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The Promotion of Institutional Coherence in the Trade, Finance and Investment Ecosystem

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Introduction

Different estimates,[1] the funding requirements for global trade and investment are substantial and multifaceted, involving the disbursement of trillions of dollars[2] across different sectors to meet the UN Sustainable Development Goals (SDGs).[3] Addressing these financial needs will require a coordinated effort on the part of governments, policymakers, international organisations, private investors and development institutions. However, the global trade, finance and investment ecosystem is complex, spanning a wide range of actors and stakeholders. It calls for multi-dimensional efforts, focusing on reforming global institutions, improving access to finance, enhancing infrastructure, promoting sustainability, leveraging technology and driving cross-border collaboration and information exchange.[4] Through the adoption of inclusive, transparent and innovative practices, institutions can build a trade and investment environment that benefits all countries, reduces inequalities, and supports sustainable economic growth for the future in line with the SDGs.[5]

The G20 can play a crucial role in forging a more integrated and coherent global policy and institutional set-up for trade, finance and investment. This, however, will entail re-examining the respective roles of all multilateral actors and addressing neglected or unfinished areas of reform, such as system-wide coherence, coordination, transparency and accountability.[6] South Africa has likewise identified the need to reinvigorate the multilateral trading system so that it places development and climate at the centre of it; yet coherence within the ecosystem is crucial.

This policy note explores the importance of institutional coherence in the trade, finance and investment ecosystem. It also highlights the challenges of achieving such coherence and offers a number of recommendations for creating a more integrated, efficient and balanced

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[1] McKinsey & Company, World Bank, African Development Bank, UNCTAD and Asian Development Bank.
[2] Global trade finance gap: $1.7 trillion annually (especially for SMEs in developing countries); Infrastructure investment gap: $15 trillion by 2040; SDG investment needs: $5–7 trillion annually for developing countries; FDI flows: $1.5 trillion in 2022, with growth expected; Digital transformation investment: $10 trillion by 2030; Climate finance investment: $4 trillion annually to meet Paris Agreement goals; Green investment opportunities: $23 trillion by 2030 in climate-related sectors.
[3] UN Conference on Trade and Development*, Economic Development in Africa Report 2023* (UNCTAD, 2023), https://unctad.org/publication/economic-development-africa-report-2023
[4] McKinsey & Company, *Reconceiving the Global Trade Finance Ecosystem* (November 2021), https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/reconceiving%20the%20global%20trade%20finance%20ecosystem/reconceiving-the-global-trade-finance-ecosystem-final.pdf
[5] UN, Department of Economic and Social Affairs, *Sustainable Development Goals*, https://sdgs.un.org/goals
[6] Organisation for Economic Co-operation and Development, *Multilateral Development Finance 2024* (OECD, September 5, 2024), https://www.oecd.org/en/publications/multilateral-development-finance-2024_8f1e2b9b-en.html

framework of global economic governance and international cooperation. Furthermore, it argues that aligning policies and practices across institutions and stakeholders involved in trade, finance and investment can bring about smoother capital flows, better resource allocation, integrated market access, and enhanced sustainability and international cooperation.

The Trade, Finance and Investment Ecosystem

The trade, finance and investment ecosystem is complex and interconnected, comprising some 200 organisations. It includes banking and non-banking financial institutions, regulatory bodies and international organisations such as the Bretton Wood institutions, agencies within the UN Development System (UNDS), multilateral development banks (MDBs) and vertical funds.[7] Each of these entities was created to play a critical role in facilitating economic activity, providing capital, managing risks and ensuring the smooth functioning of global markets.[8] For decades, this system has served as the engine of global economic growth by mobilising and allocating the funds required for development and commerce across sectors, supporting individuals, corporates and governments.[9]

The main trade institutions include the World Trade Organization (WTO), trade credit agencies, the International Chamber of Commerce, regional trade blocs, the UN Conference on Trade and Development (UNCTAD) and customs administrations. Each of these has a specific mandate, as shown in Table 1. In addition, all countries have their own internal rules and regulations that govern trade. For example, countries may decide to use tariff or non-tariff barriers to protect the domestic economy or as retaliatory or punitive measures.

