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## Economic and Social Commission for Asia and the Pacific

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Item 4 (g) of the provisional agenda\*

### **Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific: macroeconomic policy, poverty reduction and financing for development**

## **Thinking beyond economic growth to empower people, take care of the planet and pursue the Sustainable Development Goals**

### **Note by the secretariat**

#### *Summary*

The Asia-Pacific region has seen tremendous economic and social progress over the past 50 years, as average income levels more than tripled and life expectancy at birth increased from 46 to 75 years. Economic growth has also helped lift close to 1.1 billion people out of poverty since 1990.

However, rapid economic growth has come at the cost of rising inequalities and considerable environmental degradation. Worryingly, present trends indicate that the region is unlikely to reach most Sustainable Development Goals by 2030 in a business-as-usual scenario. At the same time, like the rest of the world, the Asia-Pacific region is facing challenges arising from the changing dynamics of globalization, rapid advancements in technology and climate change.

There is an urgent need to shift the mindset and policy direction, looking beyond economic growth. The planet and people should come first. The investment needed to implement this change is high but achievable. The present document contains estimates of the investment needs across all Sustainable Development Goals for the Asia-Pacific region and a discussion on financing and other policy options that can accelerate progress towards the 2030 Agenda for Sustainable Development.

While financing is a necessary condition for achieving the 2030 Agenda, it is not sufficient. Money cannot replace the need to bring efficiency and better governance to the public sector. Effective planning and changes in laws, regulations and institutions, as well as regional cooperation, are also important considerations. Solutions require paying attention to the individualized needs of the countries (which are diverse) and the people while remaining cognizant of planetary boundaries.

The Economic and Social Commission for Asia and the Pacific is invited to discuss the framework for investment for achieving the Sustainable Development Goals, assess the relative merits of different financing options and policies presented, and provide further guidance to the secretariat for its efforts to analyse these aspects further.

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\* ESCAP/75/L.1.

## I. Introduction

1. The Asia-Pacific region has seen tremendous economic and social progress over the past 50 years, as average income levels more than tripled and life expectancy at birth increased from 46 to 75 years. Close to 1.1 billion people have been lifted out of extreme poverty since 1990. Ten of the region's twelve least developed countries have met the criteria for graduating from the category of least developed countries.

2. However, this economic prosperity obscures the very real risk that the Sustainable Development Goals may not be met. The gains from economic growth are not shared by all, as shown by the increase in inequality of income and opportunities.<sup>1</sup> Employment growth remains modest, while available jobs do not fully translate into decent work. Greenhouse gas emissions per capita are on the rise, and the region is home to 5 of the world's 10 countries most affected by climate risks.<sup>2</sup> Intensive use of natural resources and heavy pollution add significant environmental costs to economic expansion and, in turn, limit future growth potential. *Asia and the Pacific SDG Progress Report 2018–19*, soon to be published by the Economic and Social Commission for Asia and the Pacific (ESCAP), reveals that despite progress on many fronts, the region is not on track to meet any of the 17 Sustainable Development Goals. If no action is taken, some 130 million people will remain in extreme poverty and carbon emissions will increase significantly by 2030.

3. The diversity in development levels across the region adds complexity. The region has a mix of developed, developing and least developed countries, with different challenges and opportunities. In general, countries in East Asia are facing population ageing, while those in South Asia have a youth bulge. With rapid environmental degradation in the region, many countries, especially the small island developing States, are more susceptible to frequent natural disasters. Many least developed countries face the challenge of overcoming low levels of human development and are confronted with high levels of economic vulnerability. Countries with special needs, in general, continue to be trapped in low value added activities, which impedes efforts to reduce poverty.

4. Challenges to sustainable development are becoming pronounced due to near-term economic risks. Although the economic outlook for the Asia-Pacific region remains broadly stable, rising trade tensions and the tightening of global financing conditions weigh on foreign and domestic demand, threaten jobs and impose financial stress on the region. In addition, a rise in private debt in several economies constrains future domestic demand and puts a strain on financial stability. Slow productivity growth is adversely affecting long-term economic growth and development prospects.

5. Against such a backdrop, bold and decisive policies are needed to maintain economic growth momentum while enhancing drivers of sustainable development. Successful pursuit of the Sustainable Development Goals requires, as outlined in the regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific,

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<sup>1</sup> *Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development* (United Nations publication, Sales No. E.18.II.F.13).

