MINISTRY OF FINANCE
REPUBLIC OF INDONESIA

UN Intergovernmental Committee of Experts on Sustainable Development Financing

Asia-Pacific Outreach Meeting on Sustainable Development Financing

10-11 June 2014

Jakarta, Indonesia

Co-hosted by UN ESCAP and Ministry of Finance, Republic of Indonesia

CONCEPT NOTE

1. A Financing Strategy for a Changing Development Landscape

At the 2012 United Nations Conference on Sustainable Development (Rio+20), world leaders agreed that the next phase of global development must ensure a better balance between the three pillars of sustainability: economic growth, social equity, and environmental stewardship.

The result of this agreement is a growing global consensus that the post-2015 development agenda must extend beyond poverty reduction and the MDGs alone, and also incorporate issues such as infrastructure development and climate change mitigation and adaptation. To achieve this social, economic, and environmental sustainability will, however, require appropriate sources of finance to be urgently secured.

To spearhead this effort, the Intergovernmental Committee of Experts on Sustainable Development Financing (henceforth the "Committee") was established by the General Assembly in follow-up to Rio+20, to "assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks, and evaluation additional initiatives, with a view to prepare a report proposing options on an effective Sustainable Development Financing Strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives" (Paragraph 255).

The importance of financing was also recognized by the UN High-Level Panel of Eminent Persons on the Post-2015 Development Agenda. H.E. Dr. Susilo Bambang Yudhoyono, President of the Republic of Indonesia and Co-Chair of the Panel, presented to the UN General Assembly the Panel's report, which contained 12 illustrative goals, including the goal to create a global enabling environment and catalyze long-term finance.

Similarly, in Asia and the Pacific, enhancing financial cooperation for development was a key agenda item of the Ministerial Declaration on Regional Cooperation and Integration, unanimously adopted at a 2013 ESCAP ministerial conference and in which ministers from the region decided to establish a working group to further study the issue and develop concrete policy options.

Official development assistance (ODA) flows stand at barely half of the 0.7% of gross national income repeatedly agreed by donor countries for more than 40 years. While South-South flows have become increasingly significant, these remain almost exclusively bilateral, rather than coordinated in support of a multilateral development agenda. For the post-2015 development agenda to succeed, it is clear that all types of financing will be critical, including public, private, international, and domestic – and that these sources must be mutually reinforcing and complementary. It will also be vital to explore new policy frameworks for innovative partnerships at the national and international levels, which combine commercial profitability with sustainable development objectives.

There is no region in the world where financing for sustainable development is more important than Asia and the Pacific. Home to two thirds of the world's poor, the region is characterized by enormous financial needs, but also by tremendous opportunities – especially in light of its vast levels of domestic savings and foreign exchange reserves. The region's financial needs in the area of infrastructure, for instance, estimated at $800 billion per year, are particularly acute. Failing to meet these needs will not only constrain economic development, but also create supply-side inflationary pressures.

The availability of long-term financing has significantly declined since the onset of the global financial crisis. The resulting deleveraging and retrenchment of banks from the global financial markets has left a huge gap in infrastructure financing. Banks are now increasing lending rates, trimming risk assets, and being more selective. Solvency requirements for insurers to hold higher provisions for long-dates assets could also cause insurers to reduce the duration of investments. With banks retreating, non-bank financing is now emerging as a new imperative.

To be sure, opportunities for high returns have attracted trillions of dollars in capital inflows to the region in recent years, but their short-term orientation and concentration in few selected countries and sectors minimize their contribution to development.

What are lacking are strong financial intermediation mechanisms to channel resources into productivity-enhancing and sustainable investments, and this deficiency applies to both public and private financing, as reflected in weak government revenues as well as underdeveloped capital markets.

In the area of domestic resource mobilization, it is worth pointing out that government revenues remain low in many developing countries. Tax bases are narrow and fiscal austerity has had negative consequences from economic growth, which also subdues revenue growth. In Asia and the Pacific, although some countries have tax/GDP ratios of around 25 per cent, the average for developing Asia is only 16.9 per cent, which creates a constraint on the provision of public goods.[1] In addition, the financial sectors of many countries are insufficiently developed. Therefore, it is critical to discuss how more appropriate tax policies, combined with reduction of tax evasion, and more efficient public expenditures can enhance the developmental role of fiscal policy. It is also important to examine how the countries of the region could build deep and liquid capital markets to efficiently intermediate between savers and firms seeking capital to fund investments.

Another vital discussion is how the vast savings of some countries could contribute to meeting the needs for capital, particularly for investment in infrastructure, of other countries in the region. In this

[1] Data from IMF GFS for 2011. See also ESCAP, *Economic and Social Survey of Asia and the Pacific 2014*, chapter 4, forthcoming.

context, what role would be played by a new regional financial institution, such as the Asian Infrastructure Investment Bank recently proposed by China. It is also useful to explore how the regional financial architecture could be effectively positioned, and how the Asian Development Bank would plan to strengthen its capital base and serve the broader requirements of sustainable development.

It is important to point out that, in many countries of the region, the capacities for the preparation of bankable projects, matching them with investors, and implementing effective project management and risk control methods remain low. Given the importance of these capacities to encourage the participation of the private sector in infrastructure projects, discussing ways to boost and finance capacity-building activities in this area is highly relevant, as are policies to effectively leverage private financing and to better align private sector incentives with public sustainable development goals.

Finally, the threats that pollution and other environmental challenges pose to the region's social and economic gains call for rethinking the role of finance. As Asia and the Pacific moves away from "grow first, clean up later" development strategies and towards recognizing the interdependency of social, economic, and environmental dimensions of development, its financial strategy should be more forward-looking. Innovative mechanisms, such as financial transactions taxes, carbon taxes, 'polluter-pays' laws, and similar mechanisms could be used to raise substantial new sources of public financing. Questions about how to leverage and position development finance and financial intermediaries to serve the growing requirements of climate financing also need further exploration.

Such financial strategies should also aim, for example, to scale-up investment in renewable energy and green infrastructure. In addition to mobilizing funds through earmarked taxes at national and global levels, it is important to mainstream environment-friendly principles into public and corporate decision-making, such as through sustainable procurement. It is also important to discuss how the region could benefit from innovative mechanisms and instruments of climate finance.

2. Asia-Pacific Outreach Meeting

Regional outreach is an important part of the Committee's deliberations. The Asia-Pacific outreach meeting, to be held on 10-11 June 2014 in Jakarta, will be led by Committee co-Chairs Dr. Mansur Muhtar, Executive Director on the Board of the World Bank Group and former Finance Minister of Nigeria, and Ambassador Pertti Majanen of Finland, and members of the Asia-Pacific Group.

The two-day high-level event will be co-hosted by the UN Economic and Social Commission for Asia and the Pacific (ESCAP) and the Ministry of Finance, Republic of Indonesia. It will bring together leading figures in the public, private and civil society sectors to discuss ways to mobilize domestic and international finance in support of sustainable development in Asia and the Pacific. In particular, discussions will be structured around two of the three clusters identified by the Committee:

- Mobilisation of resources and their effective use; and
- Institutional arrangements, policy coherence, synergies and governance.