CENMUN 2023

GROUP OF 20

AGENDA: ANALYSING THE CONTRIBUTION OF DEVELOPING COUNTRIES IN THE GLOBAL GDP

CHAIR: VANSHIKA AGRAWAL

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Message from the Executive Board

Greetings Delegates!
I am excited to see you all at the conference. I understand that a lot of you are first timers and school students. As delegates, I believe that it is important for you to make an honest attempt at understanding the issues at hand. This Background Guide shall provide to you, a basic understanding about the agenda and the sub-issues thereof. It is certainly not exhaustive and. Ideas and propositions beyond what it contains are welcome. You will have to undertake country-specific research entirely on your own. However, while the vocabulary on the issues may seem complex, the concepts that they represent are extremely simple. Further, I promise you, as long as you're making an honest attempt, errors and omissions shall not be a problem. I really hope that this conference turns out to be a great learning opportunity for you and I look forward to learning from you!

Regards,
Vanshika Agarwal
Chairperson, G20

Introduction

The Group of Twenty (G20) comprises 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Türkiye, United Kingdom, and United States) and European Union. The G20 members represent around 85% of the global GDP, over 75% of the global trade, and about two-thirds of the world population. G20 is the premier forum for international economic cooperation and it plays an important role in shaping and strengthening global architecture and governance on all major international economic issues.

The G20 does not have a permanent secretariat or staff. Instead, the G20 Presidency rotates annually among the members and is selected from a different regional grouping of countries. The 19 member countries are therefore divided up into five groups comprising a maximum of four countries each. Most of the groups are formed on a regional basis, that is countries from the same region are usually put in the same group. Only Group 1 (Australia, Canada, Saudi Arabia and the United States) and Group 2 (India, Russia, South Africa and Türkiye) do not follow this pattern. Group 3 includes Argentina, Brazil, and Mexico; Group 4 includes France, Germany, Italy, and United Kingdom; and Group 5 includes China, Indonesia, Japan, and Republic of Korea. The EU, the 20th member, is not a member of any of these regional groups. Each year another country from a different group assumes the G20 Presidency. The countries in a group are each equally entitled to take on the Presidency when it is their group's turn, though. India, from Group 2, holds the current Presidency of the G20 from 1 December 2022 to 30 November 2023. The G20 Presidency is responsible for bringing together the G20 agenda in consultation with other members and in response to developments in the global economy. To ensure continuity, the Presidency is supported by a “troika” made up of the current, immediate past and next host countries. During India’s Presidency, the members of the G20 troika are Indonesia, India and Brazil.

Agriculture

Watch to understand the purpose of the Group

The G20 Agriculture Deputies Group was created during the French Presidency in 2011 to deal with volatility in global food prices. It has since become an important forum to enhance cooperation among the G20 members on agriculture related issues critical for achieving UN 2030 agenda, especially the goal of zero hunger (SDG 2). The working group facilitates information exchange and cooperation on a range of global issues such as food security, nutrition, antimicrobial resistance, food waste and loss, sustainability, and resilient and inclusive food value chains.

Watch: The global food crisis, explained.

Volatility in Global Food Prices

The concept: Throughout history, food markets have experienced a lot of ups and downs, and recently, there have been big swings in food prices. These price changes have had significant impacts on farmers, those involved in the market, and consumers like us. When prices go up, it's good for sellers (like grain farmers), but not so great for buyers (including regular consumers and farmers who need animal feed). The opposite happens when prices go down. This instability in the market makes it hard to predict what prices will be like in the future, creating uncertainty for everyone involved. It can also lead to quick and not-so-wise policy decisions that are tough to undo. This emphasizes the importance of understanding what causes these big price changes, so that we can come up with better policies to manage them.

Questions to ask: What's causing all this instability in food prices? Is it mainly because of technological changes, bad weather affecting the supply, or shifts in demand like the use of biofuels? Do things like financial speculation and global connections make prices more or less unpredictable? And is this current market instability a short-term thing or is it the start of a longer trend? How does this rollercoaster of food prices affect farmers, traders, and consumers? And what about poor families in rich and developing countries?

What should we do about this rising instability in the agricultural markets? Can financial markets help manage the risk of food price changes? Are the current policies in areas like agriculture, energy, climate, and trade making things better or worse? Can we change these policies to handle food price swings and make sure people around the world have enough to eat?

Understanding Speculation in Agricultural Derivatives

Ancient Roots of Speculation: Aristotle's Tale

Speculation in agricultural derivatives has deep historical roots, with one of the earliest documented instances dating back to ancient Greece. In Aristotle's "Politics," he shares a captivating story about Thales the Milesian, a philosopher facing ridicule due to his poverty. Thales, armed with meteorological insights, predicted a bountiful olive harvest. Leveraging this foresight, he rented all available oil presses, striking a deal with their owners to buy the rights in exchange for upfront cash. When the bumper olive harvest materialized as predicted, Thales exercised his "option," becoming immensely wealthy. This narrative demonstrates that speculation based on knowledge and foresight can yield substantial gains.

Traditional Speculation and Market Fundamentals

This form is deeply rooted in understanding market fundamentals, especially the demand and supply dynamics of commodities. Thales' story aligns with this approach. He secured the option to the oil presses because he anticipated an increase in olive supply. Farmers, on the other hand, sold him the option to protect themselves from the risk of a poor harvest. Traditional speculation is crucial for market stability as it facilitates risk management and price discovery. Buyers and sellers determine prices based on expectations of future commodity prices. For instance, if buyers expect future prices to rise, they're willing to pay a higher price for future contracts. This, in turn, signals to sellers to raise their spot prices. Such speculation is considered essential for individual trades and spot markets.

However, traditional speculation isn't without its challenges. While it can help stabilize prices, excessive speculation can lead to significant price swings that don't necessarily add economic value. Unlike other investors, speculators don't contribute to physical capital like barns or tractors. Also, speculative behaviour can be risky. The Bengal famine of 1943, in which millions died, was exacerbated by grain traders hoarding food in anticipation of higher prices, depriving the poorest sections of society of access to food.

