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Global Economic Recovery

Towards Overall Global Prosperity 2023

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List of Abbreviations

BIS	Bank of International Settlements
CSR	Corporate Social Responsibility
DSSI	Debt Service Suspension Initiative
EMDEs	Emerging Market and Developing Economies
FCS	Fragile and Conflict-affected States
FCV	Fragility, Conflict and Violence
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GIRS	Green and Inclusive Recovery Strategy
GPG	Global Public Good
HICs	High-income Countries
IMF	International Monetary Fund
LICs	Low-income Countries
LMICs	Low-middle-income Countries
MAP	Mutual Assessment Process
MDB	Multilateral Development Bank
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Co-operation and Development
PDA	Public Debt Registry
SDA	Sovereign Debt Authority
SDGs	Sustainable Development Goals
SDR	Special Drawing Right
SDSN	Sustainable Development Solutions Network
UMICs	Upper-middle-income Countries
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

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Executive Summary

- The global economy experienced a rapid recovery in 2021 with a growth of 6.3 per cent, rebounding from a 2.8 per cent contraction in 2020 due to the pandemic-related slowdown. However, growth slowed again to 3.5 per cent in 2022. IMF's outlook projects global growth at 3.0 per cent for 2023 and 2024, weaker than the historical standards.

- The Covid-19 crisis had a more significant negative impact on developing regions, particularly Africa and South Asia. The pandemic led to a severe global recession, causing a cumulative loss of around US$9 trillion to global GDP in 2020-2021. This was higher than the loss experienced during the 2008 financial crisis.

- The pandemic led to substantial increase in debt burden for countries worldwide. The elevated debt levels are particularly pronounced in developing countries as they were constrained by limited fiscal space to implement stimulus measures. Rising debt has worsened economic disparities and deepened global inequality.

- The progress towards achieving the Sustainable Development Goals (SDGs) has stifled due to the pandemic. The financing gap for SDGs, especially in developing nations, has widened due to reduced resources and escalating financial needs.

- Concerns about global macroeconomic stability have surfaced due to central banks' and policymakers' responses to the pandemic. As advanced economies started winding down unconventional monetary measures, emerging economies faced repercussions such as reduced capital inflow and higher financing costs.

- The paper offers recommendations to address these pressing global challenges, including sustainable debt reduction, promoting private investment for public goods, and enhancing global policy coordination. Through these efforts, the global community can steer towards a resilient, equitable and sustainable economic recovery.

- Establishing an independent Sovereign Debt Authority for debt management, instituting a public debt registry for data access, and restructuring debt relief packages to prioritize green and inclusive growth are specific measures that can align global debt towards sustainable levels, enabling resource allocation for critical global public goods.

- Leveraging private capital for financing global public goods is crucial for bridging the SDG funding gap. Proposed policy recommendations to unleash private potential and address the investment gap include creating a Global Fund for mobilizing resources from diverse sources, adopting Indian model of CSR to involve private sector in societal and environmental concerns, and leveraging blended finance to attract commercial capital in developmental projects.

- The current landscape of global inflationary trends and high debt levels necessitate proactive measures to safeguard macroeconomic and financial stability. Establishing a Global Macroeconomic Stability Council (GMSC), developing joint crisis management framework, invigorating G-20 Mutual Assessment Process (MAP), and addressing fragility, conflict, and violence (FCV) issues can bolster global economic resilience and stability.

INTRODUCTION

Global Growth Trajectory

Tracing the Path of Global Growth

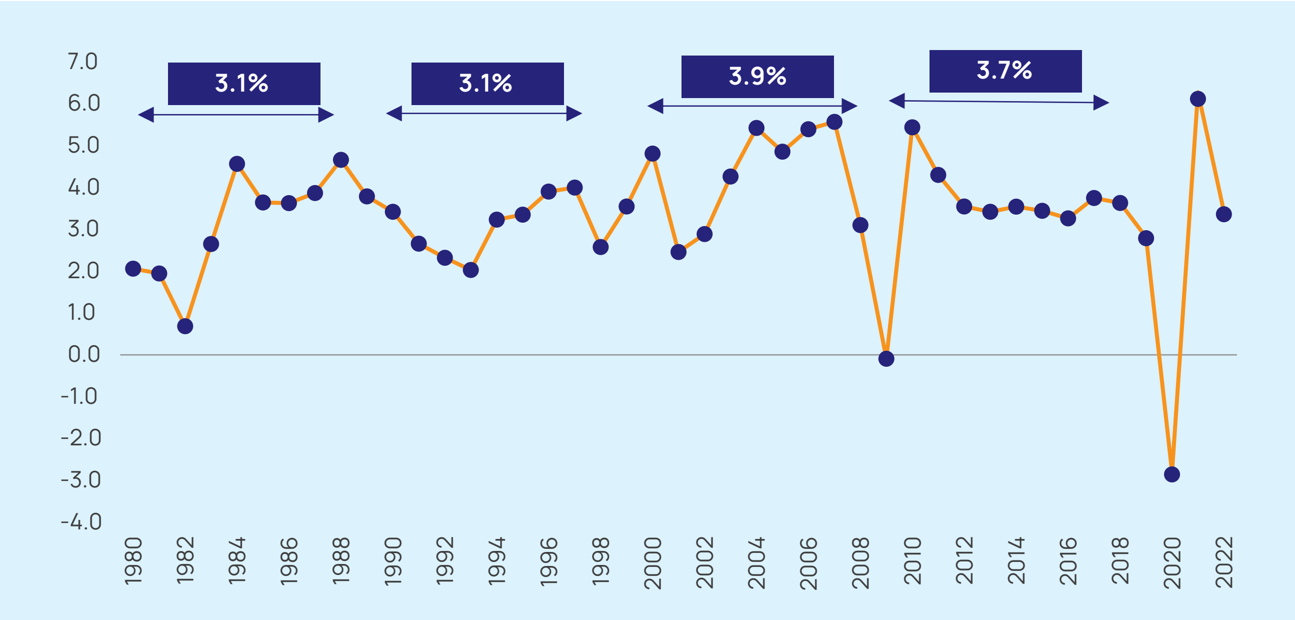
The global economy demonstrated remarkable growth, swiftly recovering to reach 6.3 per cent in 2021 after a sharp contraction of 2.8 per cent in 2020 due to the pandemic inflicted slowdown. Despite staging a 'V shaped' recovery in 2021, the growth decelerated to 3.5 per cent in 2022, partly due to high base effect and the adverse impact of the Russia-Ukraine war. The year also witnessed a slowdown due to high interest rates as Central Banks raised rates in response to commodity price rise as a result of the war.

As per the International Monetary Fund's (IMF) latest set of forecasts released in July 2023, the global economy is expected to grow at 3.0 per cent in 2023 and 2024. While the forecast is modestly higher (by 10 basis points) than predicted in April 2023, it remains weak by historical standards. It marks the weakest growth profile since 2001 barring the deceleration witnessed due to global financial crisis and the pandemic. However, the multilateral agency expects the slowdown to be less pronounced than previously anticipated, due to the 'surprisingly resilient' demand in the US and Europe, easing of energy costs and the reopening of China.

From a longer-term perspective, since the 1980s, the global economy has contracted only in two years. The first contraction was witnessed in 2009 when the economy declined by -0.09 per cent due to shocks emanating from the global financial crisis. The second decline was seen more recently in 2020 due to the pandemic (figure 1.1).

In the last two decades, the world has seen many major crises with genesis in different global regions. Annexure I captures the timeline of major crises which the world has witnessed in the last two decades along with an analysis of the key learnings from each of the major crises.

Figure 1.1: Global Growth Trajectory (y-o-y%)



Source: IMF WEO database (April 2023)

Note: The number in solid boxes are the decadal averages

Disparate impact of Covid-19 pandemic

Across the world, but particularly in developing regions, the ramifications from the Covid-19 crisis have been greater than that from the global financial crisis (GFC), with Africa and South Asia experiencing the most pronounced effects. Covid-19 triggered a global crisis like no other – a global health crisis that, in addition to enormous human toll, led to the deepest global recession since the Second World War.

The cumulative loss to global GDP over 2020 and 2021 from the pandemic was about US$9 trillion[1], greater than the economies of Japan and Germany combined. While, in case of global financial crisis of 2008, the loss in global economic growth was much lower at around US$2 trillion[2] .

The magnitude of the Covid-19 crisis could be gauged from the fact that for the first time since the great depression, both advanced and emerging economies underwent a recession. The extent of contraction in output was deeper than the one witnessed during the global financial crisis of 2008 (figure 1.2(a)). A glance at the performance of different regions shows that the sharpest contraction was witnessed by Latin America and the Caribbean (-6.8 per cent in 2020 vs -1.9 per cent in 2009), followed by the Euro Area (-6.1 per cent in 2020 vs -4.5 per cent in 2009) and the Middle East and Central Asia (-2.7 per cent in 2020 vs a growth of 1.2 per cent in 2009) (figure 1.2(b)).

Figure 1.2(a): Global growth (y-o-y%)

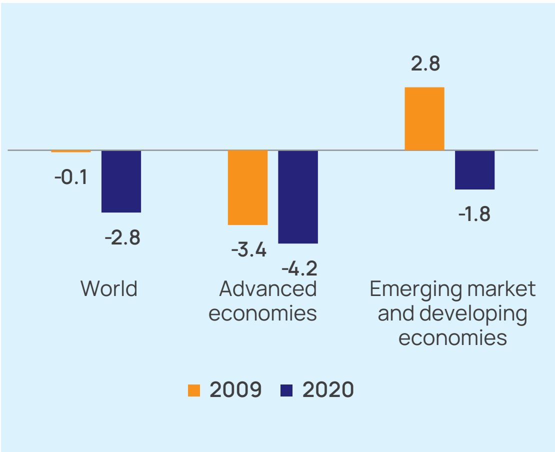
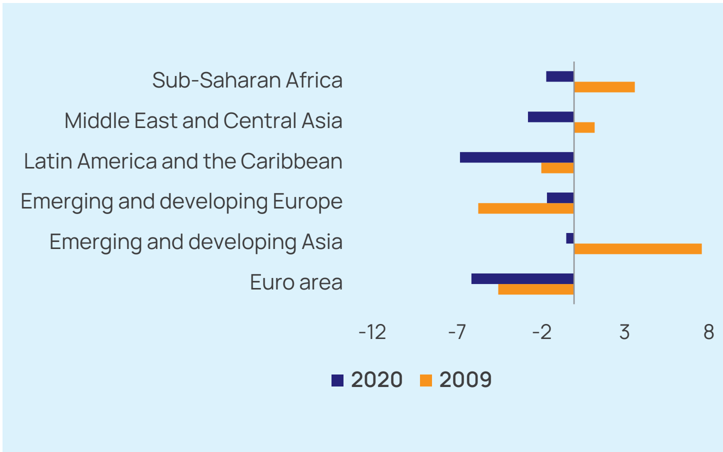


Figure 1.2(b): Region-wise global growth (y-o-y%)



Source: IMF data

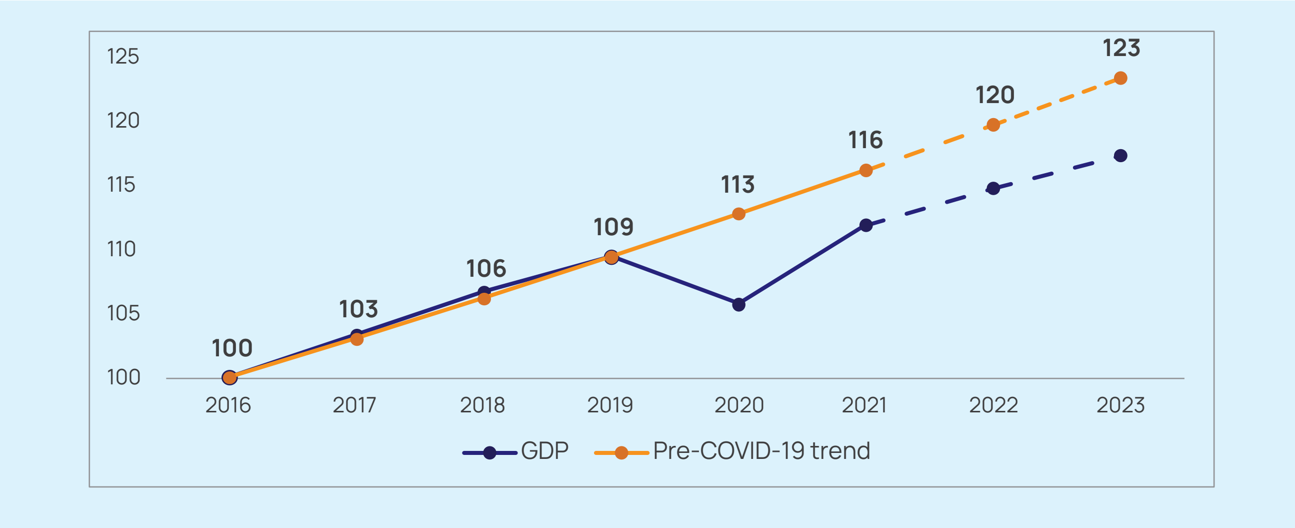
Is global output back to its pre-pandemic trend?

In 2022, United Nations Conference on Trade and Development (UNCTAD) projected global growth to slow to 3.6 per cent. This projection implies that the global income remains 3.7 per cent below the trajectory it would have been on, had the pandemic not occurred (as depicted in figure 1.3). This translates to an expected cumulative income loss of about US$13 trillion in the period 2020-22.

Further, as per UNCTAD's analysis, global output will return to its pre-pandemic (2016-19) trend only by 2030, barring significant setbacks. However, this fact conceals the deeper problem that the pre-Covid-19 income growth trend was itself unsatisfactory. In fact, the average annual global growth in the decade after the GFC was the slowest since 1945.

