UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

SUSTAINABLE DEVELOPMENT FINANCING: PERSPECTIVES FROM ASIA AND THE PACIFIC

BACKGROUND PAPER*

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I. Introduction

1. Financing for sustainable development has become a significant and integral part of the current development discourse in the United Nations' post-2015 development agenda. To secure the *future we want* it is critical "to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives."[1]

2. On 18 June 2013, the United Nations General Assembly decided to establish an intergovernmental committee of experts on sustainable development financing, as recommended in the outcome document of Rio+20.[2] The Committee's report would "assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks and evaluate additional initiatives" and conclude its work by 2014 (para 255, A/Res/66/288).[3] The Expert Committee has made substantial progress and the regional outreach on sustainable financing is intended to offer perspectives on Asia and the Pacific financial market developments and some key issues and challenges facing the region in financing the region's sustainable development and other priorities.

3. The work of the Committee is proceeding in parallel with the deliberations of the Open Working Group (OWG) of the General Assembly, established on 22nd of January 2013 by decision 67/555. The OWG has emphasized the need to ensure adequate financial resources for investments in sustainable development, *inter alia*, through (i) strengthening domestic resource mobilization, including by improving tax collection and the efficiency of public spending and by strengthening systems to harness domestic savings for investment, (ii) the full implementation by developed countries of ODA commitments in line with the agreed formulae and timetable; and (iii) the mobilization of additional financial resources from multiple sources.[4]

4. The rest of the paper is organized as follows. Section 2 provides key considerations of financing sustainable development. Section 3 outlines the financing requirements. Domestic resource mobilization issues are discussed in section 4, after which section 5 presents ways in which capital markets can be broadened and deepened in the region. Section 6 deals with financial inclusion and section 7 describes how to leverage public-private partnerships. Section 8 illustrates innovations in climate finance. Section 9 provides various ways to mobilize external resources. Section 10 highlights the importance of trade finance, especially for small and medium size enterprises and section 11 emphasizes the importance of South-South and triangular development cooperation. Finally, section 12 concludes.

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[1] See General Assembly resolution 66/288. Available from www.uncsd2012.org/.

[2] See General Assembly resolution S-19/2, annex. Available from www.un.org/ga/.

[3] General Assembly resolution 67/203 of 21 December 2012 specified that the intergovernmental committee should update the GA on the progress of its work before the beginning of the sixty-eight session of the Assembly. This resolution as well as General Assembly resolution 67/199 titled "Follow-up to the International Conference on Financing for Development" of 21 December 2012 stressed the need to reinforce coherence and coordination and to avoid duplication of efforts with regard to the financing for development process.

[4] For further information on the 11th session of the Open Working Group, see http://sustainabledevelopment.un.org/content/documents/3686WorkingDoc_0205_additionalsupporters.pdf.

II. Key consideration of financing for sustainable development

5. As member States define the contours of the development agenda beyond 2015, the sources and uses of mobilizing resources and their proper allocation have taken centre stage. The implementation of a new, ambitious development agenda with sustainable development at its core requires more effective incentives, a more effective allocation of existing resources and additional funds from domestic, external and innovative sources.

6. The focus on sustainable development introduces new dimensions and challenges to the development financing dialogue. In line with the basic precepts of sustainable development, sustainable development financing must be aligned with development outcomes which integrate and synergize the three dimensions of sustainable development, i.e. the economic, social and environmental dimensions, as outlined in the Rio+20 outcome document, to ensure intra- and intergenerational equity, as well as recognize planetary boundaries.

7. There is now a global interest in understanding institutional mechanisms and modalities for leveraging new, emerging and innovative sources of financing from a variety of domestic and external sources. As noted in United Nations General Assembly resolution 65/1, such sources of finance should be stable and predictable and they should supplement – and not substitute – traditional sources of finance.[5] In the light of the insufficient funding available from traditional sources of development finance, policymakers have to consider the mobilization of emerging and innovative sources of financing.

8. This is particularly important because of the need to fund necessary but expensive developmental expenses, such as for closing infrastructure gaps within and across countries in the region and for addressing the impacts of climate change. For such purposes, the creation of appropriate institutional and regulatory frameworks for the development of domestic capital markets and for supporting the development of domestic institutional investors, for example, could help mobilize much needed additional financial resources.

9. *The schematic view of financing for sustainable development, around which this paper is organized, is offered in Figure 1.* The paper examines both domestic and external funding sources and also looks at public and private sources. There is need to reflect on how resource mobilization from these sources can be catalysed to meet growing and emerging requirements, and how public funds can leverage private funds to finance sustainable development.

