

Outcome Document of the Expert Group Meeting on **Asian Partnership in Financing SDGs**

16-17 May 2015; Dhaka, Bangladesh



An expert group meeting (EGM) titled “Asian Partnership in Financing SDGs” was convened in Dhaka on 16-17 May 2015 by the Centre for Policy Dialogue (CPD) in collaboration with Southern Voice on Post-2015 International Development Goals and in partnership with the United Nations (UN) Millennium Campaign. The purpose of the EGM was to generate a set of views on possible sources of finance and other means of implementation (MoI) of the Sustainable Development Goals (SDGs) in the Asian context.

The EGM considered presentations of a regional framework paper titled “Global Partnership for Financing Post-2015 Agenda in Asia: An Analysis of Trends and Framework Issues” as well as three thematic papers on non-traditional issues highlighted in the regional framework paper titled “Financing Public-Private Partnership in Infrastructure”, “Economic Role of Remittances” and “Financing Data and Information Needs for Accountability and Monitoring Mechanism”. It also involved enthusiastic discussions among experts from Asian international organisations and think tanks, who were joined by policymakers and experts from Bangladesh, about the policy implications emanating from the papers in the context of the upcoming Third International Conference on Financing for Development (FfD) to be held in Addis Ababa on 13-16 July 2015.

The three sections of this document summarise the key conclusions and recommendations of the Dhaka EGM.

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PATTERNS OF DEVELOPMENT FINANCE IN ASIA

Given the heterogeneity of Asian countries, the EGM narrowed its focus on patterns of development finance and outlook for mobilising such finance in South Asian and Southeast Asian countries. A review of financial and trade flows during the 2000-13 period revealed the following trends.

- Tax revenue as a percentage of gross domestic product (GDP) increased in most South Asian countries compared to major Southeast Asian countries (e.g., Singapore, Thailand and the Philippines). In particular, the share of direct tax rose in South Asia in contrast to Southeast Asia. Notably, tax on international trade was greater in Southeast Asia than South Asia, although the magnitude of tax collection fell over the period. Overall, these regions experienced limited success in mobilising domestic resources.
- Private investment in both South Asia and Southeast Asia has been on the upsurge, indicating an increasing trend in private sector activities and greater mobilisation of private finance. Nevertheless, inflows of foreign direct investment (FDI) were very low in South Asia during the period compared to Southeast Asia, where FDI inflows increased except in Indonesia and the Philippines.
- Remittances are a major source of domestic private finance in South Asia, where a slight decline in remittance inflows was recorded during the period.
- International trade is recognised as an important source of finance in South and Southeast Asia, but the share of trade as a percentage of GDP declined over the period in both regions, with the volume of intra-regional trade being higher in the latter.
- Traditionally, official development assistance (ODA) or aid had been the principal source of development finance in developing countries. Net receipt of ODA fell in South and Southeast Asia during the period. Other sources of finance, such as FDI, remittances, private investment and domestic resources, appear to be playing larger roles as providers of development finance in both regions.

Comparative analysis of intra-regional financial and trade flows in Asia and Africa during the 2000-12 period produced the following results.

- Tax collection as a percentage of GDP fell in both Asia and Africa, although tax effort was higher in Africa. Tax on international trade declined in both regions.
- Private investment increased at a faster pace in Asia, while FDI inflows were higher in Asia compared to Africa.
- Remittance inflows were persistently higher in Asia than Africa.
- In terms of regional integration, Asia is more integrated than Africa as indicated by the volumes of intra-regional trade in the two regions.
- Recent financial trends indicate that Asian countries are less dependent on ODA than African countries.

MOBILISING FINANCE FOR THE POST-2015 DEVELOPMENT AGENDA

Against the backdrop of emerging trends in sources of finance in Asia, EGM participants offered the following insights into the mobilisation of development finance in the Asian context. The recommendations for each of the components are highlighted at the end of each sub-section.

A. Domestic public finance

- Local governments prioritise meeting targets on tax collection and tax-GDP ratio as well as their capacity to mobilise domestic resources.
- It is relevant that the zero draft of the outcome document of the Third International Conference on FfD known as the Addis Ababa Accord, which was released in March 2015, encourages countries with government revenue below 20 percent of GDP to set a target of halving the gap toward 20 percent by 2025. This target would benefit South and Southeast Asia, where tax-GDP ratios are currently below 15 percent.

