TFA. The Alliance was able to leverage resources from express operators to develop a systematic solution for implementation of pre-arrival processing for express consignments together with the Montenegrin customs administration and with the Ministries of Finance and Trade. This included the development of an IT system, reviewing and adapting existing regulations as well as training of individual capacities of customs officers for the new procedure, including study trips for knowledge transfer and regional learning.

After two years of work, the customs administration in Montenegro is now fully electronically processing express consignments prior to arrival. As a result, the number of express shipments released within one hour of their arrival has doubled from initially 25% to now over 50%.

In Serbia, the Alliance successfully implemented a similar project on pre-

arrival processing. Due to the high impact of both projects, neighboring countries in the region are now applying the Alliance approach as well. Similar projects are currently planned in Albania, Bosnia, Kosovo, Macedonia and Moldova.

»Stakeholders can become agents for change in their country and promote the idea of multilateralism.«

BUILDING MUTUAL TRUST AND GENERATING AGENTS FOR CHANGE AS A DRIVER FOR MULTILATERALISM

These results underline how the German Alliance for Trade Facilitation can enable developing countries to reap the benefits of trade facilitation. The Alliance brings together global policy with real-life day-to-day challenges of local traders and customs officers.

On one hand, its projects profit from the global momentum and political will generated by the SDGs and the ratification of the Trade Facilitation Agreement. On the other hand, all involved local and international actors plan, discuss and implement projects together in the Alliance. By building mutual trust and integrity, these stakeholders can become agents for change in their country and promote the idea of multilateralism.²

¹ UNCTAD (2015) Reaping Benefits From Trade Facilitation https://unctad.org/en/Publicationslibrary/Presspb2015d16_En.Pdf

² If you would like to find out more about the Alliance for Trade Facilitation, visit <https://www.tradefacilitation.de/> or contact Mattia Wegmann, Project Director or Philipp Kruschel, Head of the Secretariat of the German Alliance on tradefacilitation@giz.de.

Gender economic equity

A G20 imperative

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CIPPEC (Center for the Implementation of Public Policies for Equity and Growth) is an organization that strives to create an efficient, democratic, and just state to improve the quality of life for all Argentine citizens. It focuses its efforts on analyzing and promoting public policies that encourage equity and growth in Argentina.

Gender economic equity is an imperative for the global economy, including the countries represented by the G20. This assertion is supported by data and analyses and is captured in the following quotation from the IMF which states that “Women make up a little over half the world’s population, but their contribution to measured economic activity, growth, and well-being is far below its potential, with serious macroeconomic consequences. The challenges of growth, job creation, and inclusion are closely intertwined.” [Elborgh-Woytek et al., 2013]

Labor force participation and its economic and social effects provide an important starting point. Even though female labor force participation has risen over the last 4 decades, its rate of progress has slowed down and remains almost 27 percentage points lower than male labor force participation. Women are less likely to participate in the labor market, largely because of their responsibilities within households. And, when women do work outside the home, they are disproportionately disadvantaged compared to men, even when they are doing the same jobs as men. They face higher levels of poverty, higher unemployment or underemployment, and lower levels of remuneration compared to men. They are more likely to be engaged in the infor-

mal sector and the less dynamic sectors of the economy.

Worse still, these gaps are not expected to improve in the short term (International Labour Organization, 2017) and according to the 2017 World Economic Forum's Global Gender Gap Report, it could take 217 years to close the overall global gender gap, if the current trends continue.

This situation affects the growth potential of economies, the rights of women and girls, and the general economic and social well-being of societies. From a human rights perspective, there is little question that closing gender gaps is the right thing to do. Moreover, a growing body of work argues that reducing gender inequality is economically beneficial, making the case that encouraging female economic participation, improving access to quality child care, and equitable professional opportunities in the job market can yield significant economic returns.

In light of its critical role in the global economy, the G20 has a responsibility and the capability to deliver on gender equity. In 2014, G20 countries committed to reducing the gender participation gap by 25% by 2025 (target known as "25 by 25"). Despite this commitment, G20 countries have not translated these agreements into specific domestic measures and public policies with the requisite budgetary allocations for implementation.

The 2018 Argentine Presidency of the G20 has committed to fostering "women's empowerment, the elimination of gender disparities in employment, science, technology and education, and protection from all forms of gender-based violence." In this context, the T20 has taken the groundbreaking step of establishing a Task Force

on Gender Economic Equity (GEE) comprised of 56 scholars from 43 institutes and 19 countries. This task force has collaborated with and provided support to the Women 20 in advancing the issues of gender economic equity in G20 countries.

The GEE task force has produced 7 policy briefs, including 3 briefs in collaboration with the Women 20 and the Future of Work task force.

»The G20 has a responsibility and the capability to deliver on gender equity.«

The call to action and recommendations of these policy briefs are summarized as follows:

MAKE WOMEN'S LABOR INCLUSION A PRIORITY TO ACHIEVE THE COMPREHENSIVE "25 BY 25" GOALS

- Remove legal barriers to women's economic empowerment: Abolish policies, laws and regulations that prevent or restrict women's agency. G20 development donors should require reform in the legal framework governing women's economic participation as a condition of official development assistance. Enact legislation to ensure women's equal access to assets and resources, including credit, land

ownership, and inheritance. Promote laws that guarantee equal pay for equal work. Reform inequitable laws and regulations and ensure legal protection and non-discrimination. Prevent violence against women and girls in all contexts, including the workplace.

- Foster women's entrepreneurship and self-employment: Develop infrastructure (e.g. internet access) to enable non-urban entrepreneurs to access the market, raise funds, participate in online training programs, and build and maintain social networks. Implement technical and vocational training and skill development programs, incubators and accelerators to foster start-up and scale-up of operations, and infrastructure to improve women's access to the market. Foster initiatives and events to build female entrepreneurial networks that do not reinforce gender differences and to integrate women to existing networks. Ensure social security protection and family policies (e.g. family leaves) for the self-employed. In public procurement processes, foster the participation and selection of women-owned businesses.

- Break the glass walls by fostering women in traditionally male-dominated sectors; implement vocational training and skills development in emerging fields and support women and girls' enrollment; encourage mentoring and coaching programmes, and scholarships to attract women to male-dominated fields; and set specific targets for female enrollment in STEM university degrees.

RELAX CONSTRAINTS ON WOMEN'S TIME BY ADOPTING POLICIES TO RECOGNIZE, REDUCE AND REDISTRIBUTE UNPAID CARE AND DOMESTIC WORK

- Recognize unpaid work. G20 members must carry out periodic time-use surveys that measure the real contribution of unpaid work in national accounts.

- Reduce the burden of care and domestic work. We urge G20 countries to invest in the provision of quality care services, infrastructure, technology and other public services.

- Redistribute unpaid care and domestic work more equally between men and women. G20 member states can lead public campaigns and normative changes to challenge gender stereotypes, foster paid maternity, paternity and parental leave, and promote family-friendly policies and work arrangements.

BRIDGE THE GENDER DIGITAL GAP AND BUILD A FUTURE FOR WORK THAT WORKS FOR WOMEN

- Implement legal and regulatory frameworks that drive ICT adoption, creating and strengthening public agencies to coordinate the transversal integration of digital strategies across ministries.

- Design and implement capacity building programmes for women of all ages on digital skills, ensuring access to informal education and continuous learning. These programmes must include updates to meet the requirements of evolving labor markets.

- Promote education of women in science and technology fields, and foster women in STEM and traditionally male-dominated sectors through scholarships, internships and training programs and setting gender targets in education programs.

- Ensure social protection mechanisms for workers in the gig economy and for the self-employed.

- Invest in gender-focused, context-specific evidence on the impacts of new trends such as the gig economy and automation, recognising that local economic, political and social differences mean the trends will play out differently for men and women.

- Improve female access to information about new opportunities in the future world of work, and provide counselling and guidance about how to navigate these opportunities.

»Abolish policies, laws and regulations that prevent or restrict women’s agency.«

FOSTER WOMEN’S FINANCIAL INCLUSION

- Design financial services that can support women and women-led businesses, including access to credit and capital. States must reduce entry access and usage costs, and other barriers to financial services faced by women. This includes supporting the development of low- or no-cost basic financial services. States and financial services must develop new ways of building credit records through the use of technologies and non-traditional informa-

tion, and create collateral registries based on movable collateral and on credit bureaus to expand the sources of collateral required to access financial services.

- Roll out digital and biometric ID systems to ensure that women can access financial services, reducing the transaction costs of opening an account.

MAINSTREAM GENDER IN POLICY-MAKING AND IMPLEMENTATION AT THE NATIONAL AND SUB-NATIONAL LEVELS

- Design and implement policy processes to systematically include a gender focus on the determinants of gender inequities by requiring, implementing, and resourcing impact assessments to assure inclusivity, transparency, consistency and accountability.

- Implement gender budgeting at national and sub-national levels, placing implementation and accountability at the political centre of fiscal decision-making within ministries of finance.

