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**THEME TOPIC FOR THE SIXTY-SIXTH SESSION: “ADDRESSING  
CHALLENGES IN THE ACHIEVEMENT OF THE MILLENNIUM  
DEVELOPMENT GOALS: PROMOTING A STABLE AND SUPPORTIVE  
FINANCIAL SYSTEM; AND GREEN GROWTH OR ENVIRONMENTALLY  
SUSTAINABLE ECONOMIC GROWTH, INCLUDING THROUGH  
TECHNOLOGY AND FINANCING”**

(Item 8 of the provisional agenda)

**FINANCING AN INCLUSIVE AND GREEN FUTURE**

*Note by the secretariat*

**SUMMARY**

Pursuant to Commission decision 65/1, the secretariat has produced a theme study entitled *Financing an Inclusive and Green Future: A Supportive Financial System and Green Growth for Achieving the Millennium Development Goals in Asia and the Pacific* for the consideration of the Commission at its sixty-sixth session. The present document summarizes the key findings of the theme study.

In the Asia-Pacific region, many countries have achieved rapid economic growth, which has helped lift millions out of poverty. However, in many countries, the present economic growth patterns have led to widening social and ecological gaps. The present report provides policy options for countries that are currently off track on their commitments vis-à-vis the Millennium Development Goals. It estimates the costs of achieving the Goals, and analyses government spending patterns. In order to fill the gap, possible domestic, regional and international sources of finances are explored. The report further points out that traditional sources of finance do not generally reach the poor and builds a case for more inclusive financial services. It examines a range of financial institutions and ways in which they can contribute to more inclusive finance and points out the regulatory framework required for that purpose. Finally, the document highlights the cohesion between environmental sustainability and poverty reduction and the need for recasting environmental protection as an engine of growth through innovative green growth strategies.

The present document is intended to stimulate deliberation by the Commission on the above issues and challenges in the region and the policy options that member States may wish to adopt. The Commission may also wish to comment on the study, consider the various policy options suggested and provide the secretariat with guidance on a future course of action.

\* The late submission of the present document is due to the need to incorporate additional inputs from various contributors following the Expert Group Meeting on a Supportive Financial System and Green Growth for Achieving the Millennium Development Goals in the Asia-Pacific Region, held in Bangkok on 16 February 2010.

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### I. SETTING THE CONTEXT

1. The present report considers the supportive financial systems that countries in Asia and the Pacific will need to promote growth that is both inclusive and sustainable—“green growth” that will help them achieve and sustain the Millennium Development Goals while also stewarding the region’s natural resources for future generations.

2. The Asia-Pacific region has made significant progress towards the Millennium Development Goals. Many countries have achieved rapid economic growth, which has helped lift millions of people out of poverty, and governments have made substantial investments in education and health services and in protecting their most vulnerable people.

3. Nevertheless, most countries are still off-track on many Goal indicators. The region has already almost halved the proportion of the population living below the poverty line of \$1.25 a day, but it has had less success in attacking hunger: between

1990 and 2007, it only managed to reduce the proportion of underweight children under five from 36 to 28 per cent. The region has made good progress in primary education—reaching 92 per cent net enrolment—but it has had less success in keeping those children at school. For child mortality, the prospects remain gloomy: the under-five mortality rate in 2007 was 54 deaths per 1,000 live births, and the situation was similar for maternal mortality, with the number of deaths per 100,000 live births as high as 490 in South Asia.

4. In many countries, economic achievements, and to some extent progress on the Millennium Development Goals, have also had environmental costs. The situation could deteriorate further as countries exert greater pressure on their natural resource base, which could undermine many existing achievements. An area of particular concern is water scarcity, which could lead to food shortages and social unrest. In addition, future spikes in crude oil prices could create challenges to energy security, and many countries could suffer catastrophic damage from climate change.

## **II. INVESTMENT REQUIRED TO MEET THE MILLENNIUM DEVELOPMENT GOALS**

### **A. Closing the income-poverty gap**

5. Based on their past performance, 11 Asia-Pacific countries with poverty headcounts above 5 per cent are likely to miss the income-poverty target: Bangladesh, Cambodia, Georgia, India, Kyrgyzstan, Lao People's Democratic Republic, Mongolia, Nepal, Philippines, Sri Lanka and Uzbekistan. Failing to meet the poverty target would mean an additional 88 million people living in poverty on top of the 420 million people who would still be extremely poor even if the target were reached.<sup>1</sup>

6. For addressing poverty, the main strategy should be to increase economic growth while making sure its benefits are distributed equitably. Faster economic growth will be more effective in reducing poverty if income distribution either does not deteriorate or, preferably, improves. Whether growth or distribution offers the greatest potential for reducing poverty depends on the level of development. Generally, the poorer countries will benefit more from promoting economic growth that leads to an increase in average household consumption. Among the economies that would benefit most would be Bangladesh and rural India, where every percentage point increase in mean consumption per capita would reduce poverty by 0.7 percentage point. The Lao People's Democratic Republic, Uzbekistan and urban India would also benefit significantly from such a strategy, with a reduction of more than half a percentage point.

7. As countries become richer, the benefits from increasing household consumption become relatively less significant and it becomes more important to focus on equity. In Sri Lanka, for example, a 1 per cent increase in household consumption per capita would reduce poverty by only about half as much as it would in Bangladesh; on the other hand, a 1 per cent decrease in inequality would reduce poverty by 0.58 percentage point compared with only 0.47 percentage point in Bangladesh.

