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Enhancing regional cooperation to leverage financing for the countries with special needs

Enhancing regional cooperation to leverage financing for the countries with special needs

Note by the secretariat

Summary

In the present document, regional cooperation is highlighted as having the potential to support least developed countries, landlocked developing countries and small island developing States in Asia and the Pacific, with a view to mobilizing additional financing for sustainable development. Regional cooperation is critical for the countries with special needs, as the additional investments that are required to achieve the Sustainable Development Goals by 2030 are substantial, especially when compared to the scale of existing financing flows in these countries. For the least developed countries, where the cost to end poverty and provide education and health care is high relative to other investment areas, financing strategies could focus on enhancing fiscal resources. For the landlocked developing countries, where the cost to provide sustainable infrastructure is dominant, financing strategies could focus on how to leverage private finance for sustainable development.

Several subregional tax cooperation initiatives support their member countries in improving the quality of tax administration to expand the tax base and reduce tax avoidance. However, the Asia-Pacific region still lacks a region-wide tax cooperation platform, which is needed to tackle emerging cross-border tax issues such as the digital economy and illicit financial flows. With regard to leveraging private finance, selected regional cooperation initiatives are highlighted in the document for their particular relevance to the Asia-Pacific countries with special needs, including those aimed at the following: promoting the use of public-private partnerships and bond financing for infrastructure development; leveraging green bonds for climate finance; adopting sustainability-oriented banking practices; reducing the transfer costs of private remittances; increasing knowledge on financial technologies; and enhancing the capacity of government officials in various technical areas through South-South and triangular cooperation.

Also noted in the present document is the active role that the Economic and Social Commission for Asia and the Pacific (ESCAP) has played, in partnership with various member States and international development partners, in promoting regional cooperation in certain areas of financing for development.

* ESCAP/CMPF/2019/L.1.

The Committee may wish to request the secretariat to strengthen the ESCAP-coordinated Infrastructure Financing and Public-Private Partnership Network of Asia and the Pacific.

The Committee may also wish to provide guidance on other issues related to financing for development, including the policy research topics and capacity development areas that the secretariat should prioritize.

The Committee may wish to encourage members to share their views on the issues raised in the document and provide examples of financing strategies that they are pursuing to support the 2030 Agenda. That discussion could be of great value to countries with special needs.

I. Introduction

1. Least developed countries, landlocked developing countries and small island developing States, collectively referred to as countries with special needs, face several structural impediments, such as small economic size, distance from large markets, and low levels of economic diversification and productive capacity. In addition to being barriers to economic development, these impediments also make it more challenging for these countries to access financing for development. On the domestic front, the amount of private savings in countries with special needs is typically small, as banking sectors and/or capital markets remain underdeveloped or non-existent. In other cases, commercial banks tend to accumulate cash holdings. This is because there are relatively few bankable investment opportunities, given the risk profile of the local private sector. On the international front, access to foreign private financing is also limited, as countries with special needs generally face higher costs of capital owing to weak macroeconomic fundamentals and high credit risks.

2. Given the various structural constraints that countries with special needs are facing, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development includes a call for stronger global and regional support for financing for development in these countries.¹ In addition, the Addis Ababa Action Agenda serves to emphasize several areas of financing for development that are especially relevant for such countries, including the following: infrastructure financing and capacity gaps; international tax cooperation to reduce illicit financial flows; the development of domestic capital markets; the use of insurance and investment guarantees to increase private investment in development projects; the capacity of investment promotion regimes; access to international credit; the capacity to gain and manage funds to address climate, education and health issues; debt sustainability; and new financial instruments to cope with economic and catastrophic shocks.²

3. At the same time, the United Nations is stepping up its efforts to enhance support for financing for development at the regional and country levels. In particular, one of the objectives of the Secretary-General's Strategy for Financing the 2030 Agenda for Sustainable Development (2018–2021) is to enhance sustainable financing strategies and investments at the regional and country levels. The Strategy for Financing the 2030 Agenda is aimed at addressing financing issues, including by strengthening United Nations efforts to provide regional and country support for developing integrated financing strategies, improving national tax systems, deepening domestic financial markets and building enabling environments that create investible projects.

¹ Adopted in 2015, the Addis Ababa Action Agenda is a global financing framework to support the implementation of the 2030 Agenda for Sustainable Development by aligning all financing flows and policies with economic, social and environmental priorities. See General Assembly resolution 69/313, annex.

² For examples, see General Assembly resolution 69/313, annex, paras. 8, 14, 27, 44, 45, 46, 61, 76, 77, 93 and 102.

4. The present document contains a review of how regional cooperation can help to leverage financing for development in the Asia-Pacific countries with special needs.³ The emphasis on regional cooperation is due not only to its importance, as highlighted in the Addis Ababa Action Agenda and the Strategy for Financing the 2030 Agenda but also due to available estimates and data that show that these countries alone may not be able to finance the investment required to achieve sustainable development. Section II of the present document contains an overview of the investment required to achieve the Sustainable Development Goals in the Asia-Pacific countries with special needs, while Section III contains an examination of the current levels of financing flows in these countries. Section IV contains examples of regional coordination initiatives in Asia and the Pacific that have helped to enhance financing for development in the countries with special needs. Section V contains suggestions of issues that the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development may wish to consider.

