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## Book

### Bridging the SDGs financing gap in least developed countries : a roadmap for the G20

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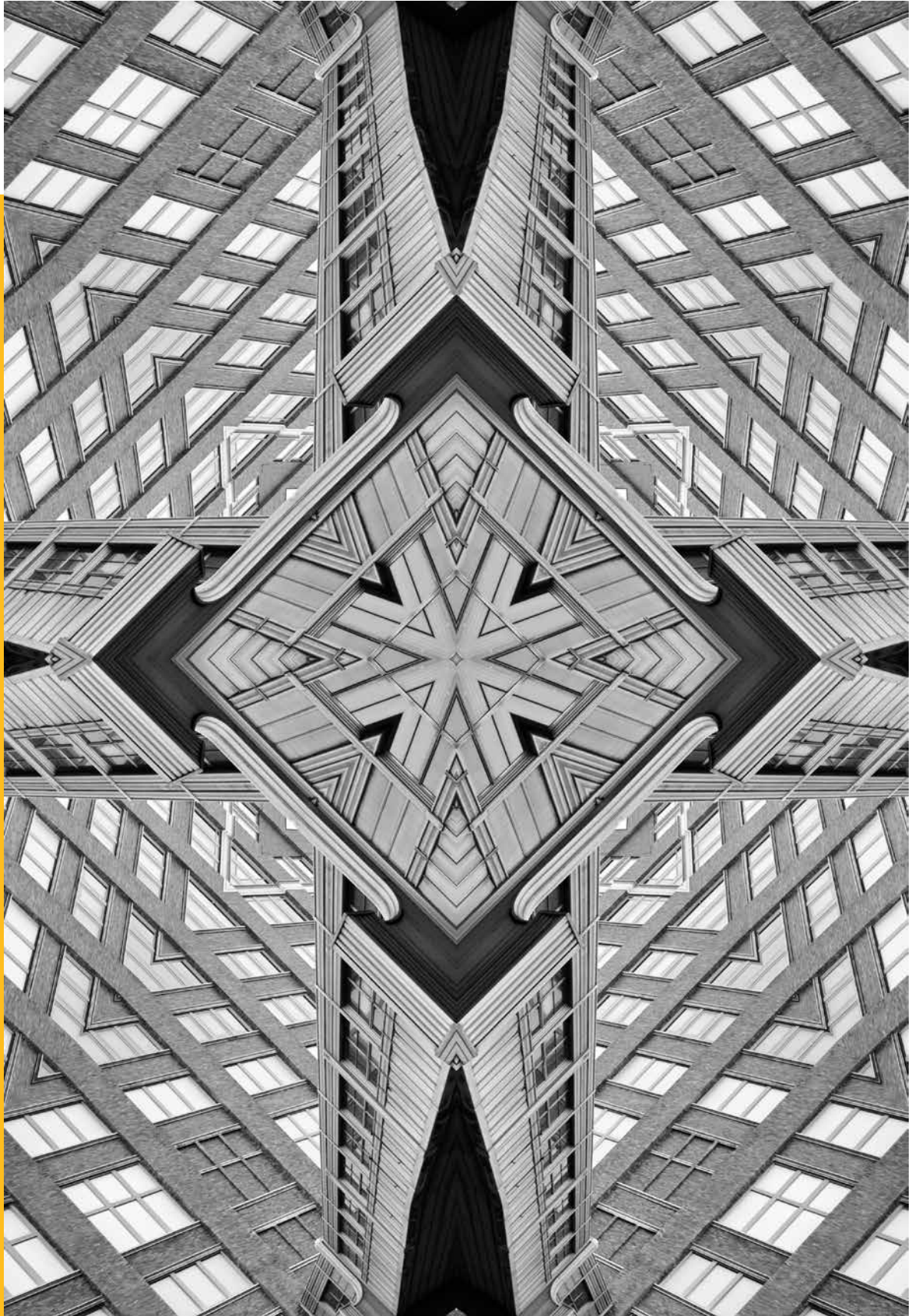
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# Occasional Paper



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# Bridging the SDGs Financing Gap in Least Developed Countries: A Roadmap for the G20

**Renita D'Souza and Shruti Jain**

## Abstract

Financing is a critical factor in realising the targets of the United Nations Sustainable Development Goals (SDGs) by 2030. In the decade of action (2021-2030), the least developed countries (LDCs) will be the battleground where the SDGs could be either won or lost. This paper estimates the level of SDG spending required in the LDCs, measures the current levels of domestic resource mobilisation and foreign aid and capital received by these countries, and gauges the gaps in the sources of financing. It also evaluates the contribution of the G20 forum to SDG financing in the LDCs, and recommends the ways in which the grouping can improve and accelerate action in this area during India's presidency in 2023.

# Introduction

The 2030 Agenda for Sustainable Development, comprising 17 Sustainable Development Goals (SDGs) and 169 targets, represents a common global vision to shift from a myopic focus on economic growth to a more inclusive and resilient process of development. The motto underpinning the 2030 Agenda—leaving no one behind—emphasises the intent to narrow the socioeconomic disparities that characterises the conventional approach to economic growth. The global community has acknowledged the weaknesses inherent to this conventional construct of growth and has committed to resolving these by adopting the 2030 Agenda. The implementation of this agenda bears significantly upon global efforts to minimise regional disparities in development levels.

Having recognised that the universal achievement of SDGs by 2030 is seriously off track, the United Nations (UN) General Assembly has declared the period between 2020 and 2030 as the ‘decade of action’ to accelerate progress on the goals. The UN Conference on Trade and Development (UNCTAD) argues that the least developed countries (LDCs)<sup>a</sup> are the battleground where the SDGs will be won or lost.<sup>1</sup> According to the Sustainable Development Report 2022, the LDCs are the worst performers in terms of the progress made towards achieving the SDGs.<sup>2</sup> Between 1990 and 2019, economic growth boosted the LDCs’ fight against poverty, but the countries have witnessed a concentration of extreme poverty in the years since. In 2020, LDCs were home to 48 percent of those in extreme poverty, as compared to 29 percent in 2010. The LDCs have also accounted for a disproportionate increase in poverty during the COVID-19 pandemic; in 2020, the LDCs, home to 14 percent of the global population, accounted for 25 percent of those pushed into poverty (living on less than US\$1.90 a day per capita) and for over half of the 20 million people who were pushed below the one-dollar-a-day income level.<sup>3</sup>

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a In 1971, the United Nations defined least developed countries as those states that are highly disadvantaged in their development process due to historical, structural, and geographical reasons.

Given the ambitious scale of the SDGs, the financial wherewithal required is the most complex bottleneck in achieving the goals, a challenge that is more acute in the LDCs. The global recession amid the COVID-19 pandemic has hit the LDCs the hardest, adversely impacting their already-weak productive sectors and economies. While countries needed to boost public spending during the pandemic, the LDCs were constrained by lower public revenues. These countries witnessed widening structural current account deficits following a dip in exports and tourism flows, and a decline in foreign direct investment (FDI). The deficiency in foreign exchange reserves was exacerbated by increased debt vulnerabilities and devaluation pressures. In the absence of adequate productive capacities and a complete structural transformation, the LDCs will take longer to recover from the shock to per capita GDP. This has only dampened the ability of these countries to secure the SDGs and fulfil the 2030 Agenda.<sup>4</sup>

Around 70 percent of the LDC labour force is self-employed,<sup>5</sup> and the pandemic is certain to have hit the informal workforce and micro, small, and medium enterprises that were not equipped with the resilience to cope with the crisis. This economic blow could result in long-term effects on household living standards. Extreme poverty could have an adverse impact on human capital formation and labour productivity and put significant pressure on natural resources. The lowered purchasing power of such a large proportion of the population will affect the growth of domestic markets, heightening the risk of poverty traps.<sup>6</sup>

The LDCs must now contend with the threat of another lost decade due to certain fallouts from the pandemic that are expected to have an adverse impact on medium-term growth and output prospects—business uncertainty and depressed demand have negatively affected investment; the governments have diverted financial resources to urgent social expenditures; losses in schooling days and educational outcomes accompanied by significant pressure on educational budgets and the potential of school dropouts becoming permanent will hamper the process of human capital accumulation and widen

existing inequalities, especially gender inequalities; financial insolvency of business units, lost employment opportunities and other losses of productive capacities have weakened the landscape of domestic enterprise; small and medium enterprises have faced a disproportionate impact from the pandemic; and disruptions in value chains and international competitiveness are expected to hinder the prospects of the economic sectors critical to the LDC economies, such as tourism and textiles. Importantly, robust international cooperation is critical in preventing the anticipated downturn from thwarting medium-term growth prospects of the LDCs.<sup>7</sup>

