Financing of Sustainable Development Goals - A Review

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Abstract:

In September 2015, all Member States endorsed the United Nation's 2030 Agenda for Sustainable Development's 17 Sustainable Development Goals (SDGs). They set a lofty goal of eradicating all forms of poverty, combating inequality, fostering peace, and addressing pressing environmental challenges while guaranteeing that no one is left behind. Based on the review estimates made by other researchers is that Least Developed Countries (LDCs) require $462.4 billion in additional investment each year to achieve the 7% GDP growth target. LDCs' total average spending would range between $876 billion and $1465 billion. Countries assume responsibilities for achieving the SDGs, particularly through reforms that promote sustainable and inclusive growth, which generates the necessary tax income. Efforts should be directed at enhancing macroeconomic management, combating corruption and improving governance, increasing openness and accountability, and building business-friendly environments. Increasing domestic revenue is a critical component of this plan. Addressing inefficiencies in expenditure is also crucial since countries must spend not only more but also better. Countries might save roughly the same amount of money through efficiency initiatives as they could through tax cuts, in my opinion. However, the magnitude of the additional spending needs in LDCs necessitates help from all stakeholders, including the private sector, donors, philanthropists, and international financial institutions. Analysing the challenges and recommending policy options to map out the blueprint to achieve SDGs for LDCs in a cost-effective manner has been one of the major goals of this paper. Meeting official development aid targets can help many LDCs close development gaps. A national reform agenda that maps the SDGs to national circumstances should define the various development partners' complementary roles.

Keywords: SDGs, LDCs, Financing, AAAA, Agenda 2030.

I. Introduction

In 2015, the global leaders assembled at the United Nations to adopt the Agenda 2030 aiming to achieve Sustainable Development and the 17 goals it underpins which are known as the SDGs. The Agenda 2030 is a roadmap to more inclusive growth and development, improving people's well-being, increasing prosperity and good governance. The Sustainable Development Goals call for major societal transformations that demand significant public and private investments. The fiscal outlays cover public investments, public provision of social services, and social protection for vulnerable populations. The Agenda 2030 is supplemented by the former Addis Ababa Action Agenda (AAAA) which provides a holistic approach to financing SDGs, like mobilization of financial resources. It also recognises the specific needs and challenges faced by LDCs and reinforces that this group of countries is the most vulnerable, which would need enhanced and increased support from advanced economies in achieving the SDGs.

Over six years, besides significant achievements, progress's scale and speed have been uneven and inadequate. To achieve the SDGs, more global finance should be aligned in support of a more equitable and sustainable society. It will require the countries to increase their financing multi-fold, indicating a considerable financial gap. SDG alignment is both a way of mobilizing financial resources for implementing the 2030 Agenda and a value proposition for the financial world. Identifying the SDG alignment requires understanding the three-step approach of redirecting finance towards the SDGs: Mobilization-Alignment-Impact.

The objective of this paper is to

1. Proffer a review in the progress of SDGs with a focus on financing.

2. Analyze the needs, challenges, and trends of LDCs in their progress towards attaining the SDGs by 2030.

3. Identify ways to close the financing gap, including through new financing instruments like blended finance, multilateral-development banks, budgetary integration, domestic revenue mobilisation, cross-border flows, sustainable green social bonds, committed contribution by Official Development Assistance (ODA) and the role of the private sector.

II. Estimated Spending required by LDCs

The LDCs has reached a split in the route. They must project themselves into the future, recover from the current slump, and chart its course for the forthcoming years. When it comes to long-term planning, the 2030 Agenda for Sustainable Development provides both international and domestic policymakers with overarching medium and long-term goals and targets. LDCs must put their future development trajectory on a more stable and sustainable foundation by addressing the long-standing structural barriers and weaknesses of the development plans and policies they have pursued. For that purpose, LDCs and the international community must consider the lessons learnt during the last half-century as well as after the beginning of the Covid-19 pandemic. This section focuses on the most crucial SDGs that LDCs must achieve to achieve structural transformation and sustainable development.

Before the commencement of the Covid-19 crisis, the development strategy inspired earlier costing exercises by many institutions and authors. Since 2015, a few exercises calculating the financial required to achieve several of the Sustainable Development Goals in medium and low-income countries have been published. However, none of this research has been limited to LDCs.

Before their formal launch in 2015, UNCTAD's World Investment Report of 2014 conducted the first global costing exercise of the Sustainable Development Goals. It discovered that total investment needs ranged from $3,340 to $4,520 billion, with a 55-68 per cent investment gap. Schmidt-Traub's initial investment based on important economic sectors in 2015 found that low and lower-middle-income nations would need to spend $4.1 trillion per year to attain the SDGs, which equates to 4% of their GDP. It has been anticipated that incremental investment for the SDGs in developing countries will range between $1.6 and $2.8 trillion, with public funds accounting for roughly 47% of the total. Authors that have been focusing on low- and lower-middle-income nations for years take existing unit prices and increase them by population estimates, assuming that the targets are attained by 2030. Meet the SDGs, and also include operational expenditures in public administration, courts, policing, and defence. They estimate that low and lower-middle-income nations will require an average of $1,011 billion per year from 2019 to 2030 to accomplish the SDGs. The majority of these investments (86.4%) are dedicated to public services such as health, education, infrastructure, biodiversity, agriculture, social protection, and so on, while 13.5 per cent are tied to operational public expenditures. Health and education make up 48% of total spending, with infrastructure accounting for 21%. To accomplish the SDGs, a group of IMF economists created a cost estimate for 25 Small Island Developing States (SIDS) with climate vulnerabilities. The authors discovered that investment in physical infrastructure must increase by 3.7% of 2030 GDP every year to meet the SDGs by 2030. Furthermore, health and education expenditure increased from 3% of GDP in 2019 to 8% of GDP in 2030.

The World Investment Report 2021 also advocates for a drive for long-term investments throughout the post-pandemic recovery period. The research necessitates that multipliers for new investments are lower in developing nations, but it also necessitates that LDCs are underrepresented in the scenario. Concerns concerning mobilizing sustainable development finance are especially pressing in light of LDCs' low levels of investment in productive capacity. According to the research, greenfield investment announcements declined by 44% between 2019 and 2020, impacting investments that could contribute to structural transformation.

The section includes detailed and distinct SDG costing exercises carried out particularly for LDCs, focusing on a selection of essential objectives and targets for structural transformation carried out by UNCTAD. These are the nations that are eligible for IMF concessional borrowing and will require foreign financial assistance to meet the SDGs.

Table 1- Summary Data for LDCs

	2021	2030 (Projections)	Average Per Year
Countries	46	46	
GDP Growth (%)	2.30%	_	_
GDP (US$ Trillions)	1.27	3.7	2.485
Per Capita GDP (US$)	1177	1848	1512.5
Population (billion)	1.08	1.9	1.49

This research combines SDG budget needs with potentially available domestic budget resources to compute the SDG Financing Gap and attempt to analyze the cost exercises conducted by UNCTAD in 2021 in order to assess the finance gap of LDCs in order to achieve Agenda 2030.

