

# The Case for Long-Term SDG Financing

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# The Case for Long-Term SDG Financing

By Prof. Jeffrey D. Sachs<sup>1</sup>, Guillaume Lafortune<sup>1</sup>, Olivier Cattaneo<sup>2</sup> and Abdoulaye Fabregas<sup>2</sup>

<sup>1</sup> UN Sustainable Development Solutions Network

<sup>2</sup> OECD Development Co-operation Directorate

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## Abstract

The SDGs are seriously off track. Poor and vulnerable countries suffer the most. At the core, the SDGs are an investment agenda. Yet, the global financial architecture is failing to channel global savings to SDG investments at the needed pace and scale. There is deep, chronic, and crippling under-investment in a significant proportion of developing countries. This paper underlines four priorities to scale-up and align global financing flows for the SDGs: (i) Reform of the Global Financial Architecture, notably by expanding funding from Multilateral Development Banks and Public Development Banks; (ii) More and better targeted Official Development Assistance ; (iii) Revised sovereign credit ratings that consider the long-term growth potential of SDG investments and (iv) Long-term investment planning, fiscal frameworks, project implementation, financial operations, and relations with partner institutions in developing countries, in order to be able to channel much larger funds into long-term sustainable development. The paper argues that sustainable development is a high-return activity, and that the SDG financing gap is largely the result of missed investment opportunities caused by an inappropriate financing framework. This paper aims to support global efforts to scale-up and align international financing flows to achieve the SDGs, in conjunction with the Summit for a Global Financing Pact in Paris in June 2023.

## Background

**The SDGs face strong headwinds.** Despite strong efforts in many countries, national governments on all continents have fallen short in integrating the SDGs into national policies and public investments (Sachs, Lafortune, Fuller, & Drumm, 2023). Moreover, across the globe, societal polarization and rising geopolitical conflicts hinder the national and global cooperation needed to achieve the SDGs. Civil society organizations, including academic institutions, are becoming more constrained in the midst of intensifying political tensions. The global financial architecture is failing to channel global savings to SDG investments at the needed pace and scale. The poorest countries are struggling the most. This challenging context has resulted in repeated calls for a reform of the global financial architecture (GFA) at international fora such as the UN General Assembly, G7, G20 and World Bank/IMF Annual Meetings (Government of Barbados, 2022) (US Department of State, 2022). In his opening address to the UN General Assembly on September 20, 2022, UN Secretary-General Antonio Guterres also urged world leaders to come together at the SDG Summit in September and deliver a Rescue Plan for People and Planet. UN SG Guterres also called on the G20 to launch an “SDG Stimulus” to offset the deteriorating market conditions faced by developing countries and to accelerate progress towards the SDGs and the Paris Climate Agreement.

**Economic development is a high-return activity.** High-priority investments in developing countries – whether for electrification, water and sanitation, public transport, or schooling – are not only essential for improving living standards but also yield economic returns far above the cost of capital, whether for infrastructure (World Bank Group, 2019) or skills (Hanushek & Woessmann, 2021). Therefore, it is critical for the governments of developing countries to leverage borrowing to finance infrastructure and human capital investments, knowing that the resulting economic growth will more than compensate for the borrowing costs over time.

**Yet, sovereign borrowers in developing countries are in a bind.** They face very poor credit ratings and very high borrowing costs. Of the 80 or so low-income countries (LICs) and lower-middle-income countries (LMICs) that are rated by the major rating agencies, only three LMICs (India, Indonesia, and the Philippines) have an investment-grade rating,

and not a single LIC has achieved this rating. This challenge tends to intensify in times of crises: for example, while developed countries largely maintained stable sovereign credit ratings during the COVID-19 crisis, over 56% of rated African countries experienced a downgrade in 2020, a figure significantly above the global average of 32% (Fofack, 2021). These examples suggest that developing countries are punished out of the gate, facing low credit ratings, which in turn lead to borrowing costs that are astronomical and that further exacerbate their development challenges.

