

Draft Discussion Paper

Asia-Pacific High-Level Consultation on Financing for Development

Jakarta, Indonesia

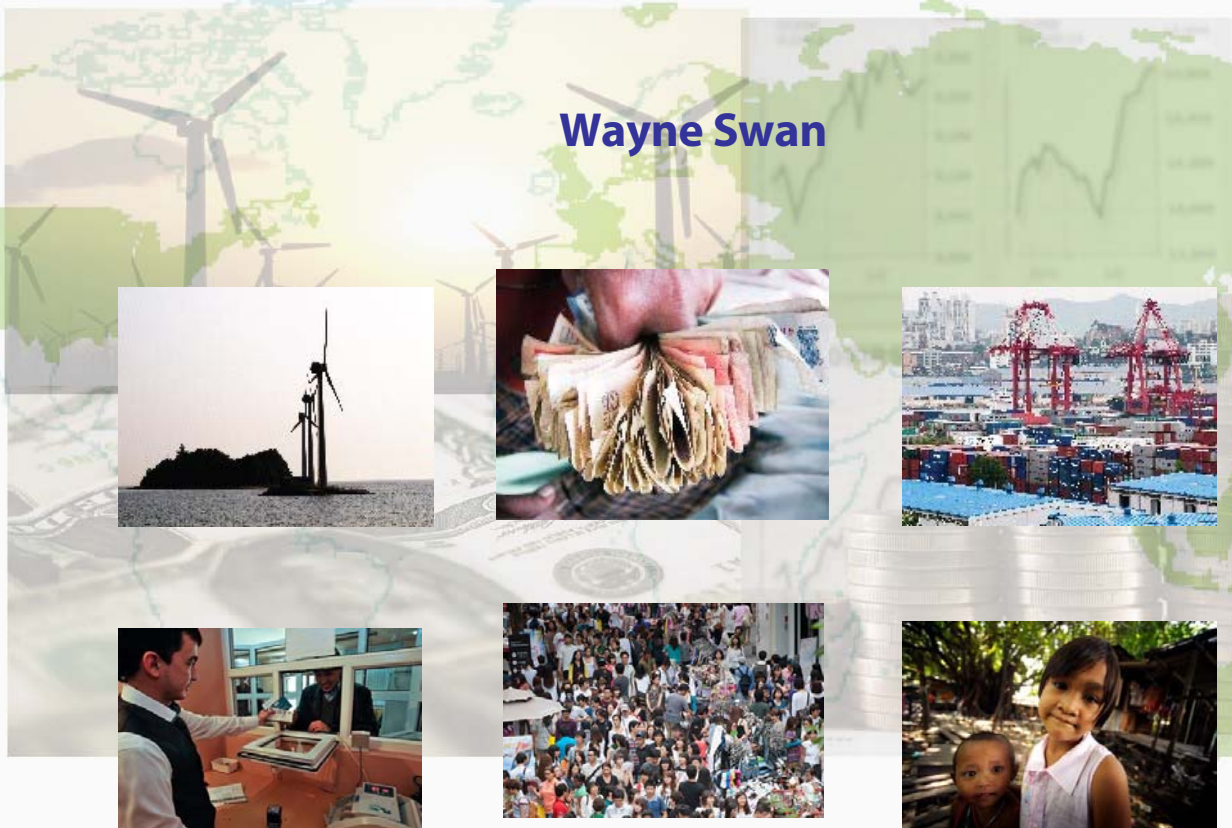
29-30 April 2015

Financing Sustainable Development – What can we learn from the Australian experience of reform?

ESCAP/FfD/01/2015

April 2015

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FINANCING SUSTAINABLE DEVELOPMENT – WHAT CAN WE LEARN FROM THE AUSTRALIAN EXPERIENCE OF REFORM?

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Please cite this paper as:

Swan, Wayne (2015). Financing Sustainable Development – What Can We Learn from The Australian Experience of Reform? Draft discussion paper submitted to Asia-Pacific High-Level Consultation on Financing for Development meeting, Jakarta, Indonesia, 29-30 April. Available from www.unescap.org/events/hlcffd2015.

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1. INTRODUCTION

Finance is fundamental to supporting sustainable development. It drives investment and jobs, which is the way most people escape poverty. The developing world face significant financing needs as they seek to modernise their economies, hence the importance of mobilising all forms of finance (domestic, international, public and private) and ensuring they are put to their most effective use.

Financing sustainable development presents many challenges, including the need to balance the desire for growth today with the needs of future generations who face the impact of climate change and increasingly fragile ecosystems. It needs to ensure that growth is inclusive, ensuring that everyone has the opportunity to participate in and benefit from growth. And we need to ensure the benefits of growth reach the most vulnerable as we pursue new and innovative approaches to development finance.

Respecting and striking the right balance in relation to each of these challenges is critical to the global effort to secure sustainable development finance. It will be pivotal to the success of the upcoming Addis Ababa conference, and the post-2015 development agenda more generally.

Both the private and public sectors have critical roles to play in this process, with the private sector an increasingly important source of finance and development and the public sector also important for investment, the provision of a social safety net, and in providing the enabling economic and regulatory environment for development.

The experience of the Asia-Pacific region has been mixed with respect to sustainable development finance. Despite this diversity and stages of development in the region, there are issues and lessons that can inform and guide how we approach the post-2015 agenda in terms of sustainable development finance in the Asia Pacific?

This paper considers a number of proposals being developed as part of the Addis Ababa meeting on financing for development and discusses the experience of Australia in pursuing sustainable development. Some of these proposals relate to how countries themselves can expand their access to finance for sustainable development, while others go to how developing nations, international agencies and other stakeholders may support development in the Asia Pacific region.

The experience of Australia is relevant to this discussion not only as a nation that has hitherto successfully navigated economic fluctuations and change, but also because of the challenges confronted in pursuing reform. Despite having what are widely considered the pre-requisites for development, namely a relatively stable investment and regulatory environment and the benefit of significant resources and human capital, financing sustainable development has still proven challenging.

The Australian experience suggests that mechanisms for sustainable development finance alone will not be enough to deliver the reform and investment that developing countries require. Rather, a range of other considerations must be incorporated into sustainable development finance, such as the process for achieving domestic reform, managing diverse interests and accepting that first-best policy options may not always be

viable. Any policy recommendations also need to reflect the stage of development of local financial markets and the regulatory environment of each nation given the differences in the stage of development of countries in the Asia Pacific region.

