

Covid-19 Demands Innovative Ideas for Financing the SDGs

By Daniel F. Runde, Christopher Metzger, and Hareem F. Abdullah

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THE ISSUE

- The Covid-19 pandemic exacerbates the challenges to achieving the 17 Sustainable Development Goals (SDGs) and highlights the need for a shared framework for tackling global challenges. No country in the world is on track to meet all the goals by 2030, and collective action is needed to make real progress.¹
- Even before the current global pandemic, the financing gap to achieve the SDGs by 2030 was estimated to be \$2.5 trillion per year.² The bulk of this financing is expected to come from developing countries' government revenue and savings, which can be increased through concerted domestic resource mobilization (DRM) efforts.
- New sources of private capital could be used to fill the SDG financing gap but will require innovative and scalable approaches. Developing countries would benefit from mobilizing local pools of capital as well as from increased foreign direct investment (FDI), remittances, and investments from pension funds. Financial tools and approaches such as guarantees, green and infrastructure bonds, and advanced purchase agreements can be used to encourage participation from untapped private sources.

INTRODUCTION

Since 2000, the international community has designed two important development frameworks to improve the lives of millions of citizens around the world. The first framework, the Millennium Development Goals (MDGs), set out eight ambitious targets, including eliminating extreme poverty, hunger, and violence against women and promoting universal health services, quality education, clean water, and sanitation. Although the MDGs were not achieved overall by 2015, unprecedented progress was made toward many of the goals, particularly in poverty reduction. Another accomplishment of the MDGs was bringing together not only traditional development actors, such as bilateral donors and multilateral institutions, but also members of the private sector.

As a follow-on to the MDGs, the 193 UN member states adopted the second framework in 2015—the 2030 Agenda for Sustainable Development. At the heart of this framework are 17 Sustainable Development Goals (SDGs). Through the SDGs, leaders from around the world committed to ensuring that “no one is left behind.”³ While the MDGs focused on reducing poverty in all its forms, the SDGs have a broader agenda that incorporates the economic, environmental, and social aspects of sustainable development.⁴ The goals are all interrelated—action in one area will affect outcomes in others—and therefore call for integrated solutions.⁵ Each goal has specific action-oriented targets set to be achieved by 2030, with 169 sub-indicators in total.⁶ This year, 2020, marks the beginning of the “decade of action” and is a defining year for a more urgent phase of implementing the SDGs.⁷



Source: “Sustainable Development Goals,” The United Nations, <https://www.un.org/sustainabledevelopment/>.

THE RELEVANCE OF THE SDGs FOR THE GLOBAL COMMUNITY

If fulfilled, the 2030 agenda’s impact would be felt by everyone around the world—the poor and wealthy alike—but since the SDGs were launched in 2015, much more skepticism about multilateralism has emerged. Many countries are looking to finance individual economic development programs without engaging with multilateral institutions, such as the United Nations, World Bank, or International Monetary Fund (IMF). However, as seen through the Covid-19 pandemic, countries and societies are now more connected than ever before. Countries must make progress toward all the SDGs to combat the economic, social, and political consequences of Covid-19. It has become increasingly clear that countries cannot achieve the SDGs on their own. Pandemics, droughts, and locusts do not respect borders, and collective action around a shared framework is needed to improve the lives of all people. Most governments turn over every four years, and as a result, policies and programs adopted in countries tend to be short-lived.⁸ The SDGs promote a long-term approach to difficult problems that go beyond the political cycle and outlive the party holding power at the moment.⁹

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Achieving the goals in areas such as agriculture, sustainable cities, energy, and health could unlock \$12 trillion in business savings and revenue by 2030.¹⁰ Further, the SDGs are expected to stimulate economic growth in a number of

countries by creating 380 million jobs by 2030.¹¹ Marginalized populations, such as women and children, migrants, and low-income groups, in both developed and developing countries have been much more susceptible to the negative health and the economic effects of the Covid-19 crisis and would benefit greatly from progress toward the SDGs.¹²

CHALLENGES IN ACHIEVING THE SDGs BY 2030

Since the 2030 Agenda was adopted in 2015, significant progress has been made toward achieving some of the stated goals. However, no country is on track to meet all the goals by 2030, and several challenges hamper forward progress.¹³ Chief among them is overcoming the Covid-19 pandemic. As of May 7, 2020, Covid-19 has infected more than 3.7 million people across at least 177 countries.¹⁴ The pandemic has already killed 264,000 people, and this number will grow over the coming months.¹⁵ Covid-19 also had a dramatic effect on economic activity around the globe. The International Labour Organization (ILO) estimates that 25 million people could become unemployed, and workers could lose an estimated \$3.4 trillion in income.¹⁶ Millions of workers have already lost their jobs and suffered major financial setbacks, and developing countries are expected to bear the economic brunt of the pandemic.¹⁷ Since developing countries are most at risk to Covid-19, investments in emerging markets are rapidly declining.



