A G20 FIDUCIARY EFFICIENCY COST-OF-CAPITAL FRAMEWORK

A global blueprint to modernise risk measurement, correct structural mispricing, and scale resilient, investable markets across Africa and emerging economies.

Prepared for

G20, COP30 and African Union Heads of State, Finance Ministers, Central Bank Governors and Institutional Investors

November 2025

Delivered at

G20 SOUTH AFRICA 2025

CONTENTS

Foreword

A Modern Fiduciary Architecture for Global Institutional Allocation

Across the global financial architecture, a consequential reality has emerged: despite unprecedented liquidity and technological progress, capital is not consistently flowing to the opportunities capable of generating the strongest long-term value. The constraint is not project scarcity or limited investor appetite, but structural fiduciary inefficiencies in how risk is measured, priced, and transmitted across markets.

Fiduciary efficiency is the organising principle of every high-performing financial system. When strong, it channels capital to its highest-value uses; when weak, it suppresses viable opportunities and reduces long-duration returns. As the world advances through a global green and industrial transformation, restoring fiduciary efficiency has become a core enabler of whether markets can mobilise capital at the scale required for competitiveness and climate ambition. We are therefore pleased to table this framework in support of the G20 Presidency's Cost of Capital Commission, contributing to a shared agenda that strengthens fiduciary outcomes, restores market discipline, and mobilises investment for global industrial and climate transformation.

This framework demonstrates that improving transparency, modernising risk measurement, and correcting structural mispricing is not merely about lowering the cost of capital. It is about strengthening the integrity, performance, and resilience of the global financial architecture itself.

When risks are measured accurately, every participant becomes a winner:

- Asset owners unlock mispriced, long-duration opportunities;
- Central banks and regulators gain a more stable, evidence-based prudential foundation;
- Multilateral development banks expand lending headroom and improve system resilience;
- Governments gain fiscal and industrial capacity;
- Ratings agencies benefit from deeper, standardised datasets that strengthen model accuracy, reduce noise, and improve signalling across cycles;
- Markets benefit through improved liquidity, diversification, and efficient allocation.

A critical accelerator of this shift is democratising access to transparent, standardised, high-integrity data, consistent with the emerging G20 GEMs 2.0 Data Directive. When EMDE risk data becomes openly accessible, regulators, sovereigns, MDBs, asset owners, ratings analysts, and credit institutions can operate from a shared evidence base – enabling more accurate pricing and reducing structural distortions.

The global investor community is already demonstrating leadership through the GEMs3.0 Cost of Capital Initiative, which – through its sandbox programmes – is developing interoperable, investor-grade risk datasets that strengthen market discipline, reduce unjustified premia, and align capital flows with real fundamentals.

Within this broader architecture, Emerging Markets and Africa serve as high-impact testbeds for demonstrating these efficiency gains at scale. The principle is straightforward: when risk is measured accurately, markets function better – and long-term investors outperform. Or in our own terms: we must make development investable, not investment developmental.

The financial architecture we build today will determine the scale, direction, and efficiency of global opportunity for decades to come.

Dr Hubert Danso
Chairman & CEO, Africa Investor (Ai) Group
Co-Chair, Sustainable Markets Initiative Africa Council

Executive Summary

For twenty years, global capital markets have operated with a structural blind spot — one that has cost beneficiaries USD 6 trillion and slowed the world's green industrial transition.

Global portfolios have systematically under-allocated over USD 6 trillion by under-weighting EM assets for 20 years, the largest systemic inefficiency in modern fiduciary history.

This framework directly complements the G20 Cost of Capital Roadmap by providing the fiduciary-efficiency architecture needed to translate transparency reforms into portfolio-level capital re-weighting. South Africa's G20 Presidency can correct this through a global Fiduciary Efficiency Initiative, integrating GEMs3.0 data, IFRS standards and AU 5% investment mandates.

Doing so would restore fiduciary discipline and unlock trillions for the global green industrial transition, without new taxes or donor pledges.

Why This Matters for Ministers of Finance

- Enhances sovereign debt sustainability without fiscal expansion.
- Reduces EM borrowing costs by 150–400 bps through actuarial transparency.
- Mobilises private capital for energy, transport and industrialisation without new taxes or donor pledges.
- Strengthens pension solvency ratios through higher long-term returns.
- Complements and operationalises the G20 Cost of Capital Roadmap.

