Bridging the **finance gap**

Coordinating finance for on-the-ground implementation

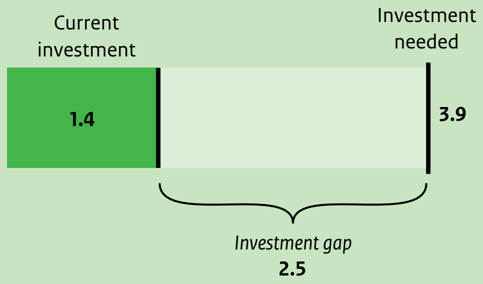
The annual investment gap for reaching the SDGs in developing countries stands at an estimated USD 2.5 trillion. In response, world leaders have agreed to cooperate under the 2015 Addis Ababa Action Agenda on financing for development. Confronting the decrease in governmental funding for collaborative development projects, this agenda emphasises the importance of domestic revenue mobilisation and private sector co-financing.

However, encouraging private sector investment in green growth areas, such as ecosystem restoration and renewable energy, is proving to be difficult. Long term returns and uncertain risks play a large role and the institutional setting is often not favourable. Due to a lack of intermediary regulatory institutions, supply and demand for financing is not coordinated, leading to increased transaction costs. Altogether, this results in a gap between available finance and required project investment on the ground.

Bridging the finance gap requires investment partnerships to pool and manage financing and to create a knowledge sharing environment to reduce uncertainties and perceived investment risks. Many initiatives, such as the Dutch Good Growth Fund, are designing innovative ways to finance sustainable development, though public sector commitment remains key. After all, important benefits from reaching the SDGs are non-monetary and long-term, and only public funding can safeguard long-term public benefits, for both current and future generations.

Estimated annual investment needs for the SDGs in developing countries

(trillions of US dollars)



Domestic revenue mobilisation
A sound tax base is key for economic development and growth. Domestic revenue mobilisation is the idea that countries generate their own public funding to finance sustainable development. This requires institutional capacity to collect taxes and manage public resources effectively, but it also demands international cooperation to combat tax evasion and illicit financial flows. For example, by introducing a land tax, the tax base could be increased, thus, increasing government revenue. At the same time, if designed properly, such land tax could help improve land-use efficiency and income distribution, though this requires that land rights are well-defined and that certain land uses are exempt from taxation.