

**CAN THE SDGS IN LOW-INCOME
COUNTRIES BE FINANCED?
AND SHOULD WE CARE?**

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Ole Winckler Andersen and Ole Therkildsen

Acknowledgements

We would like to thank Thomas Juel Thomsen, who contributed to the initial discussions of this paper. We also acknowledge numerous valuable comments from colleagues at DIIS on an earlier draft version of this paper.

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ISBN 97887-7605-945-3 (pdf)

DIIS publications can be downloaded free of charge from www.diis.dk

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INTRODUCTION

The answer to the first question in the title of this paper is no. The answer to the second question is yes. This reflects concerns about the realism of reaching the Sustainable Development Goals (SDGs) in Low-Income Countries (LICs)¹. The SDG agenda is a desirable vision – not a strategy for reaching the goals.

As shown in this paper, the financing gap for the SDGs in most developing countries and especially in LICs will be significant. This contrasts with the optimism at the Financing for Development Conference in Addis Ababa in July 2015 and the UN General Assembly in September 2015, where the SDGs were adopted. In preparation for these meetings, several cost estimates were produced for achieving the SDGs. The results varied a great deal and led to discussions of alternative estimation approaches. That the required financing for most developing countries – certainly for all LICs – could be unrealistically high was not much discussed.

LICs have different financing needs, opportunities and challenges than other developing countries, but the significant and increasing variation among the LICs should be born in mind (see e.g. Alonso, Cortez and Klasen, 2014). However, while there are many references to LICs (and to Least Developed Countries) in the Addis Ababa Action Agenda (United Nations, 2015), the specific financing challenges facing LICs were not dealt with in detail. This paper discusses these challenges. It has three purposes.

The first is to assess the reliability of the cost estimates for the SDGs in LICs and the related financing needs. This shows that significant uncertainty is associated with the existing SDG cost estimates especially for LICs. A key challenge is to estimate the costs of the fundamental changes which the achievement of the SDGs will require. Other challenges are to ensure that cost estimates reflect the economic effects of financing the SDGs in LICs and that the LICs may not have the administrative capacity to effectively and efficiently absorb investments of the magnitude envisaged by the SDGs². Despite these challenges, all analysts agree that the SDG financing needs in LICs are substantial and that the additional costs will be a significant share of their GDP, but with some variation between the individual LICs.

The second purpose is to review the realism of the estimates of potential financing sources for the SDGs in LICs. It shows, based on recent developments in both private and public development finance, that the SDGs in LICs will be grossly underfunded due to i.e. slower than expected economic growth, decreasing

¹ For 2019, the World Bank has classified 34 countries as low-income countries (LICs) (GNI per capita of USD 995 or less in 2017) and 47 countries as lower middle-income countries (LMICs) (GNI per capita between USD 995 and 3,895 in 2017). As described in various analyses, there is significant overlap between the groups of LICs and least developed countries (LDCs), which is the classification used by the United Nations. 47 countries were classified as LDCs as of December 2018. Data are sometimes provided for LICs and sometimes for LDCs, and we will in the following use data for both groups of developing countries.

² The implementation of the MDGs also faced significant capacity problems (Therkildsen, 2005).

international private investments, a low and decreasing share of provided official development assistance and a weak tax base, which makes it difficult to ensure significant increases in domestic resource mobilization. Financing this gap through loans can be a risky strategy, but an increasing number of LICs have increased their debt to levels which may not be sustainable³. However, access to finance is not the only challenge for LICs' efforts to achieve the SDGs. Conducive policy frameworks will be important, and a critical issue will be to ensure that access to finance is translated into results that contribute to the SDGs.

The third purpose is to discuss the importance and potential policy implications of these main findings. The political aspects of the implementation of the SDG agenda have attracted less attention in the discussions so far. However, given that LICs may not be able to mobilize enough funding to achieve the SDGs, both LICs and donor countries will have to consider their respective policies and strategies. To the extent that the SDGs influence domestic policies and strategies, the LICs will face difficult trade-offs between individual SDGs. How LICs deal with these trade-offs will be determined not only by domestic politics but also by the relation to international actors⁴. For donors, it may imply a need for better targeting of development assistance, including mobilized private finance, to LICs and probably also to specific sectors and activities. Moreover, donor efforts should reflect the policy response of LICs to the SDGs and their insufficient financing. The paper concludes by arguing that it may be politically difficult to start discussions of the substantial underfinancing just a few years after the adoption of the SDGs, but without radical change in available funding both LICs and donor countries will have to face up to decisions on which SDGs to prioritize and which to neglect.