Momentum-Based Speculation: Riding the Trends

This form is driven by market trends, where participants follow prevailing price movements. Instead of stabilizing markets, this type of speculation tends to increase price volatility. In fact, this momentum-based speculation might have been a key contributor to the 2007-2008 food price crisis, when prices of food commodities experienced sharp increases[1].

It is important to note that the crisis of 2007-8 disproportionately affected developing countries, leading to social unrest and threatening food security for millions of people, thereby serving as a wake-up call to reevaluate existing food security policies and systems. Several factors contributed to the 2008 food crisis, including rising energy costs, changing consumption patterns, increasing demand for biofuels, speculative activities in commodity markets, and climate change-related challenges to agriculture. These factors are interconnected and require a multifaceted approach to address them effectively. The crisis disproportionately affected vulnerable populations, particularly women who often bear the brunt of the crisis's impact due to their roles in food production and household management; and children in developing countries. High food prices led to reduced access to nutritious food, resulting in malnutrition and food insecurity.

[1] While maize prices almost tripled, wheat prices increased 127 per cent, and rice prices increased 170 per cent between January 2005 and June 2008. According to preliminary estimates of the Food and Agriculture Organization of the United Nations (FAO), higher prices pushed an additional 40 million people into hunger in 2008, raising the overall number of undernourished people in the world to 963 million, compared to 923 million in 2007 (FAO, 2008a)

Commodity Indexes and their Impact

Commodity indexes are mathematical values derived from the returns of specific commodity futures. The S&P GSCI, created by Goldman Sachs in 1991, is a prominent example. These indexes form the basis for various financial instruments, such as commodity index funds and commodity exchange-traded funds (ETFs). These funds attracted institutional investors, promising hedging against adverse market movements.

However, the underlying principle of these funds often centred around momentum. For instance, the managers of the S&P GSCI aimed to accumulate everlasting "long" positions by continuously acquiring and rolling over futures contracts. Surprisingly, this momentum-focused approach had unintended consequences. Instead of stabilizing markets, these commodity index funds led to a cycle of rising prices, known as "contango." This cycle spiralled upwards as higher futures prices initially led to slight spot price increases. Sellers held back, expecting more price hikes, and buyers rushed to stockpile commodities. This further fuelled speculation, setting the cycle in motion. The structure of commodity index speculation was built on this contango-based system.

Speculators in Different Guises: Traditional vs. Index Speculators

Imagine two very different creatures: Thales, the ancient philosopher, and modern-day index speculators. Thales' actions were rooted in understanding crop cycles and patterns, while index speculators and fund managers have a more detached role. Both groups, though, share a common purpose: influencing prices. While traditional speculators can drive up prices by hoarding physical commodities, index speculators achieve the same by hoarding futures contracts. However, unlike traditional speculators, the virtual nature of index speculators' hoarding doesn't require physical warehouses.

Connecting the Dots: Larger Financial Market Context

Now, let's connect this to the broader financial market context. Let’s say that the market of Darjeeling Tea is booming. A lot of farmers and investors are entering the market and the government is also promoting its plantation is order to increase the country’s exports.

Banks are selling loans to investors for commission, who in turn are passing on these loans to farmers. As a result, the speculation to be made by the Bank on the farmer who is the ultimate receiver of the loan is minimised because of the middle man, i.e., the investor. Here, the bank is working on the speculation that the market for Darjeeling Tea shall keep improving and so is the farmer and investor. However, once the government imposes an export duty on the Tea, the manufacturing cost of the tea shall rise, making the sale less profitable. As a result, farmers who did not have a strong financial background shall default on their loans and their plantations may be acquired and auctioned by banks for recovering such loans. When a lot of speculative farmers default in such a manner, the banks will have too many plantations to sell with few prospective buyers and thus, the price of such plantations shall fall resulting in loss to the banks. Therefore, in the absence of strict regulations, speculative trading can have harmful consequences.

Further, policy announcements can exert substantial influence on market sentiment and expectations, thereby triggering price movements. Trade policies, in particular, have the potential to impact food prices significantly, given the interconnectedness of global markets. Trade decisions by major food-producing and food-consuming countries can send ripples through the market, affecting prices in countries around the world.
Imagine you're a chocolate manufacturer in Country X, known for its high-quality cocoa beans. Your business relies on a stable supply of cocoa beans at reasonable prices. On the other side of the world, there's Country Y, which is a major consumer of chocolate and relies heavily on importing cocoa beans.
Now, let's say the government of Country Y announces a new trade policy that significantly increases tariffs (taxes) on imported cocoa beans, including those from Country X. This announcement quickly makes headlines, and people start talking about it in the cocoa and chocolate industries worldwide.

Here's how this announcement can lead to market volatility:

1. Market Reaction: Cocoa traders, chocolate manufacturers, and investors react to the news. They start wondering how the increased tariffs will affect the price and availability of cocoa beans. Will the cost of importing cocoa beans from Country X become too high? Will chocolate prices rise for consumers in Country Y?
2. Speculation: Different scenarios start circulating among market participants. Some traders might speculate that with higher tariffs, cocoa beans from Country X will become less attractive for import, leading to reduced demand. Others might predict that chocolate prices in Country Y will increase, which could affect consumer behaviour.
3. Price Swings: Traders and investors begin adjusting their strategies based on their interpretations of the policy announcement. They might start buying or selling cocoa contracts in commodity markets, leading to price movements. For instance, if many traders decide that the new tariffs will lead to higher cocoa prices in Country Y, they might rush to buy cocoa contracts, causing prices to spike.

Therefore, policy announcements can lead to substantial short-term price fluctuations in food commodity markets. Such fluctuations can have significant implications for stakeholders across the supply chain, from farmers and traders to consumers and policymakers. Domestic political considerations, economic interests, and geopolitical dynamics often shape trade policy decisions. Consequently, analysing the motivations behind these decisions is essential for predicting their impact on prices.

Rise of Non-Traditional Investors and the 2007-2008 Crisis

Around the end of 2001, non-traditional investors flooded into food commodities derivatives markets, driven by shifts in other markets. As various bubbles burst, large institutional investors sought more stable havens. Notably, there are parallels between the behaviour of food commodities and other refuge values like gold. Both experienced stable prices followed by rapid increases during crises.