8. In practice, economic growth is typically accompanied by a rise in inequality. If this happened in these 11 countries, then reaching their poverty targets would

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<sup>1</sup> These figures refer to the 11 countries that are likely to miss the income-poverty target listed at the beginning of the paragraph.

require that they boost economic growth considerably, in some cases more than doubling it. If they could hold inequality constant, the prospects would brighten significantly. Kyrgyzstan, for example, would achieve the target by 2015, and other countries would not be far behind: India would reach it by 2016; the Philippines by 2017; the Lao People's Democratic Republic by 2018. Indeed, with only moderately faster growth, all three could hit the target; India, for example, would need to increase the average growth rate from 7.9 to 8.9 per cent.

9. Another alternative to reach the poverty Goal faster is to promote policies that lead to a higher rate of growth of household consumption while holding inequality constant. If it were possible to increase the rate of growth of per capita household consumption 1 per cent above their historical trends for the 11 off-track countries in the region, they would reach the poverty Goal earlier. Under this scenario, the Lao People's Democratic Republic would reach the poverty Goal by 2012, and India and Mongolia by 2013.

### **B. Closing the other Millennium Development Goal gaps**

10. Millions of people will also suffer if the region misses the other Millennium Development Goal targets: an extra 1 million children between 1 and 5 years of age would die by 2015; 31 million more children would be suffering from hunger; and 7 million more would be out of school. Many mothers would also be affected—14 million more would have to give birth without the assistance of skilled professionals and 8 million more would be without any kind of antenatal care.

11. Based on a needs assessment carried out by the United Nations Millennium Project, some of the Millennium Development Goal gaps can be closed with relatively low investment. The under-weight children target, for example, can be reached if countries that are off-track invest in total an additional \$23 billion. The gap in the provision of clean water and basic sanitation in rural areas can be closed by investing \$3 billion and \$8 billion, respectively. Overall, the cost of reaching the targets in rural areas is much lower than in urban areas—between one tenth and one fourth—and around twice as many people would benefit (see table 1). These costs are in addition to those that countries are already bearing and are expected to continue to bear in coming years to meet the Goals (table 1, column 1). The total costs are included in table 1, column 3.

12. The total costs to reach the Millennium Development Goal targets (from 2010 to 2015) and to close the gaps shown above, \$434 billion and \$254 billion respectively, are based solely on the nine targets shown in table 1. The areas not covered are gender equality, slum dwellers, energy, roads, rural development, education at levels other than primary, water shortages, hygiene education, tuberculosis (TB) and malaria. ESCAP estimates that the nine indicators in table 1 cover about 40 per cent of total costs. Scaling up to cover the remaining indicators would therefore imply multiplying the total cost of \$434 billion by 2.5 to reach \$1,084 billion, and multiplying the \$254 billion cost of the gap by 2.5 to reach \$636 billion. However, this scaling-up does not include any costs related to income poverty or any further objectives related to climate change. Finally, the costs of meeting the Goals are expected to increase from \$143 billion in 2010 to \$223 billion in 2015 and the costs of closing the gaps from \$96 billion in 2010 to \$117 billion in 2015.

**Table 1. Costs of meeting nine of the Millennium Development Goal targets in Asia-Pacific countries, 2010-2015**

(Billions of United States dollars)

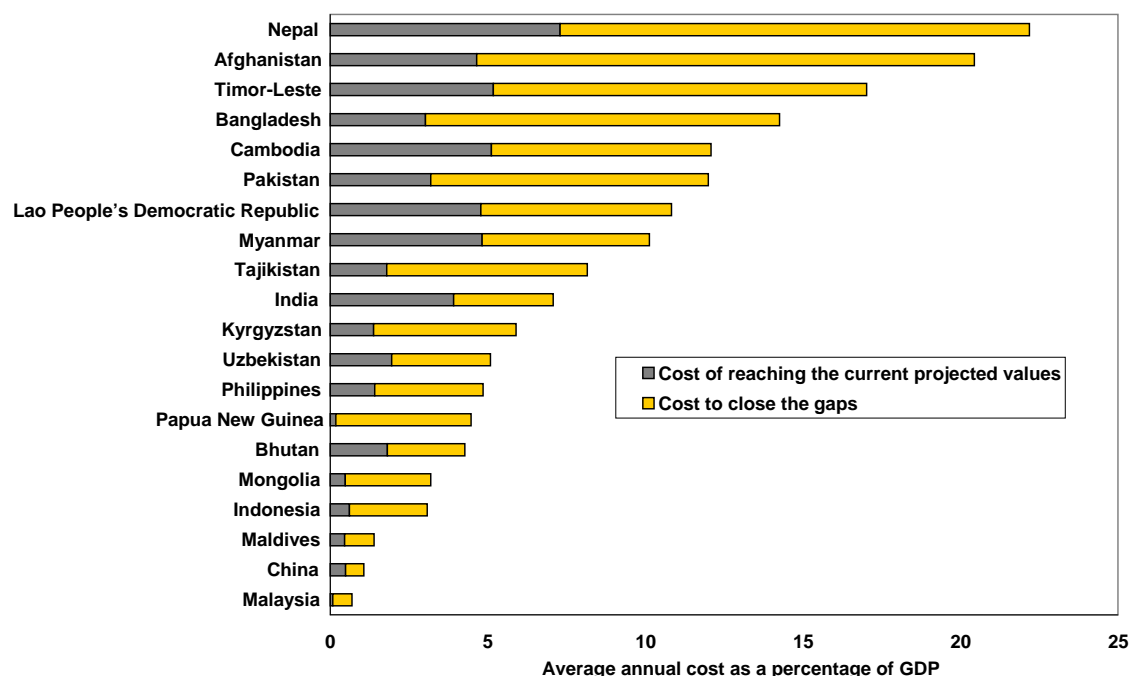
	<b>Indicator</b>	<b>Cost of reaching the current projected values (1)</b>	<b>Cost to close the gaps (2)</b>	<b>Total cost to reach the targets (3)=(1)+(2)</b>	<b>Gap as a proportion of the total cost, % (4)=100*(2)/(3)</b>
MDG 1	Underweight children	20	23	43	53
MDG 2	Primary enrolment	43	65	108	61
MDG 4	Under-five mortality	25	33	58	57
MDG 5	Births by skilled professionals	7	17	24	72
MDG 6	HIV prevalence	29	42	71	59
MDG 7	Water, rural	10	3	13	25
	Water, urban	16	30	46	66
	Sanitation, rural	6	8	14	55
	Sanitation, urban	23	34	57	60
<b>Total</b>		<b>179</b>	<b>254</b>	<b>434</b>	<b>59</b>

*Source:* ESCAP calculations.

