

GLOBAL DEVELOPMENT FINANCE: ECONOMY/ INTERNATIONAL RELATION

NEWS: Rephrasing global development finance

WHAT'S IN THE NEWS?

Global development finance is under strain due to declining aid, rising debt, and geopolitical instability, prompting a push for inclusive, sustainable, and diversified funding models.

India plays a leading role through South-South Cooperation, concessional lines of credit, capacity building, and climate finance advocacy to support the Global South.

1. What is Global Development Finance?

- Global Development Finance refers to **international financial flows** from public, private, and multilateral institutions to support **development initiatives** in low- and middle-income countries.
- Aims to address pressing challenges like **poverty, inequality, health crises, education deficits, infrastructure gaps, and climate change**.
- It includes **grants, concessional loans, technical support, and private investment mobilization**.

2. Rising Urgency and Financial Gap

- As per the **United Nations**, achieving the **Sustainable Development Goals (SDGs) by 2030** requires closing a financing gap of **over \$4 trillion**.
- With global crises (climate change, pandemics, conflict), the **demand for development finance has increased**, but traditional funding sources are shrinking.

3. Major Global Development Finance Initiatives

Initiative	Contribution	Impact Areas
Official Development Assistance (ODA)	Grants and concessional loans from OECD nations	Poverty, education, infrastructure
International Development Association (IDA)	Concessional loans from World Bank Group	Health, governance, climate adaptation
Green Climate Fund (GCF)	Grants to climate-vulnerable nations	Emission reduction, renewable energy
IBRD (World Bank)	Loans to middle-income countries	Infrastructure, energy, economic reforms
South-South Cooperation (SSC)	Peer support among developing countries	Technology, capacity building
Global Infrastructure Facility (GIF)	Leverages private capital for big infra	Urban growth, logistics, connectivity
AIIB (Asian Infrastructure	Loans for sustainable infra in Asia	Green energy, integration

Initiative	Contribution	Impact Areas
Investment Bank)		
Bilateral DFIs (e.g., US DFC, UK DFI)	Country-specific funding	Private sector growth, development
GFATM (Global Fund)	Health program financing	AIDS, TB, Malaria eradication
UNDP	Technical support and project implementation	Governance, SDGs, climate adaptation

4. India's Contributions to Global Development Finance

- **Indian Technical and Economic Cooperation (ITEC):**
 - Launched in 1964.
 - Provides training, scholarships, and technical assistance to officials from over 160 countries.
 - Focus: Capacity building and human resource development.
- **India–UN Development Partnership Fund:**
 - Joint initiative with the UN to support SDG-aligned projects in developing countries, especially small island developing states (SIDS) and LDCs.
 - Covers sectors like healthcare, climate resilience, and education.
- **Lines of Credit (LoC) under IDEAS:**
 - India has extended **over 300 LoCs worth \$32 billion** to **68 countries**, focusing on Africa, Asia, and Latin America.
 - Projects include roads, railways, power plants, and IT parks.
- **South–South Cooperation (SSC):**
 - India promotes development aid that is **non-conditional, mutually beneficial**, and focused on **local ownership**.
 - India's aid has grown from **\$3 billion (2010–11)** to **\$7 billion (2023–24)**.
- **Climate Finance Advocacy:**
 - India strongly supports the **New Collective Quantified Goal (NCQG)** for climate finance under the UNFCCC.

- Advocates for **greater, predictable, and timely financial flows** to developing nations.

5. Challenges in Global Development Finance

- **Decline in ODA:**
 - In 2023, ODA stood at **\$214 billion** but is projected to **drop to \$97 billion**, a 45% fall.
 - Caused by geopolitical shifts, budget constraints, and institutional decline (e.g., USAID, FCDO).
- **Rising Sovereign Debt:**
 - Many Global South countries are debt-trapped, limiting fiscal space for new development projects.
- **Geopolitical Instability:**
 - Conflicts like the **Russia–Ukraine war** and shifting global alliances disrupt financial flows.
- **High Aid Delivery Costs:**
 - Western aid often carries **high consultancy and administrative costs**, reducing effectiveness.
- **Increased Borrowing Costs:**
 - Tight global liquidity has increased **interest rates**, making it harder to borrow affordably.

6. Measures to Rephrase and Reform Global Development Finance

- **Strengthening Multilateral Cooperation:**
 - Reinforce institutions like **World Bank, UNDP, AIIB, and regional banks**.
 - Expand participation of emerging economies like India, Brazil, and China.
- **Triangular Cooperation (TrC):**
 - Collaborative projects involving a **Global South donor (e.g., India)**, a **recipient country**, and a **Global North partner (e.g., Germany)**.
 - Ensures **locally adapted, effective aid delivery**.
 - Example: Indo-German projects in Africa and Asia.
- **Re-evaluating the LoC Model:**

- Shift towards **sustainable concessional finance** to prevent debt distress.
- Encourage **grants, blended finance**, and **equity partnerships** instead of loan-heavy models.
- **Expanding Capacity Building Initiatives:**
 - Scale-up training programs like **ITEC** to empower recipient nations with skills and knowledge.
- **Global Debt Restructuring Mechanisms:**
 - India, through the **G-20**, advocates for fair and inclusive debt relief frameworks.
- **Blended Finance Models:**
 - Combine **public concessional funds** with **private sector investment** to de-risk and finance projects in:
 - Renewable energy
 - Health
 - Urban infrastructure
- **Enhancing Public-Private Partnerships (PPP):**
 - Attract private capital for public projects via regulatory reforms and risk-sharing frameworks.
- **Leveraging Digital Development Tools:**
 - Use India's success in digital services (e.g., Aadhaar, UPI, DigiLocker) to **digitally empower** partner countries.
- **Global Development Compact (GDC):**
 - Proposed by PM Modi at the **Voice of Global South Summit (VoGS)**.
 - Focuses on five key engagement pillars:
 - Grants
 - Technology transfer
 - Market access
 - Concessional finance
 - Capacity building

7. Conclusion

India has evolved from an **aid recipient to a global development partner**, promoting a **demand-driven, non-conditional, and inclusive development approach**.

Through platforms like **South-South Cooperation**, **Triangular partnerships**, and **climate advocacy**, India is shaping a **new model of global development finance** that is sustainable, equitable, and empowering for the Global South.

Source: <https://www.thehindu.com/opinion/lead/rephasing-global-development-finance/article69765160.ece>