Financing for Sustainable Development: G20 Framework for voluntary support to INFFs, G20 High-Level principles on sustainability-related financial instruments and G20 common vision on SDG alignment

I. Key messages

The COVID pandemic has taken four million lives, devastated the global economy, pushed a further 124 million people into extreme poverty and continues to inflict profound suffering – dramatically impacting progress towards the Sustainable Development Goals (SDGs).

One of the greatest challenges ahead for the international community is to lay the basis of a sustainable recovery that accelerates progress across all SDGs, ending poverty and malnutrition in all its forms, creating decent jobs, achieving universal health coverage, reducing inequalities and addressing the causes and consequences of climate change and biodiversity loss, combating corruption and illicit financial flows, developing effective, transparent and accountable institutions at all levels as well as promoting sustainable consumption and production patterns and access to clean, sustainable, affordable, and reliable energy.

The impacts of the COVID-19 pandemic in developing countries, however, are increasing financing needs while reducing available resources to implement crisis mitigation and recovery measures and the achievement of the SDGs. The G20 is well positioned to lead by example and support international efforts towards a more inclusive and sustainable and resilient recovery, while taking important steps to respond to immediate liquidity needs and tackle debt vulnerabilities in developing countries.

These include: the final extension of the Debt Service Suspension Initiative (DSSI) to the end of 2021, the Common Framework for Debt Treatments beyond the DSSI, ongoing and upcoming negotiations for an ambitious replenishment of IDA-20, the future African Development Fund replenishment in 2022, and an IMF allocation of new Special Drawing Rights (SDR) equivalent to USD 650 billion and their possible channelling on a voluntary basis to the benefit of vulnerable countries.

Building on this significant financial support and the G20 FSD Framework endorsed in 2020 under the Saudi Presidency, we are committed to promote not only enhanced mobilization of resources, but also the alignment and impact on the SDGs, of all sources of finance, including domestic resources and ODA in line with existing commitments, as well as South-South and Triangular co-operation initiatives, blended and private sector financing. We reaffirm the role of the G20 in contributing to the implementation of the 2030 Agenda, the achievement of the SDGs, and the Addis Ababa Action Agenda on Financing for Development (AAAA).

To that effect, we support three interrelated modalities to enhance FSD as discussed by the DWG under Italian Presidency: greater uptake and operationalization of the implementation of SDG financing strategies in line with national priorities including voluntary Integrated National Financing Frameworks (INFFs); promoting the transparency, and development impact in the uptake of sustainability-related financial instruments in line with national legislation and legal framework; and developing a G20 common vision and voluntary reporting principles for SDG alignment of the use of available fiscal space, to be applied on a voluntary and case-by-case basis, in coordination with the G20 Finance Track.

Strengthening the alignment and impact of all available resources (public, private, domestic and international) with the SDGs at country-level will be all the more important in post-crisis recovery. The implementation of these three interrelated modalities to enhance FSD will remain flexible in line with the G20 way of working, but it is urgent, and expected by many G20 partners around the world. Today the G20 has a crucial role to play in supporting the effective implementation of the 2030 Agenda, promoting the alignment and impact of both public and private financial flows towards its achievement, encouraging a stronger implication of the private sector in the financing for development and supporting public and private SDG-compatible investments. This includes the work of the Finance Track and in particular the ongoing work by the G20 Sustainable Finance Working Group (SFWG) on a multi-year G20 Sustainable Finance Roadmap. We welcome the collaboration started in 2021 between the DWG and the Finance Track, particularly SFWG and IFA WG, and encourage the strengthening in 2022 of joint work, so to contribute to more effective international development cooperation.

Well-designed, transparent and country-led financing frameworks are key to the implementation of national and sub-national sustainable development strategies, to align public and private resources towards their objectives and to catalyse private investment in the SDGs, while advancing policy coherence for sustainable development[1]. As highlighted in the Addis Ababa Action Agenda (AAAA), INFFs can play a key role in supporting cohesive nationally owned sustainable development strategies. We welcome progress made by over 70 countries in developing INFFs to align finance to national priorities and the SDGs. We put forward a *G20 Framework for voluntary support for the greater uptake and operationalisation of INFFs* (see Section II), in line with the principle of voluntary adoption, country ownership, alignment to national priorities and tailoring to local contexts, including by promoting policy dialogue and knowledge exchange, technical assistance and capacity building, including through our development cooperation.

