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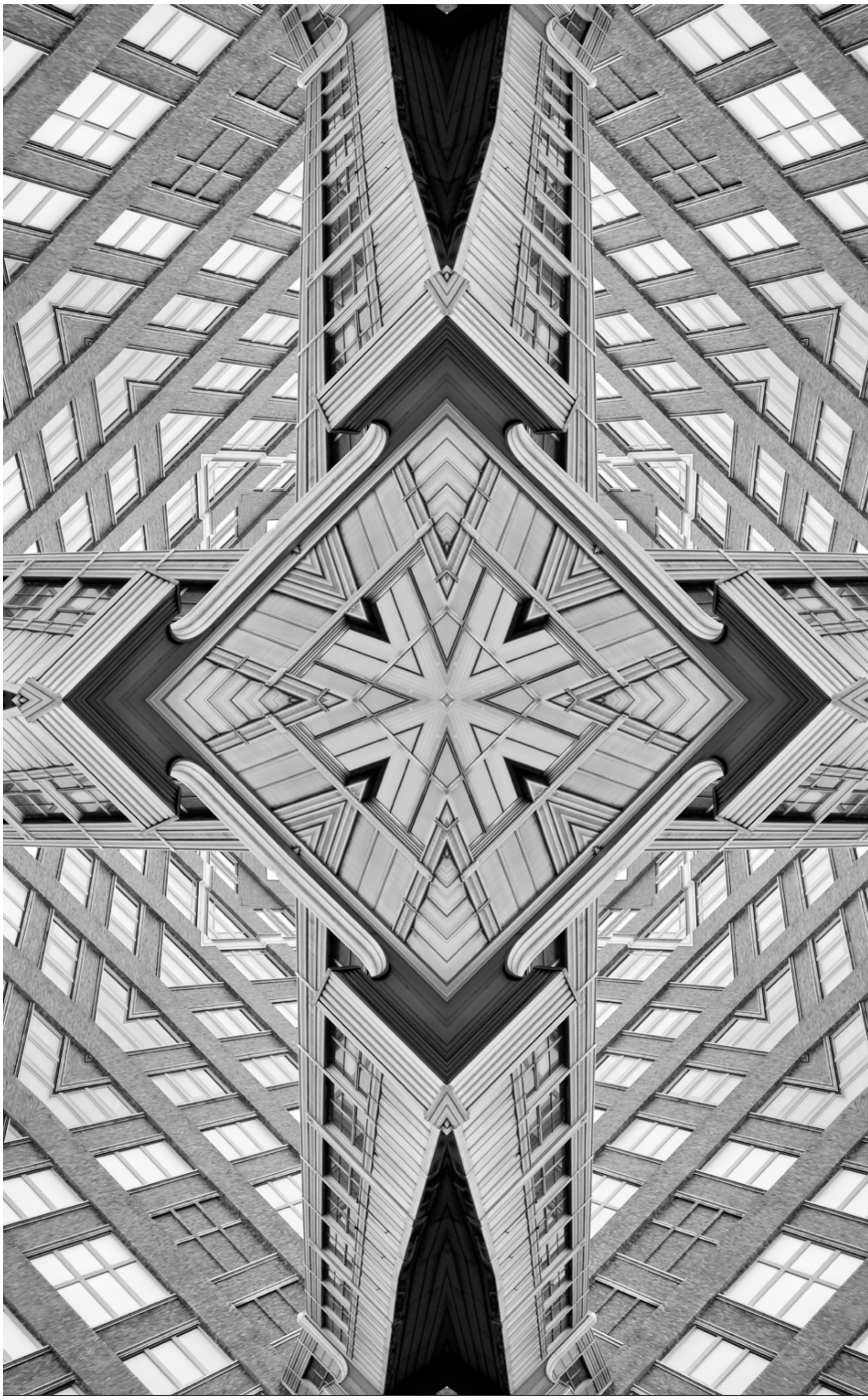

Leveraging South-South Cooperation to Finance the SDGs

Bineswaree Bolaky

Abstract

Progress towards the Sustainable Development Goals (SDGs) in the Global South is being threatened by the mounting challenges facing developing countries due to the repercussions of the Covid-19 pandemic, the prolonged Russia-Ukraine war, and receding aid from traditional donor countries. As the achievement of the SDGs remains more relevant than ever, this brief proposes the creation of a Global South Development Assistance Committee (DAC) as an institutional structure to coordinate South-South development cooperation and enhance its effectiveness in order to achieve the SDGs. SDG17, which seeks to revitalise partnerships for sustainable development, can offer a guiding framework to shape the modalities and focus of South-South cooperation for SDGs in the areas of trade, finance, and technology.

