UCL IIPP Institute for Innovation and Public Purpose

Principles for an Inclusive and Sustainable Global Economy: A discussion paper for the G20

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Abstract

For the first time, the G20 will meet on African soil—at a moment when demands to reshape the global economy are intensifying. Climate instability, biodiversity loss, the rising cost of capital, and deepening inequality are exposing structural faults at the core of the global system. These intersecting crises are compounded by geopolitical tensions and trade disruptions that fragment supply chains and heighten economic volatility. This moment calls not for incremental reform, but for a bold, coordinated response. It demands a global economy rooted in the South African G20 Presidency's core themes: solidarity, equality, and sustainability. This discussion paper presents a unified framework to reorient global economic governance around four interdependent principles: shaping the economy, financing for impact, building capable states, and forging collaborations for global equity. Together, these principles lay the foundation for long-term structural transformation—confronting enduring asymmetries in investment, production, and value creation. It calls for new development pathways in the Global South, while renewing the productive base and social contract in the Global North. From Seville to Belém to Johannesburg, the road ahead offers the chance to chart a new course—one driven by collective ambition, institutional renewal, and a multilateralism that is fit for purpose, people, and planet.

Professor Mariana Mazzucato has been appointed by President Cyril Ramaphosa to advise South Africa's G20 Presidency. The views and recommendations set out in this discussion paper do not reflect the policy positions of the South African government. They reflect Professor Mazzucato's independent expertise and are intended to inform deliberations throughout South Africa's Presidency.

Contents

EXECUTIVE SUMMARY

A Multilateral Moment We Cannot Waste

In 2025, the global stage will host a series of pivotal events marked by their political and geographic significance. The G20 Summit in South Africa—the first ever on African soil—the Fourth International Conference on Financing for Development (FfD4) in Seville, and COP30 in Belém, deep in the Amazon, will anchor the year's multilateral agenda. Each forum targets a critical dimension of global governance—macroeconomic coordination, development finance, and climate action—unfolding against the backdrop of tightening global liquidity, rising cost of capital, disruptions in trade flows, intensifying geopolitical tensions, and growing distrust in international cooperation. What makes this year especially consequential is not only the scale of the challenges, but the mounting pressure on the very systems meant to address them. In a moment when the legitimacy and relevance of multilateralism are under strain, these events offer a chance to reaffirm and revitalize it. Yet there is a real risk that these conversations proceed in isolation—fragmented by mandates, jargon, and institutional boundaries. In a joint letter, Presidents Lula da Silva, Cyril Ramaphosa, and Pedro Sánchez called on the international community to act with ambition, coherence, and resolve—recognizing that how we respond this year may well shape the future of global cooperation.

This discussion paper answers that call. It puts forward a unified vision for the global economy rooted in the South African G20's themes of solidarity, equality, and sustainability. It rejects the fragmentation of global agendas—climate, debt, food security, finance, industrial policy, data governance—and proposes an integrated framework grounded in long-term public value. Rather than fixating on the sources and volumes of finance for the various global agendas, it is centered on a more fundamental question: *What kind of global economy do we need?* By anchoring multilateral efforts in this shared purpose, we can overcome institutional silos and redirect financial flows toward a more just and sustainable global economic order. This is not just an agenda for the Global South— it is a shared imperative for all G20 nations. No country can decarbonize or drive sustainable growth alone. The path forward requires genuine partnerships. A more balanced global economy also means stronger, more dynamic demand—expanding consumer markets and investment opportunities that benefit all. At the heart of this vision are four interlinked principles—each pointing to the institutional reforms and policy shifts the G20 must champion in 2025 and beyond.

Table 1: Four Principles, Ten Recommendations

Principles	Recommendations
I. Shape the Economy: Place climate and development goals at the heart of industrial policy to direct growth	1. Embed directionality in public investment to shape markets to be inclusive and sustainable 2. Align policy tools and institutions with climate and development goals, stimulating cross-sectoral outcome-oriented innovation 3. Restore policy space for green industrialization and development
II. Finance for Impact: Align macroeconomic policy with public purpose	4. Make effective use of existing public wealth and long-term resources for industrial transformation 5. Harness tax policy for public investment, structural transformation and global equity 6. Steer private finance through purpose-driven blended instruments
III. Rebuild Capable States: Strengthen agile and entrepreneurial governments	7. Work across "all of government" and invest in the capacity and capabilities of the civil service 8. Build symbiotic public–private partnerships that share both risks and rewards
IV. Collaborate for Global Equity: Forge inclusive and fair coalitions	9. Uphold and strengthen multilateralism by building strategic coalitions for global economic governance 10. Establish a global facility for coordinating industrial policy and long-term finance

First, the global economy must be reshaped to deliver not just more growth, but better growth—growth that is green, inclusive, and resilient. This requires a strategic reorientation of how we govern the economy: shifting from passively correcting market failures to actively structuring markets around public purpose. Market-shaping strategies must guide the direction of economic activity, embedding public purpose in the fiscal, financial, and industrial policies that shape finance, production, innovation, and trade. Doing so will require governments to reclaim the policy space to experiment, to discipline rent-seeking, and to govern capital. At the international level, a new global framework must support countries in building diverse paths to structural transformation. The current system of trade, finance, and investment too often penalizes countries for ambition and rewards passivity. A just transition demands coherence: between domestic policymaking and international rules, between economic governance and climate justice, between growth and the kind of economy we need.

Second, finance must be reimagined as a tool for transformation—not merely a means to fill gaps. The question is not just how to mobilize more finance, but how to shape it—how to govern financial systems in service of shared prosperity, environmental regeneration, and democratic renewal. Finance for what? For building resilient economies, for creating decent work, for accelerating the green transition, and for investing in the long-term capacities of people and planet. Ministries of finance, sovereign wealth funds, and public development banks are not peripheral actors; they are investors of first resort, capable of steering capital toward missions that markets will not pursue on their own. But to unlock their full potential, we must move from short-termism to structural ambition. This means rewriting fiscal rules that punish investment, modernizing accounting standards to reflect the long-term value of public assets, and treating tax policy as a tool to reshape behavior, redistribute wealth, and expand collective capacity. It means rethinking global debt and capital flow regimes that currently reward speculation and entrench inequality at the expense of public investment. And it means building public institutions that can design and steer private initiative—not just de-risk it. A just transition cannot be built on scattered, bankable projects—it demands strategic portfolios, bold public leadership, and an international financial architecture governed by purpose.

Third, none of this is possible without rebuilding capable states. An agile and outcome-driven public sector is the foundation of any meaningful economic transformation. Efficiency matters—but not at the expense of the state's ability to deliver, coordinate, and steer. Governments must move beyond a narrow regulatory role to actively shaping and co-creating markets. This means reversing the hollowing out of public institutions and equipping the civil service with dynamic capabilities—to experiment, learn, adapt, and act across silos. Agility is not about doing more with less; it's about building the capacity to govern complexity and drive long-term change. At the same time, partnerships with the private sector must be rebalanced to ensure that public investment delivers public value. Contracts and financing arrangements should embed clear conditions—on climate action, local employment, and knowledge sharing—not to stifle innovation, but to align incentives with national priorities. In doing so, we begin to forge a new social contract between the state and market actors—grounded in directionality, reciprocity, and shared purpose.

Finally, in a world facing global challenges, we need new forms of cooperation grounded in equity and solidarity. Multilateralism must evolve from a forum of slow consensus-building into a vehicle for coordinated, purpose-driven action. With its unique political and institutional leverage, the G20 can catalyze this shift by convening coalitions ready to advance bold reforms in global economic governance. At the same time, new global mechanisms are needed to support cross-border collaboration on industrial policy and climate finance. Establishing a global facility to coordinate national industrial strategies and align investments could reduce harmful competition while also strengthening learning from international experiences. These reforms would help ensure that climate action does not become a new frontier of dependency and exclusion, but a genuine opportunity for shared prosperity and global resilience.

