South-South Ideas

South-South Cooperation
Finance for Mobilization of the Private Sector to Achieve the Sustainable Development Goals
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## Table of Contents

Acknowledgments .............................................................. 5  
Abbreviations and Acronyms ............................................. 7  
Executive Summary ........................................................... 9  

1. Introduction ................................................................. 12  

2. Financing the Sustainable Development Goals in the Global South: Challenges and Emerging Issues in a Post-COVID-19 Context ................................................. 16  
   2.1 The Battleground for Achieving the SDGs Lies in Rural Africa and Rural South Asia ................................................................. 16  
   2.2 COVID-19 Has Made Achievement of the SDGs, Backed by Multilateral Cooperation, More Imperative than Ever ......................................................... 18  
   2.3 South-South Development Cooperation Should Be Leveraged to Stimulate Local Private Sector Development and Finance .................................. 31  
   2.4 The Sustainable Development Goal Financing Gap ......................................................... 34  

3. Southern-led Financing Mechanisms Related to Sustainable Development ................................................. 36  
   3.1 Main Trends in South-led Financing Related to the SDGs ................................................. 36  
   3.2 South-South Development Finance and the Local Private Sector ................................. 40  


5. Characteristics of a New South-South Financial Architecture ................................................................. 50  

6. Conclusion ................................................................. 56  

References ................................................................. 57
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Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
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<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<td>CAD</td>
<td>China-Africa Development</td>
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<td>DFI</td>
<td>Development Finance Institution</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>LDC</td>
<td>Least Developed Country</td>
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<td>LIDC</td>
<td>Low-Income Developing Country</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PPPs</td>
<td>Public-Private Partnerships</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>SME</td>
<td>Small- and Medium-sized Enterprise</td>
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<td>SSDC</td>
<td>South-South Development Cooperation</td>
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<td>TrC</td>
<td>Triangular Cooperation</td>
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<td>TDC</td>
<td>Trilateral Development Coordination</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>United Nations Development Programme</td>
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<td>UNOSSC</td>
<td>United Nations Office for South-South Cooperation</td>
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<td>VNR</td>
<td>Voluntary National Review</td>
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Executive Summary

The achievement of the Sustainable Development Goals (SDGs) is a development priority in the global South, where most of the scope for reducing poverty and inequality and creating decent jobs lie.

The SDGs have been mainstreamed in national development strategies of many developing countries from the global South. For the goals to be realized, massive investment in a range of sectors is required over a prolonged period of time. According to some estimates, the average SDG financing gap per year for the 59 low-income developing countries (LIDCs) is in the order of US$400 billion between 2019 and 2030.

Thus, the critical question is: How can such an ambitious agenda be financed with only ten years to go, and even more so in a post-COVID-19 context? Financing the SDGs in a world fighting COVID-19 has indeed become a serious challenge. The traditional sources of development finance have come under strain, a trend that started before the advent of COVID-19, but which is likely to be aggravated by the latter.

To help countries achieve the SDGs, goal 17: “Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development” contains 19 targets to mobilize resources and form partnerships. In building back better in a post-COVID-19 world, it has become timely and necessary for the international development community, including the global South, to put these 19 targets back on the table as part of a renewed Global Development Compact within the New Global Deal. Among the SDG 17 targets are two that specifically focus on mobilization of multi-stakeholder partnerships at international and national levels for financial resources, namely SDG 17.16 and 17.17. These targets combined relate to further mobilization of South-South partnerships and enhancing the role of the private sector in these partnerships.

Yet, leveraging South-South development finance and involving the local private sector to achieve the SDGs at a national level in many developing countries remains to be more fully harnessed. For instance, a review of the provisions of the latest Voluntary National Reviews (VNRs) of 44 African countries (that have elaborated such a review) reveal that 24 out of 44 of the countries make no explicit reference to South-South development cooperation, other than to report progress on SDG Indicator 17.3.1. When South-South development cooperation is mentioned, in many cases, either it is viewed as a means to facilitate technology and skills transfer rather than a significant source of additional, innovative finance that can complement traditional finance or the mention essentially pays ‘lip service’ to the cause. In some cases, the review fails to provide specific examples of mechanisms and instruments that will be deployed in the future to leverage South-South finance toward achievement of the SDGs. This reveals that, at least for the African region, specific mechanisms and instruments for utilizing South-South development cooperation to finance the SDGs, aside from its role in technology transfer and capacity-building, remain to be developed. Greater country-level reporting on the amount and composition of such finance should be encouraged and integrated in Voluntary National Reviews and in Development Finance Assessments carried out within Integrated National Financing Framework operationalization activities. In addition, debt sustainability arising from South-South Development Cooperation merits as much

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1 South-South development finance can be a mixture of grants, interest-free loans and concessional finance (though the degree of concessionality may differ from country to country).
attention as when the debt originates from the North and this calls for transparent reporting and disclosure of the amounts borrowed and on how the debt is being utilized (whether for government consumption or productive investments with windfall gains on the local private sector). In addition, the role of the local private sector within such arrangements also remains to be made explicit.

Which brings up another set of critical questions: How can South-South development finance benefit local private sector development in recipient countries and to what extent can South-South finance be harnessed to promote local private sector engagement and private sector contributions to finance and achieve the SDGs? By strengthening the capabilities and profitability of the local private sector and thus their taxable bases, South-South development cooperation can strengthen domestic resource mobilization in recipient countries. This form of cooperation should increasingly be viewed as a catalyst for promoting local private sector development and a conduit for building the capacities of local business ecosystems.

When signing onto South-South development cooperation deals, countries must be vigilant that such deals do not carry adverse consequences for their local private sector, for example by promoting anti-competitive practices. Joint ventures in the form of equity and non-equity modes of production between Southern-led firms and the local private sector through foreign direct investment (FDI) can bring tangible benefits in terms of boosting national entrepreneurship while promoting national participation in global value chains. In addition, South-South cooperation development finance should go beyond exchanges between the governments of nation states, by for instance promoting private to private business interactions, not remain centred on large-scale infrastructure projects and promote instead sectoral diversification in use of this type of finance, including the industrial and rural development sectors. It could also embrace innovative finance modalities, and Trilateral Development Cooperation.

With all this in mind, in a post-COVID-19 context, the global South should consider a new South-South development finance architecture with the suggested characteristics listed below.

- **Aim for a higher share of South-South development cooperation finance, disbursed in the form of untied grants rather than concessional loans.**
- **Diversify the range of sectors covered to promote economic diversification and structural transformation; avoid concentration in large-scale infrastructure projects and only a few economic sectors, such as commodities.**
- **Support large enterprises as well as small and medium-sized ones with job creation potential.**
- **Be a catalyst for local private sector development to unleash the latter’s potential to foster domestic resource mobilization in the medium- to long-term. This can be done by integrating local content policies in South-South development finance.**
- **Integrate technical capacity building and advisory services in the areas of debt and financial management and promote debt sustainability among beneficiary countries.**
- **Define, record, monitor and evaluate this type of finance according to an agreed set of common standards to ensure transparent, accountable and efficient usage of the funds (including clear analysis in Voluntary National Reviews).**
- **Compile data on this type of finance in a common database at country level and if possible at regional and international level to promote cross-country and cross-regional comparisons and analysis for evidence-based policy-making.**
- **Create an underlying common set of governing principles, such as country ownership, transparency and accountability, stability and predictability, monitoring for results and adequate reporting, to avoid the deficiencies of Northern-led overseas development aid (ODA). The principles should be anchored around acceleration of achievement of the SDGs and national development objectives.**
- **Adhere to the “additionality” principle that prescribes avoiding competition with private commercial finance in commercially-viable projects. Target sustainable investing and the creation of public goods.**
- **Use this type of finance in conjunction with other sources of finance within multi-stakeholder partnerships, rather than on its own, and within cooperative frameworks aimed at achieving the SDGs and national development objectives, such as the Integrated National Financing Framework. This may require the active participation of Southern development partners in broad-based public-private dialogue at the country level and a shift away from arms-length relationships or consultations behind closed doors.**
- **Go beyond grants and loans to support countries in achieving the SDGs by seeking out innovative instruments, such as, for example, provision of credit guarantees, issue of thematic bonds backed by Southern funds to raise capital for specific SDG objectives and participation in global, regional and national pooled funds or thematic funds (e.g. the National SDG Delivery Fund).**
- **Increasingly support regional-based projects and programmes that can generate regional public goods that benefit entire regions rather than individual countries. This can be backed by the creation of corporate social responsibility initiatives for Southern-led trans-national corporations that operate in multiple countries.**
- **Support capacity building in recipient states and the establishment of transparency and accountability mechanisms to support the strengthening of development governance, developmental states and entrepreneurial states.**
The achievement of the SDGs is a development priority in the global South where most of the scope for reducing poverty and inequality and creating decent jobs lie. The SDGs have been mainstreamed in the national development strategies of many developing countries. Realization of the SDGs will enable these countries to progress on their national development objectives and enhance the expected gains from regional integration. To be realized, the SDGs require massive amounts of investment in a range of sectors over a prolonged period of time. According to some estimates, investing in the SDGs will necessitate incremental spending of about $2.5 trillion annually in the global South (UNCTAD, 2014).

The critical question is how to finance such an ambitious agenda with only ten years to go and even more so in a post COVID-19 context where fiscal revenues are being diverted toward addressing the impact of the crisis and many development gains are being reversed. The Addis Ababa Action Agenda recommends that developing countries can catalyze efforts to mobilize resources by looking outside the traditional aid architecture, an architecture that has long been dominated by countries from the North. Part of the solution lies in increasing private sector involvement in the SDG Implementation Plan and another part will be securing alternative and innovative sources of finance from the global South itself.

Mobilizing the local private sector in Southern countries to work toward achieving the SDGs is yet to be fully exploited. Given that rising debt is a concern in many international development circles, compounded by the advent of COVID-19, and with traditional aid fatigue lingering in the midst of expanding development challenges (climate change, population pressures, conflict over access to natural resources, insecurity, to name a few), the time is ripe for the global South to investigate innovative financing solutions to address its investing for development needs.

One such innovative solution should involve the design of new Southern-driven financing mechanisms with participation from the local private sector. The creation of a New Development Bank (NDB) established by Brazil, Russia, India, China and South Africa (the “BRICS” countries) is an example of a South-South initiative designed to address the needs of Southern developing countries and move away from a Northern-dominated, conditionality-attached financing order influenced by economic orthodoxy and characterized by insufficient country ownership at the recipient end. However, there is a need to recognize from the outset that non-conditionalities in South-South development cooperation may necessitate stringent accountability and transparency in its use, a point emphasized in this paper.

Another example of a Southern-led initiative is the set-up of the Asian Infrastructure Investment Bank (AIIB), founded by China in 2016. The AIIB institutional set-up has been portrayed as an innovative way forward to scale up financing for the SDGs (UNCTAD, 2017). The AIIB operational thematic priorities in Asia lie in sustainable infrastructure development with an emphasis on green investments, enhancing cross-border connectivity and private capital mobilization, in a region that is facing an annual infrastructure financing gap of $0.7 trillion. In 2018, the AIIB launched a strategy to mobilize private capital for infrastructure (AIIB, 2018). In its operational phase, a key source of AIIB’s portfolio has been co-financing partnerships with multilateral development bank (MDB) partners. In the second phase of activities, AIIB intends to originate and lead high quality transactions. In the third phase of activities, AIIB will create markets. While AIIB intends to continue to partner closely with other financiers like commercial banks, export credit agencies, other development finance institutions and fund managers, its main strategy will continue to be leveraging with institutional investors, considered by AIIB as the source of greatest potential to mobilize private capital. The bank provides financing in a variety of modalities, including loans, investments in the equity capital of an enterprise and guarantees for loans focusing on economic development. At end 2019, the AIIB had invested $12.0 billion in 63 projects and mobilized about $1,178.4 million in private capital through approved projects (AIIB, 2020).

Other examples include the China Development Bank and the Export-Import Bank of China (China Exim Bank) that were established as policy banks in support of projects contributing to national economic development and social stability. The China-Africa Development (CAD) Fund, a subsidiary of the China Development Bank, is China’s first equity fund focusing on investment in Africa, aiming to boost Africa’s industrialization process and enhance Africa’s sustainable development capacity through investment. Through equity and quasi-equity investment, the CAD Fund has helped Chinese enterprises obtain the capital needed for investment in Africa and share their risks of investing in Africa; it also provides value-added services and helps enterprises solve problems and difficulties in investing in Africa and looks for sustainable projects in Africa for Chinese enterprise investments and Chinese partners for African enterprises and projects. The priority sectors are agriculture, energy and construction. The CAD Fund, considered one of China’s Sovereign Wealth Funds, was established with $1 billion in capital in 2007, which gradually increased to $10 billion in 2015. By the end 2016, the fund reported having been able to only invest $4.4 billion in African countries (UNCTAD, 2017) due potentially to risks associated with such investments and challenges in finding suitable national investment partners. More recent figures however indicated a noticeable improvement. The CAD Fund is reported to have channelled about $26 billion in investment to Africa through more than 90 projects in which it has already invested and spanning about 37 African countries (UNOSSC et al., 2020). In addition to the...
South-South Ideas

South-South Cooperation Finance for Mobilization of the Private Sector to Achieve the Sustainable Development Goals

Chinese cooperation with Africa was reaffirmed at the 2018 Forum on China-Africa Cooperation, at which China announced that part of its $60 billion financial support to Africa pledged in 2015 had already been delivered or was on its way, while announcing an additional $60 billion in financial support, broken down as $20 billion in credit lines, $15 billion in grants, interest-free loans and concessional loans and $10 billion in investment financing. However, Chinese investments tend to be concentrated in a few African countries (about 65 percent covers ten countries: Angola, Cameroon, Congo, Democratic Republic of Congo, Ethiopia, Kenya, Mozambique, Nigeria, South Africa and Zambia) and a few sectors (transport and energy) (Sow, 2018).

