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UNLOCKING FINANCIAL SUSTAINABILITY THROUGH INTENSIFIED SOUTH-SOUTH AND TRIANGULAR COOPERATION: INNOVATIVE SOLUTIONS FOR DEBT RELIEF AND DEVELOPMENT FINANCE

Key messages

- The global financial system faces major challenges, including governance deficits, a widening development finance gap, and an escalating debt crisis in developing countries, all requiring urgent and coordinated action. While radical measures are needed, sustained by ramped up investments in social protection, for example, specific innovative solutions for debt relief and development finance applied and tested in the countries of the Global South deserve special consideration and popularization.

- South-South and Triangular Cooperation (SSTrC) is a key vehicle for sharing successful debt management strategies, enabling better borrowing terms and promoting long-term fiscal sustainability. Create South-South technical assistance networks for knowledge sharing and capacity building in financial technology and regulation

- Developing countries must improve access to affordable long-term financing by scaling up innovative solutions such as SDG bonds and using regional infrastructure bonds to pool risks and lower borrowing costs.

- Strengthening capacities of countries to access concessional loans and contingency financing mechanisms is crucial to supporting regions most vulnerable especially to economic disruptions. Regional data-sharing platforms can further enhance policy coordination and risk management.

- Reforms of the global financial system should prioritize increasing the representation of developing nations in decision-making to create a more equitable and inclusive financial architecture.

- The traditional policy toolkit—such as interest rate adjustments and exchange rate management—often proves inadequate in the face of large-scale capital flow reversals, underscoring the need for more comprehensive international financial safety nets.[1]

1 International Monetary Fund (IMF) Global Financial Stability Report, 2023; World Bank Economic Outlook, 2023.

RELEVANT ACTION AREAS

Domestic Public Resources

International Development Cooperation

Addressing Systemic Issues

ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

The full series is available at: https://financing.desa.un.org/iatf/report/financing-policy-brief-series

- There is need for comprehensive strategies to enhance financial transparency, improve payment systems, and bolster cybersecurity to promote a more inclusive and stable financial environment.
- FFD4 is a opportunity platform to advance these measures, fostering sustainable growth and bridging the development finance gap.

Problem statement

The global financial system and the emerging markets and developing economies (EMDEs) face significant challenges that include:

1. **Expanding debt crisis and high cost of debt** - The debt crisis in developing countries has reached critical levels, with 52 nations in or at risk of debt distress. Public debt in these countries averages 65% of GDP, with debt servicing consuming 14% of export revenues in low-income nations and 21% in middle-income ones[2]. In 2023, their collective debt reached US$ 29 trillion[3], nearly 30% of global public debt, and they paid US$ 847 billion in net interest, a 26% increase since 2021. A growing number of countries, particularly in Africa, now spend over 10% of their revenues on interest payments, limiting funds for essential services such as healthcare and education. This debt burden is compounded by negative net resource transfers, with US$ 49 billion more paid to creditors than received in new loans in 2022.
2. **Governance deficit** – As of October 2024, EMDEs contributed 59.8% of global GDP in purchasing power parity[4]. Since the late 1970s, the quota share of the developing countries has averaged about 37.5 percent and their voting share around 40 percent[5]. This results in policies that often fail to adequately consider the needs and circumstances of developing nations, leading to implementation challenges and reduced effectiveness of global financial policies.
3. **Widening development finance gap** - While the estimates vary, the gaps found are inevitably very large, particularly for developing countries, ranging between $2.5 trillion and $4 trillion annually[6]. These figures represent crucial investments in human development, environmental sustainability, and economic growth that aren't being made.
4. **Volatile capital flows and limited policy space** - Managing capital flows has become more challenging in today's interconnected financial system. Developing economies face frequent "sudden stops," often triggering currency crises and economic contractions. Volatility in capital flows has surged by 40% during global crisis periods, with recovery times extending up to 18-30 months Limited policy space hampers countries' responses, with 65% of emerging markets holding inadequate reserves. Building these buffers diverts resources from essential development projects, and traditional policy tools like interest rate adjustments often fall short, highlighting the need for stronger international financial safety nets[7].
5. **Limited South-South and Triangular Cooperation,** along with insufficient scaling of tested solutions, is hindering efforts to effectively and collectively address debt and debt sustainability challenges in developing countries. Despite the potential for collaboration to provide innovative strategies and shared solutions, the pace and depth of cooperation remain inadequate.
6. **Inadequate market infrastructure and persistent digital divides.** The global financial system faces significant gaps, particularly in payment systems and digital access. As of 2024, cross-border payments

2 World Bank 2023 International Debt Statistics Report.
3 UNCTAD, "A world of debt 2024: A growing burden to global prosperity", 2024
4 https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD
5 II. Quotas and Voting Power in the IMF: A System That Calls for Greater Equity in: Governance of the International Monetary Fund (IMF)
6 Financing for Sustainable Development Report 2024
7 International Monetary Fund (IMF) Global Financial Stability Report, 2023; World Bank Economic Outlook, 2023.

cost an average of 6.3% of transaction value and take 3-5 days[8] to process. Despite progress in financial inclusion, with 76% of adults now having a bank or mobile account (up from 51% in 2011), 1.7 billion adults remain unbanked, and 40% of the rural population lacks access to financial services. The digital divide further complicates matters, with 2.9 billion people[9] still without internet access and digital banking penetration below 30% in many developing regions. In the past two decades, nearly one-fifth of reported cyber incidents have affected the global financial sector, causing $12 billion in direct losses to financial firms[10]. These figures highlight the need for strategies to improve payment systems, increase financial transparency, and enhance cybersecurity.