This discussion paper envisions a global economy that is purpose-driven by design—not just more efficient or competitive, but fairer, greener, and more resilient. Productivity gains must lead to rising wages, not just capital returns. Technological breakthroughs must be shared, not hoarded. And investment must flow where it is most needed—not where short-term profits are easiest to extract. These are not idealistic ambitions—they are prerequisites for a just transition. Done right, this transition is a shared opportunity—for both the Global North and South. These economies are not on separate tracks; they are deeply interconnected. Green industrialization, resilient supply chains, and equitable access to technology can generate powerful cross-border synergies. A fairer global economy depends on a new kind of interdependence—one that delivers shared prosperity.

Under South Africa's leadership, the G20 can turn this vision into action. With solidarity, equality, and sustainability as its guiding principles, the 2025 G20 Summit can mark a turning point—redefining how we shape economies, finance the future, govern public institutions, and collaborate across borders. The task is urgent. The path forward is clear. The time to act is now.

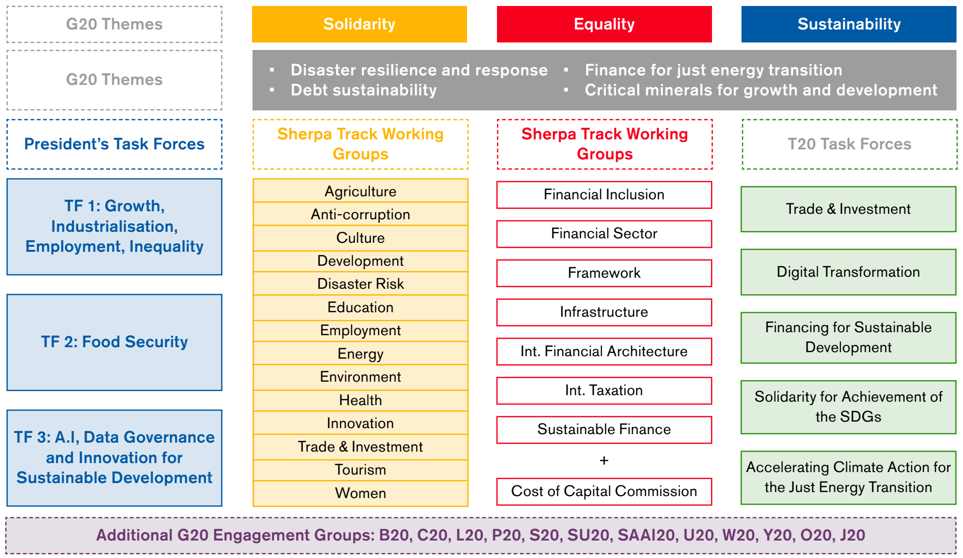
1. A CALL TO ACTION – Four Principles to Redirect Growth toward Shared Prosperity

Economic growth has both a rate and a direction. Yet for too long, dominant economic thinking has focused narrowly on the pace of growth, measured by GDP, without asking a more fundamental question: *what kind of growth do we want?* This discussion paper puts forward a new vision—one in which growth is steered toward clear societal goals, and where public and private actors work together to shape an economy that is sustainable, inclusive, and resilient.

The theme of South Africa's G20 presidency—Solidarity, Equality, Sustainability—reflects the scale of global challenges. The imperative of a just, green transition, rapid technological change, and shifting trade dynamics call for a new approach to economic governance—one that proactively shapes markets instead of merely correcting their failures. Governments must move beyond the role of regulators to become market shapers, risk takers, and investors of first resort. Fiscal, financial, and industrial policies should be designed with this ambition at their core.

To rise to this moment, the G20 themes must be more than aspirational. Embedding them across all task forces, working groups, and policy tracks (Figure 1), is essential to foster alignment and coherence. Only then can the G20 avoid fragmented debates and ensure that its policies reinforce one another, delivering lasting impact.

Figure 1: Schematic overview of G20 structure under South Africa's Presidency 2025



This discussion paper puts forward four interlinked principles to guide global economic reforms (Table 1). Together, they provide a unifying framework to bridge the fragmentation of current global debates. Rather than treating inequality, finance, industrial policy, food security, data governance, and debt as isolated issues, this discussion paper aligns these agendas under a shared commitment to outcome-driven investment and long-term public value.

Under South Africa's leadership, the G20 has a unique opportunity to drive these changes. It has the political weight and institutional mandate to confront the cost-of-capital crisis, channel investment where it is most needed, and support an inclusive and sustainable economic transformation. This is a moment for decisive action. This is the year to reshape the rules of the global economy—not incrementally, but fundamentally.

This discussion paper builds on a broad foundation of existing initiatives and recommendations that are already shaping efforts to reform global economic governance. While many of these remain housed in separate policy domains or institutional silos, they share common goals and complementary approaches. The aim is not to start anew, but to bring these efforts into clearer conversation with one another. The table below highlights some of the structures, initiatives, and G20 work this discussion paper draws on—laying the groundwork for greater alignment, coherence, and cumulative impact.

Table 2: List of Key Global Structures and Initiatives

International Financial Architecture

- Bridgetown Initiative (3.0)
- G20 Roadmap towards Better, Bigger, and More Effective Multilateral Development Banks (MDBs)
- African Leaders Debt Relief Initiative (ALDRI)
- Jubilee Commission on Addressing the Debt and Development Crises in Countries from the South
- Global Sovereign Debt Roundtable

Global Tax Reform

- The Rio de Janeiro G20 Ministerial Declaration on International Tax Cooperation
- OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)
- Independent Commission for the Reform of International Corporate Taxation (ICRICT)

Climate Action

- Coalition of Finance Ministers for Climate Action ("Helsinki Principles" Coalition)
- Just Energy Transition Partnerships (JETPs)
- Climate Change Advisory Group (CCAG)

Trade, Investment and Industrial Policy

- Report of the Task Force for the Global Mobilization against Climate Change (TF-CLIMA)
- UN Financing for Sustainable Development Conference (FFD4)
- UNCITRAL (Working Group III)
- OECD Future of Investment Treaties
- UNCTAD Multi-Stakeholder Platform on International Investment Agreements Reform

PRINCIPLE I

Shape the Economy: Place climate and development goals at the heart of industrial policy to direct growth

The major challenges we face today stem from how our economies have been designed and the outcomes they therefore generate. But if design is the problem, it can also be the solution. We can actively steer the economy to become more inclusive and sustainable by directing public and private investments – across all sectors – towards ambitious outcomes – affecting how we move, how we build, how we eat, and how we heat. Directionality is not merely about de-risking or levelling the playing field; it is about intentionally tilting it toward shared societal goals (Mazzucato, et al., 2024). Achieving this requires a forward-looking, outcome-oriented approach that prioritizes long-term public value and resilient growth.

Recommendation 1: Embed directionality in public investment to shape markets to be inclusive and sustainable

Industrial policy is a powerful tool for outcome-oriented economic development. Broadly defined, it refers to the strategic effort by the state to encourage the structural transformation of an economy and to enhance productivity and competitiveness (Chang, 2011). As countries strive for stronger economic resilience, they increasingly recognize the ability of industrial policy to target multi-dimensional objectives that extend beyond short-term competitiveness and growth (Aiginger and Rodrik, 2020; Mazzucato et al., 2024; Lebdioui, 2024).