South-South finance, investments and trade, while capable of impulsive positive development change, have also met with criticism, especially when originating from China to Africa. Scrutiny over development effectiveness applies as much to Southern-led aid, finance and investments as to Northern-led sources. Lack of transparency in data disclosures, improper monitoring and evaluation, the lack of distinction between aid and development finance and resorting to commodity-backed loans in Africa have been questioned (Sun, 2014). It could be added that the absence of governance-related conditionalities in South-South finance can breed, in some cases, adverse governance outcomes, which calls for strengthening development governance including building capacities of the Entrepreneurial State and capacities for monitoring and evaluation backed by transparency and accountability mechanisms, and development-oriented policymaking.

Indeed, the move towards a Southern-led financial architecture, anchored around a set of common principles for development effectiveness, yet putting at heart the national interests of recipients and their needs for broad-based sustainable development, has to gain further momentum. The main challenges are three-fold: How to mobilize resources within this new architecture?; What should constitute its guiding principles underlying this architecture and the modalities and instruments that can be deployed to mobilize resources within it. How South-South Cooperation can facilitate use of the new financial mechanisms, to promote sustainable broad-based development in the global South will be addressed. Finally, the case will be made for new forms of public-private relationships within the Southern-led financial order.

5 Good development governance means injecting a much stronger and direct developmental dimension into governance reforms to enable a more active role of the State in promoting development. For more on development governance and the developmental state, see UNCTAD 2009. According to UNCTAD “the main lessons from development governance in successful developmental States are that national policies were oriented to promoting structural transformation, and this was achieved through a mixed economy model that sought to discover the policies and institutions that would harness the pursuit of private profit to the achievement of national development. This was achieved through a mix of macroeconomic and sectorally specific productive development policies, including an industrial policy. These policies aimed to promote capital accumulation and technological progress as the basis for dynamic structural change” (page 50, UNCTAD 2009).

6 The Entrepreneurial State lies within the developmental state concept and is a state that is entrepreneurial in its approach to development (UNCTAD, 2018). It may be defined in terms of ambition in approach and ability and willingness to: envision and guide the direction of change across public agencies and departments as well as nationally; undertake mission-oriented public investments and actions that create and shape markets rather than merely “fixing” them; make long-term investments, including in capital-intensive areas characterized by high risk or extreme uncertainty, which the private sector tends to avoid; provide patient, long-term capital when needed to support sectors and technologies with long lead times (Mazzucato, 2013, UNCTAD, 2018).

of emerging challenges, such as the effect of the post-COVID-19 context on achieving the SDGs. Emerging financial mechanisms designed to foster resource mobilization in the global South will be analysed and their implications assessed, including for local private sector development. The paper next critiques the existing Northern-led global financial governance architecture with the purpose of identifying its weaknesses and strengths. The case will be made for a new, emerging Southern-led financial architecture with active local private sector participation and sketches what should be the guiding principles underlying this architecture and the modalities and instruments that can be deployed to mobilize resources within it. How South-South Cooperation can facilitate use of the new financial mechanisms, to promote sustainable broad-based development in the global South will be addressed. Finally, the case will be made for new forms of public-private relationships within the Southern-led financial order.
2. Financing the Sustainable Development Goals in the Global South: Challenges and Emerging Issues in a Post-COVID-19 Context

2.1. The Battleground for Achieving the SDGs Lies in Rural Africa and Rural South Asia

Based on 2020 data from the United Nations Development Programme (UNDP) global Multidimensional Poverty Index (MPI),7 sub-Saharan Africa harbours the highest percentage of multidimensionally poor people on the planet. Of people in rural areas of sub-Saharan Africa, 71.9 percent (466 million people) are multidimensionally poor compared with 25.2 percent (92 million people) in urban areas. In South Asia, 37.6 percent of people in rural areas (465 million people) are multidimensionally poor compared with 11.3 percent (65 million people) in urban areas (OPHI and UNDP, 2020). The battlegrounds for achieving the SDGs lies predominantly in rural Africa, a continent whose special needs and challenges are acknowledged in Paragraph 22 of the 2030 Agenda for Sustainable Development, and in rural South Asia.

Achieving the SDGs can go a long way toward addressing multi-dimensional poverty, but this will require a considerable amount of resources that remain to be mobilized, especially in the neediest countries. According to recent estimates (SDSN, 2019), the average SDG financing gap per year for the 59 LIDCs8 is on the order of $400 billion between 2019-2030. However, the critical question is how to finance such an ambitious agenda with only 10 years to go and even more so in a post COVID-19 context? The COVID-19 crisis dubbed by the IMF as “a crisis like no other” is expected to cause scarring damage to global and national economic systems. Economic growth is projected to be a negative 4.9 percent in 2020 in the midst of significant uncertainty about the future.

While the Addis Ababa Action Agenda recommends Southern countries to catalyze efforts to mobilize domestic and external resources outside the traditional aid architecure, an architecture so far dominated by countries from the North and currently subject to fatigue, the Agenda has little to say on alternative, innovative sources and mechanisms of finance (UNCTAD, 2017).

An important part of the solution lies in increasing private sector involvement in SDG financing and implementation and also in developing alternative and innovative sources of finance from the Global South. Such innovative solutions should involve mobilizing partnerships from the global South and establishing mechanisms for carving a role for the local private sector within it. One such mechanism is Corporate Social Responsibility, which has been endorsed by a large number of companies worldwide.9

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7 OPHI and UNDP (2020). The global Multidimensional Poverty Index (MPI) identifies multiple deprivations at the household level in health, education and standard of living. It uses micro data from household surveys, whereby all the indicators needed to construct the measure must come from the same survey. For more information see: http://hdr.undp.org/sites/default/files/mopi2020_technical_notes.pdf.

8 LIDCs are a group of 59 IMF member countries primarily defined by income per capita level below a certain threshold (set at $2,700 in 2016). This group of countries contains one fifth of the world’s population—1.5 billion people—but accounts for only 4 percent of global output (IMF, 2019).

9 According to the KPMG Corporate Sustainability Report 2017, about three-quarters of the 4,900 com-
but public disclosures show that the types of Corporate Social Responsibility and sustainability goals and targets used by businesses vary widely, even among companies in the same industry. While tailoring goals and targets for specific business contexts may be necessary, a common reference point is also needed to promote meaningful comparisons of sustainable development performance. The ten principles behind the UN Global Compact in relation to human rights, labour, environment and anti-corruption can serve as a starting point to establish a set of core corporate sustainability standards that all companies could adhere to, irrespective of their own business context.

Concurrently, rising debt is fast becoming a source for concern in many international development circles, compounded by the advent of COVID-19. These concerns are strongest in African and Asian low-income countries, in which the battlegrounds for achieving the SDGs. Recent research from the Brookings Institution confirm that a majority of total poverty is concentrated in sub-Saharan Africa. Countries have to quality essential health-care services and affordable essential medicines and vaccines for all,” and Goal 3.9.b. “Support the research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement and Public Health, which affirms the right of developing countries to use the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all.” Combating COVID-19, and any future pandemics with deleterious economic consequences, requires well-functioning and properly equipped public health systems that are accessible by the majority, which Goal 3.8 promotes. It also hinges on the accessibility of medicines and vaccines at affordable costs by many countries under international cooperation agreements, as Goal 3.9 and SDG 17 promote. Addressing the effects of COVID-19 will indeed require coordinated and concerted actions at international and regional levels, inclusive of partnerships at national and local levels. The set-up of COVAX, co-led by the GAVI Alliance, the Coalition for Epidemic Preparedness Innovations and the World Health Organization under the Access to COVID-19 Tools Accelerator is a case in point.

The onset of COVID-19 has highlighted the intricate links across SDGs and that failure to make progress on one SDG can affect progress on other SDGs and magnify the effects of unexpected shocks. For example, COVID-19 has highlighted how digitalization and unequal access to the internet can exacerbate inequalities within and among countries. During times of confinement, children from poorer households who do not have access to internet (SDG 9 on infrastructure) cannot engage in online and distance learning related to those who do, furthering inequalities in terms of access to education (in what has been coined the “digital education divide”) and delaying progress on SDG 4 to ensure inclusive and equitable quality education. Making progress on SDG 4 in a COVID-19 context hinges on narrowing the digital divide between the “have” and the “have nots.”

As the world battles the onslaught of COVID-19 in 2020, achieving the SDGs by 2030 seems to have been placed on a back burner. The irony lies in the fact that COVID-19 has inevitably exposed the unabated vulnerabilities of developing countries to unexpected shocks to sustainable development, whose effects are exacerbated by precisely a lack of progress in achieving the SDGs. To rephrase, by not achieving the SDGs, countries have evidenced the imperative for cross-border, regional and multilateral (including South-South) cooperation in addressing specific types of shocks.

2.2 COVID-19 Has Made Achievement of the SDGs, Backed by Multilateral Cooperation, More Imperative than Ever.

Within SDG 3, there are two important goals related to the fight against COVID-19: Goal 3.8 which is to: “Achieve universal health coverage, including financial risk protection, access to quality health-care services, and essential medicines and vaccines for all,” and Goal 3.9.b. “Support the research and development of vaccines and medicines for communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement and Public Health, which affirms the right of developing countries to use the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all.” Combating COVID-19, and any future pandemics with deleterious economic consequences, requires well-functioning and properly equipped public health systems that are accessible by the majority, which Goal 3.8 promotes. It also hinges on the accessibility of medicines and vaccines at affordable costs by many countries under international cooperation agreements, as Goal 3.9 and SDG 17 promote. Addressing the effects of COVID-19 will indeed require coordinated and concerted actions at international and regional levels, inclusive of partnerships at national and local levels. The set-up of COVAX, co-led by the GAVI Alliance, the Coalition for Epidemic Preparedness Innovations and the World Health Organization under the Access to COVID-19 Tools Accelerator is a case in point.

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Additionally, men and women engaged in white-collar jobs that are amenable to telecommuting can continue to earn a living from home while those working in service industries (who are usually lower-wage earners), and as is often the case in countries with large informal economies, those trading their wares on the streets are experiencing falls in revenues due to confinement and social distancing measures. The adverse effects of COVID-19 on jobs and incomes fall disproportionately on those who can afford it the least: the poor and vulnerable segments of society who do not have access to digital solutions, lack social protection coverage and are likely to have minimal personal savings. The asymmetric effect of shocks such as COVID-19 on women has increasingly gained attention. Women are facing multiple burdens as they lose their jobs in labour-intensive industries (who are usually lower-wage earners), and as is often the case in countries with large informal economies, those trading their wares on the streets are experiencing falls in revenues due to confinement and social distancing measures. The adverse effects of COVID-19 on jobs and incomes fall disproportionately on those who can afford it the least: the poor and vulnerable segments of society who do not have access to digital solutions, lack social protection coverage and are likely to have minimal personal savings. The asymmetric effect of shocks such as COVID-19 on women has increasingly gained attention. Women are facing multiple burdens as they lose their jobs in labour-intensive industries (who are usually lower-wage earners), and as is often the case in countries with large informal economies, those trading their wares on the streets are experiencing falls in revenues due to confinement and social distancing measures. The adverse effects of COVID-19 on jobs and incomes fall disproportionately on those who can afford it the least: the poor and vulnerable segments of society who do not have access to digital solutions, lack social protection coverage and are likely to have minimal personal savings. The asymmetric effect of shocks such as COVID-19 on women has increasingly gained attention. Women are facing multiple burdens as they lose their jobs in labour-intensive industries (who are usually lower-wage earners), and as is often the case in countries with large informal economies, those trading their wares on the streets are experiencing falls in revenues due to confinement and social distancing measures. The adverse effects of COVID-19 on jobs and incomes fall disproportionately on those who can afford it the least: the poor and vulnerable segments of society who do not have access to digital solutions, lack social protection coverage and are likely to have minimal personal savings. The asymmetric effect of shocks such as COVID-19 on women has increasingly gained attention. Women are facing multiple burdens as they lose their jobs in labour-intensive industries (who are usually lower-wage earners), and as is often the case in countries with large informal economies, those trading their wares on the streets are experiencing falls in revenues due to confinement and social distancing measures. The adverse effects of COVID-19 on jobs and incomes fall disproportionately on those who can afford it the least: the poor and vulnerable segments of society who do not have access to digital solutions, lack social protection coverage and are likely to have minimal personal savings. The asymmetric effect of shocks such as COVID-19 on women has increasingly gained attention. Women are facing multiple burdens as they lose their jobs in labour-intensive industries (who are usually lower-wage earners), and as is often the case in countries with large informal economies, those trading their wares on the streets are experiencing falls in revenues due to confinement and social distancing measures. The adverse effects of COVID-19 on jobs and incomes fall disproportionately on those who can afford it the least: the poor and vulnerable segments of society who do not have access to digital solutions, lack social protection coverage and are likely to have minimal personal savings.
children in home schooling and, at times, suffering from abuse and violence at the hands of their male partners (Bolaky and Ramnauth, 2020).

