BUSINESSatOECD

# Business Priorities for the OECD Finance Agenda

*Business at OECD* (BIAC) *Key Messages to the OECD*

**Established in 1962, *Business at OECD* (BIAC) is the officially recognized institutional business stakeholder at the OECD. We stand for policies that enable businesses of all sizes to contribute to economic growth, sustainable development, and societal prosperity.**

**Through *Business at OECD*, national business and employers' federations representing over 10 million companies provide perspectives to cutting-edge OECD policy debates that shape market-based economies and impact global governance. Our expertise is enriched by the contributions of a wide range of international sector organizations.**

# Contents

# Introduction

*Business at OECD* (BIAC) – representing the leading business federations and over 10 million businesses in OECD countries and beyond – values the OECD work on financial markets and strives to make a constructive contribution. At a time of weakened economic growth, widespread political uncertainty and heightened geopolitical tensions, this work is more important than ever.

The OECD's work on finance policy makes an important contribution to fostering financial stability, unlocking investment as well as promoting transparent and cross-border financial systems. *Business at* OECD (BIAC) is well-placed to contribute on these objectives through its whole-economy expertise and its focus on economic growth and stability.

As neither a financial regulator nor an international lender, the OECD has an independent, unique perspective which is of great value to its member countries. In addition, its contribution to the G20 is growing significantly. The *Business at OECD* (BIAC) **Finance Committee** channels private sector expertise and perspectives to OECD finance-related activities, including its work on ESG, digital finance, and financial stability, to support a strong and sustainable global financial system.

This document summarises the *Business at OECD* (BIAC) **Finance Committee's key considerations** and priorities relating to several aspects central to the OECD agenda and the current international debate on finance.

**Finance serves as the engine driving the real economy and addressing global challenges**. It therefore plays a crucial, cross-sectoral and cross-thematic role in advancing the OECD agenda. The focus extends beyond financial products and regulations to also include supporting firms' access to finance, which requires a holistic view:

1. **Business Growth**: Access to finance enables businesses to invest in transitioning their operations and trading capabilities towards wider, more resilient and efficient activities. It also fosters innovation and sustainable growth, key factors to increase productivity and ensure long-term competitiveness.

2. **Economic Development**: By providing the necessary funds for businesses to grow, access to finance contributes to overall economic development, job creation and sustainable infrastructure investments that enhance resilience.

3. **Entrepreneurship**: It supports entrepreneurs in starting new ventures, fostering innovation, and driving economic dynamism.

4. **Risk Management**: Access to finance allows businesses to manage risks more effectively, by enabling investment in resilient infrastructure and adaptation strategies.

5. **Social Impact**: Improved access to finance can enable better social outcomes, foster financial inclusion, reduce poverty, and support sustainable supply chains.

**The Finance Committee priorities outlined in this document build on the overarching *Business at OECD* priorities articulated in the "Delivering Prosperity through Economic Cooperation - What OECD Business Needs in 2025" published in February 2025**. These priorities highlight the crucial role of financial policies to foster economic prosperity, financial resilience, and sustainable business practices in an evolving global landscape.

# Fostering Stronger Regulatory Coherence and Interoperability for Resilient Financial Markets

## *What Business Needs*

The financial services industry is highly globalised. Financial institutions export their services throughout the world and operate directly in markets through cross-border direct investment. This allows financial institutions to provide capital and liquidity to every sector of the economy. Through investments in all aspects of the economy including agriculture, manufacturing and other service industries, the positive impact of finance multiplies and helps generate much more in terms of growth and jobs than the financial sector accounts for directly. And the cross-border contribution goes above and beyond the direct flow of funds as globally active financial institutions are better placed to service clients throughout the world in manufacturing, agriculture and other service industries. Financial services are truly the foundation to the international success of economies and the prosperity of their workers and businesses.

Although results vary, most estimates place the financial services sector at around 20% to 25% of the world economy. Market estimates suggest that the financial services market was worth $33.54 trillion in 2024, growing at a rate of 7.7% from the previous year. And global cross-regional capital flows between North America, Europe and Asia-Pacific totalled US$ 53bn billion in the year up to the middle of 2024.

In today's economy, many barriers and frictions preventing cross-border trade and investment in financial and professional services are regulatory or administrative in nature rather than the consequence of 'classic' trade barriers. Financial fragmentation might be unavoidable at global level in certain areas, but the real economy relies on a well-functioning financial system, therefore there must be a constant strive towards curtailing fragmentation. In the financial sector, the need for interconnectedness and the smooth flow of capital means these regulatory divergences can often represent more of a cost than a benefit to the international economy.

## Role for the OECD

Effective cross-border regulatory dialogue can reduce cross-border frictions, bolster cross-border investment, and support stronger economic growth and job creation. Finance is an engine of economic growth transversal across sectors, it is important to look at challenges and opportunities holistically capturing the financial aspects also gain economies of scale and ensure financial resilience of firms.

## Recommendations for Future OECD Work

1. **Early and open engagement with private sector** is crucial for identifying cross-border and cross-sector (or cross-policy) fragmentation in a timely manner. Involving industry from the outset enables regulators to assess the potential impact of proposals on market stability and multination institutions, leading to more effective and well-calibrated solutions.
2. **Fostering Regulatory Stability and Interoperability** in Evolving Financial Markets: Given the significant growth in financial market regulation over the past 15 years, both in terms of volume and complexity, there is a need for a more coherent international regulatory framework. However, as technology and markets keep evolving, the OECD has a key role to prioritize preserving stability without inappropriately increasing volume and complexity of rules; and always ensure interoperability, as the regulation arbitrage across jurisdictions may pose a systemic risk even bigger than what the new rules aim to address.
3. **Proportionality and effectiveness.** International standards should strike a balance between proportionality and effectiveness. Regulation should be risk-based, ensuring that an institution's regulatory requirements are determined by the materiality of the risks it incurs rather than simply by its size.

# Enhancing Financial Market Resilience and Efficiency: Balancing Stability, Growth and Productivity

## *What Business Needs*

Well-functioning financial markets are essential to fostering long-term economic growth and will play an increasingly important role in the future, as governments and businesses need financing to address challenges and opportunities such as for example infrastructure, innovation and technological advancements.

