United Nations E/ESCAP/CMPF(1)/4

Economic and Social Council

Distr.: General
28 September 2017

Original: English

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

First session
Bangkok, 6-8 December 2017
Item 4 of the provisional agenda*
Financing strategies for sustainable development

Strengthening finance for sustainable development in Asia and the Pacific

Note by the secretariat

Summary

Financing for development is critical to achieving sustainable development in the Asia-Pacific region. In its resolution 71/1 on restructuring the conference structure of the Economic and Social Commission for Asia and the Pacific (ESCAP), the Commission decided to reconstitute the Committee on Macroeconomic Policy, Poverty Reduction and Inclusive Development as the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development. In support of the first session of the reconstituted Committee, the present document contains a review of the current status and challenges of financing for development in the Asia-Pacific region, in particular in four priority areas which were identified by ESCAP member States in a number of regional high-level meetings organized by ESCAP: increasing domestic revenues by improving public finance and tax policy, increasing private sector engagement in infrastructure financing, expanding financial inclusion and financing for small and medium-sized enterprises, and enhancing the provision of climate finance. The present document also contains a review of the secretariat's activities and a discussion of the way forward in view of the strategic guidance recently provided by member States and the Secretary-General.

The present document sets out the suggestions for what main issues the Committee may wish to consider: (1) support the global financing for development agenda and regional follow-up within the United Nations system; (2) strengthen the regional high-level dialogues on financing for development and aligning them with the Committee sessions on a biennial basis; (3) prioritize policy research and knowledge products; (4) strengthen advisory services and capacity-building; (5) support regional financing for development networks and partnerships, such as an Asia-Pacific network of national public-private partnership units and infrastructure financing specialists, as well as a regional stakeholder network on tax and public finance; and (6) establish a working group on small and medium-sized enterprise financing in Asia and the Pacific which would prepare detailed studies in selected countries of the region and which would report to the Committee at its second session.

* E/ESCAP/CMPF(1)/L.1.

B17-01184 (E) TP201017

I. Introduction

1. Increasing financing for development is fundamental for the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific. In the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, a significant role is assigned to the United Nations system to support developing countries' efforts to that end. Additionally, in the Addis Ababa Action Agenda, the regional commissions, in cooperation with regional banks and organizations, are encouraged to mobilize their expertise and existing mechanisms in support of thematic issues of the global financing for development agenda.[1]

2. The work of the Economic and Social Commission for Asia and the Pacific (ESCAP) on financing for development has been in direct response to the global financing for development agenda and to the needs of the Asia-Pacific region, with greater attention given to regional challenges and local policy experiences. Its first two regional high-level meetings on financing for development, in 2014 and 2015, were the only platform for regional consultations in Asia and the Pacific leading up to the third International Conference on Financing for Development. After the adoption of the Addis Ababa Action Agenda and the 2030 Agenda in 2015, ESCAP organized two more high-level dialogues on financing for development, in 2016 and 2017, to facilitate consensus on broad areas of focus for Asia-Pacific economies.

3. Given the multidisciplinary nature of the Addis Ababa Action Agenda, the Macroeconomic Policy and Financing for Development Division of the secretariat has concentrated on domestic public resource mobilization, private sector engagement and regional financial cooperation, while seeking cooperation and support from other ESCAP substantive Divisions in areas such as trade, statistics, and science and technology. The systematic issues, including financial governance and stability and debt sustainability, are also partially addressed through the Division's work on macroeconomic monitoring and policy analysis.

4. The Commission's work on financing for development is an integral subset of the global follow-up on the financing for development agenda. As a regional arm of the United Nations development system, ESCAP has been a conduit for country feedback and knowledge of Asia-Pacific specificities through its regular contribution of inputs to the annual report of the Inter-Agency Task Force on Financing for Development and the organization of regional side events at the Economic and Social Council forum on financing for development follow-up.

5. The Commission's work on financing for development is also a direct response to the demands of Asia-Pacific countries. Its high-level meetings on financing for development have been central to the process of gathering inputs and ideas from Asia-Pacific policymakers and experts on how to advance financing for development in the region. Its policy studies and other knowledge products on financing for development emphasize analysing Asia-Pacific regional priorities and highlighting regional cases and unique policy lessons. Supporting the global financing for development agenda and simultaneously addressing regional demands has been a defining characteristic of the Commission's work on the subject. It positions ESCAP to provide links between deliberations and follow-up on financing for development and to inform those processes. This occurs at the level of communicating global

[1] General Assembly resolution 69/313, para. 130.

policy consensus and best practices to Asia-Pacific countries in one direction, while promoting regional policy thinking and debate on the agenda and contributing the knowledge to the global financing for development follow-up process in the other.

6. To facilitate the deliberations of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development, the structure of the rest of the document is detailed here. Section II contains a review of the financing for development status and policy directions in the four priority thematic areas. Section III contains a review of the secretariat's past and existing efforts in support of the regional follow-up on the financing for development agenda. Section IV contains a discussion of the strategic positioning and future focus of the secretariat in view of the guidance recently provided by the Secretary-General and member States. Section V sets out suggestions on issues for consideration by the Committee.