13. More important than the nominal costs of reaching the Millennium Development Goal targets is what those costs represent to individual countries given their financial constraints. As figure 1 shows, those costs can be steep for the poorer countries: for instance, for Afghanistan, Nepal and Timor-Leste, they represent more than 15 per cent of gross domestic product (GDP). Moreover, as figure 1 shows, the financing gaps (in light grey) exceed projected financial costs (in dark grey) in all countries except India. Therefore, almost all countries will need to increase their financial efforts more than twofold in order to reach the targets.

**Figure 1. Estimated investment required to close the Millennium Development Goals gap—annual average, least developed countries and selected middle-income countries, selected targets**

(As a percentage of GDP)



Source: ESCAP calculations.

### C. Climate change mitigation and adaptation

14. Countries in the Asia-Pacific region, especially the poorest, stand to be among the most affected by climate change, which threatens to roll back development gains achieved over the last decades. As shown by a number of studies, the cost of inaction greatly outweighs that of taking action, and investments in the next 20 to 30 years will be critical. The overall costs of climate change have been estimated by the Stern Review at between 5 and 20 per cent of global GDP each year, now and forever—while the costs of taking action to counter the impact would be much lower: only about 2 per cent of global GDP each year. The Asian Development Bank (ADB) has similarly estimated that, in South-East Asia, the cost of inaction could be equivalent to a loss of 6.7 per cent of the subregion's GDP by 2100, while the cost of mitigation and adaptation would only be about 1 per cent of current national GDPs. The World Bank estimates that the cost for developing countries to adapt to climate change would range between \$75 billion and \$100 billion per year for the period 2010-2050. The highest cost (between \$19.6 billion and \$25.0 billion) will be borne by East Asia and the Pacific.

## III. FINANCING THE MILLENNIUM DEVELOPMENT GOALS AND GREEN GROWTH

15. The study examines government budgets for 23 economies and estimates their outlays on “MDG sectors”, which include health, education, housing and community amenities, environmental protection and social protection including safety nets such as school feeding programmes. In the Maldives, expenditure on priorities related to the Goals represents more than 20 per cent of GDP; by comparison, China

and Pakistan spend less than 1 per cent. The data in this analysis generally refer only to central government expenditure, however, and may thus offer a less accurate picture for countries with federal structures where expenditures on social sectors are usually undertaken by provincial/local governments. In terms of trends, however, the data are comparable and it is worrying that, since the Millennium Summit, expenditure on the Goals, as a percentage of GDP, has increased in only six of these countries: Georgia, Iran (Islamic Republic of), Maldives, Nepal, Russian Federation and Sri Lanka. Elsewhere, it has remained stable or decreased, suggesting that governments have generally not been aiming to make greater progress towards the Goals through changes in fiscal policy.

16. One reason why government expenditure on the Goals might fall short is a concern about fiscal deficits. Indeed, the trend is one of increasing fiscal conservatism: most countries have moved in the direction of larger surpluses or smaller deficits. Under the prevailing economic orthodoxy, the general rule of thumb has been that the fiscal deficit should be brought down to about 3 per cent of GDP for all countries regardless of their economic conditions, their rate of economic expansion, their need for public expenditure or their coverage of social protection. The optimal level of a budget deficit would vary according to national circumstances, and many developing countries may have greater fiscal space than they realize. It can be argued, however, that if countries in Asia and the Pacific target deficits at all, they should raise the limit to perhaps 5 per cent, as long as this is being invested in priorities related to the Millennium Development Goals, since this would not only immediately improve nutrition, health and education but also result in productivity gains that would help contain inflationary pressures arising from a larger deficit, if at all.

#### **A. Reorienting public expenditure**

17. Spending more on Millennium Development Goal priorities would mean diverting resources from other government expenditure. In some countries, half of this is for the administrative function, which includes defence, public order and safety, some of which could be diverted into more direct Goal-related spending. Some are also spending significant sums servicing public debt; while no Asia-Pacific country has a debt crisis, some nevertheless still have sizable servicing commitments. Some domestic debt liabilities might be extinguished using the proceeds from privatizing government assets, while foreign debt liabilities can be reduced through concessional international aid that carries a lower interest burden. In the spirit of Goal 8 (global partnership for development), the poorest countries should be able to rely on debt waivers. A number of countries also devote considerable funds to subsidizing fossil fuels. Besides large costs, their benefits are skewed towards the rich and they encourage the use of fuels that add to pollution.

#### **B. Augmenting government revenue and making fiscal incentives Goal-friendly**

18. Apart from changing spending priorities, governments will also want to boost domestic revenue and dedicate the increase to the Millennium Development Goals. A number of countries in the region have a significant potential to raise revenue domestically, especially through better tax administration. Developing countries gain most of their revenue from indirect taxes. These may be easier to administer but are regressive, meaning that the poor pay a higher proportion of their income in tax than do the rich. Direct taxes, while generally more progressive, require comprehensive systems for keeping track of incomes, which developing countries usually lack. Nevertheless, they can widen their direct tax base by ensuring that the wealthy do at

least file tax returns and by simplifying their tax systems to reduce the range of exemptions and loopholes.

