Asia-Pacific Outreach Meeting on
Sustainable Development Financing
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Introduction

The significance of sustainable financing – as an integral element of the post-2015
development agenda, is evident from the Rio+20 decision to establish an intergovernmental
committee of experts on sustainable development financing and to mandate the UN system
to bring to the General Assembly its assessment of needs, as well as to explore alternative
and innovative sources of financing and avenues for public private partnership.

To set the scene for our regional deliberations, the ESCAP secretariat has circulated a
background document. Our intentions are to inform the sustainable finance committee of
experts about the current status of Asian finance; to offer estimates of the financing
requirements of the region (albeit conservative, tentative and likely to rise); and to examine
opportunities to strengthen financing systems and leverage new partnerships and resources
for sustainable development.

Framework for Sustainable Development Financing

The sustainable development agenda emphasizes balanced and integrated development of
the social, economic, and environmental pillars, and introduces new dimensions and
challenges to the development financing dialogue. Asia-Pacific developing countries stand
out for the size of their savings pool and other resources. However due to the absence of
effective channeling of funds, and given its large population base, the region has yet to lift
between 0.7 (adopting a poverty line of $1.25/day) and 1.6 billion people (adopting a poverty
line of $2/day) out of absolute poverty; generate jobs (especially for youth); close its large
infrastructure deficits; meet growing urbanization requirements; or to sufficiently focus on
climate adaptation and mitigation, while gearing itself to deal with the impacts of natural
disasters.

In line with the Rio+20 outcomes, the schematic framework adopted for sustainable
financing calls for examining the region’s size and potential of all sources of financing. The
ability of the governments in the region to meet the large and diverse domestic infrastructure
requirements depend on their cooperation and coordination in pooling resources and
nurturing regional public goods and implement ambitious regional connectivity plans, be they
in the transport, energy and ICT sectors, or even in people to people connectivity.
In this presentation, I will focus on the region’s:

- Development financing requirements;
- Scope for domestic resource mobilization: tax and capital markets;
- Institutional investments: leveraging these through public-private partnerships (PPP);
- Need for access to financial inclusion for all;
- Climate finance requirements;
- External resources: specifically official development assistance (ODA) and private flows; and
- Efforts to forge new and better partnerships for financing sustainable development.

Development Financing Gaps

Development requirements have, thus far, been underserved by the Asia-Pacific financial system. The region needs about $500 billion to $800 billion annually between 2013 and 2030, to merely close development gaps in the areas of education, health, employment, social protection and access to energy services.¹

The required financing for success of countries with special needs (CSN) in implementing sustainable development are much larger still: for instance 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 to an average of 8.2% of GDP for other countries in the region. Most emerging Asia-Pacific market demands for development finance in these areas are under 10% of GDP throughout the period to 2030, and such demands in Indonesia, Malaysia, the Russian Federation, Thailand, and Turkey range between 5% and 8% of GDP.

Estimates for regional infrastructure gaps, another critical component of sustainable development, also vary significantly. To close these gaps, ADB estimates $800 billion per year will be required by 2020.² A more recent World Bank study estimated that the South Asian region alone will need between $1.7 trillion and $2.5 trillion.³ ASEAN connectivity is expected to cost nearly $50 billion over the next 10 years. Estimates to modernize the energy sector, including adaptation of new technologies and renewable energies for the region, range from $11.7 trillion to $19.9 trillion by 2035, or as high as $800 billion per year.⁴ And the pace of urbanization will add to the cost of infrastructure estimates, with 56% of the region’s population expected to live in urban areas by 2030.⁵

Finally, the costs for climate adaptation are estimated by the World Bank to be about $25 billion annually over 2010 to 2030 period. In contrast losses from natural disasters in the region during the period 2003-2013 amounted to $750 billion, representing almost half of the

global economic losses due to natural disasters during this period, the size of the challenge is evident.