The significant disparities among countries in their ability to respond to the global recession triggered by the pandemic has led to a k-shaped recovery, which will essentially result in divergent paths of economic recovery between the advanced countries and the LDCs.<sup>8</sup> These disparities could cause a reversal of the economic progress achieved by the LDCs in recent decades, thereby accentuating inequalities and worsening the situation for vulnerable segments of society that were disproportionately affected by the pandemic.<sup>9</sup>

At the current juncture in their development trajectory, the LDCs will require access to consistent and long-term sources of finance to support an inclusive and resilient recovery from the pandemic and to achieve the SDGs. It is important to assess the progress made by the LDCs in fortifying the economic fundamentals that determine their ability to generate domestic financial resources to support the SDG agenda and the direction that external finance should take in bridging the financial gap confronting the LDCs. More specifically, there is a need to take a closer look at the trajectories of economic growth, structural transformation, industrialisation, and poverty reduction in the LDCs to gain a nuanced understanding of the deficiencies in their performance and insight on how multilateral intervention and international cooperation can address their development finance needs.

# Introduction

Notably, the LDCs had to contend with inadequate domestic and international finance to achieve the SDGs even before the pandemic. The shortfall in financing critical SDG targets is expected to remain as high as 10 percent of GDP by 2025,<sup>10</sup> and international attention and multilateral intervention is needed to address this challenge. The Group of Twenty (G20), which includes both developed and emerging economies, is an influential communication and coordination platform for international economic cooperation. The G20 derives its influence from the fact that it represents two-thirds of the world's population and accounts for 86 percent of global GDP.<sup>11</sup> As such, the G20 will be critical in addressing the SDG financing challenge confronting the LDCs. Indeed, the G20 has pledged its support to the 2030 Agenda by articulating the G20 Action Plan on the 2030 Agenda for Sustainable Development.<sup>12</sup>

This paper assesses the LDCs' economic growth, structural transformation, and poverty reduction efforts in recent decades, and discusses the estimated financing required to achieve the SDGs in these countries during the decade of action. It also analyses existing G20 measures to mobilise financing for sustainable development and examines their impact on the progress made by the LDCs. Finally, it develops a roadmap to bridge the gaps between G20 initiatives for SDG financing and the specific unresolved needs of these countries.

# LDCs and the Fundamentals of Sustainable Development

**S**table and consistent economic growth, and successful structural transformation and industrialisation are the key foundations to any progress made on achieving the SDGs, as is evident from the experience of those nations that have performed well in terms of the SDGs.<sup>b</sup> The fundamentals of economic growth, structural transformation, and industrialisation create an enabling environment and provide the financial resources critical for the realisation of the SDGs. As such, any strategy that seeks to catalyse SDG financing in the LDCs must be based on an examination of how these specific fundamentals behave in these countries.

- **Economic Growth**

Sustainable development cannot be achieved without a robust economic growth trajectory. Economic growth is not an end in itself; it is a means to enhance the parameters of wellbeing, reduce inequalities, and develop economic resilience and environmental sustainability. The overall pattern of growth characterising the LDCs since 1971 has been rather sluggish and uneven. An increase in real GDP, from US\$200 billion in 1971 to US\$1118 billion in 2019 (at constant 2015 prices), represents an average growth rate of 3.7 percent per annum, marginally higher than the corresponding global average of 3.1 percent.<sup>13</sup> Due to the rapid population growth between 1971 and 2019, the average growth rate of real GDP per capita was even more sluggish at 1.3 percent per annum, registering an increase from US\$600 to US\$1082 over this period. As such, the LDCs' economic growth performance has failed to fuel their development process. The share of LDCs as a group in global GDP prior to the pandemic continues to stand at one percent, just as in the early 1970s. Furthermore, the group's GDP per capita, which stood at 15 percent of the global average in 1971, reduced to lower than 10 percent by 2019.<sup>14</sup>

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b The top ten countries based on SDG achievement are all developed economies: Finland, Denmark, Sweden, Norway, Austria, Germany, France, Switzerland, Ireland, and Estonia.

# LDCs and the Fundamentals of Sustainable Development

In 2021, the UN defined a taxonomy compares the LDCs' performance with the rest of the world, and categorised the LDCs into three groups: LDCs that are 'falling behind', those that are 'muddling through', and those that are 'catching up'.<sup>15</sup> Twenty-three LDCs are categorised as 'falling behind',<sup>c</sup> referring to countries whose real GDP per capita growth rate falls below more than one percentage point than the global weighted average. LDCs that are falling behind are those that are disrupted by conflict or are highly commodity dependent. Sixteen LDCs are listed as 'muddling through',<sup>d</sup> including countries whose real GDP per capita growth rate falls within the 'world average + one percent' range. Only seven LDCs are 'catching up'.<sup>e</sup> These include countries whose real GDP per capita growth rate is greater than the global average by more than one percent. This implies that a very small subset of LDCs, mostly diversified economies, has been able to consistently record the kind of long-term growth that underpins a genuine catching-up with the development experience of the rest of the world.<sup>16</sup>

LDCs have suffered growth decelerations more often than other countries. As compared to other countries, on average, LDCs have witnessed slower growth accelerations and more acute growth collapses. Average growth in the LDCs during accelerations was below four percent per annum. The LDCs' vulnerability to frequent boom-and-bust cycles of growth impedes their ability to enjoy sustainable growth, which is foundational to sustainable development.<sup>17</sup>

Owing to their erratic and sluggish growth patterns, the LDCs have demonstrated weak convergence in terms of economic growth with the developed world and other developing countries (ODCs).<sup>f</sup> In 1971, the per capita GDP of the LDCs group stood at 4.5 percent of that of the developed countries and 58 percent that of ODCs. In 2019, this declined to 2.3 percent and 17 percent, respectively, implying rising inequalities between countries and accentuating the inequality of opportunity.<sup>18</sup>

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c These are the Democratic Republic of the Congo, Liberia, Somalia, Kiribati, Central African Republic, Afghanistan, Yemen, Madagascar, Haiti, Niger, Sierra Leone, Togo, Burundi, Djibouti, Gambia, Comoros, Angola, Zambia, Guinea-Bissau, Sao Tome and Principe, Malawi, Senegal, and Mauritania.

d These are the Solomon Islands, Chad, Guinea, Benin, Ethiopia, Timor-Leste, Tanzania, Rwanda, Sudan, Uganda, Burkina Faso, Tuvalu, Nepal, and Mozambique.

e These are Bangladesh, Lesotho, Cambodia, Laos, Myanmar, Mali, and Bhutan.

f Other developing countries are those that are not LDCs.

# LDCs and the Fundamentals of Sustainable Development

- **Building productive capacities and completion of structural transformation**

Sustainable growth and poverty alleviation hinges on the development of productive capacities and is determined by the process of structural transformation. In addition to the intersectoral reallocation of production factors, such a transformation will be accompanied by a sustained process of capital accumulation, the simultaneous diversification of the economy and export markets, the creation of productive employment, the boosting of domestic resource mobilisation, and the reorientation of energy and resource utilisation.<sup>19</sup>

Productive capacities refer to production capabilities inherent in physical, human, and natural forms of capital, adequate finance, infrastructure and technology, strong institutions and efficient markets, and state capacity to formulate well-defined and transparent policy, all of which are required for the production and export of competitive goods and services.