19. As governments consider ways of raising more revenue, they can also use fiscal policy to adjust the pattern of development and to promote employment. For example, corporate tax laws usually provide an allowance for depreciation, which gives companies an incentive to invest in new equipment. Instead, governments could offer incentives for generating new employment.

20. Governments may also use fiscal policy to create win-win scenarios for environment and employment through ecological tax reform, or similar approaches. The idea behind these approaches is to apply taxes on pollution or inefficient use of energy and resources and use the proceeds to lower the cost of labour to employers, so as to generate incentives to lower pollution and economize on resources and use more labour.

### **C. Strengthening the global partnership**

21. *Official development assistance.* In addition to raising more of their own resources for investing in the Millennium Development Goals, developing countries, and least developed countries in particular, should also be able to rely on substantial support from other countries in the form of official development assistance (ODA), both within the region and beyond. Since the adoption of the Millennium Development Goals, donors have generally been providing more ODA, even though most of them, the large ones in particular, have yet to reach the target of 0.7 per cent of gross national income. Asia and the Pacific will probably continue to receive a steadily declining proportion of this. Any reduction in aid flows will be of particular concern to countries such as Cambodia and Vanuatu, where ODA plays a significant role in the economy.

22. There does seem to be solid political will and public support for ODA within donor countries, partly because of the recognition that developing countries are victims of a crisis that originated in the developed world. This is reflected in some of the decisions of the G-20 summits to increase the flow of finances through multilateral agencies, such as the International Monetary Fund (IMF), the World Bank and the Asian Development Bank. Along with this there is an attempt to ease the terms on which concessional finance through these agencies would be made available. Afghanistan, Indonesia, Mongolia, Pakistan, the Philippines and Sri Lanka are some of the beneficiaries under the new system.

23. *South-South economic assistance.* More aid now takes the form of transfers from one developing country to another, which within Asia and the Pacific primarily means the better-off developing countries helping their neighbours. China, for example, is Cambodia's largest aid donor, as is India for Nepal and Bhutan. Similarly, Thailand is the largest donor to the Lao People's Democratic Republic and the second largest to Myanmar. Much of this South-South aid thus goes to least developed countries, where it is likely to be used in support of the Millennium Development Goals.

24. *Workers' remittances.* In 2008, countries in the region that were the sources of labour migrants received a total of \$169 billion in remittances, which have provided a stable source of foreign exchange at a time when trade and other flows have been more volatile; thus, they have helped stabilize currencies. At the micro level, families have been able to use remittances to boost human development, frequently using the funds to invest in their children's education.

25. *Private capital inflows.* Private capital inflows, particularly foreign direct investment (FDI), should help create employment and thus contribute to the Millennium Development Goals. With the emergence of the region as a growth pole, FDI inflows to Asia-Pacific developing countries are quite promising, having increased from \$333 billion in 2007 to \$389 billion in 2008 in the shadow of the financial crisis. The region is now receiving growing amounts of portfolio foreign investments, but these are fraught with uncertainty and risks due, especially, to their volatile and short-term nature. Steps are needed to moderate these flows through capital controls at the national or international levels, especially in view of the massive expansion of liquidity in western markets, which may find an outlet in the region. This option is now also supported by IMF to bring stability to financial systems and capital markets.

#### **D. New, innovative sources of finance**

26. The recognition that ODA is unpredictable and needs to be supplemented has prompted some international initiatives involving governments, charitable foundations, non-governmental organizations (NGOs), and prominent individuals to develop some new innovative sources of finance for development. Three such initiatives are already functioning in the area of health: (a) UNITAID and the solidarity contributions on airline tickets; (b) the International Finance Facility for Immunization (IFFIm)/Global Alliance for Vaccines and Immunisation (GAVI); and (c) the Advance Market Commitment for pneumococcal vaccines (AMC-PV). There are also examples from the region of government trying to find innovative sources of finance for funding the Millennium Development Goals.

27. Governments have also been trying to find innovative sources of finance for funding the Millennium Development Goals. India, for example, levies an “education cess” on the total income tax payable by individuals to finance education for all children. Maldives has proposed a “green tourist tax” of \$3 per tourist per day. There is also considerable debate on the relevance of a tax on international financial transactions. Such a tax could help in moderating the volatility of the short-term and speculative capital flows besides yielding substantial revenue that could be used to fund global public goods such as Millennium Development Goals achievement. Even a small tax of 0.1 per cent on global foreign exchange transactions running at about \$3.2 trillion per day could yield revenues of about \$640 billion annually, that is more than 3.5 times the total ODA in 2008. The ideal—a global tax—may take a long time to achieve. As a stepping-stone, Asia-Pacific countries could cooperate on a regional version.

#### **E. A development-friendly reform of the international financial system**

28. The Asia-Pacific region will need to formulate its position on the reform of the international monetary and financial architecture to ensure greater stability and minimize the risk of financial crises in the future while ensuring an adequate flow of development finance. Since the onset of the global economic crisis, the G-20 has emerged as the premier forum for global economic policy coordination, superseding the G-8, signifying the systemic importance of major Asia-Pacific countries, with China, India, Turkey, Indonesia, the Republic of Korea, Australia, as well as Japan and the Russian Federation, which are already members of the G-8. The G-20 has taken the initiative on a number of issues related to the reform of the financial architecture, including the creation of a broad-based financial stability board, a peer review mechanism, an increase in quota share of emerging countries, and evolving new regulations designed to curb excessive risk-taking by financial institutions. Other issues that need to be addressed include the reform of IMF conditionalities that tend

to be procyclical, and the design of a new global reserve currency system—based on special drawing rights—as proposed by China and the Russian Federation. Some of these issues as well as the relevance of regional financial cooperation have been raised by the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System, and the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, which was held in New York on 23 and 24 June 2009.

