BRIDGING THE SDGs
FINANCING GAP: A
TEN-POINT AGENDA
FOR THE G20

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Abstract
This brief discusses one of the most crucial challenges to effective global governance for development: bridging the financing gap for the UN Sustainable Development Goals. It considers the role of the G20 in addressing this gap, and outlines a 10-point action plan for the grouping.

The aim is to bolster the financing required to achieve the SDGs in the next six and a half years—serving as an update to the Addis Ababa Action Agenda of 2015 in light of recent global events such as the prolonged COVID-19 pandemic and the Ukraine-Russia conflict.
The Key Challenges
India’s G20 Presidency coincides with the rapidly increasing dangers posed by climate change, rising inequality, and the looming threat of an economic recession. Nonetheless, it offers New Delhi a unique opportunity to shape the post-pandemic development narratives, and to delineate and advance a new global development discourse from the perspective of the Global South.

The Decade of Action is quickly approaching its deadline, as progress towards achieving the Sustainable Development Goals (SDGs) falls perilously behind in many parts of the world. One of the most significant concerns for the countries of the Global South is the massive shortfall in financing required to achieve the goals. It is estimated that developing countries face an annual deficit of US$ 1.7 trillion in SDG financing, while more than US$ 4 trillion accounts for the annual gap in closing the SDGs for the world. It is the least developed countries that face the biggest hurdles. Table 1 illustrates that GDP growth in these countries would need to reach heights—seemingly insurmountable given current trends—to meet the required financial investments for achieving SDG targets 8.1, 1.1, and 9.2 by 2030.

Table 1: Cost and Required Growth for Achieving SDGs in LDCs (2021-2030)

<table>
<thead>
<tr>
<th>SDG Targets for 2021-2030 period</th>
<th>Required annual average fixed investments</th>
<th>Required annual GDP growth rate to finance the investment</th>
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<tbody>
<tr>
<td>SDG Target 8.1: 7 percent annual GDP growth rate</td>
<td>US$ 462 billion</td>
<td>7 percent</td>
</tr>
<tr>
<td>SDG Target 1.1: Eradicate extreme poverty</td>
<td>US$ 485 billion</td>
<td>At least 9 percent</td>
</tr>
<tr>
<td>SDG Target 9.2: Double the share of manufacturing in GDP</td>
<td>US$ 1051 billion</td>
<td>20 percent</td>
</tr>
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</table>

Source: DI (2021), as cited by D’Souza and Jain (2022)
The second shock is the Russia-Ukraine war, which has disrupted global and regional value chains, created inflationary pressures, drained forex reserves of some smaller economies, and caused macroeconomic insecurity.

Furthermore, climate change is increasing the financial demands of countries that are both having to adapt to impacts already being felt, and rapidly transition towards cleaner sources of energy to mitigate further warming.

Achieving the SDGs is becoming costlier and more complex, especially for the countries of the Global South which are disproportionately facing the consequences of climate change. New modes of thinking, institutional mechanisms, innovative financing instruments, and mobilisation processes that allow the flow of funds from the Global North to the Global South are urgently needed. The question is, what role can the G20 play in facilitating these changes?
Relevance to the G20
The G20 is a group of the world's 20 largest economies, which together account for 85 percent of global GDP and 75 percent of world trade. Since its inception, the grouping has acknowledged the importance of the countries of the Global South in creating a sound and stable system of global economic governance. The grouping's role in sustainable development has changed shape and expanded over time, from the Seoul Development Consensus in 2010 to its current significance in the SDGs.

More specifically, the G20 has contributed to the SDGs by setting concrete targets to enhance global macroeconomic stability, demanding tax transparency, lowering the cost of remittances, and promoting policies to increase female labour force participation. However, meeting the SDGs will require renewed focus and ample financing, and a rigorous upgrade of the Addis Ababa Action Agenda (AAAA) of 2015, which outlined a set of commitments that countries can undertake to finance sustainable development. It is therefore extremely urgent to define specific recommendations to finance the SDGs—one of the most critical challenges of global development governance at this juncture.