Ensure healthy lives and promote well-being for all at all ages

The economic sectors that are likely to suffer the most from the pandemic include tourism, agriculture, and creative industries, which collectively represent a large percentage of GDP for many developing countries in Southeast Asia and sub-Saharan Africa.¹⁸ Travel and tourism directly sustained 123 million jobs globally and contributed \$2.8 trillion to global GDP in 2018.¹⁹ Agriculture will suffer from disrupted supply chains, leading to increased food insecurity since an estimated 80 percent of consumers in low-income countries

rely on markets for food supplies.²⁰ Estimates suggest that the film industry could lose as much as \$5 billion this year from diminished box office revenue and impacted production due to the coronavirus outbreak.²¹ Since many theaters and concert venues have been effectively shut down for the last two months and will remain shut down for the foreseeable future, unemployment rates in creative industries have begun to skyrocket.



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Even before the negative social and economic consequences of the current crisis, the financing gap to achieve the SDGs in developing countries by 2030 was estimated to be \$2.5 trillion per year.²² The health, economic, and social consequences of Covid-19 make the implementation of all 17 SDGs even more difficult but also increase the importance of maintaining progress. Countries that have frameworks in place to support efforts to achieve the SDGs will be more resilient to the economic shocks caused by the pandemic and have a plan in place to respond to the economic disruption.

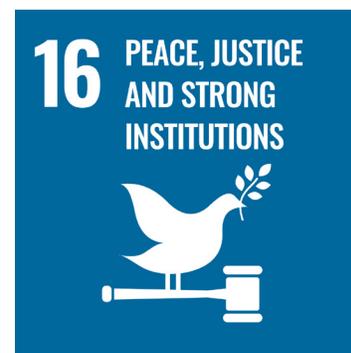
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Another challenge is the absence of reliable data in developing countries, making it difficult for countries to design and implement appropriate policies and track progress.²³ For example, of the 155 states in which the World Bank monitors poverty, half do not report poverty data.²⁴ In the developing world, national data systems are inadequately funded and can be run by poorly trained staff.²⁵ The data is often compiled on paper or entered manually into old computers and is usually out of date, demonstrating the need for a “data revolution.”²⁶ Without reliable data, technology, and institutional capacity, it becomes nearly impossible to monitor how much progress is being made and whether the policies instituted by countries are effective. The sheer numbers, 17 goals and

169 sub-indicators, complicates matters even more and exacerbates the daunting task of collecting data when even the most basic statistic may be unavailable.

WHERE WILL THE FINANCING COME FROM TO ACHIEVE THE SDGs?