#### **F. Development of a regional architecture for financial cooperation**

29. The lack of a well-developed regional financial architecture has prevented efficient intermediation between the region's growing foreign exchange reserves and its substantial unmet investment needs, leaving the central banks no option but to invest their reserves in low-yielding United States Treasury bills. Apart from preventing crises and intermediating between savings and investment, a regional financial architecture could also be instrumental in coordinating exchange rates, and in evolving a regional perspective and coordinated voice for reform of international financial architecture. So far, the only significant regional cooperative financial arrangement has been the Chiang Mai Initiative (CMI), which was expanded in 2010 to reach a pool of \$120 billion and has been multilateralized. However, it is only a facility for short-term liquidity support rather than development financing. With combined foreign exchange reserves of nearly \$5 trillion, the region now has the capability to develop an ambitious architecture to fund infrastructure gaps, which are estimated to require an annual investment in excess of \$800 billion in transport, energy, water and telecommunications. This architecture could include an infrastructure development fund. Mobilizing just 5 per cent of the region's reserves, it could have a start-up capital of nearly \$250 billion besides the ability to borrow from the central banks of the region. By co-financing viable projects along with other sources, such an arrangement could expedite investments in infrastructure development, especially cross-border connectivity projects linking poorer parts of the region with the region's growth centres, hence assisting them in their rapid development and their achievement of the Millennium Development Goals. ESCAP as a truly regional and inclusive forum could assist the region in developing such an architecture by creating a task force to devise a solid design for a stable and development-friendly regional financial architecture.

#### **IV. MAKING FINANCIAL SERVICES WORK FOR THE POOR**

30. A more supportive international financial regime can support the Millennium Development Goals and green growth, but the poor will benefit more from these and other resources if they have better access to finance—to savings, credit and insurance products—for their own activities and enterprises. This should allow poor families to borrow and invest not just in physical capital but also in productive human capital. If they have financial services on which they can rely, they will also have a buffer against sudden emergencies that can push poor households into destitution. Evidence from many countries shows that access to financial services also empowers women.

31. At present, however, financial services are used by only a small proportion of the population in most developing Asia-Pacific countries. People can find themselves excluded for a number of reasons. Some may simply be unaware of what is available, particularly if financial institutions make little effort to market their services to them. Others may find the services on offer inappropriate or too expensive.

32. The banking system suffers from a range of biases. Banks open branches near the well to do. Banks business hours are generally most convenient for bank staff and

their elite clients, which also tends to be when many other people are busy earning their livelihoods. Banks in developing countries are often plagued by high costs, some of them indirect or even informal. The unreached are sensitive to such costs. Often, bankers also exhibit a cultural bias towards wealthy and articulate clients. Most local-level bank staff members are men who tend to neglect women clients, and in some cases women are reluctant to speak to male staff. Banks often tend to prefer high-profile projects. Bank staff members, being trained in a single discipline, too often lack understanding of the multifaceted aspects of poverty. As a result of all these biases in the banking system, some of the most vulnerable people remain underserved.

33. Each country has a range of financial institutions, each with its own strengths and weaknesses but which can contribute to more inclusive finance.

34. *Commercial banks.* Commercial banks are central to the financial system in a country but have not generally reached out to poor households, whom they do not consider bankable. Nevertheless, banks in some countries have recently ventured into microfinance and specialized lending to targeted low-income groups either under regulatory pressure or in response to increasing competition.

35. *Microfinance institutions.* The great strength of microfinance institutions (MFIs) is their capacity to reach the poor, not just with funds but also with a range of support services—such as health advice, training and extension services—either on their own or through partnerships with governmental or non-governmental organizations.

36. *State-owned development finance institutions.* These typically offer refinance facilities to commercial banks and MFIs to extend credit to agriculture and small and medium-sized enterprises (SMEs). Some even lend to start-up firms that may not be able to borrow from the market. When they operate on sound principles without political interference, these institutions can be powerful instruments for promoting development.

37. *Post offices and other networks.* Other public networks that are usually not considered as part of the financial system can also play an important role in achieving financial inclusion. This will include post offices, which in developing countries are usually government-run, and mobile telephone networks, which far exceed the reach and spread of banking networks both geographically and across income classes. Both have considerable potential to extend their outreach.

#### **A. How governments can promote inclusive financial services**

38. If governments wish to promote inclusive banking, they should ensure that the overall financial system is efficient, fair and secure. They should also try to link financial services with other services: poor communities tend to take greater advantage of banks if they also have access to better health and educational systems.

39. *Regulating for financial inclusion.* Direct government intervention to regulate the activities of commercial banks, including control over the location of new branches, has had mixed results. While the nature of state intervention required to achieve financial inclusion is not a settled matter—such intervention is likely to vary from country to country and even within a country as the country moves from one stage of development to another—left to itself, the financial system is unlikely to champion financial inclusion. Regulatory pressure and continuous monitoring by

financial regulators would be critical at all times to ensure that the poor are not left out.

40. *Encouraging new entrants.* Governments can encourage the entry into the market of a more diverse range of players. Those most likely to serve people currently unreached would include cooperatives, savings and credit institutions, NGOs and community-based organizations (CBOs). To foster greater diversity, policymakers can reduce the entry barriers for new institutions while also allowing sound existing institutions to develop banking services. At the same time, policymakers should be encouraging innovative strategic alliances among providers. This will often mean changes to the legal, regulatory and policy frameworks.