The method used in this paper is straightforward. The paper provides no new estimates of SDG costs or financing. Instead, analyses of SDG costs are based on a review of often quoted estimates, while the analyses of financing needs rely on recent work by international institutions such as the OECD, the World Bank and the UN. In the analysis of the potential policy implications of the underfunding of the SDGs, a distinction is made between the international and national levels as well as between donors and developing countries. As a framework for understanding the political economy of SDG funding and implementation at country level, a political settlement perspective⁵ is suggested and briefly introduced.

In addition to this introduction, the paper consists of four sections. Section 2 focuses on estimates of SDG costs and discusses the relevance of applied estimation approaches for the estimation of the SDG costs in LICs. In section 3, estimates of the role of various financing sources in LICs are reviewed. Section 4 discusses some potential policy implications of the SDG cost and financing estimates for both LICs and donors. Section 5 concludes the paper.

³ IMF, 2018; Mustapha and Prizzon, 2018.

⁴ In addition to the focus on the SDGs and development finance, the role the SDGs may play in international governance has led to discussion (see e.g. Kanie and Biermann (eds.), 2017). This discussion will not be dealt with in this paper.

⁵ For an introduction see Behuria, Buur and Gray, 2017.

A CRITICAL ASSESSMENT OF THE SDG COST ESTIMATES⁶

As mentioned, several estimates exist of the costs of the SDGs. This section identifies five specific estimation challenges, which are particularly critical for the estimation of the SDG costs in LICs. This is followed by a review of some often-quoted estimates of the SDG costs in developing countries. Despite these estimates being associated with significant uncertainty, it is concluded that the SDG costs in developing countries will be substantial, especially as a share of GDP in LICs.

Estimation challenges

Current discussions of financing the SDGs rely to a large degree on estimates produced before the adoption of the SDGs in 2015 despite their, often, preliminary character. Moreover, it is generally difficult to compare the estimates, as they are not based on the same assumptions. Estimating the SDG costs of LICs involves specific, but difficult challenges. At least five general estimation challenges have specific implications for the estimation of financing needs in LICs, namely (i) the cost implications of specific interactions between the SDGs; (ii) a need for more fundamental changes to reach the SDGs; (iii) the existence of stronger economic effects due to the required significant increase in development finance; (iv) insufficient administrative capacity; (v) specific challenges related to climate change and adaptation. Each is discussed in turn.

First, the individual SDGs are not well-defined cost areas, and the SDGs are not mutually exclusive. Thus, there are significant interactions between the goals⁷, which lead to potential overlaps between individual cost areas and a risk of double counting (Schmidt-Traub, 2015, p. 27). Financing one area or goal will often have implications for other goals, and overall estimates should, consequently, not be made just by aggregating sector needs. An example is that investments in infrastructure (roads, energy, water and sanitation) are a prerequisite for achieving other SDGs (United Nations, 2018, p. 15). Another, often mentioned example, is the synergy between water and health, but there will also be trade-offs which can both be within and between sectors⁸. A main challenge is how to assess the cost implications of these synergies and trade-offs as well as various cross-cutting issues (poverty reduction, inequality, gender, etc.), which

⁶ This paper uses ‘costs’ instead of ‘investments’ (compare with Schmidt-Traub, 2015, p. 12) in order to signal the importance of including operation and maintenance costs in estimations of the costs of the SDGs. For a brief discussion of the use of the concept of ‘costs’, see also UNTT (2013, p. 3). The importance of considering the operation and maintenance costs of the SDG is emphasized in recent reports, e.g. United Nations (2018). Neglect of this issue was also a major problem for the MDGs (Therkildsen, 2010; Therkildsen and Buur, 2010). In general, it is difficult to compare various estimates as they rely on different cost and financing concepts (e.g. costs, investments, additional costs, financing needs, etc.).

