Financing the SDGs: domestic resources, international public finance, and increased accountability to leave no one behind

Sustainable Development Goal 17

In 2015, governments agreed three watershed plans to tackle the world's economic, environmental and social challenges: the Addis Ababa Action Agenda on Financing for Development; the 2030 Agenda and its Sustainable Development Goals (SDGs); and the Paris Agreement on climate change. Four years on, global progress is failing to keep pace with these commitments, and collective action is falling far short.

In 2030, 400 million people are still likely to be living in extreme poverty. Progress is slow on reducing inequalities along lines of wealth, income or gender; hunger is rising; and access to clean water and decent sanitation is decreasing in some countries.[1] Development challenges combine with unsustainable pressure on the environment, which is reflected in the increasing threats of climate change, rising temperatures and sea levels, extreme biodiversity loss and degradation of fresh water resources. Left unchecked, these trends will have catastrophic implications for current and future generations.

SDG 17 aims to strengthen the global partnerships necessary to support and achieve the 2030 Agenda, bringing together national governments, the international community, civil society, the private sector and other actors. Progress on SDG 17 is a precondition to ending extreme poverty, guaranteeing lasting access to safe water, sanitation and hygiene (WASH) for everyone, everywhere (SDG 6) and achieving the 2030 Agenda. **We call for a major new initiative on financing, as an urgent step to restore momentum and confidence in SDG 17 and the global partnership for sustainable development.**

School toilets, Government primary school, Sindh Province, Pakistan.

Country case studies (financing gaps)

Pakistan

Although Pakistan substantially increased proportional access to improved water supply from 1990 to 2015, stagnation over the past decade and population growth have increased the actual number of unserved people by 5 million, to 16.6 million. If this trend continues, another 5 million more will be unserved by 2030. The World Bank estimates the cost to implement SDG 6.1 and 6.2 in Pakistan is $7.3 billion a year, with WaterAid research suggesting that the gap in available financing is $3 billion a year. The Government has previously reported that less than 50% of the finance needed to meet national water and sanitation targets, in both urban and rural settings, is available.

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WASH financing in Pakistan is primarily sourced from a mix of household income, domestic public resources, official development assistance (ODA), and, to a smaller extent, other official financing. The declining trend of ODA, combined with reprioritisation of ODA towards least-developed countries, has constrained the resources available for Pakistan's WASH sector. Pakistan's debt burden further restricts resources, with interest payments estimated to be 31% of revenue in 2017/18. The concessional nature of ODA could therefore provide a continued sustainable source of WASH financing. The combination of public resources, both domestic and international, has the potential to be redistributive, and target resources where the need is greatest.

Ethiopia

Ethiopia has made significant strides in human development since 1990, with both overall rates and severity of poverty declining. But these successes mask challenges in maintaining these trends, especially for people who are harder to reach in more challenging environments. There are significant differences geographically in access to improved drinking water across regions, with much higher levels in cities (especially Addis Ababa) than in rural areas. Access also highly depends on consumption quintile – the richest have far greater access than do the poorest.

Ethiopia faces a financing gap in its WASH sector of an estimated $3.4 billion a year. To ensure sufficient financing for universal access to WASH, Ethiopia will have to substantially increase domestic resource mobilisation – through progressive taxation grounded in considerations of equity in the current tax regime and any proposed changes. This will have to be complemented by ODA, ideally international grants. Additional non-concessional financing risks pushing Ethiopia further into debt distress.

We recommend:

1. **Renewed action on domestic resource mobilisation (DRM), with support for low-income countries to broaden tax bases and tackle corruption and illicit financial flows.**

   WaterAid research on the extractive industries (a dominant sector in many developing countries) identifies how weak tax regimes, corruption and illicit financial flows undermine DRM, development and Agenda 2030.[3] Madagascar's Government received only 6% of the production value of minerals in 2015, and in Zambia forensic audits of copper producers released hundreds of millions of dollars to the exchequer in unpaid tax. Renewed action on DRM is needed, with support for low-income countries through partnerships such as the Addis Tax Initiative,[3] and increased regulation and transparency of international tax havens. High-income countries need to lead on curtailing abusive transfer pricing and ending the tax evasion and capital flight facilitated by tax havens.

   Governments prioritising raising resources for poverty eradication can stimulate progress. WaterAid studies on financing SDG 6 show how Ethiopia almost trebled its funding for WASH in real terms from 2008 to 2016 ($200 million to $600 million). This has primarily been a result of increases in DRM and Government decisions to invest in essential services to reduce poverty. Governments should increase priority to WASH in their expenditure, and work with partners to ensure resources are effectively invested in building systems to ensure lasting services for people in greatest poverty and marginalisation.

2. **A new urgency from high-income country governments in meeting Official Development Assistance (ODA) targets as part of their international development and climate change responsibilities.**

   The 2030 Agenda will only be achieved through significant mobilisation of new funding. A vital source of investment for low-income and aid dependent countries is through ODA flows (currently at around US$146 billion a year). Yet less than a third of ODA goes to low-income countries. Only five high-income countries from the Development Assistance Committee (DAC) meet the long-standing UN target of allocating 0.7% of Gross National Income (GNI) to ODA. A rise in DAC member country ODA to 0.7% would raise an additional US$175 billion a year: all of this could be directed to meeting SDG financing gaps. This level of commitment is necessary at a minimum to support the achievement of the SDGs and guarantee the fulfilment of human rights in low-income countries. ODA grants are increasingly important both for the sustainability of interventions and to prevent the build-up of unsustainable debt.