However, these price increases in commodities futures relied on the ability to fund permanent long positions. Previously, low upfront margins on commodities exchanges facilitated this. But the bubble burst when non-traditional speculators faced losses in other markets, leading to the collapse of their investments and the end of the upward food price spiral.

Solutions for Contemplation:

1. Promoting Local Food Systems
2. Regulating Commodity Markets
3. Implementing Social Safety Nets
4. Gender-Inclusive Policies
5. Sustainable Agriculture
6. Reducing Dependency on Agrofuels

Watch: World Bank Commodity Price Volatility Management Products

SDG 2: Zero Hunger

During the 2012 United Nations Conferences on Sustainable Development in Rio de Janeiro, Brazil, the Sustainable Development Goals (SDGs) were established by global representatives. The UN aimed to address urgent environmental, political, and economic challenges through these 17 universal goals by 2030. The second goal, Zero Hunger, recognizes that hunger results from a complex interplay of natural, social, and political factors. Depletion of vital natural resources like freshwater, oceans, forests, and soils, exacerbated by climate change-induced extreme weather events, contributes to dwindling food supplies. Poverty and inequality also play a role by limiting access to nourishing food. Additionally, conflicts and wars disrupt economies, infrastructure, and food production, leading to starvation as a war tactic, deemed a war crime by the UN. The Zero Hunger SDG strives to find sustainable solutions to combat this crisis. The initiative seeks to eradicate hunger, ensure sufficient access to nutritious food, eliminate malnutrition, and promote sustainable agricultural practices by 2030.

The number of undernourished people has dropped by almost half in the past two decades because of rapid economic growth and increased agricultural productivity. Many developing countries that used to suffer from famine and hunger can now meet their nutritional needs. Central and East Asia, Latin America and the Caribbean have all made huge progress in eradicating extreme hunger.

Unfortunately, extreme hunger and malnutrition remain a huge barrier to development in many countries. There are 821 million people estimated to be chronically undernourished as of 2017, often as a direct consequence of environmental degradation, drought and biodiversity loss. Over 90 million children under five are dangerously underweight. Undernourishment and severe food insecurity appear to be increasing in almost all regions of Africa, as well as in South America.

The SDGs aim to end all forms of hunger and malnutrition by 2030, making sure all people–especially children–have sufficient and nutritious food all year. This involves promoting sustainable agricultural, supporting small-scale farmers and equal access to land, technology and markets. It also requires international cooperation to ensure investment in infrastructure and technology to improve agricultural productivity.

Read: How India's G20 presidency can address global hunger.

Watch: Zero Hunger Formula | Richard Lackey | TEDxWilmington

Digital Economy

The Digital Economy Working Group, established in 2021, offers inspiration and broad guidance to policy makers on harnessing the digital potential of economies. The Working Group aims at digital transformation to enhance public participation and realize inclusive social and economic growth.

Digital Economy refers to "the entirety of sectors that operate using Internet Protocol (IP)-enabled communications and networks", irrespective of industry. Digital technologies have been deployed in different parts of national economies for decades, notably in communications networks, but it was the Internet and IP-enabled networks that created a universal platform to form the foundation of the digital economy for all sectors.

The distinction between the Internet economy and the digital economy (though the terms are often used interchangeably) rests on the difference in sectoral impact: Internet economy "refers to the economic activities, inputs, outputs and employment directly associated with the use of the Internet." By contrast, the digital economy relies on enhanced interconnectivity of networks and the interoperability of digital platforms in all sectors of the economy and society to offer convergent services. For example, digital traffic can cross between telecommunications and banking networks – such as in the case of payments apps running on India's Unified Payments Interface, which enable funds transfers among customers and merchants using various mobile network service providers and financial institutions.
Watch: UPI, A Leader in the Digital Payments Revolution

Guidance to policy makers on the digital potential of economies

What is new about the Digital Economy?

The digital economy is built off two key network developments of the Internet and IP-enabled communications systems – such as mobile networks, electronic payments systems and public service networks:

1. Interconnectivity of networks means that traffic can travel across and between networks. This enables economies of scale as the fixed costs of infrastructure rollout are spread across a greater level of output bringing about a fall in unit costs. In the early days of networks, resistance to interconnection was a way to maintain a dominant position, but following regulatory intervention, the network effect of interconnection in the market-as-a-whole could operate.
2. Interoperability of operating platforms means that traffic can run effectively across different types of networks (e.g., from telecoms to banking to educational to health networks and so on). This enables economies of scope, as fixed costs are spread across a wider range of output of different products and services.

However, it is still the case in many markets that inter-operability is resisted to maintain exclusivity and market dominance. Regulators need to decide if intervention will disrupt innovation or will accelerate the network effects.

Economies of scale arise from the network effects of having everybody come online, while economies of scope fuels innovation and offers cross-fertilisation of opportunity across sectors, hence the emergence of FinTech (finance + technology) and agri-tech (agriculture + technology), among others. Economies of scale and of scope create a virtuous cycle by driving down costs, increasing user choice of products and services and, in turn, stimulating market innovation and economic growth. A good example is the completely new combination of Artificial Intelligence and high-speed broadband. AI works through apps and algorithms applied to data, and creates innovative products and services in several industries from manufacturing to entertainment. Broadband provides the network capacity and speeds required, and operates based on economies of scale.

Challenges for Policy Makers and Regulators

From a policy maker and regulator's point of view, the emergence of the digital economy changes the landscape. As industries, markets, and pricing strategies are transformed, the traditional industry-specific approach to policy setting will increasingly fail to enable expected economic growth and social development outcomes. How can policymakers advance financial inclusion without focusing on connectivity, social media, identity profiling? How can policymakers successfully advance effective universal education without consulting data analytics, behaviour profiling, content delivery, and collaborative communication? Even more challenging is the job confronting the regulator, with the traditional risk management-oriented approach failing to deliver expected regulatory control or provide adequate consumer protection. Is Uber a taxi company or a software company? Is Alipay a bank or non-bank financial institution, or is it a technology (or e-commerce) company? Moreover, what is a 'monopoly' and what is adequate market competition in such cross sectoral growth? Previously-dominant regulated companies have lost ground to a new wave of 'next generation' companies. Market definitions that were vital to regulators when identifying "significant market power" are increasingly failing to work, or work effectively.