**This has been exacerbated by a surge in inflation and interest rates resulting from responses to the COVID-19 and Ukraine crises that generated a “financing crunch” in developing countries.**

Lack of access to quality and affordable credit inhibits developing countries’ ability to finance vital capital needs – such as electrification, digitalization, and schooling – and starkly hampers their sustainable development. It also leaves them with limited fiscal space for financing a transition towards a green and resilient future, which tends to involve higher upfront costs. For example, it is estimated that the upfront cost of investing in renewable energy infrastructure could be up to 33% higher than that of investing in conventional energy infrastructure (Rozenberg & Fay, 2019); however, after a very short period, it has a stronger positive impact on countries’ GDP (Batini, di Serio, Fragetta, Melina, & Waldron, 2021).

**The combination of chronic shortfalls in infrastructure and human capital and high borrowing costs creates a vicious cycle of underdevelopment and constrained access to capital markets.**

It results in a poverty trap, rather than an escape from poverty. Ultimately, this situation often forces developing countries to rely heavily on inadequate and limited flows of external concessional finance and hampers their transition towards a more diversified financing mix, which is crucial for their economic resilience and self-sustainability (Piemonte, Cattaneo, Morris, Pincet, & Poensgen, 2019). A key step to achieve the Sustainable Development Goals (SDGs) and other global goals, including the Paris Climate Agreement and the Montreal-Kunming Biodiversity Framework Agreement, is thus to increase developing countries’ access to high-quality, affordable and long-term financing from both official and private sources.

## Inefficiencies in the Global Capital Markets

**There is deep, chronic, and crippling under-investment in virtually all LICs and LMICs.** In 2022, Investment per person in the LICs averaged a meagre \$175 per person, compared with \$11,535 per person in the HICs (Table 1). Most LICs and LMICs (and many small-island developing states [SIDS], including those that are UMICs) lack the credit ratings to borrow on acceptable terms (Table 2). They are also highly vulnerable to self-fulfilling liquidity crises and balance of payments crises, making it nearly impossible for these countries to implement a long-term sustainable investment strategy.

**Table 1. Global Population, Investment, and GDP by World Bank Income Category (% of World Total)**

	Population	Investment	GDP
LIC	8.0%	0.4%	0.5%
LMIC	43.2%	11.9%	10.7%
UMIC	32.7%	37.4%	28.5%
HIC	16.1%	50.3%	60.3%

Source: IMF World Economic Outlook, October 2022

**Table 2. Credit Ratings by Income Category**

	Number of UN Member States	Number with Moody's Ratings	Number with an Investment Grade	% Countries with an Investment Grade	% of population in WB Income Category with an Investment Grade Rating
LIC	28	9	0	0.0%	0.0%
LMIC	54	36	3	5.6%	52.8%
UMIC	52	40	10	19.2%	70.2%
HIC	59	52	45	76.3%	98.3%
WORLD	193	137	58	30.1%	60.5%

Source: Moody's and World Bank (2023).

**While it is often argued that the high interest rates faced by developing countries simply compensate for their higher risks of default, this presumption is contradicted by the historical record:** the higher interest rates more than compensate for the higher risks of default of developing countries. According to Meyer, Reinhart, and Trebesch (2022), the long-term returns on risky sovereign bonds has been far higher than the returns on "safe" US and UK securities, even taking into account the episodes of default.

**In reality, the higher interest rates faced by developing countries reflect two fundamental inefficiencies of the international financial markets:**

- **First, the sovereign borrowers of developing countries borrow heavily in foreign currencies (typically dollars and euros) rather than in their**

**own currencies.** By contrast, most high-income countries (HICs) borrow in their own currencies (US, UK, Eurozone, Japan). There is now a vast literature, initiated by Eichengreen and Hausman, showing the high costs to development and macroeconomic stability when countries must borrow in foreign currencies (a circumstance dubbed "original sin") (Eichengreen, Hausmann, & Panizza). This practice increases the risk of developing countries facing debt liquidity issues because they become vulnerable to fluctuations in foreign exchange rates. In addition, the high share of debt borrowed in foreign currency means that these countries cannot rely on their central banks as lenders of last resort during a liquidity crisis.