II. Financing for development in Asia and the Pacific: priorities

7. In the Addis Ababa Action Agenda and the 2030 Agenda, emphasis is placed on resource mobilization through adequate and sustainable public revenues and private sector engagement, as well as innovative solutions and financing vehicles to meet the increasingly diverse needs for development financing and to extend basic financial services to everyone. Also highlighted are the need for broad-based financial cooperation and financial market development to effectively channel finance to where it is most needed and to address shared challenges like climate change.

8. In Asia and the Pacific, deliberations on a regional financing for development strategy has generally followed those lines, with greater attention given to regional challenges and local policy experiences. Over the past years, the broad-based regional policy dialogue and knowledge exchange organized by ESCAP has helped to develop a regional vision on the subject. Four priority areas that are of shared interest to member States have emerged: public finance and tax policy, private sector engagement in infrastructure financing, financial inclusion and financing for small and medium-sized enterprises, and climate finance.

A. Public finance and tax policy

9. Strengthening public finance through rationalized tax policies, effective fiscal governance and accountable public expenditure is a priority for Governments. The Asia-Pacific region, which has one of the world's lowest tax revenue levels, is particularly ill-prepared to meet the public spending needs for sustainable development. Total tax revenue in the region averaged 17.6 per cent of gross domestic product (GDP) in recent years,[2] compared to the global developing country average of 21.3 per cent and developed country average of 26.4 per cent (excluding social contributions).

10. The extremely low tax revenue levels in some of the region's poorest countries is particularly worrying. In Afghanistan, for example, the tax-to-GDP ratio stands at only 7.3 per cent, while for Bangladesh, the Islamic Republic of Iran, Myanmar, Pakistan and Sri Lanka this figure is below or barely above 10 per cent. Such narrow fiscal space is increasingly a primary bottleneck for

[2] Three-year average for 2012 to 2014, or the three latest years where data are available.

these countries for investing adequately in infrastructure, education, basic social security and job creation in order to achieve the Sustainable Development Goals.

11. Asia-Pacific developing countries are also confronted with the significant challenge of improving municipal finances. The region is in the middle of the world's largest urbanization process; 940 million people moved into cities between 2000 and 2015 alone. Such unprecedented growth in the urban population has created enormous fiscal pressure on city governments to improve urban infrastructure, upgrade shanty towns and slums, and provide essential public services. However, city governments in Asia-Pacific developing countries often lack the policy space and well-designed revenue tools to cope with this challenge. This has led to serious vertical imbalances and the swift accumulation of subnational-government debt in many densely populated countries.

12. To close the huge fiscal gaps, Asia-Pacific countries would need the political vision and motivation to deploy systematic reforms to unify the national tax regime, eliminate unproductive incentives and subsidies, address widespread tax evasion and avoidance, and rationalize the revenue distribution between central and local governments. It is encouraging that many Asia-Pacific developing countries have implemented major tax reforms and conducted innovative policy experiments to further rationalize their overall tax structure, strengthen tax administration and enhance tax compliance through both incentives and enforcement.

13. Building on the recent progress, Asia-Pacific countries could further strengthen their efforts on four important fronts. First, revenue enhancement needs to be based on the broad social compact that links paying taxes with accountable public expenditure. A rise in revenue should go hand in hand with a stronger capacity in effective public spending that delivers on economic, social and environmental outcomes. In this regard, transparent and accountable fiscal governance and improvement in the quality and economic efficiency of public projects could be as crucial as revenue mobilization itself.

14. Second, the shift from the "one-size-fits-all" approach and the emphasis on case-by-case policy analysis has become a norm in development thinking and policy advice. For Asia-Pacific countries, this requires a deeper understanding of their own policy experiences and that of their regional peers, in addition to international best practices. It also requires closer analysis of the local context for public finance policy design and implementation in order to reveal why similar policy packages could succeed in one country but fail in another.

15. Third, the attention to tax and public finance policies needs to go beyond revenue mobilization, to also consider their social and environmental implications. Progressive and environmentally responsive tax and fiscal policies have significant potential to promote inclusive and sustainable development. Despite their relative complexity in design and implementation, pollution and fuel taxes, green budget reforms and more thoughtful tax policies to decrease the tax burden on the poor have already been introduced by many countries in the region. With Asia-Pacific developing countries growing more capable in managing these taxes and with public pressure for equality and environmental sustainability continuing to increase, there is likely to be greater demand and space for such forward-looking reforms.

16. Finally, strengthened regional and international tax cooperation is key to addressing shared challenges, such as loopholes allowing base erosion and profit shifting and the excessive use of tax incentives and harmful tax

competition. Currently, Asia and the Pacific lacks a region-wide forum for knowledge-sharing, peer learning, and policy coordination on tax and public finance issues. Unlike in Africa, Europe and Latin America, where regional tax centres coordinate regional positions, study local experiences, support regional policy reforms and represent regional voices, Asia and the Pacific remains the only region without access to a similar support system. While it may take time to rally political commitment and develop similar platforms in this diverse region, enhanced regional tax cooperation should be the way forward.