II. Additional investments required to achieve the Sustainable Development Goals in the countries with special needs

5. The amount of additional financial investments needed to attain people- and planet-centred development in Asia and the Pacific was estimated in a recent study conducted by the Economic and Social Commission for Asia and the Pacific (ESCAP).⁴ The study covered the estimated investments needed to achieve the following: eradicate extreme poverty and malnutrition; provide quality education and health care for all; build, maintain and improve access to climate-resilient physical infrastructure, particularly in transport, information and communications technology, and water and sanitation; increase energy efficiency and the use of renewable energy; and protect biodiversity and nature. The analysis shows that, on average, developing countries in Asia and the Pacific need to spend an additional \$1.5 trillion per year, relative to current investment levels, to achieve the Sustainable Development Goals by 2030. That amount is equivalent to approximately 5 per cent of their 2018 combined gross domestic product (GDP).

6. The estimated additional investments required are much higher for the Asia-Pacific countries with special needs. For instance, estimates for the least developed countries and the landlocked developing countries of Asia and the Pacific were as high as 19 and 8 per cent of GDP, respectively. While the estimates for small island developing States are not available owing to data limitations, they are likely to be high as a result of this group's high vulnerability to natural disasters, which push up the cost of providing climate-resilient infrastructure. Given the structural impediments and financing difficulties that the countries with special needs are facing, it is very challenging for them to meet these required investments by themselves. Stronger regional cooperation on financing for development is therefore critical.

7. A closer look at the required additional investments, broken down by development area, reveals that areas requiring larger investments vary among the countries with special needs. In the case of the least developed countries, the cost to end poverty and hunger is the largest component, accounting for approximately 40 per cent of the total estimated cost. Providing health care and education for all

³ The current document uses the term “leverage” in a broader sense. It refers to how resource mobilization, whether for fiscal resources or private finance, in the Asia-Pacific countries with special needs could benefit from existing regional cooperation initiatives. In a narrower sense, the term may refer to the use of development finance, such as donor funds, to mobilize additional private finance for sustainable development, such as blended finance through instruments including guarantees and syndicated loans.

⁴ *Economic and Social Survey for Asia and the Pacific 2019: Ambitions beyond Growth* (United Nations publication, Sales No. E.19.II.F.6).

accounts for 30 per cent and sustainable infrastructure accounts for another 25 per cent.⁵ For the landlocked developing countries, close to half of the total estimated cost would go towards providing sustainable infrastructure, while another 25 per cent would go towards ending poverty and hunger.

8. The analysis shows the extent to which the required investments could be contributed by private investors, such as private companies and institutional investors. In the case of the least developed countries, a large portion of the required investments would go towards providing health care, education and basic social services. Therefore, public investments will play a critical role, because investments in these areas are not typically seen as commercially viable. This emphasizes the need to strengthen domestic public resources in the region's least developed countries. In contrast, in the landlocked developing countries, a large part of the total estimated cost is generated by building and maintaining sustainable infrastructure, which has greater potential for participation from the private sector. This indicates that there is a need to step up efforts to leverage domestic and international private finance to support sustainable development in the landlocked developing countries.

III. Financing flows in the countries with special needs

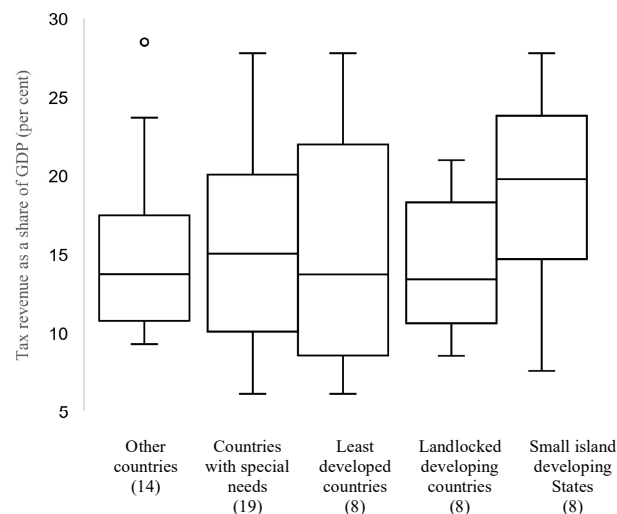
9. Given the sizeable additional investments required to achieve the Sustainable Development Goals in the countries with special needs in Asia and the Pacific, it is important to take stock of financing flows there. In this section, consideration is given to three broad areas of financing flows, namely domestic public resources, including debt and its sustainability aspect; domestic and international private finance; and international development cooperation.

10. In the area of domestic public resources, tax revenue collection remains very low in several of the Asia-Pacific countries with special needs. Although the average tax-to-GDP ratio in these countries is on a par with other developing countries in the region (15.7 per cent compared to 15.3 per cent, respectively, for the period 2015–2017), such overall figures mask the wide dispersion of the tax ratio among the least developed countries (figure I). In countries such as Afghanistan, Bangladesh and Myanmar, the tax-to-GDP ratio stood at below 10 per cent of GDP. Moreover, actual tax collection in several of the Asia-Pacific countries with special needs seems to be falling short of its full potential, resulting in large tax gaps. In an ESCAP study in which tax potential was estimated at the country level on the basis of fundamental economic factors such as the agricultural value added, per capita GDP and the degree of trade openness, analysis suggests the existence of tax gaps of about 6–8 per cent of GDP in Afghanistan, Bangladesh, Bhutan and Maldives.⁶

⁵ The methodologies used in *Economic and Social Survey for Asia and the Pacific 2019* consider the required investment amount in a particular development area as a sum of current and capital spending for that area. For example, the cost to achieve education for all includes both current spending, such as salaries of school teachers, and capital spending, such as the cost to build new school buildings. In an alternative methodology that considers capital spending in all development areas as infrastructure spending, such as the costs to build new schools, public hospitals, roads, power plants and water facilities, the total cost for infrastructure investment in this sense will be much larger. See chapter 1 of *Infrastructure Financing for Sustainable Development in Asia and the Pacific* (United Nations publication, Sales No. E.19.II.F.11).

