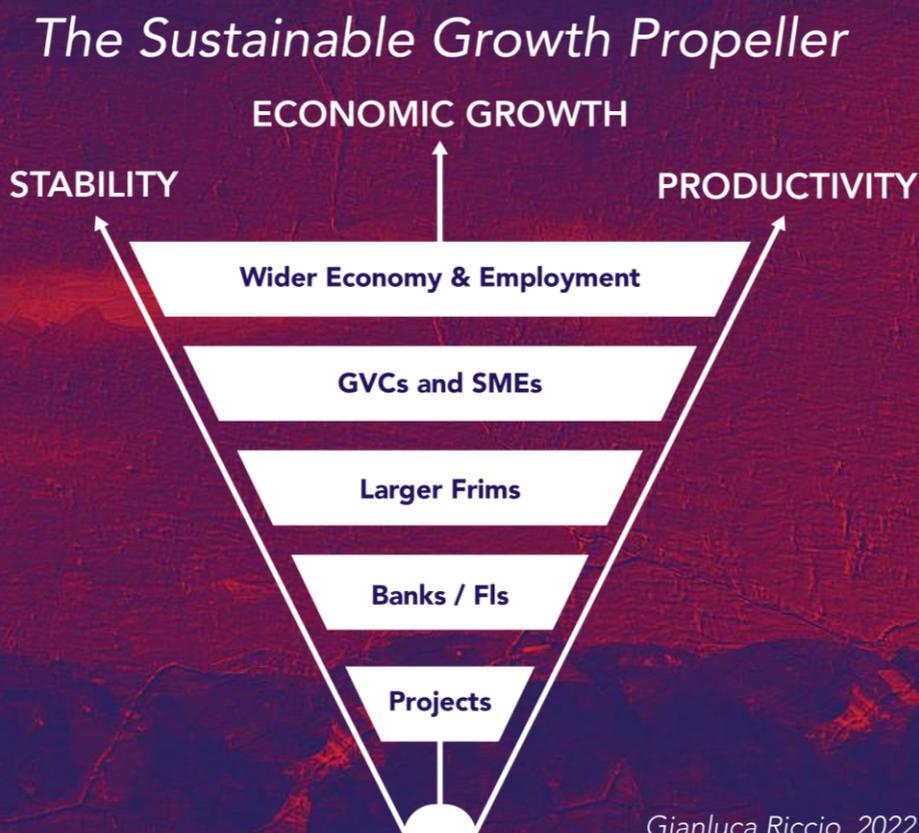




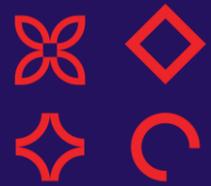
TO DELIVER THE SUSTAINABILITY AGENDA, BARRIERS TO LIQUIDITY AND PRODUCTIVITY MUST BE ADRESSED

Contribution to the 2022 G20 process: introducing the « Sustainable Growth Propeller », a pragmatic conceptual framework to support firms towards the Sustainability agenda



Gianluca Riccio, 2022

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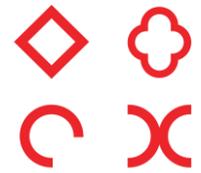
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FOREWORD



In 2021 the G20 and COP26 made collective commitments towards and outlined requirements relating to **Sustainability investments**. The operationalization of these commitments represents an opportunity to also address long-standing issues that have curtailed productivity and growth. They can be deployed in practice to accelerate key enablers like the **systemic ability to net payments that will bolster working capital of firms at all stages of Global Value Chains (GVCs)**. This will be particularly helpful for facilitating sustainability-led investments. Other enablers like a globally coherent use of digital platforms and data standards are required to facilitate payments that efficiently meet all relevant ESG requirements. Efficiency will result from avoiding unnecessary administrative and compliance costs. Such use will enable financing to be accessible to both Micro, Small and Medium-Sized Enterprises (MSMEs) as well as larger corporates on a long-term enduring basis, while also ensuring transparency and payment “traceability.”

To deliver on the ambitions set by the G20 Sustainability agenda, policymakers need to strive for both comprehensive and complementary policies that target inclusive economic growth, productivity and stability as core objectives. “**Joining the dots**” across policy objectives has been at the core of the joint work between the **B20** and **Business at OECD** (BIAC) since 2015, more recently joined also by the **International Organisation of Employers** (IOE), culminating in a series of B20-BIAC-OECD annual events on Finance and Sustainable Growth and related publications led by Gianluca Riccio, Vice Chair of the *Business at OECD* Finance Committee. Each year, the conclusions have helped pave the way for action by G20 leaders. Contributions to these publications came from diverse business and employers’ federations, business associations, large corporates and financial institutions.

As part of the *G20 Indonesia*, **this paper proposes a dynamic conceptual framework of concrete actions in support of Sustainability**; advancing the work of previous Presidencies. This framework, named “**Sustainable Growth Propeller**”, **envisions** a balanced approach aimed at raising efficiencies by reducing bureaucracy while increasing transparency and traceability, as well as facilitating firms’ access to wider markets. The vision is **aimed at all firms, but may particularly benefit MSMEs**, who face proportionately higher cumulative regulatory and administrative burden relative to their resources. As MSMEs are the largest job creators and backbone of our economies, they have en a key role in the green transition without which the Sustainability agenda cannot be delivered.

We encourage G20 Leaders to support the “Sustainable Growth Propeller” concept, as a powerful enabler of sustainable and inclusive economic growth globally. In order to deliver the Sustainability agenda, fast-track growth, job creation and inclusion **requires** both an **active industry participation** in the process, and G20 leaders to lend their support to breakthrough **efficiency proposals**, like the **concrete recommendations set out in this paper**.



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EXECUTIVE SUMMARY



Context

The G20 in Rome and the COP26 in Glasgow in 2021, and more recently the German G7 in 2022, have made clear that urgent global action needs to be taken towards **Sustainability** and that extensive funding is required to make further progress in this area. As suggested by the B20 Italy, *Sustainable investments are an overarching scope of action to properly tackle global emergencies* [B20, 2021]. **Resources alone, however, will not be sufficient if firms face difficulties in accessing such funds** due to high regulatory and transaction costs, long-dated inherent risks and fragmented ecosystems, **challenges are most palpable for MSMEs**, who appear to **have been left behind in the agenda**, despite being the largest employer globally. Therefore, the use of digital tools and global data standards, such as the Legal Entity Identifier (LEI), can prove to be essential to reduce costs and fragmented approaches across borders for the business community and help set the stage for better risk management information in the future.

The extraordinary impact of the COVID-19 pandemic has served as an unprecedented wake-up call highlighting the fragility of our systems. At the same time, **the pandemic has shown that coordinated efforts can successfully counteract such fragility**: vaccines being a primary example. As the OECD put it in 2020, *"the deep interconnectedness and interdependence of global systems imply that any local crisis can rapidly scale up to contribute to planetary environmental, social, economic, and political emergencies."* ⁽¹⁾

The pandemic has shown that a significant policy challenge does not relate only to adopting sustainable solutions to reduce global crises, but critically **revolves around the need to implement such policies** in a coordinated and cooperative way at the global level: without cross-border and cross-policy coherence, investments cannot really deliver their full potential.

The pandemic has shown that **Global Value Chains (GVCs)** are essential enablers across world economies. Efficient GVCs ensure timely payment flows and support the optimization of working capital on the buyer side and generate operating cash flow on the supplier side. In turn, they enable domestic commercial activity and provide working capital to local businesses, critical for middle-income economies facing significant financing gaps.

Objectives

ESG ("environment", "social" and "governance") continues to gain momentum, especially around Sustainability, both in firms' investment decisions, and in developing public policy incubators. By way of example, in late 2021 the IFRS Foundation formed a new International Sustainability Standards Board (ISSB) to develop a comprehensive *"path to global baseline"* of high-quality sustainability disclosure standards to meet investors' information needs; the G7 *"urged to actively cooperate to reach standards that can be implemented globally"* [G7, 2022].

This paper looks at the G20 **Sustainability 2030 Agenda from the firms' perspective**: it focuses on economic growth, financial stability, and productivity within planetary and social boundaries. The paper **proposes an inclusive framework** that allows to deliver environmental projects and maximise social sustainability, breeding an enduring **virtuous circle**. Governments need to support **all firms'** working capital by removing obstacles and cumulative burdens preventing them from accessing funds, which otherwise would impede the intended growth trajectory.

Such an operating environment is key to facilitate the transition towards a sustainable and internationally inclusive global economy.

⁽¹⁾ Confronting Planetary Emergencies - Solving Human Problems", OECD, 2020.

Environmentally-led investments are the ideal opportunity to test innovative ideas to facilitate payments and working capital, making them more efficient throughout GVCs, across both borders and sectors, which in turn can act as an enduring flywheel that sparks employment and knowhow, aiding social sustainability.