[1] https://www.imf.org/en/Blogs/Articles/2020/04/14/blog-weo-the-great-lockdown-worst-economic-downturn-since-the-great-depression
[2] https://www.washingtonpost.com/business/economy/a-guide-to-the-financial-crisis-10-years-later/2018/09/10/114b76ba-af10-11e8-a20b-5f4f84429666_story.html

Figure 1.3: COVID-19 recovery compared to the pre-pandemic trend



Source: UNCTAD

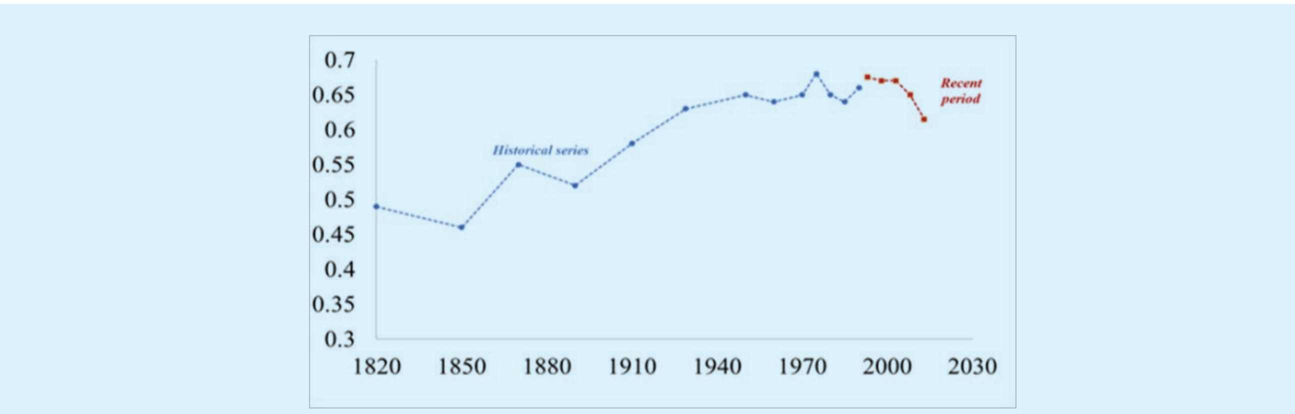
Note: [Index numbers: 2016=100, 2016-23]

Towards overall global prosperity

The Covid-19 pandemic has led to burgeoning debt burden for countries worldwide. This surge in global debt has reached historically unprecedented levels, predominantly due to extensive government borrowing in response to the pandemic. The elevated debt levels are particularly pronounced in developing countries as they were constrained by limited fiscal space to implement comprehensive stimulus measures. Notably, the International Monetary Fund (IMF) reports a five-fold increase in global public debt in 2022 compared to the year 2000. This surge has propelled global public debt to US$92.2 trillion in 2022 from the US$16.6 trillion recorded in 2000, with projections indicating further increases.

This rising debt has further worsened economic disparities and deepened global inequality. Despite a previous downward trend since the 1990s, global inequality, as shown by Gini Coefficient in figure 1.4, has risen sharply in the aftermath of the Covid-19 crisis.

Figure 1.4: Global Income Inequality (Gini Coefficient)



Source: IMF

Note: The red line is the forecast period

The Covid-19 crisis has also stifled the progress towards achieving Sustainable Development Goals (SDGs). The targets set for SDGs are now notably off the track (figure 1.5). The financing gap for SDGs, particularly in developing countries, has widened due to reduced resources and rising financing needs. The pre-existing SDG financing gap has widened due to increased spending and a drop in private funding. In 2015, when the SDGs were adopted, an estimated US$2.5 trillion annually was required to achieve them. However, this figure has now surged to approximately US$4.0 trillion annually, necessitating the need for additional funding. Public funds alone, however, are insufficient to bridge this gap required for achieving SDGs by 2030. Therefore, leveraging private investments is necessary to bridge the funding gap and effectively realize these goals.

Figure 1.5: World SDG Dashboard in 2022

Source: Sustainable Development Report, 2023

The repercussions of the Covid-19 crisis have also brought global macroeconomic stability concerns to the forefront. In response to the pandemic, central banks and policymakers implemented unconventional monetary policy measures and massive fiscal stimulus packages. However, these actions have subsequently led to rising inflationary pressures and escalating debt levels. With central banks, particularly those of advanced economies, winding down their expansionary monetary measures, emerging economies are grappled with substantial repercussions, including reduced international private capital inflows and increased financing costs amidst rising debt levels.

Against this backdrop of mounting public debt, huge SDG financing gap, and concerns regarding macroeconomic stability, this policy paper proffers policy recommendations to address the global challenges. Addressing these challenges necessitates reducing the global debt to sustainable levels, particularly in low-income countries, thereby facilitating government resource allocation. Galvanizing private capital to support global public goods assumes equal importance. Moreover, fostering enhanced global policy coordination is vital for ensuring macroeconomic stability. Through collective efforts to address these pressing global concerns, the global community can pave way for a resilient, equitable, and sustainable global economic recovery.

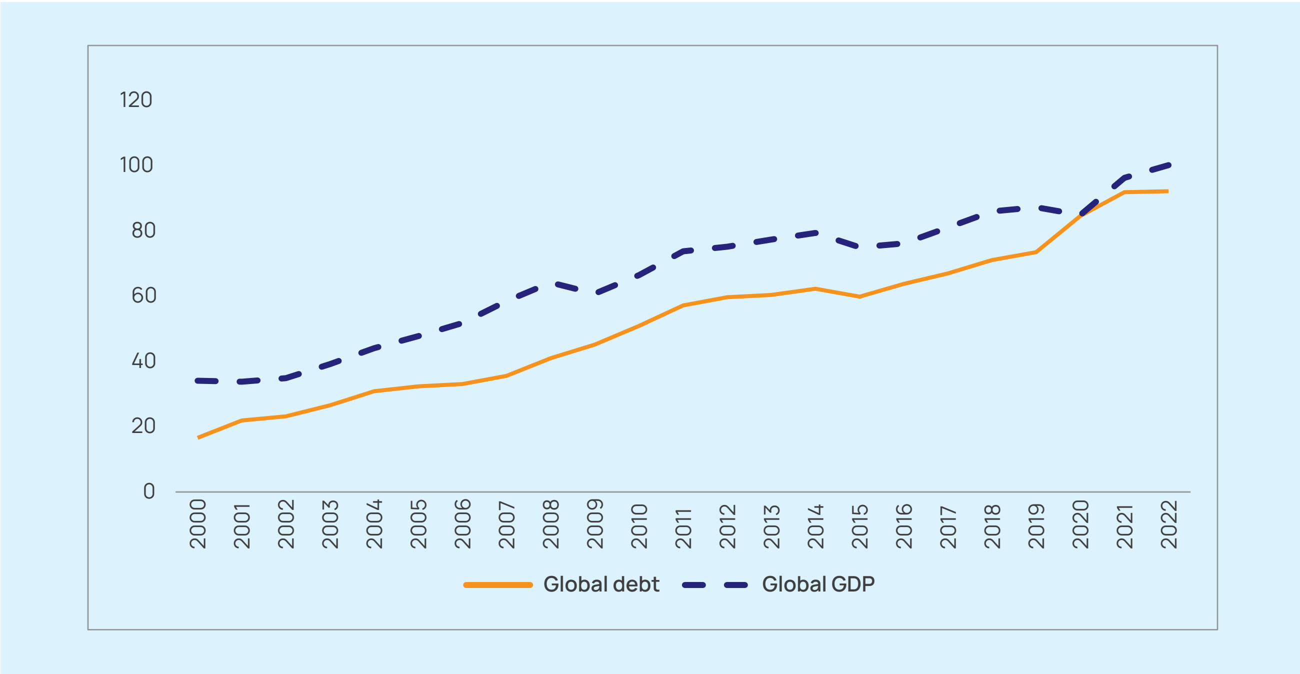
The rest of the paper lays down key recommendations to propel global economic recovery and ensure that the impact of any future crises on the global economy is minimized. These recommendations serve as a roadmap for achieving the SDGs and ensuring prosperity for all.

BRINGING DOWN GLOBAL DEBT

A world of debt disrupts prosperity of the people and the planet

Global public debt – comprising general government domestic and external debt- has reached an all-time high of US$92 trillion in 2022, which translates into a five-fold rise since 2000, outpacing global GDP which has tripled over the same time. This translates into 92 per cent of GDP, which is a steep rise from 48.7 per cent seen in 2000 (figure 2.1).

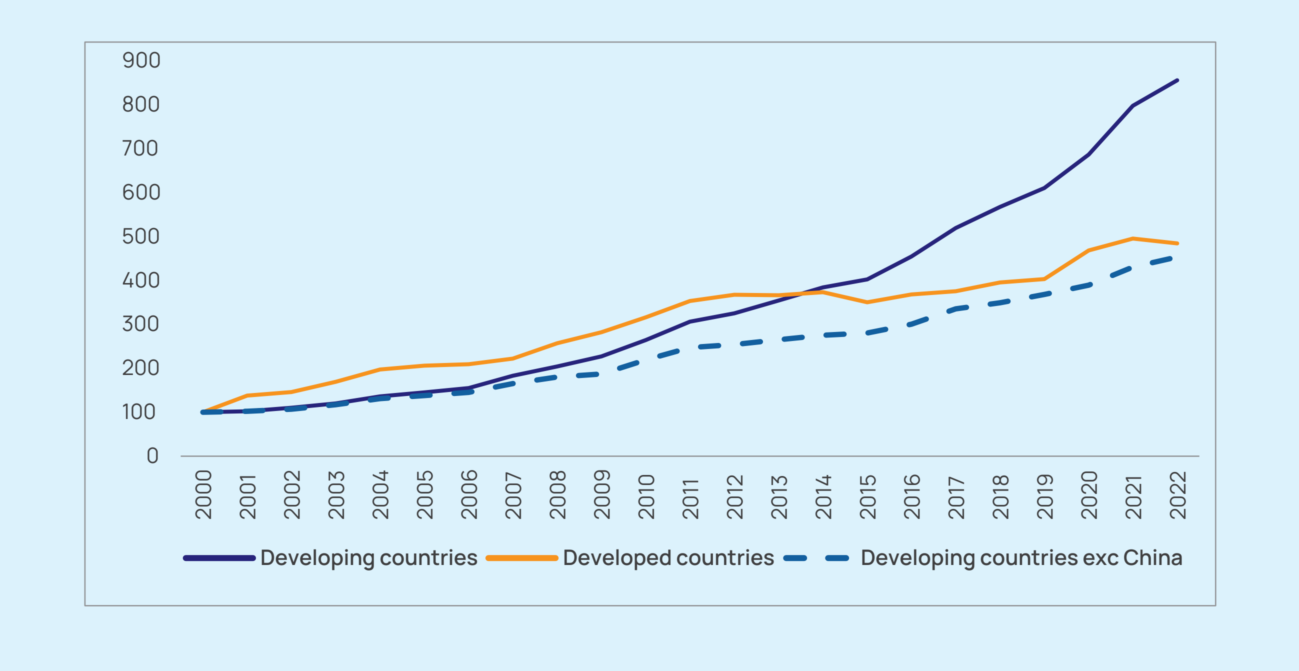
Figure 2.1: Sharp rise seen in global public debt levels (US$ trillion)



Source: IMF World Economic Outlook (April 2023)

Public debt has grown at a faster rate in developing economies as opposed to the developed economies in the last decade. The total public debt of developing nations climbed from 35 per cent of GDP in 2010 to 60 per cent of GDP in 2021 (figure 2.2). The portion of government's debt that is owed to creditors abroad, known as external public debt, climbed from 19 per cent of GDP in 2010 to 29 per cent of GDP in 2021. The fast rise in the debt levels of the developing economies is attributable to their growing development financing needs which has been exacerbated by the COVID-19 pandemic, lack of alternate sources of funding and financing their other developmental requirements.

Figure 2.2: Developing economies have seen a faster rise in public debt

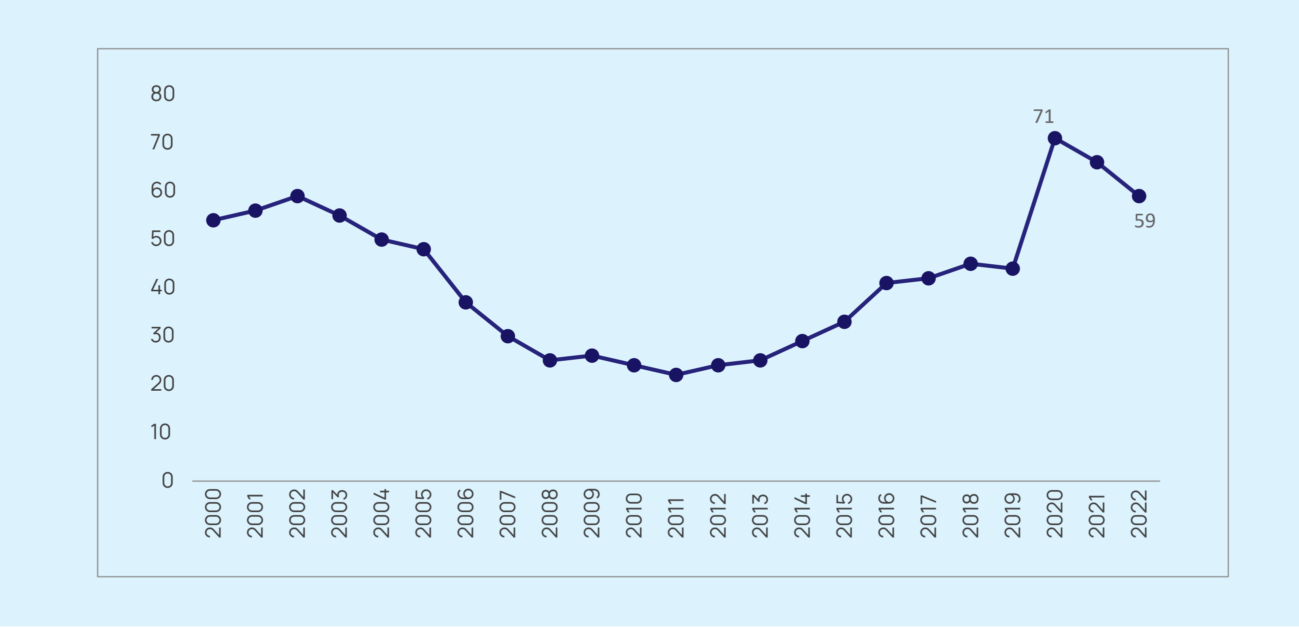


Source: IMF World Economic Outlook (April 2023)

Note: Outstanding public debt in 2000 =100

As per UN (2023) Report , the number of countries with high levels of debt (exceeding 60 per cent of GDP) sharply rose from only 22 nations in 2011 to 59 countries in 2022 (figure 2.3).