⁶ *Economic and Social Survey for Asia and the Pacific 2014: Regional Connectivity for Shared Prosperity* (United Nations publication, Sales No.E.14.II.F.4).

Figure I
 Box plots showing ratio of tax to gross domestic product in various groups of Asia-Pacific countries



Source: ESCAP calculations based on the World Bank World Development Indicators database. Available at <http://datatopics.worldbank.org/world-development-indicators/> (accessed on 1 August 2019).

Note: The upper and lower limits of the enclosed box correspond to the seventy-fifth and twenty-fifth percentiles respectively, while the horizontal line within the box depicts the median. The vertical line shows the range with the uppermost and lowermost points reflecting the maximum and minimum values. A dot represents an outlier. The numbers in the parentheses show the respective number of countries where data are available.

11. While the level of public debt remains generally moderate, public debt sustainability could be a concern for several of the Asia-Pacific countries with special needs. The levels of central government debt in the countries with special needs were comparable to those in other developing countries in Asia and the Pacific, at 47.8 and 46.3 per cent of GDP in 2016, respectively. Estimates suggest that the public debt levels are likely to decrease over the next three years in 6 of 11 Asia-Pacific countries with special needs for which data are available.⁷ Nonetheless, several countries with special needs are considered to have a higher risk of public debt distress, including Afghanistan, Kiribati, the Lao People’s Democratic Republic, Maldives, the Marshall Islands, Samoa and Tuvalu.⁸ In these countries, public debt levels could become unsustainable under a scenario of adverse macroeconomic shocks, such as slower output growth, higher interest rates and weaker exchange rates. Moreover, the analysis shows that contingent liabilities triggered by natural disasters could increase fiscal risk in countries such as Afghanistan, Bangladesh, Cambodia, Fiji, Maldives, Myanmar, Nepal and Papua New Guinea.⁹

⁷ International Monetary Fund (IMF), “Fiscal monitor”, IMF DataMapper. Available at www.imf.org/external/datamapper/datasets/FM (accessed on 1 August 2019).

⁸ See the list of recent Article IV consultations on the IMF website. Available at www.imf.org/external/np/sec/aiv/index.aspx?listby=c (accessed on 1 August 2019).

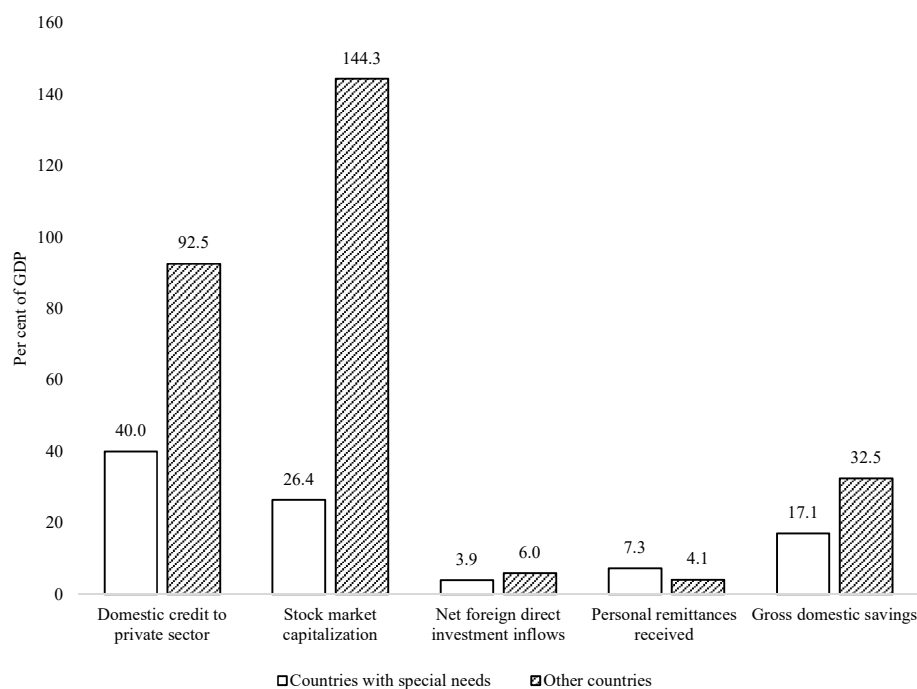
⁹ George Kopits, Benno Ferrarini and Arief Ramayandi, “Exploring risk-adjusted fiscal sustainability analysis for Asian economies”, Asian Development Bank Economics Working Paper Series, No. 483 (Manila, 2016).

12. Overall, the currently low tax-to-GDP ratios, considerable tax gaps and high fiscal and debt risks in several of the Asia-Pacific countries with special needs emphasize the need to strengthen fiscal resources. This is especially important for the least developed countries because, as highlighted above, a large share of the investments they require to achieve the Sustainable Development Goals would go towards ending poverty and hunger and providing education and health care. The Governments of these countries will need to increase their fiscal space to be able to deliver these essential social services.