- Improve the collection and dissemination of gender-disaggregated data to support policy-making and implementation, identification of gaps, and reporting on progress in closing these gaps. Government must provide resources to close the data gaps; give priority to labor inclusion, rural women and care; and develop robust reporting and communication mechanisms to share this information with stakeholders.

FOSTER CHANGES IN GENDER REPRESENTATION AND SOCIAL NORMS

- Strengthen visibility, collective voice and representation of women. Supporting women collectives can contribute to their engagement in policy processes and negotiations, raise the visibility of women’s

needs and foster the creation of support networks. Implement gender quotas, mentoring programmes, and consider firms' gender diversity in public procurement processes.

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Fostering coherence in domestic reforms

The G20's most important challenge

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The Centre for International Governance Innovation is an independent, non-partisan think tank. Their research programs focus on governance of the global economy, global security and politics, and international law.

ABSTRACT

The income gap between “developed” and “developing” countries has narrowed, but many countries are experiencing an increase of internal income inequality. Economic nationalism and protectionist pressures are on the rise.

Trade liberalization and technological innovations are often cited as the main culprits. However, while no politician would be elected on a “halt-technology” platform, stopping imports is a popular proposal.

Several authors have tried to stand up for trade by allocating most of the blame to technological innovations. However, technological progress and trade are intimately intertwined and their effects on income are difficult to distinguish.

Regardless of trade’s share of responsibility for income inequality, the real issue is that where inequality rises, acceptance of globalisation falls, breeding potentially dangerous nationalistic and nativist sentiments.

Reconciling people with economic interdependence will require structural reforms and fiscal distributional policies. Both need to be tailored to domestic circumstances, but as they come at a cost, the first mover bears a risk.

To facilitate domestic reforms the G20 will need to foster international coherence

in economic policy-making. The article puts forth four concrete recommendations for the G20 to consider.

POLICYMAKERS HAVE AN INCREASINGLY COMPLEX JOB

Economic national policies need to be calibrated domestic circumstances. This has always been the case. However, in an integrated world economy, they also need to be consistent with those of trading partners.

Leading countries can afford to take that first step; they know that others will follow. However, the “America First” doctrine has left the world “leaderless” and wondering if the name of the new game is “each country for itself.”

In these circumstances, promoting policy coherence in economic policymaking is both crucially important and extremely difficult.

Trade may have pulled millions out of poverty (WBG and WTO 2015) and narrowed the income gap between “developed” and “developing” countries (Milanovic 2016). However, the share of national income going to labor has declined in almost all G20 countries (McKinsey Global Institute 2016), and the middle classes have been squeezed in many developed and developing countries alike.

The entry of labor-abundant countries into the world economy has benefited consumers; it has also capped and repressed labor’s share of income in high- and middle-income economies (ILO et al. 2015, 21). Wages are no longer performing the central redistributive role they once had, and productivity has been rising much faster than retribution to labor (ILO et al. 2015).

Raising new barriers to trade will not restore the “social contract”.¹ This will

rather require a combination of structural reforms and income distribution policies (Lang and Mendes Tavares 2018, 34–36). The problem is that if a country implements such policies in isolation, it could hinder its international competitiveness. Calls for protectionism could resound even louder.

»Promoting policy coherence in economic policymaking is both crucially important and extremely difficult.«

TRADE HAS DISTRIBUTIONAL CONSEQUENCES

Globalisation has stimulated technological innovation, and global value chains have allowed many developing countries to increase their exports and develop world-class industries, creating new better-quality jobs (Baldwin 2016). However, many manufacturing jobs have been lost in developed and middle-income countries.²

Displaced workers often find it hard to be rehired as the equipment they used to operate is obsolete and their skills are no

longer in demand. Long periods of unemployment are quite common as new job openings are often out of reach, either because of a lack of skills or because of they are in distant places where property prices are unaffordable (Avent 2017).

Some well-respected scholars believe that trade liberalization has been pushed too far (Thomas 2016; Summers 2016). International trade agreements are not just removing border trade barriers, but progressively expanding into provinces that used to be left to the discretion of domestic regulations. Not surprisingly, many citizens feel that trade agreements are at odds with their capacity to shape their own societies (Rodrik and Haley 2018).

Immigration pressures have greatly stoked that perception. Frustration with relatively flat or falling income and fear of challenges from outside make for a politically corrosive cocktail,³ while politicians promising iron-fist policies to repress imports and migrants are gaining support.

In this context, taxing trade-winners and compensating trade-losers will not suffice. This was eloquently and succinctly explained by Peter Navarro, President Trump’s main trade adviser: “We prefer paychecks to welfare checks for the American people.” (Donnan 2017)

TRADE OR TECHNOLOGY?

Trade and technology are synergetic, as economic openness encourages innovation, and technological developments facilitate economic integration (Milanovic). Efforts to “demonstrate” that technology has more distributional consequences than trade are an intellectual distraction. For those whose jobs have gone offshore, it is trade – not technology – that sits at the dock.

Nevertheless, preserving trade is indispensable. It makes growth sustainable⁴ and helps in dealing with immigration pressures. Nationalism and “economic patriotism” can stop legal imports, but they cannot stop illegal immigrants. If would-be economic migrants cannot sell abroad what they produce at home, they will keep jumping on boats or paying “coyotes” to smuggle their families into promised lands.

»Wages are no longer performing the central redistributive role they once had.«

While trade brings important benefits, social “frictions” stem from changes in the distribution of economic activity and income across regions (IMF 2017a). Overselling trade benefits does not help mitigate these adjustment costs.

A recent joint report prepared by the staff of the International Monetary Fund, World Bank, and World Trade Organization offers a menu of structural reforms and fiscal compensatory policies that countries can implement to mitigate adjustment costs and improve the public attitude towards trade (IMF, World Bank, and WTO 2016). Yet, structural reforms trade immediate costs for long-term benefits and fiscal compensatory policies may re-

quire new taxes and increased debt. This makes it risky for governments to “go it alone”; and there is not enough research on whether taxing winners to compensate losers infringes international competitiveness (Goldberg 2018).

FOSTERING COHERENCE IN DOMESTIC REFORMS

It is necessary to persuade people that multilateral rules serve national interests better than bilateralism, and that trade and economic interdependence can improve their lives. This will require domestic structural reforms and distributional policies aimed at reversing the trend of an ever more unequal income distribution. However, as both come at a cost, the first to move bears a risk.

Such domestic policies, regardless of their consistency with international obligations, necessarily have spill-over effects on countries’ competitiveness. The G20 should facilitate these reforms by promoting coherence in economic policymaking.

The G20 can facilitate an exchange of experiences and efforts to minimise negative spill-overs stemming from domestic policies. However, the G20 has no permanent bureaucracy and its chairmanship changes every year. It largely depends on the support of international organisations.

The WTO has a mandate to promote policy coherence and its “Trade Policy Review Mechanism” plays (and could play an even more) important role in helping countries understand the potential trade spillovers of their domestic policy choices. However, the WTO’s (quasi) judicial role in adjudicating trade disputes inhibits it from recommending policies that could eventually be legally challenged.

The World Bank and IMF don’t have such limitations. Trade is central to the WB’s activities, but its remit is focused on combating poverty. The IMF has a broader mandate. According to the Fund’s “Articles of Agreement,” it must “promote the (...) balanced growth of international trade and (...) contribute (...) to the promotion and maintenance of high levels of employment and real income.” It must also “promote exchange stability” and “avoid competitive exchange depreciation.”⁵

Furthermore, recommending policies is the bread and butter of the IMF’s business and the Fund’s managing director, Christine Lagarde, has shown a strong determination to defend trade and the system of multilateral rules (Lagarde 2018). This puts the IMF in a privileged position to help countries phase in domestic structural reforms and fiscal policies that could respond best to their national circumstances, while minimising negative spill-overs.

RECOMMENDATIONS

- The G20 chair could convene a high-level policy-dialogue. The setting should be informal, amicable and non-committal. Such policy dialogue should not aim to produce yet another communiqué, but rather aim to build consensus on implementing domestic reforms to reconcile people with trade and economic interdependence. A roadmap of conversations could be agreed.

- Managers of international organisations should provide a toolbox of incremental domestic reforms that would maximise positive spill-over effects on the economies of the group.

- To ensure the continuity of the policy dialogue, the G20 could establish a “Policy

Coherence Task Force". The PCTF should meet periodically to monitor possible spill-over effects stemming from the implementation of domestic reforms

- To facilitate coherence in the implementation of domestic reforms, the IMF could prepare a blueprint that countries could use, before implementing domestic reforms, on how to assess potential spillovers on trading partners.

¹ Dewan and Suedekum (2017) show that whereas a protectionist agenda could shield certain groups from trade losses, it would come at the cost of foregoing aggregate welfare benefits from globalization, thereby failing to improve living standards at large.