Unlike past approaches that favored specific sectors and industries via targeted subsidies, investments, and protections, a mission-oriented approach is cross-sectoral by design. By defining bold, inspirational, and measurable challenges (or "missions")—and making public support to firms conditional on their contributions to achieving them—governments can set clear directions for economic activity (Mazzucato and Penna, 2016). "Picking the willing," rather than "picking the winners," helps attract businesses ready to innovate and align with national priorities, while minimizing rent-seeking and unfair competition. In doing so, public resources are more effectively aligned with societal goals, enhancing transparency, accountability, and economic efficiency (Mazzucato, 2022).

Greening growth requires cross-cutting solutions and economy-wide transformation. To achieve this, "grand challenges" should become the vertical drivers of industrial policy, replacing the sector or technology focus of traditional approaches. At the same time, horizontal policies lay the foundation for innovation and investment—through a skilled workforce, robust competition rules, and digital public infrastructure, among others (Mazzucato et al., 2024). An outcome-oriented industrial policy can turn challenges into investment pathways and market opportunities for business—without prescribing the precise route to success. This balance is important: too much top-down direction can stifle innovation, while too much bottom-up can make it dispersive with little impact. When done well, this approach crowds in private investment and catalyze cross-sectoral innovation that would not otherwise happen (Mazzucato and Perez, 2015).

Recommendation 2: Align policy tools and institutions with climate and development goals, stimulating cross-sectoral outcome-oriented innovation

Governments have a broad set of supply- and demand-side policy tools available to embed directionality in investment and economic activity. While specific tools and institutions will vary by country, the examples below highlight those that have been neglected in the past. If designed well, they can generate the cross-sectoral innovation needed to transform economies in line with climate and development goals.

Public procurement, which represents 12 percent of global GDP (Bosio and Djankov, 2020), is one of the most underutilized yet effective tools for creating new markets, setting quality standards, and fostering innovation. Instead of focusing purely on minimizing cost, procurement should be used to stimulate technological progress, strengthen local supply chains, and advance social objectives, such as labor protection or decarbonization (Mazzucato 2020).

On the supply side, aligning fiscal policies with outcome-oriented goals is crucial. This includes restructuring tax incentives, subsidies, and financial regulations, while eliminating or repurposing outdated subsidies—such as those for fossil fuels— that conflict with the public interest and long-term collective well-being, and doing so in an inclusive and just manner (see Recommendation 5). Similarly, state-owned enterprises (SOEs) can play a transformative role in industrial policy. Positioned between the public and private sectors, SOEs lead patient investments into critical projects across sectors such as energy, infrastructure, and advanced manufacturing. Proper governance and active public oversight can ensure that SOEs focus on national priorities rather than short-term profits, driving industrial development and technological progress (Mazzucato and Gasperin, 2023).

Recommendation 3: Restore policy space for green industrialization and development

The ability of governments to direct economic transformation is increasingly constrained by uncoordinated trade policies, restrictive investment treaties, and outdated intellectual property rules. While countries in the Global South have long faced constraints on policy space, these limitations are increasingly affecting developed economies as well—particularly as they seek to localize supply chains and scale up clean energy industries. Asymmetrical trade rules and rigid investment protections not only restrict countries in the Global South from building green industries, accessing technology, and directing foreign investment toward national priorities, but also limit the ability of high-income economies to implement industrial strategies that promote resilience and equitable growth. Without sufficient policy space, climate action risks deepening global inequalities instead of fostering shared prosperity.

Ensure that trade measures support, rather than hinder, development

Amid rising geopolitical tensions, unilateral trade measures are becoming more common, fueling uncertainty and raising the risk of global fragmentation. Trade flows are increasingly reorienting along geopolitical lines, with countries forming blocs based on shared political positions—inferred from UN voting patterns—rather than global economic integration (WTO, 2024). At the same time, 87% of industrial policies aimed at addressing global warming and decarbonizing the economy have been introduced by high-income economies (New Industrial Policy Observatory and Global Trade Alert Database, 2024). These industrial policy packages influence not only the volume and direction of trade flows but also the distribution of their developmental benefits. These risks exacerbating global trade imbalances by disadvantaging exporters from developing countries—through reduced demand, higher compliance costs, and restricted market access. For example, the EU's deforestation regulation (EUDR) affects Côte d'Ivoire's current exports equivalent to 5.2% of its GDP. Similarly, the EU's Carbon Border Adjustment Mechanism (CBAM) is expected to significantly reduce export competitiveness for countries such as Zimbabwe, Georgia, and Mozambique (Aldaz-Carroll et al., 2024). CBAM has also set a precedent, prompting other countries—including Japan, the UK, India, and Canada—to consider similar schemes, potentially compounding the impact on the Global South (Law, 2023).

To mitigate the harmful effects of uncoordinated industrial policy measures on countries in the Global South, stronger international cooperation is essential. It is particularly important to assess and address the impact of trade instruments on low- and middle-income countries. Phased implementation approaches can give lower-capacity countries time to adapt, while financial and technical assistance should support the development of domestic carbon pricing systems and green transition strategies. Revenues from carbon border adjustments could be reinvested into climate action, complementing planned financial support for green transitions in the Global South.

Importantly, these efforts are not only vital for ensuring a just and inclusive global transition—they also serve the long-term interests of high-income economies. Supporting sustainable development in the Global South helps create more stable trading relationships, unlocks new markets, and fosters global resilience in the face of shared climate and economic challenges (Avenyo & Tregenna, 2022). Harmonizing environmental standards, regulations, and compliance procedures would reduce trade costs and administrative burdens for exporters across all economies, while ensuring that climate ambition and inclusive growth go hand in hand (Aldaz-Carroll et al., 2024; Brandi, 2021).

Foster technology transfer for inclusive green industrialization

Restrictive intellectual property (IP) rules continue to limit the ability of countries in the Global South to build competitive low-carbon industries. Without access to affordable clean technologies, low- and middle-income economies face higher costs, slower decarbonization, and continued dependence on foreign innovation. Promoting reforms to make the global

IP regime more flexible is essential to ensure that patent protections do not obstruct climate solutions. This includes expanding licensing mechanisms and supporting open-access research to accelerate technology diffusion—while ensuring that innovators receive fair compensation through royalties. A more balanced approach to IP can allow technology holders to generate income while enabling broader access to critical green technologies.

At the same time, countries must have the policy space to use industrial tools—such as strategic subsidies and local content requirements—to strengthen domestic green manufacturing. Revising the WTO framework to exempt green subsidies from restrictive trade rules, where they are transparent and aligned with environmental goals, can help ensure that trade rules support rather than hinder a just green transition.

Strengthen the right to regulate in a new international investment framework

Calls for more private investment must take into account the constraints embedded in existing international investment treaties. Many of these treaties, particularly those with investor-state dispute settlement (ISDS) provisions, have significantly reduced the ability of countries to regulate foreign investment in the public interest. By locking governments into outdated commitments and shielding fossil fuel investments from regulation, these agreements create legal and financial risks that undermine climate action. A recent study estimates that government liabilities from ISDS claims reached USD 340 billion in 2020—exceeding the USD 321 billion of global public finance allocated to the green transition (Tienhaara et al., 2022). Even high-income countries, such as New Zealand and Germany, have delayed or softened climate measures due to the threat of investor claims (Lee and Dilworth, 2024). These investor protections can also undermine historic reforms achieved in other areas of global economic governance, such as the introduction of a 15 percent global minimum corporate tax rate intended for corporations with revenue over EUR 750 million (Bedoya and Lassala, 2024). Unlike trade arbitration, where sovereign countries lead the claim, the investment regime has granted this power directly to investors over time—creating a structural imbalance that limits the policy space of host countries and disadvantages domestic investors.