10. Once adopted, the new and ambitious agenda with sustainable development at its core requires more tailored approaches, modalities and incentives. While the mobilization of resources through existing and new sources of domestic, external and innovative financing is challenging, there is also a need for deploying resources efficiently towards the right sustainable development outcomes.[6]

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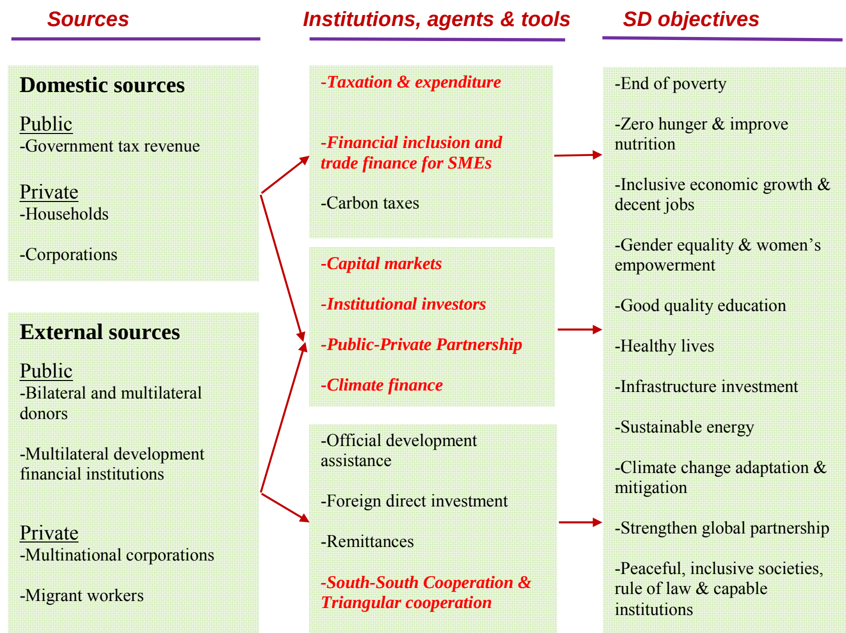
[5] See General Assembly resolution 65/1. Available from www.un.org/en/mdg/summit2010/pdf/mdg%20outcome%20document.pdf.

[6] See the work of the Leading Group on Innovative Financing for Development, the Task Force on International Financial Transactions for Development and the Task Force on Innovative Financing for Education. See also United Nations, *Innovative Financing for Development: the I-8 Group Leading Innovative Financing for Equity [L.I.F.E.]* (New York, 2009). The report highlighted that eight innovative finance mechanisms including UNITAID, IFFIm–GAVI, Advance Market Commitments, the Voluntary Solidarity Contribution for UNITAID, (product) RED and the Global Fund, Debt2Health, Carbon Market and Socially Responsible Investments.

Figure 1. A schematic view of the sources of financing for sustainable development



Source: ESCAP.
Note: Sustainable development objectives are based on the Working Document of the Open Working Group on the Sustainable Development Goals, which is available from the following website: http://sustainabledevelopment.un.org/focussdgs.html#_edn33; United Nations, *The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda* (New York, 2013); and ESCAP/ADB/UNDP, *Asia-Pacific Regional MDGs Report 2012/13* (Bangkok, 2013).

11. The sustainable development agenda, as it is emerging, will require significant investments in public goods, such as social services, clean air, water and the continued flow of ecosystem services, upon which economies and people depend.[7] The funding of such investments, which are characterized by high social rates of return but low private rates, is more likely to originate and be leveraged from public domestic resources.

12. To fund necessary but expensive developmental expenses to close infrastructure gaps within and across countries in the region and to address the impacts of climate change, supportive public finances and domestic capital markets are required. In addition, innovative sources of finance such as carbon taxes, diaspora bonds and financial transaction taxes could be drawn upon.[8]

13. In going forward it is important that the Governments in Asia-Pacific economies be cautious about the potential macroeconomic challenges of funding inclusive and sustainable development by maintaining fiscal sustainability and price stability. As part of a development-oriented macroeconomic framework, policymakers have an obligation to

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[7] The Working Document of the Open Working Group on the Sustainable Development Goals (SDGs). Available from http://sustainabledevelopment.un.org/focussdgs.html#_edn33; United Nations, *The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda* (New York, 2013); and ESCAP/ADB/UNDP, *Asia-Pacific Regional MDGs Report 2012/13* (Bangkok, 2013).
[8] World Bank, *Financing for Development Post-2015* (Washington D.C., 2013). Available from http://www.worldbank.org/

manage domestic and external public debt in a prudent manner so as to minimize adverse effects on inflation, the exchange rate, interest rates and growth for signs of any potential risks.

