

April 2020

country report

New York Office

**KONRAD
ADENAUER
STIFTUNG**



Source: UN Photo/Evan Schneider

Bridging the Financing Gap of the Sustainable Development Goals

Sebastian Borchmeyer

Estimates presented during last year's United Nations General Assembly revealed dramatic funding gaps in achieving Agenda 2030. It becomes clear that traditional sources of development finance are merely a drop in the ocean. Alternative approaches, such as innovative financial instruments, blended finance and impact investments, are promising but have not lived up to their potential. This news comes at a difficult time when the world experiences a dramatic slowdown of economic activity in light of the ongoing Covid-19 pandemic and the erosion of the multilateral rules-based order. Development practitioners are concerned that the coronavirus will 'infect' Agenda 2030 and that the Sustainable Development Goals (SDGs) will be among its many victims. With the United Nations Headquarters in New York on lockdown and all international conferences being cancelled, it will be challenging but critical to keep up the momentum of the Financing for Development process.

At a speech on Financing for Development last year, UN Secretary-General Antonio Guterres gave a clear message to the world community: Given the massive needs in developing countries, particularly in the field of infrastructure, health and education, the **Sustainable**

Development Goals (SDGs) will not be achieved by 2030, if funding is not scaled up dramatically. The current annual gap widened to US\$2.6 trillion, which is 3.0% of global GDP or 7.4% of the combined GDP of all developing economies.¹

Over the last years, it became clear that traditional forms of development assistance, in particular administering Official Development Assistance (ODA), will not be sufficient to mount this challenge and that different sources of resource mobilization need to be explored.

The timing for raising more funds for the SDGs was certainly not opportune even before the current health crisis unfolded at the end of 2019. Already a year ago, the IMF expressed concerns that “the world economy” was “at a delicate moment.”² Trade restrictions and protectionism were rising, breaking up value chains around the world. Developing countries experienced increasing levels of debt and inequality, and an outflow of capital. Climate change endangered the livelihood of communities and put assets at risk. Finally, the perceived crisis in multilateralism weakened international institutions like the UN. Most of these issues might even multiply as life around the world now stalls and nations turn inwards in their responses to the SARS-CoV-2 outbreak.

The United Nations will need to **cancel all international conferences in the first half of 2020**, among them the Financing for Development Forum. It is unclear, if the High-level Political Forum on Sustainable Development in July can move forward; even the UN General Assembly in September is under jeopardy and will likely convene either in a scaled-down format or be scraped altogether. Despite this challenging situation, the international community cannot afford to drop the ball when it comes to moving Agenda 2030 forward.

The Financing for Development Process

The first time that the United Nations addressed on a summit-level key issues pertaining to the field of Financing for Development was back in Monterey in 2002. It was described as a “turning point in the approach to development cooperation”³ placing this topic on the global agenda and calling for mutual responsibilities in areas such as trade, foreign aid and debt forgiveness between donor and recipient countries. In 2015, the **Addis Ababa Action Agenda (AAAA)** was adopted, which built on the outcomes of the Monterrey Consensus and the 2008 Doha Declaration on Financing for Development. It looked for ways to pay for the ambitious and costly Agenda 2030 such as improving international tax cooperation or reducing illicit financial flows that were depriving developing countries of resources needed. It also set up a new social compact to provide “fiscally sustainable and nationally appropriate social protection systems and measures for all.”⁴ The AAAA still constitutes the reference point for the Financing for Development process, which centers around a set of common themes that are reviewed on a yearly basis. The last assessment was

performed in the **Financing for Sustainable Development Report 2019** by the *Inter-Agency Task Force on Financing for Development* (IATF) convened by the UN Secretary-General. **The UN Deputy-Secretary-General is launching this year's report virtually on April 9th, 2020.**

Key Developments in 2019

2019 was a busy year for the development community in light of many notable events that took place over the course of the year. The UN Secretary-General described it as “a defining year for implementing the development goals.”⁵ In the field of Financing for Development, three important conferences were convened at the auspices of the United Nations: the **Financing for Development Forum**, the **High-level Political Forum on Sustainable Development** and the **High-level Dialogue on Financing for Development** during the UN General Assembly.

In October, the Secretary-General also launched the **Global Investors for Sustainable Development (GISD) Alliance**.

