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Who will pay for the Sustainable Development Goals?

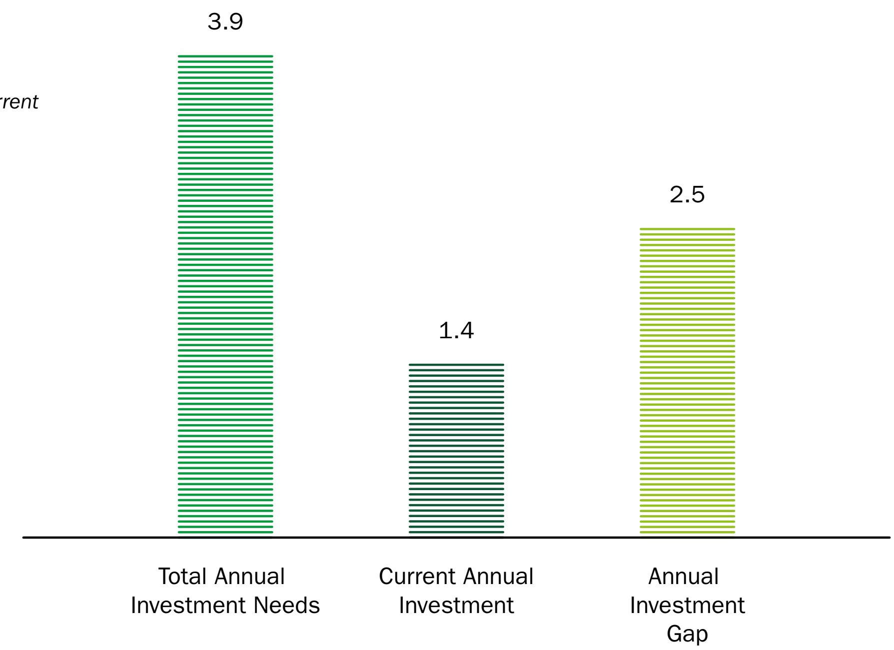
Update on national experiences/approaches to financing the SDGs after 2015

AUTHOR **Dora Almassy** *Central European University, Hungary*
EDITED BY **Grażyna Pulawska** *Asia-Europe Foundation (ASEF)*

After the adoption of the UN Sustainable Development Goals (SDGs) in 2015, countries started to prepare for the implementation of the SDGs by mapping their policies against the SDGs, selecting national priority targets and developing implementation plans that can support and accelerate progress towards reaching (selected) SDG targets.

According to preliminary assessments, it was estimated that the total investment cost of achieving the SDGs by 2030 ranges between USD 5 and USD 7 trillion per year at the global level and between a total of USD 3.3 and USD 4.5 trillion per year in developing countries, implying a mid-range USD 2.5 trillion yearly SDG investment needs in the latter (UNCTAD, 2014; Almassy, 2015).

Figure 1
Total annual SDG investment needs in developing countries (mid-range) versus current annual investments (trillion USD)



Source: UNCTAD, 2014

Since 2015, many countries have introduced improved or innovative solutions to attract and mobilise financing for SDG implementation. This brief is a follow-up to the ASEF research paper on "How to pay for the SDGs?", published in 2015, provides an update on key development financing issues and an excerpt of national experiences of SDG financing in Europe and Asia.

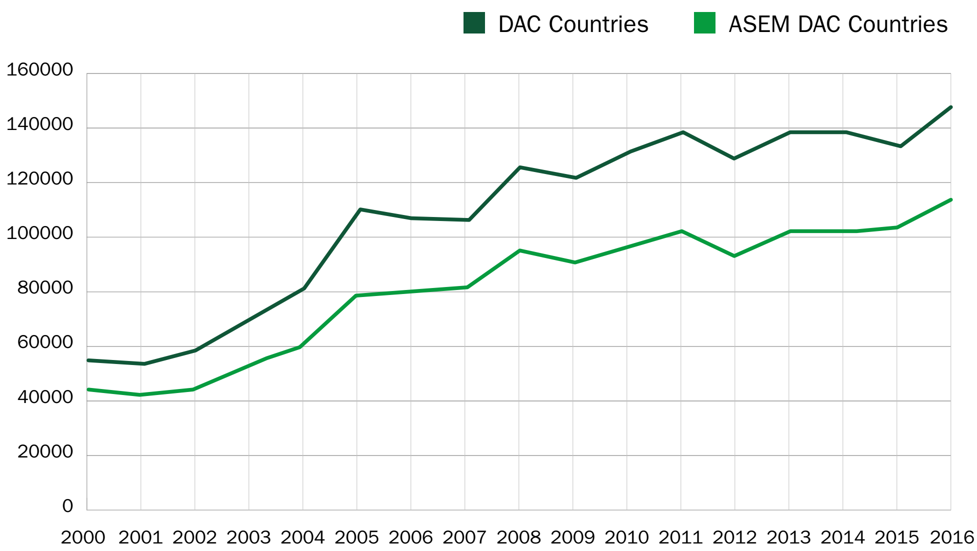
KEY POINT 1

Official Development Assistance will remain an important source of development financing

