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**Economic and Social Commission for Asia and the Pacific****Seventy-second session**

Bangkok, 15-19 May 2016

Item 3 (a) of the provisional agenda\*

**Review of issues pertinent to the subsidiary structure of the Commission, including the work of the regional institutions: macroeconomic policy, poverty reduction and inclusive development****Note verbale dated 19 April 2016 from the Embassy of the Republic of Korea in Thailand addressed to the secretariat of the Economic and Social Commission for Asia and the Pacific\*\***

The Embassy of the Republic of Korea in Thailand presents its compliments to the secretariat of the Economic and Social Commission for Asia and the Pacific and, in reference to the First High-level Follow-up Dialogue on Financing for Development in Asia and the Pacific, which was held in Incheon on 30 and 31 March 2016, has the honour to transmit to the secretariat the text of the Chair's summary.

The Embassy of the Republic of Korea further has the honour to request that the Chair's summary of the First High-level Follow-up Dialogue on Financing for Development in Asia and the Pacific be brought to the attention of the Commission at its seventy-second session during its consideration of item 3 (a) of the provisional agenda.

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\* E/ESCAP/72/L.1.

\*\* The present document was submitted late because the First High-level Follow-up Dialogue on Financing for Development in Asia and the Pacific was held after the deadline for submission of Commission documents.

**Annex to the note verbale dated 19 April 2016 from the Embassy of the Republic of Korea in Thailand addressed to the secretariat of the Economic and Social Commission for Asia and the Pacific**

**Chair's summary of the First High-level Follow-up Dialogue on Financing for Development in Asia and the Pacific**

1. The First High-level Follow-up Dialogue on Financing for Development in Asia and the Pacific, held in Incheon, Republic of Korea, on 30 and 31 March 2016, was co-hosted by the Economic and Social Commission for Asia and the Pacific (ESCAP) and the Ministry of Foreign Affairs of the Republic of Korea. The meeting built on the mandate and progress achieved in 2014 and 2015 in the Asia-Pacific High-level Consultation on Financing for Development, in partnership with the Ministry of Finance of the Indonesia. The resulting consolidated perspectives of the region contributed substantially to the outcome documents of the Addis Ababa Action Agenda, adopted by world leaders in July 2015.

2. The Dialogue was attended by approximately 200 distinguished government officials and experts and representatives of international organizations, other organizations in the United Nations system, the private sector, civil society organizations and eminent experts.

3. The Dialogue was inaugurated by the Vice-Minister of Foreign Affairs of the Republic of Korea, Mr. Cho Tae Yul, followed by special remarks from the Deputy Prime Minister and Minister of Strategy and Finance of the Republic of Korea, Mr. Yoo Il Ho. The Executive Secretary of ESCAP gave the opening speech. Participants expressed their appreciation to the Government of the Republic of Korea and ESCAP for hosting and organizing the timely and successful Dialogue.

4. This Chair's summary will be shared at the inaugural Economic and Social Council Forum on Financing for Development, to be held at the United Nations Headquarters in New York in April 2016, and discussed at the seventy-second session of the Economic and Social Commission for Asia and the Pacific, to be held in Bangkok in May 2016.

5. The Dialogue will continue to share perspectives annually at the global follow-up and review process of the Addis Ababa Action Agenda. ESCAP, as a member of the Inter-Agency Task Force established by the Secretary-General, will continue to offer technical inputs to the follow-up process.

6. The participants shared their relevant priorities and identified action items to fit national circumstances and those regional dialogues. Recognizing the importance of a concrete and action-oriented regional framework to foster financing for development, the Dialogue underscored that economic and financial conditions that were conducive to adequate access and availability of financing for sustainable development were a prerequisite. There was broad acknowledgment of the non-financial means of implementation and participants underlined that in order to effectively harness domestic public resources, private finance and global partnerships, there was a need to address systemic issues and ensure an enabling environment that supported economic prospects and financial stability.