In recent years, however, capital markets worldwide have undergone profound change. **Non-bank financial intermediaries (NBFIs) have grown to play an increasingly important role in global markets** since the 2008 financial crisis. According to the OECD, their financial assets have grown faster than those of the banking sector as well as the broader economy, increasing from 166% of GDP in 2008 to 207% in 2022 (DAF/CMF(2024)2). The Financial Stability Board (FSB) published in late 2024 its annual "*Global Monitoring Report on Non-Bank Financial Intermediation*"*. The report describes broad trends in financial intermediation in 2023 across 29 jurisdictions that account for around 88% of global GDP, showing that the NBFI grew at more than double the pace of the banking sector in 2023, led by investor inflows and higher asset valuations. The growth of this sector was in part the intended effect of more stringent banking regulation in the aftermath of the 2008 financial crisis which sought to diversify credit intermediation in particular away from the banking sector. Positively, the report that most vulnerability metrics of NBFI entities involved in credit intermediation activities that may pose bank-like financial stability risks remained stable.

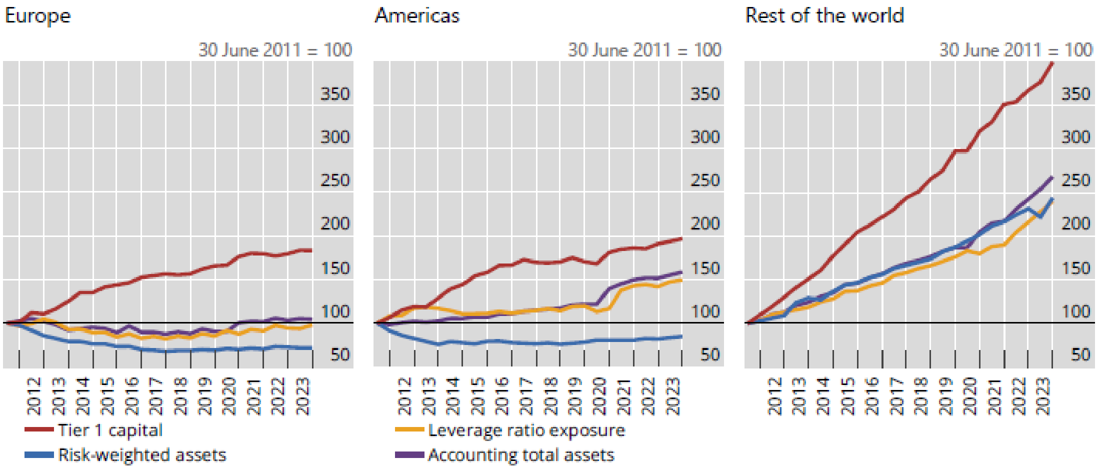
On the other hand, in recent years, regulatory activity and supervisory intensity affecting the banking sector has grown exponentially in some jurisdictions, having a very significant cumulative impact on operational efficiency, costs and in some cases funding capacity. According to the BCBS latest monitoring report*, the total assets of the European banking sector has remained flat in the last decade, not even growing with inflation.

*References:*

- *Basel Committee on Banking Supervision (2024)*

Tier 1 capital, RWA, Basel III leverage ratio exposure and accounting total assets,[1] by region

Group 1 banks, balanced data set, exchange rates as at the current reporting date — Graph 26




[1] See footnote 1 to Graph 25.

Source: Basel Committee on Banking Supervision. See the Excel data file for underlying data and sample size.

This has very real impacts for the **flow of funds** channeled through the real economy.

Specifically, the funding of the multiple transitions to be tackled by firms today will require substantially higher levels of private-sector and concomitant public-sector investment. In many instances, in particular concerning the green transition, the proper design of economic, climate and environmental policies per se is the prerequisite for finance to flow. Capital and banking markets are well positioned to cope with the additional financing needs in equity, debt and venture if green business models become viable on market terms or by explicit policy support. No amount of ESG reporting can fix a prior deficiency yet, in principle, a well-balanced design of non-financial reporting can support the flow of funding into new green business models and discourage ongoing investment in fossil assets. Indeed, as highlighted by the BDI in their recent report "Rethinking Sustainability":* *"the effectiveness of steering capital flows through the financial sector is too low and too cost-intensive with complex and comprehensive stipulations."*

The ongoing uncertainty related to the timing and content of the implementation of Basel III in several major jurisdictions is an important source of concern for the international banking sector, as it creates fragmentation and an unlevelled playing field, potentially destabilising the financial competitive landscape. In order to minimise such unintended consequences, the OECD should encourage jurisdictions to coordinate implementation and calibrate their proposals in line with the G20 initial target set to the Basel Committee of "no significant capital increase".

Such an implementation policy is essential for the banking sector to play effectively its proactive role in financing the sustainable and enduring economic growth.


*References:*

- *The graph at the top of this page and the data underpinning it are accessible here: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiljafQpoeOAxVNVKQEHezeKq4QFnoECBAQAQ&url=https%3A%2F%2Fwww.bis.org%2Fbcbs%2Fpubl%2Fd592_template.xlsx&usg=AOvVaw0C3roeDgwPxfs-EZ0_pxze&opi=89978449*
- *Rethinking Sustainability, BDI (2024)*

The temporary introduction of windfall profit taxes on the banking sector in some OECD countries may also have unintended consequences for financial stability. As a rule of thumb, structural changes addressing the impact throughout the full financing chain down to the smallest players (Micro, Small and Medium Enterprises - MSMEs) are preferable to one-off interventions such as "windfall taxes". As highlighted by both the ECB and IMF, the latter may affect financial stability because "imposing an extraordinary tax on the banking sector could make them less resilient to economic shocks" and/or hamper growth by limiting "credit institutions' ability to provide credit, contributing to less favourable terms for customers when providing loans and other services."

While Business at OECD continues to advocate that regulation of banking activities is needed to foster investor confidence through transparency, fairness and clearly defined rules of engagement, going forward, the overall efficiency and competitiveness of the financial sector must be seen as complementary objectives to the regulatory framework. Such a second mandate is present in some jurisdictions but not in others. Harmonising the goals and the "spirit" in which regulation is elaborated is essential to ensure consistency in outcomes, and ensure interoperability across jurisdictions, and frequently also within the same jurisdictions.

## *Role for the OECD*

The OECD's involvement in financial markets is pivotal in promoting financial stability, facilitating investment, and ensuring transparent, cross-border financial systems. As an entity that is neither a financial regulator nor an international lender, the OECD provides an independent and distinctive perspective, with its contributions to the G20 becoming increasingly significant. With its extensive expertise in whole-economy analysis and its emphasis on economic growth and stability, the OECD is ideally positioned to offer insights into the efficiency of fund flows within the economy and the challenges that impede them. This approach helps to achieve stronger policy coherence and reduces the cumulative burdens on firms.