⁷ See International Council for Science (2017), which contains a systematic analysis of the interactions between the individual SDGs. See also Le Blanc (2015) and the discussion in OECD (2018c).

⁸ See e.g. Kenny (2018, pp. 19-20) for examples.

will have to be dealt with directly and indirectly in most of the cost areas (Schmidt-Traub, 2015, pp. 29-32)⁹.

The fact that these synergies and trade-offs may vary between countries – together with differences in the ways in which the SDGs can be achieved due to differences in local contexts – has not led to any systematic attempts to consider if specific overlaps and interactions between the individual SDGs are present in developing countries or in LICs. Moreover, there are very few attempts to try to operationalize the interlinkages between the goals. A better understanding is therefore needed of how the various goals are interrelated in developing countries – especially in LICs. Such an understanding, which would have implications for estimates of costs and financing, could also include issues like sequencing of activities and design of coordinating policies (Kenny, 2018), and how to ensure that the allocation of investments both between and within sectors reflects the absorption capacity of the implementing organizations (UNCTAD, 2014, p. xi). This recognition of heterogeneity between countries has been presented as an argument for using national instead of international needs assessments as the basis for SDG cost estimates (UNTT, 2013; Schmidt-Traub, 2015).

Second, cost estimates depend on assumptions about SDG implementation strategies and ‘production functions’ (Schmidt-Traub, 2015) across sectors and countries. In several areas, new ‘production functions’ may have to be developed; e.g. to make the production more sustainable (energy and electrification are an example), and to introduce new technology; e.g. in the education sector (Kenny and Snyder, 2017, p. 2)¹⁰ or in the health sector (Schmidt-Traub, 2015, p. 47). It has been argued that without technological change the SDGs will not be achieved (Kenny and Patel, 2017, p. 1)¹¹, and change is especially relevant for LICs, which are more distant from achieving the goals. Obviously, such changes are difficult to predict and therefore difficult to address in budget estimates in the medium and long term, but simple extrapolations based on average unit costs of the past are clearly problematic.

Several other factors may influence ‘production functions’ and the costs of the SDGs. Per capita costs may increase in some countries, if – due to the commitment of ‘leaving no one behind’ – the goal is to have (close to) 100 percent coverage¹². The reason is that it may be costlier to reach marginal groups (Schmidt-Traub (2015, p. 40). Another issue is that starting points differ, which leads to additional costs in some countries. Road infrastructure is an obvious example, but it may also be an issue in other sectors. Such infrastructure costs are often calculated as a percentage of GDP (Schmidt-Traub, 2015, p. 66), which can lead to significant estimation errors. More specific assessments of the needs are therefore required.

⁹ See also the discussion on cross-cutting issues in United Nations (2018, p. 2), which mentions the implications of gender equality as an example.

¹⁰ See e.g. International Commission on Financing Global Education (2016, p. 18.)

¹¹ Kenny and Patel (2017, pp. 2-3) use both a broad and a partial definition of ‘technology’. The key role of new technologies is also mentioned in United Nations (2018).

¹² In practice, the coverage will not be 100 percent and estimates often assume a lower coverage (see e.g. Stenberg et al., 2017).

Third, there may be economy-wider effects of financing the SDGs. Significantly increased investments (and increased operation and maintenance costs) will influence economic categories like wages, exchange rates and prices as well as more dynamic effects¹³. For instance, there will be a mutual relationship between economic growth and many of the SDGs. As the envisaged increase in investments is higher in the developing countries, it might be expected that these effects would be stronger there, but only few analyses have dealt with these effects of financing the SDGs. An analysis mentions some main characteristics of the LICs and discusses how these can influence the feasibility of financing the SDGs. It concludes that the available fiscal space will not be sufficient in these countries (Baum et al., 2017)¹⁴.

Fourth, as mentioned earlier, cost estimates also depend on the administrative capacity to absorb increasing inflows of financing – including aid. Analyses have focused on developing countries' ability to effectively and efficiently turning inputs into outputs and have mentioned supply constraints and diminishing returns to scale, which will have significant implications for the 'production functions'. Analyses have questioned the degree to which developing countries have the institutional structures in place to ensure efficient public investments and have also indicated that this issue could be more pronounced in LICs (Gupta et al., 2014)¹⁵ with implications for the SDG cost estimates. Whether volatility in these investments can impact on their efficiency could be an additional issue (see Museru et al., 2014).

