First High-Level Follow-up Dialogue

on Financing for Development in Asia and the Pacific

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ESCAP
Background Note

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1. The Economic and Social Commission for Asia and the Pacific (ESCAP) has been actively engaged for almost three years with the region's governments to augment understanding of the global dialogue, objectives and scope of the Financing for Development process. In 2014 and 2015, ESCAP held two rounds of Asia Pacific consultations, with support of the Government of Indonesia. The resulting consolidated perspectives of the region was captured in a Chair Summary and shared with the ECOSOC and other platforms. It also informed the debates of the Addis Ababa Action Agenda (AAAA).

2. Now, with your collective support we have structured this inaugural session to reflect on the priorities of the implementation of AAAA in Asia-Pacific. These priorities have been informed by the Note of the Secretary General on Monitoring commitments and actions in the Addis Ababa Agenda on Financing for Development circulated for the ECOSOC's global deliberation on AAAA and its follow up and review process to be held from 18-22 April, 2016. The present two-day session is the first of such regular sessions, where Asia and Pacific region will be sharing their perspectives on the major areas of the AAAA and the deliberations will inform the ECOSOC.

3. Our special thanks are due to the Government of the Republic of Korea – the Presidency of 2016 ECOSOC – for co-hosting this event with ESCAP to solicit regional member's views on their way forward in catalyzing action on the critical means of implementation for the 2030 Agenda for Sustainable Development.

4. To recollect, AAAA establishes a strong foundation to support the implementation of 2030 Agenda with concrete policy actions embedded in the framework that calls on member States to draw upon all means of implementation such as finance, trade, science, technology and innovation, capacity building and data.

5. The President of ECOSOC is convening the inaugural Forum on Financing for Development in April 2016, which will help to further develop common methodology and mechanics to drive the progress on the financing for development outcomes and the means of implementation of the 2030 Agenda. ESCAP, as a member of the United Nations and International Organizations' Inter-Agency Task Force (IATF), established by the Secretary General, will continue to offer technical inputs to the follow up process.

6. Consistent with the framework of the AAAA, this background note serves three purposes. One, it responds to demands of AAAA to offer qualitative assessment of the recent economic developments along with main challenges and discusses the implications for financing sustainable development. Two, it provides a snapshot of AAAA and highlights updates on key commitments and actions as reported by IATF. Three, it outlines ESCAP's strategy to engagement with the region to support the implementation of AAAA. Until global agreement is reached on the formal framework of follow up and review, with respect to quantitative targets and indicators of means of implementation of AAAA, the assessment will be based on qualitative assessment.

Economic setting and associated challenges for financing sustainable development

7. From the policymakers' standpoint, there are at least three essential prerequisites for the effective implementation of the comprehensive and integrated framework for financing sustainable development agreed in Addis Ababa in July 2015. One, a sustained, robust and inclusive economic growth; two, resilient and credible macroeconomic and financial stability; and three, forward looking strategies and room to adjust policy levers. As all policymakers understand, these are interconnected aspects and require effective coordination and capable institutions – at the national, regional and global level – to move forward on all three fronts.

8. Before highlighting the challenges, it is worth highlighting upfront that despite the recent economic slowdown the Asia-Pacific region remains the fastest growing region of the world. The region is vast, varied and rich in development experiences. Some economies of the region offer world-class physical and financial infrastructure and, driven by high productivity, have become manufacturing and trade hubs in the global economy. It has the wherewithal and dynamism to revive its economic growth and address the emerging challenges.

9. Nevertheless, ESCAP sees considerable challenges that need to be overcome to provide a resilient platform for financing sustainable development. After growing at an average of 9.4% during the pre-crisis period of 2005-2007, economic growth in the developing economies of the region has slowed considerably. In 2015, ESCAP estimates regional GDP growth to be 4.4%. Importantly and more worryingly, growth of total factor productivity has declined by more than half in developing countries of the region, averaging only 0.96% between 2008 and 2014, while labour productivity has declined by 30%, reaching only 3.9% in 2013. These outcomes carry the risk of impeding progress on reducing poverty, mitigating inequalities and generating decent jobs etc, and have implications for public and private financing flows – all essential ingredients of the 2030 Agenda for Sustainable Development.