13. In the area of domestic and international private finance, available data suggest that, in general, financing flows in the Asia-Pacific countries with special needs remain small. In 2015, the combined asset value of commercial banks, non-bank financial institutions, mutual funds, insurance companies, pension funds and sovereign wealth funds stood at approximately \$516 billion in 18 of the Asia-Pacific countries with special needs.¹⁰ That amount was much less than the estimated \$36.2 trillion in 18 other developing countries of the region. Similarly, other indicators that reflect the scale of private business and finance are also suggestive of the relatively small size of business sectors in the Asia-Pacific countries with special needs. For example, while the average size of domestic credit to the private sector in the countries with special needs stood at about 40 per cent of GDP during the period 2013–2015, that figure was more than doubled in other developing countries of the region, at 92.5 per cent of GDP (figure II). The indicator that reflects the value of stock market capitalization relative to GDP shows an even greater difference between these two country groups.

¹⁰ *Economic and Social Survey for Asia and the Pacific 2018: Mobilizing Finance for Sustained, Inclusive and Sustainable Economic Growth* (United Nations publication, Sales No.E.18.II.F.16).

Figure II
Selected private financial flows in the Asia-Pacific developing countries



Source: ESCAP calculations based on the World Bank World Development Indicators database.

Note: While the domestic credit to private sector as a percentage of GDP and the stock market capitalization as a percentage of GDP are measured on a stock basis, the other three indicators are measured on a flow basis.

14. Available data on the annual inflows of net foreign direct investment (FDI) show that flows to the Asia-Pacific countries with special needs have increased steadily in the past decades and have not been much smaller than the flows to other developing countries in the region over the past few years (figure II). However, the extent to which these investment flows help to support sustainable development in the countries with special needs also depends on which sectors and geographic areas (for example, urban versus rural) are receiving the flows. In many countries with special needs in the region, FDI remains concentrated in primary, resource-based industries and specific sectors such as tourism and fisheries.

15. Private remittances represent another important component of private financial flows. Indeed, the Asia-Pacific region has the largest number of international migrants. In 2017, 53 per cent of the world's remittance flows occurred in this region, involving approximately 10 per cent of its total population.¹¹ On average, annual private remittances accounted for approximately 7.3 per cent of GDP in the Asia-Pacific countries with special needs during the period 2015–2017 (figure II). Broken down by country group, that share stood at approximately 10 per cent of GDP in the landlocked developing countries, 8 per cent in the small island developing States and 6 per cent in the least developed countries. In countries such as Kyrgyzstan, Nepal, Tajikistan and Tonga, the private remittances received accounted for more than a quarter of GDP. While these remittances have the

¹¹ International Fund for Agricultural Development, "RemitSCOPE 2018 focused on Asia and the Pacific region", RemitSCOPE. Available at www.remittancesgateway.org/remitscope/regional-profiles/asia-and-the-pacific/#key-figures (accessed on 24 July 2019).

potential to reduce poverty and income inequality and support a country's balance of payments, it is important that countries that rely on remittances do not fall into a remittance trap, which is characterized by a sustained period of low economic growth and high emigration.¹²

16. Taken together, available data on private finance suggest that further development of business and financial sectors remains important in the Asia-Pacific countries with special needs. In addition to ensuring that macroeconomic stability and enabling regulatory frameworks are in place for business sector development, Governments will need to consider how to redirect existing private finance towards investments for sustainable development. This is particularly relevant for Asia-Pacific landlocked developing countries where a portion of the considerable infrastructure needs can be co-financed by private investors.

17. In the area of international development cooperation, the flows of official development assistance (ODA) have followed a downward trend. On average, the bilateral ODA to the Asia-Pacific countries with special needs has amounted to approximately \$10 billion annually, and another \$5 billion has come in the form of multilateral ODA. In 2017, net annual ODA received by these countries stood at approximately 9.4 per cent of gross national income. This shows a steady decline from the peak of 14.7 per cent of gross national income in 2011. This downward trend is a concern for the countries with special needs in the region, especially for the least developed countries, which have received approximately 80 per cent of the total allocation, mainly for their humanitarian affairs and social infrastructure. Countries that usually received greater ODA include Afghanistan, Bangladesh, Myanmar, Nepal and Papua New Guinea.

18. On average, the sum of annual flows of tax revenue, FDI, private remittances and ODA, all of which could be used to promote sustainable development, amounts to approximately 36 per cent of GDP in the Asia-Pacific countries with special needs. The size of the current financing flows appears modest in light of estimates indicating that the least developed countries and the landlocked developing countries need to spend an additional 19 per cent and 8 per cent of GDP, respectively, to achieve the Sustainable Development Goals.

IV. Regional cooperation to leverage financing for the countries with special needs

19. Given that the financial flows in the Asia-Pacific countries with special needs are moderate relative to their financing needs, regional cooperation could play a significant role in mobilizing additional funds for development in these countries. The present section is focused on three broad areas of financing flows, namely domestic public resources, domestic and international private finance and international development cooperation. For each of these areas, examples of regional cooperation initiatives are highlighted to demonstrate how they can support desirable policy actions in the countries with special needs.