The vision introduced in this paper, defined as the “**Sustainable Growth Propeller**”, is aimed at all firms, but may particularly benefit MSMEs who face proportionately higher cumulative regulatory and administrative burden relative to their resources, as well as a more difficult borrowing environment. **Improving firms' productivity in delivering the Sustainability agenda is a perfect case in point for concrete policy intervention to aid economic recovery while fostering progress towards the environmental targets: a win-win opportunity.**

This paper progresses the work started in 2015 with a series of **Business at OECD-B20 publications**, part of the G20 cycle (June 2015, June 2016, April 2017, Sept 2018, January 2020, September 2020, July 2021). Our work aims at illustrating how finance links to other policy areas to overcome fragmented policymaking.

The **paper is structured** as follows: **Chapter 1** summarises the risk that broadly drafted ESG rules may increase the obstacles faced by firms in accessing funding and operating efficiently across GVCs. **Chapter 2** introduces a simple framework to facilitate such access, showing the impact it can have on the wider economy and employment, globally. **Chapter 3** proposes pragmatic actions to put such framework in practice in respect of Sustainability investments.

Recommendations to the G20

Cutting across the B20 Taskforces, and hence closely interlocked with their relevant recommendations and policy actions, this paper advances the “GVC Passport” concept [B20-BIAC, 2020] focusing on how Sustainability-led investments can be the “use case” to facilitate working capital and payments flow across relevant GVCs, and therefore offer a mechanism benefiting the process end-to-end, namely:

- a) **Governments need to assess firms' cumulative regulatory burdens throughout GVCs.** – As ESG rules and regulations are set and implemented, it is critical to **avoid unintended consequences**. Firms' productivity should not be curtailed by unintended policy obstacles. Ultimately, a stable, coherent and inclusive regulatory environment is a “must” to meet the Sustainability objectives and to enable the relevant investment.
- b) **Governments need to enable a shift towards both electronic data verification compliance and digitalisation of documents.** How contradictory is it to have the documentation relating to the Sustainability agenda be paper-based? Also, Sustainability reporting requirements need to consider firms' productivity by harmonizing rules, while avoiding formalistic rigidities that obstruct data usage.
- c) **Both Governments and firms need to enhance the use of digital platforms and highly efficient information and communication networks** – data and Distributed Ledger Technology (DLT) play a crucial role in creating trusted sources of standardized information, across the GVC. As DLTs hold much richer data sets than any one existing system today, they could be used as baseline infrastructure to enable a safer, seamless and more efficient flow of goods between digitally interconnected trading partners (vs. loosely connected in traditional processes); though DLTs need encryption standards and mechanisms to ensure they can be trusted.
- d) **The G20 should support productivity, by freeing up firms' blocked working capital needs** – A resulting benefit would be to aid firms, suppliers and public administrations to raise efficiencies such as timely meeting of invoices, even netting payments: thereby improving timeliness of payments, thus increasing firms' working capital, and so **propelling benefits across the global economy and employment.**

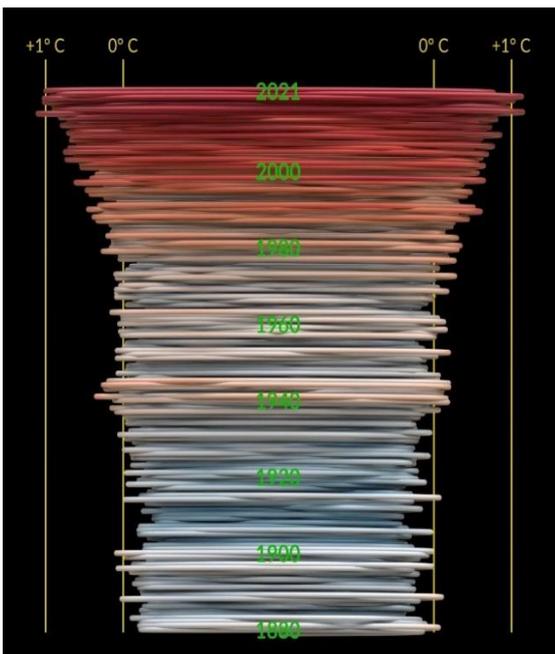
✂ CHAPTER 1 – SUSTAINABILITY:

✧ EFFICIENCY IN ACCESSING FUNDS IS KEY

G20 and COP26 agenda towards Sustainability, the challenge is in the “how”

G20 Leaders in Rome (October 2021)^[1] agreed to **limit temperature rise to 1.5 degrees Celsius** above pre-industrial levels by 2100 (Figure 1 presents the visualization^[2] of monthly global temperature anomalies between 1880 and 2021). To do so, it is crucial to reach net zero greenhouse gas emissions or carbon neutrality by 2050^[3]. To be on track to reach that goal, scientists estimate that global emissions must be halved by 2030. G20 leaders thus committed to take further action in the 2020s to enhance 2030 nationally determined contributions (NDCs). They also agreed on the importance of a more systemic analysis of macroeconomic risks coming from climate change and a wider range of fiscal, market and regulatory tools needed beyond just carbon pricing. This affirms a strong mandate for finance and macroeconomic transformation. Overall, the G20 has given momentum into Sustainability objectives, but now the world faces the challenge of turning these political promises into agreed processes.

Figure 1 - GISTEMP Climate Spiral



On a positive note, the G20 Italy and COP26 saw **unprecedented commitments from the private sector** to reach Sustainability goals and supply the trillions of dollars needed to fund the transition. **Active industry participation** and establishing efficient private-public collaboration mechanisms is **paramount**, and further progress requires G20 developed countries to:

- **Mobilise** the trillions needed in low-cost financing for all countries: this needs to include developing ones to transition, as they play a key role in GVCs;
- **Remove barriers** to make funding more easily accessible by firms of all sizes, needing to operate efficiently across their respective GVCs. Removal of barriers can come in the form of reducing unnecessary bureaucratic, administrative and regulatory burdens on firms and eliminating data gaps, which create risk aversion for potential investors or lenders.

Against this background, it is **important to recognize that** enhanced Sustainability cannot be built on a cumbersome financial regulation and trade framework. As governments remove public fiscal support and stimuli packages introduced in response to the health crisis, a key policy challenge remains the prevention of widespread insolvencies, resulting from more recent labour, food and energy price shocks. This can be offset by improving efficiency and access to GVC's by MSMEs. **Properly strengthening and facilitating access to sustainability funding and investments can also spark a robust economic recovery (a flywheel effect) that is socially sustainable and inclusive; i.e. fairly distributed across firms of all sizes, markets and regions.**

^[1] G20 Italy – “G20 Rome Leaders’ Declaration”, Rome, 30 October 2021

^[2] The “**climate spiral**” is a visualization designed by Ed Hawkins from the National Centre of Atmospheric Science. **GISSTEMP** is the Godard Institute of Space Studies (GISS), NASA, surface Temperature Analysis.

^[3] For every amount of greenhouse gas emissions, an equal amount is removed from the atmosphere.

In 2017 under the G20 German Presidency, the GPMI has underscored the importance of SME finance in sustainable GVCs by further aligning the agenda with Sustainability Development Goals (SDGs), demonstrating how governments, financial institutions and businesses can work together to support financing models that encourage SMEs to upgrade their production processes to meet sustainability standards in GVCs [GPMI, 2017].

A “bumpy road” in accessing Sustainability investments

It is widely recognised that supporting firms’ ability to operate within value chains, both globally and domestically, is an essential pre-requisite for economic well-being and recovery as well as, over the longer-term, sustainable growth and innovation. It is concerning that GVCs, which encompass firms of all sizes, are still hampered by a number of obstacles, as outlined in a recent *IOE* contribution [IOE, 2020].

Challenges to firms come from the still evolving, highly fluid and dynamic (and inconsistent) nature of ESG and sustainability frameworks, which can be summarised in **three main groups**:

- 1. Unnecessary regulatory and administrative burdens**
- 2. Productivity is key, but too many obstacles restrain firms**
- 3. Low Growth trap**

1. Unnecessary regulatory and administrative burdens

The OECD Declaration on *Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth* [OECD, 2018] recognises that an effective regulatory environment, effective contract enforcement and justice system, as well as transparency and integrity in the public sector are **critical to enable MSMEs and entrepreneurs** to thrive, scale up, and contribute to an open, digitalised and inclusive economy ⁽⁵⁾.

Furthermore, B20 Indonesia exposes the importance of greater MSMEs inclusion into the GVCs to improve global economic resilience and withstand continuous GVCs disruptions owing to pandemics or other global crises.

Unfortunately, businesses continue to suffer from unnecessary red tape and paper-intensive processes, which hold back competitiveness and liquidity. Policy and reporting standards fragmentation (and frictions) continue to impede the free flow of people, capital, goods and services, as the global economy remains divided into separate jurisdictions; showing its weaknesses during the COVID-19 pandemic..

In many countries, excessive and overly complex regulation creates legal uncertainty, and the variety of rules imposes cumulative burden on firms, exacerbated by inconsistent cross-border implementation of policies and compliance regimes; generating, at best, dispersion of efforts and, at its worst, negative unintended consequences. Also from a tax perspective, governments must aim to raise additional revenues without deterring entrepreneurship.