41. *Improving the banking architecture.* A number of measures to improve the banking architecture—the set of services that maintains the integrity of the banking system and allows banks to communicate efficiently with each other and to transfer funds and instruments safely—could encourage banks to lend to poor individuals and SMEs. One is the development of credit bureaus that would maintain records on the credit status of individuals or small businesses. Another is the provision of public loan guarantees for designated types of borrowers: commercial banks could, for example, use such guarantees as a basis for lending to MFIs. Countries should also establish clear accounting and auditing standards. In addition, governments could require banks to report on the steps they have taken to offer services to the poor.

42. *Promoting banking literacy.* Through both formal and informal channels, governments along with NGOs will need to promote banking “literacy” for marginalized groups and individuals to ensure that the poor actually start using banking services.

43. *Widening collateral.* Borrowers in rural areas will find it easier to obtain loans if they can use land as collateral. Governments can aim to ensure that as many people as possible have clear legal tenure, and also require landlords to provide evidence of tenancy that could help confirm the creditworthiness of landless farmers. Similarly, they could formalize some of the customary access rights of fishermen to bodies of water owned by the state.

## **B. How banks can develop inclusive financial services**

44. Banks themselves may choose to reach out to a new type of customer—not least because, as poor households become richer, they can become loyal customers. Options include the following:

(a) *Branches and satellite branches:* Banks can combine branches located conveniently along transportation routes with banks on vehicles and motor boats;

(b) *Partnerships for financial inclusion:* Banks can also forge partnerships with other service providers that already have a local presence or that work with the poor. With the spread of the mobile telephone network, banks can also enter into partnerships with mobile telephone companies to offer a suite of mobile banking products using short-message technology. Banks can also benefit from the expertise of MFIs and NGOs that have had the greatest success in serving the poor through partnerships to extend financial services to groups of poor people in rural areas, typically women. This can also help overcome the problems of graduation and market segmentation from which MFIs reportedly suffer;

(c) *Provide a package of services:* People will make better use of financial opportunities if the bank can provide supportive services, either on its own or in partnership with NGOs and CBOs;

(d) *Microventure capital:* Banks can provide SMEs with equity finance when the entrepreneur is unable to service a loan, perhaps on the understanding that the entrepreneur can subsequently buy back the shares. The government could encourage this kind of “venture capital funding” through tax breaks;

(e) *Appropriate products and services:* Along with innovating on business models to improve the access of the poor to banking services, it is critical to ensure that the products and services on offer meet the needs, and circumstances of the poor. Banks need to improve the product mix, reduce total transaction cost, provide convenience, and clearly outline the eligibility criteria for products and services. Unreached customers have certain critical needs which can be encapsulated in a package of five “micros”: micro-savings, microcredit, micro-repayments, micro-remittances and micro-insurance.

45. For micro-savings, banks could develop flexible savings products with daily deposit collection and withdrawal facilities. Similarly, for microcredit, banks could extend all-purpose loans and credit cards in urban areas. Poor people’s need for remittances can be served through high-tech electronic substitutes for cash and cell-phone-based remittance services; even the unbanked can be served. For micro-insurance, it is critical to set up small community networks to link the bank with larger structures that can enhance both the insurance function (through a wider pooling of risks) and the support structures needed for improved governance (through training, data banks, research facilities, etc.).

## **V. GROWING GREENER—TECHNOLOGY AND FINANCE**

46. More inclusive finance should help reduce poverty and boost economic growth, but this would also be a different kind of growth. In recent decades, many countries in the Asia-Pacific region have achieved a high level of economic growth paying little heed to the severe environmental consequences and widening disparities between different segments of society. In recent years, however, more and more governments of the region have expressed strong support for “green growth” as the basis for improving environmental sustainability and attaining the Millennium Development Goals, the aim being to decouple economic development from environmental pressures by enhancing the efficiency of natural resource use and reducing energy intensities and waste disposal, while also recasting environmental protection as an engine of growth.

47. Many Asia-Pacific countries are already successfully integrating environmental sustainability into their socio-economic development strategies. Some have also incorporated green growth elements into their stimulus packages in response to the global economic crisis.

### **A. Green growth towards the Millennium Development Goals**

48. World leaders underlined the importance of environmental sustainability when they established it as the seventh Millennium Development Goal, but they also realized that environmental sustainability is not an isolated objective; it underpins progress in the other Goals, providing the basis for livelihoods, health and security, particularly for the poor (see table 2).

**Table 2. Environmental sustainability and the Millennium Development Goals**

<b>Millennium Development Goal</b>	<b>Dependence on environmental sustainability</b>
1. Eradicate extreme poverty and hunger	The majority of the region's population still lives in rural areas and is directly dependent on ecosystem goods and services as the primary basis for their livelihoods and food security.
2. Achieve universal primary education	Children of poor rural families who live in degraded environments spend increasing amounts of time gathering firewood and collecting water as these commodities become more and more scarce or polluted. This takes them away from education but also increases pressure on environmental resources, such as forests.
3. Promote gender equality and empower women	Women and girls are often responsible for gathering firewood and water. This time-consuming activity reduces time for education or income generation. Women are also more exposed to indoor air pollution from cooking and heating with solid fuels. Lack of adequate sanitation is also an important contributing factor in girls dropping out of school.
4. Reduce child mortality	Unsafe water and inadequate sanitation are the primary sources of waterborne diseases (such as diarrhoea), which are the leading killers of children under five. Indoor air pollution caused by the burning of solid fuels is also increasing the incidence of bronchial diseases and death among children.
5. Improve maternal health	Indoor air pollution and the burden of gathering solid fuel and water exact a heavy toll on pregnant women, particularly in early pregnancy, increasing the risk of miscarriage and complications during childbirth. Inadequate sanitation and lack of water services increase risks to the health of pregnant women.
6. Combat HIV/AIDS, malaria and other diseases	One in five major diseases (including malaria and parasitic infections) in developing countries is associated with environmental risk factors. Tuberculosis is exacerbated by indoor air pollution or deteriorating ambient air quality, especially in urban areas. Environmental factors, such as poorly designed irrigation and water systems, inadequate housing, poor waste disposal and water storage, deforestation and loss of biodiversity, all are regarded as factors contributing to the most common vector-borne diseases, including malaria and dengue.