A year ago, the fourth **Financing for Development (FfD) Forum** of the UN Economic and Social Council (ECOSOC) was held as a follow-up conference to the AAAA in New York in April 2019. Bringing together ministers and high-level officials from capitals and international organizations, the Forum also hosted an **SDG Investment Fair** with over 400 participants providing a platform for public and private sector actors to discuss specific investment opportunities, policies and regulations to close the SDG investment gap. In general, compared to previous years, the private sector was much better represented adding an important perspective to the table. The general consensus of the Forum participants was that the financial situation is dire, but that Agenda 2030 is not yet a lost case if all stakeholders come together for the people, planet and prosperity. Tharman Shanmugaratnam, Deputy Prime Minister of Singapore and Chair of the Group of 20 Eminent Persons Group on Global Financial Governance⁶, gave a passionate statement in favor of multilateralism cautioning that a more fragmented order would be “a weaker world less capable of dealing with its increasingly complex global challenges.” He added that “global challenges are, at their heart, domestic in nature.” We therefore need to “rebuild trust in national institutions” which are “underpinned by a strong, interconnected, co-operative global network.”⁷

The UN **High-level Political Forum on Sustainable Development (HLPF)**, which is a ministerial-level conference and the UN's central platform for follow-up and review of 2030 Agenda and the SDGs, convened in July 2019. In addition to reviewing a selection of six of the 17 goals, a

total of 47 countries volunteered to present their national voluntary reviews to the HLPF⁸, updating the international community on their progresses vis-à-vis Agenda 2030.⁹

Lastly, during the UN General Assembly in September, the UN hosted the one-day **High-level Dialogue on Financing for Development**. Participants included heads of state and government, ministers, senior officials and representatives of stakeholder groups. The themes discussed were quite similar to the April Forum, but with much higher-level participation including several heads of state and government and many ministers. Bill Gates delivered a keynote speech noting that “there is no single solution for getting back on track” with regard to the SDGs and that “different challenges require different types of financing,” which need to be “targeted towards specific needs, geography and groups of people.”¹⁰

In October, the Secretary-General launched his initiative, the **Global Investors for Sustainable Development (GISD) Alliance**, to access the resources, expertise and leadership of the private sector and to initiate a dialogue. The idea was inspired by a similar platform called Swedish Investors for Sustainable Development managed by the Swedish International Development Agency (SIDA). Similar to its Swedish counterpart, the newly formed GISD Alliance is a partnership aimed at promoting engagement in corporate governance around the SDGs and serves as platform for learning, sharing experiences and founding voluntary projects. It constitutes of 30 members, mostly institutional investors, and is co-chaired by Oliver Bäte, CEO of Allianz Group, and Leila Fourie, CEO of the Johannesburg Stock Exchange. It also includes the heads of Bank of America, Citigroup, Santander and UBS among others. The GISD Alliance firms combine 15 trillion US\$ in assets under management.

Thematic Areas in Financing for Development

One major cross-cutting theme in the financing for development debate is the question of improved planning processes for national governments. The **'integrated national financing frameworks for sustainable development'** comprise of a sustainable development strategy, where domestic policymakers define national goals and priorities (the *'what'*) and a financing strategy, where they elaborate *how* they will finance those objectives navigating approximately one thousand financing instruments and modalities. Experts criticize that most national plans are not appropriately costed making it more difficult to mobilize funds for them.¹¹ The IATF recommends to hold multi-stakeholder dialogues between governments, private sector, community-based organizations and beneficiaries to develop **national development**

cooperation policies, which have the objective to align development strategies of donors with national goals of developing countries.

Another cross-cutting theme was the question of **data and monitoring**. Agenda 2030 requires the collection and analysis of an unprecedented amount of data to measure the 169 targets. Many of the metrics have never been collected on a global level and require innovative new approaches. One example is the partnership between UN Environment, Google and the European Commission's Joint Research Centre, which developed a “web-based platform that fuses big data and environmental science to monitor global freshwater ecosystems”¹² using satellite imagery.

One important source of income for developing countries are their own **domestic public resources**, in particular **tax revenues**. A carefully designed system and a revenue strategy have the potential to expand the tax base, improve compliance and reduce inequalities within societies creating “the fiscal space for Governments to invest in such basic services as health care and education.”¹³ At the UNGA, Bill Gates joined the opinion of the IATF that there is the need for taxation systems that are progressive and do not overburden the poor.¹⁴ Carbon prices and other environmental taxes are also promising mechanisms to raise revenues and, at the same time, reduce emissions. Moreover, it is important to strike a balance between complex tax rules that maximize revenues and simple rules that are easier to implement for countries with low capacities. Tax policy also needs to transcend business and electoral cycles. Middle-income countries have made steady progress in taxation with their tax-to-GDP ratios approaching 20% in 2018 according to the IMF.¹⁵