As an editorial in the London Financial Times aptly put it, "Competition regulators need to arm themselves with new concepts. On mergers rather than concentration in particular markets, the focus should shift to the potential for customer lock-in." Two further important points are raised: "Ensuring the interoperability of technology will be key…. and the need for regulators to take account of the role of dynamic pricing algorithms which effectively "eliminate the very notion of market prices, and with it the consumer surplus. Furthermore, in the digital world governments can deliver certain public services in a more targeted way at minimal cost with increased agility and impact. Once the digital infrastructure is in place – such as the broadband network, a digital identity and authentication system – new services can be added at a much lower cost. Governments can also experiment and innovate relying on the aggregate demand and direct feedback of citizens in an environment where location is immaterial, and the cost and methods of communication have been drastically altered. This increased ability to deliver innovative public services represents an opportunity for policy makers to create public good, at the same time requires improved agility and responsiveness from public administrations, particularly in the face of changing citizen expectations.

What Does the Government Need to Do?

For the policy maker, the opportunity cost in decision making and resource allocation changes substantially, as do the social development and economic growth targets that can be set. For the regulator, a mindset shift becomes the fundamental requirement, moving from risk-manager to development enabler. Such developments need to occur at each layer. Undertaking the following measures may be suggested:

· Develop policies towards a digital economy based on Open Government data sharing and Big Data analytics, including establishing data protection regulations and then ensuring that such regulations are kept updated and relevant, particularly as they cut across ever more sectors and services.

· Ensure that critically important networks, such as telecoms and banking systems, interconnect, and that platforms become interoperable so that apps and services work across all systems, and are accessible by all, as much as possible at any time.

Develop smart security policies – in this case, cybersecurity policies – to protect critical national information infrastructures (CNII), and promote rapid information sharing, including transnationally, about cyber-attacks.
· Create cross-agency (whole-of-government) frameworks (and agencies) for effective policies and regulations so as to enable the development and delivery of government and social services, and to incentivise innovation and investment, while at the same time protecting consumer interests.

Framing Policies for the Digital Economy: Towards Policy Frameworks in the Asia-Pacific

1.Measurement and Goal Setting - Before embarking on building a digital economy framework, it is important to measure the impact that the government aims to achieve. Measuring the digital economy's impact can be challenging due to its cross-cutting nature. However, measuring its effects is crucial not only for understanding the economy and society but also for resource allocation and effective governance.

2.Leadership and Coordination Competencies - Cross-sectoral policy making, which involves breaking down traditional policy silos and hierarchies to foster collaboration and exchange of knowledge across sectors, is required. A sustainable mechanism must be adopted to incorporate digital elements into sectoral policies. Specialized entities or departments focused on the digital economy, like those in Thailand and Malaysia, can play a crucial role in facilitating cross-sectoral communication and collaboration.

3.Agility is another critical aspect. The rapid pace of technological innovation requires governments to make regulatory decisions faster and with flexibility. This agility should extend to public service provisions, enabling more efficient processes.

4.A multi-stakeholder approach is required where governments should not only coordinate various public sector stakeholders but also engage the private sector, civil society, and academia in shaping digital development agendas.

Strategic Choices on Platforms

Digital platforms, which facilitate interactions between different communities, play a crucial role in the digital economy. Governments need to make strategic choices regarding platforms to allocate resources efficiently. These choices include building their platforms, outsourcing platforms to cloud services, or regulating existing platforms to foster interoperability and competition.

Policy Approaches and Tools for Effective Digital Governance

Whole-of-government (WOG) initiatives can foster cross-sectoral collaboration among public sector agencies. This approach requires breaking down organizational boundaries to enable learning, communication, and decision-making across sectors. It enables agencies to transition from regulators to enablers, promoting more agile and effective governance.

The relationship between governments and the private sector should be utilised to facilitate avenues for engagement through public-private partnerships (PPPs), government procurement, and the transfer of expertise, particularly in areas like cybersecurity.

Governments must have the capacity to understand international technological and policy trends that impact national digital economy agendas. Concepts like interoperable regulatory regimes and technology foresight are extremely important to address these challenges.

Digital transformation as a means to inclusive and participative socio-economic growth

Leaving no one behind means leaving no one offline, yet, half of the world's population, an estimated 3.7 billion people, does not use the Internet. While the number of persons online has increased rapidly in recent years, there are important differences between regions and countries (see figures 1 and 2 below). Four-fifths of the offline population are located in Africa and Asia-Pacific (ITU, 2017). In 2019, 87 per cent of individuals in developed countries were online, compared to 47 per cent of people in developing countries, and 19 per cent in the least developed countries (LDCs) (ITU, 2019).

Already disadvantaged and marginalized groups are overrepresented in the offline population, which is disproportionately female, rural, poor, comprised of older persons, and/or with limited education and low literacy. Factors such as location, income, age, sex, ethnicity and disability are significant predictors of access to ICTs and the Internet. The persistence of the urban-rural gap, for instance, is evident in the most recent ITU data: globally, the percentage of households with access to the Internet at home in urban areas (72 per cent) is almost twice than in rural areas (38 per cent). This is particularly pronounced in developing countries: in Africa, only 6.3 per cent of households in rural areas has access to the Internet at home, compared to 28 per cent in urban areas (ITU, 2020b). Similarly, older persons are being left behind across all regions. In the United States, 27 per cent of individuals aged 65 years and over do not use the Internet (Anderson et al., 2019). Persons with disabilities face inequalities and additional barriers in accessing the Internet, ICTs and assistive technology, including affordability barriers (due to lower incomes and expenses related to their disability) and the limited accessibility of ICT devices, programmes and websites. Indigenous peoples also face unique challenges in digital inclusion, including the lack of digital content in their native languages.