## *Recommendations for Future OECD Work*

The banking sector plays a crucial role, along with capital markets, in addressing the financial needs of households, businesses, and sovereigns. Therefore, we expect the OECD to play an active role to achieve greater coordination, interoperability and equitability regarding regulatory and reporting requirements between banking and NBFIs.

There are some elements that could improve the current competitive environment for financial markets:

I. **A more holistic approach and ex-ante assessment of regulatory frameworks down to the ultimate users** (not just limited to the financial institutions directly impacted): The regulatory and reporting frameworks adopted in the wake of the 2008 financial crisis have undoubtedly led to higher compliance costs for the financial sector. Going forward, proposals for any new regulations should be accompanied by unbiased impact assessments that bear in mind effects on competitiveness and productivity. In order to minimize unintended consequences, it is essential to assess the impacts on the ultimate users of financial services, with particular attention to SMEs, which are more vulnerable to increases in financial costs and administrative burden. This is particularly relevant in the aftermath of the US regional bank crisis and the Credit-Suisse crisis. As international authorities analyze the lessons learned, any potential regulatory change should be accompanied by ex-ante impact assessments to ensure an effective regulatory framework and minimize unintended consequences, finding the right balance between addressing potential flaws and preserving the well-functioning of financial markets for economic actors. It is critical that any regulatory changes be risk-based, reflecting the degree to which different firms have different risk profiles; informed by rigorous, data-based analysis that demonstrates a clear need for such changes; and preceded by a holistic review of the existing regulatory framework and the strength of the standards already in place. For example, potential reforms of liquidity regulations, if not properly designed, are particularly at risk of creating obstacles to market liquidity. They may also exacerbate vulnerabilities rather than reducing them. International authorities should ensure that any such reforms are informed by holistic consideration of post-crisis liquidity standards and recognize the differences in liquidity profiles among different banks.

The OECD is well equipped to inform the debate within the G20 Finance Track, the FSB and the International Standard Setters about observed misfunctioning and targeted ways to address them without destabilizing the market liquidity:

II. **Emerging risks need to be assessed maximizing international regulatory cross-border coherence and interoperability across regulators and supervisors:** New and emerging risks (e.g. those related to crypto assets) must be regulated considering international regulatory developments to ensure a level playing field. In this context, international convergence both in terms of content and pace as well as stronger coordination among regulators and supervisors should be encouraged. International regulators must strive to reduce overlaps in the regulatory frameworks between jurisdictions, which prove extremely complex for financial actors without additional financial market stability benefits.

III. **Non-Bank Financial Institutions (NBFI):** Additionally, the monitoring of risks with relative required regulations for NBFI is of critical importance, as from this sector significant credit and liquidity risks may arise, with a limit of how much the banking sector may absorb if a crisis strikes the markets. With the growth and evolution of the NBFI sector, international policymakers must ensure that migration of activities and risks outside of the bank regulatory perimeter does not come at the detriment of the strength and stability of the financial system. Policymakers must prioritize activity-based regulation consistent with the principle of "same activity, same risk, same regulation." *

*References:*

- *Basel Committee on Banking Supervision (2024)*

# Advancing Sustainable Finance Practices: Overcoming Barriers and Enhancing Global Coordination

## *What Business Needs*

In the financial sector, both financial institutions and investors are aligning their efforts to finance the transition and mobilise the necessary funds towards a sustainable and enduring economic growth and competitiveness. However, several constraints are preventing the scaling up of private sector finance.

The integration of environmental, social and governance (ESG) considerations in the lending and investment policies, strategies and reporting requirements of corporates, financial institutions and investors has increased to meet mandatory requirements, voluntary commitments and stakeholders' growing expectations. There is growing criticism of the current sustainable finance frameworks, which are often seen as ineffective. **The focus on directing capital flows into sustainable investments to achieve net-zero objectives is overly complex and yields minimal impact.** Instead, emphasis should be placed on climate, environmental, and economic policies that directly address the necessary transformations needed in the real economy.

As both voluntary and mandatory sustainability disclosure requirements have emerged in parallel at the national (e.g., U.K.), regional (e.g., EU, ASEAN) and global levels (e.g., International Sustainability Standards Board – ISSB), the cumulative burdens for companies and their investors have significantly increased as they are expected to adhere to a growing number of requirements. This **proliferation of ESG reporting frameworks and regulatory requirements** which are often not specific enough and excessively complex create further cumulative administrative burdens both for large international companies, but also for small and medium enterprises (SMEs), which often do not have the expertise or resources to adapt to an evolving regulatory landscape.

While SMEs are often exempt from some mandatory requirements, they are de facto subject to them, if they are part of value chains, and in their access to finance through banks and capital markets. The considerable burden of developing reporting and risk management standards also increases the need for additional skilled staff which is not available in today's scarce labour markets and increases costs. Fragmented and sometimes duplicative reporting requirements is counterproductive and leads towards mere compliance with the law, rather than addressing the core green challenges.

Investment appetite among companies and households remains low compared to the levels needed to meet the Paris Agreement goals. High borrowing costs, policy induced price increases, and a slow global economic recovery constrain long-term investments essential for the net-zero transition. This challenge is particularly significant for SMEs and local authorities, who play a key role in transforming infrastructure and business models. Additionally, from the demand side, recent inflation, also affected by politically induced price increases, has eroded household purchasing power, reducing their capacity to finance energy efficiency projects or purchase electric vehicles.

In addition, the massive financing needs in Emerging Markets and Developing Economies (EMDEs) remain largely unaddressed as financial solutions remain subdued and required economic and environmental/climate policies have not been installed yet.

Furthermore, financial institutions continue to face increasing regulatory burden which reduces their capacity to grow their lending appetite, in particular in the context of the implementation of Basel III.

## *Role for the OECD*

The OECD should continue monitoring and reporting on sustainability practices in both the financial sector and across all sectors of the economy, paying particular attention to data quality, consistency, availability, and coordinated credible transition plans. Recognising that a successful green economy transition should originate from the real economy, the OECD should advocate for pragmatic and coherent economic, environmental, and climate policies, with the financial industry playing a supportive role.

The OECD should encourage international regulatory cooperation as well as **clear, harmonised and interoperable policy frameworks across sectors and jurisdictions.** In this context, the OECD should focus on facilitating greater coordination amongst countries and international organisations in encouraging interoperability of policies, both at the setting and implementation stages, supporting and monitoring the endorsement by jurisdictions of international standards such as ISSB disclosure standards, the Network for Greening the Financial System (NGFS) risk management framework, and develop mapping tools between jurisdictional standards, etc.