14. Furthermore, Governments may be concerned whether their growth would be sufficient to generate resources to keep public debt and inflation at manageable levels. Macroeconomic stability can be achieved as long as policies are designed carefully and implemented effectively. With several Governments already running fiscal deficits, greater attention must however be paid to public debt profiles in the region to better understand their macroeconomic implications. In particular, it is essential to understand the currency composition and the maturity of debt.

15. Generally, private capital inflows are highly concentrated in a small number of emerging economies. The development challenges facing these recipient countries differ substantively from those that do not receive such private resource inflows. For example, in most of the emerging developing economies, maintaining large and stable inflows is a priority, whereas in the countries with special needs, Governments need to put in place policy packages to encourage more inflows of resources. Therefore, macroeconomic policy responses in these two distinct settings will clearly differ. Moreover, experience shows that Governments in low income and vulnerable economies have in general been unable to attract significant foreign private financial resources due to weak domestic market regulations and lack of infrastructure. These economies, therefore, need ODA to supplement existing resources.

16. The goals of an Asia-Pacific model of financing for sustainable development are to:[9]

- prioritize investments that integrate the economic, social and environmental dimensions of sustainable development;
- promote inclusive and resource-efficient growth to reduce inequality, decent jobs and overall economic efficiency through an appropriate resource allocation for zero income poverty and zero hunger and malnutrition;
- strengthen investments in public goods by increasing financial resources in the quality of education, health services and social protections systems;
- catalyse long-term finance for sustainable infrastructure investment including in areas of water and sanitation, transportation services and energy access;
- strengthen market incentives and financing access for sustainable energy investments and climate mitigation and adaptation;
- strengthen governance structures to minimize and manage risks, and to guarantee effective institutional mechanisms to attain socially responsible goals of good growth, social fairness and environmental sustainability;
- close the “price gaps” related to the current externalization of social and environmental values in markets, including through taxation reform; and
- close the “time gaps” – provide financing and incentives to encourage investments that yield long-term social and environmental benefits.

[9] United Nations, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development* (New York, 2013). Available from www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf. ESCAP-ADB-UNDP, *Asia-Pacific Regional MDGs Report 2012/13* (Bangkok, 2013). Available from www.unescap.org/sites/default/files/MDG-Report2012-2013%28lowres%29_0.pdf.

III. Financing requirements for sustainable development in the Asia-Pacific region

17. Home to two thirds of the world's poor, the Asia-Pacific region faces enormous development challenges, the financing of which requires new and innovative institutions, agents and tools.[10] This section provides a brief overview of recent estimates of the region's needs to finance its sustainable development agenda. These estimates are at best underestimates as the actual size of financing requirements is quite large given the size of Region and presence of large countries, the subregional diversity in terms of the level of development and the state of infrastructure.

18. Despite these characteristics, the potential for mobilizing resources from domestic and external sources is large, yet also often constrained by the borrowing and absorptive capacity of many countries resulting from regulatory and institutional barriers. This is especially the case in the countries with special needs (CSN), comprising least developed countries, landlocked developing countries and small island developing States.[11]

19. In 2013, ESCAP estimated that the Asia-Pacific region needs between $500 billion and $800 billion per annum merely to close development gaps in the areas of education, health, employment, social protection and access to energy services between 2013 and 2030.[12] The cost estimates were prepared for 10 countries which account for over 80% of the population and 80% of GDP of the developing Asia-Pacific region. These countries were Bangladesh, China, Fiji, India, Indonesia, Malaysia, Philippines, the Russian Federation, Thailand and Turkey.[13]

20. Countries with special needs would require relatively more resources than other to implement inclusive and sustainable development agenda. For example, Bangladesh and Fiji would require on average about 16.4% and 9.9% of their GDP respectively over the period 2013-2030 to provide universal access to modern energy services, compared with an average of 8.2% of GDP for other countries in the region (see figure 2).

21. Notwithstanding the significant investment requirements to tackle social development challenges, infrastructure is a further critical component of sustainable development. The ADB has estimated that the region would need $800 billion per year to close its infrastructure gaps by 2020.[14] A more recent World Bank study estimated that the South Asian subregion alone would need between $1.7 trillion and $2.5 trillion to close its infrastructure gaps by 2020 (see figure 3).[15]