<sup>2</sup> In order from most affected: Sri Lanka, Nepal, Viet Nam, Bangladesh and Thailand. See David Eckstein, Marie-Lena Hufils and Maik Winges, *Global Climate Risk Index 2019* (Germanwatch, 2018).

a policy rethink that promotes a balanced integration of the three dimensions of sustainable development.

## **II. Thinking holistically – putting the people and the planet first**

6. The rising social and economic inequalities and environmental degradation in the region threaten future development prospects. Increasing socioeconomic inequalities will have an impact on future poverty reduction efforts as well as longer-term economic growth prospects. Climate-induced disasters threaten decades of development gains, as rising temperatures have adverse macroeconomic impacts, especially for the vulnerable countries, such as the least developed countries and small island developing States, in the region. Reducing the wide economic, social and environmental deficits in the region is key to implementing the bold and transformative 2030 Agenda for Sustainable Development, anchored in the three pillars of people, planet and prosperity, with the concepts of peace and partnership utilized as the means to achieve it. This requires a change in mindset and policy direction, moving away from the single-minded emphasis on economic growth and markets, to putting planet and people first and investing in these goals.

## **III. Investing in the Sustainable Development Goals: how much does it cost?**

7. In the *Economic and Social Survey of Asia and the Pacific 2019*, ESCAP explores the critical role of investments for an effective pursuit of the 2030 Agenda. While investment is a de facto driver of economic growth, its composition as well as scale will be critical for implementing almost all Sustainable Development Goals. Considerable reallocation of capital needs to take place towards these investments. Although some estimates indicate that globally \$5 trillion to \$7 trillion would be needed per year to implement the Goals,<sup>3</sup> no comprehensive estimates across all Goals are available for Asia and the Pacific.

8. For such a costing exercise, the 2019 *Survey* does not group the Sustainable Development Goals as social, economic or environmental because most Goals cut across two or three dimensions. For instance, Goal 2 on hunger contains targets with social (for example, malnutrition), economic (for example, agricultural productivity and trade) and environmental (for example, genetic diversity and climate resilience) dimensions. Additionally, the 2019 *Survey* uses a broad definition of investment to include expenditures if they deliver future or social returns, for instance, investment in human capacities and environmental quality, both of which deliver large benefits.

9. To establish a framework for investments across all Sustainable Development Goals, in the 2019 *Survey*, ESCAP proposed five major investment areas:

- (a) Achieving basic human rights by eliminating poverty and hunger (Goals 1 and 2);
- (b) Developing human capacities by improving health education and achieving gender equality (Goals 3, 4 and 5);

<sup>3</sup> *World Investment Report 2014 – Investing in the SDGs: An Action Plan* (United Nations publication, Sales No. E.14.II.D.1).

(c) Increasing the provision of enabling infrastructure, covering transport, information and communications technology (ICT), and water and sanitation (Goals 6, 9, 11 and 17);

(d) Securing the future through clean energy and climate action (Goals 7 and 13);

(e) Living in harmony through sustainable consumption and production and conservation of nature (Goals 8, 12, 14 and 15).

10. Although this provides for a relatively comprehensive framework for investing in the Sustainable Development Goals, some Goals or targets are not explicitly addressed, either because their achievement depends primarily on non-monetary factors (for example, for achieving peace and justice, 16.a and 16.b focus on institutional and legislative changes) or because they tend to be the result of other investments (for example, investing in human capacities and enabling infrastructure supports economic growth and industrialization). Similarly, gender equality is mainstreamed throughout the exercise rather than being costed since many non-monetary factors (such as laws and institutions) affect this Goal. However, mainstreaming gender equality through education means all girls would have greater earning potential. Similarly, improving infrastructure could also improve gender equality. For instance, the provision of clean water would allow for more productive use of women's time and the use of Internet could empower women as they could form networks and learn from new forms of trade online.