17. One possible direction is to first promote collaboration among multilateral organizations and development partners working on public finance and tax policy in the region. At the global level, the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the United Nations and the World Bank Group jointly launched the Platform for Collaboration on Tax in 2016 to intensify information exchange, activity coordination and the promotion of synergy in their work on tax matters. In Asia and the Pacific, ESCAP has started initial cooperation with the Asian Development Bank (ADB), IMF and OECD on tax and public finance. A similar network of regional stakeholders working on the topic would be of great value to improve the overall efficiency of knowledge dissemination and the effectiveness of support to Asia-Pacific countries.

B. Private sector engagement in infrastructure financing

18. It is estimated that developing countries in Asia will need to invest $26 trillion in infrastructure between 2016 and 2030 to effectively support the 2030 Agenda. This is equivalent to approximately 6 per cent of GDP annually, and more than 2 per cent of GDP higher than current investment levels.[3] For least developed, landlocked and small island developing countries of the region, such financing needs would be higher, at roughly 10.5 per cent of GDP,[4] making the gap even larger.

19. Public resources alone are unlikely to be sufficient to meet this demand. To close the gap, private financing would need to grow significantly in developing countries in the region from approximately $63 billion to $250 billion a year for 2016-2020.[3] In this context, public-private partnerships have become a dominant model for arranging private involvement in public infrastructure and service delivery. To make this model successful, an appropriate framework for public-private partnerships and a long-term vision of the role of the private sector in infrastructure development is required.

20. First and foremost, countries need to develop a legal and regulatory architecture for public-private partnerships that provides clarity to public agencies, streamlines project delivery and provides necessary certainty to private investors. Countries should also build internal capacity to develop and manage public-private partnership projects, including through the establishment of a public-private partnership unit. A strong public partner is needed to allocate risks adequately and to structure projects that improve public services delivery. Countries in the region have a lot to learn from each other in these areas and will benefit from a regional platform where good practices could be exchanged and capacity built. There is also an opportunity for developing countries in the region to strengthen the contributions of their

---

[3] ADB, *Meeting Asia's Infrastructure Needs* (Manila, 2017).

[4] *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).

public-private partnership projects to sustainable development. For instance, this can be done by including sustainable development considerations in project selection criteria and linking key performance indicators to Sustainable Development Goal-related elements, such as equitable access. However, currently, there is a lack of guidance to support developing countries in these efforts and ESCAP will be working to address this need.

21. There is also considerable scope for the private sector to contribute to the financing of infrastructure through greater use of capital markets. The nature of infrastructure projects is compatible with the long-term liabilities of institutional investors, such as pension funds, insurance companies and sovereign wealth funds. These investors manage considerable amounts of potential resources. For instance, at the end of 2016, total pension assets were estimated at $36 trillion in 22 major pension markets.[5] If only a small fraction of these resources were allocated to infrastructure projects, the impact would be significant. However, mobilizing resources from these investors would require further strengthening of capital markets in the region as well as increasing the availability of investable assets. For instance, capital markets in many developing countries are relatively underdeveloped in terms of size, liquidity and maturity, which impede the channelling of long-term savings to investments. By further integrating capital markets in the region, countries could possibly address some of these issues. Likewise, enlarging the pool of domestic investors should contribute to local capital market development.

22. To encourage infrastructure investments through financial markets, reviewing prudential regulation for institutional investors might also be required. These investors often have regulatory limits based on the asset class characteristic (for example, unlisted securities), the currency denomination and the investment credit rating, with non-investment grade securities usually prohibited or limited more strictly.[6] While these limits are important to protect the savings managed by institutional investors, regulators should consider whether more flexibility in terms of investment decisions is suitable. Supporting credit enhancement mechanisms can also help, as these mechanisms raise the risk profile of infrastructure investments to a more acceptable level for institutional investors. Through its regional platform, ESCAP can support policymakers to better understand how to address these issues and facilitate exchange of experiences in the region.

23. Meanwhile, enhancing public expenditure efficiency in infrastructure has the potential to achieve significant savings. McKinsey Global Institute estimates that implementing established and proven good practices from across the globe can reduce infrastructure spending by 40 per cent.[7] To realize these efficiency gains, Governments can consider measures, such as improving project prioritization, upgrading infrastructure governance systems and demand management techniques, to reduce the need for additional infrastructure. Not only can these measures reduce the overall financial burden, but they can also result in more sustainable outcomes with better asset utilization and more sustainable consumption patterns. Again, countries would benefit from additional guidance on how to tap into this potential.

---

[5] Willis Towers Watson, “Global pension assets study 2017” (2017). Available from www.willistowerswatson.com/en/insights/2017/01/global-pensions-asset-study-2017.

[6] See www.oecd.org/g20/topics/financing-for-investment/Regulation-of-Insurance-Company-and-Pension-Fund-Investment.pdf.

[7] McKinsey Global Institute, “Infrastructure productivity: how to save $1 trillion a year” (January 2013).