7. Participants underscored the significance of regional platforms and the need to foster regional cooperation and partnerships in financing for development. For that purpose, participants recognized the need for an Asia-Pacific tax forum. It was also agreed that ESCAP would support knowledge-sharing and good fit of infrastructure policies and practices, undertake case studies of public-private partnerships and encourage regional development banks and Governments to invest up front in developing strong project pipelines. ESCAP had been requested to work with Governments and regional financial institutions to take stock of the financing approaches of regional infrastructure. As part of the ongoing process of regional cooperation and integration, the participants noted that advocacy and capacity-building for capital markets was critical to raise awareness of financing for sustainable development. ESCAP, as part of its work on regional cooperation and integration, should encourage harmonization and standardization of legal and regulatory frameworks of securities markets and work with securities regulators to encourage cross-border flows and market integration, with due consideration for financial stability. Those steps would help mobilize private finance through capital markets to finance infrastructure. The participants shared their national experiences on financial inclusion, which had been on the rise in the region, and it was suggested that ESCAP should work with regional networks, in particular the Alliance for Financial Inclusion, to harness policies on financial inclusion to support sustainable development.

## **I. Key regional priorities and the way forward**

8. The sessions in the Dialogue identified key regional priorities and the way forward, as discussed in the following sections.

### **A. Regional tax cooperation**

9. The participants discussed the need to enhance public-sector resources by undertaking revenue measures, including tax-policy reforms and effective tax administration, and reorient public expenditures. That was important to ensure fiscal sustainability and support the growing countercyclical role of fiscal policy, as well as to meet long-term national sustainable-development priorities. Despite having different economic structures affecting ratios of tax to gross domestic product, there was considerable room to increase tax-revenue collection by broadening tax base, enhancing tax progressivity and introducing environmentally friendly tax policies, as well as strengthening municipal financing.

10. The participants also noted that an Asia-Pacific tax forum for sustainable development would be especially beneficial, by encouraging active participation by government officials involved in tax administration, officials and experts to share good practices in tax policies and tax administration policy reforms. The tax forum would work closely with existing regional tax administration bodies, such as the Study Group on Asian Tax Administration and Research and the Pacific Islands Tax Administrators Association, to ensure no overlap in functions.

11. In addition to helping countries find ways to increase their tax-revenue collection, it was noted that the tax forum could also serve as an information-sharing platform to help countries in the region improve the fairness, transparency, efficiency and effectiveness of their tax systems, including through sharing of best practices, collaboration and capacity-building.

12. Views were expressed that the region should be more active in international tax discussions, such as those pertaining to base erosion and profit shifting, which require global and regional consensus in order to be effective. In that regard, particular focus needed to be placed on increased participation by the least developed countries, landlocked developing countries and small island developing States, as their voice in that area had been limited even though the outcomes from those discussions might have profound implications on their tax practices.

13. The participants underscored the importance of the distributional implications of tax policies, acknowledged the significance of tackling growing inequalities, and recognized that the region needed to develop progressive and equitable tax systems while taking into consideration country-specific circumstances. They also considered introducing environmental taxes and the potential of property taxes and other subnational-level taxes in the context of the urban-centric Sustainable Development Goals.

14. The participants noted that ongoing tax reforms – such as base-broadening, harmonization of value added taxes, improvement of the tax net and collection – would encourage entrepreneurship, strengthening infrastructure finance and other development initiatives to promote growth and sustainable development. In that context, specific measures were advocated including streamlining tax incentives, stemming tax evasion, minimizing tax exemptions, improving tax transparency and enhancing tax education.

15. The participants called for countries to engage in voluntary discussions on ways to avoid harmful tax competition and maintain the integrity of the tax base.

16. Some participants emphasized the importance of ensuring fiscal responsibility laws where appropriate, to be consistent with the demands of sustainable development.

17. The participants emphasized that they could re-evaluate the existing systems and policies related to public expenditure management and recognized the importance of the absorptive capacity of Governments to spend. The issue of municipal government revenue generation and intergovernmental transfers based on the need to ensure adequate and sustainable municipal financing to support growing urbanization was also highlighted. As there was substantial scope for sharing experiences and good practices with respect to intergovernmental transfers and tax decentralization, the regional mechanism could also serve as a key capacity-building and peer-learning platform for policymakers in those areas, with support from a network of external experts.

18. The participants took note of the potential of the Addis Tax Initiative, launched on the occasion of the Third International Conference on Financing for Development in Addis Ababa, in enhancing international cooperation on domestic revenue mobilization in developing countries of Asia and the Pacific.

19. The participants recognized the need for an Asia-Pacific tax forum for sustainable development as an inclusive, participatory and broad-based regional forum on tax matters.

