United Nations ESCAP/CMPF/2019/1

Economic and Social Council

Distr.: General
28 August 2019

Original: English

Economic and Social Commission for Asia and the Pacific
Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development

Second session
Bangkok, 6–8 November 2019
Item 2 of the provisional agenda*
Mainstreaming the Sustainable Development Goals into economic policymaking

Mainstreaming the Sustainable Development Goals into economic policymaking

Note by the secretariat

Summary

Economic policies have long been geared towards accelerating gross domestic product growth, but such a singular focus is no longer desirable, given the significant challenges of inequality, environmental degradation and climate change. In the present document, multiple channels are highlighted as a potential means for economic policymakers to step up their contributions to the 2030 Agenda for Sustainable Development, including economic planning and budgeting, fiscal policies and financial policies. Also highlighted in the present document are the key findings of several recent research efforts by the Economic Commission for Asia and the Pacific (ESCAP) and others, including the *Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond Growth*, which illustrates the range of policy interventions needed, and their financial resource implications, to achieve the Sustainable Development Goals.

The Committee may wish to discuss how economic policies that support the Sustainable Development Goals could be mainstreamed into relevant regional and subregional forums and the work of respective national think tanks. The Committee may also wish to encourage members to share their perspectives with regard to mainstreaming the Sustainable Development Goals into economic policymaking.

I. Broadening the scope of progress beyond gross domestic product

1. In the 2030 Agenda for Sustainable Development, Member States have committed to move beyond a conception of progress centred on gross domestic product (GDP) and towards a multidimensional approach that balances the economic, social and environmental dimensions of development. They have made efforts to act on their commitments, as illustrated in their national sustainable development strategies and voluntary national reviews. Nevertheless, according to the latest report of the Secretary-General on global

* ESCAP/CMPF/2019/L.1.

Sustainable Development Goals progress, it is abundantly clear that a much deeper, faster and more ambitious response is needed to unleash the social and economic transformation required to achieve the Goals.[1] Similarly, according to the *Asia and the Pacific SDG Progress Report 2019*, published by the Economic and Social Commission for Asia and the Pacific (ESCAP), the region will not achieve any of the 17 Sustainable Development Goals by 2030 if it pursues its current trajectory. In particular, progress has been stagnant or heading in the wrong direction for several Goals related to environmental sustainability.

2. Economic policies have long been geared towards accelerating GDP growth. Despite the well-known limitations of GDP and the recognized need for complementary measures of progress, policymakers and private investors alike have looked almost exclusively at GDP when assessing the strengths and prospects of economies. With regard to development efforts, the focus on GDP growth was often justified on the basis of positive correlations between GDP, on the one hand, and poverty reduction and employment generation, on the other. However, those correlations varied by time period and country, implying that outcomes also depend on broader policies. Another common justification is that strong GDP growth is necessary to generate the resources and government revenues needed to pursue development priorities. However, GDP growth alone cannot create the necessary conditions for sustainable development, nor can increase spending.

3. For economic policymakers, such a singular focus on GDP is no longer desirable, given the significant challenges of inequality of income and opportunity, environmental degradation and climate change. The cost of inaction is already evident, including in the form of persistent poverty, rising pollution and the increasing number of natural disasters, and is projected to increase rapidly over the coming decades. In addition, there is growing empirical evidence that proactively addressing such challenges is better for the economy. Countries with a more equitable distribution of income tend to sustain high economic growth for longer periods.[2] Early interventions to implement climate change adaptation measures result in slower capital depreciation, lower debt accumulation and higher GDP.[3]

4. Highlighted in the present document are several ways in which economic policymakers can step up their contribution to sustainable development. This is in addition to their important role in creating an enabling environment through prudent macroeconomic management. Through multiple channels, including economic planning and budgeting, fiscal policies and financial policies, economic policymakers could help bring about the fundamental changes needed to implement the 2030 Agenda.

---

[1] *The Sustainable Development Goals Report 2019* (United Nations publication, Sales No. E.19.I.6).

[2] For a technical discussion, see Jonathan D. Ostry and Andrew G. Berg, "Inequality and unsustainable growth: two sides of the same coin?", International Monetary Fund (IMF) Staff Discussion Note, No. 11/08 (Washington, D.C., 2011); and Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, "Redistribution, inequality, and growth", IMF Staff Discussion Note, No. 14/02 (Washington, D.C., 2014).

[3] For a technical discussion, see Miria A. Pigato, eds., *Fiscal Policies for Development and Climate Action* (Washington, D.C., World Bank, 2019).

II. Mainstreaming the Sustainable Development Goals: importance of taking a whole-of-government approach

5. Achieving the Sustainable Development Goals requires a whole-of-government approach, with planning, economic, finance and other pertinent ministries working closely with one other and with subnational governments. This is because the Goals encompass a broad spectrum of economic, social and environmental issues and require integrated approaches that harness synergies and address trade-offs. Health outcomes, for instance, depend not only on health-care services but also on nutrition, water, sanitation and air quality; thus, investments in these other areas could deliver health co-benefits. In contrast, if the costs of new energy policies to support renewables and energy efficiency fall disproportionately on the poor, then this could impair progress towards universal access and counteract the efforts to eliminate poverty as a result.

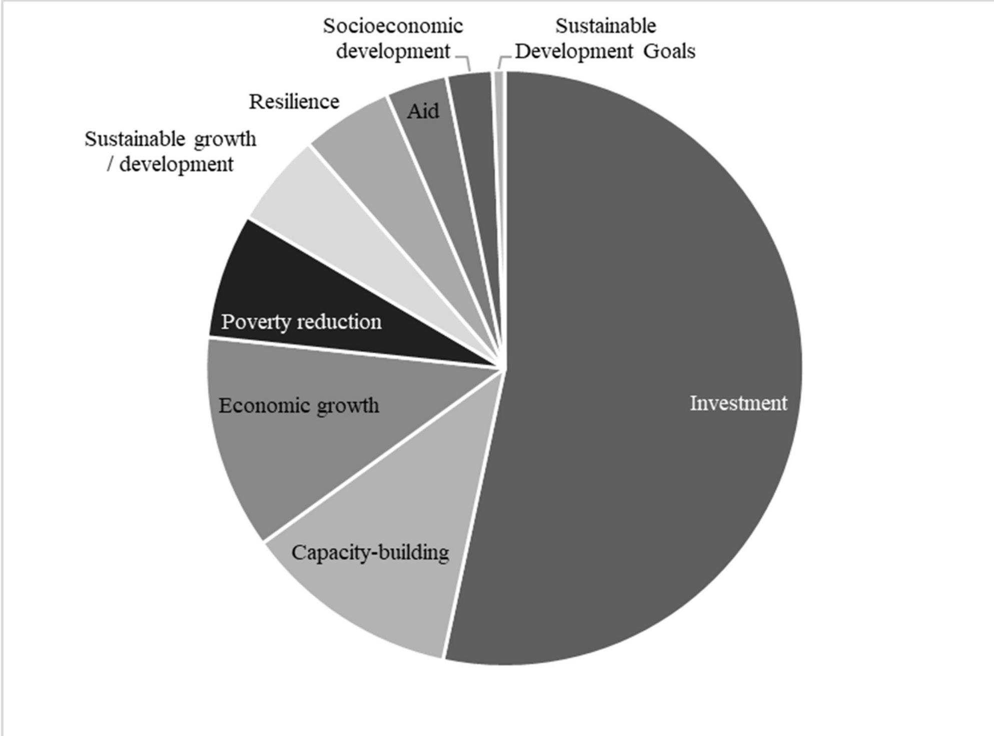
6. With regard to institutional arrangements for the implementation of the Sustainable Development Goals, countries have taken two broad approaches, either creating new institutions or repurposing and assigning new responsibilities to existing ones.[4] For instance, in Sri Lanka, the parliament enacted the Sustainable Development Act, in which it provides for the establishment of the Sustainable Development Council to formulate related national policies and strategies and guide national and subnational bodies on new development projects.