3. The implementation of new taxes on carbon and financial transactions and a rapid phasing out of fossil fuel subsidies as new sources of funding that can play a key role in meeting SDG financing gaps.

2018 saw the highest ever greenhouse gas emissions, and the Organisation of Petroleum Exporting Countries (OPEC) predicts oil and coal consumption will reach record levels over coming years. This trend conflicts flagrantly with the Paris Agreement, SDGs 13 (urgent action on climate) and 17, and Agenda 2030 more broadly. A worldwide implementation of a carbon tax and the phasing out of fossil fuel subsidies would be effective in reducing carbon dioxide emissions, lessening local air pollution and boosting government revenues. Funds raised could make a major difference in enabling vulnerable countries and communities adapt to the negative impacts of climate change, including growing water insecurity. The IMF estimates that, globally, governments subsidised fossil fuel industries by $5.2 trillion in 2017. The organisation concluded that efficient fossil fuel pricing in 2015 would have lowered global carbon emissions by 28%, fossil fuel air pollution deaths by 46% and increased government revenue by 3.8% of GDP.

While the life-threatening impacts of climate change will fall on the countries, communities and people that bear least responsibility for bringing it about, it is right that any redirection of funds away from subsidising the causes of climate change should be distributed as a compensatory investment in building the resilience of those vulnerable communities.

Financial Transaction Taxes (FTTs) impose levies on the purchase of securities and transactions involving derivatives. Several economies already have FTTs in place, including Brazil, France, India, South Africa and the UK. They are a highly progressive form of tax. Extending FTTs to more countries and types of transaction can reduce the amount of de-stabilising high-frequency trading and raise significant funds for sustainable development.[5]

4. Elevated accountability for all actors involved in SDGs financing – private investors, private and public lenders, and developing countries receiving SDG grant inflows.

Shining a light on all aspects of development finance – at global and national levels – improves public financial management and efficient spending. For developing countries receiving the significant increase in external grant funding we're calling for, we propose new ring-fenced national SDG funds, led by government with oversight from civil society and contributions from the private sector.[6]

Private finance must urgently implement environmental, social and governance objectives, in line with the 2030 Agenda. Private finance could play a crucial role in financing the SDGs, but requires strong frameworks and aligning investment and lending decisions with environmental, social and governance concerns, as South Africa and the European Union are seeking to do. The UN Secretary-General's 2018–2021 SDG financing strategy sends a clear message that progress is too slow in aligning markets with sustainable development imperatives.[7]

Grant finance, including from remittances, corporate and individual foundations and philanthropy, is vital to ensure increased external financing for the SDGs does not create a new debt crisis. An estimated 40% of low-income countries are either in or at risk of debt distress.[8] These levels of external debt, accumulated over time from public and private sources, mean that a UN-led sovereign debt workout mechanism is now critically needed for countries experiencing sovereign debt difficulties, with a debt work-out procedure independent of any creditor institution or body, and decision makers neutral and independent of all involved parties.

Mestawet Getachew, midwife, is happy to have working water taps inside the delivery room. Babich Health Centre.,Babich, West Shoa, Oromia.

References

1. Overseas Development Institute (2018). *Financing the end of extreme poverty.* odi.org/sites/odi.org.uk/files/resource-documents/12411.pdf (accessed 17 May 2019).

2. SDG 17 focuses on strengthening the means of implementation and revitalising the Global Partnership for Sustainable Development. Its targets include domestic resource mobilisation (DRM), ODA, debt sustainability, trade, capacity-building and policy coherence.

3. WaterAid (2017). *Mineral rights to human rights: mobilising resources from the extractive industries for water, sanitation and hygiene.* washmatters.wateraid.org/publications/mineral-rights-to-human-rights (accessed 15 May 2019).

4. The Addis Tax Initiative emerged out of the Addis Ababa conference on financing development. *Signatory countries commit to increasing DRM through both international support and domestic commitment.* See addistaxinitiative.net/ (accessed 15 May 2019).

5. See for example, http://unsdsn.org/resources/publications/closing-the-sdg-budget-gap

6. This would be along similar lines to the Poverty Action Fund, set up by Uganda in the late 1990s to provide increased levels of monitoring and accountability for debt relief received. See for example: https://www.internationalbudget.org/wp-content/uploads/Monitoring-of-the-Poverty-Action-Fund-Annual-Report-2001-2002.pdf

7. *The Secretary-General's strategy for financing the 2030 agenda for sustainable development.* un.org/sustainabledevelopment/wp-content/uploads/2018/09/SG-Financing-Strategy_Sep2018.pdf (accessed 15 May 2019).

8. *International development association (2018).Debt vulnerabilities in IDA Countries.* documents.worldbank.org/curated/en/896041540087366658/pdf/debt-vulnerabilities-in-ida-countries-10042018-636756697620872725.pdf (accessed 17 May 2019).

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WaterAid is an international not-for-profit, determined to make clean water, decent toilets and good hygiene normal for everyone, everywhere within a generation. Only by tackling these three essentials in ways that last can people change their lives for good.