² IMF (2017b) notes that the decline in manufacturing jobs and labor's share in income in the United States was deeper in industries more affected by increasing imports, and participation in global value chains is one of the factors explaining the offshoring of labor-intensive activities from advanced economies to emerging markets and developing countries (see IMF 2018).

³ According to McKinsey Global Institute, citizens (in rich countries) who held the most negative views on trade and immigration were those who felt that their incomes were not advancing and did not expect the situation to improve for the next generation (2016, Executive Summary, 6).

⁴ Berg and Ostry find that trade is correlated with longer spells of growth (2011, 10–11).

⁵ IMF, Article I (ii) and (iii) of the Articles of Agreement.

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Sustainable finance

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KEY MESSAGES

Financing for the 2030 Agenda requires:

- Systemic failures in channelling savings to long-term financing to be overcome.
- Public finance to be used effectively, including to leverage private finance.
- Changes in the architecture of the financial system, nationally and internationally.
- Digitalisation of finance and the financial needs to be harnessed.
- Systemic 'roadmaps' that blend policy with market innovation and practice.
- Action internationally, as well as nationally and locally.
- Partnerships of governments, together with market, expert and civil actors.

IMPERATIVE

Sustainable investments² needed globally to 2030 are over US\$100 trillion.³ In 21 emerging markets alone, US\$23 trillion of financing is needed until 2030⁴. Making these investments would unlock new business opportunities with an estimated value of US\$12 trillion per annum and associated jobs, as well as realizing the goals of the Paris Agreement⁵. Failure, according to the most recent IPCC report, would represent an existential crisis⁶

FINANCIAL FLOWS

Public financing will play an important part in securing these investments. Fiscal constraints are, however, significant in both advanced and developing nations. Even in

China, public finance will cover only a small portion of the estimated US\$320 billion investment needed per year in green sectors to meet environmental targets under the 13th Five-Year Plan (2016–20).⁷

Private finance has to be part of the solution by being aligned to sustainable development. Progress is being made but much of the US\$300 trillion of financial assets held globally are not aligned. For example, investments in clean energy infrastructure totalled US\$324 billion in 2016, but investment in fossil energy use for the same period was over US\$800 billion. There has been a fourteen-fold increase in labelled green bond annual issuance since 2013 to US\$155 billion in 2017, yet it remains less than 1% of total bonds issued globally. Infrastructure investments remain a small part of the portfolio of institutional investments, and less than 1% of this small portfolio is green⁸.

SYSTEMIC FAILURES

Shortfalls in financing the 2030 Agenda reflect a systemic failure in intermediating ample global savings with the long-term financing needed to deliver an inclusive, environmentally sustainable economy⁹.

Shortfalls in finance-using countries, especially developing countries, need to be addressed, for example:

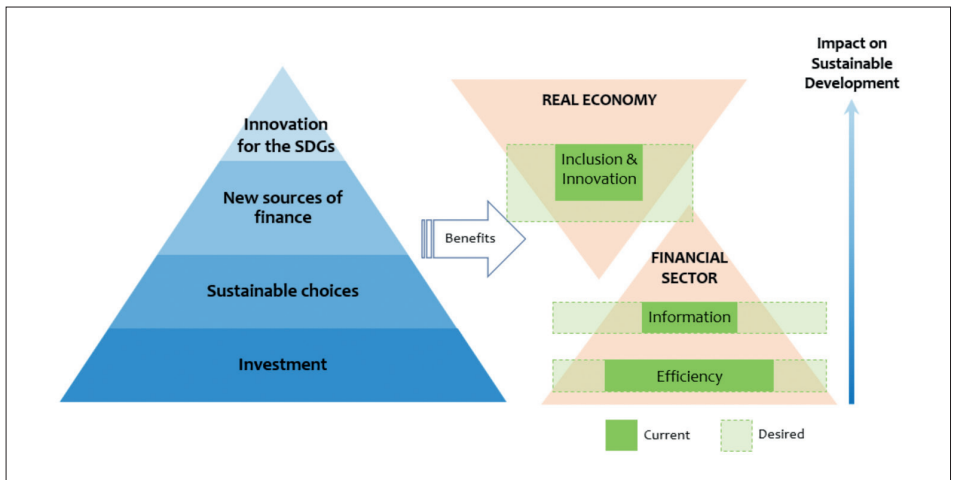
(a) Much is being done to improve the enabling environment and investment pipeline.

(b) Financial flows are being increased by using official development assistance and other sources of public finance to catalyze private financial flows.

Beyond this focus, more attention needs to be paid to weaknesses and shortfalls in the underlying financial and economic architecture. Only limited progress is being made, for example in:

(a) Overcoming financial system weaknesses, such as short-termism, narrow ap-

Figure 1: Digital Financing for the SDGs



proaches to risk assessment, and excessive premiums on liquidity.

(b) Aligning internationally relevant economic and financial policy-making, such as the negative spill-over effects of unwinding quantitative easing.

»Private finance has to be part of the solution by being aligned to sustainable development.«

DIGITAL DISRUPTION

Measures to align financial flows to the 2030 Agenda and the Paris Agreement need to take account of major changes in the nature of finance and the shape and functioning of the financial system. This includes events such as the financial crisis and its policy aftermath, and large financing initiatives, such as the Belt and Road Initiative.

It is digitalisation, however, that is driving more fundamental shifts in finance and its relationship to the real economy¹⁰. The G20 during Argentina's Presidency has considered the relevance of this disruption in advancing sustainable finance, noting (with reference to Figure 1)¹¹:

- At the bottom of the pyramid, making large amounts of data available at high speed and low cost increases opportunities for investments in sustainable assets.

- Moving up the pyramid, unlocking citizens' active involvement in sustainable finance and mobilization of new sources of finance for sustainable development.

- At the top of the pyramid, the interaction between innovations in digital finance and in the real economy facilitate new investment configurations and business models.

The digitalization of finance will, in short, change much of how finance works. The UN Secretary-General has launched a Task Force on Digital Financing for the SDGs to identify measures needed to ensure that developments advance the alignment of financing with the 2030 Agenda.

ROADMAPS FOR SUSTAINABLE FINANCE

Systemic approaches to financing the 2030 Agenda requires consideration of all financing flows, the consideration of both demand- and supply-side weaknesses and shortfalls, and engagement in national and international economic and financial policies. This would include, in particular, measures to¹²:

- Enhance market practice, including efforts that mainstream sustainability factors into financial decision-making and correct for market failures (such as unpriced environmental externalities);

- Support market growth, including policies and standards that promote the issuance of sustainability-aligned financial products (e.g. SDG bonds), new market platforms (that is, crowdfunding and fintech), and the competitiveness of financial centres;

- Promote transparency and efficiency, by improving flows of sustainability information through the financial system through voluntary guidance, labelling schemes, or mandatory reporting requirements;

- Strengthen risk management, often by integrating sustainability factors into the prudential oversight of financial institutions, supervising financial markets, and providing sector and system-level stress testing;

- Facilitate flows and services, with investment and lending to priority sectors, restrictions or limitations on financing, insurance requirements, or the provision of financial services as a way to promote inclusion and support development;

- Clarify legal frameworks, including the fiduciary responsibilities of financial institutions, with respect to long-term risks and opportunities (such as climate change); and

- Enhance conduct and behavior, with codes of conduct and guidelines for envi-

ronmental issues and compacts with financial institutions.

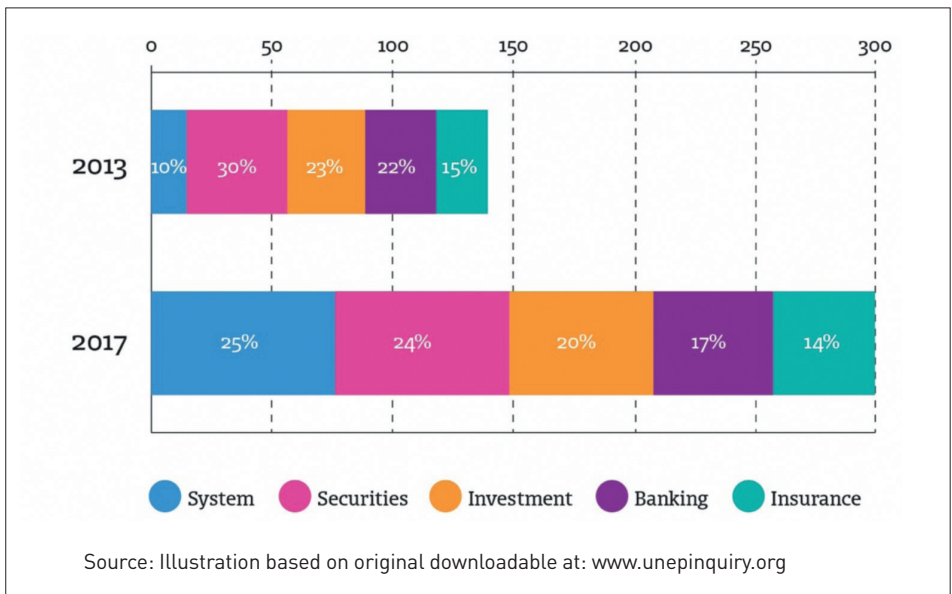
Roadmaps provide a framing device and process for supporting this more systemic approach¹³. Today, a growing number of both developed and developing countries have progressed such roadmaps, such as:

- China: Agreed by China's State Council in August 2016, the "Guidelines for Establishing a Green Financial System"¹⁴.