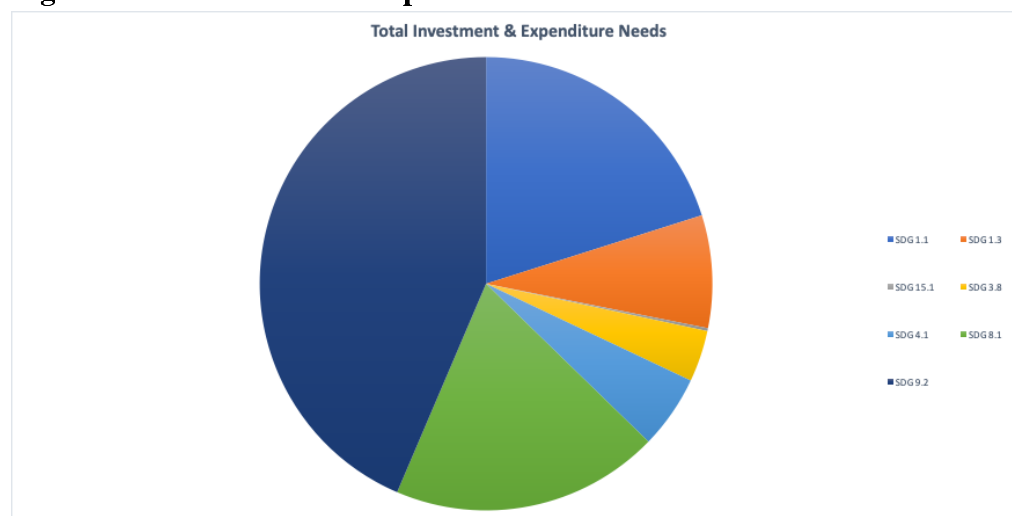
Table 2 summarizes the estimated financial needs of LDCs for SDG 1, SDG 3, SDG 4, SDG 8, SDG 9 and SDG 15

Estimation Results for the LDCs															
	Total Investment Needs (annual average 2021-2030)						Social and Environmental SDG taregts: total expenditure needs (annual avergae 2021-2030)								
	7% annual growth		End extreme poverty		Double Manufacture		Health		Education		Social Protection		Biodiversity		Total
	(SDG 8)		(SDG 1)		SDG (9)		SDG (3)		SDG (4)		SDG (1)		SDG (15)		
Total (billion dollars)	462.4		485.4		1051.4		88.6		126.5		193.7		5.06		413.5
Financing Gap							46.4 (7.3% of GDP)		95.0 (14.2 % of GDP)		184.2 (21.1% of GDP)		4.50 (0.6% of GDP)		330.1

Source: UNCTAD (2021).

As shown in Table 2, an average annual growth rate of 7% will be necessary to attain SDG 8 by the end of the decade. The LDCs will need $462.4 billion in order to attain a minimum of 7% annual GDP growth under SDG target 8.1. To meet SDG 1, LDCs will need a total of $679.1 billion, or 9% of the necessary GDP growth. The demand for SDG 1 is divided into SDG goal 1.1 ($485.4 billion) for ending extreme poverty and SDG target 1.3 ($193.7 billion) for social protection. SDG 9 is about "industry, innovation, and infrastructure," and it requires the most money, $1051.4 billion, to meet the aim of doubling manufacturing. With an emphasis on social and environmental SDG targets, LDCs require a total expenditure of $126.5 billion USD to meet SDG 4 (target 4.1) on education. According to UNCTAD 2021 estimates, there is a $95.0 billion dollar annual finance gap in achieving SDG 4.1, which accounts for 14.2 per cent of GDP growth. Furthermore, SDG 15 accounts for $5.06 billion for Target SDG 15.1 with an annual financial deficit of $4.50 billion accounting for 0.6% of GDP growth.

Figure 1: Investment and Expenditure Breakdown



Source: (SDSN, 2019), Complied by Author

LDCs' overall yearly spending would vary from $876 billion to $1465 billion. According to the four Sustainable Development Goals (SDGs 1.3, 3.8, 4.1, and 15.1), LDCs presently spend 2.9 per cent of GDP on social and ecosystem services on average (UNCTAD,2021) By 2030, LDCs would need to mobilize extra resources totalling 10.4 per cent of GDP per year until the end of the decade. To meet these four aims, social and ecosystem spending as a share of GDP must be tripled. In other words, spending would need to rise by 12.3% each year compared to the level reported in 2019. When existing and projected social and environmental expenditures are added together, the overall average annual expenditure would need to climb by nearly 55% of GDP.

III. Sources of financing of SDGs

Today's development financing landscape is multifaceted and rapidly changing, comprising a diverse range of actors, public and private, national, and international, sub-national and local, with distinct constituencies (taxpayers, stockholders, trustees, and so on), and varied incentives, as well as a variety of financial instruments (grants, loans, guarantees, insurance etc.). The 2030 Agenda calls for using various finance vehicles based on their relative strengths and complementarity. Official financing has a specific interest role to play and assists the poorest countries to make proper use of these many finance mechanisms to avoid risk and maximize growth. Public efforts and funds have also been crucial in launching and piloting several contemporary ventures for innovative financing.

In this section, we examine a variety of financial instruments that have evolved and matured in recent years, and we investigate the extent to which they could be used to assist sustainable development in LDCs. It would be impossible to investigate the entire range of financial developments and instruments now available. As a result, just a few are discussed in this work. They were chosen because they can address the development needs that characterize the majority of LDCs. These are domestic revenue mobilization, taxation, external finance, international investment agreements, multilateral development banks, investment promotion, official development assistance, sovereign borrowing, etc.

Furthermore, this section seeks to explain why the public sector's contribution, i.e. national budgetary integration of SDGs, is crucial for the success of Agenda 2030.

III.1 Domestic Revenue Mobilization

Domestic revenue mobilization is a significant development priority that is required to finance long-term development investments. A fully functioning government is defined by its ability to mobilize its resources and collect taxes to pay for important services like education, health, social protection, security, etc. Financing investment through domestic resources is challenging for LDCs, which have low levels of income and domestic savings and often ineffective domestic resource mobilization. Although tax revenues represent the largest source of financing for sustainable development in developing countries, they account for a much lower share of GDP in

LDCs – 14.2%. According to the available data, it shows that in 2018, Small island developing states (SIDS) saw an increase in tax income (as assessed by the median tax revenue-to-GDP ratio) of 21.6 per cent, while LDCs saw a marginal drop of 12.1%.

III.2 Role of Taxation in the 2030 Agenda

Taxation is a key tool for assisting in the financing of the SDGs. Tax revenues fund fundamental public services and contribute to the achievement of the SDGs. Improving taxation necessitates both political and the development of administrative competence to implement the appropriate balance of tax policies. The necessity for increased domestic activities to improve taxation has been well known for decades, and the adoption of the Addis Agenda provided a considerable boost. The Addis Agenda addresses various tax-related difficulties and possibilities, including the need to strengthen revenue management and tax policy, such as extending the tax base and integrating the informal sector into the formal economy.

Tax policies may also influence other aspects of sustainable development, such as infrastructure investment (domestic and international tax breaks), environmental sustainability (carbon taxes), and health results (taxes on harmful and unhealthy products). It is critical to acknowledge the interdependence of taxation and the goals established in the 2030 Agenda. In general, tax policies that help accomplish one or more SDGs without endangering others are supportive of the SDGs.

III.3 Integrating the SDGs in National Budgetary Frameworks

The budget, as the fundamental and political manifestation of government policy, appears to be an effective launching point for integrating Agenda 2030 and its SDGs. Less frequently, governments employ the SDGs to strengthen their budget performance review system or as a resource allocation and arbitration management tool. Whereas, most countries either map their budgets against the SDGs or include qualitative reporting in their primary budget document, which provides an overview of how the budget is linked to the various SDGs. These approaches are not mutually exclusive, and there is room for improved interaction among the four modes of integration. Another step forward would be to connect them to public policy evaluation to assess the antagonistic or synergistic effects of various programmes to promote policy coherence.

Although private actors have been encouraged to participate in the implementation of the SDGs, national governments are largely accountable for carrying this transition to realization. The way the state determines what to tax and impose charges on and where to spend those resources has a direct impact on citizens' access to fundamental services, wealth distribution, private investment choices, and so on. During the 2017 session, 23 out of 64 countries that submitted their voluntary review, mentioned their consideration of integrating SDGs into budgetary processes. The budgeting process involves three primary actors: the government finance ministry, which proposes the budget, the legislature, and the executive branch. Second, the parliament, which can

alter and authorize the budget, but its scope varies by country and political regime, and finally, a court of audit, which oversees budget execution and the administration of public finances.

