Background

G20 Indonesia convene at a time when a mind-boggling confluence of problems and shocks complicates the evolutionary policy landscape almost beyond recognition. We have not fully absorbed the shocks that the series of financial crises, including the Great Financial Crisis of 2008, impose on us we are already forced to endure the Covid-19 pandemic shock with the huge losses of life, human capital, output, physical capital, trade, and connectivity that come along with it. The pandemic leaves enormous lingering scars for us to recover from in the years to come. When in 2021 the world economy was recovering and people everywhere are learning how to protect themselves from the COVID-19, the war in Ukraine erupted and created a massive ripple effect on the landscape of global macroeconomic and financial conditions. Sanctions and uncoordinated monetary policies as a response to the escalating geopolitical tension and to maintain domestic growth and price stability has heightened the risks of recession in the upcoming years. Meanwhile, the long-term threat of humanity, such as climate change and widening inequality, also require an utmost attention and effort to be taken by global leaders immediately.

Preventing the world economy from falling to a deep negative growth and all the social sufferings it would cause is, indeed, an imperative of our time, not a luxury. Considering our macroeconomic responses in form of risen government expenditures and public debts and huge liquidity provision to combat the contractionary impacts of the Covid-19 pandemic the word is now confronted with a dilemmatic policy option. However, a concerted set of responses can be arranged by G20. The centrality of recovery under current global conditions cannot be overemphasized.

As the ideas bank of the G20, T20 Indonesia has released the T20 Communique and the T20 Policy Briefs that present evidence-based ideas from researchers/experts around the world. These T20 Task Force Notes on International Finance and Economic Recovery provide policy recommendations tailored to the relevant issues of current macroeconomic and financial aspects to weather the ongoing global turmoil, support the short-term economic recovery and long-term inclusive welfare improvement and other development agendas. These notes cover recommendations regarding three main macroeconomic themes on the sustainable development and policy coordination, green economy, and digital economy.
Policy Recommendation

On the Macroeconomic Themes on Sustainable Development & Policy Coordination

1. **Enhancing the scope of Global Financial Safety Net (GFSN).** The GFSN is responsible for providing stabilization support to many countries in distress. However, the current representation of the GFSN does not fully correspond to the actual availability of financial resources. Other shortcomings of GFSN include uneven coverage and insufficient and unpredictable access to financing. For instance, the GFSN does not allow support for all income country groups to respond adequately to a global liquidity crisis, as demonstrated by the COVID-19 pandemic. At the same time, the GFSN remains underutilized during the pandemic. To tackle these developments, it is important for G20 to promote the concept of an enlarged GFSN, expanded through the inclusion of two new elements: MDBs and bilateral sovereign budget support. MDBs are increasingly becoming a key source of external budget support for sovereigns. Furthermore, bilateral sovereign financing should be incorporated into the GFSN in order to better reflect its firepower and focus attention on the issues of coordinating this instrument, availability of data and reasonable economic conditionality of the bilateral arrangements.

2. **Operationalization of the Common Framework in resolving debt crises.** One main challenge for implementing the Common Framework is creditor coordination and the low participation of private and official creditors in debt restructurings and/or debt relief. Historically, private creditors have not participated in many debt restructuring initiatives because first, there is little financial incentive among them to pay below-market interest rates. A second problem is that there are no unified private creditor committees, making it hard to have a unified perspective. Besides the issue of participation, the issue of debt contract transparency also serves as an obstacle for the implementation of the common framework. In addition, enhancement of the common framework should also consider the improvement of internal resource mobilization and public financial management in Low Income Countries (LICs). Following are several proposed recommendations to the G20 in the context of the common framework:
   - G20 members should promote the application of the comparability of treatment clauses and urge multilateral creditors to participate in the debt restructuring process.
   - The G20 should support full disclosure of debt among creditors by promoting the OECD Debt Transparency Initiative and by adopting the G20 Operational Guidelines.
   - The G20 should support capacity building in LICs for internal resource mobilization and public debt management.
• The G20 should open the Common Framework for other developing countries beyond LICs.
• The G20 debt treatments should take into account the effects of the Russian-Ukrainian war foremost rising interest rates, tightening financial conditions, food crisis because these new conditions will further worsen debt problems in developing countries.

3. Managing liquidity and solvability. In the age of rising insolvency and illiquidity, especially among developing and less-developed countries, focusing on alleviating financial market pressures, enhancing debt quality, reducing its cost should be top priority among G20 leaders. G20 could play a role in promoting stability mechanism by enhancing debt market value through credit enhancement facility, enhancing debt market liquidity through liquidity and sustainability facility, helping manage future debt restructuring, and limiting countries’ hedging costs. This would require a leadership role by G20 leaders to call for more productive collaboration and coordination with multilateral banks and international financial institutions.

