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Sustainable Finance-A Growth Engine for the Slowing Pace of SDGs

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ABSTRACT: In 2015, the member states of the United Nations adopted a blueprint for peace and prosperity for all the people on the planet. This blueprint was named as *the 2030 Agenda for Sustainable Development*. The idea of universal prosperity and well-being was taken more urgently in this blueprint and instead of listing out general outlines and principles, the United Nations listed time-bound and measurable objectives. The seventeen SDGs are at the core of the 2030 Sustainable Development Agenda. However, the recent world events - the COVID pandemic and the war in Ukraine being the major ones have given a severe setback to the progress on these goals. And since human suffering, climate change and the general stress on the planet's resources will not give us a breather, it is now up to us to find all possible ways to get us back on track to achieving the SDGs.

With this objective in mind, this research paper makes a case for expanding the definition of sustainable finance from presently supporting the ESG framework, to expanding its scope to map with the SDG framework as well. The paper outlines the differences and the overlaps in the two frameworks and how sustainable finance could help funnel private capital to meeting SDGs within the original timelines.

KEYWORDS: Sustainable Finance, Environmental Social Governance (ESG) Criteria, Sustainable Development Goals (SDGs)

1. INTRODUCTION

The World Bank defines *Sustainable Finance* as the act of considering environmental, social, and governance (ESG) criteria when investing in the financial sector. This results in higher investment into sustainable economic projects for a longer period.

Another framework developed by the United Nations (UN) is the Sustainable Development Goals. The United Nations has adopted seventeen SGDs towards the **2030 Agenda for Sustainable Development**. These 17 Sustainable Development Goals recognize that putting an end to poverty can work only if there is a concurrent improvement in health and education, a reduction in economic & social inequality, and high economic growth. The SDGs also recognize that the above goals would come to naught if climate change is not tackled and therefore the goals also cover the preservation of oceans and forests. Sustainable Finance in its current definition supports the ESG framework. However, in the present paper, the author will make a case for extending the coverage of Sustainable Finance to also include SDGs.

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2. THE RATIONALE OF THE STUDY

Primary objectives of this research paper is

I. Outline the relationship between Sustainable Finance and ESG criteria.

II. Understand the differences between ESG and SDG frameworks

III. Analyze the recent SDG performance and the need for a greater push to meet these goals

IV. Highlight how the ESG criteria can be extended to Sustainable Development Goals and the role Sustainable Finance can play in achieving the SDGs

3. RESEARCH METHODOLOGY

This research has been undertaken with the motive of understanding and highlighting the need for ESG criteria to extend into SDGs. The research covers the recent performance of the SDGs and the need for a greater effort to cover the gap created in the last two years. The present study outlines and breaks down each of the SDG and their overlap with the ESG to effectively make a case for extending sustainable finance to SDGs.

Secondary sources have been used for the collection of relevant information. The information has been gathered from a variety of sources, including World Bank publications, documents from various national & other international organizations, and other web resources.

4. DISCUSSION AND FINDINGS

I. Breaking down the "E", the "S" and the "G" in ESG

The ESG criteria are a set of standards for the decision-making of an economic entity (company, project, trust, etc.) used by conscious investors to make their investment decisions.

- The "E" in ESG covers environmental factors that promote the use of sustainable & renewable resources and those that mitigate the ongoing climate crisis. This includes global warming, carbon emissions, desertification, clean air, efficient energy and management of water.
- The "S" in ESG covers a broad spectrum of social factors. Some examples are human rights, women's rights, animal rights, consumer protection, promoting diversity, employee satisfaction, etc.
- Governance factors at the economic entity are the "G" in ESG and they refer to the entity's labor relations, fair compensation practices, executive pay, shareholder rights and relationship, cybersecurity practices, preventing unfair practices & corruption, relationship with suppliers, local communities and other stakeholders, etc.

II. The Seventeen SDGs

SDGs were adopted in 2015 to supersede and to build on top of the Millennium Development Goals (MDGs) adopted in 2001. MDGs were focused on the eradication of extreme poverty and hunger and primarily targeted at developing nations.

In their present form, there are seventeen SDGs. These SDGs are structured in such a way that each of the Goals has a number of targets. Let us take an example.