## *Recommendations for Future OECD Work*

**I. Strengthen the global comparability and interoperability of ESG-related metrics used in reporting frameworks and regulations and significantly reduce and simplify sustainable finance frameworks to focus on the real economy and climate, environmental and economic policy measures.**

a. Enhancing the comparability of ESG-related metrics disclosed by companies in different jurisdictions would enhance the efficiency of the global capital market and enable investors to make more responsible and informed decisions. Companies currently use several different accounting standards and frameworks (e.g. the Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standards Board (SASB), or the Task Force on Climate-Related Financial Disclosures (TCFD), the ISSB, and in the EU, the CSRD).

b. Regulatory instruments need to support rather than obstruct companies, ensuring cumulative costs to firms are low. The current frameworks for sustainability in finance need slimming down the reporting frameworks and ESG taxonomies, Increasing their coherence and interoperability. The OECD should continue analysing financial institution disclosures and monitor progress toward convergence and interoperability, while identifying gaps to be addressed by international standard setters such as ISSB or at jurisdictional level.

**II. Support a harmonised and proportionate market approach for ESG-related regulatory and reporting frameworks, streamlining administrative processes by increasing cross-border interoperability with particular attention to cumulative burdens on SMEs and across GVCs.**

a. The achievement of broader sustainability goals requires a simplification of the regulatory landscape, putting interoperability and proportionality at its core, rather than allowing a proliferation of fragmented rules. The G20 should influence for a simple and clear regulatory environment that fosters investment and competitiveness. Rules and standards must be assessed against the cumulative impact on final users as a core parameter: an approach that is crucial to promote investments in transformation of SMEs.

b. The lack of comparability of ESG-related metrics increases the cumulative burden for SMEs that have to respond to multiple data requirements or meet different criteria to access financing or value chains across different institutions and jurisdictions.

c. Improving regulatory stability helps reduce uncertainty and incentivises firms investments in greening. Consideration should also be given to providing additional support for the work of the OECD Platform on Financing SMEs for Sustainability.

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d. Market standards should be developed for data requests from banks and insurance companies, which must be fulfilled by companies in the real economy, in order to avoid complexities and bureaucratic cumulative burden.

e. The OECD should ensure that compliance and reporting requirements are proportionate to the size and capabilities of businesses, i.e. a SME cannot be expected to meet the same requirements of a large conglomerate, and encourage international standard setters and jurisdictions to elaborate a more proportionate set of requirements for SMEs, in close liaison with the OECD Working Party on SMEs and Entrepreneurs.

**III. Encourage coherence and convergence in transition plans frameworks, whilst acknowledging that transition plans should serve as an orientation rather than be binding and too detailed**.

a. The regulatory requirements regarding transition plans need to be harmonised and coordinated urgently. There are already too many, often incoherent, binding requirements and further "proliferation" is proving counterproductive: for example in EU alone, there are already several binding directives and regulations forcing companies to incoherently deliver their "transitions plans". In this process, regulators of the financial sector and policymakers of the real economy need to coordinate better. Specifications for the transition plans cannot require companies to reveal competitively sensitive information. Furthermore, transition plans should only be updated in case of significant change to the parameters or in a strategic cycle of three to five years.

b. The OECD should encourage the harmonisation of transition plans frameworks, which are starting to emerge in various fora (ISSB, IOSCO, NGFS, GFANZ, UK TPT, EU CSRD/CSDDD, EBA, Japan MITI, etc.). Given some companies are financed in global markets, and participate in Global Value Chains, it is essential to avoid fragmentation in the definitions of a transition plan. To ensure efficient transformation of production and distribution activities and maintain trust in financial markets, it is crucial to avoid fragmented transition plan definitions for globally financed companies in Global Value Chains. The OECD should map current initiatives and advise standard setters on convergence before finalising transition plans in reporting or risk management. This convergence should allow sector-specific pathways consistent with NDCs and require common governance frameworks for accountability.

c. The OECD should continue to monitor the issuance trends of green and sustainable instruments (bonds, loans), including their structuring features, potential greenium, regulatory frameworks, performance, impact, in order to encourage emergence of best practices and foster trust and investor appetite.

IV. **Foster harmonisation on methods, governance and processes for how ESG rating agencies and ESG data providers assess the sustainability scores/profiles of companies.**

a. The lack of transparency on how ESG rating agencies evaluate the sustainability scores/profiles of companies creates uncertainty for financial markets and undermine trust in sustainable instruments.

b. As with credit ratings, agencies need to adopt comparable rating scales, and follow rigorous and transparent methodologies. The OECD should encourage IOSCO and jurisdictions to develop guidance for the supervision and methodologies of ESG rating agencies. This work may leverage the EU recent regulation on ESG rating activities, that will ensure that investors and other stakeholders have access to reliable and comparable information about the ESG ratings objectives (what they assess) and methodologies (how they assess). Given the importance of ESG ratings in investment decisions, this in turn will contribute to enhancing the culture of transparency about the impact of companies on people and the environment. Developing a common language will reduce the perception of greenwashing and promote trust in sustainable investments. The new rules will also strengthen the governance of ESG rating providers as well as their independence.

c. Given that ESG ratings and internal ESG risk assessments are largely based on ESG data providers, similar transparency requirements should be set to ESG data providers. International initiatives to create open data hubs, such as the Net Zero Data Public Utility should be encouraged and accelerated to make ESG data more reliable and accessible, thereby reducing the use of proxies and making ESG assessments more comparable and credible.

V. **Support the development of financial platforms leveraging on Global Value Chains (GVCs) to improve the financial productivity of firms, both in terms of working capital and investments, and the ability for investments funds to seamlessly flow through the GVCs and therefore the economy.**

a. As highlighted by the G20 2024 Leaders' Declaration*, the G20 wants to "*accelerate the reform of the international financial architecture […] supporting the voluntary building-up of country platforms as one of the possible instruments to boost sustainable finance in emerging markets and developing economies […] as efficient instruments to mobilise both public and private capital to finance projects and programs*".  Examples in this directions are early payment platforms or trade finance efficiency initiatives.