Figure 2.3: Number of developing countries with public debt exceeding 60% of GDP



Source: IMF

Why did the debt pile up?

The Covid-19 pandemic had resulted in a massive increase in fiscal deficit and debt accumulation due to the generous dole of fiscal stimulus administered by the governments globally in tandem with low interest rates. The pace of deficit and debt build-up was much faster than any of the previous episodes of recession. In fact, the scale is comparable only to the two 20th century world wars.

After the pandemic ended, the global financial conditions have been tightening as major central banks have raised interest rates to combat multi-year high levels of inflation.

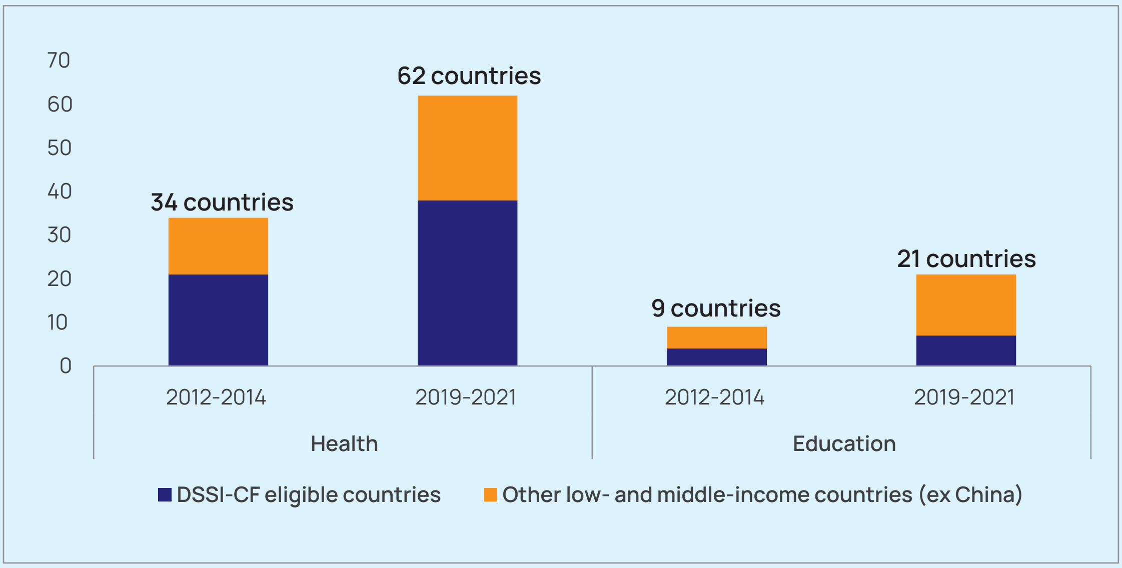
Resolving the debt overhang, amid slower growth and higher interest rates, could be painful–with governments cutting expenditures and borrowers defaulting. This situation is exacerbated when debt is denominated in foreign currency. The recent Sri Lanka default is a case in point.

An unequal international financial architecture which resulted in failed debt restructuring mechanisms in the past, emanating from the centrality of decision making in the multilateral institutions, is also partly responsible for the mounting colossal debt levels which has made developing countries' access to financing inadequate and expensive.

High opportunity cost of debt for the developing economies

Compared to public spending on necessities during the past 10 years, debt servicing expenses in the developing economies cohort has steadily risen. As per UNCTAD, during the last decade, the number of countries which had their external public debt servicing costs exceeding healthcare expenditures have increased from 34 to 62 (figure 2.4). The number of countries where interest spending represents 10 per cent or more of public revenues has also increased from 29 in 2010 to 55 in 2020.

Figure 2.4: Number of countries spending more money on debt service / interest payment than on select social sector parameters



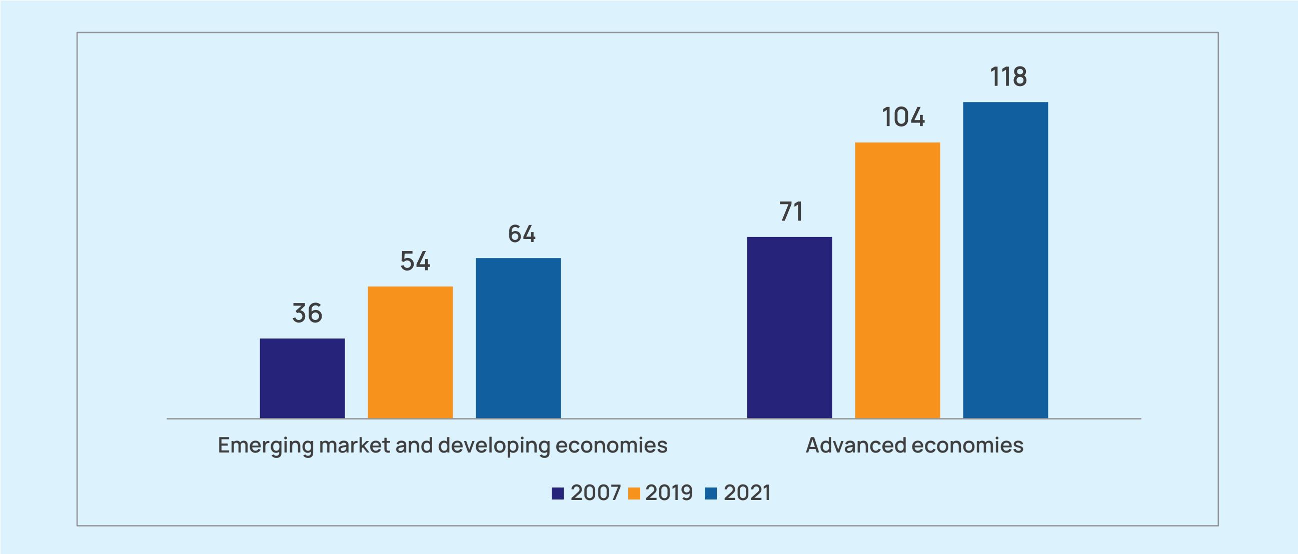
Source: UNCTAD

Note: Debt Service Suspension Initiative (DSSI) and Common Framework (CF) eligible countries

Sharp rise in government leverage is a concern area

Government debt has registered the fastest increase out of all the sub-heads of debt. The government debt of both emerging economies and advanced economies has risen at a fast pace since the year 2007, when the global financial crisis occurred. Government debt of emerging economies rose from 36 per cent in 2007 to 64 per cent in 2021, while that of the advanced economies rose from 71 per cent to 118 per cent in the same period (figure 2.5).

Figure 2.5: General Government debt (as a % of GDP)



Source: IMF World Economic Outlook (April 2023)

2.1: Debt relief programmes in action

Historically, there have been several frameworks that coordinated debt relief among multiple debtors and creditors, including the Paris Club, the Brady Plan, the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

In response to COVID-19, the G20 in May 2020 initiated the Debt Service Suspension Initiative (DSSI) which offered the 73 poorest countries debt relief by allowing them to postpone debt service payments on official bilateral debt while urging private creditors to join in. DSSI was able to suspend US$12.9 billion in debt-service payments owed by participant countries to their creditors between May 2020 (when it began) and December 2021, by latest estimates. It saw 48 of the 73 eligible countries participate and has enabled a coordinated release of resources to its beneficiary countries.

The Paris Club of mostly western traditional creditor nations joined China, India and Saudi Arabia in 2020 under the auspices of the Group of 20 biggest economies forum to agree to a roadmap — known as the Common Framework (CF) — to restructure struggling countries' debt on a case-by-case basis. As with the DSSI, this is only open to the 73 poorest countries, thus excluding several middle-income countries (MICs) with debt problems.

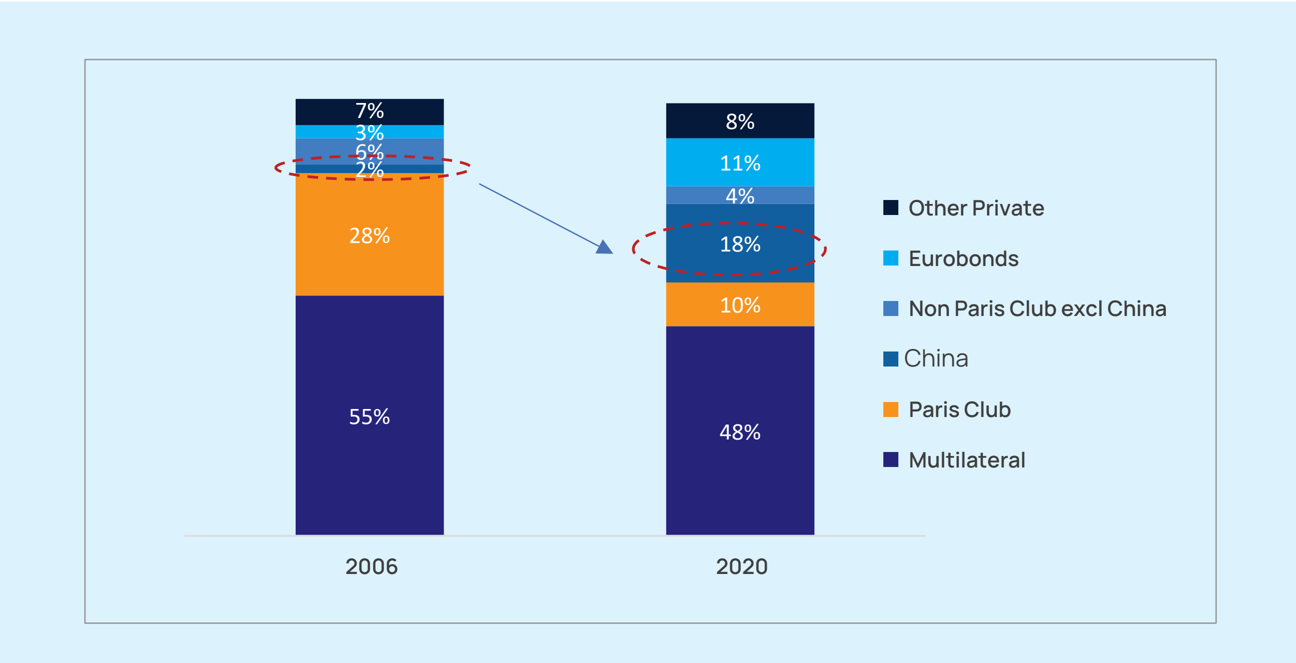
So far, under the CF, only three countries- Zambia, Chad and Ethiopia- are undergoing treatment, and only Zambia has made some progress. Because it is 'critical that private sector creditors implement debt relief …', the Common Framework also 'requires private creditors to participate on comparable terms' (Georgieva & Pazarbasioglu, 2021). Unfortunately, it does not include any mechanism for making them do so. The result is that that even the CF has not been able to achieve much. Thus, there is a broad agreement that the CF needs to be reformed and additional measures of liquidity support put in place given the tightening of global financial conditions.

China has become a major global lender

Interestingly, over the past two decades, China has become a major global lender, with its outstanding claims now exceeding 18 per cent of GDP of Debt Service Suspension Initiative (DSSI) countries. Almost all of this lending is official, coming from the government and state-controlled entities. China would therefore play a key role in most DSSI countries' debt restructurings that would involve official bilateral creditors.

The share of DSSI countries' external debt owed to the Paris Club creditors fell from 28 per cent in 2006 to 10 per cent in 2020. Over the same period, the share owed to China rose from 2 per cent to 18 per cent and the share of Eurobonds sold to private creditors increased from 3 per cent to 11 per cent (figure 2.6).

Figure 2.6: The clout of China is rising in external debt of the DSSI countries (as % of total external debt)



Source: World Bank & IMF

To summarize, global leverage has seen a multifold increase in the recent period with an unequal concentration in the developing and emerging economies. The various emergency debt relief measures such as DSSI, and the more recent Common Framework have not borne much fruit. Crisis resolutions are often too little, too late. The world lacks an effective system to deal with debt (UN, 2023). In view of the high opportunity cost of debt, which has affected the developing economies more acutely, there is a pressing need for bringing down the debt to sustainable levels so as to free-up resources for spending on global public goods.

The time to act is now!

The current situation requires decisive and coordinated action to guide global debt towards sustainable thresholds, enabling a redirection of resources towards important global public goods. As we face global debt challenges, the need for effective policies and collaborative approaches is imperative. The subsequent section outlines policy recommendations to curtail global debt to sustainable levels, particularly in low-income countries, freeing up government resources for the upliftment of the most vulnerable segments of society

Policy Recommendation: Bring down global debt to sustainable levels, especially in the low-income countries, to free-up government resources for the betterment of the lowest strata of the society who live in abject poverty

- **Set up an independent Sovereign Debt Authority under the aegis of the World Bank Group/IMF that engages with creditor and debtor interests to ensure greater coordination**

A global independent Sovereign Debt Authority (SDA) could be set up under the aegis of the World Bank or the International Monetary Fund (IMF) that engages with creditor and debtor interests. The concept aims to create an institution that can facilitate fair and transparent negotiations between sovereign debtors and creditors, enhance debt sustainability, and promote financial stability in the global economy.

Following are some potential benefits of such an arrangement:

Enhanced Multilateral Cooperation	An SDA supported by international financial institutions could encourage greater multilateral cooperation among countries, creditors, and international organizations to address systemic debt challenges effectively.
Streamline Procedures	Help to streamline and develop standardized approaches towards debt restructuring and crisis resolution by establishing clear rules & guidelines for dealing with sovereign debt issues.
Arbitration Function	Serve as a neutral arbitrator in debt restructuring negotiations between countries and their creditors. This could help in avoiding protracted and contentious negotiations and facilitate more effective debt resolution
Crisis Prevention and Resolution	By proactively engaging with countries facing debt vulnerabilities, the SDA could help prevent debt crises and promote early intervention measures to address potential debt distress. The agency could also, at the minimum, provide coherent guidelines for suspending debt paytments in disaster situations, ensuring SDGs are consdiered in debt sustainbility assessments and providing advice to governments in need.

