Multilateral Reform Working Group

The Multilateral Reform Working Group (MRWG) is an endeavor of the Bretton Woods Committee to consider how the multilateral system can continue to deliver on its mandate and how it needs to be strengthened and reformed to operate on width and scale to be effective in the new era. How can the G20, and the multilateral institutions through which it operates, be made a relevant and effective forum for multilateralism again, while recognizing that the benefits of multilateralism go hand in hand with following the rules that underpin it?

The MRWG will take its starting point from the G-20 Eminent Persons Group (EPG) Report\(^1\) that was issued in September 2018.

I. **Background**

What has changed since the issuance of the EPG Report?

1. **The War in Ukraine** has ruptured the rules that governed the international order.
   - The peace dividend has evaporated as defense spending has risen in the advanced world.
   - **Cyber risks** will get further prominence.
   - A diminished Russia will pose security risks.

2. **Pandemics** have led to a colossal loss of life as well as a strain on the fiscal situation due to Covid related expenditures.
   - The closing of schools has led to a worsening of the educational divide.
   - The virus will continue to mutate, defenses proved weak and coordination across jurisdictions was almost absent.

3. **Climate:** increase (rather than decrease) in fossil fuel consumption together with increase in prices, without alternatives at hand. Increase in the frequency of extreme events and record temperatures in many regions.

4. **Cost of living crisis**—Inflation together with increases in oil, food, fertilizer, commodities, industrial products, etc., will entail losses in purchasing power especially for the weaker segments of our societies, especially as they were the segments worst hit by the Covid crisis. Changes in trade patterns and investment flows may reduce efficiencies achieved in the last few decades, further increasing production and trading costs.

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\(^1\) G 20 Eminent Persons Group (2018): “Making the Global Financial System Work for All”.
5. **Financial stability**—Restrictive monetary policies to bring high inflation down and second round effects pose a risk for financial stability. That said, the financial system is on a much stronger footing compared with the 2008 crisis.

6. **Digitalization** and digital public infrastructure (DPI) has exploded at an exponential pace and will dominate the architecture of development from now on. The Covid pandemic has demonstrated the power of DPIs. Countries with effective DPIs could blunt the worst ravages of the lockdowns. Those countries that did not, unfortunately, struggled. We lack the institutions to represent global interests in the digital space.

7. **Private capital** has expanded in size and—intertwined with technology—in form. Central bank monopoly on the issuance of money is being challenged and new forms of innovative financial products/exchanges are emerging whose size is large and whose risks over an entire credit cycle are largely unknown (NBFI, etc.). Large sums of private capital also provide a welcome new source of funding if challenged properly, but at the same time could prove a source of massive instability if left unregulated.

**II. Consequences**

1. Management of the global economy will be more complex on the aggregate and an individual level.
   - At the aggregate level, economic models do not deal well with supply side disruptions.
   - At the individual level, most managers have not experienced an inflationary environment and at the same time need to adapt to repeated risks of supply chain disruptions and bottlenecks in a globally diversified corporate setting.

2. Inequality will rise sharply, both within and between countries (rich vs poor). Inflation and the heavy fiscal burdens of an aging society will aggravate the generational conflict within many societies (young vs old). The challenges to maintaining living standards will further complicate and polarize political decision-making processes and advance further the rise of populist movements.

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2 Digital Public Infrastructure consists of interoperable digital platforms that enable basic, society-wide transactions. The Covid pandemic has demonstrated the power of DPIs. Countries with effective DPIs could provide emergency fiscal transfers to hundreds of millions; their health systems could support and coordinate vaccine deployment across large populations; their education systems could offer platforms for learning; and, their digital commerce platforms augmented by digital payment systems could blunt the worst ravages of the lockdowns.
3. **Falling productivity** for many decades was intensified during the pandemic. The loss of schooling, especially for children under 10, during the pandemic will add to this and will be a drag on global growth for the next 50 years.

4. **Polarization in the making**—geo-political tensions and the knock-on effects of the war in Ukraine can lead to lasting fragmentation: like alternative payments and financial systems, alternative technological ecosystems, and alternative trading systems which will lower global growth. Strategic competition will dominate.

[An important task of the MRWG will be to define the challenges and frame the discussion.]

III. **Framing the Discussion (an illustrative example)**

Most of the shocks in section I, except for digitalization, are inflationary and have a depressing effect on supply. Digitalization, on the other hand, offers possibilities previously unseen. Take the example of the climate crisis: It makes existing private capital and infrastructure capital more obsolete, makes existing technologies more redundant, may increase energy costs & reduces usable energy availability. This can have a negative impact on employment and thus on skilled & mostly on unskilled labor, therefore increasing inequality.

