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Task Force 1: Development and Economic Prosperity

Barriers to Development and Prosperity in the Global South and How the G7 Can Help

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Abstract

Development challenges in the Global South are linked to long-standing concerns about poverty and inequality, food insecurity, debt sustainability, climate finance gaps, and the triple burden of nutrition (undernutrition, overnutrition, and micronutrient deficiency). These concerns are the symptoms of deeper-rooted problems, which hinder achieving shared and sustainable prosperity. This paper proposes a new role for the Group of Seven (G7) in addressing long-term development issues in the Global South while restoring credible global governance. Vicious circles of poverty and vulnerability, food and nutritional insecurity, and debt distress continue to exist and worsen. The lack of financing from public and private sources for development remains pronounced, especially in climate change mitigation and adaptation in the Global South. While governments in the Global South have a crucial role in addressing institutional governance in the region, the G7 can play a key role in fostering a facilitatory policy environment at the global level.

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Major Development Issues in the Global South

Despite economic growth and prosperity, humanity continues to face several interconnected challenges to sustainable development. Many of these challenges, which include poverty and inequality, food and nutritional insecurity, unsustainable debt burdens, and climate risk, pose a serious threat to all countries, although developing countries are most vulnerable due to their limited resilience capacity (Rahut, Aryal, and Marenya 2021; Rahut et al. 2022). Failure to act quickly to stabilize the problem of debt, climate, and environmental degradation will be detrimental to ensuring a sustainable and equitable future. In addition, inequality within and between countries is ever-rising (United Nations 2020) and is further accentuated by climate shocks, conflicts, and debt crises.

As of 2020, 9.3% of people worldwide were in extreme poverty, an increase from 8.4% in 2019 due to the coronavirus disease (COVID-19) pandemic (Kadri et al. 2023). It is projected that the global extreme poverty rate in 2030 will still be as high as 7% (600 million people) (World Bank 2018). The majority will be concentrated in South Asia, sub-Saharan Africa, conflict-affected areas, and rural areas. Female-headed households, particularly de jure female-headed households, are vulnerable to poverty as their access to and control over resources and services are lower (Aryal, Mottaleb, and Rahut 2019; FAO et al. 2022; UN Women 2012). The number of undernourished individuals rose after 2019, having remained stable since 2014. In 2020, the prevalence of undernourishment increased to 9.9% from 8.5% in the previous year. According to the FAO et al. (2022), approximately 828 million people, or 10.5% of the global population, were hungry in 2021. A report by the Global Network Against Food Crises (2022) states that in 2021, 193 million individuals across 53 countries suffered from acute food insecurity and required humanitarian assistance. Conflicts are identified as the main driver of acute food insecurity, affecting 139 million people in 24 countries. Extreme weather is responsible for 23 million people in 8 countries, while economic shocks affected 30 million people in 21 countries.

The debt burden on the Global South has been a significant impediment to achieving the 2030 Sustainable Development Goals (SDGs) and poses a challenge to fiscal sustainability (Beirne et al. 2023). At the start of 2023, 56% of the world's low-income countries were estimated to be in debt distress or at high risk of it, while around 25% of emerging markets were estimated to be facing high risks of debt distress (International Monetary Fund 2023). With a fragile growth outlook for the global economy in 2023, higher debt levels, and tighter global financial conditions, debt vulnerabilities for emerging market and developing economies are amplified (World Bank 2023).

The financing gap for climate change poses a major challenge in achieving the goal of net-zero carbon emissions and adapting to climate change, especially for low-income countries. According to a joint report by The Rockefeller Foundation and Boston Consulting Group (BCG), only about 16% of climate finance needs are currently being met (Kozloski et al. 2022). To achieve the climate goals set by the Paris Agreement, the Organisation for Economic Co-operation and Development (OECD) has estimated a requirement of $6.9 trillion annually until 2050 to invest in infrastructure to meet development objectives while transitioning to a low-carbon and climate-resilient future (OECD 2021; Khanna et al. 2023). Furthermore, there is a significant inadequacy in financing for climate change adaptation, with annual requirements projected to be between $160 billion and $340 billion by 2030, and up to $565 billion by 2050 (UNEP 2021). In particular, emerging market and developing economies (EMDEs) and least developed countries (LDCs) face significant gaps in adaptation financing (UNEP, 2021).

