SDG Financial Gap

Why in News?

In the recently held ‘Voice of Global South Summit’, Union Finance Minister raised the issue of the SDG-financing gap faced by developing countries.

What is SDG?

- **SDGs**- Sustainable Development Goals are objectives established by the ***United Nations*** in 2015 to address major global challenges by 2030.
- It is officially known as ‘*Transforming our world: the 2030 Agenda for Sustainable Development*’, a set of 17 Goals with 169 targets.
- **Purpose-** To create a more *equitable, sustainable world* by tackling issues like poverty, inequality, climate change, environmental degradation, and justice.
- The SDGs framework sets targets for ***231 unique indicators*** related to economic development, social welfare and environmental sustainability.
- **India**– It is a ***signatory*** and has committed to achieve these goals.

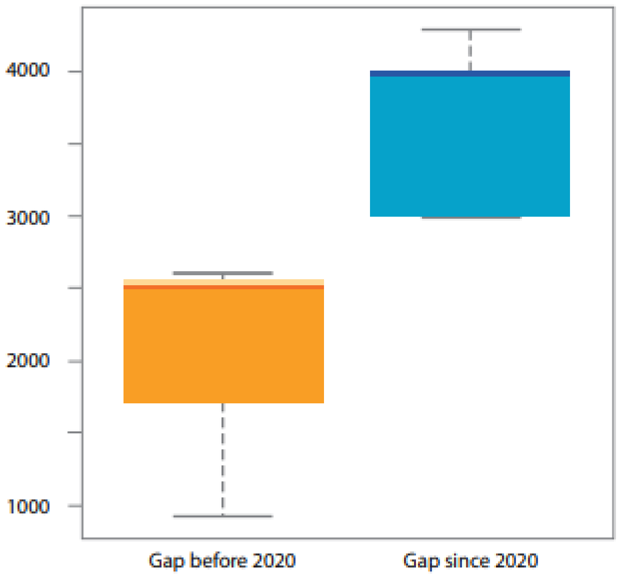
What is SDG financial gap?

- Achieving the economic transitions needed to reach the SDGs will *require investments at unprecedented scale*.
- **Investment needs-** Developing countries need *approximately 4 trillion USD annually* and over 2 trillion USD is required specifically for energy transition (SDGs 7 and 13).
- Sizeable capital expenditure is required also in water, sanitation, and infrastructure.

According to the International Monetary Fund's report, India's investment needs to meet its climate-change adaptation, and mitigation targets are sizable, estimated at 4-8% of gross domestic product per year.

- **SDG financing gaps**- *Investments are failing* to meet required levels.
- SDG financing and investment gaps are estimated *between USD 2.5 trillion and USD 4 trillion annually* as per the 'UN's 2024 Financing for Sustainable Development Report (***FSDR 2024***)'.

Range of estimates of annual SDG financing gaps in developing countries
(Billions of United States dollars)



- **Debt pressures**– Most financing is in the form of non-concessional loans, adding to debt pressures.
- **Debt servicing vs. Climate adaptation-** *60% of low-income countries* spend each year *around five times more on debt servicing* than on climate adaptation.
- **Insufficient climate-finance -** Despite developed countries met their climate-finance targets for the first time in 2022 by raising 115.9 billion USD, yet they are insufficient for meeting all Nationally Determined Contributions.

What are the other reasons for lagging in achievement of SDGs?

- With just six years remaining, the current progress for most developing countries falls short of what is required to meet the SDGs.
- Not a single one of the 17 goals is on track to be achieved by the 2030 deadline.
- **Weak political commitment-** Inconsistent commitment from governments can hinder progress, especially in countries where political instability prevails.
- **Inadequate data collection-** Reliable and comprehensive data is often lacking, making it difficult to measure progress accurately.
- **Climate change-** Ongoing environmental challenges and climate change impact various SDGs, making it difficult to achieve targets related to clean water, health, and sustainable cities.

- **Lack of institutional capacity-** Many countries lack the institutional capacity to effectively implement and manage SDG-related programs.

How India manages its financial needs for SDG?

> *In the 4th edition of SDG India Index by Niti Aayog, India had made progress, obtaining a score of 71 in 2023-24, up from 66 in 2020-21 and 57 in 2018.*

- **Budgetary allocations-** Indian government allocates funds to SDG-related initiatives through its *national budgets and NITI Aayog plans*.
- Each plan outlines specific goals and the associated financial requirements.
- Both *central and state governments* contribute to SDG financing, with various *schemes and programs* designed to address specific goals such as poverty alleviation, education, and health.
- **Collaborations-** India encourages *partnerships between the public sector and private companies* to leverage additional resources and expertise.
- **Corporate social responsibility funding -** Under the Companies Act, large corporations are required to invest a portion of their profits into social and environmental initiatives, which can support SDG-related projects.
- **Foreign aid and grants-** India receives financial assistance from international organizations, development agencies and other bilateral and multilateral donors.
  - **FSDR 2024 report** – *India is benefiting* from growing interest from multinationals, which see India as an *alternative manufacturing base* in the context of developed economies' supply chain diversification strategies.
- **Development loans-** India often takes concessional loans from international financial institutions to fund large-scale projects related to SDGs.
  - *National Development Bank* is planning to issue 30% cent of its loans in national currencies between 2022 and 2026, including South African rand and *Indian rupee denominated bonds*.
- **Green bonds-** India has *introduced green bonds to raise funds* for environmentally sustainable projects, supporting goals related to climate action and clean energy.
- **Dedicated institutions-** Institutions like the NITI Aayog play a crucial role in coordinating SDG efforts, monitoring progress, and advising on resource management.

What lies ahead?

- Close financing gaps for SDG/climate investments (both public and private) at scale and with urgency.
- Close policy and architecture gaps, and reform international institutions.
- Close credibility gaps and trust deficits both international and domestically.
- Formulate and finance new development pathways.
- Effective *management of public debt and deficit* is crucial, with a focus on directing government spending towards developmental goals.

References

1. Business Standard | Challenges in financing for SDG

2. UNCTAD| Financing for Sustainable Development Report 2024