There are opportunities and innovations available to finance development but we shouldn't underestimate the domestic and international constraints to achieving the objective of financing sustainable development. These constraints and possible responses are considered here.

Discussing these challenges is critical to ensuring any global agreement on financing development post-2015 is realistic and actually able to achieve the development we want to see throughout the world.

The paper considers a number of priorities for sustainable development finance, namely: Domestic resourcing, financial market strengthening, infrastructure and climate financing options, and Overseas Development Assistance (ODA). Conclusions are drawn for consideration by the Addis Ababa meeting on Financing for Development.

2. CHANGING SOURCES OF FINANCE FOR SUSTAINABLE DEVELOPMENT

The availability of finance and investment has been critical to the experience of historic growth and development in the Asia Pacific region in recent decades. However the composition of finance and sources of investment continue to change, presenting both opportunities and challenges for financing development in the region.

Exploring the opportunities for financing development has become a global priority in the context of the development of the post-2015 development agenda. Building on the Monterrey Consensus and Doha Declaration renewed commitments to ODA will be necessary, as will more innovative approaches to financing development post 2015. Public domestic investment will remain critical to supporting the development agenda, as will strengthening of financial markets to support international capital flows and foreign and private investment.

The reliance on various sources of finance, and related regulatory environments in development countries, is changing. A report by the Institute for International Finance notes that: "Since the financial crisis, we've seen a retrenchment of cross border flows and more fragmentation of financial markets, which jeopardizes the long-term outlook for global growth. The challenge now is to ensure that financial globalization regains momentum. Meeting this challenge will require a conscious decision by policymakers to shift back to global approaches in regulation, regaining consistency and convergence of local rules, and to encourage development of resilient market frameworks for investment in areas like infrastructure finance."¹

Sources of finance for development are changing from predominantly public investment to a range of potential sources including the private sector, foreign direct investment, and

¹ Institute of International Finance, *Financial Globalization: Maximizing Benefits, Containing Risks*, December 2014. Available at: <https://www.iif.com/press/financial-globalization-maximizing-benefits-containing-risks>

trade. These sources of finance potentially present opportunities to finance the necessary investment in infrastructure, social services and climate change necessary to achieve more inclusive growth in the Asia Pacific region.

The rise of non-traditional donors such as the BRICS, philanthropic and new development banks also present opportunities to meet the Asia Pacific's financing needs for development. The role for donors and development banks will remain critical as will an ongoing commitment to ODA. The role of the various stakeholders and organisations is considered further below.

3. SOURCES OF FINANCE FOR DEVELOPMENT – REFORM AND LESSONS

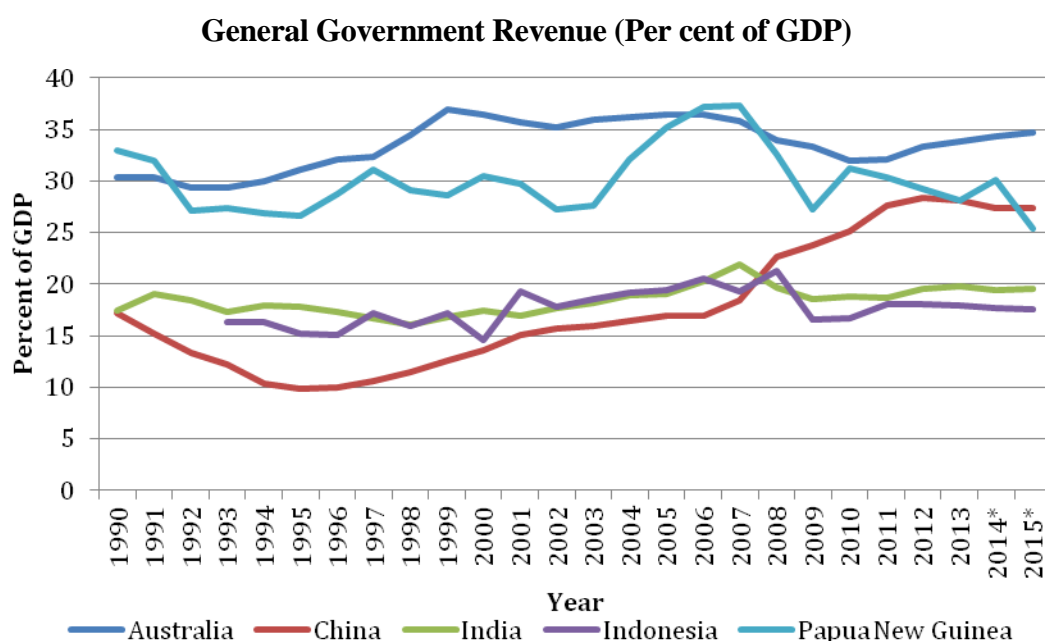
3.1. Domestic Resourcing

Public revenue remains a critical source of funding for investment and public expenditure. It is the means by which nations afford education for children, basic health services, roads and other infrastructure. It is particularly important for ensuring the inclusion of the least well off in our societies and economy.

Domestic public finance is the largest source of revenue available to nations. Recent analysis by the Brookings Institution has suggested that public revenues of around \$300 per person per year in 2011 PPP terms are necessary to provide the global social floor that is developing through the Sustainable Development Goals (SDGs). “The International Comparison Program has worked with countries’ national income accounts to derive a new database that permits cross-country comparisons on the amounts they spend on items that can be consumed individually by households. In high-income European countries like Denmark, Norway and Sweden, governments spend about \$10,000 per person per year in 2011 PPP terms. The average for the OECD is about PPP \$5,000 per person per year. We estimate PPP \$300 per person per year as the approximate amount required to deliver a package of basic services of education, health and other services consistent with the global social floor being established through the SDGs. This is consistent with the U.N. Millennium Project’s estimates a decade ago of \$120-\$140 per capita in nominal 2003 dollars for minimum service delivery to achieve the MDGs.^{vi} The minimum necessary value will rise as economies grow into middle-income status and beyond. We therefore further estimate 10 percent of average per capita incomes as a minimum reference point for economies with GNI per capita of PPP \$3,000 or above.”²

Given the role of public revenue to deliver essential services and ensure an inclusive economy, and in some cases the declining share of revenue to GDP, it is appropriate that the world’s attention is increasingly turning to strengthening domestic revenue.

