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What investment needs in Southern countries?

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Since the COVID-19 crisis and the war in Ukraine, many Southern countries have been facing problems accessing finance, at the same time as a debt crisis is crushing some of them. Despite progress made within the G20, particularly under Brazil's presidency in 2024, regarding the ability of multilateral development banks to deploy more intervention using the same capital, 2025 is marked by the announcement of massive cuts in development aid by traditional donors, notably the United States, but also several European countries. Among other investors in the Global South, China also appears to be scaling back its capacity for intervention. In this context, what can the 4th Conference on Financing for Development in early July achieve, given that the scale of financing needs appears hopelessly out of reach of public financial transfers from the North to the South? Turning to other complementary sources of financing, i.e. mobilizing the private sector or national resources, is certainly part of the answer, without denying the responsibility of the countries of the North that have made commitments to international solidarity. But should we not take a closer look at the direction of global investment flows in order to better target the role of international public financial transfers?

IDDRI asks three questions to Hubert de Milly, consultant and expert in international aid.

What are the orders of magnitude of global financial flows in terms of investment, and what are the investment needs in the South?

Annual gross fixed capital formation (GFCF) worldwide is around \$25 trillion, or about a quarter of global GDP. Half of this is in the South. We are not used to dealing with such large figures, as for a long time the investment needs of the South were estimated at a mere few hundred billion dollars.¹ It was with the first estimates of the 'cost of the Sustainable Development Goals (SDGs)' around 2015 that the scale changed, with 'financing gaps' of around \$3 to \$6 trillion per year for the countries of the South, with or without China, depending on studies.

Regardless of the plausibility or validity of these estimates, each of which copies the others, the key point is that these orders of magnitude take us out of the realm of microeconomics, of listing the 'additional' expenditure required to achieve a particular objective in a particular country, and into the realm of macroeconomics. \$5 trillion is 20% of total global investment, more than half of the investment of the countries of the South, and 5 to 10 times the total foreign direct investment (FDI) each year. How could they be 'additional'? Where would they come from?

It would therefore be more accurate to say that 'approximately \$5 trillion in GFCF worldwide must be redirected each year towards investments necessary for the SDGs', towards regions with a savings deficit, particularly low-income and most vulnerable countries, but also and above all towards sectors and practices that are beneficial to the SDGs worldwide.

This is the whole point of 'mobilizing' existing flows, which has been much talked about since the third conference on financing for development (FfD3), held in Addis Ababa in 2015. This conference clearly stated that in order to address the financing of the SDGs, it was no longer possible to focus solely on international public flows from high-income countries to other countries, i.e. international aid as a whole, but that all existing resources, domestic (in the North and South) and international, private and public, had to be 'mobilized'.

In September 2023, ahead of preparations for the fourth conference on financing for development (FfD4), scheduled for July 2025 in Seville, the report by the 'independent expert group' commissioned by the G20 and multilateral banks attempted an interesting link between these micro and macroeconomic levels, recommending that this 'mobilization' be achieved through a significant increase in the activities of multilateral development banks, by around \$250 billion, which could lead to the same amount being provided by other international public donors and \$500 billion in FDI to Southern countries, with the remainder (\$2 trillion) coming from the mobilization of national resources in the countries concerned (excluding China), from both private and public national investors.

But is this the correct approach? Or the only one? On the one hand, such a ratio of 1 to 6 between the activities of international financial institutions in a country and local GFCF has never been observed. On the other hand, even if it were achieved, would redirecting only 20% of investment be enough to reverse the trend in these countries and redirect it towards the SDGs? What is at stake is the balance between investments that are compatible with the SDGs and those that are harmful to them. No one knows this ratio in any country, but given the stagnation or regression of certain SDGs, particularly environmental ones, it must not be very positive. What would 20% of GFCF favourable to the SDGs weigh against 80% that is hostile to them?

Overall, it is important to understand that by announcing annual financing needs of several trillion dollars, the estimates actually emphasize the need for a major shift in the entire global economy towards models that are compatible with achieving the SDGs in all countries. However, this does not seem to be well understood or accepted within the international community.

