Introduction

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Abstract

This book is very timely and aligns well with the agenda of the upcoming Fourth International Conference on the financing for development in 2025 of closing the gap between 'aspiration and financing'. The book appears at a time when global turmoil and conflicts, recent pandemic and food, cost of living crisis and energy crisis have substantially reduced resources available especially for developing countries, to finance SDGs. This book contains perspectives both from academic and industry practitioners and blends the theoretical and empirical research with the contributors' insights. The chapters herein cover a range of issues relating to the financing of SDGs from China's Belt and Road initiative, and green financing to a call for the reform of the global financial architecture.

1.1 Introduction

This book is very timely and aligns well with the agenda of the upcoming Fourth International Conference on the financing for development in 2025 of closing the gap between 'aspiration and financing'. The question of meeting the SDG targets and their financing challenge is at the forefront of policymakers and researchers. "Without global cooperation, targeted financing, and, crucially, the political will, the world will not achieve the SDGs," said Deputy Secretary-General Mohammed. "The clock is ticking. Between now and next year's FfD4 Conference, we have a once-in-80-year opportunity to comprehensively reform the financial architecture, and a last chance to correct course before 2030. History will not be kind to those with the power to act who fail to do so, while the clock winds down on the planet and its people." The latest 2024 Financing for Sustainable Development Report identified the financing gap at US$4.2 trillion annually which is much higher compared to US$2.5 trillion prior to the pandemic.

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In our previous research, we observed that the Covid 19 pandemic had a significant economic and social impact on developed and developing countries (Arora & Sarker 2023). The current conflicts leading to supply chain disruptions and increased food prices also impacted economic growth and subsequently have also impacted fiscal capacity. The 'great finance divide' between developed and developing countries has limited the ability of developing countries to respond to multiple crises and also impacted the achievement of the SDGs. Reduced fiscal space along with high capital costs in turn have impacted economic growth and progress towards SDGs. The papers in the special issue of the *European Journal of Development Research* recently published explored the impact of the pandemic on the financing of SDGs at macro and micro levels at the firm level, country and cross-country level, and examined various issues ranging from the mobilisation of adequate resources for the financing of SDGs to innovative solutions in the financing of SDGs including green bonds and digital financial services.[3]

In this book, we build on the research published earlier in the special issue and consider some of the questions raised by the 2024 Financing for Sustainable Development Report. These are:

- "How can the conference help close the large financing and investment gaps, at scale and with urgency, and enhance the effectiveness of spending?
- How can the conference help close gaps in the international financial architecture and support international rules for trade, investment, and finance that are fit for purpose for today's challenges?
- How can the conference help close credibility gaps and rebuild trust in the global partnership and multilateralism?
- How can the conference help to formulate and finance new development pathways to deliver on the SDGs and ensure that no one is left behind?"

1.2 The objectives of the book

This book contains perspectives both from academics and industry practitioners and blends the theoretical and empirical research with the contributors' insights. It responds to some of the questions raised in the latest 2024 UN report on the financing of Sustainable development Report. We have grouped the questions raised in the UN report into four categories: closing of financing and investment gap; reforming the international financial architecture; building trust in global partnership and multilateralism and finally, financing new development pathways. The chapters in this book can be grouped under each of these groupings. For instance, chapter

[3] For details see special issue: "Financing for Sustainable Development Goals (SDGs) in the era of COVID-19 and beyond", European Journal of Development Research, Volume 35, issue 1 (February 2023).

two on financing sustainable development and economic growth, at the outset, deals with the first group on financing investment and highlights the importance of financing SDGs and its contribution to economic growth. The third chapter of the book focuses on the determinants of financial inclusion in developing countries and also falls within the perimeters of the first theme of closing of financing gap both at the household and national level. Similarly, chapters four and six on the barriers faced by female digital entrepreneurs in Bangladesh and the role of fiscal policy also help in comprehending the financing gaps in SDGs and the challenges. Chapter five on overseas development assistance (foreign aid) touches upon the theme of 'building trust in global partnership and multilateralism'. Chapters 7 to 11 dwell upon the theme of financing new development pathways and emphasise the role of technology and other innovative solutions in dealing with climate financing and other SDGs, although chapter 11 cautions about the responsible use of technology to achieve SDGs. Finally, chapter 12 falls under the theme of reform of international financial architecture and calls for the multilateral institutions and international credit rating agencies

The key highlights of the book are given below:

1.3 Financing sustainable development and economic growth

The role of finance in economic growth and development has been acknowledged by a large body of literature (King and Levine 1993; Levine 1997). A developed financial sector enables efficient allocation of resources through monitoring of borrowers both before and after the project; allows new investment and entrepreneurial activities to take place and enables the build-up of physical and human capital leading to economic growth. Financial intermediaries while playing an important role enable the generation of savings through deposit mobilisation and allocate credit for various innovative activities thus promoting economic growth. Several studies have also noted that an inclusive financial system can lead to a reduction of poverty, reduced inequality, increased consumption, and improved overall well-being (for instance see Banerjee and Newman 1993; Galor and Ziera 1993). This process of credit allocation and generation of savings, in reality, may not be smooth due to asymmetric information and resulting problems of adverse selection and moral hazard. This could lead to credit constraints. In addition, credit flows especially in developing countries could also be hampered by the problems of transaction costs, inadequate information, high risk and uncertainty in project outcomes, missing and incomplete markets and imperfect competition (Becks and de la Torre

2006). The chapter by Isaac Appiah-Otoo empirically quantifies the impact of financial development on the economic growth of 41 Belt and Road Initiative (BRI) countries from 2000 to 2018. The chapter explores the threshold when financial development will be beneficial or will impact economic growth negatively in the particular context of BRI countries. It also assesses the causality relationship between financial development and economic growth among BRI countries. The BRI launched in 2013 aims to improve policy coordination, trade, infrastructure investment, financial integration, and people-to-people bonds between China and various other countries across Asia, Africa and Europe. As per the latest data available 141 countries have so far signed this initiative[4]. The findings of the study show that financial development increases the economic growth of BRI countries. Also, beyond the threshold level, an increase in financial development has a negative impact on economic growth.

1.4 Financial inclusion and its determinants

Financial inclusion, which is a key enabler of at least seven SDG goals out of 17 SDGs is the topic of examination in a chapter by Nikhil Sapre. This chapter examines the multidimensionality of financial inclusion with the dimensions of access, usage, and efficiency. The study assesses the factors which drive the financial inclusion of individuals and firms in the formal financial system employing a sample of lower middle income and upper middle-income 98 countries for the period 2004 to 2017. The main objective of the chapter is to understand the key essential factors driving financial inclusion and considers banking outreach, mobile technology, rural development and effective governance as the key drivers of financial inclusion. The findings show that all the above factors have a significant impact on financial inclusion. The quality of governance has a strong positive effect on financial inclusion indicating the effective role played by the government in enhancing financial inclusion. The proportion of the rural population also matters as the higher rural population has been significantly negatively associated with financial inclusion. The density of bank branch networks and mobile cellular networks has a positive effect on financial inclusion. The chapter also noted that the mass adoption of mobile phones including poor digital technology can help promote financial inclusion.

[4] See Nedopil (2023) for more details. Some countries including India have not signed the initiative.

1.5 Financing of Female Digital Entrepreneurship

A large number of studies have dealt with various implicit and explicit barriers facing female entrepreneurship in general. There is, however, limited literature available on female digital entrepreneurship especially in the case of developing countries and is 'inadequate, fragmented, and divergent in terms of less practice-based insights' (Abrar Alhajri and Monira Aloud 2024). In this context, the contribution of Arif Ibne Asad, & Gul Shah Sabary is important as it employs the methodology of Decision-Making Trail and Evaluation Laboratory (Delphi-DEMATEL) approach and explores the key components of financing women's digital financial entrepreneurship and especially examines the causal relationship among the factors which impact female entrepreneurs in Bangladesh. Among the eight causal elements considered by the study are personal savings, government grants or assistance from NGOs; microcredit; social capital or relational capital; family, friends and relatives; bank loans; loans from the share market or leasing and finally peer to peer lending. The authors exclude share market or leasing and peer-to-peer lending due to their insignificance in financing female entrepreneurship in Bangladesh and consider the remaining six elements in their DEMATEL analysis. They find only two factors- government grants or aid from non-governmental organizations, as well as cash from friends, family, and relatives, are causally related to the impact on women's businesses.

1.6 Foreign aid and Economic and Social Shifts

The financing gap facing developing countries in the financing of SDGs is approximately USD 4.2 trillion annually, higher than 2.5 trillion prior to the pandemic (UN 2024). These financing challenges are further compounded by the crisis that ensued as a result of the pandemic, geopolitical conflicts and climate related disasters. The developing countries are at the same time facing the challenges of rising debt burdens and high borrowing costs which are skewed against the developing countries leading to so called the 'great finance divide' (UN 2024). As the financing requirements of SDGs are significantly higher compared to the earlier MDGs, various sources of development finance including domestic and international private and public have to be tapped to achieve SDGs. Foreign aid still has a crucial role to play in this agenda. An interesting question here is what motivates the donor. In a highly cited study, Alesina and

