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Outcome Document
Asia-Pacific Outreach Meeting on Sustainable Development Financing

10-11 June 2014

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CONTENTS

PART 1: JAKARTA OUTCOME DOCUMENT[1]

I. Introduction

1. Financing for sustainable development has become a significant and integral part of the current development discourse in the United Nations' post-2015 development agenda. To secure the *future we want* it is critical "to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives."[2]

2. In June 2013, the United Nations General Assembly decided to establish an intergovernmental committee of experts on sustainable development financing, as recommended in the outcome document of Rio+20.[3] The Committee's report, which will be presented to the General Assembly in 2014, will "assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks and evaluate additional initiatives".[4]

3. The work of the Committee is proceeding in parallel with the deliberations of the Open Working Group (OWG) of the General Assembly, established on 22nd of January 2013 by decision 67/555. The OWG has emphasized the need to ensure adequate financial resources for investments in sustainable development, *inter alia*, through (i) strengthening domestic resource mobilization, including by improving tax collection and the efficiency of public spending and by strengthening systems to harness domestic savings for investment, (ii) the full implementation by developed countries of ODA commitments in line with the agreed formulae and timetable; and (iii) the mobilization of additional financial resources from multiple sources.

4. In this context, the Asia-Pacific Outreach Meeting on Sustainable Development Financing was intended to offer perspectives on financial market developments and some key issues and challenges facing the region in financing sustainable development and other priorities. The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in collaboration with the Ministry of Finance, Republic of Indonesia, organised the meeting in Jakarta, Indonesia from 10 to11 June 2014.

5. The Asia-Pacific Outreach Meeting on Sustainable Development Financing was attended by more than 150 participants, including 70 representatives of Governments from 28 ESCAP member States, namely Australia; Bangladesh; Bhutan; Cambodia; China; Democratic People's Republic of Korea; India; Indonesia; Japan; Kiribati; Lao People's Democratic Republic; Malaysia; Myanmar; Pakistan; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Samoa; Solomon Islands; Sri Lanka; Thailand; Tonga; Turkey; Tuvalu; United States of America; Vanuatu and Viet Nam, as well as 2 from outside the region, namely Germany and Switzerland. There were also 30 representatives from international and United Nations organizations and other entities, and 50 representatives from the private sector, civil society organizations and other stakeholder organizations.

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[1] The document has been issued without formal editing.
[2] General Assembly resolution 66/288.
[3] General Assembly resolution S-19/2, annex.
[4] General Assembly resulution A/Res/66/288 (para 255).

II. Perspectives on the Sustainable Development Financing

6. The welcome address was delivered by Shamshad Akhtar, United Nations Under-Secretary-General and Executive Secretary of the Economic and Social Commission for Asia and the Pacific. She noted that it could cost as much as $2.5 trillion per year to close the Asia-Pacific region's infrastructure gaps, provide universal access to social protection, health and education, and implement climate change mitigation and adaptation measures. She noted, however, that this amount represented only 7.5 per cent of the $33 trillion held by affluent individuals in the region as at the end of 2012.

7. Ms. Akhtar emphasized the need for governments to look beyond their own revenues by mobilizing private sector investment in infrastructure as well as in the social and environmental sectors. In that respect, she highlighted the importance of developing well-diversified and competitive financial systems, capable of extending finance to address people's needs and the region's development. For that purpose, she called on policymakers and regulators of the region to work together with the private sector to develop effective capital markets' institutions and regulatory frameworks, to foster the development of domestic institutional investors, and to support capacity building in the least developed countries and small-island developing States.

8. In his opening remarks, Pertti Majanen, Co-Chair of the Intergovernmental Committee of Experts on Sustainable Development Financing underscored that, in light of the weight of the Asia-Pacific region in the world economy, the outreach meeting would provide a substantive contribution to the deliberations of the Committee. In line with the principles of the 2002 Monterrey Consensus, he stressed the importance of domestic resource mobilization and the critical role of national budgets for the financing of development projects. In particular, he emphasized the need for mainstreaming national policies and sustainable development financing into national budgets. Mr. Majanen indicated that the most important yardstick for the evaluation of the work of the Committee would be how well its recommendations will be implemented.