Without reform, a global transformation to sustainable and inclusive growth will remain out of reach—as will attempts to build a new partnership approach to the extraction of critical minerals. A shift is needed away from rigid bilateral investment treaties and toward alternative frameworks that prioritize cooperation and facilitation, place clearer limits on investor protections and ISDS, and strengthen financial and technical support for partner countries. Piecemeal reform efforts have proven insufficient; a more systemic rethink is now essential for building the kind of partnerships required to meet 21st-century challenges (Brauch, Mayr, Luthin, 2025).

PRINCIPLE II

Finance for Impact: Align macroeconomic policy with public purpose

Finance is a powerful tool—but without direction, it cannot drive structural transformation. Yet global discussions often focus narrowly on mobilizing more capital, rather than asking the more fundamental question: finance for what? Whether drawing on new resources or redeploying existing ones, the key is alignment with long-term public priorities. Today, vast pools of public and private finance remain misaligned—locked into fossil fuel subsidies, tax avoidance, and short-term speculation—while investment in innovation, sustainability, and inclusive development is neglected. Reorienting finance toward public purpose is essential. This means aligning existing resources with collective priorities and steering additional capital—both public and private—toward productive investment. A wide range of policy tools and institutions can embed this directionality in finance: public development banks, fiscal rules, tax systems, and public investment frameworks, all anchored in strong state capacity, strategic coordination, and credible pipelines for transformative investment. What's needed is not just more finance, but finance with purpose.

Recommendation 4: Make use of existing public wealth and long-term resources for industrial transformation

While global discussions often center on raising additional financing for development—frequently framed around loosely defined "financing gaps"—there is far less focus on how existing resources are being used. Many governments remain constrained by outdated fiscal rules and short-term budgeting practices that fail to differentiate between productive investment and current expenditure. At the same time, public resources are frequently misallocated: fossil fuel subsidies continue to drain trillions from public budgets, while tax avoidance erodes the fiscal base needed to fund public investment. Public development banks (PDBs) also remain underutilized, despite their potential to mobilize long-term, risk-tolerant capital for industrial policy and sustainable development.

Redesign fiscal rules to unlock investment

Current budgetary frameworks often impose rigid constraints on public investment, despite robust evidence that well-targeted capital and social spending can drive long-term growth and productivity (Deleidi and Mazzucato, 2019). Traditional fiscal rules—anchored in strict nominal debt and deficit ceilings—have pushed governments to prioritize short-term consolidation over public investment. This has resulted in chronic underinvestment—not out of necessity, but to meet self-imposed numerical limits that overlook the growth-enhancing effects of productive spending (Alesina and Reich, 2018). To address these shortcomings, modern fiscal frameworks must differentiate between current expenditure and productive capital investment. For example, the UK's shift from measuring Public Sector Net Debt to Public Sector Net Financial Liabilities represents an evolution toward a balance sheet-based approach that allows for greater fiscal flexibility and more strategic investment planning. Second-generation fiscal rules that are simpler, more flexible, and better aligned with long-term sustainability objectives can help governments reconcile fiscal credibility with the need for public investment. Key design features include separating current and capital spending, embedding well-defined escape clauses for growth-enhancing or countercyclical outlays, and maintaining a transparent medium-term fiscal anchor (Eyraud et al., 2018; IMF, 2020). Such frameworks offer a more coherent basis for enabling public investment in infrastructure, innovation, and the green transition, without compromising macroeconomic stability.

Modernize accounting frameworks for strategic public investment

Outdated public accounting frameworks compound the bias against long-term investment. Most governments still rely on cash-based accounting, which treats public investment as one-off expenses rather than long-term assets. Unlike private firms that use accrual accounting to evaluate net worth by tracking both assets and liabilities, public balance sheets often ignore the value of state-owned enterprises, infrastructure, and real estate. This narrow focus on headline debt and deficit figures discourages investments that could generate long-term public value and structural transformation. Reforming fiscal and budgetary frameworks to adopt accrual-based accounting would allow governments to assess the true value of public investment and manage risk more strategically. Such reforms are essential for states to be able to take on more entrepreneurial roles without being constrained by misleading fiscal optics (Detter, Fölster, and Ryan-Collins, 2020).

Advance a new global debt architecture

The current global debt system imposes significant burdens on countries in the Global South, limiting their ability to invest in climate-resilient infrastructure, green manufacturing, and industrial upgrading. In 2023, 54 countries spent over 10 percent of their public revenue on external debt servicing, reducing fiscal space for development and green investment. African countries, in particular, face borrowing costs that are 5–8 percentage points higher than high-income economies, limiting their ability to finance a just green transition (UNCTAD, 2024). A central issue lies in how debt sustainability is assessed. The World Bank Group–IMF Debt Sustainability Analysis (DSA) framework often triggers fiscal consolidation not because financing is unavailable or debt is unsustainable in any structural sense, but because the framework insufficiently accounts for the composition and quality of public spending. It tends to treat all expenditure as fiscally equivalent—failing to distinguish between current consumption and long-term, growth-enhancing investment. As a result, governments are often encouraged to retrench fiscally even when investments in infrastructure, climate resilience, or human capital could expand productive capacity and improve debt dynamics over time. Between 2001 and 2018, IMF programs with low-income countries required average annual fiscal adjustments of 1 percent of GDP, with some exceeding 5 percent. These adjustments have frequently dampened aggregate demand, curtailed critical investment, and exacerbated distributional inequality (Ray et al., 2023). Revisiting the DSA framework is essential to enable investment-led development strategies. This includes incorporating more realistic and differentiated growth projections that reflect the long-term returns of public investment in climate adaptation, clean energy, and natural capital. At the same time, addressing unsustainable debt burdens requires a new global framework—one that enables faster and fairer restructurings, particularly for countries facing liquidity pressures and long-term development constraints. Such a framework must be grounded in a reformed DSA that recognizes the role of public investment in driving growth and resilience, and incorporates a more nuanced approach to assessing debt-carrying capacity. Importantly, restoring fiscal space in highly indebted countries will, in many cases, require more than debt reprofiling or maturity extensions. Nominal debt reduction will often be necessary to create the conditions for sustained investment, structural transformation, and inclusive growth.

Strengthen resilience to volatility of capital flows

A key structural driver of recurring debt crises in the Global South is excessive reliance on foreign currency-denominated debt. Developing deep, liquid domestic debt markets offers a more sustainable and sovereign source of financing. However, this objective is undermined by exposure to volatile external capital flows, which directly affect a country's ability to service debt, stabilize exchange rates, and maintain fiscal and monetary autonomy (Gelos and Sahay, 2023).

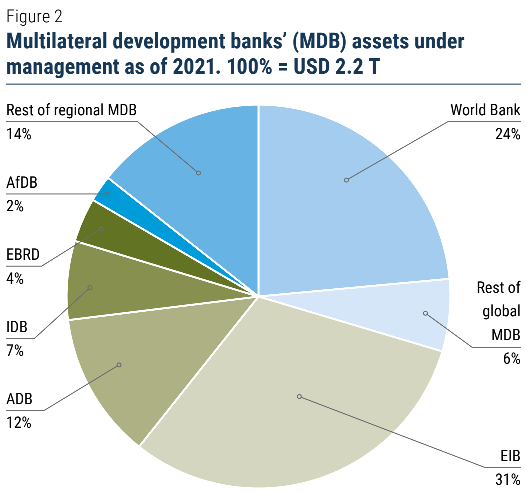
Managing capital flow volatility is therefore critical. Instruments such as unremunerated reserve requirements, taxes on short-term inflows, and prudential limits on external borrowing can mitigate the destabilizing effects of speculative movements. These tools help stabilize exchange rates, protect foreign exchange reserves, and reduce the need for governments to issue expensive debt during periods of external stress (Ocampo, 2010). They also support the development of local currency bond markets by creating a more stable macro-financial environment. Capital account management measures should be treated as integral components of a sound macroeconomic policy toolkit. While the IMF's revised Institutional View has opened some space for their use, international frameworks still fall short of fully legitimizing them (IMF, 2018). As part of a broader agenda on global debt reform, the G20 can help reframe these instruments—not as temporary deviations, but as standard tools for safeguarding financial stability and enabling long-term investment (IMF, 2018).