The ASEF research paper in 2015 emphasised that OECD Development Assistance Committee (DAC) donors need to fulfil their Official Development Assistance (ODA) commitments and achieve a contribution of 0.7% of GNI in line with the Monterrey Consensus. We also proposed that the commitment could be gradually extended to all countries with a GNI per capita higher than USD 20,000 because if these two measures are combined, they will raise additional funding of USD 250 billion annually.

After the adoption of the SDGs, the ODA provided by the OECD countries have risen with 10,7% in 2016 from 2015, reaching 145.6 billion USD (OECD DCD-DAC, 2018). However, among the ASEM DAC donors, which provide more than 70% of the total net ODA, only six of them fulfilled their Monterrey commitments (Denmark, Germany, Luxembourg, Norway, Sweden, the United Kingdom) in 2016.

Figure 2
ODA from DAC donors between 2004–2016: net disbursement at current prices, USD million



Source: OECD DCD-DAC, 2018

According to the submitted Voluntary National Reviews to the High-level Political Forum on Sustainable Development on SDG implementation, ODA provider countries are also increasingly channelling funding resources towards SDG objectives.

- **Germany** *aims to double its international climate finance between 2014 and 2020, via its International Climate Initiative of Germany targeting climate and biodiversity projects in developing countries since 2008. In the field of climate change and energy, the German Government also supports the mobilisation of private funding via various mechanisms (VNR Germany, 2016).*

- **Belgium** *introduced social impact bonds and social funds to channel development funds towards social objectives. For example, a social fund financed with quarterly contributions from the oil companies, that invests in desertification projects (e.g. in Burkina Faso) and on access to sustainable energy (e.g. solar energy projects in Mali and Bolivia) (VNR Belgium, 2017).*

- **Denmark** *is preparing to launch an SDG Fund that will combine public and private funds to mobilise further private capital for sustainable development objectives. The government is planning to contribute with 450 million USD, and complete this amount with an equal contribution from institutional investors (VNR Denmark, 2017).*

- **The Republic of Korea** *aims to support developing countries in modernising their tax administration systems and in promoting global financial inclusivity for all and access of vulnerable groups to financial services in developing countries via its ODA funding (VNR Korea, 2016).*

ODA commitments, however, only represent a part of the available international development financing. Besides long-term OECD donors, development financial flows from other donors have been on the rise in the last decade as many of the middle-income countries are committed to development cooperation.

KEY POINT 2

ODA has to be used as a catalyst to attract other sources of funding to developing countries and mobilise domestic resources

As the calculation shows, in spite further increase in the provided funds, a major gap remains between available international development financing and SDG financing needs in developing countries. Therefore, ODA financing sources should be used as a catalyst to attract additional resources from domestic public sources and private funders. Sources can include private funds for development including private grants and loans, foreign direct investments, portfolio investments, private grants, and remittances as well as national funds from collected taxes and other non-tax revenues, such as revenues from state-owned enterprises and revenues from national resources.

From the recipient side, the following good practices were identified to target ODA funds towards priority SDGs and use them more efficiently:

- **The Philippines** *suggested that, although the ODA provision to the country has been decreasing – as the income level of the country has been growing –, development financing should still have a strategic role in catalysing national funding towards poverty eradication and inequalities.*

- **Myanmar** *developed a Sustainable Development Plan, which also seeks to guide harmonising and coordinating all sources of development financing and gearing them towards SDG objectives (Myanmar, 2018).*

- *Beyond ODA,* **Malaysia** *seeks to find innovative financing sources for biodiversity protection and has been exploring the use of various initiatives such as the Biodiversity Finance Initiative (BIOFIN) and Reduced Emissions from Deforestation and Degradation (REDD+) as well as cooperation opportunities with non-government stakeholders such as the World Wildlife Fund for Nature Malaysia (WWF-Malaysia) and Coalition of Malaysian NGOs in the UPR Process (COMANGO).*

KEY POINT 3

To support domestic resource mobilisation, improved institutional coordination will be of key importance

According to a World Bank estimation, depending on their income-level, countries will need to mobilise 50-80% percent of all resources needed for SDG implementation (UNDP, 2017). While the ratio of various sources is expected to vary from country to country, depending on the level of economic development or specific financing circumstances, all countries need to explore these various financing sources and aim to rely primarily on domestic resources for SDG funding.

The first step in domestic resource mobilisation should be improved planning for implementation, including clear allocation of implementation responsibilities and securing sufficient financial resources to the implementing organisations for fulfilling these responsibilities.