9. In his keynote address, Chatib Basri, Minister of Finance of Indonesia, noted that the poor bear the brunt of deficiencies in the provision of public infrastructure in areas such as transport, electricity and sanitation. He emphasized that rapid urbanization in the region in countries such as Indonesia is creating additional needs for stepping up public infrastructure investment. He also noted that small and medium enterprises (SMEs), which are key for generating employment and making the growth process more inclusive, are particularly dependent on public sector investment in infrastructure. As a result, he called for the adoption of policy measures to promote investment in infrastructure with the goal of not only stimulating economic growth but also reducing poverty and addressing growing concerns about inequality.

10. Mr. Basri noted that funding from traditional sources of finance, such as official development assistance, loans from multilateral financial institutions and the government budget, are insufficient, and he encouraged participants at the meeting to discuss alternatives. Among the alternatives, he mentioned the need to curb fuel subsidies, as the resulting savings could provide additional financing to be used in infrastructure investment. Mr. Basri called participants at the meeting to come up with practical solutions to finance sustainable development.

III. Domestic resource mobilization

Brief description

11. The session was chaired by Cesar Purisima, Secretary of Finance, Philippines. Bambang Brodjonegoro, Vice Minister of Finance, Indonesia; Rathin Roy, Director, National Institute of Public Finance and Policy, India; and Axel Bertuch-Samuels, IMF Special Representative to the UN, made presentations. Sarath Amunugama, Senior Minister, Ministry of Finance, Sri Lanka; Truong Chi Trung, Vice Minister of Finance, Viet Nam; Wayne Swan, MP and former Deputy Prime Minister and Treasurer, Australia; M.A. Mannan, State Minister of Finance, Bangladesh; Tom Murdoch, Minister of Finance, Kiribati; Phalla Phan, General Director, Ministry of Economy and Finance, Cambodia; and Leonor Briones, Lead Convenor, Social Watch Philippines, acted as panelists.

12. One of the most pressing issues for any country determined to invest in sustainable development is to raise the necessary resources, particularly through taxation. For many economies in the region, tax revenue collection is neither sufficient nor equitable. The average central government tax revenue-to-GDP. Thus, Asia and the Pacific is less successful in tax collection than other developing regions, averaging only 14.8% of GDP in developing Asia-Pacific countries in 2011 for central government revenues, compared to an average of 17.1% of GDP in Latin America and the Caribbean, and 16.3% in sub-Saharan Africa.

13. This session explored ways for governments to unlock the fiscal space required to be able to increase the resources available for development. It highlighted that options included (i) strengthening tax revenues in the region, (ii) reprioritizing public expenditure and making it more development oriented and (iii) making more effective use of natural resource revenues for investing in development.

Major issues presented

14. An essential feature of a successful economy is a robust and effective revenue raising system. This is particularly relevant to the Asia-Pacific region, which needs to raise more domestic resources to investment in its development. Doing so would allow the region to tap its significant savings, of which a large proportion currently flows to other regions rather than being used productively within Asia and the Pacific.

15. When considering ways to mobilize additional domestic resources, policymakers need to ensure that budgets support growth and that they address inequalities. Getting the balance between them is therefore critical. Given the high level of inequality in some countries, it is important that tax systems be made fairer. For instance, many countries in the region are raising significant resources through value-added taxation (VAT). Yet, this kind of taxation is generally regressive. This is especially relevant in those countries where large proportions of the labour force do not pay taxes. Clearly, a high degree of informality in labour markets is a contributing factor to low tax coverage. However, tax avoidance of the wealthy is often a more relevant and pressing concern. To address this, rationalizing tax rates to provide greater incentives for tax compliance could be considered. In addition, countries could review the progressivity of their tax codes, in particular the taxation of capital income and the introduction of inheritance and wealth taxes.

16. Countries need to increase anti-laundering efforts and should address base erosion and profit shifting by multi-national corporations. Evidence shows that low tax rates do not necessarily imply that countries will grow faster. While some countries, such as Bangladesh, use tax concessions and exemptions to attract investment to certain, less-developed geographic areas, this is the exception. Rather, tax exemptions and concessions are generally used to attract FDI. Yet, such tax competition between countries ultimately deprives them of urgently needed revenues and unduly results in a ‘race-to-the-bottom’.