These vulnerabilities exposed by the COVID-19 crisis have signaled a critical area where South-South cooperation can make a difference in addressing the SDGs: promoting access to digital technology. Statistics from the International Telecommunication Union reveal that in developing countries 46.7 percent of households have access to internet at home, compared to 87.0 percent in developed countries, while for LDCs, the internet penetration rate is a mere 11.8 percent (Chart 2a). By region, the Africa continent has the lowest internet penetration rate at 17.8 percent, compared to 50.9 percent in Asia and the Pacific, 57.1 percent in the Arab States and 86.5 percent in Europe (Chart 2b). A digital gender divide also exists; in many developing countries fewer women have access to the internet (Chart 3). The speed and costs of internet access likewise varies by location – with the internet being more expensive and less reliable in developing than in developed countries and even more so in LDCs.

**Fast-tracking Progress on the SDGs Should Be a Part of “Building Back Better” in a Post-COVID-19 World**

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**Chart 2: Digital Divide by Categories of Countries and Regions**

- **Households with Internet Access at Home by Categories of Countries**

  - **a. Households with Internet Access at Home by Categories of Countries**

  - **b. Households with Internet Access at Home by Regions**

  - **Chart 3: Digital Gender Divide in Selected Developing Countries**

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10 For example, based on ITU statistics, bandwidth per internet user (in kbit/s) is only about 31 in Africa compared to 102 in Asia and the Pacific, 112 in Arab States and 211 in Europe. In LDCs bandwidth per internet user is a mere 21 compared to 91 in developing countries and 189 in the developed world.
The United Nations Secretary-General Report Shared Responsibility, Global Solidarity: Responding to the socio-economic impacts of COVID-19 calls for all countries to “build back better” in a post-COVID-19 world. The international development community needs to redouble its efforts at fast tracking progress on the SDGs, part of building back better. To paraphrase a main recommendation of the report, it behooves the international community to seize the opportunity of the COVID-19 crisis to strengthen its commitment to implement the 2030 Agenda and the 17 SDGs, given that progress on the multiple dimensions of sustainable development will help the entire world, not just the developing world, to be better prepared to tackle the effects of future crises and become more resilient.

However, challenges to realizing the SDGs have undoubtedly mounted in the wake of the crisis and one big obstacle still resides in financing implementation of Agenda 2030. Another relates to building statistical capacities to track progress on the 232 indicators associated with the 169 targets – and these two challenges are related. Without statistics, there cannot be hard data to support evidence-based policymaking, ensure transparency and accountability of results on the part of stakeholders (government, civil society, international donor community and South-South development partners), facilitate a proper assessment of financing, uncover implementation gaps, evaluate the effectiveness leading to better redesigns and assure the effectiveness of what is being financed. The United Nations High-Level Panel on the Post-2015 Development Agenda has called for a “data revolution” to facilitate implementation of the SDGs,1 one that empowers stakeholders to invest, use and share data.

Currently, global financial resources are being pumped into maintaining jobs and keeping economies afloat. The diversion of financial resources toward mitigating the impact of adverse shocks, such as COVID-19, entails opportunity costs to nations, including delays in the achievement of the SDGs, with non-negligible consequences. Resources are now being deployed just to maintain the status-quo in terms of socio-economic performance rather than moving forward on achieving goals that will secure long-term development gains. Zambia’s 2020 Voluntary National Review11 of implementing Agenda 2030 for Sustainable Development notes, for instance, that the fiscal space for implementation of its Seventh National Development Plan (7NDP)12 has been drastically reduced. Both the public and private sector have been disrupted and resources are being reallocated from planned activities to COVID-19 related contingencies, with a negative impact on 7NDP programme implementation.

Traditional sources of development finance have come under strain, a trend that started before the advent of COVID-19, but which is likely to be aggravated by the latter. The Financing for Sustainable Development Report 2020, prepared by the United Nations Agenda 2030 for Sustainable Development, notes, for instance, including delays in the achievement of the SDGs, with non-negligible consequences. The development impact of achieving an SDG may be conditional on progress being made on other SDGs. For instance, progress on SDG 7 in relation to increased energy supplies from sustainable and cleaner sources and on SDG 9 that promotes sustainable industrialization rather than industrialization of a polluting type. While financing all the SDGs at once may be unrealistic in terms of the amounts of financial resources necessitated, nevertheless allocating finance among the SDGs to ensure concurrent progress among a large range of them through a holistic approach is likely to be cost saving and more efficient for delivering results.

Financing the SDGs (directly through SDG-related programmes, projects and initiatives at national, regional and global levels13 and indirectly through the implementation of national development strategies that have mainstreamed the SDGs) and doing so in a sustained manner that minimizes volatility in finance, ensures continuity and sustainability in achievements and avoids stop-gap measures will be critical to success. Given the strong interconnectedness among the SDGs, achieving the SDGs through a piecemeal approach that prioritizes a few SDGs, albeit pivotal such as SDG 7 on energy, but leave out others will amount to a sub-optimal approach. The development impact of achieving an SDG may be conditional on progress being made on other SDGs. For instance, resources allocated to combat climate change have increased and COVID-19 costs in relation to increased energy supplies from sustainable and cleaner sources and on SDG 9 that promotes sustainable industrialization rather than industrialization of a polluting type. While financing all the SDGs at once may be unrealistic in terms of the amounts of financial resources necessitated, nevertheless allocating finance among the SDGs to ensure concurrent progress among a large range of them through a holistic approach is likely to be cost saving and more efficient for delivering results.

Table 1: African Countries from the Global South that Have Undertaken Voluntary National Reviews: A review of the SSC and Private Sector Provisions

<table>
<thead>
<tr>
<th>Country</th>
<th>Years</th>
<th>Mentions of SSC and the Role of the Private Sector in Financing Under the SDG Targets 17.16 and 17.17 or in Other Areas*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Algeria</td>
<td>2019</td>
<td>Reference under SDG 17.16 and 17.17: Delegation of public sector services delivery to the private sector through public-private partnerships (PPPs) that involve managing services to concession agreements. Multiple references to SSC and Algeria’s role in sharing best practices with other regions.</td>
</tr>
<tr>
<td>2. Benin</td>
<td>2017, 2018, 2020</td>
<td>Aims to engage the private sector through Corporate Social Responsibility and mobilization of resources through an initiative known as “Leaving no one behind.” No references to SSC.</td>
</tr>
<tr>
<td>3. Botswana</td>
<td>2017</td>
<td>Highlights two case examples of how the private sector has embraced sustainable development in its business processes, namely Debswana and the Botswana Stock Exchange. No references to SSC.</td>
</tr>
</tbody>
</table>

11 The United Nations Global Pulse Initiative, the United Nations Secretary-General’s initiative on big data and artificial intelligence for development, humanitarian action and peace, envisons a future in which big data is harnessed safely and responsibly as a public good (www.unglobalpulse.org/).
12 Released in July 2020.
13 Zambia’s Seventh National Development Plan 2017-2021 notes key outcomes in economic diversification, job creation, poverty and vulnerability reduction, reduced developmental inequalities, enhanced human development and an enhanced governance environment for a diversified and inclusive economy.
14 According to the report, in 2018, ODA declined by 4.3 percent while gross ODA to least developed countries also fell by 2.2 percent in real terms.
15 Key Performance Indicators are used to monitor progress toward meeting the Plan’s strategic objectives.
16 Examples of such projects include civil society-driven initiatives like ProjectAware (www.projectaware.org) and global initiatives like the UNESCO Global Education First Initiative.
Country | Years | Mentions of SSC and the Role of the Private Sector in Financing Under the SDG Targets
--- | --- | ---
4. Burkina Faso | 2019 | Makes multiple references to SSC and PPPs and inadequacy of private sector financing for implementing PPP projects. Highlights the weak technical and financing capacities of the local private sector. Lists its priority SDG targets, which includes SDG targets 17.6 and 17.9 that makes references to SSC.

5. Burundi | 2020 | Mentions the need to strengthen partnerships with the private sector. Acknowledges that SSC can have a catalytic role in achieving targets.

6. Cabo Verde | 2018 | Mentions the need to stimulate private sector growth, promote private sector investment and increase private sector participation in key sectors. No reference to SSC.

7. Cameroon | 2019 | Identifies a role for South-South, triangular cooperation and the private sector (including Corporate Social Responsibility) as sources of additional finance and also for the private sector to finance public investments.

8. Central African Republic | 2019 | Sets milestones to be achieved for SDG17 and its targets; recognizes need to create conditions for private sector growth and foster participation of private sector in economy and collaboration with government.

9. Chad | 2019 | Reports progress against SDG 17.9 that mentions SSC. Recognizes weaknesses of local private sector dominated by informal actor. Notes the financing of its National Development Plan in part by the international private sector through funds mobilized at donor round table conference.

10. Comoros | 2020 | Recognizes need to promote SSC, private sector growth and mobilize financing from the private sector. Notes that private sector financing of national development occurs mostly in the form of FDI.

11. Congo | 2019 | Recognizes weak involvement of the private sector in the achievement of SDGs and the need to address it. No reference to SSC.

12. Côte d’Ivoire | 2020 | Indicates need to promote SSC by improving the business climate to foster PPPs.

13. Democratic Republic of Congo | 2020 | Makes one reference to SSC only in relation to technology transfer. Notes the private sector is engaged in Corporate Social Responsibility activities. Recognizes government strategy to work more closely with the private sector to tap into financing and innovative financing opportunities, especially in renewable energy projects.

14. Egypt | 2016, 2018 | No reference to SSC. As part of the VNR process, a situation analysis of activities carried out by the private sector toward implementation of the SDGs and key case studies and examples were carried out by the United Nations Global Compact Network Egypt. The private sector is active through Corporate Social Responsibility activities. States that “Unlocking the transformative potential of people and the private sector and incentivizing innovation in financing, as well as consumption and production patterns, to support sustainable development are key to achieving the desired goals.” Examples mentioned include green bonds.

15. Eswatini | 2019 | No proper discussion on the role of SSC. Recognizes involvement of the private sector in implementation of goals as a challenge in light especially of crowding out by government, which is the major actor in the economy.

16. Ethiopia | 2017 | No discussion on role of SSC. Highlights increased role and engagement of the private sector in the economy as an implementation mechanism for poverty alleviation and other SDGs.

17. Gambia | 2020 | No reference to SSC. Recognizes small size of the private sector as a weakness, but that the private sector has been supporting communities directly. At its SDG Development Forum in 2015, the Gambia identified PPPs and private sector financing as most viable options for financing its SDGs. It notes that “Government will continue to deepen private sector participation through sustained engagement using the existing SDG institutional arrangements and partnerships.”

18. Ghana | 2019 | Identifies the need for leveraging opportunities from SSC. Ghana has created an SDGs Delivering Fund that “seeks to pull together corporate social responsibility resources of the private sector to fund transformational SDGs initiatives.” A Green Fund also was established to support scaling up interventions in the renewable energy sector, especially transitioning towards widespread use of solar power. Highlights that several private sector entities are participating in SDG delivery through Corporate Social Responsibility, but that efforts need to be better coordinated and become more visible; an SDG Philanthropy Platform has been created to catalyze this.

Country | Years | Mentions of SSC and the Role of the Private Sector in Financing Under the SDG Targets
--- | --- | ---
19. Guinea | 2018 | No reference to role of SSC. Calls for innovative partnerships between the states and other actors, including the private sector. Like other LDCs, Guinea calls for private sector financing at Donor Round Table meetings.

20. Kenya | 2017, 2020 | No reference to SSC. Recognizes that the private sector is fairly well developed and therefore has huge potential to play its part in implementing the SDGs and that so far the private sector has taken a keen interest in implementing the SDGs. The private sector’s direct contributions to achieving several SDGs are highlighted.

21. Lesotho | 2019 | No explicit narrative on greater role of SSC in financing and achieving the SDGs. States that “ sucessful partnerships “ has a “partnership policy that is being reviewed and is looking at developing a national partnership and coordination strategic plan to strengthen engagement mechanisms with all partners and structures including development partners, civil society, the private sector and special groups.

22. Liberia | 2020 | No reference to role of SSC in financing SDGs other than reporting progress against SDG17 indicators that mention SSC. Mentions that “fully private sector financing are possible avenues that will be explored including equity participation and management arrangements for State-Owned Enterprises.”

23. Madagascar | 2016 | No reference to SSC. Recognizes critical role of the private sector in achieving SDGs especially in decent job creation, but views the role of the private sector more in terms of financing investments.

24. Malawi | 2020 | No explicit narrative on role of SSC in financing SDGs. Malawi conducted a Development Finance Assessment that recognizes the private sector as a promising avenue for generating revenues to finance the SDGs and the need to explore development impact bonds that exchange results for payment, encompassing private sector financing. States that the critical role of the private sector in financing SDGs cannot be overemphasized, however, it positions this role mostly in the form of generating opportunities for private sector investment.

25. Mali | 2018 | No reference to SSC. Recognizes the need for more private sector investment in achieving the SDGs through greater investment from innovative sources including remittances, but recognizes the limited absorptive capacities of the country.

26. Mauritania | 2019 | No narrative on role of SSC. Planning for the private sector to finance 20 percent of the budget of the national development strategy’s action plan.

27. Mauritius | 2019 | No specific narrative on role of SSC but reports SDG Indicator 17.3.1 and 17.9.1 as achieved due to levels of FDI received. Commends the Mauritian private sector, characterized as vibrant and with innovative leadership. The private sector organized the First Sustainability Summit in Mauritius and a Second one in 2019. A new National Corporate Social Responsibility Framework encourages the private sector to embark on SDG-related initiatives. Many private businesses have established foundations with the aim of addressing key issues relating to poverty, while improving the living standards of beneficiaries and enhancing sustainability in their businesses and in the country in general. A Corporate Social Responsibility fund expects profitable companies to contribute to create and a National Corporate Social Responsibility Foundation has been set up to allocate the funds raised to SDG-related projects.