C. Financing for small and medium-sized enterprises and financial inclusion

24. Financial inclusion, or the expansion of financial services to all, is reflected in various Sustainable Development Goals, including those on the empowerment of women (means of implementation 5.a), strengthening the capacity of domestic financial institutions (target 8.10) and increasing the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit (target 9.3). In addition, in the Addis Ababa Action Agenda, the third International Conference on Financing for Development called upon countries to implement broad strategies to enhance financial inclusion and committed to strengthening capacity development for developing countries and expanding peer learning and experience-sharing among countries and regions.

25. An important goal of financial inclusion is to enhance the access of small and medium-sized enterprises to credit. Small and medium-sized enterprises constitute the largest number of companies in any country and play a fundamental role in the creation of employment, the development of skills and the diffusion of technological knowledge. Past studies have also shown that financial access helps generate more new firms, which are generally vibrant and creative.[8] However, to fulfil their potential, small and medium-sized enterprises need to overcome an important obstacle: their lack of adequate access to credit and financial services. An important reason for this is that financial institutions, particularly commercial banks, often view loans to small and medium-sized enterprises as too risky and involving very high transaction costs.

26. In addition to commercial banks, microfinance institutions, which include not-for-profit organizations and non-governmental organizations, self-help groups, inclusive businesses and social enterprises, provide a wide range of financial services to the poor and to micro, small and medium-sized start-up enterprises. Pioneered by the Grameen Bank in Bangladesh, microfinance institutions have employed innovative solutions, such as a shared liability model and collateral-free lending, which have resulted in very low default rates. In recent years, however, some microfinance markets have become saturated, with borrowers becoming over-indebted by taking on too much credit from multiple microfinance institutions and other informal sources of credit.[9] This highlights the importance of establishing effective regulations for microfinance institutions.

27. To further expand lending to small and medium-sized enterprises by private financial institutions, the lending infrastructure of countries, which includes credit bureaus, credit guarantee agencies and collateral registries, needs to be improved. National development banks can also play a key role in providing financing to small and medium-sized enterprises in specific sectors of strategic importance through innovative products, such as growth acceleration programmes. In addition, new companies that provide financial services by making use innovative financial technology, referred to as fintechs,

[8] World Bank, *Finance for All? Policies and Pitfalls in Expanding Access* (Washington, D.C., 2008). Available from http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_book.pdf.

[9] Jessica Schicks and Richard Rosenberg, "Too much microcredit? A survey of the evidence on over-indebtedness", CGAP Occasional Paper, No. 19 (Washington, D.C., CGAP, World Bank, 2011). Available from http://documents.worldbank.org/curated/en/553421468148522571/Too-much-microcredit-A-survey-of-the-evidence-on-over-indebtedness.

offer exciting possibilities for meeting the financial needs of small and medium-sized enterprises.

28. However, a too rapid expansion of credit to small and medium-sized enterprises entails potential risks to financial stability. These include excessive indebtedness of low-income borrowers, illegal deposit mobilization, fraud, high transaction costs and exploitation of customers. To prevent these risks, it is important to develop appropriate supervisory and regulatory frameworks. It is also important to extend financial education to new users of financial services, to strengthen consumer protection regimes and to ensure that financial transactions take place in a timely and secure manner. All in all, the main challenge for policymakers and regulators in enhancing the access of small and medium-sized enterprises to financing is how to strike the right balance between facilitating innovation and preserving financial stability.

D. Climate finance

29. Of the estimated $26 trillion needed for infrastructure investment in Asia up to 2030,[3] some $3.6 trillion are for additional infrastructure investments to mitigate carbon emissions and to increase resilience to climate change.[10] Beyond such infrastructure costs, the transition to low-carbon, climate-resilient development requires changes to economic activity which themselves impose costs.

30. Public resources alone are insufficient to meet the region's significant financing needs to transition to low-carbon, climate-resilient development. Climate finance accounts for an increasing share of bilateral official development assistance (ODA), through direct support or channelled through bilateral development banks, as well as of multilateral ODA, through multilateral development banks, and is also disbursed through dedicated climate funds.[11] Available estimates suggest that public climate finance from developed countries to Asia-Pacific countries rose by approximately 21 per cent for the period 2012-2015, reaching approximately $19 billion in 2015, or almost half the global total. In terms of its composition, in Asia-Pacific, roughly 30 per cent was channelled as bilateral ODA, 64 per cent as multilateral ODA and 6 per cent through dedicated climate funds.

31. In addition to these grants or concessional borrowing, public budgets have been used for climate-aligned investments to varying degrees, deriving revenues from taxes, non-tax sources and the issuance of bonds. Countries across the region are increasingly reforming their tax systems, thereby creating fiscal space for these investments. Such reforms are estimated to deliver an additional 2 to 3 per cent of GDP and can be sustainably carried out in a majority of developing countries in Asia. Reorienting public spending to make it more climate aligned also has massive potential across the region, in particular in the context of inefficient fossil fuel subsidies[12] as well for greening public procurement.

---

[10] ADB, in *Meeting Asia's Infrastructure Needs* (Manila, 2017), uses additional investments required for the power sector to achieve the 2ºC goal.

[11] *Financing for Development: Progress and Prospects* – Report of the Inter-Agency Task Force on Financing for Development 2017 (United Nations publication, Sales No. E.17.I.5), chap. III.C. Available from https://developmentfinance.un.org/.