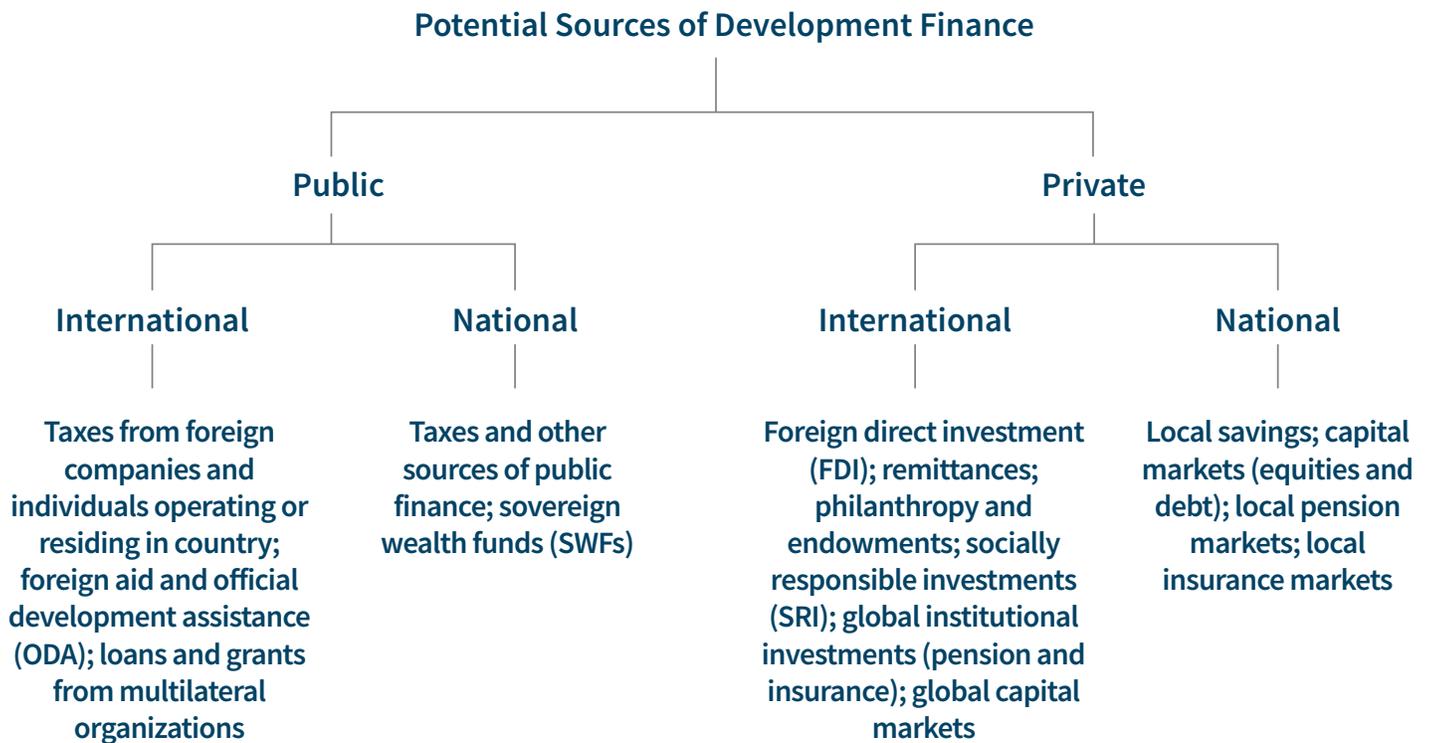
The bulk of funding required to achieve the SDGs will continue to come from countries themselves, through domestic resource mobilization (DRM) and reducing corruption. Governments must look to leverage new technologies to expand the tax base and cut down on corruption at borders.²⁷ According to the IMF, tackling corruption in developing countries could increase total revenues globally by \$1 trillion, or 1.25 percent of global GDP.²⁸ Increasing tax revenue in low- and middle-income countries is an effective way of increasing the amount of funding available for social services in countries, but it takes time and political windows of opportunity.²⁹ The majority of reforms take four years or more before collection is significantly impacted.³⁰ In 2018, tax collection for countries in the Organization for Economic Cooperation and Development (OECD) was over \$16 trillion with an average of 34.3 percent of GDP across the 36 countries; in low- and middle-income countries, taxes accounted for \$3.2 trillion with an average of only 12 percent of GDP.³¹ For example, most infrastructure projects continue to be financed by the public sector through tax revenue.



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

In July 2015, the United Nations hosted the Third International Conference on Financing for Development in Addis Ababa, Ethiopia, which signified a turning point in the conversation regarding development finance.³² The resulting Addis Ababa Agenda and subsequent forums on financing the SDGs, such as the UN secretary-general’s “High-level Meeting on Financing the 2030 Agenda for Sustainable Development,” have guided countries in their pursuit of additional sources of financing to move from “billions to trillions” in terms of development finance.³³

Figure 1: Potential Sources of Development Finance



Source: CSIS based this graphic on data from OECD, *Development Co-operation Report 2014: Mobilizing Resources for Sustainable Development* (Paris: OECD, 2014), Chapter 4, https://read.oecd-ilibrary.org/development/development-co-operation-report-2014_dcr-2014-en#page1; Romina Bandura, *Rethinking Private Capital for Development*, (Washington, DC: CSIS, December 2017), 3, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/171214_Bandura_RethinkingPrivateCapital_Web.pdf?UoSl27tbxB6JJ25NVq2q6gn6SMP15p4.

These discussions have proposed leveraging additional sources of private finance to close the \$2.5 trillion financing gap, such as FDI, remittances, local savings, pensions, investments in equity or debt securities of privately held companies, and other private sources of funding.³⁴ The sources of funds to meet the SDGs will come from two main channels: public finance and private capital (see Figure 1). Foreign aid levels are not expected to increase, but this money will play an increasingly important role in mobilizing other sources of finance.