The benefits of the proposed agency notwithstanding, there are certain challenges which exist in the functioning of the SDA. It will require coordination with the existing multilateral institutions such as the World Bank and the International Monetary Fund (IMF) as they have a significant proportion of their existing work in the domain of maintaining debt statistics and are the first line of help for providing emergency relief to countries facing debt stress. Hence, the proposed agency would be required to coordinate its roles and responsibilities with these institutions to avoid duplication and ensure a seamless global debt management framework.

Further, adequate resources would be critical to help the SDA carry out its functions effectively.

However, the source of flow of funds also needs to be monitored carefully to ensure the institution's independence. If set under the IMF, the voluntary reallocation of Special Drawing Rights (SDRs) from the countries with sufficient international reserves to a 'Pooled Fund' housed in SDA could be explored. This fund could be used to finance the funding requirements of the LICs/developing countries.

To conclude, the concept of establishing a global independent Sovereign Debt Authority operating under the aegis of the World Bank/IMF offers significant advantages in handling global sovereign debt issues. It does, however, also present important challenges, which would call for careful analysis and international cooperation.

- **Institutionalize a public debt registry for developing countries which would allow both lenders and borrowers to access debt data**

  For any debt resolution mechanism to be successful, having an accurate sense of the debt levels in the debtor countries is of utmost importance. At present both World Bank and International Monetary Fund have a panel data on debt statistics, but the data updations take place only on an annual or bi-annual basis. Thus, the data loses its relevance for basing critical decisions pertaining to lending by the creditors.

  This is the gap which institutionalisation of a public debt registry (PDA) will help to plug in.

  A public debt registry for developing/LICs countries would serve as a central repository of comprehensive and real-time information on a country's public debt, making data accessible to both lenders and borrowers.

  The institutionalisation of a public debt registry with updated information on debt statistics would go a long way in boosting debt transparency, strengthening debt management, reducing the risk of debt distress, and improving access to financing. Greater coordination among creditors and debtors can help to improve the success of the restructuring process to bring down the debt ratios.

  Here are some key advantages of establishing a public debt registry:

  - Increasing transparency and strengthening accountability as Governments across the globe can reveal specific information about their borrowing activities, such as debt amounts, terms, maturity profiles, and interest rates, on a public debt registry. A creditor can access this data and take informed decision based on the debt profile of the individual economies, which will help to lessen the information gap between creditors and debtors. This will also help to facilitate the exchange of best practices in debt management and data reporting, thus fostering greater market efficiency.

  - A public debt registry facilitates debt sustainability analysis and assists in debt restructuring negotiations by providing comprehensive information on a country's debt structure to all the relevant stakeholders. Governments and international organizations can use this data to assess a country's ability to meet its debt obligations over the long term before taking any lending decisions.

  - Regularly updated debt data in the registry can serve as an early warning system for potential debt-related risks and crises. By continuously monitoring and analyzing the real time information on debt positions of countries, policymakers and financial institutions can identify emerging issues and take timely actions to prevent or mitigate potential problems. Early warning indicators derived from debt data can identify countries that are most vulnerable to economic shocks and external pressures, which can exacerbate debt problems.

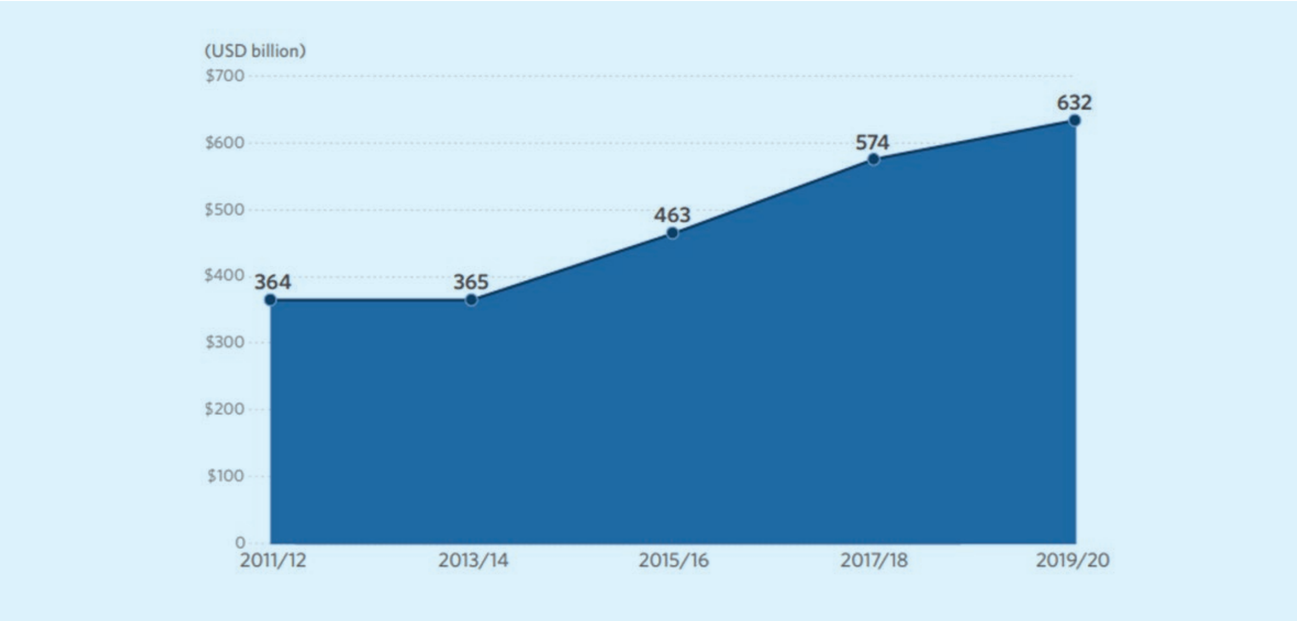
  Nations and international organizations must carefully prepare and commit to the creation of a public debt registry for it to be successful. Accurate data, user-friendliness, and interoperability with current debt management systems should be given top priority.

- **Realigning the restructuring of debt relief packages in favor of green and inclusive growth**

  Climate-related shocks are occurring more frequently and with greater intensity. More than ever, nations must make investments in equitable transitions and climate resilience. However, for many emerging market and developing economies (EMDEs), heavy debt loads make it impossible to achieve development and climate goals.

  Even at the global levels, total climate finance has steadily increased over the last decade, almost doubling to a cumulative US$4.8 trillion between 2011-2020. In 2019-20, global climate finance reached US$632 billion (figure 2.7). Public climate finance contributed 51 per cent (US$ 321 billion) of the total climate finance in 2019-20 with Development Finance Institutions (DFIs) contributing the balance (US$309 billion).

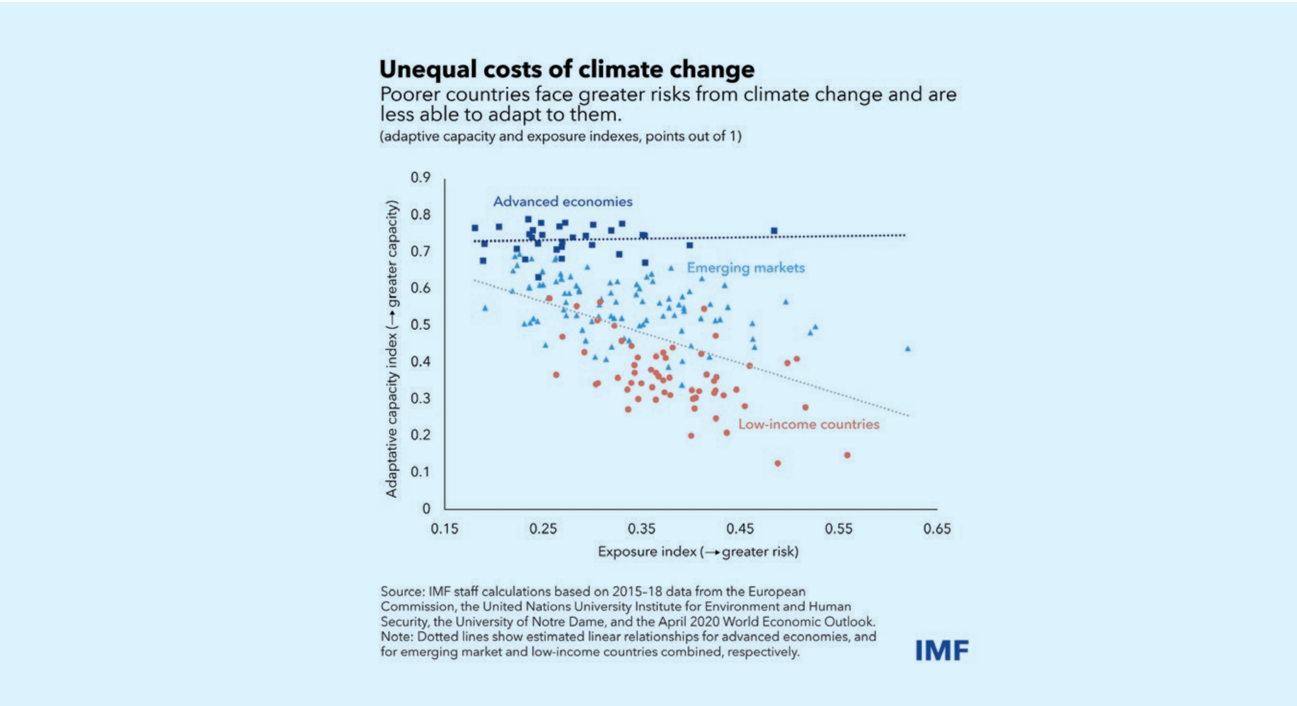
Figure 2.7: Global climate finance flows between 2011-2020, biennial averages



Source: IMF

The emerging markets and developing economies (EMDEs) experience a disproportional impact of meeting their climate financing needs due to their stressed financial positions (Figure 2.8). The Independent High-Level Expert Group on Climate Finance, estimates that by 2025, emerging markets and developing economies (EMDEs), excluding China, will require US$1.0 trillion in annual external financing to meet the Paris Agreement's climate change targets and fulfil the UN's 2030 Sustainable Development Goals (SDGs).

Figure 2.8: Unequal costs of climate change



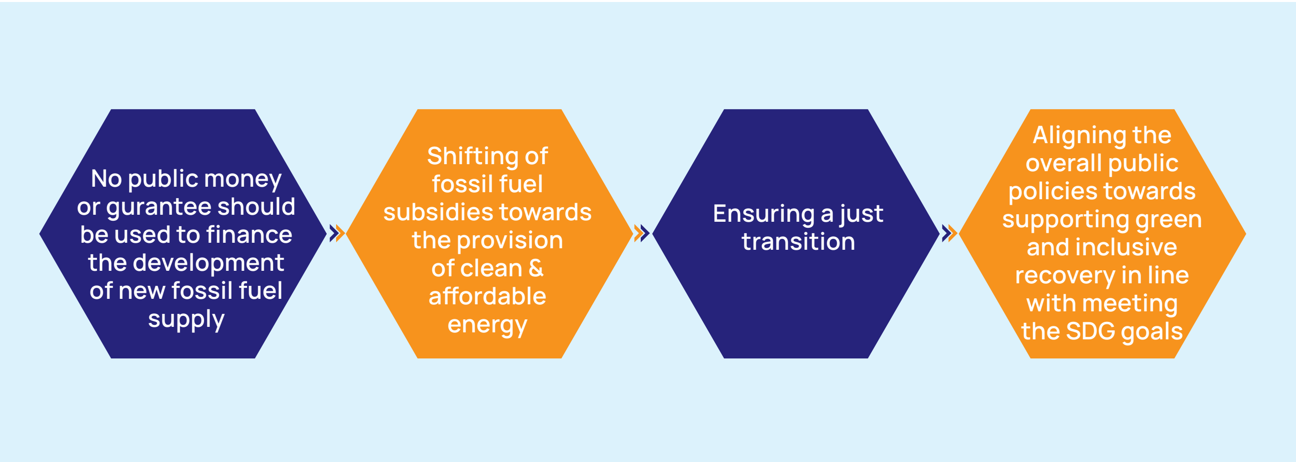
There has never been a more pressing need to promote green and sustainable development, but many developing nations are unable to make the investments required to protect and stabilize their economies due to debt overhangs and limited budgetary flexibility.

In this regard, working on a Green and Inclusive Recovery Strategy (GIRS) by individual countries could be explored. The debtor governments should create their own Green and Inclusive Recovery Strategies, which would outline the steps that the nation would take to promote its development and environmental goals. The national government's policy aims for the recovery should be highlighted in the GIRS paper, along with a list of key performance indicators that the government wants to target. This could form the basis for working on the debt relief/restructuring packages by the creditor agencies.

The document would be prepared through an extensive consultative process involving feedback from all the relevant stakeholders. It should be built on current national strategies, plans, and visions of the various countries, such as National Development Plans, National Sustainable Development Strategies, Nationally Determined Contribution (NDC) updates among others.

The GIRS should include a spending plan and policy reforms and be guided by a set of principles that ensure that the recovery is in line with Agenda 2030 and the Paris Agreement (see figure 2.9).

Figure 2.9: Defining the broad contours of green and inclusive recovery



Source: CII Research

In order to ensure that the policy promises are being carried out in letter and spirit, a suitable, transparent process for monitoring, reporting, and verification will be required. This work could be overseen by an independent evaluation authority housed in an impartial global agency or any of the multilateral institutions.

The adherence to the stated objectives under GIRS by individual countries could be rewarded in the form of a haircut on the existing debt terms and any divergence could result in a penalty.

