Financing for Development

The Role of the UN Regional Commissions

1. The Regional Commissions recognize that Financing for Development (FfD) is an integral component and a key means of implementation of the 2030 Agenda. It will be a fundamental factor in determining the speed of regional progress towards the Sustainable Development Goals (SDGs). Accordingly, all Regional Commissions contributed regional inputs to the Third International Conference on Financing for Development in Addis Ababa in 2015, and continue to support its follow-up, which is led by the ECOSOC FfD forum, through contributions to the Inter-Agency Task Force on FfD and reporting on activities of regional commissions at the ECOSOC FfD forum.

2. The Regional Commissions are well structured to reinforce the overall global Addis Ababa Action Agenda (AAAA) framework through their intergovernmental platforms. For the last few years, dedicated deliberations have been held on different components of AAAA with a diverse set of regional stakeholders, including with, among others, ministries of finance and trade, central bankers, and key private sector representatives such as institutional finance providers, finance experts and practitioners. The main aim of the deliberations has been to seek their support for developing a deeper understanding of regional finance and trade as well as enhanced capacity to exploit and effectively deploy a diverse set of resources towards achieving the 2030 Agenda.

3. The Regional Commission platforms offer multiple services which are grounded in their policy and analytical strengths as well as knowledge of their respective regions. These services include:

   (i) Assessing the SDGs' requirements, resource potential of national and regional economic and financial systems, and how to unleash this potential by channelling public funds to leverage private funding.

   (ii) Analysing the impact of rising global economic integration that has exposed the regions to global systemic crisis as well as domestic vulnerabilities stemming from an over exposed and weakly regulated financial system, commodity price volatility, unsustainable debt paths and inefficient resource use.

(iii) Advocating for prudent and sound fiscal frameworks as well as financial regulations by promoting stability, robustness and sustainability of macroeconomic and financial policy frameworks.

(iv) Promoting coherent development financing architecture which supports the appropriate pace and sequencing of SDG implementation and strategizes options for enlarging resources by exploiting all sources of domestic and external funding, while drawing down on the emerging flows of climate funds and innovative financing.

(v) Publicizing the value proposition of directing finance in support of pursuing the SDGs, as well as climate friendly investments and transactions, to both the public and private sector.

(vi) Recognizing the significance of trade as an engine of growth and promoting unencumbered trade through the removal of trade and nontariff barriers as well as strengthening of global and regional value chains. Keeping in view the economic structure of individual economies, both actions may help strengthen countries' external positions by ramping up export earnings, while generating new jobs.

(vii) Supporting debt sustainability and relief through promoting appropriate debt financing, debt relief, debt restructuring and supporting sound debt management.

(viii) Supporting outreach and partnerships with a diverse set of finance industry players, including the financial inclusion industry, which is critical for financing poor and micro and small businesses/enterprises, as well as community based organizations and non-governmental organizations.

(ix) Fostering partnerships with regional development banks and other regional institutional providers to scale up their support for financing the 2030 Agenda.

(x) Promoting regional financial cooperation for financial surveillance, while encouraging the development of regional financial safety nets through regional and bilateral swap arrangements, and systematically nurturing regional capital market development, including through floating of regional bond and equity markets to lengthen maturity and availability of risk capital, and blended financing.

4. While offering these services, Regional Commissions are cognizant of the changing global financial landscape in terms of instruments, actors and new form of cooperation, such as South-South cooperation and other non-traditional financing partners. While these changes increase the options of funding for development, they also indicate a need to develop coherent development financing architecture and policies.

5. The Regional Commissions have taken steps to further prioritize and factor “regional realities, contexts and levels of development”, within the broad scope of the Addis Ababa Action Agenda which entails more than a hundred and fifty commitments and global mandates. Some of the shared priorities across different regions include the following:

6. ***Reforms of Domestic Taxation Systems.*** The Regional Commissions’ technical work has brought to the forefront the inherent distortions and weakness in the taxation policies. These have not only hindered the ability of countries to tap their real tax potential, but also have stood in the way of promoting efficient and diversified industrial growth and development as well as equitable tax regimes. To address endemic problems, the Regional Commissions have advocated ramping up domestic resource mobilization, while rationalizing tax policy regimes and strengthening tax administrations. Among others, the Regional Commissions have underscored that developing countries must curb tax evasion and avoid harmful tax competition by dismantling ill-conceived fiscal incentives which erode tax bases and result in effective rates and collection well below the nominal corporate rate and other taxes. The regional commissions have also championed for rethinking and recalibration of tax policies for sustainable development, to better explore their potential in promoting economic equity and environmental sustainability in addition to the revenue mobilization role. This includes the promotion of progressive tax regimes with a focus on direct taxes, the introduction of environmental taxes to correct price signals, and using a strategy of economic diversification to diversify revenue sources. However, capacity and institutional constraints should be adequately taken into account for effective design and implementation of these policies.

7. International tax cooperation is also critical to plug loopholes due to transfer pricing, check aggressive tax planning through multilateral collaboration, and help harmonize tariff and non-tariff policies. The Regional Commissions have emphasized the importance of countering illicit financing as they have been a major source of revenue-haemorrhaging across the board in all regions. Illicit financial outflows according to some estimates range from just below half a trillion dollars in Asia to $106 billion (at 2016 prices) in Africa, accounting for 5 per cent of the continent's GDP. While rooting out illicit financing will be a formidable challenge to tackle, it will not only strengthen domestic revenues, but also support peace and security across all regions.

8. ***Strengthening Public Expenditure Management.*** Fiscalization of multidimensional SDG development requirements calls for substantial reorientation of public expenditures. Accommodating SDG investment requirements in development plans is proving to be complex given existing binding budget constraints and extensive throw forward of ongoing projects in public investment programs and their high burden of operation and maintenance spending. Regional Commissions are also cognizant of the need to strike a balance between the investment needs of SDGs and the rising debt-to-GDP and high debt service ratios. In this context, Regional Commissions have advocated improving the effectiveness and efficiency of public expenditures. Among others, Regional Commissions have been engaged in capacity building for gender based budgeting, proper design and execution of social safety net programs and fiscal sustainability of pension liabilities which are set to rise given the growth in ageing populations across regions.

9. **Private Sector Engagement and Financing**. Understandably, traditional public financing is required in areas where the risk-return and time-profiles of investments cannot become sufficiently attractive for the private sector. Private finance is mainly profit-driven, which can lead to underinvestment in some areas that are crucial for sustainable development if the expected return, on a risk-adjusted basis, underperforms other investment opportunities. The public sector can ensure that social returns are included in the cost-benefit analysis. The public sector can establish an enabling environment and proper incentives, thereby supporting a risk-return profile capable of attracting private finance and directing it towards development objectives. This can also facilitate an efficient allocation of risks which allow for better risk mitigation of project profiles. Thus, when possible, governments should be used as a

catalyst to provide incentives to attract long-term private resources which have potential to trigger multiplicative impacts, rather than to replace private financing. The Regional Commissions have focused on promoting multiple ways, not only financial, in which public sector initiatives can effectively contribute to channelling private resources to service intended public goals (Box 1).

Box 1: Creative Incentive Policies and Frameworks, Information Sharing and New Business Models

The Regional Commissions, with their cross sectoral and thematic edge and policy structuring potential, help shape nonfinancial frameworks to attract private finance. This has involved supporting regions in structuring conducive and predictable policies and in developing incentive frameworks with a long-term orientation to facilitate adaptive changes in market architecture to influence the way businesses are run. The Regional Commissions have also promoted new business models and approaches to strengthen innovation and coordination mechanisms and are developing supportive reliable data bases.

Mobilizing the right mix of multiple agents, the regional commissions, among others, are

- Encouraging development of intelligent and smart transports systems, which can have important implications for safety, pollution and fuel efficiency (addressing **targets 3.6, 3.9 and 7.3**).
- Developing energy efficiency standards in buildings and their effective implementation can reduce the drain on public and private resources, while advancing **targets 7.3, 11.6 and 11. B.**
- Standardization in different fields, for example, regarding renewable energy (**target 7.2**), to promote provision of cleaner energy, while facilitating improved access to SDG7.
- Promoting regional cooperation and integration across the energy field to catalyze energy transformation and facilitate involvement of the private sector in energy development, including their involvement in microgrid extension.