Dollar (2000) find that aid giving is more influenced by political and strategic considerations than the development needs of the country and its poverty levels. Valeria Andreoni and Supriya Garikipati in their chapter 'Unveiling Aid: Decomposition Insights into EU's SDGs Funding Amid Economic and Political Shifts' exploring this question employ an index decomposition technique and examine various factors impacting the disbursement patterns of ODA funds focusing specifically on the EU's commitment (mainly 13 countries) towards the SDG goals. The study considers a period of 20 years from 2000-2020, primarily a period covering the millennium development goals and the onset of the SDGs from 2015 onwards. The authors find that political will is one of the predominant drivers in most countries in deciding the commitments towards aid. Structural change can be another influencing factor in determining foreign aid allocation and rapid economic growth can also influence a country's ability to contribute to international development positively. The chapter shows the interaction between regulatory and macroeconomic shifts in ODA commitments.

1.7 Climate Change and Fiscal Policy for a Green Economy

Despite the fuzziness in the definition of green finance, a huge body of literature has developed in this area (Nannette Lindenberg, 2014). Green finance, including "…new financial instruments and new policies, such as green bonds, green banks, carbon market instruments, fiscal policy, green central banking, financial technologies, community-based green funds, etc." (Sachs et al. 2019) is crucial for the achievement of SDGs. Chapters six to eight in our book explore some of these elements of green finance. For instance, Lekha Chakravarty et al. in chapter six on climate change and fiscal policy for the green economy examined fiscal allocations for the green economy and errors in forecasting between actual and budgeted figures in the Indian context. The chapter analyses the sources of forecasting errors between actual and budgeted figures. The chapter finds that although most of the forecasting errors related to the green economy allocations are related to random factors, policy bias is also another factor responsible for such errors. The authors argue that it is important to revisit the assumptions and forecasting models to reduce such errors. The chapter explores the budget forecast errors of climate change related public spending in India and analyses the budget credibility of fiscal commitments for climate change. The authors capture this fiscal marksmanship (that is accuracy of budgetary forecasting at the state level for the period 2010-2016.

1.8 Emerging models of Green Financing

Shilpi Kundu and Rajesh Kumar in their chapter on Emerging Models of Green Financing in Selected South Asian Countries using a literature-based research approach examine how businesses in South Asia are adopting sustainable strategies in relation to green financing. In alignment with the principles of ESG investing the authors examine various models of green financing in South Asia. Green finance in the chapter refers to finance for various environmental objectives such as industrial pollution control, water sanitation, biodiversity conservation, climate change mitigation and adaptation, etc. As case studies the chapter focuses on four major themes that are, renewable energy financing in India, green bonds in Sri Lanka, sustainable microfinance initiatives from Bangladesh, and hydropower projects in Nepal with public-private partnerships. The chapter mainly focuses on SDG 7- Affordable and Clean Energy, SDG9- Industry, innovation and Infrastructure, SDG 11- Sustainable Cities and Communities, SDG -13 -Climate Action, SDG-6 Clean Water and Sanitation, SDG 1 and 2 on Poverty Reduction and Zero Hunger, and SDG-5 - Gender Equality.

1.9 SDG7 and Leveraging Innovation via Voluntary Carbon Markets

Meenakshi Rishi et al. in their chapter explore climate finance innovations that can help in funding the gap for the provision of affordable and clean energy or SDG7 in Sub-Saharan Africa, a region with abundant natural resources and is highly vulnerable to climate change. These include impact investing and partnerships between large philanthropic organisations and the private sector. The chapter provides an understanding of the Africa Carbon Markets Initiative in the development of voluntary carbon credit markets in the SSA region. This chapter fits in well with George Kararach's chapter on global financial architecture and financing needs of the African continent. As a case study, the chapter examines the Africa Carbon Markets Initiative (ACMI) launched in 2022 and its effectiveness in achieving energy transition in the SSA region. The study underscores the fact that a large number of people still lack electricity mostly in the SSA region and South Asia. The annual investment flow of 28$ billion until 2030 is required to meet the goal SDG 7. This, however, falls much short of the requirement. Innovative solutions are, therefore, required to deal with this issue. It is here that innovative solutions with a partnership with the private sector like voluntary carbon markets can help.