7. Through these new or existing institutions, countries have begun to mainstream the Sustainable Development Goals into their national development plans. For instance, with respect to the principle of leaving no one behind, countries have deployed social protection and other measures covering various vulnerable groups (for example, women, children and young people; disabled and elderly persons; the poor; racial, ethnic and religious minority groups; refugees and migrants; and people experiencing geographical inequalities), although more progress is needed in mainstreaming the principle into macroeconomic policies and integrated measures for productive capacity development.[5] A bibliometric analysis of the national plans of 14 countries in the region reveals that the term "Sustainable Development Goals" appears 24 times and "poverty reduction" appears 251 times, which is still far less than 1,967 instances of "investment" and 430 instances of "economic growth" (see figure I). While this is due in part to some of the plans being formulated before 2016, it nevertheless suggests that there is more to be done.

[4] ESCAP/RFSD/2019/INF/3.

[5] For a technical discussion, see Committee for Development Policy Subgroup on voluntary national reviews, "Voluntary national reviews reports – what do they (not) tell us?", Committee for Development Policy Background Paper, No. 46, ST/ESA/2018/CDP/46 (New York, United Nations, Department of Economic and Social Affairs, 2018).

Figure I
Key terms used in national development plans: examples from the Asia-Pacific region



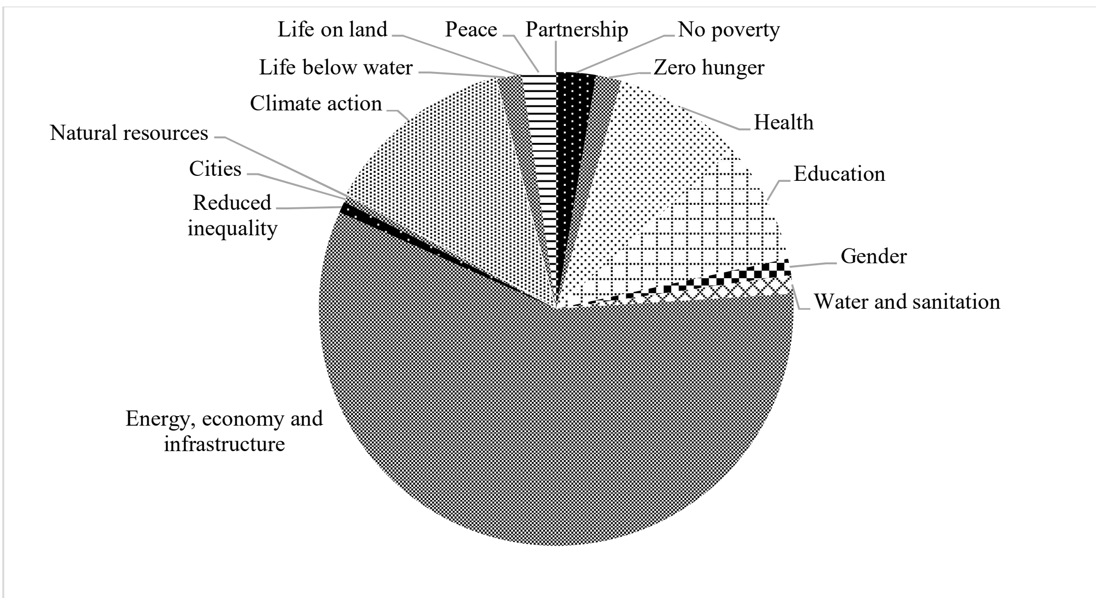
Source: ESCAP analysis based on the national plans of the following 14 countries: Bangladesh, Bhutan, Brunei Darussalam, China, India, the Lao People's Democratic Republic, Malaysia, Myanmar, Pakistan, Papua New Guinea, the Philippines, Thailand, Timor-Leste and Viet Nam. For additional information, see Admos O. Chimhowu, David Hulme and Lauchlan T. Munro, "The 'new' national development planning and global development goals: processes and partnerships", *World Development*, vol. 120 (August 2019), pp. 76–89.

8. To support the implementation of national development strategies, countries have also begun to develop associated financing strategies. In the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, Governments are called upon to take a holistic, integrated approach to financing in order to mobilize the investments needed to achieve the Sustainable Development Goals. Policies in each area of financing, whether related to the budget, stimulation of domestic investments, engagement of diaspora or other financing issues, can be most effective if they are developed and implemented not in isolation but as part of a larger, strategic approach to financing. Aligning policies in each area of financing with the Goals or a national sustainable development plan helps to build coherence, address trade-offs and leverage synergies. In particular, integrated national financing frameworks can help to achieve the following: (a) align financing with long-term priorities; (b) focus on binding constraints to mobilize resources; (c) identify targeted policies and reforms; and (d) facilitate the sequencing of reforms.[6]

[6] *Financing for Sustainable Development Report 2019* (United Nations publication, Sales No. E.19.I.7).

9. For instance, the Myanmar Sustainable Development Plan (2018–2030), which was adopted by the Government in 2018, will be funded with resources mobilized from financial markets, foreign and local investment, public-private partnerships, official development assistance and increased domestic tax revenues. A dedicated project bank has been set up to strengthen and coordinate the development of projects related to the Sustainable Development Goals. The Sustainable Development Goal financing strategy of Bangladesh, which was published in 2017, included a needs assessment for all 17 Goals. The estimated total additional cost for the period 2017–2030 is approximately $928 billion, with energy-, economy- and infrastructure-related Goals accounting for the largest share (figure II). The largest source of financing is expected to be the private sector (42 per cent), followed by the public sector (34 per cent) and other sources. Public sector financing would primarily target Goals 1–4, 14, 16 and 17, private contributions would be key for Goals 7–9, 11 and 12 and external financing would focus on Goals 13 and 17.