In this fast changing world, the SDGs are pivotal in creating resilient economies owing to their linkages with various forms of capital: human capital to improve the conditions of the labour market through the promotion of human well-being; social capital, for equitable and strong societies; natural capital, through goals enabling LiFE and the conservation and optimal use of natural resources; and physical capital focusing on markets, innovation, and economic growth. In turn, the effective formation of these capitals will be crucial in enhancing the business climate of the G20 economies.

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a A global framework adopted at the United Nations’ Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia in July 2015 to achieve the SDGs.
A 10-Point Agenda for the G20
1. Support South-South cooperation.

South-South cooperation is premised on shared experience, capacity and resource constraints, and mutual respect. The challenges that lower-income economies face are multifaceted and interconnected—from food insecurity to poverty, rising inequality, and corruption. These challenges are often different from those faced by economies of the Global North, and indeed are at times caused by the actions of those countries. For example, the current global economic system is characterised by many multinational corporations headquartered in the Global North that have continued to exploit resources and labour from countries in the South, often with little regard for local environmental and social impacts. This has further perpetuated the economic and social inequalities between these two groups of economies. South-South cooperation can help countries foster alliances with countries in a way that is mutually beneficial rather than exploitative.

The United Nations Office for South-South Cooperation (UNOSSC) envisions that such partnerships can allow greater participation from the Least Developed Countries (LDCs) and the Small Island Developing States (SIDs) in global governance and decision-making. Despite the geopolitical undercurrents between nations, South-South cooperation can enable new sources of development finance, in the form of concessional loans and untied grants, to flow between countries. The aim of the UN-sponsored SDG Fund is for South-South cooperation to transform how knowledge is produced, policy is designed, and funding is secured.

2. Support equitable and just South-North partnerships.

To attain the SDGs, the global South and North will need to work as partners. It is crucial, however, that these partnerships are forged on mutual terms and on an equal footing through various cooperation models hinged on a fair division of responsibilities. However, the unjust and exploitative nature of development relationships today must be rectified, and the objectives of development efforts realigned to meet the preferences and needs of lower-income countries.

Moreover, the priorities of multilateral development banks including the
International Monetary Fund (IMF) and the World Bank are shaped by majority shareholders of the Global North. These priorities often do not align with the needs or preferences of countries receiving the financing. The African Development Bank has committed to phasing out projects that depend on the use of coal; the European Investment Bank has declared the same about fossil fuel use. The Asian Development Bank, for its part, supports knowledge, capacity-building and SDGs-related dialogues, though these commitments are yet to translate to better living conditions for the 1.2 billion who were living in acute multidimensional poverty in 2022.

3. Facilitate domestic fiscal measures for SDG Budgeting.

Domestic fiscal measures to attain SDGs can have two approaches: they might be dedicated to mobilising domestic resources for SDGs or developing fiscal policies that discourage/encourage industries that have a negative/positive impact on achieving the SDGs. The former would concentrate on fiscal reforms—i.e., to strengthen tax administration and reduce tax evasion alongside expenditure rationalisation. The latter, for example, could be concerned with subsidising energy reforms and taxing the use of fossil fuels. Fiscal policy can help nurture a circular economy through upstream resource pricing at the production level (higher prices for harmful resources and lower prices for eco-friendly resources) and downstream taxes on polluting products.

Official Development Assistance (ODA) should ideally go to the most vulnerable communities; this leaves out middle-income countries. High-performing (but developing) economies like India need to plan to secure funds for SDGs from the domestic economy. One way to do so would be to integrate the SDGs with the annual budgets. Each department will have to deliver on certain SDG targets, paving the way for monitoring and evaluating SDG implementation in the G20 countries.
4. Incentivise private sector engagement through Creating Shared Value (CSV).

G20 needs to create processes and institutions for incentivising firms towards Creation of Shared Values (CSV). ‘Shared values’ refers to strategies that improve the competitiveness of firms while promoting the social well-being of the communities where it conducts business.\(^{18}\) The CSV model rests on the belief that ‘doing well’ and ‘doing good’ are not mutually exclusive,\(^{18}\) and can make achieving SDGs financially sustainable, self-reliant, and scalable.

The much-pursued alternative to CSV is Corporate Social Responsibility (CSR) which has a much narrow scope of philanthropy and can therefore gather lower amounts of financing.

