



SCALING UP INVESTMENTS IN SUSTAINABLE INDUSTRIALIZATION TO CLOSE THE SDG FINANCING GAP

Key messages

- Scaling up public and private investments in sustainable industrialization is a key to closing the SDG financing gap in developing countries and advance the implementation of the SDGs.
- Modern SDG-oriented industrial policies can play an important role in directing financing towards strategic investments and sectors that spur progress towards the SDGs.
- Industrial policies need to be complemented by integrated financing frameworks, including innovative financing mechanisms and blended finance.
- Besides financial support, developing countries need capacity-building and technical assistance to direct investments to sustainable industrial transformation and SDG acceleration.

🌸 Problem statement

The promise of the 2030 Agenda for Sustainable Development is in peril with only 17 per cent of the Sustainable Development Goal (SDG) on track.¹ The world's least developed countries (LDCs) remain the most affected, including by the growing SDG financing gap.

Achieving the SDGs requires investments at a massive scale - an estimated \$4 trillion per year.² The LDCs need \$462 billion annually to advance the SDGs, i.e. a 55 per cent increase relative to actual investments in 2019 (prior to the COVID-19 pandemic).³ However, many developing countries face scarce public resources and high debts, with limited capacities to mobilize additional resources.

1 United Nations Department of Economic and Social Affairs, *The Sustainable Development Goals Report 2024* (New York, 2024).

2 United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2024* (New York, 2024).

3 UN Trade and Development (UNCTAD), *Least Developed Countries Report*, (New York and Geneva, 2023).

RELEVANT ACTION AREAS



Domestic Public Resources



Domestic and International Private Business and Finance



Science, technology, innovation and capacity building

ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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Investments in industry, innovation, and research and development have decreased significantly.⁴ This short-term reprioritization has been a response to times of crisis and is likely to leave a long-term mark not only on industrial and infrastructure development in general, but also on its catalytic effect on sustainable development.⁵

As a result of financial liberalization and globalization, financial flows are intermediated more commonly by markets, and the role of the state in channeling resources through the publicly controlled banking system is more limited. This has reduced access to credit for some firms.⁶

In sub-Saharan Africa and the LDCs, only 15.7 per cent and 17 per cent respectively of small manufacturing enterprises have access to financial services, due to perceived high risks and limited information about these enterprises on the side of lenders, despite these enterprises being crucial for sustainable industrial transformation.

SDG 9 on sustainable industrialization is among the economic goals that remain severely underfunded.⁷ **At the current pace, particularly Target 9.2 will not be achieved,** which aims to double the share of manufacturing in gross domestic product (GDP) and employment in the LDCs. Accordingly, manufacturing value added (MVA) in GDP in LDCs only increased from 12.0 per cent in 2015 to 14.5 per cent in 2023, and manufacturing employment in total employment decreased from 7.8 per cent in 2015 to 7.7 per cent in 2022.⁸

Policy solutions

The Pact for the Future⁹ has renewed global commitment to scale up support for investments in inclusive and sustainable industrialization to close the SDG financing gap, echoing the Addis Ababa Action Agenda.¹⁰

Investments in sustainable industrialization can accelerate progress not only on SDG 9 but across most SDGs, given industry's high innovation capacity, strong linkage with other sectors of the economy¹¹ and tradability of manufacturing products, which allows developing countries with small domestic markets to access larger markets.¹² Given this strong multiplier effect, developing countries need targeted investments in industrial activities. The 2023 Financing for Sustainable Development Report emphasized the role of industrial development as "historic engines of economic and productivity growth, job creation and technological advancement [...] that have laid the foundation for poverty reduction and a sustained mobilization of domestic resources".¹³ Every job in manufacturing creates on average 2.2 jobs in other sectors, such as through production linkages and technological spillovers. **Strengthening productive capacities,** which includes the resources, skills and infrastructure needed to produce goods and services,¹⁴ **should therefore be at the heart of developing countries' strategies.**¹⁵

4 Organisation for Economic Co-operation and Development (OECD), *Science, Technology and Innovation Outlook 2021: Times of Crisis and Opportunity* (Paris, 2021).

5 [A/79/158](#), *Industrial Development Cooperation: Report of the Director General of the United Nations Industrial Development Organization*, 2024.

6 United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2023* (New York, 2023).

7 Dalberg (2024), *Updated study of capacities and functions of the UN development system to accelerate progress on the SDGs*.

8 [A/79/158](#), *Industrial Development Cooperation Report*, 2024.