8. Develop a global partnership for development	Support is required for global scientific research and development to address the special needs of the poor in areas of health, agriculture, natural resource and environmental management, energy, and climate, and should be geared, in particular, towards countries with special needs. Moreover, international trade and investment can play a key role in mobilizing the technologies and the financial resources required to meet development goals in an environmentally sustainable manner. Further developing an open, rule-based, predictable, non-discriminatory trading and financial system is essential for promoting environmentally sustainable economic growth.
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49. Given the linkages between environmental sustainability and the other Millennium Development Goals, investing in the sustainable use of resources and in providing clean energy, safe water, and sanitation can realize triple dividends in terms of economic growth, poverty reduction, and environmental sustainability, including in climate change mitigation and adaptation.

50. Infrastructure and rural development are among the sectors that offer the greatest potential in Asia and the Pacific. The region is at a crossroads in developing infrastructure to sustain economic growth and in response to rapid urbanization. Expanding infrastructure and access to clean and affordable services will be crucial for achieving the Millennium Development Goals. Choices made in infrastructure development today will also lock countries into patterns of production and consumption for decades to come. The window for developing this infrastructure in an inclusive and sustainable manner is closing fast. At the same time, the strain on land and water resources poses a threat to food security in the region and requires immediate and large investments in agricultural development. Moreover, renewable energies can be instrumental in extending energy services to the rural poor and fostering rural development.

51. Therefore, green growth strategies focusing on sustainable infrastructure—anchored to the provision of basic services to the poor—and on integrated land and water resource management can greatly contribute to achieving the Millennium Development Goals and addressing climate change while serving as an engine of economic growth to overcome the current economic crisis.

## **B. Technology and innovation**

52. Achieving environmental sustainability will also require a whole suite of clean technologies. Environmentally sound technologies are those that use natural resources in an efficient manner, minimize and recycle wastes, and handle residual wastes in a responsible manner. They can also contribute to enhancing and regenerating the ecological systems on which mankind depends. This refers not just to individual technologies and equipment, but also to total systems, which include know-how, goods and services, and organizational and managerial procedures.

53. These technologies will not just change the character of economic growth; they will also help drive growth. This has been happening in industrialized countries, where research and development investment in green technologies brought about innovation and economic competitiveness. Similar opportunities have opened up in high-income Asia-Pacific countries, such as Japan, the Republic of Korea and Singapore, as well as in middle-income countries with high technological capabilities,

such as China, India, Malaysia, the Russian Federation and Thailand. China, for example, has rapidly become the world's leading manufacturer of solar photovoltaic cells, increasing its global market share from 1 per cent to 35 per cent in only eight years.

54. At present, however, research and development on technologies for sustainable development in Asia and beyond is still at relatively low levels. If the region is to make faster progress, more countries will need to increase investment while maximizing their return through stronger regional cooperation. This potential was demonstrated, for example, in 2009 at a tripartite summit in which China, Japan and the Republic of Korea resolved to promote, among other things, a joint research collaboration programme.

55. Richer countries can invest in developing new systems, but, for developing countries, an important condition for ensuring environmental sustainability is their access to appropriate environmentally sound technologies. The United Nations Framework Convention on Climate Change (UNFCCC) provides for developed countries to support developing countries through transfer of technology according to the principle of common but differentiated responsibilities (UNFCCC, Article 4.5). The World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) also provides for the transfer and dissemination of technology, the Agreement leaves the provisions for transfer of technology vague. There is a need for an amendment defining conditions, norms and practices for facilitating transfers of environmentally friendly technologies. In this context, developing countries can also exploit the flexibilities provided in the TRIPS Agreement in their intellectual property rights legislation, including provisions for compulsory licensing. A recent recognition of public health related exceptions in the TRIPS Agreement showed some flexibility in interpreting what constitutes "exigent circumstances", thus opening the door to the potential use of such exceptions in environmental sustainability contexts.

56. Beyond transfer, an immediate task is to adopt and diffuse existing green and appropriate technologies that can help respond to pressing socio-economic problems in developing countries. Promoting environmentally sustainable economic growth will require identifying and removing barriers to the transfer of clean technology from North to South, and from South to South and to the large-scale diffusion of technologies in developing countries, especially countries with special needs.

57. Governments can play a leading role in promoting these technologies. This can be partly through publicly funded research, as happened with the green revolution. Several countries in the region have the necessary systems for promoting innovation, still they need a strengthened regional network to narrow the gaps and speed up the process, which would be particularly appropriate for the many small countries in the Pacific.

### **C. Opportunities through trade**

58. The region can also promote technology transfer through trade—by eliminating import tariffs and non-tariff barriers to the trade of environmentally friendly goods and technologies. Regional and bilateral trade agreements might also include provisions to harmonize technical standards, and facilitate resource efficient and low-carbon investments. In addition, agreements could include cooperation mechanisms to promote technology transfer, technical assistance and capacity-building.