The development of the LDCs' productive capacities has been rather sluggish. Their failed structural transformation is reflected in the lack of sophistication of their economies, and their domestic production and exports being dominated by low productivity activities and lower-end products.<sup>20</sup>

Overall, the process of structural transformation has been rather slow-paced in the LDCs. This has translated into a reduction in the share of agriculture in value added from 35 percent in 1971 to 21 percent in 2019, while that of industry grew from 23 percent (1971) to 30 percent (2019), and services from 43 percent (1971) to 49 percent (2019). The main sources of increase in the share of industry in value added were mining and construction, while manufacturing grew from 11.6 percent in 1971 to 13.6 percent in 2019. Agriculture continues to represent the highest share of employment, at 55 percent in 2019, but has steadily declined over time. The share of industry in employment expanded from 8 percent to 12 percent during 1995-

# LDCs and the Fundamentals of Sustainable Development

2019, while that of services increased from 21 percent to 32 percent over the same period. When structural change takes the form of a transfer of labour from agriculture to higher productivity sectors (such as manufacturing and advanced services), the process is referred to as growth-enhancing structural change. While manufacturing has contributed to growth-enhancing structural change, the services sector has been the primary source of such change.<sup>21</sup>

- **Industrialisation**

The process of industrialisation in the LDCs has been sluggish. Although nearly all LDCs registered a growth in the share of manufacturing value added, other sectors outperformed manufacturing to result in a relatively lower share of manufacturing vis-à-vis other sectors in the total value added. While this trend of relative deindustrialisation began to demonstrate a reversal in the early 2000s, the blow dealt by the COVID-19 pandemic casts doubt on the continuation of this reversal.<sup>22</sup>

“Stable and consistent growth, and successful structural transformation and industrialisation are the key foundations to any progress made on achieving the SDGs.”

# Estimating the Cost of Achieving the SDGs in the Decade of Action

The objective of estimating the costs of achieving the SDGs in the context of the LDCs is to gauge the size of the SDG financing gap that these nations must overcome if they are to achieve the goals in the decade of action. While this estimate does not cover the costs imposed by the achievement of all 17 SDGs, it does refer to those SDGs that demand the largest amount of finance for their realisation (see Table 1). As such, this estimate needs to be interpreted not as an exact magnitude of the costs involved, but a heuristic that conveys the magnitude of the problem.

**Table1:**  
**Cost and growth estimates for achieving SDGs in LDCs in the Decade of Action (2021-2030)**

SDG Target to be achieved during the 2021-2030 period	Required annual average fixed investments	Required annual GDP growth rate to finance the investment
SDG Target 8.1: 7 percent annual GDP growth rate	US\$462 billion	7 percent
SDG Target 1.1: Eradicate extreme poverty	US\$485 billion	At least 9 percent
SDG Target 9.2: Double the share of manufacturing in GDP (a form of structural transformation)	US\$1,051 billion	20 percent

Source: United Nations Conference on Trade and Development<sup>23</sup>

# Estimating the Cost of Achieving the SDGs in the Decade of Action

Between 1990 and 2020, aggregate government spending in the LDCs did not exceed 20 percent of GDP due to limited budgetary space. Financing the SDGs investments will require about 27 percent of the average GDP of LDCs, private investment constituting about 73 percent of the investments, public investment of about 26 percent, with the remaining one percent accounted for by public-private partnerships. Financing the social and environmental targets of the SDGs will require allocating an additional 10.4 percent of GDP annually from the current 2.9 percent of GDP until the end of the decade. These targets include achieving universal health coverage; ensuring that free, equitable and quality primary and secondary education is provided to all entitled to it; ensuring access to social protection for all; and ensuring the conservation, restoration, and sustainable use of terrestrial and inland freshwater ecosystems and their services. The total average expenditure per annum will have to be raised by a whopping 55 percent of GDP to finance these social, environmental, and economic SDGs.<sup>24</sup>

## Status of Development Finance in LDCs

The section provides a comprehensive picture of and the disparities in the domestic financial capacity of the LDCs, as well as the external financial assistance received by these countries.

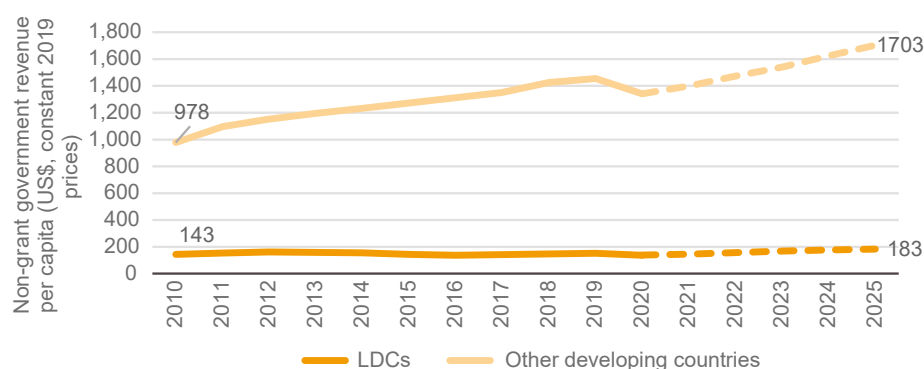
- **Domestic financial resources**

Adequate domestic finance is critical to self-reliance in achieving long-term development and underpins the sustainability of the development process. In 2019, non-grant government revenue in the LDCs was as low as US\$150 per capita compared to US\$14,820 per capita in high-income countries, US\$2326 per capita in upper-middle-income countries, and US\$435 per capita in lower-middle-income countries (see Figure 1). This gap in government spending between LDCs and other nations can be attributed to the contraction in the former's non-grant government revenue as a percentage of their GDP in the decade to 2019, and the overwhelmingly high debt-

# Estimating the Cost of Achieving the SDGs in the Decade of Action

service commitments burdening these countries. Debt service as a proportion of non-grant revenues in the LDCs rose from 7.4 percent in 2010 to slightly over 20 percent in 2019.<sup>25</sup>

**Figure 1:**  
**Non-grant government revenue per capita (US\$, constant 2019 prices)**



Source: *Development Initiatives Report*<sup>26</sup>

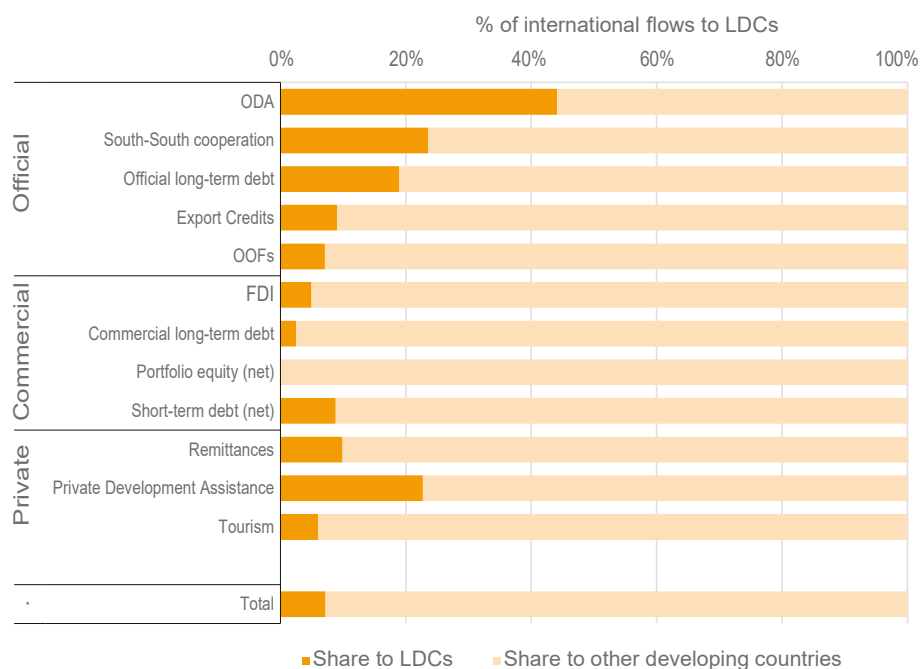
Wealthier countries have responded to the pandemic by dedicating unprecedented stimulus packages to the recovery process. Given that the stimulus per capita in LDCs is as low as 58 times less than in the developed countries, the ability of the LDCs to respond to the pandemic in terms of saving lives and livelihoods is severely compromised. Furthermore, the recovery of domestic revenues in the post-pandemic period is expected to be negatively affected by the low base from which this recovery will have to commence. The lack of adequate government revenue in the LDCs has impacted the ability to finance sustainable development. Even in the pre-pandemic era, almost all the LDCs failed to achieve internationally determined targets for government spending on health (15 percent) and education (20 percent).<sup>27</sup>

# Estimating the Cost of Achieving the SDGs in the Decade of Action

- **External development finance flows**

The dearth of domestic financial resources makes external sources of development finance vital to the trajectory of sustainable development in the LDCs. These countries attract fewer critical international sources of finance as compared to other developing nations (see Figure 2), a trend that can be explained by the lack of productive capacities and reliable pipeline of investable projects, and the higher risk perception associated with LDCs.