In the domain of **tax compliance**, the ITAF requests donor countries to promote capacity building initiatives for revenue mobilization in developing countries to move them towards fiscal sustainability. Oftentimes, personal taxes are too low and avoidance high; informal businesses represent another challenge as they are not subject to corporate taxes. There is also a call for strengthened international **tax cooperation and transparency** to avoid phenomena such as *Base Erosion and Profit Shifting (BEPS)*, which describes a set of “highly sophisticated techniques to artificially move profits to different jurisdictions without any changes in the underlying real economic activity;”¹⁶ e.g. through transfer prices. Activities to combat BEPS include minimum tax rates or, perhaps more realistically, information exchange regimes between tax authorities to understand where “businesses have activities and generate revenues.”¹⁷ During the FfD Forum, there were many calls for the establishment of an inclusive

intergovernmental tax body under the auspices of the United Nations.¹⁸

Cross-border evasions are only one component of **Illicit Financial Flows (IFFs)** with the other being corruption and the transfers of the proceeds of crimes. In the latter case, discussions take place how to recover and return stolen assets. According to the IMF, fighting corruption can save an estimated US\$1 trillion in global tax revenue annually.¹⁹ The President of the UN General Assembly remarked that the trillions of dollars lost every year due to illegal financial flows in developing countries far exceed the volume of global development aid.²⁰

Another important source of funding for sustainable development is **private business and finance** both on the domestic and the international level. The international capital market is estimated to exceed US\$ 300 trillion²¹ in size. The development community eyes particularly "institutional investors with long-term liability structures and horizons such as pension funds, life insurance funds and sovereign wealth funds"²² managing approximately US\$ 78 trillion.

A 2018 survey conducted by the bank Morgan Stanley concluded that the "United Nations Sustainable Development Goals (SDGs) are increasingly gaining traction as an organizing framework for many global asset owners"²³. 78% of the respondents expressed their intention to align their investment decision with the SDGs. Among individual investors, a 2019 survey observed that 85% of them (up from 75% in 2017) and 95% of Millennials (up from 86% in 2017) show interest in sustainable investing.²⁴

This growing trend gave rise to an industry pursuing **impact investment**, which are "investments made into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside financial returns"²⁵ estimated at around US\$ 26 trillion in size. The question that the surveys did not ask and so far remains unclear is to what extent investors are ready to compromise on return on investment in favor of sustainability.

Today, many publicly listed companies publish sustainability information in their financial reports; yet, the UN Chief Economist observed that there is a lack of internationally recognized standards in **sustainability corporate reporting**.²⁶

Progress has been made in **setting norms and standards** for the private sector: The Principles for Responsible Investing (PRI) network, a Kofi Annan-founded network that describes itself as "the world's leading proponent of responsible investment," approaches 2400 signatories,

who manage over US\$ 80 trillion in assets and commit to a set of principles.²⁷ The International Finance Corporation (IFC) has recently published Operating Principles for Impact Management, "intended to be a framework for investors for the design and implementation of their impact management systems."²⁸ The OECD Social Impact Investment Initiative works in a common lexicon and framework as well as "policy guidance to improve the quality and standardisation of impact metrics."²⁹

On the national level, the IATF urges policymakers to adopt measures advancing investments for the SDGs, which includes the **pricing of externalities** (e.g. levying carbon taxes); **incentives** for asset managers to prefer longer-term investments to short term gains; reforms of **public procurement** to include sustainability as a factor to award a contract; and finally **domestic regulations** to enforce sustainable practices (such as energy efficiency standards for buildings). Indeed, experts assert that businesses would only make investments in SDGs if they believe they will be rewarded by capital markets for their efforts or are penalized for their unsustainable practices.³⁰ Lastly, developing countries in particular must urgently continue to improve the investment climate and business enabling environment. In fact, the *Doing Business* report of the World Bank observed "294 regulatory reforms implemented between May 2018 and May 2019."³¹

Foreign Direct Investment (FDI) is the most important source of external finance for many developing countries. To align investments with national sustainable development plans, the IATF recommends governments to incentivize and collaborate with private investors (e.g. through investment promotion agencies) to steer funds towards the SDGs.³² After having reached an all-time high of US\$ 2.0 trillion in 2015, FDI has dropped down to US\$ 1.4 trillion in 2019. Unfortunately, FDI has been unevenly distributed with Least Developed Countries (LDCs) receiving insignificant inflows of FDI. FDI in developing countries dropped to US\$ 695 billion in 2019, the lowest level in ten years.³³ UNCTAD warns that the "the downward pressure on FDI could be -30% to -40% during 2020-2021" as a result of the outbreak and spread of Covid-19.³⁴

Remittances, as defined as the transfer of funds from migrant workers (approximately 164 million worldwide) to individuals in their home countries, is estimated at around US\$ 707 billion in 2019, which is an almost 13% increase from 2016.³⁵ While the long-term link between remittances and GDP growth is still not fully examined, they contribute significantly to developing countries' economic output and support families to meet their basic needs. One issue in connection with remittances are high transaction costs averaging 7% globally. Even though they

are on a downward trend, there is still a long way to meet the SDG target of 3%.³⁶ Promises are high that financial innovations by 'fintechs' have the potential to reduce bank fees. GIZ, for example, works with the central bank of Jordan using national mobile payments. The 'Digital Inclusion Partnership Initiative' "aims to improve access to remittances and other financial services through digital solutions."³⁷