The first Sustainable Development Goal is to "End Poverty in all its forms everywhere" - has a further seven targets.

- Target 1.1 - Eliminate poverty for all across the globe by 2030. (people living on below USD 1.25 per day)
- Target 1.2 - Decrease by ½ (or more) the number of people living in poverty by 2030
- Target 1.3 - Execute social protection arrangements on a big scale for extensive coverage of the unprivileged, by 2030
- Target 1.4 - Make sure that the poor have equal access and rights to the economic resources, and to provide them full access to basic services, technology and secure ownership rights over assets by 2030.
- Target 1.5 - Build resilience and reduce exposure in the poor to climatic, economic, social, and environmental shocks and disasters by 2030
- Target 1.a - Enhanced development cooperation for the poorest countries
- Target 1. b - Ensure development strategies that support the poor and women through the right policy frameworks.

As can be seen in the above example, the SDGs and the targets they are set out to achieve are very specific and time-bound. In fact, each of the targets has very measurable indicators to compare the progress on the target.

III. The differences between ESG and SDG frameworks

While it may be argued that both the frameworks - ESG and SDG - were developed keeping (largely) the same objectives in mind, it may be important to appreciate the

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difference between the two frameworks to be able to appreciate the need to support SDGs with the sustainable financing framework. **Presented below is a table to highlight the difference between the two frameworks.**

S.No.	Criteria	ESG	SDGs
1	Core Concept	Environment, Social & Governance	Sustainable Development Goals by the United Nations.
	Timelines	Long-duration	Fixed timeline based (up to 2030)
3	What	Methods and Processes	Targets and Goals
4	Pertains to	Corporates	Governments, institutions, corporates, individuals
5	Applicability and focus	Three broad criteria	Seventeen well-defined goals
6	Sustainable Finance	Directly applicable	No direct linkage

As can be seen, the key difference is that ESG is a set of criteria for corporates and SDGs are goals for all - governments, institutions, corporates & individuals - with tangible measurement criteria and timelines.

IV. Sustainable Finance for ESG and the need to extend its coverage

Sustainable Finance is essentially a framework to incentivize private capital to incorporate ESG criteria into its investment decision. At the time of its conception, the idea behind ESG implementation was to offer a set of criteria and guidelines to corporations over the world to make investment decisions that were sensitive to the environment, and society in general and followed high ethical standards.

5. LIMITATIONS OF THE ESG FRAMEWORK

While ESG criteria are a step in the right direction, as they offer guiding principles, the key drawback of the ESG framework is that they do not account for overall timelines and results for the upliftment of society on any of the ESG standards. These principles are purported to be general and to be followed until perpetuity. The outcomes on a world level are generally fuzzy and the application of the framework remains self-driven (by a few upright corporations) or regulator-driven (in those geographies where the regulators force their implementation).

The other limitation of the ESG framework is that (to an extent), its effectiveness depends on the media and the visibility of support groups. Of the environment, social, and governance, it is likely a case of environmental groups finding the loudest voice in the media and as a result, the greatest focus of ESG is possibly skewed in favor of the environment over social and governance issues.

SDG Framework is Measurable and Goal-Oriented

While ESG criteria are a step in the right direction, as they offer guiding principles, it is the SDG Framework that offers specific and measurable goals towards the betterment of the environment and society. As outlined in Section II above, the example clearly shows how SDGs are not only time-bound goals, they are accompanied by metrics to measure the outcomes year-by-year.

V. SDG Report - Off the Target

The SDG Report 2022 sheds light on the SDG numbers over 2019 and 2020 and shows that on the goals, there has been significant slippage due to the impact of COVID, resultant lockdowns, humanitarian crises, logistical disruptions, the strain on medical infrastructure, and so on.

SDG 1 - No Poverty

- As can be seen, the working poverty numbers increased (for the first time in two decades) and wiped out the improvements of the last four years.
- There were an additional 8 million people who were pushed into poverty due to COVID
- The upward rate of inflation and the impact of the war in Ukraine further derailed the progress.

SDG 2 - No one stays hungry

- Due to COVID and related problems, food prices increased in nearly half the countries in the world. This is up from 16% of the countries in 2019.