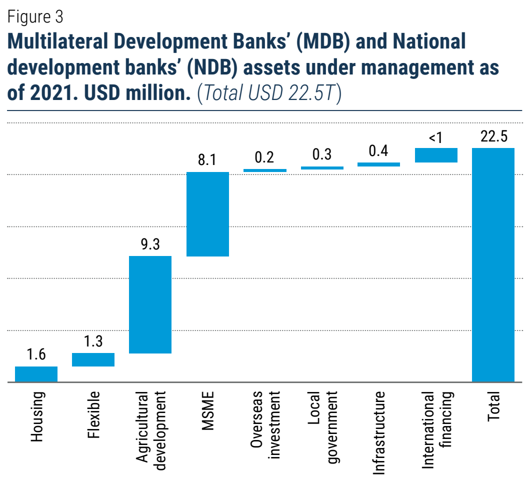
Unlock the potential of public development banks

Public development banks have the potential to play a far more active role in driving long-term investment. Rather than acting as lenders of last resort, they must function as investors of first resort—deploying capital in ways that crowd in private finance, reduce risk, and shape markets around shared priorities. A decade after the Addis Ababa Action Agenda, the "financing gap" narrative has yielded limited results: nearly half of all SDG targets are off track, hunger has returned to 2005 levels, and no indicators under SDG 13 (climate action) are on course (Mazzucato, 2025).

Multilateral Development Banks (MDBs)s can expand their lending capacity by operationalizing key reform proposals—such as those from the G20's TF-CLIMA Independent Expert Group—which could unlock up to US$1 trillion in new lending. This includes the use of portfolio guarantees, hybrid capital instruments backed by Special Drawing Rights (SDRs), and more flexible capital adequacy frameworks (Mazzucato and Songwe, 2024; Plant and Songwe, 2024). The 2021 SDR allocation of US$650 billion disproportionately benefited high-income countries. Future SDRs must be allocated on a regular, needs-based basis—and deployed strategically, including to support SDR-funded hybrid capital instruments for MDBs.

Figure 2: Assets Under Management in Public Development Banks





Source: Xu et al (2023); Mazzucato, M. (2023)

MDBs and national development banks (NDBs) must operate as part of an integrated system, not as fragmented or competing actors. MDBs should work with—not around—NDBs by providing equity, first-loss capital, risk guarantees, and local currency instruments that enable NDBs to scale up investment. Country platforms can help align all relevant actors around national green industrial policies. Well-capitalized NDBs, embedded in domestic contexts are often better positioned to respond local investment needs and align financing with national priorities. Solving the persistent currency mismatch—via pooled risk instruments, SDRs, and local currency bond markets—is critical to enabling NDBs to invest confidently in domestic development without foreign exchange exposure (Mazzucato and Songwe, 2024).

Recommendation 5: Harness tax policy for public investment, structural transformation and global equity

Tax policy is one of the most powerful levers to influence the structure, pace, and direction of economic activity—yet it has long been boxed into a narrow role: raising revenue and reducing deficits. In a world marked by rising inequality and climate breakdown taxation, must be reimagined as a tool for market-shaping, redistribution, and structural economic transformation. This means using tax to steer capital toward long-term investment, align corporate behavior with public priorities, and dismantle incentives for speculation and environmental harm. Momentum is building to reshape the global tax architecture to meet these goals. A growing constellation of initiatives—from the OECD/G20Framework on Base Erosion and Profit Shifting (BEPS) process to the Bridgetown Initiative—are pushing for ambitious reforms. Proposals now on the table include a global minimum corporate tax that curbs profit shifting, wealth taxes targeting extreme concentrations of capital, and solidarity levies on high-polluting industries like aviation and shipping. What's emerging is a new understanding of tax—not just as a technical fix, but as a political instrument to fund a just transition and realign global markets with collective goals.

Table 3. Untapped Sources of Tax Revenue

Tax Source	Potential Revenue (annual)
Global Minimum Corporate Income Tax	$192–$493 billion
Global excess profit tax	$536 billion
Levies on International Transportation	$130 billion
Carbon tax	$1.4 trillion
Global wealth tax	$250 billion–$2.1 trillion
Financial Transaction Tax	$315–$420 billion

Source: Kronfol and Steenbergen, (2020); Hebous, Prihardini and Vernon, (2022); IMF, (2024).

Table 4. Lost Revenue by Source

Tax Source	Revenue Loss (annual)
VAT compliance gap	$1.9 trillion
Fossil fuel subsidies (2022)	$7 trillion
Tax evasion and avoidance	$600 billion
Tax expenditures in EMDEs	$2.6 trillion

Source: IMF (2024), Torslov et al, (2023); Tax Justice Network (2024).

Leverage tax policy for green industrial policy

Tax policy is central to breaking carbon dependence and enabling green structural change. Today, public resources continue to prop up carbon-intensive sectors through vast subsidies and underpriced pollution. The potential is vast. Fossil fuel subsidies surpassed $7 trillion in 2022, accounting for 7.1% of global GDP—propping up carbon-intensive sectors while starving climate action of funds (Coady et al., 2023). The IMF estimates that eliminating these subsidies and implementing efficient carbon pricing could reduce global CO_2 emissions by 43% by 2030 while boosting revenues by 3.6% of global GDP (Coady et al., 2023; IMF, 2024). Carbon pricing is among the most efficient tools for emissions reduction and revenue generation. Under various pricing scenarios—$75 per tonne in high-income countries, $50 in middle-income countries, and $25 in low-income countries—additional annual global revenue could reach $1.4 trillion by 2030 (IMF, 2024). International transportation, responsible for 5% of total global emissions, also presents an opportunity. A carbon levy of $50 per tonne in 2030, rising to $100 by 2035, could generate $80 billion from aviation and $50 billion from maritime sectors by 2035. Redirecting these funds toward renewable energy, public transport, and resilient infrastructure is not just good economics—it is urgent climate action.

Strengthen tax compliance to broaden revenue base

Governments must improve efficiency of tax infrastructure that is conducive to increased domestic resource mobilization. This includes investing in tax administration, modernizing digital systems, and establishing public registries of beneficial ownership to close loopholes and restore legitimacy. There is considerable untapped tax revenue potential in emerging market and developing economies. Compared to current revenue, low-income countries have the potential to raise, on average, 6.7 percentage points in additional tax revenue, while EMEs can raise an additional 5 percentage points. Every fairly taxed dollar, spent with purpose, strengthens the fiscal base for transformation. Reform must also focus on reducing revenue losses. The VAT compliance gap remains substantial: 50 percent for low-income economies, 30 percent for emerging market economies, and 20 percent for advanced economies (IMF, 2024). Tax expenditures—exemptions, deductions, and incentives—account for up to 25 percent of revenue in emerging market and developing economies. Eliminating these inefficiencies, modernizing tax infrastructure, and strengthening tax administration are critical. Public registries of beneficial ownership, digital systems, and automated compliance mechanisms are necessary investments.

Curb tax evasion and profit shifting

National reforms are not enough when wealth and profits can be shifted freely across borders. Efforts to restructure international tax rules must reflect 21st-century realities—curbing tax base erosion, rebalancing fiscal sovereignty, and funding global public goods. The costs of inaction are substantial. Governments lose an estimated $600 billion annually to tax abuse by multinational corporations and the ultra-wealthy—revenue that could otherwise fund essential public investment (IMF, 2024). Around 36 percent of profits by multinational enterprises are shifted to low-tax jurisdictions, with over 70 percent of the resulting revenue losses originating in high-income countries (Tørsløv, Wier, and Zucman, 2023). Tax competition compounds these losses, particularly in the Global South, where it often takes the form of ineffective incentives and preferential regimes that erode the tax base without delivering real investment. In many cases, these policies are not just inefficient—they are regressive (Kronfol and Steenbergen, 2020).