The achievement of climate and broader sustainability goals **requires a new regulatory paradigm.** Ultimately, **a stable and coherent, regulatory environment is needed; one which also recognizes the need for firms to compete and take risks.** Businesses should not have to bear **unnecessary burdens**, which hold back investments, competitiveness and productivity. In many countries, regulatory inflation continues to undermine the clarity of the law, and therefore, undermines investment. Fragmentation across borders, by way of example, is increasingly evident in the context of **ESG ratings**, which are vastly more inconsistent than credit ratings for the same corporations.

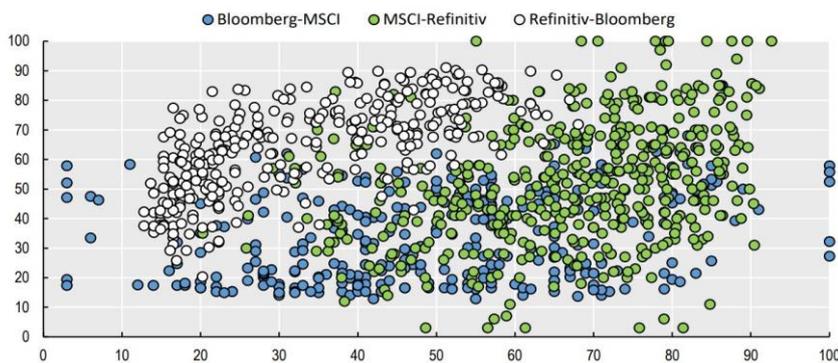


(5) OECD (2022b), *OECD Recommendation on SME and Entrepreneurship Policy* calls for ensuring that implications for SMEs are considered across the diverse policy areas that influence their prospects and outcomes in order to enhance policy synergies, address potential trade-offs and reduce administrative burdens, including through increased attention to their specificities and circumstances in policy and regulatory design, SME tests and evaluations, consultation mechanisms, streamlined processes and user-centric approaches in implementation.

Companies have themselves become more focused on screening both investments and performance on the basis of **ESG criteria**, as well as asking to be evaluated by third parties. A positive ESG rating, in fact, gives firms credibility. However, there is currently no standard way of defining and measuring firms across ESG criteria, with methodologies differing considerably in how they measure performance and the weights applied to different inputs, Figure 2 (analysis that also shows how the same firm may sit at opposite ends of the rating spectrum, depending which methodology is chosen).

The fact that methodologies applied for these assessments vary significantly, poses a growing **risk** of inconsistency and inefficiency as businesses may be required to observe multiple and incongruent ESG criteria in the global supply chain, hindering the very value of such assessments. Hence the need for regulations and standards coherence is increasing, but of critical importance is that these have to be consistent in their methods across **both policies and borders**.

Figure 2 – S&P 500 ratings correlation for different providers



Note: Providers' names in the legend correspond to the Y axis when at the left and to the X axis when at the right (e.g. Bloomberg (blue), MSCI (green) and Refinitiv (white) on Y axis and MSCI (blue), Refinitiv (green), Bloomberg (white) on X axis). Data from three leading rating providers (Bloomberg, MSCI, Refinitiv) with OECD Staff calculations. For full methodology, refer to source.

Source: Boffo and Patalano (2020), ESG Investing: Practices, Progress and Challenges, OECD Paris

We notice that several initiatives tackling the Sustainability challenge do not look properly harmonised, resulting in an increasing risk of cross-border and cross-policy fragmentation, which means more paperwork, more rules to understand and assess, making them harder to be met by MSMEs, who can't afford specialists. This results in their non-participation in the GVCs. Regulators and standard setting bodies across the world have started consulting or have already deliberated on ESG-linked **standards and disclosure requirements** to be met in order to qualify as "ESG-linked," "sustainable" or "green". Mentioning a few:

- In the **UK**, the Competition and Markets Authority issued its guidance in respect of *misleading environmental claims* for both businesses and consumers⁽⁶⁾, and the Financial Conduct Authority (FCA) published guidance on design, delivery and disclosure of ESG and sustainable investment funds in the form of a "Dear Chair letter."⁽⁷⁾
- The **EU** has already published its Sustainable Finance Disclosure Regulation (SFDR)⁽⁸⁾, *imposing disclosure obligations* to financial advisors and market participants, and the EU Green Taxonomy⁽⁹⁾, which establishes a list of environmentally sustainable economic activities and various follow-on obligations through its delegated acts.
- Also, in June 2022, the **European Council and the European Parliament** have agreed the Corporate Sustainability Reporting Directive (CSRD) that resulted from the process to revise the EU Non-financial Reporting Directive (NFRD).

⁽⁶⁾ <https://www.gov.uk/government/publications/green-claims-code-making-environmental-claims>

⁽⁷⁾ <https://www.fca.org.uk/publication/correspondence/dear-chair-letter-authorised-esg-sustainable-investment-funds.pdf>

⁽⁸⁾ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

⁽⁹⁾ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

⁽¹⁰⁾ Companies above 500 employees as well as third-country companies with turnover of 150 million Euro

⁽¹¹⁾ "Sustainable finance – environmental, social & governance ratings and sustainability risks in credit ratings"; EU Commission, May 2022

The CSRD is a central part of the EU Sustainable Finance package, a comprehensive set of measures aimed to help improve the flow of capital towards sustainable activities across the EU. The objectives of the CSRD include to enhance sustainability reporting within the management report bringing in more extensive mandatory sustainability reporting for a wide range of companies and to require assurance on this information, which includes an *obligation for EU firms⁽¹⁰⁾ to adopt a plan* to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with making Europe climate-neutral by 2050. The CSRD amends the Accounting Directive, the Transparency Directive, the Audit Directive and corresponding Audit Regulation.

- **EU consultation** aimed at strengthening the reliability and comparability of **ESG ratings**. It also aims to ensure that rating agencies incorporate relevant ESG risks in credit ratings. The consultation paper⁽¹¹⁾ flags that *"the initiative may lead to costs and administrative burden for ESG rating providers, that could possibly be passed to users. It might also have some impact on the level of competition in the ESG ratings market."*
- On a more global scale, in late 2021 the **International Sustainability Standards Board (ISSB)⁽¹²⁾** was formed by IFRS Foundation with the intent to deliver a comprehensive global baseline of sustainability-related disclosure standards. The ISSB has now run has done the first consultation on global sustainability disclosure standards, a good step forward with transparency that is both welcome and needed.

- On the contrary, in the **US** although the SEC requires public companies to make disclosures of material information, which would obviously include ESG-linked risks, there are currently no mandatory ESG disclosures at the federal level. Positively, in 2022 the SEC has launched a consultation on Climate disclosure, which closed in June.
- Many other countries like **Japan** and **Hong Kong** are currently consulting. As legislating on ESG criteria and ESG-linked investments and products is paramount, the fact that many of the pieces of legislation are still at a consultation stage offers a unique opportunity to helping to ensure they are harmonized across the globe.
- In **Indonesia**, efforts have been made to advance ESG-linked standards and disclosure reporting. Indonesia's Financial Services Authority (OJK) has mandated⁽¹³⁾ financial services providers to submit either a sustainability report or a sustainable finance action plan since 2019, and all other issuers and public-listed companies since 2020, through OJK Regulation (POJK) No. 51/POJK.03/2017

As emphasised in previous years' recommendations, for any such regulatory initiatives as outlined above **quantitative and qualitative impact assessments** (ex-ante and ex-post) are critical and need to be independent from the policy setting bodies.



⁽¹²⁾ <https://www.ifrs.org/groups/international-sustainability-standards-board/>

⁽¹³⁾ <https://www.ojk.go.id/id/kanal/perbankan/regulasi/peraturan-ojk/Documents/Pages/POJK-Penerapan-Kuangan-Berkelanjutan-bagi-Lembaga-Jasa-Kuangan,-Emiten,-dan-Perusahaan-Publik/SAL%20POJK%2051%20-%20keuangan%20berkelanjutan.pdf>

2. Productivity is key, but too many obstacles restrain firms.

Productivity reflects the ability to **produce more output by better combining inputs**, through fostering efficiency, new ideas, technological innovations and enhanced business models. It is about “working smarter”, rather than “working harder”. OECD economic analyses show that the lag in productivity, in an interconnected world, requires stability (not just financial) of the affected markets, as impacts go beyond the investments’ immediate boundaries [OECD, 2015].

As a result of the pandemic, the risk of defaults across GVCs inevitably increased and with the recent geopolitical crisis, costs (starting from food commodities and energy costs) have materially increased. Hence, to enhance productivity, it is critical to **maximise firms’ cash flows by improving the efficiency** of the financing process, minimising their need to over-leverage their balance sheet. An unintended consequence from the above mentioned climate-related regulations, could be even more stain on the liquidity and leverage of any firm which intends to participate in GVCs.