- It is crucial that the outcome document of the 2011 Fourth High Level Forum on Aid Effectiveness titled “Busan Partnership for Effective Development Co-operation”, widely known as the Busan Partnership agreement, emphasises domestic resource mobilisation and the need to accelerate efforts in individual countries to combat illicit financial flows by strengthening anti-money laundering measures, addressing tax evasion and improving national and international policies.
- **Appropriate modalities to mobilise the domestic savings for the purpose of sustainable development should be explored.** Asian countries have relatively high domestic savings. These can be mobilised towards sustainable development. Suitable instruments will need to be developed to harness these resources.

B. Domestic and international private business and finance

Domestic resources

- Inter-regional trade, remittances and FDI are the major financial means for development in Asia.
- Public policies play a key role in creating the enabling environment that encourages entrepreneurship and stimulates the domestic private sector.
- The zero draft of the Addis Ababa Accord rightfully acknowledges the role of domestic private business activity as a major driver of economic growth.
- The revised draft of the Addis Ababa Accord released in May 2015 should be commended for its call to increase commitment to strengthening insurance and investment guarantees, which would increase FDI inflows.
- **Opportunities related to blended finance, equity finance, sovereign wealth funds and green funds will need to be harnessed.** Blended finance could play a pivotal role in investment-related risk mitigation. More resources should be drawn from Asian capital markets. Sovereign wealth funds and green funds will likely play important roles in financing the SDGs in Asia.
- **Asian business schools should train younger generation on issues that deal with sustainable development.** This will raise the capacity of young professionals to conceptualise, implement and monitor post-2015 development agenda.

Public-private partnership

- Public-private partnership (PPP) should be considered in infrastructure development, especially when there are no other sources of finance available to a government. Six elements are necessary for PPP readiness: a regulatory framework, an institutional framework, project experience, a good investment climate, financial facilities for funding infrastructure, and indicators for sub-national PPP projects.
- Among the deterrents to large PPP projects, overreliance on the private banking system for investment funding is particularly problematic. PPP projects should be funded using finance from equity and capital markets. An enabling environment and a mechanism to channel finance from these markets to infrastructure development are needed in each country context.
- Sound governance of PPP projects is an essential element for making the PPP model successful. Assuring transparent policy delivery and communication as well as preventing the political capture of projects is crucial.
- A separate government unit could be dedicated to supporting PPP by providing operational guidelines and the legal, policy and institutional frameworks necessary to manage PPP projects. Notably, the PPP model will most likely to be unsuccessful in Asia without local currency capital markets.
- **Governments should come up with a prioritised list of PPP projects to be underwritten by prospective investors.** Since high bidding costs deter investors who are interested in PPP projects, such a list would help potential investors to focus on selected projects and will reduce bidding cost. Partial reimbursement of bidding costs for very large projects could be another incentive for investors.
- **Long-term funding should be encouraged with provision of tax incentives.** Asian governments should strengthen sustainable finance models through risk sharing and partnering as equity holders.

- **Coordination among various regional policies should be in place to create an efficient and regionally integrated financial sector.** Asian governments should increase transparency to reduce information asymmetries and support information sharing and capacity building which will enable the financial sector to face stress tests. Standardised processes and listing requirements for efficient capital markets would also be beneficial.
- **Asian governments should consider a mechanism to pool intergovernmental finance for implementing cross-country PPP projects in Asia.** For example, finance for the construction of an international transportation system could be pooled from the countries that would benefit from such infrastructure.
- **Adoption of public-private community partnership model to implement the SDGs should be considered.** In the backdrop of evidence as regards PPP failures and the emergent need to include local communities in efforts towards sustainable development, the public-private community partnership model, like the one put in practice in India by the UN Development Programme in 2008, should be revived.