Fifth, the costs of climate change mitigation and adaption may lead to major challenges for developing countries – the LICs in particular – and estimates may “understate the true needs” (Schmidt-Traub, 2015, p. 7; see also pp. 37-38). Especially in the LICs, comprehensive efforts are needed both to address climate adaptation, but also to transform production and consumption patterns to avoid just reproducing the unsustainable production and consumption patterns of developed countries. The magnitude of these challenges in the LICs will also depend on the behavior of developed countries. The costs of the needed transformative changes will therefore be difficult to estimate.

Findings

As the SDGs are universal and more ambitious than the MDGs, the costs of the SDGs cannot be compared to the costs of the MDGs. Therefore, it is not possible, when estimating the SDG costs, to rely on estimates for the MDGs.

While the cost estimates for the MDGs were in the range of USD 20-200 billion (UNTT, 2013, p. 7), but vary a great deal, the estimated costs of the SDGs are in trillions of USD. An often-cited estimate is from UNCTAD (2014). It estimates – based on a review of various analyses – that total global investment¹⁶ needs will be

¹³ Mongardini and Samake (2009). See also Schmidt-Traub (2015).

¹⁴ See also Shen et al. (2015).

¹⁵ Compare also with IMF (2016a) and IMF (2016b).

¹⁶ As UNCTAD's estimate is based on analyses which to varying degrees include operation and maintenance costs, 'investments' is used here instead of 'costs'.

USD 5-7 trillion annually. The figure for developing countries¹⁷ is USD 3.3-4.5 trillion annually. With present annual spending in these countries being around USD 1.4 trillion, this implies an annual financing gap of USD 1.9-3.1 trillion (UNCTAD, 2014, p. xi). This seems to be the preferred figure by several organizations, including the OECD, which often refers to an annual financing gap of approximately USD 2.0 trillion in developing countries. UNCTAD (2014, pp. 146-47) does not provide an estimate for SDG financing needs in LICs, but in LDCs where it is estimated that total investment needs will start at an annual USD 120 billion increasing to USD 240 billion in 2030. UNCTAD provides various financing scenarios based on this investment estimate as well as on alternative assumptions of private sector investments in SDGs in LDCs. The scenarios show that even under the assumption of continued growth in the private sector share of the SDG investments in LDCs, their annual public investments, including Official Development Assistance (ODA), will have to increase between 3 and 9 times compared to the level of public investments in 2013 (UNCTAD, 2014, pp. 146-147).

Another estimate is from Schmidt-Traub (2015), who critically reviews several previous analyses, including many of the analyses used by UNCTAD (2014). He shows that there are significant variations in the assessment approaches used and in their quality. His estimate indicates that the SDGs will require average additional costs in LICs of USD 343-360 billion annually¹⁸ and in lower middle-income countries (LMICs) of USD 900-944 billion annually in 2015-2030. Together, the estimated total additional costs in LICs and LMICs are approximately USD 1.4 trillion annually. This estimate comprises costs for eight investment areas as well as for climate mitigation and adaptation (Schmidt-Traub, 2015, p. 10), but does not cover the total costs¹⁹. According to this estimate, public budgets will have to be increased by up to 30 percent of GDP annually (Schmidt-Traub, 2015, p. 107) in LICs compared to 'only' 5-6 percent in LMICs²⁰.

Thus, differences between the various existing cost and financing estimates are significant, but comparisons are difficult due to differences in estimation approaches. The overall tendencies are, however, that estimates of the SDG costs imply that in all sectors significant additional expenses are required measured as a share of GDP – especially in LICs.

¹⁷ See UNCTAD (2014) for country groups used in the report.

¹⁸ A recent IMF Study estimates that additional USD 0.5 trillion will be needed in 2030 for five key SDG areas (Gaspar et al., 2019) or on average 15 percentage points of GDP in LICs. Further, the study estimates that countries could benefit as much from public sector efficiency gains as from tax reforms.

¹⁹ See Schmidt-Traub (2015, p. 9 footnote 1). See also p. 101 and p. 108, where several caveats are mentioned.

