

Task Force 06

**STRENGTHENING MULTILATERALISM AND GLOBAL GOVERNANCE**

## New Forms of International Partnerships to Reduce Negative International Spillover Effects in Support of Global Sustainability

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## Abstract

The G20 is an important international forum to promote the implementation of the 2030 Agenda for Sustainable Development. A major obstacle to sustainable development worldwide that has so far received little attention are negative international spillover effects. These are undesirable external economic, social, environmental, and security effects from a country's actions which undermine other countries' efforts to achieve the SDGs. Negative spillovers may reinforce existing international injustices and divergences between countries of different income categories and regions. Assessments show an inverse relationship between domestic SDG progress and the generation of negative spillovers, with high income countries (many G20 countries) having a better performance on the SDGs domestically (higher SDG Index scores), but also more negative impacts abroad (lower International Spillover Index scores). All countries, and especially the G20 given their combined economic weight, must better understand, monitor and manage their spillovers to allow all countries to meet the SDGs. Curbing negative international spillovers requires multilateral solutions, especially across resource-rich and high income consumer countries. Given the global nature of this challenge, the G20 is a suitable forum for discussing solutions. This policy brief brings three recommendations to the G20:

- 1) Monitor spillover effects, set impact targets, and support statistical capacity; 2) Establish inclusive processes that bring together stakeholders to co-develop multilateral policies and partnerships;
- 3) Incorporate spillover effects in the G20's 2030 Agenda Action Plan.

The G20's immediate aim should be to build momentum for a successful Summit of the Future by restoring trust through high-level policy discussions on international spillovers, which have the potential to accelerate the SDG progress. Moreover, the G20 should initiate a structured agenda for upcoming G20 presidencies to tackle spillovers.



## **Diagnosis of the issue: Addressing negative spillover effects for SDG achievement**

The adoption of the 2030 Agenda provided a shared pathway towards sustainable development via the achievement of 17 Sustainable Development Goals (SDGs) by 2030. At the Agenda's midpoint, however, the world is substantially off track. This is not just due to the Covid-19 pandemic and armed conflicts, but due to major structural obstacles that cannot be solved by individual countries. Therefore, at the SDG Summit in 2023, heads of state called for accelerated global action towards sustainable development. This year's United Nations' Summit of the Future should follow up on the SDG Summit, delivering essential multilateral reforms.

A critical, yet underappreciated, factor in achieving the SDGs is addressing "spillover effects". Namely, how a country's actions affect other countries' efforts to achieve the SDGs. These externalities, or spillovers, must be understood, monitored, and managed effectively through actions by the countries causing them and through international partnerships. The G20, as a high-level forum bringing together major economies, the European Union and (as of last year) the African Union, is ideally placed to address this issue. Since 2015, the G20 has committed itself to implement sustainable development, among others by adopting regular 2030 Agenda Action Plans. The G20 is therefore the right forum for overcoming structural obstacles towards the SDGs such as negative spillover effects.

The Sustainable Development Solutions Network (SDSN) leads in measuring these cross-border effects through the International Spillovers Index, included in its annual Sustainable Development Report. The latest assessment suggests an inverse relationship between SDG progress and the generation of spillovers, with high per capita income

countries such as Germany having a better SDG performance domestically (higher SDG Index score), but more negative impacts abroad (lower International Spillover Index score). On the opposite end, India and African Union countries have the lowest SDG performance, but the highest spillover performance, meaning that they cause the least negative international effects (Figure 1). Addressing spillovers thus becomes crucial for ensuring that domestic progress in achieving the SDGs is not realized via externalizing negative effects abroad.