Remittances

- Regarding remittances as development finance, the major issues are the governance of migration and remittance flows, the costs of migration and remittance transactions, and the systemic risks in using remittances as development finance.
- Increasing transparency in the process of sending remittances and stronger regulatory and coordination mechanisms would bring down remittance transaction costs.
- Given that the zero draft of the Addis Ababa Accord encourages reducing remittance transaction costs to 3 percent and setting a target that remittance corridors do not require charges higher than 5 percent by 2030, regulatory challenges related to banking and informal channels for transferring money (and quasi-formal channels such as mobile banking) need to be addressed.
- Financial inclusion and financial literacy among migrants and remittance-recipient households should be promoted to enable them to better use their earnings, which would enhance development outcomes. There is a need to focus on governance in the evaluation of development policies and identification of existing gaps to locate areas where remittances can be used for sustainable development.
- There is a need to address the issues of illegal migration, human trafficking and illicit financial flows that use remittance corridors. These issues are negative externalities that reduce the benefits derived from remittance flows and hinder sustainable development.
- **Asian governments should design appropriate financial schemes and offer incentives to encourage migrants to mobilise their earnings for investment in their home economies.** For example, options for small and frequent remitters, such as deposit premium schemes, can be deployed alongside foreign currency-denominated bonds available to large remitters. Policy anomalies in introducing such financial schemes must be addressed.
- **To link remittances to financing the SDGs, opportunities should be explored to pool migrant resources and create an enabling environment to channel remittances towards investment.** For such initiatives to work effectively, transparency and accountability need to be improved to instil assurance that governments can be trusted with private financial flows. In addition, remittance flows through banks could be used as leverage to raise finance from international capital markets.
- **Governments should oversee that the rights of the migrants are safeguarded, secured and strengthened.** Particularly in view of the large number of low-skilled female migrants from Asia, migrants' rights need to be strengthened and safeguarded to better align migration-related issues with the SDGs.

C. International public finance

- The Busan Partnership agreement rightfully promotes improvement of the quality, consistency and transparency of reporting on the tying status of aid and emphasises the establishment of transparent public financial management and aid informational management systems, which are all critical going forward.
- Following an examination of the implications of financing on population dynamics, particularly investment in human capital, a donor or group of donors could engage in financing specific sectors, such as education and health.

- The scope of the discussions on the FfD process could include other MoI including technology and urban-rural financial architecture.
- **Development partners and donors ought to be strongly urged to fulfil unmet ODA commitments.** Even though Asia's dependence on ODA is relatively lower than that of Africa, ODA remains critically important for countries that have limited capacity to mobilise domestic resources, particularly landlocked developing countries and fragile states. In many developing countries ODA continues to remain important for financing social sectors such as health and education.
- **New financing opportunities for Asia, such as the Asian International Infrastructure Bank (AIIB) should strongly figure in the ongoing discussions on financing.** In view of the increasing need for finance, AIIB, BRICS Bank and other innovative opportunities of financing SDG-related initiatives ought to be given due attention.
- **Decisions should be taken as regards disbursement mechanisms, particularly for ODA and financial resources at the disposal of multilateral development banks.** Vertical financing and long-term infrastructure financing appear to be the main mechanisms that are deployed to bridge the gaps. Notably, initiatives by international financing institutions have come to the fore in recent discussions. For example, The World Bank has set up a trust fund that disburses finance for data generation. Billions of dollars are involved, but it is not yet clear on what principles and criteria the disbursements will be made.

ADDRESSING OTHER ISSUES

A. Trade

- With the zero draft of the Addis Ababa Accord recognising the importance of regional economic integration to promote economic growth and sustainable development, the importance of the proposed Trans-Pacific Partnership (TPP), a regional regulatory and investment treaty, and established initiatives such as the Association of Southeast Asian Nations (ASEAN), South Asian Free Trade Area (SAFTA) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) should be acknowledged. Notably, inter-regional trade in Southeast Asia is higher than in South Asia.
- Effective implementation of the World Trade Organization's 2013 Bali Ministerial Declaration and accompanying 2014 ministerial decisions, better known as the Bali Package, is necessary to enhance global trade, particularly the aspects in favour of least developed countries.
- The changing trading and financial landscape in Asia has raised the concern that certain issues are more important than others. For instance, climate finance is an important but controversial issue. It is debated whether it is part of the FfD process or the UN Framework Convention on Climate Change process. Developed countries have argued that climate finance should be included in the SDGs. Under climate finance, the issues of sustainability, adaptability and predictability need to be addressed.
- **Aid for trade should be increased for the developing countries and trade-related technical assistance should be enhanced for the least developed countries.** The need for an increase in aid for trade to developing countries is rightly mentioned in the zero draft of the Addis Ababa Accord. The Busan Partnership agreement stressed the importance of aid for trade as an engine for sustainable development. The role of the Enhanced Integrated Framework for trade-related technical assistance to least developed countries was given due importance in the revised draft of the accord.