²⁰ This obviously depends on growth assumptions, and lower than expected economic growth will require that these estimates be revised accordingly.

A CRITICAL ASSESSMENT OF ESTIMATES OF SDG FINANCING SOURCES

How will the substantial SDG financing gap be financed? The Addis Ababa Action Agenda of 2015 (United Nations, 2015) stressed that all financing sources (public, private and blended finance) should be mobilized, but it did not state in any detail which role the different sources should play or how the role of individual financing sources could vary between sectors and between different groups of countries, including LICs. This is the focus of this section, where the overall finding is that funding is not forthcoming as expected in 2015. Consequently, the SDGs will be grossly underfunded, and the poorest developing countries face particular challenges.

Estimation challenges

Obviously, analyses of potential SDG financing sources in developing countries are based on assumptions about the future composition of sources of finance at both national and sector level. A critical assumption is that the composition of SDG financing in developing countries will gradually reflect the composition of finance in developed countries. It has, for example, been estimated that more than 50 percent of the financing resources in LICs could come from public finance with the implication that the other half of the SDG costs would be covered by private finance, but with significant variation between sectors (Schmidt-Traub, 2015). Furthermore, analyses have used the same share of private finance in LICs and in LMICs (Schmidt-Traub, 2015), which implies the same private sector interest in the two groups of countries and would require significant growth in private investments. Finally, it seems – at least implicitly – to be assumed that the composition of development finance at sector level would be like the composition in developed countries. This, despite the fact that the present composition of finance in developing countries differs from that of developed countries in several sectors. For developing countries, it is estimated that 70 percent of infrastructure costs are presently funded by the public sector, while the opposite is the case for developed countries. There are, however, significant differences between sectors, and e.g. energy and transportation are mostly publicly funded in many developing countries, in contrast to several developed countries (United Nations, 2017, p. 12). On the other hand, in the education sector the present share of private finance is estimated to be around 20-30 percent, which is higher than in developed countries (Schmidt-Traub, 2015, p. 50). Such assumptions are problematic and, obviously, they will affect not only the analytical results but potentially also policy making in developing countries.

Findings

The various estimates of SDG financing are based on **GDP growth** assumptions, and a critical element is, how the international economy develops. Analyses have concluded (see e.g. United Nations, 2018) that prospects for LICs are less positive than a few years ago. Many poor countries have low or negative per capita growth. A recent analysis estimates the growth rate in LICs in 2018 to be 5.6

percent, but with significant variations between countries, and only with a slight increase in following years (World Bank, 2019). Thus, prospects for the coming years indicate increased growth, but under the SDG growth target of 7 percent (United Nations, 2018, p. 9).

The important role of **(especially foreign) private finance** as a source of SDG finance was emphasized in the Addis Ababa Action Agenda (United Nations, 2015, paragraphs 35-49), while domestic private finance is mentioned in more general terms or in connection with insufficient access to financial services (paragraphs 38-39). Thus, a distinction between various forms of domestic private finance was not made. Nevertheless, there is an increasing recognition of the potential role of domestic pension funds. A recent report also highlighted user investments and charges as financing sources for operation and maintenance costs, although this may have equity implications (United Nations, 2018). International private investments have, however, shown a declining trend and have largely target-specific sectors. They constitute at present only approximately 5 percent of GDP in LICs and about a third of government revenues (OECD, 2018b). As the investment needs for SDGs are huge, private finance will have to increase very significantly in order to cover the above-mentioned share of close to 50 percent.

Due to a higher risk of investing in the poorest developing countries, **blended finance** was seen as a particularly important instrument and a way to improve risk-return profiles. A recent report concludes, however, that the amount of funds mobilized by blending is low, and from 2012 to 2015, only 7 percent were for LDCs (UNCDF, 2018)²¹. There are various reasons for this, including a lack of bankable projects, small economies, weak institutional frameworks and enabling environments, etc. This clearly indicates that it is difficult for LICs to attract private finance, including blended finance (OECD, 2018a).