- European Union: Building on the High-Level Expert Group on Sustainable Finance (HLEG), the EU has now launched its strategy for sustainable finance¹⁵.

UN Environment has tracked the global number and range of policy measures to advance aspects of sustainable finance (Figure 2).

Figure 2: Policy and Regulatory Measures for Sustainable Finance, 2013–2017



- At the end of 2013, 139 sub-national, national-level and international policy and regulatory measures were in place across 44 jurisdictions. Most of these were first-generation efforts to improve disclosure in securities markets and by pension funds.

- Four years on, the number of measures has doubled – to 300 in 54 jurisdictions, and the pattern of activity has changed fundamentally, with a substantial rise in system-level initiatives, which now account for a quarter of the total.

»The digitalization of finance will change much of how finance works.«

PARTNERSHIPS

Systemic solutions require many actors from the public and private sectors working together. Private actors need to be drawn from the financial and wider business community and civil society and labor groups. On the public side this would include those responsible for public financing, policy and standards, procurement rules, legislative measures, as well as softer tools such as awareness-raising and dialogue. Financing the SDGs has now also become an agenda item for those responsible for overseeing the stability and integrity of the financial

system, notably financial regulators, standard setters and central banks.

Both of the high-profile cases of roadmap development, in China and the EU, involved such uncommon partnerships.

- China formed a Green Finance Task Force co-convened by the People’s Bank of China and UN Environment, then extended to involve several hundred market actors and ministries.

- The EU’s High-Level Expert Group on Sustainable Finance included regulators and financial institutions as well as key civil society organisations.

Such partnerships have been configured in different ways in different country and regional contexts. In Brazil, for example, it was led by the banking association, Febraban, whereas in Indonesia it was convened by the Indonesia Financial Services Authority.

Finance is a global phenomenon, requiring action upstream, internationally. Many international partnerships now exist to advance the sustainable finance agenda, including: (a) long-standing coalitions such as the Principles for Responsible Investment, the Sustainable Banking Network and the Sustainable Stock Exchange Initiative that grew from the leadership of stock exchanges in Brazil and South Africa, and (b) recent initiatives such as the Dutch-chaired, Network of Central Banks on Green Finance, and the Swiss-based Sustainable Digital Finance Alliance founded by UN Environment and Ant Financial Services.

¹ Simon Zadek is Principal of Project Catalyst at UNDP and Visiting Professor at Singapore Management University, and is writing in his personal capacity. This brief benefits from contributions through the T20, especially Homi Karas, Interim Vice President of the Brookings Institute.

² This covers a wide range of investment areas, including green mortgages, electric vehicle loans, green technology corporate lending, sustainable mass transport, electric storage technology, sustainable agriculture and clean energy, as well as investments in health, education, empowering woman, poverty alleviation and small business development.

³ World Economic Forum (2017). The Money is There to Fight Climate Change, Geneva. <https://www.weforum.org/agenda/2017/09/the-money-is-there-to-fight-climate-change/>

⁴ Stein, P. Kludovacz, T. and Rooprai, G. (2018). Input paper on Emerging Markets: Sustainable Banking and Capital.

⁵ <http://businesscommission.org/>

⁶ <http://www.ipcc.ch/report/sr15/>

⁷ PBoC/UN Environment (2015). China Green Finance Task Force Report. http://unepinquiry.org/wp-content/uploads/2015/12/Establishing_Chinas_Green_Financial_System_Final_Report.pdf

⁸ Zadek, S., and H. Karas (2018) Policy Brief on Sustainable Finance: Aligning Financial System Architecture and Innovation with Sustainable Development, T20 Task Force on Agenda 2030 for Sustainable Development, New York.

⁹ UN Environment (2018) Making Waves: Aligning the Financial System with Sustainable Development. <http://unepinquiry.org/making-waves/>.

¹⁰ UN Environment (2016) Fintech and Sustainable Development, UN Environment, Geneva

¹¹ Sustainable Digital Finance Alliance (2018) Digital Technologies for Mobilizing Sustainable Finance: Applications of Digital Technologies to Sustainable Finance, G20 Sustainable Finance Study Group Working Paper, Geneva.

¹² Adopted from UN Environment and World Bank (2018) Roadmap for a Sustainable Financial System, Geneva, UN Environment.

¹³ Many of these roadmaps have been produced in collaboration with the UNEP Inquiry into Design Options for a Sustainable Financial System, which can be downloaded at www.unepinquiry.org.

¹⁴ <http://www.un-page.org/people/E2%80%99s-bank-china-issued-%E2%80%9Cguidelines-establishing-green-financial-system%E2%80%9D>

¹⁵ http://europa.eu/rapid/press-release_IP-18-1404_en.htm



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On point: Long view

Dennis J. Snower
Global Solutions Initiative

“The future ain’t what it used to be”¹

World growth and global governance

The author:



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The institution:



The International Food Policy Research Institute (IFPRI), established in 1975, provides research-based policy solutions to sustainably reduce poverty and end hunger and malnutrition around the globe.

INTRODUCTION

There is currently a key debate about the future of global governance and what the G20 can do in that regard (Snower, 2018). Here I focus on just one aspect of that broader discussion: what should we expect of global economic growth in the next decade or so, considering that the challenges for national and global governance would be different depending on the type and pace of world economic growth.

Since the 2008-2009 global financial crisis (that has been called the “Great Recession” to distinguish it from the 1930s “Great Depression”), discussions among economists focused on the slowdown of growth particularly in rich countries. For instance, Lawrence Summers revived the notion of “secular stagnation” (Summers 2014), first introduced by Alvin Hansen in his 1938 Presidential Address to the American Economic Association. Even the journal *Foreign Affairs* devoted its March-April 2016 issue to the topic of low global growth. Yet most of this work has focused on the US or the developed world.

On the other hand, the bulk of global economic projections about poverty alleviation and food, energy, and climate conditions in the future, rely on variations of the Solow-Swan model of factor accumulation,

technological change, and growth convergence (Solow, 1956 and Swan, 1956). The empirical exercises based on that analytical framework tend to suggest relatively high rates of future economic growth for the world.

Based on Díaz-Bonilla (2016), I take a historically longer view of growth for the entire global economy, not just the industrialized world, so as to place the debate on “secular stagnation” and the growth projections utilizing economic models in a broader context.²

SOME HISTORICAL CONTEXT

The history of global growth since the late 19th century (Table 1) shows that the world economy seems to go through periods of higher growth, usually associated with

some global structural change, technological developments, and supportive institutions for world integration (on the economic and geopolitical side), followed by periods of lower growth, linked to the end of the relevant structural change, technological slowdowns, and the emergence of global fragmentation.

The world GDP per capita was growing at a modest annual rate of 0.4% between 1820-1870 (the two individual years estimated in the Maddison database). Then a wave of restructuring and integration of the world economy began late in that century, driven by technological changes in industry, agriculture, transport and communications. These developments led to increased trade and financial flows, and migrations. World growth per capita more than tripled

Table 1. GDP Growth per Capita

Period	Length in years	GDP per Capita Growth [%]
1820–1870	50	0.4
1870–1913	43	1.4
1914–1950	37	0.8
1950–1974	24	3.0
1975–1993	18	1.1
1994–2008	14	2.4
2009–2016	7	1.6

Source: Maddison Project Database version 2018

to 1.4% per year for several decades from 1870 and until 1914.

Since then, two world wars and the Great Depression in the 1930s interrupted that period of global economic integration, and growth per capita declined to 0.8% per year.

After World War II the world economy started to grow again (at about 3% per year in per capita terms). The reconstruction of the countries ravaged by the war and a new architecture for international governance (based on the Bretton Woods agreement and institutions, the creation of GATT, and a variety of military agreements centered around the United States), supported the expansion of trade and the increasing economic and financial integration of the world. It opened a golden period of growth of about a quarter century. Expansionary Keynesian policies in the US and other developed countries in the 1960s sustained global growth, but eventually caused the overheating of the world economy and generated the external imbalances that caused the breakdown of the Bretton Woods system of stable exchange rates. All these factors, along with negative geopolitical shocks, led to the price shocks of the mid-1970s, affecting oil, food and other commodities, and increased inflationary pressures in industrialized and developing countries.

Those shocks led to a period of far slower growth from the mid-1970s to the early 1990s: world GDP per capita grew only at 1.1%. The slowdown, among other things, was linked to restrictive monetary policies to control inflation, the restructuring of the world economy caused by higher oil prices, and the debt crisis in developing countries related to those macroeconomic shocks.