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[7] Multilateral development bank (MDB) vertical funds are financing mechanisms established by MDBs to channel resources towards specific global or regional development priorities, often in partnership with governments, private-sector actors and international organisations. These funds are typically designed to complement broader MDB operations by targeting specific sectors, themes or challenges, such as climate change, health, infrastructure or food security.

[8] Adam Hayes, 'Financial markets: Role in the economy, importance, types, and examples' (August 5, 2024), https://www.investopedia.com/terms/f/financial-market.asp

[9] World Economic Forum, *Navigating Global Financial System Fragmentation* (WEF, January 23, 2025), https://www.weforum.org/publications/navigating-global-financial-system-fragmentation/

TABLE 1 TRADE INSTITUTIONS AND THEIR MANDATES	
Institution	**Main mandate**
World Trade Organization	Regulating global trade rules to facilitate the smooth flow of international trade and to resolve trade disputes.
Trade credit agencies	Providing credit insurance to businesses engaged in international trade to mitigate the risks of non-payment.
International Chamber of Commerce	Promoting trade and investment by setting rules and standards and facilitating dialogue between businesses and governments.
Regional trade blocs	Extending preferential treatment to its members in relation to intraregional trade.
UN Conference on Trade and Development	Promoting development-friendly integration of developing countries into the world economy.
Customs administrations	Overseeing the import/export of goods, including regulatory compliance and duty collection.

Source: Author's compilation

Investment institutions are critical for capital allocation, wealth management and economic growth. They include central banks, commercial banks, private equity firms, venture capital firms, pension and sovereign wealth funds, and hedge funds. Each of these institutions has a specific role to play, as shown in Table 2 below.

TABLE 2 INVESTMENT INSTITUTIONS AND THEIR SPECIFIC ROLE	
Institution	**Main mandate**
Central banks	Managing monetary policies, including the regulation and oversight of the financial markets.
Commercial banks	Providing a wide range of financial services, including acceptance of deposits, provision of loans and supply of investment products.
Private equity firms	Raising capital for investment in private companies or assisting in privatising publicly traded companies.
Venture capital firms	Funding high-risk, high-reward start-ups and early-stage businesses.
Pension and sovereign wealth funds	Managing large pools of capital and making long-term investments.
Hedge funds	Employing advanced strategies to maximise returns for a pool of investors by investing in global markets and other high-risk assets.

Source: Author's compilation

Development finance institutions (DFIs),[10] multilateral development banks (MDBs)[11] and the International Monetary Fund (IMF) also play a crucial role in promoting sustainable growth. In addition, a number of institutions have been created within the ecosystem to set global standards and to monitor and regulate the financial system to mitigate systemic risks, such as the Basel Committee on Banking Supervision and the Financial Stability Board. Insurance companies in many countries act as financial service providers with an array of services and products on offer, often competing with each other.

The Problem

All of the institutions in the ecosystem described above have traditionally been working in silos, resulting in contradictory policies, fragmented regulatory standards and inefficiencies.[12] According to the Asian Development Bank, the global trade finance gap reached $2.5 trillion in 2023, with African and small businesses being the most affected.[13] This gap persists despite the availability of global capital,[14] indicating misalignment in financial flows. According to the African Development Bank, 40% of African trade finance applications from SMEs are rejected, compared to 17% globally. This is largely attributed to: differing risk assessment frameworks among DFIs and commercial banks; a lack of coordination between global banks and African financial institutions; and de-risking by international banks due to inconsistent Anti-Money Laundering/Know Your Customer rules.[15] Given the lack of coherence in the ecosystem, the underserved markets are the most affected in terms of resource allocation.