Analyses have also shown that the sector distribution of private development finance is focused on a few sectors. International private investments, including mobilized private finance, mostly target industry, mining, construction, energy, banking and business. Other sectors, including the social sectors (education and health)²², have mobilized a limited amount of private development finance (UNCDF, 2018; OECD, 2018c), which implies that the financing needs of these other sectors will have to be covered by other financing sources, including the public sector and ODA.

Remittances were at a very high level in 2017 (USD 466 billion (OECD 2018b)) with an increasing trend over several years, but this is also the only source of development finance which has grown significantly. Only a minor share of the

²¹ There seems, however, to be a slightly increasing trend in mobilized private finance by blending (UNCDF, 2018).

²² If full coverage of health and education services is the goal, it may be assumed to become increasingly difficult to rely on private funding as more marginalized groups will have to be covered. Although there has been some progress in private investments in infrastructure in developing countries, this development has only to a limited extent comprised LICs (see United Nations, 2017, p. 14).

remittances – 4-5 percent or USD 17 billion – is, however, going to LICs (OECD, 2018b).

The important role of **domestic public financial resources** in financing the SDGs was also emphasized in the Addis Ababa Action Agenda (United Nations, 2015, paragraphs 20-34), where various areas were mentioned such as improved tax systems, more efficient tax collection (paragraph 22), reduced illicit financial flows (paragraph 23), and prevention of corruption (paragraph 25). The need for improved domestic resource mobilization has been reiterated in several reports after the meeting in Addis Ababa (see e.g. United Nations, 2018). Tax revenues in LICs have increased in the last decade, but at a very moderate pace, and as shown in various analyses improvements in tax systems are especially difficult to achieve in LICs (e.g. Moore and Prichard, 2017), where taxes on average constitute only 15 percent of GDP compared to around 25 percent in LMICs. To this can be added that the present tax systems in LICs may be regressive implying that, without tax reforms, increased taxes may have undesirable distributional implications (Lustig, 2017). However, a significant increase, e.g. up to 20 percent of GDP, which might be difficult to achieve, would only provide around additional USD 60-70 billion annually²³.

Other elements of public financing comprise **ODA and debt financing**. Trends in aid flows are not encouraging either. ODA has been rather constant in recent years (0.31 percent of GNI in 2017) and is thus far below commitments. In addition, over the last decade, a decreasing share has gone to LICs (and LDCs) although with a slight reversal in 2017 (OECD, 2018a; OECD, 2018b)²⁴. This has been followed by an apparent decrease in support for policy and institutional reforms (OECD, 2018c), which is critical for the poorest developing countries with often less capacity and weaker institutional structures. The present level of ODA from members of the OECD's Development Assistance Committee is around USD 150 billion annually²⁵, much less than needed to close the financing gap in developing countries²⁶. An unrealistic doubling of ODA would only cover approximately 10 percent of the financing gap, using the above estimate by Schmidt-Traub (2015) as a reference. For the LICs, receiving a low and decreasing share of the provided ODA in the last decade, the situation is even more critical. The LICs receive around USD 25 billion annually in ODA. Assuming a financing gap of USD 350 billion in LICs, an ODA doubling would therefore cover significantly less than 10 percent of the gap.

The fact that several developing countries have difficulties in financing their development with own resources is illustrated by increasing debt levels in recent years to levels which may not be sustainable (IMF, 2018; Mustapha and Prizzon,

²³ For a similar rough calculation, see Plant (2018). The central role of domestic resource mobilization is also highlighted in target 17.1 of the SDGs, which focuses on strengthening domestic resource mobilization.

²⁴ In 2016, ODA to LCDs constituted 0.09 percent of gross national income in donor countries compared to the target of 0.15-0.20 percent.

²⁵ This constitutes 4-5 percent of GDP in these countries.

²⁶ Development assistance provided by emerging donors and through South-South co-operation is growing but still constitutes a relatively small amount.

2018). The government debt in LICs as a ratio of GDP increased by more than 20 percentage points from 2013 to 2017 and was over 50 percent in 2017 (World Bank, 2019), and financing the SDGs with loans is not a realistic option. To this can be added that the composition of the debt has changed. An increasing share is on non-concessional terms and in foreign currency, resulting in higher risks (World Bank, 2018).