International development cooperation comes in different formats with traditional assistance from OECD countries to recipient countries in the form of **Official Development Assistance (ODA)** being the most prominent one. ODA by Development Assistance Committee (DAC) countries totaled 153.3 billion in 2018.³⁸ Lending by multilateral development banks reached US\$ 71.9 billion in 2018³⁹ with the shareholders of the World Bank Group endorsing a US\$ 13 billion paid-in capital increase. ODA has grown steadily over time; yet, a closer look at the disaggregated figures reveals that 25% of bilateral aid are humanitarian expenditures and in-donor refugee spending. **Country Programmable Aid (CPA)** that can be used for multi-year planning at country levels aimed at transforming economies to meet the SDGs has actually decreased.⁴⁰ ODA also plays a critical role in improving disaster resilience, recovery and reconstruction as well as climate action. Currently, only five DAC member states meet the agreed target of 0.7% of gross national income.⁴¹

South-South Cooperation (i.e. between two developing countries) and **triangular cooperation** (additionally involving a traditional donor or multilateral organizations) are important complements to North-South cooperation and have grown in importance. The IATF estimates that three out of four developing countries engage in some sort of developing cooperation with China's Belt and Road Initiative being one prominent and controversial example (which by the way claims to be fully aligned with Agenda 2030⁴²). China also established its own China International Development Cooperation Agency (CIDCA) in 2018.⁴³

Innovative mechanisms in development cooperation include **Public Private Partnerships (PPP)** and **Blended Finance**, which "uses public-sector development finance to spur additional private investment in a bid to generate economic growth and creating jobs"⁴⁴ and enhances the "risk-return profiles for private creditors or investors."⁴⁵ These tools require certain safeguards to ensure that projects do not over-subsidize the private companies while increasing the debt burden of the borrowing country. Indeed, during the FfD Forum, critics from civil society remarked that PPPs would offer poor value for money and

asked to stop promoting them under the slogan "finance development, not dividends."⁴⁶

International trade is considered to be an important driver for economic output, development and poverty reduction. Trade of goods continued to grow in 2018; yet, the World Trade Organization (WTO) noticed that its Members applied over 100 new trade-restrictive measures such as quotas, tariffs, customs regulations or import taxes between October 2018 and October 2019.⁴⁷ The **multilateral trading system**, which serves as a constitution for international trade, has been facing strong resistance by some state actors, in particular the WTO's dispute settlement system, endangering the functioning of the organization. In the context of the COVID-19 pandemic, UNCTAD estimates that the Coronavirus outbreak could cost global value chains \$50 billion in exports.⁴⁸

To ensure that trade has a beneficial impact on the SDGs, the IATF advocates for **trade and investment agreements** to "address synergistic linkages between trade, investment and socio-economic and environmental policy"⁴⁹ and to strengthen investors' confidence, e.g. through arbitration and dispute settlement mechanisms. One important aim is to better integrate Micro, Small and Medium Enterprises (MSMEs) in developing countries into global value chains. Recent data show that Least Developed Countries (LDCs) virtually do not export; their share of global trade amounts to merely 1%. **Trade facilitation initiatives** such as "Aid for Trade" are therefore critical to build "supply-side capacity and trade-related infrastructure"⁵⁰ to help economies enter global markets and benefit from trade agreements. Another catalyst for trade is the accessibility of **short-term credit or guarantees**, in particular for MSMEs.

One topic raised in many discussions are the rising levels of **global debt** stocks both in the public and the private domain, which totaled US\$ 247.2 trillion in March 2018.⁵¹ This constitutes an increase of nearly US\$ 80 trillion and a rise also in relative terms when compared to Gross Domestic Product (GDP). Exceeding historical levels, corporate debt experienced a surge especially in middle income countries driven by favorable global interest rates. With regard to public debt, experts worry that this trend might harm the ability of governments to mobilize resources for the SDGs in the future. Already today, one out of three LDCs are at a high-risk level or in debt distress.⁵² This originates also from changes in the debt composition as governments increasingly rely on commercial debt, making refinancing more challenging. The complex situation requires a mix of prudent policy actions in the field of **debt management and transparency** aimed at reducing vulnerabilities. The IATF urges governments to constantly monitor their debt and systemic risks, to make risk-

informed decisions, to conduct **debt sustainability assessments** and to explore innovative mechanisms. This includes debt swaps, catastrophe, green and social bonds or state-contingent debt instruments (SCDIs) that “allow a country’s debt service obligations to be linked to its ability to pay.”⁵³

Under the phrase ‘**systemic issues**,’ the financing for development community describes questions of **global macroeconomic stability and institutional and regulatory reform**. The IATF advocates for better multilateral coordination and global governance to make progress towards the SDGs and to achieve a higher level of coherence in the domains of economics, finance and trade.⁵⁴ This also means to be more considerate about possible spillover effects of domestic policy choices on developing countries. The expert community warns that **global imbalances** could have an effect on **financial volatility** and recommends more prudent capital account management policies. Another concern is that investors grew more risk averse due to geo-political uncertainties in recent times, which made the flow of private capital from high income into developing countries more volatile.

