SOUTH-SOUTH IDEAS

HOW COHERENT ARE TRADE AND INVESTMENT POLICIES OF THE SOUTHERN FINANCE PROVIDERS?

A CASE STUDY ON INDO-BANGLA LINES OF CREDIT

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ACRONYMS AND ABBREVIATIONS

AAAA	Addis Ababa Action Agenda
BAPA	Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries
BBIN-MVA	Bangladesh-Bhutan-India-Nepal Motor Vehicles Agreement
BIS	Bureau of Indian Standards
BRI	Belt and Road Initiative
BRICS	Brazil, Russian Federation, India, China and South Africa
BRTC	Bangladesh Road Transport Corporation
BSTI	Bangladesh Standards and Testing Institution
CPEC	China-Pakistan Economic Corridor
CSO	Civil society organization
DAC	Development Assistance Committee
EXIM	Export-Import
FDI	Foreign direct investment
IMF	International Monetary Fund
JMT	Joint monitoring team
LDC	Least developed country
LIC	Low-income country
LLDC	Landlocked developing country
LoC	Line of credit
MDG	Millennium Development Goal
MFI	Multilateral financial institution
MIC	Middle-income country
MINT	Mexico, Indonesia, Nigeria and Turkey
OBOR	One Belt One Road
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
OOF	Other official flows
PCD	Policy coherence for development
PCSD	Policy coherence for sustainable development
PSI	Pre-shipment inspection
SAFTA	South Asian Free Trade Area
SDG	Sustainable Development Goal
SEZ	Special economic zone
SIDS	Small island developing State
SSC	South-South cooperation
UNDP	United Nations Development Programme
UNOSSC	United Nations Office for South-South Cooperation
WTO	World Trade Organization

EXECUTIVE SUMMARY

The past two decades have seen South-South cooperation (SSC) and triangular cooperation grow at a spectacularly fast pace in terms of the scale, scope and diversity of the modalities and the amount of resources involved. Two Southern countries – China and India – stand apart, although Southern providers such as other BRICS and MINT countries[1] have also made their presence felt in this new financial ecosystem. Particularly in recent years, China and India, among other BRICS and MINT countries, have launched several initiatives that have elevated South-South development cooperation to a new high level. These countries have set up institutional architecture that is geared to managing overseas development assistance programmes and are at present dealing with several multi-billion-dollar initiatives to harness the opportunities offered by SSC in the Africa and Asia regions.

In view of the large-scale involvement of financial flows moving horizontally from Southern country to Southern country under a new dispensation, the issue of the development effectiveness of SSC has come to the forefront of development-effectiveness discourse. The issue of the coherence of SSC against this backdrop and in light of the Paris Agreement, the Addis Ababa Action Agenda (AAAA), and, more important, the Sustainable Development Goals (SDGs), has assumed heightened interest. It is felt that there is a renewed need to examine issues of coherence to obtain insights that could be used to increase the efficacy of SSC. In this regard, the present study uses the Indo-Bangla lines of credit (LoCs) as a test case to assess the extent to which the projects undertaken by the LoCs are aligned with Bangladesh's national priorities. Indeed, Bangladesh has historically been one of the most important partners of India, having received a total of $8 billion worth of credit support under three LoCs since 2010. This figure represents 56.1 per cent of all Indian LoCs for countries in Asia and 35.9 per cent of India's total extended LoCs since 2009/2010. The study examines the coherence between Indian LoCs and investment and trade policies at the level of the recipient country, Bangladesh, in order to see the extent to which this example of SSC is aligned with the development needs of Bangladesh.

The study uses an analytical framework based on recent literature that deals with SSC, coherence and SDG delivery. Specific questions included in the proposed framework are: (a) whether the trade and investment flows are aligned with national development strategies in recipient countries (national policy alignment); (b) the extent to which the SSC-supported projects are attuned to the priorities of the recipient countries (priority alignment); (c) whether the selected projects and deliverables are aligned with SDG implementation strategies and plans (SDG coherence); (d) whether the process being pursued (conditionalities) by the provider countries imposes binding constraints for recipient countries (process efficiency); and (e) whether accountability frameworks are in place to ensure that the projects deliver the expected outputs (accountability concerns).

1 The BRICS countries are Brazil, Russian Federation, India, China and South Africa, and the MINT countries are Mexico, Indonesia, Nigeria and Turkey, as coined by economist Jim O'Neill.

KEY FINDINGS

The results of the study may be grouped under the following key findings:

- **Overall, the projects selected for financing under the LoCs are aligned with Bangladesh's policies and priorities in the areas of trade and investment.** The LoC projects are, to a large extent, geared to raising Bangladesh's supply-side capacities and competitive strength. These are in line with key national policies, which are geared to strengthening the global and regional integration of Bangladesh through transport-connectivity initiatives. Because a large part of the LoCs has been earmarked for infrastructure projects, the projects are expected to support the movement of goods between India and Bangladesh and in the subregion. They are also expected to attract investment to Bangladesh from India, taking advantage of the duty-free, quota-free market access offered by India under the Agreement on South Asian Free Trade Area (SAFTA) to the least developed countries (LDCs). Additionally, import facilitation will help Bangladeshi consumers (of finished items) and producers (using Indian raw materials) to access Indian goods at reduced prices. The support towards the strengthening of the Bangladesh Standards and Testing Institution (BSTI) under the first LoC (in 2010) will enhance Bangladesh's capacity to address oft-mentioned non-tariff barriers and help to raise the competitive strength of its exports.

- **The LoC projects will contribute towards the achievement of a number of SDGs.** Since infrastructure projects are the focus of a large part of the LoCs, the credit lines have a direct bearing on SDG 9 (sustainable infrastructure). The building of the necessary infrastructure in Bangladesh will necessitate investing significant resources and Indian LoCs will underwrite a part of them. In addition to SDG 9, the LoC projects are also expected to indirectly benefit the attainment of other SDGs (SDG 1 (no poverty), SDG 2 (zero hunger), SDG 7 (affordable and clean energy), SDG 8 (decent work and economic growth), SDG 10 (reduced inequalities) and SDG 17 (partnerships for the goals)) through stimulating opportunities for income-augmenting employment, raising resilience, and helping the cause of food security and energy security.

- **Embedding conditionalities into Indian LoCs has adverse implications in terms of forgone benefits and reduced returns on investment.** Conditionalities imposed by the provider country as part of the LoCs not only require Bangladesh to procure a certain percentage of the goods and services (including consultancy fees) required for the LoC projects from India – ranging between 65 per cent and 85 per cent of the contracted amount (EXIM, n.d.) but also that the Government of India approve the procurement for each component. The discussion points out that because of the strings attached to the LoCs (high level of conditionality for goods and services), the expected returns on investment will be undermined in the absence of a competitive pricing mechanism. The way in which the LoCs are designed limits the scope of technology transfer and the transfer of skills to Bangladesh, and this might be undermining the development effectiveness of the LoCs.

- **Slow progress in project implementation results in cost overruns, which must be borne by the recipient country.** The study found that while, in general, projects related to procurement tend to be delivered on time, implementation of infrastructure projects (which constituted 70.8 per cent and 75.6 per cent of the total LoC amounts of the first and second round of LoCs, respectively) gets delayed for various reasons, leading to cost escalation. This has prompted the recent formation of a joint monitoring team (JMT). However, discussions with relevant officials indicate that the monitoring mechanism has not been able to make any significant headway in this regard. The JMT also does not deal with such issues as whether the implementation of the particular project is aligned with the implementation of the SDGs in Bangladesh, and whether it adheres to the SSC principles. Moreover, the poor state of public disclosure of information regarding the LoC projects limits the scope of involvement of other stakeholders in monitoring their progress and evaluating their impact, thereby undermining the cause of transparency and accountability in implementing LoCs.

WAY FORWARD

The study puts forward the following recommendations to enhance the interest of coherence in SSC.

- **Revisit the processing of South-South cooperation.** SSC needs to be geared to the needs of the recipient countries. The Indian LoCs are service-tied loans, which means that only Indian firms can participate in the tendering process. In future LoCs, the Government of India could consider having an open tendering system, allowing Indian organizations to collaborate with local organizations or lowering the existing compulsory procurement from India; at the minimum, lowering the procurement thresholds on a case-by-case basis may be considered in line with the spirit of the SSC.

- **Develop and strengthen institutional architecture for implementing initiatives under the SSC.** Capacities of recipient-country institutions and agencies to implement projects supported by the LoCs should be built to adequately address the emerging needs. Due diligence and preparatory work must precede the selection of projects to be implemented by the concerned entities. These steps will ensure that investments under the LoCs are cost-effective, generate expected returns and are good value for money.

- **Take steps to increase negotiating capacity.** Steps should be taken to build the needed capacities in concerned government agencies and ministries to negotiate deals under the LoCs (developing-country officials are traditionally trained to deal with North-South deals only). Complex issues are involved in SSC, including terms of loans, cost escalation within the loan period and allocation of responsibilities, maturity period, conversion of loans to grants and inclusion of risk factors. Concerned officials need to be trained to carry out negotiations to secure recipient-country interests.

- **Engage local government bodies, civil society and the private sector in implementing SSC projects.** Civil society organizations (CSOs) could be involved in the monitoring of projects supported under the SSC. In case of projects under the LoCs, for example, local government bodies, the private sector and CSOs can be suitably engaged in the project-selection, project-implementation and post-implementation impact-assessment phases to ensure that needs are properly identified, projects are implemented on time and deliverables are delivered on the ground. Their involvement could enhance transparency and accountability in the LoC processes and execution. There is also a need to make detailed project documents available to the public through web-posting and open access, which would help to monitor the status of implementation and enhance transparency and accountability.

- **Promote a Southern initiative to design a SSC framework.** Southern countries could think of taking the initiative to design a framework for SSC, which could also address the need to raise the efficacy of North-South cooperation (SSC complementing North-South cooperation). Principles, processes, alignment, accountability, transparency, and monitoring and evaluation frameworks could inform this policy framework, which would adequately address the interests and concerns of both provider and recipient countries.

1. INTRODUCTION

South-South cooperation (SSC) has acquired heightened importance in the context of mobilizing finance for the development of the developing countries. SSC, as a theoretical construct and as an option of development finance and praxis, has gained currency in contemporary international development discourse. The concept of SSC has acquired growing prominence in view of the growing ability of some of the Southern emerging economies to generate enough resources to emerge as providers of development aid and support. Some of these providers are new, while some can claim the track record of providers with some maturity. Ensuring coherence between trade and investment policies pursued by the recipient countries and the policies of Southern providers is particularly important because of the overriding role of trade and investment for the development of recipient countries in the era of the Sustainable Development Goals (SDGs). The achievement of a number of SDG aspirations, including no poverty (SDG 1), zero hunger (SDG 2) and decent work and economic growth (SDG 8), will critically hinge on how trade and investment policies are pursued and implemented in the developing countries. Additionally, SDG 17 (partnerships for the goals) specifically mentions how effective global policies are in the areas of investment (SSC and foreign direct investment (FDI)—SDG 17.3.1)[2] and trade (share of developing countries and least developed countries (LDCs) in global exports) from the perspective of attaining the SDGs. From this vantage point, an enquiry into how coherent the trade and investment policies of Southern providers are, the extent to which they are aligned with the policies and demands of the recipient countries and whether they address the needs expressed through the SDGs are pertinent questions in the current context. The need for this enquiry is reinforced by the absence of a coherent framework for assessing the effectiveness of SSC. At a time when the aid spending of donor countries is under increasing pressure, policy coherence, defined in this paper as "the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the agreed objectives" (Danish Institute for Human Rights, n.d., citing an Organization of Economic Cooperation and Development (OECD) definition), can reduce the wasteful spending of limited investment funds and development assistance through readjustment of "competing" policies (Krätke, 2013). Consequently, an in-depth examination of whether recent SSC policies relating to trade and investment are aligned with development strategies and policies of developing countries has emerged as an urgent necessity. In this context, this paper intends to contribute to this emerging area through an informed and structured discussion regarding the state of coherence between trade and investment policies in SSC and the enabling factors that could strengthen the nexus between the two, particularly in view of the SDGs.

1.1 Objectives

As the earlier discussion indicates, the past two decades have seen SSC and triangular cooperation grow

2 SDG Indicators: https://unstats.un.org/sdgs/metadata/?Text=&Goal=17&Target=17.3

rapidly in scale, scope, intensity and modalities. Yet the availability of information and the quality of research on the scale and impact of SSC have not kept pace with the growing demand among Southern partners for peer learning to further improve results. Knowledge gaps and uneven access to solutions are currently major obstacles to the scaling up of SSC and the maximization of its impact from the perspective of sustainable development.

Recognizing the importance of trade and investment as tools of SSC geared to stimulate growth and employment in the recipient countries, it is important to embed coherence into relevant policies to maximize benefits accruing from resource flows. The study undertaken aspires to contribute to this emerging area by developing a structured framework of discussion regarding the state of coherence between trade and investment policies in SSC as well as the relevance of coherent policies to tap the benefits of resource flows. The objectives of the research are to: (a) explore the dynamics of trade and investment flows in relation to South-South financial flows; (b) examine the internal coherence of trade and investment policies pursued by Southern providers; (c) look at the alignment of South-South financial flows with the trade and investment policies of recipient Southern countries; (d) examine whether the Framework for Sustainable Development of OECD is applicable for measuring policy coherence in the context of the Southern countries; and (e) explore the compatibility of SSC-related trade and investment policies with trade and investment-related means of implementation of the SDGs.

1.2 Methodology

To meet the objectives, the study developed an analytical framework based on recent literature on SSC, coherence and SDG delivery and used it to assess the level of policy coherence in the context of SSC. The review of official and scholarly literature was supplemented by empirical analysis. The study took a case-study approach whereby trade and investment policies of two Southern countries, one a provider (India) and the other a recipient (Bangladesh), were examined in some depth to tease out the state of coherence of the attendant partnership.