² Homi Kharas and John McArthur, *Nine Priority Commitments to be Made at the UN’s July 2015 Financing for Development Conference in Addis Ababa, Ethiopia*, The Brookings Institution, February 2015, page 11.



Source: IMF, *IMF Forecast

Domestic revenue strengthening is relevant to both developed and developing nations in terms of broadening the tax base, ensuring an efficient and equitable tax regime, but also strengthening the capacity of governments to raise revenue and avoid revenue leakage. Illicit financial flows alone are estimated at around \$1 trillion per year, representing a massive lost revenue source.³

Domestic resourcing has both domestic and international reform implications. Nations need to be developing their tax regime and building institutional capacity to administer and collect revenue. For example, in Australia the decline in taxation revenue as share of GDP from 24.9 per cent in 2004-05 to 22.6 per cent in 2014-15⁴ requires reform to broaden the tax base and close tax loopholes and concessions.

The potential for nations to support these activities through development assistance should be expanded and prioritised in overseas development assistance. As the Brookings Institution notes and recommends, “Very little ODA is allocated for strengthening domestic revenue systems, despite a record of considerable success where it has been tried. On average, less than one percent of ODA goes towards tax improvements. This should be expanded in line with developing countries’ needs to meet the target threshold for domestic revenues that might be agreed upon, focused on both efficient taxation and, where applicable, robust resource-royalty agreements.”⁵

It is here that multilateral institutions such as the IMF have a particular role in

³ World Bank, Financing for Development Post 2015, October 2013. Available at: <http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf>

⁴ Australian Government, Budget 2014-15, Budget Paper 1, Table 9

⁵ Homi Kharas and John McArthur, *Nine Priority Commitments to be Made at the UN’s July 2015 Financing for Development Conference in Addis Ababa, Ethiopia*, The Brookings Institution, February 2015, page 14.

strengthening the capacity of nations to design and implement an efficient tax regime.

Global efforts towards improving international tax arrangements and the treatment of multinational corporations must also continue to be prioritised. This includes through the work of the G20 on Base Erosion and Profit Shifting and automatic exchange of information between tax authorities, as well as the OECD's work on multinational taxation and tax transparency.

The international agenda should also continue to pursue standards and agreement to principles of open and transparent government. The Publish-What-You-Pay principles and Extractive Industries Transparency Initiative (EITI) presents real opportunities to support global standards. Leadership amongst developed countries is required in these areas, including further progress in Australia particularly around extractives.

As Australia identified in its statement on the first drafting session of the Financing for Development Conference "This sort of global initiative, combined with greater focus on capacity development for national revenue authorities, plus national action on tax system strengthening and regulatory frameworks to combat corruption, can add up to genuine impact."⁶

One lesson from Australia's efforts to strengthen the Australian tax base is the challenge of building the case for tax reform and the opposition of various interest groups. In Australia's case this was particularly challenging in terms of reforming the taxation of the mining sector and resources but also other areas of tax expenditures where existing beneficiaries sought to maintain the status quo.

Part of the solution to addressing opposition to tax reform, in terms of communication, is to link revenue measures to expenditures the public values and expects to be funded. Australia's delivery of the National Disability Insurance Scheme (NDIS), a major investment in the services available to people with permanent and significant disability, had significant public support that enabled the existing Medicare Levy to be increased to fund this major public investment. There was public support for the Medicare Levy increase because the economic and social case had been extensively made for the NDIS over many years. Only once the case for reform was made, and support built across a broad constituency, were funding mechanisms developed.

While the Medicare Levy itself is not hypothecated to funding the NDIS, or other health expenditure more generally, by linking the expenditure to the revenue required to afford the investment in terms of communication the necessary revenue reform was achieved. This lesson can be applied to a range of other policy discussions. For example, in the case of climate finance there is a need to focus on the required reform and investment, secure agreement for that, and only then moving on to formulating policy and public support for revenue sources. In Australia, a similar approach was adopted in relation to linking action on climate change through a price on carbon in part to financing investments in alternative/sustainable energy (discussed further below).

⁶ Government of the United Kingdom, Statement at Financing for Development Conference 1st Drafting Session – January 27. Available at: <http://www.un.org/esa/ffd/wp-content/uploads/2015/01/1ds-gd-Statement-UK-Jan2015.pdf>

Tax reform is challenging in the domestic political context. There is a need to link revenue reform to expenditure that the public values. Existing interests will challenge tax reform and an approach to manage these interests need to be factored into the design and discussion of any tax reform. First best policy won't always succeed but other approaches and compromise that start the process of reform are still worth taking.

Domestic and international revenue reform is a win-win for all countries. It builds the capacity of nations to deliver basic and essential services while providing a foundation for inclusive growth.

Of course, the counterpart to mobilizing domestic revenue for development purposes is making sure that those revenues are allocated efficiently and effectively. Ensuring revenue is allocated productively and achieves inclusive growth is critical to the success of domestic revenue strengthening. Public sector efficiency is particularly important here, as is strengthening domestic financial markets and economic governance, discussed further below.

