GLOBAL CONTEXT

Global total net wealth grew again in 2021 to an unprecedented $431 trillion. And yet the majority of the developing world saw significant increases in their debt burden as borrowing increased to cover significant financial losses from the pandemic. The world’s low-income countries borrowing levels increased by 12% to a record $860 billion and external debt stocks of low- and middle-income countries combined rose 5.3% to $8.7 trillion. Whilst Foreign Direct Investment (FDI) picked up with flows increasing in developing countries to a total of $427 billion in the 1st half of 2021, the pandemic saw FDI reduce significantly in more vulnerable economies: FDI flows to small island developing states (SIDS) fell by 40%, and those to landlocked developing countries (LLDCs) by 31%, leading to an uneven rebound.

The pandemic has increased the annual SDG investment needs for developing countries to $4.2 trillion. The recovery of SDG-aligned investment projects remains fragile. The total number of SDG-aligned projects fell by 6% in developing countries and by 50% in LDCs. In the meantime, investments in carbon intensive sectors continued to increase – by 2021, $423 billion is being spent annually to subsidize fossil fuels, while the climate finance need continue to grow and our estimated at $4.35 trillion. Over the course of the pandemic, it has become even more evident that the financial system is not fit for purpose in driving investment towards sustainable development and more resilient futures.

As a globally agreed metric of development goals, indicators and targets, the SDGs provide the framework to make decisions over investments that are driven by impact not by profit alone. The challenge is bringing SDGs into financial decision making more systematically. There are positive disruptions to the financial system, but they are still isolated, not at sufficient scale, and not accelerating fast enough. For example, in 2021 the combined labelled issuance of Green, Social, and Sustainability, Transition, and Sustainability-linked bonds reached $767 billion and yet the size of the bond market was estimated to be at $125 trillion worldwide. Sustainability linked bonds still only represent less than 1% of this. For countries the challenge is to put in place comprehensive risk-informed financing strategies for their national sustainable development strategies looking across all sources of finance, public and private, international and domestic. These will require measures

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7 Climate Bonds Initiative, "2021 Already a Record Year for Green Finance with over $350bn Issued!", November 2021.
both to leverage new sources of finance from public and private sources as well as initiatives to better align investment with their sustainable development priorities.

Governments face the dual challenge of (i) significant fiscal constraints and debt levels exacerbated by the pandemic at the same time that development needs have increased; and; (ii) realigning public finance and crowding in additional resources and incentivizing shifts in private finance to facilitate a transition away from investments that undermine the sustainable development agenda towards those that will achieve the SDGs and climate action. These challenges are manifested differently in different country contexts, defined by unique challenges and opportunities associated with different public financial management systems, fiscal policy regimes, policy environments and political economies.

**UNDP’S COMPARATIVE ADVANTAGE**

UNDP’s Strategic Plan (2022-25) identifies development financing as an enabler to scale up development impact and has also articulated a moonshot to promote the investment of over $1 trillion of public expenditure and private capital in the SDGs[1]. As stated in the Strategic Plan, “leveraging finance at scale includes working with partners to take portfolio approaches aimed at longer-term, transformative goals and brokering stronger public-private collaboration.”

Unlike financial institutions, **UNDP is not primarily engaged with financial transactions but can provide advice on how sustainable development can be integrated into financial transactions.** This provides a niche for UNDP’s role on finance as a neutral player with in-house development expertise and access to partners and knowledge that can bring finance to sustainable development policy and programming. UNDP’s engagements across governments, private sector and other partners uniquely places UNDP as an architect for the multistakeholder platforms necessary to leverage and align finance at the scale necessary to deliver on the SDGs.

**UNDP has a strong track record of supporting governments and their partners to better link policy areas such as climate, biodiversity, gender, disaster risk management, health and poverty with their public finances.** This role has expanded from public financial and expenditure management to include work around SDG aligned tax revenue mobilisation; SDG aligned debts instruments and sovereign risk financing. UNDP has developed a niche in providing solutions to public finance that align investment across the SDGs. UNDP’s role – unlike many finance institutions – is not transaction based and our policy advice on public finance is not linked to loans or other financial deals. Notably, UNDP’s work on public finance is routed in support of effective governance with a strong focus on transparency and accountability built up from UNDP’s expansive governance portfolio.

**UNDP can provide access to experts in a variety of different fields in public finances** – from assisting countries with raising revenues through tax and SDG-aligned debt, to strengthening risk-and SDG informed macro-fiscal frameworks and budgets aligned to sustainable development strategies and development plans, to strengthening systems for equitable, effective and transparent utilisation of public resources, to working with Parliaments which have a critical oversight role and civil society organisations and others on citizen engagement to complete the budget cycle.

**UNDP’S SERVICE LINES**

The public finance offer is framed around four key services cutting across the public finance ecosystem: (i) Raising domestic revenues aligned with the achievement of SDGs (Tax for SDGs – T4SDG); (ii) Raising public finances – SDG aligned bond issuances (Debt for SDGs – D4SDG); (iii) Sovereign risk financing instruments to protect assets and enable investment; and (iv) SDG aligned fiscal planning and expenditure management (Budgeting for SDGs – B4SDG).