Notably, key to productivity is **access to finance**. Firms are facing some key long-lasting obstacles, that need to be removed to achieve the productivity levels required to be a successful participant in GVC’s.. In addition to the above mentioned **cumulative burdens**, it is important to highlight both:

a) Lack of end-to-end (or inter-operable), easy to access, transparent trade platforms:

Multiple platforms used by numerous players lead to a **fragmented landscape** and pose challenges for initiatives to operate at scale [OECD, 2021] and may increase risk of miscommunication and fraud.

Digital technologies (cloud, blockchain, big data analytics, artificial intelligence, etc.) and their impacts on how data as a new strategic asset is managed **represent a huge opportunity for productivity and growth, but also new**

challenges to the modern workplace and the relationship between government, society and business, with new threats and frauds, towards which ensuring traceability and transparency is key.

b) A fast data-driven world operated by inefficient paper-based documentation

Data is diverse and the amount produced has been growing exponentially, with no borders by definition. On the one hand, the ever-increasing possibilities on **data storage and verification** are revolutionizing the way businesses operate [EBF, 2016]. On the other hand, several financing and operating processes require **inefficient paper-based documentation** including manual contracts, multiple checks (often manual) leading to complexities, errors and delays, and a contradiction to environmental efforts.

In today’s world, the use of data is no longer just an opportunity, but a “requirement” and we must “*turn the digital divide into a digital dividend*” [B20-BIAC, 2018]. The results can lead to a massive expansion of the electronic footprint of both firms and individuals. In particular, effective data-oriented processes and platforms can offer MSMEs a competitive edge and increase their productivity, reducing costs, enhancing marketing, and strengthening their ability to identify or foresee trends. Equitable digital infrastructure, interoperability, free exchanges of data with trust, and responsible sharing of appropriate data, therefore, need to be done.

3. Low Growth Trap

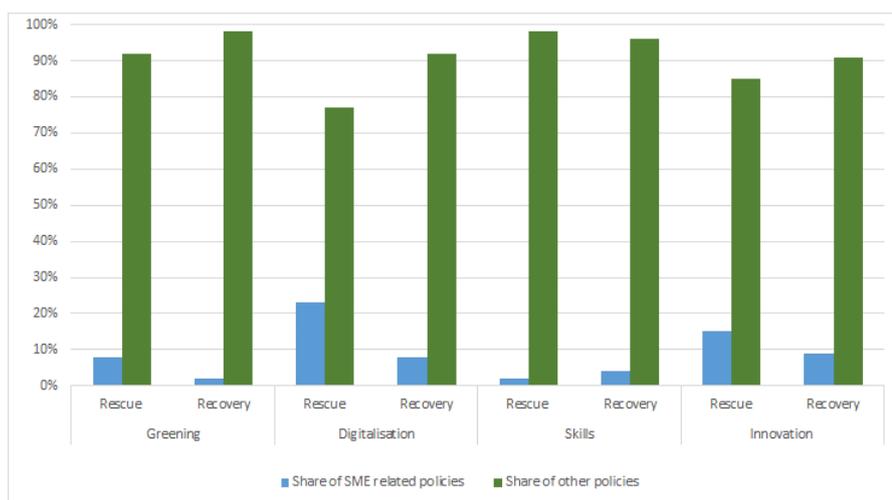
Growth is not only important in itself, but **the type and quality of growth also matters**, e.g., it is critical that **growth is inclusive**. For over a decade, the OECD economies have been facing the twin structural challenges of **low productivity growth**, coupled with low investments and trade, and **rising inequality**, the “low growth trap”. Weak productivity has been a long-term trend that pre-dates even the financial crisis, and then exacerbated by the recent health crisis.

Sustainability offers a unique opportunity to generate a **positive revolution** towards an inclusive economic growth. However, such revolution cannot be exploited without **the key role played by MSMEs**, who are critical actors in global climate efforts, not only as drivers of technological change, but also as adopters of green business models and practices to reduce their environmental footprint, at the scale required to achieve the Paris goal & the SDGs. **MSMEs** need to be at the core of the Sustainability agenda investment landscape.

This requires both overcoming the obstacles highlighted in previous sections that currently protract the low growth trap, and the engagement across a range of actors in the financial ecosystem, including public and private financial institutions, regulators, rating providers and others, at a very different pace from that experienced to date, as well highlighted by the OECD in figure 3 [OECD, 2022a]. **Otherwise, sustainability is more likely to lead to greater inequities** if it's not pursued with more mindfulness from an MSME lens, as present approaches are impractical for MSMEs.

The transition to green and circular economy, especially in developing countries, requires direct investment, both public and private. The United Nations Conference on Trade and Development (UNCTAD) finds that the total annual investments in SDG-relevant sectors in developing countries will need up to USD 4.5 trillion in funding. This translates to an annual investment gap of USD 2.5 trillion.

Figure 3 –Share of SME financial support in rescue and recovery packages by policy domain



A global coordinated effort driven by a consistent set of principles is required to address this finance gap. Public sector investment will not be enough to meet the green investment gap; private sector foreign direct investment will be required.

Therefore, **G20 nations should engage closely with industry** in a public-private partnership to overcome the barriers the private sector faces promoting green investments in emerging economies, such as:

- a. Quality of project preparation (with technical assistance from MDBs);
- b. Issues related to governance (with high reputational stakes for banks, and increased scrutiny through the EU ESG framework, which, beyond strict climate-related criteria, also “minimum safeguard standards” that cover the whole of ESG (EU taxonomy).
- c. High political/fiscal risk (on price off-take etc.). Some guarantee schemes may help, but generally only cover partially the project inherent risk over their lifetime.
- d. Lack of secondary liquidity.
- e. An investment system that safeguards investor rights, provides a rule-based approach for dispute resolution and a welcoming environment to attract more private investment.

✘ CHAPTER 2 – A NEW EFFECTIVE ✧ OPERATING MODEL FRAMEWORK

Sustainable growth will benefit by first developing a strategic vision and a strategic approach towards that vision. This must set the ambition to build a competitive economy that underpins an open, innovative and inclusive society. The Sustainability agenda set by the G20 can, and should, offer that ambition, that strategic vision.

Such vision has the opportunity not only to achieve the climate targets, but alongside that to affect the structure of the economy as a whole, advancing skills and innovation, supporting institutions and employment ambitions and activating innovative social policy. As such, it should not be created solely by governments, but equally be owned by business and the wider society together.

This paper proposes a **strategic vision to achieve such sustainable growth**. It illustrates how these recommendations “interconnect” in practice towards common and / or interdependent goals, and how such recommendations can be implemented through concrete actions and solutions.

The B20 and Business at OECD work since 2015 has led to the creation of the well-known “**Sustainable Growth Triangle**” (Figure 4): a stylized framework which is meant to offer a conceptual platform to evaluate a policy’s support for sustainable growth. Imagining that the global economy sits atop a three-legged stool, the legs represent **three pillars of the economic system: [1] Stability; [2] Economic Growth; and [3] Productivity**. The global economy can only support aspirational sustainably goals if the three legs are balanced on the ground they stand on. To address any one aspect a coordinated and comprehensive approach involving all actors is needed. It doesn’t matter what the policy is (it can range from financial, to economic to social); the question is whether it is striking a balance with other policies or off-setting them possibly generating unintended consequences.

Figure 4 – The Sustainable Growth Triangle

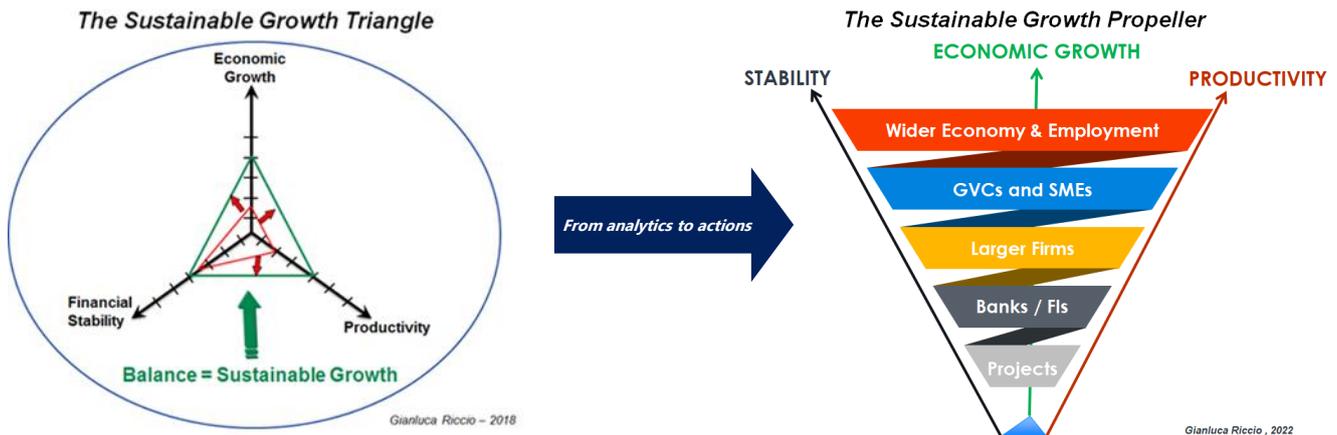


The core point is that only a **balanced approach can offer growth that it is genuinely sustainable**. In this paper, we take a step forward **from analysis towards actions**:

- The triangle offers an approach to **evaluate policies on their end-to-end impact**, assessing whether any given policy being rolled out is generating unintended consequences on the other pillars, while meeting the requirements it is intended for.
- This paper moves **from reactive to proactive** introducing a different perspective on the same challenges: **what actions** should be recommended in order to sustain economic growth that is **both sustainable and inclusive**? Indeed, if we look at the triangle from a different perspective this may look like a pyramid, an **inverted pyramid** (Figure 5).
- Also, it is not just a question of public policies: commercial decisions also affect the evolution of the global investment landscape.