**B. Capital markets, securities commissions and regulations**

20. The participants noted the importance of deepening and developing domestic capital markets, with an appropriate mix of debt and equity, and harmonizing regulatory frameworks for adequate provision of the long-term financing required for investment in social goods, infrastructure projects and efforts related to protecting the environment in the region. The participants noted that despite recent rapid growth, equity and bond markets remained underdeveloped and lacked liquidity in many countries, owing to barriers such as a narrow investor base and inadequate soft and hard financial infrastructure. There was a need to encourage usage of new and innovative financial vehicles, including the Islamic capital market and impact investment, to provide investors with alternatives that created depth and breadth in the capital markets and to mobilize resources to effectively implement the Sustainable Development Goals.

21. The participants highlighted the need to develop domestic and regional capital markets to provide the long-term financing required for investment in sustainable development in Asia and the Pacific. They stressed the need to increase dialogue and cooperation among countries in the region by sharing information and experiences, harmonizing regulatory frameworks and capacity-building. Such collaboration would broaden the investor base and facilitate efficient cross-border financial intermediation. It would also be important in securing financial stability, as liberalization and integration tended to increase a country's exposure to external shocks.

22. The participants discussed the need to align national policies dealing with fiscal incentives offered to investors, while embracing the social and environmental side of development. Among those incentives, Governments should have in place competent laws, regulations and strong corporate governance to encourage investors in finance sustainable development projects.

23. It was specifically noted that risk-sharing instruments of Islamic finance provided a viable alternative to traditional debt instruments and had grown rapidly in recent years, especially the issuance of sukuk, which had been well suited to financing infrastructure and supporting sustainable development. They noted that increased demand for those bonds could possibly provide opportunities to deepen the capital market. Where relevant, therefore, countries should be encouraged to develop a comprehensive strategy to enhance and deepen their domestic market for Islamic instruments. The importance of impact investment and mobilizing capital markets for social goods was also recognized.

24. With regard to the development of corporate bond markets and their regional integration, the participants underscored the need to improve the level of national regulatory standards and other forms of financial infrastructure, which could match the level of larger and relatively better developed capital markets but would require strengthened legal and regulatory frameworks and supportive policies. The participants also emphasized the role of rating agencies in the development of corporate bond markets. When considering such issues, countries would need to enhance opportunities for issuing sovereign bonds to help the development of corporate bond markets.

25. Some participants further emphasized the need for a regional mechanism to address the growing threats of cybercrime, which could destabilize the operations of the financial market and its effective functioning.

26. The participants acknowledged the importance of exploring the feasibility of as well as approaches and modalities for linking the markets of the least developed countries, landlocked developing countries and small island developing States with developed markets in the region by adopting similar regulatory frameworks in the process towards enhancing regional cooperation initiatives for the development of capital markets. In that context, countries were encouraged to share information and work with appropriate regional bodies to consider setting up mechanisms for the monitoring and surveillance of capital markets.

### **C. Financing for infrastructure development**

27. The participants highlighted the need to create synergies across several financing mechanisms to support infrastructure investment development in Asia and the Pacific, including: (a) national, subregional, regional and global multilateral financial institutions and development banks; (b) public-private partnership models to provide a potentially higher level of technical capacity, efficiency and resources; (c) institutional investors to provide long-term infrastructure financing; and (d) official development assistance (ODA) to support infrastructure projects in the region.

28. The participants noted the significance of the emergence of development finance institutions as it helped close the financing gap in infrastructure development by mobilizing private development finances and highlighted the role of national development banks and development finance institutions.

29. A view was expressed that regional economies should promote domestic savings, inter alia through national pension funds and insurance companies, and undertake regulatory reforms that encouraged more infrastructure investment in the portfolios of pension funds and insurance companies as a way to support institutional investors with long-term investment horizons. Furthermore, national policies in areas such as financial and tax regulations could increase capital flows to the domestic bond and equity markets of developing countries, while taking into consideration the circumstances of the small island developing States. In that regard, the importance of creating a stable and predictable macroeconomic and regulatory framework, effectively enforcing of the rule of law and eliminating corruption was emphasized.

30. Stressing the strong potential of public-private partnerships to finance infrastructure in the region, the participants emphasized the need for returns that met the profit objectives and effective risk management in order to deliver development impact. In that regard, participants noted the importance of the role of ODA in catalysing additional development resources.

31. To further strengthen public-private partnership infrastructure investment, the participants emphasized the importance of ensuring macroeconomic stability, high quality governance, effective dispute resolution and development of capital markets. Proper identification and prioritization of projects, keeping in view the economic and social development of the country, was also emphasized, while the lack of availability of pipeline of bankable projects was acknowledged.