**Figure 2:**  
**Share of international financial flows to LDCs in 2019**

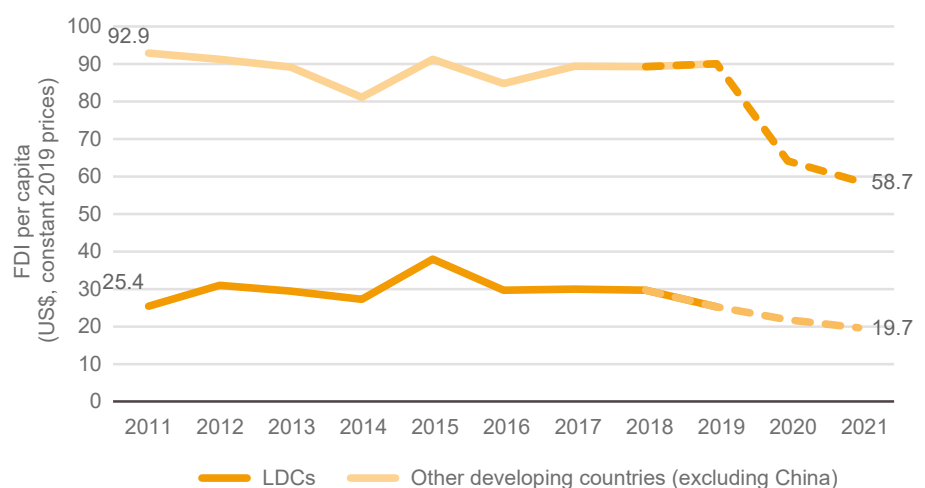


Source: *Development Initiatives Report*<sup>28</sup>

# Estimating the Cost of Achieving the SDGs in the Decade of Action

While FDI to the LDCs represent a small proportion of global FDI flows (and are a shrinking source of finance to the LDCs), it continues to remain important, and accounted for 17 percent of the total non-grant revenues received by LDCs in 2019 (see Figure 3). FDI per capita has been estimated to have dipped by 0.5 percent of GDP between 2019 and 2021 due to the pandemic, translating to a loss of US\$8.4 billion in flows. Recovery from such contraction is expected to be sluggish, given the heightened uncertainty and reduced risk tolerance of private investments in the post-pandemic period. The disparity in access to FDI and sources of external capital is likely to widen following the inequity in access and distribution of COVID-19 vaccinations; countries that have suffered the brunt of this inequity are also struggling to attract FDI flows.<sup>29</sup>

**Figure 3:**  
**FDI in LDCs and other developing countries (excluding China), 2011–2021**



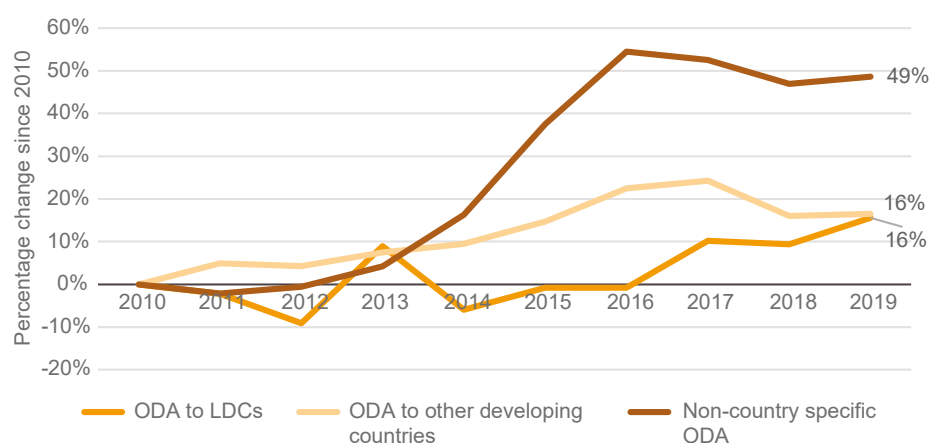
Source: *Development Initiatives Report*<sup>30</sup>

# Estimating the Cost of Achieving the SDGs in the Decade of Action

Official development assistance (ODA) represents a paramount source of financing for the LDCs, in general, accounting for about 40 percent of external financing received by them during 2016-2019,<sup>31</sup> and plays a significant role in supporting the provision of basic goods and services in these countries. Given its countercyclical nature, there are expectations that ODA to LDCs will compensate for the constraints on other sources of finance.<sup>32</sup>

Since 2010, gross ODA contributions by bilateral and multilateral organisations have increased by 16 percent (see Figure 4). However, this growth has been inconsistent, with much of it coming post 2016 after having been negative or stagnant for several years prior. There is an imbalance between the need for and disbursements of ODA. Despite global awareness of the need to prioritise ODA to the LDCs, no concrete action has been taken on this front. The global community has failed to deliver on its commitment to dedicate 0.15 percent to 0.20 percent of gross national income as ODA to LDCs. The share of total ODA to the LDCs has fallen from 32 percent in 2010 to 29 percent in 2019.

**Figure 4:**  
**Growth of Official Development Assistance to LDCs (2010–2019)**



Source: *Development Initiatives Report*<sup>33</sup>

# Estimating the Cost of Achieving the SDGs in the Decade of Action

ODA to the LDCs has remained sluggish even amid the pandemic. ODA from Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee country donors registered a 3.5-percent increase in 2020 over 2016 figures. However, their assistance to the LDCs has merely increased by half this rate (1.8 percent in 2020).<sup>34</sup> Bilateral aid in the form of loans and equity investment registered a 28-percent increase in 2020. Although it is not yet known how much of these loans were disbursed to the LDCs, concerns about a new debt crisis have emerged. This is because ODA loans to the LDCs witnessed a five-fold rise between 2010 and 2019, while the disbursement of grants declined by nine percent. This trend is expected to continue and gain momentum.<sup>35</sup>

Between 2010 and 2019, support to priority sectors (such as health; education; social services; agriculture; digitalisation; and water, sanitation and hygiene) has accounted for less than half the ODA to the LDCs. These countries are characterised by the lowest capacity to self-finance their SDG targets in these domains, and yet receive a disproportionately lower allocation of ODA to assist in financing these priorities.

“Estimating the costs of achieving the SDGs in the LDCs will help gauge the size of the SDG financing gap that will need to be overcome if these countries are to achieve the goals in the decade of action.”

# G20 Initiatives to Finance Sustainable Development in LDCs

The G20 has made several efforts to address the financial challenges in achieving the SDGs. This section will assess how these initiatives bear upon resolving these challenges in the context of the LDCs, and the ways to improve the effectiveness of G20 assistance.

- **Infrastructure Financing**

Infrastructure development is a key driver for sustainable development. The G20 has recognised the role of infrastructure in enhancing health, gender equality, water availability, housing, agriculture, and sanitation.<sup>36</sup> At the 2012 Los Cabos Summit, the G20 countries recognised for the first time the importance of infrastructure investment required by developing countries as a way to stimulate growth.<sup>37</sup> At the 2014 Brisbane Summit, the G20 agreed on the creation of a Global Infrastructure Initiative to help drive quality infrastructure investment across the grouping to complement the work of international development banks and initiatives in member countries<sup>38</sup>.

However, a persistent infrastructure gap still exists in LDCs. According to the 2017 Infrastructure Outlook forecast by the Global Infrastructure Hub (GIH), about US\$94 trillion is needed for infrastructure investment between 2016 and 2040.<sup>39</sup> However, private investment in infrastructure in developing countries has been lower than historical averages. A 2022 UNCTAD study found that Africa's infrastructure gap is estimated to be between US\$130 and US\$170 billion per year.<sup>40</sup> Notably, investment in certain sectors such as water, sanitation and hygiene, and education has fallen since 2014 in developing countries.<sup>41</sup> Furthermore, the infrastructure quality gap between the developed countries and the LDCs has grown over the years.<sup>42</sup>

Achieving quality infrastructure has been a long-standing challenge for the G20. In 2019, Japan played a crucial role in highlighting the G20 members' focus on quality and sustainable infrastructure investment.<sup>43</sup> To ensure that infrastructure investments by the

# G20 Initiatives to Finance Sustainable Development in LDCs

private sector and governments maximise the positive impact of infrastructure, the G20 leaders endorsed the six voluntary and non-binding Quality Infrastructure Investment (QII) Principles by the GIH and released the G20 compendium of Good Practices for Promoting Integrity and Transparency in Infrastructure Development at the Osaka Summit.<sup>44</sup> During the implementation and preparation phases, the QII partnership provides grant funding to integrate the QII Principles in World Bank Infrastructure projects. Of the 31 projects that have been approved in FY 2021, seven project grants are solely based in the LDCs and amount to a total of US\$22,45,700, or about 24.32 percent of the total grants under the QII partnership (see Table 2 for a summary of some of the projects<sup>45</sup>).