The OECD/G20 Inclusive Framework on BEPS has made important strides in acknowledging the failure of current international tax rules. The agreement to introduce a global minimum corporate tax rate of 15%—while modest—has the potential to raise global CIT revenue by 5.7% to 14.7% (Kronfol and Steenbergen, 2020). Alternatively, a global excess profit tax of 10% on MNEs could raise CIT revenue by more than 15%. These reforms should not be dismissed—but nor should they be mistaken for a silver bullet. A more ambitious and equitable approach is needed: one that rethinks how profits are allocated and treats taxation as a tool not just for efficiency, but for redistribution and structural transformation.

Introduce a global wealth tax and financial transaction tax

Brazil's G20 proposal for a global wealth tax targeting the ultra-rich could generate between $250 billion and $2.1 trillion annually (Zucman, 2024). A more comprehensive tax on the top 0.5% of global households could yield as much as $2.1 trillion annually—enough to halve the SDG financing gap (Tax Justice Network, 2024). Complementary mechanisms—such as a global financial transaction tax (FTT)—would ensure that those most responsible for financial volatility and systemic risk contribute proportionately to the transition. A global FTT across major financial markets could generate between US$150–250 billion per year, depending on scope and design (Schulmeister et al., 2008; UNCTAD, 2023). Beyond revenue, an FTT is a tool of high symbolic and distributive power—discouraging excessive high-frequency trading, curbing short-termism, and reorienting capital flows toward long-term productive investment. It also embodies a principle of fairness: those profiting most from globalized financial markets should contribute more to their stability and sustainability.

A fiscal paradigm for shared prosperity

This is not just a call to tax more—it is a call to tax differently. To use fiscal policy not as a neutral ledger, but as a lever of transformation, redistribution, and public purpose. Taxation must no longer be treated as a technical constraint, but as a strategic tool to rewire economies for justice. If governed wisely, taxes and rent capture mechanisms can finance the transition, discipline extraction, reduce inequality, and anchor a more democratic and productive economy. Tax policy, like trade and finance, must be part of a coherent ecosystem of market shaping—grounded in long-term public value.

The South African G20 Presidency has an opportunity to bring international tax reform back into focus—not only as a means to raise revenue, but as a structural tool to reduce market distortions and align financial flows with long-term public priorities. What is needed now is a shift from incremental adjustments to more substantive reform: closing loopholes, increasing transparency, and improving enforcement across jurisdictions.

Recommendation 6: Steer private finance through purpose-driven blended instruments

A large share of global private finance remains concentrated in short-term, liquid, and high-return assets, while development demands patient, risk-tolerant capital (Bernards, 2023; Mazzucato, 2018). Addressing this mismatch requires more than adjusting project-level risk. It requires public institutions to actively shape investment conditions—setting direction, anchoring expectations, and lowering structural barriers to long-term capital deployment. In this context, public finance should be understood as a market-shaping force—one that leads structural transformation by actively steering private investments toward strategic priorities.

Develop robust investment pipelines to direct private finance toward long-term transformation.

Unlocking development and climate investment requires more than simply increasing the supply of capital. Global capital markets are awash in liquidity, from pension funds to sovereign wealth funds seeking stable returns. The real constraint is a persistent scarcity of investable, well-prepared projects that align with long-term development and climate goals (Mazzucato, 2025; Zelikow and Savas, 2022).

Efforts to mobilize private finance often overlook this foundational gap. Rather than focus narrowly on financial de-risking mechanisms, countries and multilateral institutions need to invest in the upstream institutional and technical capacities required to generate pipelines of high-quality public investment opportunities. This means developing coherent long-term strategies, identifying priority missions, and translating them into actionable investment portfolios. It also requires robust project preparation—conducting feasibility studies, securing permits, training local workforces, and structuring projects in a way that social and environmental standards are met (Zelikow and Savas, 2022).

Steer private finance toward development

The persistent mismatch between abundant global capital and underinvestment in productive sectors reflects structural features of the international financial system. Institutional investors—managing over $130 trillion in assets—face limited opportunities to deploy capital in ways that generate stable, long-term returns while contributing to structural transformation. Instead, capital is increasingly concentrated in liquid, speculative, and often self-referential financial instruments. The notional value of outstanding derivatives exceeds $600 trillion, more than 25 times global GDP (BIS, cited in Hung Tra, 2024). These patterns are symptomatic of a highly financialized global economy, in which capital accumulation is decoupled from real economic investment.

Current blended finance practices have not meaningfully addressed this misalignment. While the underlying rationale of blended finance—deploying public resources to catalyze private investment—remains sound in principle, its operationalization has often been suboptimal in practice. Empirical evidence points to limited volumes ($15 billion annually), weak leverage in low-income settings (e.g. $0.36 private for every $1 public in LDCs), and a concentration of funds toward lower-risk mitigation projects and international corporate actors (Mazzucato, 2025; Attridge and Engen, 2019). This reflects a broader conceptual limitation: the dominant model of blended finance is oriented toward financial mobilization rather than structural transformation. By prioritizing risk-adjusted returns for private investors, instruments are frequently structured to accommodate rather than reshape market preferences. As a result, they often bypass the sectors, regions, and actors most critical for development—particularly local firms, SMEs, and adaptation-oriented investments. Furthermore, poorly designed public-private partnerships can generate significant contingent liabilities and fiscal risks, especially in contexts with weak institutional capacity.

To enhance the developmental effectiveness of blended finance, a fundamental reorientation is required. Public risk-taking must be contingent on clear developmental additionality—defined not merely in financial terms, but through metrics linked to local capacity building, employment generation, technology diffusion, and resilience outcomes. Mechanisms to capture public value—such as equity stakes, conditionalities on reinvestment, or co-ownership arrangements—should be integrated ex-ante. Importantly, blended finance must be embedded within national development strategies and linked to long-term public investment planning, rather than treated as a stand-alone financial innovation.

The G20 and multilateral development banks have a critical role to play in establishing common standards of additionality, strengthening the alignment of blended finance with industrial policy objectives, and supporting public institutions in exercising their convening and coordination functions. Without these reforms, the use of concessional resources risks reinforcing rather than transforming the existing patterns of capital allocation.

Table 5: Key Issues Affecting Blended Finance

Issue	Details
Volume	The blended finance market averages $15 billion annually compared to the $5–7 trillion needed annually to close the SDG financing gap.
Additionality	The absence of agreed metrics makes it difficult to assess additionality of blended finance projects.
Leverage	LICs mobilised only US$0.37 per dollar of public financing invested, compared to $1.06 in LMICs.
Equity	70 per cent of blended climate finance currently goes to international corporations.
Debt risks	Blended public-private partnerships can lead to the accumulation of contingent liabilities and fiscal risks in LMICs, further reducing fiscal space.

Sources: Mazzucato, M (2025); Eurodad (2024); Attridge and Engen (2019); DFI Working Group on Blended Concessional Finance for Private Sector Projects (2023); OECD/UNCDF (2019)

PRINCIPLE III

Rebuild Capable States: Strengthen agile and entrepreneurial governments

The ability of governments to steer economic transformation and direct growth depends on their institutional strength, adaptability, and strategic vision. This requires more than a regulatory state—it demands an entrepreneurial public sector that takes risks, drives innovation, and actively shapes and creates markets (Mazzucato, 2018). Market-shaping does not imply centralized control, but rather strategic direction-setting through dynamic collaboration with businesses, workers, and civil society. A capable state must invest in its own expertise and retain, rather than outsource, core functions in order to ensure that public institutions remain strategic drivers of change (Mazzucato and Collington, 2023).