The SDGs are included in national budgetary processes based on the following assumptions. First, a more coherent budget minimizes conflicts between different resource allocations, ensuring that one budget decision does not have a detrimental impact on another. Second, there will be an increase in accountability. A coherent budget should be consistent with a country's international responsibilities, including the 2030 Agenda. These agreements encourage successive administrations to keep these medium-term goals in mind and to incorporate them into their political actions, and hence their budgets. As a result, a budget that is linked with the SDGs should reflect the aims and targets of the SDGs while avoiding conflict between them. The SDGs can provide an extra, holistic layer of criteria for determining a budget's sustainability. The SDGs could serve as an evaluation framework for a more comprehensive review of budget plans, increasing openness for non-governmental institutions, particularly parliament and civil society. This could improve government accountability. The third and last assumption was that the SDGs will assist to make national budgets more comparable, contributing to the global ranking of sustainable development programmes. In the progress reports, each state should include a budget analysis based on the SDGs. This could help the transition to sustainable development by encouraging exchanges between policymakers and professionals from different nations and providing collective intelligence to the international debate.

Different approaches have been used by countries to incorporate the SDGs into their national budgetary processes. The first way governments incorporate SDGs is by improving the budget proposal narrative i.e. to include qualitative and quantitative components on SDG implementation in budget documents proposed to parliament. Because budget documents have an official size restriction and do not afford space for a thorough report on all SDGs and targets, including the SDGs, require prior identification of the most demanding goals. As a result, the SDGs must be organized and a focus that matches the national context must be identified.

The second way to account for SDGs in the budget process is to map and track the budgetary contribution to the SDGs, i.e. to monitor the budget concerning the SDGs. the way Nepal and Assam have gone a step further by coding their budgets according to the SDGs to keep track of the allocation of resources to each SDG goal, and the way the Mexican government links its budgetary programmes to SDG goals to determine the percentage of a goal linked to any budgetary programme and the number of budgetary programmes linked to each goal. These examples demonstrate that nations tracked SDG-related resources at the budget line level. It is difficult to trace the contribution of budget programmes to the SDGs or follow SDG-relevant budget lines since they frequently relate to many SDGs. In general, the assumptions behind the mapping and tracking system utilized were developed by each ministry or agency, therefore there may be differences between countries. These workouts were frequently only half completed. In

the setting of budget limits, the evidence acquired through mapping and monitoring exercises could be used for management purposes to orient budget choices and highlight priority areas for financing. Organizing spending around the SDGs does not tell us how that spending affects SDG accomplishment. While it promotes transparency, the addition of performance indicators could increase accountability.

The third way governments incorporate SDGs into their national budget is to use SDGs as a negotiation management tool. Budgets involve prioritization, negotiation, and arbitration among many ministries and line agencies. However, due to financial inertia, these decisions often have a very little leeway. Some countries stated that ministries utilize the SDGs and targets to defend budget recommendations and push for additional funding. In Assam, for example, the SDGs are now used by line departments to get priority financing. The SDGs will be utilized as a framework in Afghanistan to determine which grant proposals from provinces will get central government financing. As a result, these will be the primary selection criteria for grant applications offered by provinces. The idea is that each grant proposal describes how it will contribute to the SDGs, allowing the Ministry of Economics to pick the most intriguing development projects. This platform will also be used to better track projects undertaken on the territory by public and private players. Surprisingly, SDGs are used as a management and negotiation tool during budget preparation. However, given the relatively limited capacity for new alternatives from one budget to the next, the actual monetary effects remain constrained. Countries that intend to utilize the SDGs as a bargaining tactic in the budgetary process should keep in mind that many targets cannot be met simply by spending more money; they require policies as well.

It is difficult to assess whether the techniques and tools created by different countries are genuinely effective for generating meaningful progress and meeting the SDGs' national issues by 2030. Making the SDGs visible, whether through mapping or qualitative reporting, does not necessarily imply increased effort and funding for the SDGs. According to research on new indicators of wealth, indicators can be used to steer public action if they are used at all stages of public policy making, both upstream to legitimize and institutionalize a phenomenon and monitor its evolution, and downstream to evaluate the results of a policy strategy. The budget is about setting priorities and making decisions. As a result, the SDG framework is too wide to be used for this purpose directly. The SDGs, on the other hand, can be used to discuss and define a country's medium-term sustainable development concerns. After that, these priorities should lead to budget choices and might be expressed as targets, which could be monitored by metrics such as budget performance indicators.

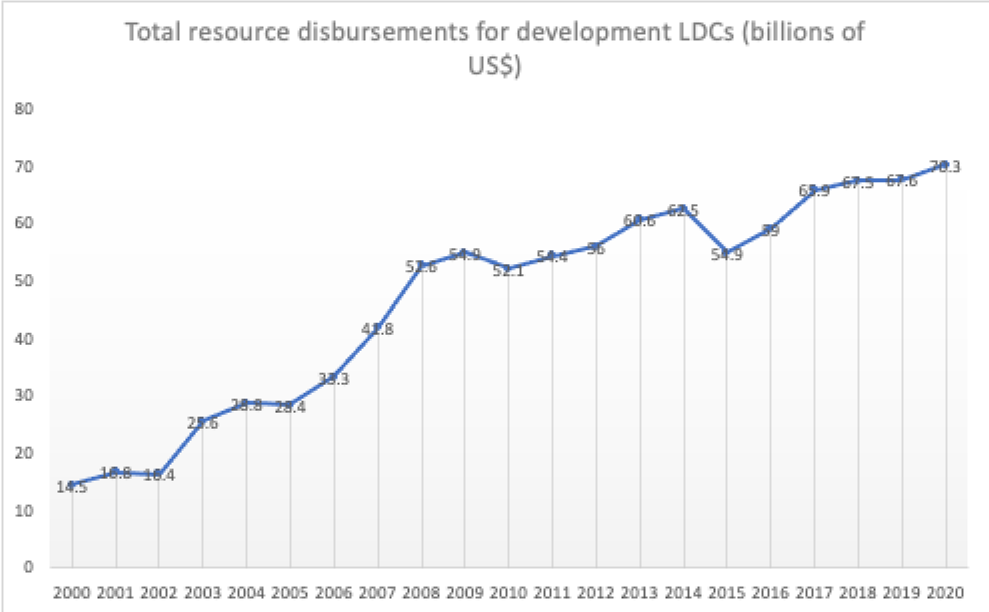
To summarize this section, Agenda 2030 implementation is more than just an issue of financial resources; SDG spending also reflects only a portion of the political effort required to achieve the SDGs. Making the SDGs visible in the budgeting process does not guarantee that additional

resources and efforts will be directed toward them. Governments can reformulate their budget structure by strengthening their narrative and allocating critical SDG expenditure. This might be released in the form of indicators or as a distinct report. Improved performance evaluation is required for effective deployment.

III.4 External Finance

External finance (development finance, remittances, foreign direct investment (FDI), private investment, and other investment) accounts for a higher share of LDC GDP of 16% than domestic finance 14%. The most recent United Nations International Conferences on Finance for Development outcome documents and the Addis Ababa Action Agenda (United Nations, 2015), emphasize that governments hold the main responsibility for financing development. However, the international community also has a critical part to play. International trade, FDI and other private flows (from enterprises and individuals), international financial and technological collaboration, and foreign debt are all sources of external financing which have varied impacts on development.

Figure 2: Resources Disbursements for LDCs



Source: https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=XL, Compiled by Author

These external finance trends have not been consistent over time. Between 2000 and 2020, resource transfers to LDCs grew exponentially. However, a major chunk of this rise occurred prior to 2010. After 2010, the rate of growth has been modest, with constant ups and downs for LDCs.