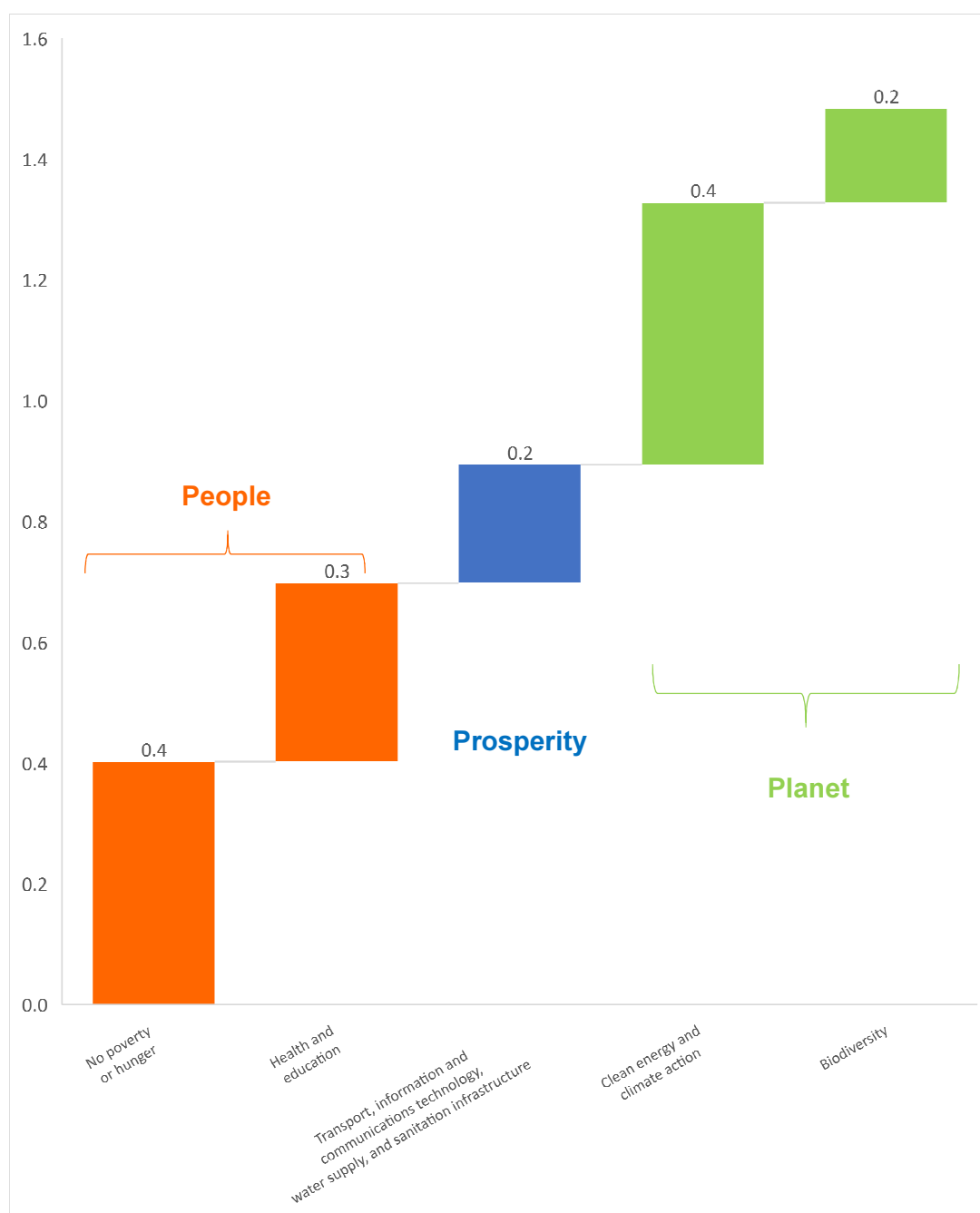
11. Having said that, this approach pays special attention to establishing clear linkages between the Sustainable Development Goals, the interventions and the investment needs, so that the analysis does not stop at the "price tag" but serves as a useful tool for countries operationalizing the Goals according to their national priorities and circumstances. Many previous studies did not offer such detailed analysis. For instance, some studies simply calculated the investment gap compared to the global average level or to a selected benchmark group, without linkages to any specific Goal target or intervention. While these are illustrative, they do not give much guidance for concrete action. Additionally, headline figures can also be misleading. For instance, a large amount of existing social protection expenditures are for pensions for those in government or large corporations; hence, simply scaling up, based on current composition, will not deliver the national social protection floors envisioned in Goal 1.

12. In terms of methodology, this costing exercise uses both intervention- and unit cost-based needs assessment as well as integrated modelling. While the assessment method has the advantage of being transparent and easy-to-use and the results can be highly disaggregated, it cannot account for synergies and the economy-wide effect of Sustainable Development Goal investments. In contrast, integrated modelling can account for synergies and the economy-wide effect but is less accessible due to computational complexity and data requirements, and its macro-level results offer little guidance for concrete action. In terms of the usefulness of these approaches, the integrated modelling approach may be more relevant for national planning while the intervention- and unit cost-based models may be appropriate for national budget processes.