We take note with appreciation of the UNDP stocktake report on INFFs and we will continue working with partner International Organisations and public and private stakeholders to support developing countries in their efforts to implement INFFs while also considering, on a voluntary basis, Total Official Support for Sustainable Development (TOSSD) as an inclusive framework that will not dilute commitments already made. We look forward to the updates by MDBs on progress in implementing country-owned pilot platforms.

National and international financing should be tailored to national priorities and advance sustainable development, noting the importance of transparency and mutual accountability in accordance with AAAA, consistently with the integrated and indivisible nature of the 2030 Agenda and SDGs.

During the Italian G20 Presidency we are focusing our attention on the importance of gender equality, youth empowerment via quality education and decent jobs, and social protection systems, as key crosscutting and catalytic areas to eradicate poverty, reduce vulnerabilities and inequalities with the aim of ensuring that no one is left behind. We welcome the increased attention paid at national, regional and global levels to strengthening and broadening the financing mechanisms for comprehensive, resilient and sustainable social protection systems, and related capacity building, including managerial capital. We take note of the scoping note on financing social protection systems by ILO/OECD/WBG and look forward to working with G20 employment, and education and finance tracks to identify possible G20 actions to support the mobilisation of domestic and international financing in these areas. We highlight the importance of fostering the complementarity of external support and domestic resource mobilization in the financing of sustainable social protection systems.

We note the increasing risk of disasters that present a further threat to sustainable recovery. Disaster Risk Finance

1 In this context, we take note of the OECD/UNDP Framework for SDG aligned finance as an instrumental tool to support this purpose.

and prevention measures are an effective way to build resilience, including through insurance that pays out before or soon after a disaster, notably those related to climate change.

Sustainability-related financial instruments, encompassing bonds, loans, funds and other investment vehicles aimed at advancing sustainable development objectives, including environmental protection, gender equality, social development and sustainable infrastructure and cities, can play an important role in mobilizing finance to reduce the SDG financing gaps in developing countries and potentially become long-term financing instruments as part of national and local strategies.

We will continue working with relevant stakeholders in all countries to identify and address major constraints hindering the uptake of such instruments and exploring concrete ways to enhance their development impact, in particular through tailoring issuance to local context, supporting the development of local capital markets and ensuring country ownership while at the same time securing transparency and promoting the voluntary use of reference or common taxonomies and the use of other alignment tools that can help to make sure that local bonds effectively contribute to the 2030 Agenda.

We take note with appreciation of the OECD stocktake report on “Scaling-up Green, Social, and Sustainability Bond Issuances in Developing Countries” and encourage relevant international organisations and stakeholders to support our efforts to promote sustainability-related financial instruments in developing countries, building on the *G20 High Level principles on scaling–up sustainability-related financial instruments in developing countries* (see Section III), in close coordination with the G20 Finance Track. Developing countries’ governments have a key role to play, for example through the introduction of legal and regulatory frameworks aimed at ensuring well-functioning domestic capital markets. Enhancing the roles of Public Development Banks, i.e. multilateral, regional, and national development banks, can help to support local capital market development, also by orienting their strategies, their development objectives and operations towards the alignment of all resources to the SDGs. This orientation effort is for instance at the heart of the Finance in Common Summit (2nd edition held in October 2021 under the G20 Italian Presidency)[2].

In addition, to address the COVID-19 crisis and resulting implications for delivering the 2030 Agenda, development actors should use their capabilities to enhance mobilization of the private sector, including by using risk sharing strategies, blended finance approaches and building a pipeline of suitable projects. Finally, the use of innovative financial instruments should ultimately contribute to achieve local developmental impact and result in the allocation of more resources committed to achieving the SDGs, by implementing transparent market best practices and comparable reporting practices on development impact. In that sense, we encourage issuers and regulators in all countries to promote transparency and the use of best practices to avoid SDG washing, and recommend that, when used, taxonomies take into account national and regional contexts as well as international guidelines as appropriate.

We put forward a *G20 common vision and voluntary reporting principles for SDG alignment of available fiscal space* (see Section IV), taking into account all available resources.