17. Many countries in the region have significant natural resources. Fishing license fees, for instance, are an important source for revenue for several island developing economies. Managing the tax and non-tax revenues from these natural resources poses additional challenges. For one, countries face a trade-off between raising higher levels of revenue rapidly by increasing rates of natural resource extraction, and managing their resources more sustainably by reducing rates of extraction, yet securing longer-term revenues. In addition, natural resource rich economies often have significant tax leakage due to profit shifting and tax erosion; this can have a significant impact on revenues. Addressing this requires, however, concerted regional effort. More steps need therefore to be taken to tackle this issue.

18. Given their developing state, there is a limit to which countries can raise resources by mobilizing tax and non-tax revenues. Yet, fiscal space can also be created in other ways. One way is to reduce corruption. Another way is to prioritize expenditure and make it more effective and more development-oriented. In this regard, reducing poorly targeted subsidies, especially those on energy, can contribute significantly to making more resources available. Not only are such subsidies often regressive; they can also make budgets vulnerable to global economic activity, particularly if they are price-based.

IV. Infrastructure finance and public-private partnerships

Brief description

19. The session was chaired by Mahendra Siregar, Chairman, Indonesia Investment Coordinating Board. Abhaya Krishna Agarwal, PPP Practice Leader, Ernst and Young India; and Marilou Uy, Senior Advisor to World Bank's Special Envoy on MDGs and Development Financing, made presentations. U San Lwin, Deputy Minister for National Planning and Economic Development, Myanmar; Chen Huan, Deputy Director, Working Group for Establishment of Asian Infrastructure, Investment Bank, Ministry of Finance, China; Osuga Takeshi, Deputy Director General for International Cooperation and Global Issues, Ministry of Foreign Affairs, Japan; Lafaitele Leiataualesa, Associate Minister of Finance, Samoa; Nathan Dal Bon, Assistant Secretary, Department of Foreign Affairs and Trade, Australia; Rajeev Mukhija, CFO, India Infrastructure Finance Company Limited; and Erin Palomares, Coordinator for Reality of Aid Network Asia-Pacific, Philippines, acted as panelists.

20. Looking at the spectacular increase in private investment in infrastructure since 1990, the potential for PPPs to continue playing an important role in the region is clear. Private investment committed to infrastructure in developing countries of the region grew steadily over the decades. For example, the average annual growth rate of private sector investment reached 25.4% between 2002 and 2008. Stimulus policies adopted by many countries in the region since the global financial crisis further boosted private investment in infrastructure to an unprecedented level of $120.1 billion in 2010.

21. This session reviewed experiences with public-private partnerships (PPPs) in the region. In particular, it outlined ways to (i) build sound governance and institutional framework for an enabling environment (ii) strengthen planning and project design capacities to generate viable and bankable projects and (iii) expand and diversify PPP financing channels while keeping an eye on hidden public liabilities and financial risks. The session also explored the potential for new regional financial institutions or mechanisms to facilitate a large-scale mobilization of resources from countries with large savings to fund investment, particularly in regional infrastructure to enhance connectivity.

Major issues presented

22. Countries in the region face significant investment needs to provide the infrastructure that will enable them to develop in an inclusive and sustainable manner. Estimates for infrastructure investment over the next three decades breach $10 trillion in India alone.

23. Despite the potential rewards, the private sector is often resistant to engage in infrastructure investment. In part, limited capital market development poses a constraint to raising resources. In addition, perceived risks associated with large infrastructure projects may not be commensurate with the project's perceived return profile. Additional limiting factors are the lack of capacity in preparing 'bankable investment projects' that exists in several countries, but more importantly the fact that overall, the public sector is unable to raise the resources that greater investment in sustainable development would require.

24. Governments could aim to forge private-public partnerships (PPPs), particularly with a view to raising from the private sector the long-terms financing that is needed to close infrastructure gaps. Given the low level of domestic resources, forging PPPs may indeed be the only way for governments to finance their infrastructure investment plans in some countries.