10. Importantly, a slower economic expansion has a direct negative impact on raising sufficient financial means to implement the AAAA on Financing for Development. While domestic tax revenues are perhaps the more prominent example, as revenue base shrinks in line with decline in taxable economic activity. Private financial resources, frequently channeled in the system through financial markets, are not immune either to economic slowdown. A well humming economic engine serves as a basic impetus to harnessing financial resources; from the public as well as the private sector.

11. In terms of economic outlook, a confluence of risk factors is casting a shadow over the region's macroeconomic and financial stability, clouding the prospects of robust increases in both financial and non-financial means of implementing AAAA. Examples of such risks include: an uncertain outlook for the Chinese economy in the backdrop of fragile global economic recovery; weak consumption and investment trends in major developing economies of the region; volatility in financial markets, capital flows and exchange rates, including due to low oil prices for commodity exporters; growing private household and corporate debt; and likely further increases in interest rates in the United States of America. The consequent uncertainty does not bode well for an environment conducive for optimizing existing sources of financing or pursue innovative new means, especially from the private sector.

12. Persistent weak global economic conditions and prospective stability issues of the international monetary and financial system does not inspire much confidence either. Despite efforts to improve

financial regulation and supervision at the domestic level, it seems difficult to have sustained global financial stability without addressing systemic issues, such as persistent capital flow volatility and enormous foreign exchange reserve accumulation by some economies.

13. At the same time, risk of higher financing costs in our region, due to spillovers from the US monetary policy changes and its consequent impact on domestic interest rates, may impede critical investments such as in infrastructure and climate mitigation and adaptation. If region's economies choose to maintain domestic interest rates aligned with prevalent inflation, they may experience even further increase in capital outflows or depreciating currencies. Such tension in policy considerations increases uncertainty and is detrimental for an effective implementation of AAAA.

14. Household and corporate debt levels have also increased significantly in a number of countries in the past decade, driven by low interest rates, ample liquidity and increased access to cross-border loans and international capital markets. This rise in private debt carries the risk of spilling over to broader debt sustainability concerns because debt servicing capacities of the private sector may be more constrained this time, given the economic slowdown and subdued earnings. Moreover, debt exposure to highly cyclical or excess capacity sectors such as real estate, construction, energy and heavy industries – along with high dollar exposure – can prove to be a challenge in the deleveraging stage.

15. What strategies and policy levers are available to policymakers in these circumstances? We know that relying on a business-as-usual export-led economic recovery is unlikely to be an option in short-term nor can take us far. The estimated merchandise exports growth rate of the Asia-Pacific region was only 2.3% in real terms in 2015, much lower than GDP growth. The situation was even worse for imports which declined by 2.4%. For trade to remain a relevant driver of economic growth, we need to look more towards trade in services, and also how to use technology and innovation to improve not only what we trade, but also how we trade. Services, technology and knowledge products can also help in jolting the lackluster productivity growth in the region.

16. Similarly, despite record low inflation, monetary policy cannot be relied upon either to boost economic growth due to capital outflow pressures and domestic financial stability concerns. The policy objectives of central banks, nevertheless, should focus on financial stability in addition to price stability. This is important because, as seen during the 2008 global economic and financial crisis, financial stability can be jeopardized even if there is price and macroeconomic stability. Second, since most destabilizing elements of the crisis was the procyclical amplification of financial shocks throughout the broader economy, fiscal buffers should be established in good times to obtain debt sustainability in bad times.

17. Therefore, the governments need to focus more on strengthening domestic demand to support economic growth and enhancing domestic and regional capacities to increase and better utilize financial resources. Currently, consumer spending seems constrained by high household debt in some economies and a general declining share of wages in national incomes. Similarly, prospects of private investment do not look very bright given high corporate debt along with regional and global uncertainties.

18. In such circumstances, fiscal policy can play an important role. It can support domestic demand through countercyclical measures and help strengthen the foundations for inclusive and productivity-led growth through better education, healthcare and infrastructure. A proactive fiscal policy can also alleviate the pressure on provision of public services arising from rapid urbanization and rising middle class in the region. Addressing issues of inequality of incomes and opportunities together with enhancing social protection for the poor and near-poor will also require a well-crafted fiscal policy. An important point to remember is that fiscal measures, underpinning such initiatives, should be accompanied by sustained reforms towards an efficient and fair tax system to enhance revenue delivery.