The objective now is to **put in place actions** and policies that support any initiative targeting the Sustainability agenda, in order to generate a **virtuous “propeller” effect** that ultimately delivers economic growth and employment that is both sustainable over time and inclusive in scale. It is, not just a question of public policies: commercial decisions also affect the evolution of the global investment landscape. **Actions relate to each of the three axes, but it is their combination that enables and propels the benefits.**

Figure 5 – From the Sustainable Growth Triangle to the Sustainable Growth Propeller



It is crucial to look at these “enablers” along the three axes not as a “laundry list” of individual actions, but rather **as synergistic policy actions** aimed at accelerating progress on implementation of the Sustainable Development Goals (SDGs), and to support a sustainable, inclusive and resilient growth across the world, able to promote equity and accelerate progress on all SDGs [G20, 2021]. Examples include:

- Innovation must be at the heart of **regulatory policymaking (stability)**, as it can boost productivity and sustainable economic growth. Through innovation, governments can improve the regulatory environment by adapting rules to new technologies to help ensure that they are fair, predictable, consistent, easy to enforce and administratively “light” throughout the process. Compliance can be made more consistent, less costly and less complex, thus **improving its transparency and traceability**, while ensuring competition and fostering innovation..
- Facilitating **connections across the GVC, by reducing cross-border and cross-policy inconsistencies** on the *stability* axis which in turn would support:
 - MSMEs to access wider markets, hence supporting trade activities; and
 - Firms, suppliers and administrations to significantly grow efficiencies such as maximizing working capital or even better netting payments, hence improving timeliness of payments, and firms’ cash-flows.
- **Foster sustainability** starts from access to sufficient, reliable, and comparable information from financial and non-financial entities on their climate, environmental, and social risks and impacts, which is still a challenge. This challenge hinders investors from making sound investment decisions based on sustainable investment objectives.

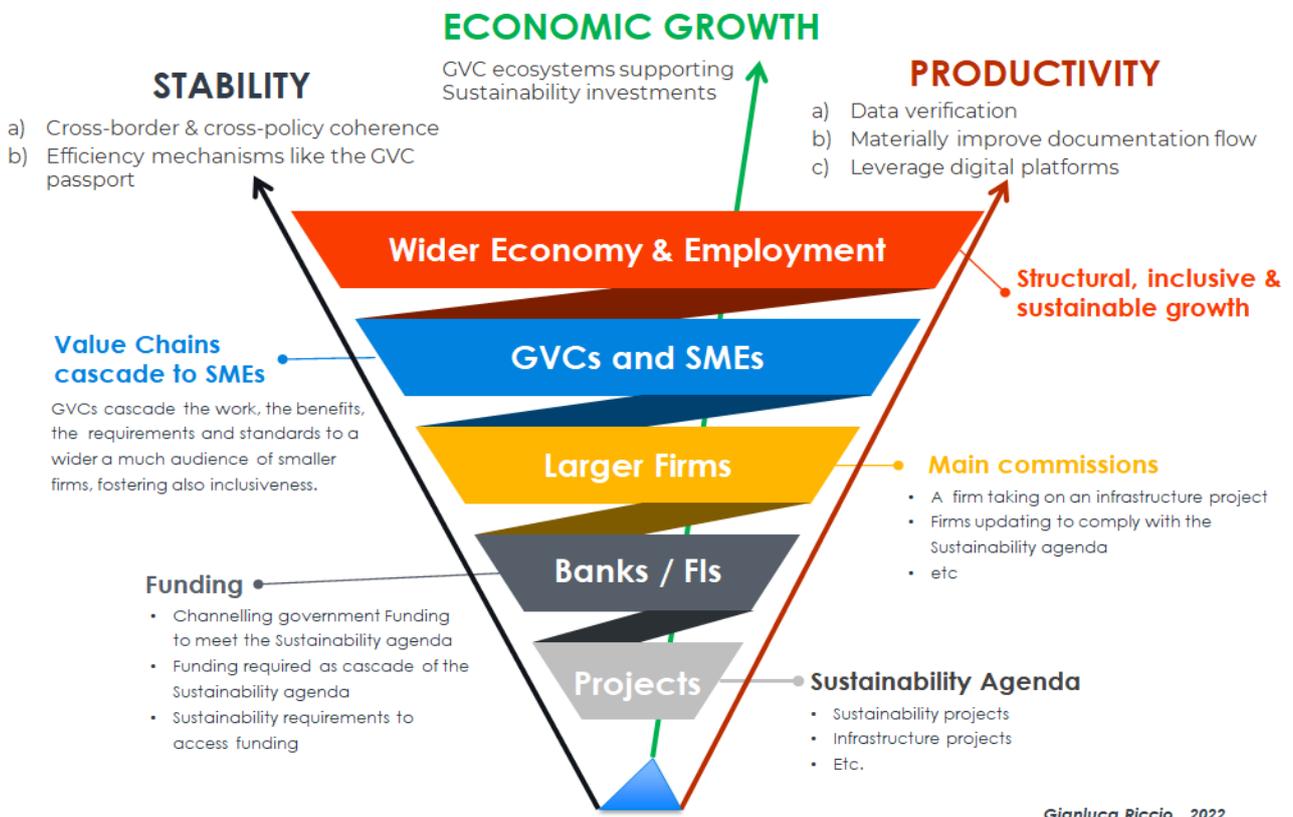
CHAPTER 3 – PRAGMATIC RECOMMENDATIONS TO DELIVER SUSTAINABILITY AND HOW TO PUT IN PRACTICE THE FRAMEWORK

Policymaking has a key role to play in setting the **right conditions towards the Sustainability agenda** and its investments, as well as in supporting firms’ integration, particularly MSMEs, in GVCs. Without the **critical contribution of MSMEs**, leveraging on GVCs, it will not be possible to transmit the benefits of the Sustainability agenda investments to the wider economy.

In this regard, the implementation of the 2022 Updated G20/OECD High-Level Principles on SME Financing (or equally the OECD Platform on Financing SMEs for Sustainability) will be important to ensure that diverse sources of finance flow to MSMEs, and so contribute to international co-operation to enhance provision and uptake of sustainable finance for MSMEs.

Working synergistically across the three axes through measures that aim at strengthening firms’ working capital while maintaining regulatory compliance, the Sustainability agenda can generate a flywheel effect that starts with single projects and delivers economic growth and employment, which is structural and inclusive, hence sustainable. This chapter outlines proposals on the **measures that G20 Leaders should focus** on in order to help ensure that the Sustainability agenda is not simply delivered, but it gains traction for growth, an enduring growth that can sustain itself over the long-term.

Figure 6 – Concrete actions to ensure the Sustainability agenda “propels” the wider economy and employment



Recommendation 1

Stability – G20 Leaders should set a goal of cross-border and cross-policy harmonization, as well as encourage mechanisms to enhance efficiency

In order to deliver the Sustainability agenda and meet its ambitious targets, it is critical that **firms operate effectively throughout the GVC**. To achieve this, it is vital to increase the overall alignment in rules, regulations and standards. This must be assessed against the **ultimate weight on the final user** as a core parameter.

Nearly all OECD member countries (as well as several non-OECD countries) have established programmes to reduce administrative burdens on businesses. Governments can improve the regulatory environment by designing administrative rules that are fair, predictable, easy-to-enforce and efficient. Such rules need to provide for **more consistent responses** to policy challenges, changing societies and the need to limit regulatory burdens.

To the contrary, as summarised in chapter 1, the **Sustainability agenda risks delivering a proliferation of unharmonized rules**, whose fragmentation and inconsistency will ultimately weigh on firms, and may easily overwhelm those lighter on resources and capabilities, hampering the very Sustainability agenda they were intended to support.

