Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Finance

OUTLOOK

Financial resources across the region as a whole are strengthening rapidly and diversifying—savings are growing, a vibrant private finance sector is emerging in many countries, and governments are recognizing the need for stronger domestic resource mobilization efforts. Nevertheless, SDG implementation requires continued fiscal and public sector reforms, alongside improved systems of taxation and collection in most countries. The availability of concessional and risk-tolerant finance (including official development assistance) will be a key factor in helping countries make progress on the SDGs, particularly in countries with special needs, such as least developing countries and small island developing countries.
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INSIGHTS

- Total financing (domestic public and private and external public and private) grew from $4 trillion in 2005 to $8.9 trillion in 2014. Domestic resources (public domestic and private domestic) are driving the increase in the overall envelope of available funds. In 2014, domestic resources accounted for 89 per cent of all resources.

- Financing flows that support development across the region have been diversifying over the past two decades. Between 2012 and 2014, the region had a total of $6.2 trillion in private savings, $3.5 trillion in sovereign wealth and pension funds and $1.3 trillion in insurance premiums.

- Remittances as foreign direct investment (FDI) have overtaken official development assistance (ODA) in importance, and public finance has grown in terms of share of GDP. In lower-middle-income countries, public sector and ODA financing have contracted slightly, although remittance flows and FDI increased slightly. Financing for development in upper-middle-income countries, by contrast, has been lifted by public sector financing and a steady flow of FDI.

- While ODA and other official flows of funds are now relatively modest, compared with other sources of finance, it is still an important source of support for many countries in the region. One third of the total ODA flows in 2015 went to developing countries in the region. ODA also continues to have an important role in the least developed and small island developing countries. The ODA that Afghanistan, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru and Tuvalu each received in the past decade totalled more than 20 per cent of their annual GDP.

- To better utilize all types of financing resources and to better manage the complexity overall, countries need to concentrate on adapting their policy frameworks, institutional arrangements and their systems of financial management and monitoring.

BRIGHT SPOTS

Domestic resource mobilization

- In 2014, around 22 countries in Asia and the Pacific had tax-to-GDP ratios greater than 15 per cent, while some Central Asian and Pacific countries went beyond 20 per cent. The Addis Tax Initiative, a partnership among countries to support transparent, fair and efficient tax systems, holds promise for better domestic resource mobilization efforts. Of its 37 member countries and regional organizations, six are from the region (Australia, Georgia, Indonesia, the Republic of Korea, the Philippines and Solomon Islands).
• In 2015, four of the ten economies globally with the highest gross domestic saving ratio were in the Asia-Pacific region, averaging more than 40 per cent of their GDP: Macau, China, at 64 per cent; Brunei Darussalam, at 55 per cent; Singapore, at 53.7 per cent; and China, at 49 per cent. These economies also outperformed the world average, at 24 per cent, and the Organisation for Economic Co-operation and Development’s (OECD) average, at 21 per cent. Transfers from developing countries with savings surpluses also contribute towards raising the global savings pool.

• Domestic resource mobilization is central to the Addis Ababa Action Agenda. In the outcome document, countries agreed to a range of measures for widening the revenue base, improving tax collection and combating tax evasion and illicit financial flows. Countries also reaffirmed their commitment to ODA, particularly for least developed countries, and pledged to increase South-South cooperation.

Official development assistance

• Total ODA to the region nearly tripled between 2000 and 2015 in constant terms, growing much faster than the total for all developing countries.

• In 2015, ODA from all donors reporting to the OECD Development Assistance Committee totalled $62 billion, the highest ever reached since 2000 in real terms. The sources of assistance included China, Thailand and Turkey—developing countries that are now donors.

Additional financial resources and management

• New banks that pool public financing have been created, including the New Development Bank and the Asian Infrastructure Investment Bank, complementing regional and national initiatives. Longer-standing banks are innovating to increase the amount of financing they can make available. Infrastructure financing has been a particular focus for development finance institutions in the region.

• To improve the coherent management of all sources of finance, there is increasing interest by countries to establish an integrated national financing framework, as called for in the Addis Ababa Action Agenda.

HOTSPOTS

Domestic resource mobilization

• The tax-to-GDP ratio in the region is less than the global average, reinforcing the need for stronger government efforts to mobilize domestic resources. The region only marginally outperformed Africa’s tax-to-GDP ratio in 2013 and underperforms generally, when compared with all other regions of the world. More than $250 billion could be mobilized just by closing tax gaps in the region’s developing countries.
• Afghanistan, Bangladesh, India, Indonesia and Myanmar are some of the countries with a low tax-to-GDP ratio, which will constrain future resource mobilization.

• Direct taxes on income as a proportion of total tax revenue are small, and taxes on wealth and property remain limited. There is interest in more effective taxation of industries, including extractive industries.

**Official development assistance**

• Traditional ODA from industrialized countries has fallen short of the targeted 0.7 per cent of their gross national income. Total ODA from OECD Development Assistance Committee countries as a share of their gross national income was 0.3 per cent in 2015. Seven countries met the target: Denmark, Luxembourg, the Netherlands, Norway, Sweden, the United Arab Emirates and the United Kingdom. Advocacy for industrialized countries to meet the target of 0.7 per cent of gross national income for ODA remains crucial.

**Illicit financial flows**

• From 2004 to 2013, illicit financial flows averaged around 3.8 per cent of GDP in Asia and have grown by 8.6 per cent over the past decade. Eight of the 15 countries with the highest average illicit financial flows globally are in the Asia region.

• Illicit financial flows, estimated at $482 billion in 2013, comprise about 40 per cent of the total for all developing countries and stunt the region’s potential. Tax avoidance, tax evasion, transfer pricing abuses and trade mis-invoicing account for nearly two-thirds of the illicit financial flows.

**EMERGING ISSUES**

• The trends affecting the finance landscape in the region include the fluctuating commodity prices and continuing uncertainty in energy markets, global political developments (including in the European Union and the United States) and economic developments, particularly economic contraction in China and demonetization in India.

• High external debt, comprising more than 40 per cent of GDP in landlocked developing countries, and rising household debt in such countries as Malaysia and Thailand, are concerns.

• Efforts to ensure that increased availability of climate finance from diverse sources will flow towards investment needs to address climate change are crucial (see the SDG 13 profile).

• The current period of low energy prices presents transformational opportunities for reducing or eliminating perverse subsidies, including for fossil fuels.

• The impacts of efforts to update the measurement of ODA while ensuring that commitments to deliver grant and concessional resources are met, ensuring the coherence of tax regimes and stemming illicit financial flows, as well the ongoing strengthening of public financial management, will influence the capacity of the region to meet the financing requirements for achieving the SDGs.
Finance

17.1 Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.

17.2 Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries.

17.3 Mobilize additional financial resources for developing countries from multiple sources.

17.4 Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress.

17.5 Adopt and implement investment promotion regimes for least developed countries.