19. Importantly, strong fiscal positions are the backbone of financing sustainable development and providing confidence and an enabling environment for private businesses and finance. Moreover, since most destabilizing element of the 2008 crisis was the procyclical amplification of financial shocks

throughout the whole economy, fiscal buffers need to be established in good times to obtain debt sustainability in bad times. The good news is that our region, by and large, has relatively low levels of government debt, though debt servicing costs are high in some countries and fiscal sustainability is getting under more pressure due to ageing population. Nevertheless, governments must recognize that there is no mechanical or universally accepted threshold for limiting public debt. Ultimately, each country needs to assess the costs and benefits of higher public debt, keeping in mind that the long-term sustainability of fiscal positions depends on sufficient, consistent and equitable tax revenues.

An update on the commitments and actions of the AAAA on Financing for Development

20. The Financing for Development agenda dates back to the 2002 Monterrey Consensus – a package of commitments, including ODA and trade commitments with promises of incremental movement on Doha Trade round etc., to support the implementation of the Millennium Development Goals.

21. More than a decade later, in the lead up to the adoption of the 2030 Agenda for Sustainable Development, world leaders gathered in Addis Ababa, Ethiopia, in July 2015 and adopted a universal and comprehensive framework for financing sustainable development under AAAA. This new framework aligns all financing flows and a comprehensive set of policy measures with economic, social and environmental priorities.

22. In addition to all sources of finance – from tax revenues to assets held by institutional investors – the new framework includes non-financial sources, such as trade, science, technology and innovation and capacity building as important means of implementing the 2030 Agenda. It also emphasizes the importance of high quality disaggregated data for effective policy making and monitoring and calls for transparent measurements of progress on sustainable development that go beyond per capita income.

23. Building on Monterrey's emphasis on improved global economic governance, the AAAA underscores the need for addressing systemic issues and strengthening of national and international regulatory frameworks and enabling environments. In additional to global financial and economic stability, this should help unlock private finance and trade opportunities and provide incentives to change consumption, production and investment patterns.

24. The AAAA also contains several cross-cutting initiatives, such as the establishment of a global infrastructure forum, a package of measures to support least developed countries and mainstreaming women's empowerment. Importantly, recognizing the importance of social protection and essential public services for all, the governments have also committed to provide fiscally sustainable and nationally appropriate social protection systems – a new social compact.

25. Without going into details, this paper highlights the broad contours of the AAAA – which is a 134 paragraphs long document, consisting of more than 100 measures. It also briefly highlights the preliminary findings of the inter-agency task force – consisting of UN, IMF, World Bank, FSB and other multilateral organizations – that has been set-up to lay down a pragmatic approach to follow up and review and has been engaged on data and monitoring issues. This discussion, therefore, will help us understand the rationale of this meeting's agenda, and identify the main deliverables we may expect from different sessions.

26. The commitments and policy recommendations in the Addis Agenda are organized in seven substantive areas, plus a section on data, monitoring and follow up in line with the structure of the UN the inter-agency task force document. Taking stock of the progress in AAAA will involve continued consultation, and require regional commissions to be involved in the process, which will benefit the global follow up and review.

Core sources of financing the AAAA on Financing for Development

27. Domestic public resources – scope of this is quite substantive, focusing on public financial management and requiring public expenditure reorientation and revenue related measures with an

emphasis on broadening the tax base and strengthening tax administration. Governments are also encouraged to avoid excessive tax competition while curbing illicit flows through international tax cooperation. Potential of development banks to finance long-term investments is also recognized, especially in market segments where commercial banks are not fully engaged or large financing gaps exist.

28. While revenue statistics are widely available, the IATF report notes that more work may be needed on how public spending supports sustainable development. Also, some efforts may be needed to harmonize data and ensure comparability over time. Measuring illicit financial flows poses a particular challenge.

29. Domestic and international private business and finance – recognizes the critical role of the private sector but highlights the fact that today's financial system often fails to intermediate finance in ways that are aligned with sustainable development. Therefore, the governments would need to agree to strengthen their enabling environments and regulatory and policy frameworks to better align private investment with public goals. Promotion of financial inclusion, while ensuring financial market stability, and access to finance for small entrepreneurs are also given priority. The Governments also commit to strengthen long-term bond markets along with effective capital market regulation to promote long-term investment aligned with sustainable development.

