

# SUSTAINABLE FINANCE: BRIDGING THE CAPITAL GAP FOR SUSTAINABLE DEVELOPMENT GOALS



We live in an increasingly complex world. On one hand, nations across the globe have made unprecedented economic progress. On the other hand, there is a continuously growing social and environmental imbalance that threatens the delicate ecology of the earth as well as the basic fabric of human society. In an effort to mitigate these threats, several countries have been collaborating to confront major global issues, like climate change, hunger, inequality, poverty and the degradation of natural ecosystems. During the last four decades, governments have come forward to sign multiple agreements to address these social, environmental and economic challenges. In the formalization of these concerted efforts, the UN defined Sustainable Development Goals<sup>1</sup> (SDGs) in 2015. SDGs are often referred to as Global Goals that stand for a universal blueprint for fair progress, uniting seventeen interconnected objectives to eradicate poverty, safeguard ecology and ensure prosperity by 2030. The SDGs are designed such that most of the goals are interlinked, where efforts towards one goal will have a positive impact on others. The SDGs address a wide range of global challenges, from tackling climate change and reducing inequality to improving health and education. Finally, the aim of the SDGs is that development of the human race as a whole must balance social, economic, and environmental sustainability<sup>2</sup>.



## What are SDGs?

All 17 Sustainable Development Goals are accompanied by defined targets that are to be met by 2030. These targets provide a roadmap for countries to work towards sustainable development within their own contexts, while also advancing the global agenda.

Underpinned by five key pillars – People, Planet, Prosperity, Peace, and Partnerships – the goals emphasize inclusivity, integration and collaboration across governments, businesses, civil society, and individuals.

Unlike their predecessor (Millennium Development Goals<sup>3</sup>), the SDGs apply universally, requiring both developed and developing nations to align policies and resources toward measurable progress, guided by 234 unique indicators<sup>4</sup>, each related to one or more of the 169 targets and used to measure progress towards achieving those targets.



The first cluster of goals (SDGs 1-6) focuses on social equity and human well-being, aiming to eradicate poverty, hunger and preventable diseases while ensuring quality education, gender equality, and sanitation. These goals highlight the importance of addressing social disparities, improving healthcare systems, and empowering women and children who are disproportionately affected by lack of resources.

The second cluster (SDGs 7-15) centers on economic growth and environmental sustainability, promoting affordable clean energy, decent work, resilient infrastructure, sustainable cities, responsible consumption, climate action, and the protection of marine and terrestrial ecosystems. These goals stress the need for innovation and green technologies to mitigate climate change, biodiversity loss, and pollution.

The final cluster addresses peace, governance, and global partnerships, aiming to build inclusive institutions and strengthen cooperation to emphasize access to justice, reducing corruption and combat violence.

Eventually, the SDGs are more than just a list of aspirations; they are a framework for building a better future for all. They provide a shared global vision and a set of measurable targets that can guide policymaking, resource allocation, and individual actions. By committing to the Sustainable Development Goals, the global community affirms its shared responsibility to ensure that no individual or group is left behind. This commitment reflects a collective aspiration to build a world that is more sustainable, equitable, and prosperous—one that safeguards the wellbeing of both current populations and future generations through inclusive development, responsible stewardship of resources, and longterm resilience.

# SDGs – A progress update

As per 'The Sustainable Development Goals Report – 2024<sup>5</sup> and 2025<sup>6</sup> progress towards the 17 SDGs and their associated 169 targets remains behind schedule. Challenges towards meeting already complex goals have been exacerbated by global crises that emerge from time to time in the form of pandemics, climate change/disasters and geo-political conflicts. The reports reveal that the aggregated data on progress have remained stagnant in recent years, with only 17-18% of the total targets show growth and has potential for accomplishment by 2030. Close to half of the SDGs demonstrate only modest advancement, whereas more than onethird display little to no forward movement.