[12] ESCAP, *The Economics of Climate Change in the Asia-Pacific Region* (ST/ESCAP/2761). The Asian region made up approximately one third of global energy subsidies in 2013 and is home to some major subsidizing nations. Based on estimates for 2014, the fossil fuel subsidies of the Islamic Republic of Iran amounted to approximately 20 per cent of GDP, followed by the Russian Federation and India (both approximately 10 per cent), Indonesia (7 per cent) and China (4 per cent).

32. Mobilizing private finance and tapping associated financing channels are also essential, and these avenues need to grow significantly in developing countries in Asia to meet growing investment needs, especially in light of exacerbating trends in climate change that are causing higher losses and damage in the region and increasing spending needs. One main source of additional funding will come through debt capital markets, including green or catastrophe bonds issued by Governments, provinces or municipalities, commercial banks, corporations and projects. Green and climate-proof infrastructure projects match the long-term liabilities of institutional investors but still face considerable challenges to mobilizing resources through capital markets. These challenges are similar to those relating to general infrastructure financing and, in addition, are subject to additional challenges such as higher perceived risks, the lack of standards, the lack of adequate data and models to assess climate risks, low awareness and capacity constraints.

33. These suggest an important role for ESCAP: convening stakeholders across the region to find interim solutions to enhance this important channel for climate-aligned investment, especially for countries vulnerable to climate change. This can be done through public-private collaboration on sustainable finance to review macroprudential and financial regulations that can enhance green investment and to provide solutions for credit enhancement, cost reductions and raising awareness among key stakeholders.

34. Meanwhile, increased climate-aligned investment, including through risk transfer mechanisms, will result in huge benefits in terms of minimizing disaster losses, efficiency savings resulting from energy efficiency improvements and reduced operating costs, lower infrastructure maintenance costs, reduced air pollution, reduced transport congestion, and more energy security, to name but a few.

III. The Commission's work on financing for development: progress and achievements

35. The Commission's work on financing for development has so far followed three main tracks: promoting broad regional financing for development cooperation through high-level consultations; prioritizing research on policy issues pertinent to the Asia-Pacific context and building capacity in selected areas that are of common interest to member States; and facilitating broad regional partnerships on financing for development among different stakeholders with shared objectives. In addition to addressing the priorities and needs of Asia-Pacific countries, much of this effort also contributes to the global follow-up on financing for development led by the Economic and Social Council.

36. ESCAP organized four consecutive high-level meetings on financing for development in Asia and the Pacific between 2014 and 2017; as a whole, they are considered the most inclusive platform in the region for knowledge exchange, policy debate and consensus building on the subject. More than 70 ministers and central bank governors, some 700 high-level officials and experts from 52 ESCAP member States, and more than 20 leading institutions participated in these four events.

37. The first two high-level meetings, in 2014 and 2015, were held in collaboration with the Ministry of Finance of Indonesia and were the only formal regional consultation forum in Asia and the Pacific before the third International Conference on Financing for Development. The meetings

provided regional inputs to the preparation process leading up to the adoption of the Addis Ababa Action Agenda.

38. In the following two years, building on partnerships with the finance ministries of the Republic of Korea and Sri Lanka, the high-level meetings continued to provide a unique platform for policymakers, experts and representatives from stakeholder organizations to exchange perspectives on regional priority areas and knowledge on regional policy experiences. The events have been a main source of Asia-Pacific inputs to the global financing for development debate and follow-up process through the Inter-Agency Task Force on Financing for Development, of which ESCAP is a member organization.

39. In parallel, ESCAP organized a series of financing for development side events for the global events, including the Economic and Social Council forum on financing for development follow-up, to promote the Asia-Pacific regional voice, make regional contributions and share key outcomes of the regional high-level meetings. These side events were an important way to share regional policy insights and to articulate regional priorities and concerns on financing for development at the global level.

40. Research and in-depth analytical studies have been prioritized in the Commission's work on financing for development from the beginning. Over the past four years, ESCAP produced an overview report on financing for development in Asia-Pacific countries, close to 50 analytical policy papers and country studies, and a similar number of shorter pieces such as policy briefs and notes.

41. A common feature of these knowledge products is that they all focused on Asia-Pacific regional priorities and on the new demands of sustainable development. The Commission paid special attention in its research to regional policy experiences and concrete cases and sought to provide constructive recommendations based on in-depth analyses of different policy options, rather than making general statements or one-size-fit-all prescriptions. For example, in the theme chapter of the *Economic and Social Survey of Asia and the Pacific 2017*, the quality of governance and fiscal management in ESCAP member States was analysed. In the theme chapter of the 2014 *Survey*, the bottlenecks of domestic public resource mobilization in the region were highlighted and the options for expanding fiscal space were discussed. In the theme chapter of the *Asia-Pacific Countries with Special Needs Development Report 2017: Investing in Infrastructure for an Inclusive and Sustainable Future*, financing strategies to close infrastructure gaps in countries with special needs and related financing vehicles and mechanisms were discussed.