Scope for Domestic Resource Mobilization

Domestic financing for development is a key pillar of the post-2015 development agenda. Governments have several options to unlock the fiscal space for such spending:

(i) **The average central government tax revenue-to-GDP ratio in the region is around 14.8% of GDP - well below tax potential.** Relative to this, Latin America and the Caribbean ratio is 17.1%, and for sub-Saharan Africa it is 16.3%. Developed Asian economies have higher ratios (close to 24.2%). Countries therefore have real scope to exploit their untapped tax potential. ESCAP estimates that tax reforms in 17 regional economies could mobilize more than $440 billion in tax revenues – of which $306 billion would be raised in developing countries.

(ii) **Reorientation and smart use of public finances would release fiscal funds for development.** Half of the biggest global defense spenders are in the Asia-Pacific region, accounting for 30%, equivalent to $342 billion, of total global defense spending.6

(iii) **Reorientation of public expenditure should consider tightening and targeting subsidies.** Energy subsidies in South-East Asia alone amounted to $51 billion in 2012. Asia and the Pacific also accounts for more than 60% of the estimated $5.9 trillion which flowed out of developing countries illicitly or illegally between 2001 and 2010 to evade or avoid taxation.7

Among a number of additional areas which should be examined to leverage resources for sustainable development in Asia and the Pacific are:

(iv) **Broadening and deepening capital markets and encouraging corporate investment in sustainable development.** Although Asia-Pacific is home to one third of global market capitalization, the bulk of this is accounted for by only a few large stock exchanges. Small and midsize exchanges suffer from limited corporate listings, and illiquidity as well as weak legal and regulatory governance. The region’s high-net-worth and mass affluent individuals currently invest mostly in funds overseas, but this should increasingly be a major source of development finance in the region as well as it may reach $66 trillion collectively by 2020.8

(v) **Institutional investors industry.** Of the $68.3 trillion in assets under management by the world’s top-500 asset management firms, Asia-Pacific’s share is only 9.7% or $6.65 trillion (as of 2012). Over 80% of these funds are managed by firms from Japan and Australia. Among the region’s developing countries, the Republic of Korea and China have the largest share (holding close $490 billion and $400 billion respectively). The region’s share of management of the world’s top-300 pension funds was 26.3% or $3.68 trillion at the end of 2012. Development of the pension

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6 The highest ranking country, the United States, accounted for 52%.
fund industry could kick start the level of financial intermediation and project finance in the region.

**PPPs can be useful to support infrastructure development.** Private investment committed to infrastructure in the Asia Pacific developing countries grew to an unprecedented level of $120.1 billion in 2010.\(^9\) Several governments in the region have developed a national strategy and an enabling environment for PPPs to mitigate political and other risks. Resolution of policy issues, and a well-developed project pipeline, along with more innovative credit enhancement mechanisms will be critical for attracting private capital in the infrastructure sector.

**Financial inclusion:** The large majority of the adult population, especially the poor and vulnerable sections of the society, is typically excluded from core financial services – savings, credit, insurance and remittances in Asia and the Pacific. In India, for instance, women are 41% less likely than men to have a formal bank account, compared to 22% in the rest of the developing world.\(^10\) Recently, financial inclusion initiatives have led to new and innovative ways of providing banking solutions (e.g. mobile phone banking).

**Climate finance:** Asia and Pacific is the most natural disaster-prone region in the world, and of the fifteen countries most exposed to natural hazards and climate change-related risks exposure, nine are in this region. Even though region received about 54% of the total approved spending of global climate funds (nearly $11.5 billion since 2002)\(^11\), this is well below the climate finance requirements we have already explored. To fill the gaps, the private sector will need to be leveraged through official assistance. An innovative area to leverage climate funds is green bonds which are expected to generate $50 billion by 2015.\(^12\) Institutional investors’ contribution to financing green bonds will therefore be critical.