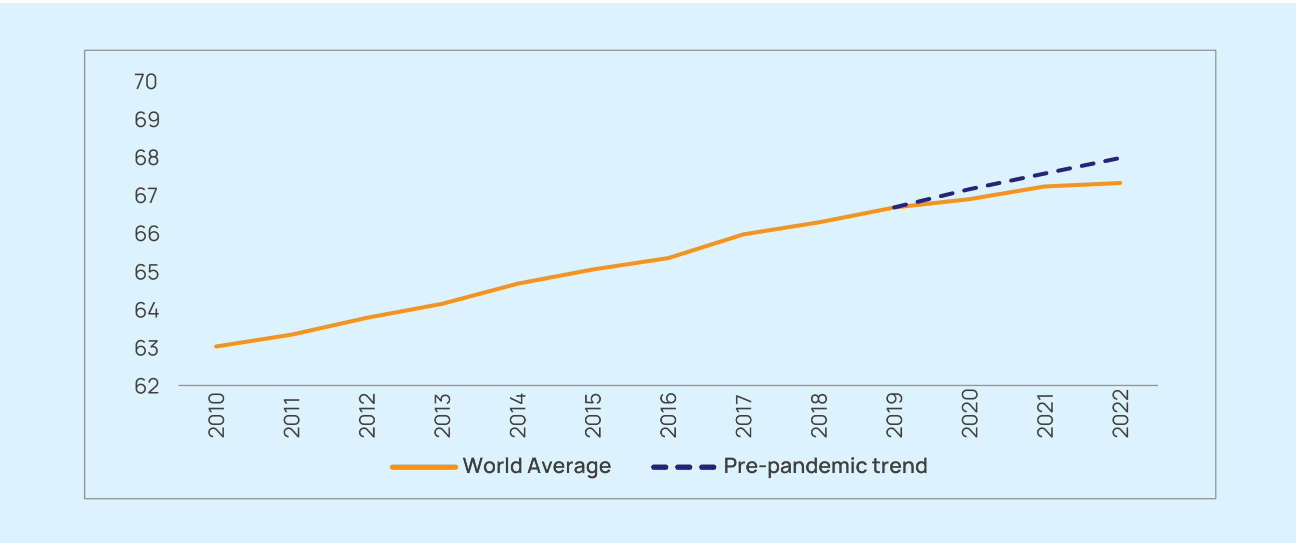
GALVANIZING PRIVATE CAPITAL FOR FINANCING GLOBAL PUBLIC GOODS

Mobilizing private capital is critical for addressing the investment gap for realizing SDGs

The progress towards achieving the SDGs has faced significant challenges, particularly with the outbreak of the Covid-19 pandemic and rising geopolitical tensions. The pandemic led to a standstill in global progress and widening of gaps between high-income & upper-middle-income countries (HICs and UMICs) and low-income & low-middle-income countries (LICs and LMICs).

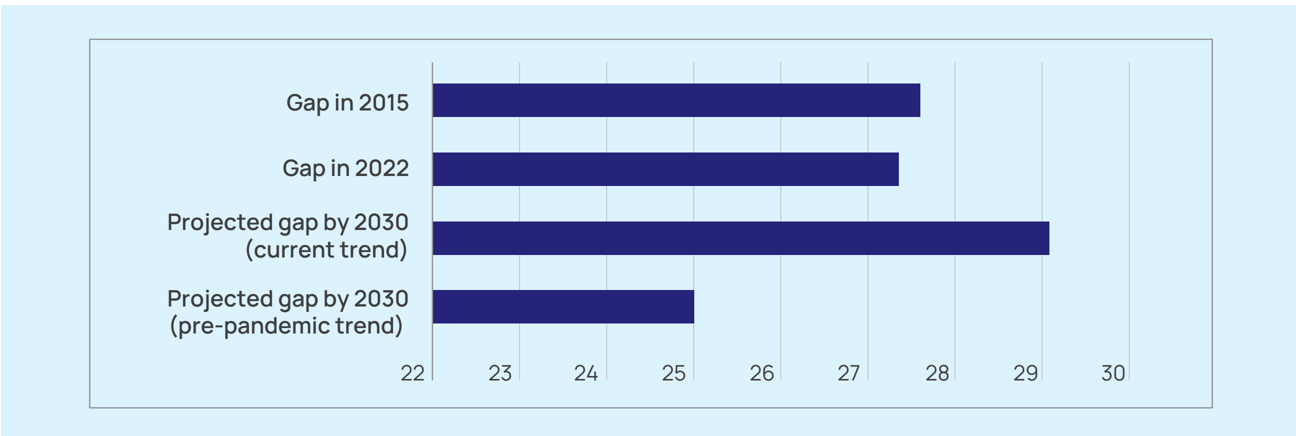
The global SDG index, which reflects the current progress, increased marginally from 64 per cent in 2015 to 66 per cent in 2019. As of 2022, the global SDG index remains below 67 (figure 3.1). None of the SDGs are on track to be achieved globally by 2030, and the gap between HICs and LICs is projected to be wider in 2030 than it was in 2015 (figure 3.2). LICs and LMICs face a persistent lack of funding for the SDGs, with significant disparities in investments and fiscal allocations compared to HICs and UMICs. LICs and LMICs, despite comprising more than half of the global population, receive a disproportionately small share (about 10-15 per cent) of global investments and fiscal resources (SDSN, 2022).

Figure 3.1: SDG Index world average



Source: Sustainable Development Solutions Network (SDSN), 2023

Figure 3.2: Gaps in SDG Index score between HICs and LICs



Source: SDSN, 2023

The review of investment needs at the midpoint of the 2030 Agenda for Sustainable Development shows a total investment gap of over US$4 trillion per year. This represents a significant increase from the estimated gap in 2014, which was US$2.5 trillion per year, indicating a 60 to 70 per cent annual increase in the investment gap. To achieve the SDGs by 2030, an estimated US$30 trillion of additional spending will be required over the next eight years (UNCTAD, 2023).

This underscores the need for immense financial resources to accelerate progress and achieve the SDGs. Among all SDG sectors, energy sector has the most significant investment needs pertaining to renewable energy generation, energy efficiency and energy transition. It requires a substantial investment of US$2.2 trillion, more than half of the total investment gap, with developing countries alone requiring an investment of approximately US$1.7 trillion in this sector. Achieving ocean sustainability goal will require resources of about US$174 billion per year but there is a funding gap of US$149 billion per year (Johansen and Vestvik, 2020).

Addressing these challenges and closing the investment gap is crucial to making progress towards achieving the SDGs by 2030. Global financial assets are predominantly concentrated in advanced economies, which is about 80 per cent of the total financial assets amounting to over US$379 trillion. Redirecting just over 1 per cent of these global financial assets towards fulfilling the SDG financing needs in developing countries would effectively bridge the funding gap for the SDGs (OECD, 2021).

Unleashing private potential for SDGs financing

Bridging the funding gap to achieve the SDGs requires resource mobilization from multiple channels, including the public and private sectors, multilateral institutions, and international organizations. Collaboration among these stakeholders is crucial in contributing to sustainable development financing. Partnerships between governments and private companies can lead to innovative financing approaches such as blended finance and impact investing. Blended finance can leverage both public and private funding sources, while impact investing ensures that investments align with socially and environmentally responsible goals. However, it is important to acknowledge that investments are predominantly driven by public sector, especially in LICs and LMICs.

The private sector's contribution to advancing the SDGs has been relatively limited so far, but there is a significant potential for it to play a more substantial role in bridging financing gaps for SDGs. To encourage more private sector engagement, governments and international organizations must strategically devise ways to incentivize participation. One strategy is the issuance of SDGs bonds and green bonds, which attract investors seeking projects aligned with responsible goals. By utilizing blended finance, risks can be reduced, making projects more attractive to private investors. Further, strengthening the regulatory framework and establishing a favourable business climate can create an enabling environment for private investments to advance SDGs.

In light of these considerations, the subsequent section presents specific policy suggestions aimed at effectively leveraging private capital to finance globally fungible global public goods. These recommendations will guide the implementation of strategies that will help in advancement of sustainable development and foster overall global prosperity.

Policy Recommendation: Galvanizing private capital for financing Global Public Goods, which will lead to overall global prosperity

- **Institutionalize a global fund focused on executing sustainable development projects that need immediate attention at the global level**

  Climate change, ocean cleaning and energy transition are urgent sustainable development challenges that require immediate attention. Establishing a Global Fund can be an innovative financing institution to finance specific sustainable development challenges that would require mobilizing financial resources, engaging the private sector and promoting international cooperation.

The Global Fund can be used to mobilize resources from diverse sources, including public-private partnerships, to finance sustainable development initiatives in developing countries. Leveraging impact investing and blended finance through the fund can also attract private sector investments.

The fund can provide technical assistance and capacity building to support the effective implementation of sustainable development projects in these nations. Developed countries can pledge fixed capital contributions to the global fund, while encouraging multi-donor support from various financing sources. Employing credit enhancement tools, such as guarantees and first-loss protection, will mitigate risks and attract increased private investment. Exploring innovative financing mechanisms like pay-for-performance models will optimize resource allocation. Strengthening public-private partnerships will consolidate resources and expertise, maximizing the impact of projects. International collaboration is crucial to ensure countries align their national development plans with the SDGs, facilitating knowledge sharing and technology transfer. Through these policy actions, the Global Fund for SDGs can play a crucial role in addressing pressing global challenges and promoting sustainable development.

- **To generate additional resources, leverage the Indian model of CSR in other countries**

  Business practices have evolved from being primarily driven by the interests of shareholders and stakeholders to being decided by taking into account wider societal and environmental considerations.

  Adoption of 'Three bottom lines or three Ps – Profit-People-Planet' by a number of businesses signifies that businesses are cognizant of the obligations towards society and environment. Increasing number of businesses are embracing 'Corporate Social Responsibility' and engaging in activities for wider public goods. The Indian model of CSR is worth emulating in other economies adapted to suit their specific requirements.

What is unique about India's CSR Model?

Indian businesses engaging in philanthropic activities has a long and rich history. Though, like most parts of the world, these activities were voluntary in nature. A landmark event came in 2013, when India passed a legislation that made 'Corporate Social Responsibility' a legally mandated activity for the businesses.

Under this legislation, companies above a specified size have to spend minimum 2 per cent of their profit for the activities under CSR.

Since, it was first enacted in 2013, the act has seen changes in 2014, 2019, 2021, 2022. Since its implementation, there has been an increase in the number of CSR projects being undertaken. Between 2017-18 and 2021-22, number of projects being implemented under CSR has grown at an average rate of 12 per cent. Annexure II captures the key insights of the CSR legislation enacted in India.

What other countries are doing on CSR?

India is widely reported to be the first country to make CSR spending mandatory. However, Mauritius had passed the law with a mandatory specified limit of CSR spending in 2009 making it most likely the first country.

Though, India's law received much more global attention. Since then, Nepal followed suit in 2016, where it put a 1 per cent minimum limit on CSR spending by businesses above a certain size.

Currently, all the CSR legislations globally can be put in the following three different categories[3]:

- Countries where specified amount of spending on CSR is mandatory – There are three countries who have made CSR spending mandatory and have also provided a minimum limit. This limit is defined as percentage of the profit. These countries also have legal requirements on the reporting of CSR activities. Currently, three countries - India, Mauritius and Nepal - fall under this cohort.

[3] Based on Lin, L. (2020); Morris, J. and Baddache, F. (2012); and IGNOU (2021)

- Mandatory CSR Activities without Specified Limit – These countries don't have specific limits on CSR spending, though they do prescribe that business should either carry out certain activities for socio-economic development or take into account socio-economic-environmental considerations in their business decisions. Countries such as China, Indonesia, South Africa and France fall under this head.

- Mandatory CSR Reporting – In these countries, companies are required to report their CSR activities under specified set of indicators. Countries such as Norway, Denmark, and United Kingdom fall under this head.

In the legislations considered for above classification, the terms 'CSR' might not necessarily be used, but the provisions in these legislations cover the subjects related to wider socio-economic-environmental considerations.

Way forward

India adopted a unique model where it got the private sector to partner in the socio-economic development of the country. This model helped not only in mobilising additional resources for development, but it also made use of expertise of private sector in effective implementation of resources for visible outcomes. Since the enactment of the legislation, amount spent under CSR has seen consistent growth. Based on the experience in India, following recommendations are made which could be replicated by other global economies as well.

- Countries should consider adopting India's model of CSR to get private sector deploy part of its profits toward socio-economic-environmental goals.

- Countries can choose their method in terms of making CSR voluntary or mandatory, or they can employ incentive-based mechanisms.

- Contributions from the private sector can be pooled at a specially designed institute/ fund for the deployment towards pre-defined purposes/ sectors.

- **Deepen the use of blended finance as an instrument for bridging the SDGs funding gap especially with respect to poverty alleviation and climate transition**

  Blended finance is gaining prominence as a promising approach to mobilize the necessary resources for achieving sustainable development goals. It strategically combines public and private funds to attract additional financing for development projects. For instance, blended finance can be effectively utilized to attract investments in critical areas such as climate change, ocean cleaning, and energy transition initiatives, helping to bridge the financing gap for these projects.

  In developing economies, constraints such as high debt, limited budgets, and rising interest rates pose challenges for public finance to meet financing needs. Blended finance can address this by attracting more funding from commercial investors in developing countries, thereby improving the risk-return profile of investments and transforming economically unviable projects into viable ones with tangible development benefits. Furthermore, it allows development assistance and public funds to be leveraged effectively, magnifying their impact with contributions from private sources.

  Blended finance employs various financial instruments, including grants, technical assistance, guarantees, concessional debt, and equity, to diversify risk-adjusted returns and attract commercial finance. Multilateral development banks and international financial institutions play a vital role in mobilizing commercial capital by providing technical assistance, developing projects, and fostering local currency bond markets. The diversification of financial instruments in blended finance offers better targeting of various risks and has the potential to attract more commercial investments in development projects, making it a powerful tool in achieving sustainable development goals.

FORTIFYING MACROECONOMIC STABILITY

Spillover effects of monetary policy action are posing challenges to global macroeconomic stability

The outbreak of Covid-19 pandemic triggered an unparalleled economic contraction reverberating across the global economy. Central banks and policymakers intervened swiftly by undertaking unprecedented monetary policy measures and introducing massive fiscal stimulus packages to mitigate the adverse effect of crisis. As the pandemic eventually subsided, a new set of concerns emerged, primarily revolving around rising inflationary pressures in both advanced and emerging economies (refer figure 4.1(a) and 4.2(b)). In addition, the global debt levels also skyrocketed as has been discussed earlier in detail in the chapter on 'Bringing Down Global Debt'.