1.10 Digital Financial Inclusion and Sustainable Development Goals

The role of technology in the achievement of SDGs has been well acknowledged in the literature (for instance see Mhlanga 2023). Fintech or financial technology and its potential in contributing to the achievement of financial inclusion and SDGs in general is also assuming increased importance among the researchers, policy circles and multilateral organisations. Mohammad Azim and Samina Rahman in their chapter 'Digital Financial Inclusion: A Lifeline for Sustainable Development Goals - Lessons from Bangladesh Through Crisis and Beyond' too explored the role of digital finance in reducing poverty and enhancing financial inclusion. The chapter specifically looks at the role of fintech innovations in Bangladesh such as *bKash, Rocket and Nagad* during the pandemic and how this enhanced financial inclusion. With about 5.2 billion mobile users globally, there is a tremendous potential for digitization of financial services. These digital solutions have not only enabled access to financial services during the pandemic but also empowered women especially those employed in the readymade garments sector in the country. In order to accelerate the pickup in digital financial services especially during the pandemic crisis, the KYC policies were simplified to smoothen the process. Policies to enhance digital financial inclusion are expected to have an impact on the achievement of various SDGs such as

1.11 Financial technology and innovation

Sisira Colombage et al. in their chapter on 'Leveraging Financial Technology and Innovation for Sustainability in the Post-Covid Era' highlight the important role to be played by fintech in contributing to sustainable development especially in the post pandemic years. This is particularly important in the health sector as it can lead to increased access, ensure affordability and enhance efficiency in the health care sector. The authors focus on three particular roles played by fintech – in financial empowerment; in ESG finance and also its role in the health sector. With a focus on sustainability, the authors examine how fintech can geared towards sustainability. The coverage of fintech solutions extends to robotic banking services, cardless ATM services, mobile banking, cryptocurrency services, e-wallets, blockchain, crowdfunding, Insuretech, and Robinhood and also to insurance, equity, and other financial service industries. The chapter specifically focuses on three aspects of fintech: fintech for environmentally

friendly models and financial empowerment; fintech and ESG finance and finally fintech and healthcare. The fintech can particularly help in the SDGs related to energy (SDG 7), sustainable cities (SDG 11), sustainable consumption and production (SDG 12), climate (SDG 13), oceans (SDG 14), land (SDG 15) and global partnerships (SDG 17). In the first dimension, fintech can be related to renewable energy, clean technology, and circular economy,

1.12 Responsible Fintech and SDGs

The above chapters showcased how new and innovative sources of financing can help in the achievement of SDGs, yet a group of literature have expressed their concerns on the lack of any strong supporting evidence on fintech and its contribution to SDGs and its potential dangers to society and in turn on SDGs if not used responsibly (Michael et al. 2022). Marizah Minhat and Nazam Dzolkarnaini in chapter 11 on 'Financing SDGs Through Responsible FinTech' caution that while technological innovations can foster economic growth and development, if these, however, are not employed responsibly they can lead to disastrous consequences including severe impact on human security. The responsible use of technology is especially crucial for the achievement of Sustainable development goals. Undoubtedly, as is well known, fintech can lead to increased competition, and efficiency and has ensured speedy decisions in the financial sector and overtaken some of the roles played by the traditional financial sector (Cecchetti & Schoenholtz 2020). However, unfettered use of these disruptive technologies can cause significant threats and jeopardise the achievements of SDGs and impact particularly the vulnerable and the poor segment in low-income countries. As the latest Boston Consulting Group report noted "Governments, especially in countries such as Brazil and India, are reaping the benefits of investment in integrated digital public infrastructure, spurring dramatic growth in digital payments and innovation on top" (BCG 2024). By 2030 the fintech market size is expected to grow to US$1.5 trillion with 14% growth over the last two years (BCG 2024).

1.13 Role of the credit rating agencies and new global financial architecture

Last but not least, the financing of SDGs requires a new approach as has been raised by various multilateral organisations (UN 2024). Studies have pointed out the urgent need to explore innovative financing approaches to achieve SDGs and also to suggest a new global financial

architecture. This will enable private capital to flow to the developing countries and will allow access to cheaper sources of finance (Yellen 2023, Lysy 2023). This is the focus of George Kararach's chapter arguing that it is the distorted global financial architecture which prevents developing countries from raising funds coupled with the complex role played by the credit rating agencies. Some of the major features of the current global financial architecture impacting developing countries especially African countries include an increased number of players and institutions such as public international financial institutions, regional players, etc; high levels of debt, changing debt structure, debt mispricing, and high-risk perceptions attached by the credit rating agencies. The role played by international rating agencies is also one of the factors which prevents developing countries from raising finance. Their role has been particularly controversial as they can be procyclical, can create volatility and can escalate a country into crises (Monfort and Muder 2000). The lack of adequate capital flows to the African continent has been a product of several factors such as poor perception of risk attached to the region, lower credit rating by credit rating agencies, and low development of the financial sector. As a way forward the chapter recommends global financial institutions to take into account the region's rich reserves of natural capital valued at US$6.2 trillion in 2018, the availability of fossil fuel resources and its negative impact on the region as countries give up fossil fuel due to climate change and need for increased capacity building in the region.

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