We look forward to working with partner countries and international organisations, in coordination with the G20 Finance Track, to explore the operationalization of this vision and to direct financing towards the achievement of SDGs.

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2 This was hosted by Cassa Depositi and Prestiti (CDP), in partnership with IFAD and with the support from all the members of the Finance in Common Coalition (www.financeincommon.org) which was launched at the Pre-summit of the UN Food Systems Summit.

This common vision includes inter alia the importance of: linking COVID-19 recovery packages to the longer-term 2030 Agenda and not only for emergency measures; using public and publicly supported expenditures to make substantial contribution to achieve the SDGs while doing no harm to the other SDGs; using the intentionality, additionality, and measurability principles in the allocation of resources.

The voluntary reporting of such SDG allocations in pilot partner countries should be done in connection to the national sustainable development strategy and possibly INFF as an operational instrument; led by the national government with the assistance of international partners; involve all relevant stakeholders as appropriate; as well as accompanied by policy dialogue and by capacity development for SDG-alignment and budget monitoring for the relevant local actors.

These common vision and reporting principles can be applied gradually, on a voluntary and case -by-case basis and without imposing any new 'SDG compliance' conditionalities, including to review the extent to which liquidity support initiatives allowed for reducing the compression of SDG spending in 2020 and 2021.

This work, based on the added value of the DWG in terms of SDG expertise and country-level networks and initiatives, could be tested as funding and resources permit through possible pilots at country level, where it would complement the WB/IMF existing monitoring by being more granular, on the spending for the SDGs.

II. G20 Framework for voluntary support to a greater uptake and operationalization of the Integrated National Financing Frameworks (INFFs) for SDGs Finance and COVID-19 Recovery in developing countries

In the context of the recovery from COVID-19 and the Decade of Action, Integrated National Financing Frameworks (INFF) are being developed to strengthen links between medium term development plans and financing strategies that mobilise and align public and private finance with sustainable development. As voluntary and country-led, rooted in government institutions and with the engagement of the private sector, philanthropy, civil society and relevant stakeholders, INFFs are being tailored to national contexts and priorities and could serve as the financing framework of national sustainable development strategies.

In line with the principle of voluntary adoption, country ownership, and alignment to national priorities, and building on the five recommendations of the UNDP INFF Stocktake, the G20 Framework provided below aims to support the greater uptake and operationalization of INFFs and, to the extent practicable, to be taken into account as part of individual and collective support from members:

1. Promoting knowledge exchange, technical assistance and training for INFFs.

- Support regional platforms, wherever possible leveraging existing platforms, for knowledge-sharing and north-south, south-south, and triangular exchange of experience and expertise across stakeholders developing INFFs;
- Promote knowledge exchange, including through global knowledge platform, such as inff.org and other similar platforms, to enable country access to different financing solutions and training opportunities and encourage countries to share their INFF experience;
- Support technical assistance and capacity development that enables the mobilisation and alignment of finance for national development priorities.

2. Aligning international support for country-led INFFs

- Integrate relevant assessment and diagnostics work and statistical tools, such as, where appropriate, Total Official Support for Sustainable Development, as an inclusive framework that will not dilute commitments already made, and non- financial means of implementation, into INFFs' assessment and diagnostic processes;
- Consider the potential for aligning financing elements of development cooperation strategies of development partners with the financing strategy of the INFFs;
- Encourage technical assistance and capacity development initiatives in support of the financing strategy of the INFF;
- Facilitate INFFs in their functions related to country-led monitoring, reviewing and reporting system.

3. Engaging G20 member domestic constituencies to support country-led INFFs

- Engage technical experts from relevant government departments and ministries to share their SDG-related finance experience, expertise and good practices with countries taking forward INFFs, and in turn to take back learning from these engagements;
- Engage interested stakeholders from domestic business communities with countries taking forward INFFs, focusing on investment and sustainable finance opportunities, innovations in sustainable, inclusive business models, market analytics, private sector capacity building and other areas;
- Engage domestic constituencies and their networks including, as appropriate, civil society, social partners, universities, and others to support countries taking forward INFFs and to broaden engagement, ownership, transparency and accountability;
- Facilitate the connection of INFF processes with existing platforms and networks (e.g. for gender equality and women's empowerment, youth entrepreneurs and other young leaders and civil society more generally) and the mapping of existing dialogue platforms, as appropriate.