30. The UN-IATF with support of UN agencies and regional commissions will review progress on these fronts based on a repository of data, surveys and case studies on issues relating to the investment climate, financial inclusion, remittances, capital market development and FDI. Information on reporting initiatives such as Global Compact, Global Reporting Initiative (GRI) and UNEP-FI are also available, although data on how these initiatives change behaviour is scarce. Reports of large philanthropic entities provide additional sources.

31. International development cooperation –reaffirms developed countries' ODA commitments, including allocation of 0.15 to 0.2 per cent of gross national income, to assisting least developed countries. South-South cooperation and multilateral development banks are also called to actively support the sustainable development agenda.

32. In terms of monitoring progress, the UN-IATF report notes that while ODA and other financing flows from traditional donors and development banks are readily available, flows from South-South development cooperation is more challenging due to various modalities. There is effort underway to improve estimates of South-South cooperation. Surveys on the effectiveness of development cooperation provide additional sources. Under this cluster, the IATF will also review climate finance, humanitarian finance, and innovative sources of finance. There are growing concerns now regarding the implication of rising requirements for humanitarian and other financing flows for development; it is critical that former be identified as additionality to avoid squeezing ODA.

33. International trade as an engine for development – while international community recognizes positive steps in the multilateral trade negotiations of the WTO, the growing prominence of bilateral and regional preferential trade agreements will require stronger efforts to bring Doha Development Round to its conclusion. At the same time, further actions at global and national levels are required to ensure adequate expansion of LDCs' exports; both on the demand side, including through 'special and differential treatment', and supply side by increasing amount and effectiveness of 'Aid for Trade'. In the climate of stagnant growth, trade would be much helped by consistent actions on reducing trade costs including trough trade facilitation measures and more effective management of non-tariff and beyond the border regulatory barriers. Furthermore, as emphasized in the IATF report, improving policy coherence at all levels (national, regional and global) is the key of ensuring that trade could really contribute to sustainable development.

34. The WTO and UNCTAD will take the lead in monitoring progress, including on development related to global value chains and regional preferential trade agreements. There is also scope for an involvement of regional commissions not only in developing national capacity but also to improve on identification of more appropriate indicators for monitoring.

35. Debt and debt sustainability – acknowledges that debt restructurings enhance the ability of debt-constrained countries to achieve sustainable development and recognizes that both debtors and creditors share responsibility for crises. The Governments commit to work towards a global consensus on guidelines for debtor and creditor responsibilities and agree to consider further debt relief steps and new risk-reducing financial instruments.

36. According to the IATF report, debt statistics are available on debt volumes, and to some degree on emerging domestic and external vulnerabilities and risks that threaten debt sustainability. There is less data available on debt management and debt restructuring, but international organizations have the intent to launch new databases.

37. Addressing systemic issues – emphasizes the importance of the coherence and consistency of the international financial, monetary and trading systems in support of development. Acknowledging concerns about systemic risks from regulatory gaps and misaligned incentives in the financial sector, the Governments resolve to undertake financial regulatory reforms and address the challenges posed by volatile capital flows through international cooperation. The Governments also agree to strengthen international financial safety nets and reduce mechanistic reliance on credit rating agency assessments. Importantly, the need for further increases in voice and representation of developing countries in global decision making and norm setting bodies, such as the IMF and WB are also recognized.

38. In terms of monitoring, while data on implementing financial regulatory reforms is readily available for G20 members and few financial hubs, this is not the case for the majority of developing countries. Moreover, additional effort is required to monitor the impact of regulations on incentives for investment in countries most in need and areas important for sustainable development.

39. Science, technology, innovation (STI) and capacity building – represents a major expansion of the Monterrey agenda and stresses the importance of public policies and finance for this purpose. The AAAA calls for governments to integrate STI policies in to sustainable development strategies; create enabling environments for innovation through effective institutions and infrastructure; commit funding; and increase access to technology, in particular digital technology, to allow all to reap the benefits of the digital age and enable a movement to an inclusive and open knowledge economy. The Governments agreed to establish a Technology Facilitation Mechanism, consisting of: a UN Interagency Task Team on STI for SDGs; an annual collaborative multi-stakeholder forum on STI for SDGs; and an online platform to disseminate information on STI initiatives, mechanisms and programs. Also, the Governments will seek to operationalize a Technology Bank for the LDCs. It is worth highlighting that STI is the theme for this year's ESCAP annual meeting in May that will discuss the challenges and opportunities of harnessing STI for inclusive and sustainable development.