The OECD estimates that FDI in 2019 was \$1.4 trillion, an increase of 12 percent from 2018 but still not as high as the levels between 2010 and 2017.³⁵ Due largely to Covid-19, FDI is expected to drop by more than 30 percent in 2020.³⁶ Based on its track record, the involvement of the private sector is crucial for meeting the SDGs by 2030. The World Bank estimated that global GDP was \$85 trillion in 2018, and global financial assets were estimated to be \$294 trillion in 2015, demonstrating that financing for the SDGs is available.³⁷ However, these resources are not being channeled toward sustainable development at the speed or scale required to meet the goals by 2030.

Many companies have already begun to take the lead on the SDGs by signing agreements to support their implementation and incorporating the goals into their corporate social responsibility strategies. Seventeen companies, referred to as the “Business Avengers,” have committed to play a significant role in achieving the goals. These companies represent over a million employees, more than \$500 billion in revenue, and include Mars, Pepsico, RB, Avant, SAP, Diageo, Salesforce, Google.org, ARM, Unilever, NTT, Commvalut, Nike, Coca-Cola Company, Mastercard, Microsoft, and Salesforce.org.³⁸ Many other companies are beginning to recognize the financial and reputational benefits of supporting the goals, but the next 10 years must be focused on turning these commitments into action.

New sources of capital for the SDGs could come from increased FDI or remittances as well as domestic pools of savings, such as pension funds, insurance companies, mutual funds, or sovereign wealth funds. The United Nations estimates that \$6.5 trillion in international remittances will be sent to developing countries between 2015 and 2030.³⁹ Remittances to low- and middle-income countries reached a record high of \$528 billion

in 2018, according to the World Bank's latest Migration and Development Brief.⁴⁰ Similarly, FDI and investments in emerging markets have been increasing in recent years, so much so that the IMF estimates that emerging markets account for 60 percent of the world economy.⁴¹ Creating greater transparency and a regulatory framework for remittances could help lower the costs of sending money across countries and increase the amount available to families to spend on improving living conditions.⁴² Moreover, domestic pools of savings have increased over the last 20 years and could potentially be matched to infrastructure investments if the right incentives, legal frameworks, and financing models are established. In developing countries, assets in pension funds and insurance amounted to \$44.1 trillion in 2018.⁴³



Strengthen the means of implementation and revitalize the global partnership for sustainable development

According to the UN Development Programme (UNDP), more than half of philanthropic institutions align their programs with the SDGs.⁴⁴ They act as “development” venture capitalists and play a major role in leveraging private capital.⁴⁵ An estimated \$1.5 trillion in assets belong to philanthropy around the world, as does \$150 billion in annual philanthropic expenditures.⁴⁶ In 2018, the Ford Foundation committed \$1 billion from its \$12 billion endowment over the next 10 years in mission-related investments (MRIs).⁴⁷ The Rockefeller Foundation, another innovator in impact investing, has been leveraging large-scale private investors to unlock private capital through its Zero Gap initiative.⁴⁸ One of its projects, Africa GreenCo, aims to increase private-sector investment in green energy bonds in sub-Saharan Africa.⁴⁹

BEING MORE CREATIVE: FINDING INNOVATIVE APPROACHES TO MOBILIZE FUNDING FOR THE SDGS

With 10 years left to achieve the SDGs, developing country governments and multilateral organizations must think more creatively about how they mobilize private capital, especially as they respond to the Covid-19 crisis. Many domestic finance sources will be diminished or wiped out

by the pandemic, making it harder for blended finance and other tools to leverage private capital. The good news is that there are many financing tools already in use by multilateral development banks (MDBs) and development finance institutions (DFIs) that could be introduced by additional institutions. For countries to successfully implement these new financing tools, national governments must first improve the quality of their capital markets.⁵⁰ FDI and pension fund investment are likely wishful thinking until countries achieve macroeconomic stability and thriving capital markets that also have sufficient infrastructure to support the exit of these investments through trade sales or public listing. Asia has many examples of thriving capital markets such as Kuala Lumpur and Mumbai, which both ranked in the top-50 global financial centers in 2020.⁵¹ Mumbai jumped 27 spots to rank 45th out of the 108 financial centers observed.⁵²

“These measures [stopping illicit financial flows and increasing domestic resource mobilization] will allow us to leverage the billions of dollars in official development assistance to trillions in investment of all kinds, whether private, national or global.” - Former World Bank Group President Jim Yong Kim⁵³

