GLOBAL COOPERATION FOR SDGS FINANCING
Background

As governments and investors grapple with the recovery from the COVID-19 crisis, low-income countries/least-developed countries (LICs/LDCs) are likely to fall short of achieving the Sustainable Development Goals (SDGs) targets by 2030. A significant concern arises from the annual funding gap. According to the OECD, developing countries face a shortfall of USD 1.7 trillion to stay on track for the 2030 SDGs, which adds to an existing gap of USD 2.5 trillion. With falling tax revenues and dwindling external financing, developing countries need to attract a fair share of the $379 trillion worth of global financial assets to bridge/narrow the financing gap. Therefore, a call for global cooperation is of vital importance in overcoming challenges in channeling funds from various sources to fulfill the 2030 agenda.

In this year’s presidency, the G20 Development Working Group (DWG) raised four priority issues, 1) strengthening recovery from the COVID-19 pandemic and ensuring resilience in developing countries, underdeveloped countries, and archipelagic countries through the three key pillars of MSMEs, adaptive social protection, and low-carbon green and blue economies; 2) increasing private and blended financing in funding sustainable development in developing countries, underdeveloped countries, and archipelagic countries; 3) renewing the global commitment to multilateralism for sustainable development; and 4) coordinating the progress of achieving the SDGs in the G20 and updating the G20 development commitments. These priority issues are important in guiding policymakers in G20 countries to formulate the best solutions for development challenges in developing and low-income countries.

These T20 Task Force Notes on Global Cooperation for SDGs Financing provide policy recommendations, tailored to the G20 DWG priority issues and the Task Force policy areas, which cover multilateral initiatives to scale-up blended financing for SDGs, the role of ESG frameworks, and philanthropies’ contributions in SDGs blended financing. These notes also cover specific recommendations on the topics of digital sustainable finance and moving beyond GDP to achieve the SDGs.

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Multilateral initiatives to scale-up blended financing for SDGs

1. **Creating a long-term development investment framework for middle- and lower-income countries.** Low- and lower-middle-income countries have 50% of the world’s population but only 10.4% of the world’s investment. This is reflected and caused in part by credit ratings, with 79 of 82 countries in the poorer half of the world do not have an investment grade. When these countries borrow, they will have short-term maturities and pay high interest rates to fund a long-term investment program, increasing the default risk. Countries must present and collaborate with the international community, particularly the Bretton Woods Institutions, on a long-term, low-cost investment framework that features 1) higher domestic tax collections in poor countries 2) development of domestic credit markets in poor countries 3) reform of the private capital market credit rating system 4) reform of the debt sustainability framework of the World Bank and IMF which still in the form of a short-term framework, not a long-term development framework 5) refinancing existing official debts for long term low interest finance.

2. **Increasing Official Development Assistance (ODA) to close the SDGs funding gap.** Official development assistance (ODA) is critical for closing the Sustainable SDGs funding gap because its use in blended finance schemes can crowd in other sources of financing. To increase the ODA, first, a global Currency Transaction Tax (CTT) of 0.005 percent should be imposed. Second, all Development Assistance Committee (DAC) members should adopt the ODA/gross national income (GNI) differentiated target-setting scheme. Third, the DAC should co-opt eight high-income and upper-middle-income G20 countries currently not in the DAC, into the committee. All of these can close the estimated annual $400 billion needed by low-income developing countries to achieve the SDGs by 2030.

3. **Creating the “G20-backed blended finance fund-of-funds and holistic resource platform”.** To achieve the SDGs by 2030, blended finance has to be combined with capacity-building, technology transfer and institutional backup to help particularly low-income and vulnerable economies (LICs/LDCs). “G20-backed blended finance fund-of-funds and holistic resource platform” could facilitate the pooling of concessional/SDG-oriented public aid and/or private philanthropic finance as well as non-concessional/commercial public and/or private funds to create a fund-of-funds, and further blend them with adequate relevant complementary resources by assisting in the development of capacities and technologies for the identified SDG projects. While this is a multilateral initiative, there should be local representative offices in LICs/LDCs to
develop unique methods and customized solutions to address SDG-related issues of these countries.