40. Such measures and activities are expected to help address the uneven innovative capacity, connectivity and access to technology that currently exists within and between countries. Monitoring progress on this front would go beyond data to also include policy outcomes and qualitative assessments. Also, there is recognition of the need to strengthen STI capabilities of a country by promoting the quality of interactions among the innovation actors in what might be called the "innovation system" – enterprises, universities, research institutes, the government and the financial system, along with non-governmental organizations and the informal sector, including grassroots innovators, and local and indigenous knowledge.

41. Data, monitoring and follow up – highlights the importance of robust data for monitoring to advise the intergovernmental follow-up on progress and implementation gaps and to provide recommendations for corrective action, including the need for more and better indicators. The AAAA stresses the need to link such a process to the 2030 Agenda and places official statistical systems in the central role of generating, disseminating and administering data for monitoring international commitments while recognizing the need to supplement official data with data and analysis from civil society, academia and the private sector.

42. In this regard, the IATF report notes that AAAA marks the first time that data issues have received such comprehensive treatment in the Finance for Development process. It recognizes considerable synergies with the efforts to develop an indicator framework for the SDGs and efforts of the UN Statistical Commission to support and develop capacities of national statistics agencies. Going forward, the IATF will provide qualitative information on these efforts, including those corresponding to Open Data and other transparency initiatives. The issues of ensuring privacy and data protection are of concern and mechanisms for doing so still need to be developed.

ESCAP strategy of engagement within region to support financial means of implementation of the AAAA

43. The AAAA calls for a regular and strengthened follow up process at the regional as well as the global level. As can be seen from the discussion above, the AAAA is quite comprehensive and manages to pool together a wide range of finance and non-finance issues into one coherent framework. However, its universal nature also means that countries need to identify the most relevant priorities and tailor those action items to fit national circumstances. Regional dialogues can serve as a bridge in this process and moreover offer knowledge sharing platform, complement national efforts in such areas as taxation cooperation, capital market development and infrastructure financing. This is precisely why this first follow-up dialogue on financing for development in Asia and the pacific has been convened. A summary of the key message and policy recommendations coming out of these deliberations, highlighting the priorities of the Asia-Pacific region, will feed into the newly established annual 2016 ECOSOC forum on financing for development.

44. The main deliverables that we may expect from the six sessions are closely linked to each other.

Regional tax cooperation

45. As fiscal policy assumes a growing role in stabilizing the economy through counter-cyclical measures and supporting long-term national development priorities, it is important to ensure fiscal sustainability. Raising adequate revenues through improved tax policy and administration is critical for this purpose. Many countries in the region seem to have room to further increase tax revenues For instance, the average tax-to-GDP ratio in Asia and the Pacific was only 14.8% of GDP in 2012, compared with 17.1% in Latin America and the Caribbean and 16.3% in sub-Saharan Africa. It must be noted that countries on the lower end of tax-to-GDP ratios do tend to have economic structures that are less conducive to raising taxes. Nevertheless, even after accounting for these differences, the tax base seems to be unusually narrow in some countries.

46. Identification and registration of taxpayers, enhanced tax compliance through effective taxpayer services and removing redundant exemptions are critical steps in broadening the tax base. Governments can consider publishing tax expenditures to encourage proper cost-benefit analysis of tax exemptions and incentives. In addition to strengthening revenues through base-broadening, enhancing tax progressivity by increasing the revenue share of income taxes, avoiding undue distortions by considering a unified VAT and pursuing tax coordination to discourage harmful tax competition can support revenue raising efforts.

47. With the support of the region's governments and through a consultative process, ESCAP intends to establish an Asia-Pacific Tax Forum for Sustainable Development. A study conducted by ESCAP has proposed five focus areas: (i) supporting tax revenue enhancement efforts; (ii) strengthening municipal financing to support the region's continuing urbanization; (iii) promoting progressive and environment-friendly tax policies for inclusive growth and sustainable development; (iv) facilitating exchange of information and coordination to address harmful tax competition; and (v) providing an open platform to discuss and coordinate positions on international tax standards and practices.