Starting in early 1990s and until the global financial crisis in 2008-2009, there

was a rebound in world per capita growth, increasing to about 2.4% per year. It was a period of increased globalization, expansionary monetary policies, the advance of the European integration project, the dissolution of the Soviet Union, the entry of China in the global economy, and the economic restructuring in a variety of developing countries in Asia and Latin America. One of the consequences was that by the late 1990s and early 2000s hundreds of millions of workers were incorporated into the global economy. In fact, the IMF (2007) estimated that the effective global labor supply quadrupled between 1980 and 2005.

»A key question is whether the world will continue with lower growth.«

These developments put downward pressure on salaries and prices worldwide, helping to reduce inflationary pressures, which, in turn, allowed central banks in industrialized countries to maintain more expansionary monetary policies than would have been otherwise possible, helping sustain global aggregate demand. The supply-side shock of the global expansion of effective labor supply was accommodated by the expansion of demand at the global level, particularly in the United States and other developed countries, fueled by expansionary monetary and the correlated expansion

of debt. However, those expansionary monetary policies created the bubbles in real estate and stock markets, which, when they unraveled, led to the global economic and financial crisis of 2008 and 2009.

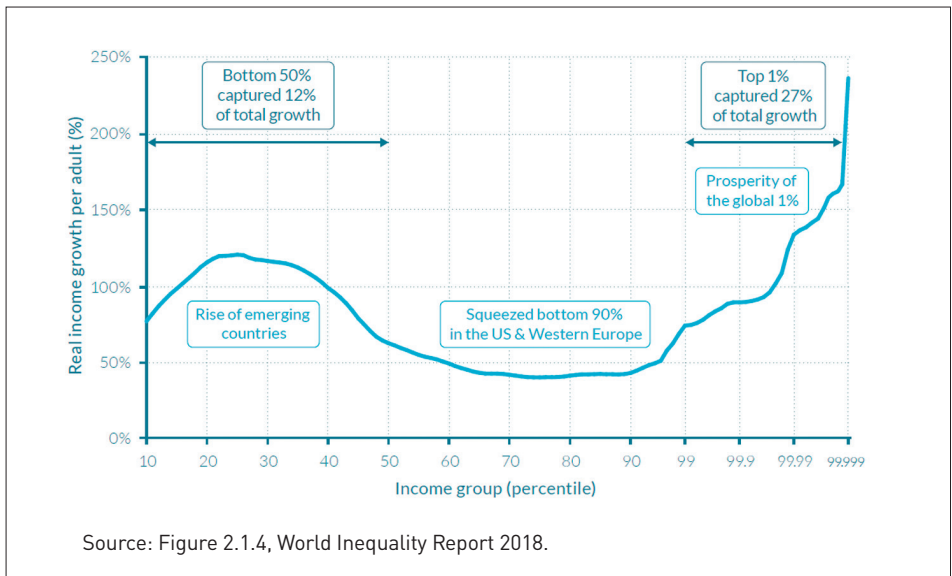
This pattern of world development, while helping reduce poverty at the global level (most visibly in China), also created the conditions for the current political push-back. On the one hand, there was a slower growth of incomes in many industrialized countries resulting from global labor competition and related technological changes, which along with the global economic recession of 2009, led to the stagnant or declining employment conditions in important segments of the lower and middle incomes groups in many developed countries. At the same time, the financialization of the econ-

omy and other technological changes led to substantial increases in the incomes of the top 1% at the world level (see Figure 1).

The results have been the political discontent manifested at the voting booth in recent years.

The last period in Table 1 starts in 2009 and it was marked by a strong rebound in 2010 that resulted from highly expansionary monetary and fiscal policies that were globally coordinated by the G20. However, the rapid expansion of money supply known as "quantitative easing," fiscal expansion, and the further accumulation of debt, have been only short-term options; and the last two are not sustainable in the long term. China, in particular, shifted from the export-led strategy (which since 2010 showed its economic limits and now is facing political

Figure 1. Total income growth by percentile across all world regions, 1980 – 2016



Source: Figure 2.1.4, World Inequality Report 2018.

limits in the US and other countries) to an internal investment-led strategy focusing on infrastructure and housing which has significantly increased overall debt/GDP ratios in that country.

After the strong rebound of 2010, the world economy has been slowing down. This is particularly the case if China is excluded from the aggregate world growth rate: while in Table 1 per capita growth rate including China for 1994-2008 was 2.4% and for 2009-2016 was 1.6%, if China is excluded, world growth rates for the same periods are 1.85% and 0.9%.

»Unconventional monetary instruments can play an important role in financing the achievement of several SDGs.«

SOME SPECULATION ABOUT FUTURE GROWTH

A key question then is whether the world will continue with lower growth, or whether the high levels of growth suggested by projections based on Solow-Swan models will materialize. The narrative above suggests that growth models based only on factor accumulation would not capture what hap-

pened in the world economy if structural change is not considered. It also highlighted the importance of the credit-supported expansion of aggregate demand in many countries, which shifted purchasing power from the future to the present, and which cannot continue growing forever as percentage of incomes (Dalio, 2015).

Another important question for the future is whether the current process of global economic integration, which has supported higher levels of world growth during the last decades, will continue or eventually slow down or be reversed. Additional headwinds to global growth rates include the decline of the demographic dividend due to the slowdown in world population growth and its aging, which will also further complicate the fiscal position in many industrialized countries and large developing countries, and will put upward pressure on interest rates; the likely negative impact of climate change on growth; and greater geopolitical and social conflicts linked to use of natural resources and wider income inequalities.

A key question then is what type of structural growth narratives and related policies and governance structures can counter those headwinds and support a dynamic, inclusive and more peaceful and solidary world economy and polity in the future. Among several options to consider, one is the use of unconventional monetary instruments making sure that a portion of any increase in money supply goes to support investments in infrastructure, credit, and other productive activities for small producers, particularly in the agricultural sector; to the development and use of adequate technologies for climate change; and to strengthening and expanding safety nets

for poor and vulnerable populations. If implemented, these unconventional monetary instruments can play an important role in financing the achievement of several SDGs (Díaz-Bonilla, 2016).

CONCLUSION

The history of global growth since the late 19th century shows that the world economy seems to go through periods of higher growth, usually associated with some global structural change, technological developments, and supportive world integration,

followed by periods of lower growth, linked to the end of that structural change, technological slowdowns, and the emergence of global disruptions. Current conditions suggest that the world may be moving into a phase of lower growth following the years of high growth since the early 1990s. The discussion of governance options should consider those less buoyant future scenarios in discussing the needed policies and governance structures to recouple economic prosperity with social inclusion and solidarity.

¹ Attributed to Yogi Berra, a legendary baseball coach in the US

² Growth models operate from the supply side, assuming that there is always adequate demand and that factors of production are fully employed, even though in real life there are important variations in those conditions. Solow (2005) has acknowledged the omission of demand considerations as a weakness of the growth theory based on this model.

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Reflexive globalization

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Policy thinkers helping policy leaders to re-couple the world: This is the Global Solutions Initiative serving the G20, the G7, and other international institutions. Independent of the official processes, yet firmly connected with official engagement and working groups, the initiative delivers independent, long-term oriented policy briefs for world leaders.

It is obvious that the next step of globalization must consider some learnings from the past and should be framed under a new banner. These learnings will lead to a paradigm change in society, science and economy.

It is not only the G20 that is currently facing more and more criticism. Trade agreements and international cooperation in general are under enormous pressure. Also, the former perspective of trade as a possible win-win situation in political and economic terms has been supplanted and challenged by "Trumpism", which understands trade agreements as "deals" – deals that leave winners and losers behind. This perspective offers no win-win-situation.

Many frustrations about the results of globalization are a result of an economic ideology that is dubbed the "Washington consensus". It highlighted privatization, deregulation and a lean state as the engine for development and growth. But this worked mainly for a few and widened the gap between the super-rich, the middle class and the poor. It hijacked public ability to prepare for the future, be it education, integration, or urgently needed investments in sustainable infrastructure. This led to rising tensions and a deep division in many societies at the beginning of the 21st century, which some think originated from a loss of trust in public policies.

In the last years, more and more people have begun to reject this form of neoliberal globalization, perceiving NAFTA, CETA, TTIP

and others as part of the problem and not as part of a solution. This movement became even more powerful during and after the global economic and financial crisis of 2008/2009, when Lehman Brothers collapsed. Banks around the world struggled and some measures taken to rescue financially troubled nation-states left their economies staggering. This further weakened nation-states in some regions. The only transnational democracy with a common currency – the EU – entered a serious economic crisis, which escalated into a crisis of the political system as such. Some European governments today even question the future of the European Union and would like to supersede it. In the future, Brexit may not be a unique incident, while some nation-states may face the threat of secession by regional entities.

