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The G20 Way

Inclusion, Innovation & Ideas

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Reinvigorating Global Partnership for Global South

The leadership of G20 by the countries of the Global South is a historic opportunity to put the reinvigorated global partnership at the centrestage of the G20 agenda to fix the constraints of finance and technology for sustainable development and green transformation. It would be an important legacy of the Global South for building a more inclusive, sustainable, and resilient future for all, says Dr Nagesh Kumar.

Established initially as a forum of the largest economies for coordinated action to address the challenges thrown by global financial crises, the G-20 has evolved over the years into the premier forum for advancing international economic cooperation on different aspects of sustainable development. The India Presidency represents an important phase in its evolution in that for the first time, all the Troika members are from the Global South.

The countries of the Global South will continue to helm the influential forum for the next two years as Brazil and then South Africa takes over the presidency from India. This provides an important opportunity for the Global South to advance the sustainable development agenda which is of special interest to them. Most developing countries are not only not on track to achieve Sustainable Development Goals (SDGs) at the mid-point of the 2030 deadline, but progress has been reversed in several targets. The poly-crisis comprising the Covid-19 pandemic, the food and energy security challenges resulting from the Ukraine War, and the debt crisis, are threatening to push 175 million people back into extreme poverty. The successful implementation of the SDGs in developing countries requires global cooperation and partnership.

The 2030 Agenda adopted at the United Nations Summit in 2015, therefore, included a reinvigorated global partnership covering finance, technology, trade (market access), capacity-building, data, monitoring, and accountability. In this context, a Special Think-20 Policy Roundtable on Finance and Global Economic Governance for Green Transformation hosted by the Institute for Studies in Industrial Development (ISID) jointly with the Boston University Global Development Policy Centre (BU-GDPC) in New Delhi on 2 March 2023 discussed the issue of addressing the issue of finance and access to technology and policy space for augmenting productive capacity for sustainable development. This article reflects on some of the key issues that came up for discussion at the Policy Roundtable as well as other papers prepared for the ongoing discussions at the Think-20.

Financing Sustainable Development

A staggering amount of finance is needed for SDGs and climate action. Songwe, Stern, and Bhattacharya (2022) estimate that developing countries will require an investment of $2.4 trillion annually by 2030 for climate mitigation and adaptation, out of which $1 trillion needs to come from external finance. The global community has found it challenging to keep its development finance commitments whether it is the 0.7 percent of gross national income (GNI) as overseas development assistance (ODA) commitment made way back in the 1970s or $100 billion per annum in climate finance by 2020 made at COP15 in Copenhagen in 2009. SDGs and climate action cannot be undertaken with private finance because of their exorbitant cost.

Given that Multilateral Development Banks (MDBs) provide financing at the lowest cost to developing countries, an important solution that was discussed was enhancing the lending capacity of MDBs through reforms and their recapitalization. Over the next five years, the MDB capital needs to at least treble, if not more. It is possible to enhance this with relatively modest resources, e.g., a 50% increase in the capital of the MDB system may cost only about $20 billion, which should be easy to accomplish, given the scale of foreign exchange reserves available. The governance structures of MDBs also need to be reformed to force them to work together as a system rather than as each individual institution. Capital increases will have to go hand in hand with voice and

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India's Minister for Environment, Forest & Climate Change Bhupender Yadav at the COP27 climate summit, in Sharm el-Sheikh, Egypt in November 2022.

representation reform, including the ability to appoint the heads of the Bretton Woods institutions. MDBs should also be made to help in building the absorptive capacity of developing member countries through the development of

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transformative projects in clean energy, sustainable transportation system, sanitation, and sustainable forestry, among other areas.

Innovative sources such as SDRs, carbon taxes, and IFTT need to complement the MDBs reform. Regular issuance of special drawing rights (SDRs) and their utilization is one such option. Carbon taxation is another innovative mechanism and has tremendous potential, especially in the North and some of the revenue can be used for international transfers. International Financial Transactions Tax (IFTT) is another such possible innovative option to generate perpetual resources for climate action in the Global South.

New calculations made by ISID-BUGDPC suggest that even a modest tax of 0.05% could generate revenues of US$650 billion p.a., roughly equivalent to three and a half times the annual flows of ODA, hurting only the speculators. Besides resources for climate action, IFTT could also provide another global public good by helping curb the volatility and the disruptive consequences of short-term capital flows. IFTT was put on the G20 agenda at the 2009 Pittsburgh Summit in the aftermath of the global financial crisis. The 2011 Cannes Summit, however, failed to endorse the IFTT proposal, despite strong support from President Nicolas Sarkozy of France, and other European leaders. The changed context since 2011 warrants bringing IFTT back on the agenda. While the need for climate finance becomes more urgent by the day, limited fiscal space in developed countries dampens the prospects of plugging shortages of finance.

The combined effects of the Covid-19 pandemic, the inflationary spiral stoked by the

Ukraine war, food and energy security challenges, and the debt crisis, have stretched budgets in both developed and developing countries. Over the past decade, the world has also suffered highly disruptive consequences of boom-bust cycles following monetary policy changes in developed countries—from the 'fragile five' of 2013-14 to the ongoing volatility in financial markets.

IFTT has the unique ability to curb volatility while generating resources required for climate action. Given that it has been on the agenda in the past and a lot of analysis and discussion has already taken place, IFTT seems like a proverbial 'low-hanging fruit' waiting to be plucked. Hence, in view of its relevance in the changed context, it should be revived on the G20 agenda and taken forward.

Sustainable Industrialization

The policy roundtable also emphasized the critical need for reform of multilateral trade rules to provide flexibility for the diversification of productive capacity for a clean transition. To achieve the objective of Net Zero, the renewable energy capacity needs to expand in an unprecedented manner. However, the entire global value chain for renewable energy equipment is highly concentrated in a few countries.

The productive capacity for renewable energy equipment needs to be enhanced massively in a diversified manner for fostering their rapid deployment for the clean transition, including using industrial policy instruments such as domestic content requirements (DCRs). This would require multilateral trade rules like Trade-Related Investment Measures (TRIMs) under the World Trade Organization to provide a peace clause or an exception for climate action. Transfer of Environmentally Sound Technologies should be facilitated by the Trade Rules. The agricultural green revolution in developing countries was facilitated by the fact that new technologies were available in the public domain.

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Most climate technologies, however, are developed in advanced countries and are covered by patents. Climate change, like the public health crisis, is a global emergency. To speed up climate action, the Trade Related Intellectual Property Rights (TRIPS) Agreement under WTO should be amended to extend flexibilities like compulsory licensing provisions for climate technologies, like the case of public health for developing countries. The Roundtable also emphasized the need to resist the tendency to evolve new protectionism in the name of climate action such as the introduction of Carbon Border Adjustment Measures by the European Union that is likely to lead to massive welfare losses for developing countries.

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