4. **Extending the Debt Service Suspension Initiative (DSSI) for recovery and accelerated sustainable transition.** In April 2020, a Debt Service Suspension Initiative\(^4\) (DSSI) was established to address debt vulnerability in the poorest countries, allowing some fiscal space to be freed up to combat the health crisis and its consequences. While the initiative expired in December 2021, the global challenges have not faded away and the debt challenges are becoming more pressing. In this regard, there is a need to extend the timeline of the DSSI. The DSSI should also systematically engage with the private sector to contribute to the debt relief efforts and get their assurance that the countries benefiting from debt relief will not be excluded from the capital markets for new issuances. In addition, there is a need to complement the DSSI with a public-private SDG-compliant financing fund/plan as part of a post-COVID-19 global economic recovery plan, to accelerate the transition towards a net-zero scenario and to fully comply with the SDG principles and relevant indicators. The mechanism could take the form of a partial guarantee (between 40 and 60 percent) issued by the Resilient and Sustainability Trust (RST), which has the financial capacity to help LICs and LMICs issue long-term maturity (up to 50 years) recovery, resilience and sustainable transition bonds (RRST Bonds), with lower interest rates (no more than 1 percent above market interest rate levels on the dollar).

5. **Enhancing the SDGs debt swap initiative.** Through collaborative arrangements between debtors, creditors, and donors, SDGs debt swaps convert national debt-serving payments on foreign debt into domestic investment for implementing climate-resilient projects.\(^5\) This scheme is gaining traction among international financial institutions, as well as international creditors and debtors, as it provides a unique opportunity in assisting developing countries to recover better from the pandemic and strengthen development cooperation to accelerate the achievement of the SDGs and the Paris Agreement.

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\(^5\) UNESCWA. (2020). *Climate/SDGs debt swap mechanism.*
The role of ESG frameworks to achieve the SDGs

1. **Developing an SDG-ESG taxonomy.** The SDG-ESG taxonomy should be formed to assess corporations’ contributions to the SDGs based on ESG metrics. Its development needs to be coordinated at a global level but implemented with the national context in mind through the G20 SFWG. It should also include the identification of supporting infrastructure (incentives, regulatory frameworks, etc.) and involve various stakeholders ranging from the government and financial markets authorities to accounting and finance professionals. Content-wise, the SDG-ESG taxonomy should comprise the agreed operationalization of SDGs at the organizational level. This means a deconstruction of the 169 SDGs targets and the 230 associated macro-level indicators into ESG indicators applicable and assessable at the organizational level. Since it is a challenging task at the organizational level, prioritization should be done. The prioritization framework should adopt the concept of double materiality, which is applied by the European Union (2021) in its Corporate Sustainability Reporting Directive (CSRD).

2. **Enhancing the ESG frameworks to scale up climate finance.** A global ESG framework should incorporate more flexible and holistic energy transition concepts, such as the Circular Carbon Economy (CCE) framework. Using the CCE, countries can develop transition strategies based on their strengths and local specificities while still being able to raise ESG funds for the investment needs of the transition process. Furthermore, Annex I countries should fulfill the annual global climate fund commitments, and the fund should be more active in catalyzing the flow of other private ESG funds toward non-annex parties, especially those with more urgent needs. International financial organizations (e.g., World Bank) and multilateral investment guarantee agencies (e.g., Multilateral Investment Guarantee Agency (MIGA)) should take a more active role in assessing country-level investment needs and risks and providing hedging mechanisms for private investors. Lastly, local governments should be encouraged to support the sustainable energy-transition process with incentives and guarantees and ensure the appropriateness of the local business environment to lower the hurdles to issuing appropriate green financial instruments. Local carbon pricing mechanisms should be activated and integrated with the global markets.
Philanthropies’ contributions in SDGs blended financing

1. **Enhancing collaboration and partnership of philanthropies with government and related stakeholders.** G20 countries should allow deeper and more sustainable collaboration between governments, philanthropic institutions, and other relevant stakeholders. This collaboration must go beyond sharing information and good practice to establish a common strategy, unifying resources and decision-making. Therefore, G20 countries should create dedicated dialogue platforms between governments and philanthropic institutions, which also involve various related local stakeholders.