Figure II
Composition of additional investment needs in Bangladesh, broken down by Sustainable Development Goal area



Source: Bangladesh, General Economics Division, Bangladesh Planning Commission, *SDGs Financing Strategy: Bangladesh Perspective* (Dhaka, 2017).

III. Investing in people and the planet to achieve the Sustainable Development Goals

10. A comprehensive assessment of the investment needs to achieve the Sustainable Development Goals could help countries to effectively mobilize and allocate public, private, domestic and external resources to priority areas. Given that Bangladesh is one of only a few countries to have conducted such an assessment, ESCAP, in collaboration with relevant United Nations agencies and other specialized agencies, recently conducted an assessment of the Asia-Pacific region. Globally, a total of $5 trillion to $7 trillion is needed per year to achieve the Goals, with developing countries accounting for $2.5 trillion to

$3.5 trillion.[7] According to the *Economic and Social Survey of Asia and the Pacific 2019,* it is estimated that the Asia-Pacific developing countries need to invest an additional $1.5 trillion per year to achieve the Goals by 2030, which is equivalent to approximately 5 per cent of their combined GDP in 2018 and approximately 4 per cent of their average annual GDP for the period 2016–2030. This estimate is based on a broad definition of investment to include expenditures that deliver clear social returns in the following areas:

(a) An escape for more than 400 million people from extreme poverty and malnutrition (Goals 1 and 2);

(b) Basic health care for all (Goal 3);

(c) Quality education for every child and youth (Goal 4);

(d) Improved access to transport, information and communications technology (ICT), and water and sanitation (Goals 6, 9, 11 and 17);

(e) Universal access to electricity and clean cooking (Goal 7);

(f) Increased use of renewables (Goals 7 and 13);

(g) Energy-efficient transport, buildings and industry (Goals 7 and 13);

(h) Climate-resilient and disaster-resilient infrastructure (Goals 9 and 13);

(i) Fundamental changes in the manner of producing and consuming (Goals 8 and 12);

(j) Protection of nature's wealth (Goals 14 and 15).

11. Ending poverty and hunger is a matter of basic human rights. In the *Economic and Social Survey of Asia and the Pacific*, four major interventions to reach these Sustainable Development Goals are proposed and their costs are estimated: (a) targeted cash transfers to eliminate poverty, based on international thresholds; (b) a social protection floor for all ages, based on national poverty thresholds and covering benefits for children, maternity, unemployment and disability assistance and old-age pensions; (c) nutrition-specific interventions to address wasting, breastfeeding, anaemia and stunting; and (d) rural investments to double agricultural productivity and small farmer incomes, consisting of interventions in the areas of primary agriculture and agroprocessing, research and development, and extension services. Together, these interventions would cost $373 billion per year. Of course, sustained poverty reduction would also require interventions to expand employment opportunities for the poor and support for the development of local businesses and small and medium-sized enterprises.

12. The 2030 Agenda is about giving everyone the chance to realize their full potential in life. An additional investment of $158 billion, or $38 per person per year, would be needed to ambitiously scale up health systems to achieve Goal 3 targets. This would include spending on clinics and hospitals, doctors and nurses, supply chain and information systems, and commodities and supplies. On education, an additional investment of $138 billion per year would be needed to provide universal pre-primary to upper-secondary schooling of a certain quality, as measured by teacher salaries and the pupil-

7 *World Investment Report 2014: Investing in the SDGs – An Action Plan* (United Nations publication, Sales No. E.14.II.D.1).

to-teacher ratio, and of a certain level of equity, as reflected in additional budget allocations to reach the marginalized.

13. Climate change presents the single greatest threat to development. The *Economic and Social Survey of Asia and the Pacific* includes an estimate of the cost of shifting from fossil fuel to renewable energy and enhancing energy efficiency in the transport, building and industry sectors, as well as of achieving universal access to electricity and clean cooking. Such investments would deliver the co-benefits of reduced air pollution and associated premature death. To show the costs of building climate resilience into the transport, ICT, and water and sanitation sectors, the study includes information about the markup on the total capital and maintenance costs for new and existing infrastructure in those sectors. This policy package for clean energy and climate action would require an additional investment of $434 billion per year. On environmental conservation, it is estimated that an additional investment of $156 billion per year would be needed to conserve and restore ecosystems and biodiversity in the region, assuming a business-as-usual approach is taken in other segments of society. If progress is made on other Sustainable Development Goals, including on climate action, these financial needs could be reduced substantially.

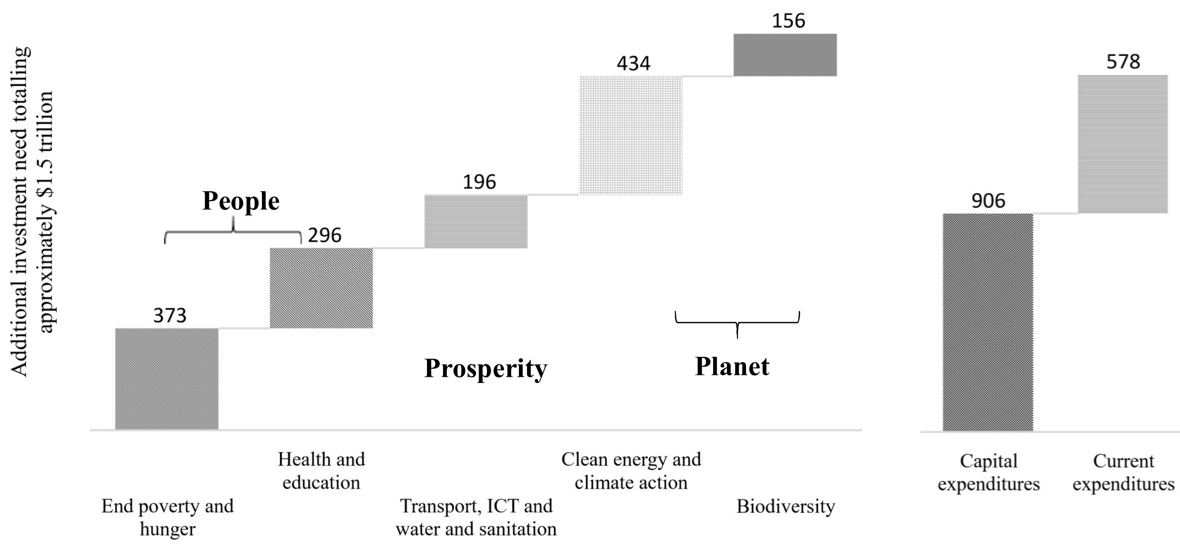
14. Ambitious policy interventions to combat climate change and enhance environmental sustainability may be economically costly in the short term but generate lasting benefits in the long term. They not only cut across public-private boundaries but also national and regional borders. As such, efforts in the Asia-Pacific region would have to be complemented by efforts in other developing and developed regions, and vice versa. Innovative mechanisms are required in order to address this gigantic global coordination challenge. It is worth noting that the success of some Sustainable Development Goals hinges less on financial interventions than on changes in vision, culture and other non-financial interventions.[8]

15. Figure III shows the cost breakdown across the major Sustainable Development Goals investment areas addressed in the *Economic and Social Survey of Asia and the Pacific*. Overall, approximately 62 per cent of all additional investment needs would arise from capital expenditures (including on hospitals, classrooms, roads, railways, fixed broadband, and terrestrial and marine protected areas) and 38 per cent from current expenditures (including on health and education, labour and supplies).