1.3 Structure

The next section situates the study in the SSC and SDG context. Section 3 presents an analysis of the historical trends in development cooperation by the global South. Section 4 conceptualizes "coherence" under the SSC paradigm, providing an analytical framework for the study. Section 5, through a case-study approach, examines the Indo-Bangladesh lines of credit (LoCs) while section 6 presents an analysis of the LoCs through the lens of the analytical framework described in section 4. The purpose is to test trade and investment policy coherence through a close look at the Indian LoCs. Finally, section 7 summarizes the major findings and policy implications and offers some key recommendations.

2. SITUATING THE STUDY

2.1 Coherence in Sustainable Development Goals

Coherence has emerged as a core element in the discourse on development effectiveness. It has also assumed new significance in the context of the SDGs. As is widely recognized, the 2030 Agenda for Sustainable Development broke grounds on a number of fronts. Apart from the "leave no one behind" concept as a guiding principle, the universal agenda has also introduced novelty by its adoption of the concept of "coherence" (United Nations, 2013). In this regard, the SDGs are explicit in their intention of going beyond the previous silo approach, emphasizing the need for a holistic and integrated treatment of the issues involved as well as the need for sectoral, regional and global coherence. Instead of focusing on formulating policies considering domestic needs, the emphasis is now on finding synergies and complementarities among different policy areas to meet common and shared objectives. Countries have been encouraged to establish mechanisms and practices to encourage the search for synergies and trade-offs to help in the implementation of the SDGs. In this connection, what is being emphasized is the need to examine the efficacy of particular policies from a more comprehensive and holistic perspective by factoring in considerations of, for example, coherence with other policies that could strengthen the achievement of the SDGs. By dismantling the traditional North-South relations and the "developing" versus "developed" dichotomy, the SDG framework brings global macroeconomic policy coherence and the flexible use of policy space into the picture. As a result, the SDGs have gone beyond and broadened the scope and objectives of the Millennium Development Goals (MDGs) and have embedded the concept of "coherence" into the contemporary development discourse.

More specifically, SDG 17 asks for the redesign and development of policies that are coherent with the development needs of developing countries. SDGs have two dedicated targets to enhance policy coherence: (17.13 and 17.14). The new architecture for development finance as envisaged under the international frameworks, such as the Addis Ababa Action Agenda (AAAA), also calls for greater emphasis on issues of coherence (United Nations, 2015). The World Trade Organization (WTO) Hong Kong Ministerial Declaration[3] also welcomed actions to strengthen WTO cooperation with the International Monetary Fund (IMF) and the World Bank in the context of the WTO Marrakesh mandate[4] on coherence, which set out the contribution of WTO in achieving greater coherence in global economic policymaking. The need for additional resources in view of Agenda 2030 and the urgency of generating additional resources for SDG implementation have refocused attention in the context of SDG targets 17.13 and 17.14, which refer to ensuring and enhancing policy coherence for sustainable development. All these testify to the fact that

3 The Hong Kong Ministerial Declaration was the outcome document of the Sixth Ministerial Conference of the World Trade Organization, which was held in Hong Kong Special Administrative Region from 13 to 18 December 2005.

4 The Marrakesh Declaration was an agreement signed in Marrakesh, Morocco, by 124 countries on 15 April 1994, marking the culmination of the eight-year Uruguay Round and establishing the World Trade Organization (WTO, 1994).

countries have committed to pursuing policy coherence and have recognized the importance of policy coherence in strengthening the efficacy of international coordination and addressing systemic issues. To what extent this is being pursued in the context of SSC will be examined in some detail in the next section.

2.2 South-South Cooperation Context

Despite the fact that the term "South-South cooperation" is being used as a separate theoretical and conceptual construct in the literature and by development practitioners, the term has been in use for quite some time to elucidate voluntary cooperative efforts among Southern countries to promote SSC in the areas of trade and investment. While the world calls for a clearer definition of SSC owing to its distinct features and diversified modalities, the United Nations working definition was developed and endorsed by the seventeenth High-level Committee on South-South Cooperation in 2012 to facilitate the work of the United Nations system, which defines it as "a process whereby two or more developing countries pursue their individual or collective development through cooperative exchanges of knowledge, skills, resources and technical know-how".[5] However, it was not until the United Nations Conference on Technical Cooperation among Developing Countries held in Buenos Aires in 1978 (commonly known as the Buenos Aires Plan of Action, or BAPA) that the first strategic aims and a global framework for SSC were put into effect (Partners in Populations and Development, 2009). The state of SSC was defined and shaped by the evolving post-Second-World-War global scenarios and against the backdrop of reinforcing and complementing the traditional North-South assistance with the emerging SSC.

The decades leading up to the twenty-first century were a time of accelerated economic growth for both developed and developing countries. That buoyant outlook persisted until the financial crisis of 2008. Those years of economic prosperity are reflected in the increase in total official development assistance (ODA), which had already almost doubled between 2000 and 2005 (OECD.Stat, 2018). The Millennium Declaration (2000) and the Monterrey Consensus of the International Conference on Financing for Development (2002) encouraged countries to focus their efforts on the most disadvantaged countries (mainly in Africa) (Cabana, 2014). Indeed, aid from that year onward was channelled primarily towards those countries. Consequently, during 2000–2011, the share of middle-income countries (MICs) as recipients of global ODA saw a decline while the greater part of the ODA went to low-income countries (LICs), least developed countries (LDCs) (Cabana, 2014, based on OECD.Stat) and fragile States facing or recovering from conflict. With greater resource flows to the South, the heterogeneity of Southern countries started to receive increasing recognition; the duality of LDCs and MICs of the South came to be recognized as an important element in the aid discourse. In more recent years, the increasing prominence of the so-called "emerging economies" has brought more dynamism to this evolving scenario, with those countries playing an important role in the context of SSC.

The deceleration of growth in the economies of the developed countries following the recession in

5 United Nations, Note by the Secretary-General on the framework of operational guidelines on United Nations support to South-South and triangular cooperation, High-level Committee on South-South Cooperation, New York, 2012 (SSC/17/3).

2008–2009 and the subsequent slow recovery have had multiple implications, the most relevant for this study being the reduction in the aid destined for the developing countries. In 2009, 17 of the Development Assistance Committee (DAC) member countries reduced their net ODA compared to what they had allocated for ODA in 2008 (Cabana, 2014). On the other hand, the growing prosperity of some of the emerging and developing economies not only was reflected in stronger roles in the international arena but also fostered an increase in SSC. Developed countries have, in general, taken a positive approach to SSC as a means of strengthening development impact through triangular cooperation and as an additional resource for implementing various regional and subregional initiatives involving the global South.

2.3 Development Cooperation in the Global South

The context of SSC is undergoing a paradigm shift driven not only by the increased importance of developing countries in the global economy but also because of the global demographic trends: an expanding population, a growing middle class and rapid urbanization. By 2025, the global South is likely to account for 600 million households with annual incomes of over $20,000 and an overall average annual consumption of $30 trillion (Atsmon and others, 2012). However, not all countries of the South have benefited equally from this growth, with some countries lagging significantly behind front runners such as China and India (for example, Cambodia, Myanmar and Nepal). The quest for economic development through SSC remains an ongoing priority for all the countries of the global South, either as providers or receivers of support, pointing to a new opportunity to strengthen SSC. From the provider side, the opportunity to make use of surplus capital was one; the advantage of greater market access through commercial transactions was another. On the recipient side, the need to address the deficits in various areas created a synergetic demand. The opportunity to reap the benefits of strengthened SSC was thus ripe.

The contribution of developing countries towards international development cooperation continues to increase. Following the adoption of the 2030 Agenda, AAAA and the Paris Agreement, India and China, among other countries, launched several initiatives that elevated South-South development cooperation to a higher level. In the Asia region, these two countries have initiated several multi-billion-dollar initiatives to harness the opportunities presented by SSC. While these initiatives cover mainly large infrastructure projects, other forms of SSC are also becoming increasingly visible. The remit of SSC covers not only regional and subregional cooperation but also cross-continental initiatives. In 2016, India launched a $10 billion concessional credit line for Africa to be implemented over a period of five years. Grant assistance of $600 million was initiated that included an Indo-Africa Development Fund of $100 million, an India-Africa Health Fund of $10 million and 50,000 scholarships for students from Africa over the same period (Roy, 2015). In 2017 as well, the Government of India pledged another $100 million to the India-UN India Development Partnership Fund for a period of ten years to provide support to the LDCs, small island developing States (SIDS) and landlocked developing countries (LLDCs) (Paul, 2018). Most recently, in 2018, India committed an additional $50 million for projects in Commonwealth countries (Paul, 2018). In 2014, China announced a $3.1 billion South-South Climate Change Fund to assist developing countries in addressing climate change challenges through SSC within the framework of the 2030 Agenda (Steiner, 2017). In 2015, China set up a $2 billion fund to assist developing countries towards implementing the 2030 Agenda (Nichols, 2015).

An important new feature on the global landscape is the institutions that developing countries have established to advance SSC. For example, the China-led Asian Infrastructure Investment Bank is projected to provide $10 billion to $15 billion in loans annually over the first five to six years, starting from 2016 (Wong, 2016). The New Development Bank established by the BRICS countries would be capable of providing $4 billion in loans by 2018 (Reuters, 2017) and close to $10 billion to $15 billion in loans by 2021 (Maasdorp, 2017). These new South-led banks have opened a new window of opportunity that is geared to responding to the challenges that developing countries face in financing their formidable deficits in infrastructure investment.

Emerging economies have enabled the South to have a greater voice in various institutions of global governance. The South has also added momentum to South-South socioeconomic interactions by maintaining a modicum of solidarity to the backdrop of anti-globalization sentiments, nationalism and opposition to international agreements. Emerging economies have championed major SSC platforms such as the Belt and Road Initiative (BRI)[6] led by China and the International Solar Alliance led by India.[7] These perspectives originating in the global South are embedding new dimensions into the SSC discourse.

The surge in SSC has led to the veering of the discourse on SSC towards enhancing the efficacy of the proposed interventions. A fresh need has arisen for more responsive and coherent policies, supported by adequately capacitated institutions and multi-stakeholder partnerships and adequate resources to harness the full potential of SSC. The need to align such initiatives with the realization of the 2030 Agenda makes the task of ensuring coherence even more necessary, adding urgency in view of its time-bound nature. Countries of the South have been making efforts in various areas that will help them to attain the SDGs. Critical to this is bolstering the productive capacities of the concerned countries and helping them to develop along sustainable growth trajectories. This not only calls for effective partnerships involving governments, civil societies, academics, financial institutions and private sectors but also ensuring greater coherence as regards the policies pursued in implementing SSC.

2.4 Challenges

It is being increasingly recognized that policy coherence would expedite positive synergies across global policies. However, there is still no single agreed definition of "policy coherence". This creates challenges in a number of areas: (a) defining what constitutes "coherence"; (b) identifying cases of coherence and

6 Also known also as the One Belt, One Road initiative, BRI is a development strategy adopted by the Government of China that aims to strengthen infrastructure, trade and investment links between China and 65 other countries that account for over 30 per cent of global GDP, 62 per cent of the world's population and 75 per cent of known energy reserves (World Bank, 2018)

7 The International Solar Alliance is an alliance of more than 121 countries initiated by India, whose primary objective is to work for efficient exploitation of solar energy to reduce dependence on fossil fuels (The Climate Reality Project, 2018).

incoherence; and (c) designing appropriate measures and policies to ensure coherence. Indeed, in principle, policy coherence for sustainable development (PCSD) was expected to cover all the core elements of sustainable development and is thus invariably complex.

Apart from the conceptual challenges of defining "coherence", there is also the challenge of identifying coherent policies because while cases of incoherence are relatively more striking, cases of coherent actions are often harder to identify and even harder to quantify. The European Centre for Development Policy Management (2012) discusses the challenges of building an index of policy coherence for development (PCD) to measure the coherence of policies beyond simple quantification of ODA contributions. The authors note a number of technical challenges such as determining "complex chains of causality" and "trade-offs between development objectives". They also draw attention to the challenge of ensuring the quality of the index since there are problems of data gaps and the risk that poor-quality data may inform the index. Other challenges include the absence of a conceptual framework (Roodman, 2013) and that of a conceptual definition (Osés, 2015) of "coherence".

There are ambiguities even as regards the indicators of the targets of coherence. For instance, as of 2018, the methodological work on indicator 17.14.1[8] was still ongoing; thus it is still not clear what will constitute such an indicator (United Nations, 2017a). In contrast, the methodological work on indicator 17.13.1 (Macroeconomic Dashboard) is complete; however, the list of indicators for the dashboard has not yet been finalized (United Nations, 2017b). Both the indicators also need further clarification before data collection or statistical derivation can begin since it is not clear what policies will be included within the scope of the indicators. Furthermore, there is still the need to clearly state whether policy coherence should relate only to aid and cooperation or whether it should have a much broader range, including all policies that might impact sustainable development (UNCTAD, 2016a). For instance, in one report, UNCTAD argued that only greater macroeconomic and financial policy coherence is required (UNCTAD, 2015, cited in UNCTAD, 2016a). However, in another report, it was argued that policy coherence as regards trade tariffs and non-tariff measures has an impact on issues related to health and environment (UNCTAD, 2016b, cited in UNCTAD, 2016a).

The absence of a coherent set of data is also a challenge that the present study faced: the study focused on the South, in particular China and India, and these countries are less transparent concerning data and its disaggregation. Also, a large part of the information needed for the case study, for example reports spanning the phases from project selection and implementation to impact evaluation, are not well documented in the public domain. This proved to be a major constraint in the conduct of a comprehensive study.

8 Indicator 17.14.1. Number of countries with mechanisms in place to enhance policy coherence of sustainable development.

3. SOUTH-SOUTH COOPERATION TRENDS AND MODALITIES

Against the backdrop of the additional resources needed to address the growing needs of the South, trade and financial flows among countries of the global South are expected to contribute significantly to meeting the financial gaps in developing countries and the LDCs. These flows include ODA and other official flows (OOF),[9] FDI, and export and import of goods and services. Table 1 presents information on the growing share of the global South in global trade in goods and services, and investment.