- *The* **Government of Norway** *identified the ministries, primarily responsible for each SDGs, which will be responsible for bringing implementation costs into the annual budgets and coordinating with other ministries involved in implementation (VNR Norway, 2016).*

- *The Government of* **Germany,** *which revised its National Sustainable Development Strategy to be in line with and provide an overall implementation framework for the SDGs, defined "at least one indicator-based political objective" per goals and specified the necessary actions for implementation of each these (VNR Germany, 2016).*

- *In* **Thailand,** *a budget is allocated annually for SDG implementation as the SDGs were integrated into national strategy documents (VNR Thailand, 2017). Similarly,* **Malaysia** *and* **Indonesia** *will link the implementation of the SDGs to its national development framework, and this is planning to fund SDG programmes and projects through existing Government budget and mechanisms. To complete state budgets, resource mobilisation is planned through collaboration with the private sector, NGOs, civil society and international agencies (VNR Malaysia, 2017 and VNR Indonesia, 2017). Malaysia, for example, identified various potential avenues besides international resources for resource mobilisation, e.g. the use Corporate Social Responsibility Programmes, improved practices of Financial Institutions, better collaboration with non-governmental and civil society organisations and crowdfunding.*

Besides clear allocation of implementation responsibilities, the establishment of the coordination mechanisms responsible for the overall implementation is of crucial importance.

- *In some European countries, such as in* **Norway** *and* **Italy***, the Ministry of Finance was appointed for overall coordination of the SDG implementation budget and for creating "strong synergies" for the SDGs with other policies (VNR Italy, 2017 and VNR Norway, 2016).*

- *Examples for coordination mechanisms in* **Asia** *were also identified Based on its experience with the MDG implementation, the* **Philippines** *outlined the importance of comprehensive financing plans which considers domestic and international sources, public and private resources and links the budget allocation to the SDGs. Thus, to improve the budget allocation processes, the Philippines also introduced a Planning and Costing tool: e-PSDP (The Electronic-Philippine Statistical Development Program) (VNR Philippines, 2016). In* **Thailand***, for priority goal implementation, which requires co-operation between different ministries and covers all three SD dimensions, a "strategically integrated budget" was made available from the central budget (VNR Thailand, 2017).*
- *Regional and local municipalities will also have an important role in the implementation of the SDGs. In* **Denmark***, since municipalities account for 70 per cent of public consumption, the government agreed with the municipalities agreed to integrated SDG targets in local policy objectives (VNR Denmark, 2017).*
- *In* **Italy***, regional and local authorities are also expected to take on implementation duties, when the general responsibility relies on them (VNR Italy, 2017).*

KEY POINT 4

A considerable amount of additional domestic funding can be channelled towards SDG implementation with improved taxation, budgeting and financing practices

The ASEF report on financing SDG implementation also suggested that a tax system reform to incorporate all negative externalities and move towards a more development-oriented and environment-based tax system would be the most efficient tool to ensure sustainable development (Almassy, 2015).

Since tax systems are less advanced in many developing countries, there is a window of opportunity to introduce innovative, green taxation elements into tax systems, i.e. put an adequate price and underlying tax on the utilisation of various eco-system services (ENVforum conference, 2014). For example, *the German Government promotes the abolition of fossil fuel subsidies both at the national and the international level (with a considerable amount of funding available for energy issues - around 3 billion euros in 2014) (VNR Germany, 2016).*

In France, a new tax was introduced on petroleum products, as a "climate-energy contribution" on greenhouse gas emissions. It is set to rise from €56 per tonne of CO2 in 2020 to €100 per tonne of CO^2 in 2030. (VNR France, 2016). In France, a research tax credit was also introduced to improve companies' spending on research and development and innovation. (VNR France, 2016). *The Philippines introduced an excise tax on alcohol and tobacco and used the collected funds to finance a health insurance premium subsidy for the poorest 40% of the population.*

According to an OECD calculation improved tax collection systems would also generate an additional USD 5 billion in Low-Income and Low-Middle Income countries (EP, 2014). *To improve taxation measures and capacity, support entrepreneurs and reduce inequality, Thailand aims to introduce a National E-Payment system on the medium-to long term (VNR Thailand, 2017).*

To mobilise further resources for development objectives, governments should also improve their budget management practices, reform public procurements and subsidy provisions (World Bank, 2013). In order to improve the efficiency of government spending and shift government spending towards better addressing important environmental sustainability challenges, the following good practice examples can be mentioned:

- *The* **regions of Belgium** *adopted various energy efficiency measures including financing for the installation of PV panels on the roofs of local and regional public authorities in Brussels, the creation of a regional energy service company for local and regional authorities in Brussels, and reducing energy poverty by cheap energy loans and roof insulation in Flanders regions. (Belgium VNR, 2017).*
- *The* **government of Germany** *is planning to introduce sustainability public procurement principles to be adopted by federal authorities (VNR Germany, 2017).*
- *To promote ecological transition,* **French municipalities** *are also encouraged to develop energy-smart housing retrofits and efficient public transport networks funded by the Energy Transition Fund (with a three-year budget of €350 million) (VNR France, 2016).*
- *To support innovations for sustainable development,* **Denmark** *is planning to invest more in research and development and spend 1% of its annual budget on research and innovation-related objectives (VNR, Denmark).*

Improvements in transparency and accountability are crucial elements in developing a more effective government in this domain. *In the* **Czech Republic***, a fiscal responsibility law and a new Act on public procurement law have been adopted to address the weaknesses of the Czech fiscal framework (VNR Czech Republic, 2017). To ensure the integration of environmental considerations into national accounting procedures, the French Ministry of Environment also introduced a system to promote the evaluation of ecosystems and ecosystem services (VNR France, 2016).*

KEY POINT 5

Private resources are not typical sources of development financing, and thus represent untapped potential for financing the SDGs

Private domestic resources can also contribute to development objectives. In order to promote business investments in sustainable development objectives, the following good practice examples can be outlined:

- *To promote investments in a circular economy,* **Germany** *adopted its second Resource Efficiency Programme II, a National Programme for Sustainable Consumption (both in 2016) and a Waste Prevention Programme (VNR, Germany 2017).*
- *In* **France***, a green loan, without security or guarantee, was introduced to companies to finance the optimisation of resources and production processes, the development of eco-design, application for certification schemes and compliance with environmental standards (VNR, France).*
- *In* **Indonesia***, the Financial Service Authority issued the Sustainable Financial Roadmap for financial institutions, defining various principles to support goals for "Profit-People-Planet". (VNR Indonesia, 2017)*

If domestic financing is more diversified and made more easily and widely available to SMEs, microenterprises and other vulnerable groups, long-term domestic development financing can be secured. Examples of innovative measures to promote access of small-business owners and marginalised groups to development financing sources were also identified among SDG financing country practices:

- *A scheme to reduce banking exclusion by local authorities paying half the sum of interest in* **France** *(VNR France, 2016).*
- *In order to finance its fiscal deficits in past* **India** *has issued five-year maturity diaspora ponds to channel remittances sent home by people working abroad towards the financial stability of the country. This can serve as a good practice example to other Asian countries, which receive most of the transferred remittances.*
- *In* **France***, to improve the management of diaspora resources (usually sent back home as remittances to the country of origin of the diaspora members living abroad), the website was set up in order to compare transfer services and offering investment ideas. The use of the website has led to a reduction of above 30% of the average cost of transfer services since 2009 (VNR France, 2016).*
- *Community Welfare Fund in Umong municipality,* **Thailand** *which encourages savings for people in the community, but also provides financial assistance for the fund (VNR Thailand, 2017).*
- *A Government Savings Bank in* **Thailand** *which allows to extend debt repayment and provide vocational and financial literacy training for small community business owners for (VNR Thailand, 2017).*
- *A National Financial Inclusion Program to guarantee the effective functioning of the financial system in covering all residents (VNR* **Indonesia***, 2017).*

Conclusions

Countries will need to be smart about finding their ways to finance the SDGs. While international development assistance to developing countries will remain a crucial source for financing SDGs' implementation, it can only cover a certain part of the needed resources. Thus, ODA has to be used as a catalyst to support domestic resource mobilisation and attract other sources of private funding. Governments can mobilise domestic resources for SDG financing with better taxation, improved collection of revenues from natural resources, and improved government expenditure efficiency and targeted investment to sustainable development. As for private funds, besides private grants and loans, foreign direct investments, portfolio investments, private grants, and remittances can all be considered as potential financing sources. Remittances to developing countries, for example, exceeded USD 400 billion in 2016 and trends also indicate that funds sent by people living and working abroad to their home countries will continue to increase in the future.

Experience with climate financing has already proven that development objectives do not necessarily need to rely on international financing sources: in 2016, 63% of all climate finance was provided by private actors (Climate Policy Initiative, 2017). At the same time, certain financing mechanisms will be more suited to some SDGs than others, depending on the focus and the nature of the goal. Therefore, the characteristics of the development should be taken into consideration when designing the financial framework for implementation. Moreover, the success of SDG financing will also be extensively dependent on the existence of appropriate national legislative, strategic and institutional frameworks as well as strong political will.

However, in order to secure sufficient financing for the various SDG targets, countries will still mainly need to carefully estimate the costs and potential benefits of SDG targets and map available resources; coordinate budgeting and financing among various ministries and institutions involved in implementation; use existing resources more efficiently as well as identify and secure additional financing resources for implementation.

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