42. Analytical papers have also been developed in each of the four priority areas. ESCAP has produced papers on tax and public finance issues such as tax incentives, municipal finance, and progressive taxation and environmental taxes; on infrastructure finance issues such as case studies, best practices for an enabling public-private partnership environment, and the role of capital markets and institutional investors for infrastructure financing; on regulatory issues for small and medium-sized enterprise financing and for financial inclusion; and on the state of development of the financial sector in the region. ESCAP has also analysed the financing needs of Asia-Pacific developing countries for climate change adaptation and energy sector decarbonization.[13]

[13] Recent papers are available from www.unescap.org/events/4th-high-level-dialogue-financing-development-asia-and-pacific.

43. Building on these research products, ESCAP has provided advisory services and delivered numerous capacity-building activities, particularly in the areas of resource mobilization, public-private partnerships and infrastructure financing. The Commission has provided technical advice and capacity support for Bhutan, Cambodia, the Lao People's Democratic Republic and Myanmar on creating enabling policy frameworks for public-private partnerships. As a result, the Governments of Bhutan and Myanmar developed public-private partnership policy documents, the Lao People's Democratic Republic is ready to enact a public-private partnership decree, and Cambodia prepared a public-private partnership procurement manual.

44. More recently, in 2017, ESCAP provided capacity support and training activities in Georgia, Nepal, Samoa, the Philippines and Viet Nam to increase knowledge of infrastructure financing strategies for sustainable development. In 2016 and 2017, ESCAP organized 14 workshops and policy dialogues on public-private partnerships and infrastructure financing issues.

45. ESCAP has also developed online toolkits to assist countries in dealing with their infrastructure financing challenges, including an e-learning series on public-private partnerships, which has been accessed approximately 70,000 times and adopted by stakeholders in several countries (including, recently, by the China Public-Private Partnerships Centre). In addition, ESCAP launched the Qualitative Value-For-Money Toolkit in June 2016 to support member States in improving project selection and prioritization and a public-private partnership country readiness diagnostic tool to assist countries in identifying the key areas that Governments need to address to engage the private sector more actively in infrastructure financing.

46. In addition, ESCAP organized a workshop in September 2017 on access by small and medium-sized enterprises to financing and the role of development banks in Asia and the Pacific and Latin America, in partnership with the Economic Commission for Latin America and the Caribbean, the Council on International Financial Cooperation of the Republic of Korea, the Asian Development Bank Institute, the Alliance for Financial Inclusion and the Asia Foundation. The workshop focused on market-based approaches and public efforts through national development banks for small and medium-sized enterprise financing. The opportunities and challenges arising from the rapid expansion of financial technologies were also discussed. The workshop also provided opportunities to discuss future joint activities between ESCAP, the partner organizations and the United Nations Capital Development Fund. The latter co-organized a side event during the workshop.

47. These activities are in line with the Commission's efforts to rally expertise through expert networks and to engage potential partners on financing for development. The Eminent Expert Group on Tax Policy and Public Expenditure Management for Sustainable Development was established in 2016 as an independent advisory body to the Executive Secretary to expand the Commission's expertise pool and to better serve member States. The Group comprises 18 renowned experts from within and outside the region and has provided concrete suggestions on priority action areas and contributed three research papers on tax and public finance.

48. With regard to partnerships with other regional bodies and organizations, ESCAP became an observer of the Study Group on Asian Tax Administration and Research in 2015 and engaged in initial cooperation with ADB, OECD and IMF on tax and public finance matters. ESCAP also collaborates on an ad-hoc basis with a network of public-private partnership units and think tanks in the region, joined 11 other international organizations

in the public-private partnership knowledge lab initiative in 2016 to provide a comprehensive online hub for public-private partnership data and knowledge, and participated in producing the third version of the PPP Reference Guide with the World Bank Group and other international organizations. Finally, as mentioned above, ESCAP has started a partnership with the Economic Commission for Latin America and the Caribbean, the Asian Development Bank Institute, the Alliance for Financial Inclusion, the Council on International Financial Cooperation, the Asia Foundation and the United Nations Capital Development Fund to work on small and medium-sized enterprise financing.

IV. The Commission's strategic positioning and future activities on financing for development

A. Background

49. Three recent documents provided strategic guidance in 2017 on the future of the Commission's financing for development work. These include the Chair's summary of the fourth High-level Dialogue on Financing for Development in Asia and the Pacific,[14] which was held in April 2017, Commission resolution 73/9, in which the Commission endorsed the regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific[15] and the report of the Secretary-General on repositioning the United Nations development system to deliver on the 2030 Agenda.[16]

50. In the Chair's summary of the fourth High-level Dialogue, the Chair highlighted three priority areas for the Asia-Pacific region: (a) tax policy and public finance, (b) engaging the private sector for sustainable infrastructure, and (c) financial inclusion and small and medium-sized enterprise financing. The participating ministers and senior officials also encouraged ESCAP to leverage its intergovernmental mechanisms and existing platforms for regional tax dialogue and cooperation and recognized the need for broader knowledge-sharing on country experiences on public-private partnership, possibly through an Asia-Pacific public-private partnership unit network led by ESCAP.