Capital market development

48. The development of domestic capital markets, with an appropriate mix of debt and equity, is crucial for adequate provision of long-term financing to meet the rising investment needs of the region. Despite recent rapid growth, equity and bond markets remain underdeveloped and lack liquidity in many countries, due to barriers such as narrow investor base and inadequate soft and hard financial infrastructure. The overall sizes of capital markets also vary considerably in the region. For instance, stock market capitalization is 144% of GDP in Malaysia and only 0.3% of GDP in Armenia.

49. In addition to enforcement of international standards based on the principles of International Organization of Securities Commission (IOSCO) and BIS's Committee on Payments and Market Infrastructures (CPMI) and strong corporate governance, a move towards harmonization of legal and regulatory frameworks can also support further capital market development in the region. However, we recognize that countries with special needs face challenges in fully adopting and developing all aspects of capital market related rules and institutional frameworks. At the same time, we should explore new or overlooked frontiers of finance. For instance, Islamic finance, which has grown at double-digit rates during the past decade, provides a viable alternative that can create the depth and breadth in capital markets. Its asset-backed financing and risk-sharing feature provide support for small and medium sized enterprises, as well as investment in public infrastructure.

50. Regional financial cooperation can help address many of these issues, by complementing national efforts. Countries may require adopting appropriate securities market regulations, adjusting supervision frameworks and developing financial safety net mechanisms at the national and regional level to link and integrate capital markets while ensuring financial stability. This process will require sharing of information and effective monitoring and surveillance of capital markets. Given the region's long-term financing needs, we also need to critically assess whether some of the post-crisis financial regulatory reforms at the global level may unduly constrain the region's financial development. For this purpose member states may consider setting up an Asia-Pacific capital market development forum.

Infrastructure finance

51. Our region faces huge infrastructure development needs, to support the growing intra-regional trade and investment as well as keep up with rapid urbanization. Traditionally, the bulk of the infrastructure investments in the region have been financed by tax revenues and public sector borrowings, with support from official development assistance and multilateral development banks. Lately, many countries have shown interest in tapping private sector resources and expertise as well, through Public-Private-Partnerships, in infrastructure development.

52. To coordinate infrastructure related issues, ESCAP is establishing an 'infrastructure hub' with focus on regional connectivity of the energy, ICT and transport sectors. Given the large financing requirements, we need to leverage various financing sources and modalities – including new multilateral infrastructure banks, such as Asian Infrastructure Investment Bank (AIIB), and institutional investors with long-term assets such as pension funds, insurers and sovereign wealth funds.

Financial inclusion

53. This is certainly an area with much potential to contribute to achieving the 2030 Agenda for Sustainable Development, including poverty reduction, job creation, and productivity related goals. It not only provides access to financial services and enhances the financial literacy of the poor but also allows micro, small and medium enterprises (MSME), startups and young firms and innovative projects greater access to finance.

54. Currently, large disparities in access to and use of financial services persist in the region. For instance, less than 15% of adults in Afghanistan, Cambodia, Pakistan, Tajikistan and Turkmenistan hold accounts at formal financial institutions. In-country disparities can be even larger when examining financial services access within population segments and across income levels. Similarly, MSMEs are

quite constrained in accessing formal credit from a financial institution. The ratio of MSME loans to total bank loans is still in the 20-30% range.

55. To improve the situation, many economies in the region are pursuing inclusive finance policies to facilitate access to finance at affordable cost and through outlets in remote areas. Nevertheless, further efforts are needed to increase the outreach of finance, including through financial literacy and moving beyond traditional bank financing models to include other financing avenues such as mobile banking and Islamic financing mechanisms. In this vein, countries in the region have a lot to learn from each other by sharing experiences in developing financial inclusion strategies and policies.

Climate finance

56. The Paris Agreement concluded a decade-long effort to agree on a comprehensive global climate agreement and for the first time ever all the 195 Parties to the UNFCCC adopted the agreement in 2015. The regional importance of climate change is highlighted by the fact that the Asia-Pacific region is the most vulnerable to the impacts of climate change. For instance, in the past decade alone 3 million people in this region have been affected by natural disasters, with an estimated loss of around $750 million. At the same time, the region is responsible for approximately 54% of global greenhouse gas emissions that are projected to increase further.