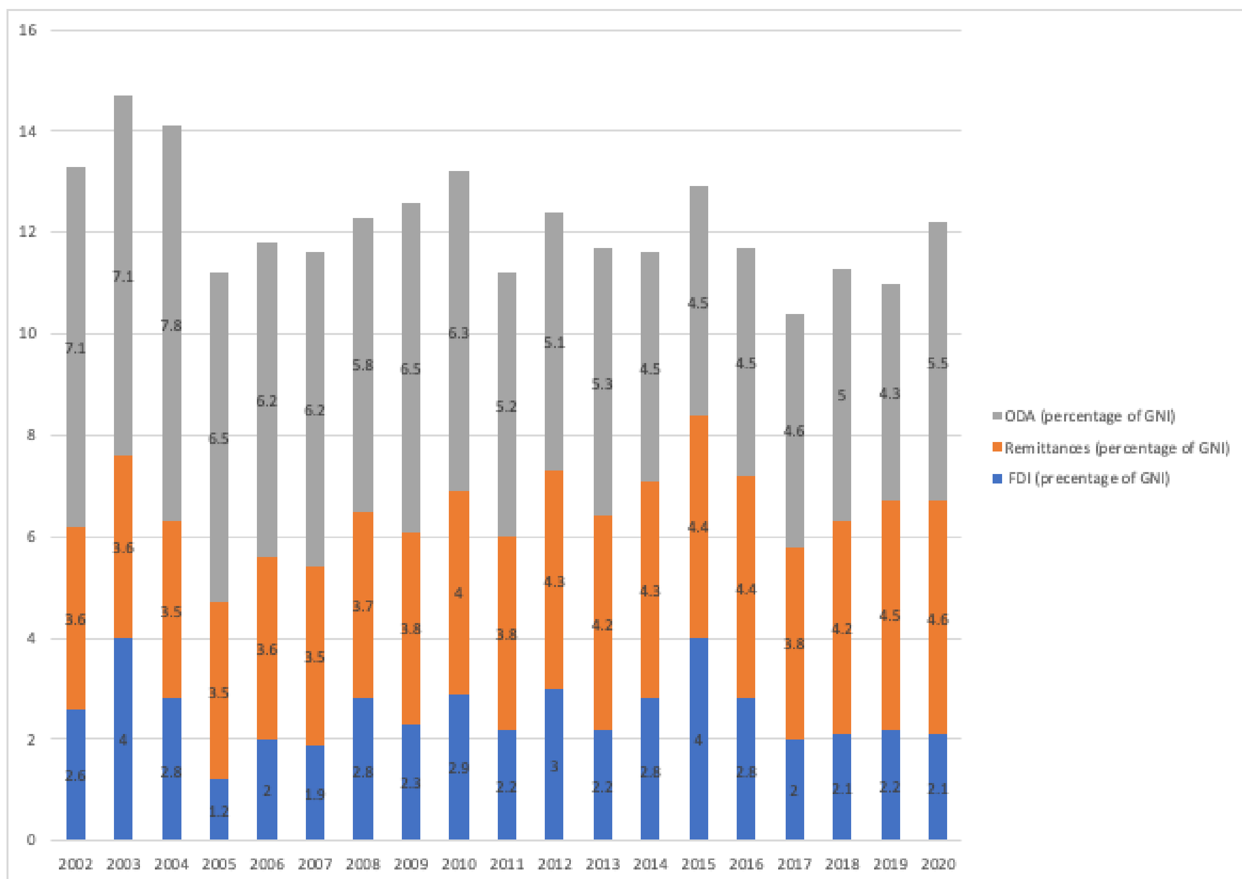
Foreign direct investment (FDI) continues to be an important source of development financing. FDI was the leading source of external financing in developing economies in 2020, with inflows

of $733 billion. However, FDI inflows are not fairly dispersed among countries; rather, they are concentrated in countries with higher economic prospects, higher rule of law and contractual respect, and stable institutions. This means that some countries with pressing financial needs may be overlooked. In 2020, FDI to LDCs accounted for only 2.1% of total global inflows. Furthermore, this external financing source is indeed linked to macroeconomic performance and the global economic climate. The global pandemic had a significant influence on FDI flows, with the global 2020 inflow falling to its lowest level since 2005.

Because **remittances** are administered directly by individuals and are largely focused on household consumption, they lack the employment creation potential of FDI. As a result, their ability to raise productive investment is constrained. However, remittances remain an essential source of revenue for many countries. LDCs, for example, represent a key source of external financing, with FDI remaining significantly greater in 2020 at US$48 billion against US$22 billion.

The Organization of Economic Co-operation & Development (OECD) Development Assistance Committee (DAC) donor countries are mandated to provide **0.7 per cent** of Gross National Income (GNI) in **ODA.** Still, in 2021, they provided only 0.33 per cent. Hitting the 0.7 targets would result in an increase in ODA of $200 billion annually. Finding new sources of funding for ODA is crucial if it is to expand to 0.7 per cent of GNI but it is apparent. A levy on high-income countries (HICs) and upper-middle-income countries (UMICs) on annual carbon dioxide emissions would yield annual revenues of up to $100 billion. Another source could be a globally coordinated wealth tax on ultra-high-net-worth individuals. The net worth of the world's billionaires is around $15trillion. Hence, a 2% wealth tax, assuming no leakage, would generate around $300 billion per year, which can contribute a significant amount to LDCs to help them achieve the 2030 Agenda.

Figure 3: Share of External Finance to LDCs over the years



Source: UNCTAD. 2020, Compiled by Author

External financing for LDCs is primarily driven by FDI, ODA, and remittances, which account for more than 15% of GNP. FDI flows to LDCs are highly volatile. Remittances are a more consistent inflow than FDIs. The downward trends indicate room for policies to attract investment and funds where it is needed urgently.

Developed countries are increasingly using mechanisms to promote **outward investment.** SDG target 17.5 encourages countries to boost LDC investment. Developed economies, as well as emerging economies, have established laws and initiatives in recent years to stimulate external FDI, including investment in LDCs These policies primarily consist of investment guarantees that protect outward investors from certain political risks in a host country, financial and fiscal assistance, mostly in the form of loans, direct capital participation by a home state in an investment project abroad, and investment facilitation instruments. UNCTAD recognised 28 nations in its direct study of countries that provide at least one form of instrument for boosting Outward Foreign Direct Investment that directly targeted or benefited investors in developing countries. At least ten of them had developed policies aimed explicitly at promoting FDI in developing nations, including LDCs. The most popular policy tools are investment guarantees or insurance policies (at least 23), although countries often give loans for local enterprises to internationalize (at least 14).

III.5 International Investment Agreements (IIAs)

An international investment agreement (IIA) is a form of a treaty between countries that addresses issues of cross-border investments, typically to protect, promote, and liberalize such investments. IIAs are an important policy tool for developing nations, including LDCs, to promote investment promotion regimes, as outlined in SDG objective 17.5.

Further, Bilateral Investment Treaty (BIT) is a type of international investment agreement between two countries that promotes and protects investments made by investors from one country in the territory of the other country. It commits the host country's government to provide certain standards of treatment and protection to foreign investors and their investments. The number of new BITs issued each year, however, continues to fall. In 2021, the number of effective treaty terminations surpassed the number of new IIAs, as it did in 2020.