51. In the regional road map, opportunities for regional cooperation in financing for development, as a key component of the means of implementation of the 2030 Agenda, were identified and the importance of financing to issues like climate change was highlighted. Enhanced efforts by the secretariat on financing for development policy research, capacity-building and developing regional partnerships were called for.

52. In his report, the Secretary-General articulated his vision on the strategic repositioning of the United Nations system to deliver on the 2030 Agenda as well as the Addis Ababa Action Agenda. It contains detailed suggestions regarding the role of the regional commissions.

53. The Secretary-General highlighted three key functions of the regional commissions in stepping up the policy voice of the United Nations system. First, they have a primary role as policy think tanks, providing knowledge products, analytical services and policy advice. Second, they provide regional platforms for the exchange of best practices and follow-up and review of regional progress on the 2030 Agenda. Third, they support the United Nations

[14] E/ESCAP/73/32, annex.

[15] E/ESCAP/73/31, annex II.

[16] A/72/124–E/2018/3.

country teams with expertise and capacity-building so that the country teams can spearhead country-level projects and activities.[17]

54. Such a vision requires that ESCAP work closely with other United Nations entities, including the Department of Economic and Social Affairs of the Secretariat and United Nations specialized agencies, and country teams, and that it create partnerships with other organizations and development banks in its support for the financing for development agenda. The Secretary-General also pointed out that United Nations entities, including regional commissions, should harness their convening power to promote meaningful engagement, synergy and coherence to achieve results and become a facilitator for broad partnerships and cooperation.[18]

55. These three important documents, which reinforce and complement each other, chart a clear and consistent way forward for the Commission's work on financing for development. First, ESCAP should be further integrated into the financing for development follow-up process led by the United Nations system and should foster closer collaboration with the Economic and Social Council, the Inter-Agency Task Force on Financing for Development and the Department of Economic and Social Affairs at the global level and with United Nations country teams at the national level. As an essential component of the United Nations policy voice at the regional level and a think tank of the United Nations system, ESCAP is expected to contribute substantive regional inputs on the progress, priorities and policy issues related to financing for development to the Economic and Social Council forum and the Inter-Agency Task Force annual report, to continue to represent the Asia-Pacific regional voice at global platforms, and to facilitate the communication of global consensus and policy messages back to Asia and the Pacific to support the regional financing for development agenda.

56. ESCAP also needs to further strengthen the platform of the regional high-level dialogues as the major region-wide financing for development forum in Asia and the Pacific, with an emphasis on knowledge exchange, peer learning and policy coordination. This effort could be facilitated by aligning the high-level meetings with its existing intergovernmental mechanisms, in particular the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development.

57. With regard to research, continuing work on the identified priority thematic areas is required to achieve adequate policy understanding and to develop actionable recommendations for tangible support on policymaking and concrete progress on development financing in Asia-Pacific countries. The emphasis on the region's unique financing for development challenges and policy experiences, as well as the local context for policy implementation, in addition to general best practices, should also be strengthened. This would allow ESCAP to consistently build expertise and establish thought leadership on regional priorities and policy experiences over time and to achieve synergy, rather than duplication, with the work of other United Nations entities and non-United Nations stakeholders.

[17] Ibid., paras. 83-87.

[18] Ibid., para. 41.

58. Strengthened research and in-house expertise would in turn enable ESCAP to improve its advisory and capacity support for member States on financing for development, including through the development of policy manuals, training materials and tools that are ready to use by policymakers.

59. Proactive efforts to mobilize external expertise and establish partnerships with other stakeholders working on financing for development should also play an important role in complementing in-house expertise and promoting collective efforts to advance the regional financing for development agenda. At the global level, the Inter-Agency Task Force represents a spirit of broad collaboration towards the shared objectives of the Addis Ababa Action Agenda. At the regional level, ESCAP is ideally positioned to extend this spirit to Asia and the Pacific and to facilitate similar partnerships in the region.

B. Expected and on-going activities

60. Strengthening collaboration with the Inter-Agency Task Force, the Department of Economic and Social Affairs and the Economic and Social Council forum on financing for development follow-up could be an immediate action step. ESCAP plans to strengthen its substantive inputs to the annual report of the Inter-Agency Task Force by more closely monitoring regional progress and policy developments. It could also seek to develop joint policy studies on thematic issues in collaboration with regional banks as regional input to the global financing for development follow-up process, which is directly encouraged by the Addis Ababa Action Agenda.

61. ESCAP plans to launch a book on tax policy for sustainable development in Asia and the Pacific at the first session of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development and is preparing a joint report with Oxfam International on addressing inequality through tax policy.

62. ESCAP intends to conduct follow-up policy studies on public finance and tax policy in 2018 and 2019. Potential topics include municipal finance, tax-base protection and revenue enhancement, international taxation challenges, and fiscal policies for equality and environmental sustainability. Based on existing research, ESCAP also intends to develop user-friendly policy manuals and training materials on these topics, to better inform policymaking in Asia-Pacific countries.

63. In addition, ESCAP intends to facilitate a cooperation network of regional stakeholders working on tax matters, building on its existing collaboration with key partners. This network will facilitate improved information exchange among the stakeholders and more efficient knowledge dissemination and capacity support for policymakers in the region, by leveraging the Commission's convening power and existing intergovernmental platforms.