**Table 2:**  
**Projects Approved Under G20 QII Partnership (FY 2021)**

Country	Project	Grant Funding
Bangladesh	Green Infrastructure: The grant supports infrastructure investments in piloting and developing national guidelines for green and resilient economic zones in Bangladesh. It aids the Bangladesh Economic Zones Authority in managing the tendering of critical green infrastructure projects.	Standard Grant: US\$300,00
Myanmar	Energy Infrastructure: The grant aims to provide recommendations on new Combined Cycle Gas Turbine Infrastructure financed under World Bank's Power System Efficiency and Resilience project and to ensure procurement of high-quality, efficient, cost-effective, and sustainable CCGT equipment.	JIT Grant: US\$70,000
LAO PDR	Transport Infrastructure: The grant aims to maximise the benefits of public workfare programs work for the poorest and examining the reasons for the lowest income households for receiving fewer economic benefits and understanding the reasons for weaker women's empowerment in the group.	Analytical Grant: US\$102,500
Central African Republic	Water Infrastructure: The grant aims to strengthen the management of the state-owned power and water utilities.	Standard Grant: US\$600,000

Source: World Bank<sup>46</sup>

# G20 Initiatives to Finance Sustainable Development in LDCs

The OECD-UNDP report on G20 contributions to the 2030 Agenda highlights that the core challenge with respect to infrastructure in developing countries is not merely the lack of funds but the lack of inclusive, sustainable, and bankable infrastructure projects.<sup>47</sup> The G20-QII partnerships are steps in the right direction towards increasing infrastructure investment attractiveness by overcoming the inadequacy of national strategies and capacities, poor standardisation, and the lack of transparency in infrastructure projects related to the SDGs.

## • Health Financing

The gap in public health infrastructure between the advanced economies and the LDCs became evident during the COVID-19 health crisis. Even before the pandemic, it was estimated that LDCs stood to lose about US\$11.2 trillion in economic output from preventable mortality between 2015 and 2030.<sup>48</sup> The G20 recognised the importance of collective action towards health emergencies in the LDCs following the outbreak of the Ebola crisis in 2014.<sup>49</sup> Amid the pandemic in 2020, the G20 called for a global mechanism to accelerate the development of treatments, tests, and vaccines to ensure their equitable distribution.<sup>50</sup> Consequently, the Access to COVID-19 Tools Accelerator (ACT-Accelerator) was launched in response to the G20 leaders' call to speed-up the recovery phase of the pandemic. The ACT-Accelerator aims to enable AMC91 countries<sup>g</sup> to achieve 43-percent vaccine coverage through the COVID-19 Vaccines Advance Market Commitment (or COVAX AMC).<sup>51</sup> Furthermore, additional donations and dose contributions to COVAX of about 600 million doses for AMC91 countries were pledged by COVAX in January 2022.<sup>52</sup> COVAX also aims to build a country participation model with a focus on AMC-eligible countries,<sup>h</sup> support investments in the development of improved product characteristics, provide technology transfer, and help scale-up manufacturing.

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g AMC91 includes all LDCs, other lower-middle-income countries and additional International Development Association-eligible countries.

h COVAX AMC is an innovative financing instrument that aims to support the participation of 92 low- and middle-income economies in the COVAX Facility, enabling access to donor-funded doses of safe and effective COVID-19 vaccines.

# G20 Initiatives to Finance Sustainable Development in LDCs

At the 2021 Rome summit, the G20 leaders reaffirmed to support the ACT-Accelerator and emphasised the importance of sharing the financial burden and closing the funding gap. However, in 2020-21, despite the commitments (US\$18.2 billion pledged), there was a significant funding gap amounting to US\$14.9 in the ACT-Accelerator budget.<sup>53</sup> As of June 2022, the total ACT-Accelerators financial commitment stood at US\$22 billion, of which US\$17.75 billion (80 percent) has been committed by 15 G20 members.<sup>i,54</sup>

In January 2021, the G20 leaders called for a high-level independent panel to recommend how finance can be organised to address future global health threats.<sup>55</sup> The panel recommended<sup>56</sup>:

- International Bank for Reconstruction and Development (IBRD) lending should be made concessionary through the proposed ‘Global Health Threats Fund’.
- International Development Association (IDA) support for pandemic prevention and preparedness should be made concessional and seek to incentivise domestic investments through matching grants to LDC governments.
- Completion of the upcoming replenishment of IDA and other financing windows to meet the increased needs of LDCs in the post-COVID-19 period.
- Existing trust funds at multilateral development banks (MDB) for preparedness should be increased and leveraged to complement IDA and IBRD lending.
- IDA country allocation ceilings must be relaxed during a pandemic period.
- Scarce ODA must be used primarily to benefit LDCs and lower- and middle-income countries (LMICs), whereas investments that

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i These are the US, Germany, European Union, Italy, France, Japan, the UK, Canada, Saudi Arabia, Republic of Korea, Australia, China, Brazil, Indonesia, and Mexico.

# G20 Initiatives to Finance Sustainable Development in LDCs

benefit the world should be funded from non-ODA budgets and the private sector.

- Bilateral funding must continue to play an important role by providing seed money as incentive to LDCs and LMICs to make the investments.
- International Monetary Fund (IMF) Special Drawing Rights (SDRs) should be used principally to respond to the global need for liquidity in the future as SDRs' current contribution to developing countries is muted because of the low share of SDR allocation.

## • Domestic Resource Mobilisation

The G20 has honoured its commitment to boost domestic resource mobilisation, improve international tax cooperation, and tackle tax fraud and tax avoidance by supporting the Global Forum on Transparency and Exchange of Information (EOI) for Tax Purposes. The forum promotes and ensures the effective implementation of two complementary standards that facilitate greater cooperation between tax authorities and enhances tax compliance—exchange of information on request (EOIR) and automatic exchange of information (AEOI).<sup>57</sup> The EOI has 165 member-countries, 18 of which are LDCs; of these 18 countries, 16 are in Africa. These countries created the Africa Initiative to enable African countries to leverage transparency and exchange information to tackle tax evasion and illicit financial flows. Nine of the 16 African LDCs that are part of the African Initiative have implemented the EOIR, while the remaining countries became EOI members only in or after the year 2015. Five of those African countries that implemented the EOIR were reviewed in the first round of review (conducted from 2010 to 2016) to assess their performance on the standard. All were found to be 'largely compliant' in their implementation of tax transparency and EOIR standards. In the first round, only the legal framework of Liberia was assessed and found compliant with the EOIR standards. The second round of EOIR reviews (launched in 2016) were conducted in two LDCs—Liberia

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and Tanzania. In this review (published in 2020), Liberia received a rating of ‘partially compliant’, and Tanzania’s second phase of reviews is still pending. The EOI infrastructure is fully in place only in four African LDCs, partially in place or in progress in seven LDCs, and non-existent in five. Most of the countries that have implemented the EOI standards fare poorly in terms of the effective use of the EOI over the last three years, with a ‘low’ rating by the Global Forum’s peer review process. Only Senegal was rated ‘medium’ and Uganda ‘high’ in terms of this indicator. No African LDC has implemented the AEOI standard, although Senegal is considering it. Four of the nine member states of the African Initiative have made tax revenue gains from the implementation of the EOIR standards.<sup>58</sup>