A. Domestic public resources

20. Governments could consider two broad groups of policies aimed at increasing tax revenue, namely enhancing tax administration to reduce tax avoidance and evasion, and expanding the tax base by rationalizing existing tax exemptions and introducing new taxes. Enhancing tax administration is possible through the introduction of effective tax legislation, an increased use of information technology in tax operations, streamlined procedures and the adoption of risk-based

¹² Ralph Chami and others, "Is there a remittance trap?", *Finance and Development*, vol. 55, No. 3 (September 2018).

compliance controls. The revenue that could potentially be generated by these policy changes is estimated to be significant.¹³ For example, if the quality of tax administration in Asia-Pacific countries with special needs such as Cambodia, Myanmar and Tajikistan improved to match the level observed in member countries of the Organization for Economic Cooperation and Development, tax revenue in these countries could rise by as much as 5 to 8 per cent of GDP.¹⁴

21. Another policy option to increase tax revenue is to introduce new taxes, especially those that directly benefit social and/or environmental outcomes. One example is a carbon tax, which remains relatively uncommon in Asia and the Pacific.¹⁵ Estimates show that a carbon tax could generate approximately \$1.6 billion in additional tax revenues per year in 25 of the Asia-Pacific countries with special needs.¹⁶ In countries with higher carbon intensity, such as Mongolia, Turkmenistan and Uzbekistan, the estimated increase in total tax revenue is equivalent to 0.2 per cent of GDP.

22. In addition to the traditional challenges of reducing tax avoidance and ensuring a broad tax base, tax officials in the Asia-Pacific region face new taxation challenges arising from new business models and the changing global economic landscape. For example, the emergence of the digital economy requires new tax modalities to appropriately define and share the tax base, as traditional tax models are focused on taxing tangible assets and income within a given territory. Closer global economic linkages also complicate cross-border tax issues. Examples include illicit financial flows and widespread tax evasion by multinationals and wealthy individuals across national borders. There are also harmful tax practices such as a race among economies in the region to offer generous tax benefits to attract more FDI. Such cross-border tax issues can be addressed with stronger regional tax cooperation.

23. Some tax cooperation mechanisms are already in place in the Asia-Pacific region. At the subregional level, existing initiatives include the Study Group on Asian Tax Administration and Research, which is primarily focused on developing countries in East, North-East and South-East Asia; the Pacific Islands Tax Administrators Association; the Association of Southeast Asian Nations (ASEAN) Forum on Taxation; and other efforts by the South Asian Association for Regional Cooperation. The region also participates in global tax cooperation initiatives, such as the Committee of Experts on International Cooperation in Tax Matters and the Base Erosion and Profit Shifting Project of the Organization for Economic Cooperation and Development.

¹³ See *Economic and Social Survey for Asia and the Pacific 2018*.

¹⁴ The quality of tax administration is measured by a composite index that assesses the autonomy, effectiveness and authority of national tax agencies, based on surveys of tax agencies in the region.

¹⁵ A carbon tax is a tax levied on fossil fuels that emit carbon dioxide when they are burned, such as coal, oil and natural gas. Larger-scale carbon emitters are often power generation plants and oil refineries.

¹⁶ The analysis sets a newly introduced carbon tax rate at the median tax rate of the carbon pricing initiatives in developing countries worldwide. This estimate on additional tax revenue already takes into account a possible decrease in corporate profits and sales tax revenues following the introduction of a carbon tax.

24. Despite several tax cooperation initiatives currently in place, Asia and the Pacific is the only major developing region in the world that lacks a region-wide platform for policy dialogue, consensus-building and technical assistance. Creating a regional platform is important because it would help to enhance synergies among the subregional tax cooperation initiatives and increase the representation of the countries with special needs in regional and global tax cooperation initiatives.¹⁷

B. Domestic and international private finance

25. While many aspects of financing for development can be discussed under the broad category of domestic and international private finance, the present document is focused on four areas of regional cooperation initiatives that are considered especially relevant for the Asia-Pacific countries with special needs: infrastructure financing; climate finance; financing for micro-, small and medium-sized enterprises; and private remittances. As highlighted above, infrastructure investments represent a large proportion of the total investments required to achieve the Sustainable Development Goals in the Asia-Pacific landlocked developing countries and least developed countries. In Pacific small island developing States, climate finance is clearly important, given that these countries are highly vulnerable to natural disasters. Meanwhile, improving the access to finance afforded to micro-, small and medium-sized enterprises not only helps to support employment growth, especially among low-skilled workers in the least developed countries, but also fosters the development of formal business sectors and enhances national production capacities. Furthermore, as illustrated in the previous section, private remittances are an important source of household incomes in many of the Asia-Pacific landlocked developing countries and Pacific small island developing States.

26. The Asia-Pacific countries with special needs are facing large infrastructure demands and gaps. A recent estimate by ESCAP shows that infrastructure needs in these countries amount to almost 11 per cent of GDP per year, which exceeds their current infrastructure spending of 4–8 per cent of GDP.¹⁸ This is due to the need for new infrastructure, the maintenance cost of existing infrastructure, the extra cost of building infrastructure that is climate resilient and the cost of providing universal access to basic infrastructure services.

27. To meet wide infrastructure financing gaps, the Asia-Pacific countries with special needs could consider a more holistic approach to infrastructure financing. Under such an approach, countries should seek to leverage additional participation from domestic and international private investors; improve the governance structure and the capacity of relevant public agencies; look for innovative financing modalities; and mainstream issues of sustainability into infrastructure activity. It is also important that national and subnational public agencies have the capacity to develop, implement and monitor a pipeline of bankable infrastructure projects.¹⁹ In all these areas, stronger regional cooperation can help to support policy efforts in the countries with special needs.

28. Public-private partnerships represent a promising financing modality for infrastructure projects. In addition to containing a recognition of the role of public-private partnerships on infrastructure financing, the Addis Ababa Action Agenda

¹⁷ For more details, see document ESCAP/CMPF/2019/2 prepared under agenda item 3 on strengthening regional tax cooperation in Asia and the Pacific.