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Introduction

The achievement of the Sustainable Development Goals (SDGs)—which lay the foundations for lasting peace, prosperity and environmental sustainability in a globally connected world—remains more relevant than ever. The achievement of SDG1 on poverty and extreme poverty, for example, together with SDG8 on employment and decent work, are crucial to maintaining political stability and containing social tensions in the developing world, preventing dangerous slides of poverty-stricken areas into radicalism that in turn have repercussions on regional and global security. In the oil-rich Niger Delta in Nigeria, for example, the combination of shortages in basic services provision by the central and local governments, pervasive poverty, and high youth unemployment, has created a breeding ground for piracy and robbery attacks on the oil industry. The insecurity, in turn, deters development and reinforces a vicious circle of poverty. At the community level, fights erupt among the poor who compete for limited resources such as water and land, deterring productive economic activities. Indeed, poverty from unemployment can create conditions for insecurity and extremism, in turn leading to conflicts; conflicts fuel even more poverty. The poverty-peace nexus is well articulated in existing literature.[1]

Additionally, there are strong linkages across the SDGs, calling for an integrated approach in their achievement—a strategy that recognises these interlinkages, highlights areas of tensions and leverages on synergies across sectors, actors and across countries of different income levels while upholding institutional and policy coherence.[2] Failure to achieve the SDGs in one part of the world may have spillover effects in others, strengthening the case for international and, specifically, South-South cooperation.

Despite the criticality for achieving the SDGs, development experts agree that the world is not on-track to achieve them.[a] A primary reason is inadequate levels of investment and finance: the estimated annual gap in financing for SDGs is more than US$4 trillion, with most of this gap found in the Global South. Some estimates peg the SDG financing gap in developing countries at close to US$3 trillion.[3] This would explain the widening gap in the performance of countries of the global North and those of the South in achieving the SDGs.[4]

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a According to David Boyd, the UN Special Rapporteur on Human Rights and the Environment, the world is not on track to achieve the SDGs for two reasons: the first relates to the fact that the SDGs are misinterpreted to be political aspirations and their importance to international human rights law is not fully comprehended. According to Boyd, every single Goal and over 93 percent of the 169 SDG targets are directly connected to an international human rights treaty. Second, there are inadequate levels of investment in achieving the SDGs, with an annual gap of more than US $4 trillion.

Introduction

A three-step approach has been proposed by Fan Chiang Howe and Thye Woo Wing to close the SDG financing gap, consisting of using official development assistance (ODA) in a mix of blended finance.[5] The proposal consists of first, imposing a global currency transaction tax (CTT) of 0.005 percent; second, urging all members of the OECD Development Assistance Committee (DAC) to adopt the ODA/gross national income (GNI) target of 0.7 percent; and third, co-opting eight high-income and upper-middle-income G20 countries currently not in the DAC into the committee.[b] Implementing the proposals, however, is a massive challenge as it requires commitment, backed with proper enforcement and monitoring mechanisms.

There is indeed scope for leveraging investments, financing, and trade from countries of the Global South to accelerate progress on the SDGs. Given the huge SDG financing gaps, overdependence on development finance flows from traditional donor developed countries will be misplaced as was highlighted in the Addis Ababa Action Agenda.[6] There is also an apparent "aid fatigue" in the countries of the West, which warrants diversification in sources of development aid. Moreover, some developing countries seem to be more resilient to the ongoing crises, as will be discussed in the succeeding paragraphs.

> "The estimated annual gap in financing for SDGs is more than US$4 trillion, with most of this gap found in the Global South."

b These countries are Argentina, Brazil, China, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

Financing Gaps from the Global North

The current global economic landscape is under duress. The outbreak of the Russia-Ukraine war disrupted whatever promising economic recovery was emerging at the end of 2021, when the world was seemingly looking at the tailend of the COVID-19 pandemic. The IMF in its *World Economic Outlook 2022* notes that global economic growth, which averaged 6.0 percent in 2021, after a negative 3.0 percent in 2020, had slowed down to 3.2 percent in 2022 and will further decline to 2.7 percent in 2023.[7] Global inflation is projected to increase from 4.7 percent in 2021 to 8.8 percent in 2022, with a projected decline to 6.5 percent in 2023.