4. Addressing the needs of tax incentive reform on base erosion and profit shifting (BEPS). To address the tax challenges arising from the digital economy, the OECD-G20 Inclusive Framework (IF) on BEPS formally agreed on the Two Pillar approach. Pillar Two aims to establish a global minimum tax rate of at least 15 percent for large multinational enterprises (MNEs) to end the race to the bottom and eliminate profit-shifting activities. At the same time, questions have arisen, such as the possible neutralizing effect on tax incentives, increasing competition and unequal tax revenue distribution across countries. To find the best strategies for implementing the incentives under Pillar Two rules, developing countries must examine their existing tax-incentive policies to measure the incentive's benefit and the potential top-up taxes if Pillar Two is implemented. G20 could contribute to this aspect by pushing the countries to rely on reliable data to conduct assessment. G20 could also promote the utilization of country-by-country reporting (CbCR) and exchange of information (EoI) to assess the effectiveness of their tax incentives and calculate the potential top-up taxes. To provide transparent CbCR, implementing CbCR and EoI needs standardization among countries. In addition, G20 shall also call for countries to phase-out excessive incentives and eliminating ineffective tax incentives. Lastly, G20 should encourage a coordinated and harmonized incentive strategy at the regional level to avoid potential looming competition among developing countries that rely on tax incentives to attract foreign investment.
On the Green Economy Theme

1. **Debt relief for green recovery and development.** Against the backdrop of the exogenous COVID-19 shock, the enormous investment needs to meet development and climate goals, and the hesitancy of debtor governments to seek relief, a sovereign debt restructuring scheme is needed that will facilitate timely and orderly restructuring and provide a clear pathway for debtor governments to green and inclusive recoveries. A pragmatic approach is required that will deliver meaningful and timely debt relief to those countries that require it. Given that private creditors hold a majority of the public external debt of developing countries, private sector involvement is crucial. G20 could take a leadership role in promoting the initiative of debt relief for green and inclusive recovery as an ambitious, concerted, and comprehensive debt relief to be adopted on a global scale. To bring private creditors to the negotiation table, a carrot-and-stick-approach is needed, that is, a combination of positive incentives (“carrot”) and pressure (“stick”). The incentive could manifest in the form of the creation of a new Facility for Green and Inclusive Recovery administered by the World Bank in close cooperation with regional development banks that is designed to entice the commercial sector to engage in debt restructuring. In terms of pressure, the financial authorities of the jurisdictions in which the major private creditors (both banks and asset managers) reside and that govern the majority of sovereign debt contracts – most importantly the US, the United Kingdom and China – could use strong moral suasion and regulations on accounting, banking supervision and taxation to improve creditors’ willingness to participate in debt restructuring. The IMF could also play a key role to ensure commercial participation in restructuring.

2. **Addressing the financial and non-financial barriers to scale-up clean energy.** G20 members have an important role in governing multilateral development banks. The G20 has a unique opportunity to help Multinational Development Banks (MDBs) tackle the challenges created by climate change and help member states shift to sustainable development pathways. With the capital adequacy frameworks of MDBs on the G20 agenda, G20 members should take concrete steps to bolster the balance sheets of MDBs. G20 members must also work to remove the barriers that stand in the way of accelerating the deployment of clean energy. MDBs should provide the necessary policy advice to help governments formulate appropriate policies and measures. Finally, MDBs should also work closely with governments to harness the benefits of the energy transition by helping countries embed themselves in clean energy value chains, among other strategies.
3. **Enhancing the role of International Financial Institutions (IFIs) in facilitating green energy transition.** Strategies to achieve green transition will have ramifications on the fiscal aspect and IFIs could have a strategic role in ensuring a smooth transition. This requires the concrete leadership and actions to be taken by the G20 leaders. First, the fiscal consequences of pursuing net-zero strategies are of interest to the G20 membership. Many of the G20 members are major oil and gas exporters and consumers. There is a need to firmly connect net-zero strategies with policy attention to fiscal balances. Second, as the largest shareholders of the IMF, G20 members have a special opportunity to help define and craft how the IMF addresses green transitions in its work. For example, the IMF will be undertaking work to its climate change strategy and outcomes of the Comprehensive Surveillance Review into staff guidance notes and other operational documents. The G20’s input will be vital. Third, as major shareholders of multilateral development banks (MDBs), the G20 has an important opportunity to increase the capital base of these institutions to increase the scale of financing available to developing countries. The mobilization of domestic resources needs to be accompanied with a step-wise increase in financing from international institutions.

4. **Designing the International Standard & Qualification for ESG investments.** ESG investing's credibility lies in its ability to be held accountable for its promises, from non-financial risk assessment and long-term valuation to the positive impact on societies and the environment. Global standards and a common framework are the necessary next step to ensure the proper changes at the corporation's level. G20 with other international groups such as the UN and the International Organization of Securities Commissions (IOSCO) have been essential in the recent progress towards harmonized standards. The G20 is a natural platform to facilitate this work across geographic jurisdictions and stakeholders. It would not be the first time for the G20 to develop a global framework in response to a standard global shock. The previous one was the macroprudential policy framework after the financial crisis. This experience could provide helpful insights into the challenges of defining a framework and standards that will have the buy-in of most countries. Furthermore, developing the common standards and framework will be iterative. Similar to the scores and ratings, the metrics and benchmarks must be evaluated regularly in their effectiveness to protect investors from significant underlying risks and help achieve the agreed-upon goals. They should be adjusted when necessary.
On the Digital Economy Theme