Firms can support the CSV model through the following actions:\(^{20}\) First, redesigning products and markets (creating new products that serve...
societal needs). Second, rebranding value chain productivity (transform resource use, energy source and employer-employee relations). Third, allowing local cluster development (move away from the practice of gatekeeping technology, support skill-based development and capacity building). In the process, firms create value for themselves and the broader society. The G20 governments would need to provide both financial and non-financial incentives for businesses to move from profit maximisation to value maximisation.

5. Enable Social Entrepreneurship through instruments like tradeable SDG credits.

‘Social entrepreneurship’ broadly refers to a business that aims to create social value. Social entrepreneurs often follow a two-sided value model where social value is created with the beneficiaries. Globally, SDG-aligned businesses offer market opportunities worth at least US$ 12 trillion. G20 governments can provide incentives for social entrepreneurship and consider creating an SDG Credits framework that allows

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**Figure 2: Creation of Shared Value**

![Diagram showing Creation of Shared Value](source: Harvard Business School)
investment managers to create a well-balanced credit portfolio across various social entrepreneurship industries.

These SDG credits should be tradeable instruments that can be traded in a market framework. While this could divert investor funding to companies with a positive impact on SDGs from those with negative externalities, $^{24}$ it may also allow firms with substantial developmental footprint on society to sell credits to those that have low or negative developmental impacts and earn revenues, again parts of which can be reinvested in developmental projects. This will also allow firms that have not been in the developmental space to get involved in social development. To be sure, this market will be operational only if such credit mechanism is mandated by the G20 economies within their national boundaries, and then also extend them across the G20 nations with the necessary regulatory mechanism in place in all cases.

6. Develop innovative financial instruments.
The United Nations Conference on Trade and Development (UNCTAD) asserts that sustainability-related investments have drastically shot up in the last decade and SDG-targeted investing stood at US$ 3.2 trillion in 2020.$^{25}$ These investments consist of sustainable funds (US$ 1.7 trillion), green bonds (over US$ 1 trillion), social bonds (US$ 212 billion), and mixed-sustainability bonds (US$ 218 billion).

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Inflow (in US$ billion)</th>
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<tbody>
<tr>
<td>2010</td>
<td>8</td>
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<tr>
<td>2011</td>
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</tr>
<tr>
<td>2019</td>
<td>159</td>
</tr>
<tr>
<td>2020</td>
<td>164</td>
</tr>
</tbody>
</table>

Source: UNCTAD$^{26}$
Sustainable development funds comprise Exchange-Traded Funds (ETFs) and mutual funds with asset allocations that are split along equity, fixed income, and mixed allocation funds. The biggest trigger to sustainability funds has been the COVID-19 pandemic, with SDG funds doubling from 2019 to 2020, with an overwhelming rise in health-related funds. It is essential to not view SDG funds as a stop-gap measure, but as a continued effort to ensure that there is continued well-distributed inflow to such funds, that understands the integrated and indivisible nature of the SDGs. Securities regulation, enabled through mandatory Environmental, Social, and Governance (ESG) disclosures, and investors’ growing reluctance to invest in businesses with high Environmental, Social and Ethical (ESE) risks have paved the way for SDG-aligned investing. Derivative Exchanges, Impact Investment, and Blended Finance could be a few other tools to attain the SDGs in the G20 economies.

Moreover, Sustainability Bonds should be encouraged by global and domestic economies. These should be in the form of fixed-income financial instruments whose proceeds can be exclusively used to finance the SDGs. The problem, however, is that in most cases, households and the private sector are more interested in transacting in financial products that have greater returns, whereas SDG projects have lower economic returns. Fiscal incentives like tax holidays should then be used to motivate the private sector to move to these domains. Furthermore, it is important to look at other innovative derivative instruments like weather derivatives or water index futures or green infrastructure or green freight index to gauge the impacts of specific SDGs.