Structural Mispricing Penalty

$15.6bn per year

Excess-interest costs borne by EMDE sovereigns and corporates under current rating, benchmark & capital charge conditions, qualified using GEMs-aligned risk datasets under full-transparency assumptions.

Lost Investment Opportunity Capital Cashflows

$15.6bn per year

Annual investable capital that fails to reach EMDE projects due to inflated risk premia and bechmark distortions. Calculated using GEMs-aligned transparency and risk measurement assumptions.

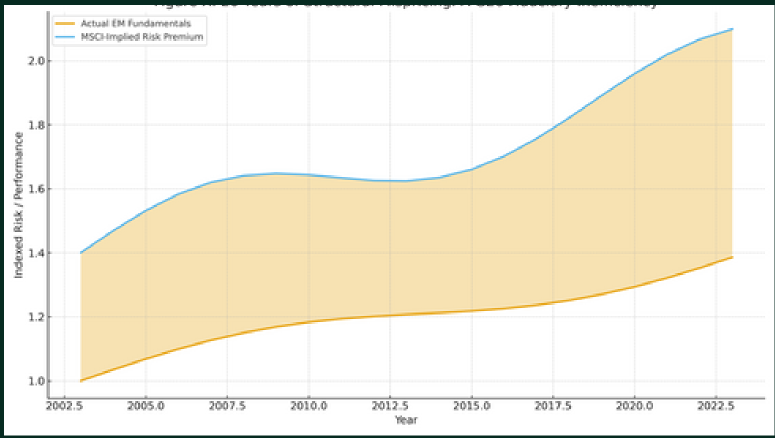
Global Lending Capacity Unlock (MDBs)

$600-800bn (S&P Global)

Additional Global MDB lending capacity modelled by S&P Global (224) under optimized capital adequacy frameworks and transparent, GEMs-comparable risk data conditions.

Global Evidence: The Scale of the Fiduciary Efficiency Opportunity

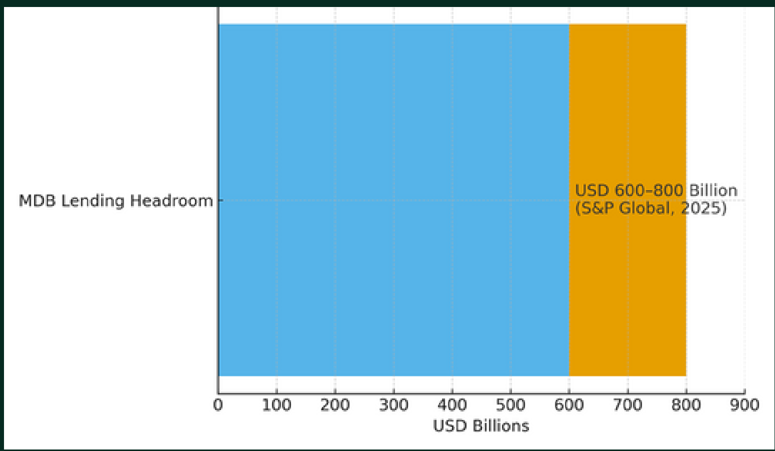
Exhibit 1. 20 Years of Structural Mispricing: A G20 Fiduciary Inefficiency.



Source: GEMs3.0 analysis (sandbox models), IMF WEO datasets, BIS, S&P Global, MSCI Indices (2003-2023).

Actual EM fundamentals (default and recovery performance) versus MSCI-implied risk premia, 2003-2023. The persistent divergence illustrates a structural mispricing wedge that has suppressed long-term institutional returns, inflated discount rates, and generated USD 6 trillion in cumulative fiduciary underperformance.

Exhibit 2. Global Capital Headroom Opportunity



***Source**: GEMs3.0 investor-grade sandbox datasets; S&P Global Capital Adequacy Review; BIS; IMF Fiscal Monitor.*

Correcting EMDE risk mismeasurement unlocks a dual opportunity: reducing the actuarial cost of structural mispricing and enabling MDBs and global investors to mobilise capital at scale. Together these effects represent one of the largest 'allocation efficiency' gains in global finance.