Other recommendations discussed last year include the Global Financial Safety Net (GFSN), which is not adequately funded, stress tests in the banking sector and better regulation for non-bank financial institutions (e.g. ‘fintechs’), which manage 30 percent of global financial assets but are not subject to the same rules as traditional banks.⁵⁵ Finally, **National development banks** like Germany’s KfW Group, managing US\$ 506 billion in assets globally,⁵⁶ have become important players in developing countries. They offer excellent financing options for the SDGs in particular for MSMEs, which “represent 60 to 70% of job creation around the world.”⁵⁷

There is a consensus that **science, technology and innovation** unleash opportunities for progress towards the SDGs; yet, they also pose new challenges. Developed and developing countries alike must enhance their technological capabilities and address the problem of the ‘digital divide’. This describes the phenomenon of uneven access to technology manifesting itself in widening inequalities. In closing the divide, absorptive capacities of societies and economic, cultural and social implications of change need to be factored in. As a response, the UN General Assembly founded the Technology Bank for the Least Developed Countries, aimed at “enhancing the contribution of science, technology and innovation for sustainable development.”⁵⁸ The Bank was operationalized in December 2018.

In addition, **Artificial Intelligence** will likely disrupt the global labor market in unprecedented ways. ‘Technology-

driven unemployment’ poses a particular threat to developing countries. According to ILO research, automation could make two-thirds of jobs in these places redundant. Globally, unemployment could rise up to 25%.⁵⁹ On a more positive note, previous industrial revolutions showed that new technologies can also create new job opportunities.

Financial inclusion has been enhanced substantially thanks to advances in mobile internet accessibility and financial innovations.

The IATF estimated that more than 500 million people “opened an account and gained access to financial services between 2014 and 2017.”⁶⁰ There are still US\$ 1.7 billion adults left who are unbanked; however, around US\$ 1.1 billion of them do have a cell phone and could be equipped with ‘mobile money’ services.⁶¹ This is good news as access to finance constitutes a major driver for growth and is a particular obstacle for MSMEs. Largely responsible for this trend are innovations by financial technology firms (‘fintechs’) that blur “the line between software, settlement and financial intermediation.”⁶² Often-times, their origins are outside the traditional financial sector, which explains their ‘outside-the-box-thinking’ but raises concerns due to their lack of industry-specific expertise. For example, credit balances of fintechs are oftentimes not covered by the deposit insurances. Some innovations such as crypto assets and digital currencies are easily misused for criminal purposes.⁶³

Is the Private Sector the Silver Bullet for the SDGs?

At the center of the debates on Financing for Development is the private sector. There is clearly some momentum to bring Wall Street managers closer to the shores of the United Nations Headquarters in Manhattan’s Turtle Bay neighborhood. A similar trend also happened in Washington DC, where CEOs and finance ministers met for the first time for a joint event at the World Bank Spring meetings last year.⁶⁴ Regrettably, in spite of many positive trends showing that the private sector developed a stronger interest in questions of sustainability, recent data shows that “no major uptake in private investment levels”⁶⁵ in developing countries can be observed. Private sector commitments for infrastructure projects remain “well below the peak reached in 2012” which “provides a reality check on expectations for private investments.”⁶⁶ Furthermore, investments are also too much focused on middle income countries. To crowd in private sector funding, governments often need to attract investors by offering subsidies or certain guarantees to make projects profitable, effectively reducing their own tax revenues. This

phenomenon led to the criticism that “governments are subsidizing private profits.”⁶⁷

The World Bank has pursued a strategy of blended finance by using (billions of Dollars of) public funds as a leverage to crowd in (trillions of Dollars of) private capital. The concept became famous by its catch phrase “from billions to trillions.” This narrative faces more and more criticism. A recent report of the Overseas Development Institute (ODI) concluded that the “expectations that blended finance can bridge the SDG financing gap are unrealistic: ‘billions to billions’ is more plausible than ‘billions to trillions.’”⁶⁸ Also Bill Gates admitted that, despite his enthusiasm for the potential of blended financing and private sector contributions to development through investment and knowledge sharing, such financing was not a panacea. He added: “We must be realistic about gaps that the private sector can and cannot fill.”⁶⁹ Another problem is also how to frame the discussion of private sector engagement with some developing countries where this is at times seen as a Trojan horse to bring Northern Hemisphere companies into their domestic markets.⁷⁰