POLICY IMPLICATIONS OF THE UNDERFINANCING OF THE SDGS

The evidence of substantial underfinancing of the SDGs – especially in LICs – is compelling despite inevitable uncertainties about the future and justified questions about the assumptions behind the estimates. The fact that the degree of underfunding varies – not only between developing countries, but also between sectors – further complicates assessments of the (potential) policy implications of these trends. One thing is certain, however: some SDGs will in practice receive much more political support than others. The implication is that domestic politics in developing countries will be especially influential in determining the outcomes as illustrated in the following brief political economy analyses.

First, the discussions of the SDGs and potential funding have primarily taken place at international level, whereas the influence of the adopted SDGs on various actors' priorities in LICs is, at best, unclear and have not been thoroughly analyzed. Developing countries may officially have embraced the whole SDG package in the hope that it would increase aid funding. Such support is typically expressed in the relevant international SDG fora only – without being an important part of the domestic public debate. How well known the SDGs are, and the degree of 'ownership' that individual LIC-based actors feel for the goals has not yet been systematically analyzed²⁷. If SDGs are mostly known in small development circles, they may not have the expected influence on domestic policy making (Kharas and Rogerson, 2017, p. 19).

The underfunding of the SDGs, assuming there is no radical change in available development finance for the SDGs, may at some point lead to international discussions of whether and how to adapt the SDG agenda to available funding²⁸. A step in that direction has been taken by requesting transparent and systematic monitoring of the implementation of the SDGs and of current revisions of both cost and financing estimates. Monitoring is done by the Inter-Agency Task Force on Financing for Development (United Nations, 2016; United Nations, 2017; United Nations, 2018), but has so far not resulted in new estimates and financing plans.

Another recurrent recommendation is to develop national SDG strategies and financing frameworks as recommended in the Addis Ababa Action Agenda (United Nations, 2015) and reiterated in a recent UN report (United Nations, 2018, p. 1). It will, however, be a challenge how the uncertainty related to the costs and financing of the SDG should be addressed in planning and budgeting processes in developing countries (Kenny and Snyder, 2017, p. 16)²⁹.

²⁷ Tracking East African newspapers from August to November 2018 shows that articles on SDGs are rather few. A brief review of African government websites found only a limited number of references to the SDGs. For a review of how African countries score on the different SDGs, see The Sustainable Development Goals Center for Africa and Sustainable Development Solutions Network (2018).

²⁸ See e.g. UNESCO (2017, 12): "... the education SDG targets will be unattainable "unless rates of improvement dramatically shift"". See also Lee (2019).

²⁹ The integration of the SDGs into national budgets encompasses several political, financial and technical issues. A few studies (see e.g. Hege and Brimont, 2018) have made attempts to summarize the preliminary experience, but they mostly focus on developed or middle-income countries.

Second, and related to the first point, a key question is how the SDGs and the available funding will impact on policy priorities and allocation decisions in developing countries. SDGs may – or may not – have raised citizens’ expectations about achieving the new targets, but most SDGs are not new priorities³⁰, and a situation with SDG underfunding will necessitate that difficult priorities are made between sectors or SDGs.

Political settlement perspectives on analyses of such policy decisions in developing country contexts have gained prominence lately (see e.g. Behuria et al., 2017). The key argument – also applicable to the SDGs – is that a mixture of distribution of power and institutional contexts will strongly influence the outcome of SDG-relevant policy decision, and that this may spell out differently in different countries and sectors (see e.g. Whitfield et al., 2015). Whether these political settlement perspectives can also be used to understand the overall management of the economic policy, including the fiscal policy and the degree to which financing by debt is an acceptable strategy, is an interesting area for further analyses.

Analyses show that domestically rooted path dependency is strong. Political settlement theory predicts that only SDGs with influential domestic constituencies may attract significant domestic funding (and other resources). Specific SDGs are pursued if they fit prevailing norms/expectations and if their implementation helps to strengthen the coalition from which the ruling elite/opposition needs support in order to maintain/get political power. This proposition holds for both democratising and authoritarian countries. Political elites in both regime types will respond to political pressures in favour of specific SDGs. In the real world, trade-offs will therefore be made between different SDGs, although this is against the idea of the SDGs being an indivisible package and a reflection of a common global vision for the future.