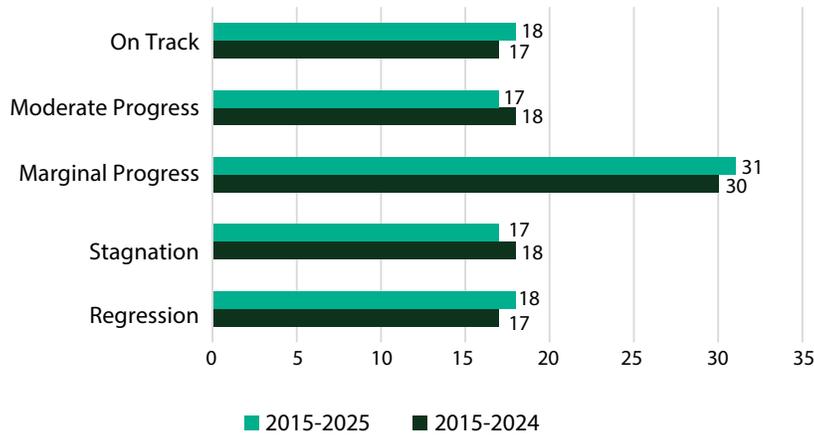


Fig. 2 Global Progress Against Targets (2015–2024 and 2015–2025 Aggregate Data)

The reports highlight major setbacks in various crucial areas. The residual impacts of the COVID-19 pandemic, compounded by climate shocks, economic turmoil, and conflicts, have worsened the existing inequalities. Progress in education is particularly worrying, with global minimum reading proficiency reached by only 58% of primary school completers. Public funding for fossil fuels has more than doubled since 2015, hindering the transition to clean energy. Furthermore, civilian casualties in armed conflict also saw a dramatic rise in recent times.

The complications notwithstanding, there have been substantial advancements made in certain areas, including reduction in global child mortality rate, averting HIV infection, minimizing remittances cost, improvement in access to water, sanitation, energy, and mobile broadband.

## Roadblocks for SDGs realization by 2030

Despite universal acknowledgment of the urgency of SDGs, systematic underfunding from developed nations remains a root cause of the stalled progress. The report<sup>6</sup> also reveals a staggering annual SDG financing shortfall of \$4 trillion (as of 2025). The energy sector contributes to more than half of this deficit with ~\$2.2 trillion needed for the energy transition alone. In a report<sup>7</sup> from the World Economic Forum, economists suggest that the emerging markets need an extra \$2.5 trillion every year to meet the SDGs by 2030. Furthermore, a study<sup>8</sup> by United Nations' Intergovernmental Panel estimates that limiting the temperature increase to 1.5 °C, one of the goals of the Paris Agreement (a seminal international agreement established in 2015 with the objective of limiting global warming), will require over \$3-6 trillion of investment every year by 2050.

Developed nations are needed to fulfill Official Development Assistance (ODA) commitments, targeting an allocation of 70 basis points of gross national income as assistance to low-income countries. However, there is a continuously increasing shortfall in this ODA as is reflected in the graph below.



Fig. 3 FDI & ODA for developing countries over the years

This financing crisis underscores a paradox: while the SDGs demand integrated response from developed nations, the funding mechanism remains siloed and reactive. The lack of affordable capital for debt-distressed nations, coupled with inadequate data to de-risk investments, perpetuates a cycle of underperformance. Without addressing these systemic gaps through innovative instruments like green bonds, blended finance, and equitable debt relief - the 2030 SDGs agenda is at a serious risk of failure.

Let us now investigate how Sustainable Finance can recalibrate this uneven trajectory of SDGs by bridging accountability, scalability, and inclusivity in financial resource mobilization.

# Sustainable Finance – An imperative for SDGs

According to the UN Environment Programme<sup>9</sup>, sustainable finance is an essential instrument for mobilizing and directing capital across public, private, and nonprofit sectors to accelerate progress toward the Sustainable Development Goals. Sustainable Finance functions in the ambit of financial instruments governed by nations, regulators, and the financial sector, towards ensuring that capital marked for sustainable purpose is indeed allocated to support sustainable development. Sustainable finance can act as a catalyst for the accomplishment of sustainable development goals by routing financial resources towards projects and businesses that have direct positive ESG impacts. Instruments of Sustainable finance can align the existing financial ecosystem with sustainable development goals.

Sustainable Finance instruments, including thematic bonds like Green Bonds, Social Bonds, and SDG Bonds, play a pivotal role. They facilitate the flow of capital to help countries/organizations fulfill their sustainability commitments. These instruments are also highly appealing to institutional investors, as they signify an organization's progress in Environmental, Social, and Governance (ESG) initiatives. They foster partnerships between public and private sectors to address sustainability challenges. Figure 4 highlights mapping between various Sustainable Finance instruments and their typical use of proceeds.