The development community still struggles with answers what the best strategy is to engage the private sector and what their motivations and working methods are. The Canadian Permanent Representative to the UN, Marc-André Blanchard, raised the concern that the UN development system “with its cumbersome bureaucracy and labyrinthine decision-making processes has thus far been largely unable to be an efficient and attractive partner for the private sector.” Furthermore, also the private sector seems to be struggling with a strategy how to engage with the SDGs. Most institutional investors and private companies do not maintain a global network of field offices in the global South as actors in development assistance do.⁷¹ Former World Bank President Jim Kim corroborated that the private sector has a lack of understanding how business in developing countries works, focusing on less complex and riskier investment opportunities in OECD countries.⁷² During formal, informal and personal discussions, representatives of the private sector mentioned a selection of the challenges that companies face when entering emerging markets⁷³ – certainly, this list could go on:

- **Lack of bankable projects:** Most initiatives are still in a planning stage and/or are not professionally pitched to assess their viability;
- **Project size:** Many projects are too small to be attractive for large investors;⁷⁴ Guterres phrased the problem this way: “We need to find ways for big money to flow to small projects;”⁷⁵

- **Political risk:** Investors perceive political risks as very high worrying about changes in governments that could withdraw support for previously decided projects;
- **Foreign Exchange Rate Risk:** Currency fluctuations can impact the total return of investment;
- **Lack of diversified portfolios:** Asset managers prefer to compare similar projects mixing them to fit their risk-return profiles, which also requires a higher level of project standardization;⁷⁶
- High **fiduciary** and **corruption** risks, which includes poor corporate governance and difficult rule of law situations in many project countries;
- Lack of **regulatory frameworks** to ensure a stable and predictable business environment;
- **Time horizons:** The long-term horizons for investing in the 2030 Agenda often collide with the short-term nature of capital markets;⁷⁷
- **Lack of Liquidity** in emerging markets that makes divestment challenging;
- **Transaction speed:** In light of the high volume of assets under management, large investors prefer to disburse funds quickly; therefore, financial products such as bonds that can be easily traded on capital markets are more attractive than individual project finance.

It becomes clear why de-risking (such as in the form of guarantees) and risk mitigation measures become so critical in the field of development finance. There is also the need to reduce currency risks in developing countries, which is a difficult task in light of an international reserve system that has become increasingly multipolar. Under the given circumstances, many investors require a return on investment as high as 25% to compensate for the burdens described above. This directs them automatically into non-sustainable brown industries like oil and gas.

Of course, investors should also weigh in the risk of inaction since investors of all sizes are “facing the prospect of significant losses from the effects of climate change,”⁷⁸ the most exposed ones up to 20% of their market value.⁷⁹ Certainly, those assets would also be in jeopardy if the world stumbled into a “period of protracted political and ecological instability.”⁸⁰

The Way Forward

While it was clear from the beginning that Agenda 2030 was ambitious, it raised expectations among many that the international community would raise their

commitments towards sustainable development. As António Guterres said during the UNGA: “Financing is the test of our seriousness.”⁸¹ Unfortunately, progress on SDGs has been slow. The Overseas Development Institute (ODI) predicted that by 2030 at least 430 million people will be living in extreme poverty⁸² despite the central promise to eradicate it altogether. This assessment was made before the Coronavirus pandemic hit the world and we need to be alarmed that the virus could undo years of progress in socio-economic development.

A failure to meet the SDG targets will certainly send a catastrophic message to the world, further weakening the trust in national and international institutions and increase migration pressures. The window for turning around the trend is closing fast; the turnaround is, however, still possible. There is a looming risk that the international community will abandon the Agenda even before we reach 2030.

Given the sheer scale of the funds necessary and the dramatic setbacks we are experiencing at the moment, there is no single solution to mobilize trillions of Dollars needed. This report showed that a multi-pronged approach involving a mix of diverse instruments and different pathways can be promising: revenues raised in developing countries, grants from traditional and non-traditional donors, blended finance and soft loans offered by development banks, capital market bonds or other innovative financial instruments, or impact investments by the private sector, to name just a few. Certainly, governments, communities and implementing agencies will have to do their part to ensure a maximum level of aid effectiveness, for instance by developing sound planning frameworks.

Today, many important donor countries are preoccupied with domestic issues and favor unilateral action; many international organizations are hampered by the incapability of their member states to support institutional reform. In this context, important impulses come from the private sector, in particular from technology companies. Yet, the private sector is not a silver bullet and there is still a long way to go until CEOs become fully “bilingual in development finance as well as capital market finance.”⁸³ Hopefully by that time, it won’t be too late to save the SDGs.

