

Financing the Sustainable Development Goals: Exploring the Role of Government Bond Investors (In Practice)

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Government bond investors can create far more real-world sustainability impact by allocating capital toward countries that have policies strongly aligned with Sustainable Development Goals (SDGs) but limited access to capital rather than concentrating portfolios in already high-income, well-performing countries, a *Financial Analysts Journal* perspectives article asserts.

“[Financing the Sustainable Development Goals: Exploring the Role of Government Bond Investors](#)” examines how government bond investors—one of the world’s largest capital pools—can help close a \$2.6 trillion annual SDG financing gap by redirecting capital toward countries whose policies support SDGs but whose access to affordable financing is limited.

The authors introduce a practical, investable framework for integrating SDG alignment into sovereign bond portfolios that can help investors close meaningful parts of the SDG financing gap—and improve the performance of their portfolios—by reallocating toward countries where capital has the highest marginal impact.

SDGs are a set of 17 global goals adopted by the UN in 2015 to guide countries, institutions, and investors toward ending poverty, protecting the planet, and improving human well-being by 2030.

This *In Practice* brief is a companion feature delivering digestible, practical applications of this research to members. It is based on an interview with coauthor Laurens Swinkels.

Key Findings

- Investors can influence sovereign financing conditions—so their allocation decisions have measurable real-world effects.
- The greatest SDG impact comes from allocating capital to countries with strong SDG policies but poor access to financing.
- Traditional sovereign environmental, social, and governance (ESG) ratings are not suitable for SDG-focused investing because they are biased toward rich countries.
- A practical, investable framework exists to tilt sovereign bond portfolios toward SDG alignment with limited tracking error.
- Small reallocations from developed-market sovereigns to SDG-aligned emerging markets can materially reduce the SDG financing gap.
- Integrating SDGs into sovereign debt portfolios helps investors anticipate long-term sustainability and credit trajectories.

Practical Applications

Practitioners can use these findings as follows:

- **Integrate SDG scores into sovereign bond portfolio construction.** Use SDG scores to tilt sovereign bond weights, overweighting strong SDG performers and underweighting or excluding negative scorers to enhance impact with limited tracking error.
- **Reallocate a portion of developed-market sovereign exposure to SDG-positive emerging markets.** Shift a small share of allocations from developed to SDG-positive emerging markets, where investor flows significantly lower borrowing costs and expand SDG financing capacity.
- **Add SDG criteria to sovereign risk and credit analysis.** Incorporate SDG policy alignment into sovereign credit models as a forward-looking indicator of governance, stability, and potential credit improvement.
- **Create SDG-aligned benchmarks or custom mandates.** Develop SDG-integrated sovereign benchmarks or mandates to systematically embed SDG considerations into portfolio construction and accountability.
- **Improve impact reporting using SDG alignment metrics.** Report portfolio-level SDG scores and financing alignment to clearly demonstrate how sovereign allocations support countries advancing sustainable development.
- **Engage with governments on SDG policies.** Use SDG insights to guide engagement efforts that encourage governments to strengthen policy alignment, transparency, and sustainability commitments.

- **Use SDG alignment in strategic asset allocation.** Integrate SDG considerations into long-term asset allocation decisions to favor countries with improving sustainability trajectories and lower long-run transition risks.

Author Discussion

Swinkels explains that the article grew out of frustration with how sovereign sustainable investing is currently executed and a push from the World Bank to rethink it. He says a [World Bank report](#) explicitly criticized the “income bias” in existing ESG/SDG scores. “[The World Bank] urged the investment community to think about other ways that don’t have this income bias,” he says. So, he and his co-authors sought to design a way to allocate capital to countries where the “marginal sustainability revenue” is highest.

“One of our biggest motivators was that investors’ criteria tilt portfolios toward countries that are very rich and already have very good access to capital,” Swinkels explains. That is fine if the investment goal is to reward only well-governed countries, he says, “but it doesn’t help improve countries where the biggest SDG gains are possible. Our approach focuses on investing where every dollar most boosts sustainability, instead of emphasizing portfolios in high-income countries with low interest rates.”

The Study

The authors first assign each of 170 countries an SDG score from –3 to +3 using the Robeco Country SDG Framework, which evaluates whether government policies—such as those affecting poverty, education, health, gender equality, climate, and governance—advance or undermine SDG progress.

The study has two main sets of findings, Swinkels explains: one related to methodology—how to identify the countries most deserving of SDG-aligned capital—and another related to what happens when investors tilt portfolios using that methodology. The authors demonstrate a practical process for selecting countries that both need capital and are using it effectively to improve SDG outcomes. This involves identifying governments that have credible improvements in SDG indicators and reasonable governance conditions.

Using this framework, the authors find that many countries with strong SDG scores do not have developed government bond markets, meaning investors currently cannot access them, even if they want to.

Swinkels says that when SDG-based tilts are applied to real benchmark indices, the biggest sustainability gains occur in emerging markets, where the spread between high- and low-scoring countries is widest. This, he argues, shows that SDG-aligned portfolio construction can meaningfully shift capital toward the countries where it has the most impact.

The authors conclude that government bond investors can play a meaningful role in advancing SDGs by shifting capital toward countries whose policies genuinely support sustainable development. They demonstrate that many governments with strong SDG-aligned policies still struggle to access affordable financing—yet many others *are* accessible through major bond indices, giving investors a practical way to help close this gap.

Looking Forward

Swinkels says that follow-on research will mainly involve backtesting the SDG-tilted strategies once a longer history of SDG data becomes available, so researchers can evaluate how the approach affects returns and risk over time. He also notes that industry feedback will help refine the framework and guide future enhancements to the scoring methodology.

Bios



Laurens Swinkels is associate professor of finance at Erasmus University in Rotterdam, Netherlands, and executive director and head of solutions research at Robeco. Prior to re-joining Robeco in 2016, he was a researcher at Norges Bank Investment Management. He was a researcher at Robeco from 2004 to 2012 and at PensionFactory and APG Asset Management from 1999 to 2004. Laurens is a member of the Board and Research Committee of Inquire Europe. He holds a master's degree in econometrics and a PhD in finance from Tilburg University in the Netherlands.



Jan Anton van Zanten is head of sustainable investing at Osmosis NL. Previously, he served as executive director at Robeco, responsible for aligning investment strategies with the UN SDGs. He also is a visiting fellow at Erasmus University. Jan Anton holds an MPhil from the University of Cambridge and an MSc and a PhD from Erasmus University.



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