The world of 2018 differs very much from the last decade. Political movements that address nationalism in combination with tackling “the elites” are gaining political influence. Multilateralism is under pressure worldwide and globalization, previously under fire from the left, has now become the *bête noire* of right-wing critics. So, the crisis of multilateralism has become a general crisis of trust in institutions and the ability of politics to shape the future.

This is bad news for all relevant challenges that need to be solved through international cooperation. It is hard to see how this international group of nationalists will deal with climate change, social cohesion, the data-based society and poverty alleviation – to name just a few areas that need a strong multilateral response.

To overcome this trend, it is obvious that we need a globalization 2.0. But it must be a globalization that learns from the mistakes

of the past. It should be a globalization that takes first and foremost the requirements and future perspective of people as a cornerstone. It should address justice, fair treatment and equal opportunities. And it should be sustainable and consider that there is much more at stake than a short-term benefit. This is what I call reflexive globalization¹.

I see three basic learnings from the last decades that could open a window for better international cooperation and for real global solutions.

First, we need a recoupling of economic and technological progress with social progress. Their decoupling has led to a rising fear and frustration of the middle class, which opened their minds to nationalism and put traditional institutions under pressure. In many areas this has led to a political atmosphere in which political players frantically try to respond to these disruptive developments in society. Therefore, I see recoupling as a precondition to return to a smoother dialogue – a dialogue in and between societies, between generations, between the center and the periphery. The result of such a dialogue could open the window for long-term and sustainable concepts.

As for dialogue, I am convinced that we need to take a future perspective much more into account on a systematic level. A council of sustainability at the local, national and international level, which considers the demands of future generations, might be one idea. Of course, there is no doubt that this is the remit of politicians as elected representatives, and they often deliver quite well in this respect. But it is also true that there is a contradiction between short-term mandates for decision makers in politics, economy and civil society and the

long-term requirements when considering such issues as climate change or the loss of biodiversity. No-one should demand an environmental or youth dictatorship – but a body that considers those perspectives on an institutionalized basis might be one way to help overcome short-term-oriented actions. Such a body could try to link the different needs in the form of an inter-generational treaty such as those in pension systems in many countries; or one might consider the ICPP as a model for such an institution.

Secondly, disruption by the data-based society raises value-based questions, like future freedom, security, justice, solidarity and how they relate to each other. In the best case scenario, this technologically driven development will lead to even more freedom, security, justice and solidarity. But this best-case scenario will not come about through the invisible hand of the market. It will occur if we manage to organize an international dialogue on how we want to live in the future and what we think is important. Concretely, I mean a dialogue on fundamental rights for the digital age. There are already encouraging examples in which some groups have drafted such documents and presented them to society for criticism and proposals. But such an impulse should come from the UN or the G20 to give more dynamics to this process, which is very much needed.

Finally, it is time a rethink the international architecture in world politics. The system of the permanent five members of the UN Security Council doesn't reflect the 21st century world. And obviously the G7 speaks only for a minority of people and excludes countries, for example, in Africa or those with a Muslim majority. For this rea-

son, the G20 is a better institution to recommend for global challenges – and the Global Solutions Initiative has a great deal to offer within the G/T20 network, especially when research-based political recommendations are considered in combination with the inclusion of different stakeholders in politics, civil society and economy. This inclusion should also bring regional and local players to the table, because it is mainly this level that is responsible for implementing global solutions.

»It is obvious
that we need
a globalization
2.0.«

This concept also needs those nation-states and regions to take a step back that have dominated the international system in the past. It needs a welcome culture for the new powerful players – but not in the sense of “might makes right”, because the new players need to open a discourse about standards and international rules. Simply replacing one actor with another would only be a power shift in politics, which not enough to gain legitimacy. The new players must propose their concepts on how to save the world and mankind in a fair and open manner with future partners.

These three proposals are obvious not mutually exclusive. These demands are based on the experience that decision-making with diverse participants brings better results. They are based on the belief

that the consensus that everyone has the right to human dignity and is of equal value is an important stipulation that shouldn't be betrayed. They are based on the assumption that democracies will devote more consideration to the needs of people. And they are based on the experience that mankind has entered a phase in which there is no alternative to coming together as species to solve the future of the planet.

It is obvious that these demands are the beginning of a paradigm change and can become the starting point of an era of new enlightenment. This is necessary to save international cooperation as the basis for global problem-solving. With reflexive globalization, this seems possible. It is time to work on and to think together about global solutions.

¹ With the term "reflexive" I refer to the concept of Ulrich Beck and Anthony Giddens.

The G20@10

Time to shift gears

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The Hertie School of Governance prepares exceptional students for leadership positions in government, business, and civil society. Interdisciplinary and practice-oriented teaching, first-class research and an extensive international network set the Hertie School apart and position it as an ambassador of good governance, characterised by public debate and engagement.

ABSTRACT

This policy brief suggests that now is the time for the G20 to move from policy dialogue back to decisive policy action. And just as it did in the wake of the 2007–2008 global financial crisis, it should once again assume an operational role, empowering state and non-state actors worldwide to co-create the conditions for global sustainability – economic, social and environmental. More precisely, the brief recommends that G20 members willing to do so assume the role of lead investors in global mission-oriented projects strategically selected to put the world on a longer-term sustainability trajectory.

CHALLENGE

Global risk reports are multiplying, issuing ever-more urgent warnings about the growing number of unmet global challenges posing not only systemic risks but even existential risks of potentially catastrophic and, perhaps, even irreversible consequences – as with runaway climate change. But other reports tell us about the fascinating opportunities for future progress and enhanced human development. Those opportunities are a result of past developmental achievements, especially the tremendous expansion in the global stock of knowledge and technologies and the vastly improved societal capacities and human capabilities.

The world thus stands at a crossroads. It can allow today's major high-risk policy

challenges to remain unresolved. Or it can take effective corrective action to prevent risks from materializing and get on the path of sustainable global growth and development. That is what the international community envisioned when it agreed on two landmark agreements in 2015: the 2030 Agenda on sustainable development and the Paris Agreement on climate change.¹

»The G20 members should perceive the needed changes as in their enlightened self-interest.«

We basically know what we ought to do to avoid global unsustainability and get on the path of sustainability. Just read the official G20 documents and the background papers of its various work streams issued over the past years.² They offer rich policy advice on a wide range of topics. Certainly, as some researchers noted, the translation of words into action has in several cases been incomplete. But the policy advice offered – notably the global-public-good (GPG) nature of many current policy challenges – was not taken fully into account. As a result, global collective-action problems

remained unresolved, and GPG-type policy challenges underprovided.

Why? Because state and non-state actors deal with GPG-type challenges only to the extent that addressing them meets their particular interests. And in many cases, the overlap between actors' self-interests and global interests is only partial. So, provision gaps arise, leaving problems unresolved and making the world more crisis-prone.³

That is why fostering global sustainability is essentially a question of innovations in governance.

- First is recognizing that adequate GPG provision may often require more than what individual state and nonstate actors are willing to do in their self-interest.⁴

- Second is putting in place effective and efficient incentives for individual actors to voluntarily step forward and contribute to closing GPG provision gaps, notably in policy fields where the world faces existential risks.

- Third is piloting governance changes in policy fields where corrective action can no longer be delayed and supporting the accompanying policy research and development (R&D).

PROPOSALS

Considering the wealth of the human, institutional, economic and financial resources the G20 members command, they would be well-positioned to assume the lead role in piloting governance changes. Of course, the principle of voluntarism must also apply to the lead actors. The G20 members should also perceive the needed changes as in their enlightened self-interest. I first examine the needed innovations and then turn to what could spark G20 members' interest in embarking on the suggested policy path to sustainability.⁵

1. Updating the G20 narrative

Rationale: This measure aims at correcting what appears to be the biggest G20 weakness: lacking a clear understanding of its role today. The G20 still uses the words of the 2009 Pittsburgh Summit when referring to itself as “the premier forum of international economic cooperation” (G20 2009a:19). But does it really deal mainly with international financial and monetary issues as well as macro-economic cooperation? How does the Pittsburgh label fit with the plethora of issues brought together under the Sherpa track? And what justifies the continued use of the adjective “premier” in today’s world?

»Securing sustainability – recoupling growth and human development – is doable.«

A clear narrative about the G20’s role could thus focus its activities and increase its effectiveness, and thus its relevance and legitimacy in the eyes of its partners and other stakeholders.⁶

Key actions: In formulating a new, updated narrative about the G20’s role, its members could consider modifying their mission statement to say that the group’s aims are:

- To promote a balanced approach to the economic, social and environmental dimensions of global sustainability.
- To foster real progress and, by strengthening their collective engagement in strategically selected joint operational activities to resolve the existential risks facing the world.
- To provide clear added value by focusing on mobilizing contributions that would otherwise not be forthcoming but that are critical to meeting global goals in a way that recognizes global diversity and disparities and thus the need for co-creating global solutions.