Table 1. Southern share of financial and trade flows in the global economy (%)

	2000	2005	2010	2015	2016	2017
Southern share of global FDI inflow	17.0	34.9	45.7	38.6	35.8	46.8
Southern share of global FDI outflow	7.6	13.3	26.0	25.0	27.5	26.5
Southern share of global exports	30.7	34.5	39.7	41.5	40.6	41.1
Southern share of global imports	28.7	31.1	38.0	41.2	40.2	40.7
Southern share of remittance inflow	59.3	70.9	74.0	76.0	75.4	-
Southern share of remittance outflow	29.3	31.5	41.3	44.9	40.6	-
Southern share of ODA receipts	69.4	75.8	64.4	63.7	62.5	-

Source: Based on UNCTADstat (2017) and OECD.Stat (2018).

The table shows that the Southern share of global FDI inflow increased significantly from 17 per cent in 2000 to 46.8 per cent[10] in 2017, representing an almost three-fold increase. The rise in the global FDI outflow was even sharper, increasing from 7.6 per cent in 2000 to 26.5 per cent in 2017, an almost four-fold rise.

9 OECD has defined ODA as "government aid designed to promote the economic development and welfare of developing countries … includ[ing] grants, 'soft' loans (where the grant element is at least 25% of the total) and the provision of technical assistance" (OECD, n.d.-a) while OOF is defined as "official sector transactions that do not meet official development assistance (ODA) criteria [including] grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose" (OECD, n.d.-b). However, because non-DAC providers of development finance do not adhere to OECD-DAC aid practices, their development financing can blur the lines between ODA and OOF.

10 This, however, was a decline from the peak of 51 per cent in 2014.

That was driven mainly by Chinese investment abroad, the share of which in FDI outflow from Southern economies increased from 1 per cent in 2000 to 32.7 per cent in 2017 (having reached a peak of 48.2 per cent in 2016) (UNCTADstat, 2017). The global share of trade attributable to Southern countries also shows a robust upward trend. As seen in table 1, exports originating from the South, which accounted for about 31 per cent of the global total in 2000, rose to 41.1 per cent in 2017. That was paralleled by growth in the Southern share of global imports, which rose from 28.7 per cent in 2000 to 40.7 per cent in 2017. The Southern share of global remittance inflows rose from 59.3 per cent in 2000 to 75.4 per cent in 2016. On the other hand, the share of remittance outflows from the South increased from 29.3 per cent in 2000 to 40.6 per cent in 2016. As for ODA received, the Southern share dropped from 69.4 per cent in 2000 to 62.5 per cent in 2016, having reached a peak of 75.8 per cent in 2005.

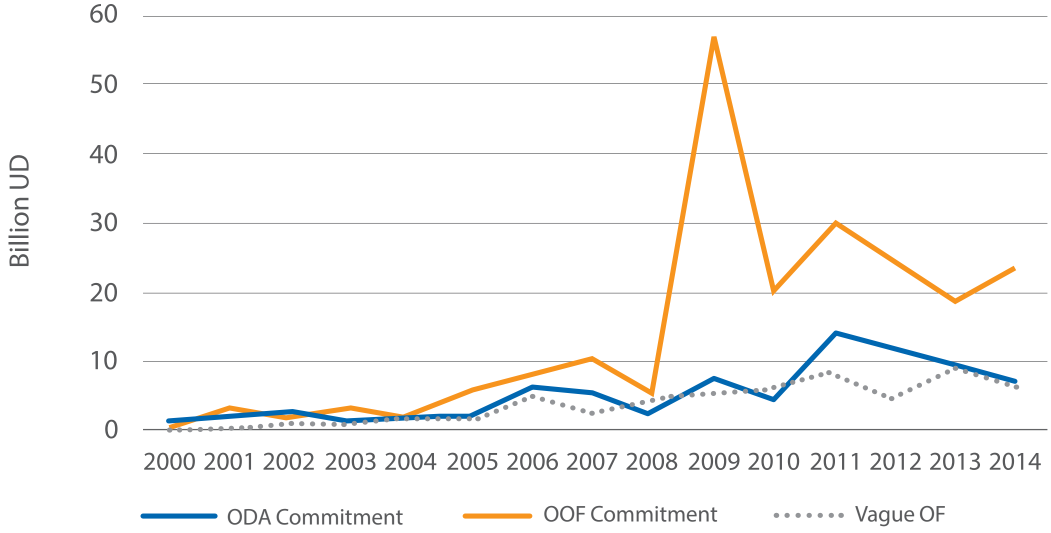
As is well known, two emerging Southern economies, China and India, which were, as of 2018, the world's second and seventh largest economies, respectively, help to explain this narrative to a large extent. China's opening up in the 1980s has led to a new geography of international trade (Gill and Kharas, 2006). For India, internationalization of services is a more recent phenomenon and the country has taken a leading position in international trade in software and information services (World Bank, 2004). The growth of China has been particularly impactful, where its share in exports from the South jumped from 11 per cent to over 26 per cent between 2000 and 2017. Wang, Medianu and Whalley (2011) suggest that the gravitation of global trade to three countries (China, India and Brazil) calls for a need to recast the conventional view of a North-South bipolar world into a tripolar world that includes the North, the large South (China, India and Brazil) and the rest of the South.

3.1 Trends in South-South Cooperation Involving Key Southern Providers

The past few decades have seen notable changes in the global economic architecture. Some of the important aid recipients, for example China and India, have transformed into emerging donors; similar are the cases of Brazil and South Africa that will be discussed later. Indeed, India and China have even set up separate units within their respective governments to manage ODA programmes. India set up the Development Partnership Administration in 2012 and China set up the China International Development Cooperation Agency Iin 2018. The emergence of these non-DAC donors has considerably strengthened SSC among the developing countries of Asia, Africa and Latin America, which has led to a decline in the importance of the North as the sole provider of aid to the South (Samuel and George, 2016). The following subsection sets the tone for subsequent analysis of SSC by presenting the trends and composition of the finance and aid extended by major Southern providers, namely, Brazil, China, India and South Africa.

3.1.1 China: Asia's Largest Provider of Finance

Graph 1. China's development cooperation (OOF, ODA and vague official flow)



Source: Dreher, A. and others (2017).

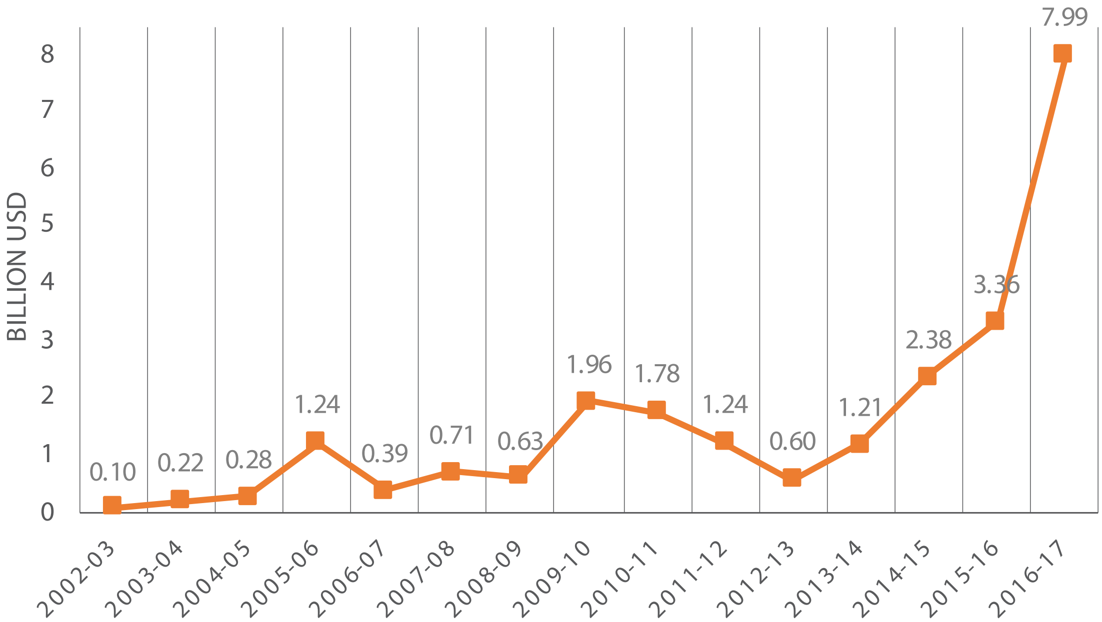
Graph 1 illustrates China's growing footprint in terms of aid flows and aid commitment. The unbroken line represents OOF, which is non-concessional in terms (<25 per cent grant element) and intended primarily for commercial or representational purposes. China provided a total of $216 billion of OOF from 2000 to 2014 (representing 61 per cent of China's total finance flow for development cooperation), which is also the highest among the Southern providers. The broken line represents ODA, commonly known as "aid". This generally tends to be concessional in terms (>= 25 per cent grant element) and is targeted primarily towards development and welfare. A total of $81.2 billion was spent by China as ODA between 2000 and 2014 (representing 23 per cent of China's total finance flow for development cooperation).[11]

As regards sectoral allocation, the transport and storage sector, and the energy generation and supply sector received the biggest share of OOF (17.4 per cent and 50.5 per cent, respectively) and ODA (23.1 per cent and 11.3 per cent, respectively).

11 The dotted line represents the "vague official flow" (Vague OF). This term is needed when there is insufficient information on aid, which makes it difficult to assign certain flows as either ODA or OOF. China provided $57 billion worth of vague official flow between 2000 and 2014 (Dreher, A. and others, 2017).

3.1.2 India. Asia's Emerging Provider of Finance

Graph 2. India's development cooperation (lines of credit)



Source: EXIM Bank of India (2018).

Graph 2 depicts the robust growth of India's LoCs extended to developing countries. It is to be noted that the LoCs have picked up pace after 2012/2013, the year in which India's development cooperation agency, the Development Partnership Administration, was established. From 2002/2003 to 2016/2017, India provided LoCs worth a total of $24.19 billion to several countries in Africa, Asia and Latin America. Countries in Asia received the most – almost 58.4 per cent of the allocation – while African countries received 38.5 per cent (EXIM Bank of India, 2018). Apart from the LoCs, India also provided a total of $6.7 billion as grants and loans during the period from 1997 to 2013 (Samuel and George, 2016). The largest share of the grants went to Bhutan (48.85 per cent), followed by Bangladesh (13.83 per cent) and Afghanistan (8.38 per cent). The share of grants was the highest for the infrastructure, health and education sectors.

3.1.3 Other Providers of Finance in the Global South: Brazil and South Africa

Brazil and South Africa have also been engaging in various development cooperation activities with neighbouring countries Because data and information regarding development finance flows of these providers are not as widely documented as those of China and India, this section had to draw largely on earlier studies that relied on data from multiple sources. Table 2 presents information on development cooperation spending by Brazil and South Africa from 2007 to 2013.

Table 2. Brazil and South Africa's development cooperation, 2007-2013 (in millions of USD)

	2007	2008	2009	2010	2011	2012	2013	Total
Brazil	291.9	336.8	362.2	482.1	-	-	-	1,473.0
South Africa	108.0	108.5	99.6	106.0	227.0	188.0	183.0	1,020.1

** Brazil's project-level data after 2010 are not available. The figures for Brazil also underestimate the total amount of the country's aid since they do not include in-kind expenditures by other Brazilian institutions.*

Source: Bhattacharya and Rashmin (2016), adapted from OECD (2013) and OECD (2015).

From 2007 to 2010, Brazil spent a total of $1,473 million, the larger share being directed towards Portuguese-speaking countries in Africa and neighbouring countries in the Latin America and the Caribbean region. Mozambique, for example, received 33.31 per cent of the total commitment during the period. It provided 77 per cent of its development assistance to multilateral finance institutions (for example, the Mercosur Structural Convergence Fund, the Pan American Health Organization and the Organization of American States) and the rest was received by individual countries directly, mostly through technical cooperation. The sectors that received the majority of the funds were education (29.36 per cent), agriculture (11.05 per cent) and health (10.44 per cent) (Semrau and Thiele, 2017).

South Africa is another player in SSC, providing a total of $1,020 million between 2007 and 2013 (Semrau and Thiele, 2017). The larger part of its development cooperation efforts was geared towards African countries (mainly members of the Southern African Development Community) and covered such areas as peacekeeping, security and post-conflict development projects. In contrast, South Africa's SSC was more multifaceted and was provided through multiple channels (for example, in 2011, 43 per cent of its assistance went through multilateral financial institutions (MFIs) and the rest through humanitarian aid and bilateral development cooperation). While China and India were involved primarily in infrastructure and other productive sectors such as the development of economic zones that would enable them to lower transaction costs, South Africa and Brazil were more focused on social sectors. In general, these Southern provider countries were inclined to allocate resources to sectors in which they had expertise and experience.

3.2 Modalities and Nature of Southern Finance Flows

The SSC financing modalities used by India and China are almost identical. Both countries have EXIM Banks that are responsible for financing, facilitating and promoting international trade of the respective countries. These EXIM Banks are State-owned financial institutions whose focus is to promote and facilitate cross-border trade and investment as well as development cooperation primarily as a purveyor of export credit. Because Brazil's efforts are focused mainly on technical cooperation, its implementing agencies tend to vary depending on the sector. For example, Brazil's development assistance in the agricultural sector is provided by the Brazilian Agricultural Research Corporation. The Brazilian National Service for Industrial Training is responsible for implementing professional education and vocational training agreements between Brazil and partner organizations while the Brazilian Development Bank's EXIM Automatic provides the LoCs for international trade. South Africa's development assistance is channelled mainly through the Development Bank of Southern Africa and the Industrial Development Corporation, both of which provide financial assistance for infrastructure development through loans managed by dedicated units (for example, the EXIM Bank of China's International Business Department and the EXIM Bank of India Corporate Banking Group). South Africa also provides funds to MFIs. The main instrument through which it does this is the African Renaissance and International Cooperation Fund.