4. Prioritising the integration of economic, social and environmental sustainability within INFFs

- Based on key thematic priorities included in national or local sustainable development plans identify and prioritise INFF global methodological development for policy areas;
- Encourage the use of INFFs to strengthen financing on key thematic priorities included in national or local sustainable development plans, and to safeguard social spending in times of short-term fiscal constraint, with a view to promoting increased investment over the medium and longer term.

5. Reviewing progress on INFFs and continue to build awareness

- Invite UNDP to conduct, in cooperation with relevant IOs, regular stocktake exercises to inform G20 members on how to facilitate INFF progress at country level;
- Encourage global, regional and country level dialogues on INFFs, including a broad range of actors.

III. G20 High-Level principles on scaling up Sustainability-related financial instruments in developing countries

Capital markets are crucial intermediaries that can accelerate progress on SDG financing and mobilize capital for sustainable development in a transparent manner. In the last several years, a number of thematic financial instruments have been developed to accelerate sustainable development that we can broadly define as "Sustainability-related financial instruments". Among them the most widespread instruments are "Green, Social and Sustainability (GSS) bonds" which finance projects that are contributing toward the achievement of the SDGs, in line with the goals and objectives of the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement, and the United Nations Convention on Biological Diversity (UNCBD), while "Sustainability-linked bonds" target predefined sustainability objectives.

Sustainability-related financial instruments remain underdeveloped in developing countries, where SDGs investment needs are the greatest and where the COVID-19 crisis has magnified the scissor effect of SDG financing. The further uptake of those instruments could allow issuers to tap into new sources of finance. As part of its objective to mobilise and align FSD with SDGs, the G20 aims to encourage the further development of Sustainability-related financial instruments to the benefit of developing countries. Building on the "OECD Stocktake Report on Scaling-up GSS Bonds in Developing Countries", which identified five main gaps the G20 has elaborated four G20 voluntary high level principles to scale up issuances of such instruments - and enhance their transparency and development impact. The following offers some illustrations of actions that could be taken to implement these voluntary principles:

1. Enhance SDG alignment in the strategies, objectives and operations of Public Development Banks (PDBs)[3], strengthen their role as key actors in financing national sustainability strategies, promote financial and technical support and knowledge sharing among them

PDBs are actively contributing to the creation of bond markets for developing countries and play instrumental roles in supporting issuances according to specific country, sector and regional contexts (e.g. as issuers as well as anchor investors or cornerstone investors and mobilisers of private capital). PDBs also play a pivotal role by supporting the implementation of policy reforms to develop local capital markets and as providers of technical assistance. In accordance with their respective mandates and governance structures, their roles can be further strengthened by:

i. anchoring the alignment to the SDGs, and to the goals and objectives of the UNFCCC, the Paris Agreement, and the UNCBD, as a priority in their strategies, objectives and operations, which could then be reflected in their bond-related activities;
ii. ensuring that international donors and shareholders encourage PDBs to play their multifaceted role in favour of sustainability-related financial instruments as appropriate and in particular to mobilise private investors at scale in developing countries;
iii. promote financial and technical support from PDBs and knowledge sharing among them, especially in scaling-up the local capital market and bond issuance

2. Encourage local issuers to consider bond issuance to finance the SDGs and sustainable infrastructure as well as ensure transparency, and the improvement of comparability and interoperability of approaches, taking into account local contexts, to align investments to sustainability goals, including Environmental, Social and Governance (ESG) integration

To help ensure that local bond issuances effectively contribute to the 2030 Agenda thus avoiding "SDG-washing", thus allowing investors to gain greater confidence in the bond's contribution to SDGs and catalysing greater financial flows in accordance with national circumstances needs and priorities, local authorities can:

3 Public Development Banks (PDBs) comprise Multilateral and Regional Development Banks as well as National and subnational Development Banks that have a public mission to support sustainable development at local, national and/or international level.