[8] Although the *Economic and Social Survey of Asia and the Pacific* serves as a relatively comprehensive framework for investing in the Sustainable Development Goals, some Goals or targets are not explicitly addressed, either because their achievement depends primarily on non-monetary factors (such as institutional and legislative changes to achieve peace and justice under targets 16.a and 16.b) or because they tend to be the result of other investments (for example, investing in human capacities and enabling infrastructure would support economic growth and industrialization). Similarly, for Goal 5, the major policy thrust would be directed towards eliminating all forms of discrimination against women, promoting public awareness and support for gender parity, and creating a fair, safe and friendly environment for women to realize their potential in all professions and positions. Goal 12 (Responsible consumption and production) would require behavioural changes, which could be supported by regulations and policies to incentivize change, through market price signals, as well as to inform, through environmental accounting, advocacy and education.

Figure III

Additional investments needed to achieve the Sustainable Development Goals in the Asia-Pacific region (average annual requirement, 2016–2030)
(Billions of United States dollars)



Source: *Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond Growth* (United Nations publication, Sales No. E.19.II.F.6).

Note: Figures in 2016 dollars.

16. The investment estimates illustrate the range of policy interventions needed to effectively pursue the Sustainable Development Goals. This review of the investment needs, policies and processes of mainstreaming the Sustainable Development Goals into development strategies helps to reinforce the point that achieving the Goals will require a significant change in mindsets, processes and policies.

17. For a region as diverse as Asia and the Pacific, the composition of investment needs varies considerably by subregion and country group. Least developed countries and countries in South and South-West Asia would need to prioritize and scale up investments to end poverty and hunger and reach health and education targets, whereas countries in East and North-East Asia would need to step up efforts in clean energy and climate action. Owing to their high vulnerability to climate change, the Pacific small island developing States would need additional investments in disaster-resilient infrastructure, given that the estimated value of the average annual loss associated with natural disasters is approximately 18 per cent of total infrastructure investment, or nine times higher than the regional average.

18. Moreover, while the necessary financing is within reach for many countries, others face daunting challenges. For instance, the *Economic and Social Survey of Asia and the Pacific* reveals that additional investment needs exceed 16 per cent of GDP in least developed countries and 10 per cent in South and South-West Asia, compared to the regional average of 5 per cent. In addition to considerable efforts by the countries concerned, strong development partnerships will be needed to ensure that these countries are not left behind. North-South, South-South and triangular cooperation, guided by the regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific, will be important, as will strengthened multilateral financing mechanisms.

IV. Developing financing strategies: fiscal policy and budgetary processes

19. To help Member States in their efforts to link sustainable development strategies with associated financing, the Secretary-General has issued his Road Map for Financing the 2030 Agenda for Sustainable Development (2019–2021),[9] which contains three objectives: (a) aligning global economic policies and financial systems with the 2030 Agenda; (b) enhancing sustainable financing strategies and investments at the regional and country levels; and (c) seizing the potential of financial innovations, new technologies and digitalization to provide equitable access to finance.

20. In particular, financing the needed investments requires a concerted effort that is driven by the assessment of fiscal space and leverages the private sector.[10] Some Sustainable Development Goals are inherently reliant on public funding, such as those related to education, health, climate change adaptation and conservation, while others offer greater potential for private financing, such as those related to infrastructure sectors, including ICT, power and renewable energy. Worldwide, it is estimated that 75 per cent of current investments in developing countries in food security and agriculture and 40– 60 per cent of current investments in telecommunications, power, and climate change mitigation come from the private sector.[11] In most sectors, developed countries enjoy a higher share of private sector contributions, indicating that there may be room for developing countries to converge towards those levels over time.

21. One aspect of financing that has received relatively less attention so far is how national budget processes can support the implementation of the Sustainable Development Goals. Budget processes are a critical link in the chain that connects sustainable development objectives, strategies and plans and public spending to outcomes. To date, there are very few national and subnational examples of this kind of support, including from the Asia-Pacific region. These initiatives are informed by previous attempts to link the Millennium Development Goals with national budgets and efforts to track public expenditures in support of sectoral objectives, including those related to the environment and climate change.

[9] United Nations, *Secretary-General's Road Map for Financing the 2030 Agenda for Sustainable Development (2019–2021)*. Available at www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-SDGs-July-2019.pdf.

[10] The analysis in this section is based on *Sustainable Development Goal 16: Focus on Public Institutions – World Public Sector Report 2019* (United Nations publication, Sales No. E.19.II.H.1); Elisabeth Hege and Laura Brimont, "Integrating SDGs into national budgetary processes", *IDDRI Study*, No. 05/18 (July 2018); and United Nations Development Programme (UNDP), "Budgeting for Agenda-2030: opting for the right model – draft concept note" (Bangkok, 2018).

[11] *World Investment Report 2014: Investing in the SDGs – An Action Plan*.

22. Despite challenges,[12] an increasing number of countries are considering integrating the Sustainable Development Goals into national budgeting processes. Of the 64 voluntary national reviews presented at the 2016 and 2017 sessions of the high-level political forum on sustainable development, 23 mentioned ongoing measures to link the Goals to the national budget or that such action had been considered, although these reports are not particularly clear about how and why these measures would be carried out. In addition, an analysis of the 46 voluntary national reviews presented in 2018 shows that more than half of the reports (25) contain no information on the inclusion of the Goals in national budgets or budgeting processes. Ten countries, including the Lao People's Democratic Republic and Sri Lanka, indicated plans to do so. Only six countries, including Viet Nam, reported incorporating the Goals into their budget processes in some fashion. One positive example among the 42 voluntary national reviews presented in 2019 was the Philippines, where the decision was taken to create a subgroup focused on the Goals under the national budget coordination committee, consisting of the ministers of planning, finance and budget.

23. Budgetary processes vary widely from country to country, and yet they can be defined by four main steps in the budget cycle involving different actors. Budget planning and formulation, typically coordinated by finance ministries, occur upstream. The legislature then reviews and amends the budget for approval. The budget is subsequently executed and implemented by various ministries and agencies. The final step, evaluation and oversight, may involve supreme audit institutions. The Goals may be mainstreamed into these different steps throughout the budget cycle.