These services focus on the alignment of public finance with the SDGs whether to specific SDGs or across the entire SDG agenda. UNDP has implemented these public finance services in relation to climate, gender, biodiversity, health, as well as
looking across these policy areas as part of integrated approaches to public finance for the SDGs. Services can be taken forward together and deliver more transformative results when connected as part of a portfolio of engagements on public finance. For example, taking forward SDG aligned taxation reforms alongside, SDG debt instruments, SDG aligned budget management, and support for sovereign risk instruments. Services can be further linked to other SDG Finance services for even great impact including in relation to SDG Impact Management and finance tracking, unlocking private capital for the SDGs, and support to more integrated approaches to leverage both public and private finance, surface trade-offs and synergies and facilitate coordination across actors, such as through Integrated National Financing Frameworks.

Integrated National Financing Frameworks (INFFs) provide a platform for reviewing public revenues and expenditures for improved alignment with national plans, leading to determination of financing strategies (which identify policy reform priorities and measures to unleash finance, and tap into the use of SDG debt instruments, digital finance, and effective use of fiscal and monetary policies, etc), and calculation of financing gap to achieve Agenda 2030. More than 70 countries are using INFFs to build more holistic approaches for financing recovery from the covid-19 pandemic and/or laying the foundations for more effective mobilization of resources for medium to long term sustainable development. Across these service offers digital finance is a key enabler for effective mobilization, allocation and deployment of public financing towards the SDGs, supporting desirable levels of transparency and accountability.

1. **Raising domestic revenues aligned with the achievement of SDGs (Tax for SDGs – T4SDG)**

Taxation stands at the core of public financing and is integral to achieving the SDGs. Recognizing the integrated nature of these goals, Tax for SDGs focuses on practical actions for capacity building, institutional and societal change in tax systems to support the financing and achievement of the SDGs. Tax for SDGs supports countries to identify, understand and leverage the role of taxation towards recovery from the COVID-19 crisis and building back better in three directions of change: (i) National Tax Administrations (NTA) and relevant agencies have increased capacity to tackle tax avoidance, tax evasion, and Illicit Financial Flows (IFFs); (ii) Governments increasingly align tax and fiscal policy with the SDGs; and (iii) Evidence and perspectives from African and other developing countries are incorporated into regional and international discussions on taxation.

An integral element of this work is the Tax Inspectors Without Borders (TIWB) initiative. UNDP working with the OECD is providing services to tax authorities to augment their tax capacities to raise resources and achieve SDGs. Its launch in 2015, 103 completed or current TIWB programmes have benefited 53 jurisdictions. Developing countries have, with TIWB support, been able to raise more than USD 1.4 billion in additional tax revenue and significantly enhanced tax audit capacity. Beyond TIWB, UNDP has also now developed a broader set of services as part its Tax for SDGs Initiative aimed at aligning taxation policy with the SDGs. This service enables Ministries of Finance, tax authorities and other key ministries to develop SDG taxation policy frameworks ensuring that tax revenues deliver not just resources for the SDGs but create incentives and disincentives that align consumer and private sector practices with the SDGs. This includes work on health tax, environment, climate and gender tax for examples.

2. **Raising public finances – SDG aligned bond issuances (Debt for SDGs – D4SDG)**

Alongside other partners, UNDP supports SDG aligned bond issuances detailed in its Bond Service Offering (version 1.0) and debt restructuring with expanded advisory in version 2.0. UNDP provides support to establish SDG and thematic bond frameworks, even as SDG bond frameworks are emerging as gamechangers as they provide issuers with the flexibility to issue SDG bonds but also green, blue, and other thematic bonds which conform to the criteria; identify eligible investments;
arrange external review; and monitoring and impact reporting on use of proceeds including through the analysis of real-time, digitally enabled rapid data flows. **UNDP Bond Standards** specifically set out an internal decision-making framework to help bond Issuers develop and implement an impact strategy to contribute positively to sustainable development in line with the SDGs and provided as part of the Bond Service Offering. UNDP is increasingly supporting governments in establishing an enabling environment, governance mechanisms, monitoring and evaluation framework for Eurobonds, Islamic bonds, and green bonds, etc. UNDP has engaged with over 30 countries to date in these services. The market dynamics are favorable, green /sustainable bond issuances are booming and oversubscribed. UNDP also put together a primer to address the market, **Thematic Bonds 101**.

3. **Sovereign risk financing instruments**

Sovereign risk financing focuses on sovereign and sub-sovereign protection of large sets of usually public assets (and sometimes agricultural schemes) through one or several layers of financial instruments. Sovereign risk solutions are major drivers of growth, as they strip out uncertainty and risk from countries and their economies, removing the need to keep significant sums for disaster response, recovery and reconstruction, and therefore freeing up more investment financing, the fruits of which require further insurance.