- 1 Antonio Guterres, UN Secretary General, Statement at the FfD Forum (15 April 2019).
- 2 Tao Zhang, Deputy Managing Director, International Monetary Fund, Statement at the FfD Forum (15 April 2019).
- 3 <https://www.un.org/esa/ffd/overview/monterrey-conference.html>
- 4 https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf
- 5 Antonio Guterres, UN Secretary General, Statement at the FfD Forum (15 April 2019).
- 6 Germany is represented with Otmar Issing, President of the Center for Financial Studies, Goethe University; former member of the Executive Board and Chief Economist of the European Central Bank.
- 7 Tharman Shanmugaratnam, Deputy Prime Minister of Singapore, Keynote Speech at the FfD Forum (15 April 2019).
- 8 SDGs 4, 8, 10, 13, 16 and 17.
- 9 Germany presented last time in 2016.
- 10 Bill Gates, co-Chair of the Bill and Melinda Gates Foundation, Keynote Speech at the High-level Dialogue on Financing for Development (26 September 2019).
- 11 E.g. Inga Rhonda King, 74th President of the ECOSOC, Statement at the FfD Forum (16 April 2019).
- 12 <https://www.unenvironment.org/news-and-stories/story/plugging-data-gap-google-european-commissions-joint-research-centre-and-un>
- 13 Mukhisa Kituyi, Secretary-General of the United Nations Conference on Trade and Development, Statement at the FfD Forum (16 April 2019).
- 14 Bill Gates, co-Chair of the Bill and Melinda Gates Foundation, Keynote Speech at the High-level Dialogue on Financing for Development (26 September 2019).
- 15 <https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405>
- 16 United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2019. (New York: United Nations, 2019), available from: <https://developmentfinance.un.org/fsdr2019>. [*abbreviated by "IATF report 2019"*].
- 17 Ibid.
- 18 Statements at FfD Forum (17. April 2019).
- 19 Sabina Bhatia, Deputy Secretary of the International Monetary Fund, Statement at the FfD Forum (16 April 2019).
- 20 Tijjani Muhammad-Bande, President of the 74th UN General Assembly, at the High-level Dialogue on Financing for Development (26 September 2019).
- 21 Marc-André Blanchard, Personal reflections-institutional investors and financing sustainable development, in Financing the UN Development System: Opening Doors, Dag Hammarskjöld Foundation, 2018.
- 22 Marc-André Blanchard, Personal reflections-institutional investors and financing sustainable development, in Financing the UN Development System: Opening Doors, Dag Hammarskjöld Foundation, 2018.
- 23 Sustainable Signals: Asset Owners Embrace Sustainability, Morgan Stanley, 2018.
<https://www.morganstanley.com/assets/pdfs/sustainable-signals-asset-owners-2018-survey.pdf>
- 24 Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice, Morgan Stanley, 2019.
- 25 <https://www.impactprinciples.org>
- 26 Elliott Harris, Assistant Secretary-General for Economic Development, UN Chief Economist, Statement at the FfD Forum (17 April 2019).
- 27 <https://www.unpri.org>
- 28 <https://www.impactprinciples.org/principles>
- 29 <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/social-impact-investment-initiative.htm>
- 30 E.g. Richard Cantor, Chief Credit Officer at Moody's Investors Service, in the case of climate investments, Statement at the FfD Forum (16 April 2019).
- 31 <https://www.doingbusiness.org/en/doingbusiness>
- 32 IATF Report 2019.
- 33 UNCTAD, Global Investment Trend Monitor, No. 33, (DIAE/IA/INF/2020/1), 20 January 2020.
- 34 UNCTAD, Global Investment Trend Monitor, No. 35 [Special Coronavirus Edition] (DIAE/IA/INF/2020/3), 27 March 2020
- 35 Dilip Ratha and others, "Data release: Remittances to low- and middle-income countries on track to reach \$551 billion in 2019 and \$597 billion by 2021", World Bank, October 16, 2019.
- 36 IATF Report 2019.
- 37 GIZ presented the project at a side event of the FfD (Project website: <https://www.giz.de/en/worldwide/38566.html>)
- 38 https://public.tableau.com/views/AidAtAGlance/DACmembers?:embed=y&:display_count=no?&:showVizHome=no#1
- 39 World Bank International Debt Statistics.
- 40 IATF Report 2019.
- 41 Denmark, Luxembourg, Norway, Sweden and the United Kingdom
- 42 Ma Zhaoxu, Vice-Minister for Foreign Affairs of China, Statement at the High-level Dialogue on Financing for Development (26. September 2019).
- 43 <http://en.cidca.gov.cn>
- 44 Samantha Attridge and Lars Engen, Blended finance in the poorest countries: The need for a better approach, ODI, April 2019.
- 45 IATF Report 2019.
- 46 <https://www.equalitytrust.org.uk/development-not-dividends>
- 47 World Trade Organization, Annual Report 2019
- 48 UNCTAD, "Coronavirus outbreak has cost global value chains \$50 billion in exports," 4 March 2020.
- 49 IATF Report 2019.
- 50 Ibid.