The OECD/G20 Inclusive Framework on Base Erosion and Profit Sharing (BEPS) was established in June 2016 to promote joint international efforts to deal with tax avoidance, undertake measures to reform international tax rules, facilitate a more transparent tax environment, and confront issues resulting from the digitalisation of the economy. As of November 2021, 141 countries are working together under the ambit of this framework, but only 12 of these are LDCs.<sup>59</sup> There are mixed observations on the benefits of the BEPS for all developing countries. While some experts observe that BEPS generates significant gains for developing nations, others opine that the framework is inherently biased against countries that do not have the technical, financial, and administrative wherewithal to influence tax negotiations. As a result of this inherent bias and lack of capacity, it is likely that the implementation of the BEPS agreements will prove challenging for developing nations.<sup>60</sup>

The G20 has extended support to the IMF/OECD/UN/World Bank Platform for Collaboration on Tax (PCT) and the Medium-Term Revenue Strategy (MTRS) under the PCT.<sup>61</sup> The MTRS is a country-led and whole-of-government approach to a comprehensive tax system reform that enhance tax revenues.<sup>62</sup> Of the 25 countries involved in the pre-formulation, formulation, early implementation, and full implementation stages of the MTRS launch, only 10 are LDCs.<sup>63</sup>

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The G20 has also extended its support to the OECD/UNDP Tax Inspectors Without Borders (TIWB)<sup>64</sup> initiative, which is designed to enable the transfer of tax audit expertise and skills to tax administrations in developing countries.<sup>65</sup> The TIWB programmes have been conducted in 14 LDCs and are ongoing in eight,<sup>66</sup> and this assistance has been responsible for boosting domestic resource mobilisation in many of these countries.<sup>67</sup>

- **Agriculture**

The G20 has initiated two programmes to utilise finance as a lever to boost sustainable development in agriculture, food security, and nutrition—the Global Agriculture and Food Security Programme (GAFSP) and AgResults.<sup>68</sup>

GAFSP finances country and regional agriculture and food security investment plans; provides blended finance and concessional finance to boost the livelihoods of small-holder farmers; and provides funding and technological support to farmer and producer organisations, and small and medium enterprises. The programme focuses on supporting low-income and the poorest countries to complement the funding provided by other international and multilateral institutions.<sup>69</sup>

GAFSP engages in three modes of financing: public sector grants, private sector financing, and producer organisation grants. The public sector grants fund nutrition related activities, generate climate change co-benefits, and provide direct assistance to vulnerable populations (such as rural inhabitants and women). As of December 2021, GAFSP's public sector portfolio had financed over US\$1.5 billion to 75 country-led projects in 47 countries—of these, 63 projects are in 31 LDCs. The private-sector financing mode invests across the agricultural value chain, from farm input, logistics and storage, to processing and financing. As of October 2022, this mode has invested US\$440 million in 81 projects in 27 countries—of these, 27 projects are in 18 LDCs. This mode of financing has also invested over US\$44 million in advisory projects, assisting firms build on their productivity and standards.

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Assistance provided by GAFSP reaches one million smallholder farmers in the most fragile markets around the world. GAFSP disburses small-scale grants to producer organisations to cater to the needs of agricultural financing. Under this mode of financing, GAFSP launched the Missing Middle Initiative in the form of five pilot projects worth US\$15.9 million in Mali, Senegal, Uganda, Rwanda, and Bangladesh. GAFSP also assigned US\$30 million to 12 producer-organisation-led projects in Africa, Latin America, and South Asia.

AgResults incentivises agricultural research by the private sector in developing countries to provide solutions for market failures that hamper agricultural productivity, leading to food insecurity and undernourishment. AgResults is a US\$152-million endeavour based on pay-for-results prize competitions<sup>j</sup> that encourage the private sector to invest in agricultural innovations involving the reduction of food insecurity, boosting of household nutrition and health, and livestock productivity. Of the 10 past and ongoing AgResults projects, four are or were in LDCs—Uganda, Zambia, Tanzania, and Senegal. One of the ongoing projects in Tanzania is a four-year initiative with a US\$4.9-million prize.<sup>70</sup> The project aims to increase dairy productivity in Tanzania by encouraging private-sector suppliers to serve inputs to smallholder farmers by providing a prize for each bundle of high-quality input delivered.

## • Inclusive Businesses

Under Türkiye’s presidency in 2015, the G20 defined inclusive business as an approach that provides “goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers”.<sup>71</sup> The most significant bottleneck confronted by inclusive businesses is access to adequate financing. By endorsing the Call on

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j AgResults has designed pay-for-results prize competitions to incentivise the private sector to overcome specific market barriers and solve food security challenges—particularly for people living in poverty—by offering the private sector monetary prizes for fulfilling certain criteria.

# G20 Initiatives to Finance Sustainable Development in LDCs

Financing for Inclusive Businesses in 2018,<sup>72</sup> the G20 committed to creating enabling conditions for increased resource mobilisation from public, private and multilateral stakeholders; launching innovative financial mechanisms such as social impact investing and blended finance; and forging effective partnerships. There is no readily available data on the amount of finance G20 nations have disbursed to inclusive businesses in the LDCs. As a relatively new initiative, the Call on Financing for Inclusive Businesses appears to have not yet translated into perceptible gains in terms of increased industrialisation, an increase in the share of manufacturing, or an increase in the proportion of those employed in this sector in the LDCs.

- **Climate Finance**

Climate finance from and mobilised by developed nations to all developing countries stood at USD 80 billion in 2019.<sup>73</sup> Of this, public climate finance to LDCs stood at 15.4 billion in 2019, a meagre 19.25 percent of the total amount.<sup>74</sup> A significant proportion of the climate finance disbursed by the high-income G20 countries was received by the middle-income G20 countries during the 2015-2019 period. About 14.2 percent of the G20 climate finance was disbursed to Brazil, China, India, and South Africa during the same period. The small island developing states received a miniscule 2.1 percent of the G20 climate finance, while the LDCs received slightly more than 20.8 percent during the 2015-2019 period.<sup>k,75</sup>

- **Debt Restructuring**

The COVID-19 pandemic has worsened the LDCs' existing debt, with total external debt amounting to US\$31 billion in 2021. It is estimated that the debt will reach US\$43 billion by the end of 2022, and this increase in debt can have a severe impact on LDCs' efforts to achieve their SDGs. Amid the pandemic in 2020, the G20 leaders launched

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k Countries that belong to both the LDCs and small island developing states (SIDS) are grouped under SIDS. The LDCs without the SIDS countries received just 20.8 percent of the G20 climate finance. The LDCs including the SIDS received slightly more than 20.8 percent.

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the Debt Service Suspension Initiative (DSSI) to address the rising debt situation.<sup>76</sup> The DSSI provided the same debt treatment to all requesting countries, allowing temporary liquidity relief through the suspension of debt service. In 2020, the G20 Finance Ministers and Central Bank Governor's Meeting recognised that support for debt relief may be required beyond DSSI for countries to recover from the crisis. Consequently, the Common Framework for Debt Treatments was established to address protracted liquidity and insolvency problems. Of the 31 participating LDCs under the DSSI, three were categorised as being in 'debt distress' and 17 as in 'high risk of debt distress'.<sup>77</sup> As of February 2022, the total estimated deferred debt to LDCs amounted to US\$1.5 billion.<sup>78</sup>

The debt-service relief has the potential to provide more fiscal space for long-term structural transformation and SDGs achievement. The DSSI and Common Framework can improve the transparency of external debt, thus ensuring that deferred payments are allocated to SDGs-compatible expenditure.<sup>79</sup> One of the core components of the G20-led Integrated National Financing Frameworks<sup>I</sup> (INFFs) is to ensure that the freed-up resources by the DSSI can be used to support the SDGs. However, while some argue that debt suspension can be effectively linked with SDG spending, others are of the view that conditional debt suspension will make the participation in such programmes less attractive.<sup>80</sup>

The DSSI and Common Framework have faced criticism for being inadequate in meeting the requirements of the countries seeking debt relief. The DSSI faced the challenge of limited participation by debtor countries due to fears of reputational risk arising from a credit-rating downgrade.<sup>81</sup> The initiative also lacked private creditor participation in the debt-service suspension on equal terms. Similarly, the Common Framework was sought by three LDCs—Chad, Ethiopia, and Zambia—but action on delivering debt relief was slow.<sup>82</sup> The implementation of the debt-restructuring frameworks has become

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I An Integrated National Financing Framework essentially represents a comprehensive roadmap of a nation's financial strategies outlined and seamlessly mapped with its sustainable development plans.