9 United Nations, *Pact for the Future, Global Digital Compact, and Declaration on Future Generations* (New York, 2024).

10 The 2015 Addis Ababa Action Agenda of the Third International Conference on Financing for Development urged to step up global investments in promoting inclusive and sustainable industrial development to effectively address major challenges such as growth and jobs, resources and energy efficiency, pollution and climate change, knowledge-sharing, innovation and social inclusion.

11 United Nations Industrial Development Organization (UNIDO), *Industrial Development Report 2024* (Vienna, 2023).

12 FSDR 2023.

13 Ibid.

14 UNCTAD, *Placing productive capacities at the heart of least developed countries' development policy and strategy: A call for change ahead of UNCTAD XV, UNLDC V and beyond* (Geneva, 2021).

15 UNIDO, *Industrial Development Report 2024*.



Investments in sustainable industrial transformation need to be large-scale, targeted and coordinated between the public and private sectors.

Large-scale sustainable industrial development projects need significant domestic investments in infrastructure, but also significant private capital and investment incentives to facilitate, for instance, the energy transition. However, limited access to finance and difficulties in meeting investor requirements for attractive risk-return profiles pose bottlenecks for firms in developing countries.^{16,17} This is especially true for small, and medium-sized enterprises (SMEs), which often lack “bankability” for private lending institutions.¹⁸ To create an enabling business environment and ensure long-term sustainability, a clear government strategy as well as coordination among governments, their investment promotion institutions, development organizations, financial institutions, and the private sector are key.

Apart from traditional fiscal instruments such as subsidies, tax incentives or public procurement, innovative financial schemes can be of particular relevance to de-risking private investments

or provide incentives to achieve development results and accelerate the SDGs. Blended finance that uses public funds to crowd in private finance is key to leveraging large-scale investments in support of national development priorities. By strategically combining public, philanthropic, and private funds, innovative finance schemes can mitigate perceived risks and enhance the attractiveness of investments that might otherwise be deemed too risky or unprofitable, such as for SMEs. Blended finance instruments include co-financing, guarantees, credit facilities, impact investments, and outcome-based financing.^{19,20}

Modern industrial policies that use a more expansive toolkit can play an important role in directing financing towards strategic investments and sectors that spur progress towards the SDGs.

A global consensus has emerged that a new era of industrial policies is essential to support sustainable industrial transformation, the energy transition, digitalization, and resilience to economic and non-economic shocks. Between 2009 and 2019, industrial policy measures doubled globally.²¹ For example, since the 2010s, there has been a noticeable shift towards a more vertical approach in industrial policymaking within the European Commission’s industrial strategy documents, including the creation of the European Innovation Council, the European Green Deal, and the European Chips Act. The United States’ Inflation Reduction Act and the Made in China 2025 plan similarly reflect the ambitions contained in contemporary industrial policies.

However, this resurgence of industrial policies is primarily driven by developed countries. Current trends risk further exacerbating global divides

(see graph below). The international community has reaffirmed the need to preserve “policy space for developing countries to pursue a new generation of sustainable and inclusive industrial policies”. At the same time, developing countries need capacity-building and technical cooperation support to design and implement such policies and mobilize investments, otherwise they risk falling further behind on the SDGs. Among other things, there is a need to capacitate government institutions focused on investment promotion and facilitation. They need to be endowed with research, data collection, analysis and storage skills, as well as investment project preparation and appraisal tools to successfully attract stable and development-conducive investments.

16 Haraguchi, N., Martorano, B., and Sanfilippo, M., “What factors drive successful industrialization? Evidence and implications for developing countries” in *Structural Change and Economic Dynamics*, 49: 266-276, (2019).

17 [IPCC_AR6_WGIII_Chapter15.pdf](#)

