THE DIGITAL ECONOMIST

POLICY BRIEF

Center of Excellence on Human-centered Global Economy

RECIPIENT

The G30 GROUP

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Capital for the Common Good

Summary for Policymakers

FOCUS AREAS

Financial Markets
Risk Mitigation
Sustainability

01 The Challenge

While regulators around the world have systematically improved risk management mechanisms in recent years, with particularly significant changes following the financial and economic crisis that began unfolding in 2007, the interconnected global financial ecosystem remains vulnerable to various threats. This was clearly demonstrated by recent upheavals: an event as mundane and regionally limited as the insolvency of California's Silicon Valley Bank, due to interest rate exposure has rocked the global financial sector. Central banks have deployed measures to stanch the bleeding and avert knock-on effects, but there can be no denying the inherent fragility of the system, despite its safeguards. Why were regulatory bodies blindsided by the bank's failure? Lack of current data.

A further aspect that deserves attention is that the vast majority of global capital is locked in a closed loop controlled by the advanced economies. The cost of issuance of financial instruments is simply too high for smaller players, a barrier that increases reliance on VCs and angel investors. Particularly startups and incumbents with sustainable business models face prohibitive fees for ESG audits for entry into sustainability indices. This is unsustainable, considering the lack of real progress toward goals set by the United Nations Framework Convention on Climate Change (UNFCCC), with updated versions issued at annual COP meetings for years. More must be done to facilitate and encourage investment in protecting the planet.

At The Digital Economist, we see compelling evidence that these two flaws—exposure to unforeseen shock events and insufficient sustainable investment—are not set in stone. We see them as both interrelated and surmountable, and propose a systematic allocation of capital to investment vehicles aligned with the 17 United Nations Sustainable Development Goals (SDGs). This would not only offer long-term stability and robustness, but also serve the interests of humankind and the planet. At a time when funding is urgently needed for climate protection and mitigation of related threats, financial inclusion, education, food security and healthcare—to name just a few examples—SDG-aligned investment presents vast opportunities. In addition, the SDGs offer unassailable credibility as a clear, globally recognized and accepted roadmap toward a world that will allow our grandchildren to flourish and live healthy, happy lives.

The flow of international capital is today's problem—and tomorrow's solution.

02 The Road Ahead

Instead of accelerating the SDG transition, the current ecosystem is increasing the complexity, cost and opacity of compliance. As a result, regulators have difficulty performing their supervisory role. Even worse, many entrepreneurs are hindered in accessing the market to develop sustainable ventures.

As a first step, the regulatory framework needs to be strengthened. The recent Silicon Valley Bank and Credit Suisse crises show that regulators would greatly benefit from real-time data to complement retrospective data. It will never be possible to predict the future with 100% reliability, but weather forecasting has shown that real-time data combined with knowledge of past events can enable unprecedented levels of prediction accuracy.

In terms of global financial transactions, this translates into the need for transparency and real-time data—the missing pieces of the otherwise sound system. Until now, it was not considered possible to fully automate the flow from issuance origination to asset owners. While the majority of the ecosystem is managed by straight-through processing (STP), the fact that a small percentage of processes remain manual and in natural language continues to prevent the regulators from accessing real-time data. Bridging this gap is altogether doable via today's technology: we can now move from natural language contract description to fully automated, executable and verifiable contracts. This enables almost 100% STP systems, offering regulators and other stakeholders enhanced transparency and up-to-date knowledge.

Collectively, the global financial community has a moral and social obligation to address these issues. We want to bring together the formidable abilities and leadership of G30 economists committed to the common good to help define and implement the missing piece that will enhance the robustness and efficiency of the global economy.

Finding a new way forward needs a focus on the core problems that plague the support systems for banking transactions—and, more specifically, cross-border financial market infrastructures. This transaction infrastructure represents more than a quarter of the worldwide capital market ecosystem, or approximately US$ 50 trillion.

03 An Efficient and Cost-Effective Financial Infrastructure

The current financial upheaval, like many of those in the last half century, exposes serious shortcomings in cross-border financial regulation. The lack of real-time data reported in a data standard capable of supporting current and forward-looking financial analysis continues to be a crippling factor, thwarting regulators' ability to optimally monitor and intervene when necessary.

The retrospective nature of regulatory oversight and intervention is an obstacle to effective risk assessment, management and mitigation. Current analytic tools in finance, risk and regulation lack the robustness to strengthen the financial industry.

For these reasons, we call for a surgical intervention in public-sector finance to drive global infrastructure reform and enhance the efficiency and effectiveness of finance ministries. By transitioning all functions to STP at scale, ministries of finance can foster private-sector implementation while reducing their own cost of borrowing for ESG bond issuance. Regulators, who report to finance ministries, would be empowered through the combination of real-time data and (existing) retrospective data. The public sector would act as a role model and driver of technological advancement while enhancing risk intelligence and benefiting ESG investment and compliance.

04 The Missing Piece

What is missing is a system for fully automated issuance that would allow cross-border issuers and finance ministries (representing 60 percent of the US$ 50 trillion global capital market ecosystem) to issue their securities on a standardized platform. Such a platform could provide efficient and equitable conditions for all players in uploading all pertinent data and information—removing the element of narrative that can lead to opacity and misrepresentation and greatly enhance transparency and integrity in capital markets.

This would allow the regulators to utilize granular, structured, fully transparent, real-time, dynamic, and forward-looking data throughout the entire lifecycle of an investment instrument, which can be explored with user-friendly analytical tools. A global automated system that ensures a common standard for capital flows, including data models and standard algorithms, would enable clarity and accountability.

05 A New Paradigm

We invoke the United Nations Sustainable Development Goals (SDGs) with the term Sustainable Capital Goals (SCGs). Capital aimed at these goals serves as a catalyst to open the most promising paths to a sustainable and inclusive future that leaves none behind. Leaders among the G30 economists and policymakers, as well as players in civil society and the private sector, are invited to join in the discourse.

Areas for urgently needed sustainable investment include:

1. **Food security:** using controlled environment agriculture to grow food abundantly in urban centers and in deserts and other areas where there is no arable land
2. **Sustainable mobility:** final-stage R&D and deployment of market-ready technology for all forms of travel and transport
3. **Climate-resilient infrastructure:** building public works needed to protect areas threatened by phenomena related to climate change, while ensuring that new construction, infrastructure, and buildings are fully sustainable

06 A Call to Action

We call on G30 leaders and—in turn—ministries of finance to implement a surgical intervention to enhance their own debt issuance to integrate real-time data of capital flows. This will require transitioning from natural language documentation to fully digitized prospectuses.

It will have immediate and two-fold benefits: it will deliver the most real-time oversight to the regulator; it will give international investors real-time knowledge to enhance their cash-flow management to support sustainable investment not limited to advanced economies.

This is the only way to move capital from the closed-loop world to an environment that encourages and supports investors in allocating funds to emerging markets and SDG-aligned enterprises.

Join us in harnessing efficient capital flows to empower humanity. Let's build a future that works for all of us.

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