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especially challenging due to the growing creditor-base diversity in emerging economies and LDCs. The creditor base in previous umbrella programmes predominantly consisted of Paris Club bilateral creditors,<sup>m</sup> and commercial and multilateral banks. However, the creditor base has now diversified to include non-Paris Club creditors and bondholders. The external debt owed to Paris Club creditors fell from 28 percent to 11 percent for DSSI-eligible countries in 2020.<sup>83</sup> Similarly, the external debt owed to non-Paris Club lenders, such as China, increased from 2 percent to 18 percent. Furthermore, debt transparency is being challenged due to non-disclosure agreements and the ‘hidden debts’ of state-owned enterprises.

## • **G20 Financing for Sustainable Development Framework<sup>84</sup>**

The G20 recognises that the prospects of achieving the SDGs by 2030 are weak, primarily due to a lack of financing. As a result, the grouping has articulated the G20 Financing for Sustainable Development Framework (FSD framework), which is composed of three fundamental pillars—mobilisation of finances and their alignment for sustainable development, improving the efficiency and effectiveness of the delivery, and strengthening the G20 cooperation. The framework encourages member countries to engage more closely with the issue of mobilising and aligning its financial resources to their national SDG priorities and enhancing the impact and efficiency of SDG spending.<sup>85</sup>

The first two pillars of the framework demarcate guidelines and potential interventions that can be adopted by countries to help achieve these objectives. The second pillar also emphasises that the FSD framework is expected to assist developing nations by: (1) enhancing the efficiency and effectiveness of their private and public sectors for SDG financing; (2) creating an enabling environment for sustainable development; (3) creating a SDG roadmap that involves

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m Paris Club is an an informal group of official creditors. It currently has 22 permanent members.

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prioritising and sequencing sustainable development strategies; and (4) formulating metrics that assess outcomes and impact to ensure transparency and accountability.<sup>86</sup>

The third pillar of the framework is dedicated to deciphering the contours of G20 cooperation and support to be provided to member countries and other non-G20 nations related to SDG financing. Such support is expected to take several forms, such as technical assistance; capacity building; technology transfer; collaboration on confronting common challenges (illicit financial flows, base erosion and profit shifting, and tax evasion); assistance in developing domestic managerial capital; sharing of best practices; assistance in adopting INFFs; and appropriate reporting frameworks for transparency and accountability in SDG financing.<sup>87</sup>

- **G20 Framework for Voluntary Support to INFFs, G20 High-Level Principles on Sustainability-Related Financial Instruments, and G20 Common Vision on SDG Alignment<sup>88</sup>**

In 2021, the Italian presidency identified three instruments of action to build on the FSD framework and augment the progress that can be made in mobilising and aligning resources to the SDGs.<sup>89</sup> These are:

**G20 Framework for Voluntary Support to a Greater Uptake and Operationalisation of the INFFs for SDGs Finance and COVID-19 Recovery in Developing Countries**

The uptake and operationalisation of the INFF is based upon voluntary adoption, is country-led, and guided by national priorities. The G20 has developed a framework that identifies measures of support that can be undertaken by member countries to enhance the uptake and operationalisation of the INFFs. An INFF essentially represents a comprehensive roadmap of a country's financial strategies outlined

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and seamlessly mapped with its sustainable development strategies. The key recommendations constituting this framework are:

1. *Promotion of knowledge exchange, technical assistance, and training for INFFs:* The G20 members can support knowledge sharing on alternative financing solutions that can be incorporated into the INFFs, and of experiences involved in implementing INFFs. They can also provide technical assistance and training required for mobilising finance and implementing the INFFs.<sup>90</sup>
2. *Aligning international support for INFFs:* The financial and non-financial forms of G20 development cooperation, and its functional and assessment dimensions should be oriented towards the formulation and implementation of the INFFs.<sup>91</sup>
3. *Engaging G20 member domestic constituencies to support INFFs:* Mobilise technical experts from the government to share their relevant expertise and best practices; engage stakeholders from the business fraternity to leverage avenues of investment involving sustainable finance, guide the implementation of innovative business models and use of market analytics, and support capacity building, among other things; engage civil society, educational institutions, and other relevant stakeholders to support the implementation of the INFFs.<sup>92</sup>
4. *Prioritising the integration of economic, social and environmental sustainability within INFFs:* It is imperative to ensure that the INFF prioritises financing economic, social, and environmental sustainability without short-changing one for another.<sup>93</sup>
5. *Reviewing progress on INFFs and continue to build awareness:* The country implementing the INFF must, in collaboration with the UNDP or other relevant international organisations, undertake regular review exercises on the progress made by the INFFs and apprise the G20 members about the interventions that can be undertaken by them to support the implementation of the INFFs.<sup>94</sup>

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## **G20 High- Level principles on Sustainability-Related Financial Instruments**

The G20 intends to add momentum to the uptake of sustainability-related financial instruments in developing countries by implementing the following principles:

1. Mainstreaming the theme of sustainable development and the associated SDGs in the financial approach, objectives, plans, and operations of the public development banks; accelerating their contribution to the implementation of national sustainability related roadmaps; enhancing their financial and technical support to the scaling up of local capital markets and bond issuances; and promoting knowledge sharing among them.<sup>95</sup>
2. Encouraging local issuers to issue bonds that fund SDGs and sustainable infrastructure, and be transparent about this to the market to boost investor confidence against SDG washing;<sup>n</sup> encouraging policymakers and regulatory authorities to articulate sound reporting frameworks, standards, and taxonomies that enable SDG financing; promoting transparency, accountability, and disclosure in terms of the use of proceeds from bonds; adopting the use of appropriate performance indicators and evaluation metrics to assess sustainability outcomes and development impact.<sup>96</sup>
3. Promoting themed bond issuances that are tailored to the local context while ensuring debt sustainability in developing countries; facilitating the development of well-functioning, matured, and liquid domestic capital markets, and the ecosystem required for issuing themed bonds; creating a pipeline of local bankable projects related to SDGs; introducing measures for the reduction of bond issuance costs and increasing efficiency.<sup>97</sup>

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n SDG washing occurs when businesses use the SDG framework to market their contribution to the achievement of certain SDGs, whilst negatively impacting other SDGs.

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4. Encouraging donors to tackle institutional investors' low risk appetite in ventures undertaken in developing countries through the following measures: employ blended finance and other risk-sharing strategies to circumvent investment risks; facilitate technical assistance and capacity-building programmes to improve policymakers', regulators', local financial institutions', and corporates' understanding of appropriate ways to structure bond transactions; construct and aggregate bonds and projects funded through bond issuances; and ensure the underwriting of bonds to boost investor confidence.<sup>98</sup>

## **G20 Common Vision and Voluntary Reporting Principles for SDGs Alignment of Fiscal Space**

Cognisant of its ability to spearhead an inclusive and sustainable recovery in the developing countries in the post-pandemic era, the G20 has articulated a common vision to make resource use coherent with the SDGs, and voluntary reporting principles that provide a template to ensure transparency and accountability with regard to aligning expenditure with the SDGs. The interested low-income nations can voluntarily adopt this common vision and reporting principles gradually, based on a case-by case approach. The G20 forum does not intend to impose any SDG compliance conditionalities through this common vision and voluntary reporting principles. The execution of the common vision and voluntary reporting principles can be carried out in the form of pilots launched at the country-level, accompanied by an in-country dialogue on the feasibility of these guidelines.<sup>99</sup>

The propositions defining the common vision for SDG alignment of fiscal space are:

1. The utilisation of COVID-19 recovery packages must, to the best extent possible, be compatible with the achievement of the broader 2030 Agenda.
2. Resource use must achieve SDGs without inflicting any harm to the remaining SDGs.

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3. A relatively detailed budget classification must be formulated to map where responsible expenditures to the specific SDG targets can be made.
4. G20 assistance in various forms, intended to accelerate the achievement of SDGs in low-income countries, should be sensitive to the country's specific circumstances and priorities.<sup>100</sup>

The voluntary principles, which complement the common vision, aim to encourage the efficient use of resources for the achievement of SDGs, ensure transparency and accountability in the budgetary and public financial management processes, and facilitate comprehensive reporting using robust performance indicators. The G20 will support the application of these principles by providing technical assistance.<sup>101</sup>

“The G20 has made several efforts to address the financial challenges in achieving the SDGs in the LDCs, including financing infrastructure, health, agriculture, and climate initiatives.”