28. Morocco | 2016, 2020 | Multiple references to SSC and Morocco’s role in the region in promoting it. The country’s strategy to mobilize resources includes contractual arrangements with the private sector and attracting FDI.

29. Mozambique | 2020 | No reference to SSC. Undertook a survey to assess the degree of knowledge and contribution of the private sector to the realization of the SDGs. The survey found that knowledge about private sector interventions under Agenda 2030 is still scattered. Notes that the private sector, domestic and foreign, should be encouraged to make responsible investments, aligned with the sustainable development agenda.

30. Namibia | 2018 | As an only reference to SSC, states that Namibia aims to strengthen access to available global resources through non-financial sources such as South-South and North-South cooperation mainly for skills, knowledge and technology transfers, drawing from technology banks and personnel experiences. Recognizes that private sector growth and participation in implementation of the SDGs will be key to poverty eradication but adopts a strategy bent on promoting government-business platforms and creating an environment conducive to local and foreign private sector investment.
<table>
<thead>
<tr>
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<th>Mentions of SSC and the Role of the Private Sector in Financing Under the SDG Targets 17.16 and 17.17 or in Other Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niger</td>
<td>2018, 2020</td>
<td>No explicit narrative on role of SSC in financing SDGs. No explicit narrative on how the private sector can finance the SDGs but cites private sector growth as an end in itself to achieve.</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2017, 2020</td>
<td>Identifies a role for SSC in technology transfers and capacity-building rather than financing. Under SDG 17, identifies need to leverage private investment. States that combating illicit financial flows and corruption are important priorities.</td>
</tr>
<tr>
<td>Rwanda</td>
<td>2019</td>
<td>To strengthen SSC, the government established and operationalized a private company, the Rwanda Cooperation, whose mandate is to promote home-grown solutions and coordinate peer learning related to country experiences and progress in areas such as business reform, public finance management, unity and reconciliation and strengthening governance systems. No mention of SSC financing. Identifies remittances as an important means to boost private sector finance while leveraging mainly foreign private sector finance.</td>
</tr>
<tr>
<td>Senegal</td>
<td>2018</td>
<td>Explicit reference to boosting financing of SDGs through SSC, FDI and PPPs. Emphasizes need to stimulate private sector growth.</td>
</tr>
<tr>
<td>Seychelles</td>
<td>2020</td>
<td>Reference to funding being sought under the South-South Co-operation Programme with the Government of China to install solar photovoltaics for schools. States that the country will continue to mobilize its domestic resources through improved tax enforcement and utilizing the private sector through PPPs. Adopted new and innovative ways to raise additional funds, such as the Blue Bonds and debt swap, and is exploring the potential of venture capital.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>2016, 2019</td>
<td>The deepening of SSC is recognized. Recognizes private sector development in growth-oriented sectors as one of the key opportunities to enhance the tax base. Its Development Finance Assessment highlights the need to explore development impact bonds that exchange results for payment, encompassing private sector financing. Notes another opportunity is diaspora financing through the removal of barriers to remittances and flows considering the establishment of a diaspora bond for commercial investment.</td>
</tr>
<tr>
<td>South Africa</td>
<td>2019</td>
<td>Recognizes effective implementation of SSC will require stronger alliances between national stakeholders, the private sector, civil society and academia as well as stronger global partnerships through South-South and North-South collaborations on issues relating to equality, greater resources, improved access to technology and compliance by all countries with trade agreements. Further states that promoting development exchange between South Africa, the BRIC countries and the rest of the world could help accelerate achievement of the SDGs. Recognizes an increased role for private sector financing.</td>
</tr>
<tr>
<td>Sudan</td>
<td>2018</td>
<td>No reference to SSC. No explicit reference to private sector financing other than to note the long-term provision of the private sector in financing of agricultural transformation projects.</td>
</tr>
<tr>
<td>Togo</td>
<td>2016, 2017, 2018</td>
<td>No reference to SSC. States that it is of paramount importance to mobilize sufficient financial, technical and human resources to implement the National Development Plan (the reference framework for achieving the SDGs). The private sector is exhorted to contribute financially while the State expresses its commitment to create a conducive environment for investment and to adopt incentive measures toward achieving the SDGs.</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2019</td>
<td>Describes SSC and triangular cooperation as a creative and innovative way to support implementation of the SDGs, especially in the area of trade and investment and as means to mobilize finance. Notes weak engagement of the private sector in achievement of the SDGs and a lack of dedicated funding mechanisms.</td>
</tr>
<tr>
<td>Uganda</td>
<td>2016, 2020</td>
<td>Highlights important role of SSC and indicates that South-South cooperation in Uganda is largely dominated by China, which provides about 91.3 percent of all south-south funds, according to data compiled by UNDP. The Private Sector SDG Platform was established in partnership with government and development partners and is envisaged as a national-owned, multi-stakeholder mechanism to address various aspects of private sector engagement in the SDGs.</td>
</tr>
</tbody>
</table>


Note: *Specific references to South-South Cooperation (SSC) and to the private sector in financing the SDGs and its implementation were reviewed in the VNRs. Sustainable Development Knowledge Platform, United Nations (n.d) .

It is Timely to Put the SDG 17 Targets back on the Table as the World Recovers from the COVID-19 Pandemic

Public finance on its own will not suffice to achieve the SDGs. Governments in many Southern countries are cash-strapped and are going to be more acutely liquidity constrained as they focus efforts at mitigating the impacts of COVID-19 on their economies and rebuild to reverse losses. SDG 17 “Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development” contains 19 targets aim to mobilizing resources and partnerships to help countries achieve the SDGs. In the months ahead, and in the wake of the 2020 High-Level Political Forum on Sustainable Development in New York that took place virtually in July 2020, it will be timely for the development community from the global South to put these 19 targets back on the table as part of a renewed Global Development Compact. United Nations Secretary-General António Guterres, in July 2020, called on the global development community to establish a New Social Contract and a New Global Deal, inviting countries, governments, the business community, civil society and the global civil society to rally around common causes, adopt fairer taxation systems, implement social protection policies and embrace universal health coverage, while operating within a global governance system that embraces full, inclusive and equal participation in global institutions, a more inclusive and balanced multilateral trading system and reform of the global debt architecture.

Establishing this new Global Development Compact within the New Global Deal, it can be argued, is mandatory to prevent a major reversal of development gains in the global South. Without it, progress made in achieving the SDGs risks being side-tracked. Identifying new and innovative ways to finance development for the SDGs is crucial, and particularly fundamental to success will be financing and projects emanating from and directed by the global South. A starting point is to put SDG 17 and its 19 targets back on the table, especially the targets under finance, capacity building and multi-stakeholder partnerships (see Table 2).
Among the list of SDG 17 targets, two targets specifically focus on mobilization of multi-stakeholder partnerships at international and national levels for financial resources, namely SDG target 17.16 and 17.17. When combined, these two targets relate to further mobilization of South-South partnerships and the enhanced role of the private sector in these partnerships.

Yet the leveraging of South-South development cooperation finance and the involvement of the local private sector to achieve the SDGs at a national level remain to be more fully harnessed. For instance, Table 1 reviews the provisions of the latest Voluntary National Reviews of the 44 African countries that have elaborated a VNR in relation to targets 17.16 and 17.17, and in relation to the role of South-South Cooperation and the private sector. Many countries (24 out of 44) make no explicit reference to SSC in their VNRs, other than to report progress on SDG Indicator 17.3.1. When SSC is mentioned, in many cases, either its role is viewed as a means to facilitate technology and skills transfer rather than as a significant source of additional, innovative finance that can complement traditional finance or “lip service” is paid to the cause and the VNR fails to provide specific examples of mechanisms and instruments that will be deployed in the future to leverage South-South finance to promote achievement of SDGs. This may reflect an ongoing orientation among African countries toward relying on Northern-led financing mechanisms and Northern-led ODA.

A survey undertaken by UNDP ahead of the Second High-level United Nations Conference on South-South Cooperation (BAPA+40), covering eight African countries that volunteered to report on SSC, found a continuous need for awareness-raising on SSC, in addition to a need to strengthen multi-sectoral SSC networks (UNDP et al., 2019). A 2015 United Nations Department of Economic and Social Affairs (UNDESA) survey of 129 developing countries showed that while almost two-thirds of respondents provided development cooperation, only one-third of respondents had a dedicated entity responsible for South-South and triangular cooperation (UNDESA, 2016). The space for deepening South-South cooperation to fast track the achievement of the SDGs is deemed to be significant.

The VNR of Uganda, for instance, eloquently notes that South-South Development Cooperation “is seen as an expression of solidarity among peoples and countries of the South, based on their shared development experiences and objectives. It is guided by principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit. The rise in quantum, geographical reach, and diversity in approaches in SSDC make it a crucial additional resource to support Southern countries’ development objectives” (page 78). However, no explicit narrative is provided as to how SSDC will be leveraged in practice to mobilize or supplement domestic resources and even less in partnership with the local private sector.

The review of African country VNRs reveals that at least for the African region, specific mechanisms and instruments for utilizing SSDC as a means to finance the SDGs, aside from technology transfer and capacity-building, remain to be developed. The role of the local private sector within SSDC arrangements also remains to be made explicit. Examples as to how SSDC can in practice contribute to local private sector development while also financing the achievement of SDGs in Africa can relate to Southern-led investments in Special Economic Zones, for instance, in which Southern-led international firms promote the clustering of local small- and medium-sized enterprises (SMEs) with positive effects on SME productivity. Southern-led firms likewise contribute to local private sector development when they partner with local firms and ease the latter’s access to capital and technology or source local inputs from them. Partial evidence shows, for instance, that even though Chinese manufacturing firms based in Ethiopia are more productive than local firms, their presence can create positive productivity spillover effects for domestic firms. Specifically, local firms gained significant positive spillovers when they had a high absorptive capacity and non-exporting domestic firms also experienced significant spillover benefits from the presence of Chinese firms (Negash et al., 2020). Examples of positive spillovers include new ideas, managerial expertise and efficient technologies.

Within the African VNRs, the role of the local private sector in achieving the SDGs is identified primarily either as financing investments in SDG-related areas, engaging in PPP projects with government or engaging in Corporate Social Responsibility initiatives. The role of the foreign private sector manifests itself in FDI and PPPs. While many VNRs recognize the imperative to further engage the private sector in achievement of the SDGs and its financing, details are scarce on the “how” - that is to say mechanisms and instruments for mobilizing such finance remain to be fleshed out.

Mobilizing additional finance from the local private sector to accelerate the achievement of SDGs, especially with the advent of COVID-19, will be a daunting challenge.
For many governments, this challenge can only be overcome through multi-stakeholder partnerships that can involve South-South development cooperation, multilateral development banks and strengthened partnerships between the local and international private sector in a way that fosters local private sector development. In countries where the local private sector is underdeveloped and not vibrant, the mobilization of finance from the local private sector is not viable in the short- to medium-term unless the government has in place policies that support private sector development and creates profitable investment opportunities for it.

Constraints to local private sector financing of SDGs exist in developing countries, especially in African countries where the local private sector is underdeveloped. These constraints must be addressed through a range of complementary policies.

In many developing countries, the local private sector faces development constraints that limit its ability to contribute fully to financing of the SDGs. In Africa, these constraints are described below.

• A weak local private sector dependent on the state for financial support, which is likely to worsen due to COVID-19. In many African country VNRs, private sector growth and development are in themselves targets to achieve.

• Limited private sector participation in the economy, let alone on SDGs, can be traced back to a mindset of dependence on the State.

• A “missing middle problem” exists, in which the business ecosystem is dominated by national SMEs that are low-impact enterprises and do not have strong production linkages with larger enterprises, the latter dominated by transnational corporations that are beneficiaries of fiscal incentive measures, including tax breaks.

• The prevalence of an informal economy in the local private sector erodes the fiscal base of governments.

• Illicit financial flows remain to be tackled as they undermine the fiscal and financial bases available from the local private sector to finance the SDGs.

• Limited economic diversification and structural transformation limit the possibilities for local private sector development and investment.

The mobilization of finance from the local private sector in a post-COVID-19 world will require effective implementation of a range of complementary policies. In addition to strengthening South-South development cooperation through concrete mechanisms and instruments and defining opportunities of collaboration between the local and international private sector within South-South development cooperation to promote local private sector development, governments should redouble efforts to implement policies that support broader private sector development and its competitiveness. These policies should also facilitate the transition of the local private sector from the informal to the formal, facilitate the survival, growth and expansion of SMEs, accelerate economic diversification and structural transformation, foster linkages between the local and international private sector and between SMEs and transnational corporations, accelerate combatting corruption that discourages private sector activity and stymie illicit financial flows that act as a drain on local resources available to finance local private sector activities.

2.3 South-South Development Cooperation Should Be Leveraged to Stimulate Local Private Sector Development and Finance

Sierra Leone’s VNR posed a set of interesting questions relevant for other countries too, namely: (i) What has been done to promote the private sector in the economy? (ii) How much has the private sector contributed to domestic resource mobilization and what constraints have been encountered in the process? (iii) What has been the role of development cooperation in supporting SDG implementation – provision of technical support, financial support, technology transfers, coordination of international engagement on behalf of the country, supporting local resource mobilization, South-South cooperation, etc.? What constraints exist?