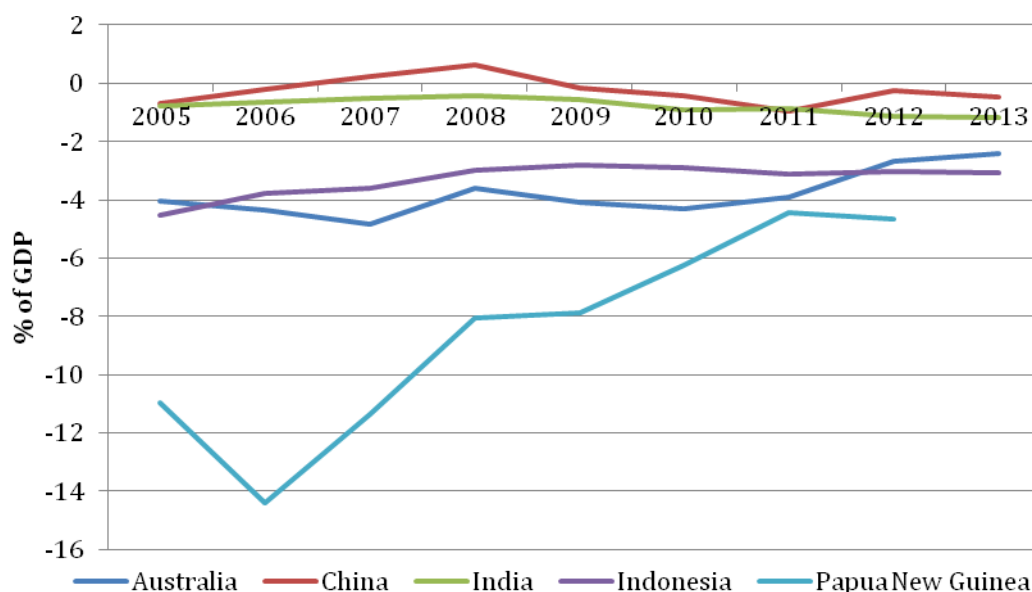
3.2. Financial Market strengthening

Strengthening financial markets is also necessary to prepare the Asia Pacific region for future sources of finance for development. Having capital available to fund the significant infrastructure and other investment financing needs is critical to sustainable development not only because it provides the means fund infrastructure and other investments but also as it attracts the private sector, which is critical to development.

The financial system, including the stability and independence of the central bank but also deep capital markets, will be necessary to utilise alternative sources of finance for development and attract private sector investment.

This is particularly the case in many Asia Pacific nations that lack sufficient domestic capital to finance infrastructure and development. The opportunities presented by international investment suggest the need for further liberalisation of financial markets. The need for additional domestic finance sources is highlighted by the fact that many Asia-Pacific nations record deficits on the primary income account.

Primary Income Account (Per cent of GDP)



Source: World Development Indicators

Asia is projected to account for around half of the global economy by 2050 and projections suggest that the Asian financial system could be four times its current size by 2030, and more than twice as big as the US financial system over the same period.⁷

The rise of Asian financial markets and investment presents many opportunities for financing development but the transition also presents challenges. Ensuring this transition takes place in a reliable and sound regulatory environment will be critical. Clearly countries throughout the Asia Pacific region are at very different stages of development and therefore the process and sequencing of financial sector reforms must be analysed and recommended accordingly.

In Australia's case, central to the sustainability of Australia's financial system is a strong, independent central bank and regulatory supervision. Maintaining and continuing to strengthen this independence in the central bank and supervision of the sector has been important to bringing down sovereign risk. The challenge for the Asia Pacific region is to similarly reduce sovereign risk which will not only take institutional strengthening but also a stable political environment, an improved policy environment, and an ongoing reform and regulatory effort.

Australia's Central Bank Governor describes the challenges facing the region's financial markets well:

"Thanks partly to the painful lessons of the Asian crisis and other episodes, banks [*in the Asia Pacific region*] had generally stronger capital positions and higher lending standards, while supervisors had also done their job in the years prior to 2007. Moreover,

⁷ ANZ Research paper, *Caged Tiger: The Transformation of the Asian Financial System*, Issue 5 March 2014, page 47.

several banking systems in the region are among the earliest adopters of the new, tougher, Basel standards. It goes without saying that we want this prudence to continue. But unlike the case in some other countries, the financial sector in the region is well placed to play its role in supporting the sustainable growth of economic activity and trade. It is noteworthy that as European banks sought to pull back from some activities in the region, including trade finance, banks from within the region have stepped up. So this is a point for confidence.”⁸

Ensuring this ‘point for confidence’ is well founded will depend on the ongoing prudence and regulation of financial markets in the region. There is much reason for optimism in this regard with financial markets continuing to develop along with the strengthening of central banks and financial markets. China provides a good example of this considered further in the case study below.

The liberalisation of China’s financial system

“The Chinese authorities have continued to make significant progress in liberalising China's financial system. In addition to domestic financial market reform and development, the partial liberalisation of China's exchange rate and cross-border capital flows have been key elements of the reform process.[1] While cross-border trade flows have been subject to relatively few restrictions for some time, China's cross-border capital flows have been managed much more closely. But in recent times, restrictions on direct investment flows have been relaxed, and the capital account liberalisation process has also extended to portfolio investment flows. In particular, the Chinese authorities have started to open up China's debt and equity markets to foreign investment and have also allowed Chinese residents to invest more freely in offshore markets. The substantial effects of China's earlier trade liberalisation process on the global economy suggest that China's ongoing capital account liberalisation process will also have significant implications for the global financial system.”⁹

Related to the liberalisation of China’s financial markets have been efforts to make the Chinese renminbi (RMB) an international currency. The region has identified opportunities to support this process. For instance, “Australian authorities have worked together with the Chinese authorities to facilitate the development of the local RMB market. These steps recognise Australia's already close economic relationship with China and the increasingly close financial linkages between the two countries. Most recently, these initiatives have included: ^[4]

- the establishment of an official RMB ‘clearing bank’ in Australia, which will make it easier for Australian residents to transact in RMB with their counterparts in mainland China;
- the establishment of a quota as part of the RMB Qualified Foreign Institutional Investor (RQFII) program, which will allow Australian-domiciled financial institutions

⁸ Glenn Stevens, Governor Reserve Bank of Australia, *Remarks to the Asia-Pacific Financial Market Development Symposium*, Financing the Asian Century Sydney - 10 April 2013. Available at: <http://www.rba.gov.au/speeches/2013/sp-gov-100413.html>

⁹ Eden Hatzvi, William Nixon and Michelle Wright, *The Offshore Renminbi Market and Australia*, Bulletin – December Quarter 2014. Available at: <http://www.rba.gov.au/publications/bulletin/2014/dec/7.html>

to invest RMB obtained in the offshore market in China's onshore bond and equity markets.

These announcements are in addition to existing initiatives, including: the local currency swap agreement between the Reserve Bank of Australia (RBA) and the People's Bank of China (PBC) signed in 2012; the commencement of direct trading between the RMB and the Australian dollar in mainland China's interbank foreign exchange market in 2013; and the RBA's investment of a portion of its foreign currency reserves in RMB-denominated assets in the past year. There has also been ongoing engagement on RMB internationalisation between Australian officials (including the RBA and Treasury) and the private sector through forums such as the Australia-Hong Kong RMB Trade and Investment Dialogue and the newly established 'Sydney for RMB' working group, which is a private sector led initiative."¹⁰

Capital controls remain a persistent challenge to the liberalisation of the RMB. In order to fully integrate the RMB, capital account liberalisation such as further financial market liberalisation, market-determined interest rates and effective financial regulation and supervision, are necessary.¹¹ This would of course expose the RMB to external risks and consequently reform would need to be introduced gradually. Given this the RMB is still a number of years away from realising its potential in the region and the world, but nevertheless the potential opportunity remains for the RMB to be a common currency for trading.