1. **Managing the impact of potential trade-offs between data flow mobility; personal privacy & security; and data monetization.** The issue of cross-border data revolves around potential trade-offs between data mobility, personal privacy and security, and the process of data monetization. The cross-border data flow is a complex phenomenon that entails both the pros and cons. The challenge is compounded further by the balancing between the development of the digital economy and the cost that it entails, especially for the developing nations. G20 countries could contribute to taking measures to address challenges posed by the trilemma. Economies must promote data flow openness while ensuring proper privacy protections for their inhabitants. G20 should take a leadership role in encouraging economies to enhance the data flow openness. Furthermore, to fully maximize the potential of data, a country needs not only to have an open access policy that is easy to be interpreted and understood by other parties. This concept can be adopted by establishing an interoperability strategy. G20 should encourage further global cooperation in keeping trade openness through cross-border data flows. This enables the expansion of consumer choices and benefits. In addition, flexible cross-border data-flow rules would enable developing-country enterprises to benefit not just from providing services to global markets, but also from getting competitive digital services in return.

2. **Development of common standard and taxonomy of digital finance.** Safeguarding macrofinancial stability in an era of growing digitalization in cross-border trade and financial flows has become increasingly challenging for policy makers. Digital money, crypto assets and related innovations in cross-border payment systems, which may not be subject to existing financial regulation, can complicate the effective macroeconomic management of the economy via capital flow volatility, rising exposure to financial contagion and monetary policy spillovers. Understanding the range of digital finance platforms and crypto assets in existence through devising an appropriate digital finance taxonomy is a crucial first step for devising appropriate policy responses. A dedicated national digital finance committee should be established, comprising the central bank, financial supervisor and government departments in order to ensure that all relevant national authorities are represented on providing input to the taxonomy and ultimately on devising measures aimed at safeguarding. Measures can be formulated from a monetary, macroprudential and fiscal policy perspective. A G20 working group should be established to provide a framework for the taxonomy and consistency in the composition of the national digital finance committee across member countries.
3. **Enhancing and adjusting prudential regulation and supervisory framework to minimize the risk emerging from digital finance.** Economies need to examine their risk-exposure to digital cross-border capital transactions and identify appropriate policy responses to address these risks. These policy responses should include macroeconomic, regulatory and technological aspects. As has been noted by the International Monetary Fund (2021), rises in digital money will likely lead to rises in gross capital flows, which would occur whether prevailing capital flow management measures (CFMs) are sufficiently effective or not. While digital money may help to foster greater market integration and improved efficiency, there can also be costs linked to financial contagion exposure. The related implications for capital flow volatility should be a core element of vulnerability exercises that economies should undertake, including scenario analyses based on simulations of the projected future path of digital finance in terms of digital cross-border payments and financial transactions, as well as exchange rate effects. The G20 would have an important coordinating role in: (i) ensuring a common approach to the vulnerability exercises across countries and best practice implementation; (ii) identification of technical assistance requirements and gaps in expertise, including on cross-border CBDC interoperability and (iii) providing a forum for input by technical experts at international financial institutions (notably the IMF and Financial Stability Board); (iv) mainstreaming the assessment of costs and benefits of digital money and payments systems into national financial regulatory and prudential frameworks; (v) facilitating a platform for regular assessment and review of digital macrofinancial vulnerabilities, also enabling adjustments as digital innovations in payments would continue to advance.
About T20 Indonesia Task Force 7

The T20 Task Force 7 (TF7) on International Finance and Economy Recovery aims to formulate pertinent recommendations to the G20 leaders on the issue of stability and the framework of international financial architecture/management and the global economic recovery. To produce such recommendations, TF7 engages in various activities, including public discussion and forums, policy briefs development, and expert pooling as TF co-chairs. TF7 consists of some policy areas that are tailored to the priority agendas of G20 Indonesia. Those policy areas include policy coordination and sustainable development, green economy, and digital economy. TF7 along with the T20 Indonesia to deliver robust, independent, and inclusive research-based policy platform for experts and impactful policy options for the G20 policy-making process.

Lead Co-Chair:
Muhamad Chatib Basri (Former Minister of Finance, Republic of Indonesia)

Co-chair:
Reza Y. Siregar (Senior Executive Vice President, Indonesia Financial Group)
Hyun-Song Shin (Head of Research, Bank for International Settlements)
Haihong Gao (Director of Research Center for International Finance, Chinese Academy of Social Sciences)
Akshay Mathur (Former Director, ORF)
Grace Perez-Navarro (Deputy Director, Center for Tax Policy and Administration, OECD)
Kevin P. Gallagher (Director of Global Development Policy Center, Boston University)
Franco Bruni (Vice President, Institute for International Political Studies (ISPI))
Adam Triggs (Director, Alphabeta)

Coordinator:
Teuku Riefky (Macroeconomic Researcher, LPEM FEB UI)