Such stock-taking exercises can yield valuable insights to governments to achieve two complementary objectives: 1) to enable a proper design of support measures for the local private sector so that the latter contributes to domestic investment in and financing of the SDGs; and 2) to facilitate the design of measures to attract South-South finance that not only directly finances the SDGs but also creates investment and growth opportunities for the local private sector. Leveraging South-South development cooperation to mobilize investment and finance for the SDGs is only one part of the effort; the other lies in leveraging South-South development cooperation to promote local private sector development so that in the long run the local private sector becomes a stable, endogenous source of investment and finance for the country’s sustainable development.

The advent of COVID-19 has reinforced the need for countries to reduce their reliance on external finance that can dry up quickly in the event of external shocks and to instead promote local sources of finance and alternative sources from the global South.

In addition, the review of VNRs, as detailed in Table 1, reveals that in many African countries private sector and South-South engagement for achievement of the SDGs through investment and finance remains fragmented and uncoordinated, suggesting that a cooperative framework or mechanism could be created to ensure greater coherence and complementarity across interventions of multiple players.

Box 1 highlights two examples of South-South Cooperation in Africa and notes lessons to be learned that can strengthen South-South development cooperation financing to achieve the SDGs.

Box 1: Examples of South-South Cooperation in Africa

China’s One Belt One Road Initiative: Enhancing Competitiveness for the Local Private Sector in Africa

China's One Belt One Road (OBOR) initiative has had a tangible impact on trade and investment in Africa. OBOR, and particularly the Maritime Silk Road, encompasses numerous African countries in East and Southern Africa (Ethiopia, Kenya, Madagascar, Mozambique, South Africa and Tanzania), North Africa (Algeria, Egypt and Morocco), and inland African countries, including the Democratic Republic of the Congo, Zambia and Zimbabwe.

Through OBOR, several railway projects were financed in Africa, including the first fully electrified cross-border
South-South Ideas

India’s Cotton Technical Assistance Programme in Africa

India’s Cotton Technical Assistance Programme (C-TAP) is helping select African countries expand their capacity to grow cotton for foreign markets and in so doing provide livelihoods for millions of farmers. The technical assistance programme aims to improve the competitiveness of the cotton and cotton-based textiles and apparel industry in these countries. According to the official C-TAP brochure, the programme will strengthen the competitiveness of the cotton value chain in Africa through enhanced stakeholder capabilities, specifically to augment upstream capabilities and downstream potential in the cotton value chain, and to assist governments to design programmes and policies for strengthening the sector.

C-TAP is implemented by the Indian Council of Agricultural Research, Directorate of Cotton Development, Central Institute of Cotton Research, Central Institute of Research for Cotton Technology and IL&FS Cluster Development Initiative Limited. As per the third India Africa Forum Summit declaration, financial assistance for C-TAP for 2015-2020 is being channeled through India’s Department of Commerce at an estimated cost of $25 million (ORF, 2019). The initial phase covered six countries (Benin, Burkina Faso, Chad, Malawi, Nigeria and Uganda) and the second phase intends to cover an additional five (Ghana, Mali, Tanzania, Togo and Zambia).

Despite the clear benefits of this initiative, African SMEs and the local private sector could benefit more if the assistance was extended to strengthening capacities to integrate in the cotton-based textile and apparel industry, matched by support for access to capital and technology. Monitoring and evaluating the impact of such financially-backed technical assistance programmes over time with appropriate performance and results indicators could contribute to delivering tangible outcomes.

However, the overall impact of this South-South cooperation programme is contingent on the efforts of national governments themselves to make the growth of cotton-based textiles and apparel value chains a priority. South-South cooperation cannot be a substitute for national efforts by national authorities. South-South cooperation in this case can deliver concrete results only if it is placed within a national context of implementing policies to develop cotton-based value chains in the industrial sector.

Financing and Monitoring Mechanisms for South-South Development Cooperation Are Needed

As stated in the Seychelles VNR, “There is yet to be a proper mechanism for coordinating with and including the private sector and civil society fully in the process” (page 107). In addition to creating cooperative mechanisms, common National SDG Funds could pool resources from multiple sources (governmental, local private sector, South-South, ODA, multi-lateral development banks, etc.) to fund a common plan of action and build databases to monitor funding from different sources. For instance, the OECD Development Assistance Committee18 database provides data on volumes of ODA disbursed to developing countries; this data can be disaggregated by Development Assistance Committee donor and sector and is publicly available. No such database exists among Southern-led donors, as of yet. Such a gap, if filled, could assist developing countries to better understand where South-South finance is being, and can be mobilized to complement sources of traditional Northern-led finance.

The creation of country-level databases documenting loans and grants received from different donor types (including South-South donors and investors) and by activity and recording the volumes of investment mobilized from the local private sector and by activity should be encouraged. The South-South Galaxy, a global knowledge sharing and partnership brokerage platform, hosted by UNOSSC, functions as a repository of information on South-South partnerships, including in the area of trade and investment. This type of data portal emulated at the country level could help countries take stock of the contribution that South-South Cooperation is making to their national development, including achieving the SDGs, and identify future avenues of development. As noted in the Financing for Sustainable Development Report 2020 of the Inter-Agency Taskforce on Financing for Development, “South-South cooperation (SSC) continues to expand in scope, volume and geographical reach. As the role of SSC and triangular cooperation deepens, documenting its added value and impact on sustainable development by relevant stakeholders could further support implementation of the Sustainable Development Goals” (United Nations, 2020).

Progress is being made at the regional level on reporting and monitoring data on South-South Cooperation. In Latin America, the Ibero-America Secretariat (SEGIB) has been producing a regional report on SSC for more than ten years based on its data management platform, the Integrated Ibero-American Database System on South-South and Triangular Cooperation. The database enables countries in the Ibero-American region to register, store, analyze and cross-check their data on SSC activities, including activities between Ibero-America and other regions. Ahead of the BAPA+40 Conference, the United Nations Development Programme (UNDP) undertook a survey among African countries to assess the challenges these countries were facing in gathering data on SSC. Key challenges included a lack of information, a lack of coordination structures, a lack of understanding of the definition of “SSC” and a lack of time and engagement in the face of fragmented data. A first

18 The Development Assistance Committee consists of 29 developed countries and the European Union and provides aid in the form of grants and loans to developing countries.
2.4 The Sustainable Development Goal Financing Gap

Proper recording of financial and investment flows from multiple stakeholders can assist policymakers to assess the gaps in SDG financing and facilitate planning for their long-term financing. This rests on a proper costing of the SDGs at country level that implies assessing the financing needs to achieve the SDGs, with common calculations of annual budgeting needs—an exercise that is a work in progress in many African and developing countries. An important priority for many developing countries consists in calculating the SDG Financing Gap, that is determining the volume of financial resources beyond domestic resources that are needed to achieve the SDGs. The advent of COVID-19 will result in a significant increase in the SDG Financing Gaps of many developing countries.

Calls have been made to urge developing countries to prepare SDG Fiscal Needs Assessments as a critical step in SDG planning and budgeting (SDSN, 2019). This could be integrated into the Development Finance Assessments\(^\text{19}\) that countries undertake when setting up and operationalizing Integrated National Financing Frameworks.\(^\text{20}\) Such assessments have become more relevant in the context of COVID-19 as countries will struggle to find additional resources to address the impact of COVID-19 while maintaining progress in achieving Agenda 2030 for Sustainable Development. Such assessments can also assist countries in better negotiating for debt relief from creditors and International Financial Institutions as they struggle to adapt to the impact of COVID-19. Furthermore, institutions such as the United Nations Economic and Social Commission for Asia-Pacific have put forward the idea of an SDG-consistent Fiscal Responsibility Framework, meaning that countries should consider SDG-related investment needs before setting fiscal and debt rules in their fiscal policies.

Estimates of SDG Financing Gaps have been computed by different sources in the development finance literature. According to estimates by the Sustainable Development Solutions Network, the average SDG financing gap per year for 59 LIDCs is in the order of $ 400 billion between 2019-2030 (SDSN, 2019). The United Nations Conference on Trade and Development (UNCTAD) estimates that additional investments needed to achieve the SDGs in developing countries are an annual $2.5 trillion (UNCTAD, 2014). There is also a case for revisiting such estimates to integrate the impact of COVID-19. While some sources in the literature have called for global means to address SDG Financing Gaps in developing countries (e.g. creation of Global Funds, imposition of global carbon and wealth taxes, etc.), the feasibility of implementing such global-level instruments needs to be questioned given that it will require a high-level of cooperation and coordination among member states with divergent interests, as well as corresponding high transaction costs and potential dissatisfaction among countries if access to the globally-pooled resources are unequal. On the other hand, the mobilization of finance at country-level, backed by South-South support, may prove to be both more feasible and practical.

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\(^{19}\) A Development Finance Assessment (DFA) is a country-level process that supports governments and their partners to identify and build consensus around policy reforms that support integrated financing of the SDGs. DFAs have been completed or are underway in more than 35 developing countries. They analyse financing trends and four aspects of government systems: (i) the integration of planning and financing within government; (ii) public-private collaboration; (iii) monitoring; and (iv) review and transparency and accountability (United Nations, 2019).

\(^{20}\) The Addis Ababa Action Agenda called on countries to put in place Integrated National Financing Frameworks (INFFs) to support their sustainable development strategies. Such country-owned financing frameworks bring together financing and related policies most relevant to addressing a country’s financing challenges. They look at the full range of financing sources and non-financial means of implementation available to countries and lay out a financing strategy to raise resources, manage risks and achieve sustainable development priorities. By connecting financing and related policies with longer-term objectives, INFFs can help overcome short-term oriented decision-making. They allow policymakers to exploit synergies and manage possible trade-offs across different policies. They help countries manage an increasingly complex financing landscape and mobilize different types of financing appropriate for country-specific characteristics and risks. INFFs rely on four main building blocks for their operationalization: (i) assessments and diagnostics; (ii) design of the financing strategy; (iii) mechanisms for monitoring, review and accountability; and (iv) governance and coordination mechanisms. A Development Finance Assessment (DFA) is a country-level process that supports governments and their partners in identifying and building consensus around policy reforms that support more integrated financing of the SDGs. DFAs have been completed or are underway in more than 35 developing countries. They analyse financing trends and four aspects of government systems: (i) the integration of planning and financing within government; (ii) public-private collaboration; (iii) monitoring; and (iv) review and transparency and accountability (UN, 2019).
3. Southern-led Financing Mechanisms Related to Sustainable Development

The economic rise of the BRICS in the 2000s generated increased interest in the role that South-South Cooperation (in trade, technology, investment and finance) could play in fostering the achievement of the SDGs and of sustainable development among countries of the South. China’s prominence among the BRICS and its outward orientation to investing and trading with developing countries, especially in Africa, manifested by financial largesse on terms and conditions that are not systematically publicly disclosed, have generated a lot of attention on the world scene. However, South-South Cooperation is characterized by a range of diverse approaches, modalities and instruments and has been marked by growth in exchanges as well between low-income and middle-income countries (Besherati and MacFeely, 2019). The lack of a measurable definition for SSC, the lack of common standards for quantifying SSC flows and reporting on it, the incompleteness of SSC statistics due to a lack of transparent reporting and disclosure of SSC flows (Besherati and MacFeely, 2019; United Nations, 2020) do render it challenging to properly document and quantify trends in global Southern-led finance.

Several notable trends have emerged over the past fifteen years or so in Southern-led financing mechanisms that are summarized as below.

1. With South-South development finance, involving government to government exchanges, it has been observed that countries such as China and India engage in Lines of Credit that are tied to provision of inputs and services from the provider country. A study by UNCTAD found, for instance, that though projects selected for financing under Lines of Credit from India to Bangladesh were aligned with the policies and priorities of Bangladesh in the areas of trade and investment and would contribute partially toward achievement of the SDGs, the conditionalties attached were likely to undermine expected returns on investment and limit the scope of technology transfer and the transfer of skills to Bangladesh, undermining development effectiveness. The conditionalties imposed as part of the Lines of Credit not only required Bangladesh to procure a certain percentage of the goods and services (including consultancy fees) required for the Lines of Credit projects from India – ranging between 65 percent and 85 percent of the contract amount,34 but also required the Government of India to approve procurement of each component from UNODSSC and UNDP, 2019). Such conditionalties may carry negative implications for local private sector involvement in Southern-funded projects. Local content requirements in South-South finance should be considered as part of utilizing SSC to foster local private sector development.

2. South-South development finance can be a mixture of grants, interest-free loans and concessional finance though the degree of concessionality may differ from country to country. More voluntary country-level reporting on the amount and composition of such finance should be encouraged and integrated in country VNR reporting and in their Development Finance Assessments carried out within INFF operationalization activities. Debt sustainability arising from SSC merits as much attention as when the debt originates from the North. This calls for transparent reporting and disclosure of the amounts borrowed and how the debt is being utilized (whether for government consumption or productive investments with windfall gains on the local private sector).

3. Multilateral development banks in the global South continue to support implementation of projects and programmes, nationally and regionally, contributing toward achievement of the SDGs. The Addis Ababa Action Agenda in paragraph 44 welcomes the increase in lending in domestic currencies by these banks and encourages further growth in that area. Paragraph 70 explicitly recognizes the significant potential of multilateral development banks and international development banks to finance sustainable development and provide know-how. The Agenda explicitly invites multilateral development banks to continue providing both concessional and non-concessional stable, long-term development finance by leveraging contributions and mobilizing resources from capital markets to: 1) make optimal use of their resources and balance sheets within the limits of financial integrity; 2) update and develop their policies in support of the SDGs; and 3) establish a process to examine their own role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda.