*References:*

- *G20 Rio de Janeiro Leaders' Declaration [paragraph 46].*

# Promoting Responsible Digital Finance & Innovation

## *What Business Needs*

The digitalisation of the financial sector is a much-quoted headline often mentioned in connection with opportunities and new risks. The work on leaner and more transparent processes of market participants and infrastructures, an increase in market efficiency, improved interoperability and market growth, an improved customer experience, more innovative products and a more accurate and easier way to manage risks and comply with regulatory requirements/reporting contrasts with new risk drivers characterised by concerns around data, competition, financial stability, governance and sustainability. The main technologies being used are distributed ledger technology and artificial intelligence, yet cloud services and application programming interface do also play an important role. Under the term "digital finance" different technologies are captured. It is important when looking at the digital offering to be precise starting from the terminology.

It is not the purpose of this document to outline all digital products and technologies currently being discussed across the OECD or international fora, but rather to outline the *Business at OECD* Finance Committee priorities in terms of both (1) approaches in how to tackle the risks raising from innovation preserving its benefits, and (2) focal points of interest in the current financial spectrum.

**(1) How – approaching and monitoring digital changes**

For companies either in the financial sector or in the real economy it is important that political decision-makers and supervisory authorities find an equilibrated balance between providing sufficient room to benefit from the development of innovative solutions to digitalise their products and core business processes and to strengthen digital capital markets and ensuring the adequate management of known and new types of risks. To achieve this, it is necessary to assess topics with an overarching view of impacts, positive or potential risks, across the financial sector and the real economy.

To foster innovation and interoperability, governments can enhance the regulatory environment by adapting existing rules to innovative technologies to ensure that they are fair, predictable, consistent, easy to enforce and administratively efficient throughout the process. Compliance can be achieved by creating a more harmonised and interoperable ecosystem, less costly and less complex, thus improving transparency and traceability

**(2) What - few areas of current focus**

**Digital payments.** In the development of new means of payment, many central banks can now also be found as some private sector initiatives working on products such as central bank money tokens (retail and wholesale), tokenised deposits, e-money and stable coins.

**Payment platforms –** Differently from payment products, payment platforms focus on facilitating the efficiency, speed and interoperability of payment processes, using standard currencies and payment products. Importantly, the G20 Brazil final declaration extended their support to the progress of such platforms.

**Digital currencies vs cryptocurrencies –** The two are obviously totally different, and are to be treated differently. As a general rule, a currency is such only if recognised by a central bank, better if of a G20 country.

**Tokenisation of asset** classes are smart digital objects considered as one of the main components of digitised financial markets. However, the variety of such products is very diverse with different transaction in markets. Due to such a large number of developments in assets and targeted transactions, it is necessary to follow these developments closely and in close international coordination and to promote the necessary exchange between the public and private sectors on a regular basis, addressing in detail which assets and for what purposes are being tokenised, else the risk is to experience overleverage and the incorrect appreciation of the underlying risks carried by the assets.

**Generative Artificial Intelligence (GenAI)** represents another important area of digital finance. Although the use and development of artificial intelligence in financial companies is steadily increasing, the technology itself is still in its infancy. The most common areas of application to date include customer relations, process automation, fraud detection and prevention, risk management analysis and portfolio management significantly contributing to increased productivity in both firms and processes. From a business perspective, conditions should be created that enable the further development of possible applications, while ensuring that transparency is maintained. Given the speed of development progresses, excessively granular regulation would miss the point, creating arbitrage opportunities rather than containing systemic risks. In addition to the challenges, however, there are also many opportunities, and these should be at the forefront when monitoring the topic. It is therefore critical that a close exchange of the business community with legislators and supervisory authorities is expedient, as the new technology also brings with it a number of new challenges.

**Digital identities** are another important component of the digital way of doing business. It guarantees credibility, traceability and acceptance and is therefore indispensable. Digital identities must be available for private individuals as well as legal and public entities. It needs to enhance interoperability and faster tracking in digital finance applications and payments, ensuring unique identification and rigorous verification of parties involved. Internationally compatible solutions should be developed or used for the technical provision of digital identities. The Legal Entity Identifier (LEI) initiative driven by the Financial Stability Board (FSB) could be an instrument worth supporting here. The LEI is a worldwide unique identifier intended for identifying parties in any financial transaction by equipping legal entities with a global digital identity.

**Data** is the key asset of a digital economy, and its sharing is required in various activities, it underpins all digital financial innovation. All proposals should include an assessment of how data is being treated, owned and used. The accuracy and completeness of the data used are essential for the performance of the digital products built, and any issues with data quality could lead to unreliable results.

**Data Verification –** Digital technologies related to data management and utilisation (cloud, blockchain and AI, etc.) are at the heart of digital finance. It is often thought that to access funds, data needs to be shared across parties and jurisdictions. To the contrary, most often what is needed is a confirmation or better verification that the information provided by the counterpart is correct. Therefore, the effective enabler is in promoting data verification as a worldwide standard. **Verifiable credential** (of which the above-mentioned digital identity is an example) is cryptographically shared between peers at the edges of the GVC network to ensure the underlying data is protected and not itself shared.

The digitalisation not only of the financial sector, but also of other economic sectors and public administration is significantly increasing the importance of software solutions and cloud services. The clear and numerous advantages are accompanied by new dependencies, which can be particularly high in markets with oligopolistic structures. It is important to recognise that this can also give rise to new problems within the financial industry, such as dealing with software providers in the context of outsourcing regulations and the adequate consideration in recovery and resolution frameworks.

The *Business at OECD* Finance Committee view is that new digital solutions are important enablers of finance. However, it is critical to remain vigilant against the increased or new risks posed to the financial system, equally to avoid the risk of excessive regulation or administrative burdens to both financial providers and users, which inevitably would curtail the benefits. Paramount to this is to ensure interoperability across both sectors and jurisdictions.

## *Role of the OECD*

New digital solutions are key enablers for finance, both in offering new products and in improving access to finance. However, it is critical to remain vigilant against on one hand the emerging risks posed to the financial system, and equally to other hand avoid the risk of excessive regulation or administrative burdens to either financial providers and users, which inevitably would curtail the benefits. Paramount is to ensure interoperability across both sectors and jurisdictions. The OECD should continue its current role in digital finance. Closely monitoring the development of the various sub-areas from both a risk and an opportunity perspective provides a valuable basis for the work of the governments and supervisory authorities of the OECD member countries and their business community. Important is to assess the wider impacts across both financial services and access to finance, rather than solely the merits of the digital products in their own right.

## *Recommendations for Future OECD Work*

I. **Continue proactively monitoring digital finance processes, closely engaging the private sector in order to ensure a holistic view across products and their impacts**. In all assessments ensure a thorough review of the use, traceability, and ownership of data.

