Opening statement by Dr. Shamshad Akhtar,
Under-Secretary-General of the United Nations & Executive Secretary of
The Economic and Social Commission for Asia and the Pacific

Fourth High Level Dialogue on Financing for Development

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[Check against delivery]

Your Excellency, Mr. Ali Tayebnia, Minister of Finance and Economic Affairs, the Islamic Republic of Iran
Your Excellency, Mr. Ravi Karunanayake, Minister of Finance, Sri Lanka,
Your Excellency, Mr. Tevita Lavemaau, Minister of Finance & National Planning, Tonga
Your Excellency, Mr. Song Eon-seog, Vice Minister of Strategy and Finance, Republic of Korea,
Your Excellency, Mr. Mark Brown, Minister of Finance, Cook Islands
Excellencies,
Central Bank Governors and Deputies,
Distinguished delegates,
Ladies and Gentlemen,

Welcome to the 4th High-Level Dialogue on Financing for Development in Asia and the Pacific.

The financing needs to support implementation of sustainable development are enormous. Asia, home to 4.5 billion people, will need to invest as much as $26 trillion in infrastructure by 2030 and additional investments are needed to improve health care, education, clean drinking water and sanitation; reduce air pollution; and to support job creation in a more inclusive society. For four consecutive years, with your support we have had a strong exchange on the guiding principles for mobilizing the financial resources needed to support the 2030 Agenda as set out in the Addis Ababa Action Agenda.

There is now a broad agreement among stakeholders that enhancement of development finance flows calls for tapping public and private funding sources, both domestically and internationally, promoting diversified sources of funding and unleashing innovative and impact financing. Three core priorities have emerged out of the deliberations held, the need for governments to (i) enhance their capacity to mobilize public finance resources domestically; (ii) deliver financing for sustainable and resilient infrastructure; and (iii) deepen financial inclusion and its penetration. Based on this, we count on member states stock taking of the progress our region has made and to develop a financing action-plan. Let me say a few words on each of these three priority areas.

Public finance has to shoulder the bulk of the financing demands for the effective implementation of the 2030 Agenda. The sustainable development agenda needs a sustainable source of resources. Yet as a whole, the Asia–Pacific region has the lowest tax revenue levels in the world – averaging around 18 per cent of GDP compared to 21 per cent for all developing countries and 26.4 percent for developed countries. A substantial differential already exists. As tax revenues in many developing countries hover around under 15 per cent of GDP, fiscal deficits are significant and will rise as the demands of the SDG financing are factored in. In this light, building more effective, efficient and accountable tax systems must remain a top priority for these countries. We hope to benefit from the vision and leadership of all the finance ministries in the region.

Not only are the requirements of government revenues important – but how and where revenue is raised is also crucial. Targeted and progressive taxation, combined with the right blend of public spending on social and environmental benefits, are essential to delivering economic, social and environmental sustainability, so critical for shared prosperity and for reducing inequality. Most developing countries tend to rely on indirect taxes with a lower redistributive impact. The share of personal, corporate income or wealth taxes, that have greater equity implications, remains low at 37.6 per cent - well below the OECD average of 55.8 per cent.

Rather than strengthen the business environment and streamline incentive frameworks, Asian developing countries compete for investment and export markets by offering lower tax rates and high tax breaks. This competition of tax distortion is a dangerous phenomenon. These distorted incentive regimes are known to haemorrhage revenues without the intended impact on industry. In the light of the growing demands on public expenditure, there is a need to avoid a race to the bottom on tax, while developing more effective taxation policies focused on development needs. This needs to involve nurturing global and regional cooperation to fight tax avoidance and evasion with full and effective participation of developing countries in the on-going international tax cooperation agendas that are promoted by several international agencies. The recent establishment of the inclusive framework on Base Erosion and Profit Shifting (BEPS) shows international determination to be ambitious in this area. To support our developing countries our region must collaborate with international partners to effectively engage in negotiations and then implement international agreements.

Public finance is key to promoting sustainable and resilient infrastructure development. However catalyzing private capital and expertise is critical given the size of demand for resources. Among other things, an unprecedented urbanization process is underway. Around 940 million people moved to cities in our region between 2000 and 2015. Local governments often lack the financial wherewithal and the tax raising powers to support their cities transition to quality urban infrastructure and public services.

Allow me to move to another core priority of ESCAP, Public-private partnerships (PPPs) and how we leverage these resources. PPPs hold great promise. While our region has had mixed experience with PPPs, they offer both the finance and expertise needed. Many countries in the region are in the process of developing the necessary legal, regulatory and institutional frameworks for PPP transaction, but governments' capacity constraints to structure and implement these transactions stand in the way, particularly in efforts to introduce transparency, governance and oversight, which are all critical. Implementing PPPs across borders is even more complicated. Cross boarder PPPs are missing in our region. Regional cooperation and economic integration is such an important pillar that reinforces sustainable development. Therefore we need to exploit multilateral regional platforms to facilitate PPPs. These areas could also help identify viable projects, build trust among interested parties, support environmental and social safeguards and identify viable financing mechanisms. I'm pleased to report that ESCAP has now been engaged to assist several low income member States develop their capacities to undertake regional cross boarder infrastructure projects through PPPs.