A study by Bhattacharya and Rashmin (2016) concluded that India's development finance tended to be more concessional in terms than that of China. Also, data indicate that India's efforts were geared primarily to countries in Asia and Africa, while China had traditionally targeted resource-rich African countries (Dreher, A. and others, 2017). However, this scenario is now changing, with developing Asia emerging as a major recipient of Chinese LoCs. In terms of commonalities in the nature of aid concerning the two providers, while neither China nor India imposes policy conditionalities with aid, the major part of their aid is tied to the use of provider-country goods and services and contractors. This is happening at a time when the DAC is moving towards untied aid.[12] Also, unlike the donor-recipient "vertical" model of the DAC, SSC involving China and India has a "horizontal" model that promotes mutually beneficial relationships (one of the principles of SSC), largely motivated by the interests of bilateral and regional trade and investment (Samuel and George, 2016). On the other hand, the concessionality of the Brazilian and South African bilateral assistance is difficult to analyse because information on repayment conditions is difficult to find.

The aforesaid study by Bhattacharya and Rashmin (2016) observes that it is not clear whether repayment conditions and terms are attached to the financial assistance from Brazil and South Africa. However, recent reports have suggested that Brazil has written off $900 million of African debt (accumulated in the 1970s) because "maintain[ing] a special relationship with Africa is strategic for Brazil's foreign policy" (BBC, 2013). The issue of increasing accumulated debt of a number of African countries, originating from Chinese aid, has emerged as a concern recently. In South Asia, the rising debt of Sri Lanka, owed to China, and the consequent rising debt-servicing liability, have been attracting a great deal of attention in recent times. Indeed, recent studies note that both China and India have written off a part of their respective debt. China has written off approximately $9 billion worth of loans, including $6 billion for Cuba (Hurley, Morris and Portelance, 2018). India, a relative newcomer, wrote off approximately $37 million in loans that went to heavily indebted poor countries (Katti, Chahoud and Kaushik, 2009).
A summary of the discussion above is presented in table 3.

12 The proportion of fully untied bilateral aid rose progressively from 46 per cent in 1999–2001 to 76 per cent in 2007, and for LDCs, it increased from 57 per cent to 86 per cent. Taking into account multilateral aid, the proportion of untied ODA rose to 83 per cent overall (Clay, Geddes and Natali, 2009). More recent data show that the proportion of untied aid increased to 88 per cent in 2018 (OECD, n.d.-c).

Table 3. Nature of South-South financial flows

	Finance provided	Major destinations	Major sectoral allocations	Modalities	Write-offs
China	$354 billion (ODA and OOF) (2000–2014)	Mostly Africa	Transport, storage and energy generation and supply	Bilateral cooperation (concessional and non-concessional) and debt relief	~ $9 billion, mostly African countries
India	$24.19 billion (LoC) (2003–2017)	Africa and Asia	Energy and communications infrastructure	Bilateral concessional LoCs and grants	$37 million, heavily indebted countries
Brazil	$1.47 billion (2007–2010)	Africa, Latin America and the Caribbean	Education, agriculture and health	Finance provided mostly through MFIs; some technical cooperation	$900 million, Africa (from 1970s)
South Africa	$1.02 billion (2007–2013)	Mostly Africa	Peacekeeping, security and post-conflict development	Finance provided mostly through MFIs	No information

Source: Based on various sources cited in this study.

As the preceding discussion indicates, SSC is set to play a more proactive role as a source of development finance in the coming years. The trends are very clear on this. These years coincide with the period of SDG implementation by countries in the global South. There is thus growing recognition that in the post-2015 era, investment flows from the South will be playing an increasingly important role to mobilize finance for development and trade. In all likelihood, the ongoing trade war between the United States of America and China[13] will induce Southern countries to seek out alternative sources for development finance. This will then further push Southern countries to explore opportunities for closer development cooperation involving countries of the global South. If one examines the issues of policy coherence from the broader aspects of the development cooperation of Southern providers, one will not fail to note that there is a large degree of coherence between what is offered by them and the recipient priorities. This is corroborated by the information provided earlier, which indicates that infrastructure and social sectors remain the major target areas of support in this connection. As was pointed out earlier, trade and investment are key means of contributing to the achievement of the SDGs in the developing South. Ensuring the coherence of trade and investment policies with development policies of both provider and recipient Southern countries calls for closer scrutiny in the era of the SDGs.

13 The trade war is now encompassing more countries, for example, India and Canada as well as the European Union.

4. DEVELOPING AN ANALYTICAL FRAMEWORK

4.1 Changing Dynamics of Coherence

The year 2015 marked a major shift and a watershed in the international development agenda. The vision of the 2030 Agenda endorsed in that year emphasized the need for development, globally and at the country level, that placed responsibility on the global community and on individual countries. Given the integrated nature of the new agenda and against the backdrop of widening income inequality, competing demands on limited resources, global trade wars, climate change and environmental degradation, it was realized that the original "policy coherence for development" (PCD) concept of moving "beyond aid" and the "do-no-harm" approach was not adequate in scale or scope. The new "universal" paradigm called for further reconceptualization of the PCD concept under the framework of the new post-2015 paradigm. As the concept of PCD evolved, the definition changed from a "do-no-harm" approach to one that actively seeks out synergies resulting from development cooperation among countries.

Consistent with the new definition, there has also been a transformation in the term "PCD", which is now being increasingly replaced by "policy coherence for sustainable development" (PCSD). The new definition of "PCSD" now goes beyond the traditional "donor-recipient" role of countries and instead engages all actors and stakeholders in developed and developing countries by moving away from the developed-developing dichotomy. Consistent with the principle of "Leave no one behind", the new definition justifiably emphasizes more "proactive approaches" and attempts to identify synergies between different policies at various levels to create a win-win situation. Building on previous definitions, the objectives of PCSD came to include the following in view of the emergent scenario: (a) addressing negative spill-overs of domestic policies onto long-term development; (b) increasing government capacities to identify trade-offs and reconciling domestic policy objectives with internationally agreed objectives; and (c) fostering synergies across economic, social and environmental policy areas to support sustainable development (OECD, 2018).

4.2 Coherence in Development Cooperation in the Global South

Global literature bears out that the interface between trade and investment policies is strong and that they contribute significantly to attaining development targets in the South. However, from the perspective of policy, there is often a lack of policy coherence between development needs and aid, trade and investment policies (Ramos, 2016). For instance, consider the case of regional agreements concerning trade and investment. According to the WTO regional trade agreement (RTA) database, there are 461 regional trade and investment agreements worldwide; many of them are South-South agreements and 20 of these involve the LDCs (WTO, n.d.). A major objective of these agreements is to encourage the establishment of production and value chains and stimulate trade and investment in member countries. Initiatives such as the aforementioned BRI and the China-Pakistan Economic Corridor (CPEC) are promoted as catalysts to encourage and deepen regional and subregional connectivities in the areas of trade, transport, logistics, trade facilitation and people-to-people linkages.

Private-sector and multinational companies from Southern providing countries also play a key role in harnessing investment in developing countries. While governments design the strategic and overarching policies to promote SSC, it is the willingness and ability of the private sector to take advantage of those that determine the outcomes. Along with the fiscal-financial institutional policies and incentives that define the overall environment in the context of which SSC takes place, private-sector decisions are influenced by market size, host-country regulations, competitiveness, etc. Nonetheless, the private sector remains a key partner in SSC for two reasons: many of the SSC projects supported by provider countries (e.g., infrastructure projects) are implemented by the private sector and the private sector benefits from the competitive edge that originates from SSC (e.g., when costs of transport go down thanks to enhanced transport connectivity between provider and recipient countries). On both counts, the role of the private sector is important in the context of SSC.

On the other hand, when SSC is not designed in a strategic way, the win-win outcomes may be limited and the private sector may not be able to reap the expected benefits. For example, when regional or bilateral trading arrangements are drawn in such a manner that the opportunities for a greater flow of trade and investment are constrained, the potential benefits remain unrealized. For example, in South Asia, the expected benefits of the Agreement on South Asian Free Trade Area (SAFTA) remain largely unrealized because the agreement concerns only the free movement of goods and not services, and even in case of trade in goods, there are long sensitive lists.[14] Stringent rules of origin and the existence of the various non-tariff barriers also create obstacles to the movement of goods (Rahman, 2015). On the other hand, when SSC involves the implementation of projects that could be harmful (e.g., from an environmental perspective), they can lead to tension as well. A case in point is the coal-generated power station at Rampal near the Sundarbans mangrove forest in Bangladesh that is being built with support from India. The project has been severely criticized by environmental groups in Bangladesh, which are of the opinion that the coal plant could lead to irreversible damage to the world's largest mangrove forest.

There is, therefore, a need to ensure coherence between SSC and investment and trade policies at two levels: the level of provider countries in such a way that their policies are commensurate with their own declared partnership strategies, and the level of recipient countries in such a way that such policies align with the development needs of these countries. Questions that need to be examined in this context are: (a) whether the trade and investment flows are aligned with national development strategies in recipient countries in a way that serves the strategic trade and investment interests of these countries (national policy alignment); (b) the extent to which the SSC-supported projects are attuned to the priorities of the

14 Sensitive (negative) lists include items that are not eligible for preferential market access. "Rules of origin" refers to the minimum requirements (domestic value addition, processing) that are needed to enjoy preferential market access.

recipient countries (alignment of priorities); (c) whether the selected projects and deliverables are aligned with SDG implementation strategies and plans (SDG coherence); (d) whether the processes being pursued (conditionalities) by the provider countries create binding constraints for recipient countries (process efficiency); and (e) whether accountability frameworks are in place to ensure that the projects deliver the expected outputs (accountability modalities). The intertwined trade and investment flows and policies thus call for an audit from the perspective of policy coherence to ensure maximum development impact from the vantage point of both recipient and provider countries.

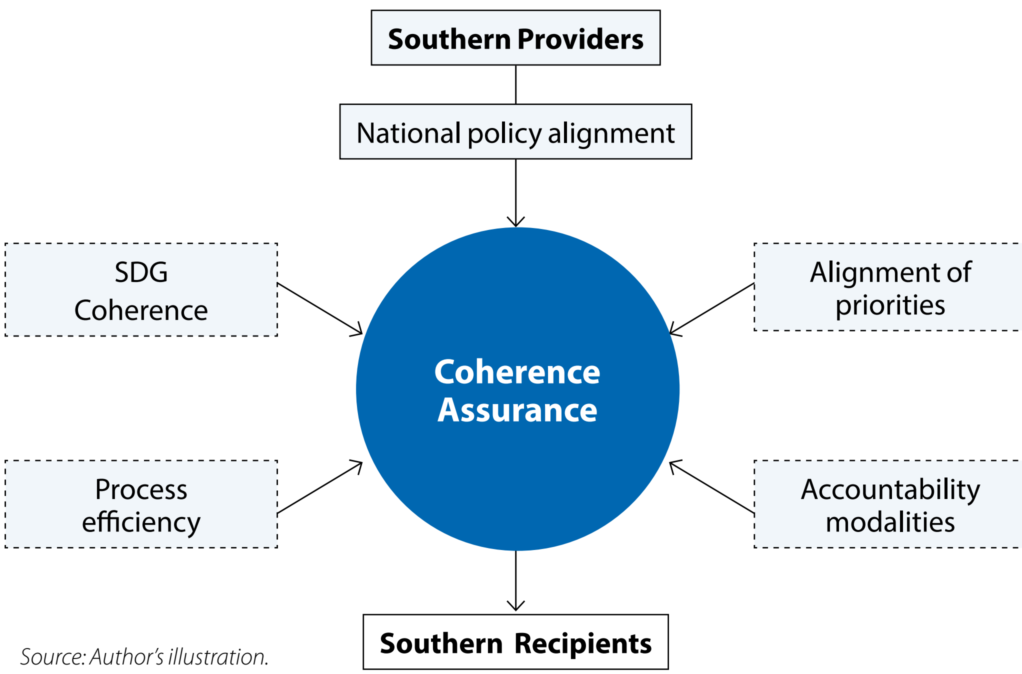
While similar in its approach, there is one primary difference between the proposed framework and the OECD Framework for Policy Coherence for Sustainable Development[15] of which assesses coherence among the various policies and tools from a broader perspective, while the framework proposed in this study assesses the coherence of policies concerning development projects and is thus more narrowly focused. The OECD framework is broader in scope since it considers a multitude of elements in its assessment, including key actors (countries and organizations involved), sources of finance (for example, public, private, domestic or international), policy interlinkages (whether economic, social and environmental policy interlinkages have been considered), non-policy drivers (whether the existence of enabling environments that affect policy outcomes have been considered) and trans-boundary and intergenerational impacts (whether the policies produce unintended effects that could affect the well-being of people in other countries) (OECD, 2016). It thus goes beyond policies and takes account of other elements that inform policies to assess their coherence. Therefore, the emphasis on policy coherence is rather diluted and limited since it considers a wide range of elements without a unique focus. In contrast, the framework proposed in the study for SSC attempts to examine issues of coherence from the perspective of delivering the expected development outcomes from the implementation of development projects under SSC. However, this has been looked at from a broader perspective. To the extent that development outcomes are impacted by process elements (e.g., aid conditionalities), the framework captures those elements as well. However, it would be wrong to infer from this that this framework is insensitive to the provider's perspective. The proposed accountability framework envisages that joint monitoring of project implementation, with the participation of both provider and recipient representatives. Prior to that, when the provider country decides to negotiate a particular project, it is to be expected that the project is, first, in alignment with the aid and development cooperation strategy of the provider country. The issue of emphasis on coherence from a recipient-country perspective arises from the fact that, in general, the SSC projects are coherent with provider-country priorities but that these do not necessarily align with recipient-country priorities. Hence the need for audit.