2. **Strengthening the policy framework for the philanthropic ecosystem.** The G20 members should establish a legal status that distinguishes philanthropy from civil society organizations (CSOs) or non-governmental organizations (NGOs). It could be strengthened by a specific philanthropy law in each country. The G20 should also offer favorable tax policies, revise regulations related to philanthropic registration and cross-border funding, and create reporting standards tailored explicitly to philanthropy foundations’ unique transactions and economic events.

3. **Promoting data sharing by establishing a systematic joint infrastructure.** The G20 members should encourage countries to provide a web-based data platform for SDGs that enables all relevant actors to get involved. The platform should provide information about 1) current progress of each SDG shown by relevant indicators 2) current amount of financing of each SDG based on the financier 3) a list of ongoing and pipeline programs, including their progress 4) profile of regional foundations 5) profile of other development partners linked to their websites 6) government publications (including but not limited to press releases, guidance and regulations related to financing procedures) and 7) list of research publications by partnered academia. This platform could help concretely review the challenges and impacts of SDG implementation.

4. **Employing digital funding solutions.** Digital funding can make SDG financing more efficient. G20 countries should advance the usage of crowdfunding platforms, online giving and funding through social media. By advancing these methods, the G20 could provide fast access and effective means for making charitable donations, particularly in international giving and fundraising. If more data on philanthropic giving are available online, philanthropic institutions can also learn about the experiences of one another.
5. **Providing a better understanding of the SDGs.** The G20 members should map the SDG financing ecosystem in the country or region that contains the key government bodies involved in the SDGs, the method of coordination, relevant national or international policies, and information on the SDG priority sectors and financing gap. This would help philanthropic institutions understand and navigate the SDG system in the country or region. It also could identify the relevant entry points for the engagement or the prioritized sectors that can be targeted for funding. In mapping the SDG ecosystem, the G20 members can refer to the OECD Action Plan on the SDGs.6

**Digital sustainable finance to mobilize capital, assess environmental risks and enhance financial inclusion**

1. **Provide the framework to enable digital data infrastructure to play a role in scaling up sustainable finance.** The digital data infrastructure that offers market participants access to climate- and nature-related (financial) data through open application program interfaces (APIs) constitutes a central framework condition that can enable the growth of new sustainability-focused financial products and services. In markets where a combination of transaction data is available through open banking APIs and carbon inventory data, new digital solutions are emerging based on algorithms, directly assessing company expenditure data from banks to automatically classify every purchase to a sector based on supplier codes and finally automatically ascribe a carbon footprint based on the size of the purchase and emission sector averages. These technology-enabled solutions allow SMEs to access their carbon footprint and, at the same time, offer banks the data needed to design SME loans that link interest rate rebates to carbon reductions or to contributions to climate mitigation and adaptation.

2. **Promote machine-readable standardized disclosure infrastructure.** A challenge for banks, asset managers and asset owners in allocating capital to sustainable assets is the availability of reliable, high-quality and up-to-date ESG disclosure data. Centralized disclosure databases in machine-readable formats (e.g., XBRL) and on interoperable digital platforms can play a central role in enabling more accurate rating approaches and greater comparability of sustainable and transition finance-related assets to build market confidence and increase capital allocations through increased transparency.

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3. **Develop and deploy artificial intelligence (AI) tools for the verification of disclosures.** Natural language processing (NLP) algorithms are already increasingly used by third-party ESG data and analytics providers to overcome the challenge of improving the low frequency of disclosure. While NLP is not a highly sophisticated form of AI, as it is a textual extraction and classification tool, it can enable the analysis of large quantities of textual data. Hence, central banks and financial supervisors can leverage NLP AI capabilities to automatically assess and compare disclosure data of supervised institutions to create automated comparisons and indexing processes, as well as to track changes in disclosed data and metrics over time of all supervised institutions.