32. Some participants highlighted the importance of a regional infrastructure financing forum, which would enhance support for cross-border capital flows for infrastructure projects such as transport,

energy and information and communications technology connectivity. The forum would be further reinforced by the ESCAP Regional Cooperation and Integration mandate, and would help pave the way for inclusive growth and implementation of the Sustainable Development Goals, which advocate the promotion of cross-border cooperation in different areas.

#### **D. Financial inclusion**

33. The participants discussed the importance of designing financial inclusion strategies for poverty reduction, job creation and productivity enhancement in Asia and the Pacific not only by providing access to financial services and building financial literacy among poor people, but also by giving micro, small and medium-sized enterprises, start-ups and young firms and innovative projects greater access to finance, with appropriate attention to financial stability matters.

34. The participants called for the development of a comprehensive suite of policy options covering innovative and diversified inclusive financing models aimed at supporting the financing needs of households and firms. They also highlighted the need to develop and provide a broad range of high-quality financial products and services aligned with the needs of the population in order to have a significant impact on the poor. In addition, to support greater financial inclusion in rural areas and in the poorest segments, participants emphasized the need to develop market infrastructure related to national identification, credit information, collateral management frameworks and registries payments.

35. While sharing their experiences and highlighting the importance of financial inclusion strategies, the participants underscored the need to encourage the expansion of the use and functionality of microfinance products and channels, such as mobile and agent banking, savings and insurance. The importance of better serviced remittances and better management of pension accounts was also highlighted, as well as the reach of financial literacy, including through schools.

36. Additionally, the participants stressed the importance of encouraging a regulatory framework conducive to the expansion of account ownership, such as licensing bank agents, requiring banks to provide basic or low-fee accounts and allowing the evolution of new technologies such as mobile money. Also emphasized was the need for lower costs of financial services, for financial institutions to locate outlets in more remote areas and for the gender gap to be closed.

37. The participants recommended that countries should look beyond traditional bank lending models in an effort to close the supply-demand financing gap in micro, small and medium-sized enterprises.

38. The participants also recommended that financial inclusion policies and strategies should be mainstreamed to provide full and equal access to financial services for all, with appropriate attention given to macroeconomic stability and legal and institutional infrastructure.

39. Participants recognized that the de-risking of remittance transfers across borders by major commercial banks owing to regulations on anti-money laundering and combating the financing of terrorism had adversely impacted the financial inclusion of countries that were heavily dependent on cross-border remittance flows for people with low incomes.

As a result of de-risking, not only had the cost of remitting small amounts of money gone up, but also informal cash transfers were increasingly being used, excluding such people with low incomes from formal financial services.

40. The participants requested ESCAP to work with networks such as the Alliance for Financial Inclusion to promote financial inclusion by enhancing peer learning of innovative policies and technologies.

#### **E. Climate finance**

41. Reiterating the principle of common but differentiated responsibility on climate change, the participants discussed taking concrete action at the national level to address the negative economic-social-environmental impact of climate change and allocate the necessary fiscal resources while undertaking appropriate action for climate change mitigation and adaptation. The importance of scaling up financial resources for dealing with climate change was also noted, while the need to strike a balance between investments in climate change mitigation and adaptation was recognized.

42. The meeting also noted the important work of the various Pacific regional organizations in that area, such as the Secretariat of the Pacific Community, Secretariat of the Pacific Regional Environment Programme, as well as of donors, multilateral organizations, United Nations agencies and the Green Climate Fund.

43. The participants recommended that efforts to redirect national public finance towards climate-resilient and sustainable development through low-carbon development strategies should be mainstreamed into national development plans. Specifically, they stressed the need for Governments to work towards mobilizing resources for climate financing by facilitating the creation of frameworks for climate action and investment through the development of appropriate national policy and institutional frameworks.

44. The participants recommended Asia-Pacific countries to facilitate a transition to low-carbon and greener economies based on national policy frameworks by developing innovative incentives and reorienting existing public resources to greener activities, including through the development of green bonds.

45. The participants called for Governments to provide incentives and mitigate risks for private equity funds to invest more in robust climate-friendly low-carbon development initiatives. That action would contribute towards efforts to scale up climate finance and create a stable and transparent enabling environment.

46. The participants, in recognizing the varied needs of small island developing States, encouraged capacity-building activities including climate change adaptation and mitigation and finance activities. The meeting noted the possibility of a regional centre in the Pacific to address climate change issues, especially for small island developing States. The participant from Fiji, along with a number of other participants, offered seed money for setting up the regional centre.