13. The 2019 *Survey* shows that the developing Asia-Pacific region needs to invest, on average, an additional \$1.48 trillion per year during the period 2016–2030 to achieve the Sustainable Development Goals by 2030. This is equivalent to approximately 5 per cent of the region's gross domestic product (GDP) in 2018 or about 4.1 per cent in terms of the annual average GDP for 2016–2030. Investments for people and planet account for the bulk of the

investment gap (see figure). For people, ending poverty and hunger and meeting the health and education goals would require \$698 billion per year. For planet, securing the future through clean energy and climate action and living in harmony with nature would require \$590 billion per year. For prosperity, infrastructure investments for better transport, ICT, and water and sanitation services would require \$196 billion per year.

**Gap in the investment needed for achieving the Sustainable Development Goals in the developing Asia-Pacific region**  
(Trillions of United States dollars)



Note: In 2016 constant prices, annual average, 2016–2030

14. It is worth highlighting that pursuing the Sustainable Development Goals in an integrated manner and coordinating interventions across all Goals could enhance impact or lower the total investment needs. At the same time, new and emerging technologies have considerable potential to enable progress towards the Goals, including in the form of more cost-effective investments. Moreover, the benefits and co-benefits of such investments would far outweigh their financial costs. Thus, there is a clear case for investment from a social as well as a private returns perspective.

#### **IV. How should these investments be financed?**

15. The investment needs vary by country and so do the solutions. However, some common principles can be used to determine how financing of the Sustainable Development Goals could be shaped.

##### **A. Public funds and private finance**

16. Some of the Sustainable Development Goals by their nature are reliant on public funding, while others offer greater potential for private financing. Based on global data, the United Nations Conference on Trade and Development (UNCTAD) categorized two Goal areas as follows:

(a) Goal areas that are largely reliant on public sector funding: Goals related to education and health, climate change adaptation, and ecosystems and biodiversity. These are sectors where investments offer high social returns but where it is difficult to design risk-return profiles attractive to private investors, such as in climate change adaptation, or because they are in sectors regarded as public responsibilities, like health and education, and which are thus highly sensitive with regard to private sector involvement;

(b) Goals areas that have seen greater private sector involvement, including through domestic and foreign direct investment, are in infrastructure sectors such as ICT, power and renewable energy (within climate change mitigation) and to a lesser degree in transport and water and sanitation. These infrastructure sectors are natural candidates for private sector involvement under the right enabling conditions and with the appropriate safeguards.

##### **B. Tax revenues and debt financing**

17. Broadly speaking, countries in the region have room to mobilize fiscal resources to invest in the Sustainable Development Goals. In general, fiscal deficits are less than 5 per cent of GDP, while public debt levels in the region remain relatively low (at 45 per cent of GDP, on average). Hence, available fiscal resources should be invested in sustainable development, which enhances human, social and environmental capital. What matters is where and how the resources generated from the deficit and debt are being spent. Policymakers need to reprioritize their investment areas as well as redefine their concepts of fiscal and debt sustainability in order to relate to long-term sustainable development rather than considering them as a goal per se.

18. Having said that, persistently low tax revenues and higher sovereign borrowing costs weigh on public investments in several developing Asia-Pacific countries. In the Economic and Social Survey of Asia and the Pacific 2018, the authors noted that the tax-to-GDP ratio for the region is below 15 per cent compared to 25 per cent for Organization for Economic Cooperation and Development (OECD) countries, with the share of direct taxes remaining considerably lower than indirect taxes. Tax collection and the capacity for tax administration are particularly low in many least developed

countries. Moreover, between 1995 and 2016, 20 countries in the region did not issue government bonds. Hence, there is a lot of potential for mobilizing revenues from domestic sources. On the taxation side, Governments should consider progressive income taxes and wealth-related taxes, which could help to mitigate inequalities while creating needed revenues to invest in better public education, training and social protection.

19. With regard to debt, the development of bond markets for both sovereign and corporate issues can play a critical role in financing several investment areas, particularly in the context of global expansion of green bonds. To foster capital and bond markets, Governments should improve their regulatory and institutional frameworks to provide an enabling environment for investors and business stakeholders. The development of large and liquid capital markets can help channel domestic savings into purchases of sovereign bonds. Governments must also improve their credit risk ratings, which depend, among other factors, on macroeconomic stability, sound external account management, large revenue collection capacity and quality of governance. In this regard, ESCAP is supporting many member States in the development of their bond markets. The Governments of Bhutan and Sri Lanka, for example, have expressed interest in working with ESCAP on their capital market development.