64. ESCAP intends to establish a network of public-private partnership units and infrastructure financing specialists for the region to facilitate the exchange of experiences and good practices on infrastructure financing and private sector engagement, as suggested in the Chair's summary of the fourth High-level Dialogue on Financing for Development in Asia and the Pacific. ESCAP also intends to produce a publication in 2019 on infrastructure financing for sustainable development to expand the knowledge base in this area.

65. ESCAP will also continue its capacity development efforts in the coming biennium through a development account project on resource mobilization strategies for countries with special needs. The project aims to enhance the capacity of policymakers in countries with special needs on deploying resource mobilization policies and allocating existing resources more effectively.

66. ESCAP is partnering with the secretariat of the United Nations Framework Convention on Climate Change to provide a platform to enhance access by Governments, private enterprises and banks to offshore or developed financial hubs to scale up climate financing and to help to match international investors to local low-carbon climate-resilient investment opportunities across the region. Sustainable bond markets need concerted regional action and standards to reduce barriers for bond issuers and investors. A regional approach led by international commercial banks can also play a key role in catalysing local commercial banks' use of low-carbon climate-resilient investments as well as in catalysing cross-border bank and portfolio flows to developing countries, which until recently had been a significant source of long-term infrastructure financing. Furthermore, many market-based approaches entail cross-border actions and linkages to achieve cost efficiency and scale and require common approaches to reporting, monitoring and verification.

67. This initiative will be complemented by financial and data analysis and policy advice in line with the role of regional commissions as think tanks, providing data and analytical services to address regional issues, and acting as platforms for intra- and interregional exchanges. The work is expected to lead to the formulation and endorsement of a regional action agenda by policymakers, which will have a role in catalysing climate action by the private sector, and complement the financing of climate action at the country level. This initiative will be launched at the twenty-third session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, and the associated first regional workshop will be held as part of the Asia-Pacific Carbon Forum, also co-organized by ESCAP, the secretariat of the United Nations Framework Convention on Climate Change and its partners, in December 2017. More events are planned for 2018.

V. Issues for consideration by the Committee

68. Based on the stock-taking of existing momentum and achievements as summarized in section III, the new expectations regarding the Commission's support for the global and regional financing for development agenda as articulated in section III, and the discussion on the future focus and priority issues in section IV, the secretariat is proposing six issues for the consideration of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development.

69. **Support for United Nations system follow-up on financing for development**. The Committee may wish to request the secretariat to review the modalities of the Commission's work on financing for development within the United Nations development system, in view of the role of regional commissions in the Secretary-General's strategic vision, to develop suggestions and to report to the Committee at its second session, in 2019. The Committee may also wish to encourage the secretariat to strengthen its efforts to promote regional policy messages and best practices at global financing for development follow-up platforms, including through the annual report of the Inter-Agency Task Force Financing for Development and the Economic and Social Council forum on financing for development follow-up.

70. **Regional dialogues on financing for development, knowledge exchange and follow-up**. The Committee may wish to request the secretariat to strengthen the regional high-level dialogues on financing for development as the primary regional platform for action-oriented knowledge exchange and to align them with the Committee sessions on a biennial basis to leverage the Commission's intergovernmental mechanism for regional consensus building and policy coordination.

71. **Policy research and knowledge products**. The Committee may wish to request the secretariat to continue to prioritize policy research in its programme of work on the priority financing for development issues, including tax and public finance, infrastructure financing and public-private partnerships, small and medium-sized enterprise financing, financial inclusion and financial sector development, and climate finance, and to devote greater attention to country cases as well as the regional local policy context and experiences.

72. **Advisory services and capacity-building**. The Committee may wish to encourage the secretariat to make greater efforts to translate financing for development research into policy manuals and training materials that can be used by policymakers, to strengthen the secretariat's abilities to provide advisory services and capacity-building, and to better support United Nations country teams on this front.

73. **Regional partnerships for financing for development**. The Committee may wish to support the strengthening of the secretariat's partnerships with multilateral organizations, specialized institutions and national bodies to promote synergy and avoid duplication. The Committee may wish to support the establishment of an Asia-Pacific network of national public-private partnership units and infrastructure financing specialists for knowledge exchange and peer learning, as well as the cooperation network of regional stakeholders working on tax matters to improve the efficiency of knowledge dissemination and the effectiveness of support to Asia-Pacific countries on the subject, leveraging the Commission's convening power and existing intergovernmental platforms in the region.

74. **Working group on small and medium-sized enterprise financing in Asia and the Pacific**. The Committee may wish to consider establishing an intergovernmental working group on small and medium-sized enterprise financing in Asia and the Pacific composed of representatives from selected member States that will prepare detailed country studies, with the support of the secretariat, on policies to enhance access to financing by small and medium-sized enterprises. These papers will provide useful lessons for other countries in the region, and the Committee may wish to request the secretariat to report on them to the Committee at its second session. The secretariat's report would facilitate the dissemination of regional best practices and policy research findings and provide guidance to member States on priority issues and capacity support demands to enhance access to financing by small and medium-sized enterprises.

B17-01184