Deeper capital markets could also support private sector infrastructure projects. The integration of financial markets in our region could increase the financing available for this purpose. But this requires greater harmonization of the regulatory architecture governing financial markets and services across our region. This integration would deepen the pools of capital available to support long term investments, and could support innovative financing solutions, such as green bonds for sustainable infrastructure or private sector credit enhancement instruments. In 2016, $36 billion worth of green bonds were issued in China, representing 39 per cent of global issuance. It is worth considering whether this success story that should be replicated.

Promoting financial inclusion is a huge challenge in a region that is home to 55 per cent of the world's population that does not have bank accounts, where women have a lower share of bank accounts than men and where bank loans to SMEs only represent 19 per cent of total bank lending.

Financial inclusion is crucial for all these groups to be able to plan ahead, invest and contribute to building a better future. With the right support, high potential SMEs could expand and make a major contribution to job creation and prosperity in the region. After all, they account for 96 per cent of all enterprises and employ 62 per cent of the work force. A well-designed regulatory framework that strikes the right balance between increased financial inclusion, improved SME credit access and maintaining financial stability, is essential to address this issue.

For instance, to increase the number of people with access to bank accounts, new regulatory frameworks are needed to allow commercial establishments to offer basic consumer financial services on behalf of a bank. Additionally, regulation that required all banks to allow free basic accounts would increase access to financial services. As the Central Bank Governor of Pakistan I implemented this policy with a stroke of a pen. Clearly such policies would not suite many banks as such a requirement would have a cost. But banking is a public service and banks must provide access to services for all. We cannot deny ordinary citizens the right to open an account. Models such as 'Kirana' shops in India as well as simplifying administrative requirements are effective alternative options. To facilitate SMEs' access to finance and to lower SME nonperforming loans, it would need to include carefully calibrated capital adequacy and liquidity ratios. During my time at the Central Bank of Pakistan, we set up a dedicated development finance department to better service the needs of both banks and ordinary citizens. So it is important that we promote a more proportionate approach to licensing requirements, and a clearer regulatory architecture governing credit registries, collateral registries and credit guarantees. Adjusting prudential norms according to risk profiles, business models and the systemic importance of individual financial institutions is also needed.

The rapidly-developing fintech sector is already bringing a broader range of financial services to the region, offering new banking, payment and financing options. These companies range from Mobile Money & Payments companies such as AliPay in China, to Micro Lending & Credit Scoring companies such as Lenddo's in Singapore. Companies like these could help increase the financial inclusion of SMEs and individuals, as well as improve the information available to lenders. Dianrong, a fintech company in China, has established a peer-to-peer online market place for SME loans, providing credit ratings and risk controls on each loan[1]. It is incumbent on

[1] Weathering the storm, Asia-Pacific Banking Review 2016, McKinsey and Company

policy makers and regulators to ensure we can make the most of such innovations while proportionately managing new sources of risk as they emerge.

Since our last Dialogue, ESCAP has continued to support the efforts of our member States in these three priority areas of financing for development.

When I began at ESCAP there was no financing for development focus. We began by examining where the region stood on this issue. What makes me proud now, is that financing for development has been institutionalized within ESCAP. Today in ESCAP's Macro Economic Policy and Financing for Development Division there is a unit dedicated to financing for development with dedicated expertise. We have also set up an *Eminent Expert Group on Tax Policy and Public Expenditure Management for Sustainable Development*. I do believe our region has the right expertise and knowledge to provide advice to our member States on key public finance issues in order to increase our ability to mobilize resources domestically. The Group's experts have called for an Asia-Pacific approach to public finance reform for the 2030 Agenda; urged closer regional coordination on policy priorities and a greater Asia-Pacific contribution to international debates and negotiations on public finances. It has highlighted significant knowledge gaps in policy design and policy implementation, which are critical if we are to meet the new demands of the SDGs.

In the field of infrastructure financing, we have continued to provide capacity-building support and opportunities to share best practice between different parts of our region. This work is always underpinned by solid analysis. Our Countries with Special Needs Development Report 2017 estimated the cost of infrastructure financing needs to be close to 10.5 per cent of GDP for the least developed countries of our region. This is far above their current levels of funding, making it of paramount importance for policymakers to prioritize investment in infrastructure and sequence investment to make the most effective use of available resources.

In recent years, ESCAP has supported member States in their work to establish PPP frameworks which have helped the development of relevant national legislation. We have also designed a PPP capacity building programme, which includes a popular online training programme, and broadened the scope of our work on infrastructure financing beyond PPP by developing infrastructure financing strategies for sustainable development for countries through national and subregional workshops.

To support greater financial inclusion, we are planning several major activities that include inter-regional sharing of best practice, in particular with the Economic Commission for Latin America and the Caribbean as well as with other regional partners. These will also include research on SME financing and capacity building of member States. I am pleased to see our partners actively participating in today's event.

We count on the member States to share their experiences, encourage regional cooperation across priority areas, and provide ESCAP with further guidance on how we can support your initiatives.

I thank you.