20. Technological progress has opened opportunities to improve fiscal space and to strengthen tax administration. From the revenue side, digitalization helps to broaden the tax base and improve taxpayers' compliance. Technology has brought new economic activities, such as e-commerce, the sharing economy and social media; if taxed, these activities could broaden the tax base further, thereby increasing overall tax revenues. In addition, technologies such as e-filing, e-payment and e-customs initiatives help tax authorities to collect information, improve resources management and lower taxpayers' compliance costs.

### **C. Leveraging private financing**

21. Well-functioning domestic capital markets support the public sector in leveraging private financing. Capital markets in Asia and the Pacific remain relatively small, with low levels of market liquidity, as most economies in the region rely excessively on bank lending. Developing domestic capital markets is a long-term task that requires policy actions on various fronts, including (a) an effective legal framework for the issuance process, such as frameworks for different types of issuers and investors protection; (b) a sizeable investor base; (c) a diverse set of products; (d) knowledgeable financial intermediaries, for example, business analysis capacity of investment banks and securities firms; and (e) an enabling market infrastructure, for example, credit rating agencies. In addition, broader issues include the effectiveness of corporate governance, harmonization and enforcement of international standards, and relatively well-developed sovereign bond markets that provide yield curve benchmarks for corporate bond markets.

22. In addition, public-private partnerships engage private entities to provide long-term public services and infrastructure. It is particularly useful when fiscal space is small or when State capacity to deliver large-scale infrastructure projects is limited. Total infrastructure investment under public-private partnership projects in developing Asia-Pacific economies has trended downward in recent years after peaking in 2010. To provide an enabling policy environment for public-private partnership projects, policies are needed to improve the quality of the legal and regulatory framework, develop financial markets with stable macroeconomic conditions, and enhance the quality of

institutional arrangements throughout the life cycle of public-private partnership projects, for example, through transparent and fair procurement practices.

#### **D. Multilateral and bilateral financing**

23. Given that many developing countries in the region face steep investment needs and limited financial resources, strong development partnerships and considerable international development finance will be needed from the public and financial sectors, as per Sustainable Development Goal 17. This is particularly important for least developed countries and small island developing States. Examples of partnerships include North-South, South-South and triangular cooperation, including from within the region, involving surplus savings countries such as China, Japan and the Republic of Korea. In total, countries with special needs in the Asia-Pacific region have received bilateral official development assistance (ODA) of \$10 billion every year since 2010 from OECD Development Assistance Committee member countries, of which more than 80 per cent was directed to least developed countries. However, the share of ODA to GDP has declined from 2.9 per cent in 2002 to 1.4 per cent in 2017. In this regard, all high-income countries should meet their commitment of giving 0.7 per cent of gross national income in ODA. A path to this would be to commit to halving the gap between current ODA levels and the 0.7 per cent target by 2020 and by announcing a timeline for meeting the target by 2025.<sup>4</sup>

24. Multilateral development banks are likely to remain an important component of multilateral financing, accounting for a third of total ODA globally. A new entrant on the multilateral development banks scene, the Asian Infrastructure Investment Bank offers promise for national and cross-border infrastructure projects.<sup>5</sup> Another emerging source of funding is the New Development Bank established by Brazil, the Russian Federation, India, China and South Africa, which began operations in 2016. Since traditional bilateral ODA remains important for many countries, the new sources of bilateral ODA and South-South cooperation emerging in the region are a positive development. One of these is the Silk Road Fund of China, established in 2014, which is targeted at infrastructure in countries involved in the Belt and Road Initiative of the Government of China.

#### **E. Micro-, small and medium-sized enterprise financing**

25. Although micro-, small and medium-sized enterprises make a major contribution to countries' economic growth and job creation across Asia and the Pacific, they often encounter barriers and challenges in accessing financing. Over the years, Governments and related agencies have set up various mechanisms, such as credit guarantees, credit ratings, collateral support and directed credit, that have contributed to enhancing financial inclusion and access to credit by micro-, small and medium-sized enterprises. However, the extent to which the financing gap has been reduced and the

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<sup>4</sup> Guido Schmidt-Traub and Jeffrey D. Sachs, "Financing sustainable development: implementing the SDGs through effective investment strategies and partnerships", working paper prepared as input for the preparations for the Third Conference on Financing for Development, 8 April 2015.