¹⁸ *Asia-Pacific Countries with Special Needs Development Report 2017: Investing in Infrastructure for an Inclusive and Sustainable Future* (United Nations publication, Sales No. E.17.II.F.9).

¹⁹ See 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.

contains an acknowledgement of the need to build national technical capacities, including project negotiation and budgeting for contingent liabilities, to share risks and rewards fairly, and to meet social and environmental standards.

29. In this regard, ESCAP, in collaboration with the Government of China, has established the Infrastructure Financing and Public-Private Partnership Network of Asia and the Pacific. The overall aim of the Network is to leverage private finance for sustainable infrastructure investment by facilitating the exchange of knowledge and experiences among experts on public-private partnerships in the region and building consensus regarding good practices.²⁰ At its three meetings, the Network has so far taken stock of the region's infrastructure financing landscape and gaps, advocated the creation of laws and regulations on sustainability-oriented infrastructure and proposed the establishment of a web portal containing country-level information about legal and regulatory frameworks for public-private partnerships. Most members of the Network are countries with special needs, including Afghanistan, Bangladesh, Bhutan, Cambodia, Fiji, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Mongolia, Myanmar, Nepal, Samoa, Tajikistan, Timor-Leste and Vanuatu.

30. Bond financing, for example, continues to have a largely untapped potential in the countries with special needs in Asia and the Pacific. While bank loans are the dominant source of infrastructure financing in the region,²¹ they are not suited to all types and phases of infrastructure projects. This is mainly because banks typically hold short-term liabilities, while infrastructure project debts are long-term assets, and this creates a maturity mismatch. Moreover, infrastructure financing by international banks is often denominated in an international currency, while the revenues accrued by infrastructure projects are typically in local currency, and this results in a currency mismatch.

31. In this context, regional cooperation aimed at developing local-currency bond markets has been rather active, especially in the Association of Southeast Asian Nations plus China, Japan and the Republic of Korea (ASEAN+3). For example, the Asian Bond Markets Initiative, launched in 2003, is aimed at strengthening regulatory frameworks and necessary bond market infrastructure. There are several cooperation mechanisms under the Initiative, including the Credit Guarantee and Investment Facility, which was established in 2010 to provide guarantees on corporate bonds (mainly in local currencies) issued by firms in the ASEAN+3 countries. As of year-end 2018, the Facility had issued 20 credit guarantees valued at \$1.41 billion. Another mechanism under the Initiative is the ASEAN+3 Multi-Currency Bond Issuance Framework, which helps to facilitate intraregional fixed income transactions by promoting common market practices and standardized conditions for bond issuance, such as disclosure standards and common documents. Supported by this framework, the Government of the Lao People's Democratic Republic issued baht-denominated government bonds on the market in Thailand for use in financing infrastructure investment. The Government of Cambodia has also announced plans to establish a local-currency bond market in the near term. A similar framework could be created between the countries with special needs outside South-East Asia, on the one hand, and their neighbouring countries with capital markets that are more developed, on the other.

32. Increasing the amount of and access to climate finance in the Asia-Pacific countries with special needs requires several policy actions. One of the main policy

²⁰ Tientip Subhanij and Daniel W. Lin, "Bridging the infrastructure financing gap in the Asia Pacific region", Inter Press Service News Agency, 15 January 2019.

²¹ Funds raised from bonds accounted for only 10.8 per cent of total infrastructure finance in Asia and the Pacific for the period 2015–2018, much less than the 50.1 per cent for bank loans and 25.9 per cent for equity financing. See IJGlobal, League tables – H1 2019. Available at <https://ijglobal.com/articles/141372/ijglobal-league-tables> (accessed on 1 July 2019).

aims should be to redirect more private financial flows towards climate change mitigation and adaptation activities. This redirection of funds has great potential. In developing countries around the world, private investment accounts for only 40 per cent of total investment in climate change mitigation, while that figure is much higher in developed countries, at 90 per cent.²² In this regard, leveraging private funds for climate finance is possible through several policy actions. Examples include a campaign to increase awareness about the importance of climate finance among private financial institutions and an introduction of guidelines and policy measures aimed at incentivizing long-term, low-carbon, resource-efficient and climate-resilient investment from the private sector. At the same time, there is a need to identify alternative and innovative sources of funds from both the public and private sectors.

33. Some of the Asia-Pacific countries with special needs have played a pioneering role in the issuance of green bonds. As part of its strategy to transition to a low-carbon and climate-resilient economy, the Government of Fiji issued a sovereign green bond worth \$50 million in 2017, making it the first developing country to issue a bond of that kind. Eligible projects include renewable energy, energy and water efficiency, resilience to climate change, clean and resilient transport, and wastewater management. In Bhutan, ESCAP has been providing technical assistance to support the country's plan to issue a sovereign green bond in 2019. This would make Bhutan the first country that is classified as both a least developed country and a landlocked developing country to issue such a bond. With support from ESCAP, the Committee on Government Bond Issuance has been set up to work on key implementation issues, such as the amount of funds to be raised, potential bondholders, bond yields and maturity periods.