Policy solutions

Based on the recent policy dialogue organized by UNOSSC during the 2024 HLPF - "Exchanges of Innovative Solutions for Debt Relief – Country Experiences and the Role of South-South and Triangular Cooperation", a list of policy solutions is presented below:

1. **Addressing the high cost of debt through South-South and Triangular Cooperation (SSTrC)** - Developing countries can leverage SSTrC to negotiate better borrowing terms and reduce reliance on costly private creditors. For example, Brazil and Egypt are sharing tested policy options such as Brazil's use of inflation-linked bonds and Egypt's fiscal transparency and macroeconomic stability efforts. The Bahamas' Public Debt Management Act, supported by the India-UN Development Partnership Fund managed by UNOSSC, has helped reduce the debt-to-GDP ratio from 99.83% in 2021 to 78.1% by 2023-2024. Strengthening regional development banks through increased South-South capitalization and creating South-South platforms for policy coordination could further lower debt costs.

2. **Scaling up affordable long-term financing** – exchange of experiences between countries in the Global South on access to concessional financing is crucial. Indonesia, a leader in issuing Sukuk bonds, has used them to fund education, infrastructure, and climate projects. Its Integrated National Financing Framework (INFF) experience, shared with countries such as Mexico and Uzbekistan[11], aligns debt with prioritized SDG goals. Additionally, investing in digital global and regional SDG investment platforms could connect Southern investors with sustainable projects. Developing regional infrastructure bonds backed by multiple Southern countries would also help lower borrowing costs by pooling risks.

3. **Expanding contingency financing to manage crises situations** –Rwanda's Medium-Term Debt Management Strategy (MTDS) demonstrates the value of prudent borrowing and concessional financing in maintaining debt sustainability while investing in infrastructure. Strengthening regional development banks and enhancing contingency financing mechanisms through platforms like the IMF could further support countries during crises. Regional data-sharing platforms with standardized formats would also improve policy coordination and risk assessment.

4. **Strengthening regional cooperation for more equitable governance** - regional cooperation is vital for reforming the global financial architecture. The African Union's advocacy for financial reforms underscores the importance of increasing developing nations' participation in global decision-making. Creating South-South technical assistance networks for knowledge sharing and capacity building in financial technology and regulation could foster more equitable financial governance.

8 World Bank. 2024 Financial Inclusion Overview; International Monetary Fund 2024 Global Financial Stability Report.

9 Facts and Figures 2021: 2.9 billion people still offline - ITU

10 The Last Mile: Financial Vulnerabilities and Risks (imf.org)

11 The Indonesian SDG Bond: A Leap Towards Financing the SDGs | United Nations Development Programme (undp.org)

5. **Prioritizing investments in development over debt servicing** - Uruguay have pioneered Sovereign Sustainability-Linked Bonds (SSLBs) that tie debt payments to climate and social goals, inspiring other Latin American nations. These bonds, supported by international development banks, provide a model for integrating environmental, social, and governance (ESG) criteria into sovereign finance. Scaling such models to other regions could further promote inclusive financing strategies, increase capitalization, and align investments with SDGs for long-term development impacts. Swapping debt for climate can help fund resilience is also an important option to consider, including in SSTrC context.

6. **Developing a global debt workout mechanism** - Creating a global debt workout mechanism is essential for improving creditor coordination and accelerating debt restructuring. Sri Lanka's recent debt restructuring shows how international cooperation can help restore economic stability.

Specific recommendations for FFD4

1. **Maximize the exchange and use of existing knowledge and practical solutions in the Global South to address the debt crisis.** This may include the establishment of South-South platforms for dialogue and policy cooperation, including regional and sub-regional, to leverage proven debt management strategies, enabling developing countries to negotiate better borrowing terms and reduce reliance on costly private creditors. By utilizing successful models like inflation-linked bonds or fiscal transparency initiatives, these dialogue platforms have the capacity to promote debt sustainability and long-term fiscal stability. Maximizing the use of existing expertise in the Global South ensures more efficient use of resources and supports the FFD4 goal of creating a more equitable global financial system.

2. **Scale up long-term financing for sustainable development.** Encourage and/or strengthen collaboration within the Global South to share innovative financing solutions, such as Indonesia's Sukuk bonds, which have been instrumental in funding education, infrastructure, and climate projects. Establish digital investment platforms in the Global South to connect Southern investors with sustainable development projects across regions. Additionally, create regional infrastructure or social impact bonds backed by multiple Southern countries to lower borrowing costs through risk pooling. These initiatives address the widening development finance gap and align with FFD4's commitment to accelerate the 2030 Agenda for Sustainable Development.

3. **Expand contingency financing and strengthening regional and triangular cooperation.** Strengthen regional development banks, where possible, and contingency financing mechanisms to provide more effective support during crises. Establish regional data-sharing platforms with standardized formats to improve policy coordination and risk assessment. There are also substantial gaps in tracking cross-border financial flows. Additionally, enhance the role of developing countries in global financial decision-making processes. These steps align with FFD4's focus on reforming the international financial architecture to ensure it is more inclusive, just, and equitable, providing better tools to manage financial volatility and crises.