<sup>5</sup> At present, lending remains low, with nine projects in 2016, or 25 per cent of its total \$1.73 billion lending that year going to transport. This amount is expected to be increased in coming years, with the Asian Infrastructure Investment Bank's total available capital amounting to \$100 billion. See UNCTAD, *Scaling Up Finance for the Sustainable Development Goals: Experimenting with Models of Multilateral Development Banking* (UNCTAD/GDS/ECIDC/2017/4).



relative effectiveness of each mechanism are not well known. To provide guidance to policymakers and development partners about the most effective ways to support micro-, small and medium-sized enterprises, ESCAP is conducting detailed national studies on this type of financing based on a common framework. The studies, which have already been completed for Cambodia and Nepal, will also be used for policy dialogues, sharing of experiences and the identification of good practices at the regional level.

26. For instance, the studies in Cambodia and Nepal highlight a number of common issues that are likely to characterize other countries in the region. One of them is the lack of a common definition of micro-, small and medium-sized enterprises in the public and private sector and the lack of periodic and gender-disaggregated statistics about these enterprises' borrowing from financial institutions. This problem could be addressed by requiring financial institutions to provide to the credit bureau or pertinent regulatory agency, with the loan information, data about the size of the borrowing firms according to an official definition of micro-, small and medium-sized enterprises and information about whether or not they are led by women. The collected data would enable policymakers to implement more targeted and gender-responsive policies. Another issue is the need to enhance the capacities of these enterprises in record-keeping and the production of financial statements and business plans to facilitate their access to loans from financial institutions. It is also important to foster the capacities of financial institutions to offer appropriate products and services to micro-, small and medium-sized enterprises in general and to women-owned businesses in particular.

## **V. What else can be done to accelerate progress on the 2030 Agenda?**

27. Of course, money can solve many problems but not all, as countries face binding constraints from non-monetary factors.

28. Improving the efficiency and governance of public investments can help to get more value for money. Even if financing is available from various sources, enhancing public sector efficiency and governance is considered a prerequisite for countries to enhance their access to financing. This is crucial as projects are often affected by corruption, favouritism, delays and cost overruns. Addressing such issues is important not only to use taxpayers' money and other resources more efficiently but also to make projects more attractive to private investors. The data in the 2019 Survey suggest significant cost savings through institutional and policy reforms and improved allocation of resources are possible. For instance, in education, there is a disconnect between schooling years and acquisition of basic skills. In the 2019 Survey, ESCAP estimates that efforts to match activities with outcomes could result in an investment efficiency gain of more than 30 per cent in the education and health sectors. In infrastructure, measures such as improved public investment management and attention to maintenance and end users could result in cost savings of 46 per cent.

29. Here again, technology can be used to enhance efficiency and transparency in public investment. For instance, recent advancements in technology such as big data, blockchain technology and artificial intelligence could potentially greatly help the public sector to solve numerous existing issues with the selection of infrastructure projects, procurement and cost overruns, which often cause inefficiency in an infrastructure project. Artificial intelligence can leverage big data to streamline public processes and improve decision-making. This becomes extremely helpful for procuring authorities to identify the best contractors who match their needs from the pool available in

the market without a middleman. Blockchain technology can help to improve project management through the use of smart contracts that track all subcontractors and suppliers involved and ensure transparency for every transaction in the project. By incorporating integrated digital technology, the public sector can have smarter infrastructure that provides the same quality and quantity of services while using fewer resources.

30. Changing laws and institutions can also help achieve the Sustainable Development Goals. For example, women in the region face discrimination based on legal constraints. Less than half the countries in the region have banned gender-based discrimination in hiring and less than 20 per cent have mandated equal pay for equal work. Less than half the countries that provide maternity leave guarantee that the mothers will be given an equivalent position in their workplace after they have taken that leave. In addition, the perception that women cannot do the same jobs as men and low acceptance of women working outside their home prevail in many countries.<sup>6</sup>

31. In this respect, ESCAP has been assisting women entrepreneurs at micro-, small and medium-sized enterprises by strengthening the capacities of member States to institutionalize gender-responsive entrepreneurial ecosystems. In addition, member States could adopt gender-responsive budgeting to ensure that women benefit from the increase in investment across different Sustainable Development Goals. Different types of policies and the distribution of funding have differing impacts on women and men and even on different subgroups of women and men depending on their geographical location, age or income levels. In the region, 6 countries have made significant progress on gender-responsive budgeting, and an additional 20 countries are in the early stages.<sup>7</sup>

32. Developing shared sustainability standards is a concrete way to ensure green financing catches up with the implementation of the Sustainable Development Goals. There is no one definition of sustainable infrastructure. For instance, clean coal is considered green in China but not in the European Union. Hence, standards for sustainability also differ by fuel type. There is no universally accepted definition of what constitutes green investment, for example whether that includes nuclear energy and clean coal. An issuer may raise green bonds that are earmarked for funding climate-friendly and environmentally friendly projects based on a certain definition of underlying investment which may not be acceptable to the targeted investors, resulting in a mismatch. There are similar discussions on social bonds, for example, gender bonds. However, there will be discrepancies between issuers and investors if a common language is not developed for this type of financing.