SDG 3 - Good Health and Well-Being

- COVID had infected over five hundred million people by mid-2022
- It had led to 15 million deaths
- It disturbed basic health services in 92% of the countries
- Stopped the rise on universal health coverage

SDG 4 – Quality Education

- Covid 19 Pandemic deprived students off in person learning.
- Entrenched inequalities have only worsened during pandemic.
- Twenty four million learners might never go back to school.

SDG 5 - Attain gender equality and women empowerment

- At least another 4 decades would be needed for men and women to be represented equally in the dogma of political leadership.
- At least thirty nine percent of the women were employed. Due to Covid there were forty five percent job loss.

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SDG 6 - Availability of clean water and sanitation facilities for everyone

- Due to lack of monitoring at least three billion people are not aware of the quality of water that they use.
- Achieving targets by 2030 requires a four-time increase in the pace. If we continue with the current pace 1.6 billion people will like safe drinking water, 2.8 billion people will not have access to safely managed sanitation and 1.9 billion people will not have hand hygiene facilities.

SDG 7 - Ensure access to affordable and sustainable energy.

- 2.4 billion people still use inefficient cooking fuels.
- The progress in electrification has slowed due to the pandemic. In 2010, there were 1.2 million people without electricity, in 2020 there are 733 million without electricity. Based on the current trend 679 million will be without electricity even in 2030.
- In 2017 International financial aid to the developing economies was USD 24.7 million. This financial flow is on a downward trend since 2018, USD 14.3 billion, and in 2019 it further reduced to USD 10.9 billion.

SDG 8 - Promote full and productive employment for all.

Economic recovery globally has been hampered by the wave of the COVID-19 pandemic. Not only the pandemic but also the Ukraine Crisis has also impacted the recovery path adversely. This can be seen from the following prevalent problems

a) Increasing inflation.

b) Supply chain lags

c) Policy uncertainties.

d) Labour market challenges.

It is expected that the unemployment levels across the globe would remain above the pre-pandemic levels at least till 2023. The unemployment rate in 2019 was 5.4%, which rose to 6.6% into 2020, and in 2021 it was 6.2%.

In 2020 as per the UN report there are 160 million children. 1 out of every 10 children is doing child labor. Child labor needs to be completely eradicated globally.

SDG9-Promote building of sustainable infrastructure and industrialization

- Small-scale industries lack access to financial support for recovery. Only one in three small-scale entrepreneurs are gaining from lending schemes.
- Technology-intensive industries are able to rebound from crises compared to companies that use lesser technology.
- Globally the manufacturing sector has rebounded from the pandemic but the least developing countries still lag behind.

SDG 10 Minimise Inequalities

- Five thousand eight hundred ninety-five migrants lost their lives in the year 2021.
- Number of refugees has increased by forty-four percent during 2015- 2021. The war in Ukraine has worsened the situation.

SDG 11 - Safety and sustainability of cities and societies

- Ninety-nine percent of the world's urban population breathe polluted air with a very high air quality index. Thus causing greater health concerns.
- With the development of cities, there is a steep increase in solid waste management.

SDG 12 - Consistent consumption and manufacturing patterns

- Effective and efficient utilization of resources for manufacturing and consumption can result in positive triple benefits -climate change for good, No loss of biodiversity, reducing transportation.
- Loss or wastage of food should be avoided. Consumers should be very disciplined about their choices. Seventeen percent of the food is wasted at the consumption level.
- World e-waste should be managed safely.

SDG 13 - Climate Action

- The extreme climate variation can lead to the following:
- Around 700 million people can be displaced by drought till 2030.
- Extreme weather conditions are a result of global warming.
- Rise in sea level by 30-60 cm by 2100.

SDG 14 - Preserving life below water.

- The planet's largest ecosystem – Our Ocean is endangered due to Plastic or marine pollution choking the ocean. More than seventeen million metric tonnes of plastic entered the ocean in 2021.
- Increasing acidification due to annual CO2 emissions.

SDG 15- Protect and Restore and Promote life on land.

- 10 million hectares of forest are destroyed every year.
- Due to COVID-19 funding for the recovery of biodiversity is largely neglected

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SDG 16 - Stimulate tranquility and inclusive societies for economic growth

- A quarter of the global population is living in conflict-affected countries.
- One-third of the world's population, mostly women, fear walking alone at night.
- Public administrators allegedly approach many firms for kickbacks.