Across different Southern regions, long-established multilateral development banks are indeed contributing to advancing the SDGs. As noted in the Financing for Sustainable Development Report 2020, in 2018, total lending by the International Development Association (IDA) rose by 4.7 percent to $71.9 billion. Concessional lending, primarily from the International Development Association, accounted for about 18 percent of the total, with the major recipients being LDCs (67 percent). In December 2019, the International Development Association was successfully replenished with $82 billion for the fiscal years 2021-2023 (IDA19), an increase of $6.7 billion compared to the previous replenishment in 2016. The African Development Bank Group saw an increase in its capital by $115 billion in 2019, the largest in its history, while its concessional arm, the African Development Fund, was replenished by $7.6 billion for 2020-2022, an increase of 32 percent from the previous cycle (United Nations, 2020).

In 2019, several multilateral development banks have agreed to take actions to optimize their resources, such as merging concessional windows with ordinary capital, securitizing balance sheets, insuring or reinsuring risks and mobilizing private capital (United Nations, 2020). Some multilateral development banks, such as the African Development Bank Group, have also engaged in securitization and synthetic securitization – the conversion of illiquid assets into marketable securities, whereby a portion of the bank’s loan portfolio is securitized (and sold) to a bondholder, allowing the bank to offset some of the risk of default to the bondholder, and in turn allowing the bank to further increase its lending. In the case of such a synthetic securitization, pioneered by the African Development Bank Group, the loans remain on the balance sheet of the bank until they reach maturity to avoid excessive risk-taking (United Nations, 2020). The Asian Development Bank has aligned its strategies with the SDGs and Agenda 2030 for Development and since 2016 has been tracking links between its projects and the SDGs and is improving monitoring how the projects and programmes it finances support SDG targets.
5. South-South trust funds have also emerged, such as the India, Brazil and South Africa (IBSA) Fund, created in 2004, with the purpose, as defined on its website, of identifying replicable and scalable projects that can be disseminated to other developing countries as examples of best practices in the fight against poverty and hunger. The India-United Nations Development Partnership Fund is another example and is a dedicated facility within the United Nations Fund for South-South Cooperation established in 2017. The India-United Nations Development Partnership Fund now encompasses 50 projects, approved in partnership with nine United Nations agencies in 40 countries, and is focused on supporting LDCs and Small Island Developing States.

6. Aside from grants and loans in concessional finance, in relation to commercial finance, South-South foreign direct investment has been on the rise (Chaturvedi, 2014; United Nations, 2020). A priori Southern-led FDI should offer advantages over Northern-led FDI by, for instance, facilitating the transfer of more locally-adaptable technologies and through the incorporation of non-profit based transactions in line with the spirit of SSC for promoting solidarity among countries of the South. According to Gonzalez, et al., (2015), “Some evidence suggests that Southern Multinational Enterprises understand local contexts more readily than their Northern peers and are better able to build South-South value chains. They may be more familiar with difficult business environments and institutions; they may have developed mechanisms allowing them to better navigate informality and red tape; and they may be better equipped to mitigate economic and political risks.”

Greater benefits of Southern-led FDI over Northern-led FDI, however, remains to be robustly established empirically. Some evidence shows that firms in Africa receiving FDI from other African investors experience higher employment growth and more technology transfer than firms receiving FDI from Northern investors. This can be due to the fact that African firms do not shy away from investing in growing firms on the continent (reflecting also deeper knowledge of the continent) and that African investors work more closely with their African affiliates because they have a greater technology overlap or a shared familiarity with the business environment (Gold et al., 2017).

Evidence suggests that affinity to institutions that are similar to those at home is expected to allow multinationals to better adapt to host environments, facilitating better networking with local firms and rendering local supplier interactions less risky. That is, the smaller the institutional distance, the lower the transaction costs to foreign investors and the larger the linkages to the domestic economy. However, these effects were found to matter more among Northern foreign investors than Southern ones (Perez-Villar and Seric, 2015).

Evidence from Amighini and Sanfilippo (2014) found that South-South integration has a stronger potential for accelerating structural transformation in Africa. Their empirical analysis concludes that in Africa, South-South FDI fosters diversification in key low-tech industries, such as agro-industry and textiles, and raises the average quality of manufacturing exports. Meanwhile, imports from the South increases the ability to expand the variety of manufactured exports and to introduce more advanced goods in less diversified economies. For example, while Northern-led FDI in African countries are concentrated in the primary extractive sectors, Southern-led FDI are more diversified and encompass industrial development, such as the set-up of industrial parks by China in Africa. In Ethiopia, with Chinese FDI, the first industrial park, the Eastern Industrial Zone, was set up, with Chinese companies operating in a range of sectors such as textiles, apparel, building materials, mechanical manufacturing and agricultural processing. China’s largest shoe manufacturer, Huajian, opened two production lines in the Eastern Industrial Zone to produce about 2,000 pairs of shoes daily for the U.S. and European markets (World Bank, 2012). Other empirical evidence seems to find that education and human capital matter in determining the spillover benefits of FDI, whether through North-South or South-South avenues (Ndambena, 2014).

The differential benefits of Southern-led FDI over Northern-led FDI, especially in relation to local private sector development should be investigated further in many developing countries.

7. South-South remittances associated with South-South migration have been increasing. In its Least Developed Countries Report 2012, UNCTAD estimated that in LDCs, remittance receipts rose from $3.5 billion in 1990 to $6.3 billion in 2000 and nearly $27 billion in 2011. The same report noted that South-South remittance flows were particularly sizeable to LDC recipients. Seven of the top ten (or 12 of the top 20) remittance corridors to the LDCs were South-South. These included several corridors linking countries of the Gulf Cooperation Council and India to large recipients such as Bangladesh, Nepal, Sudan and Yemen, in addition to a few intra-African corridors to Lesotho and Uganda (UNCTAD, 2012). The World Bank estimates the value of South-South remittances to be between $17.5 billion and $55.4 billion, representing about nine to 30 percent of all remittance traffic to developing countries (Brindisi, 2014), though updated data are needed.21

The costs of South-South remittances have been found to be higher than those of North-South remittances due to a lack of competition in the remittance market, a lack of financial development in general and high foreign exchange commissions at both ends of the transactions (Shaw and Ratha, 2016). Therefore, harnessing the sustainable development potential of remittances requires actions on the part of governments to reduce the costs of South-South remittance transfers (especially in Africa, in light of evidence that remittance costs to Africa tend to be high and higher still when originating from the South rather than the North) and to set up mechanisms to channel remittances more into productive investments and less on personal consumption alone (World Bank, 2019).

21 Data limitations and challenges in reliability of data are rife when it comes to bilateral remittances, given that only a few remittance corridors are monitored, and some remittance transfers go unrecorded.
The key empirical questions are: “How can South-South development finance benefit local private sector development?” and “To what extent can South-South finance be harnessed to promote local private sector engagement and contributions to finance and achieve the SDGs?”

South-South Development Finance for the Benefit of Local Private Sector Development in Recipient Countries

To the extent that SSC is based on the principles of reciprocity, mutual benefit and solidarity, recipient governments should be in a position to negotiate the terms and conditions of South-South development finance (including through investments) with source countries. For instance, recipient countries could negotiate conditionality to promote local sourcing of inputs at fair prices, encourage profit-sharing deals with local firms, promote joint ventures (such as equity and non-equity participation of local firms with cooperation agreements on technology transfer and skills development), foster business linkage programmes with local firms and suppliers, negotiate reinvesting a share of profits in the recipient country rather than full repatriation of profits and encourage reinvestment of profits in projects that can have positive spillover effects on local private sector competitiveness and viability. Guaranteed or preferential access to export and national markets for local private sector firms can also be an integral part of negotiations.

By strengthening the capabilities and profitability of the local private sector, and thus their taxable bases, South-South development cooperation can strengthen domestic resource mobilization in recipient countries. South-South development cooperation should increasingly be viewed as a catalyst for promoting local private sector development and a conduit for building the capacities of the local business ecosystem.

Additionally, when signing onto South-South development cooperation deals, countries must be vigilant that such deals do not carry adverse consequences for their local private sector by, for example, promoting anti-competitive practices (dominance of large, Southern-led multinationals over national firms, exclusive access for Southern firms to inputs at the expense of national companies, etc.). Strengthening the role of national and regional competition agencies is, therefore, also important.

A compilation of case studies on how South-South Cooperation has enhanced or harmed local private sector development, with an analysis of success factors, is an area of further research. And is beyond the scope of this paper. Nevertheless, to illustrate further, according to some research, African countries had made deals with Chinese companies to guarantee the latter’s access to natural resources or use their natural resources as collateral in exchange for loans to implement large-scale infrastructure projects that could potentially benefit the local private sector by improving the business environment. These are referred to as “commodity-backed loans” or “minerals for infrastructure deals”. However, in the case of the Sino Congolaise des Mines deal made in 2007 with the Democratic Republic of the Congo, the engagement delivered few benefits to the local private sector for several reasons, including a lack of clear guarantees on the benefits to be delivered to the local population, an absence of monitoring and evaluation mechanisms together with weak local capacities for quality control (Larrarte et al., 2019). This points to the importance of creating a culture of accountability for results in SSC deals, including monitoring impacts on the local private sector.

South-South partners should not be absolved from imposing conditionality when loaning to other countries from the global South. Transparency and accountability in loan use in recipient countries is imperative to ensure that South-South development cooperation is not aiding and abetting corrupt regimes and bad development outcomes. Demand for such type of accountability and transparency on South-South or South-North loans is increasingly being voiced from civil society in the South. For example, in Uganda, the Anti-Corruption Coalition Uganda and Uganda Debt Network expressed concerns in 2020 over $600 million received from lenders to address the impact of COVID-19 in the absence of strong accountability and a clear plan for utilization. The groups demanded transparency in the spending of COVID-19 loans to avoid loading taxpayers with corruption-fuelled debts.

In the case of commodity-dependent countries, access to natural resources by Southern partners could be tied to agreements for the Southern partner to invest in and set up industrial processing plants with participation from the local private sector as a means of promoting economic transformation. The promotion of domestic processing of natural resources is a long-term policy option for reducing illicit financial flows in extractive industries, given that these flows erode taxable bases of governments and reduce the availability of fiscal balances for nurturing local private sector development.

When financing large-scale infrastructure projects, South-South development finance can provide positive spillover benefits for local and regional capital markets and the private sector. It is expected that under China’s Belt and Road Initiative, for instance, positive spillover benefits towards local private sector development will arise. The Belt and Road Initiative is meant to improve trade, transport and energy connectivity across a range of countries, in the process relieving critical constraints for enterprises to participate in value-chains and regional and global trade. Additionally, Belt and Road Initiative projects can contribute to stimulating local currency bond market development. Belt and Road Initiative-related spending can contribute to enlarge the breadth, depth and liquidity of many of Asia’s smaller capital markets. The effect of bond issues of development banks and other issuers tapping local markets can widen the local credit market, attract global investors and expand development of long-term capital markets in the region, though these gains would not be automatic and would necessitate improvements in market infrastructure and greater cohesion across countries in the areas of taxation, foreign exchange regulation and credit ratings (Wolff, 2016). The deepening of local bond markets through the Belt and Road Initiative can contribute towards relieving access to financing constraints for the local private sector.

Joint ventures in the form of equity and non-equity modes of production (NEM) between Southern-led firms and the local private sector through FDI can
bring tangible benefits in terms of boosting national entrepreneurship while promoting national participation in global value chains. For instance, Inventure (Taiwan Province of China) designs, builds and internationally distributes electronics products for lead enterprises, involving production from affiliates in countries such as the Czech Republic, Malaysia and Mexico (UNCTAD, 2011). Flextronics in Singapore has overseas production bases in Brazil, China, India and Malaysia. The so-called “Mauritian Miracle” of the 1980s was driven by a take-off in Mauritian manufacturing, led by FDI from Hong Kong, People’s Republic of China and that over time gave way to a takeover by domestic Chinese firms. In the global South, a range of contract manufacturing arrangements exist from Southern-led multinational corporations and national suppliers in developing countries that have allowed these countries to develop their national manufacturing sectors. For example, Hong Kong and Indonesian manufacturers have affiliates in countries with lower labour costs, such as Cambodia, Lao People’s Democratic Republic and Lesotho (UNCTAD, 2011).

South-South Cooperation development finance should go beyond exchanges between the governments of nation states and should promote private to private business interactions, which should not remain centered on large-scale infrastructure projects. These projects also promote sectoral diversification, including the industrial and rural development sectors. It could also embrace innovative finance modalities, such as Trilateral Development Cooperation that involves a partnership between Development Assistance Committee donors and national agencies and emerging countries to implement a development programme in a third recipient country (United Nations, 2012).

A good example of Trilateral Development Cooperation comes from Mozambique, which is the largest recipient of Brazilian SSC in Africa. A memorandum of understanding was signed between Brazil, Mozambique and the World Bank in 2017 covering a broad range of issues, from land management and biodiversity to climate change mitigation and adaptation, where learning objectives included effective public policy reform for environment and conservation agriculture. The agreement involved innovative measures to increase land regularization, planting technologies for restored areas, value chain development, the promotion of rural smallholder entrepreneurship and the potential for public-private partnerships to provide rural credit streams for smallholders and agri-businesses (World Bank, 2017).