33. Strengthening regional soft infrastructure can help to fully harness the benefits of regional connectivity projects. Despite an increase in regional connectivity projects, financing of such projects, especially by the private sector, has not increased. Hence, it is crucial to identify the binding constraints in financing such capital-intensive, long-maturation-cycle, cross-border projects. These constraints start at the early planning phase of the project

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<sup>6</sup> International Labour Organization, *Asia-Pacific Employment and Social Outlook 2018: Advancing Decent Work for Sustainable Development* (Bangkok, 2018); World Bank, Data Catalog, “Women, Business and the Law”, available at <https://datacatalog.worldbank.org/dataset/women-business-and-law> (accessed on 1 February 2019); and World Bank, Gender Data Portal, available at <http://datatopics.worldbank.org/gender/> (accessed on 1 February 2019).

<sup>7</sup> ESCAP, *Gender-Responsive Budgeting in Asia and the Pacific: Key Concepts and Good Practices* (Bangkok, 2018).

preparation cycle and proliferate during the procurement and implementation phases. For example, proper governance and regulatory arrangements are often not set up between Governments to ensure mutually agreed legal, institutional, procurement and stakeholder engagement plans. From the private sector perspective, this uncertainty creates political risks. Traditionally, only cross-border infrastructure such as border crossing points, roads, railways, power transmission lines, telecommunication cables and water pipes is considered hard infrastructure. However, it is the soft infrastructure such as intergovernmental institutions, policies, regulations, knowledge and capacity that facilitate the development and utilization of the physical infrastructure, which mitigates the risks in such projects. Without supportive governance and regulatory frameworks, the effects of physical infrastructure are likely to be limited.

34. Facilitating the structural transformation of countries with special needs is important. Many countries with special needs remain trapped in low value added activities. To escape, they need to provide meaningful employment to the large proportion of the labour force that is underemployed in agriculture. Structural transformation can do this by accelerating a transition from traditional activities (for example, subsistence agriculture) to modern activities (for example, research on agribusiness). If structural transformation results in higher average productivity gains and is inclusive, it will lead to higher wages and more stable sources of incomes. This will close productivity gaps across sectors and, importantly, will reduce poverty which, despite tremendous successes in recent decades, still remains persistent in many countries, particularly in least developed countries and some small island developing States. For this to happen, structural transformation must involve the creation of employment for those segments of the population with low skills – usually the poor and those living in rural areas.

35. While patterns of structural transformation differ between countries, a significant increase in the share of services in output can be observed in many countries. Often, this increase has been in informal services with low productivity, bypassing the dynamism of the manufacturing sector as low-skilled workers from agriculture have ended up in low-skilled, often informal, work in the services sector. Moreover, resource-rich countries need to stimulate a process of dynamic interaction between the production and export of primary commodities and structural transformation that involves economic diversification, including the expansion of manufacturing. This can be achieved by promoting forward and backward linkages with other sectors of the economy, particularly as many of the inputs of goods and services that primary production requires could be supplied domestically and be promoted through local content requirements.

## **VI. Conclusions**

36. While the Asia-Pacific region is diverse, there are some common lessons for all policymakers as they prepare their plans for achieving the Sustainable Development Goals. These include implementing reforms to improve inclusivity, productivity and sustainability; enhancing national-level investment planning and implementation; improving service delivery efficiency and governance; developing appropriate financing strategies for sustainable development; and strengthening regional cooperation through the networks of policymakers and the private sector to foster financing for and investments in sustainable development.

## A. **Implement reforms to improve inclusivity, productivity and sustainability**

37. **Inclusivity.** The main focus of the Sustainable Development Goals is to leave no one behind. Hence, social protection policies, including access to health-care services, are central to closing the gaps in access to most opportunities, while also increasing prosperity, resilience and empowerment. With significant gender gaps remaining in opportunities and outcomes, and because the investment needs to achieve gender equality are hard to quantify, mainstreaming gender through all investment areas is essential. In this respect, the adoption of gender-responsive budgeting could aid in ensuring that women benefit from the increase in investment across the different Goals.