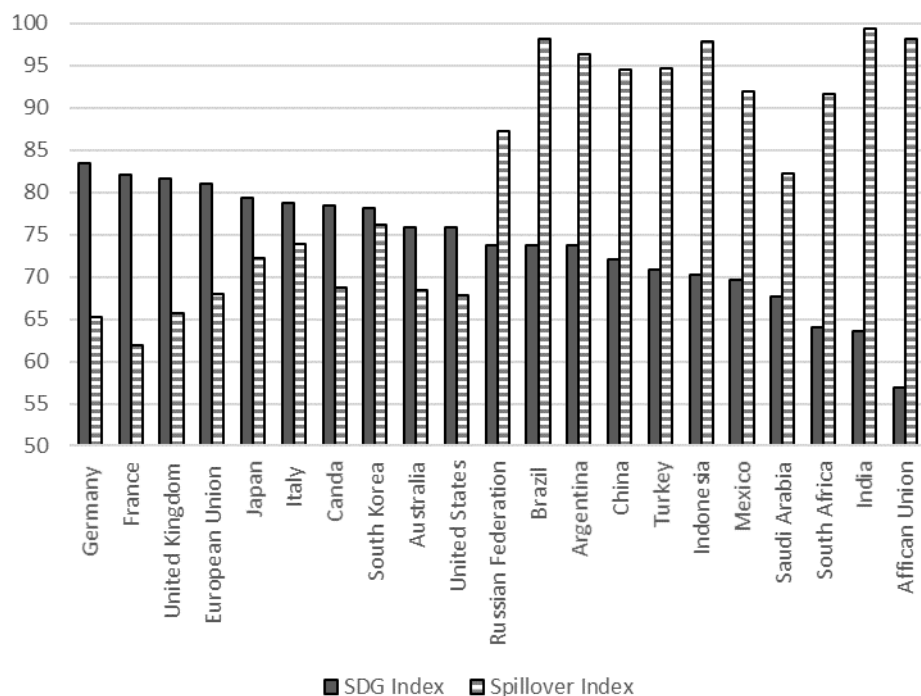


FIGURE 1. SDG Index scores vs. International Spillover Index scores of G20 members (performance: 0 worst – 100 best)

Source: Authors' work based on Sachs et al. (2023)

Spillover effects stem from cross-border pollution flows, economic and financial flows, multilateralism and security effects, and environmental and social impacts

embodied in international trade. The latter arises from the globalization of value chains, where products consumed in one country cause social and environmental impacts along their production processes, which are not considered in the consuming country’s national statistics. High income countries, given their consumption levels, are particularly responsible for trade-related spillovers. Accounting for these spillovers becomes crucial for an accurate assessment of contributions towards sustainable development. For instance, in some G20 economies (e.g., Germany, France, the UK), offshore GHG emissions are more than 40 percent of their total GHG footprint (Figure 2).

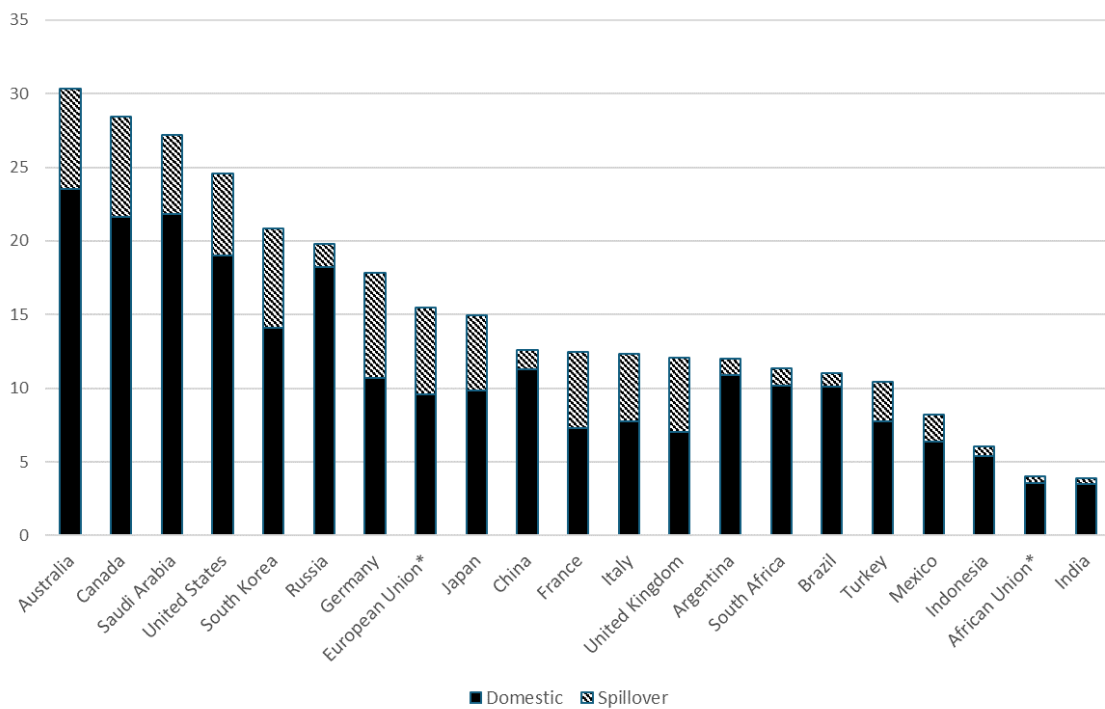


FIGURE 2. Domestic vs. Spillover GHG emissions in G20 members (tonnes/capita)

Source: Authors’ work based on the Crippa et al. (2022), Forster et al. (2021), and Release 057 of the GLORIA database (Lenzen et al. 2021), constructed in the Global MRIO Lab (Lenzen et al. 2017).