Opportunities to expand upon these relationships in the region have the potential to support the stable development of financial markets and sources of finance for development in the region. There is also a role for international and regional institutions, including the IMF, ADB, WB, and ASEAN, in providing access to finance and encouraging reforms to strengthen financial markets.

The growth in foreign direct investment in the region demonstrates this potential as a source of finance for development.

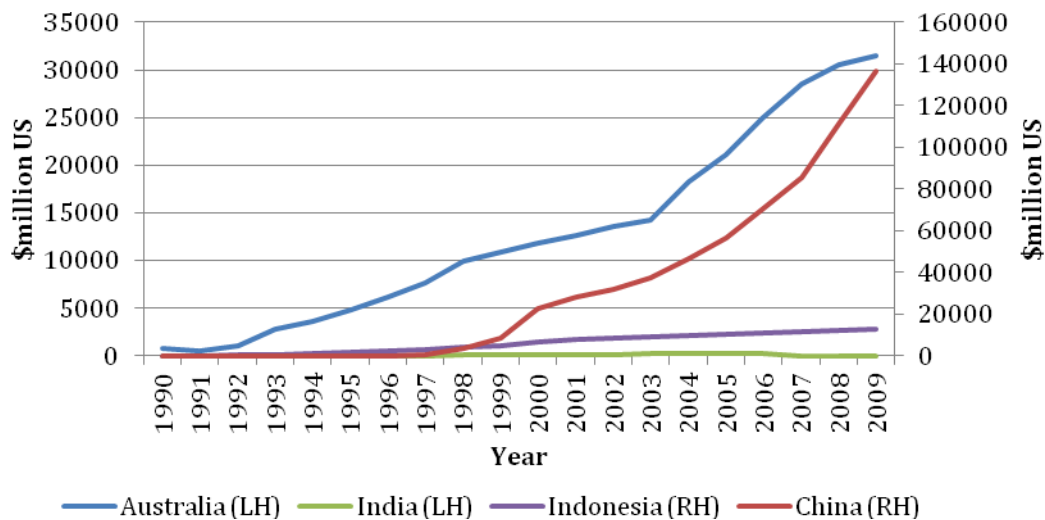
¹⁰ Eden Hatzvi, William Nixon and Michelle Wright, *The Offshore Renminbi Market and Australia*, Bulletin – December Quarter 2014. Available at:

<http://www.rba.gov.au/publications/bulletin/2014/dec/7.html>

¹¹ Barry Eichengreen and Masahiro Kawai, *Issues for Renminbi Internationalisation: An Overview*, ADBI Working Paper Series. Available at:

<http://www.adbi.org/files/2014.01.20.wp454.issues.renminbi.internationalization.overview.pdf>

Cumulative FDI outflows to members of the ADB



Source: UNCTAD FDI Database

However stronger financial market regulation alone will not suffice to increase available finance. Sovereign risk remains a persistent challenge in reducing the cost and increasing availability of finance. “Financing is most feasible when the country has a high sovereign rating, especially when this reflects a credible legal framework, political stability and a reasonably efficient bureaucracy. It also helps to have well-functioning markets for hedging currency risks.”¹² Establishing this broader environment of stability and human capital will take time but must continue to be part of any country’s plans for sustainable development.

Strong financial markets also require strong macroeconomic fundamentals –strong and stable growth and sustainable levels of inflation. Manageable current accounts and public sector debt are important to manage risks of capital flight and to provide necessary comfort offshore investors. Maintaining Australia’s AAA credit rating during and following the financial crisis was critical to its economic performance and relative stability during this period. This needn’t mean mindless austerity. Instead, options that achieve fiscal reforms such as tax expenditures that can be particularly generous to higher earners amongst other options for reform should be considered.

The eventual normalization of monetary conditions around the world makes the risk of capital outflows from the Asia Pacific region even more pressing, which in turn, places higher premium on strong macro fundamentals in the region.

Continuing to strengthen financial market regulation and access to capital will be important to the ongoing growth and stability of the Asia Pacific region. It will also be a critical enabler to increasing investment and the financing of development. There is a role for the G20 in this process, as demonstrated during the GFC when the G20 supported efforts amongst many emerging nations (such as China, Indonesia, South Korea and India) through efforts such as the Basel III agreements. Agreements such as these recognise that sound regulatory policy can support stability in the financial system

¹² Torsten Ehlers, Frank Packer and Eli Remolona, *Infrastructure and Corporate Bond Markets in Asia*. Available at: <http://www.rba.gov.au/publications/confs/2014/pdf/ehlers-packer-remolona.pdf>

and a role for regional and international forums and institutions to support these reforms.

Related to this will be the ongoing deepening of local capital, particularly local bond markets, so that countries in the Asia Pacific region are less reliant and exposed to foreign capital flows. Local currency bond markets reduce risks associated with currency mismatch and are very important for financial stability, especially in region that suffered so much during the Asian financial crisis. The IMF, ASEAN and other regional and international institutions have the capacity to support the development of local capital markets and this effort should continue.

3.3. Infrastructure financing

While the Asia Pacific region boasts relatively high savings the challenge of financing significant infrastructure remains. The World Bank finds that “the undersupply of infrastructure in developing economies has been estimated at around US\$1 trillion per year through 2020, with an additional US\$200 to US\$300 billion per year to ensure that infrastructure investments are low emitting and climate resilient.”¹³

As discussed above, boosting domestic resources and strengthening financial markets are critical to addressing the financing gap, but other policy and planning reforms are also necessary to mobilise finance particularly in relation to financing major infrastructure projects.