**Mobilizing External Resources & International Partnerships**

ODA inflows to Asia and the Pacific were severely affected by the global financial crisis. ODA to the region dropped during the crisis but recovered subsequently, increasing to $30 billion in 2012, and remain a significant source of development finance for the countries with special needs such as LDCs, LLDCs and SIDS in Asia and the Pacific. LDCs in the region received an estimated $12.4 billion in 2012, while their share in the total ODA to the region more than doubled between 1990 and 2012. Effective allocation and efficiency will be critical for increasing ODA support, especially for LDCs and fragile states.\(^13\)

In any case, external resource inflows will come not only from public sources such as ODA, and multilateral development financial institutions, but need to also be generated from private sources including FDI, remittances and other innovative and emerging sources. In 2013, developing Asia-Pacific economies accounted for more than one-third of global FDI of $1.46 trillion.\(^14\) However, these flows were highly skewed towards larger emerging countries and in the resource sectors. FDI flows generally do not reach the countries that need them

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most: LDCs and fragile states. Increasing FDI flows to developing economies and LDCs will be critical for green-field projects to further increase growth-enhancing activities. Remittances also have great potential to finance development, but given the private nature of these flows, the possibilities of utilizing them for the financing of public goods are limited.

There is also great potential for South-South Cooperation (SSC) and Triangular Development Cooperation (TDC) to play an important role for the financing of sustainable development. The two largest contributors to SSC activities in the region, China and Turkey, spend over $2.8 billion and $2.5 billion respectively, on SSC related activities in recent years. Areas of sustainable development focus for SSC and TDC in Asia and the Pacific include: Food security, public health, ICT, climate change and regional/global public goods.

Conclusion & Way Forward

Going forward, the region should work collectively to ensure that it nurtures strong and stable financial systems. To achieve this, policymakers and regulators need to work with the private sector to develop more diversified and balanced financial sectors—which are key to reinforcing financial stability and sustainability, as well as to extending finance to meet the people’s needs and the region’s development. This calls for:

- Raising tax-to-GDP ratios by broadening tax bases, removing exemptions – be they for individuals, corporations or indirect taxes – and improving collection and administrative efficiency;

- Reorienting public spending by, inter alia, curbing regressive subsidies – in particular energy-related subsidies – and using the saved funds to create socially and financially sustainable social protection systems;

- Moving from bank-dominated to well-diversified and competitive financial systems, which can be achieved by broadening and deepening equity and debt markets,

- Fostering the development of the institutional investment sector to impart the required liquidity, and strengthening regulatory frameworks to restore investor confidence;

- Strengthening legal, regulatory and supervisory systems that promote financial inclusion to intermediate finance to low-income groups, women and micro-entrepreneurs;

- Advocating and positioning PPPs, leveraged through well-designed incentive frameworks, to encourage financial systems and institutions to finance sustainable development projects;

- Furthering the development of regional capital markets, which have the greatest potential for raising the required resources for financing sustainable development. Recent trends show a rapid growth of local currency bond markets in the region’s major developing countries, however, countries need to enhance capacities to set up and improve the functioning of capital markets institutions and regulatory frameworks, particularly in smaller and least developed countries and in the small island developing states;

- Fostering the development of domestic institutional investors, particularly in the asset management and pension fund industries; and
• In parallel, employing renewed efforts to exploit domestic sources of financing and to ensure that official development assistance commitments and distributions are met. The private sector must also be catalyzed and incentivized to support sustainable development.

To effectively deploy available financing for sustainable development, measures need to be taken to (i) improve public sector policy support for risk- or cost-sharing mechanisms to facilitate access to finance for PPP projects; (ii) identify and leverage new and innovative climate financing mechanisms; (iii) tailor financial services more closely to the requirements of the poor and SMEs; and (iv) promote South-South and triangular development cooperation to share knowledge more widely and increase the availability of funding for capacity building.

ESCAP is positioning itself to continue facilitating intergovernmental debates on financing for development involving the private sector and other stakeholders, and to examine approaches and options for enhancing South-South and triangular cooperative frameworks. However, these forms of cooperation will supplement – not substitute for – North-South flows.

I thank you.