24. Countries have taken various approaches to integrating the Sustainable Development Goals into their budget processes. One approach is the inclusion of qualitative elements of Goal achievement in the budget documents submitted to the parliament. In some countries, each ministry is asked to include a short paragraph for each budget proposal on how sustainable development would be reflected in their sectoral policies during the fiscal year. The use of performance indicators based on the Goals in the budget process is another practice. For example, in New Zealand, indicators related to well-being were recently included in the budget process. Some countries comprehensively report on a limited number of cross-cutting priorities, rather than on individual Goals. In the Organization for Economic Cooperation and Development, a discussion is emerging on whether sustainability reports could be produced by the public sector (inspired in part by parallel developments in the private sector) in addition to traditional performance reporting, as a way to report on Goal progress.

25. Instead of inventing and applying a new fully fledged budget classification, a simpler coding or tagging system could be a good starting point for countries where codes relevant to the Sustainable Development Goals have not been integrated into financial management information systems. For instance, in several countries, including India, Indonesia and Thailand,

[12] Many countries still lack reliable accounting systems and budget classification systems that enable them to track public expenditures on specific programmes or policy objectives in a detailed way. For instance, of 115 countries surveyed, 67 per cent used a functional classification system and only 44 per cent used one based on international standards (International Budget Partnership, *Open Budget Survey 2017* (Washington, D.C., 2018)). The number of governments that were able to track expenditures over multi-year periods and across levels of government was even lower (*World Public Sector Report 2019*).

budgeting that is gender responsive or child oriented has been introduced.[13] Climate or environment budget-tagging systems have also been introduced to monitor and track relevant expenditures. The average proportion of each national budget that is classified as being aligned with climate objectives is between 5 and 10 per cent, though it varies from country to country.[14] A challenge to consider while introducing this kind of budget coding is that the budget system can become overcrowded with various classifications. To address this matter, one alternative is mapping the Goals to the functional classification of the national budget, as is done in Nepal.[15] Another approach is exemplified in the Sustainable Development Goal action plan of Japan for 2019, in which the national budget is divided into priority areas which are then linked to relevant Goals.

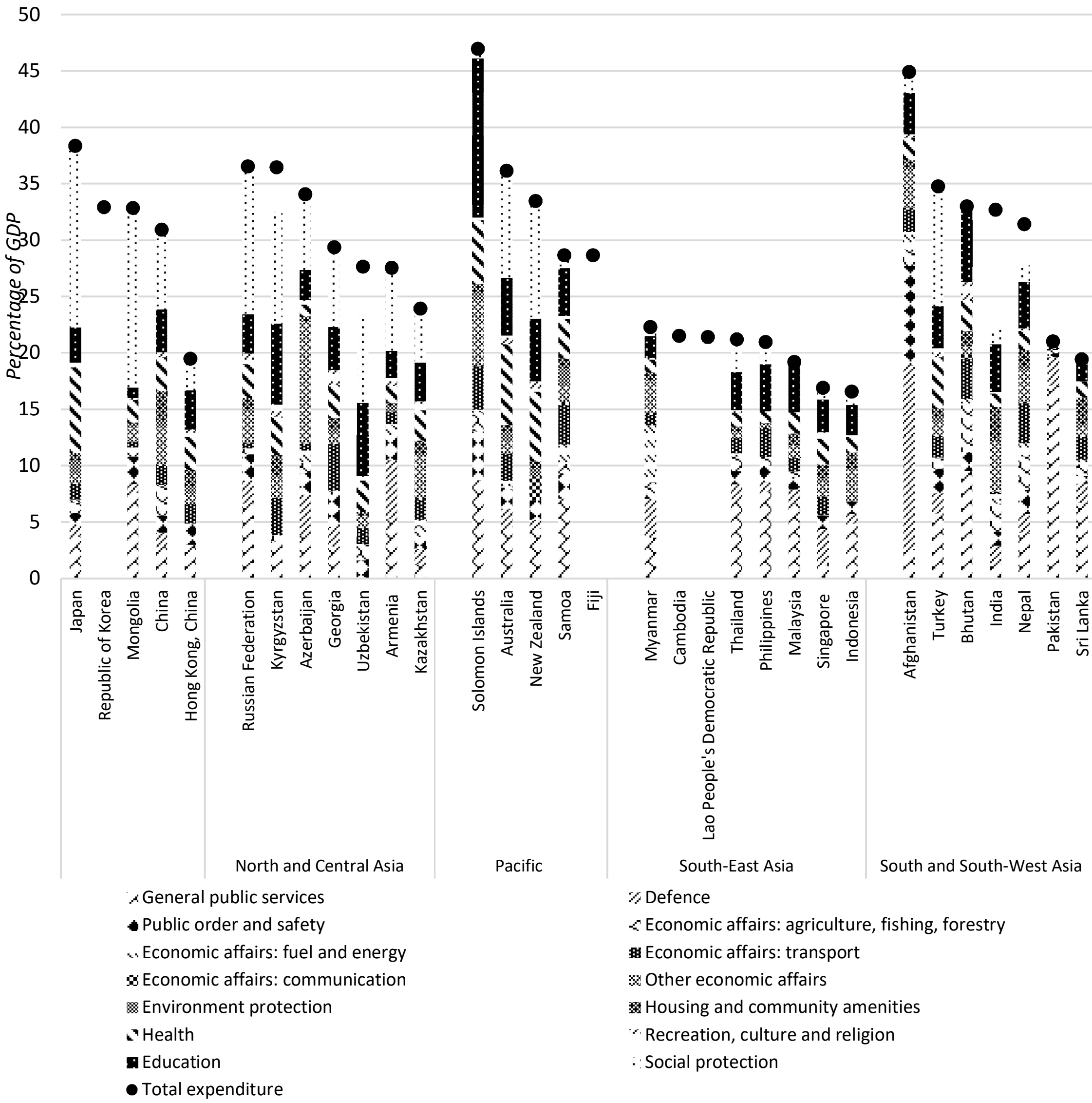
26. Figure IV shows government expenditures in Asia-Pacific countries based on the function classification, which could serve as a starting point for monitoring flows to Sustainable Development Goal priorities.

[13] For an assessment of the equity implications of existing public financial management systems from a child-oriented perspective in the Philippines and Thailand, see United Nations Children's Fund, *Engagement in Influencing Domestic Public Finance for Children (PF4C): A Global Programme Framework* (New York, 2017).

[14] Tom Beloe, "Financing the response to climate change – we all need to play our part", UNDP, 5 December 2018.

[15] UNDP, "Country briefs on SDG integration into planning – Nepal", 3 October 2017.

Figure IV
Size and composition of government expenditures



Source: ESCAP calculations based on International Monetary Fund Government Finance Statistics database. Available at https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405 (accessed on 1 August 2019).