**F. South-South cooperation and triangular cooperation, with a focus on the countries with special needs**

47. Underlining the special needs of the least developed countries, landlocked developing countries and small island developing States, the participants suggested enhancing regional cooperation in which South-South cooperation and triangular regional cooperation could play an important role. That action would increase funding for sustainable development programmes to provide opportunities to share good practices, skills and expertise among developing countries and at the subregional and regional levels.

48. The participants agreed that substantial external resources were essential for pursuing sustainable development to enhance regional cooperation. While understanding that North-South cooperation would continue to be the major channel in that regard, participants stressed that South-South cooperation and triangular development cooperation could play a very important complementary role. Those approaches were seen as being important channels not only for funding development programmes, but also for providing new opportunities to share good practices, skills and expertise among developing countries, subregions and regions.

49. The participants emphasized that policies needed to be directed towards enhancing South-South cooperation and triangular development cooperation, especially for the least developed countries, landlocked developing countries and small island developing States. In that regard, participants recognized the importance of establishing a network comprising practitioners from developing countries and donor and international organizations and promoting knowledge-sharing on South-South cooperation and triangular development cooperation through regular capacity-building workshops and contacts among the network members. Such a network would also promote joint work among the members, including joint South-South cooperation and triangular development cooperation programmes, projects and joint research on issues important for improving the practices of those mechanisms.

50. The participants concluded that South-South cooperation should be mainstreamed into national and regional systems and processes to ensure that its targets contributed to overall development and worked towards efficiently utilizing resources. Some participants highlighted the important role of South-South investment cooperation on long-term inclusive growth.

51. The participants suggested that countries with special needs should establish a focal point within one of their ministries to deal with South-South cooperation and triangular development cooperation. The participants requested ESCAP to explore the possibility of developing a platform for cooperation in areas such as technology transfer, gender equality and empowerment, and capacity-building and advisory services, with the objective of addressing issues of common concern and interest.

**II. Information about the meeting**

52. The presentation of the Chair's summary of the Dialogue was chaired by Mr. Lee Yong Soo, Director-General for Development Cooperation, Ministry of Foreign Affairs, Republic of Korea. The co-chairs were Mr. Ly Thuch, Senior Minister, Cambodia; Mr. Aiyaz Sayed-Khaiyum, Attorney-General and Minister for Finance, Fiji; Ms. Azeema Adam,

Governor, Maldives Monetary Authority; and Mr. Mukesh Agarwal, Chief Executive Officer, India Index Services and Products Limited, National Stock Exchange, India. Mr. Wayne Swan, Member of Parliament and former Deputy Prime Minister and Treasurer of Australia, was the rapporteur.

53. The following countries participated in the Dialogue: Afghanistan; Armenia; Australia; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; Georgia; India; Indonesia; Iran (Islamic Republic of); Kazakhstan; Kyrgyzstan; Lao People's Democratic Republic; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Nauru; Nepal; Netherlands; Pakistan; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Tonga; Turkey; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam. Japan participated as an observer.

54. In addition, the following United Nations bodies and specialized agencies were represented: Asian and Pacific Training Centre for Information and Communication Technology for Development; Department of Economic and Social Affairs; International Organization for Migration; United Nations Commission on International Trade Law; United Nations Development Programme (UNDP); UNDP Seoul Policy Centre for Global Development Partnerships; and United Nations Project Office on Governance. The following international organizations and other organizations were represented: Alliance for Financial Inclusion; ASEAN-Korea Centre; Asian Development Bank Institute; Association of North East Asia Regional Governments; Climate Change Center; Climate Policy Initiative; Eurasian Development Bank; Global Green Growth Institute; Global Sustainability Center; Green Climate Fund; Green Technology Center; Islamic Development Bank; Pacific Islands Forum Secretariat; and the World Bank Group. The Dialogue was attended by the following private-sector representatives: Arif Habib Group; IHS Global Insight; Impact Investment Exchange Asia; KPMG; and KT Corporation. The following civil-society organizations were represented: Aksi – for Gender, Social and Environmental Justice; BYND2015 Nepal Hub; Development Alternatives with Women for a New Era; International Council of Women; NGO Forum on ADB; Pacific Young Women's Leadership Alliance; Reality of Aid; Research Center for Management and Sustainable Development; and Women Organizing for Change in Agriculture and Natural Resource Management.

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