Panel A – EMDE Excess Interest Burden: $15.6bn per annum actuarial estimate of structural mispricing cost.
Panel B – MDB Lending Headroom: $600-800bn capacity unlocked through corrected risk weights and signaling.
Panel C – Suppressed Institutional Alpha: 2.1-3.4% annualised suppression due to inflated discount rates and model misalignment.

1. Context

South Africa's G20 Presidency as a Fiduciary Reform Platform

South Africa's G20 Presidency provides a historic opportunity to correct the structural mispricing of Emerging Market (EM) risk.

For two decades, asset owners were producing:

- USD 15.6bn per year in excess cost of capital for EM sovereigns.
- USD 6 trillion in cumulative fiduciary underperformance.
- Chronic underinvestment in climate and green industrial infrastructure.

GEMs3.0 — developed through the AU 5% Asset Allocation Agenda and the Sustainable Markets Initiative (SMI) — provides the data, standards and tools to institutionalise fiduciary efficiency at global scale.

Independent global forecasts further validate that EM and Frontier assets remain structurally undervalued relative to their expected real returns, reinforcing the need for a G20-led fiduciary-efficiency correction.

2. The Fiduciary Investment Challenge
Quantified Systemic Inefficiency

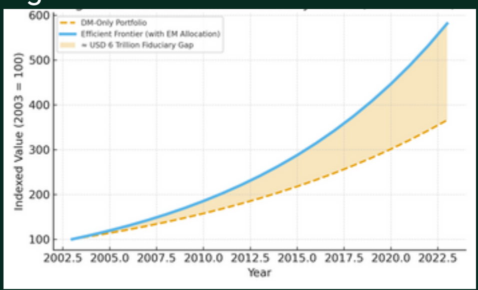
Between 2003-2023, global pension and sovereign portfolios under-allocated EM assets by ~13%, resulting in:

- USD 6 trillion in missed value creation.
- USD 300bn per year in unrealised beneficiary returns.
- Lower solvency ratios, weaker diversification, and reduced global financial stability.

All return metrics are benchmark-validated against the MSCI Emerging Markets Index and MSCI World Index (NET USD, 2024 Factsheets) ensuring full replicability.

"USD 6 Trillion in missed fiduciary value — the largest systemic efficiency loss in modern capital markets." — GEMs3.0 Analysis (2003-2023)

Figure 1: GEMs3.0 Historical EM Under-Weighting and Missed Fiduciary Value (2003-2023)



Source: GEMs3.0 Analysis, Impactable Group; MSCI EM and MSCI World NET USD Indices (2003-2023)

Benchmark Distortions Explainer

Legacy Benchmark: MSCI EM	**Benchmark Distortions**:	**Corrected Benchmark**: GEMs3.0 Investability Index
• China/Taiwan heavy • Africa <3% • Listed-only universe • GLC concentration	• Mispriced EM risk • Excludes private markets • Excludes SMEs & nature assets • Amplifies cost-of-capital penalty	• EM+ & private assets • Africa in proportion • Nature + infra included • True risk-return signal

Despite a clear G20 directive to implement GEMs2.0, the measure has not been executed, allowing entrenched market distortions and cost-of-capital barriers to persist.

While MSCI EM remains the dominant reference point for global allocations, it reflects only the large-cap listed universe and systematically excludes the private assets, SMEs, adaptive infrastructure, and nature-based assets that drive the majority of growth in emerging markets. This structural benchmark bias underweights Africa and new economy sectors, reinforcing both fiduciary inefficiency and persistent cost-of-capital distortions.

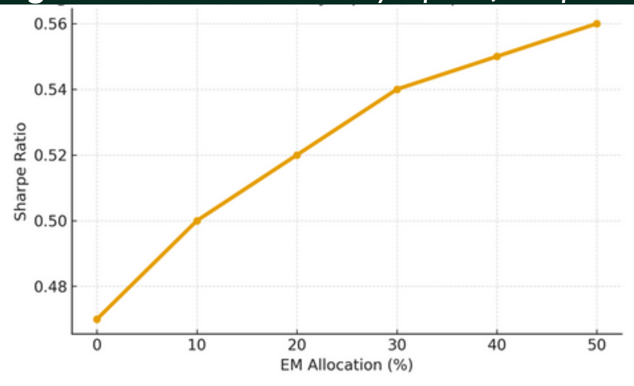
3. The Opportunity
GEMs3.0 and the AU's 5% Asset Allocation Agenda

GEMs3.0 transforms fiduciary prudence into fiduciary out performance by integrating:

- IFRS-aligned credit-risk datasets.
- IAS 37/IAS 38 impairment-validation models.
- OECD-compliant portfolio-optimisation tools.
- IFC/EIB-verified EM default rates via the GEMs Consortium.