Evidence also shows that Chinese financiers in Africa have been reconsidering their engagement from pursuing state-driven projects to more exposure to private sectors. However, in the Chinese context, Chinese financiers tend to prefer to loan to big business tycoons or to governments that have access to sovereign guarantees or Central Bank guarantees and where the risks of non-repayment are lower (Lu, 2019).

For the wider local private sector to benefit from access to SSDC finance, access to credit guarantees for the local private sector, especially in industrial sectors, needs to be addressed. In many African countries, SSDC finance can bring significant benefits by allowing the wheels of industrialization and structural transformation to reduce the continent’s dependence on primary commodities and help the continent secure the expected gains of ACFTA. This, however, will require South-South financiers to loan to firms in the industrial sectors where the risks of non-repayment may be higher. Here, leveraging triangular cooperation can be explored; for example, arrangements through which donors (North and South) can provide ODA-backed credit guarantees to smaller industrial firms that allows the firms to access SSDC finance.

SSDC finance can support Africa’s industrialization process in several ways: direct budget support to governments such as grants to finance government investments in improving the business climate for the local private sector and financing entrepreneurship and private sector development programmes, as noted in the VNR, an Advisory Group, made up of eight CEOs representing the global South to engage in debt sustainability practices. These loan provisions can be negotiated between recipient and lending countries. Better still, an increasing portion of SSDC finance should be in the form of grants rather than loans. The review of African country VNRs exposed a clear dearth of financing mechanisms to harness SSC to directly finance SDG achievement. The review confirmed a similar lack of mechanisms to mobilize private finance to achieve the ends. In most countries, the private sector’s engagement is seen at undertaking investment projects, in some cases as part of PPPs, in SDG-related areas, such as climate mitigation and adaptation, renewable energy, sanitation, education and health service delivery. Or the emphasis is on encouraging the private sector to engage in sustainable business practices and get involved in corporate social responsibility initiatives, but often this is done in the absence of a proper coordination mechanism that can serve to counter fragmented, piecemeal initiatives. For example, the VNR of Ghana notes that “a number of individual businesses are doing critical work to achieve sustainable models, engaging in corporate social responsibility and philanthropy. However, greater visibility and more effective coordinated efforts are still required. Government has collaborated with the Private Enterprise Federation to explore how to engage the private sector effectively in the implementation of the SDGs.”

To ensure a coordinated approach to private sector engagement on the SDGs, the President of Ghana hosted a Breakfast Meeting with selected private sector Chief Executive Officers in June 2018. According to the VNR, the meeting was a forum for reflection and dialogue on the SDGs and a chance to define collective actions for accelerating SDG implementation, identify ways of scaling up investments necessary to achieve the SDGs and collectively agree on financing “quick wins” to help advance efforts toward achieving the SDGs. The group continues to meet quarterly with the President to discuss pertinent issues related to the SDGs. In addition, as noted in the VNR, an Advisory Group, made up of eight CEOs representing different sectors, was set up to define a set of practical actions that the private sector can undertake to support SDG attainment. The group has set up an SDG Delivery Fund to finance actions on these goals. The fund is to be sourced from a percentage of private sector corporate social responsibility and is expected

to generate $100 million each year to finance targeted SDGs. A Green Fund is also being set up to raise $100 million in the first two years to advance the course of Goal 7 (Government of Ghana, 2019).

As the Ghana example shows, the creation of pooled national funds to which government, the local private sector, Southern development partners, traditional donors, IFIs and DFIs can contribute can facilitate bridging coordination gaps on SDG delivery in developing countries and avoid uncoordinated, fragmented and small-scale, piece-meal approaches with little tangible impact.


Southern-led financing mechanisms integrating local private sector participation can become increasingly relevant in financing SDG achievement for multiple reasons: one of which is the fact that no single source of finance, be it public finance, ODA, blended finance or debt, could be sufficient on its own to bridge the entire SDG financing gap of a country. Another is the continued deficiencies in the Northern-led ODA-based financial architecture. Such deficiencies are related to what has been coined the “unfinished business” of the aid effectiveness agenda (UNCTAD, 2019) pertaining to incomplete implementation of the Paris Declaration on Aid Effectiveness, especially in terms of persistent volatility and unpredictability of aid flows, prevalence of tied and informally-tied aid, insufficient monitoring and accountability of results, fragmentation and limited country ownership that tend to strain the absorptive capacities of vulnerable developing countries, such as LDCs (UNCTAD, 2019).

While ODA from traditional OECD Development Assistance Committee donors should remain an important option in the development finance mix of developing countries, in particular the LDCs, owing to its concessional nature and the “grant” element involved, there are persistent concerns over the effectiveness of such aid in terms of genuinely relieving poverty and being allocated to where it is needed the most. For instance, the emphasis on social sectors and an under-allocation to the productive sectors is notable, despite the fact that the latter can drive long-term economic growth, thus reducing aid dependence in the long run.

In addition to the decline in traditional ODA to developing countries since 2016 (see Chart 4), continued biases inherent in ODA allocation exist that result in aid being disbursed based on geo-political strategic factors, often divorced from economic needs. For example, total bilateral aid disbursed in 2018 by OECD Development Assistance Committee donors to developing countries amounted to $166.3 billion, of which only 32.9 percent was allocated to LDCs and other low-income countries while another 33.0 percent was unallocated by income. Concerns are increasing about the rising involvement of Northern-led DFIs and the international private sector in aid-driven development cooperation. Traditional donor countries are delegating to their Northern-led DFIs the primary responsibility for implementing their aid programmes, using private sector instruments backed by ODA (UNCTAD, 2019). Private sector development cooperation led by DFIs of donor countries are commercial in nature and as such may not flow to where ODA is needed most, that is in sectors and activities that are not commercially viable yet are indispensable to address poverty, the SDGs and foster structural transformation. In other words, such aid may not abide by the “additionality principle.”

On the contrary, ODA-backed private sector instruments may even crowd out conventional private finance by competing for returns in the same commercially profitable sectors that can attract such conventional private finance on its own in the first place, in which case ODA-backed private finance fails to produce the catalytic additional impact it is intended to generate to scale-up investments. For instance, as noted in the UNCTAD Least Developed Countries Report 2019, in LDCs, the sectoral distribution of mobilized private capital backed by ODA shows a concentration in revenue-generating sectors. Energy, banking, financial services, industry, mining and construction attracted about 60 percent of such flows over the period 2012-2017 (UNCTAD, 2019). Yet these are the sectors that tend to be served by commercial finance and conventional public-private partnerships. Furthermore, as donors through their Northern-led DFIs allocate funds directly to a range of actors in the private sector, governments get bypassed, creating coordination and fragmentation issues among a larger cast of actors such that there are no guarantees that the ODA-backed private sector instruments are contributing toward advancing the sustainable development objectives of the country within a holistic, coherent approach. The impact of ODA-backed private finance on local private sector development, thus, can be deleterious: local companies now have to compete with international and local companies benefiting from ODA-subsidized support. The effect can be more damaging in countries where the local private sector is weak. As noted in the UNCTAD Least Developed Countries Report 2019, “subsidies provided by donors could substantially jeopardize competition and lead to unfavourable market structures in recipient LDCs” (UNCTAD, 2019, p. 64). Furthermore, Northern-led DFIs tend to favour investing in larger enterprises that are well-established and profitable over SMEs that are riskier but can be job-creating and are in greater need of finance.

Proponents of DFIs, however, would point to the role that DFIs can play in mobilizing private capital to achieve the SDGs, outside of ODA-backed modalities, including facilitating investment in SMES. DFIs are considered important actors in the impact investing24 landscape, providing large amounts of capital both through direct impact investments and through indirect investments through other impact capital vehicles. Since the late 1990s and early 2000s, DFIs increasingly began to invest in funds (both conventional and impact) focused on smaller, earlier-stage businesses, an indirect approach that allows DFIs to allocate capital specifically to SMES and private sector development while maintaining their usual large investment ticket size (GIIN, 2016).

As DFIs are government-funded investment corporations, they should combine the broad development objectives of traditional multilateral aid agencies with the commercial approach taken by private-sector banks and investors (GIIN, 2016). While in the case of Northern-led DFIs, it can be argued that a potential misalignment can occur between the development objectives of their traditional aid agencies and the development objectives of recipient governments in the South, in the case of national and regional DFIs based in the global South, such misalignment may be less likely since they are vehicles for facilitating delivery of the development objectives of their Southern governments, as long as governance challenges and political influences are managed.

As pointed out by the Global Impact Investing Network and Open Capital Advisors 2016 report The landscape for impact investing in Southern Africa, “DFIs are mostly funded by governments, though some also raise capital from private investors. As a result, the regions, sectors, businesses and types of project they target often reflect

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24 Impact investing is defined as “investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return” (GIIN, 2016).
the political environments in their home countries” (GIINI, 2016). In South Africa, for instance, the Development Bank for South Africa and the Industrial Development Corporation are South African DFIs that invest national and regionally. The Industrial Development Corporation has launched special initiatives to integrate SMEs in supply chains of larger firms. The Brazil Development Bank (BNDES) is known to play a critical role in implementing the national development vision of the Brazilian government (Ferreira and Rosa, 2017), though calls for reform had been made by the World Bank for BNDES to reduce its dependence on government funding, reduce scope for political interference in its operations and better target its investment capital toward high-impact SMEs (Frischtak et al., 2017).

While additionality is an issue with all DFIs, namely that DFIs can crowd-out private finance when they finance projects and programmes in commercially-attractive segments, sectors, markets and areas, the additionality issue can be addressed if DFIs (both Northern and Southern-based) are clearly directed to position themselves in those segments, sectors, markets and areas that are under-served by conventional, commercial-based private finance and where traditional private finance does not want to go due to the risks involved. Additionality can also be addressed when DFIs offer syndicated loans, involving a third-party private financial institution to co-lend and co-invest; when they offer asset management products to mobilize additional private sector financing; and when they make investment conditional on co-financing by a third-party (GIIN, 2016). Arrangements should be explored in which traditional, northern-led donors provide ODA-backed guarantees to national and Southern-based DFIs, rather than only their Northern-led DFIs, and clearly direct investments to areas that are under-served by the commercial private capital market. One such area relates to the provision of capital to SMEs throughout their entire lifecycle and not just in the early stages.

The changing features of the traditional ODA landscape, namely its shift toward greater private sector development cooperation, along with continued concerns over the quality of aid disbursed (e.g., grants versus loans, tied versus untied, pledged versus actual disbursed, stable and predictable versus volatile, etc.) and over the effectiveness of aid itself in terms of generating long lasting development outcomes (Edwards, 2014; Moyo, 2010) render it necessary for developing countries to explore alternative and innovative sources of development finance. - In particular countries should explore sources of finance governed by mechanisms that:

- promote more predictable and stable flows;
- strengthen rather than undermine country ownership;
- are mostly in the form of grants rather than loans;
- complement rather than crowd out other forms of finance;
- are additional and catalytic in nature;
- are subject to transparent reporting and embedded in monitoring for results systems;
- support structural transformation;
- do not harm the availability of finance for the local private sector; and
- on the contrary, support local private sector development.

These features are not automatic in South-South development finance but can be enhanced through adoption of principles encompassing effectiveness and impact. While traditional donor finance is subject to a clear set of governance principles captured in the Paris Declaration on Aid Effectiveness, SSC still remains to be properly defined, measured, monitored and evaluated at national and regional levels. SSC is not yet subject to common reporting standards across the global South and is not subject to an explicit set of guiding principles in relation to accountability, transparency, promotion of development governance, strengthening of developmental states and entrepreneurial states, development effectiveness and impact. Introducing these features to the operationalization of SSDC finance could be timely as the developing world sets itself on a new path toward sustainable development in a post-COVID-19 context in which significantly larger financial resources will need to be mobilized, better managed and more efficiently utilized for effective development results.

Nonetheless, significant progress is being made in terms of operationalizing SSC. SSC embraces core principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit. SSC could be complemented, in the absence of governance-tied conditionalities, by a monitoring framework of transparency and accountability for results in development effectiveness and SDG achievement. At the United Nations High-Level Conference on South-South Cooperation in 2009 in Nairobi, Kenya, it was reaffirmed that South-South cooperation differed from ODA as “a partnership among equals, based on solidarity,” and guided by the principles of respect for national sovereignty and ownership, free of any conditions (United Nations, 2009). The Nairobi Outcome also invited “developed countries to expand their participation in triangular arrangements, in particular capacity building and training, and to follow through on the ODA commitments. It also encourages developing countries to assess the effectiveness of SSC and Triangular Cooperation and to promote the development of methodologies and statistics to enhance national coordination mechanisms, and to share lessons learned to that end” (United Nations, Adopting Nairobi Outcome Document, 2009).

Indeed, there has been an increase in the range of actors and modes of cooperation involved in SSC, including developments on SSC-Triangular Cooperation (UNOSSC, 2019). As the First African South-South Cooperation Report points out, Africa, for instance, has made significant headway in institutionalising SSC, following a number of recommendations made by the Buenos Aires Plan of Action. Areas of progress include availability of SSDC finance through the setting up of South-South Cooperation Trust Funds, such as through the AfDB, and at national levels, the establishment of specific agencies dedicated to SSC, national SSC focal point platform co-location within Ministries of Foreign Affairs or Ministries of Planning and Economics and establishing SSC monitoring and evaluation systems (UNDP et al., 2019).
5. Characteristics of a New South-South Financial Architecture

In building back better in a post-COVID-19 world, this paper argues that it has indeed become timely and necessary for the international development community, including the global South, to establish a new Global Development Compact within the New Global Deal. The Compact should aim to prevent a major reversal of development gains in the global South and must avoid side-tracking of progress that has been made in achieving the SDGs. It needs to identify new and innovative ways to finance development for the SDGs, including financing from the global South.