Institutions like the International Finance Corporation , the African Export-Import Bank and others offer risk-sharing tools, but limited collaboration restricts their effectiveness. UNCTAD's World Investment Report repeatedly notes inefficiencies stemming from fragmented trade and

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[10] DFIs include multilateral development banks, national development banks, bilateral development banks, microfinance institutions, community development financial institution and revolving loan funds.

[11] MDBs are financial institutions that provide financial and non-financial support to developing countries. They are a key part of the multilateral development system.

[12] European Think Tanks Group, *Enhancing coordination between European donors, development agencies and DFIs/PDBs: Insights and Recommendations* (ETTG, September 16, 2022), https://ettg.eu/enhancing-coordination-between-european-donors-development-agencies-and-dfis-pdbs-insights-and-recommendations/

[13] Asian Development Bank, *2023 Trade Finance Gaps, Growth, and Jobs Survey No. 256* (ADB, September 2023), https://www.adb.org/publications/2023-trade-finance-gaps-growth-jobs-survey

[14] The global trade finance market is estimated to have grown from $49.48 billion in 2024 to $52.61 billion in 2025. This is according to: The Business Research Company, *Trade Finance Global Market Report 2025* (January 2025), https://www.thebusinessresearchcompany.com/report/trade-finance-global-market-report#:~:text=What%20Is%20The%20Trade%20Finance,(CAGR)%20of%206.3%25

[15] African Development Bank Group, *Trade Finance in Africa: Overcoming Challenges (*AfDB, September 2021), https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Trade_Finance_in_Africa_Survey_Report.pdf

investment policies across global institutions.[16] It is true that many institutions in the ecosystem were created at different points in history for specific purposes and operate without adequate mechanisms for coordination as they have divergent and conflicting mandates. This uncoordinated approach often complicates and delays project development and results in missed financing opportunities.

Many institutions individually seek private-sector players for co-investment opportunities rather than presenting a unified, streamlined front. This in turn creates confusion and inefficiencies for private-sector participants.[17] In fact, private-sector firms find it difficult to navigate the fragmented processes of multiple DFIs when seeking project financing. The 2017 G20 Compact with Africa (CwA) initiative highlighted that global financial institutions often fail to harmonise their efforts to attract private investment to African countries.[18]

Fragmentation in governance in the trade, finance and investment ecosystem has constrained the development of global value chains (GVCs) because of duplication of effort and inefficiencies. This is emphasised by the Organisation for Economic Co-operation and Development (OECD) which asserts that because of their failure to align their investments, MDBs and DFIs have missed opportunities to catalyse growth in priority sectors.[19]

There is often insufficient communication and information exchange among financial institutions which, if better managed, could lead to more effective risk-mitigation strategies in high-risk environments. Many global and regional institutions independently conduct research and publish reports on similar themes (eg, trade barriers, SME financing gaps or investment trends), without any meaningful collaboration and sharing of data or even methodologies. For instance, the IMF, the World Bank, UNCTAD and the WTO publish reports on global trade finance gaps, but their findings and methodologies rarely converge. The World Bank's Global Findex and FinScope data sets both measure access to financial services, yet there is hardly any meaningful collaboration between the World Bank and other organisations that promote financial inclusion, such as FinMarkTrust.[20] At most, there is duplication of effort and wastage of resources which, if combined, could have produced more in-depth data on the underserved population.

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[16] UNCTAD, *World Investment Report 2024* (UNCTAD, 2024), https://unctad.org/topic/investment/world-investment-report
[17] UNCTAD, *World Investment Report 2024*.
[18] World Bank Group, *G20 Compact with Africa* (World Bank, 2024), https://www.compactwithafrica.org/
[19] Organisation for Economic Co-operation and Development*, OECD Economic Outlook No. 108* (OECD, December 2020), https://www.oecd.org/content/dam/oecd/en/publications/reports/2020/12/oecd-economic-outlook-volume-2020-issue-2_2e595bb6/39a88ab1-en.pdf
[20] FinMark Trust is an independent, non-profit trust whose purpose is to make financial markets work for people in poverty by promoting financial inclusion and regional financial integration.