57. Therefore, there is an urgent need to ensure that adequate financial resources are available for regional climate adaptation and mitigation. The global climate finance flows were estimated at $391 billion in 2014, a record high. Approximately $150 billion of this was invested in the Asia Pacific region, which was the leading regional destination for climate finance. China alone accounted for one dollar in every 5 of global climate investment. While the increase of 18% over the previous year is encouraging, it is still well below what is needed to meet the goals of the Paris Agreement, estimated at a cumulative $16.5 trillion in the period to 2030. The total climate finance flows are also eclipsed by global fossil fuel subsidies, which were estimated at $490 billion in 2014. Whether it is public or private climate finance, the majority of the funds in 2014 were invested in the country where the funds originated. This highlights the pivotal role of national policies in mobilizing, allocating and tracking climate finance.

58. Of the global climate finance flows, over 93% was directed towards mitigation, principally toward investments in renewable energy technology. The balance of the investment was for climate change adaptation measures, considerably below what is needed for the purpose. The Paris Agreement, for example, calls for adaptation finance to be significantly revised from its current levels, while the Green Climate Fund targets a 50:50 split between mitigation and adaptation measures. Addressing the underinvestment in adaptation is a key challenge in the climate finance area.

59. Notable however are the gaps in current estimates of climate finance flows. In particular these arise from difficulties in capturing private and public investments in energy efficiency, transport, land use and adaptation, leading to underestimates in the total level of finance. Initiatives already underway to strengthen the tracking and accounting of climate finance at national and international levels will improve the understanding of the dynamics and sectorial trends of climate finance.

60. In addition to raising additional financial resources and improving the consistency and transparency with which climate finance is tracked, countries will also need to strike a balance between investments in climate mitigation and adaptation. This session will discuss challenges related to these issues and may explore options such as ‘green’ budgeting and ‘green’ banking and bonds, along with a review of commitments relating to the Green Climate Fund.

South-South and triangular cooperation

61. As a complement to North-South cooperation, South-South cooperation has grown rapidly in the past decade. The two largest contributors to South-South cooperation activities are Turkey and China, followed by the Republic of Korea, India, the Russian Federation, Thailand and Indonesia. In light of the 2030 Agenda, it is high time that we examine the quality of such cooperation. This is important

because for many low income and vulnerable Asia-Pacific economies substantial external resources play a vital role for pursuing sustainable development. In addition to funding development programmes, such cooperation also provides opportunities to share best practices, skills and expertise with each other.

62. Therefore, effort has to be made to strengthen South-South and triangular cooperation in order to increase investment flows and expand knowledge sharing and capacity building activities, especially for least developed countries, landlocked developing countries and small island developing States. For this purpose, it would be very helpful if countries could create a dedicated agency within one of their ministries to deal with South-South and triangular cooperation.

63. In conclusion, three observations made by the IATF, are quite relevant for the purpose and approach of this dialogue.

- One, the changing global environment underscores the importance of maintaining flexibility in addressing key issues in the FfD follow-up process. This is why it is important to understand our region's economic conditions and dynamics that this paper has highlighted above.

- Two, it is important to balance the breadth and depth of the AAAA; thus in addition to the general stocktaking, future reports may contain a discussion of specific thematic issues, if countries so request. Our selection of selected themes for this conference, keeping in view our regions priorities, is in sync with this observation.

- Three, there is a question of how to best engage countries on a national level in the FfD process, noting that countries already carry a significant reporting burden for the SDGs. We are certain that the deliberations in the next two days will provide useful insights for this purpose.

64. In this context, the broader message of this report is that given the economic slowdown in our region, uncertain global conditions and a host of economic and development challenges, there is gradually rising probability of experiencing significant instability that could complicate regional development scenario in the near-future. Therefore, it is best to initiate and take preventive measures to ensure that FfD follow-up process does not get disrupted. In this vein, a specific recommendation would be to harness upfront domestic resource to systematically drive the implementation of the AAAA in support of the SDGs. In particular, strengthening of fiscal positions through tax policy and administration reforms is most critical. Such efforts should be complemented by improving the regulation and oversight of financial systems and increasing their outreach to optimize the contribution of capital markets to sustainable development, including through investment in infrastructure and climate mitigation and adaptation and enhanced financial inclusion. These contingent fiscal and regulatory measures will also help to mitigate and manage the consequences of the changing global regulatory architecture on our region's economies and financial markets.

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