This enables investors to capture alpha while meeting climate, ESG, and real-economy transition mandates.

Figure 2: *Portfolio Efficiency Uplift (Sharpe vs EM Allocation)*



Source: GEMs 3.0 Analysis, Impactable Group, MSCI Indices 2003-2023.

The GEMs Default Database (1994–2023) is independently verified by the International Finance Corporation (IFC) and the European Investment Bank (EIB) through the Global Emerging Markets (GEMs) Risk Database Consortium, providing third-party actuarial validation of EM credit-performance metrics.

Expected Real Returns Across Asset Classes

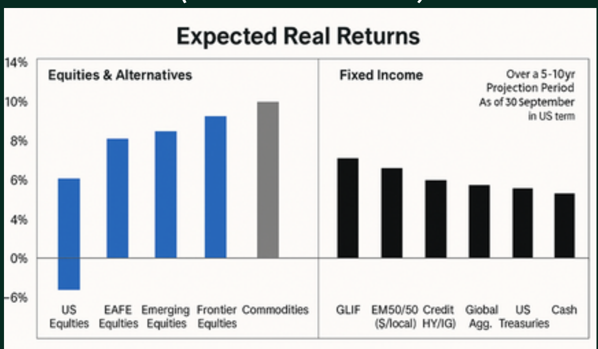
Independent global research (Topdown Charts, 2025) shows that Emerging and Frontier Equities deliver the highest expected real returns of all major asset classes over the next decade, materially outperforming US Equities, Global REITs, and Fixed Income benchmarks.

EM Fixed Income also outperforms US Treasuries and Global Aggregate indices on a real-return basis.

This independently validates GEMs3.0's conclusion that global portfolios are structurally under-allocated to the highest-return asset classes, and that a modest EM minimum (3–7%) materially improves long-term fiduciary performance under prudent-person rules.

Independent global forecasts further support the conclusion that EM and Frontier assets are structurally undervalued relative to expected real returns.

***Figure 3**. Expected Real Returns Across Major Asset Classes (5–10 Year Horizon)*



Source: Topdown Charts (2025)

Benchmark Refinement

Traditional EM benchmarks—especially MSCI EM—introduce structural distortions into global asset-allocation decisions. Their heavy concentration in China and Taiwan, combined with minimal representation of Africa and frontier EMs, underrepresents the regions with the highest marginal productivity and capital requirements for industrial and climate-transition finance. To address this, the G20 framework adopts a GEMs3.0 Investability-Adjusted Opportunity Index that reflects real economic exposure, transition relevance, investability, and diversification across Africa, frontier EM and mid-income EM economies.

This substantiates the need for a G20-led Fiduciary Efficiency Initiative to correct a 20-year structural mispricing

Correcting Benchmark Distortions in EM Exposure

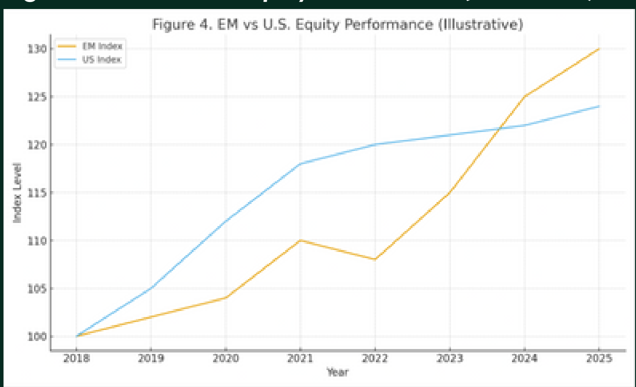
Traditional EM benchmarks—especially MSCI EM—allocate exposure based on the market-capitalisation of listed equities, which results in structural under-representation of regions such as Africa where economic activity, industrial platforms, and infrastructure assets are primarily held in private markets. This creates a weighting gap between real-economy fundamentals and benchmark exposure, leading investors to price African risk using a benchmark dominated by large Asian markets with distinct volatility and sector dynamics. The outcome is a structural risk-premium gap rather than a reflection of Africa's underlying fundamentals, contributing to higher discount rates and persistent cost-of-capital differentials for African green industrial infrastructure.