II. **Monitoring the various developments of digital currencies and other digital means of payment.** The various means of payment currently being developed must ultimately be combinable in terms of well-functioning cross-border payment and goods flows. Furthermore, use cases in the real economy should be included to a greater extent in the monitoring.

III. **Support the work on data verification, paying particular attention to the development of internationally harmonised standards and for the provision of globally recognised digital identities,** as for example the LEI. It is important to ensure interoperability and harmonisation of rules so that access to finance of firms can be less costly and administratively burdensome.

IV. **Seeing the digitalisation of the financial industry primarily as an opportunity**. It is important to deal with the emergence of new types of risk and to monitor them closely. However, the approach to assessment should focus on the many possibilities and how these can be supported and developed, avoiding the "trap" of overregulation, bringing the risk of regulatory arbitrage.

V. **Include software markets in the monitoring of digitalisation activities in the financial sector.** Software providers are playing an increasingly important role and dependencies are emerging, creating new challenges. When observing new types of risk, the focus should also be extended to the providers of software solutions and cloud providers.

# Advancing Financial Inclusion & Education

## *What Business Needs*

**Financial inclusion is key to reduce poverty and boost prosperity.** Promoting access to financial services and products is a first step to encourage social inclusion and plays a relevant role in reducing inequality. In fact, the World Bank has identified financial inclusion as an enabler for 7 of the 17 UN SDGs . Greater access to finance increases savings, reduces income inequality and poverty, increases employment, improves mental well-being, favours education and enhances new firm creation.

Recent literature has concluded that financial inclusion has a positive impact not only at the micro-level but also at the macro- level for the economy, specifically on financial stability. There are several potential channels through which financial inclusion may influence soundness of banks or risk-taking. By reaching out to more customers, banks may garner cheaper and more stable retail deposits whilst reducing reliance on volatile wholesale funding. By increasing proximity with customers, they can also help reduce informational asymmetry, and by adopting more innovative, affordable and low-cost financial delivery models, they also reduce marginal costs of production.

The last edition of the Global Findex Database released by the World Bank in 2021 showed that 71 percent of adults in developing economies now have a formal financial account, compared to 42 percent a decade ago when the first edition of the database was published. However, there are still 1.4 billion people (24% of the total population) without access to a bank account.

The significant increase of banked people in the last decade is due to the technological revolution and the digital access to financial services through innovative channels. The increasing affordability and accessibility of advanced mobile technologies have led to the development and implementation of innovative mobile based financial services. The widespread use of mobile devices has played a crucial role in accelerating global mobile inclusion, contributing to the expansion of digital financial services in both developed and developing countries. Leveraging digital technology, especially the internet, has proven to be an effective method of reaching a wide customer base across vast geographical regions.

Finally, as greater financial inclusion is associated with stronger legal rights and politically stable environments, in an inclusive financial sector, stronger institutional quality may facilitate efficient financial intermediation, and hence greater stability.

In recent years, regulators, supervisors and private financial actors have multiplied efforts to increase financial inclusion. One relevant milestone was the creation of the Global Partnership for Financial Inclusion (GPFI) in 2010 at the Seoul G20 Summit by G20 Leaders. Since then, more than 50 countries have launched and started to deploy a national financial inclusion strategy.

## *Role of the OECD*

The OECD has also focused on financial inclusion and education since the beginning of this century. Business at OECD supports the OECD's work in this area and welcomes the role of the OECD to advance financial education and inclusion:

- **Coordinating measurements of financial literacy and education:** The OECD together with the International Network on Financial Education (INFE) has been a pioneer in coordinating measurements of financial literacy levels among adult populations in OECD countries and economies. These reports provide information about financial literacy levels and cover aspects of financial knowledge, financial behaviour and financial attitudes, and help to identify best practices at national level that could be exported to other countries.

- **Accounting for new digital means for financial inclusion**: As digital financial services are increasingly used to reach currently financially excluded and underserved populations, the concept of financial inclusion must evolve to account for those populations that have access to affordable financial services and products through digital means. The OECD could provide the principles for a new definition of financial inclusion that includes the process of ensuring those populations have access to financial services online.

- **Providing support for financial literacy and education in a digital age:** As the use of digital financial services increases, continuing efforts must be made to consider the external risks of digitalisation and identify key actions to prevent widening the gap due to a lack of financial and digital knowledge.

## *Recommendations for Future OECD Work*

*Business at OECD* identifies several remaining challenges which should continue to be addressed to support greater financial inclusion. These include:

**I.** **Women and low-income individuals still face disproportionate challenges when accessing financial services,** although this gap is gradually decreasing. The gap in access to finance between men and women in developing economies has fallen from 9% to 6%. This transformation is significant for social development, as having a banking account makes it easier, safer, and cheaper to receive wage payments, send remittances, and pay for goods and services. Individual accounts also give women more control over their household finances. Targeted financial education programs could help uplift the most vulnerable populations.

II. Digitalisation has offered increased access to financial services, specially through mobile accounts in developing countries. **However, digitalisation also carries risks that should be carefully analysed and considered to prevent negative consequences:**

   a. First, the requirement to have digital skills to access financial services may exclude certain segments of the population, such as the elderly. In the context of the COVID-19 pandemic, which accelerated the digitalisation of financial services, some initiatives had to be reconsidered due to the claims of certain social groups that were lagging behind due to their lack of digital capabilities.

   b. Secondly, cyberfraud poses a significant challenge to financial inclusion. The increase in cyberfraud can have detrimental effects on financial systems and the trust people place in them. This mistrust may prevent certain population, specially the most vulnerable, to access financial services.

**III. Financial inclusion goes beyond just having access to or using financial services.** It also refers to provide financial health to empower individuals and businesses to participate more actively in the formal financial system so they can benefit the full potential of the different methods of payments, access to credits and managing their risks. This also contributes to increase the financial knowledge of the population: financial education should be seen as part of the financial inclusion once the population is banked. Thus, financial inclusion programs should also aim to strengthen digital and financial education.

**IV. Ensure adequate policies backed by public budget for equitable access to education** (in topics such as tech literacy, analytical thinking, adaptability, financial literacy, STEM, and D&I) targeting low-income students, students with disabilities, and other underrepresented groups from early ages up to upskilling and reskilling. Innovation on the financial services is also linked to digital assets. Decentralised financial market have often been considered as a tool to promote financial inclusion. However, research has evidenced that decentralised markets expose retail participants to high risks and losses and are usually driven by professionals with a speculative nature. In this sense, these practices do not benefit financial inclusion. On the contrary, the growth of digital assets will require a higher level of financial education in society.