SDG 17 - Strengthening the global partnership for sustainable development.

- Increased debt burdens due to the pandemic have disrupted the growth of developing countries.
- Net Official Development Aid (ODA) increased to $177.6 billion primarily due to Covid related aid. The ODA for SDG declined by more than 18% in 2020.
- It is clearly evident that the world has seen major slippages in the SDGs due to the COVID restrictions. Therefore, we need a sustained effort to get Sustainable Development Goals back on track.

VI. Extending Sustainable Finance to SDG

i. Mapping SGDs to ESG

The first step in getting Sustainable Finance to support SDG is to map all the seventeen SDGs to ESG criteria.

Taking a step towards that objective, the table below does the following:

- Lists the SDG goals
- Clubs them by different themes - People, Environment, Prosperity, Peace and Partnerships
- Each of the goals are mapped to their overlap with environment, social and governance criteria

S.No.	SDG Goals	Environmental	Social	Governance
Theme: People				
1	No Poverty	No	Yes	No
2	Zero hunger	No	Yes	No
3	Good Health and Overall Well-Being	Yes	Yes	No
4	Good education	No	Yes	Yes
5	Eliminate Gender Gaps	No	Yes	Yes
Theme: Environment				
6	Pure Water and Sanitation Facilities	Yes	Yes	No
7	Affordable and Clean Energy	Yes	Yes	No
13	Climate Action	Yes	No	Yes
14	Life Below Water	Yes	No	No
15	Terrestrial biodiversity	Yes	No	No
Theme: Prosperity				
8	Inclusive Economic Development	Yes	Yes	Yes
9	Industry, Creativity and Infrastructure	Yes	Yes	No
12	Controlled Consumption and Manufacturing	Yes	Yes	Yes
Theme: Peace				
10	Reduced Inequalities	No	Yes	Yes
11	Livable States and Societies.	Yes	Yes	No
16	Peace, Justice and Strong Institutions	No	Yes	Yes
Theme: Partnerships for Sustainable Development				
17	Partnerships for the Goals	No	No	Yes

ii. Channelling the Sustainable Financial Instruments to meet SDGs

Sustainable Financial Instruments like ESG Bonds, Green Bonds, Green Loans, Sustainability-Linked Loans, Credit Enhancement Schemes, Blended Finance, etc. that currently cater to ESG goals can be upgraded to have additional links to SDGs.

The ocean and marine economy is expected to increase by two times from the USD 1.5 trillion in 2010 to USD 3.0 trillion by the year 2030. It is also projected to employ 40 million people. Blue Finance, as the name suggests, pertains to supporting climate financing goals related to marine ecosystems and supporting projects to enhance ocean and coastal preservation, increasing clean water resources, developing fishing infrastructure, etc. and improving the livelihood of people dependent on oceans.

The providers of sustainable finance are Corporates, Public and Private Banks, Foreign financial institutions, International organisations, climate funds, National governments, Central bank and other regulatory bodies, Domestic institutional investors and Stock exchanges.

Each financial instrument could have the relevant SDG impact assessment associated with them to allow for the measurement of their impact on the relevant SDGs.

iii. SDG-Credit Scheme

- Governments could explore implementing an SDG-Credit Scheme, similar to the Carbon-Credit Scheme.
- The idea behind this scheme is that entities funding programmes and schemes to create SDG-positive effects through sustainable finance, will be credited with SDG-Credits.
- Similarly, any projects, businesses or governments engaged in behaviour contravening SDG goals would need to pay through SDG Credits that they need to buy from SDG-credit generators.
- This would allow for an effective trading market in SDG-credits and would promote sustainable financing for projects that support SDGs.

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6. CONCLUSION

ESG criteria have been available to corporations for making financing decisions for sustainability. However, the need of the hour are sustainability targets, goals and fixed timelines. The SDG framework offers sustainability targets and goals and with firm timelines to achieve them.

The last two years of the COVID onslaught have led to slippages in the SDG progress. Therefore, it is proposed that the support of Sustainable Finance be extended to directly meet SDGs to cover up for the lost progress in the last two years. To do this, a mapping of ESG and SGD is outlined and an innovative SDG-Credit Scheme is proposed.

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