Within this new Global Development Compact, the main characteristics of a South-South financial architecture could be as proposed below.

- A higher share of SSDC finance would be disbursed in the form of untied grants rather than concessional loans, in particular to the neediest countries mainly in Africa and South Asia, the major battlegrounds for achieving the SDGs, and in particular to the special categories of countries such as LDCs, landlocked developing countries and Small Island Developing States.

- SSDC finance would be diversified in the range of sectors covered to promote economic diversification and structural transformation. It would avoid too much emphasis on large-scale infrastructure projects and concentration in only a few economic sectors, such as commodities. The finance would support both large and small enterprises with job creation potential.

- SSDC finance would be a catalyst for local private sector development to unleash the latter’s potential to foster domestic resource mobilization in the medium to long run.

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

- SSDC finance would be properly defined, recorded, monitored and evaluated according to an agreed set of common standards to ensure transparent, accountable and efficient usage of funds and for it to be analyzed in the Voluntary National Reviews of countries.

- Data on SSDC finance would be compiled in a common database at country level, and if possible at regional and international levels, to promote cross-country and cross-regional comparisons and analysis for evidence-based policymaking.

- SSDC finance would be governed by underlying common principles that avoid the deficiencies of the Northern-led ODA architecture. The principles include country ownership, transparency, accountability, stability, predictability, monitoring for results and adequate reporting. These principles would be anchored around the acceleration of the achievement of the SDGs and of national development objectives.

- SSDC finance would adhere to the additionality principle and avoid competing with private commercial finance in commercially-viable projects, targeting instead sustainable investing and the creation of public goods.

- SSDC finance would be used in conjunction with other sources of finance within multi-stakeholder partnerships and within cooperative frameworks aimed at achieving the SDGs and national development objectives, such as the Integrated National Financing Framework. This may require the active participation of Southern development partners in broad-based public-private dialogue at country level and a shift away from arms-length relationships and consultations ‘behind closed doors.’

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

- SSDC finance would increasingly support regional-based projects and programmes that can generate regional public goods, benefitting entire regions rather than individual countries. This can be backed by the creation of corporate social responsibility initiatives for Southern-led transnational corporations that operate in multiple countries.

- SSDC finance would support the strengthening of development governance, developmental states and entrepreneurial states by supporting capacity building in recipient states and the set-up of transparency and accountability mechanisms.

A few of these proposals are further discussed below.

a. Foster Untied Grants Over Loans with Conditionalities

In the scarcity of global data on South-South development finance, it is challenging to analyze the changing patterns in the features of South-South development cooperation finance, such as changes in the grant elements of loans, in the volume of grants, sectoral composition of loans, volatility in disbursements and evolution in collateral requirements associated with loans. Evidence points to growing concerns over the fast indebtedness of a few developing countries due to large inflows of South-South development cooperation finance. Much attention has been paid to the rising indebtedness of African countries that have been beneficiaries of Chinese development finance, even more so in instances in which collateral assets can be seized when countries cannot meet loan repayments. The ‘grant’ elements in South-South development cooperation finance should be made explicit when governments sign deals with South-South partners, along with conditionalities attached...
to the non-grant elements. Transparent disclosures of the conditions and terms of the loan agreements and their development objectives should be made compulsory as well as the establishment of oversight institutions to supervise and report on the use of funds. Examples of such oversight institutions include the creation of legal-ly backed Auditing Committees comprised of members of the judiciary, civil society organizations, private sector, government and Southern donors.

b. Create Mechanisms to Strengthen Development Coordination

New national-level mechanisms may be necessary to strengthen development finance coordination and strengthen complementarities between traditional donor finance and South-South development cooperation finance. The creation of National Development Finance Coordination Committees to facilitate coordination among development partners and finance actors and foster Triangular Cooperation arrangements can be considered. Such committees would be composed of national SSC focal points in a range of ministries, academia, civil society, commercial private finance, traditional donors, DFIs and South-South development partners. Committees would meet regularly to assess progress made on development finance-related projects and programmes, jointly plan new projects and programmes and explore new modalities of cooperation (e.g., using grants from traditional donors and South-South sources to provide credit guarantees to private commercial banks so they can allocate capital in under-served areas). Such committees could endorse a set of guidelines for enhanced development finance effectiveness, such as giving priority to multi-year, multi-stakeholder development cooperation programmes with clear links to SDG achievement as opposed to short-run, stand-alone programmes involving only one development partner. The committees might also examine the additioality of proposed projects, put in place traceable performance indicators and governance mechanisms to monitor how development finance is being used to contribute to national development objectives and SDGs, create a database to record sources of financial inflows by sector and type of activity and publish an annual report to publicly disclose origin, type, amount and sectoral allocation of the financial inflows.

c. Better Align South-South Development Cooperation Finance with National and Regional Development Priorities and Explore New Modalities

New South-South development cooperation finance modalities, such as direct budget support to governments to implement their National Development Plan and covering a range of sectors, could be considered. Such direct support can strengthen national ownership over the development process, avoid fragmentation among development finance actors and contribute to avoiding a concentration of development finance provision in a limited range of areas. The creation of South-South national and regional trust funds, allowing South-South development cooperation to be pooled in a single funding mechanism and earmarked to finance priority areas of intervention as determined by governments, the private sector and civil society would contribute to better aligning South-South development cooperation finance with national and regional development priorities. Platforms of dialogue, involving government, private sector and development finance actors, could also be created at national and regional levels to promote sharing of information across stakehold- ers, to facilitate identification and resolution of bottlenecks impeding development finance effectiveness and to allow the private sector to participate in the delivery of development finance projects.

New financing instruments, such as the imposition of a corporate social responsibility levy on the domestic and international private sector (including foreign direct investors), traditional donors and South-South financiers can facilitate the generation of additional resources to implement the National Development Plan. The incentives to pay such taxes can be enhanced by the establishment of a National Development Compact that links tax obligations on the part of the private sector to obligations on the part of government to provide a range of goods and services to support private sector activities (e.g., provision of a business enabling environment).

While progress is being made on Triangular Cooperation arrangements, it could be placed higher on the government agenda as part of efforts to enhance development finance effectiveness by discouraging a proliferation of development finance actors in competing areas. Arrangements involving traditional donors, South-South development partners, national and regional DFIs and the local private sector in project financing, implementation and delivery should be explored.

d. Leverage Private Sector Development into South-South Development Finance Through the Inclusion of Local Content Requirements, Scrutiny Over Loan Conditionalities and Earmarking of Specific Programmes to Support the Private Sector

Governments should develop a clear strategy with development finance partners, including South-South development partners, to support local private sector development. The objective is to strengthen the viability of the local private sector in the long term such that the local private sector can contribute toward domestic resource mobilization to achieve national development objectives and the SDGs. Elements of such a strategy can include provisions for:

- untying conditionalities in South-South loans involving, for example, sourcing of inputs from origin countries;
- clauses in contracts stipulating use of locally-sourced inputs and commercial relationship-building with local suppliers in delivery;
- integration of private sector and industrial capacity building components in South-South development cooperation finance programmes;
- outright bans on exports of certain categories of raw materials in the absence of domestic industrial processing activities to promote economic transforma-
tion and private sector industrial activities; and
- introduction of corporate social responsibility components in South-South development cooperation finance programmes.

Furthermore, the design of incentives to encourage investors from the South to do business with local partners in the private sector can be envisaged. For example, the design of contracts that give tax breaks for FDI contingent on local private sector participation.

e. Identify Innovative Ways to Mobilize Local Private Sector Finance

In developing counties in which the local private sector is weak, mobilizing finance from the local private sector to achieve the SDGs is a challenge that can only be addressed in the long run through policies that support local private sector develop-
ment and improvements in the business climate. Governments can support
Integrated National Financing Frameworks (INFFs) are tools to finance national priorities and operationalize funds and of proceeds from natural resource exports in such state-owned enterprises. In light of growing concerns over the utilization of state sector development, the ultimate objective of South-South cooperation should be to strengthen development governance in recipient countries and include accountability and transparency requirements as part of their loan and aid packages, including when these are intended for state-owned enterprises.

SSC arrangements should support institutional measures that foster transparency and accountability. South-South development finance could, for instance, be mandatorily accompanied by results-based frameworks that establish milestones to be achieved in terms of development results to allow for subsequent tranches of loans to be disbursed. Such a measure would foster a culture of accountability for results. Special auditing committees to provide oversight on utilization of funds can be established, located within courts or ministries, and including members of the judiciary, civil society and the private sector. Competitive bidding processes can be made mandatory when governments source inputs financed by SSC loans, with civil society invited to be part of the bidding committees.

The ultimate objective of SSC should be to strengthen development governance and developmental states in developing countries. Akin to the African Peer Review Mechanism, major lending countries from the global South could establish a Global South Peer Review Mechanism through which participating countries can subject their development lending and borrowing to and from the global South to voluntary scrutiny for assessing development effectiveness and contribution to local private sector development. In addition, governance reforms at state-owned enterprises can be a part of such a review, in light of growing concerns over the utilization of state funds and of proceeds from natural resource exports in such state-owned enterprises.

g. Form New Types of Public-Private Relationships for the Global South to Achieve the SDGs

South-South development cooperation finance at country-level should be better anchored within the Integrated National Financing Framework (INFF)25 and delivered within multi-stakeholder partnerships involving the public and private sectors.

In light of the United Nations Secretary-General recent call for a New Global Deal and a New Social Contract, it is timely to revisit how SSC should support multi-stakeholder partnerships and coalitions around the delivery of the SDGs and national and regional development objectives within a New Development Compact. SSC should be less in the form of bilateral relations between governments of two countries from the South and delivered more as part of multi-stakeholder partnerships involving the public and private sectors in the individual countries and regions. The contribution of Southern development partners to the collective process of delivering on the SDGs and national and regional development objectives should be clear-cut and made explicit. As the push for the set-up and operationalization of INFFs proceeds at developing country level, the question arises as to how SSC can be integrated in such a cooperative framework and how to leverage SSC within the INFF mechanism for enhanced development results. A lack of explicit references to SSC in the VNRs of the countries reviewed in Table 1 seems to point to a lack of proper involvement and engagement on the part of Southern-led financial actors in the SDG delivery process at country level.

The creation of pooled funds at a national level to finance the SDGs around a common development agenda (for example, Ghana’s National SDG Delivery Fund and Mauritius’s two percent corporate social responsibility levy imposed on the private sector to feed its National CSR Fund) should be promoted as a means to avoid duplication, fragmentation and lack of coordination across multiple development actors, and in so doing avoid waste of resources and ensure complementary approaches on SDG delivery. SSDC finance could contribute to such pooled funds. The imposition of CSR levies or SDG levies on the profits of domestic and international private sector companies, including Southern transnational corporations, should be considered as a means to replenish the pooled funds. In a post-COVID-19 context, there is an opportunity for countries to “convert” their National COVID-19 Solidarity Fund into a National SDG Fund.

f. Strengthen Development Governance in Recipient Countries by Supporting Transparency and Accountability Mechanisms

While South-South cooperation is lauded for its non-conditionality approach toward recipient countries, as opposed to Northern-led aid that can make ODA conditional on human rights records, good governance and democratic governance, the fact remains that South-South development cooperation should not become a conduit for aiding and abetting corrupt regimes and the accumulation of odious debt. In the absence of governance-related conditionalities imposed on recipient countries, it is critical for South-South cooperation to foster the strengthening of development governance in recipient countries and include accountability and transparency requirements as part of their loan and aid packages, including when these are intended for state-owned enterprises.

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25 Integrated National Financing Frameworks are a tool to finance national priorities and operationalize the Addis Ababa Action Agenda at the national level. A country’s sustainable development strategy lays out what needs to be financed. INFFs spell out how the national strategy will be financed and
South-South development cooperation finance has become a significant institutional feature in the financing for development landscape of many developing countries, though strides remain to be made when it comes to measuring the flows, monitoring its allocation by sector and activity, tracking its volatility over time – at national, regional and global levels, assessing its effectiveness and linking it to SDG planning and financing processes through well-defined cooperation frameworks and mechanisms including integration in INFFs.

The COVID-19 crisis will increase the development financing gaps of developing countries for achieving the SDGs.

In light of current fatigue among traditional aid donors, rising concerns over indebtedness and strained fiscal resources of governments, the scope for leveraging South-South development finance to promote the achievement of SDGs remains to be more fully explored, in particular as part of Trilateral Development Cooperation arrangements and cooperation arrangements involving national and regional DFIs and the local private sector. The integration of South-South development cooperation finance in multi-stakeholder partnerships to promote the achievement of sustainable development lies at the heart of SDG 17.16 and 17.17 and should be part of a New Development Compact nationally and globally.

South-South development cooperation finance can increasingly be used as a catalyst to support local private sector development, such that developing countries can in the long run enhance their domestic resources through enlarged corporate taxable bases to finance sustainable development objectives. The establishment of a Global South Peer Review Mechanism through which participating countries can subject their development lending and borrowing to voluntary scrutiny for assessing development effectiveness and contribution to local private sector development could be considered.

Within the New Development Compact, Southern development partners should, at country-level, rally around the state, the local private sector, civil society and donors to better deliver on the SDGs and on national development priorities and make tangible contributions to countries building back better after COVID-19. SSC should not be delivered on its own but should become an integral component of the New Development Compact in developing countries and be delivered within multi-stakeholder partnerships.

References


South-South Ideas
South-South Ideas