One limitation of the framework proposed in this study is that it is more focused on the recipient side rather than the provider side. SSC is based on the principle of mutual benefit, and evidently, any action undertaken should benefit both countries. The framework is consistent with SSC principles of accountability, process

15 OECD, "The Framework for Policy Coherence for Sustainable Development", available at: http://www.oecd.org/gov/pcsd/pcsd-framework.htm

efficiency, policy and priority alignment, and coherence with SDGs. However, the metrics in the proposed framework analyse the LoCs largely from the recipient's perspective. For instance, even though the framework examines alignment with national policies and priorities, it primarily considers the perspective of the borrower. Although the proposed framework examines development effectiveness of the SSC in the area of the SDGs, it can be extended to assess the extent to which SDGs will be impacted by the projects under SSC.

Figure 1. Analytical framework to assess coherence in trade and investment policy



Source: Author's illustration.

5. EXPLAINING COHERENCE IN SOUTH-SOUTH COOPERATION: A CASE-STUDY APPROACH

Using the Indo-Bangla LoCs as a test case, this section illustrates the extent to which the projects undertaken under the LoCs are aligned with Bangladesh's national policy. Following the initial brief discussion on the projects, this section uses the analytical framework described in the previous section to analyse the LoC projects in light of national policy alignment, alignment of priorities, SDG coherence, process efficiency and accountability modalities.

Since SSC flows are not monitored by a common platform, key information on terms and conditions is often unreported and rather difficult to find; on the other hand, information on total volume and sectoral allocations is relatively more easily accessible. Data reported by the EXIM Bank of India disclose the volume disbursed but information on the terms and conditions are usually only found either in earlier literature or through newspaper reports. Against this backdrop, the study had to rely on publications produced earlier (by other agencies and civil society organizations (CSOs)), newspaper reports and project documents by the project providers and recipients. Based on these, the state of coherence in the context of Indian LoCs was examined by assessing a number of factors such as loan process, nature of conditions attached to the funds and sectoral allocations.

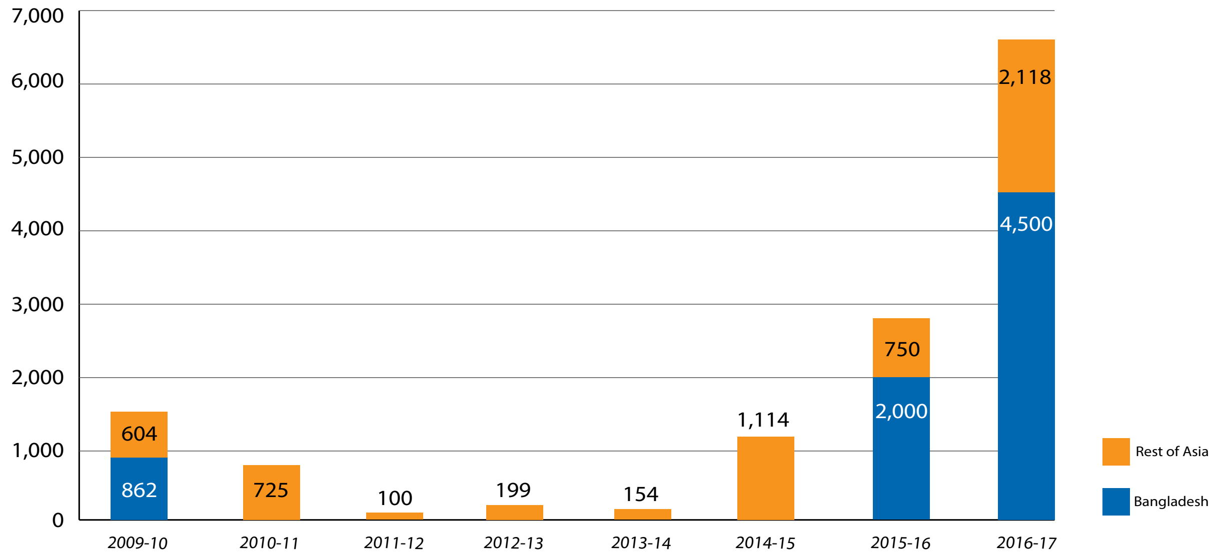
5.1 India's Growing Footprint in Development Cooperation in Asia

As may be recalled, under the present Modi government, India has adopted the "neighbourhood first" policy,[16] which in the past few years has seen a large number of LoCs earmarked for its neighbours. This, along with India's strong footprint in Africa, testifies to the growing importance that India has been giving to promoting the cause of SSC. In tandem with this, the scope and scale of India's development cooperation have also seen considerable expansion over the past few years. As regards the consistency of the Indian LoC with the principles of South-South cooperation, Chaturvedi (2018) observed that "India's development partnership is based on the needs of partner countries as are and is geared towards accommodating as many requests received from the countries as technically and financially feasible." He further argues that this form of South-South cooperation no longer imposes any conditionality on the recipient countries but instead is based on the principles of SSC: "mutual gain, non-interference, non-conditionality and collective growth opportunities". Primary beneficiaries of India's LoCs are countries in Asia, where the majority of the allocated projects pertain to communication and infrastructure. In the case of Africa, too, the picture is similar. However, in recent times, the focus has shifted to projects on generation of renewable energy, particularly following the establishment of the International Solar Alliance in 2018 (Mishra, 2018). This reflects India's growing interest and expertise in relevant areas and one assumes that this would align well with priorities of African countries looking for cheap energy.

Graph 3 presents the scale of India's development cooperation from 2009/2010 to 2016/2017. As the data demonstrate, over the past few years, Bangladesh has emerged as the largest recipient of India's development cooperation. Overall, since 2009/2010, it has received 56.1 per cent of all Indian LoCs for countries in Asia (figure 2); this was equivalent to 35.9 per cent of India's total extended LoCs. Other major Asian beneficiaries included Nepal and Sri Lanka.

16 The "neighbourhood first" foreign policy was enacted by the Modi government after it assumed power in 2014. The core idea of this policy is to actively focus on improving ties with India's immediate neighbours: Afghanistan, Bangladesh, Bhutan, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka. In his first two years in power, Prime Minister Modi pursued a very active policy of engagement with neighbouring countries, with a view to deepening subregional cooperation. Billions of dollars' worth of projects were negotiated and agreements signed.

Graph 3. Indian lines of credit to Asia



Source: EXIM Bank of India (2018).

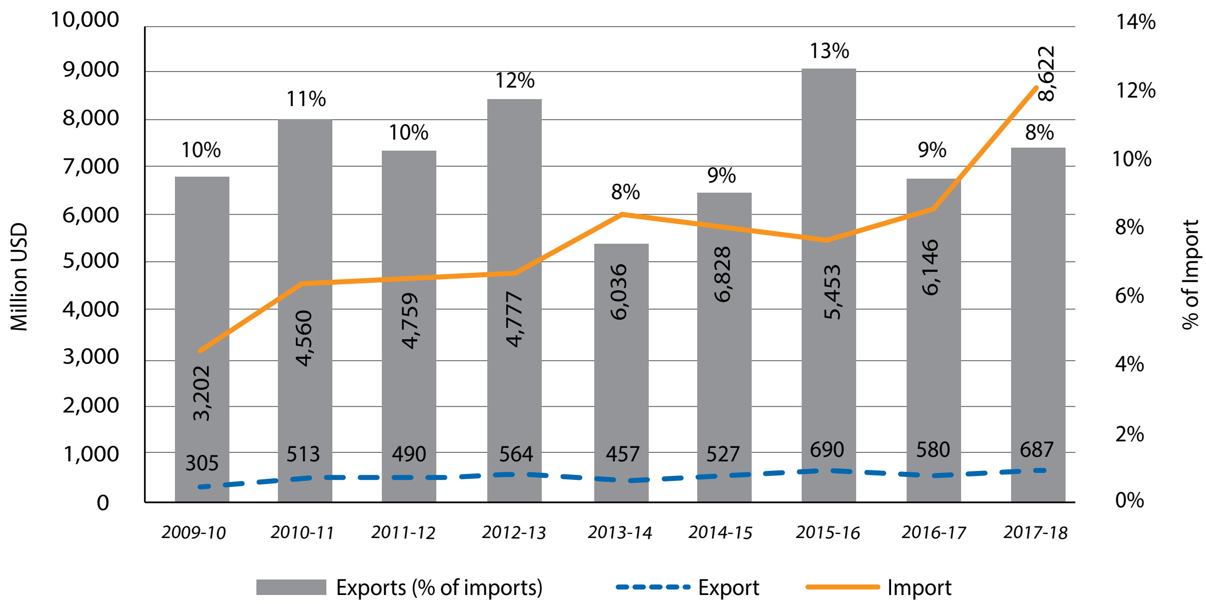
Bangladesh's strategic location is an important consideration as far as India is concerned. Bangladesh is critical to promoting regional stability in South Asia, enhancing India's connectivity with East Asia and bringing economic benefits to India's landlocked northeastern region (Mullen and Arora, 2017). Against this backdrop, successive Indian governments have worked to deepen and strengthen bilateral ties with Bangladesh in various areas. Use of concessional credit lines as a key modality in this connection is, however, more of a recent phenomenon.[17]

5.2 Indo-Bangla Trade

As shown in graph 4, despite the growing trade between Bangladesh and India, the trade gap between them historically has been largely skewed in favour of India. Although Bangladesh's exports to India have been on the rise, India's exports to Bangladesh have been rising at a faster pace so that the share of exports to imports has fallen in recent years.

17 The line of credit has emerged as a preferred instrument for development cooperation among India and its neighbours since it provides a double-sided guarantee: from the borrower country as well as from India's EXIM Bank (Chakrabarti and Bandyopadhyay, 2017).

Graph 4. Bangladesh's trade with India



Source: Bangladesh Bank (n.d.-a) and Bangladesh Bank (n.d.-b).

There have been significant changes in the policies pursued by Bangladesh in the areas of trade and investment. Before the liberalization of the early 1990s, Bangladesh trade and investment policies were highly restrictive, with prohibitively high taxes, a protectionist regulatory regime, and the restriction of FDI to only a few selected sectors (positive list of sectors). However, gradually Bangladesh started to open up by pursuing policies of trade liberalization, deregulation, privatization and opening up of the economy to FDI. At present, Bangladesh has a host of supportive policies and incentives to attract FDI including full protection of foreign investment, the signing of a bilateral investment treaty and a treaty on avoidance of double taxation. Bangladesh offers 100 per cent equity investment facilities, allows 100 per cent capital and profit repatriation, a tax holiday, duty-free import of raw materials, duty exemption on exports, selected VAT exemption, etc. (Dhaka Chamber of Commerce and Industry, n.d.). However, as of September 2018, FDI at less than 2 per cent equivalent of GDP (Bangladesh Bank, n.d.-c) has remained low mainly because of lack of needed infrastructure. Bangladesh has treaties with India on bilateral investment and avoidance of double taxation. However, the investment flow from India has also not been significant. India accounted for only 2.42 per cent of total FDI in fiscal year 2018 and 3.40 per cent of accumulated investment (Bangladesh Bank, n.d.-c). As a result, a large part of the potential benefits to be accrued from the duty-free, quota-free market access offered by India to exports originating from Bangladesh remains unrealized. Bangladesh would have benefited significantly from Indian investment in Bangladesh targeting the Indian market, taking advantage of the duty-free and quota-free offer of India. However, a lengthy process involving laboratory testing with multiple authorities, onerous documentation and lengthy customs clearance results in delays and leads to cost escalation, thereby incentivizing informal trade and undermining competitiveness (CUTS International, 2016).

The study by Consumer Unity and Trust Society (CUTS) International also identified two major bottlenecks regarding cross-border movement and transit. First, absence of effective transportation corridors and transit arrangements between the two countries translates into trans-shipment of all consignments at the border,[18] limiting the scope of an uninterrupted and seamless flow of goods. It is estimated that the average time consumed by cross-border trade processes varies from 5–7 days to 15–20 days. Second is the lack of harmonized quality standards. This is particularly pronounced in the case of plant, animal, plant-based and animal-based products. While there exist agreements and MoUs between the Bureau of Indian Standards (BIS) and BSTI, the lack of a uniform set of standards means that the inability of an importer to present a pre-shipment inspection (PSI) certificate issued by the country of origin requires fresh lab testing in India. The lack of clarity regarding sanitary and phyto-sanitary measures implemented by central authorities in both countries also adversely affects bilateral trade.

India has a keen interest in investing in Bangladesh's connectivity to foster and promote better linkage between the western and the relatively underdeveloped and landlocked eastern parts of India. At the same time, Bangladesh also would benefit from better connectivity with India since it would facilitate cost-effective access of exports to the high-potential Indian market with significantly reduced lead time.[19] Enhanced bilateral connectivity would also help Indian investors who are currently discouraged by high transport and logistics cost and lack of efficient channels of financial transactions. Bangladesh has offered two dedicated special economic zones (SEZs) to Indian investors,[20] and many Indian investors have indicated a keen interest in investing in these SEZs. Better connectivity will help to attract Indian investors to these zones.

5.3 History of Indian Lines of Credit to Bangladesh

From 2010 to 2017, India offered Bangladesh $8 billion worth of credit support under three LoCs. The first LoC was extended in 2010 and was worth $1 billion. A part of this credit line was later transformed into a grant towards construction of the Padma bridge that amounted to $200 million (Loiwal, 2016). In 2015, the credit component was raised to $862 million in view of the cost escalation of several projects (Loiwal, 2016). Under this LoC, the majority of the projects selected were infrastructure projects focused

18 The so-called "no man's land".

19 About nine-tenths of current bilateral trade takes place through land ports. The state of trade liberalization at present is rather poor. Better connectivity will also help to enhance trade with other countries of the region such as Nepal and Bhutan. At present, the cost of trade between Bangladesh and Nepal is one and a half times more than that between Bangladesh and Brazil owing to poor transport infrastructure (Kathuria and Mathur, 2018).