The digital gender divide is hindering women and girls' empowerment:
Globally, in 2019, only 48 per cent of women used the Internet, compared to 58 per cent of men; this gender gap ranges from 3 per cent in developed countries, to 43 per cent in LDCs (ITU, 2019). Digital technologies and the Internet offer "leapfrog" opportunities and empower women and girls by building their confidence, increasing their economic power and independence, and improving access to knowledge. The digital gender gap is thwarting opportunities and risks, exacerbating inequalities between men and women.
The accelerated pace of digital transformation risks increasing the social exclusion of already vulnerable groups who are not digitally literate or connected

Unequal access to remote learning is a stark example. School closures due to the COVID-19 crisis have exacerbated disparities in learning opportunities. The most vulnerable learners are among those with poor digital skills and with the least access to the hardware and connectivity required for distance learning. According to UNESCO, global estimates suggest that 826 million students are without a household computer, 706 million lack Internet access at home and another 56 million lack coverage by mobile 3G/4G networks (Montoya, 2020). Learners who are not digitally connected are also unable to acquire job-relevant digital skills, further harming their prospects in the labour market.

The COVID-19 crisis has also deepened the digital divide between economic actors. While many high-skilled workers have transitioned to remote working, workers in occupations requiring frequent human contact have not – for example, those providing services such as health care, public transit, food and grocery supplies. The consequences of this imbalance emerged not only in the latter's higher exposure to health and safety risks during the pandemic but also in the devastating consequences that governmental shutdowns had on their employment rates. Moreover, low access to digital technologies and weak digital capabilities had also significant consequences on micro and small retailers, which have a pivotal role in traditional trade and food outlets. Unable to meet the sudden surge in digital demand, many have faced permanent closures. This resulting loss of small retailers is expected to inhibit the economic recovery in Latin America, South East Asia and Africa, disproportionately affecting the livelihoods of vulnerable populations. Small retailers provide an important source of employment and economic support to millions of poor families, who often rely on them for credit, basic goods and services (Brito, 2020). Similarly, in the field of agriculture, smallholder farmers in rural areas are at risk of being left behind in the digitalization process and failing to reap the benefits of new technologies.

Governments, in cooperation with relevant stakeholders, need to develop a commonly agreed framework for closing the digital divide:

As the COVID-19 crisis has spurred the pace of digital transformation, it has simultaneously revitalized the global debate on the digital divide. There is an emerging consensus that the digital divide can only be effectively addressed if it is clearly understood, defined and measured through a commonly agreed framework. Such a framework could inform evidence-based policymaking and allow governments to understand who are the digitally excluded, why they are excluded, and effectively monitor and guide digital inclusion efforts. In recent years, the lens through which the digital divide is understood has widened: shifting from a focus on physical access (ICT infrastructure) and affordability (cost of Internet connection and devices) to a multifaceted understanding of the causes of the digital divide, including cultural and social factors, notably the lack of digital and literacy skills, and the awareness/relevance of the Internet for disadvantaged populations (see box 1 below). These four dimensions of the digital divide need to be tackled together.

With this in mind, there is a clear need for a comprehensive and holistic approach to close the digital divide by promoting digital inclusion, based on a commonly agreed framework as well as specific indicators and metrics. To date, global and national digital indexes tend to disproportionately focus on dimensions of access and usage, and rarely cover the dimensions of digital skills and supportive environment. Similarly, most digital indexes are not broken down by age group, gender, and geographical location (Digital Future Society, 2019). As these recommendations are taken forward through a multi-stakeholder process, practical tools (e.g., digital inclusion scorecards) can help provide policymakers and all other actors to identify “pockets” of digital exclusion, where efforts are falling short.

At present national statistical agencies may provide some of the needed data on digital inclusion, but this is dispersed amidst broader statistics, with no singular analysis or focus on these issues. Creating more comprehensive digital inclusion indicators has implications for the collection of disaggregated data, multiplying their complexity and associated costs.

An avenue that could be further explored is to make better use of usage data connected to the private sector (such as data collected by the GSMA, which represents mobile operators worldwide) and which provides information not only on access but also digital skills development. The Roadmap for Digital Cooperation also calls on donor countries to consider funding such data collection efforts as part of larger investments in ICT and other infrastructures.

Digital cooperation and partnerships for digital inclusion:
Rapid technological change without an inclusive and sustainable development strategic orientation risks entrenching existing inequalities while introducing new ones. Shaping a shared vision on digital cooperation and a digital future must become a priority. This was highlighted by Heads of State and Government in the Declaration on the Commemoration of the 75th Anniversary of the United Nations, adopted on 21 September 2020. Given the unprecedented extent to which our world relies on digital tools for prosperity and connectivity, only a shared vision for a safe, open and free digital world can unlock the full potential of technology and address concerns over digital trust and security.
Strategies to enhance digital cooperation need to be strengthened. The UN Secretary General's Roadmap for Digital Cooperation envisages eight sets of actions for 'ensuring digital inclusion for all' and guides all stakeholders to build a safer and more equitable digital world. These include ensuring that technology products, polices, and practices comply with human rights principles and standards, notably the right to privacy. Strengthening existing multilateral platforms and mainstreaming digital inclusion in inter-governmental for a would be important steps towards a more inclusive and equitable society.
Governments and inter-governmental organizations are uniquely placed to support open and transparent public debates on digital issues, in order to develop regulatory frameworks and policies that leverage digital technologies for sustainable development and support digital inclusion. This includes promoting inclusive ICTs design and aligning science, technology and innovation (STI) policy with social development and SDGs.

A whole-of-government and a whole-of-society approach is needed to bridge the digital divide and ensure that ICTs benefit everyone and address the needs of the most vulnerable in society. National and local governments, public institutions, international community, United Nations entities, the private sector, academia, STI or scientific community, civil society organizations, representatives and members of marginalized and disadvantaged groups, and philanthropic and religious organizations, among others, need to work together, each bringing their specific perspectives, expertise and capabilities to the table. By co-designing and co-creating policies with marginalized and vulnerable groups, governments can better identify and address their situation- and context-specific vulnerabilities and needs. Such multi-stakeholder partnerships are also important for fostering innovative and agile solutions to address the complex and evolving needs of vulnerable groups, notably in emergency situations as posed by the COVID-19 pandemic.