# G20 Plan of Action for SDG Financing in LDCs under India's Presidency

This paper has presented a comprehensive view on the LDCs' SDG financing needs and the ways in which existing G20 initiatives have catered to these requirements. While the FSD framework developed in 2020, and the subsequent instruments formulated in 2021 with a view to strengthening the FSD, are comprehensive in their intended coverage of the challenges involved in SDG financing, it is too early to comment on the effectiveness of the implementation of the framework. However, from the perspective of the specific concerns of SDG financing in the LDCs, the design of this framework can be strengthened. Additionally, certain strategies should be considered in the broader G20 agenda under India's G20 Presidency to accelerate SDG financing in the LDCs:

- A key drawback of the G20 FSD framework is that it does not acknowledge the need to give greater priority to the concerns of LDCs in defining its approach of international assistance for SDG financing. The framework focuses broadly on extending assistance to the developing world by emphasising the urgency of addressing the challenges confronting the LDCs. The G20 forum can consider improving the LDCs' agency in international cooperation and decision-making by encouraging a greater and more effective involvement of these countries in the global vision for implementing the 2030 Agenda. One way of doing so could be to establish a separate working group that is dedicated to strategising on the G20 roadmap for the SDG financing in the LDCs.
- Countries that have been able to advance their SDG agenda are those that have enjoyed stable and consistent economic growth over time, are highly industrialised, and have succeeded in completing the process of structural transformation of their economies. The final objective of G20 support to LDCs should ideally make these nations self-sufficient in achieving and sustaining the progress made towards the SDGs. Sluggish and erratic economic growth, poor industrialisation, and failed structural transformation are characteristics common to the

# G20 Plan of Action for SDG Financing in LDCs under India's Presidency

LDCs and that prevent them from achieving self-sufficiency in managing their sustainable development objectives. The LDCs have been struggling over the past five decades with these fundamental economic challenges. Furthermore, in the contemporary world, achieving stability in economic growth, high levels of industrialisation, and a higher degree of structural transformation must be accompanied by a green transition and migration to a low carbon economy, which makes the task that much more difficult. As such, the G20 needs to adopt a voluntary, country-led, and country-specific approach to support the LDCs in resolving the bottlenecks that are hindering progress in the context of these economic fundamentals. The LDCs need to be assisted to envision a holistic roadmap for institutional, policy, and regulatory reforms in their economies that can help them achieve stability in economic growth, high levels of industrialisation, and a higher degree of structural transformation.

- The G20 must make a concerted effort to encourage its members to direct a larger proportion of their ODA towards SDG financing in the LDCs. Extending financial support, especially in the form of debt with no consideration of the boundaries defined by debt sustainability, will only weaken the LDCs' economic parameters. The G20 should consider enabling the LDCs to ascertain and improve their debt-carrying capacity. Lending should be commensurate to this capacity and the focus should be on developing it. From the point of debt sustainability, the indexation of debt provided to the LDCs to their GDP, such that debt servicing is positively correlated to the level of GDP and the use of countercyclical loans to these nations, is desirable. This recommendation is more viable in the context of official-sector debt than private-sector debt. Both these instruments can be leveraged to reduce the risk of default by the LDCs and enhance their resilience to external shocks.
- The G20 countries can consider measures that will accelerate the flow of FDI to the LDCs. FDI to the LDCs should be consciously aligned to SDG financing. To make such allocations viable, the

# G20 Plan of Action for SDG Financing in LDCs under India's Presidency

G20 needs to support the LDCs in identifying and correcting the barriers to FDI that are prevalent in their economies. The G20 can assist the LDCs in articulating effective solutions to the institutional and capacity constraints they may experience, developing strategies for improved investment promotion and mitigating investment risks, and creating an enabling policy and regulatory environment for investments. The G20 members can allocate support for infrastructural development and the establishment of special economic zones in the LDCs. Once potential investment in the LDCs becomes viable, the G20 countries can incentivise their domestic business sector to invest in the LDCs.

- While the G20 has made substantial efforts on domestic resource mobilisation to mitigate tax fraud and tax avoidance, support tax system reforms, and improve international tax cooperation, there is scope for more initiative to catalyse the expansion of the LDCs' taxation capacity. The G20 members can share knowledge and best practices with and build capacity in the LDCs to deal with the challenges of corruption; misuse of government revenue; complex, expensive and restrictive tax compliance procedures; inadequate tax administration capacity; and loopholes in tax codes that result in untapped revenue. The LDCs derive significant revenue from natural resources and often face the challenge of mismanagement of these resources. The G20 members can help the LDCs adopt alternative models of management of such resources. In many LDCs, increased revenues fail to translate into increased expenditures due to inefficient and untenable subsidies crowding out investments in other sectors, inefficient government procurement, and accumulation of government debt. The G20 forum can initiate efforts to streamline and improve public financial management in the LDCs.<sup>102</sup> While the G20 FSD framework does mention the need for such efforts, the subject of these efforts should be the LDCs.


# G20 Plan of Action for SDG Financing in LDCs under India's Presidency

- Despite a recognition of social impact, the investment analysis by investors and capital providers largely focuses on environmental objectives and outcomes. There is limited awareness regarding definitions and measurement metrics, and a lack of meaningful data and standardisation of social metrics in the LDCs. Integrating SDG metrics in existing financial architecture can also be beneficial to investors and portfolio companies to measure social impact. Measuring the impact can enable investors to make sound financial decisions, minimise their risks, and maximise social returns.<sup>103</sup> Furthermore, reliable performance metrics can also address SDG washing in the LDCs. However, the LDCs lack the expertise required to adopt such metrics.<sup>104</sup> Through workshops and the creation of networks, the G20 can provide technical assistance to the LDCs to equip them to track, measure, and report the financial instruments' proceeds. The G20 must consider providing capacity building through the sharing of best practices, providing peer learning to aid the LDCs integrate definitions and metrics in existing financial architecture such as taxonomies, environmental, social, and governance labels, benchmarks, sustainability rating methodologies, and disclosure requirements.
- Private financial institutions, national development banks and MDBs must work together to build a pipeline of bankable projects to achieve the SDGs in the LDCs. New sources of finance and financial innovations could be catalysed to scale up SDG investment. These include blended finance, social bonds, sustainability bonds, SDG equity-linked bonds, transition bonds, infrastructure bonds, and impact bonds. However, the financial markets in the LDCs are still in the nascent stage, with limited stock and private bonds markets.<sup>105</sup> Most LDCs lack the institutional capacity to utilise innovative financing mechanisms.<sup>106</sup> The G20 can play a key role by ensuring that LDCs have a basic enabling environment for capital-market development by supporting the countries in strengthening their policies that boost investors' protection, easing access to legal recourse, and building effective regulatory regimes.

The implementation of the 2030 Agenda has fallen short of significant progress in the LDCs, where the realisation of the SDGs is more urgent than elsewhere. The primary bottleneck is the mobilisation and utilisation of finances in SDG investments, a situation worsened by the pandemic, which has weakened the LDCs' capacity to finance their SDG agenda and impacted the flow of external funding. Sluggish and erratic economic growth, poor levels of industrialisation, and incomplete structural transformation have restricted the LDCs' ability to pursue self-sustaining processes of development and limited the realisation of other SDGs. Empirical experience has demonstrated that stable and consistent economic growth, higher levels of industrialisation, and a higher degree of structural transformation underpins the process of sustainable development.

The estimates of the costs involved in SDG spending in the LDCs in the decade of action indicate a wide chasm between available resources and those required. This gap poses a more severe challenge, given the trajectory exhibited by the domestic resources and external development finance in the LDCs.

The G20's efforts to aid the implementation of the 2030 Agenda have, in many ways, helped SDG financing in the LDCs. However, the G20 has not made SDG financing in the LDCs an explicit focus of priority. This is also true of the G20 FSD framework finalised in 2020 and 2021. Still, the G20 must now focus on plugging the gaps in SDG financing in the LDCs.

The effectiveness of the G20 Action Plan on the 2030 Agenda for Sustainable Development and the FSD framework will be contingent on *leaving no one behind*. This will require articulating strategies that cater specifically to the needs of the LDCs in the context of sustainable development. A G20 roadmap that has a distinct emphasis on the LDCs, their weaknesses, and their circumstances will add exponentially to the cumulative gains made in sustainable development globally. 

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