⁵¹ Ibid.

⁵² According to data from the joint World Bank and IMF Debt Sustainability Framework

⁵³ IATF Report 2019.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ <https://www.kfw.de/KfW-Group/About-KfW/Zahlen-und-Fakten/KfW-auf-einen-Blick/>

⁵⁷ María Fernanda Espinosa Garcés, President of the 73rd session of the UN General Assembly, Statement at the FfD Forum (16 April 2019).

⁵⁸ <https://www.un.org/technologybank/content/who-we-are>

⁵⁹ Cornelia Daheim and Ole Wintermann, 2050: Die Zukunft der Arbeit: Ergebnisse einer internationalen Delphi-Studie des Millennium Project (Gütersloh, Bertelsmann Foundation, 2016).

⁶⁰ IATF Report 2019.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Ibid.

⁶⁴ Marc-André Blanchard, statement at SDG Investment Fair side event (17 April 2019).

⁶⁵ IATF Report 2019.

⁶⁶ Ibid.

⁶⁷ Fanwell Bokosi, Executive Director, Afrodad, Statement at the High-level Dialogue on Financing for Development (26. September 2019).

⁶⁸ Samantha Attridge and Lars Engen, Blended finance in the poorest countries: The need for a better approach, ODI, April 2019.

⁶⁹ Bill Gates, co-Chair of the Bill and Melinda Gates Foundation, Keynote Speech at the High-level Dialogue on Financing for Development (26 September 2019).

⁷⁰ According to an off-the-record assessment of a EU diplomat working closely on the topic of financing for development.

⁷¹ E.g. the private equity firm KKR never opened an office in Africa and operated their investments from Europe (<https://www.wsj.com/articles/out-of-africa-kr-disbands-african-private-equity-team-1511519279>).

⁷² Personal conversation with the author (9 May 2019).

⁷³ Conversations between the author and asset managers of PIMCO, Oppenheimer Fund and Citi Bank during the SDG Investment Fair (15-17 April 2019).

⁷⁴ E.g. Ludo Bammens, spokesman for the private equity firm KKR, on the decision to close operations in Africa: "To invest our funds we need deal-flow of a certain size. It was especially the deal-size that wasn't coming through. There was enough deal-flow at a smaller level." <https://www.wsj.com/articles/out-of-africa-kr-disbands-african-private-equity-team-1511519279>

⁷⁵ Antonio Guterres, UN Secretary General, Statement at the High-level Dialogue on Financing for Development (26. September 2019).

⁷⁶ The G20 leaders endorsed a roadmap to infrastructure as an asset class as a step to achieve greater project standardization.

⁷⁷ E.g. Sasmit Dwivedi, Senior Vice-President, Head of ESG and Research, Nippon Life Global Investors Americas, Inc.: "the biggest challenge is that time horizons do not correlate with those set for the [Sustainable Development] Goals," Statement at the FfD Forum (17. April 2019).

⁷⁸ The cost of inaction: Recognising the value at risk from climate change, Economist Intelligence Unit, 2015. https://eiu-perspectives.economist.com/sites/default/files/The%20cost%20of%20inaction_0.pdf

⁷⁹ Firms face physical, regulatory and legal risks from climate change, Economist, 21 September 2019. <https://www.economist.com/business/2019/09/21/firms-face-physical-regulatory-and-legal-risks-from-climate-change>

⁸⁰ Marc-André Blanchard, Personal reflections-institutional investors and financing sustainable development, in Financing the UN Development System: Opening Doors, Dag Hammarskjöld Foundation, 2018.

⁸¹ Antonio Guterres, UN Secretary General, Statement at the High-level Dialogue on Financing for Development (26. September 2019).

⁸² <https://www.odi.org/news/888-number-people-predicted-be-living-extreme-poverty-2030-rise-new-report>

⁸³ Marc-André Blanchard, statement at SDG Investment Fair side event (17 April 2019).

Konrad-Adenauer-Stiftung e. V.

220 East 42nd Street, Suite 3300

New York, NY 10017

www.kas.de/newyork

newyork@kas.de



The text of this publication is published under a Creative Commons license: "Creative Commons Attribution- Share Alike 4.0 international" (CC BY-SA 4.0), <https://creativecommons.org/licenses/by-sa/4.0/legalcode>