To close the digital divide, there is a need to ensure that every person has affordable access to the Internet by 2030. This requires that governments promote universal access to ICT infrastructure, address affordability, enhance digital skills and literacy, and improve the relevance and awareness of the benefits of being online. The digital inclusion of disadvantaged and marginalized groups including, women, older persons, persons with disabilities, people on the move, and indigenous peoples, also requires targeted and multifaceted measures. These include, identifying and amending exclusionary policies and systems, raising awareness of the digital divide, and combating stereotypes through more empowering images of women, older persons, and other marginalized groups in the digital realm. Measures designed specifically to close gender gaps may include establishing gender-responsive national broadband plans, closing the digital skills gap through education, establishing gender-friendly public Internet access and training venues.

As countries emerge from the COVID-19 crisis and seek to lay the foundations for more inclusive, resilient and sustainable economies, closing the digital divide will be essential. While digital inclusion alone is not a 'silver bullet' in the fight against poverty and inequality, it has become a fundamental component of promoting social inclusion. As such, digital inclusion is central to Member States' commitment to leave no one behind in the implementation of the 2030 Agenda and enable a socially just transition towards a more inclusive, equitable, resilient and sustainable future for all.

Development

Development Working Group (DWG) has been acting as the custodian of G20 'development agenda' since its inception in 2010. After the adoption of the 2030 Agenda for Sustainable Development and its Goals in 2015, DWG has played an important role in supporting Sherpas in both driving the G20 Sustainable Development agenda and in working with other workstreams to better understand the sustainable development intersections of G20 actions with efforts to achieve the 2030 Agenda.

G20 2023 Action Plan to Accelerate Progress On The SDGs

The unveiling of the new plan comes amid global setbacks to SDGs and follows the 2016 action plan, which has faced hurdles in its implementation. The new plan, introduced under India's G20 Presidency, seeks to revive progress on the SDGs. It underscores India's commitment to an inclusive, data-driven approach to public digital infrastructure, based on the country's experience in using technology to deliver social change.

The action plan further calls for bolstered economic and social empowerment for women, bridging digital divides, and enhancing women's food security and nutrition. It also outlines a commitment to promoting sustainable, inclusive, and just transitions globally.

Global Partnership for Financial Inclusion (GPFI)

Global Partnership for Financial Inclusion (GPFI) works for advancing financial inclusion globally. Some of the work areas include ways to improve financial system infrastructure, pursue policies conducive to harnessing emerging technologies, facilitating remittance flows and reducing the cost of remittance transfers, financial literacy and consumer protection, digital financial literacy and bridging the digital divide among others. The GPFI is co-chaired by Italy and Russia.

Advancing global financial inclusion

Digital financial inclusion has been steadily increasing, but gender and other gaps persist. Gender gaps in digital financial inclusion arise from barriers to access, cost factors, gaps in financial and digital literacy and skills, and gender biases and sociocultural norms. Most G20 member countries have adopted policies to promote digital financial inclusion and digital financial literacy. However, G20 countries need to develop more differentiated policies that will reduce the gaps in digital financial inclusion and digital financial literacy suffered by women and other disadvantaged groups. Requiring big-tech and fintech companies to provide digital financial education through platforms that target these groups could be an effective way to reduce these digital gaps.

The 2020 G20 FIAP—a revision of the earlier 2010, 2014 and 2017 editions—came at a time of crisis, as the COVID-19 pandemic represents an extraordinary global challenge that is having a profound impact on the global economy, including challenges for individuals and businesses, especially those related to financial inclusion. Following the Leaders' mandate for the GPFI to streamline its work program and structure, the GPFI prioritized its work under the 2020 G20 FIAP on digital financial inclusion (DFI) and SME finance. As a result, the 2020 G20 FIAP covered three components that GPFI members consider to be of the highest priority: (i) GPFI Overarching Objectives; (ii) Action Areas under the agreed Prioritized Topics; and (iii) a set of Cross-Cutting issues and topics to be taken into account across the work of the GPFI.

Inclusion through Digital Financial Literacy

Digital Financial Literacy and Resilience: Digital Financial Literacy is crucial for individuals to make informed financial decisions in the digital age. Digital financial services offer convenience and accessibility, but they also come with risks, such as security and privacy concerns. Building financial resilience in the digital era requires individuals to understand the benefits and risks associated with these services and technologies.

Digital Divide and Inclusion: While digital financial services offer numerous benefits, there is a digital divide that must be addressed. Many individuals, particularly those from lower-income or marginalized communities, may lack access to digital devices or reliable internet connectivity. Policymakers and financial educators should prioritize efforts to bridge this digital divide and ensure that everyone can access and benefit from digital financial services.

Tailored and Targeted Education: The report highlights the importance of providing tailored and targeted digital financial education programs. These programs should be designed to cater to the diverse needs and preferences of individuals, considering factors such as age, socioeconomic background, and level of digital literacy. Effective financial education should empower individuals to make informed choices and manage their finances effectively using digital tools.

Interactive and Engaging Content: Digital Financial Education content should be interactive and engaging to capture learners' attention and maintain their interest. Gamification, quizzes, interactive simulations, and real-life scenarios can enhance the learning experience and make financial education more accessible and enjoyable.

Leveraging Digital Platforms: Digital platforms, including websites, mobile apps, and social media, offer opportunities to deliver financial education directly to individuals. Financial education providers should leverage these platforms to deliver relevant and timely content, facilitate peer learning, and provide easy access to resources.

Public-Private Partnerships: Collaboration between governments, financial institutions, fintech companies, and educational institutions is crucial for effective digital financial education. Public-private partnerships can pool resources, expertise, and technological innovations to develop comprehensive and impactful financial education initiatives.

Cybersecurity and Privacy: As digital financial services involve the sharing of personal and financial information, educating individuals about cybersecurity and privacy best practices is very important. Educating users about how to protect their sensitive data and avoid scams is vital for building trust in digital financial services.

Affirmative action to enable inclusivity of women: To take an example, women typically have lower incomes than men and are more sensitive to prices. Women might find affordable financial products that cater to low and variable incomes and high-frequency, low-denomination transactions to be attractive. Also, women often have responsibilities to care for older relatives, raise children, look after family farms, run side businesses, and finance family events such as funerals and weddings. Having special products for such contingencies would be useful. The G20 should also encourage public and private institutions to use social media platforms to raise awareness among women entrepreneurs and their customers about the availability of digital financial services, how to use them for online commerce, and how to protect against fraud and cybercrime. In some countries or regions, barriers to women's usage of digital financial services result partly from restrictive social norms. The G20 should promote national strategies that encourage service providers to take a more gender sensitive approach such as encouraging the employment of women agents to promote women's use of digital financial services. These strategies should also include developing campaigns that influence gender roles and the acceptance of women's entrepreneurship and financial decision-making. As women increasingly use digital financial services, they can make a larger impact in their communities and help shift gender norms. The G20 should encourage national policies and strategies that promote access to and usage of alternative digital financing opportunities.