While assessing a country's consumption's global impacts has been challenging, trade-related spillovers are now measured through Consumption Based Accounting (CBA; Wood et al., 2020). Measuring spillovers via CBA requires detailed data on trade flows between economic sectors within and among countries. It also requires data on the social and environmental impacts happening along global supply chains. Multi-Regional Input-Output (MRIO) databases and models are currently the standard method for CBA (Lenzen, 2008). Yet, there are significant data gaps, particularly in low and middle income countries.

Ultimately, curbing negative spillovers requires multilateral solutions, especially between resource-rich and labor-rich countries with high income consumer countries. Given the global nature of this challenge, the G20 is a suitable platform for tackling international spillovers. This policy brief outlines three recommendations for G20 leaders:

- 1) Monitor spillover effects, set impact targets, and support statistical capacity;
- 2) Establish inclusive processes that bring together stakeholders to co-develop multilateral policies and partnerships;
- 3) Incorporate spillover effects in the G20's 2030 Agenda Action Plan.

The G20's immediate aim should be to build momentum for a successful Summit of the Future by restoring trust through high-level policy discussions on international spillover effects, which have the potential to accelerate progress on the SDGs. Moreover, the G20 should initiate a structured agenda for upcoming G20 presidencies to tackle spillovers.



## Recommendations

### **1) Monitor spillover effects, set impact targets, and support statistical capacity**

Integrating CBA into national statistics and SDG monitoring enhances the visibility of spillover effects and the understanding of global SDG performance. Several countries (Finland, Iceland, and the Netherlands) have incorporated CBA into their Voluntary National Reviews (VNRs) (Finnish Government, 2020; Government of Iceland, 2023; Kingdom of the Netherlands, 2022). Eurostat's annual SDGs monitoring report also features a dedicated section on spillover effects, including indicators on CO<sub>2</sub> emissions and cropland footprints of EU members (Eurostat, 2023). The G20 should lead in monitoring and reporting international spillovers, setting a global example.

G20 countries should also track these effects against time-bound quantitative targets to hold themselves accountable for mitigating negative spillovers. Targets for trade-related spillovers should cover environmental and social impacts linked to global value chains, such as GHG emissions, air pollution, resource depletion (e.g., material footprints), and labor exploitation (e.g., modern slavery and fatal accidents at work). For instance, according to Malik et al. (2023), the EU's consumption was linked to 500,000 cases of modern slavery and 1,200 fatal accidents at work abroad in 2018. The G20, given their economic importance, should take the lead in elaborating consumption-based targets to tackle environmental and social spillover effects.

The above hinges on having accurate data for MRIO databases and consumption-based accounting. Hence, a key obstacle in producing high-quality spillovers assessments is the lack of statistical capacity to produce up-to-date data on economic transactions and social and environmental impacts associated with productive activities. This is the case with many producing countries, which is where most of the social and environmental impacts



associated with trade-related spillovers take place. Therefore, to tackle spillovers effectively, G20 countries must assist low and middle income countries in strengthening their statistical capacity. This is consistent with SDG target 17.19, which calls for supporting statistical capacity building in developing countries and tracks, via indicator 17.19.1, financial assistance to developing countries for this purpose. Additionally, the G20 should support the production of Geospatial Information Service (GIS) data and remote sensing technologies, which offer tremendous opportunities to refine the granularity, timeliness, and quality of SDG data. For example, GIS data is used by the World Resources Institute's Global Forest Watch initiative to track global deforestation and its causes (Curtis et al., 2018).