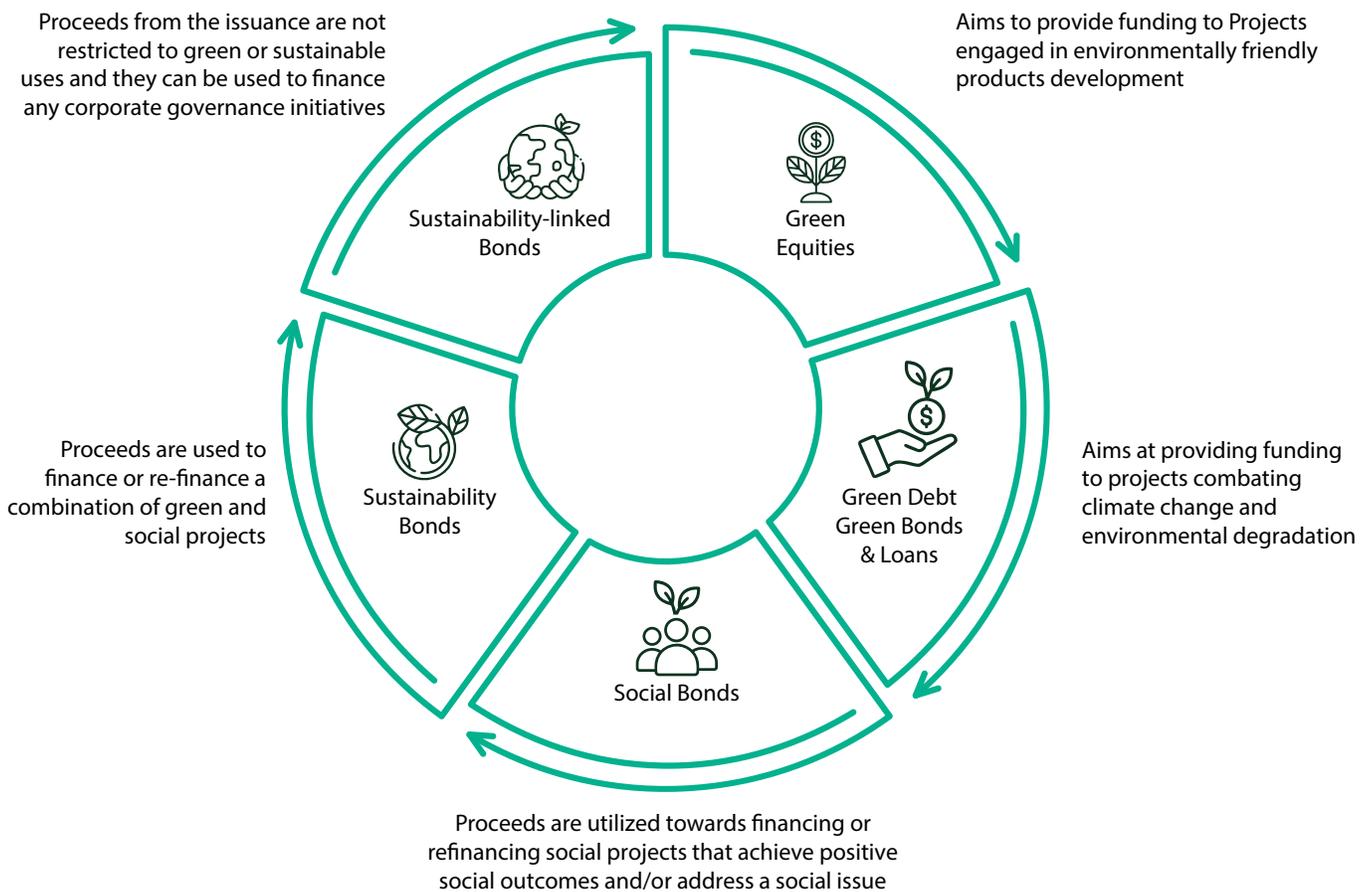


Fig. 4 Typical Sustainable Finance Instruments



**Green Bonds** fund projects that are enablers for environmental SDGs, such as renewable energy, clean transportation, and climate action. Like, Singapore's Sovereign Green Bonds<sup>10</sup> that finance rail infrastructure to reduce emissions and promote sustainable cities. Similarly, the World Bank's Early Green Bonds supported renewable energy projects in many developing nations.

**Social Bonds** target social equity goals like poverty eradication, affordable housing, and healthcare access. During the COVID-19 pandemic, Social Bonds financed support for vulnerable populations. In March 2025, Standard Chartered issued its first Social Bond<sup>11</sup> worth €1 billion, aimed at funding sustainable development projects facilitating the growth of small and medium-sized enterprises (SMEs), women-led enterprises, healthcare, education, and affordable infrastructure, with the objective of creating equity, employment, and eradicating poverty.