The following section outlines what governments in the Global South can do to enhance their capacity for managing development priorities and economic challenges, which also involves support from developed economies. We then present proposals for G7 action.

Foundations for a Collaborative Approach with the G7

Addressing the obstacles to development and economic prosperity in the Global South can be strongly supported through a partnership approach with G7 economies. The Global South can increase the effectiveness of collaboration with the G7 by improving fundamentals for sustainable development, such as institutional governance, capacity building on financial and public debt management, enhanced infrastructure, and human capital development at the national and regional levels.

- Further strengthening institutional governance in the Global South could increase governments' capacity to respond to economic challenges effectively and equitably, as well as contribute to 2030 sustainable development targets, such as those related to poverty reduction, food security, gender equality, access to clean energy and water, and environmental protection. Related to this, a sound regulatory framework that facilitates and supports the enhancement of institutional capabilities is important.
- Enhanced public debt management practices can help to facilitate the availability of fiscal resources for utilization in a sustainable way, i.e., for improving longer-term resilience and without sacrificing spending on other development priorities. Such action is primarily the responsibility of the governments of the Global South, while debt relief from developed countries and donor agencies can also help to accelerate the process.
- An integrated and collaborative approach and sharing of best practices can help to support development and prosperity. More specifically, actions taken in one country can be shared or replicated in another, especially when those countries share borders. Infrastructure development is key and can be supported by developed economies, such as through the G7's Partnership for Global Infrastructure Investment.
- Capacity building and consistency within national development plans and national strategies on specific priority areas are central to a solid sustainable development framework. For example, national plans on climate adaptation or poverty reduction should be in alignment with and contribute to broader national development plans. Effective institutional governance, as well as regional cooperation, can be important contributory factors.

What Can the G7 Do?

High-Level Actions

- The G7 can provide a leading role in accelerating debt relief measures and financial resources and boosting technological transfer for enhancing public debt management capacities. This would be an important foundation for alleviating the negative effects of climate change and contributing to a just transition through the provision of sufficient and well-targeted resources. Countries that are most vulnerable to climate change, while affected by poor domestic institutional governance, are often also those that are least able to afford the investment to strengthen resilience, given that their fiscal capacities are burdened by debt.

- The G7 must work together with the G20 to establish a fit-for-climate-prosperity global financial system, building on the leadership of the International Monetary Fund (IMF)—especially in the context of climate-resilient debt restructuring, enabling special drawing rights (SDRs) swaps, accelerating public and private financing for the energy transition, and allowing multilateral development banks (MDBs) to increase their lending powers without diminishing their financial standing or their credit ratings. Alongside this, the continued investment in infrastructure by developed economies for exporting fossil fuels from resource-rich developing countries needs to be phased out. Pledges for emissions reductions at the global level are far below target, and the scale of implementation by major countries needs to be far greater to reach the target for zero emissions and reduced global temperature while giving more time for resource-rich developing nations to utilize their fossil fuel reserves under reasonable expectations and conditions (such as until renewable alternatives are more feasible and just transition considerations can be reasonably met).
- The G7 can provide a forum for support provision by development partners, including MDBs, to ensure developing countries can implement their national development plans, both in terms of institutional capacity and financial resources. For example, many of these countries are struggling to implement COVID-19 recovery plans and have sparse remaining resources to implement their climate adaptation plans.
- The G7 should champion urgency in progress for achieving the SDGs. At the halfway point in 2023 for the SDG timeline, we are far from the target for all countries, including the G7 and other developed nations. Hence, strategies to accelerate the path to achieving the SDGs 2030 target are crucial.
- Sustainable production and consumption in the Global North and Global South should be the key priority of the G7 nations. Among several other strategies, scaling up the circular economy would support efforts to achieve net zero carbon emissions goals and inclusive development.
- Although there has been some momentum on building triangular partnerships for development with shared prosperity (South–South and North), the G7 and G20 should prioritize funding for a triangular partnership to overcome the recent challenges in sustainable development.
- The G7 should support and take the lead in multilateral institutional reforms such that these institutions are effective in handling the current challenges and the interest of the global communities.
- Supporting national development action plans, adaptation, and otherwise, with scientific information, needs to be encouraged to ensure that they are evidence-based. The availability of reliable data and statistical information to conduct scientific research and capacity building on utilization will be crucial, including ensuring effective communication lines between scientists and policy makers. Global MDBs, with support from the G7 and G20, should take responsibility and contribute to building a database and capacity for evidence-based research.