Third, how donors will react to the underfunding of the SDGs, especially in LICs, requires further analysis, including of the political economy of donor behavior, but the above analysis lead to different suggestions of which the most important are: (i) Donors could consider the balance between financial support and support for policy and institutional reform, especially for LICs, because policy and institutional frameworks and related absorption capacity have attracted less attention than SDG finance since 2015. This has led to a decrease in support for these areas – a trend, which is particularly critical for LICs with comparatively weaker institutional capacity. The low level of international private investments in these countries has partly been explained by insufficient institutional capacity and enabling frameworks³¹; (ii) Donors could encourage the development of specific financing instruments which may provide incentives for private investments in LICs based on an understanding of the specific challenges facing LICs³²; (iii) Donors could reverse the trends of a decreasing share of ODA going to LICs; (iv) Donors could reconsider the sectoral distribution of aid in view of available

³⁰ See Coulibaly, Silwé and Logan (2018) for an overview of citizen priorities in African countries.

³¹ This discussion was also raised in connection with the MDGs (see e.g. Devarajan, 2015).

³² For a more detailed discussion of various barriers, see UNCDF (2018, chapter 3).

development finance and policy priorities of developing countries; (v) Donors could get a better understanding of the distributional implications of various suggested policy measures. This could also comprise potential interlinkages between different instruments and types of support (see e.g. OECD, 2018b, chapter 3); (vi) In collaboration with partner countries, donors could initiate a discussion of policies and priorities in view of the available development finance.

CONCLUSIONS

The purpose of this paper is not to present new and revised estimated figures for the SDG costs or financing in LICs, but to contribute to ongoing discussions on the realism and potential role of the various cost and financing estimates, and their policy implications. As documented in the paper, the significant underfinancing of the SDGs must be seen in a local and international political context, which vary between individual developing countries and sectors. Although the SDG financing gap in LICs may sound substantial, it is – according to a recent estimate (Gaspar et al., 2019) – only a half a percentage point of world GDP in 2030.

Thus, there is a clear need for more focus on the costs and financing of the SDGs in the poorest developing countries in particular. Without (unlikely) radical change in available resources, there is an urgent need to rethink the implications of looming severe underfunding of the SDG package. Despite the ambition of the SDGs of leaving no one behind there are strong indications that the poorest developing countries are being left behind. At the same time, support for institutional and policy reform has declined, which is particularly critical for this group of countries. Finally, analyses show that private development finance is targeted at a few sectors with the potential implication that other sectors are even more underfunded. This leads to four main conclusions.

First, the assumptions related to the estimation of costs and financial resources for the SDGs in LICs do not reflect reality. Their specific conditions and challenges must be better reflected in the cost estimates: the optimism attached to private sector development finance and blended finance is simply unrealistic. This also applies to the assumption that the SDG financing structure in LICs can be close to the present structure in most developed countries. Recent figures on private finance show that the LICs are not receiving private finance as envisaged. The important role given to public sector finance in LICs is not realistic either as the financing needs of the SDGs will lead to a significant increase in public sector budgets. An indication of this is the increasing debt levels in several LICs.

Second, the policy implications of severe underfunding for the SDG agenda – especially in LICs – are difficult to predict. These implications are under-researched and have only partly been dealt with in existing analyses. Little is therefore known about how various actors, including donor governments and domestic governments in LICs, will react to a situation with severe underfunding.

Third, an alternative to continuing making international SDG cost and financing estimates is to focus on national estimates, which should be based on more specific assumptions related to the individual countries. The development of national plans has been a recommendation in several analyses (see e.g. United Nations, 2018, p. 1). Whether national plans will have a mobilizing effect remains to be seen, but such plans may ensure that SDG discussions are based on more realism. Again, research on this is limited. Little is known about how the SDG vision actually influences the political and administrative decision-making processes in poor developing countries.

Fourth, effective development assistance will require that it is carefully managed in view of the available funding in LICs for the SDGs. Several key suggestions are presented in this paper, including that donors should clearly distinguish between different groups of developing countries, revive support for policy and institutional reforms in LICs, develop specific financing instruments with a view to incentivizing private investments in LICs, increase the share of ODA going to LICs, reconsider the sectoral distribution of aid, and finally better understand the distributional implications of various policy measures.

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