This idea of redirecting financial flows towards priority needs is not entirely new. Isn't the problem that savings will be invested in real estate or financial instruments rather than in productive capacity? Or that industrialized countries will seek to bring back home this capacity generated by their savings? What would redirecting actually mean in concrete terms?

What do we know about this annual gross fixed capital formation?

Most of it is private, because the global economy, reflecting human activity, is essentially private. But a small portion, around 20%, is public. What is the role of the public sector in the economy? Certainly not to compete with the private sector, but rather to guide it. 'The public sector' is primarily government and local policies aimed at guiding the economy, and in particular savings, through rules and incentives. For example, promoting investment in productive capacity rather than in real estate or financial instruments, while imposing adequate social and environmental standards.

Public action also has specific financial instruments at its disposal, which act as the 'enforcers' of development policies, with financial institutions such as public development banks. There are more than 500 of these worldwide, with a real capacity to drive the rest of the economy.

Furthermore, the vast majority of the world's 25 trillion in GFCF is domestic, whether private or public. Nearly half is in middle-income countries, particularly China. It is therefore in these countries that the bulk of the reorientation must take place, under the impetus of local public authorities.

But there is also a bit of an international dimension, the private part of which is FDI, which is much talked about in connection with large investors such as BlackRock. It is probably talked about too much because, once again, it is only a small part of global FCBF (\$500 to \$1,000 billion in recent years, or around 2 to 4%), infinitely less than domestic investment. FDI would play an important role if they were concentrated in the poorest countries or if they came with high quality standards that could have a snowball effect locally. But this is not true in either case.

Lastly, the public part of this international component consists of numerous multilateral and bilateral development institutions. They account for around \$400 billion per year, approximately half of which is classified as official development assistance (ODA). This is very little in terms of total global resources, but as it is public action, its functions are not necessarily very costly. And they can be decisive if they are focused on specific areas.

How can these public transfers from Northern countries to Southern countries best be used? Should these scarce resources also be redirected by changing priorities?

Public transfers from North to South, as reflected in ODA measurements, appear to be at a turning point. After a decade of almost continuous growth, bringing ODA to \$220 billion in grant equivalents for 2023, the numerous reductions announced recently ([IDDRI, 2025](#)) suggest a decline of around 30%. This is a sharp drop, and it raises questions about what we can expect from this international public action.

Its primary area of focus, 'traditional aid,' encompasses both humanitarian aid in crisis situations and structural aid to the poorest countries, known as low-income countries (LICs; currently around 25 countries, almost all located in sub-Saharan Africa), which receive around 30% of ODA. At stake is the difficult economic take-off of countries with few comparative advantages, often isolated, with problematic governance and often politically unstable. This aid is aimed at poverty reduction, food security, health, education for all, etc. As LICs are very poor, the aid they receive is proportionately high. And as their absorption capacity is limited, it is less a question of the volume available than of the effectiveness of the aid. Short-term needs are in the order of 'only' \$100 to \$150 billion per year, which is within the reach of global ODA. This is a fairly new and little-known reality: for the first time in history, the international community has financial resources on a scale compatible with the elimination of extreme poverty. Isn't this very good news, and very inspiring?

The second area of international public action, which is less well known and less intuitive, is middle-income countries (MICs). Four-fifths of humanity live in these countries. While some are still close to poverty, most are seeing the emergence of a huge middle class, engaged in a race for consumption inspired by the lifestyle of high-income countries. However, this lifestyle is not 'sustainable': beyond a certain threshold, economic and social progress comes at the expense of the environment. Due to their significant demographic weight, the climate and global biodiversity will depend on the development model adopted by the MICs. If India, in particular, follows the same ultra-carbon-intensive development path as China in the 2000s, we are in serious trouble...