#### **D. The potential for green jobs**

59. A crucial part of any sustainable development strategy, including green growth, must be to create sufficient employment, which is vital for poverty reduction and social progress. With 6 of the 10 largest labour markets, Asia and the Pacific accounts for about two thirds of global employment. The recent financial crisis and the negotiations for a post-2012 climate regime have generated debate about employment prospects under a green, low-carbon economy. The United Nations Environment Programme (UNEP) and the International Labour Organization (ILO) identify four ways in which employment may be affected:

(a) *Job creation*: as in the manufacture of pollution-control devices for existing production equipment;

(b) *Job substitution*: as in shifting from fossil fuels to renewables, or from truck manufacturing to railcar manufacturing, or from landfill and waste incineration to recycling;

(c) *Job elimination*: some jobs may be lost without direct replacement, as when packaging materials are discouraged or banned and their production is discontinued;

(d) *Job transformation*: many existing jobs will steadily be redefined as day-to-day skill sets, work methods, and profiles are greened. This would be the case, for example, for plumbers, electricians, metal workers, and construction workers.

60. The potential of green growth to generate jobs was acknowledged in the green components of several national stimulus packages issued in response to the crisis. Key sectors identified by green recovery strategies include: construction and retrofitting of buildings; transport, especially mass transit and fuel-efficient vehicles; renewable energies, such as solar, wind and biomass; and environmental protection, such as waste management.

61. Green jobs should also be decent jobs, with adequate wages, and close attention to safe working conditions, job security, and workers' rights. Likewise, the greening of the economy should contribute to poverty reduction, but this will not happen automatically. The transition to a green and low-carbon economy will also mean building the necessary capacities within both the public and private sectors. For this purpose, governments can help by setting the agenda, mobilizing the resources and developing adequate capacity-building programmes.

#### **E. Policy for financing green growth**

62. The greening of the economy ultimately requires greening business practices. In the long run, most of the investment funds needed to effect a shift to environmentally sustainable and low-carbon growth will need to come from the private sector, but private capital is unlikely to appear rapidly enough or to be sufficient unless it is encouraged and steered by public policy. In order to do this, green growth priorities that might previously have been seen as externalities must become part of market mechanisms. Governments will need to consider policies that encourage efficient resource management, which will, in turn, channel private sector capital into these investments.

63. Public financing will play a crucial role, especially in the short run. Much of this will be related to infrastructure: governments now have the opportunity to

develop infrastructure that will result in more efficient and long-term management of resources, which will, in turn, channel private-sector capital into these investments.

64. Government funds can also be used to leverage private funds. At present, many private investors consider the risks of many environmentally sustainable projects not justified by the estimated returns. Public financing mechanisms can tilt the balance in favour of profitability, for example, by offering soft loans or guaranteeing loans from private-sector banks. Governments can also redirect part of public research and development spending to support the development of green technologies. They can also create frameworks of subsidies, taxes and rebates to channel private-sector funding of research and development.

65. UNFCCC provides for financial support to be given by developed countries to developing countries for the adaptation effort. In this context, a number of initiatives have been taken by multilateral institutions, such as the World Bank Group and the Global Environment Facility (GEF), and by governments. Despite these efforts, there is a staggering difference between the sheer volume of resources necessary for adaptation—estimated to be in the range of \$50 billion-\$100 billion per year (of which about half would be needed in developing countries)—and the amount actually mobilized and available, which is \$154 million. The United Nations Climate Change Conference, held in Copenhagen in December 2009, agreed that scaled-up, new and additional, predictable and adequate funding as well as improved access should be provided to developing countries to support enhanced action on mitigation. The collective commitment by developed countries to provide new resources was approaching \$30 billion for the period 2010-2012. The developed countries also committed themselves to the goal of mobilizing jointly \$100 billion a year by 2020 to address the needs of developing countries.

66. Multilateral and bilateral finance institutions can play an important role in influencing the financing decisions of the private sector, for example, through providing export credit guarantees for capital equipment, loan guarantees, anchor investments, seed capital, and technical and project development expertise.

## **F. Private investment for green growth**

67. The more far-seeing private enterprises will appreciate the long-term benefits of greater environmental sustainability and some are already moving in this direction. Often, their decisions are influenced by consumer and employee pressure towards greater corporate social responsibility. This can produce win-win results for the companies: increasing both consumer approval and staff morale while quickly recuperating any investment costs.

68. Greener enterprises will also be more attractive to institutional investors, who generally have a limited tolerance for risk and will therefore be interested in companies whose attitudes to environmental responsibility suggest that they have the potential for stable, long-term growth. Institutional and other investors now have the opportunity to invest in stock market indices that are weighted towards companies with stronger environmental records.

69. On a smaller scale, private enterprises have also been helping develop voluntary carbon markets. Consumers wanting to purchase offsets for carbon-producing products and services have been financing a number of small-scale projects. In this regard, institutional capacity-building is necessary to harness opportunities from emerging carbon markets for inclusive and sustainable development.

70. In a similar vein, governments across the region are exploring the potential of supporting and rewarding communities that preserve ecosystems—for example, by sequestering carbon, maintaining the aesthetic beauty of the environment, or managing watersheds to the benefit of those living downstream. These payments for ecosystem services can be in cash, or in non-monetary forms, such as greater market access, more secure land tenure, better local infrastructure or helping build local knowledge and capacity.

## **VI. FINANCING A GREEN FUTURE**

71. The fragility of international financial markets, and the potential impact of climate change, have underlined the importance of pursuing broad-based development that is equitable, inclusive and sustainable. The Asia-Pacific region can no longer hope to “grow first and clean up later”. This new direction will require clear and a consistent commitment across the whole spectrum of public policy. Governments will need to steer financial systems—local, national and international—in new and more productive directions. Some of the ways of doing so have already been demonstrated; others are still embryonic. The Asia-Pacific region has already established itself as a pioneer in economic development and poverty reduction. Now it can display similar leadership when it comes to financing a green and inclusive future.

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