Fig 4.1(a): Inflation in advanced economies

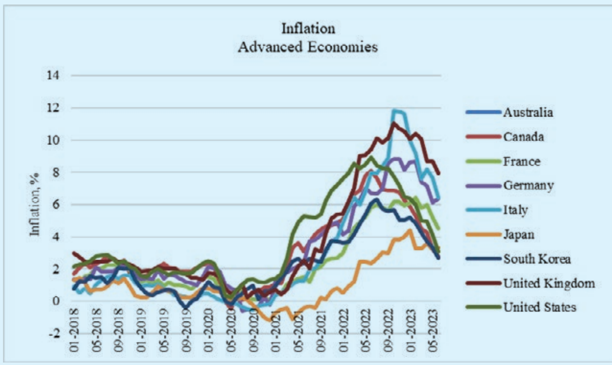
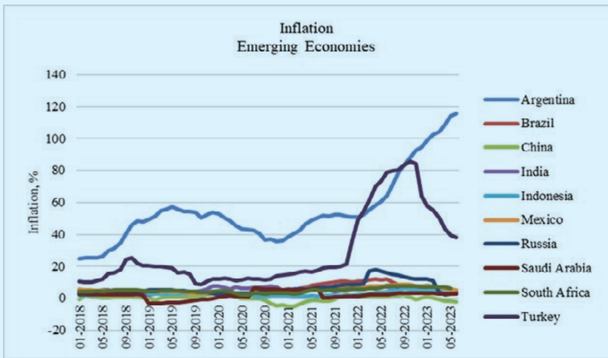


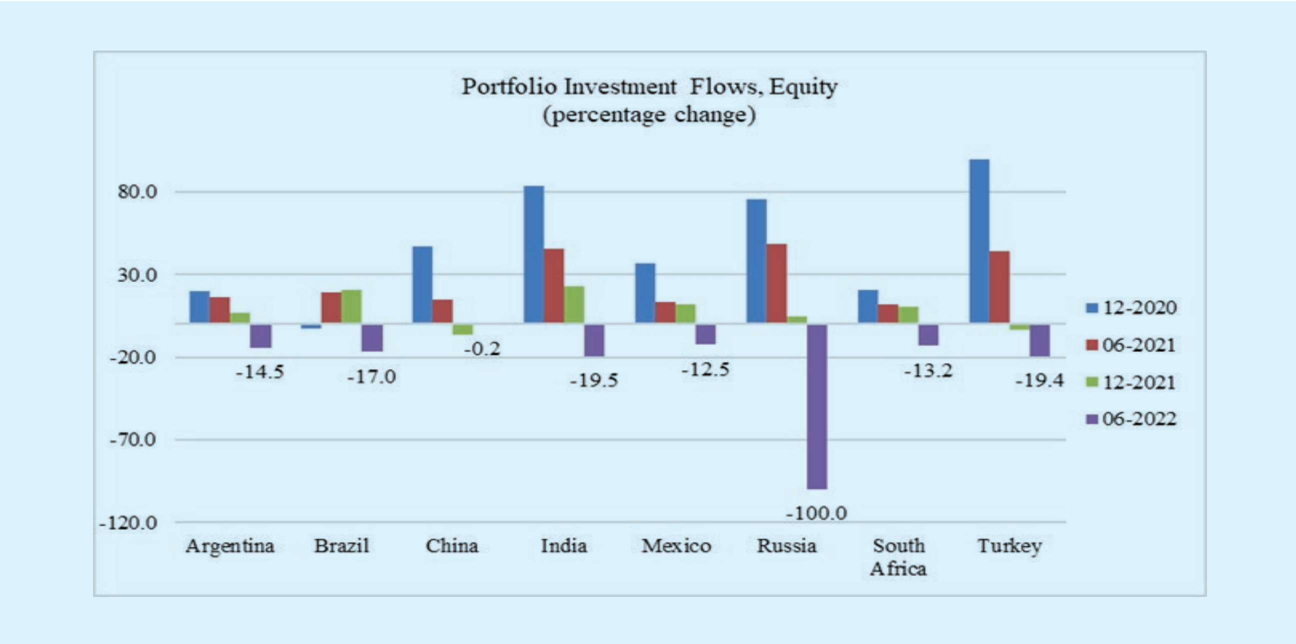
Fig 4.2(b): Inflation in emerging economies



Source: IMF WEO (April 2023)

Consequently, the regulatory oversight shifted towards monetary policy tightening to curb inflation and stabilize economic conditions. Central banks of major advanced economies responded by raising interest rates and unwinding their quantitative easing measures. The repercussions of actions taken by central banks in advanced economies had far-reaching effects on the emerging economies, as they faced huge reduction in international private capital flows (refer figure 4.2) and a rise in financing costs amidst rising debt levels. As per UNCTAD estimates, the interest rates hikes will cost developing countries more than US$800 billion in foregone income over the coming years.

Figure 4.2: Portfolio equity investment flows among emerging economies (in percentage change)



Source: IMF

Overall, the current landscape of global inflationary trends and high debt levels necessitate that proactive measures be taken to safeguard macroeconomic and financial stability. Some such suggestions are mentioned hereunder:

Need for greater Monetary and Fiscal Policy coordination at the national level

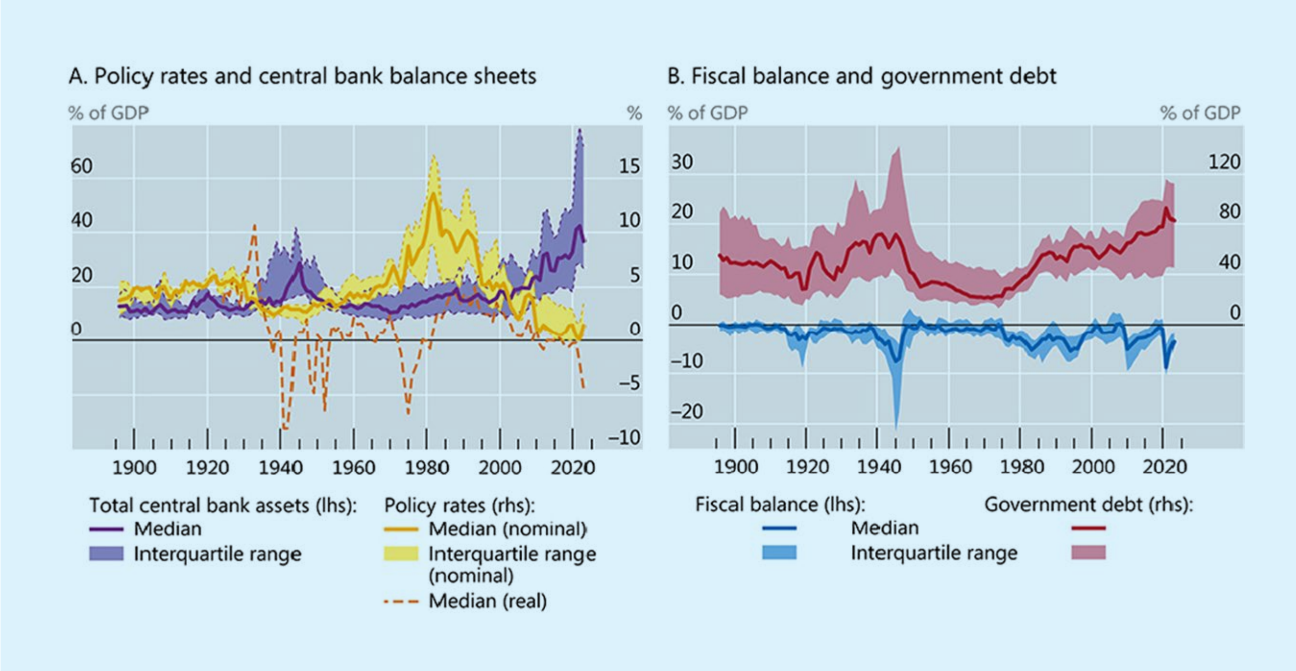
By enhancing monetary and fiscal policy coordination, and fostering international cooperation among nations, it is possible for countries to navigate crises more effectively and strengthen economic resilience. Being well-prepared with a comprehensive policy stabilization framework further solidifies the foundation for a stable and adaptive response to future challenges.

The primary objective of monetary policy is to maintain price stability, while fiscal policy ensures economic stability by supporting economic growth and pursuing redistributive goals. Each policy operates independently during normal times. However, coordination between monetary and fiscal policy is crucial to ensure economic and financial stability during economic downturns.

During such times, monetary policy per se may face limitations in stimulating the economy due to effective lower bound on interest rates. In such scenarios, the government can implement fiscal measures to support industries facing supply chain disruptions, invest in workforce development to alleviate labor market shortages, or provide targeted subsidies to mitigate the impact of energy price shocks (Korinek and Stiglitz, 2022). By using fiscal policy to directly support vulnerable groups or sectors, policymakers can ensure that the benefits of economic stabilization are more evenly distributed. Hence, expansionary fiscal policy can complement monetary measures through targeted interventions that can address the root cause of inflation, facilitate macroeconomic stability and promote more inclusive economic growth.

Further, a coordinated approach can also help mitigate the adverse distributional effects that inflation might have on different segments of the population. Therefore, integration of monetary and fiscal policy can enable policymakers to effectively address inflation and other economic challenges while promoting macroeconomic stability.

Figure 4.3: Monetary and fiscal policy in historical perspective



Source: Bank for International Settlements (BIS) Annual Economic Report (June 2023)

International cooperation and coordination during crises

The COVID-19 pandemic triggered an unprecedented collapse in global macroeconomic activity, resulting in a severe economic crisis that affected both advanced and emerging economies. While advanced economies were able to implement substantial fiscal responses to mitigate the impact of the crisis, emerging economies did not have sufficient fiscal space to implement adequate responses due to the already high levels of public debt and external financing constraints.

International cooperation is vital during such times to provide necessary financial support, including debt relief, grants or loans, to emerging economies. Such cooperation would enable these countries to undertake necessary fiscal responses without being hampered by existing debt burdens and thus, prevent further economic turmoil. Further, a cohesive and synchronized response to crisis including joint monetary policy, trade agreements and regulatory framework can help in withstanding global shocks.

The G-20 cohort can play a pivotal role in coordinating efforts and ensuring collective response to the economic challenges posed by the crisis. Overall, international cooperation and coordination can help in mitigating the adverse impact of crisis and foster a resilient global economic system.

The following section outlines comprehensive policy recommendations to foster global policy coordination and ensure macroeconomic stability in the face of ongoing and future challenges. By adopting these policy recommendations, nations can proactively work together to create a more resilient and stable global economic environment.

Policy Recommendation: Fostering greater global policy coordination for fortifying macroeconomic stability

- **Institute a Global Macroeconomic Stability Council (GMSC) to regularly discuss key macroeconomic challenges and coordinate policy responses**

  The establishment of Global Macroeconomic Stability Council (GMSC) is expected to play a pivotal role in promoting policy coordination and ensuring macroeconomic stability.

  Proposed Vision: To act as a platform for global policy dialogue and fostering consensus building among its members.

  Proposed Mission: Fostering stable and resilient global economy by strengthening collaboration between member countries

  Proposed functions

  - Develop global policy frameworks and roadmaps for addressing issues that necessitate coordination among countries, including areas like fiscal and monetary measures, trade policies and financial regulation.
  - Provide guidance to member countries on managing policy coherence which would help to avoid conflicting policy measures and ensure that the policies of member countries align with the objectives of maintaining a resilient global economy.
  - Enhance exchange of macroeconomic data and analysis to support evidence-based policy decisions and improve accuracy of economic forecasts.
  - Promote financial stability by conducting regular risk assessments and identifying potential systemic risks and vulnerabilities.

    Coordinate policy responses during global economic crises and provide guidance and support to member countries during such times.
  - Collaborate with international financial institutions like the IMF and World Bank to leverage their expertise for policy coordination and implementation.

  Headquarters

  The Council could be set up under the aegis of the Bank of International Settlements (BIS). The stated mission of BIS is to support central banks' pursuit of monetary and financial stability through international cooperation, and to act as a bank for Central Banks. The BIS would be a befitting institution for supporting the functionalities of such a Council. The existing cohort of central banks of key economies which are members of BIS could serve as members of this proposed council as well.

- **Develop joint crisis management framework for crisis preparedness and coordination during global economic shocks**

  Developing a joint crisis management framework for crisis preparedness and coordination during global economic shocks is essential to mitigate the impact of future crises and ensure macroeconomic stability. It is crucial to move beyond reactive approaches and adopt proactive measures to enhance resilience and preparedness for future challenges.

  Being well-prepared in advance can make a significant difference in averting or effectively managing crises when they arise. To achieve this, several steps should be taken.

  - Conduct a thorough assessment of interconnectedness among countries and identify potential contagion channels. This will help in identifying systemic risks and vulnerabilities that can amplify the impact of crisis.
  - Establish and maintain robust early warning systems and indicators to detect early signs of potential future crises, thereby enabling timely and proactive responses.
  - Develop contingency plans and crisis response strategies to mitigate impact of economic shocks.
  - Enhance capacity of member countries in crisis preparedness and management through capacity building programs and knowledge sharing initiatives.
  - Empower multilateral institutions, such as IMF and World Bank, to provide financial assistance and technical support during crises.

By following these steps to create a comprehensive and coordinated crisis management plan, countries worldwide will be better prepared to handle economic shocks and strengthen macroeconomic stability.

- **Reinvigorate G20 Mutual Assessment Process (MAP) to foster peer-review of economic policies and evaluation of collective policy actions**

  The G-20 Mutual Assessment Process (MAP) was launched in the aftermath of the global financial crisis of 2008 with the aim of promoting policy coordination and identifying shared economic objectives among the G-20 countries.

  It provided a platform for peer-review analysis of member countries' economic policies and to stimulate potential gains from cooperation. During its initial years, the G-20 MAP made significant progress, facilitating collaboration among member countries in addressing the challenges posed by the financial crisis.

  However, as the urgency of the crisis subsided, global economic conditions became more diffused, and the priorities of G-20 members diverged. As a result, the progress of the G-20 MAP stagnated over time.