Conventional EM indices disproportionately weight large listed government-linked corporations (GLCs) that do not reflect the true engines of EM growth. These entities dominate market-capitalisation metrics but underrepresent sectors with the highest capital demand—logistics, digital infrastructure, industrial platforms, energy systems, and high-growth SMEs. To correct this, the G20 Fiduciary Efficiency framework applies three structural adjustments:

- **Private Market Integration:** Real EM growth is increasingly driven by private markets, including infrastructure, private credit, real estate, and digital industrial platforms.
- **EM+ Multinational Exposure:** Many multinationals headquartered in developed markets derive substantial revenue, asset exposure, and margin expansion from EM economies. Including EM+ corporates significantly improves diversification and reduces China/Taiwan concentration.
- **Sector-Balanced Opportunity Mapping**
  The refined model weights exposure by industrialisation and transition demand, not legacy listing patterns.

This ensures that the G20 framework reflects the true EM growth frontier, not distortions in older benchmarks.

Figure 4 – EM vs U.S. Equity Performance (Illustrative)



Recent performance highlights that EM equities have materially outperformed U.S. equities over the 2023–2025 period, reinforcing the behavioural allocation gap addressed by the Fiduciary Efficiency Initiative.

Source: Bloomberg; MSCI EM / MSCI USA NET USD indices

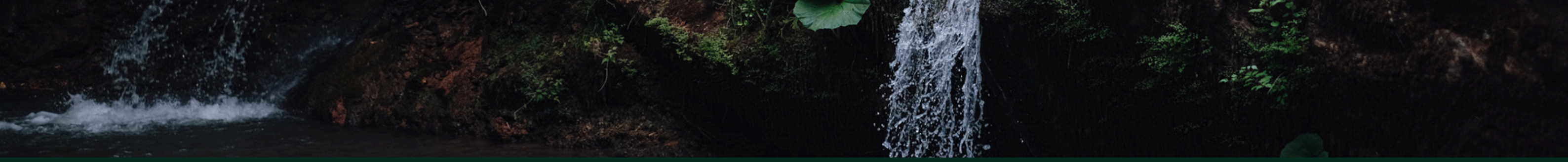


Figure 5 – EM+ Opportunity Exposure

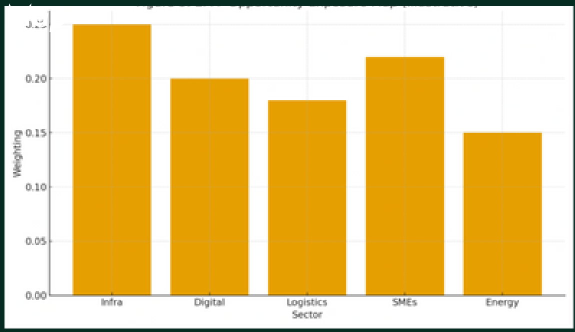


Figure 5. EM+ Opportunity Exposure Map
Multinationals operating predominantly in EM markets offer diversified, sector-balanced EM growth exposure that traditional indices fail to capture.
Source: GEMs3.0 Analysis. [1]

Figure 6 – GEMs3.0 Investability-Adjusted Opportunity Index

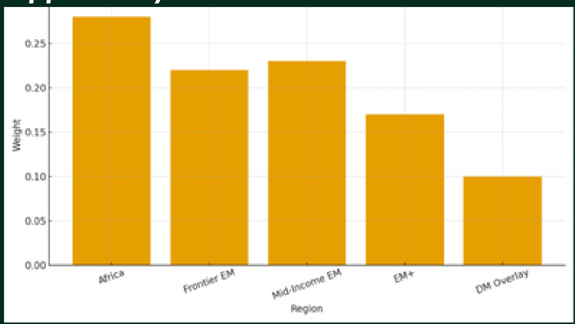


Figure 6. GEMs3.0 Investability-Adjusted Opportunity Index (Illustrative Weighting Framework).
A rebalanced EM exposure based on investability, real economic demand, transition relevance, and regional diversification.
Source: GEMs3.0 Investability Model (v1.0).