38. **Productivity.** Productivity growth in the region accelerated in the years following the 1997 Asian financial crisis as countries improved their macroeconomic policy frameworks and implemented structural reforms. Recently, there has been a decline in productivity growth. The emphasis after the 2008 global financial crisis on maintaining economic growth or avoiding a slowdown, rather than implementing comprehensive structural reforms, has contributed to a broad-based productivity slowdown in recent years. To counter this trend, all member States need to implement reforms in product and labour markets. This is particularly true in countries with special needs, where government policies and capabilities should facilitate structural transformation from low-productive activities to high-productive activities through structural reforms, such as land reforms, industrial policies and policies addressing market failures relating to investment and human capital formation. It also requires strengthening backward and forward linkages within the economy.

39. **Sustainability.** Economic decision-making must fully integrate environmental and climate risks, thereby improving the conservation and the restoration of ecosystems and reducing the demand for carbon-intensive services and fossil fuel-based technologies. Nature-based solutions<sup>8</sup> are recommended to shift from a linear production and consumption system to a circular economy which would decouple economic activity from the consumption of finite resources. Climate risks can be combated through tools, such as carbon pricing measures, energy efficiency regulations, such as minimum performance standards, building codes, and the reduction of socially inefficient fossil fuel subsidy regimes. Governments can also promote policies to stimulate new energy-saving technologies, such as research and development subsidies.

## B. **Enhance national-level investment planning and implementation**

40. With the 2030 Agenda the overarching development narrative, policymakers should prioritize the investment areas most relevant to their individual country needs and harness synergies between the Sustainable Development Goals. Together with efforts to estimate future investment needs to match to the Goals, Governments should assess the urgency of needs and impacts of current investments at the national level. Disaggregating regional costing to match national-level financing needs will ensure proper selection and prioritization of investment areas, keeping in view resource availability against the targets. The process will enable Governments to dedicate public

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<sup>8</sup> Defined as actions to protect, sustainably manage, and restore natural or modified ecosystems that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits.

resources to those areas and/or projects that potentially have the maximum impact for the Goals.

**C. Improve service delivery efficiency and governance**

41. Aside from reprioritizing budgets in support of investing in Sustainable Development Goals, countries could enhance service delivery through comprehensive efforts to improve governance, curb corruption and leverage technology. Enhancing transparency and accountability is fundamental to improve governance quality and better fiscal management. Strengthening internal controls and audit function is desirable to improve public financial management. Additionally, Governments should improve the production of and access to data and information to manage and monitor the effectiveness of policy implementation.

**D. Develop appropriate financing strategies for sustainable development**

42. As discussed above, a range of financing options are available, covering aspects of accessing public resources, tapping private finance and strengthening ODA. Development of specific financing strategies and priorities will depend on country-specific characteristics. In this vein, ESCAP is working closely with member States in several areas, such as municipal financing, capital market development, access to finance by micro-, small and medium-sized enterprises, climate finance, and infrastructure financing, including through public-private partnerships. A combination of focused analytical research and engagement with member States through technical workshops is proving to be quite beneficial. Such an approach has allowed ESCAP to draw common lessons and insights that are applicable in a range of countries; examples of best practices are emerging from the experiences of the countries in the Asia-Pacific region. At the same time, the approach has shown the importance of paying close attention to country-specific priorities and characteristics as various financing strategies are considered.

**E. Strengthen regional cooperation through the networks of policymakers and the private sector to foster financing for and investments in sustainable development**

43. Given the diversity of the region in terms of development, policy experiences and financing requirements, there are considerable potential benefits if policymakers and financial regulators as well as private businesses can come together to share their perspectives and exchange information and experiences on innovative financial strategies and good practices. Such cooperation should explore the implications of new innovative financing options and instruments for policy and regulatory frameworks and shape the development of Asia-Pacific norms that will enhance the inclusive and sustainable development of the region. ESCAP provides such a platform and is already actively working with member States in several strategy areas, such as infrastructure financing and public-private partnerships, capital market development, climate finance, and access to finance by micro-, small and medium-sized enterprises, including through the use of fintech.

44. The Commission is invited to discuss how this framework for investment to achieve the Sustainable Development Goals can be turned into a practical and implementable policy recommendation. The discussion on the relative merits of different financing options, policies and lessons can provide a basis for further guidance to the secretariat for further analysis.