Specific Actions

Specific actions for G7 leaders are provided according to four key areas: (i) poverty and inequalities; (ii) food security; (iii) debt sustainability; and (iv) increasing finance for climate action.[1]

Poverty and Inequalities

Supporting poverty reduction programs through green initiatives should be the priority of the G7 countries as this would help in meeting several SDGs while contributing to inclusive development or development with shared prosperity. Some strategies for this are outlined as follows:

- The G7 should work toward fulfilling the long-standing commitment to allocate 0.7% of gross national income to development cooperation and humanitarian aid to support the most vulnerable countries. Currently, only 0.32% of this target is being met. G7 countries should develop a timeframe to increase official development assistance to reach this target.
- The G7 should support genuine efforts to help the poor escape poverty. Aid should shift from focusing solely on safety nets and social protection to increasing investment in development programs that enhance countries' and individuals' economic potential.
- The G7 should enhance its support for developing countries to strengthen their statistical capacity, especially for implementing precision targeting. Many developing countries lack the resources and expertise needed to utilize sophisticated quantitative techniques and tools for precision targeting, such as data collection activities. Therefore, it is crucial to provide them with the necessary assistance to improve their statistical capabilities.

Food Security

G7 and G20 have implemented several initiatives and programs to strengthen Global Food Security.[2] As food security is crucial for the foundation of life and extremely sensitive to climatic conditions and other shocks, the G7 and G20 should focus on building resilient food systems to stabilize and improve the global food situation and protect the most vulnerable. Further, it is essential to address gender inequalities while implementing these actions.

- The G7 should collaborate with partners to promote a transparent and stable global environment for agri-food trade and investments. The G20 and G7 should work closely and support the food system continuously, and the approach should not be ad hoc or passive, or reactive crises, which has been the general tendency. As the G7 are significant donors, and G20 countries are primary beneficiaries of CGIAR, the continuous financial commitment from the G7 and G20 should be scaled up to guarantee that countries beyond the G7 and G20 can access data, knowledge, technology, and know-how to transform food systems at all levels (Fan 2023).

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[1] For a deeper insight into these actions, refer to Kadri et al. (2023), Kareem et al. (2023), Beirne et al. (2023), and Khanna et al. (2023), the four policy briefs completed as part of T7 Japan's Task Force on Development and Economic Prosperity.

[2] In 2012, through Group of Eight engagement, the New Alliance for Food Security and Nutrition and Feed the Future served was formed, with the United States pledging to spend more than $1 billion per year in selected countries in Africa, Latin America, and Asia to develop agricultural programs for ending hunger and poverty.

- The G7 should undertake inclusive food policy reforms to contribute to global food security within the context of global rebalancing (Laborde et al. 2023). Such rebalancing should be supported by a strong development agenda that enhances the competitiveness of low-income countries, boosts their economic and environmental productivity, and promotes income growth, particularly for smallholder farmers.
- The G7 should prioritize investment in the food systems of the Global South, with a focus on the interplay of gender, climate, and digital technologies. These initiatives should be part of a sustained strategy to enhance technological and institutional capacities in these nations.
- In line with the G7 Canadian presidency, a mechanism to track the food security commitment by the G7 should be developed to ensure all the pledges are met (Fan 2023). Barrett (2023) recommends that the G7 and G20 push forward programs and policies to develop and scale bundled sociotechnological innovation, which can deliver more healthy, equitable, resilient, and sustainable food per capita with minimal impact on the environment.