34. Beyond green bonds, ESCAP has carried out various initiatives to enhance the climate finance capacities of the Asia-Pacific countries with special needs. For example, at a recent workshop on innovative climate finance instruments, representatives of Bangladesh, Bhutan, Cambodia and Nepal discussed the challenges in developing financing instruments to stimulate low-carbon, climate-resilient investments, established a regional network of champions for such investments and identified further needs for capacity development in the countries with special needs. Moreover, in partnership with the Association of Development Financing Institutions in Asia and the Pacific and the International Chamber of Commerce, ESCAP has conducted a survey that measures the extent to which financial institutions in the region are integrating environmental and social risks into their operations, as well as their interest in committing to sustainable finance.

35. The Government of Bangladesh, the Asian Development Bank and the International Chamber of Commerce of Bangladesh will jointly organize a conference on scaling up climate finance with new green financing instruments such as green bonds, green equity and green banking. ESCAP will also prepare national studies on enhancing climate finance mobilization, including through the issuance of green and blue bonds, in Pacific small island developing States.

36. Micro-, small and medium-sized enterprises in the Asia-Pacific countries with special needs face greater difficulties in accessing finance compared to other developing countries in the region. The size of the finance gap can be used to measure the extent of access to finance. Defined as the difference between the potential demand for credit and the current access to credit, the finance gap is based on survey data. For the Asia-Pacific countries with special needs, the median value of the finance gap is estimated at 81 per cent of the potential demand for credit,

²² *World Investment Report 2014: Investing in the SDGs – An Action Plan* (United Nations publication, Sales No. E.14.II.D.1).

compared to 70 per cent for the region's developing countries.^{23,24} The median values for the least developed countries and the landlocked developing countries of the region are slightly higher at 83 per cent.

37. ESCAP studies on the access to finance afforded to micro-, small and medium-sized enterprises in Bangladesh, Cambodia, Nepal and Samoa suggest that the Asia-Pacific countries with special needs could take at least three policy actions to enhance access to finance.

38. First, an effort could be made to develop more systematic, comprehensive national databases on access to credit afforded to micro-, small and medium-sized enterprises. For example, monetary authorities could require formal financial institutions, such as commercial banks, national development banks and microfinance institutions, to report selected information about their borrowing enterprises. In addition to taking into account loan amounts, this data collection and reporting could include whether the enterprise is classified as micro-, small, medium-sized or large enterprise and whether it is woman led. This practice would induce all public and private sector entities to have a uniform official definition of micro-, small and medium-sized enterprise. Furthermore, better data availability would help to improve the design and evaluation of relevant public policies.

39. Second, some of the existing legal and regulatory frameworks could be amended to better reflect the needs and constraints of micro-, small and medium-sized enterprises. For example, the introduction of a movable assets registry, which would allow for the use of assets other than real estate property as collateral for loans, would help micro-, small and medium-sized enterprises to gain greater access to finance. The use of movable assets requires changes in the legal and regulatory framework, for instance through the adoption of a secured transactions law, which must be harmonized with other laws to facilitate its use by financial institutions and micro-, small and medium-sized enterprises.²⁵

40. Third, with regard to demand-side challenges, micro-, small and medium-sized enterprises need to increase their capacity to develop business plans, prepare financial reports and produce the documentation required by banks or other financial institutions when applying for loans. In this regard, governments could provide training activities in traditional knowledge areas such as business planning and financial management to micro-, small and medium-sized enterprises. In addition, training activities on the use of financial technologies such as mobile applications for accounting are increasingly relevant. More broadly, a business regulatory framework on access to markets and the business registration and licensing process could be further streamlined.

41. Major multilateral and bilateral development partners and civil society organizations have actively supported improving the access to finance afforded to micro-, small and medium-sized enterprises in the Asia-Pacific countries with special needs. Their initiatives range from providing technical assistance to governments on the design and implementation of relevant policies to delivering capacity-building programmes for micro-, small and medium-sized enterprises at the grassroots level. For example, the ASEAN Coordinating Committee on Micro,

²³ Miriam Bruhn and others, "MSME finance gap: assessment of the shortfalls and opportunities in financing micro, small, and medium enterprises in emerging markets", (Washington, D.C., World Bank, 2017).

²⁴ ESCAP, *Financing for Development in Asia and the Pacific: Highlights in the Context of the Addis Ababa Action Agenda – 2019 Edition* (ST/ESCAP/2854).

²⁵ In several countries with special needs, lenders are legally required to go to court to be able to seize collateral assets in cases of loan default. As this procedure is often cumbersome and costly for small loans secured by movable assets, it reduces incentives for the use of movable assets as collateral for small loans.

Small and Medium Enterprises has launched several initiatives to help such enterprises in South-East Asia to gain greater access to finance.

42. ESCAP will continue to provide support to enhance the access to finance afforded to micro-, small and medium-sized enterprises in the Asia-Pacific countries with special needs. For instance, in partnership with the United Nations Capital Development Fund, ESCAP will prepare additional detailed country-level studies on such enterprises and their access to finance and conduct research on the financial technologies with the potential to expand the access to finance afforded to smaller enterprises. Moreover, ESCAP will partner with the Asian Development Bank and the Asian Development Bank Institute to prepare knowledge products on micro-, small and medium-sized enterprises and their access to finance that will contribute to a new publication on financing for small and medium-sized enterprises.

43. With regard to private remittances, available data show that the transaction costs borne by remitters when transferring funds across borders remain high. In Pacific small island developing States, transaction costs stood at 11.6 per cent of the total transfer value during the period 2011–2017, and 9 per cent in the least developed countries. These costs exceed the maximum level of 3 per cent stipulated in the 2030 Agenda.