The G20 countries **committed significant funds** to support the Sustainability agenda [G20 Rome Communique].⁽¹⁴⁾ The challenge is ensuring that firms can smoothly access those funds and that such funds become a spark for the wider economy. In order **to gain the benefits of the desirable and necessary regulations in terms of Sustainability**, but at the same time avoid the regulatory burden on firms, two key actions are needed:

Action 1.1 A cross-policy coherent framework: the importance of independent impact analyses

It is critical to ensure that a regulatory framework for Sustainability is established ensuring that it does not further increase administrative and regulatory burdens on firms or capital requirements in the banking sector. A framework is needed that fosters rather than hampers economic growth and productivity. As well highlighted by the G7 [G7, 2022] in relation to the ISSB's path to global baseline: this "*should be practical, flexible and proportionate and ultimately suitable for SMEs and enable jurisdictions to implement the baseline*".

Regulatory coherence to ensure a level playing field is needed **both** across jurisdictions as well as within each jurisdiction. **Cross-policy inconsistency** is frequently overlooked but creates unnecessary costs even at a local level. The risk of exacerbating cross-policy inconsistencies is material as governments look to regulate Sustainability and ESG disclosure.

Quantitative and qualitative **impact assessments** (ex-ante and ex-post) independent from those bodies setting the policies will prove critical. G20 Leaders should recognize the need for broader and independent economic impact assessments on the **cumulative effects** of G20 policies and other regulatory initiatives – domestically and across borders – further reinforcing the nexus of stability, economic growth, and productivity, essential to building a competitive environment where firms of all sizes can conduct business across a global level playing field.

An **international principles-based implementation process** for Sustainability should be introduced, possibly based on a **Multi-Party Implementation Agreement (MPIA)** model for regulatory cooperation, as suggested over the years by the B20. This would also provide opportunities in multiple directions: it would allow **active participation from the industry** in the standard-setting process, as well as active cross-border mutual recognition.

⁽¹⁴⁾ <https://www.oecd.org/dev/OECD-UNDP-G20-SDG-Contribution-Report.pdf>

Harmonised policy implementation plays an essential role in mitigating any unintended consequences of policies and regulations. as highlighted by the findings outlined by the FSB in respect of cross-border cooperation following the 2008 financial crisis [FSB 2009]. To return to growth and stability globally following the Covid-19 pandemic, a new international dialogue system should formalize the current *ad hoc* approach to consultation and discussion and seek to address upfront possible unintended consequences from conflicting standards' objectives.

Action 1.2 Efficiency mechanisms like the GVC passport

There are a number of options, leveraging on best practices to reduce regulatory obstacles to GVC integration and to strengthen trade finance. For example, we can leverage the work started in 2020 by the B20 and *Business at OECD* under the Saudi Arabian Presidency proposing the "**GVC Passport**" concept [B20-BIAC, 2020], which could provide an authenticated, authoritative, verifiable financial fingerprint of a given entity, enabling it to operate within GVCs without the need to reproduce the same documentation on multiple occasions, nor to undergo duplicative verifications.

The "GVC Passport" would allow a firm to be recognized as a legitimate business partner, compliant with the credit and financial regulations relevant to the GVC it operates in. The concept is envisioned as a **set of Finance related verifiable credentials to be cryptographically encrypted and verified** This would help ensure that firms comply with the rules, whilst potentially reducing regulatory burden through a single authentication process that **can be verified** throughout the GVC. Critical is the fact that the GVC Passport would not be an additional protocol to follow, but it would ensure that it has to prove **only once** that it meets them through a single authentication that **can be verified** throughout the GVC.

Critical is the fact that the "GVC Passport" **would not be a new document to fill**, but it would rather **compile and recognize certifications already received**, to avoid the need to fulfil them again in the next country or transaction. Such certifications would be kept up-to-date with the latest validations or relevant regulations, and could be verified real-time by the authorized parties, hence avoiding firms having to reapply, update or run through additional bureaucratic steps.

The "GVC Passport" is a concept intended as an aspirational long-term vision to enable firms to participate in and take full advantage of GVCs, minimizing burdensome and too often duplicative processes, strengthening compliance, increasing traceability **across the GVC**; thereby also benefiting firms' cash flows (e.g., netting of payments), reducing the need for leverage and thus supporting wider economic activity over the longer-term in the post-pandemic environment. Under the **2021 Italian Presidency**, the B20 Italy made a **concrete step forward** showing how to apply this concept in the Trade Finance space, reported in a broader-scope paper issued by B20, Business at OECD and IOE [B20, BIAC, IOE, 2021].

The **Sustainability agenda offers an opportunity** to put in practice the GVC passport concept for Sustainability-linked investments, in order to help to guarantee smooth access to funds and ensure the process is equally efficient throughout the supply chain. If a framework like the GVC passport concept is put in place for Sustainability investments, it could both accelerate the implementation of the agenda, and also become a concrete example of how the framework can work in practice, and possibly become a blueprint for other sectors.



Recommendation 2

Productivity – G20 leaders should create programs to enable firms’ access (and expertise) to data and digital platforms that facilitate their participation in GVCs and to supporting efficient working capital deployment

Similar to Trade Finance [B20-*BIAC-IOE*, 2021], in order to make mechanisms like the GVC passport effective, work needs to be based on three pillars, which **combined can offer a simple**, though powerful, **enabling frame-work**:

Action 2.1 Counterparty identification and Data verification

Digital technologies related to **data** management and utilization must be at the heart of this proposed concept: promoting **data verification** rather than data sharing as a worldwide standard is crucial. **Data is the key asset of a digital economy**: it is frequently thought that sharing is required to enable activities such as accessing funds. In reality, particularly on the compliance front, most often what is needed **is to confirm**, i.e., verify, that the information provided is correct. Business and government have a shared interest in identifying who controls corporate entities, that is knowing who is the ultimate beneficial owner. **Investors must be able to quickly and reliably identify** the entity and the entity's subsidiaries in which they are investing⁽¹⁵⁾. Let us imagine a British investor who plans to invest in a Danish solar energy company. Would this investor's investment decision change if this Danish solar energy company's subsidiary ran nuclear power stations in Germany or another subsidiary ran a copper mine in Chile? How can this investor access the relationship information on the headquarter company and subsidiaries through a single data source, in an easily consumable and machine-readable format? A similar scenario can be extended to financial institutions.

Imagine that this Danish solar energy company applies for a climate-linked loan with a financial institution. How can this lender analyze the entity's eligibility for the type of loan and make its ESG risk assessment in an easy and transparent way? The ultimate objective of the information relating to the firm is the “final outcome”, i.e., **the confirmation of the firm's compliance**, not necessarily the full data history. A **verifiable credential** is cryptographically shared between peers at the edges of the GVC network to ensure underlying data is protected and not itself shared. To ensure data protection and safeguard business confidentiality, **it is important to design platforms where the underlying data itself does not need to be shared, but where the digital infrastructure allows for data to be nonetheless verified** to ensure that the reported information is correct and compliant with the relevant requirements, starting with unique and unambiguous identification of the legal entities.

Such data verification solutions already exist and are increasingly used for example via the **Legal Entity Identifier (LEI)**, a worldwide unique identifier standard. Being open and non-proprietary, the LEI facilitates more effective counterparty identification and verification on a global scale. Indeed, the LEI would reduce one of the biggest challenges when it comes to sustainability-related information to end-investors: the ability to identify and compare the entity and the entity's subsidiaries in which investors are investing across national borders effectively, through a single, reliable and publicly available source in a machine-readable and digital format.

The Network for Greening the Financial System (NGFS)⁽¹⁶⁾ highlighted in its 2021 progress report [NGFS, 2021] that bridging data gaps is essential to overcome the lack of data reliability and comparability. In this context, the report stressed the **need for common identifiers**, including the LEI, in order to link financial and non-financial information. The report highlighted that “**Common identifiers are crucial for linking financial and non-financial information, which are often reported separately.**”

⁽¹⁵⁾The FATF (Financial Action Task Force) has recently put out a new recommendation 24 which if consistently implemented will give better access to such information for law enforcement agencies.

In this context, the availability of unique identifiers at the company level (such as LEIs) and the security level (such as an international securities identity number, ISIN) would allow the consistency of individual information to be checked across different data providers.”

Combining the LEI with financial instrument identifiers can be a powerful tool to enable transparency relating to sustainable investment activity. On the financial instrument side there are several open standards available, which between them provide good coverage, including as mentioned above, the ISIN, and also the Financial Instrument Global Identifier (FIGI), an open standard of the Object Management Group, which can augment and fill in gaps in ISIN coverage.

On a more granular level, in the timber industry, the Indonesian Ministry of Environment and Forestry (MoEF) launched the Timber Legality Verification System (SVLK)⁽¹⁷⁾, a multi-stakeholder tracing system, which seeks to certify the legality of timber harvested from Indonesian forests. An independent body, Lembaga Verifikasi Legalitas Kayu (LVLK), acts as the verifier, and SVLK also serves as the basis for licensing direct timber exports to the EU under the Voluntary Partnership Agreement (VPA). With the LEI, investors can access both the data regarding the legal entities themselves and the specific relationship data that would allow them to compare different entities, regardless of their legal forms or jurisdictions of formation.⁽¹⁸⁾ The LEI can act as a data connector allowing users to link and verify data across sources easily (possibly linked also to granular data as per the Indonesian example above), investors or financial institutions can do more in-depth research on an entity's goals, strategies, tangible and intangible assets, values, and verify the legal entity and its subsidiaries in a seamless way. Additionally, if sustainability reporting is on a standalone document to a company's annual report, the use of the LEI permits to connect the separate documentation ensuring accessibility, connectivity, consistency and transparency, which can possibly benefit also from the work by GS1, been transforming and simplifying complex supply chains.