4. **Enhance the ability to crowdfund green finance.** Building on the mobile banking revolution, new approaches have been developed to use mobile phones to provide investment opportunities in capital markets for people who previously had neither the means nor the expertise and access to invest in securities. Most famously, the government of Kenya launched the M-Akiba project to raise money for infrastructure projects by issuing retail bonds that could be bought by small-scale individual investors on their mobile phones. Chen and Volz (2022) have proposed blockchain-based project bonds to raise finance through a digital crowdfunding platform, which is also able to transparently record and certify the use of proceeds, sustainability impact and revenue streams of projects.7

5. **Central banks to promote inclusive green finance by enhancing digital technologies.** Digital automation can significantly reduce the transaction cost of financial services by allowing firms to harness economies of scale that make financial inclusion a profitable endeavor, rather than a regulatory requirement to be met. It can be used for numerous functions ranging from digital microcredit, micro-insurance products, etc. that can help increase financial inclusion. G20 financial authorities, in collaboration with MDBs, should create an enabling environment to foster such digitally inclusive finance solutions.

6. **Leverage CBDCs to lower the costs of remittances.** G20 central banks should advance their work on CBDCs to enhance financial inclusion and safe and low-cost remittance flows as alternatives to private cryptocurrencies. Data obtained from project CBDC mBridge and existing market research estimates that CBDC holds the potential to cut remittance costs

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by up to 50 percent. In addition, according to the BIS, cross-border transfer speed can be changed from multiple days to seconds.\(^8\)

### Moving beyond GDP to achieve the SDGs

1. **Capacity building around inclusive wealth.** G20 countries should engage their decision-makers and counterparts in like-minded nations in capacity building around inclusive wealth. The value of inclusive wealth as a policy guide must be explained and the barriers to its adoption – such as outdated economic thinking and inadequate statistical frameworks – must be identified. To be effective, capacity building will have to be tailored to national and regional circumstances.

2. **Measuring inclusive wealth.** G20 countries’ national statistical offices (NSOs) should commit to the regular measurement of inclusive wealth. However, they will require additional resources, as measuring inclusive wealth is a significant undertaking. It requires, among other challenges, resolving questions around the measurement of so-called “shadow prices” and agreeing on standards for measuring the various elements of the inclusive wealth portfolio. This will demand collaboration among NSOs to identify suitable methods and data sources that can be applied widely while allowing for differences between countries in terms of priorities and statistical capacity.

3. **Using inclusive wealth to shape decisions.** Once officials at various levels are engaged and NSOs have begun producing the data, G20 governments should commit to using inclusive wealth measures to shape new decisions. The goal should be to identify investments that will enhance long-term well-being by enhancing the inclusive wealth portfolio rather than by simply boosting short-term economic growth.

4. **Additional indicators to track wellbeing.** Tracking the size of the inclusive wealth portfolio is not enough. G20 countries should commit to identifying a small set of additional indicators to track how successful they are at turning their wealth into actual well-being. The benefits of the goods and services produced within the market are already captured by GDP (which is why it should be retained). What GDP fails to capture are the benefits of goods and services produced outside the market. These include many of the benefits of natural capital (e.g., clean air and water) but also many of the benefits of social capital.

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(e.g., community safety and mutual trust). A complete framework for measuring progress, then, would comprise inclusive wealth indicators along with GDP and a handful of complementary indicators focused on well-being benefits arising outside the market.
About T20 Indonesia Task Force 9

The T20 Task Force (TF) 9 on Global Cooperation for SDGs Financing aims to identify challenges and formulate policy recommendations to drive and explore financing options to achieve the SDGs. To achieve our aim, we engage in various activities, such as policy brief development, participation in national and international forums, as well as organizing various side events. This TF consists of some policy areas such as framework on SDGs blended financing, SDGs innovative financing, private sector engagement for the SDGs, enhancement for financial institutions, platform for multilateralism and multistakeholder partnerships, and philanthropies’ contributions in SDGs blended financing. The T20 TF 9 aims to deliver a robust, independent, and inclusive research-based policy platform for experts and impactful policy options for the G20 policy-making process.

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