Recommendation 7: Work across “all of government” and invest in the capacity and capabilities of the civil service

The effectiveness of industrial policy depends not only on its strategic focus but also on how it is implemented. Achieving transformative outcomes requires a whole-of-government approach that overcomes institutional fragmentation—bridging silos across ministries, public agencies, and levels of government. Industrial policy should be understood not as the responsibility of a single ministry, but as the organizing framework for national development. It must anchor a broader growth strategy to which all parts of government are accountable.

This shift in implementation demands a more proactive and capable public sector—one that can take strategic risks and steer the economy toward desired outcomes. Realizing this potential requires buildings states that are “fit-for-purpose”. A modern public sector must balance long-term stability and agility, investing in both institutional capacity (the tools, expertise and space to pursue an intended policy direction) and dynamic capabilities (that is, the agility to learn, evaluate, coordinate, and adapt in real time) (Kattel, Drechsler, Karo, 2022). This is particularly important for the regulation of new technologies, like General Purpose AI, which has to be done in a dynamic and adaptable way to avoid rigidities and future lock-ins. To succeed, civil servants need to be empowered to embrace uncertainty and experiment with policy tools. Policy innovation hubs and GovLabs, for example, can offer models and dedicated spaces for testing and scaling new approaches. In an era of global interdependence, these capacities and capabilities should also be leveraged for cross-border learning, exchange, and coordination (Mazzucato et al. 2021).

Recommendation 8: Build symbiotic public-private partnerships that share both risks and rewards

The relationship between the public and private sectors needs a reset. For too long, value creation has been collective, while value extraction has been asymmetric. Governments routinely assume the highest risks – funding early-stage R&D, absorbing market uncertainties, and stepping in during crises – yet the financial and societal returns from these investments are privatized and rarely reinvested into the public domain (Mazzucato, 2018). To correct this imbalance, there is an urgent need for a new social contract that acknowledges innovation as a collective process – one that ensures risks and rewards are shared, with reciprocity anchored in all public–private collaborations.

Public investment should be treated not as a sunk cost, but as a strategic asset that generates long-term economic, social, and fiscal returns. This calls for portfolio-based approaches, where successful investments help finance future public initiatives through mechanisms such as equity stakes, revenue-sharing agreements, royalties, or dedicated public investment funds (Detter et al., 2020; Mazzucato and Ryan-Collins, 2022). This is particularly relevant in sectors such as green technology, digital infrastructure, artificial intelligence, and pharmaceuticals—areas where early-stage public investment frequently enables substantial private returns. In such cases, the state should operate not only as an investor of first resort but also as a long-term stakeholder. This creates a virtuous cycle: public value creation expands fiscal space, enabling sustained public investment. A contract that socializes risk must also socialize reward (Mazzucato and Gasperin, 2023). Without mechanisms to retain and reinvest this value, governments risk bearing the financial risk while enabling the concentration of returns elsewhere.

Embedding well-designed conditionalities in public–private partnerships can help ensure that firms receiving public support contribute meaningfully to social, economic, and environmental objectives (Mazzucato and Rodrik, 2023). These may relate to decarbonization targets, employment standards, technology-sharing requirements, or inclusive business practices. Conditionalities can also play a constructive role in influencing private-sector behavior over time—for instance, by linking access to public financing with performance indicators such as employment generation, gender equity, or regional development, rather than focusing solely on financial returns (Aiginger and Rodrik, 2020). Tools such as claw-back clauses, performance-based pricing, or limits on dividend payouts and share buybacks can further support the alignment of public and private interests (Mazzucato and Ryan-Collins, 2022).

This approach rests on the principle of reciprocity: public and private actors are most effective when their objectives are aligned, their roles clearly delineated, and their responsibilities shared. Achieving such alignment benefits from capable institutions, sound regulatory frameworks, and transparent mechanisms for oversight and enforcement. It also requires reaffirming the role of the state as a strategic actor—not simply a funder or regulator, but a long-term partner in shaping the direction and composition of economic development.

PRINCIPLE IV

Collaborate for Global Equity: Forge inclusive and fair coalitions

Recommendation 9: Uphold and strengthen multilateralism and build coalitions for global economic governance

To drive meaningful global economic governance reform, another decade of piecemeal reforms must be avoided. Instead, key issues of global economic governance must be addressed across all relevant international discussions and forums. At the same time, progress need not be held hostage to full multilateral consensus. Strategic leadership can emerge from coalitions of countries prepared to move forward collectively, generating momentum and setting benchmarks for broader alignment. South Africa has demonstrated this potential through its role in multilateral coordination, including in initiatives such as the World Health Organization's mRNA technology transfer program, launched in 2021. Anchored by a development hub in South Africa and involving 15 partner manufacturers across low- and middle-income countries, the program represents a new model for public–purpose R&D and distributed production. Rather than concentrating knowledge in a single entity, the initiative is designed to enhance the capacity of multiple countries to produce their own vaccines and share technology openly (Dutt, Mazzucato, and Torreele, 2024).

Sustaining and extending this kind of collective action—particularly through coordination across G20 and COP presidencies held by countries in the Global South—can reshape the governance of key economic and technological assets. A coalition of the willing among like-minded G20 members can play a catalytic role in advancing multilateral solutions, restoring policy space, and enabling all countries to act more effectively on their climate and development priorities (Creamer, 2023).

Defend multilateral trade amid rising tariff pressures

The recent resurgence of unilateral tariff measures by major economies presents a growing systemic risk to the multilateral trading order. While the immediate economic impact may appear contained, the deeper threat lies in the precedent: a potential cascade of retaliatory measures, legal uncertainty, and institutional erosion. If such actions proliferate, they could trigger a 1930s-style fragmentation of global trade, reversing decades of integration and multilateral cooperation (Baldwin, 2025; Evenett and Fritz, 2025). The weakening of the World Trade Organization (WTO)—already under strain—would harm all members, but especially smaller and developing economies that depend on rule-based access to global markets and institutional mechanisms to defend their interests. In this context, the international response requires strategic clarity and institutional discipline. Reaffirming commitment to WTO rules and norms is essential, including ensuring that any defensive measures remain clearly compliant with multilateral disciplines (Schmucker, 2025). Coordinated legal actions—such as joint complaints under Articles I and XXVIII of the GATT—can help preserve legal coherence and reinforce the principle that unilateral protectionism lies outside the bounds of internationally agreed rules (Baldwin, 2025). Even in the absence of a fully functional Appellate Body, such actions contribute to jurisprudence and help sustain the legitimacy of the rules-based order. At the same time, public communication is critical: the costs of unilateral action must be clearly articulated to domestic and international audiences, reinforcing the distinction between disciplined rule-based defense and escalation. Looking ahead, a broader coalition of like-minded countries should assume leadership in safeguarding and modernizing the multilateral trade regime. Past experience provides a useful precedent: following the U.S. withdrawal from the Trans-Pacific Partnership, Japan assumed a leadership role in reconstituting the agreement and preserving its core provisions. Similarly, a new coalition—anchored in the G20 and WTO—could advance forward-looking reforms on digital trade, green industrial policy, and inclusive development. Coordinated efforts to align market access frameworks, develop shared standards, and strengthen dispute settlement mechanisms can demonstrate that multilateralism remains both viable and adaptable.