GEMs3.0 Investability-Adjusted Opportunity Index (Methodology Summary)
Traditional EM benchmarks overweight listed legacy sectors and underweight regions requiring long-term institutional capital. To correct this, the GEMs3.0 Investability-Adjusted Opportunity Index applies four investability filters and three reweighting engines:

A. Investability Filters (Pass/Fail)
1. Capital mobility and investor access.
2. Regulatory and macroeconomic stability.
3. Governance and transparency (IFRS/OECD alignment).
4. Market depth (public or private tradable exposure).

B. Three Reweighting Engines
1. Industrial-Transition Weighting: infrastructure, energy, digital, and industrialisation demand
2. Growth & Productivity Weighting: urbanisation, productivity, SMEs, digital adoption
3. Risk-Adjustment Normalisation: EM default rates (IFC/EIB GEMs Consortium), FX volatility, institutional strength

C. Illustrative Regional Weights
- Africa: 25–30%
- Frontier EM: 20–25%
- Mid-Income EM: 20–25%
- EM+ Multinationals: 15–20%
- Developed Market Overlays: <10%

D. Final Output
A diversified cross-asset EM exposure correcting MSCI EM distortions, elevating Africa and frontier EM exposure, integrating private markets, and aligning portfolios with real-economy transition demand.

[1] *Note: All EM exposures referenced in this memo will transition to the GEMs3.0 Investability-Adjusted Opportunity Index in the final G20 implementation guidance.*

4. The G20 Policy Opportunity (South Africa Presidency 2025)

G20 Decision Box - What we are asking leaders to endorse

Fiduciary Efficiency
1. Commit the G20 to restoring fiduciary efficiency as a core pillar of global financial stability.
2. Mandate the integration of evidence-based risk measurement into sovereign, pension, and MDB decisions.
3. Correct the 20-year structural mispricing that has suppressed long-term value for global beneficiaries.

GEMs3.0
4. Endorse GEMs3.0 sandboxes as a global reference platform for EM credit-risk transparency.
5. Mandate full GEMs data democratisation for asset owners, regulators, and MDBs.
6. Require G20 institutions to use GEMs-aligned data when setting prices, risk weights, and capital charges.

AU-G20 Cooperation
7. Align G20 reforms with the AU's 5% Institutional Investment Allocation Agenda.
8. Establish an AU-G20 Fiduciary Efficiency Task Force with central banks, MDBs, and asset owners.
9. Co-develop sovereign-anchored vehicles to mobilise private capital for Africa's green industrial transition.

Economic Value
10. Deliver the only fiscally neutral G20 reform that simultaneously reduces global borrowing costs, increases long-term returns, and mobilises capital without any new taxes or donor commitments.

Objective: Embed fiduciary efficiency into global economic governance as a new G20 performance standard.

South Africa can champion the following:

- **Fiduciary Efficiency Initiative (G20 Finance Track):** Embed EM re-weighting for sovereign and pension portfolios.
- **GEMs3.0 Data Integration – G20 Data Gaps Initiative (DGI-3):** Standardise EM credit-risk data across central banks and asset owners.
- **IFRS & OECD Alignment:** Codify fiduciary-efficiency audits as compliance tools for climate and industrial-transition finance.
- **Fiduciary-efficiency audits provide a concrete mechanism for embedding climate-finance compliance into G20-aligned regulatory frameworks without creating new reporting burdens.**
- **AU 5% Asset Allocation Agenda Endorsement:** Use sovereign-anchored vehicles to mobilise private capital at scale.

5. Institutional Implementation Pathway

The G20 South Africa Presidency can instruct ministries, regulators and asset owners to implement Fiduciary Efficiency Reviews (FERs) using GEMs3.0 and NDCs3.0 data to align portfolio allocations with real-economy decarbonization and industrialisation.

Deliverables:

- Global Fiduciary Efficiency Dashboard (via GEMs3.0).
- IIPP-aligned capital-recycling mechanisms.
- IFRS-based audit frameworks for fiduciary-performance compliance.