Notes: Amounts for 2017 fiscal year, except for the Republic of Korea, Pakistan and Solomon Islands (2015), China and India (2016), and Georgia, Samoa and Turkey (2018). Central budgetary government expenditures shown for Solomon Islands, Samoa, Fiji, Cambodia, the Lao People's Democratic Republic, the Philippines, Malaysia, Bhutan, Nepal, Pakistan and Sri Lanka; central budgetary government and state expenditures shown for India; and general government expenditures shown for all other countries.

27. Efforts to link the budget process with the Sustainable Development Goals occur within the context of long-term reforms in public administration and public financial management systems.[16] For instance, programme and performance budgeting and medium-term expenditure frameworks could help strengthen the linkages between policy priorities and the budget. Fiscal transparency and open budget initiatives could also support the mainstreaming of the Goals and the principles of good governance advocated in Goal 16 into the budget process. At the same time, reforms to implement Goal budgeting should be part of broader reflection on how to best integrate the Goals into national governance systems. For instance, in addition to the national planning and other institutional arrangements for achieving the Goals, national statistical offices and supreme audit institutions have begun to monitor Goal progress and evaluate relevant public interventions.

28. Fiscal policies could have a significant impact on all the Sustainable Development Goals, not only through budget allocation but also through fiscal incentives and corrective taxes. These can bring about behavioural change and innovation, which are particularly relevant if countries are to reverse negative trends, such as in the environment-related Goals, as well as accelerate positive trends. At the same time, reducing inequalities will require careful designing of the fiscal system, with redistributive policies that take into account the effects of taxes (by identifying who bears the burden) and expenditures (by identifying who benefits).

29. Ongoing environmental degradation due to unsustainable development in Asia and the Pacific needs to be arrested, including by creating the correct incentives, such as the introduction of green taxes and emission charges to internalize the true costs of polluting activities and the use of natural resources in business decision-making. Combined with industrial upgrading strategies, such reforms could help to achieve the economic and environmental Sustainable Development Goals. Relatively low oil prices provide an opportunity to eliminate fuel subsidies and reform transport fuel taxes. Despite recent efforts to phase out fuel subsidies, in most countries these subsidies still exceed government expenditures on environmental issues, which typically include waste management, wastewater management, pollution abatement, biodiversity and landscape protection, and research and development in environmental protection. Given the wide range of options for environmental tax reform, countries should consider their objectives in addition to factors such as environmental impact, economic efficiency and cost-effectiveness, distributional impacts, and administrative and political feasibility.[17]

30. On the social front, in member countries of the Organization for Economic Cooperation and Development and, more recently, in Latin America, experience has shown that progressive direct taxes can help to mitigate economic inequality and ensure intergenerational equality of opportunity. Owing to the legacy of indirect taxes for quick revenue mobilization and capacity constraints for effective design, most developing countries in the Asia-Pacific region have yet to deploy progressive direct taxes, such as a personal income tax, a property tax or a wealth tax, as policy tools for dealing with pervasive inequalities. A comparison of data before and after taxes and transfers reveals that in developed countries, fiscal policy offsets

[16] Although the impetus for public financial management reforms often has more to do with fiscal responsibility/consolidation or technical considerations, these reforms can provide opportunities for changes in the budget process that enhance linkages with the Sustainable Development Goals.

[17] *Tax Policy for Sustainable Development in Asia and the Pacific* (United Nations publication, Sales No. E.18.II.F.7).

approximately one third of market income inequality, on average, with 75 per cent of the offset coming from transfers; but in developing countries, such fiscal redistribution is much more limited.[18] While urgent action is needed, the progressivity of the rate structure on paper is often less important than the detailed design of the tax and the related behavioural factors. The timing, sequencing and design of the tax and related policies must also take into account local economic, social and cultural conditions, as well as compliance and administration constraints and capacities.

31. Additional examples of the various ways in which fiscal policies could help to accelerate progress on the Sustainable Development Goals are highlighted in the annex.

V. Developing financing strategies: financial sector reform

32. Achieving the Sustainable Development Goals also requires major changes in the financial system. In his Road Map for Financing the 2030 Agenda, the Secretary-General calls upon policymakers and regulators to (a) price externalities into the economic and financial system; (b) integrate environmental, social and governance issues into the concept of fiduciary duty; and (c) put in place policies and regulations that create incentives for long-term market investment in climate-resilient infrastructure and for divestment from carbon-intensive technologies.

33. While market innovation has been fundamental to the evolution of sustainable finance, market action on its own is unlikely to overcome key barriers and market failures that prevent the expansion of sustainable finance to the level necessary for achieving the Sustainable Development Goals and the objectives of the Paris Agreement.[19] Such obstacles include information asymmetries, misaligned incentives, insufficient access to finance, blocked innovation and financial instability. Actions on the part of public authorities, including policymaking and legislation, regulation, supervision, signalling and other interventions, are needed to orient the behaviour of financial institutions and markets with respect to critical sustainability issues.

34. A global stocktaking reveals that policy and regulatory action to align the financial system with sustainable development accelerated significantly in recent years, in an increasing number of countries and cutting across wide asset classes. Measures in developing countries, including in the Asia-Pacific region, are focused on the banking, insurance and securities sectors, whereas measures in developed countries, in Europe in particular, are highly concentrated in the investment and securities sectors, reflecting an early development of responsible investing markets. Several countries have also introduced system-level actions, such as national road maps and strategies and prudential risk assessments, which have an impact on more than one asset class.[20]

35. In the banking sector, which still dominates the financial system in most developing countries in the region, there are several examples of

[18] *Financing for Sustainable Development Report 2019*.

[19] United Nations Environment Programme, “Greening the rules of the game: how sustainability factors are being incorporated into financial policy and regulation”, Inquiry Working Paper, No. 18/01 (Nairobi, 2018).