One tool that could be scaled up is the use of financial guarantees to reduce investors' exposure to risks and to attract private capital to these markets.⁵⁴ A guarantee is a legally binding agreement under which the guarantor agrees to pay part or all the amount due on a loan, or another financial instrument, in the event of a non-payment.⁵⁵ A recent survey by the OECD revealed that out of the six development finance instruments analyzed during 2012–2017, guarantees mobilized the most private capital (over \$62 billion, out of \$152 billion mobilized in total).⁵⁶ One example of this being implemented is WaterEquity's WaterCredit Investment Fund 3 (WCIF3), where \$5 million in first-loss guarantees was set aside in the unlikely scenario that the fund suffered a loss.⁵⁷ The fund aims to finance progress toward SDG 6 (Clean Water and Sanitation) by investing in microfinance institutions in Asia that provide loans to families for clean drinking water or toilets in their homes.⁵⁸ Guarantees can also help develop local capital markets by backing municipal bonds and corporate bond issuances.

6 CLEAN WATER AND SANITATION



Ensure availability and sustainable management of water and sanitation for all

Another tool for mobilizing additional financing for the SDGs is financial bonds. Last year, the International Capital Market Association put together a framework for issuers, investors, and bond market participants and shared the principles that bonds needed to meet to qualify as green, social, or sustainability bonds (see Box 1).⁵⁹ In FY 2019 alone, the International Finance Corporation (IFC) issued 37 green bonds in 11 different currencies that total \$1.6 billion and are expected to generate over 3 million hours of renewable energy, the equivalent of the energy consumption of 260,000 homes for one year.⁶⁰ According to the Climate Bonds Initiative, worldwide green bond issuance since 2007 has been close to \$521 billion.⁶¹ Similarly, the IFC launched its social bond program in 2017 and has since issued 33 social bonds that total over \$2.8 billion.⁶² Even further, the World Bank has issued SDG equity-linked bonds amounting to \$217 million.⁶³ Almost all of these bonds are linked to national governments keeping the risks low and attractive to investors, especially those who seek to support a good cause while also earning financial returns.⁶⁴

Blended finance is one of the most popular approaches to increase financing for SDGs. DFIs are best known for their use of blended finance because many are government-backed institutions that use public money to reduce the risk for private investors.⁶⁵ An example would be the U.S. Development Finance Corporation (DFC), which can provide first-loss guarantees on projects to encourage participation from private investors in countries.⁶⁶ A similar approach by the World Bank is the “cascade framework,” which aims to maximize financing for development by encouraging reforms first, followed by subsidies and then public investments.⁶⁷

BOX 1: DIFFERENT TYPES OF BONDS

GREEN BONDS are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance projects with clear environmental benefits, such as projects that support renewable energy, energy efficiency, pollution prevention and control, clean transportation, and more.⁶⁸ In February 2019, the IFC committed to investing \$75 million in the first-ever listed \$300 million green bond issued by AC Energy Finance International Limited and guaranteed by AC Energy.⁶⁹ This is the first infrastructure-focused green bond to be publicly listed in Southeast Asia, and IFC’s investment will fund 360 megawatts of solar and wind farms.⁷⁰

SOCIAL BONDS finance projects that directly aim to address or mitigate a specific social issue or seek to achieve positive social outcomes such as providing affordable basic infrastructure, housing, employment generation, food security, and more.⁷¹ For example, the IFC is using social bonds to combat the effects of the Covid-19 pandemic by using proceeds to fund research and the development of tests and to provide loans to small businesses negatively impacted by the economic slowdown.⁷²

SUSTAINABILITY BONDS are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance a combination of green and social projects, such as the ones mentioned above.⁷³ In 2018, the government-owned Korea East-West Power Corporation raised \$500 million from investors for its first sustainability bond.⁷⁴

SDG EQUITY-LINKED BONDS are bonds that link returns to the stock price performance of 50 select companies that promote the SDGs.⁷⁵ The World Bank first launched these new bonds in Hong Kong and Singapore in December 2018, raising \$3.52 million.⁷⁶

INFRASTRUCTURE BONDS are borrowings to be invested in government-funded infrastructure projects within a country.⁷⁷ The maturity of these bonds is often between 10 and 15 years, and some can be used for income tax deductions in countries such as India.⁷⁸ Kenya has been successfully issuing infrastructure bonds since 2009 when the first bond was issued to raise \$18.2 million to fund transport, energy, water, and irrigation projects.⁷⁹