6. Recommendations for G20 Heads of State (with Executive Instructions)

a) Adopt a G20 Declaration on Fiduciary Efficiency
Executive Instruction: Direct Sherpas to integrate fiduciary-efficiency language into the South Africa Presidency Leaders' Communiqué.

b) Mandate Full GEMs Data Democratization
Executive Instruction: Instruct the GEMs Consortium to operationalise the CAF GEMs 2.0 directive, enabling unrestricted asset-owner access.

c) Integrate Fiduciary Efficiency into the G20 Sustainable Finance Working Group
Executive Instruction: Require the SFWG to embed fiduciary-efficiency metrics into all G20 sustainable-finance taxonomies.

d) Align IFRS, ISSB, OECD and Basel Frameworks
Executive Instruction: Request the ISSB and OECD to recognise fiduciary-efficiency audits as climate-finance compliance instruments.

e) Endorse the AU 5% Institutional Investment Allocation Agenda
Executive Instruction: Support joint AU–G20 sovereign-anchored blended vehicles for EM private-credit and industrial-transition pipelines.

f) Establish an AU-G20 Fiduciary Efficiency Task Force
Executive Instruction: Mandate Finance Ministers, Central Banks, MDBs and asset-owner coalitions to implement FERs and report progress through DGI-3

7. Strategic Next Steps

The South Africa G20 Presidency can restore global fiduciary discipline, not through charity, but through efficiency.

By institutionalising fiduciary efficiency through GEMs3.0 and the IIPP framework, the G20 can unlock trillions for the world's green industrial transition and deliver the most economically significant reform of the decade.

This framework provides a fiscally neutral, data-driven pathway for the G20 to restore global fiduciary efficiency at scale.

By institutionalising fiduciary efficiency through GEMs3.0 and the IIPP framework, the G20 can unlock trillions for industrialisation and decarbonisation. This represents the most economically significant capital-market reform of the decade — achieved entirely through efficiency, not charity.

Source: www.aa.com.tr
President of South Africa Cyril Ramaphosa G20 leaders' summit in Nusa Dua, on Indonesian resort island of Bali on November 15, 2022.

Fiduciary efficiency is the single most economically significant reform available to G20 leaders today. By institutionalising GEMs3.0 sandboxes as a global reference platform for EM credit-risk transparency, aligning global standards, and partnering with the African Union, the G20 can correct twenty years of structural mispricing, reduce global borrowing costs, strengthen pension performance, and unlock capital at the scale required for the green industrial transition. This is the only G20 reform that simultaneously reduces global borrowing costs, increases long-term returns, and mobilises capital without any new taxes or donor commitments.

Technical Note

Quantitative analysis derived from GEMs3.0 fiduciary datasets (2003–2023), internally benchmarked against MSCI EM and MSCI World Net USD indices. Methodological references draw on IFC, EIB and peer MDB portfolio reporting practices, and are aligned with OECD prudent-person principles (2015), Basel III Pillar 2 guidance, and IFRS 7 disclosure conventions for credit and concentration risk.

This brief is fully consistent with ISSB, OECD and IFRS guidance and forms part of the GEMs3.0 institutional validation package under the South Africa G20 Presidency.

Prepared by:

The GEMs3.0 Global Cost of Capital Initiative for the G20 South African Presidency 2025

The Authors

Africa investor

Africa Investor (Ai) is an institutional investment platform that supports sovereign wealth funds, pension funds, family offices, global investors and philanthropies to allocate to Africa's strategic infrastructure, technology, and natural and cultural capital investment opportunities.

Through Ai Capital and the Ai Academy, Ai develops fiduciary-grade investment platforms and Institutional Investor-Public Partnership (IPP) solutions that de-risk and scale institutional allocations.

Ai originates and structures Africa's thematic advantages into resilient, investable assets that strengthen competitiveness and Make Development Investible.

For further information please visit: www.africainvestor.com

The Institute of Sovereign Investors

The Institute of Sovereign Investors masters excellence and innovation for sovereigns by sharing knowledge and global experience.

The Institute advances institutional resilience and excellence in sovereign wealth strategy and financial governance. Sovereign decision-makers access a global network of expertise shaping global standards for sovereign finance through institutional excellence and continued focus on innovation and cutting-edge research.