## **2) Establish inclusive processes that bring together stakeholders to co-develop multilateral policies and partnerships**

Many high income countries have implemented policies to tackle negative spillovers, such as national regulations and due diligence laws to address social issues in global value chains (e.g., child labour), tackle deforestation, and adopt carbon border adjustment mechanisms. However, these important initiatives have been unilateral policy instruments that, largely, have not considered perspectives from the affected economies, potentially resulting in trade-offs (e.g., higher unemployment and poverty). The G20 should, therefore, create and support new inclusive platforms and partnerships to ensure that production processes include robust safeguards to protect the environment and human rights. Voluntary Partnership Agreements (VPAs) are one such example. Recognizing that wood consumed by the EU often comes from regions with poor forest management, illegal logging, and degradation of primary forests, VPAs are negotiated by the EU and timber-exporting countries to only allow legally produced imports. Then, timber legality





assurance systems push exporting countries to improve their forest management practices, promoting sustainable forestry (EU FLEGT Facility, 2009). The Just Energy Transition Partnerships (JETPs) are another example of new forms of international collaboration. JETPs provide a blend of financing instruments, including concessional loans, grants, and guaranteed private funds, to support countries' decarbonization efforts, especially those that are dependent on coal (European Commission, 2021). The first JETP, launched at the COP-26, mobilizes \$8.5 billion to 1) replace coal with renewable energy; 2) expand electric vehicles use; and 3) establish a green hydrogen industry in South Africa. The partnership mobilizes stakeholders to facilitate an energy transition, but it will be important that implementation of the JETP addresses the social consequences of decarbonization (e.g., coal miners' unemployment; Pilling, 2022). The G20 should endorse and expand such initiatives, ensuring their effectiveness. The JETP model could also be applied to land and ocean management. Beyond these two examples for voluntary partnerships, it is important to establish platforms for exchange and peer learning on the design of policy tools between countries causing and affected by spillover effects. The G20, serving as a high-level forum, is well positioned to facilitate dialogue on spillover effects. Leveraging its various working groups (such as the working groups on Development, Trade and Investment, Employment, and Climate and Environmental Sustainability), the G20 should lead a dedicated agenda to curb negative spillover effects. Joint workshops among the relevant G20 working groups should be a first step towards developing a structured agenda for upcoming G20 presidencies.

**3) Incorporate spillover effects in the G20's 2030 Agenda Action Plan** In 2016, during the Chinese presidency, the G20 adopted its first "Action Plan on the 2030 Agenda for Sustainable Development". In the Hamburg Update (2017), a list of collective actions

and a Voluntary Peer Learning Mechanism (VPLM) were set up to share experiences and lessons learned. The Osaka Update (2019) highlighted the need for multi-stakeholder dialogue and continued the peer learning mechanism in the Action Plan. The 2023 Action Plan, under the Indian presidency, called for action in three key areas: digital transformation, gender equality, and just transitions.

Developed within the Development Working Group, the Action Plans aim to enhance policy coherence and coordination across all G20 work streams for the SDGs achievement. Thus, it seems logical to integrate the issue of spillover effects into the next Action Plan update. Recognizing spillovers' significance in either hindering or advancing the achievement of the SDGs, the issue should be featured prominently in the high-level principles section. Moreover, the updated Action Plan should specify concrete measures to address negative spillovers such as strengthening statistical capacities and promoting dialogue and peer learning mechanisms on the design of policy tools. Addressing spillover effects in the Action Plan of the Brazilian G20 presidency's meeting of development ministers would be an important input into the discussions leading up to the UN Summit of the Future in September 2024.



## **Scenario of outcome: In support of a successful Summit of the Future**

The Summit of the Future is this year's most important multilateral summit and is meant to follow up on the "what" identified in the 2023 SDG Summit (i.e., accelerated action on the SDGs) by delivering the "how" of multilateral reforms (i.e., actionable strategies). The Summit of the Future needs to demonstrate that international cooperation is possible and effective in tackling current global challenges, especially amid lacklustre SDG progress, widespread conflict, and growing polarization and authoritarian trends worldwide. The Summit's aim is to adopt an ambitious, concise, and action-oriented Pact for the Future. There is consensus that the pact should contribute to strengthening confidence in multilateralism, especially on the part of low and middle income countries.

The G20 needs to use the action-oriented momentum of this Summit to accelerate the implementation of the 2030 Agenda by reducing spillover effects and increasing global policy coherence, a lever to tackle slowing and counterproductive effects on the SDGs. The G20 should use the G20 process during Brazil's presidency to co-create international answers to spillover effects, including the adoption of the three recommendations described in this policy brief.

Under a positive scenario, the G20 (especially through its Development Working Group) will be able to foster a high-level policy dialogue on the importance of international spillover effects as an important factor to accelerate the achievement of the SDGs. Under this scenario, the G20 will have included international spillovers in its updated 2030 Agenda Action Plan and agreed on concrete actions to improve the monitoring of spillover effects and on peer learning mechanisms to co-design appropriate policies to address spillover effects. A successful meeting of development ministers in July will provide important momentum for the Summit of the Future, being an opportunity that should not be missed.

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