Nominal and real interest rates are rising, increasing the cost for businesses to access finance in local markets and for developing nations to tap into global capital markets. This will further compound the financing constraints of micro, small and medium-sized enterprises (MSMEs) in the developing world and compromise their survival and growth. The US Dollar has been appreciating against the Yen, the Euro, and emerging market currencies since the start of 2022. It is a trend that carries implications on global finance and trade, compounding inflation pressures in developed and developing countries alike.[8] It has impacts on developing economies' trade deficits as their imports rise in local currencies, in addition to increasing their US dollar-denominated debt repayment bills.

Indeed, the prolonged Russia-Ukraine war has triggered surges in prices of commodities such as fertilisers and cereals, worsening food insecurity in many developing countries and inflating food imports bills that have in turn fed into larger current account deficits.[9] The result is that governments in countries that are already financially strapped are forced to divert resources to finance deficits rather than invest in fostering progress towards SDGs. In developing countries where debt sustainability is a challenge, the crisis has made it more difficult for them to service their debt while constraining options for new sources of development finance due to a tightening of global financial conditions. Meanwhile, aid budgets are being cut from the countries of the global North due to the adverse impacts of their own economic crises.

Table 1
Economic Growth by Geographical Region (2019-2023)

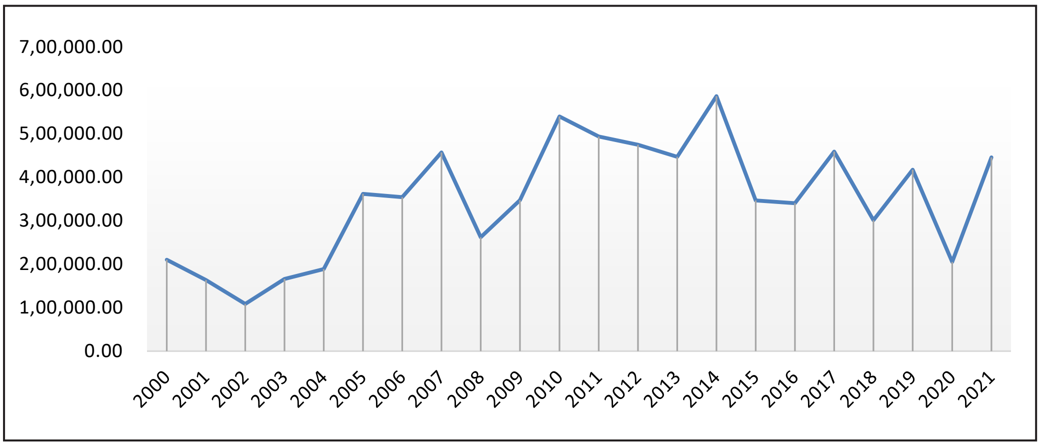
	2019	2020	2021	2022	2023
World	2.8	-3.0	6.0	3.2	2.7
Advanced Economies	1.7	-4.4	5.2	2.4	1.1
Euro Area	1.6	-6.1	5.2	3.1	0.5
Emerging Market and Developing Economies	3.6	-1.9	6.6	3.7	3.7
Emerging and Developing Asia	5.2	-0.6	7.2	4.4	4.9
- China	6.0	2.2	8.1	3.2	4.4
- India	3.7	-6.6	8.7	6.8	6.1
Emerging and Developing Europe	2.5	-1.7	6.8	0.0	0.6
Latin America and the Caribbean	0.2	-7.0	6.9	3.5	1.7
Middle East and Central Asia	1.7	-2.7	4.5	5.0	3.6
Sub-Saharan Africa	3.2	-1.6	4.7	3.6	3.7

Source: IMF (2022)

Table 1 shows that the developing world, broadly speaking, may be more resilient to the current crisis than the developed world. Emerging and Developing Asia, driven by its two giants, India and China, could grow by 4.9 percent in 2023 while Emerging and Developing Economies (EMDEs) will grow by 3.7 percent compared to 1.1 percent in advanced economies and a meagre 0.5 percent in the Euro Area. However, the impact of the Ukraine crisis is impacting developing countries differently based on their trade structures. For example, commodity-dependent countries that export minerals and metals have benefited from rising prices for their commodities, albeit prices are starting to slow down as world demand plummets; small island developing states, meanwhile, are facing the burden of higher energy and food prices.