20 Bangladesh has offered two dedicated special economic zones (SEZs) to Indian investors, one at Mongla in Bagerhat and one in Bheramara in Kushtia. Better connectivity will help to attract Indian investors to these zones and eventually reduce the trade imbalance between Bangladesh and India that is now heavily in favour of India.

on transport and communications, including the modernization of two rail links and the construction of two bridges in addition to the procurement of buses, locomotives and passenger coaches. The second Indian LoC, worth $2 billion, was offered in 2016 (Kallol, 2017). Apart from infrastructure projects, the LoC emphasized development of social sectors including the upgrading of 49 polytechnic institutes, modernization of two teacher training institutes and establishment of medical colleges. The third LoC, worth $4.5 billion (excluding the $500 million of the LoC going for defence procurements), was signed in October 2017 (Kallol, 2017). As was the case with the previous LoC, the third LoC also targeted the health and education sectors in addition to infrastructure development. Table 4 provides further details regarding the Indian LoCs to Bangladesh.

Table 4. Conditionalities in the three rounds of Indian lines of credit

	LoC I (2010)	**LoC II (2016)**	**LoC III (2017)**
Amount	**$862 million**	**$2 billion**	**$4.5 billion**
Procurement conditions	65% of construction resources and 75% of other goods and services must be procured from India	65% of construction resources and 75% of other goods and services must be procured from India	65% of construction resources and 75% of other goods and services must be procured from India
Commitment charge	0.5%	0.5%	0.5%
Repayment period	20 years	20 years	20 years
Grace period	5 years	5 years	5 years

Source: Chakrabarti and Bandyopadhyay (2017), Hashim (2017) and Kallol (2017).

5.4 Case Study: Indo-Bangla Line of Credit I and Line of Credit II

Table 5 presents information on the allocation of projects under the first and second rounds of Indian LoCs. In the first round, the major part of the allocation was geared to construction of connectivity infrastructure. However, in the second round, the allocation was more diversified and new areas (such as the construction of a hi-tech park, construction of electricity lines and improvement of facilities at polytechnic institutes) were added. While the full list of projects under the third round is yet to be finalized, it is known that $1 billion has been allocated for the Rooppur Nuclear Power Plant (being built with credit support from the Government of the Russian Federation) and $500 million for setting up the new economic zones for Indian and other investors, including one in Mirsarai in Chittagong and the other in Payra or Moheshkhali (Byron, 2017). As a result, at least 22 per cent and 11 per cent of the contracted amount will be allocated to the energy sector and construction of economic zones, respectively, under the third LoC (author's calculation based on Byron, 2017).

Table 5. Allocation of projects under Indo-Bangla line of credit I and line of credit II (%)

	Line of credit I	Line of credit II
Construction (roads, railways, bridges)	70.80	40.30
Construction (factory workshop, hi-tech park, economic zones)	-	7.63
Procurement (buses, trucks, passenger coaches, locomotives, equipment)	29.20	24.42
Energy/electricity infrastructure development	-	11.85
Capacity development (improvement of facilities at educational institutes)	-	15.81

Source: Aman (2018) and Byron (2017).

5.4.1 Selected Projects under Line of Credit I

Under the first round of LoC from India, the approved projects included the Second Bhairab and the Second Titas bridges, with an approach rail link that would result in improved connectivity with the southwestern region and the eastern region of Bangladesh, respectively. Other projects concern the construction of the Fultala-Aranghata component of the Khulna-Mongla Port rail line, the Kulaura-Shahbajpur rail line section and the modernization of the signalling system between Ashuganj and Akhaura rail stations. These would link the Tripura capital, Agartala, in northeast India to Akhaura near Chittagong port in southeast Bangladesh. These links, when established, are expected to facilitate Bangladesh's trade with India and reduce the cost and time of communication between India's Seven Sister States and mainland India through Bangladesh. Details of selected projects are given below:

- **Construction of the Second Bhairab Bridge. T**his double-lane bridge, running over the Meghna River, will be an important link in the Dhaka-Chittagong rail route and will connect Ashuganj in Brahmanbaria district (bordering the State of Tripura in India) with Bhairab Bazar. This is expected to significantly reduce the travel time for passengers and freight between Dhaka and Chittagong. This will also improve the connectivity with the Chittagong port.

- **Modernization of the signalling system of three stations between Ashuganj and Akhaura section.** This will foster greater connectivity with the Indian State of Tripura by allowing goods from the State to have easier access to the Chittagong port. The road between Ashuganj and Akhaura is also being upgraded under the second LoC.

- **The Kulaura-Shahbajpur section rehabilitation project.** Located on the northeastern side of Bangladesh bordering the Indian State of Assam, rehabilitation of this section will restore the train link between Bangladesh and India. Its importance also lies in the fact that this is a part of the Trans-Asian Railway network (Bss, 2018). Along with the Akhaura-Agartala rail link connecting the Bangladesh district of Brahmanbaria and the Indian State of Tripura, the Kulaura-Shahbajpur section will connect the seven northeastern Indian States with the rest of India and Bangladesh (JOC.com, 2018). This is expected to reduce transport-related costs involving cross-border trade and tourism.

- **Fultala-Aranghata section of Khulna-Mongla rail line.** Construction of this rail line will enable greater connectivity with the Mongla port for Bangladesh, India, Nepal and Bhutan. This will be the shortest railway corridor that will connect Nepal, Bhutan and northwest India (Murshed and Firozi, n.d.).

5.4.2 Selected Projects under Line of Credit II

Under the second round of the Indian LoC, infrastructure projects that were approved included the upgrading of the road from Ashuganj river port to Akhaura land port to a four-lane highway, construction of a new workshop at Saidpur railway factory, construction of a double rail line from Khulna to Darshana and construction of a dual gauge rail line from Parvatipur to Kaunia section. Other procurement projects include procurement of buses, trucks and locomotives from India. Details of selected projects are given below

- **Upgrading of the road from Ashuganj river port to Akhaura land port to a four-lane highway.** Both Ashuganj land port and Akhaura land port are situated in Brahmanbaria district, which borders the Indian State of Tripura (the port is located 43 km from the Akhaura land border between Bangladesh and India). The development will prepare Ashuganj river port for trans-shipment, thereby improving connectivity with the rest of the country and with India. This is because Ashuganj port acts as a port of call for cargo shipments to the Indian State of Tripura and the trans-shipment route allows access to several other Indian states in the northeast (BDnews24.com, 2016).

- **Construction of a double rail line from Khulna to Darshana.** Darshana is a border railway station situated in Chuadanga District in the southwestern part of Bangladesh, bordering the Indian State of West Bengal. This is a rail transit point on the India-Bangladesh border; the Maitree Express passes through this station (BBC, 2008). Upgrading of the rail line will facilitate cross-border tourism.

- **Construction of a dual gauge rail line from Parvatipur to Kaunia section.** This is a 57-km rail track from the districts of Dinajpur and Rangpur in northwest Bangladesh. The reconstruction will allow movement of both metre-gauge and broad-gauge trains; the present rail line is confined to metre-gauge trains only. Once the project is implemented, it will be possible to establish rail transit with India, Nepal and Bhutan through Biral on the border, something that is currently not possible since the rail section in the Indian part is a broad-gauge section (Aman, 2018).

- **Barapukuria-Bogra-Kaliakoir 400kv line.** This project, which is intended to transfer electricity to northern Bangladesh, forms part of the proposed Bangladesh-India northeastern grid interconnection from Barapukuria (Power Grid Company of Bangladesh Ltd., n.d.). Once completed, it will also open up possibilities for the extension of high-voltage transmission for power imported from Nepal and Bhutan.

A review of the projects under the LoCs indicates that the projects were selected in two ways. Some projects were selected based on the requirements of Bangladesh's Five-Year Plan. When domestic resources were not available or an Indian LoC was perceived to be more desirable, funds were sought so as to be supported under the LoC. It is assumed that some of the other projects were selected to cater to the Indian needs, which related particularly to transport connectivity. For example, the project to build the Ashuganj International River Port in Bangladesh is geared to establishing multi-modal connectivity between the western part of India and northeast India through Bangladesh

5.5 Status of Projects under the Indian Lines of Credit

As of 2017, only $576 million of the $3 billion LoC from the first two rounds had been used (Byron, 2017). For the first LoC (signed in 2010), only $438 million of the $862 million (50.8 per cent) had been disbursed up to October 2018 even though 12 of the 15 approved projects had been completed in the eight years since 2010 (Rahman, 2018). As regards the second LoC, 14 of the 16 identified projects have been approved by both Governments. However, the cost of the projects has increased to $2.195 billion from the initial $2 billion because of the rise in the cost of the three railway projects. The costs have also increased for the projects under the third LoC from the initial $4.5 billion to $4.618 billion (Rahman, 2018).

6. INVESTIGATING THE LINE-OF-CREDIT PROJECTS THROUGH THE LENS OF THE ANALYTICAL FRAMEWORK

Does the bilateral cooperation between Bangladesh and India selected as a case study for a coherence audit pass the test? To what extent is there coherence between the projects being implemented under the Indian LoCs and Bangladesh's policies? The section below looks at the LoC projects through the lens of the analytical framework described in section 4 to test this idea. Principles that are examined in this context are: (a) national policy alignment (whether the financial flows are aligned with national development strategies in recipient countries that may be geared to pursuing strategic trade and investment policies); (b) SDG coherence (whether the selected projects and deliverables are aligned with SDG implementation strategies and plans); (c) alignment of priorities (the extent to which the SSC-supported projects are aligned to the priorities of the recipient countries); (d) process efficiency (whether the conditionalities of the provider countries are creating binding constraints for recipient countries); and (e) accountability modalities (whether there are accountability frameworks in place to ensure that the projects deliver the expected outputs).

6.1 National Policy Alignment

The Seventh Five Year Plan (FY2016–FY2021) and the Perspective Plan (2011–2021) of Bangladesh emphasize the importance of effective regional connectivity and better trade facilitation. The Seventh Five Year Plan sets out a strategy for market integration through the development of an extensive transport network at the domestic and regional levels. It includes the development of multi-modal transport networks linking seaports with neighbouring countries by increasing the capacity to handle cargo flows. In line with this, the Chittagong and Mongla ports are to be developed and linked by road to the capital and to neighbouring countries. This plan also emphasizes Bangladesh's participation in global and regional transportconnectivity initiatives. In this connection, Bangladesh and India had signed joint communiqués in 2010 and 2011. According to the 2010 communiqué, Bangladesh was to allow India the use of Mongla and Chittagong seaports for movement of goods to and from India via road and rail (Rahman and others, 2014).

Similarly, the Export Policy 2015–18 of Bangladesh includes the explicit target of raising export earnings to $60 billion by 2021 through expansion of markets and products, improvement of the balance of trade and liberalization of the trade regime. Subregional connectivity of the members of the Bangladesh-Bhutan-India-Nepal (BBIN) initiative[21] was to be facilitated. Development of communication infrastructure and trade facilitation are key to raising Bangladesh's export competitiveness. Reducing lead time, enhancing ease of trade transactions and attracting FDI are central to Bangladesh's plans concerning trade and

21 The Bangladesh-Bhutan-India-Nepal (BBIN) initiative is a subregional agreement signed by those four countries to promote subregional cargo, passenger and personal transport movement.

investment. The signing of the Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement (BBIN-MVA)[22] in 2015 also obligates Bangladesh to take measures towards facilitating cross-border trade. Bangladesh has also ratified the WTO Agreement on Trade Facilitation, which is geared towards easing customs procedures and helping the smooth flow of tradables.

As discussed above and shown in table 5, a large part of the LoCs has been earmarked for infrastructure projects largely related to connectivity with India to facilitate cross-border bilateral trade. Some of the projects will support the movement of goods between western parts of India and its northeastern states through Bangladesh. On the other hand, trade facilitation and transport are expected to attract investment to Bangladesh from India (and other countries), directed to India (and other countries) taking advantage of the duty-free, quota-free market access offered by India (and other countries). Additionally, import facilitation will help Bangladeshi consumers and producers (using Indian raw materials) to access Indian goods at reduced prices. Providing access to the Chittagong and Mongla ports c.ould open up opportunities for export of services by Bangladesh. The recent signing of an agreement that will allow India to use Chittagong and Mongla ports to ease the movement of goods to northeastern states will also be facilitated by these projects. The principle of "benefit sharing"[23] could be applied in determining the level of service charges and fees. The support for strengthening of the Bangladesh Standards and Testing Institution (BSTI) under the first LoC will enhance Bangladesh's capacity to address non-tariff challenges and help to raise the competitive strength of its exports. Thus, broadly speaking, the projects under the three LoCs are aligned with Bangladesh's development strategies as envisaged under the Seventh Five Year Plans and sectoral plans.

6.2 Sustainable Development Goal Coherence

The Sustainable Development Goals include a dedicated goal concerning infrastructure, industry and innovation (SDG 9). Realizing that the implementation of the SDGs will require overcoming resource constraints, the Government of Bangladesh prepared the SDG Financing Strategy, which outlines the total additional cost required for achievement of the SDGs by 2030. Table 6 is adapted from the strategy document and shows the additional amount per fiscal year needed to develop infrastructure and foster industrialization according to SDG 9. The table shows that Bangladesh would require an additional $321.5 billion by 2030 ($295 billion for infrastructure and $26.5 billion for industries), with 20 per cent of the total funds coming from the public sector, 60 per cent from the private sector, 10 per cent from public-private partnership and 10 per cent from external sources (Bangladesh, 2017).

Table 6. Projection of total additional cost for the achievement of SDG 9 (only infrastructure and industrialization), fiscal years 2018-2030 (in billions of USD)

22 Bhutan has yet to ratify the Agreement; however, the other three parties have agreed to go ahead with implementing the MVA.

23 Sharing of the benefit from reduced lead time and costs between the two parties.

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Additional cost for infrastructure	9.00	10.9	10.9	16.1	17.7	19.6	21.6	24.0	26.6	29.4	32.7	36.3	40.4
Additional cost for industrial-ization	1.74	1.68	1.63	2.43	2.36	2.30	2.24	2.18	2.08	2.03	2.01	1.94	1.90
Total	**10.7**	**12.6**	**12.5**	**18.5**	**20.0**	**21.9**	**23.8**	**26.2**	**28.7**	**31.4**	**34.7**	**38.2**	**42.3**

Source: Adapted from Bangladesh (2017).