Meeting the financing needs for infrastructure is critical to development, but also generating demand and growth. As Michael Spence, Nobel Laureate in Economics, as identified:

“Given the extent to which insufficient demand is constraining growth, investment should come first. Faced with tight fiscal (and political) constraints, policymakers should abandon the flawed notion that investments with broad – and, to some extent, non-appropriable – public benefits must be financed entirely with public funds. Instead, they should establish intermediation channels for long-term financing. At the same time, this approach means that policymakers must find ways to ensure that public investments provide returns for private investors. Fortunately, there are existing models, such as those applied to ports, roads, and rail systems, as well as the royalties system for intellectual property. Such efforts should not be constrained by national borders. Given that roughly one- third of output in advanced economies is tradable – a share that will only increase, as technological advances enable more services to be traded – the benefits of a program to channel savings into public investment would spill over to other economies. That is why the G-20 should work to encourage public investment within member countries, while international financial institutions, development banks, and national governments should seek to channel private capital toward public investment, with appropriate returns. With such an approach, the global economy’s “new normal” could shift from its current mediocre trajectory to one of strong and sustainable growth.”¹⁴

¹³ World Bank, Financing for Development Post 2015, October 2013, page 4. Available at: <http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf>

¹⁴ Michael Spence, *Why Public Investment?* Project Syndicate, 20 February 2015

On coming to government in Australia in 2007 it was apparent that even if funds were available for infrastructure investment a major constraint was the lack of a pipeline of ready, productive investments. This view has been confirmed by the sector with the Australian Financial Services Council noting that, “A consistent theme...was the level of fund investment is primarily limited by a lack of suitable projects reaching the investment market, particularly with respect to government sponsored projects.”¹⁵

Australia sought to address this challenge with the establishment of Infrastructure Australia, an independent body that would undertake cost-benefit analysis of potential infrastructure projects and prioritise those projects. The success of this process has largely been the focus on better planning and preparedness for infrastructure needs into the future.

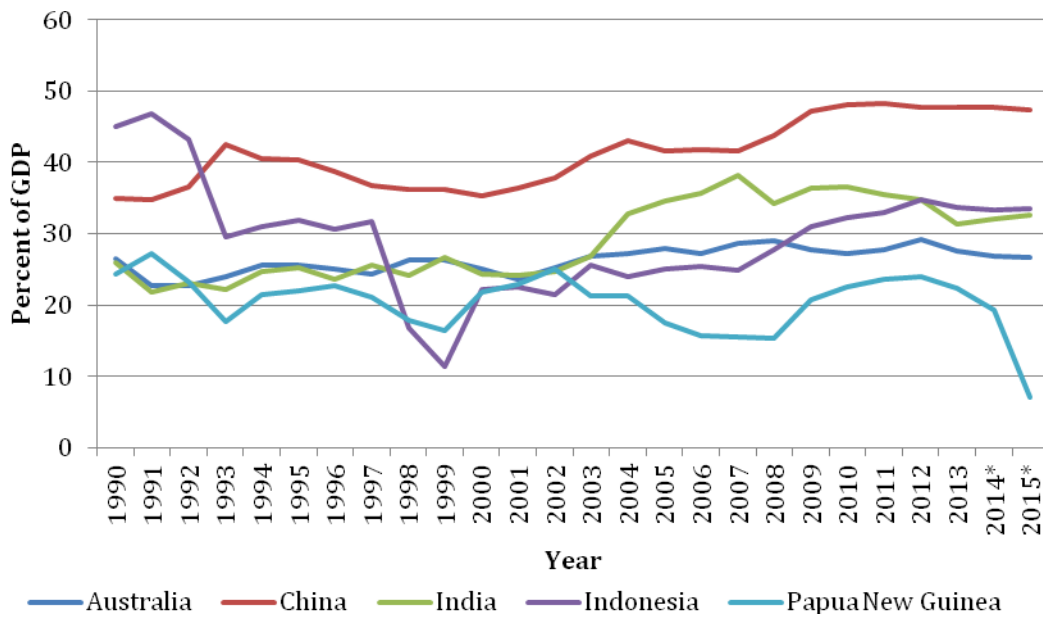
The Reserve Bank of Australia has identified a similar concern for the region more generally:

“Infrastructure investments entail complex legal and financial arrangements, requiring a lot of expertise. Building up the necessary expertise is costly, and investors will only be willing to incur these fixed costs if there is a sufficient and predictable pipeline of infrastructure investment opportunities. Otherwise, the costs can easily outweigh the potential benefits of investing in infrastructure over other asset classes such as corporate bonds. Creating a pipeline of suitable projects requires a coherent and trusted legal framework for infrastructure projects. The economic viability of infrastructure projects is often dependent on government decisions, such as pricing, environmental regulation, or transportation and energy policy. In some countries, reliable frameworks do not exist. Cases of political interference – for example arbitrary cuts in the prices private infrastructure operators are allowed to charge – greatly increase the perception of political risks, which are among the greatest concerns of private investors. But even if solid legal frameworks exist, best practices or experience with large infrastructure projects can be lacking on the side of the government.”¹⁶

¹⁵ Financial Services Council and Ernst & Young, 2011, *Financing Australia's Infrastructure Needs, Superannuation investment in infrastructure in Australia*

¹⁶ Torsten Ehlers, Frank Packer and Eli Remolona, *Infrastructure and Corporate Bond Markets in Asia*. Available at: <http://www.rba.gov.au/publications/confs/2014/pdf/ehlers-packer-remolona.pdf>

Total Investment (Per cent of GDP)



Source: IMF World Outlook Database

Beyond developing the pipeline for infrastructure investment, other impediments to investors exist and need to be considered in the context of each nation’s particular policy and legal environment.

In Australia’s case it was clear that despite over a trillion dollars being held on behalf of members in superannuation funds, those funds were relatively reluctant to invest in major infrastructure projects. While Australia’s superannuation funds under management have grown from \$140 billion to \$1.3 trillion over the past 20 years, Australia’s infrastructure gap has widened.¹⁷

Infrastructure investment models have been thought to be not especially attractive to superannuation funds because of the misalignment of interests with traditional bid sponsors with short-term investment horizons. This can result in poor pricing of risk, stripping of value due to transaction fees, and inability to achieve best of breed partners for debt, construction, and operations and maintenance.