2. G20 members acting as lead investors in global mission-oriented projects

Rationale: Mazzucato defines mission-oriented projects (in short, missions) as “systematic public policies that draw on frontier knowledge to attain specific goals” or, as she adds, “big science deployed to meet big problems” (2018:4). This is precisely what today’s big global challenges require.

Key actions: Willing G20 members would jointly assume the role of lead investors in the projects aimed at averting existential risks to secure opportunities for global sustainable growth and development.⁷ The qualifying projects could include:

- Investing in climate change mitigation to pull the world back from the brink of unsustainability. A global mission project in this field would facilitate a quick, efficient, equitable and effective move towards a low-carbon economy. A brief look at publications on this topic – such as the report of Working Group III of the Intergovernmental Panel on Climate Change (IPCC 2014) – reveals the complexity. Beyond a global umbrella project, it might require a series of large-

scale sub-projects, such as addressing the shift towards a low-carbon global economy, restoring ocean health, fostering more sustainable land use, and tackling water stress, flooding and security. We already know a lot about what needs to be done. But additional investments in technological and institutional innovations are urgently needed, as the 2018 IPCC report stresses. The missing link is someone or some entity to step forward to resolve the collective-action problem – the persistent provision gap in climate change mitigation impeded progress.

- Preparing to shape the new technological age and stay ahead of the curve. Considerable research and innovation are underway in superintelligence and in the digitalization of economies and societies. More can be done, however, to expand the roles of national and international policy-making in shaping these processes towards beneficial ends. Again, the burgeoning literature on this topic offers a wealth of ideas for additional research and policy innovation to be further tested and mainstreamed.

- Seeking a “new normal” in international cooperation. Willing G20 members and other interested parties could convene worldwide consultations on a new model of international cooperation, appropriate to deal with all the global challenges that confront us today. Of special importance would be ending the current confusion of development assistance and international cooperation in providing GPGs. G20 members could offer to (co-)finance the work of an independent high-level panel whose final report would be submitted to further rounds of worldwide consultation before being brought to the UN General Assembly for consideration and, if possible, adopted by UN member states. This project could

thus culminate the work on the first two global mission-oriented projects and that of the G20 Eminent Persons Group on Global Financial Governance⁸ – ushering in a “new normal” in international cooperation.

- Introducing global-issue management to national and international governance systems. The first two mission projects listed above raise the question whether governance systems have fully adjusted to today’s policy challenges. Most notable are addressing multi-level, multi-sector, multi-actor issues; managing cross-border externalities; dealing with policy challenges stretching across several generations; reducing existential risks in a timely manner. G20 members might also want to take the lead in setting up a panel of eminent persons to examine what countries have learned in managing GPG-type global challenge management. They could solicit views and expert opinions on public management reforms at all levels of governance. That would facilitate a more holistic and integrated governance approach to such challenges. Or rather than set up a separate panel, governance reform to facilitate global-issue management could be explicitly included in the mandate of the proposed commission to explore a “new normal” in international cooperation.

3. Making change attractive and affordable for all

The global knowledge stock is a global public good, and in many respects its expansion also suffers from free-riding that impedes many public goods. But as existing global mission-oriented projects demonstrate,⁹ impediments of this type can be overcome.

Interested parties have to agree to cost-share the initial investments, thus securing appropriate benefits for their countries and their constituencies, notably their firms, in addition to promoting the global common good.

Products embodying new technologies have to be not only green and safe but also affordable for the global public. That is critical to developing and expanding new markets and ensuring that initial lead investments generate attractive returns.

So, securing sustainability – recoupling growth and human development, the local and the global – is doable. But states must rise to the challenge and assume the role of lead investors in their enlightened self-interest – and for the world’s current and future generations.

HOW TO GET STARTED

Now is the time for G20 members to step forward once again, as they did in the 2008 global financial crisis, and to resolve problems gripping the world. Back then, powerful financial market actors encouraged governments to undertake rescue operations. Today’s pressing global challenges are more complex. They have many advocates but, so far, no combined advocacy drive. So, encouraging G20 members to assume the role of global policy entrepreneurs and lead investors in global mission-oriented projects securing sustainability might, in fact, fall on the World Economic Forum (WEF), considering its demonstrated thought leadership and its convening powers, bringing together the key business, civil and state players.¹⁰

- ¹ For the full text of the 2030 Agenda and the Paris Agreement see, respectively: <https://www.un.org/sustainabledevelopment/development-agenda/> and https://unfccc.int/sites/default/files/english_paris_agreement.pdf/.
- ² For these documents and papers, as well as a wide selection of G20-related research, see the G20 Information Centre website <http://www.g20.utoronto.ca/>.
- ³ See Kaul (2017), WBG-IEG (2008), WBG-OED (2004) and, for a current example, the debates on Germany's exit from coal as, for example, reported on <https://www.cleanenergywire.org/>.
- ⁴ The term "self-interest" as used here recognizes that different actor types exist, ranging from pure-selfish to mixed-motive and to pure-altruistic types. In all cases, self-interests and global interests may diverge.
- ⁵ The following proposals draw on Kaul (2018).
- ⁶ On the importance of narratives, see also Akerlof and Snower (2016).
- ⁷ The lead-investor role would not entail either the G20 as a group or those of its members who agree to assume that role, having direct responsibilities for the discharge of related operational functions. Project implementation could, for example, be organized as a multi-stakeholder/actor or partnership platform or network (with its own legal status) of input providers, including, besides other additional public and private investors, scientific and technical entities (which might be networks themselves) working on relevant topics. The operation of this platform/network could be outsourced to a management service with proven experience in facilitating complex, multi-jurisdictional projects, including the multilateral development banks, especially the World Bank Group. The platform/network could be governed by a council including, among others, delegates of the lead investors and representatives of the various input providers and stakeholders. In addition, it could be supported by an advisory body composed of eminent experts in project-relevant fields. Of course, the exact nature of the project arrangements will depend on the purpose(s) of the subprojects to be included in the umbrella mission project.
- ⁸ For the Panel's Terms of Reference, see <http://www.iai.it/sites/default/files/g20-epg-terms-of-reference.pdf/>
- ⁹ An example is the Moon Village Project of the European Space Agency (ESA). For details, see: http://www.esa.int/About_Us/Ministerial_Council_2016/Moon_Village?TB_iframe=true&width=921.6&height=921.6/ and <https://medium.com/@SOM/the-next-giant-leap-a-moon-village-bbd280c38009/>.
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On point: Long view

Reclaiming multilateralism

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Policy thinkers helping policy leaders to re-couple the world: This is the Global Solutions Initiative serving the G20, the G7, and other international institutions. Independent of the official processes, yet firmly connected with official engagement and working groups, the initiative delivers independent, long-term oriented policy briefs for world leaders.

KIEL – In country after country, populists are beckoning voters to pursue atavistic dreams of national glory and abandon international commitments and multilateral cooperation. This is the age of “America first,” “Take back control,” and “Hungary belongs to the Hungarians” – to cite just a few of the war cries one hears nowadays.

Yet, when it comes to shared global problems, there can be no alternative to cooperation. Without it, we will all be at the mercy of cyber conflicts, terrorism, and nuclear proliferation. We will be buffeted by the spillover effects of financial crises, failed states, pandemics, and massive involuntary migrations. And we will have to learn to live with water and food crises, increasingly catastrophic weather events, and ecosystem collapse.

The question, then, is how to save multilateralism from populist forces. In fact, while multilateralism certainly appears to be on a collision course with nationalism, the two are not necessarily incompatible. The task for multilateral institutions such as the International Monetary Fund, the World Bank, and the G20 is to bring them into a complementary alignment.

MULTIPRONGED MULTILATERALISM

To defuse the nationalist/populist threat, multilateral institutions should focus not on what already works, but rather on what is

missing in their approach to international issues. Broadly speaking, global-governance institutions need to shore up their battered legitimacy, which will require action in three areas.

The first could be called economic recoupling. In the past, the G20 has primarily emphasized financial and economic issues, and understandably so, given the 2008 global financial crisis and subsequent recession. But since then, many developed countries have also been confronting profound social crises. At the same time societies have become more fragmented, economic growth has become decoupled from well-being. With many people feeling disempowered and alienated from their communities, multilateral institutions must focus on “recoupling” economic activities and social outcomes.

A second area of focus must be social engagement. For multilateralism to enjoy broad public support, it must engage citizens more directly, so that they have a stake in developing cooperative solutions to shared problems. And that leads to a third, complementary front for action: the development of identity-shaping narratives, which can furnish individuals with a sense of agency in effecting change – both within themselves and in their communities.

Among global-governance bodies, the G20 has a key role to play in reviving multilateralism, because it is the best positioned to bring together developed and major developing countries. In fact, the G20 is probably the only institution with the capacity to develop both concrete solutions to global problems and shared narratives to spur citizens into action. Through the G20, national and multilateral narratives can be reconciled in such a way that each strengthens the other.