This includes implementing incentives for digital financial service providers that aid women's access to capital through crowdfunding and digital lending. It also should encourage efforts to identify and eliminate gender and other biases in algorithms used by platforms to make financing and employment decisions. The G20 should promote positive actions to reduce gender discrimination and national strategies that encourage the hiring and advancement of women in leadership and decision-making roles in the financial, fintech, and digital sectors. This includes increasing the share of women working in positions that are responsible for making credit and funding decisions, as well as in "frontline" positions such as payment agents. Member countries should collaborate and share experiences about best practices of digital financial inclusion. Contemplate: The problems of the gender spectrum and possible solutions for the inclusivity thereof.

International Financial Architecture (IFA)

International Financial Architecture (IFA) Working Group deals with issues related to international financial architecture such as global financial safety net (GFSN); matters related to development finance; managing debt vulnerabilities and enhancing debt transparency; capital flow management and promoting local currency bond markets. The working group is co-chaired by South Korea and France

<u>Priorities of 3rd International Financial Architecture Working Group Meeting.</u>

The international financial architecture refers to the governance arrangements that safeguard the stability and function of the global monetary and financial systems. It has evolved over time, often in an ad hoc fashion, driven by the policy preferences of large economies in response to economic and financial shocks and crises. The international financial architecture includes:

a) Governance of public international financial institutions, such as the multilateral development banks and the International Monetary Fund (IMF), as well as other international public development banks and global funds (such as the Green Climate Fund);

b) Financial standard-setters that establish norms for the governance of private finance, such as the Financial Stability Board, the Bank for International Settlements, the International Organization of Securities Commissions, the International Accounting Standards Board and the Financial Action Task Force;

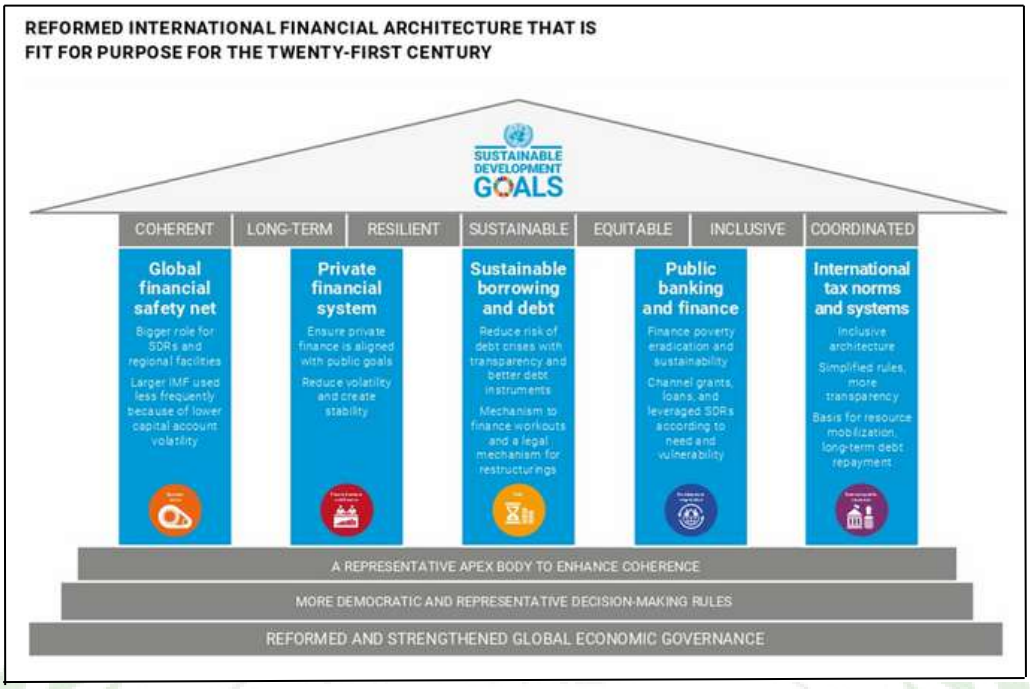
c) Monetary arrangements, such as regional financial arrangements and the network of bilateral swap lines;

d) Informal country groupings that act as norm-setters, such as the Group of Seven (G7) and Group of 20 (G20);

e) Formal but non-universal norm-setting bodies, in particular the Organisation for Economic Co-operation and Development (OECD);

f) Creditor groups that address sovereign debt issues, including the Paris Club, the London Club, the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, agreed by G20 and Paris Club countries, and the International Capital Market Association (a private entity that publishes model clauses for debt instruments), as well as global credit rating agencies;

g) United Nations as a norm-setter and implementer. While the international financial architecture does not include all the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, it needs to be coherent with and complemented by rules governing trade, tax, financial integrity, technology, environmental sustainability and climate action, as well as other development issues. Reforms to the international architecture will have the greatest impact if accompanied by strengthened national financing policies and capacities, for example through integrated national financing frameworks, which will require significant capacity-building with support from the international community.



Debt Vulnerabilities

Despite significant relief measures brought on by the COVID-19 crisis, about 60 percent of low-income countries are at high risk or already in debt distress. In 2015 that number was below 30 percent. With policy space tightening for highly indebted countries, the framework can and must deliver more quickly.

For many of these countries, the challenges are mounting. New variants are causing further disruptions to economic activity. COVID-related initiatives such as the G20 Debt Service Suspension Initiative (DSSI) are ending. Many countries face arrears or a reduction in priority expenditures. We may see economic collapse in some countries unless G20 creditors agree to accelerate debt restructurings and suspend debt service while the restructurings are being negotiated. It is also critical that private sector creditors implement debt relief on comparable terms.