Therefore for efficiency solutions, as envisioned in the GVC Passport concept discussed so far, data verification capabilities are vital. Additionally, such solutions are well positioned beyond the GVCs and investments, and are likely to be at the heart of the ESG frameworks.

Action 2.2 Materially improve documentation flow by making digital documents accepted across legislative frameworks

Legally recognizing digital documentation, which would allow for a greater use digital documents in investment processes, thereby helping reduce frictions as well as both monetary and environmental costs⁽¹⁹⁾. Also, **paper-based rather than paperless Sustainability Agenda investments and processes, is a big contradiction.**

The challenges relating to the acceptance of digital documentation posed by current legislations worldwide become evident when moving from general enabling concepts to more concrete legal implications. A survey of 128 countries conducted by the UN [UN, 2019a] on measures related to trade facilitation and paperless trading showed that only about 36% of countries have implemented measures related to the cross-border exchange of electronic data and documents, substantially lower than that of other groups of measures. As we have highlighted for trade activities in our 2021 paper on Trade Finance [B20-BIAC-IOE, 2021], only a handful of countries (e.g., Singapore) fully recognize digital trade documentation in their legislation. Domestic legal frameworks in most countries do not recognize electronic signatures as valid, or require extremely cumbersome constraints to affirm the legal validity of electronic documents. By way of example, the EU eIDAS Regulation⁽²⁰⁾ defines **three levels of electronic signature**: “simple” electronic signature (SES), Advanced electronic signature (AES) and Qualified electronic signature (QES).

⁽¹⁶⁾The NGFS is a worldwide group of central banks and supervisors that aims to foster the development of environmental and climate risk management in the financial sector and to channel mainstream finance towards sustainable activities to support the green transition.

⁽¹⁷⁾ <https://silk.menlhk.go.id/index.php/info/vsvlk/3>

⁽¹⁸⁾ Each LEI record provides the entity name(s) in their original character sets in addition to transliterations.

⁽¹⁹⁾ Digitalizing paper documents would eliminate the need for printing, handling, storing and transporting typically hundreds of pages amongst numerous parties, thereby also removing the corresponding carbon emissions.

⁽²⁰⁾ Regulation (EU) 910/2014 available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2014.257.01.0073.01.ENG

The requirements of each level are built on those of the previous level. If the validity of an AES is questioned, it falls on the signatory to prove its validity; only a QES is considered equivalent to the written form. Obtaining a QES, however, requires the use of both signer validation and multi-factor authentication which makes it unsuitable for simple routine uses. As such, many players, especially MSMEs, who need easier and faster solutions, are discouraged from using electronic signatures altogether and rely instead on paper-based signing processes.

Acceptance of digital documentation is of paramount importance for GVCs and investments spanning across borders: where an investment is originated in one country, in which digital documentation has been accepted as legally valid, and progressed in another, where it may not be legally recognized⁽²¹⁾, leads to such investment or transaction possibly halted or at best delayed. By limiting physical interactions, the COVID-19 crisis helped progress the recognition of digital transactions, which can improve today's paper-based documentation processes, providing strong gains in efficiency. Firms, and especially MSMEs, had to enhance their digitalization to operate throughout the pandemic; governments, on their end, had to update the relevant regulatory environment adequately for firms to operate. By way of example, in the United Kingdom, the filings which could be made to Companies House via WebFiling increased (including the ability to request a 3-month extension to file accounts). Coupled with faster processing times, allowed for, prompted a shift towards online. It is therefore key **to enhance existing laws to accommodate for digital documentation** ensuring that the lessons and advances emerged during the pandemic are not lost; the risk is palpable as many have been put in place under "emergency" legislations.

The aim going forward is for national laws worldwide **to recognize systemically** electronic documents and data in judicial or administrative proceedings.

It is well understood that this cannot change overnight, but reforms can be undertaken in a number of ways, from adopting new legislation or through government decrees. Indeed, **Sustainability offers a prime opportunity**, i.e., to allow or even require the use of digital documentation and data to access sustainability-linked funds and investments by implementing dedicated legislation and amending existing **specific procedures to include digital documentation as valid records**. Jurisdictions need to **mutually recognize** such documents and relevant credentials as valid titles (e.g., vLEI): they need to provide legal certainty to electronic transactions and electronic instruments. This does not mean that all electronic documents must be accepted as evidence always, but only that **they should not be rejected** solely because of their electronic nature. With digitized documents, for example, the use of digital platforms could improve the efficiency and accuracy of the workflow by making the entire investment process history more transparent. If all the relevant documents are digitalized, smart contracts can enable exchanges, payments and other transactions to occur automatically. **It is clear that technology alone is not enough: harmonized legislative reform and common standards** (from an invoice, to a receipt, to identity and security) are **vital enablers** of trade digitization. Recently the **WTO and WEF** in a joint report [WTO-WEF, 2022], referring to the GVC Passport concept, highlighted that without a unique and globally harmonized identifier, finding information about a small business in a sea of metadata is difficult, if not impossible [Patel & Ganne, 2021]. LEIs make this process workable and help to realize the potential of making finance more accessible for MSMEs. The LEI scheme now has more than 2 million allocated codes, but further take up needs to be encouraged.

⁽²¹⁾ This can be particularly challenging in some civil law jurisdictions such as Spain and Italy, which still require the notarization of particular documents for them to be considered validly executed.

Action 2.3 Leverage digital technologies

Digital platforms built on Distributed Ledger Technology (DLT), properly structured to satisfy the regulatory and compliance requirements, **can facilitate both the access to financing** set to meet the Sustainability agenda, and the transparency required by Governments and investors, by providing a **transparent, traceable, immutable, reliable and auditable infrastructure** to seamlessly and securely exchange cryptographic keys. It is therefore paramount that adequate requirements and encryption mechanisms are set and implemented consistently across borders to help ensure that platforms built on such technologies can be properly trusted and that cybercrime prevented; thereby also taking forward the Bali Fintech agenda (22). Structured with the required access permissions, a digital platform can be used as infrastructure to identity attestations, providing participants with proof of authenticity and origin for the required documents. For example, incorporating an LEI into digital certificates and document e-signature processes could provide an additional layer of verifiable proof, since the LEI is a global secure mechanism that provides reliable data on organizational identity. (23)

Such a framework offers an efficiency opportunity to **maximize the use of existing data** and to ensure **transparency and traceability**, while protecting participant data and avoiding the unauthorized sharing of underlying data and confidential information. As such, a permissioned ledger can **improve operational efficiency** enabling a safer, cheaper and more seamless flow of funds between digitally interconnected trading partners, compared to loosely connected participants of traditional processes. Finally, more reliable data contributes to improved quality of **credit risk assessments** [ICC, 2019], further benefiting the firms' access to finance. Additionally, they can also offer tax administrations an opportunity to streamline their approach to compliance, but to get the full benefits of these new technologies will require an unprecedented cooperation with the business.

Notably, the required technology does not need to simply encompass wide storage systems, but rather help organize data and eliminate data silos, with the objective of creating trusted sources of standardized information: ultimately creating platforms containing much richer datasets than those existing in any one system today to be used by all GVC participants. The reconciliation of data through common digital platforms, such as blockchains, can each, independently, contribute to increased efficiencies in record keeping both within organizations and across firms and GVCs. Data itself needs to be up-to-date, possibly in real time and should offer a degree of granularity, which allows it to meet the widest possible set of requirements. If they were to work together in a standards-based framework, the sum would be much greater than their parts. If the funds could be operated on the platform itself, helping firms to improve their working capital. Such platforms do exist today.

C2FO, Taulia, Tradeshift PrimeRevenue, Bluevine are examples of such global platforms where technology can support the collaboration across GVCs and increase the available supply of working capital, For example. more than 1.75 million companies around the world are on the C2FO platform, which has supplied more than \$200 billion in funding to its users.

How does it work: large enterprises load their unpaid invoices – that is, their accounts payable – into the platform. Their suppliers (i.e. the companies that are owed money) are then invited via the platform to accelerate their invoices in exchange for a small discount. Doing so allows them to access much-needed working capital faster.