25. Fostering PPPs will require that governments provide an enabling framework that provides greater incentives for the private sector to participate in such investment. One way would be to bear some of the financing risk, or by providing guarantees on rates of return to the private sector. In doing so, governments may be able to leverage more funds from the private sector.

26. Moreover, with a view to mitigating risks, governments will have to implement appropriate policies, create an appropriate macroeconomic and fiscal framework, and strengthen relevant institutional capacities and expertise in order to be better able to prepare investment projects and to provide appropriate backstop facilities.

27. Given the diversity of countries in the region, it is however clear that there is no 'one size fits all' approach to investing in infrastructure for sustainable development. In fact, evidence with PPPs has been somewhat mixed in the region, which has some good examples of PPPs, but also those of failures. The sharing of experiences and best practices will therefore be important to fully benefit from PPP opportunities.

28. Multilateral agencies are a further source that can be tapped to provide funds for infrastructure investment. Yet, the required investments far outweigh the resources of existing agencies. Recognizing this mismatch between supply and demand, momentum has gained towards creating a well-endowed Asian Infrastructure Investment Bank that would specifically target investments in infrastructure. Already, a working group has been set up under the aegis of China to explore mechanisms for establishing such an institution. Currently, such an institution would be funded by at least $50 billion. Its membership would be available to countries within and from outside the region.

V. Capital market development I – Developing domestic capital markets

Brief description

29. The session was chaired by Rick Nelson Houenipwela, Minister of Finance and former Central Bank Governor of the Solomon Islands. Latifah Merican-Cheong, former Assistant Governor, Bank Negara

Malaysia; Bert Hofman, Chief Economist East Asia and Pacific, World Bank; and David Adelman, Head of Government Affairs Asia Pacific, Goldman Sachs, made presentations. Loi Bakani, Governor, Bank of Papua New Guinea; Daw Tenzin, Governor, Royal Monetary Authority of Bhutan; Simeon Athy, Governor, Reserve Bank of Vanuatu; Neav Chanthana, Deputy Governor, National Bank of Cambodia; Vathana Dalaloy, Director General, Lao Securities Commission, Bank of Lao PDR; and Amalia Pulungan, Advisor, Indonesian Peasant Alliance/Dignity International, acted as panelists. Remarks by Muliaman Hadad, Chairman of Indonesia's Financial Services Authority, was also delivered on his behalf.

30. The region needs to exploit the potential of capital markets to facilitate channeling private savings towards sustainable development. For example, the share of Asia and the Pacific in world market capitalization stands at 31%, of which the stock markets of Tokyo, Hong Kong and Shanghai account for over 50%. In addition, there are other dynamic markets in the region that have strong potential for cross border listing. Furthermore, the development of local currency (LCY) bond markets in the region received a boost after the Asian financial crisis of 1997/98. The domestic bonds issued increased at an average annual rate of 16.8% for developing countries between 2005 and 2013, compared with 4.9% for developed countries. On average, growth of these markets was faster over the period 2005-2009 compared with 2009-2013, especially for the developed countries in the region.

31. This session discussed how to mobilize resources towards infrastructure and social and environmental development through capital markets. Particular attention was paid to the restrictions to the development of capital markets imposed by small country size, as is the case of the Pacific island developing economies and some of the region's LDCs.

Major issues presented

32. Infrastructure projects can be profitable because they can produce a stream of revenues, directly through fees or indirectly through taxes generated by additional economic activity facilitated by the new infrastructure. However, the cost of construction should be paid up front, so there is a need for financing to close the "time gap".

33. Commercial banks have traditionally played a major role in the financial markets of Asia and the Pacific. However, funding long-term developmental projects through banks is subject to maturity risks because of the short-term nature of banks' assets. To reduce these risks, the region should further develop its capital markets, which can match more effectively investors and savers with different time horizons and risk profiles. But the development of capital markets requires specialized institutions and regulatory frameworks.

34. Over time, Asia-Pacific financial markets have become more diversified. In particular, local currency bond markets expanded a lot over the last decade, mostly for government bonds, and their amounts