  Reinvigorating G-20 MAP can be crucial for promoting policy coordination and achieving shared economic objectives among member countries. In this regard, the G20 members will need to make significant financial and policy commitments in order to make these improvements, as this would help to promote stability and growth in the global economy.

  The following are our suggestions in this regard:

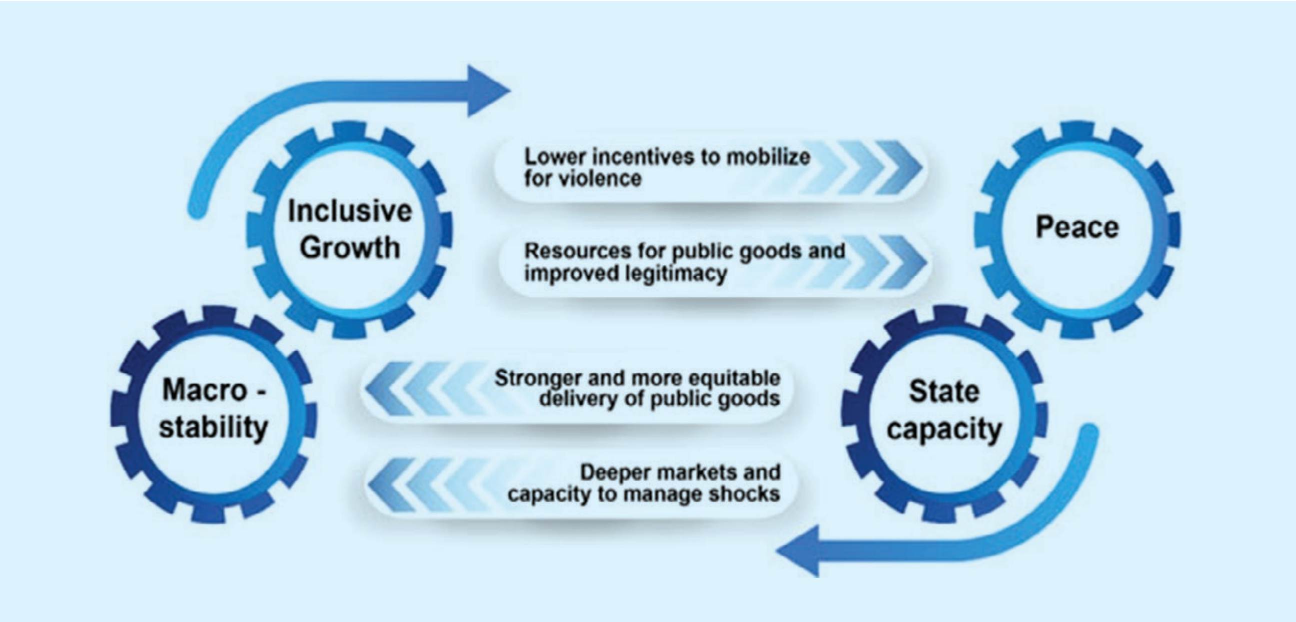
  - Peer-review process should be enhanced to identify specific areas of cooperation and potential areas of improvement.
  - Greater emphasis should be given to implementing structural reforms which can lay the foundation for long-term economic stability.
  - Independent experts or institutions should be involved as assessors to provide impartial evaluation of economic policies. This will add credibility and enhance the quality of peer-reviews.
  - Evaluating collective policy actions can provide insights into the effectiveness of G20's coordinated efforts and enhance the impact of policies on global macroeconomic stability.
  - Establish an official Economic Research Hub (possibly hosted by the BIS as an expansion of its current Central Bank Research Hub or elsewhere), which would provide a coherent institutional framework for advancing policy-oriented research related to the objectives of the G20.

Such a centre would coordinate research across different institutions, organize conferences, identify projects for further research, work to give voice to previously marginalized viewpoints and dispense G20-funded grants aimed at key theoretical and analytical issues.

- **Devise effective solutions to tackle fragility, conflict and violence (FCV) in the global economies**

  The lower- and middle-income economies are facing a slew of challenges including climate change, debt sustainability, increase in inequality among other things. To this already expanding list, fragility, conflict, and violence (FCV) has emerged as a serious development issue that threatens to derail initiatives to alleviate severe poverty. Violence and conflict adversely impact the macroeconomic stability and development of productive resources in a nation. The fiscal measures put in place by the individual governments to restore normalcy results in tampering with the fragility of the economies. Thus, FCV and macroeconomic stability in a nation are intricately intertwined (see figure 4.4).

Figure 4.4: The Nexus between Inclusive Growth, Macroeconomic Stability, and Peace



Source: IMF Policy Paper on FCV States (March 2022)

As per the World Bank estimates, the total number of extremely poor people in FCV-affected settings may surpass that in non-FCV settings by 2024. And by 2030, it is predicted that 59 per cent of the world's extreme poor will inhabit the FCV-affected nations. The Sustainable Development Goals (SDGs) and the larger international community's efforts to advance peace and prosperity - both depend on preventing and addressing FCV issues.

As per International Monetary Fund (IMF), there is a list of 42 economies which fall under the category of fragile, conflict and violent stricken (see figure 4.5). A similar list by the World Bank encompasses 37 countries.

Figure 4.5: Economies presently classified as fragile and conflict-affected

Source: IMF FY19 FCS list

Fragile and conflict-affected states (FCS), which are home to more than 1 billion people across more than 40 countries, are at particular risk in this era of economic uncertainty (Azour, Bousquet & Selassie, 2022). These nations now have to deal with the after-effects of the epidemic and Russia's invasion of Ukraine after decades of grappling with poverty, inadequate institutions, governance issues, violence, and other hazards. As a result, the international community must cooperate to help preserve their stability as a global public good—or else the negative repercussions of fragility and war would have much larger negative knock-on effects.

Macroeconomic policy challenges associated with Fragility and Conflict

Macroeconomic policy challenges associated with fragility and conflict are numerous and complex. Fragile and conflict-affected states face unique economic difficulties that make it difficult to achieve stability and sustainable development. Poorer macroeconomic outcomes because of their weak macroeconomic situation persist over decades. There are about 21 countries consistently classified as fragile and/ or conflict afflicted for more than 14 years. As per IMF, if fragility paves the way to conflict, economic costs can range from 10 to 25 per cent of GDP, increasing inflation and deteriorating fiscal and external balances.

Some of the key challenges associated with fragility and conflict are as follows:

- **Instability and Uncertainty:** Conflict and fragility create an environment of political and economic uncertainty. Investors are hesitant to commit capital in such situations, leading to reduced investment and economic activity.
- **Destruction of Infrastructure:** Conflict often results in the destruction of critical infrastructure, such as roads, power plants, and communication networks. Rebuilding these structures is expensive and time-consuming, hampering economic growth.
- **Fiscal Pressures:** Governments in fragile and conflict-affected states often face limited revenue sources due to a shrinking tax base and disrupted economic activities. At the same time, they have increased expenditure needs for security and humanitarian assistance.
- **Trade Disruptions:** Conflict can disrupt trade routes and create barriers to cross-border commerce, leading to a decline in exports and imports, which affects economic growth.
- **Inflation and Price Volatility:** Supply chain disruptions, reduced agricultural output, and currency fluctuations can lead to higher inflation rates and increased price volatility, making it difficult for people to afford basic necessities. If fragility paves the way to conflict, economic costs can range from 10 to 25 per cent of GDP, increasing inflation and deteriorating fiscal and external balances .
- **Debt Burden:** Some fragile and conflict-affected states may accumulate significant levels of debt to finance their needs, and servicing this debt becomes increasingly difficult, diverting resources from other essential services.
- **Humanitarian Crisis:** Conflict-induced humanitarian crises can lead to mass displacement, food insecurity, and health challenges, further straining economic resources.
- **Weak Institutions and Governance:** Fragility and conflict often stem from weak governance and institutional capacity. In such environments, implementing effective macroeconomic policies becomes even more challenging.

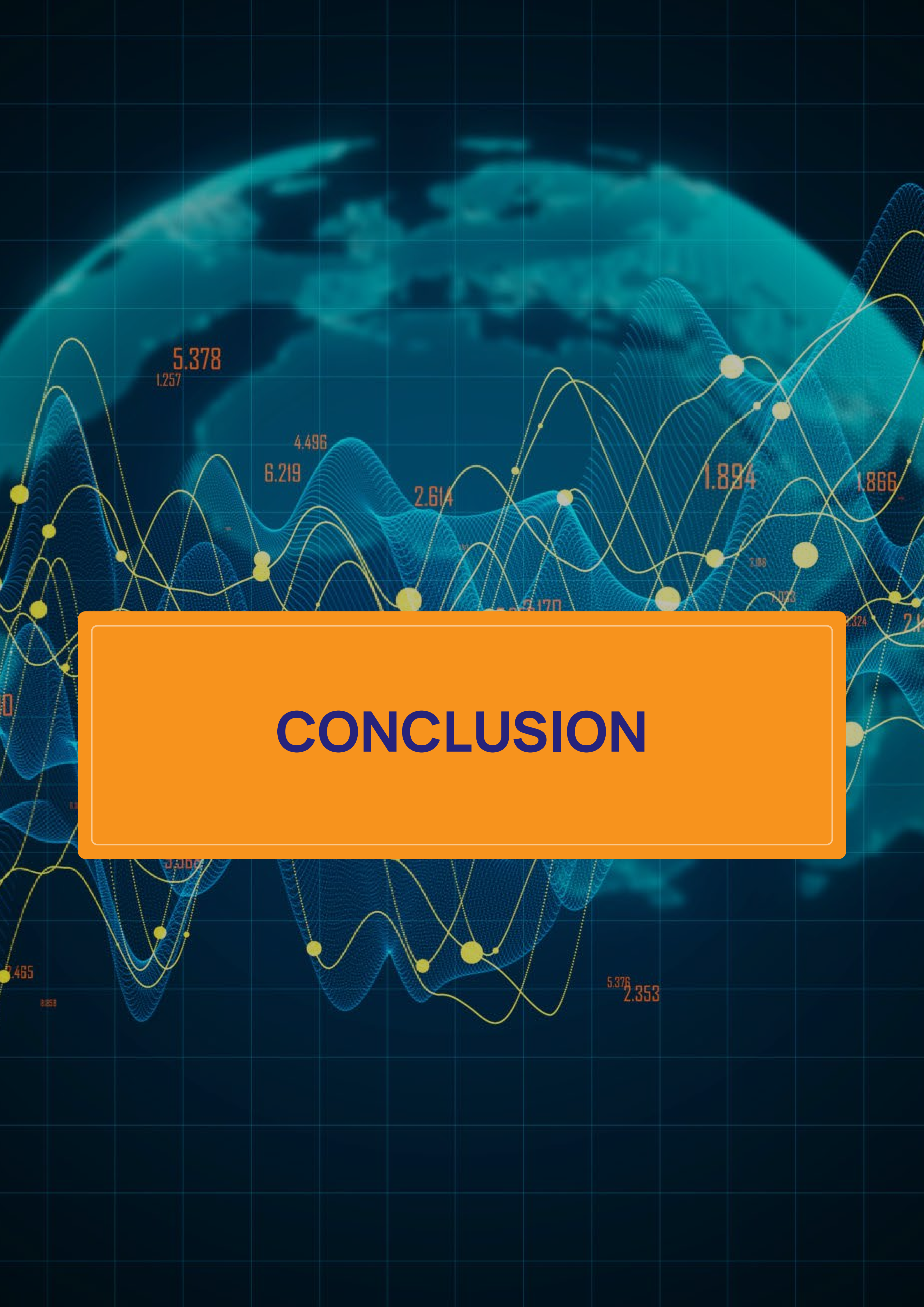
Addressing these macroeconomic policy challenges requires tailored and context-specific approaches. Some potential strategies include:

- Peacebuilding and Conflict Resolution: Efforts to resolve conflicts and establish peace are crucial to creating a stable environment for economic recovery.

Coordinated international support and aid can play a critical role in assisting fragile and conflict-affected states in their economic recovery efforts.

- Infrastructure Rehabilitation: Investing in rebuilding critical infrastructure is essential for restoring economic activities.
- Social Safety Nets and Humanitarian Assistance: Supporting vulnerable populations through social safety nets and humanitarian aid can help mitigate the impacts of conflict on civilians.
- Investment Promotion and Private Sector Support: Encouraging domestic and foreign investment and supporting the private sector can foster economic growth.

Overall, addressing the macroeconomic challenges of fragility and conflict requires a comprehensive and holistic approach that encompasses economic, political, and social dimensions. Additionally, it demands sustained efforts from both domestic and international actors to foster stability and sustainable development in these vulnerable contexts.



CONCLUSION

The global growth trajectory has experienced significant fluctuations over the last few years. Covid-19 pandemic caused sharp contraction of 2.8 per cent in 2020 which rebounded strongly in 2021. But growth slowed again in 2022 due to Russia-Ukraine war and rising inflationary pressures. The IMF projects a modest growth of 3.0 per cent for both 2023 and 2024, but it is a weak recovery compared to historical standards. The pandemic had a severe impact on global economies, triggering a deeper recession than the 2008 global financial crisis. It resulted in a cumulative loss of about US$9 trillion in global GDP over 2020 and 2021, surpassing the impact of the 2008 crisis, which had caused a loss of around US$2 trillion. Both advanced and emerging economies experienced recession simultaneously for the first time since the Great Depression. While some recovery has occurred, global growth is still below its pre-pandemic trend, with an expected cumulative income loss of about US$13 trillion in the period from 2020 to 2022. The IMF anticipates that global output will only return to its pre-pandemic trend by 2030.

The pandemic caused rising global debt and inequality, hindered progress in SDGs, and raised macroeconomic stability concerns. Despite prior declines, inequality rose, with the wealthiest 10 per cent holding 52 per cent of income. The SDG financing gap has increased due to reduced resources and rising financing needs. Further, macroeconomic stability issues arise from massive capital outflows and rising debt levels. Against this backdrop, this policy paper lays down policy suggestions for these emerging global challenges. Addressing these challenges collectively can pave the way for a resilient, fair, and sustainable economic recovery. These recommendations provide a roadmap for achieving the SDGs and fostering long-term prosperity.