i. provide clarity to the market on their strategies to advance the SDGs and investments that support such strategies, with a focus on critical socially, environmentally and economically sustainable infrastructure investments and initiatives ensuring no one is left behind, including on gender equality, in line with national development strategies and priorities;
ii. encourage policy makers and regulators in all countries to develop sound enabling frameworks (e.g. guidelines, standards, and/or taxonomies) that take into account national and regional contexts as well as international guidelines, as appropriate, by identifying and mapping the existing stakeholders and regulators, in order to promote transparency and guide investors in their investment decision;
iii. promote greater transparency and disclosure practices related to local bond issuances, and provide comparable and interoperable, sector-specific performance indicators and sustainability evaluation metrics to capture sustainability outcomes, such as:
    - evaluate options to enhance accountability and standards to ensure that the use of proceeds from bond issuances effectively contribute to the SDGs;
    - encourage the adoption of environmental, social and governance (ESG) best practices and regulations, where applicable; in line with the work of the G20 Finance Track, promote best in class reporting of development impact, including a special focus on gender equality;
    - promote, when feasible, ESG due diligence, use of clear principles, definitions, frameworks and impact reporting practices to enhance credibility at global level whilst, when used, guaranteeing that local contexts are being taken into account;
    - enhance the attractiveness of sustainability-related financial instruments by covering, when feasible, part of the additional costs associated with the audit, review and monitoring of such instruments;
    - promote greater disclosure requirements related to sustainable investments and sustainable risks as well as increased corporate reporting and encourage investors to pay closer attention to sustainability topics in their investment decisions.

3. Ensure country ownership of sustainable financing strategies, tailor issuances to local contexts while protecting debt sustainability and support the development of local capital markets

Domestic capital markets can help governments to catalyse additional financial resources to address local SDG investment gaps thus supporting country-led financing. It remains crucial to tailor bond issuance to local contexts, i.e. to:

i. explore themed bond issuances whilst ensuring the critical principle of debt sustainability in developing countries including engagement with Debt Management Offices (DMOs);
ii. strengthen local capital markets generally, implement sustainable finance policy reforms and build a local ecosystem of actors and services (e.g. for verification and certification of themed bond frameworks) to support well-functioning and liquid domestic capital markets as well as sustainable finance policies, necessary for attracting greater commitments from both domestic and international institutional investors;
iii. address supply constraints by creating a pipeline of local bankable projects including social infrastructure eligible to future bond issuances;
iv. support initiatives aiming at reducing bond issuance costs and increasing efficiency;
v. support adoption of Finance Track recommendations to enhance the interoperability and comparability of different SDGs alignment approaches, while acknowledging the need to accommodate local specificities and recalling that increased global alignment does not imply a “one size fits all” solution.

4. Encourage donors to use risk sharing strategies and technical assistance to maximize sustainable financial flows by crowding in all financial resources, public and private, available at international and local level

The low risk appetite of institutional investors towards projects in developing countries can be addressed partially by:

i. using blended finance and risk sharing instruments, such as guarantees (e.g. first loss tranches financed by international donors) that help mitigate investment risks (e.g. political and commercial risks, like credit or FX risks) associated with targeted countries and subsequently contribute to attract additional public and private capital to deliver on the SDGs, and on the goals and objectives of the UNFCCC, the Paris Agreement, and the UNCBD;
ii. promoting technical assistance programs and structured capacity building programs, including from international donors, which help raise greater awareness amongst policy makers, regulators and also local financial institutions and corporates on the ways to structure bond transactions. In addition, technical assistance programs and structured capacity building programs can contribute to the diversification in structuring a wide range of sustainability-related financial instruments (from green bonds focusing on adaptation projects in climate stressed regions, SDG aligned bonds to blue bonds, biodiversity bonds, pandemic recovery bonds or gender inclusive bonds and the origination of suitable projects related to these themes) and to provide guidance to local issuers in order to help them better understand when these instruments are best suited and how to implement them as well as match the requirements of institutional investors actively working with investor groups to understand the principal reasons why sustainability-focused capital is predominantly being allocated to advanced economies, for example carrying out a comprehensive survey of investors to understand the key bottlenecks;
iii. developing and aggregating portfolios of projects to be financed through bond issuances as well as bonds themselves. The first one is particularly critical in sectors where projects are often smaller in scale and the second one offers a better diversification to investors, hence a better risk-return profile;
iv. participating as adequate as anchor or cornerstone investors in the underwriting of bonds or bond funds/portfolio to provide confidence to private investors.