# Securing Access to Liquidity Support

## *What Business Needs*

In the modern banking system, financial intermediation implies dealing with different types of risks, including so-called "structural risks", which are interest rate risks and liquidity risks. **Structural risks have their roots in the maturity mismatch that exists between assets and liabilities in banks' balance sheets.**

In a fractional reserve banking system, access to liquidity is crucial both in a normal situation and in the case of crisis. In the past few years, due to the global financial crisis of 2008, the evolution of the banking sector and financial regulation has ignited a debate about the adequacy of current tools – for example, the excessive reliance on mechanistic approaches and overly "capital" and "liquidity" centric. The main drivers behind it are (i) the challenges raised by the new digital era; (ii) the new "bail-in" paradigm and (iii) the unintended consequences of the regulation which followed the global financial crisis of 2008.

The digitalisation of financial services is changing patterns, dynamics and interconnections among different players in the financial markets. As such, the traditional capital and liquidity regulatory tools applied to the banking sector are becoming rather limited to be able to deal with this new reality. Against this background, the answer cannot simply be more capital and liquidity. New tools and approaches, firmly based on a continuous dialogue between entities and regulators are needed. Specifically on liquidity, stress testing and credible firewalls from central banks against unexpected shocks, leading to wide contagion among agents, are increasingly necessary policy tools that should be leveraged upon.

An important driver of change in the liquidity arena is the new "bail-in" paradigm that arose from the global financial crisis. It means that banks are expected to be able to address a crisis situation without public resources or government aid: shareholders, bondholders and even some depositors are expected to cover any losses, according to a pre-specified creditor hierarchy. However, **a bail-in process is complex and takes time to be implemented, and the deterioration of a bank's health can evolve quickly, impacting its liquidity position**. There is a real risk, therefore, that a banking crisis scenario fails before the "bail-in" process is completed.

This new paradigm has fundamentally changed the way a liquidity crisis needs to be managed, and the lessons taken from recent bank failures in the US (Silicon Valley Bank, Signature Bank, First Republic Bank, etc.) point to new tools that are needed in order to address them. In this sense, it is known that the main jurisdictions such as the US and Switzerland have central banks which can work as a lender of last resort. The European Union is the only jurisdiction in which the Central Bank (ECB) doesn´t play this role.

On the other hand, access to liquidity for healthy banks has also been reduced since the global financial crisis, because of the stigma of securitizations, and its usage greatly reduced in Europe due to excessively stringent regulation. Since then, banks have had to rely more on central banks to manage their liquidity on a day-to-day basis. Additionally, the Liquidity Coverage Ratio (LCR) rules have significantly curtailed the interbank market, particularly during stress scenarios.

Finally, it should be acknowledged that with the significant increase in non-banking finance provisioning, the next widespread liquidity crisis may come from outside the banking sector, although banks will need to be in the position to act fast to stem the crisis, which implies to ensure that their market making activities are not impaired by excessive constraints on market risk.

Ensuring appropriate and harmonized regulation of liquidity and leverage risks in the NBFI sector, where there may still be some vulnerabilities in such frameworks, is essential to reduce the frequency and severity of the episodes of vulnerability recently observed.

## *Role of the OECD*

Having a sound financial system is key to the well-functioning of the global economy. In this sense, the OECD should advocate for the implementation of modern liquidity tools for the financial system, to ensure that financial institutions have access to different sources of funding serving different needs. The underlying objective is to help financial institutions adequately manage their balance sheet, reducing the risk of liquidity crisis and ensuring a stable provision of credit to the real economy.

## *Recommendations for Future OECD Work*

To adapt the current set of liquidity tools at the disposal of banks, we endorse the necessity of complementing existing tools, which provide liquidity against the provision of adequate eligible collateral (such as the interbank market and central bank liquidity instruments), with two additional ones:

- **A revitalized securitization market**, aimed to provide medium- and long-term liquidity by the mobilization of unencumbered assets. This is particularly critical in the EU, where the market is fragmented at national level and has an insufficient scale. Proposed measures may be split in two levels:
    - In the short term, we see merit in applying targeted initiatives, in jurisdictions where the 2013 BCBS standard has been implemented, in order to simplify the current framework, make it more risk-sensitive and foster growth: and
    - In the long term, we support the necessity to promote a review of the BCBS securitization framework (which was put in place in the aftermath of the global financial crisis) in order to better adapt it to the actual risks in the new market reality.

- **A "liquidity in resolution tool",** managed by the central bank and including a streamlined set of rules which will allow a swift and timely provision of liquidity to failing entities during the resolution process. In order to reduce global vulnerabilities, there would be merit to encourage all jurisdictions to implement globally consistent and agile frameworks. The existing swap facilities among central banks has proven to limit extreme dry-ups in liquidity in various instances and should be maintained. In the Euro area, the current mechanism of providing liquidity against collateral is generally adequate, but burdensome and lacking the necessary agility in a crisis situation, where it may not be fast enough to ensure an orderly resolution procedure.

# Optimising Access to Finance to foster competitiveness

## *What Business Needs*

The **cost of capital plays a crucial role in fostering a company's competitiveness**. A lower cost of capital provides a significant competitive advantage by enabling stronger access to finance and therefore more investment, better pricing strategies, financial stability, operational efficiency, and the ability to attract top talent.

Firms, and SMEs in particular, require access to suitable finance at every stage of their life cycle - from creation and early development to expansion and ongoing evolution of their business model. Fluctuations and shocks in credit markets affect cost of capital and so access to bank finance, on which they my often be overly reliant. Furthermore, long-standing challenges persist, including information asymmetries, high transaction costs and insufficient financial skills and knowledge among small business owners. Additionally, alternative financing instruments beyond traditional debt often remain underdeveloped. MSMEs, innovative ventures and start-ups run by underrepresented groups tend to face difficulties in getting access to the needed finance, at the stage of their cycle

Recognising these challenges, the OECD has long served as an international reference on SME and entrepreneurs financing, monitoring trends in access to finance and assessing the effectiveness of government support policies. A key part of its work is to highlight underdeveloped alternative financing instruments aiming, to address SMEs' diverse funding needs, strengthen their resilience and enhance their contributions to a sustainable and inclusive economy.

Access to finance and relative costs are further shaped by broader economic trends. OECD analyses of the slowdown in global trade have shown that the international fragmentation of production processes has reached its limit. As a result, SMEs often face greater difficulty in securing credit with smaller loans frequently carrying proportionally higher costs, making financing more expensive and less accessible.