UNDP’s work on sovereign risk is delivered through partnership with government and the insurance industry. With government, UNDP works on country capacity to develop the right strategy and institutional capacity for financially managing risk, and with the insurance industry in the development of specific risk-finance solutions for critical sectors, geographies and under-protected populations. Specific components of UNDP’s risk-finance offer include the:

- Building of national capacity to model, analyse and articulate risk.
- Development of long-term comprehensive risk finance strategies
- Building of institutional capacity to manage complex risk financing instruments.
- Construction of risk finance solutions, together with industry.
- Integration of risk financing into how countries take financial decisions, through public financing management, and key development frameworks, such as NDCs, NAPs and INFFs.

This work is built on a detailed diagnostic across insurance and risk finance that examines underlying drivers of risk, financing and development, market conditions, governance capacity, current initiatives in each country and more.

4. **SDG aligned fiscal planning and expenditure management (Budgeting for SDGs – B4SDG)**

UNDP has pioneered services to support Ministries of Finance undertake fiscal planning and budget reforms to integrate the SDGs into public finance. UNDP has well established offers in relation to climate responsive and environment and biodiversity focused budgeting and has now expanded these services to include budgeting for the SDGs. These services have been linked to support for SDG aligned debt instruments also – for example through providing coding and tracking to identify project pipelines and report and use of proceeds for SDG sovereign bonds as well as to facilitate reporting and inform decision-making, planning and budgeting. UNDP provides services across the budget cycle, including:

i. Determining entry-points for integration of SDGs into the budget cycle

ii. Integration of SDGs into strategic budgeting including medium-term budgetary frameworks (MTBFs) and budget policy statements this includes support for climate change financing frameworks and integrating climate into MTBFs

iii. Integrating SDGs into budget classification system through SDG budget coding and tagging: UNDP supports Ministries of Finance in developing taxonomies/classification systems to track their allocations and expenditures on the SDGs, thematic areas such as gender, and climate budget coding and tracking, or Green Budgeting Tagging.
These systems also enable the monitoring and reporting of the use of these proceeds from SDG aligned bonds, reporting to UNFCCC and decision-making.

iv. **Supporting SDG budgeting at sub-national levels [forthcoming]**

v. **Working with Parliaments and civil society organisations to enhance budget accountability and public engagement.** UNDP enhances budget and policy debates around an efficient and equitable use of public money (for enhancing value for money) and improving transparency through presentation of green and SDG budget coding exercises in *Citizen’s budgets* and other budgetary documents. Support for Public Expenditure and Institutional Reviews and Public Expenditure Tracking Surveys across the SDGs also provide evidence for policy dialogue and stronger accountability. Specific guidance is also available for parliaments and civil society.

**KEY DELIVERABLES / SUCCESSES OF THE CURRENT PORTFOLIO**

There are 103 ongoing and completed TIWB programmes in 53 countries and jurisdictions. TIWB has helped developing countries raise 1.6 billion in additional tax revenues.

As part of climate change budgeting initiative, 9 countries in Asia Pacific region have undertaken reforms such as climate change financing frameworks, climate budget coding and tagging, climate public expenditure and institutional review, and engagement with Parliaments on climate change budgets. Through the Climate Finance Network this will be scaled to 14. UNDP has a similar initiative in Africa – Inclusive Budgeting for Climate Resilience – supporting 6 countries with a number of initiatives in RBEC and RBLAC amounting to a global total of over 30 countries. UNDP is providing support to a portfolio of 30 countries on SDG budgeting.

Countries of recent issuances of SG aligned bonds with UNDP support include Mexico, China, Uzbekistan, Indonesia, Fiji (forthcoming) spanning a range of instruments: green bonds, blue bonds, thematic bonds, debt for nature swap. Hundreds of millions of USD under development and potential issuance

Work is underway on provide Insurance and Risk Finance support to 17 countries.

**DEMAND-ANALYSIS**

Demand is regularly analyzed through STARS and ROAR analyses, mapping exercises and coordination meetings with regional advisors and global/regional leads and engagements with COs. UNDP's annual INFF Survey also provides a data across more than 70 countries of the pipeline of demand for UNDP’s sustainable finance services across all offers.

**PARTNERSHIPS**

UNDP partners with the OECD on the Tax Inspectors with Borders Initiative; as well as with UN DESA on the global policy dimensions of the SDG tax policy work; and with regional organisations such as the Africa Tax Administration Forum on support to countries in Africa. UNDP partners with IFIs, commercial banks and in the future central banks on the SDG debt portfolio. As part of UNDP’s SDG and climate budgeting work UNDP partners with the IMF, OECD and World Bank as well with UNICEF as part of the UNDP UNICEF Finance Flagship.

**FOCAL POINTS**

- Service 1: Raising domestic revenues aligned with the achievement of SDGs – ahtesham.khan@undp.org
- Service 2: Raising public finances – SDG aligned bond issuances: tenke.andrea.zoltani@undp.org
- Service 3: Sovereign Risk Financing Instruments – jan.kellett@undp.org
- Service 4: SDG aligned fiscal planning and expenditure management - Nohman.Ishtiaq@undp.org