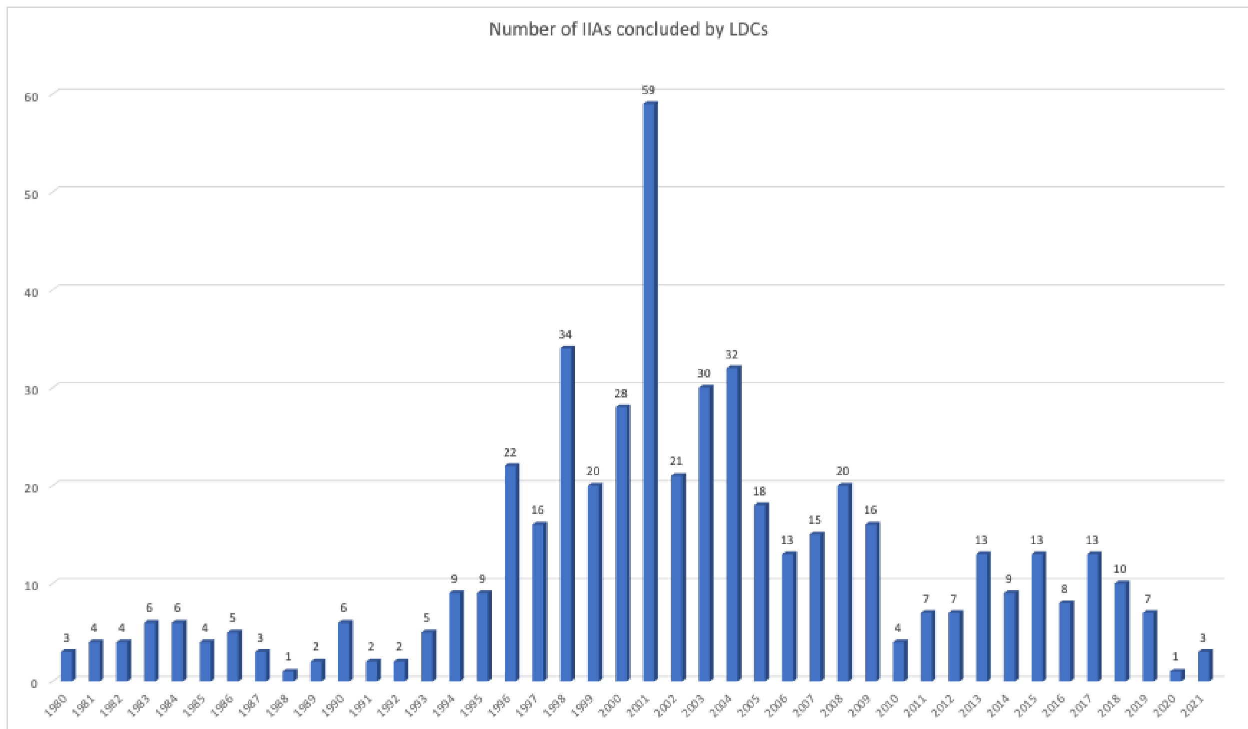
Table 3: Total Number of BITs signed by different LDCs until 2020

LDC Country	Number of BITs
Yemen	36
Ethiopia	33
Sudan	32
Bangladesh	29
Senegal	29
Mozambique	27
Cambodia	26
Guinea	24
Laos	23
Mali	22
Mauritania	22

Source: UNCTAD (2022b).

Megaregional IIAs, on the other hand, have increased in recent years, with potentially substantial consequences for future international investment rulemaking. These are comprehensive economic agreements between a group of countries with major economic weight in which investment is only one of several topics discussed. For instance, these include the African Continental Free Trade Agreement, the EU-United Kingdom Trade and Cooperation Agreement, and others.

Figure 4: Number of IIAs concluded by LDCs until 2021



Source: UNCTAD (2022b)

As of December 2021, LDCs have concluded 552 BITs (307 of which are in force). LDCs' bilateral treaty activity has hence followed the overall trend in IIAs, with a shift away from bilateral towards regional investment rulemaking. LDCs are now party to 76 treaties with investment provisions.

III.6 The Contribution of Multilateral Development Banks (MDBs)

MDBs are government-created banks that borrow the majority of their funds from private investors making them an important funding partner in governments' attempts to catalyze resources toward the SDGs. MDBs primarily lend to governments to help pay for development-related expenditures. Some MDBs, such as the World Bank's International Finance Corporation (IFC) and the European Bank for Reconstruction and Development, devote all or almost all of their lending to the private sector in order to directly stimulate economic growth and job creation. MDBs mostly lend to lower-income countries including LDCs and developing countries. The world's poorest countries have access to interest-free loans or grants from donor-supported special funds. Since 2016, various MDBs have collaborated to identify and report on the funds mobilized by their investments. MDBs also aim to address real and perceived risks associated with private investment, and they use several risk mitigation methods to do so.

MDBs and the International Monetary Fund (IMF) have committed to working with countries to achieve the SDGs by providing creative funding options that address unique demands and encourage adherence to high standards. The finance they offer has a huge impact on long-term

development. They intend to leverage the billions of dollars that they manage, to support global efforts to raise the trillions of dollars required to accomplish the AAAA's ambitious development goals.

Some MDBs have also created platforms aimed at directly assisting SDG achievement through innovation. ADB Ventures, for example, has gathered development partner funds to invest in early-stage technology startups that can scale and have a major impact on the SDGs. Since its inception in early 2020, the programme has assisted over 50 early-stage impact technology firms in exploring prospects throughout Asia. The IsDB announced a comprehensive programme in early 2018 to promote technology and scientific solutions for the SDGs linked to food, health, education, water and sanitation, clean energy, and sustainable industrialization. It is constituted of two parts: "Engage," a digital centre that connects scientists, innovators, and entrepreneurs, and "Transform," a Fund with an initial goal size of $500 million that will help member countries innovate to address development concerns through technology and entrepreneurship.

The MDBs work with financial markets to channel finance toward sustainable development, particularly through the development of thematic bonds aligned with the SDGs. These efforts include both generating thematic bonds to raise finance for their operations and assisting their partners in developing and issuing thematic bonds. All MDBs have been particularly active in green and climate bond markets, contributing to the strengthening of institutional frameworks for sustainability, including increased standards and reporting.

III.7 LDC Investment Promotion

Public finances are critical for investing in the Sustainable Development Goals in LDCs. They cannot, however, meet all of the resource demands envisaged by the Sustainable Development Goals. The contribution of private sector investment will be critical. The private sector's participation is now quite modest. Only a small portion of the global invested assets of banks, pension funds, insurers, foundations and endowments, and multinational enterprises are in the Sustainable Development Goal industries. Their contribution is significantly lower in LDCs.

Most countries have put in place programmes to encourage and facilitate foreign investment. Promotion and facilitation methods frequently involve the provision of fiscal or financial incentives as well as the creation of special economic zones. Many governments have established specific investment promotion agencies (IPAs) to attract foreign investors through image enhancement, investor targeting, investment facilitation, investor aftercare, and policy lobbying. Some of these organizations are actively encouraging investment in the SDGs, particularly low-carbon investment. Currently, 39 (81%) of the 48 LDCs have an IPA in place.

III.8 Sovereign Borrowing

Sovereign Borrowing allows governments to ramp up spending and provide assistance when private actors may be unable to do so. When there are profitable investment options that promote

social objectives, increase tax bases, and eventually boost debt service capability, it enables nations to invest in the future. However, benefits can only be maintained if risks are adequately managed and resources are used wisely. LDCs should expand their direct sovereign borrowing from international capital markets, especially by floating sustainability-themed bonds but the amounts and terms of international bond-market borrowing are inadequate. Increasing access to long-term, affordable, and secure funding is a challenge, as is making constructive use of the revenues to advance public policy objectives and strengthen the government's financial position.

IV. Challenges faced by LDCs in achieving Agenda 2030

This section focuses on the challenges LDCs face in achieving the sustainable goals set out by the UN Agenda in 2015. Without enough funding, the best intentions stated by the global community would stay out of reach. LDCs are not making adequate progress in achieving the SDGs. Research earlier this year estimated that additional annual investment in LDCs by 2030 would be $462.4 billion to achieve 7% GDP growth per annum.

While there have been signs of progress in some LDCs, several continue to encounter barriers in eradicating poverty through economic growth, structural transformation, boosting productive capacity, or raising their proportion of exports in comparison to other developing countries. Such barriers range among LDCs, a heterogeneous group of countries with different structural vulnerabilities. Some of the challenges faced by LDCs which are vulnerable to closing the financial gap include weak economic growth, rising debt, export marginalization, insufficient funds by the private sector, corruption, inadequate data, lack of structural transformation, and economic shock due to the unprecedented pandemic.