Geopolitical tensions have, in recent years, changed the entire landscape of international trade and development finance. Regulatory friction induced by economic statecraft[21] has increased in tandem with growing geopolitical tensions, leading to further fragmentation of the ecosystem. The recent use of tariff measures by the US is a clear example of statecraft that can cause irreversible damage to global trade and investment. No doubt, in the present unpredictable global environment, it will be extremely difficult to re-evaluate the role of all multilateral actors and address the unfinished areas of reform.

To mitigate risks associated with geopolitical conflicts, new strategic alliances are being forged by governments and businesses, such as 'friendshoring' and 'nearshoring'.[22] These approaches aim to strengthen economic ties with allied nations and bring production and logistics closer to home to avoid trade disruption and cost escalations. But they also raise concerns about the potential threat of further fragmentation in the trade, finance and investment ecosystem, with some countries benefiting from investments in global manufacturing value chains while others struggle to participate in the global economy.[23] The current situation, coupled with the lack of adequate support and coordination from global institutions, mainly affects African countries.

Rationale for Institutional Coherence

There is no doubt that multilateral development institutions play a critical role in promoting sustainable development. Criticisms of the multilateral development system often highlight its institutional complexity, perceived lack of transparency and accountability, and high administrative costs.[24] Since 2021, several calls have been made for the reform of the operational model of institutions like the IMF, the World Bank and the main MDBs to make them more relevant to the emerging needs of developing countries. These calls underscore the need for a system better equipped to deal with a growing number of development challenges and multiple overlapping crises. While the last major reform of the global financial architecture, in the aftermath of the 2009–2010 global financial crisis, focused on enhancing global governance to ensure macroeconomic and financial stability, the aim of the current reform drive is to scale up and realign global efforts towards achieving the sustainable development agenda.[25] Institutional coherence is essential for realising global development goals, such as the SDGs.

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[21] Economic statecraft refers to the economic tools and policies a state uses to achieve foreign policy and domestic objectives.
[22] WEF, *Navigating Global Financial System Fragmentation.*
[23] OECD, *Multilateral Development Finance 2024*.
[24] OECD, *Multilateral Development Finance 2024*.
[25] UN, *Sustainable Development Goals.*

For initiatives under the G20 umbrella or between G20 countries and Africa, coherence should ensure alignment with global goals such the SDGs and regional priorities such as the African Continental Free Trade Area (AfCFTA) and other initiatives envisaged in Agenda 2063. It helps to align policies, standards and approaches across DFIs and other players for inclusive and sustainable development. For instance, harmonised environmental, social and governance (ESG) criteria or investment guidelines can make it easier for beneficiaries to access funding and reduce heavy administrative burdens. A coherent institutional framework creates synergies between trade, finance and investment, which encourages smoother capital flows, better resource allocation and integrated market access. It can also reduce transaction costs for businesses by streamlining regulatory processes, which is fundamental to ease of doing business.

Coherent institutional policies can help achieve broad-based and inclusive development by ensuring that trade, finance and investment flows are supportive of long-term economic growth, poverty reduction and environmental sustainability. Through collaboration, harmonisation of policies, and alignment of goals and objectives, global development institutions can better contribute to sustainable development in a holistic, balanced and equitable way. For instance, trade liberalisation policies need to be aligned with financial regulations to ensure that emerging economies are not excluded from GVCs owing to a lack of access to finance or an unfavourable investment climate. Similarly, investment in infrastructure and human capital should be linked to trade policies that promote equitable access to markets.

The globalisation of the world economy underscores the growing need for institutions and individual countries to pursue coordinated economic policies that address systemic issues like trade finance gaps, climate change and poverty.[26] Institutional coherence ensures that these complex, cross-cutting challenges are tackled in a unified and impactful manner. Lessons learnt from initiatives like the Paris Climate Agreement, the G20 CwA, the Addis Ababa Action Agenda, the Rio Conventions and the Marrakesh Declaration on Coherence as well as from assessments of the performance of MDBs from the Multilateral Organisation Performance Assessment Network (MOPAN) constitute stepping stones in crafting a better coordinated and more effective trade, finance and investment ecosystem.