The Regional Commissions' special studies and environmental performance analysis helps assessment of spillovers, environmental costs and benefits, and offers suggestions to private finance to support businesses to internalize externalities through pricing and tax regimes, while taking adaptive actions to fully reflect sustainable considerations.

These few examples illustrate the potential of Regional Commissions to design public policy and effectively integrate socioeconomic and environmental considerations to promote sustainable infrastructure finance factoring in environment, health and wellbeing of people when assessing future project payoffs.

10. The Regional Commissions have further supported appropriate capacity building to attract private investments through their normative and analytical work which (i) offers private

operators guidance and awareness of normative outputs, incentive frameworks coupled with aligned policy and regulations which would be attractive to them, (ii) reduces information costs that discourage investment and economic activity through work on standardization, guidelines and statistical data; (iii) addresses coordination problems that create barriers for raising finance, including in critical areas such as transport; and (iv) provides knowledge products as well as peer review learning mechanisms.

11. **Public-Partnership for Infrastructure.** Besides participating in the deliberations for the Global Infrastructure Hub sponsored by the World Bank and contributing to the Guide Book for Public-Private Partnerships (PPPs), several Regional Commissions have established PPP platforms. The UNECE has established an International PPP center which has been offering advisory support for structuring PPPs. ESCAP has been offering advisory support to PPP Units and Programmes in Asia and the Pacific. Under this arrangement, ESCAP has provided technical support to member States to strengthen their PPP policy, legal and institutional framework, and tap capital markets and institutional investors for infrastructure development. In addition to this, a range of knowledge products have been compiled including PPP case studies, PPP readiness Self-Assessment and PPP research for cross border infrastructure development. These knowledge products serve to inform PPP centers on how to best position themselves. The Regional Commissions are also playing a role in standardizing procurement processes to provide consistency and predictability of contracts.

12. **Enhancing financial inclusion:** Regional Commissions are actively promoting financial inclusion. For instance, ECLAC is currently undertaking a project to promote inclusive finance through development banking innovation practices to support social, productive development and structural change across Latin American SMEs. The project is studying national development SME experience gained across Latin America to offer best practices and recommend measures to strengthen development banks delivery of financial inclusion services. ESCAP has launched analytical work on Asia and the Pacific SMEs' access to finance in partnership with ECLAC, the Council on International Financial Cooperation (CIFC) of the Republic of Korea, Asian Development Bank Institute (ADBI), and the Alliance for Financial Inclusion (AFI). Work undertaken will examine both the role of national development banks and market-based approaches, while discussing ways to improve countries' lending infrastructure and financial regulation, as well as opportunities and challenges arising from the rapid expansion of fintechs. The rapidly-developing fintech

sector in Asia and the Pacific is already bringing a broader range of financial services, offering new banking, payment and financing options in several countries. In this vein, Regional Commissions will need to develop a well-designed regulatory framework that strikes the right balance between increased financial inclusion, improved SME credit access, and sustained financial stability as well as provide a wide array of analytical products, advisory services and platforms to address these segments of financial markets.

13. **Promoting regional financial integration**: In line with paragraph 3 point (x), Regional Commissions have potential to support reform to the international financial architecture and its governance mechanisms. As a starting point, Regional Commissions can, among others, push for exchange of cross-border investments and harmonization of legal, regulatory and supervisory frameworks as well as promote regional safety nets. The provision of liquidity at the regional level may provide buffer stocks to help countries confront the effects of external shocks and help reduce financial contagion. Asia has progressed on this front, the ASEAN Capital Market Forum as well as the Chang Mai Initiative and other swap arrangements provide concrete examples of this and are an integral part of the Regional Financial Cooperation pillar of ESCAP's Regional Economic Cooperation and Integration work.