IV.1 Weak Economic Growth

During 2011-19, the average economic growth of LDCs stood at 4.7% which was considerably lower than the average economic growth during 2001-09. The lower economic levels over the years indicate that the current standards of LDCs will not be able to converge with the fast-growing standards of developing countries. The pandemic has particularly affected the economic growth of 2020 and 2021 leading to sharp increases in poverty. Lack of economic growth draws attention to the limited urban financial resources, which makes it inflexible for local governments in LDCs to effectively manage the effects of such exogenous factors, especially given the long-term goal of enhancing local service delivery and funding local infrastructure development to achieve the 2030 Agenda. For LDCs, financing investment through domestic resources is challenging which often ineffectively mobilizes domestic resources and has low levels of domestic savings and income. One of the largest sources of financing is tax revenues which account for a much lower share of GDP in LDCs of 14.2% as compared to developing countries.

Figure 5: Annual Economic Growth Rate of LDCs between 2000-2021

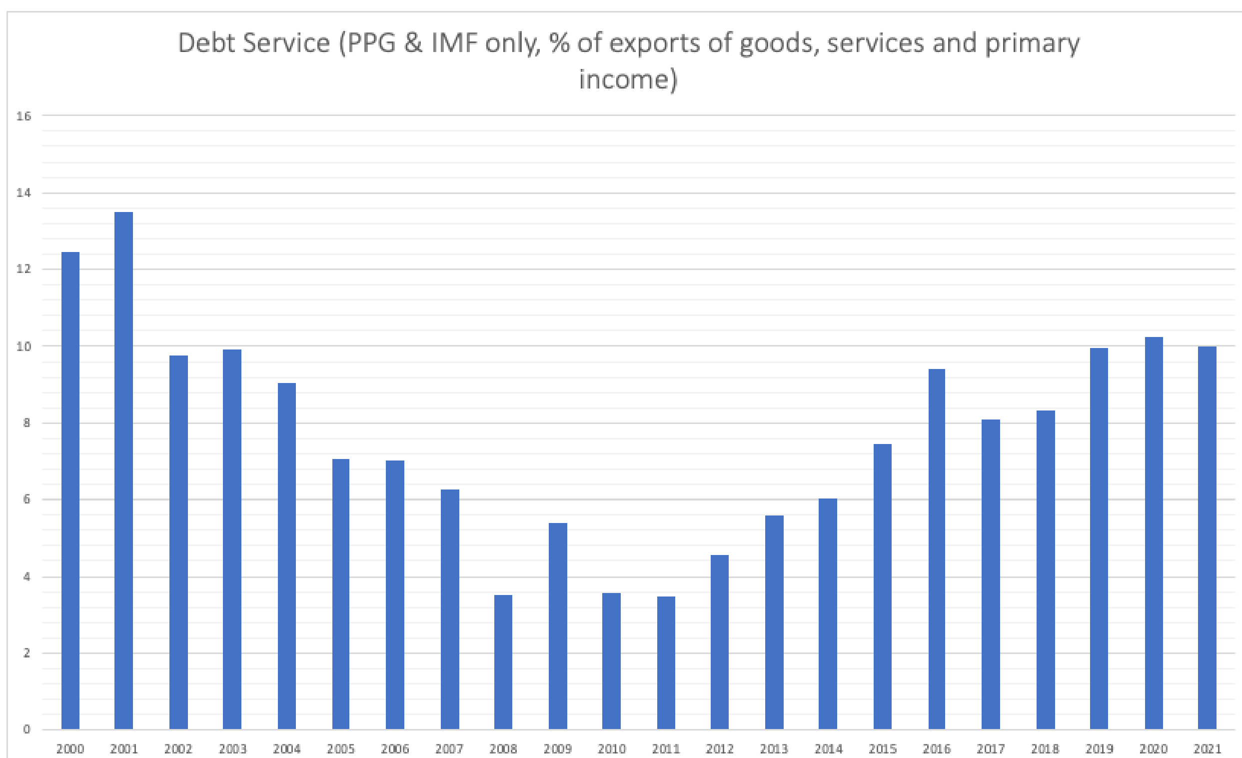
Source: https://data.worldbank.org/region/least-developed-countries-un-classification

The above chart, which depicts the annual economic growth rate of LDCs, reveals that the average growth rate of LDCs has been steadily declining since 2010. The pandemic's impact on LDCs has been severe, as the pace of growth has been low since 2019, although LDCs are making major efforts to improve matters. This also necessitates governmental assistance from international donors as well as essential private-sector investment.

IV.2 Rising Debt

UNCTAD has been warning about LDCs' increasing debt burden, which impairs their ability to deliver essential services like health care and education. Their debts have not only risen in magnitude, but they have also become more cost-intensive. The epidemic has aggravated the problem, with debt repayments for LDCs expected to reach $43 billion in 2022. Such a cost will jeopardize their covid-19 recovery efforts and drain public revenues required to combat poverty and invest in critical infrastructures like roads and hospitals. Rising public debt and debt servicing expenses have put undue pressure on LDCs to finance SDGs. Government debt has risen sharply by 20 percentage points on average following the drops of the 2000s, in anticipation of rapid development.

Figure 6: External Debt Service for LDCs



Source: https://data.worldbank.org/region/least-developed-countries-un-classification

External debt is a significant concern for LDCs. According to the World Bank Group-IMF Debt Sustainability Framework, 6 LDCs were assessed as debt distressed, one as external debt distressed, and 16 as high risks of debt distress. This is anticipated to pose coordination issues for LDCs in implementing the 2030 Agenda.

IV.3 Export Marginalization

LDCs continue to remain marginalized in global trade. Since 2010, their share of global merchandise exports has hovered around 1%. There is a lack of export diversification and a heavy reliance on products. Even their major exports leave them very vulnerable to global crises and shocks, as they rely on primary goods such as cotton, copper, and oil for more than 60% of their commercial exports. This exposes them to trade shocks and the unexpected loss of export markets when another developing country becomes competitive in that product. Global commodity markets are extremely volatile, and when prices fall, exports, jobs, and government revenue all suffer. This instability poses a major threat to many LDCs, particularly in the food and petroleum sectors. The impact of the conflict in Ukraine on global prices for these two products is a stark reminder.

Figure 7: Export Share (as % of GDP) of LDCs over the years

Source: https://data.worldbank.org/region/least-developed-countries-un-classification

The volatile nature of the global commodity market, along with the start of the pandemic, resulted in a major fall in LDC exports. The Ukraine conflict also resulted in a significant drop in exports, further marginalizing LDCs.

IV.4 Insufficient Funding by Private Sector

Pension funds, sovereign wealth funds, private savings, FDI, insurance companies, and other investments are examples of private sector sources. The numerous sources make the private sector an essential stakeholder in the financing and attainment of the SDGs due to its resources and the SDGs on global outcomes. There are several barriers to private funding of the SDGs, including under-leveraging of resources and resource disparity, inefficient allocation of private capital among SDG sectors, etc. One of the major challenges is the misalignment of incentives, i.e. there is a misalignment between private capital and the SDGs. The difference in the time horizon is one of the misalignments. SDGs demand a wider time horizon beyond 15 years since investments in infrastructure, education, and attempts to alleviate inequalities will take longer than 15 years to yield results. Furthermore, to accomplish the SDGs, private capital must be integrated with targeted sector finance, particularly in areas that struggle to attract investment.