“Under the current procurement model, Australia’s major infrastructure investors, including Industry SuperFunds via IFM Investors, rarely, if ever, participate in greenfield PPP projects either as a bid sponsor or primary equity investor. Yet, combined, they control the majority of infrastructure investment in Australia. Very high bid costs and long procurement processes with ‘patchy’ deal flow limit the number of parties who can afford to dedicate large teams for such projects. Long-term equity investors like superannuation funds do not see the relative value to divert resources away from pursuing brownfield infrastructure to greenfield PPP projects that involve such a costly, lengthy and uncertain process. Their long-term investment horizon and their appetite for illiquid assets make them ideal partners for such projects, however, the

¹⁷ Financial Services Council, *Financing Australia’s Infrastructure Needs, Superannuation investment in infrastructure in Australia*

current process is biased towards short-term financiers and contractors and requires reform to level the playing field.”¹⁸

Feedback from the sector provided guidance on necessary reforms to access superannuation savings for infrastructure investment. “Institutional investors have particular requirements around the risk/return mix of long term illiquid investments and projects that do not conform to these will not attract sustained investor interest. Governments need to understand these requirements and the impact they have on the structure of infrastructure projects when developing value for money transactions.”¹⁹

To address this challenge the Australian Government announced in 2010-11 an Infrastructure Tax Incentive for nationally significant projects assessed by Infrastructure Australia. This measure ensured infrastructure investment vehicles could carry forward their losses uplifted by the 10 year government bond rate, and that they could be exempt from the continuity of ownership and same business tests to access this offset. These incentives mean that those investors who tend to invest once the asset is already built and operating (such as superannuation or pension funds) can still access the benefits of those investments.

These reforms are helping to support greater investment in infrastructure by Australian superannuation funds. As the Australian Financial Services Council reports, “... Australian superannuation funds have approximately 5%—10% allocation to infrastructure. This allocation is typically higher for industry funds...In the 2010 client survey of the consultant firm Mercer², only 2.0% of UK pension plans are shown to invest in infrastructure (an increase from 0.7% in 2008). The average allocation to infrastructure by those plans is 3.8%. For Continental Europe, only 1.4% of pension plans are said to be invested in infrastructure, with an average allocation of 5.5% to the asset class by those funds invested.”²⁰

Identifying domestic policy avenues that can help address impediments to investment has been critical to engaging superannuation funds in the broader financing challenge for infrastructure development.

A further proposal being developed in Australia by Industry Super is a proposed ‘inverted bid model’ whereby “the traditional bidding process is reversed by fixing the terms of project financing through a funding competition prior to the construction, operation and maintenance (O&M) tender and raising of any additional debt. In other words, the government tenders initially for the long-term owner-operator followed by separate bids for construction, operation and maintenance and residual debt”.²¹

The inverted bid model is intended to support a reasonable return for long term investors through the upgrade of services and facilities delivered to meet demand over time, as

¹⁸ Industry Super Australia (ISA) Report, *An Inverted Bid Model - An aligned infrastructure investment mode*, June 2014, page 2.

¹⁹ Financial Services Council and Ernst & Young, 2011, *Financing Australia’s Infrastructure Needs, Superannuation investment in infrastructure in Australia*

²⁰ Financial Services Council and Ernst & Young, 2011, *Financing Australia’s Infrastructure Needs, Superannuation investment in infrastructure in Australia*

²¹ Industry Super Australia (ISA) Report, *An Inverted Bid Model - An aligned infrastructure investment mode*, June 2014, page 2

opposed to through the initial bidding, structuring and building of the asset. “Preliminary analysis suggests bid costs can be expected to fall from 1.5 per cent to 0.8 per cent of the total value of the project and procurement timeframes are likely to be compressed from 17 to 12 months or by 30 per cent.”²²

The inverted bid model may provide an avenue for access to finance through pension and superannuation funds, not only in nations with large savings pools but also internationally as those funds continue to expand international investment opportunities. The key benefit of the inverted bid model is the improved alignment of investors and projects, in addition to a more open bidding process should reduce financing costs and procurement times.

More generally, increasing available finance for infrastructure will depend on the level of confidence in the broader stability of the economy and investing environment. Developing economies often lack the regulatory, legal, and political frameworks to make the risk return viable. These broader policy reforms and institutional strengthening will therefore be critical to the long-term viability of private sector financing for infrastructure.

As the Brookings Institute suggests, “The multilateral development banks have a special leadership role to play on this dimension, since they provide much of the financing leadership for infrastructure. In practical terms, they need to take on more risk; invest in project preparation and the development of bankable projects; help build teams on the ground in priority countries; and ensure projects are moving within timeframes consistent with SDG achievement by 2030. Safe-guards, for example, still present major barriers to timely implementation. At the moment a hydro project can take seven years from concept to approval and then another seven years for construction. This would imply that new projects conceived in 2015 or 2016 would not even begin operating until the 2030 SDG deadline is reached.”²³

Improving the infrastructure pipeline and the capacity to deliver projects is a regional imperative to boost infrastructure investment. The emerging Asian Infrastructure Investment Bank (AIIB) has the potential to improve access to finance for large-scale infrastructure.²⁴

A related political challenge of infrastructure investment is the growing concern around public debt, arguably necessary to fund major public investments. With the 10-year bond rate at an all time low in Australia, there is seemingly an impenetrable reluctance and public concern around borrowing to undertake the necessary investments that will drive growth and deliver services into the future.

²² Industry Super Australia (ISA) Report, *An Inverted Bid Model - An aligned infrastructure investment mode*, June 2014, page 2

²³ Homi Kharas and John McArthur, *Nine Priority Commitments to be Made at the UN's July 2015 Financing for Development Conference in Addis Ababa, Ethiopia*, The Brookings Institution, February 2015, page 17.

²⁴ East Asian Forum, *The potential role of the Asian Infrastructure Investment Bank*, 11 February 2014, Available at: <http://www.eastasiaforum.org/2014/02/11/the-potential-role-of-the-asian-infrastructure-investment-bank/>

As one seemingly frustrated Australian journalist puts it, “The 10-year bond rate is the rate at which the government can borrow for 10 years at a fixed rate of interest. Right now it's just 2.55 per cent, an all-time low. By way of comparison in the 1970s it exceeded 10 per cent, in the 1980s it passed 16 per cent, in the 1990s it passed 10 per cent, in the 2000s 5 per cent, and until now in this decade it has usually been above 3 per cent. It dived below 3 per cent at the end of last year and is now just 2.55 per cent, the lowest in living memory. If Australia was to borrow, big time, for important projects that took the best part of a decade to complete, it would have no risk of ever having to fork out more than 2.55 per cent a year in interest. The record low rate would be locked in for 10 year. It's rare to be offered money for nothing. All we would need is confidence in the worth of our ideas.”²⁵

In pursuing greater investment in infrastructure, priority should also be given to investment in sustainable assets. We must increasingly consider the impact of sustainability in the analysis and assessment of infrastructure investments that have the potential to greatly alter likely outcomes and the return on investment over time. For example, ensuring there is greater consideration of renewable energy given the outlook for fossil fuel intensive energy sources which risk becoming stranded as CO2 regulations tighten in coming years and decades will be critical.