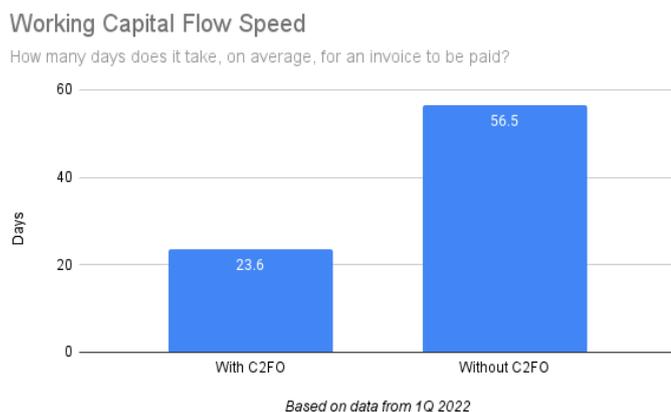
Suppliers, which tend to be MSMEs, but may also be larger organizations, are able to receive payment in a matter of days instead of weeks and months. (In recent quarters, C2FO has been able to accelerate payment by an average of 31 days, figure 7). The discount is usually less than what it would cost to borrow money from a traditional lender. Even better, the supplier doesn't have to complete any cumbersome loan paperwork, KYC or other challenging regulatory burdens.

(22) International Monetary Fund (IMF) and World Bank launched the **Bali Fintech Agenda** [IMF, 2018]: 12 policy factors aimed at supporting countries to harness benefits and opportunities in financial technology, while managing the risks.

(23) A verifiable **LEI (vLEI)** is a secure digital attestation of a conventional LEI. When fully developed, **the vLEI will enable instant and automated identity verification** between counterparties operating across industry sectors, globally.

This real-life example shows that when putting in practice such a framework with the characteristics highlighted, it delivers benefits to all parties, making it a true win-win.

Figure 7 – Working Capital flow speed (C2FO analysis)



Finally, not to be underestimated, there is a strong need for **capacity and infrastructure building** to boost paperless use across countries and across firms. In the main MSMEs may lack access to the platforms or have to pay high usage rates. Even with proper infrastructure and access, MSMEs may not have **the digital skills** to use new IT systems or services or be able to maximize the advantage of going paperless. Indeed, a joint IOE-ILO-KAS research [IOE, 2021] shows that after considering external factors, the major impediments for MSMEs to tap into the possibilities of digitalization are the lack of digital infrastructure and insufficient digital capabilities.



Recommendation 3

Economic Growth – G20 Leaders should leverage the Sustainability Agenda’s funding and investments to support GVC ecosystems

While the actions outlined in terms of Productivity (section 2b) deliver positive impacts on their own, it is their **combination** that could make a systemic impact. **Benefits** of these proposed actions are reaped by all stakeholders - **private and public** - and go beyond overcoming bureaucratic obstacles and firms’ burdens in operating through GVCs or improving the cash management of a single entity. **If implemented as part of the Sustainability agenda, this combination would create a systemic virtuous cycle which would benefit the wider economy and employment across all countries the GVCs spans through.** Indeed, it would allow to:

1. **Raise efficiencies** across funding processes and help simplify burdensome requirements such as in KYC and AML. Firms would not need to duplicate laborious compliance checks, but could instead draw on already verified documentation, which would reduce time and costs.
2. **Reinforce structural support to firms’ working capital, or even netting of payments**, hence improving timeliness of payments⁽²⁵⁾. This would bring actual cash into firms, supporting their needs without having to build up further leverage or having to resort to public support. Additionally, it will reduce arbitrage at the periphery of trade finance by firms encountering financial difficulties and masking their mounting borrowings.
3. **Systematically gathering consistent data** which in turn can support public administration, making compliance simpler, more consistent, and less costly, as well as **increasing transparency** and especially **“traceability”** of transactions. This can help tackle global challenges such as money laundering and financial crimes.

By enabling such a framework, whose components already exist, **Governments** can make a tangible difference towards supporting a sustainable and inclusive **long-term economic growth**, focusing on efficiency upturns, rather than committing more funding resources. A **real-world example of how this framework can deliver real and measurable benefits** is offered by the abovementioned C2FO platform. The company estimates that its platform has helped to **create 57,000 jobs** over the past eight years, assuming that 10% of every dollar accelerated would be directed toward a small business's payroll, based on research from the National Bureau of Economic Research. The platform's users have achieved other **significant cost savings**, too, including an estimated US\$ 1.2 billion in financing costs because they could reduce or avoid borrowing from traditional lenders. **Larger businesses have benefited** too, saving roughly US\$ 1 billion through early payment discounts. In summary, such a powerful combination would allow Sustainability agenda investments to become "**sustainable GVC ecosystems**" built on trustworthy and safe processes benefiting all players, including paving the road to enhanced MSME participation in GVCs.

Moreover, reliable certification will contribute to **financial crime prevention**, such as money laundering or terrorist financing, though a key **ingredient will be having private and public cooperation**.

Importantly, it is worth clarifying that such "GVC ecosystems" are agnostic to the nature of the technological solution itself (e.g., blockchain versus other digital solutions). However, it is important to promote uniform principles and practices at the international level to accelerate the digitalization of trade finance and make exchanges smoother, easier and less costly through digital platforms in order to enhance global trade. Platforms themselves need to be safe, transparent, innovative, easy to access, and recognized on a global scale.

Infrastructure Investments – a case in point

A perfect case in point is strategic initiatives like the **infrastructure investments critically needed to meet the Sustainability** agenda, which will advance pipelines, improve their transparency, and be a critical lever to support economic recovery post the Covid-19 pandemic. Indeed, at the COP26 it was pledged for public funding to act as the cornerstone investment to **crowd in private capital**, in order to develop infrastructure, so critical to the transition to sustainability.

Working on the three axes, it is critical that **regulations** are designed to incentivise long-term investments such as those needed to fund infrastructure projects. Some pieces of regulation, instead, hamper infrastructure finance, such as IFRS9, an example of a policy that risks nullifying its intended effects. To secure the long-term sustainability and needed deployment of network infrastructures, policy frameworks should ensure all market actors benefiting from the digital transformation **assume their social responsibilities** and make a fair and proportionate contribution to the costs of running and rolling out such networks. On the **productivity** side, with firms able to operate their invoices (towards both private and public players) on digital platforms increases their working capital, releasing free cash flows.

This in turn benefits the smaller players in the GVC, and on a systematic scale, propels benefits in the **wider economy**, including increasing employment. In order for the virtuous cycle generated by the "propeller" to operate effectively, delivering its systemic benefits from infrastructure investments down to wider employment and growth, a critical role is played by the GVCs, and within those by MSMEs, more vulnerable following the pandemic with increased debt levels. For this reason, fostering their access to capital, is fundamental. **These savings represent an invaluable asset that needs to be mobilized towards global economic growth**, particularly in supporting MSMEs, the weakest link in the chain.



⁽²⁵⁾ There is one caveat in cases where netting of payments is not possible for tax reasons.

Infrastructure investments are a natural channel, which also benefits the Sustainability agenda. In this context, digital infrastructures are critical, as they are considered essential enablers of the energy transition. It is therefore of great importance to update regulatory frameworks and implement appropriate policies to foster private investment and accelerate the deployment of high-capacity networks. Hence, it is recommended that policy-makers ensure that the effective supportive measures put in place to aid firms during the pandemic are progressed in order to help ensure the mobilisation of private capitals towards infrastructure investments, which then can filter down to MSMEs and the wider economy.

In a nutshell, if we ensure that the appropriate actions are put in place in a synergistic way, **infrastructure investments will not only contribute to the Sustainability agenda, but will also “propel” benefits, ultimately contributing to sustainable and inclusive growth, thus, exiting the “low productivity trap,”** for firms of all sizes, filtering down from larger corporates to MSMEs, through the GVCs.



⁽²⁵⁾ There is one caveat in cases where netting of payments is not possible for tax reasons.

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LIST OF ACRONYMS



AES	Advanced Electronic Signature	MPIA	Multi-Party Implementation Agreement
AML	Anti-Money Laundering	OECD	Organisation for Economic Co-operation and Development
BAFT	Bankers' Association for Finance and Trade	QES	Qualified Electronic Signature
BIAC	Business and Industry Advisory Committee	SDGs	Sustainable Development Goals
CCF	Credit Conversion Factor	SME	Small and Medium-Sized enterprise
CFT	Combating the Financing of Terrorism	UN	United Nations
DLs	Distributed ledgers	WCO	World Customs Organization
DLT	Distributed Ledger Technology	WEF	World Economic Forum
EBIDA	Earnings Before Interest, Depreciation and Amortization	WTO	World Trade Organization
ESG	Environment, Social and Governance		
EU	European Union		
FSB	Financial Stability Board		
GLEIF	Global Legal Entity Identifier Foundation		
GDP	Gross Domestic Product		
GDPR	General Data Protection Regulation		
GPFI	Global Partnership for Financial Inclusion		
GVCs	Global Value Chains		
ICC	International Chamber of Commerce		
IFC	International Finance Corporation		
IFRS	International Financial Reporting Standards		
IFSA	International Financial Services Association		
ILO	International Labour Organisation		
IRB	Internal Ratings-Based		
ISO	International Organisation for Standardisation		
KYC	Know Your Customer		
LEI	Legal Entity Identifier		
MDBs	Multilateral Development Banks		



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