Greater need for improved communications infrastructure is also underpinned in the Handbook on Mapping of Ministries by Targets in the implementation of SDGs aligning with 7th Five Year Plan (2016–20) and the draft National Action Plan (Bangladesh, 2018), with both documents delineating the responsibilities and interventions required of the ministries/divisions for implementation of each of the 17 SDGs. However, while neither of these two documents lists the projects being implemented under the LoCs, they give overall directions about the strategies of the Government in realizing SDG 9. The Handbook on Mapping of Ministries document, in particular, directs the relevant ministries, for example, to "continue to repair, maintain, improve and expand the existing roads", "connect important economic hubs … to national highways" and promote "continuation of investment to reform and modernise railways" (Bangladesh, 2016), all of which are being aided by the projects under the LoCs. One could thus argue that the Indian LoCs are playing a role in reducing the investment gap needed for the achievement of SDG 9 and that the projects are consistent with the national plans and strategies for implementing the SDGs.

Projects under the three LoCs geared to improving and establishing multi-modal transport connectivity between the two countries, infrastructure development to connect east and west parts of India and facilitation of power trade between India and Bangladesh will significantly promote the cause of deepening bilateral trade and investment. All these projects will benefit consumers, producers, importers and exporters and investors. They will lead to job creation and income augmentation. It is to be expected that all of them will help to attain several key SDGs and targets.

While reducing the investment gap, the LoC projects are contributing to achieving SDG 9 (sustainable infrastructure). This indirectly contributes to the achievement of other SDGs. Among them are: (a) SDG 1 (poverty eradication) whereby connectivity would stimulate opportunities for income-augmenting employment, increased resilience and reduced vulnerability to economic, social and climate shocks as well as opportunities for delivery of public services such as education, health care and access to water or energy; (b) SDG 2 (zero hunger) whereby facilitation of goods trade would help the cause of food security by freer movement of food grains across borders; (c) SDG 7 (energy for all), which refers explicitly to the promotion of investment in and expansion of energy infrastructure; (d) SDG 8 (decent work and economic growth) whose targets refer explicitly to economic growth through promotion of development-oriented policies; (e) SDG 10 (reduced inequalities), which talks about reduction in inequalities in income through promotion of appropriate policies; and (f) SDG 17 (partnerships for the goals) whose targets refer, among other things, to multi-stakeholder partnerships. Indeed, regional integration is also mentioned specifically in three SDG targets (2.5, 9.1 and 17.6) and two means of implementation (1.b and 11.a). The upshot of the discussion here is that investment cooperation and the consequent positive impacts and implications for trade and investment will contribute to reaching a number of SDGs and targets.

6.3 Alignment of Priorities

The Government of Bangladesh formulated the new Industrial Policy in 2016.[24] The underlying objective of the policy includes sustainable and inclusive industrial growth through generation of productive employment to create new entrepreneurs, mainstream women into the industrialization process and establish international market linkages. Steps are being taken towards infrastructural transformation, diversification of the economic base, encouraging FDI, accelerating economic growth, generating employment, increasing income and livelihood development. In the new Industrial Policy, the Government has identified six high-priority industries that will be given priority in receiving government incentives for rapid development: agriculture and food processing, readymade garments, information and communications technology (ICT) and software, pharmaceuticals, leather and leather products, and jute goods. Apart from ICT and software, the rest are product-based, meaning that the development of these sectors will rely, to a large extent, on infrastructural facilities to facilitate cross-border trade in raw materials and inputs and export of finished goods.

The Perspective Plan of Bangladesh (2010-2021)[25] also outlines a number of development priorities of Bangladesh, which include: (a) ensuring broad-based growth and food security; (b) addressing globalization and regional cooperation; (c) providing energy security for development and welfare; (d) establishing a knowledge-based society; (e) building a sound infrastructure; (f) ensuring effective governance; (g) mitigating the impacts of climate change; and (h) promoting innovation under a digital Bangladesh. The projects under the LoCs cover various activities that reflect some of the priorities listed above, including steps to deepen regional cooperation and build infrastructure that promote the cause of connectivity (through projects concerning land and port connectivity with the country's neighbours under all three LoCs), energy security (through the energy projects such as the power evacuation facilities of the Rooppur nuclear plant and the development of a 765kv interconnected power transmission network under the third LoC) and promoting innovation and creation of a knowledge-based society (through projects of polytechnic institutes and

24 https://moind.portal.gov.bd/sites/default/files/files/moind.portal.gov.bd/policies/55dad52c_913d_487d_b59a_26db59742b49/Industry%20Policy%202016%20Scan%20Copy.pdf

25 http://plancomm.portal.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/8d86299a_4a96_463d_8b8b_ee7e6ed29e2a/Perspective%20Plan_2010-2021.pdf

information technology park development under the second LoC). Thus, the LoCs address areas that have been identified as priority areas in key development and plan documents of Bangladesh.

6.4 Process Efficiency

While the Paris Declaration on Aid Effectiveness judges the issues of coherence based on five principles (e.g., untying, alignment, ownership), there are significant departures concerning SSC. Developing countries providing concessional aid to other developing countries is a point to note here. In the case of Indian LoCs, this is manifested in the area of tying versus untying aid. One conditionality that features in all Indian LoCs to Bangladesh is the requirement that Bangladesh procure a certain percentage of the goods and services from India. Indeed, the procurement of each component of the project implementation mandatorily must be approved by the Government of India (EXIM Bank of India, n.d.). This is perceived as a limiting factor from the Bangladesh perspective and is considered to be a form of tied aid. The tendering process under the LoCs requires Bangladesh to procure at least 65 per cent of construction materials and 75 per cent of the other goods and services from India (Kallol, 2017).[26] Sourcing the project inputs (beyond the limit) locally or from other countries even when such goods and services can be procured at a more competitive price is disallowed. Prices of goods procured from India are on various occasions higher than those in the local markets, particularly when the goods are produced by local producers (where transportation costs are significantly lower). The procurement and service-tie conditionality also seemingly adversely affects the quality of the SSC flow. It may be recalled that the Network of Southern Think Tanks (NeST) Monitoring and Evaluation Framework and the framework by Bhattacharya and Rashmin (2016) list non-conditionality as an indicator of the quality of SSC. More important perhaps, the service-tie conditionality limits the scope of capacity development and improvement of expertise of Bangladeshi officials in the management and implementation of major infrastructure projects. This could potentially make Bangladesh dependent on Indian firms in implementing major infrastructure projects.

With that having been said, donor-country procurement appears to be a hallmark of development cooperation involving SSC (Borson, 2017 and La Chimia, 2013). Compared to the other major Southern provider, China, the Indian LoCs do not appear to be exceptionally stringent from Bangladesh's perspective. Research by Bhattacharya and Rashmin (2016) shows that Chinese LoCs to developing countries were not found to be concessional since the grant element was below 35 per cent under the World Bank/IMF method. Indian LoCs address a revealed investment gap in the transport sector, which traditional lenders such the World Bank and the Japan international Cooperation Agency (JICA) have been not very enthusiastic about when these were of the cross-border type. However, this scenario is changing now. It is to be noted that the maturity periods of Indian LoCs are shorter than those traditionally extended by the World Bank or JICA. An upfront payment is also required by the EXIM Bank of India. Thus, while the benefits of the various activities under the Indian LoCs cannot be denied, the process and conditionalities

26 The procurement conditionality in the first LoC (85 per cent of procurement) was subsequently relaxed following consultation between the two sides. As a result of further discussion, the share was brought down to 65 per cent (in specific cases).

have adverse implications in terms of forgone benefits (which would have accrued had there not been such binding) and returns on investment. As was noted earlier, the traditional Northern providers have now come out of "tying of aid". One cannot accept the argument that the Indian LoC is simply another commercial arrangement between trading/investment partners geared to benefit the Indian market and suppliers. Indian LoCs are an integral part of bilateral cooperation between the two Governments, implemented through designated institutions. Many of the projects are being implemented as part of strategies to promote bilateral connectivity, trade and investment. This is SSC to a great extent. Indeed, the gradual reduction of conditionalities is very likely. The first LoC had an 85 per cent sourcing component; that was reduced to 75 per cent and 65 per cent through negotiations between the two parties.

6.5 Accountability Framework

The EXIM Bank of India has broad guidelines and procedures for the LoCs that outline the monitoring mechanism for projects under the LoCs. This includes the setting up of a joint monitoring mechanism (to be put in place by the recipient country) for monitoring project execution that includes officials from the EXIM Bank of India and the Indian Diplomatic Mission in the respective country. The role of the monitoring mechanism is to oversee the timely execution of the major projects covered under the LOC. The mechanism is tasked to ensure that the project is implemented in accordance with the detailed project document and that cost overruns are avoided/minimized. The use and servicing of the LoCs are also monitored in addition to the project implementation status (EXIM Bank of India, n.d.). However, discussion with relevant actors indicates that the monitoring team does not look into matters of interest such as whether the implementation of the particular project is aligned with implementation of the SDGs or whether the project respects SSC principles. Also, detailed project information is not readily available to examine whether and to what extent these two are aligned and adhere to SSC principles.

The project monitoring involves two phases. In the project execution phase, the project implementing authorities (of the recipient country) and contractors are required to provide quarterly status reports to the EXIM Bank of India. In case of any delay, a site visit may be initiated by the EXIM Bank, the Indian Diplomatic Mission and the representatives of the recipient-country Government. In selected cases, the frequency of reporting may be increased to monthly from quarterly. In the project completion phase, the Indian Diplomatic Mission is required to submit a project completion report to the donor-country Government and the EXIM Bank of India highlighting the present and future socioeconomic benefits of the projects.

However, while conducting the present study, it was found that much of the information regarding the projects, from the project selection phase to the implementation and impact evaluation phases, was not available in the public domain. Whether this was a policy issue or by omission could not, however, be ascertained. Whether one or both sides preferred that state of affairs was not clear. Evidently, this undermines the cause of transparency and accountability. A review of projects supported by KfW, the Norwegian Agency for International development (NORAD), the Government of the Netherlands and the World Bank have relevant documents which include detailed project evaluation reports which are publicly available for all projects undertaken by using funds from these entities. For World Bank-supported projects, the disclosure measures are even more transparent, since they include programme information documents and environmental and social assessment reports.

In view of the slow progress of implementation of the infrastructure projects, a decision was taken in 2017 to constitute a joint monitoring team (JMT) that includes ministry and agency officials, contractors, and representatives of the High Commission of India and the Indian EXIM Bank). The JMT is supposed to meet every three months to monitor implementation and resolve any dispute or contentious issue concerning implementation of the projects under the LoCs.

The JMT does not, however, have a dedicated staff mandated to oversee the details of project implementation, including the physical implementation on the ground. It could not be ascertained whether the JMT has any plan to strengthen its capacity to monitor the implementation of LoC-supported projects. However, there are other mechanisms in Bangladesh to monitor project implementation: the Implementation, Monitoring and Evaluation Division (IMED) of the Planning Commission, and in the case of fast-track mega-projects, the Prime Minister's Office. Assessment of project implementation by the JMT is based primarily on disbursement of project funds. Moreover, different newspapers often report conflicting information regarding the conditions and status of the LoCs, further complicating the public accountability mechanism. This makes it difficult for the CSOs and other stakeholders to assess conditionalities, monitor progress of implementation and undertake cost-benefit analyses of the projects.

Despite the presence of a monitoring mechanism to oversee progress, implementation of some of the projects under the first LoC has been delayed. This has resulted in only $438 million of the $862 million from the first LoC (initiated in 2010) having been disbursed as of October 2018 (unpublished data from Economic Relations Division, Ministry of Finance, Government of Bangladesh). These delays have also resulted in cost overruns because of the rise in the cost of materials, the increased cost of storage, and additional wages and salaries paid to workers. Since the LoCs are fixed-price contracts, if projects are not completed on time, the recipient country bears the additional costs of the delayed implementation. Owing to these delays, the internal rate of return on the projects under the first LoC was found to be less than 1 per cent (Bhattacharya and Rashmin, 2016).

Another notable trend concerning the first LoC is that, while the projects related to procurement (e.g., locomotives, buses, passenger wagons) were delivered, the implementation of the infrastructure projects has been very slow. For example, as of October 2018, all three projects under LoC I that had not been completed deal with infrastructure. Disbursement of funds for these three projects also has been rather insignificant (25.02 per cent for the Khulna-Mongla Port Rail Line construction project, 9.56 per cent for the Kulaura-Shahbazpur rehabilitation project and only 0.6 per cent for the 3rd and 4th dual-gauge construction project) (unpublished data from the Economic Relations Division, Ministry of Finance, Government of Bangladesh). Under the second LoC signed in 2015 and the third LoC signed in 2017, only 11 of the 16 proposed projects in the first instance and 3 of the 16 proposed projects in the second instance have received the approval of the Executive Committee of the National Economic Council. For the third LoC, no disbursement had been made as of October 2018. Indeed, it was to address such delays that the aforementioned JMT was set up.

There have also been concerns about the efficacy of some of the projects under the first Indian LoC (and from LoCs from other countries). For instance, out of the 900 buses purchased by the Bangladesh Road Transport Corporation (BRTC) using loans from the Nordic Development Fund and the first Indian LoC, 192 were inoperative as of 2017 (Chakrabarti and Bandyopadhyay, 2017), raising questions regarding either the quality or durability of the procured vehicles. The poor maintenance record of BRTC is also a question. There are plans to allocate a part of the funds from the third LoC to procure more buses for BRTC. Also, the second Teesta Bridge (completed using funds from the second Indian LoC) collapsed two days before its inauguration, with locals citing substandard quality material as the main reason (Hossain, 2018). These lacunae draw attention to the need for institutional reforms and for increasing the capacity of involved institutions and agencies to ensure appropriate implementation of LoC projects that could guarantee the expected returns.