**Sustainability Bonds** combine Green and Social objectives, supporting interconnected SDGs. Sustainability Bonds<sup>12</sup> were issued in 2022 by PT Indonesia Infrastructure Finance (IIF), a private, nonbank financial institution. The bond's proceeds were used in full. They funded projects across drinking water infrastructure, renewable energy, healthcare, and telecommunications.

**Sustainability-Linked Bonds (SLBs)** incentivize corporate or national SDG commitments through financial aid. This category of debts holds the issuer accountable for their environmental policy actions. In 2022, Uruguay issued their sovereign SLBs<sup>13</sup> that has two pre-set targets (50% reduction in greenhouse gas emissions and 100% maintenance of forest area) and are to be measured at the end of 2025. The bond incorporates a performancebased mechanism whereby missing targets triggers a coupon stepup, while surpassing them results in a stepdown. Attaching incentives to environmental goals makes the SLBs significantly transparent to the investors while demonstrating the accountability of the government.

**Green Equity** refers to investment in companies, projects, or assets that focus on increasing environmental sustainability, clean and renewable energy, and other green sectors. Green Equity mirrors the role of SLBs but emphasizes ownership and long-term value creation. Breakthrough Energy<sup>14</sup> is one such entity, backed by Bill Gates, it invests in equity of startups developing breakthrough climate technologies and scaling solutions for global decarbonization, such as green hydrogen and carbon capture.

To set up trust among investors and regulators, and to enable scalable and impactful Sustainable Finance markets – a Governance framework needs to be established by the issuer before the issuance of a Sustainable Finance instrument with the Green Bond Principles, Sustainability Bond Guidelines and Social Bond Principles as its foundation. These guidelines encourage issuer transparency and disclosure of the project's details, defining use of proceeds (in alignment with the selected SDG) and the reporting process, which bring the confidence to the investors. The issuer also has the responsibility to ensure that the respective targets for the aligned SDGs are measured, captured, and reported. Reporting requirements require adherence to leading global sustainability standards—such as the Global Reporting Initiative (GRI), SASB, and the Integrated Reporting (IR) framework—to ensure consistency and transparency.

When substantial FDI gets channeled in Social and Environmental initiatives under the aegis of Sustainable Finance instruments towards creation of employment and poverty alleviation, a considerable amount of the nation's own funding could be diverted towards more infrastructure development. By prioritizing climate resilience, social equity, and transparent governance, Sustainable Finance makes ODA more impactful and FDI more attractive. For instance, ODA-funded renewable energy projects de-risk private investors, while ESG-linked incentives encourage multinational firms to invest in sustainable industries thus boosting FDI. This constructive collaboration offered by sustainable finance not only bridges funding gaps, but also accelerates progress towards the 2030 agenda.



# Conclusion

As the 2030 deadline for the SDGs draws near, the imperative to align the global financial system with sustainability has never been more vital. Sustainable Finance - encompassing Green Bonds, Social Bonds, Sustainability-linked instruments, and Equity-driven environmental investments has emerged as a transformative bridge between the funding deficit and the systemic change demanded by the SDGs. These instruments not only mobilize trillions in funding but also redefine accountability, incentivizing corporations, governments, and investors to prioritize long-term planetary health over short-term gains. By channeling funds into renewable energy, circular economies and inclusive infrastructure, Sustainable Finance directly addresses the interconnected challenge of poverty, inequality, and climate change, ensuring that no community is left behind, and ecological balance of the earth is maintained.

However, the journey is far from complete. Persistent gaps in funding, inconsistent metrics, and the risk of greenwashing underscore the need for robust regulatory frameworks, standardized reporting, and cross sector collaboration. Governments must strengthen policy incentives, financial institutions must innovate with integrity, and civil society must hold stakeholders accountable to ensure capital flows in alignment with SDG targets. As we look beyond 2030, Sustainable Finance offers more than a toolkit - it embodies a fundamental shift in how humanity values progress, prioritizing intergenerational equity and planetary boundaries. By embedding the SDGs into the DNA of global finance, we can forge a future where economic growth harmonizes with ecological balance, empowering communities, preserving biodiversity, and securing a livable world for generations to come. The time for a new era of transformative finance is here.



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