RECOUPLING AND REALIGNMENT

Recoupling social and economic outcomes is not just desirable in itself; it is also crucial for saving multilateralism. In recent years, populists have been able to claim that only they represent the disadvantaged or people threatened by economic and technological change. They purport to speak for those who have lost their jobs to outsourcing and automation, for young people facing unemployment in an increasingly high-skill labor market, and for communities that have been left behind in the era of globalization.

»Global-governance institutions need to shore up their battered legitimacy.«

Meanwhile, they have attacked institutions like the G20 for supposedly ignoring these problems, while focusing solely on issues that are most important to privileged elites. But the G20 can push back against this charge, first by acknowledging that the problems confronting many developed countries are not exclusively economic or rooted in inequality. After all, populists have been able to tap into voter discontent even in countries experiencing strong economic growth.

In many countries, the most fearful citizens are not necessarily poor. But they do feel disempowered. There is a growing sense that one cannot improve one's fortunes through one's own efforts. Against a backdrop of changing social environments, many people have come to believe that the system is stacked against the many for the benefit of the privileged few.

»Recoupling social and economic outcomes is crucial for saving multilateralism.«

For those whose well-being has become decoupled from overall economic prosperity, the problem is not just economic, but also psychological. And the sooner we recognize that fact, the sooner we can address these voters' legitimate fears.

The responsibility for recoupling communities and socioeconomic outcomes will largely fall on national governments. But the G20 can contribute by coordinating policies across borders, sharing best practices, and establishing global norms. In the process, it will be promoting a form of multilateralism that directly serves national interests.

Moreover, many national interests depend on the sound management of global

public goods such as financial stability, and of global commons such as fishing areas on the high seas. To safeguard such goods, multilateral institutions must discourage countries from acting unilaterally in pursuit of selfish national interests. The payoff for cooperation is generally positive for all countries involved.

Clearly, multilateralism can serve national interests. But multilateral institutions can be effective only when they enjoy social acceptance and political legitimacy. Achieving that will require increased social engagement.

POWER TO THE PEOPLE

Multilateralism will not be saved by technocrats, experts, and bureaucrats alone. Even the most astute and well-crafted paternalist policies will inevitably leave citizens feeling disempowered. When people are not adequately informed of a policy's purpose, they will not feel inclined to support it – or its author. For policymakers in multilateral institutions, this problem becomes more acute when politicians blame them for national policy failures, while taking credit for successes – a pattern of behavior that underlies the European Union's current malaise.

Another problem arises when a policy's success depends on voluntary compliance from non-state actors such as businesses, civil-society organizations, and ordinary citizens. This dependence has increased as the G20 has widened its purview from macroeconomic and financial issues to cybersecurity, anti-corruption, climate action, and the Sustainable Development Goals.

Voluntary compliance requires an engaged global citizenry. People want to feel

a sense of agency over transnational issues; when they do, they will readily accept multilateral interventions. Moreover, when people have the power to act in the global public interest, they will be more motivated to do so. Around the world, people are already advancing collective goals by recycling, purchasing fair-trade products and electric cars, and so forth.

Still, more action is needed. Conventional economic instruments – taxes, subsidies, regulations, and so forth – cannot elicit genuine social engagement. Treating people as rational, selfish, utility-maximizers, in accordance with neoclassical economic orthodoxy, simply will not do. Rather, sustained service in the public good rests on other-directed, irreducibly social motives such as personal esteem and recognition, group affiliation, and altruism.

Unless such motives are activated in the service of civic participation, grassroots support, and political legitimacy, multilateral policies are ultimately doomed to failure, because they will inevitably be sabotaged from within. On the other hand, when enough citizens become involved, so, too, will businesses and non-governmental organizations.

For its part, the G20 should explore ways to bring business and politics back into line with the common good. For example, it could host debates on fundamental questions such as whether corporations of the future should maximize shareholder value or how governments should address the widening disconnect between geographic/political boundaries and the near-borderless world of digital social networks and data flows. Social engagement will be critical for answering such questions in ways that serve the public interest.

SOCIAL STORIES

Much of humankind's success as a species stems from the ability to cooperate beyond the bounds of kinship. For most non-human primates, affiliative bonds are limited to direct social interactions among kin. As such, when a group grows in size and kinship, ties become attenuated, there will be fewer opportunities for such interactions, and the group will eventually split apart.

Humans, however, have managed to overcome this problem, so much so that we now live in vast societies comprising millions of people. This level of cooperation is made possible by special stories, or identity-shaping narratives, which assign social roles to people. One's role, in turn, defines one's relationships vis-à-vis other members of society, while also furnishing a sense of identity and belonging. Identity-shaping narratives are at the center of foundational texts such as the Bible, the Declaration of Independence, and the Communist Manifesto, to name just a few.

Identity-shaping narratives form the basis for effecting internal change, whereby we widen our circle of affiliation and compassion beyond the bounds of our kin. Internal change affects our thoughts, feelings, and motivations; it drives us to pursue purposive ends in accordance with our norms and values. Through narrative-driven internal change, we shape our environment to promote external change, by creating structures that define social roles and hierarchies of legitimate power, as well as the institutions and incentives that sustain those arrangements.

Through internal and external change, social narratives shape each individual's multiple, overlapping identities. People effortlessly understand what it is to be a fam-

ily member, friend, neighbor, colleague, fellow congregant, political participant, and so on. In orderly, sustainable societies, these identities – at the local, regional, and national levels – all operate in harmony with one another.

Human history can thus be understood as a process – albeit one with many interruptions – of composing narratives that enable ever-larger groups of people to cooperate with one another for the sake of a common purpose. Hunter-gatherer societies lived in groups comprising just a few dozen people across several families, and they scarcely could have imagined membership in arrangements larger than that.

But then came agriculture. Humans became more sedentary, and they associated together in much larger numbers. These gatherings – in villages, cities, and, eventually, empires – required new narratives of affiliation. The modern nation-state is no different: it relies on a narrative that permits and enables people to cooperate in large numbers. With each new narrative, new feats of local, regional, and superregional cooperation have been achieved.

THE NEXT RUNG OF THE LADDER

Today, we have reached the next stage of our evolutionary process. Proliferating global problems demand new narratives, and a new form of cooperation at the global level. Over the past few decades, globalization – accompanied by offshoring and automation – has posed a challenge to national and local identities in many countries, threatening the harmony of local, national, and regional narratives. Given these challenges, forging a new global cooperative compact will not be easy.

And yet we already know what needs to be done. The current moment requires new identity-shaping narratives on a global scale, accompanied by appropriate agents of internal and external change. It is through such innovations that we transformed slavery from an acceptable form of international business into a globally acknowledged evil. It is also how many countries around the world enshrined respect for an expanding array of civil rights in recent decades.

»**Multilateralism will not be saved by technocrats, experts, and bureaucrats alone.**«

The narratives underpinning these changes are embodied in now-canonical texts, from Harriet Beecher Stowe's *Uncle Tom's Cabin* to Simone de Beauvoir's *The Second Sex* and the United Nations Universal Declaration of Human Rights. The articulation of each new narrative abetted internal change, enabling us to adopt the perspective of people who were previously strange to us. Our circle of compassion and affiliation widened further. And this development was then reinforced by external change, in the form of new social conventions, laws, and institutions.

Looking back, the speed at which these transformations spread across national borders is nothing short of remarkable. As in all major feats of human cooperation, identity-shaping narratives, internal change, and external change each played an indispensable role.

ON THE G20'S SHOULDERS

This taxonomy of human social evolution is vital for understanding the major shortcoming of today's multilateral institutions. The G20 has always focused primarily on external change, in the form of joint communiqués, action plans, agreements, and other commitments. But it now must broaden its scope to contribute to narrative formation and internal change, too.

That starts with doing more to measure the primary factors behind human well-being. Only then can we determine how well-being is affected by national and international policies, and by business and civil-society activities. And to make the best use of these findings, we must facilitate the transfer of knowledge around the world, while protecting global public goods and the global commons.

Global-problem solving will require new skills to manage far-flung cooperation. But there is no reason to doubt that we are capable of acquiring them. After all, it was only 200 years ago that humanity began the process of achieving mass literacy – a skill that must be mastered person by person. In 1820, only 12% of the world's population could read and write, whereas only 17% are unable to do so today. Without this extraordinary feat of education, narratives of national cooperation could not have spread as rapidly and widely as they did.

Likewise, today's global problems would be much more manageable if people could learn to widen their perspectives and empathize with citizens of other countries. Fortunately, a growing body of research shows that adopting the perspective of others can be taught. Compassion is an acquirable skill, much like literacy. And, like literacy, such skills would position us to reap the rewards of global interconnectedness.

Generating external change and developing new cooperative narratives are complementary functions that the G20 could – and should – fulfill. The group encompasses two-thirds of the world's population and accounts for 85% of global GDP. That makes it the multilateral institution that should lead the way in bringing together government and non-government stakeholders to effect the changes that people want – and that no amount of populist grandstanding can provide.

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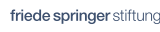
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