- **Second, sovereign credit rating methodologies rarely consider criteria related to developing countries' long-term growth potential,**

such as indicators related to human and natural capital (OECD, 2022) (Gratcheva, Gurhy, Skarnulis, Stewart, & Wang, 2022). This results in a systematic bias, where the actual risk associated with investing in these nations may be overstated due to an incomplete understanding or evaluation of their growth potential. This bias penalizes these economies unfairly by leading to poor credit ratings, which in turn result in unjustifiably high rates and higher debt service.

**Four chronic adverse impacts arise due to the elevated borrowing costs and liquidity risks faced by sovereign borrowers from developing countries:**

- **First, developing countries are unable to borrow at levels sufficient to meet their long-term sustainable development needs.** This deficiency gravely hampers the crucial processes of capital accumulation – including for infrastructure, human capital, and protection of natural capital.
- **Second, the borrowing costs are so high that debt service ends up crowding out vital fiscal functions.**
- **Third, the maturities on debts are shortened in light of the heightened default risks, but the shorter maturities simply amplify the default risks** by making self-fulfilling panics far more likely.
- **Fourth, resulting more frequent default events “confirm” the poor credit ratings facing the developing countries.** In many cases, the default in turn triggers a wave of additional crises – including prolonged IMF negotiations, difficult restructurings of defaulted debts, heavy cutbacks in government investments, sharp macroeconomic declines, social instability, and further cuts in credit ratings.

**The recent shift in the creditor landscape of developing countries is a complicating factor.** Traditionally, these countries mostly borrowed from developed country governments and international financial institutions, such as the World Bank and the International Monetary Fund (IMF). However, in recent years, there has been an increasing trend towards borrowing from emerging official creditors as well as private creditors. While access to more diversified sources of credit has provided developing

countries with more financing flexibility, it has also led to debts contracted at less or non-concessional terms (e.g. higher interest rates and shorter repayment terms). As a result, the current debt crises in LICs and LMICs involve, in most cases, a crisis of liquidity due to their inability to roll over existing debts at long maturities and low interest rates: by contrast to the early 1990’s debt crisis, countries default today with a low debt to GDP ratio. Furthermore, the shift in the debt profile of developing countries also makes debt management and resolution efforts more difficult.

**One potential solution to the liquidity risks faced by developing countries could be the provision of ample currency swap lines** to developing countries by the world’s major central banks, which would effectively extend lender-of-last resort protection to these countries. The major central banks do create such swap lines but overwhelmingly with each other rather than with developing countries. The Fed introduced swap lines for nine economies after the 2008 financial crises and revived those swap lines at the start of the pandemic.<sup>1</sup> Notably, among the nine, only two were developing countries: Brazil and Mexico.

**In principle, the IMF could also be a lender of last resort for developing countries,** if it received the needed liquidity from its own members (notably the key-currency countries). However, neither practice is currently the case. The IMF’s own financial fire power is limited, even after the recent Special Drawing Rights (SDR) allocation, and the IMF generally lends its emergency funds only after a liquidity crisis is already fairly far advanced. As a result, considerable damage from the liquidity crisis has typically already occurred by the time an IMF rescue program is put in place.

## **The Case for Reforming the Global Financial Architecture**

**The global financial architecture (GFA) refers to the complex system of public and private finance that channels the world’s saving to the world’s investment.** The global financial architecture includes multilateral institutions (e.g. IMF, World Bank), national and local budgets, public borrowing and debts, and private equity and debt financing. Financial institutions that intermediate saving and investment play a key role, including

national and multilateral development banks (publicly-owned banks that borrow from capital markets to on-lend to public and private entities), sovereign wealth funds, private-sector banks, insurance funds, pension funds, asset management funds, venture capital, credit rating agencies, and others.