Defending multilateralism in trade must be seen as part of a broader project of cooperative global governance. A functioning trade regime underpins the legitimacy of climate-related instruments such as carbon border adjustments, industrial policy tools, and global value chain reforms. Tariffs and subsidies, when deployed transparently and strategically, can support development and environmental objectives—but only within a rules-based framework grounded in reciprocity and equity. The alternative is systemic fragmentation: discriminatory blocs, legal ambiguity, and a weakening of global cooperation. In this context, a coalition of the willing must not only resist unilateralism but actively chart a path forward toward a trade system that is modern, inclusive, and resilient.

Recommendation 10: Establish a global facility for coordinating industrial policy and long-term finance

Advancing global equity and sustainable development requires new governance frameworks that strengthen international cooperation on industrial policy and long-term public finance. These domains are deeply interconnected: without access to stable, long-duration financing, national industrial strategies—especially in emerging and developing economies—risk remaining underfunded or overly reliant on volatile private capital. At the same time, closer coordination of industrial policy across borders is necessary to avoid harmful competition, promote technology diffusion, and ensure that public investment supports shared climate and development objectives.

Current reform efforts remain fragmented—spread across multiple forums with overlapping but often misaligned mandates. This fragmentation not only slows progress but risks exacerbating global disparities by failing to address systemic interdependencies. As highlighted by the G20's TF-CLIMA Independent Expert Group, there is a strong case for establishing a dedicated global facility to coordinate industrial policy and long-term financing. Such a platform could support national strategies by facilitating policy dialogue, aligning investment incentives, and mobilizing concessional and patient capital for strategic sectors. Crucially, linking policy coordination with financial instruments would help build a rules-based system for strategic investment that prioritizes transparency, fairness, and developmental impact. The facility could also strengthen the institutional architecture for cross-border collaboration, reduce duplication, and enhance the legitimacy of global economic governance.

2. CONCLUSION

This discussion paper is not a call for marginal change or technical fixes. It sets out a framework for rethinking how we govern the economy—placing public purpose at the center of finance, innovation, investment, and cooperation. Its four principles are not abstract ideals. They respond directly to today's failures: rising inequality, ecological breakdown, policy incoherence, and eroding trust in multilateralism. Taken together, they offer a clear direction for global economic governance—one that is grounded in institutions, driven by investment, and aligned with the long-term needs of people and planet.

First, shaping the economy means reasserting the role of the public sector—not just in correcting market failures, but in setting direction and co-creating markets. Growth must be guided by public priorities such as climate stability, decent work, and regional development—not treated as an end in itself. Fiscal, financial, and industrial policies should work together to steer investment, innovation, and trade toward long-term public goals. This includes using tools like public procurement, strategic subsidies, and national development planning to shift the structure of economic activity. Achieving this requires restoring national policy space—especially in trade, tax, and investment regimes—and rebalancing global rules so they enable, rather than penalize, ambitious state action.

Second, aligning finance with public purpose requires more than increasing capital flows—it demands a reorientation of macroeconomic governance. National macroeconomic frameworks must be designed to support long-term investment, economic resilience, and shared prosperity, while the international financial architecture should reinforce, not constrain, this direction. This involves rewriting fiscal rules that penalize productive spending, modernizing accounting standards to recognize public assets, and using tax policy to shape economic behavior and expand collective capacity. Debt sustainability assessments need to reflect the long-term value of investment in infrastructure, climate resilience, and human development. Development finance institutions should operate strategically and counter-cyclically—mobilizing patient, risk-tolerant capital in support of development priorities. Finance should be judged by the outcomes it enables, not by leverage ratios alone.

Third, rebuilding capable states is essential to directing economic transformation. This requires long-term investment in institutional capacity—restoring core capabilities within the civil service, enabling cross-government coordination, and fostering a culture of strategic learning and experimentation. A capable state sets direction and shapes markets through clear priorities, not ad hoc fixes. Public–private partnerships must be guided by public purpose, with tools in place to ensure that risks and rewards are shared, and that investment outcomes align with national priorities. Without strong public institutions at the center, no long-term strategy can be sustained.

Fourth, advancing global equity demands new forms of cooperation that reflect today's interdependence and redress long-standing imbalances in global governance. In a fragmented landscape, inclusive coalitions—grounded in shared interests and mutual benefit—can drive coordinated action where consensus is lacking. South Africa's G20 presidency is well positioned to catalyze this shift: convening coalitions willing to advance reforms in trade, finance, and technology governance, and laying the groundwork for new institutions—such as a global facility to align industrial policy and long-term finance. Equity must not be an outcome left to chance, but a core principle embedded in how global cooperation is structured and delivered.

This is a moment that cannot be met with incrementalism. The convergence of the G20, FfD4, and COP30 presents a rare opportunity to break from fragmented approaches and build a more coherent and purpose-driven global economic order. But this window will not stay open indefinitely. Without coordinated action now, the cost of inaction—economic, ecological, and political—will rise, and the legitimacy of international cooperation will continue to erode.

South Africa's G20 presidency brings the political momentum and institutional platform to help steer this shift. It can re-anchor global economic governance around public value, advancing reforms that are practical, ambitious, and grounded in shared responsibility.

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Appendix

About the UCL Institute for Innovation and Public Purpose

The Institute for Innovation and Public Purpose (IIPP) at University College London (UCL) brings together cutting-edge academic theory with teaching and policy practice, to rethink the role of the state in tackling some of the biggest challenges facing society. IIPP works with partners to develop a framework which challenges traditional economic thinking, with the goal of creating, nurturing and evaluating public value in order to achieve growth that is more innovation-led, inclusive and sustainable. This requires rethinking the underlying economics that have informed the education of global public servants and the design of government policies. IIPP's work feeds into innovation and industrial policy, financial reform, institutional change and sustainable development. A key pillar of IIPP's research is its understanding of markets as outcomes of the interactions between different actors. In this context, public policy should not be seen as simply fixing market failures, but also as actively shaping and co-creating markets. Re-focusing and designing public organisations around mission-led, public purpose aims will help tackle the grand challenges facing the 21st century. IIPP is uniquely structured to ensure that this groundbreaking academic research is harnessed to tackle real world policy challenges. IIPP does this through its high-quality teaching programme, along with its growing global network of partners, and the ambitious policy practice programme. IIPP is a department within UCL – and part of The Bartlett, ranking number one in the world for architecture and the built environment in the world.

About Professor Mariana Mazzucato

Mariana Mazzucato (PhD) is Professor in the Economics of Innovation and Public Value at University College London (UCL), where she is Founding Director of the UCL Institute for Innovation & Public Purpose. She is winner of international prizes including the Grande Ufficiale Ordine al Merito della Repubblica Italiana in 2021, Italy's highest civilian honour, the 2020 John von Neumann Award, the 2019 All European Academies Madame de Staël Prize for Cultural Values, and 2018 Leontief Prize for Advancing the Frontiers of Economic Thought. Most recently, Pope Francis appointed her to the Pontifical Academy for Life for bringing 'more humanity' to the world. As well as The Entrepreneurial State: debunking public vs. private sector myths (2013), she is the author of The Value of Everything: Making and Taking in the Global Economy (2018), Mission Economy: A Moonshot Guide to Changing Capitalism (2021), and most recently The Big Con: How the Consulting Industry Weakens our Businesses, Infantilizes our Governments and Warps our Economies (2023). She advises policymakers around the world on innovation-led inclusive and sustainable growth. Her roles have included for example Chair of the World Health Organization's Council on the Economics of Health for All, Co-Chair of the Global Commission on the Economics of Water, a member of the South African President's Economic Advisory Council, Co-Chair of the Group of Experts to the Brazilian G20 Task Force for the Global Mobilization against Climate Change, and the President's Representative in the South African G20 Task Force for Industrial Policy.

Principles for an Inclusive and Sustainable Global Economy: A discussion paper for the G20

April 2025

Written by

Professor Mariana Mazzucato

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