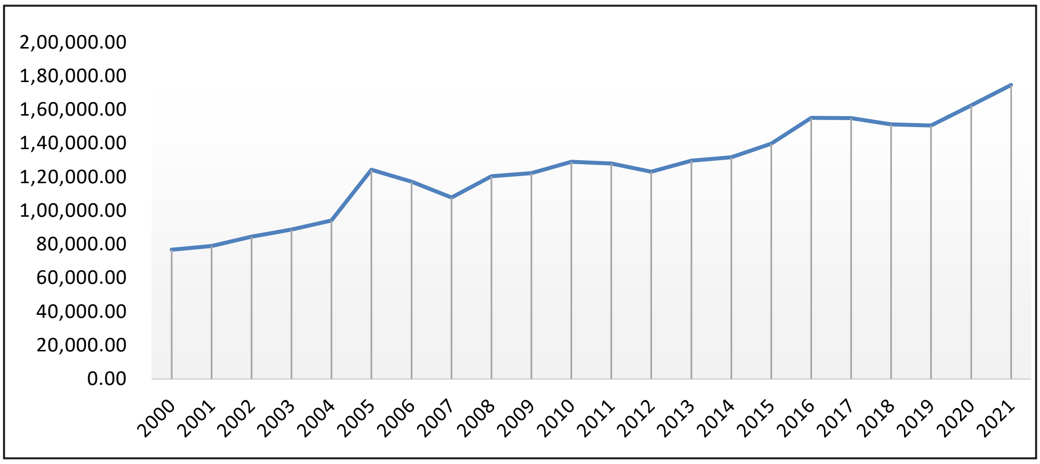
As wealthy countries in the Global North focus on stabilising their macro-economic frameworks, accelerating their transition towards climate-resilience, and supporting war efforts in Ukraine, financing the SDGs in developing countries can drop in their priority agendas. This will compound an already downward trend in Northern-led resource flows towards the developing South. (See Figures 1 and 2).

Figure 1: Total Official and Private Flows to Developing Countries, 2000-2021 (Grants equivalents; million US dollar at constant prices)



Source: OECD DAC

Figure 2: Official Development Assistance, 2000-2021 (Grants equivalents; million US dollar at constant prices)



Source: OECD

Financing Gaps from the Global North

The World Bank's *Global Economic Prospects*, released in January 2023, notes that the Euro Area, the United States and China are facing periods of weaknesses that will have adverse spillover effects on EMDEs that are themselves struggling with weak domestic economic conditions. A combination of tightened financial conditions as monetary policy contracts to combat high inflation, disruptions to global supply chains, geopolitical tensions, and a strong US Dollar imply that capital outflows may accelerate in EMDEs as appetite for risk dampens while debt issuance dries up.[10] The global financial environment, in other words, is not propitious for lending to the developing world to finance the implementation of their national development plans where the SDGs may be mainstreamed. This, at a time when a number of developing countries are experiencing heightened debt distress. Additionally, fiscal space is tightening in the developing world as governments have to dole out financial support to households and firms to cushion the impacts of, first the pandemic, and then the Ukraine war. Funds for achieving the SDGs both from domestic sources and the global community are becoming more limited as attention turns to stabilising measures on the macro-economic fronts.

As noted by the OECD and UNDP in a scoping note to the G20 Development Working Group in 2021, before the pandemic, progress to achieve the SDGs was already mixed and financing was highly inadequate.[11] Before COVID-19, there was an estimated US$2.5-trillion annual SDG financing gap which represented about US$500 billion for low-income countries and US$2 trillion for other developing countries, or respectively, 15 percent and 4 percent of GDP of additional spending per year.[12] The gap to finance the SDGs was expected to increase in 2020 by 70 percent from US$2.5 trillion to US$4.2 trillion due to an initial US$700-billion drop in external private finance (remittances, foreign direct investment, and portfolios flows) and an emergency response public spending gap of US$1 trillion in developing countries.[13]

New research from the United Nations Conference on Trade and Development (UNCTAD) estimates that COVID-19 could increase the SDG financing gap to US$ 17.9 trillion for the 2020-2025 period, representing a rise in the annual gap by more than US$1 trillion compared to before the pandemic.[14] If the Ukraine conflict is factored in, the gaps go even higher. Furthermore, the multiple crises, according to UNCTAD, could result in cascading credit downgrades and debt defaults in developing countries.