Recent experiences of Chad, Ethiopia, and Zambia show that the Common Framework for debt treatments beyond the DSSI must be improved. Quick action is needed to build confidence in the framework and provide a road map for helping other countries facing increasing debt vulnerabilities

Since the start of the pandemic, low-income countries have benefited from some attenuating measures. Domestic policies, together with low interest rates in advanced economies mitigated the financial impact of the crisis on their economies.

The G20 put in place the DSSI to temporarily pause official debt payments to the poorest countries, followed by the Common Framework to help these countries restructure their debt and deal with insolvency and protracted liquidity problems. The international community also scaled-up its financial support, including record IMF emergency lending and a $650 billion allocation of special drawing rights, or SDRs—$21 billion of which was allocated directly to low-income countries. The G20 leaders committed to support low-income countries with on lending $100 billion of their SDRs to significantly magnify this impact.

But the Common Framework is yet to deliver on its promise. This requires prompt action.

The Common Framework is intended to deal with insolvency and protracted liquidity problems, along with the implementation of an IMF-supported reform program. G20 official creditors—both traditional creditors, such as France and the United States, and new creditors, such as China and India agreed to coordinate to provide debt relief consistent with the debtor's capacity to pay and maintain essential spending needs. The Common Framework requires private creditors to participate on comparable terms to overcome collective action challenges and ensure fair burden sharing.

But so far, only three countries—Chad, Ethiopia, and Zambia—have made requests for debt relief under the Common Framework. And each case has experienced significant delays.

In part, these delays reflect the problems that motivated the creation of the Common Framework in the first place. These include coordinating Paris Club and other creditors, as well as multiple government institutions and agencies within creditor countries, which can slow down decisions. The Common Framework aims to mitigate these problems but does not eliminate them. New creditors, including relevant domestic institutions, need to gain comfort with restructuring processes that would allow all creditors to work together in providing relief and enable the IMF to lend to countries facing debt difficulties. This takes time.

But there were also delays for reasons that have nothing to do with the Common Framework.

But there were also delays for reasons that have nothing to do with the Common Framework. To restore debt sustainability, Chad must restructure a large, collateralized obligation held by a private company, which is partly syndicated to a large number of banks and funds. This complicates the decision-making process. Domestic challenges slowed progress in Ethiopia and Zambia.

With elevated risks to sovereign debt, a global cooperative approach is necessary to reach an orderly resolution of debt problems and prevent defaults.

Risks from rising inflation

Until recently, low debt service costs assuaged concerns about advanced economies' record high public debt. There were two elements. First, nominal interest rates were very low. In fact, they were close to zero or even negative all along the yield curve in countries such as Germany, Japan and Switzerland. Second, neutral real interest rates were on a significant downward trend in many economies, including the United States, the euro area, and Japan, as well as a number of emerging markets.

This, combined with real interest rates below real growth rates, contributed to a perception of painless fiscal expansion. However, with heightened risk perception and expected monetary policy tightening, debt vulnerabilities are back in focus.

High public and private borrowing contribute to financial vulnerabilities, which are already concerning. The number of advanced economies with debt ratios larger than the size of their economy has increased significantly.

There is a risk that ever-higher levels of debt lead to a widening of interest rate spreads for countries with weaker fundamentals, making it costlier for them to borrow. Moreover, although inflation surprises may lower debt-to-GDP ratios in the short-run, persistent inflation—and inflation volatility—ultimately can raise the cost of borrowing. This process can happen quickly in countries with short debt maturities.

In advanced economies, economic activity, the primary balance, spending, and revenues are projected to return close to pre-pandemic projections by 2024. But the situation in developing countries is much more concerning. Both emerging and low-income economies face persistent GDP and revenue losses. This implies that primary spending will be persistently lower as a consequence of the pandemic, pushing countries further back from reaching the Sustainable Development Goals. That is a matter of global concern. Sharp increases in energy and food prices are adding to these pressures for the poorest and most vulnerable. Food accounts for up to 60 percent of household consumption in low-income countries. These countries face a unique confluence of factors: dire humanitarian needs intersect with extremely tight financial constraints. For low-income countries that rely on imported fuel and food, the shock may require more grants and highly concessional financing to make ends meet while supporting those households in need.

Global financial conditions are tightening as major central banks raise interest rates to contain inflation. In most emerging markets, sovereign spreads are already above pre-pandemic levels. The credit crunch is exacerbated by declining overseas lending originating from China, which is confronting solvency concerns in the real-estate sector; expanding lockdowns in Shanghai and other major cities; the transition to a new growth model; and problems associated with existing loans to developing countries.

A global cooperative approach

Debt restructurings are likely to become more frequent and will need to address more complex coordination challenges than in the past owing to increased diversity in the creditor landscape. Having mechanisms in place for orderly restructuring is in the best interest of creditors and debtors alike. For low-income countries, the Debt Service Suspension Initiative expired at the end of 2021. And the Group of Twenty's Common Framework for Debt Treatments beyond the DSSI has yet to deliver. Improvements are needed.

Options should also be explored to help the broader range of emerging and developing economies that are not eligible for the Common Framework but who would likely benefit from a globally cooperative approach in the period ahead. Muddling through will amplify costs and risks to debtors, creditors and, more broadly, global stability and prosperity. In the end, the impact will be most sharply felt by those households that can least afford it.

With sovereign debt risks elevated and financial constraints back at the centre of policy concerns, a global cooperative approach is necessary to reach an orderly resolution of debt problems and prevent unnecessary defaults. The views and interests of debtors and creditors must be reflected in a balanced way.

Many countries, including those most at risk from climate change, are facing significant debt overhang, exacerbated by an unfavourable international trade and monetary system. The large and growing number of developing countries facing balance of payment issues raised questions about the role of multilateral development finance in times of crises. A significant share of multilateral development finance is provided to developing countries as loans, raising questions over its role to support countries facing financial liquidity or solvency issues. A key challenge is the need to reconcile the seemingly contradictory objectives of responding to countries financing needs generated by successive crises in the short term while ensuring countries' debt sustainability in the longer term. The main MDBs declined to participate in the Debt Service Suspension Initiative (DSSI) spearheaded by the G20, arguing the need to preserve their triple-A credit rating. Instead, MDBs chose to provide fresh financing to their client countries by frontloading resources and repurposing parts of their existing portfolios.

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