18 International Finance Corporation, *MSME Finance Gap, SME Finance Forum, MSME Report.pdf*.

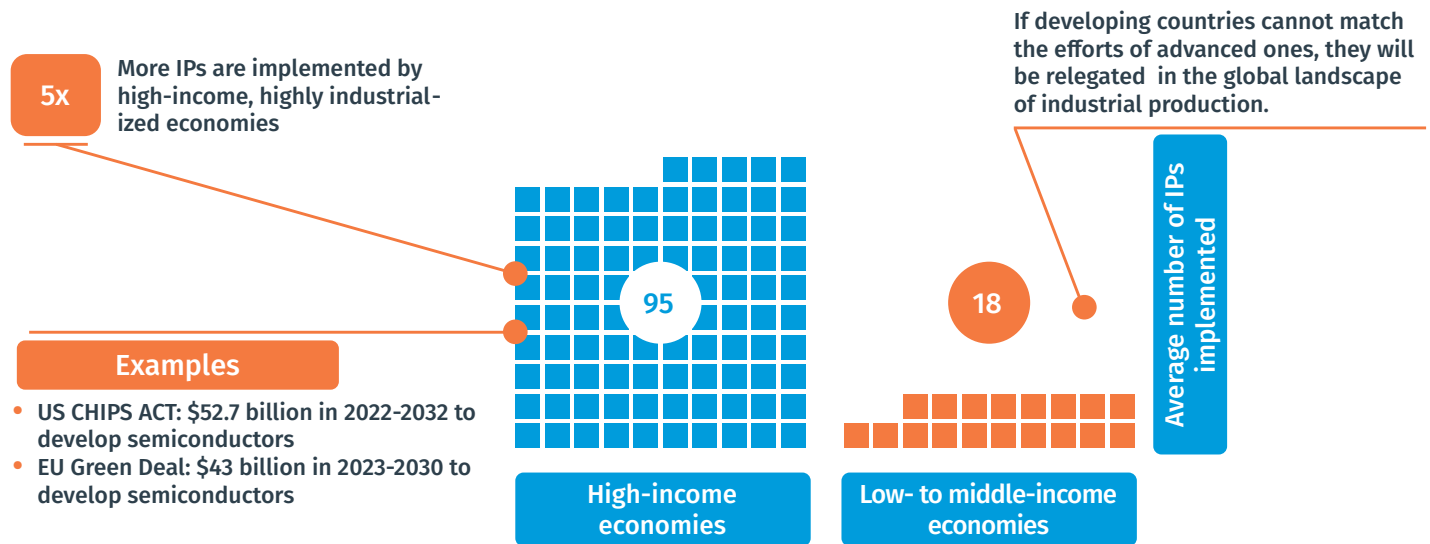
19 Choi, E., Zhou, L., and Laxton V., “[How to De-risk Low-carbon Investments](#)”, World Resources Institute, 22 July 2022.

20 OECD, *De-risking institutional investment in green infrastructure: 2021 progress update*, OECD Environment Policy Papers, No. 28, OECD Publishing, (Paris, 2021).

21 UNIDO, *Industrial Development Report 2024*.



Figure 1.



Note: Data refer to the period 2009-2019. EU = European Union; IP = Industrial policy; US = United States

Source: UNIDO Industrial Development Report 2024, based on Juhász, R., Lane, N., Oehlsen, E., and Pérez, V. C. 2023. Global Industrial policy: Measurement and results.

The United Nations can play a vital role, particularly by providing targeted capacity-building to developing countries for the design of industrial policies, identifying profitable investment projects in prioritized economic sectors and value chains, and supporting the mobilization of necessary investments, including through innovative financing instruments.

For instance, blended financing schemes that combine concessional loans with technical assistance from United Nations entities can help establish attractive investment opportunities with SDG impacts. The Renewable Energy Innovation Fund in Uruguay, supported by a \$10 million grant from the United Nations Joint Sustainable Development Goals Fund, focuses on the decarbonization of key sectors of the Uruguayan economy through public-private partnerships. This initiative is a collaborative effort between the United Nations Industrial Development Organization, the United Nations Development Programme, and UN Women, as well as major commercial banks.

Specific recommendations for FFD4

To close the SDG financing gap, Member States should prioritize financing areas with strong multiplier effects on sustainable development. In line with the Pact for the Future and building on the Addis Ababa Action Agenda, FFD4 should, among others, focus on measures to scale up investments in inclusive and sustainable industrial transformation, given manufacturing's high innovation capacity, strong linkages with other sectors and tradability of products.

To scale up investments in sustainable industrialization and advance the SDGs in developing countries, FFD4 should recognize that a new era of SDG-oriented industrial policies is needed, which feature a more expansive toolkit. Such policies need a forward-looking vision, strong government capabilities, comprehensive public-private partnerships, and financing among others.



Through FFD4, the international community should reaffirm the need to preserve policy space for developing countries to pursue a new generation of sustainable and inclusive industrial policies, to create an enabling international environment for sustainable industrial transformation.

FFD4 should devise specific mechanisms to help developing countries implement innovative financing schemes that can help de-risk private investments, including through blended finance.

FFD4 should provide a strong mandate to the United Nations system to support Member States' efforts to scale up investments in inclusive and sustainable industrialization, including through capacity-building for SDG-oriented industrial policies, financial inclusion of local SMEs, and investment promotion.