[20] There has also been striking growth in international initiatives to share experience, stimulate action and promote cooperation on sustainable finance. These include the Financing Stability Board Task Force on Climate-related Financial Disclosures, the Group of 20 Green Finance Study Group, the Sustainable Insurance Forum and the Central Banks and Supervisors Network for Greening the Financial System.

measures to align financial systems with sustainable development. In China, the Green Credit Guidelines (and the associated green credit monitoring and evaluation mechanism and key performance indicators) have had a significant impact on the flow of capital to high-polluting industries. In India, priority sector lending requirements are now being updated to include capital for renewable energy investment. In Indonesia, a road map has been developed to create a green banking framework aimed at developing capacities for environmental risk assessment and green lending with compulsory elements.[21] In Bangladesh, the banking sector is a key focus for fiscal support schemes to reduce barriers to financing green assets, such as preferable refinancing rates.[22]

36. A comprehensive assessment of sustainable banking in South-East Asian countries reveals that several banks have begun to embrace sustainability as part of their business strategy and understand that their environmental, social and governance risks and opportunities lie mainly within their portfolios rather than their own operations. It also reveals, however, that sustainability is still not formally included in the mandate of board committees, nor is it fully embedded into corporate governance mechanisms and processes. For instance, only 11 out of 34 banks indicated that they reviewed their environmental and social policies and procedures periodically, only 19 banks had a standardized framework for environmental and social risk assessment and only 3 banks disclosed sector-specific policies or requirements.[23] This suggests that more ambitious changes are needed to move towards sustainable banking. Banks could find useful guidance in the Principles for Responsible Banking, to be launched in September 2019.[24]

37. Nevertheless, there is a need for a more fundamental shift away from making the business case for sustainability and towards making the sustainability case for business. Whereas the former advocates that the financial sector only address sustainability issues that contribute to its financial bottom lines, the latter is based on the idea that the financial sector should start using the main sustainability issues as its starting point, then develop products and services that can address those issues and that are financially attractive at the same time. The table illustrates products and services that may be relevant to various Sustainable Development Goals. For instance, while it is true that for biodiversity- and ecosystem- related financing (Goals 14 and 15), public finance still plays the central role, conservation investment, or intentionally investing in companies, funds and organizations with a view to generating both a financial return and a measurable environmental result, is growing rapidly.[25]

[21] UNEP, "On the role of central banks in enhancing green finance", Inquiry Working Paper, No. 17/01 (Nairobi, 2017).

[22] In 2011, Bangladesh Bank, the country's central bank, published its Policy Guidelines for Green Banking and Guidelines on Environmental Risk Management to encourage banks to conduct systematic environmental risk analysis as part of the credit appraisal process. It has also introduced a green refinancing scheme and a mandatory credit quota for loans.

[23] World Wide Fund for Nature and National University of Singapore, *Sustainable Banking in ASEAN: Update 2018* (Gland, Switzerland, 2018).

[24] Additional information about the Principles for Responsible Banking is available at www.unepfi.org/banking/bankingprinciples/.

[25] Kelly Hamrick, *State of Private Investment in Conservation 2016: A Landscape Assessment of an Emerging Market* (Washington, D.C., Forest Trends Association, 2016).

Financial products and services addressing the Sustainable Development Goals

	Sustainable Development Goal	*Products and services*
1	No poverty	Private international development finance through impact investing
2	Zero hunger	Microfinance for smallholder farmers
3	Good health and well-being	Health-care investment
4	Quality education	Philanthropy donations to schools
5	Gender equality	Microfinance and lending to women, including entrepreneurs
6	Clean water and sanitation	Investment in water by socially responsible mutual funds
7	Affordable and clean energy	Renewable energy investment
8	Decent work and economic growth	General investment in the real economy
9	Industry, innovation and infrastructure	Integration of social and environmental criteria into project finance and commercial lending decisions
10	Reduced inequalities	Fair pay for financial sector employees
11	Sustainable cities and communities	Mortgage lending
12	Responsible consumption and production	Socially responsible investing
13	Climate action	Climate finance
14	Life below water	Financing ecological services
15	Life on land	Financing ecological services
16	Peace, justice and strong institutions	Lending to public institutions

Source: Olaf Weber, “The financial sector and the SDGs: interconnections and future directions”, Centre for International Governance Innovation Papers, No. 201 (Waterloo, Canada, 2018).

38. Preparing for climate-related risks is a priority in realigning the financial system with sustainable development. Climate-related risks are a source of financial risk. It is therefore within the mandates of central banks and supervisors to ensure that the financial system is resilient to these risks.[26] Climate change, while one of many sources of structural change affecting the financial system, has a particularly far-reaching impact, affecting all agents in the economy across all sectors and geographies. Climate-related risks will also likely be aggravated by tipping points, which means their impacts could be much larger.[27] Moreover, while the exact outcomes, time-horizon and future pathway are uncertain, there is a high degree of certainty that some combination of risks will materialize. The magnitude and nature of future impacts will be determined by actions taken today, which must therefore follow a credible and forward-looking policy path.

39. In light of this, several central banks and financial supervisors have committed to take the following actions: (a) achieve robust and internationally consistent climate and environment-related disclosure;[28] (b) support the development of a taxonomy of economic activities in order to facilitate financial institutions' management of climate-related risks as well as mobilize capital for necessary new investments in the green economy; (c) integrate climate-related risks into financial stability monitoring and prudential supervision; (d) integrate sustainability factors into their own portfolio management, including their own funds, pension funds and possibly even reserves; and (e) bridge the data gaps, together with statistical agencies and other relevant authorities, to support climate risk assessments.[29] Taken together, the greater availability of data and increased awareness would change investor attitudes towards climate-related financial risks. In addition, if investors assess and price financial risks properly, then polluting assets will become more costly. In turn, more investments will flow into green assets, driving the transition to a low-carbon economy.

VI. Issues for consideration by the Committee

40. A variety of approaches and policies exist to facilitate mainstreaming the Sustainable Development Goals into economic planning and budgeting as well as fiscal and financial policies. The achievement of the Goals will require transformative changes in societies and economies. Economic policies that influence investment, production and consumption patterns could play a catalytic role in bringing about such changes.

---

[26] Central Banks and Supervisors Network for Greening the Financial System, "A call for action: climate change as a source of financial risk" (Paris, 2019).

[27] In particular, there are physical risks such as storms, floods and droughts, which could affect the value of real or financial assets, with potential economy-wide impacts. At the same time, transition risks can occur when moving towards a less-polluting, greener economy. Such a transition could mean that some sectors of the economy (such as coal, oil and gas), and also companies that produce cars, ships and planes, face big shifts in asset values or higher costs of doing business. For additional information, see Bank for International Settlements, "Research on climate-related risks and financial stability: an 'epistemological break'?", 23 May 2019; and Bank of England, "Climate change: what are the risks to financial stability?" (accessed on 1 August 2019).

[28] Financial authorities could encourage all companies issuing public debt or equity as well as financial sector institutions to align their disclosures with the recommendations of the Task Force on Climate-related Financial Disclosures.

[29] Central Banks and Supervisors Network for Greening the Financial System, "A call for action" (Paris, 2019).

41. The Committee may wish to request the secretariat to strengthen policy research and facilitate peer learning about the ways in which economic policies, broadly defined as policies under the purview of economic and finance ministries, central banks and financial regulators, could be more effectively deployed, in a coordinated and coherent manner, in support of the 2030 Agenda. The Committee may also wish to emphasize the particular challenges of the countries with special needs, which call for greater development partnership, including with regard to capacity development.

42. In this vein, selected questions for discussion by the Committee include the following:

(a) Have member States mainstreamed the Sustainable Development Goals into national development plans and strategies?