IV.5 Corruption

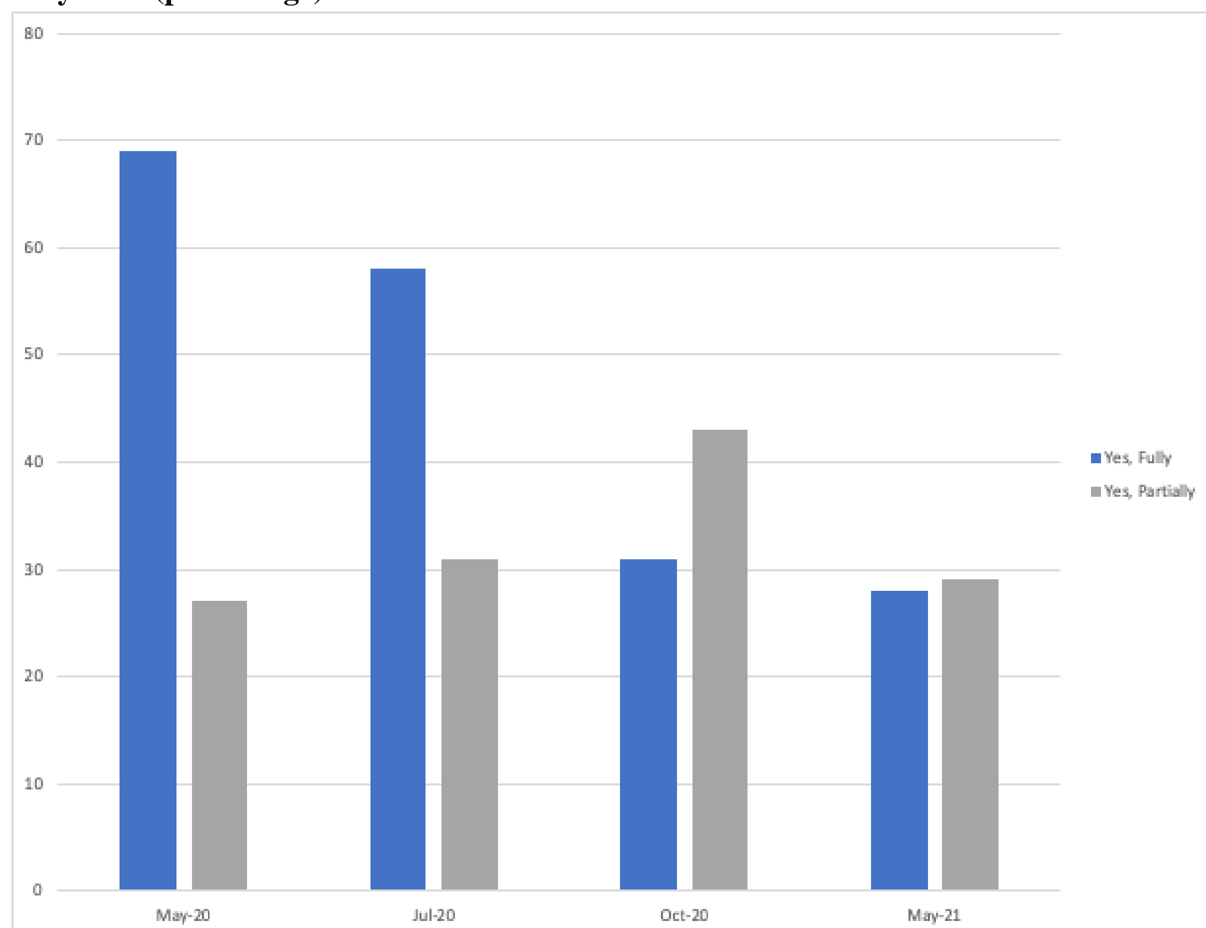
Combating corruption will improve SDG funding. Excessive corruption affects the flow of FDI and eventually investments in SDGs. Furthermore, private capital is apprehensive about capital

leakages, which drive up the cost of conducting business, impact investment outcomes and makes repayments difficult. According to a UN ESCAP-ADB-UNDP report, corruption affects 40% of energy, water, and sanitation projects. Existing corruption is undermining the development funds of political parties and countries. When illicit activities such as money laundering, production & distribution of illegal goods, tax evasion etc. are combined with corruption result in the loss of an extravagant amount of somewhere between 800 billion to 2 trillion.

IV.6 Inadequate Data

Inadequacy and lack of data have made it difficult for countries to design, implement and monitor policies and track progress. Significant data gaps remain in terms of geographic coverage, timeliness, and level of disaggregation, making it difficult to fully appreciate the pace of development towards achieving the 2030 Agenda, eventually leading to problems calculating financing requirements for LDCs. According to a recent assessment carried out by the United Nations and the World Bank, 96 per cent of National Statistical Offices (NSOs) have reduced or eliminated face-to-face data collecting. During the pandemic, data collecting expenses increased for 40 per cent of NSOs, while government funding for 48 per cent of NSOs was reduced. Nine out of ten national statistical offices in LDCs have struggled to operate due to funding restrictions, with more than half seeing funding cuts.

Figure 8: The proportion of countries that stopped face-to-face data collection, May 2020–May 2021 (percentage)



Source: UN, 2022.

The World Bank reports that 77 of the 155 nations they evaluate for poverty do not publish data on it, making it challenging for the private sector to determine where and how to invest money. Additionally, for some countries, although data is released, its poor quality leads to indefinite investment decisions. This is the reason why insufficient capital has been concentrated in developed countries. Hence, private financing would be hard to come by without high-quality data, and the SDGs would not be achieved.

IV.7 Lack of Structural Transformation

Moving resources from low productivity to high productivity and skill-intensive industries is a process known as structural transformation. While many countries have achieved structural transformation, LDCs have been slow in this respect which makes them vulnerable to economic, social and environmental shocks and makes it difficult for them to achieve the financial challenge. One reason for this lack of structural transformation is the LDCs' overwhelming dependence on commodities for export and production. Fortunately, technology and international

connectivity may support nations on this road. According to the Global Innovation Index 2021 report published by the World Intellectual Property Organization (WIPO), which tracks the level of technical development in 132 nations, found out that 21 of the 32 nations in the worst quartile are LDCs.

IV.8 Economic Shock of Unprecedented Pandemic

Before the covid-19 crisis, progress made on the SDGs and their financing was a mixed picture. The Covid-19 crisis has magnified the “scissors effect” of SDG financing - increasing needs and declining resources. The health crisis immediately evolved into a significant economic crisis with conceivably protracted repercussions on sustainable development. Rapid and aggressive lockdown measures in most LDCs had reduced domestic demand and forced businesses to shut down or reduce operations. Moreover, the pandemic, external financial flows in the form of FDI, remittances, and official development assistance (ODA), which were essential to the development of LDCs, have become less certain. Global FDI declined by 49 per cent in the first half of 2020. ODA is still crucial for improving the availability and provision of essential services including health, education, water, and sanitation in LDCs. Cash transfer programmes and employment creation initiatives supported by ODA and other external development financing sources are frequently essential for reducing poverty and making it easier for disadvantaged and vulnerable populations to participate in development in Asia-Pacific LDCs. ODA has a crucial role in improving productive capacity, social and economic resilience, as well as the development of infrastructure and trade capability. Unfortunately, the pandemic has hampered the implementation of ODA- and other external development financing-funded projects and programmes in the region's LDCs, which will probably further impede their efforts to bring about economic and social transformation.

V. Policy Options & Tools to bridge the Financing Gap

The financing of SDGs is very complicated. The challenges for financing are not only a matter of scarcity of resources but also a misallocation of resources. For the SDGs to be fully financed and achieved, there are structural and systemic difficulties in institutions, capacity building, international cooperation, and incentive realignment that must be addressed. If left unaddressed, it will further worsen the divergence in development prospects, and pandemic scarring will fatally impede SDG achievement. This section recommends a few policy options and tools that can be enabled to boost the financing of SDGs and help bridge the financing gap in LDCs.

V.1 Debt Restructuring

Debt Restructuring is for heavily indebted countries. Because they owe not just the interest on the debt but also a significant amount of principal interest, many LDCs are in a vulnerable position when it comes to debt service because they have a limited chance of regularly refinancing the principal. In other words, many countries are experiencing severe cash constraints. Due to the interest service being too expensive to pay even over the long term, there are a few instances where there is also a solvency crisis. The International Monetary Fund (IMF),

a global official development system should take steps to help such countries to refinance their debts falling due.