44. Several regional cooperation initiatives are aimed at reducing the cost of cross-border funds transfers. To address the issue of inefficient or uncompetitive markets that lead to such high transaction costs, several online platforms have been created in order to disseminate comparable information on the fees charged by various remittance service providers. For example, SaverAsia provides this kind of data for three of the countries with special needs in South-East Asia, with support from the International Labour Organization and the Governments of Australia and Canada. Another example is SendMoneyPacific, which provides data for six of the Pacific small island developing States, with support from the Governments of Australia and New Zealand.

45. Other regional cooperation initiatives go beyond providing information on the transaction costs of private remittances. The Pacific Financial Inclusion Programme, for example, is aimed at increasing the use of digital money transfers and other financial technologies to avoid the high cost of cash-to-cash operations upon which banks and traditional money transfer operators usually rely. In addition, the United Nations Development Programme launched a pilot project to implement a blockchain-based system for remittance transactions in Tajikistan in 2017. Meanwhile, other initiatives are aimed at improving financial literacy among migrant workers and recipient families, especially with regard to the opportunities presented by various money transfer channels. The financial literacy programme operated by the European Bank for Reconstruction and Development served remittance recipients in landlocked developing countries such as Armenia, Azerbaijan, Kyrgyzstan and Tajikistan. The 2020 Money Pacific Goals, supported and endorsed by the Forum Economic Ministers Meeting and by a meeting of the governors of South Pacific central banks, prioritize financial education campaigns for both children and adults.

C. International development cooperation

46. Both donors and recipient countries can play a key role in strengthening ODA in the Asia-Pacific countries with special needs. For the donors, it is important that ODA remain an important source of financing for development for the countries with special needs, especially the least developed countries. In this regard, many developed countries still need to fulfil their commitments to achieve the target ODA level of 0.15–0.20 per cent of GDP to least developed countries. In the recipient countries, the Governments should continue to coordinate among donors to make foreign aid efficient, as well as to increase the use of new technologies to transfer aid directly to the poor.

47. South-South cooperation has gained momentum in the Asia-Pacific region as a result of decades of vibrant economic development and closer regional and subregional integration and cooperation. For example, countries with large emerging economies in the region have been instrumental in establishing new international vehicles to facilitate financing for development, such as the New Development Bank and the Asian Infrastructure Investment Bank. Some national development banks, especially in countries with large economies such as China, have also engaged in financing long-term development projects in other countries of the region.

48. Various initiatives under South-South cooperation go beyond monetary transfers and involve an exchange of experiences and technology. This is particularly true of partnerships where similarities in development challenges and country contexts make the exchange of knowledge more effective. For example, the International Think Tank for Landlocked Developing Countries was established in Mongolia in order to facilitate research and knowledge-sharing among landlocked developing countries. Similarly, a sustainable community development project has been initiated in Thailand to share best practices and experiences in food security, climate change and public health that are based on the country's sufficiency economy philosophy. Meanwhile, in India, the Women Barefoot Solar Engineers project has received support to empower poor, illiterate women from across Africa and Asia by training them to build, install, maintain and repair solar technologies. In addition, the Institute of South-South Cooperation and Development has been established in China to provide training activities based on the country's successful development experience and that of other developing countries.

49. North-South, South-South and triangular cooperation is expanding in Asia and the Pacific. Under this cooperation, Northern development partners or multilateral agencies provide funds and technical support, while Southern donor countries share experiences and knowledge based on their geographical, cultural and historical proximity to other Southern countries. Recent examples of triangular cooperation include the cooperation between the Governments of Japan and Thailand on disaster prevention and tourism promotion in Myanmar, and the Australia-China-Papua New Guinea Trilateral Malaria Project, which is aimed at eliminating malaria in Papua New Guinea.

V. Issues for consideration by the Committee

50. The challenges faced by the Asia-Pacific countries with special needs in financing sustainable development are numerous and impinge more on these countries than on other developing countries in the region. These countries need support on this and a range of related issues, including through efforts to enhance regional cooperation. Desirable policy actions and regional cooperation initiatives can be grouped into three broad areas of financing, namely domestic public resources, domestic and international private finance, and international development cooperation. These areas comprise financing issues such as tax revenue, infrastructure financing, climate finance, financing for micro-, small and medium-sized enterprises, private remittances, ODA and South-South cooperation.

51. The Committee may wish to review the various policy suggestions highlighted in the present document and provide guidance to the secretariat with respect to further work in certain areas.

52. In this vein and recognizing the importance of sustainable infrastructure financing and innovative financing instruments, the Committee may wish to request the secretariat to strengthen the ESCAP-coordinated Public-Private Partnership and Infrastructure Financing Network of Asia and the Pacific. The Network is a good example of the kind of regional cooperation that the secretariat is already facilitating. The Network facilitates the exchange of knowledge and skills among the countries

with special needs and enhances peer learning with regard to various financing modalities. For instance, the current focus of the Network is on promoting the use of public-private partnerships in infrastructure development. Going forward, the Network could also consider promoting other aspects of infrastructure finance, such as capital market development, blended finance and the use of innovative financial instruments such as green bonds.

53. The Committee may also wish to provide guidance on related financing for development issues, including policy research topics and capacity development areas that the secretariat should prioritize, keeping in view the specific circumstances of countries with special needs. Examples could include integrating sustainability considerations into financing for development issues and developing country-specific case studies, taking into account the policy context and experiences of the region. Such efforts could help to translate research on financing for development into knowledge products that could be used by policymakers in the Asia-Pacific countries with special needs and the United Nations country teams.