Challenges

The trade, finance and investment ecosystem has become more complicated with the creation of new institutions and the expanding mandates and operational capabilities of the existing

[26] Ralph Ossa, 'Trade and inclusiveness: How to make trade work for all' (WTO, September 10, 2024), https://www.wto.org/english/blogs_e/ce_ralph_ossa_e/blog_ro_10sep24_e.htm

ones. Effectively managing this growth with its crowded, multi-layered architecture is essential for maintaining a coherent and robust ecosystem to deal with evolving global needs. Institutional collaboration is critically important for identifying areas that may be overcrowded or where the division of labour could be improved. However, in the light of past constraints in the rationalisation of the multilateral development architecture, building consensus on pragmatic and workable solutions to streamline and optimise the system poses considerable challenges. Other aspects that need to be addressed include improving the framework for international investment and capital flows; ensuring the participation of developing countries in the global information society; and enhancing the coherence of development cooperation policies.[27]

Another big challenge is the unwillingness of institutions involved in the trade, finance and investment ecosystem to cede part of their 'sovereignty' to be part of a new, inclusive, transparent and equitable system. Addressing this will require a great deal of stakeholder engagement and negotiation on several issues, including standardisation of processes and documentation; regulatory alignment and risk mitigation; standardised eligibility criteria for trade finance intermediaries (TFIs); and capacity building and technical assistance, especially for developing countries and emerging markets. In addition, a common monitoring and reporting framework that can be used across different financing institutions is essential.

Recommendations

South Africa, as the only African member of the G20, is uniquely positioned to play a pivotal role in promoting institutional coherence in trade, finance and investment between the G20 countries and Africa. In this regard, South Africa should consider the following:

- **Advocate for reforms in global governance to make institutions like the IMF, the World Bank and the WTO more effective, transparent and inclusive**. This includes addressing structural inequities, enhancing Africa's representation, and reforming governance, decision-making and accountability to better reflect the needs of vulnerable populations and to respond to global challenges. The reforms would aim to ensure consistency, fairness and alignment across the Bretton Woods institutions, thereby enhancing their coherence in policy formulation, implementation and impact.
- **Ensure stronger alignment between G20 trade and investment policies and the SDGs**. Africa's development aspirations are clearly articulated in Agenda 2063, particularly

[27] Organisation for Economic Co-operation and Development, *Trade, Investment and Development: Policy Coherence Matters* (OECD, 1999), https://www.oecd.org/content/dam/oecd/en/publications/reports/1999/08/trade-investment-and-development-policy-coherence-matters_g1ghgba4/9789264273504-en.pdf

through flagship initiatives like the AfCFTA and the planned African Continental Financial Institutions. However, the global financial and investment architecture, heavily influenced by G20 policies, often lacks alignment with these regional priorities. Addressing this disconnect is crucial for promoting a more coherent and effective international system. G20 trade and investment policies must be aligned with the SDGs to foster coherence in the global financial and investment architecture and support sustainable development.

- **Establish a G20–Africa Trade Guarantee Fund to de-risk trade finance transactions**. By engaging multilateral development banks, regional financial institutions, export credit agencies and trade facilitation bodies under a unified framework, the Fund would harmonise risk-sharing instruments, financing standards and eligibility criteria. It would also serve as a platform for institutional alignment and coordination. Its design should incorporate a phased and scalable approach that allows for future expansion to other countries.
- **Advocate for capacity building, technical assistance and knowledge-sharing programmes.** This would be done through a knowledge and coordination platform designed to enhance transparency, facilitate the exchange of best practices, and support joint initiatives that bridge existing gaps between trade finance, investment promotion and development finance. Through this integrated approach, the G20 can play a catalytic role in aligning institutional mandates and resources with sustainable trade and investment flows, particularly for SMEs in underserved markets.

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