These four G20 voluntary High Level Principles could serve to guide further G20 work, for instance through the development of guidelines, which could be considered by the Sustainable Finance Working Group. These activities could also be accompanied by development finance practitioners' community activities, involving public and private sector representatives that mobilise a variety of actors to join action plans around certain of these principles.

IV. G20 common vision and voluntary reporting principles for SDGs alignment of fiscal space

The G20, bringing together the world's largest advanced and emerging economies, and the largest creditors, is well positioned to lead international efforts for an inclusive and sustainable recovery of developing countries, including supporting investment towards the SDGs and addressing their debt vulnerabilities.

The contribution by the DWG to the measures decided in support of low-income countries will aim at supporting the SDG alignment of the 'resources use'. Acknowledging that all resources should be taken into account, it is important to ensure that resources, including, where appropriate, those made available by the G20, as well as new resources provided at bilateral and multilateral level and private sector, and fiscal space, do contribute to the financing of investments, aligned with the SDGs.

This DWG work complements, in no way duplicates, the Finance Track which remains the only process where the quantity and allocation of resources are discussed; and it builds on the strength and added value of DWG in terms of expertise on sustainable development and regular engagement with developing countries about their development plans.

The DWG therefore puts forward a common vision on SDG alignment of fiscal space, and voluntary reporting principles for SDG alignment of the use of available fiscal space, whereby the G*20 commits to increase the transparency, accountability, availability, impact, complementarity of the various elements of the financing packages provided, and the interested low-income countries* commit to improve the *transparency, accountability, and SDG alignment/coherence of the spending.* These common vision and reporting principles **can be applied gradually**, on a **voluntary and case-by-case** basis and without imposing any new 'SDG compliance' conditionalities, including to review the extent to which liquidity support initiatives allowed for reducing the compression of SDGs spending in 2020 and 2021.

This could be done through **possible pilots at country level**, to test the application of such enhanced voluntary guidelines and reporting instruments via an in-country dialogue based on such guidelines, also detailing which SDGs are concerned. The G20 goal is to contribute to a process to encourage public expenditure allocation to the SDGs and voluntary reporting at a more granular level, with the added value of the DWG being indeed the SDG expertise and the country-level networks and initiatives (through development cooperation agencies/activities).

The G20 common vision for SDG-alignment of the use of available fiscal space includes:

- COVID-19 recovery packages, whenever possible, should be linked to the longer-term 2030 Agenda (with consideration given to national development strategies and the interlinkages between SDG 3 and other SDGs), and used not only for emergency measures (while acknowledging that short-term objectives related to the COVID-19 response understandably remain the priority for all countries and that also expenditures for short-term objectives contribute to SDG efforts, e.g. health emergency spending and ACT-A related expenditures for SDG 3);
- Spending of public and publicly supported resources, within the available fiscal space, should aim at both making contribution to achieve the SDGs and avoiding harm on the other SDGs, thus targeting synergies in economic social and environmental sustainability improvements, while enhancing the understanding and management of trade-offs between different sustainability targets.
- A relatively detailed budget classification (policy objectives, activities or actions) should be used, where reasonably possible, which includes the SDGs at target level[4];
- Public expenditure spending plans should be an inclusive process and avoid 'SDG washing' and G20 contributions to them should build on the principle of country ownership, avoiding tied aid in line with international standards and respecting country's needs and national circumstances and priorities. These plans could include both national and local action plans, involving public and private sector representatives. SDG-alignment of available fiscal space should be part of strengthening public financial management (outcome based budgeting) and include capacity development and technical assistance for relevant local actors and respecting country's needs and national circumstances and priorities.

The allocation of resources could encompass the following principles (in line with the high-level principles of the G20 Action Plan on the 2030 Agenda):

- Intentionality: the transparent commitment toward the generation of positive economic, social and

4 E.g. specific budget allocations should be associated not only to SDG13, but to SDG13.1, 13.2, etc., so that a public investment is not only defined as Climate Action, but more specifically as targeting adaptive capacity to climate-related hazards and natural disasters, i.e. those activities are consistent with sectoral, regional, and/or national adaptation efforts.

environmental impact, coherent with SDGs. Subsequently, the desirable social, environmental and economic return of SDG aligned investments should be set in accordance with their expected social and/or environmental outcome.