**In recent years, cascading crises and persisting bottlenecks in developing countries' access to finance have resulted in a well-documented and significant financing gap to achieve the SDGs**

(OECD, 2022) (SDSN et al, 2019) (Benedek, Gemayel, Senhadji, & Tieman, 2021). This SDG financing gap, estimated at around \$1-4 trillion per year (equating to 1-4% of world output) is also fueled by the misalignment between the long-term investment horizon required by the SDGs and the short-term financial returns sought by private capital. Concretely, developing countries' inability to borrow from capital markets at long-term maturities constrains their ability to undertake essential far-sighted investments in their sustainable development. The SDG financing gap resulting from these challenges represents an important obstacle to the achievement of the SDGs and other global goals, such as the ones outlined in the Paris Agreement and the Kunming-Montreal Biodiversity Framework,<sup>2</sup> and hinders progress across all major sustainable development objectives, including:

- Climate Action: mitigation, adaptation, losses and damages
- Universal Educational Attainment
- Universal Health Coverage
- Sustainable Agriculture and End of Hunger
- Core Infrastructure: Electrification, Digital Access, Water and Sanitation, Public Transport

**The magnitude of these challenges calls for an ambitious reform of the global financial architecture to facilitate a shift from Billions to Trillions in development finance.** This call for change was notably articulated in a speech given by US Treasury Secretary Janet Yellen at the Atlantic Council Speech in [April 2022](#).<sup>3</sup> More recently, the G7 reiterated the need for continued efforts to scale up financing for sustainable development, including official development assistance (ODA). The urgency of this shift becomes even more evident when

considering the vast economic disparity revealed by the response to recent crises. For example, HICs increased their own budgetary outlays by around [\\$10 trillion](#) during 2020-2021 to address the Covid-19 pandemic. In contrast, developing countries had limited fiscal space to implement similar stimulus measures. Consequently, the stimulus packages deployed by HICs were 700 times greater than those of LICs on per capita basis, 86 greater than in LMICs and 20 times greater than in UMICs (OECD, 2022).

**The reform of the global financial architecture offers a unique opportunity to re-think how to strategically leverage the various types of financing sources outlined in the Addis Ababa Action Agenda (public, private, domestic and external).**

Domestic resource mobilization remains the largest source of financing for sustainable development (representing around twice the amount of total external flows combined) followed by private finance (more than 40% of total external flows). Therefore, efforts to mobilize those resources should be at the core of development co-operation programs.

**Yet, two short-term solutions have been recurrently put forward, and are further explored below.**

First, the reform of multilateral development banks and the optimization of their balance sheets, was presented in multiple reports and initiatives as a relatively low-hanging fruit with a capacity to leverage up to USD 500 billion per year of additional private capital in support of sustainable development. Second, access to "additional" concessional finance, with recurrent calls for Official Development Assistance (ODA) to reach the 0.7% of GNI target, playing not only with volumes but also with quality to maximize the catalytic role of ODA on other sources of financing.

**Increased Funding from the MDBs and PDBs to Low- and Middle-income countries, Linked to Investments in the SDGs**

**The option that has generated the most discussion and anticipation for a significant increase in external financing for developing countries is an expansion of Multilateral Development Bank (MDB) financing.** The MDB system is one of the keys – in the near future – for overcoming, or at least compensating for, the deficiencies of the current

global architecture. The main MDBs, including the World Bank and the major regional development banks, use capital contributed by their high-income country members to borrow on international capital markets and on-lend to developing countries. Since they are backed by their capital (both paid-in and callable) as well as by their cumulative retained earnings, these institutions can borrow at AAA terms even though they lend to borrowers with much lower investment ratings. In effect, the current MDB financing model allows them to overcome some of the international capital market inefficiencies by borrowing on favorable terms and re-lending at long maturities and low interest rates to their developing countries members.

**In the current context of growing financing needs to respond to multiple crises and invest in sustainable development, MDBs are under pressure to do more with less and enhance the efficiency of their capital use.** As a result, initiatives are under way to review and adapt their financing models with a view to unlock hundreds of billions of dollars in additional lending. For example, the G20 Independent Review of MDBs' capital adequacy frameworks, published in July 2022, outlined a set of measures that could collectively increase MDBs' lending capacity in the range of USD 500 billion to 1 trillion (G20, 2022). This is in comparison to the combined gross disbursements of the main MDBs, which stood at around USD 100 billion in 2021 (Table 3).