(b) Have member States developed a comprehensive assessment of the policy interventions and associated financial implications needed to achieve the Goals?

(c) Have member States considered fiscal policy options, including changes to budgetary processes and fiscal incentives, to support the achievement of the Goals?

(d) Have member States considered financial sector reforms to prepare for climate-related risks and allocate more resources to the green economy?

43. To facilitate peer learning, the Committee may also wish to consider how discussions around economic policies oriented towards the Sustainable Development Goals could be better highlighted at Commission sessions and the Asia-Pacific Forum on Sustainable Development and mainstreamed into relevant regional and subregional forums, such as the Public Expenditure Management Network in Asia and the Study Group on Asian Tax Administration and Research. At the same time, the Committee may wish to consider establishing an ad hoc working group or groups to advance peer learning on specific aspects of economic policymaking oriented towards achieving the Goals.

Annex

How fiscal policies can support the achievement of the Sustainable Development Goals

Goal 1: No poverty • Fiscal policies can reduce poverty through direct and indirect channels. • Direct channels include budgetary allocations for poverty alleviation programmes, such as cash transfers, food transfers or other in-kind transfers, public workfare and fee waivers for health services. To be cost-effective, however, better coordination and targeting are needed. • Indirect channels include growth-enhancing spending (for example, on education and infrastructure) and macroeconomic stabilization (for example, stimulus measures to minimize job loss during downturns).
Goal 2: Zero hunger • While the bulk of investment in agriculture is carried out by private agents, especially by farmers, the provision of certain goods and services requires public investment (for instance, with regard to natural monopolies such as irrigation systems). • Fiscal policies can help to end hunger and malnutrition through budgetary allocations for nutrition-specific interventions, which are known for their high benefit-to-cost ratios. At the same time, taxing less healthy foods could create a financial incentive for consumers to avoid them.
Goal 3: Good health and well-being • Public spending on health is central to universal health coverage. Countries with limited financial resources can first expand primary health services (for example, contraceptives and basic vaccination). Co-payment can also help to limit unnecessary services or overuse. • Fiscal policies can also influence public health outcomes through taxes on tobacco, alcohol and sugar. Budgetary support to other sectors, such as nutrition and water, sanitation and hygiene infrastructure, could also have positive impacts on health.
Goal 4: Quality education • National budgets account for approximately 80 per cent of education spending worldwide, in particular on pre-primary, primary and secondary education. For equity in education, support for marginalized groups is critical. • To improve learning outcomes, spending on teacher training, curricula and textbooks are as important as teacher salaries. Fiscal support is also needed for vocational training and scholarships in higher education.

Goal 5: Gender equality

- Gender-responsive budgeting is not about creating separate budgets for women, or solely increasing spending on women's programs. Rather, it seeks to ensure that public finances contribute to advancing gender equality and women's empowerment.
- Taxing individual income rather than family income could encourage women to join the labour force.

Goal 6: Clean water and sanitation

- Fiscal reforms (such as taxes on water abstraction, regulatory levies and subsidies) and water pricing policies (such as water supply and sanitation tariffs) can improve water quality (target 6.3), increase water-use efficiency (target 6.4) and generate revenues to improve access (target 6.1).
- Budget reforms (including subsidies and tax exemptions) in other sectors (such as agriculture and energy) can increase the effectiveness of water-related public expenditures, thereby supporting Goal 6.

Goal 7: Affordable and clean energy

- Fiscal policies (such as energy taxes, carbon pricing mechanisms and incentives for renewables) can support renewable energy generation (target 7.2), improve energy efficiency (target 7.3), generate revenues to improve access (target 7.1) and stimulate private investment in energy infrastructure and clean energy technology (target 7.a).
- Budget reforms (including subsidies and tax exemptions) in the energy sector can level the playing field for clean energy, thereby supporting Goals 7 and 12.

Goal 8: Decent work and economic growth

- Fiscal policies can catalyse innovation in efficient technologies and generate higher levels of economic productivity (target 8.2).
- Fiscal policies can improve global resource efficiency in consumption and production (target 8.4).
- Fiscal policies can enable a reduction in more distorting taxes (for example, on labour) which could increase incentives for employment and support full employment (target 8.5).

Goal 9: Industry, innovation and infrastructure

- Fiscal policies can generate resources and create incentives for private investment in research and development in green technologies, support infrastructure upgrades and stimulate the adoption of clean and environmentally sound technologies and industrial processes (target 9.4).

Goal 10: Reduced inequalities • Revenues from fiscal reforms can be used to compensate low-income households, mitigate social impacts or support clean technology adoption (including insulation and low-energy light bulbs), thus supporting social protection and greater equality (target 10.4). • Reforming fossil fuel subsidies (target 12.c) can reduce inequalities, as these subsidies mainly benefit prosperous firms and consumers, thus supporting Goal 10.
Goal 11: Sustainable cities and communities • Fiscal policies (for example, landfill taxes, incineration taxes, air pollution charges, congestion charges and vehicle taxes) can improve air quality and municipal and other waste management and reduce the adverse per capita environmental impacts of cities (target 11.6).
Goal 12: Responsible consumption and production • Fiscal policies (such as taxes or fees on forestry and fisheries, material taxes, waste taxes, product taxes and air pollution charges) can incentivize the sustainable management and efficient use of natural resources (target 12.2) and reduce the release of chemicals (target 12.4), food waste (target 12.3) and waste generation (target 12.5). • Restructuring taxes and phasing out harmful fossil fuel subsidies can reduce wasteful consumption (target 12.c) and enhance the effectiveness of public spending.
Goal 13: Climate action • Revenues from fiscal instruments can support investments to strengthen resilience and adaptive capacities (target 13.1), contribute to climate-financing pledges (target 13.a) and build capacities (target 13.b). • Fiscal incentives for example, vehicle taxes) can shift consumer behaviour towards low-carbon choices, thereby complementing efforts to improve education and raise awareness on climate change (target 13.3).
Goal 14: Life below water • Fiscal policies (such as plastic bag taxes, charges on ship emissions and levies on marine aggregates) can help to prevent and reduce marine pollution (target 14.1) and support the sustainable management and protection of marine and coastal ecosystems (target 14.2). • Eliminating fisheries subsidies (target 14.6) will support Goal 14.

Goal 17: Partnerships for the Goals

- Fiscal policies strengthen domestic resource mobilization (target 17.1).
- Fiscal policies can help to mobilize other sources of financing, including from the private sector (target 17.3).
- Fiscal restructuring or reform can optimize state revenues, control budget deficits and reduce ratios of debt to gross domestic product, and can contribute to long-term debt sustainability (target 17.4).
- Fiscal incentives for clean technologies can stimulate the development, transfer, dissemination and diffusion of environmentally sound technologies (target 17.7).

Source: United Nations Environment Programme, "Fiscal policies and the SDGs", Policy Brief (Geneva, 2016).