In the field of health care, advanced purchase commitments for vaccines could help encourage development and research that directly benefits lower-income populations.⁸⁰ Approximately \$3 billion would be needed to persuade pharmaceutical companies to invest in vaccines that are desperately needed in the developing world.⁸¹ Advanced

purchase agreements for agricultural products can also support smallholder farmers by guaranteeing their crops will be sold.⁸² For example, the World Food Program (WFP) signed a \$100 million multi-year contract with Africa Improved Foods (AIF), a partnership between Dutch State Mines (DSM), WFP, the Rwandan government, and various stakeholders like the IFC, that aims to increase the amount of essential vitamins and nutrients in food aid.⁸³

This is not an exhaustive list of the financing tools available. The UNDP shares even more financing tools, such as lotteries, biodiversity offsets, disaster risk insurance, and debt for nature swaps that may be applicable in some countries.⁸⁴ The financing gap for the SDGs will not be filled by one individual financing tool but by the use of many of the options laid out in unison, tapping into a variety of new sources of finance.

CONCLUSION

As the world embarks on the “decade of action,” the Covid-19 pandemic threatens to derail progress toward the SDGs even further. Most countries will have to finance the goals through increased DRM, which will be even more difficult due to the economic consequences of the coronavirus. As financial risks increase in emerging markets, getting private capital into countries with the poorest populations will become even more difficult, meaning global philanthropic funds will have a bigger role to play in supporting global development and health research during the crisis. For example, the Bill & Melinda Gates Foundation has a long history of supporting vaccines for developing countries and recently just committed over \$250 million to expand testing and find a cure for Covid-19.⁸⁵

Many countries have introduced significant stimulus packages that, if directed appropriately, can save jobs and businesses and support the SDGs around the world.⁸⁶ In the United States, larger public companies, and private universities have come under fire for taking stimulus money that was intended for smaller businesses.⁸⁷ The public backlash has led the companies to agree to return \$170 million that can now be used to keep smaller businesses afloat.⁸⁸ Civil society groups in other countries should look to keep companies accountable and make sure that stimulus packages are benefiting marginalized groups. It is also important now more than ever that governments in developing countries share and publicize information about unemployment benefits and available government services.

“The coronavirus pandemic is not just a medical crisis, but a social and economic one too. We have a chance to save millions of jobs and enterprises, if governments act decisively to ensure business continuity, prevent layoffs and protect vulnerable workers.” - ILO Director-General Guy Ryder on March 27, 2020

Similarly, multilateral organizations such as the World Bank and IMF are introducing economic programs to respond to Covid-19. On April 2, 2020, the World Bank approved a group of projects amounting to \$1.9 billion that will assist 25 countries, with the goal of providing \$160 billion in financing over the next 15 months.⁸⁹ The IMF has received calls for emergency financing from 102 countries so far and has doubled access to its emergency facilities to provide \$100 billion in financing.⁹⁰ There is an opportunity to tailor these programs toward women, children, and people living below the poverty line so they are better prepared when the next pandemic, drought, or natural disaster hits. Government stimulus packages could be delivered by mobile payment to reach groups without access to traditional banks or directed to the female heads of households who are more likely to invest additional income to support the basic needs of their families than men.⁹¹

Furthermore, developing countries should use the “decade of action” to pursue new sources of capital from the private sector to support the goals and focus on implementing commitments. It is important that private companies continue to see the benefits of supporting the goals and remain engaged. Many financing instruments, such as bonds and guarantees, can be used in unison on the same projects to bring together different actors from the public and private sectors and reduce the financial risks for all parties involved. Advanced purchase agreements could also be expanded to strengthen global health and agricultural supply chains. The international community should focus less attention on trying to invent new financing tools to plug the gap and instead focus efforts on expanding the use of these financing instruments that have already demonstrated their ability to support the SDGs.

The MDGs taught the world that it is possible to see progress on global development challenges within a short timeframe. Investments in new technologies and data collection will be crucial in determining the most effective responses to the current crisis and measuring progress to the SDGs at the same time. Now is the time for countries to use the SDG framework as an opportunity to coordinate action to tackle the current pandemic and become more prepared for the next economic crisis, pandemic, or social disruption.

***Daniel F. Runde** is senior vice president, director of the Project on Prosperity and Development, and holds the William A. Schreyer Chair in Global Analysis at the Center for Strategic and International Studies (CSIS) in Washington, D.C. **Christopher Metzger** is a research associate for the CSIS Project on Prosperity and Development. **Hareem F. Abdullah** is a research intern for the CSIS Project on Prosperity and Development.*

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