**Although the reform of the main MDBs is a step in the right direction, caution is required to ensure that proposed calls to increase MDB**

**lending headroom and expand their mission to the provision of global public goods do not come at the expense of the SDGs and the countries most in need.** The recent World Bank evolution roadmap, for example, warned that the measures being discussed as part of the MDB reform agenda should not be at the detriment of financing for low-income countries (Development Committee, 2023). It further stressed that unless compensated by additional donor contributions in the form of a capital increase or grant resources, some of the new proposed measures, such as the creation of a concessional window to support greater investment in global public goods in MICs, could actually result in a decline of financing for low-income countries or a rise in IBRD loan pricing. Such an outcome would be at odds with the financing needs of most LICs and LMICs, which require financing at long (>30-year) maturities and low interest rates to invest in long-term but high-return activities, such as education, health, and infrastructure.

**Efforts to increase the efficiency of MDB's capital use are only one component of the broader MDB reform agenda.** The scaling up of MDBs' financing, both through more leverage and more paid-in capital, should be accompanied by efforts to increase the effectiveness of their operations and should support capacity-building for stronger tax systems, especially in LICs and LMICs. Improved co-ordination among MDBs, and with public development banks (PDBs) and global infrastructure initiatives, including the G7's Global Partnership for Infrastructure and Investment (GPII), could also be a way to achieve greater complementarity and collective impact (OECD, 2022). Partnerships among MDBs but

**Table 3. Gross Flows of Lending by the Major MDBs**

Gross Flows for 2021	Gross Commitments	Gross Disbursements
World Bank	\$98.8	\$60.3
Asian Development Bank	\$15.3	\$13.2
African Development Bank	\$4.1	\$3.4
Inter-American Development Bank	\$14.5	\$12.5
Asian Infrastructure Investment Bank	\$6.5	\$4.0 (change of outstanding loans)
EBRD	\$12.3	\$8.6
Islamic Development Bank	\$2.0	\$2.3
<b>Total</b>	<b>\$153.5</b>	<b>\$104.3</b>

Source: 2021 financial reports. Note that the reporting concepts differ across institutions, so that the flows are not strictly comparable.

also with PDBs, for instance as part of the Financing in Common Initiative led by the Agence Française de Développement (AFD), can help accelerate the convergence towards shared standards and best practices, and to support banks' commitments to shift their strategies towards achieving the SDGs.

## The Persisting and Urgent Case for More and Better Targeted Official Development Assistance

**In the financing for sustainable development landscape, ODA represents a rare but precious resource.** Concretely, ODA's unique value stems from its provision of high-quality financing to developing countries rooted in its concessional nature, predictability, counter-cyclical, and catalytic ability to mobilize other financing sources. The current reform of the global financial architecture, which calls for a comprehensive approach to scale up financing for sustainable development, is also an opportunity to reflect strategically on ways to increase the effectiveness of ODA, maximize its contribution to the emerging twin agendas of poverty reduction and GPGs and use it catalytically to mobilize other sources of financing to reach the trillions needed for the SDGs.

**In 2022, ODA reached 0.36 percent of the Gross National Income (GNI) of the official providers member of the OECD Development Assistance Committee (DAC).** The gap between the long-standing ODA target of 0.7 percent of GNI and the actual 0.36 percent of GNI recorded in 2022 amounted to \$200 billion.<sup>4</sup> While significant, this amount shows that increasing ODA cannot be expected to provide the trillions required to fill the SDG financing gap. For this reason, efforts to scale up ODA should go hand in hand with a reflection on its optimal use, potentially revolving around four axes:

- **First, given the importance of government revenue in the financing mix of developing countries and their margin for improvement in this area, ODA is key to scaling up of financing for sustainable development.** This could be achieved by assisting developing countries in strengthening their tax base and enhancing tax compliance. Closing the tax-to-GDP gap for a subset of developing countries under the 15% tax-to-GDP threshold could mobilize over four times the amount of ODA received by these

countries (World Bank, 2018).