South-South Cooperation in Financing the SDGs

South-South Cooperation (SSC) is commonly viewed as a "manifestation of solidarity among developing countries that contributes to their national well-being, their national and collective self-reliance, and the attainment of internationally agreed development goals, including the 2030 Agenda for Sustainable Development."[15] South-South Cooperation, however, cannot rely solely on a spirit of solidarity. The basis for SSC should integrate the creation of mutually beneficial development partnerships bilaterally and multilaterally among developing countries based on principles of "mutual and equitable gains". They should integrate market-based principles rather than being charity-based for them to be viable and sustainable. SSC should be institutionalised in developing countries (as opposed to being ad-hoc) backed by proper monitoring and evaluation mechanisms, transparent reporting disclosure requirements, strengthening of loan management skills in recipient countries, and guided by a set of common principles akin to the Busan Partnership on Effective Development Cooperation.[16] This framework rests, for instance, on principles of country ownership, accountability for results, capacity building, transparency in utilisation of funds, and enforcement of human rights, labour and environmental standards.

South-South Cooperation, for the achievement of the SDGs, should revolve around the implementation of SDG17, centring on triangular cooperation. This involves a blend of South-South finance, Northern finance, and local and global private sector finance. SDG17 also emphasises increased trade and investment among South-South countries, increased South-South development finance in the form of aid and concessional loans, and accelerated technology transfer—which should include joint research and investment in locally adaptable technologies for the SDGs. The objectives of South-South Cooperation should be to foster the building of productive capacities, economic diversification, local private sector development, and decent job creation in Southern recipient countries as opposed to, say, favouring the disbursement of loans in return for access to raw materials with limited involvement of the local private sector or limited spillover benefits on the local private sector. There have been proposals on how to leverage SSC to achieve the SDGs with an emphasis on local private sector development.[17] This author has proposed setting up a new South-South financial architecture within a New Global Development Compact that presents the following characteristics:

- A higher share of SSC development finance to be disbursed in the form of untied grants rather than concessional loans, in particular to the neediest countries mainly in Africa and South Asia, the most crucial battlegrounds for achieving the SDGs. Particular attention should be given to categories of countries such as LDCs, landlocked developing countries, and Small Islands Developing States (SIDS). This will contribute towards lessening the debt burden of recipient countries.

- SSC development finance that is more diversified in its coverage of sectors to promote economic diversification and structural transformation that can help developing countries strengthen domestic resource mobilisation in the long run. Financing should not be concentrated only in large-scale infrastructure projects and a few economic sectors such as commodities. It must also aim to support large enterprises as well as smaller ones with the potential for job creation.

- SSC development finance that will be a catalyst of local private sector development and aim to unleash the latter's potential to foster domestic resource mobilisation in the medium to long term.

- SSC development finance packages that integrate technical capacity building and advisory services to beneficiary countries in the areas of debt and financial management and promote debt sustainability among its beneficiaries.

- SSC development finance that is properly defined, recorded, monitored and evaluated according to an agreed set of common standards to ensure transparent, accountable and efficient use of the funds; and thereafter analysed in the Voluntary National Reviews of countries.

- Data on SSC development finance to be compiled in a common database at the country level and if possible, regional and international, to promote cross-country and cross-regional comparisons and analyses for evidence-based policymaking. This will also facilitate monitoring in allocation of funds over time and whether SSC development finance is aligned with SDGs, and regional and national priorities.

- SSC development finance to be governed by an underlying common set of principles that avoids the deficiencies of the Northern-led ODA architecture. Guiding principles should adhere to country ownership, transparency and accountability, stability and predictability, monitoring for results and adequate reporting, anchored in the acceleration of the achievement of the SDGs and of national development objectives.

- SSC development finance to adhere to the "additionality" principle and avoid competing with private commercial finance in commercially viable projects and be targeted instead at sustainable investing and the creation of "public goods". This will ensure that "crowding-in" rather than "crowding-out" occurs.

- SSC development finance to be used in conjunction with other sources of finance within multi-stakeholder partnerships rather than on its own and within cooperative frameworks aimed at achieving the SDGs and national development objectives. This may require the active participation of Southern development partners in broad-based public-private dialogue at a country level and a shift away from arms-length relationships or consultations behind closed doors. Such an approach should enhance the developmental impact of SSC development finance and ensure greater accountability in the use of funds while addressing challenges related to fragmentation and lack of coordination among development finance actors.

- SSC development finance that will seek innovative instruments, going beyond grants and loans to support countries in achieving the SDGs. Such innovative instruments could encompass the provision of credit guarantees, issue of thematic bonds backed by Southern funds to raise capital for specific SDG objectives and participation in Global, Regional and National pooled funds or thematic funds e.g. National SDG Delivery Fund.

- SSC development finance to increasingly support region-based projects and programmes that can generate regional "public goods". This would seek to benefit entire regions rather than individual countries, and can be backed by the creation of Corporate Social Responsibility (CSR) initiatives for Southern-led TNCs that operate in multiple countries.