Debt Sustainability

- The G7 has a crucial role to play in helping to alleviate debt distress and debt sustainability risks in the Global South. This can be achieved by advocating for the effective implementation of existing multilateral mechanisms and initiatives on debt relief and debt restructuring, as well as proposing new, more targeted measures.
- The G7 nations can help alleviate debt distress and debt sustainability risks by calling for further progress on the $100 billion pledge by G20 countries (out of the $650 billion allocation of SDRs in 2021 to IMF members) to the poorest and most vulnerable countries. The total commitment to date stands at around $60 billion. G7 economies should also consider transferring the unused share of their own allocations to heavily-indebted poor countries. Together with the G20, the G7 should set up a working group to accelerate the removal of operational barriers to SDR transfers, including reforms on prevailing regulatory and legal obstacles to SDR reallocations. In addition, G7 leaders should call for a regular SDR allocation and a renewed IMF quota method to allocate a higher SDR share to the poorest and most vulnerable countries.
- Reforms to the G20 Common Framework for Debt Treatment are needed. The G7 can push forward on calls for reforms in four main ways: (i) regulation to encourage private sector participation in negotiations; (ii) for countries engaged in debt restructuring negotiations, debt service obligations should be halted to incentivize creditors to speed up the process; (iii) clarity is needed on the comparability of debt treatment across countries; (iv) enhance mechanisms for coordination between creditors and debtors. In order to further encourage private sector participation in debt resolution negotiations, the private sector's involvement can be made conditional on IMF sovereign debt restructuring arrangements (e.g., Hagan [2020]). The G7 should also spearhead renewed efforts for debt transparency, particularly by private creditors. Regulation on disclosures of their sovereign debt lending can help better operationalize the OECD's Debt Transparency Initiative (DTI), launched in 2021. This can, in turn, help to enhance the landscape for debt restructuring under the Common Framework. The voluntary nature of the DTI to date has inhibited its effectiveness.
- Given the significant implications of climate risk for the cost of sovereign borrowing (e.g. Beirne et al. [2021]), G7 leaders should call for climate risk exposure to be systematically taken into account by the IMF and World Bank in their assessment of debt sustainability and all creditors involved in debt-restructuring negotiations.

- The G7 should boost mechanisms for enhancing resilience to external debt vulnerabilities. While borrowing in US dollar-denominated debt will continue to be necessary for many EMEs, policies should aim to reduce exposure to abrupt US dollar fluctuations (e.g. Beirne and Panthi [2023]). This can include debt restructuring and servicing schemes that feature currency hedging components and further progress on local currency bond market development.

Increasing Finance for Climate Action

- Reinforcing the swift momentum for IMF and World Bank reforms and effectively addressing the massive climate action needs of developing countries are critical key steps that need G7 leadership. To enable these, the G7 should partner with G20 leadership to catapult a Global South-led version of the Bridgetown Initiative—echoing the climate finance and economic recovery needs and voices of emerging economies—that will offer a range of policy initiatives for reformation and strengthening of the MDBs to unlock additional financing for key priorities, such as just energy transition, equity, and access, while enabling the creation of more green jobs in these economies. The G7 can also build upon existing initiatives and facilitate an increase in green finance flows for EMDEs, particularly in LDCs, by boosting blended finance for climate action.
- Partnering with the G20 leadership to create a clear roadmap for implementing a full capital adequacy framework package by the September G20 Summit and World Bank October Annual Meetings. A few recommendations, such as giving more importance to callable capital, will require immediate preparatory work to ensure timely implementation.
- In preparation for the UN SDG Summit and UN Climate Ambition Summit in September 2023, and the 2024 Summit of the Future, the G7 nations can focus on three critical actions to improve the implementation of blended approaches to mobilize private climate finance: (a) inclusiveness and effectiveness; (b) creating enabling environments and building capacities; and (c) fostering impact measurement, accountability, and transparency. These actions are particularly important for LDCs, where the need is most significant and private finance is still scarce. Thus, the G7 should support initiatives that will help mobilize private climate finance.
- To accelerate climate finance, all parties in the ecosystem must improve reporting. A common reporting framework with proprietary data provisions is crucial. Specifically, in the context of the G7, accurate sector and geographic investment disaggregation is vital for achieving global climate goals. Alongside, the G7 should scale up needs-based climate finance to address loss and damage to enable developing countries to build their local capacities for finance climate action.

Conclusion

The G7 has taken leadership and demonstrated commitment to handling the challenges of the Global North as well as the Global South. Conflicts, environmental degradation, poverty and inequality, food and nutritional insecurity, debt burdens, lack of sufficient progress on goals for net-zero carbon emissions, poor institutional governance and capacity, and need for reform in low- and middle-income countries, among many other challenges, have been holding back sustainable development and shared prosperity at the global level. This issue paper calls for urgent and significant commitment and action from the G7 and other developed countries to work together to address the core problems hindering development and secure a sustainable future.

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