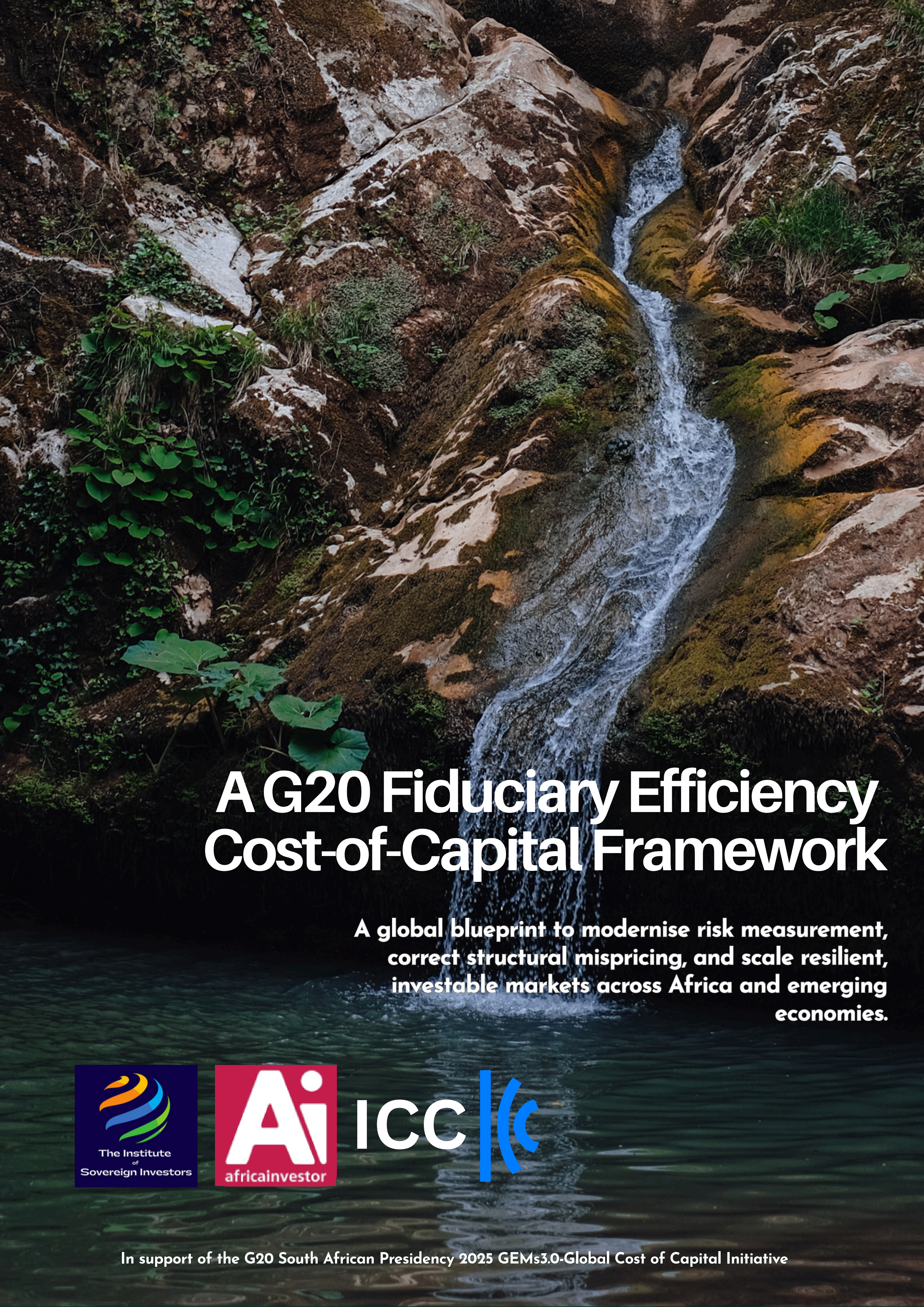
For further information please visit: www.sovereign-investors.com

The International Chamber of Commerce (ICC)

The International Chamber of Commerce (ICC) is a business organization representing enterprises from all sectors in over 130 countries.

It promotes an open, rules-based, international trade and investment system and the market economy. It helps make rules that govern business across borders and administers the ICC International Court of Arbitration. It has high-level consultative status to the United Nations and its specialized agencies.

For further information please visit: www.sovereign-investors.com



A G20 Fiduciary Efficiency Cost-of-Capital Framework

A global blueprint to modernise risk measurement, correct structural mispricing, and scale resilient, investable markets across Africa and emerging economies.

The Institute of Sovereign Investors

africainvestor

ICC

In support of the G20 South African Presidency 2025 GEMs3.0-Global Cost of Capital Initiative