Global debt is a concern requiring coordinated action. Establishing an independent Sovereign Debt Authority to facilitate transparent negotiations between debtors and creditors, instituting a public debt registry to improve transparency regarding global public debt, and aligning debt relief with sustainable development goals are recommended to mitigate the negative impacts of escalating debt levels and to promote equitable and sustainable global economic growth.

Private sector involvement and innovative funding mechanisms is crucial to bridge the funding gap for SDGs. Private capital for financing global public goods can be leveraged by creating a Global Fund to mobilize resources from diverse sources, replicating India's Corporate Social Responsibility (CSR) model in other countries to channel private sector profits towards socio-economic-environmental goals and deepening the use of blended finance to attract investments.

To fortify macroeconomic stability, comprehensive policy stabilization framework should be in place to effectively respond to future crises. The creation of a Global Macroeconomic Stability Council (GMSC) can act as a platform for global policy dialogue and consensus building among member countries. Developing a joint crisis management framework for crisis preparedness and reinvigorating the G-20 Mutual Assessment Process (MAP) to facilitate peer-review analysis can also help in ensuring macroeconomic stability. Devising effective solutions to tackle fragility, conflict and violence (FCV) in the global economies is crucial for macroeconomic stability.

As we navigate the complexities of the post-pandemic world, these recommendations offer a roadmap toward more resilient, inclusive, and prosperous global economy. By fostering cooperation, embracing innovation, and emphasizing sustainable development, the international community can collectively overcome challenges and shape a future marked by stability, equity, and prosperity for all.

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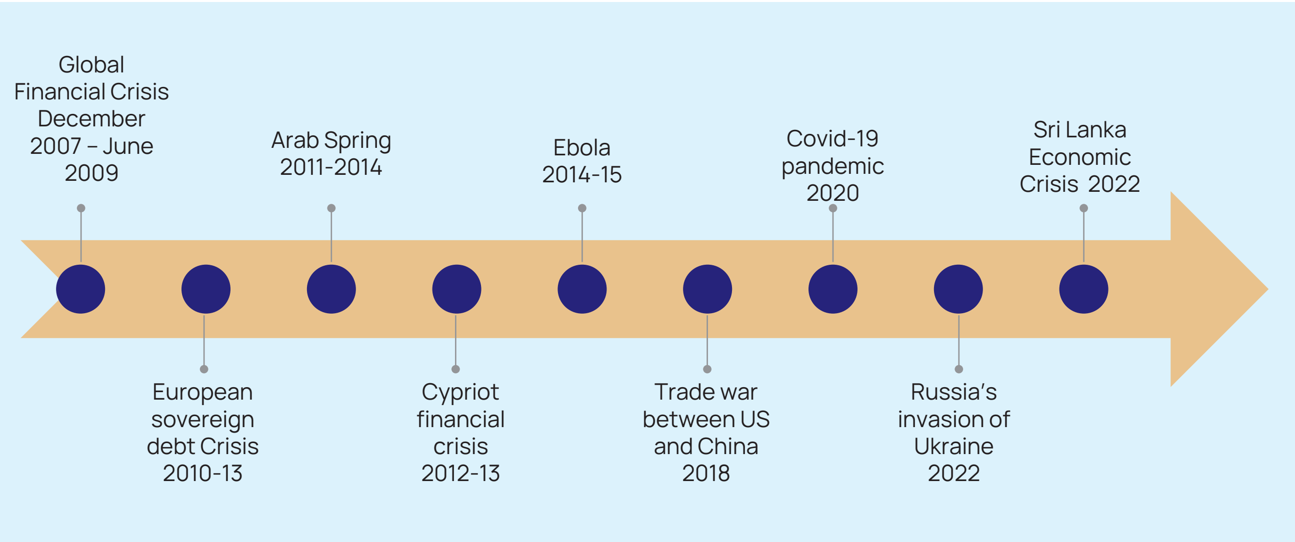
Annexure I

Tracing the trajectory of global crises in the last two decades

The last two decades have seen four major global shocks – the Global Financial Crisis, European Sovereign Debt Crisis, Covid-19 pandemic, and the war in Ukraine. One thing in common between all these has been their local origins, but global impact.

A timeline of the key global crises is depicted below for illustrative purposes:

Figure A.1: Timeline of the major global crises



Source: CII Research

Every crisis provides an opportunity to learn. A few lessons from these crises of the past are highlighted in the table below:

Table A.1: Key lessons learnt from the crises

Crisis	Time period	Key lessons learnt from the crises
The Global Financial Crisis	December 2007 – June 2009 (Q4 2007 – Q2 2009)	- The potential scope of regulation had to be broadened to ensure that all financial activities that pose systemic risks are adequately captured and regulations are in place for robust conduct of business in all institutions whose activities have a substantial role in affecting the flow of credit. - Focus must be laid on reducing the debt levels in the affected country, rather than financing expenditure increase or tax cuts. - Further, the crisis underlined the importance of going beyond traditional statistics and enhancing accessibility and timeliness of existing data while also developing new datasets. - A combination of traditional monetary policy, regulatory tools and better automatic stabilizers for fiscal policy are required. - Closer cooperation and greater coordination among the regulators are required to adequately address the market disruptions as and when they occur.

Crisis	Time period	Key lessons learnt from the crises
European Sovereign Debt Crisis	May 2010 – H2 2013	- Central Banks have an important role to play in contributing to financial stability. They can do so by providing an anchor for stability through delivering on their primary objective of price stability, through timely and swift response to providing liquidity as and when required. - All countries should meet their fiscal targets and introduce structural reforms that restore competitiveness and growth potential. - A clearly defined lender of the last resort function is required, especially at the time of a crisis which would thereby strengthen the effectiveness of financial policy.
Covid-19 pandemic	2019-21 (First outbreak started in Wuhan, China in November 2019)	To avoid similar crises in future and promote a more inclusive and sustainable world, calls for strengthening resilience at all levels. All governments felt the pressure on budgets, but it was the developing countries that faced severe challenges in resource allocation to address the various needs of the people and economy. Furthermore, policymakers need to rebalance the priority given to short-term efficiency and longer-term resilience, which will in turn allow for better planning for a pandemic, climate emergency and any other unforeseen disaster. - Preventing the spread of disease spares lives and improves well-being as also saves jobs and minimizes economic disruptions. - The pandemic has slowed progress towards the Sustainable Development Goals and highlighted the interdependencies and vulnerabilities of the global economy, underlining the need for renewed multilateralism, new approaches for development and stronger international cooperation and solidarity. The crisis showed the need for a coordinated global strategy to overcome this crisis.

Source: CII Research

Annexure II

India's CSR Model

Salient features of India's CSR Model

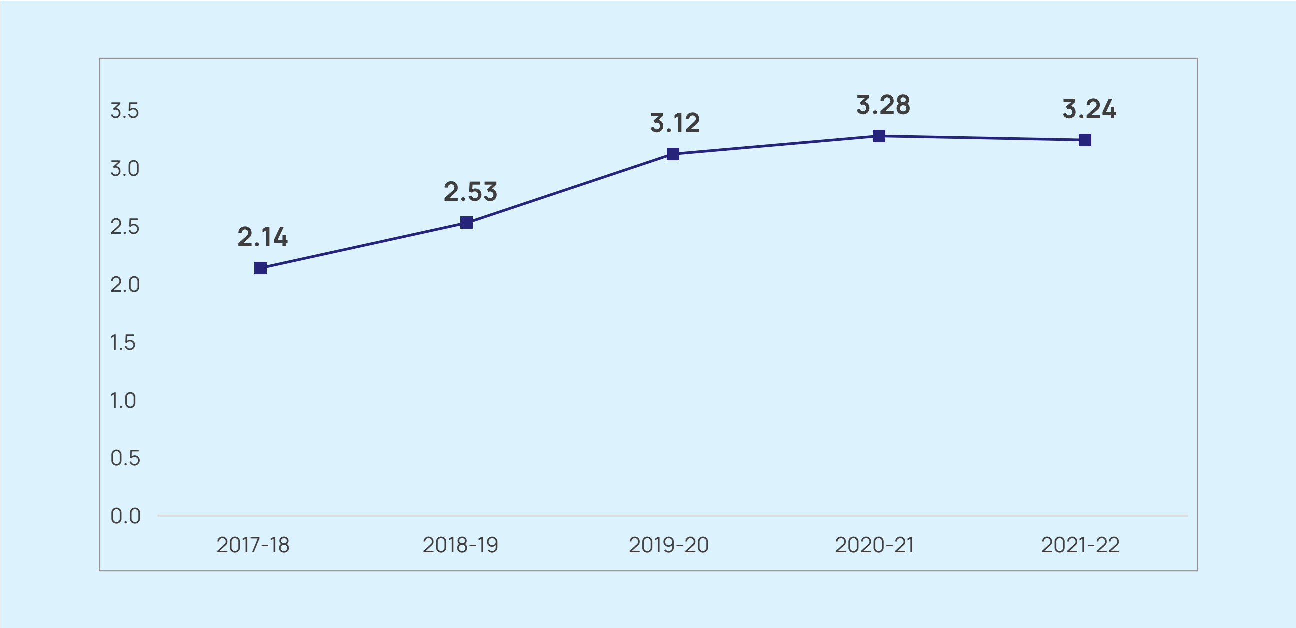
Who falls under CSR legislation?	What are the requirements under CSR?	Which are the sectors eligible for CSR spending?
Any company whose: Net Worth is greater than Rs 5 billion, or Annual Turnover is greater than Rs 10 billion, or Annual Net Profit is greater than Rs 50 million	Constituting a CSR committee who will make CSR policy and plan CSR activities Spending minimum 2 per cent of average net profit of the last three years Annual reporting of CSR activities	**The legislation defines the activities which are considered part of CSR. A non-exhaustive list of activities includes:** Eliminating poverty and deprivations Health care Education Gender equality Environmental care National Heritage, Art and Culture Support to sports Measures for the benefit of armed forces veterans Contribution to select government funds Contribution to public funded universities Rural Development

Activities not considered part of CSR	In case of Non-Compliance
Activities that are part of the normal course of business Activities that benefit only the employees of the company and / or their families Contribution to political party	If a company fails to adhere to the legislation, it will result in Monetary penalty Jail time for non-complaint officer Transfer of unspent amount to specified account / fund

Recent trends in CSR spending in India

CSR legislation came into effect in FY 2014-15. Since then, the aggregate amount spent under CSR has seen consistent increase.

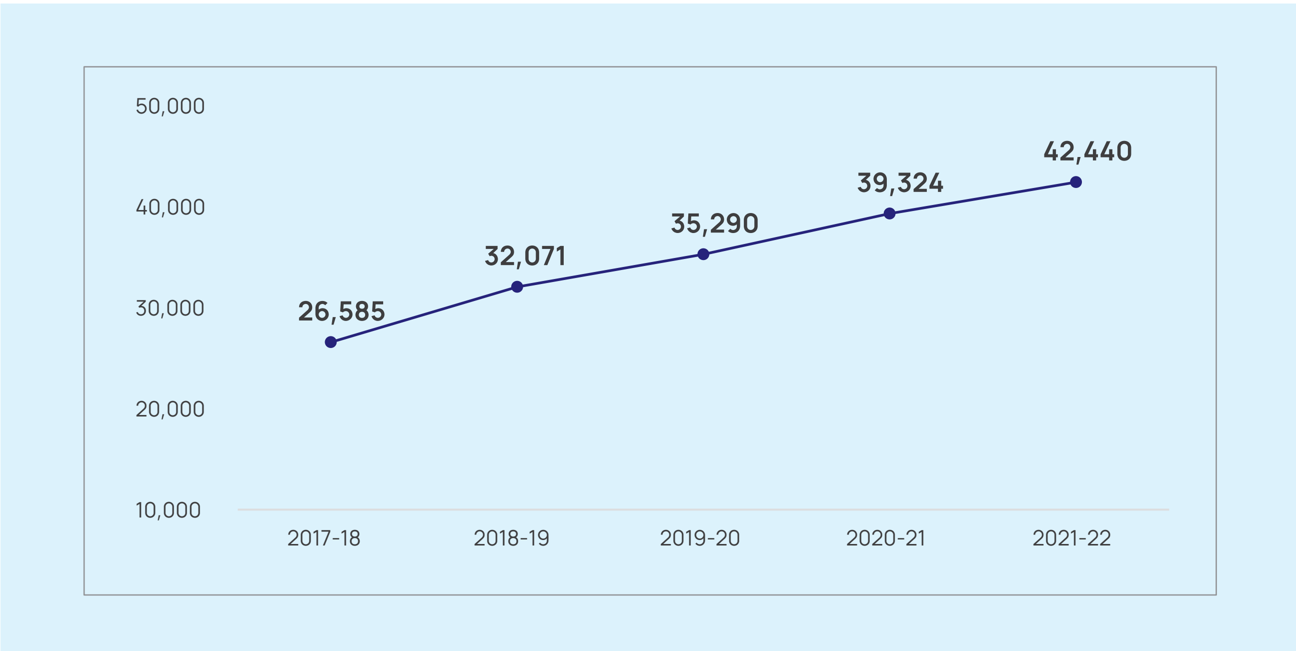
Figure A.2: Amount spent on CSR (USD Billion)



Source: https://www.csr.gov.in/content/csr/global/master/home/home.html

Note: Fixed exchange rate of 1 USD = 80 INR has been used to convert rupee amount to dollar

Figure A.3: Number of CSR projects undertaken



Source: https://www.csr.gov.in/content/csr/global/master/home/home.html

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government, and civil society through working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for Industry.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. The premier business association has over 9000 members, from the private as well as public sectors, and an indirect membership of over 300,000 enterprises from around 294 national and regional sectoral industry bodies.

With 62 offices, including 10 Centres of Excellence in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organizations in 133 countries, CII serves as a reference point for Indian Industry and the international business community.

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CII Research is an Industry think-tank providing thought leadership on strategic economic and industry issues critical to national growth and development. Drawing on a deep reservoir of industry leaders and industry associations spanning all sectors and present across the country, CII Research originates analytical reports in consultation with stakeholders. Based on strategic perceptions and data, these in-depth insights suggest specific policies and action plans that would enhance the role of Indian industry in nation-building.

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