- **Second, a better use of private sector instruments (PSI) could provide another avenue to increase ODA's impact through its mobilization capacity.** PSIs such as guarantees, equity investments and syndicated loans can help bridge the financing gap for sustainable development by drawing in private sector investment that might not otherwise have been available due to perceived or actual risks. This, however, requires official providers to develop a deep understanding of market failures and the careful design of instruments to ensure they offer genuine additionality – attracting new investments rather than merely subsidizing existing ones – while also maintaining a focus on development impact.
- **Third, in a context of increasing demands placed on ODA, it is important to safeguard its concessional nature and development focus, as well as ensure that it prioritizes sectors and geographies relevant to those furthest behind.** By focusing on areas such as health, education and infrastructure development in low-income and other vulnerable countries, scarce ODA resources can remain instrumental in tackling poverty and fostering inclusive growth.
- **Fourth, ODA remains the cornerstone of the multilateral development system.** DAC members' funding accounted for 81% of member states' total contributions to the UN Development System between 2018 and 2020, and 89% of total government contributions to the 20th replenishment of the International Development Association (IDA). In fact, a growing share of DAC members' ODA, exceeding 40%, is channeled to or through the multilateral development system (OECD, 2022). As such, it is essential to continuously monitor the evolution of these multilateral contributions, and assess how ODA providers and multilateral organizations can make the best use of these resources, effectively leveraging them and maximizing their development impact.

**Ultimately, MDB and ODA reforms are crucial, yet they may not be sufficient to solve entirely the chronic liquidity crises and SDG financing gaps of developing countries.** While bringing a short-term solution, the dilution of public capital in MDBs' balance sheet could add to the liquidity issues faced by developing countries if the conditions of loans



were to become less favorable. Concessional is and will remain limited, even with additional efforts, because the SDG financing gap in the order of trillions, when concessional finance will remain in the order of hundreds of billions. Working together with the IMF and the MDBs, the emerging countries need to strengthen their debt management and creditworthiness by integrating their borrowing policies with tax policies, export policies, and liquidity management, all to prevent future liquidity crises. Two additional measures are therefore further explored below:

## Rethinking the Long-term Borrowing Capacities of Developing Countries

**There is a misalignment between the long-term sustainable development goals of developing countries and private actors' search for short-term financial returns.** Developing countries require borrowing options with long-term maturities to make strategic long-term investments for their sustainable development. However, commercial creditors usually offer them loans with short-term maturities and high interest rates, inhibiting long-term investments and increasing liquidity risks.

**Current commercial credit rating methodologies, such as those employed by Moody's, Fitch, S&P, and others, unfortunately prevent developing economies from procuring the level of long-term loans required to finance infrastructure and human capital at scale.** This is because current rating methodologies focus heavily on short-term liquidity considerations and neglect the long-term growth potential and positive spillovers arising from increased investment in sustainable development. Consequently, the incentives generated by current credit rating methodologies often push developing countries into a dilemma: pursuing investment grade credit scores at the expense of long-term sustainable development investment.

**Given this context, it is important to explore options for improving existing rating methodologies, in particular to make them more aligned with developing countries' sustainable development ambitions.** The COVID-19 pandemic underscored this need, as several developing countries were penalized for increased spending on public services (Fofack, 2021), including emergency health support, while others refrained from emergency borrowing to evade credit downgrades.

**This work on commercial credit rating methodologies could be complemented by a reassessment of the existing IMF/World Bank debt sustainability framework (DSF).** The objective would be to evaluate whether the existing DSF methodology, including its current debt-to-GDP threshold of 50% or lower, adequately enables countries to finance long-term investment in the SDGs. The G20 Bali Leaders' Declaration noted another important point, which is the need to expand and enhance innovative financing mechanisms, including blended finance, as well as improving transparency and mutual accountability.

## Redesigning Country Systems to Accelerate Long-term Investment in the SDGs

**Last, but certainly not least, developing countries need to redesign their economic planning, fiscal frameworks, project implementation, financial operations, and partnerships to effectively channel substantial investment towards sustainable development.** The SDG policy agenda is complex. They are long-term, technology-based, and capital intensive, replete with technological and political uncertainties, inherently a blend of public and private actions, and in need of coordinated investments and planning with neighboring countries. There are at least six parts to this challenge:

- **First, developing countries need to be able to plan their public investment spending on a time horizon of 20-30 years, rather than 1-5 years as currently is the case for most countries.** Such a change would facilitate long-term investments in key infrastructure (energy, water and sanitation, transport, digital access, universal education, universal health coverage, and others), which require long-term plans and investments carried out consistently over a 20-30-year time horizon. The introduction of SDG budgeting could also enhance the credibility and ownership of sustainable development plans, ensuring their successful implementation over this extended timeframe.
- **Second, a long-term fiscal framework compatible with their overarching investment strategy is crucial for developing countries.** Governments require sufficient, stable and

predictable budget revenues to carry out their core functions – public administration, public safety, social services, public investments. They also need to plan ahead to service their rising stock of external debts. Increased investments from development partners in ODA for DRM could alleviate the fiscal crunch in developing countries and ensure that debt service does not divert public spending for the SDGs.

- **Third, the establishment of an administrative infrastructure that enables the implementation of the investment program in an efficient, transparent, and corruption-resistant manner is crucial.** Development partners could assist these efforts through increased technical assistance and institutional capacity-building addressing the issues of poor governance and lack of capacities, often at the root of developing countries' debt crises.
- **Fourth, a robust public financial management system is essential** to maintain liquidity, avoid bunching of debt servicing, maintain foreign exchange reserves at levels to ensure the routine servicing of a rising stock of external debt, and ensure access to lender-of-last-resort facilities if needed.
- **Fifth, developing countries should adopt an Integrated National Financing Framework (INFF) compatible with both the SDGs and debt sustainability.** Country-led INFFs provide an opportunity for the key international and multilateral institutions, including the IMF, the MDBs, the UN agencies, the OECD, and others, to harmonize their policies vis-à-vis developing countries' development goals and align them in a manner consistent with their overarching INFF.
- **Sixth, conducting more comprehensive assessments of all development finance flows (ODA, FDI, philanthropy donations, private grants etc.) and their alignment with the SDGs is necessary** to promote greater transparency and a better understanding of the financing for sustainable development landscape. The OECD Development Assistance Committee (DAC) should lead discussions on improving development finance statistics to capture all sources of development finance flows, including ODA, other official flows (OOF), private finance mobilized, and financing for global public goods. For this

purpose, existing statistical frameworks, such as TOSSD (Total Official Support for Sustainable Development), could be assessed to determine their potential to help measure the full array of resources in support of sustainable development.

## Outlook

At the core, the SDGs are an investment agenda. In the most basic terms, the world must devote an increased portion of current output to build up sustainable capital assets for the future, and to deploy such assets effectively. Sustainable development is a high-return activity, and the SDG financing gap is the sum of missed investment opportunities caused by a wrong referral for investment return. The world must both shift the current investment patterns and increase the overall flow of investments in order to build the future we want. The Summit for a New Global Financing Pact in Paris in June, the G20 meeting in New Delhi in early September, the SDG Summit in New York in September, the COP28 in Dubai in December as well as the Summit for the Future in New York in September 2024 will provide opportunities to scale-up and better align international financial flows based on SDG needs and commitments.

## Endnotes

1. Reserve Bank of Australia (RBA), the Banco Central do Brasil (BCB), the Bank of Korea (BoK), the Banco de Mexico (BdM), the Monetary Authority of Singapore (MAS), the Sveriges Riksbank (Sweden, SR), Danmarks Nationalbank (DNB), the Norges Bank (Norway, NB), and the Reserve Bank of New Zealand (RBNZ).
2. See SDSN, 2019; OECD, 2022 and IMF 2019 and 2021.
3. “Experts put the funding needs in the trillions, and we’ve so far been working in billions. The irony of the situation is that while the world has been awash in savings—so much so that real interest rates have been falling for several decades—we have not been able to find the capital needed for investments in education, health care, and infrastructure. There’s little doubt that there are huge potential returns, both human and eventually financial, in equipping billions of people in developing countries with what they will need to succeed. Going forward, we need to evolve the development finance system, including the World Bank and the regional development banks, to our changing world, in particular to better mobilize private capital and fund global public goods. However, the multilateral development banks alone will never meet the scale of financing needed, so we also need to revisit our strategies for making capital markets work for people in developing countries.”
4. <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-2021-summary.pdf>

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