The above discussion supports the conclusion that overall, the projects selected to be underwritten by LoC financing are aligned with Bangladesh's priorities in the areas of trade and investment. The projects, whether in the areas of infrastructure development or strengthening of the Bangladesh Standards and Testing Institution, are to a large extent geared to raise Bangladesh's supply-side capacities and competitive strength. They are also expected to help the cause of Bangladesh's industrialization by establishing seamless connectivities for the movement of raw materials and goods, which will benefit industrial development in Bangladesh. Now that Bangladesh has decided to establish 100 SEZs by 2030, the transport linkages, via road and rail links, to ports to be developed by the LoCs will play a crucial role in making the SEZs effective and viable. Indian LoCs are thus aligned with Bangladesh's medium-to-long-term priorities. The projects will also help to achieve a number of SDGs. The deepening of subregional cooperation will also generate many win-win outcomes for both Bangladesh and India.

On the other hand, the discussion has also pointed out that because of the conditionalities attached to the LoCs, the expected returns on the investment will be undermined. Consequently, there is a need to revisit some of these conditionalities to ensure maximum benefits to Bangladesh. As mentioned earlier, the mandatory procurement requirement was reduced from 85 per cent (under the first LoC) to 65 per cent through negotiations. Bangladesh will need to continue these negotiations in the future.

One of the stated objectives of the projects is the expansion of the export base, generating resources for import payments and creating additional domestic employment opportunities. However, this study has not undertaken an ex-ante (or an ex-post) analysis of the impacts from this vantage point. Whether the projects will result in higher exports would need further investigation. As has been pointed out, however, a number of projects under the three LoCs relate to trade facilitation, supply-side capacity-building, reduction in transport costs and lead time, compliance assurance in terms of certification of standards and sanitary and phyto-sanitary technical barriers to trade. All of them are geared to enhancing export competitiveness. Indian investment in Bangladesh in general, and in dedicated SEZs in particular, will also gain from the capacity-building and trade facilitation projects, particularly since a large part of the Indian investment will be geared to the Indian market and the market of southern Asia. However, the expected positive outcomes are likely to be visible only with some time lag.

There is scope for further negotiations regarding other aspects of the LoC process as well. Presently, the only role of the existing monitoring mechanism is to ensure the timely execution of the major projects covered under the LoC as per the detailed project reports and to avoid/minimize cost overruns (EXIM Bank of India, n.d.). Negotiations can be held to find ways to expand the remit of the monitoring mechanism beyond a mere supervisory one to a role that ensures examination of the linkage of the LoC projects with SSC principles and SDGs, in particular SDG 1, SDG 2, SDG 3, SDG 7, SDG 8, SDG 9, SDG 10 and SDG 17. As a result, the monitoring mechanism should not be merely a tool to monitor the implementation status of the LoC projects but also one that assures coherence with SSC principles and the SDGs. The important question to be examined here is whether the principles of SCC are not only "assured" but also augmented by all the elements in the LoC process, including the conditionality aspect and the functions of the LoCs.

As it currently stands, the conditionalities and processes informing the LoCs assure the SSC principles only to a limited extent. For example, the selection of the projects goes through a review by officials from both countries, thereby ensuring the mutual benefits that will be accrued from the projects. However, in the implementation phase, more could be done to align the conditionalities with the non-conditionality principle of SSC.

7. CONCLUSION AND RECOMMENDATIONS

CONCLUSION

As discussed in the preceding sections, there is growing recognition that in the post-2015 era, concessional finance from various Southern providers will play an increasingly important role in mobilizing finance for development in the global South. As Bangladesh's SDG financing estimates indicate, 14.89 per cent of total funding requirements will have to come through various forms of foreign sources (Bangladesh, 2017). SSC could be an important financing instruments in this connection. Bangladesh will increasingly have to seek non-concessional financing because of middle-income graduation; concessional loans of the SSC type will thus assume greater importance for Bangladesh in the future. Additionally, as was seen from the discussion in paper, the growing influence of the South is not only limited to development cooperation but also embraces the domains of trade, investment and remittance flows.

Yet South Asian countries remain among the least integrated subregions in the world. Intra-South Asia exports stood at only 6.88 per cent (as a share of its total global exports) in 2015, rising slightly from 6.33

per cent in 2005. Intra-South Asia imports are even lower, only 4.34 per cent (as a share of its total global imports) as of 2015, rising from 3.03 per cent in 2005 (UNCTADstat, 2017). This compares poorly to the Association of Southeast Asian Nations (ASEAN), where intra-ASEAN trade represents 30 per cent of ASEAN global trade. Because of the long sensitive lists and lack of supportive measures, intraregional trade has tended to remain very low. Against this backdrop, the significance of examining the coherence of SSC, particularly in the context of trade and investment policies of the South, cannot be overemphasized.

Driven by increased regional integration, the scope and scale of SSC have increased, so much so that in 2014, China's total disbursed ODA alone was 5.6 per cent of the DAC total disbursed ODA, with China's ODA being larger than that provided by 25 other DAC countries (based on OECD.Stat, 2018).[27] Along with China, major players such as India, Brazil and South Africa have stepped up efforts to increase their development footprint in the global South. Their efforts have not been limited to their Neighbouring countries but have also extended much beyond them. For instance, the majority of the aid of China and Brazil and more recently India has been directed to resource-rich African countries, particularly in renewable energy. Despite the varying modalities employed by Southern providers (for example, concessional and non-concessional loans, grants, debt swaps, debt relief) and to different sectors (infrastructure, renewable energy, security, etc.), the core principles of the development cooperation have tended to remain the same: sustainability, inclusivity, demand-driven approach and mutual benefit. However, the extent to which these principles have been adhered to through the practice of SSC demands closer scrutiny.

Southern flows have proved to be an important source of external funds not only for addressing investment deficits but also for catering to the demands involved in achieving the SDGs and their targets by the Southern recipient countries. While the potential benefits are desirable, concerns remain about increasing the efficacy of SSC through targeted steps and initiatives. It will be necessary to concede that not all the guiding principles of Northern aid to the South, including the principles of the Paris Declaration on Aid Effectiveness, could be implemented in the case of SSC. Some degree of maturity in the relationship between offering and receiving countries will be required. Southern providers are themselves developing countries facing formidable challenges. Some of them have the world's largest concentration of poor people (e.g., India). Business development and job creation are also some of their key concerns. In providing concessional finance to Southern receiving countries, the provider countries need to convince their constituencies as to why loans on concessional terms are being extended. Thus, in examining the issues of coherence, these particularities and peculiarities of the provider countries will have to be kept in mind. The concerns regarding coherence will thus need to be addressed through dialogues and consultations, and perhaps step by step.

The preceding sections have examined the case of Indian LoCs in some detail. The coherence of the Indian LoCs was scrutinized by posing a number of questions. The discussions confirm that, in general,

27 China is not a member of the DAC. The countries that provided more ODA than China were France, Germany, Japan, the United Kingdom of Great Britain and Northern Ireland, and the United States of America.

the programmatic activities under the LoCs are coherent in terms of policy alignment and priorities. Many are also aligned with the demands of the SDGs in the recipient country, Bangladesh.

At the same time, it could be argued that the LoCs do not give Bangladesh the best "value for money". Issues that may have adverse implications in terms of forgone benefits and reduced returns on investment, such as upfront payment, low maturity period, conditions tied to goods and services, could be subject to further negotiations. There is also a need for a more transparent and appropriate framework for SSC to increase the efficacy of the financial flows.

Gradually, these could lead to convergence of the principles underpinning North-South and South-South cooperation. These are also expected to raise the effectiveness of triangular cooperation. There is thus an emerging need to develop a guiding framework for enhanced transparency, local capacitybuilding, development of institutional readiness to implement SSC and promotion of the cause of broad-based CSO engagement in SSC implementation. Some of the concrete recommendations to enhance coherence in this context are presented below.

RECOMMENDATIONS

The preceding discussion has tried to capture some of the key features concerning SSC. Relevant global experience and evidence from the case study on Indian LoCs to Bangladesh support the conclusion that, broadly speaking, SSC is helping Southern recipient countries to address some of the important gaps in underwriting development efforts, particularly in addressing infrastructure deficits. On the other hand, as the case studies revealed, there are a number of areas of SSC where changes in the rules of the game could be of benefit to the recipient countries. It was also pointed out that the SDGs envision regional and subregional cooperation as an important tool to attain the Goals and targets. This study has looked at South-South development cooperation to identify modalities that could increase its effectiveness. The following suggestions are based on the findings of the study:

- **Revisit the process of South-South cooperation.** SSC needs to be geared to the needs of the recipient countries. When these are of a tied nature, the interests of the recipientcountry stakeholders are undermined. In the case of the Indian LoCs, these are service-tied loans. Only Indian firms can participate in the tendering process. Moreover, for all projects under the LoCs, at least 65 per cent of construction resources and 75 per cent of other goods and services must be procured from India. This institutional arrangement limits the scope of recipient-country firms to build capabilities in delivering development projects including infrastructure projects and undermines the cause of employment creation and opportunities for local market development. This arrangement also defeats the spirit of mutual benefit of SSC to a certain extent.

  It should be noted that during negotiations, the EXIM Bank of India must abide by the rules and regulations and work within the parameters set by the Government of India. For more flexibility concerning procurement conditionalities, these parameters will need to be revisited and revised (i.e., re-tweaked to make them flexible). As has been noted in the preceding sections, this has been done in successive LoCs on a case-by-case basis. Negotiators from Bangladesh and India could proceed with this task while negotiating future LoCs; indeed, the parameters can be revisited even in the course of implementing ongoing projects. However, a cautionary note is justified here: Bangladesh has obvious limitations in ensuring a supply of good-quality materials, etc., in a timely manner, especially with regard to large projects, so this should be taken into account.

The ideal situation would have been to allow open tendering for procurement under the LoCs. However, this may not be feasible at least for now, as was pointed out earlier. It is presumed that as the SSC matures and as those implementing the LoCs gain more experience, the providers and recipient countries will revisit these issues in the future. It should be recalled that traditional North-South cooperation has also passed through a teething period. As evidence suggests, the Paris Declaration on Aid Effectiveness was arrived at only at a certain juncture of North-South interaction: currently about one fifth (15.9 per cent) of the ODA from DAC donors is classified as tied.[28]

- **Ensure transparency and accountability in project implementation.** Information regarding the projects that are being implemented under SSC, from the project selection phase to the implementation and impact evaluation phases, tend to remain poorly documented. A large part of the information is not in the public domain, which undermines transparency and accountability. Lack of information and access to data compels concerned people including researchers to rely on newspaper reports, which often present contradictory information. This makes it very difficult for CSOs and other stakeholders to test policy alignment and prioritization and conduct cost-benefit analyses of the projects. Thus, the decision-making process concerning SSC remains the exclusive domain of governments and related public institutions. Generally, under the typical Indian LoC terms, the borrowing country is required to prepare detailed project reports, quarterly status reports and a comprehensive project completion report. Making such reports available to the public would help to monitor the status of implementation and enhance transparency and accountability in the projects.

- **Develop the institutional architecture of implementing agencies.** As discussed in the previous section, there are concerns regarding the viability and implementation standards of some of the projects supported by the LoCs (for instance, delays in implementation of many projects under the first Indian LoC extended as far back as 2010; buses procured by BRTC; and the collapse of a section of the second Teesta Bridge). Capacities of institutions and agencies to implement projects supported by the LoCs should be considered in related projects. Necessary

28 Recent data on OECD LoCs are not readily available. However, data from 2008 to 2016 show that, on average, 15.86 per cent of the ODA from DAC donors is tied.

institutional reforms and preparation should precede the selection of projects to be implemented by the concerned entities, e.g., steps taken by BRTC to train 100 drivers of double-decker buses so that LoC-procured buses could be operated efficiently (Chakrabarti and Bandyopadhyay, 2017). However, the scale and scope of such efforts need to be expanded. Institutional strengthening of BRTC should also be seen as a prerequisite.

- **Develop a guiding framework for finance flows of South-South development cooperation.** The negotiation for the terms of the LoC is conducted by the Economic Relations Division of Bangladesh. Once finalized, allocation for the projects is made directly to the respective ministries under which the projects are to be implemented. However, there is no single authority or supervising agency that oversees the financial transaction between the ministries (Chakrabarti and Bandyopadhyay, 2017). Lack of a supervisory authority raises concerns regarding quality assurance and timely completion of the concerned projects since there are no binding rules and regulations that guide the financial flows. In this regard, the establishment of a central supervisory mechanism may be considered that may also be responsible for making public the information on projects to be undertaken under the LoCs.

- **Take steps to increase negotiating capacity.** Many of the Southern recipient countries are not accustomed to negotiating projects of the type under SSC. Traditionally, the concerned officials have been trained to deal only with North-South loan deals. There is thus a need to strengthen capacities in concerned government agencies and ministries to negotiate the loans that will then be received and implemented by these concerned entities. Southern recipient countries should allocate resources to create a pool of officials who are adequately trained to deal with loans negotiated under SSC.

- **Engage civil society and the private sector in bilateral development cooperation.** CSOs are a repository of experience and expertise in various fields relevant to poverty reduction, development cooperation, employment generation, etc. The monitoring mechanism of the LoCs includes several phases where CSOs and other private-sector stakeholders can provide their inputs, for example in the project selection, project planning, project-proposal development (especially in conducting cost-benefit analyses and environmental impact assessments) and the post-implementation impact-assessment phase. Given their wealth of experience as public advocacy agents, their involvement could not only strengthen ties at the bilateral level but also enhance transparency and accountability in the projects, which is in the mutual interest of stakeholders in both countries. This type of engagement will also strengthen ownership and help to break the political cycle whereby change in government in recipient countries could lead to cancellation of projects, which could prove to be costly.

- **Develop a Southern initiative to design an SSC framework. Southern countries can think of taking the initiative to design a framework for SSC.** Such a framework would take cognisance of the limitations of developing-country providers and the aspirations of developing-country recipients. Principles, processes, alignment, accountability, transparency, and monitoring and evaluation frameworks could inform this policy framework by taking into consideration the interests and concerns of provider and recipient countries. In this way, a convergence can gradually be reached between a North-South aid effectiveness framework and a SSC framework. The need for increasing the efficacy of triangulation can also be addressed through this framework.

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