7. Finance climate adaptation measures.

Current levels of climate adaptation financing fall drastically short of what is required for countries to adapt to the impacts of climate change. Estimated annual adaptation needs for the decade range from US$ 160 billion to US$ 340 billion; by 2050, the amount could reach US$ 565 billion. In terms of adaptation finance, the primary objective is to hold high-income countries accountable for fulfilling their commitments, with emphasis on directing a greater proportion of mobilised capital towards adaptation rather than mitigation efforts.
A large component of the Global South’s climate financing solutions lies in adaptation, where there is a dearth in adaptation financing. The problem is inherent with the ‘economic rate of return.’ While the overall ‘social rate of return’ to adaptation projects is high, the same does not get reflected in the ‘economic rate of return.’ This is where the government must fill the gaps with fiscal instruments, either by spurring public expenditure or creating incentives for adaptation projects. It can be through direct transfers, subsidies, or tax rebates.

8. Promote capacity-building for the SDGs.

‘Capacity-building’ refers to the practice of equipping nations and communities with resources and knowledge required to manage transitions and vulnerabilities. It is an opportunity to integrate Agenda 2030 with the national sustainable development frameworks. It can be enhanced through North-South collaboration and knowledge-sharing. In many cases, it is found that many nations in the Global South do not have the wherewithal to understand the needs of the funding agencies for project
applications. This is especially true for projects related to climate action. One of the reasons why mitigation projects find funders while adaptation projects often do not qualify—leading to a clear bias towards funding of energy transition projects—is that the applicants are unable to create bankable adaptation projects. This necessitates capacity-building for applicant nations so that the submitted funding proposals align with the expectations and requirements of the funders as well as the applicants. The G20 needs to work towards promoting capacity-building to align needs.

9. Leverage data.
Data has correctly been hailed as ‘the new oil’; it is instrumental to identifying needs and challenges, monitoring progress, informing resource allocation and for evidence-based policymaking. Delivering progress in critical areas such as education and health is impeded by the absence of data. Many countries are still struggling with data collection.

Data availability for the Global South is crucial for securing international donor-led investments and for accurately targeting SDGs in the domestic economy. The World Bank provides three pillars for developing states to improve data availability.\(^{34}\) First, to integrate traditional sources of data collection (civil registration, administrative data, and household surveys) with modern technologies (satellite imagery, geospatial data, data from social media and mobile device data). Second, new innovative practices of data collection would require strengthening data protection norms to prevent political abuse and leakages. Third, working with data along all aspects of the data value chain—from collection to management to curation and analysis.

10. Support a new global SDG financing framework: Developing a G20 DFI.
In the past few decades, developing economies and LDCs have borne the brunt of global economic shocks.\(^{35}\) Enhanced connectivity and communication in the 21\(^{\text{st}}\) century have led economies to be more connected with and dependent on one another than ever before. Consequently, the outcomes of an economic shock are felt the world over. Smaller economies with lower economic resilience and constrained resources are unable to bounce back following a global shock, dealing with poverty and unemployment
for years after. This was the case during the Asian currency crisis in 1997, the 2007-2008 subprime mortgage crisis, the European debt crisis (2009-10), the COVID-19 pandemic beginning in early 2020, and even during the ongoing Ukraine- Russia conflict.

To facilitate collaboration and help economies develop financing frameworks, there is a need to develop a Development Financial Institution (DFI) under the G20. The experiences of the last two decades reveal the need to safeguard SDGs in the face of a global shock. The DFI will be instrumental in reinforcing South-North partnerships; Global North expertise is instrumental in helping design Global South financing mechanisms. A single organising body will also ensure that geopolitical conditions do not blind the process of forwarding aid to less developed countries.

The objective of the DFI will be two-fold: first, it will help bridge the SDG financing gap by mobilising funds from various sources through use of innovative instruments and ensure that funds are channelled to the Global South and the most vulnerable regions of the world; second, it will also help in refuelling the growth forces of the global economy whenever there is a crisis situation, as has been seen multiple times over the last 25 years since the Southeast Asian Crisis.
Conclusion
This brief outlined actionable ideas for the G20 for bridging the critical financing gap for the SDGs. The objective of the G20 is addressing issues of the global economy and ensuring sound governance. This is reflected in its goals with policy interventions in international financial stability, climate change mitigation, and sustainable development. By addressing the SDGs through better financing mechanisms, the G20 will also help in establishing a more equitable and just global economic governance framework that reflects and responds to the urgent challenges of our time, and the needs and preferences of countries of the Global South.

The authors thank Terri B. Chapman, Fellow, The George Washington Institute of Public Policy, for her comments on an early draft of this Policy Brief.
Endnotes


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