More broadly, the challenges firms face "accessing finance" cannot simply be attributed to the availability of financial products. Understanding these nuances is essential for designing effective policies and support mechanisms tailored to SMEs' specific needs. In many cases, access to finance is a complex issue influenced by a combination of financial and/or non-financial aspects which vary widely across countries:

- The financial obstacles are those affecting businesses accessing financial products, both debt and equity. This poses a challenge also to GVCs as they rely on effective available schemes to support innovative growth through technology, knowledge, and skills' transfer.

- The non-financial obstacles are those relating to governance and transparency, which require greater global coherence and coordination. The growing reporting obligations for companies, and the resulting costs (finance, time, and human resources), hinder the ability of companies to fully benefit and integrate into GVCs, thus limiting their ability to contribute to sustainable economic growth.

## *Role of the OECD*

It is key to assess and analyse the different causes of obstacles to "access to finance", as challenges may not actually relate to financial products in the first place.
OECD work on trade shapes international policymaking by raising awareness about barriers to fair international competition – be it through research on resilient supply chains, the flow of services, or digital trade. By advancing frameworks that support working capital, financing investments, streamline regulations, and reward creativity, the OECD can support competitiveness and empower entrepreneurs and the next generation of innovators.

## *Recommendations for Future OECD Work*

The OECD should promote an interoperable framework that ensures that regulatory and administrative requirements align seamlessly across sectors and jurisdictions. This will support companies to operate more effectively, by reducing having to operate cumulative conflicting or duplicative requirements. Greater harmonisation of regulations, standards and policies is therefore essential.

As outlined in the Business at OECD contribution to the G20 Saudi Arabia Presidency, securing financing through GVCs with secure and timely payments, enabled by more harmonised policies, would optimise capital flows on the buy-side, while generating additional operating cash flow on the supplier-side [Business-at-OECD, 2020].

To ensure coherent policies and minimise regulatory burdens on firms, it is key to address causes differentiating across three key areas :

I. **From a funding perspective,** the OECD should step up its efforts to help create a more supportive financial environment, essentially supporting efforts in tightening cost of capital as well as addressing the working capital needs of firms. This should, on the one hand, include encouraging credit guarantee schemes (including their regulatory capita treatment for example for multilateral and domestic development banks), scaling up microfinance institutions, and promoting credit information systems about affordable loans to SMEs; as well as by providing mechanisms that remove barriers and cumulative burdens which prevent businesses from accessing timely payments. Regulatory coherence is also necessary to ensure a level playing field both across and within jurisdictions. Policy inconsistency is often overlooked but creates unnecessary costs, including at the local level. There is a need to deploy policies to bolster the working capital of firms across their GVCs. Such policies would, in turn, enable domestic commercial activity by cascading working capital to local businesses, that are critical especially for middle-income economies facing proportionally higher financing gaps

II. **From a non-financial perspective,** to help ensure smooth access to funds and ensure that the process is equitable along the supply chain, the concept of a 'GVC Passport', proposed by the B20 and *Business at OECD* under the Saudi Arabia Presidency would allow companies to be recognised as a legitimate business partner, compliant with the credit and financial regulations relevant to the GVC in which it operates [*B20-Business at OECD*, 2020]. This would minimise the bureaucratic burden and often duplicated processes, strengthening compliance and increasing traceability in GVCs. In addition, it would also benefit companies' cash flows, reducing the need for leverage and thus supporting broader long-term economic activity in the post-pandemic environment.

III. **From an infrastructure perspective**, the digital transition is both pervasive and fundamental; improvements in productivity could benefit billions of people by spurring inclusive growth, structurally addressing the international fragmentation of production, and creating millions of jobs. However, the deployment of the infrastructure needed to access the opportunities that digitisation brings to international trade is key. Digitisation, 3D printing, blockchain, robotics, artificial intelligence, and big data among others, can improve the operational efficiency of trade through optimisation of repetitive tasks, predictive demand analysis, optimisation of shipping routes, efficient market management, etc. Considering that data is also a key asset in today's economy, data fragmentation can lead to delays in the payment transaction processes [FSB, 2019a ]. Therefore, consistent and standardised data and relevant technologies play a crucial role in creating reliable sources of standardised payment information across GVCs. Within the EU instant payment framework, as well as in others, data offers a perfect opportunity to improve operational efficiency, when applied to payments, by enabling a safer, cheaper, and smoother flow of funds between digitally interconnected partners. This would ensure that payments are made on time, i.e. arrive when businesses need the cash flows, thus improving their working capital.

IV. **From a level playing field perspective**, the global economic order is shifting, with growing protectionism and state intervention undermining the level playing field. This trend bypasses OECD principles of fair competition and exacerbates market fragmentation. The introduction of ad-hoc taxes and windfall levies targeting specific sectors, such as banking, distorts competition and bypasses the OECD's efforts to establish a consistent and equitable global regulatory framework.

The spillover effects of regulatory asymmetries and taxation extend beyond the microeconomic and industry-specific levels, permeating the broader real economy.
In addition to increasing financing costs and restricting credit access, long-term consequences include heightened regulatory uncertainty and reduced investor confidence, ultimately stifling economic growth and innovation.

Furthermore, declining competitiveness in the banking sector could trigger waterbed effects, shifting financial activity to less-regulated non-bank financial institutions (NBFIs). Given their less stringent regulatory and supervisory frameworks, this shift could amplify systemic risks and undermine overall financial stability.

The OECD should reinforce a level playing field, discourage unilateral protectionist measures, and promote international coordination to prevent policies that undermine fair competition.

Maximising operational and **financial efficiency** and exchanges through institutional support would lead to considerable productivity gains for SMEs (for both creditors and debtors, in terms of financing costs and liquidity, respectively), which will, in turn, be able to invest in human capital, benefiting billions of people by spurring inclusive growth, structurally addressing the international fragmentation of production, and creating millions of jobs.

Finally, efforts must be made to **foster mechanisms** to improve the financial productivity of businesses, enhance their access to finance and working capital management. This includes:

I. Support for financial technology companies and regulatory bodies to foster user-friendly digital **early payment platforms facilitating immediate access to working capital** for SMEs and helping to achieve interoperability to allow seamless access to funding.
II. Establish partnerships with traditional and non-traditional financial institutions to **expand the range and accessibility of financial strategies available** such as microloans, lines of credit, and financing options focused on sustainability.

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