- Additionality: the economic, social and environmental impacts generated should be considered as new sustainable value added, coherent with a better achievement of the SDGs targets. Additionality has both a quantitative dimension, using data to determine the feasibility of investments and the need to consider SDGs aligned investments in addition to traditional ones; and a qualitative dimension related to the success of the investments requiring that the value generated by these investments wouldn't be generated by investing conventional resources.

- Measurability: the social, economic and environmental impacts generated should be measurable and comparable, over time, in order to assess the real net benefits achieved in terms of SDGs. Subsequently these investments should be designed within a consistent impact framework, combining and balancing the quantitative outcome and indicators with the qualitative ones and outlining the stakeholders that will benefit.

The voluntary reporting principles and country-level mechanism (in interested low-income countries where the SDG re-orientation of the fiscal space has been undertaken and with voluntary participation by G20 members) **include:**

- A process aimed at creating virtuous, participatory and coordinated dynamics for the efficient use of public resources for the SDGs, wherever possible;
- Voluntary reporting of such granular SDG allocations should be done in connection to the national sustainable development strategy and possibly INFF as an operational instrument, when applicable, and would be led by the national government, in response to domestic demand, with the assistance, only if so requested, of a UN organisation such as UNDP and of other willing partners;
- As part of this, the national government would voluntarily declare the allocations to different SDGs within the budget process, which would also help costing of contributions by development partners and would also accompany the related policy dialogue process (possibly referring to existing similar initiatives[5]);
- Reporting would be enacted through budgetary and public financial management processes, frequent and comprehensive reporting through performance indicators and complemented by available technical assistance to recipient countries;
- If so preferred by the partner country, a specific fiscal resource could be channelled to a specific fund (e.g. UN Joint SDG Fund that already exists in some countries). In case where special funds are used, they should be submitted using the same procedures and rules as the national budget.

These common vision and voluntary reporting principles for SDG alignment of available fiscal space can:

- **complement the WB/IMF existing guidelines/monitoring** aimed at reporting (in line with the DSSI Term Sheet) whether eligible countries use the created fiscal space to increase social, health or economic spending in response to the crisis (in this sense these are guidelines, about the use for these three broad sectors) and other existing instruments that track SDG alignment of financial resources[6]. This is done at the macro level, monitoring fiscal policy responses to the COVID-19 pandemic of beneficiary countries, not the spending for the SDGs. The DWG deliverable intends to be more specific on SDG alignment, and complement the work of

5 E.g. the International Platform on Sustainable Finance (launched in 2019 by the EU, Argentina, Canada, Chile, China, India, Kenya and Morocco), a forum for dialogue between policymakers, with the overall aim of increasing the amount of private capital being invested in environmentally sustainable investments; and the EU Global Recovery Initiative aims at debt relief followed by more ODA, private investment from Europe and policy dialogues for the NDCs and other local plans.

6 E.g. such as the UNDP-OECD Framework for SDG Aligned Finance, presented in November 2020.

the Finance Track via a country-level voluntary reporting that is more granular and captured in a separate report from the WB/IMF one, while avoiding a significant increase in administrative burden for pilot countries. **This 'SDG-alignment' report will be prepared by the relevant national authorities**, with the assistance, if so requested, of UN organisations and other partners. The **scope of this report** will be about granular SDG allocations in line with the above-mentioned vision and principles (intentionality, additionality, measurability, etc.) but defined in detail at country level.

- **be accompanied by capacity development and technical assistance for SDG-alignment and reporting at country level** (including by possibly scaling up existing initiatives of IFIs and G20 bilateral donors where appropriate), given that various low-income countries still have weak public financial and investment management, and that improving the efficiency of spending can provide the necessary investment returns to avoid unsustainable indebtedness.
- **constitute a pilot for an effective collaboration between DWG and the Finance Track** to serve development objectives. This began with the IFA WG, but could be potentially of interest to the SFWG, given alignment with one of its 2021 priority areas[7] and the possible synergies with the SFWG ongoing work on a multi-year G20 Sustainable Finance Roadmap.

[7] Enhancing the Role of International Financial Institutions in supporting the goals of the Paris Agreement and 2030 Agenda.