V.2 A Comprehensive Transition Finance Approach

Finance strategies must be holistic, interconnected, and dynamic, taking into account the altering roles of various actors and financing sources at each stage of a country's growth. The comprehensive and integrated nature of the transition finance method may aid in determining where each actor can make the most significant contribution, as well as how the various financing flows should be articulated at the country level to achieve the largest development impact. Incorporating a transition finance perspective into countries' financing strategies may assist partner countries in better preparing for and anticipating the substitution of alternative financing sources. As a result, partner countries will be able to better coordinate assistance with other actors. Mechanisms that allow partners to coordinate and align their support to the needs of graduating LDCs can play a key role in mitigating the challenges caused by the graduation process and can ensure a gradual and smooth transition between financing sources.

V.3 Ensuring access to sound and impartial technical advice for LDCs

LDCs getting sound and impartial technical advice help them to navigate the financing for a sustainable development landscape. It is important to help LDCs anticipate and adapt to changes affecting their access to or the terms and conditions of their financing, as partner countries may struggle to access some of the newly available funds, assess the risk-return trade-offs of innovative instruments, and choose among the numerous financing options available.

V.4 Enhance the linkage across Development Cooperation-Investment-Trade

Through Private Sector Development (PSD), development partners can help LDCs bridge the gap between development cooperation and private investment. Targeted assistance could help LDCs in better anticipating, planning and managing the transition between public to private sources of financing. It may also allow for improved alignment of private investment and finance with the SDGs, ensuring that private-sector-led growth is exclusive, sustainable, and contributes to SDGs. Development partners could promote international investment and commerce by emphasizing their characteristics or development footprint. This would entail investments in private sector growth, the investment climate, and the business environment; improved credit availability; the creation of markets; and the development of local capacities to attract "suitable" international investors. Working with the private sector to improve the development footprint of trade and investment could also be part of the linkage across Development Cooperation-Investment-Trade. This could be accomplished through LDCs and their development partners working together to improve the quality of foreign direct investment and the development dimensions.

V.5 Blended Finance - A Solution

Blended finance is an approach for leveraging, impacting, and reinvesting private funds in development. It is a popular method for attracting capital since it helps with stakeholder relationships by balancing the interests of diverse stakeholders and allocating funding to SDGs. It is an ideal tool for attracting private capital using already existing financial tools such as loans, equity, loan guarantees and grants for SDG. Blended finance models could mobilize some of the large investments required to establish more sustainable, varied, and vibrant economies and societies in LDCs that can withstand future crises and accelerate SDG accomplishment. The funds pooled via blended finance are about **25.4 billion** in committed assets, but that is a drop in the bucket compared to the SDG gap.

Some of the required infrastructure financing, projected to be more than **$200 billion per year** for the 59 nations, can be funded through project financing, which includes both private equity and debt. These projects will frequently produce revenue from tolls and tariff charges on roads, rail, water and sanitation, and power. In the context of blended financing for infrastructure, an optimistic estimate of **$50 billion a year** in market financing of infrastructure projects, or roughly one-fourth of the total, could be raised through private debt and equity. This is a tentative estimate provided by Sustainable Development Solutions Network. The difficulty of infrastructure financing is greatest in LDCs/LICs, where private-market financing is most challenging due to the economy's extremely restricted capacity to pay for infrastructure services.

Blended finance has played a significant role in assisting LDCs in recovering from pandemic shocks and achieving the 2030 Agenda by deploying risk mitigation mechanisms for selective LDCs, consulting governments about priority sectors for development and identifying sectoral and other SDG priorities, emphasizing developing and employing people in quality and productive work to restrain and rebuild LDC economy, providing financing for small and medium-sized enterprises (SMEs) which account for 35 per cent of the formal jobs in LDCs.

In the medium to long term, it will be critical to direct blended finance investments toward initiatives and sectors that strengthen economies and societies' resilience to future crises. Such initial investments are expected to be less expensive than responding to and rebuilding after future disasters and shocks. Supporting the shift to inclusive digital economies over the next decade will be critical to creating a new generation of LDC jobs. Up to 230 million digital jobs are expected to be generated in Sub-Saharan Africa by 2030, generating up to USD 120 billion in revenue.

Blended finance efforts in **SIDS**, which rely heavily on ocean-based industries, could focus on opportunities to scale up or replicate innovative blue blended finance schemes, such as blue bonds, debt-for-ocean swaps, blue carbon schemes, ocean-related insurance schemes, or impact funds for ocean-based activities.

V.6 Investing in Data is Crucial

According to a recent assessment performed by the United Nations and the World Bank, 96 per cent of National Statistical Offices (NSOs) have reduced or eliminated face-to-face data collecting. During the pandemic, data collecting expenses increased for 40 per cent of NSOs, while government funding for 48 per cent of NSOs was reduced. In Sub-Saharan Africa, 61 per cent of nations saw these costs rise, while 71 per cent saw a decrease in government financing and 59% observed a decrease in donor money for NSOs. An examination of official development assistance for data and statistics revealed that financing for many basic data activities was swiftly bottlenecked at the start of the pandemic. Nine out of ten national statistical offices in LDCs have struggled to operate due to funding restrictions, with more than half seeing funding cuts.

This reaffirms the importance of implementing important frameworks, all agreed upon by the data community during the United Nations World Data Forums, to build statistical capacity and adopt an innovative demand-driven funding mechanism capable of responding quickly and efficiently to national statistical system priorities, with the goal of mobilizing both domestic and international funds. As a result, immediate financial and technical assistance for statistical systems is required in the short term. In the medium and long term, mobilizing foreign and domestic resources to expand investments in national data and statistics systems will be critical to accelerating SDG implementation.

VI. Conclusions

With the introduction of the new development framework, the Sustainable Development Goals, there is a significant shift in emphasis toward sustainability. To ensure the quality and sustainability of new infrastructure, financial methods and management systems should be designed and executed. Countries must accept responsibility for attaining the SDGs as a critical first step. Until 2030, LDCs will need to significantly and continuously accelerate their economic growth. Country efforts should concentrate on improving macroeconomic management, increasing tax capacity, resolving spending inefficiencies, combating corruption that hinders inclusive growth, and creating business environments conducive to private sector growth. Action in these areas will help to achieve the SDGs by promoting sustainable and inclusive growth.

Developed countries implement and design guidelines for sustainable investment more extensively. However, analyzing the contribution of private investment to the SDGs requires an awareness of where companies operate and who they serve, particularly whether they target the most vulnerable countries and populations.

Countries, especially LDCs, must spend not only more but also better. Today, a significant amount of investments are lost due to inefficiency. Improving spending efficiency is thus critical to achieving the SDGs. It is projected that governments could save as much as they could raise through tax reform by improving efficiency in education, health care, and infrastructure.

VII. The Way Forward

The financing of the SDGs is extremely complex. Many of the finance issues are caused by a misallocation of resources besides scarcity of resources. For the SDGs to be fully funded and achieved, structural and systemic difficulties in institutions and capacity building, global cooperation, and incentive realignment must be addressed. Institutions and laws must be tightened to assure adequate and high-quality spending on operations and maintenance. Progress toward the SDG 2030 targets will necessitate comprehensive solutions to support stronger co-investment platforms, enable business conditions in low-income countries, particularly LDCs, accelerate financial deepening, and boost the efficiency of government spending. This is especially so when it comes to the money needed to undertake structural economic reform. Furthermore, parallel processes are required for a really sustainable structural shift.

From the angle of future research is incredibly difficult to traverse the environment of responsible or sustainable financial rules. There are far too many criteria for defining “sustainable”, “responsible”, or “SDG aligned” investments. There are several points of view, terminology, and analytical methodologies. This fragmented approach makes it extremely difficult for actors to participate with and align with the SDG agenda, resulting in knowledge asymmetries and SDG washing.

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