B. Systemic issues

- Given increasing global economic integration and Asian countries' exposure to the world economy, addressing certain systemic issues is crucial including the need for an official definition of illicit financial flows and a mechanism to curb such flows and tax evasion, an achievable target on tax-GDP ratio, improved international coordination and coherence of macroeconomic policies, and an integrated measure of inclusivity in the international financial architecture.
- The synergies between MoI and financing and between financing and national policies could be critical aspects in the FfD and SDG processes.

- Other issues that were considered important included methods to enable the financing of MoI. For example, exceptional skills development enables remittances to become a sustainable MoI. There is certainly a need to finance the enablers of particular financing mechanisms because these enablers would themselves generate resources that contribute to the financing of the SDGs.
- **Ongoing efforts on FfD in Asia should be consolidated with a comprehensive regional approach.** One of the suggested elements of such an approach is a regional monitoring and accountability framework that is governed multilaterally to track countries' progress on FfD and SDGs. The availability of sufficiently disaggregated financing data and other MoI is essential. Financial initiatives in Asia, such as the AIIB and the trust funds of multilateral development banks, should be aggregated to channel finance towards data collection and provision and also for financing and implementation of development projects. Effective utilisation of resources is more important than leveraging financial flows.

C. Data needs, review and follow-up

- The number of indicators for the SDGs should kept small so that monitoring is simple and easy.
- In each country context, there is a need to estimate financing needs at the national level for monitoring the SDGs, design an effective monitoring mechanism, estimate the resource envelope and identify potential sources of data, make incremental allocations to support non-state actors in generating SDG-related data, mobilise ODA to strengthen national data, and explore the possibilities of using private sources in data generation and underwriting the costs of built-in data generation in various projects relevant to the SDGs.
- Given that a deterrent to an effective monitoring system is the belief that it will easily capture and publicise a government's inefficiencies, multiple mechanisms from the public and private sectors should be linked together. Disaggregation of data should follow a bottom-up process and local governments should be empowered to collect data. Private businesses could play a major role by allocating their corporate social responsibility funds to local governments, thereby empowering them to enhance and maintain local statistical systems.
- Multilateral development banks are leveraging scarce ODA resources to generate larger amounts of development finance, which are then made available to scale up the quality and availability of data, finance the development of statistical systems and establish councils to identify data gaps in the context of policy changes.
- **Development of sustainable capacities in national statistical systems should be a key focus of Asian governments.** There should be separate allocations in the national budgets to enhance statistical capacity and to put in place improved statistical systems.
- **Identification of data needs should be of utmost priority.** Since many Asian governments face difficulties in securing domestic resources to underwrite national statistical systems, they will need to identify their specific needs so that donors may be asked to tailor aid and technical support to address the attendant gaps. There is also a high need to invest in development of tools and techniques that improve data quality
- **New actors should be integrated into emerging statistical systems.** The success of the data revolution will critically hinge on what is generated, what is disbursed and what is used. The political economy of the data revolution should be given due consideration in this context. Issues such as how think tanks and non-state actors can secure the finance required to participate in the data revolution need to be discussed.

D. Tracking the FfD process for SDGs

- The exact relationship between the FfD process and the SDGs remains ambiguous. It is unclear if FfD is one of the MoI for the SDGs or a completely separate issue that needs to be considered apart from the SDG process. Further, it is undecided whether the monitoring and accountability frameworks for the FfD and SDG processes should be one and the same or if separate frameworks are necessary. It is also not settled who will be responsible for ensuring accountability.
- **A review and follow-up mechanism should be established to voice the opinions of diverse stakeholders.** The monitoring and accountability frameworks for the FfD and SDG processes are complementary and do not necessarily overlap. Critical concerns going forward include the issue of effective participation, particularly that by citizens, the private sector and non-state actors. Citizens' voice ought to be heard if global initiatives are to be successful and sustainable.