> "The objectives of South-South Cooperation should be to foster the building of productive capacities, economic diversification, local private sector development, and decent job creation in recipient countries."

SDG17 as Guide for South-South Cooperation for SDGs

SDG17 ("Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development") contains targets that could guide South-South Cooperation development finance in its modalities and focus. Target 17.2,[18] for one, calls on developed countries to comply with their commitment to devote at least 0.7 percent of gross national income (GNI) to developing countries and 0.2 percent to least developed countries. The creation of a DAC among Global South donors (akin to the OECD DAC) could stimulate the mobilisation, prioritisation and institutionalisation of funds from the Global South to finance the achievement of the SDGs to the developing world. The Global South DAC could lay down its own principles to guide commitment and disbursement of funds, including clear commitments to allocate a target percentage of their GNI to developing countries and percentages to be allocated in the form of untied aid.

The creation of an institutional structure gathering all potential donor countries from the Global South and that convenes regularly to discuss financing priorities for their fellow Southern countries, as well as the modalities of finance guided by a set of principles, could contribute to ensuring an effective, coordinated and holistic approach. For instance, coordination and cooperation could occur in the areas of identifying priority sectors and priority countries to better deliver on development results; setting goals to achieve and target indicators to be monitored; setting up a system to record, track and monitor development finance flows from the Global South to developing countries and encourage the setting up of monitoring, evaluation and feedback mechanisms to stimulate exchange of experiences and lessons learnt across countries.

At present, there is competition rather than collaboration among leading countries of the Global South in the area of development assistance towards developing countries. For example, India and China are vying for influence and business opportunities in Africa.[19] The formation of a Global South DAC can serve to promote collaboration among countries of the South to not only achieve the SDGs but also to start shaping the post-SDGs agenda. The creation of a South- South Common Development Fund under the oversight of a Global South DAC should be considered. This could be a mechanism whereby donor countries from the Global South pool their financial resources to achieve the SDGs and their common development goals, giving attention to priority sectors such as economic transformation and climate change adaptation.

There is also target 17.6 of SDG17, which centres around enhancing North-South, South-South and triangular, regional and international cooperation on and access to science, technology and innovation and to enhance knowledge sharing on mutually agreed terms. South-South Cooperation in the area of science, technology and innovation should be enhanced and could take the form of fostering joint research and investment by Global South countries in technologies that can provide home-grown solutions to their development bottlenecks and promote competitiveness of firms and productivity in these countries. With worsening climate change, for instance, collaborative ventures among countries of the South to advance the state of knowledge in generation and deployment of locally adapted renewable energy technologies can address both the energy crisis and the climate change challenges in developing countries. Such cooperation can involve financing, technology transfer, investments in environmentally sound technologies, and exchange of experiences for learning.

The advancement of South-South trade through the Global System of Trade Preferences (GSTP) remains an area for further progress. According to the United Conference on Trade and Development (UNCTAD), 42 developing countries, including Mercosur are members of the GSTP, including seven least developed countries (LDCs). Through the framework of the GSTP, participants aim to promote economic growth and development by capitalising on South-South trade. Trade among countries of the Global South should be enhanced through preferential trade accords similar to the GSTP. SSC should also encompass trade-related financial and technical assistance to help countries of the Global South build their trade and productive capacities to better leverage trade as a development tool for achieving the SDGs and their national and regional development objectives.

The African Continental Free Trade Area (AfCFTA) is an example of SSC in Africa intended to do just that. So far, financial assistance to support the implementation of the AfCFTA is being dominated by developed countries with vested interests to see Africa break out of poverty and also to benefit from a single continental African market of goods and services. There is room for Global South donor countries to support the implementation of the AfCFTA to advance Agenda 2030 for Sustainable Development in Africa.

Conclusion

The aim to leverage South-South development cooperation to advance the SDGs is not exactly a new agenda, but stands to be revitalised as the world heads towards a recession in 2023, driven by the enduring fallout of the COVID-19 pandemic and the Russia-Ukraine war. Traditional donor countries in the Global North are occupied with addressing their own domestic crises and are increasingly less capable of bridging the gaps in financing towards the achievement of the Development Agenda.

The creation of a Global South DAC as an institutional structure to coordinate South-South development finance and enhance its effectiveness in order to achieve the SDGs and national and regional development objectives of the Global South should be considered. SDG17 that seeks to revitalise partnerships for sustainable development can offer a guiding framework to shape the modalities and focus of South-South cooperation.

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