ODA can contribute to reorienting the economies of MICs towards more sustainable development. This is essentially a qualitative role, focused on standards, norms and rules. It is achieved through support for public policies and major actors, exchanges of good practices, experimental projects, etc. It therefore matters little that this aid to MICs, although it accounts for more than two-thirds of global ODA, is generally insignificant locally in terms of volume compared to existing investment. Its role is to redirect this investment, not to replace it. It is therefore a financially realistic role for ODA. This is a second piece of very good news for the entire planet.

The third, lesser-known string to the bow of international public action is to contribute to the gradual emergence of international standards to change scale and reorient the entire global financial system (\$25 trillion per year in investment). The numerous think tanks and international forums linked to international aid (for example through networks of public banks) are places where universally accepted definitions can emerge of the financial flows and asset categories that contribute to the SDGs and those that, on the contrary, take us further away from them. The widespread adoption of the 'do no harm' principle and the end of 'brown' finance require this "SSI" standard, or 'sustainable development investments'.

In tis context, what can be expected from FfD4?

In Addis Ababa, FfD3 broke new ground by going beyond international public transfers and including the mobilization of domestic and private resources. FfD4 is expected to continue along this path, clarifying the roles and responsibilities of all these actors in aligning the entire economy with sustainable development.

The first UNDESA communication document on the 2025 conference did include a few sentences along these lines: 'The world is full of money, [but] too much of it goes to the wrong places. [...]. Our common future depends on aligning all money with sustainable development that benefits people and the planet. Most current financing does not meet this criterion.'²

However, the latest draft available takes a step backwards on these issues of aligning finance, particularly private finance, with the SDGs. It even falls short of FfD3 on these issues. The words 'reorientation' and 'redirection' have

disappeared. The domestic level is given little importance, in favour of international private finance, which is presented as having all the virtues. Aspects relating to international standards, the interoperability of taxonomies and the cost of negative externalities have been reduced or removed altogether.

However, the *financing gap* is mentioned in the draft. Set at \$4 trillion per year, with no definition but described as 'requiring urgent action to bridge it needed', it is said to concern 'developing countries', with no further details. This huge amount, to be mobilized in an 'innovative and additional' manner, is intended for sustainable development, but is in no way linked to the concept of alignment of the economy as a whole. The respective 'comparative advantages' of public and private finance in its composition are recognized, but without specifying the role of public guidance for the private sector.

We therefore seem to be moving towards a declaration focused primarily on international public financial architecture, with, in addition to a reaffirmation of the 0.7% target for ODA,³ a target to triple the annual loan capacity of multilateral development banks and improve cooperation between them and other public banks in countries, which is a positive step.

This could therefore be a useful declaration in the current context of cuts in international public action budgets, but it falls far short of fulfilling the hopes of FfD3 for systemic changes in the economy and transformational approaches.

Why does the narrative of funding gaps and direct mobilization remain dominant? Why is the narrative of financial reorientation not catching on? How can we propose a work programme to start eliminating the 'brown' instead of just adding a little 'green'?

It is clear that the proponents of the brown economy are powerful, and that it is easier for world leaders to talk about new investments, which are all the less likely to be realized given their additional and staggering costs, than to tackle the reorientation of existing investments, with all the opposition that this entails. The donor community is fuelling this misguided approach, no doubt believing itself to be secure thanks to the renewal of the concept of deficit, without realizing that the enormity of the deficit makes the very concept obsolete. Today, with annual GFCF of \$25 trillion, half of which is in the MICs, there is no real global financing gap. There is a need for domestic and international public policies to redirect these flows and make them conducive to sustainable development. These public policies have a cost, which is not necessarily very high, and part of which is the responsibility of the international community and its financial and development institutions. It is these policies that must be helped to define, and it is these costs that must be covered.

¹

In 2005, the 'Millennium Project' by Jeffrey Sachs estimated that achieving the Millennium Development Goals (the 'predecessors' of the SDGs) would require \$300 billion per year, equivalent to 0.7% of the GDP of OECD countries in the form of official development assistance.

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<https://www.un.org/sustainabledevelopment/financing-for-development/>

³

<https://www.afd.fr/en/actualites/share-national-wealth-theoretically-allotted-donor-countries-official-development-assistance>

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