14. **FfD Advocacy, Consultation and Institutional Networking:** Different platforms have been established by the Regional Commissions to offer opportunity for consultations on FfD. For instance:
    - Since 2014, ESCAP has organized four consecutive High-Level Dialogues on FfD. These dialogues are the most inclusive intergovernmental platform for knowledge exchange and policy debate on FfD in the Asia-Pacific region. Further to this, ESCAP has set up a High-Level Tax Expert Advisory Group and partnerships with international and regional institutions to bring regional knowledge to bear on this advocacy. An Intergovernmental Committee, whose first meeting will be held in November 2017 will draw on four years of annual consultations co-hosted by the region's finance ministers. This Committee, in conjunction with Intergovernmental Trade and Investment Committee has prioritized implementation of AAAA.
    - ESCAP has been working on issues of local and municipal finance. Given the significance of Goal 11 on building sustainable cities and communities, combined with the size of the urban development and infrastructure financing requirements, emphasis has been placed on analysing issues in property taxation systems, taking into account

the institutional and macroeconomic of countries under analysis. The potential of generating revenue through property taxes has remained underexploited in many countries and created distortions in real estate markets. Further to this, ESCAP is also working on environmental taxes and carbon pricing, both of which support ESCAP's existing capacity building work on enhancing the ability of countries to tap and leverage climate finance.

- ESCAP is also undertaking analytical work on recovery and resilience-building tools such as disaster risk financing. Even though early warning systems are essential components of disaster preparedness and saving lives, they do not prevent disaster impacts pushing people into poverty. ESCAP is thus advocating for a regional mechanism that enhances the ability of high-risk, low capacity countries to bring innovative sources of financing, such as parametric insurance, to the poor. Increasing the livelihood opportunities of the poor through financing, is an intrinsic component of an agenda that prevents crises evolving into disaster and even human conflict.
- ECLAC has since 1988 convened a seminar on Fiscal Policy, which annually brings together ministers of finance, central banks, the IMF, the World Bank, regional development banks and the OCDE, among others. ECLAC's subsidiary body, the Committee on South-South Cooperation, brings together annually development aid and cooperation agencies to strengthen South-South, North-South, triangular and multilateral cooperation.
- The AU-ECA Conference of Ministers in 2011 took steps to pass a resolution that calls on ECA to drive a pan-African initiative to tackle illicit financial flows. Now ECA serves as the Secretariat to the Consortium to Stem Illicit Financial Flows from Africa, which has prepared a five-year plan of activities to counter illicit financial flows. This is being financed by a Trust Fund of the African Development Bank.
- Consultations with the private sector and civil society have been institutionalized across all Regional Commissions.

15. With these supportive frameworks, the Regional Commissions are emerging as regional hubs: offering knowledge and data portals for promoting FfD knowledge and peer learning, engaging the private sector, and fostering partnership with the World Bank Group (WBG), the International Monetary Fund (IMF), the Organization of Economic Cooperation and Development (OECD) and regional multilateral development banks (MDBs).

16. To conclude, the Regional Commissions, as UN regional think tanks, can support the global agenda through their analysis and policy work to achieve the following:

- Deal with regional vulnerabilities and systemic risks that can impact macroeconomic and financial stability with the potential to disrupt financial flows, including through strengthening the role of regional financial institutions such as regional reserve funds;
- Foster regional financial cooperation to leverage cross border finance;
- Promote financial inclusion for poor and micro-small enterprises;
- Develop strategic responses to harnessing domestic resource mobilization and encouraging their effective deployment;
- Providing policy analysis and recommendations in different sectors, including at the country level, that identify factors that deter investment for sustainable development and promote innovative forms of financing;
- Promote approaches and modalities to leverage private infrastructure, innovative and climate finance; and
- Develop regional capacities for PPPs.

17. The Regional Commissions' policy research and capacity building activities are beneficial to multiple countries and will support UN RCs and country teams' endeavors at the national level. The full potential of the Regional Commissions could be effectively realized if they are fully integrated into the joint efforts of the UN system and serve to promote coherence in UN policy analysis, showcase specific financing tracks (e.g. from the UNEP Finance Inquiry, UNCTAD Sustainable Stock Exchange Initiative) and feed into the global FFD process and its follow up. This would be possible if the UN development system is able to foster effective mechanisms for horizontal collaboration between the Regional Commissions and the UN's specialized agencies on financing for development research, especially on thematic issues. Regional Commissions can further support this through, for instance, disseminating their policy research to UN RCs and through working closely with UN RCs to ensure broadly consistent messaging in delivery of services to governments in each country.