To **offset** the negative effects of the unfolding climate crisis, increased R&D and therefore innovative climate friendly technology development is seen in many policy debates (US) as the way out (this would counter the above negative effects with a policy response that would offset or ideally overcompensate the negative shock impact). Nuclear and sustainable energy are the two focus areas in the US. Other constituencies see nuclear more skeptical (Japan, Germany, …) or are somewhere in between (EU, France focus in both nuclear and sustainable). Adaptation efforts through public works, changes in production processes, and ways of life will also be necessary as extreme weather events and other pressures build up in the next 25 years, even in the best of the worlds. What is lacking is a global coordinated approach to address these transition costs. Global commons could fill this gap. An empowered international energy agency, with corresponding governance, could coordinate approaches and spearhead the energy transformation agenda. This could include ways to address the unavoidable transition costs and impact on labor markets, whilst at the same time ensuring a consistent energy security framework during this transition that is more shock resilient (war in Ukraine as an add-on shock).

The same points can be made about the pandemic or the impact of a cyber-attack.

IV. **In the present circumstances, International Financial Institutions (IFIs) are more important than before. They require the right mandate and reformed governance structures to operate in the new era.**

**Issues that arise include:**
1. What is the *raison d’être* of IFIs? Even in an era of low trust and strong strategic competition (like now) there are issues that require global cooperation. IFIs are the vehicle to achieve this. In an era of strategic competition, how can IFIs be effective?

2. **Adequate balance between the G20 and the IFIs.** Is the proliferation of G20 working groups undermining IFIs as they dis-empower 170 other countries? Does the G20 need right sizing to enable IFIs to work effectively? How effective have the IFIs and other multilateral institutions (MIs) been in representing non-G20 countries in the G20 environment?

3. Do IFIs have the **right mandate** in the new era? Is there a gap?
   - What is the right balance between focusing on the global commons and poverty reduction? How should the World Bank (and the regional development banks) balance their focus on the global commons with their mandate to eradicate poverty, noting that poverty reduction without tackling the commons is not possible?
   - Should IFIs be focused on:
     - **Establishing rules** of the road applicable across countries; or
     - **Assembling financing** (e.g., commissioning vaccines, helping fund global health warning systems, education action to compensate for Covid lockdowns, Digital and Climate-friendly Infrastructure, coal decommissioning efforts, etc.); or
     - **Both**

4. It is clear that **public and private investments** will need to be catalyzed for the global commons.
   - What would repurposed IFIs look like?
   - How do IFIs support system wide risk mitigation? Should IFIs move from lending to taking an equity position?
   - Do IFIs have the size and capital enough to have a meaningful impact on this financing?
   - Should IFIs focus on policy lending to help improve the business environment in partner countries?
   - Should IFIs prioritize investment in adaptation and public health/digital infrastructure?

5. With regards to the **financial system:**
   - **Surveillance.** Given the surge in capital and liquidity and an increase in the size and speed of shocks, do the IMF, FSB and BIS have adequate coverage of macro issues?
     - **Inflation.**
     - **Global risks,** including global imbalances and global liquidity.
     - **Multilaterally consistent exchange rates.**
• Is the global financial system providing financing at scale and in time?
  → Are IMF facilities adequately used? Is there a gap?
  → Have systemic central bank swap lines undermined the role of the IMF? How can IMF temporarily expand its balance sheet to meet large liquidity needs of its members, especially emerging markets which provide the bulk of global growth yet are subject to periodic shocks. Should the IMF intermediate central bank swap lines borrow from the market?
  → Debt architecture is broken.
    ⇒ New creditors, especially China, are the largest creditors but outside the net.
    ⇒ Common framework is not working.
    ⇒ Are contractual terms adequate?

6. **Gap: Governance of the digital economy.** Technology provides the possibility of leapfrogging traditional evolutionary processes. What is the new digital architecture that democratizes access to technology and data for the people? Data governance is where climate was 20 years ago when IFIs had little role in addressing associated finance or risk management.

7. **IFIs Governance reform.** Without adequate progress on quotas, management selection, and voting majorities, IFIs will suffer from a legitimacy gap, making it harder for effective multilateralism to function. At the same time, global fragmentation does not augur well for governance reform. How can governance reform be addressed in a polarized world?