Energy efficiency also presents a significant opportunity for finance for development not only because of the growing need but also as it provides (1) immediate jobs and stimulus; (2) lower emissions over time; and (3) lower energy bills and hence stimulus via more available funds in consumers' pockets. Innovation in financing for development provides an opportunity to think differently about the responses and opportunity to address the broader policy challenges we face, including in relation to addressing the infrastructure needs of the Asia Pacific region.

3.4. Climate change financing

Mindful of the preference of many to keep climate finance separate from the broader discussion of financing for the SDGs, climate finance is briefly considered here. It is particularly relevant as recent Australian experience of implementing a carbon price also demonstrates how an environmental policy can itself generate incentives that finance sustainable development.

Options for carbon pricing and reform present opportunities not only to finance further action and abatement on climate change, but can also provide the means to incentivise investments of a more sustainable nature. Australia's approach to this is through:

- (i) The Clean Energy Financing Corporation
- (ii) Carbon pricing

²⁵ Peter Martin, Sydney Morning Herald. Available at: <http://www.smh.com.au/comment/low-10year-bond-rates-are-the-deal-of-the-century-but-abbotts-not-at-the-table-20150120-12tq4j.html>

(i). The Clean Energy Finance Corporation (CEFC)

The previous Australian Government also established the CEFC to act as a catalyst to increase investment in emissions reduction and accelerate Australia's transformation towards a more competitive economy in a carbon-constrained world.

Australia's CEFC is the second longest operating national clean investment bank in the world after the UK's Green Investment Bank. Since the CEFC began operations, a number of countries have established similar domestic clean energy investment institutions.

UK Green Investment Bank²⁶

The UK Green Investment Bank is a corporatised government company, established in 2012, with the aim of attracting private finances to private sector initiatives for environmental innovation. The types of projects the Bank is intended to fund include: offshore wind power generation, waste-handling plants, energy efficiency measures, biofuels, biomass, carbon capture and storage, marine energy and renewable heat generation. It was born out of a House of Commons committee, which found that traditional sources of finance could not meet the funding gap for green investment projects required for industry sustainability.

The Bank started with a £3.8 billion government injection and has currently lent out £1.8 billion. This money has funded 44 separate projects and is estimated created transactions in the UK's green economy worth £6.9 billion. In some cases, the Bank co-invests with other government departments or the private sector. For example, the bank has committed £190 million to a renewable energy plant in Thames with the support of the Irish electricity utility Electricity Supply Board (ESB).

The CEFC is an independent, government-backed institution and its role is to work in partnership with other banks and financiers to mobilise investment in the clean energy sector. This includes investment in renewable energy, low-emissions technology and energy efficiency.

The CEFC was first announced in 2011 as part of Australia's national package of climate-change related reforms. It started operations in 2012 and made its first investment in 2013. Cumulatively, the CEFC has committed over \$1 billion in total finance and, with the contribution of co-finance partners, catalyzed investments in projects valued at over \$3.2 billion.

The CEFC's investments lower energy costs for Australian businesses, improve productivity and diversify Australia's energy supply at no cost to the taxpayer.

The CEFC was established through Federal legislation and its investment mandate is provided by the Government. The role and function of the CEFC, includes that it:

- Focus on projects at the demonstration, commercialisation and deployment stages rather than at earlier stages of innovation.

²⁶ For further information on the UK's Green Investment Bank see <http://www.greeninvestmentbank.com/>

- Apply commercial rigour when making its investment decisions.
- Can provide concessional finance in certain circumstances but limits the amount of concessional finance to \$300 million p.a. To date, the CEFC has been participating largely without making concessional loans. Where limited concessional finance has been provided, it is the minimum necessary for a transaction to proceed, mainly focused on encouraging public sector, not-for-profits and small and mid-sized business to accelerate energy efficiency uptake.
- Not invest in nuclear energy or carbon capture and storage and that at least 50% of the CEFC portfolio is invested in renewable energy, with the remaining being met from low emissions technologies or energy efficiency.

The CEFC operates and makes its investment decisions independently of Government based on rigorous commercial assessments of their Board. It is not a grants organisation, its investments are made with an expectation of being repaid. The CEFC invests responsibly, manages risk and is expected to be operationally self-funding through its investment returns.

The Commonwealth provides the CEFC with \$2 billion p.a. from 2013 until 2017 and this allocation is enshrined in legislation. This money is used by the CEFC to loan to project proponents.

In each investment, the CEFC looks at new ways of doing business: new ways of financing existing technologies; financing new technologies that haven't been deployed in Australia; or even just new ways of applying the technology that haven't been done before.

They look for gaps in the clean energy finance market and try to identify new financing models that can help meet those financing gaps and ensure projects go ahead.

One of the primary aims of the CEFC is to facilitate increased flows of finance into the clean energy market. To do this, the CEFC also provides significant technical assistance, working with many project proponents and other financiers to match project developers with interested parties such as equity partners. It aims to broker negotiations and bring parties together including in financing consortiums and bringing in other co-financiers. Most private financiers don't have the resourcing or time to offer these services in new and emerging market segments — funding more well-known technologies because they are perceived as having less risk. The CEFC's public purpose means that it can work collaboratively with clients to restructure financing arrangements to help make their projects bankable.

Every dollar the CEFC invests leverages more than \$2 in additional private sector finance into the clean energy sector. The CEFC has already partnered with over 15 co-financiers, including all of the major Australian banks as well as new banks, even from overseas that have never before been active in the Australian clean energy market. The CEFC's role, as a government-backed clean investment bank has, in some transactions, been critical to building the confidence to attract these types of investors into the market.

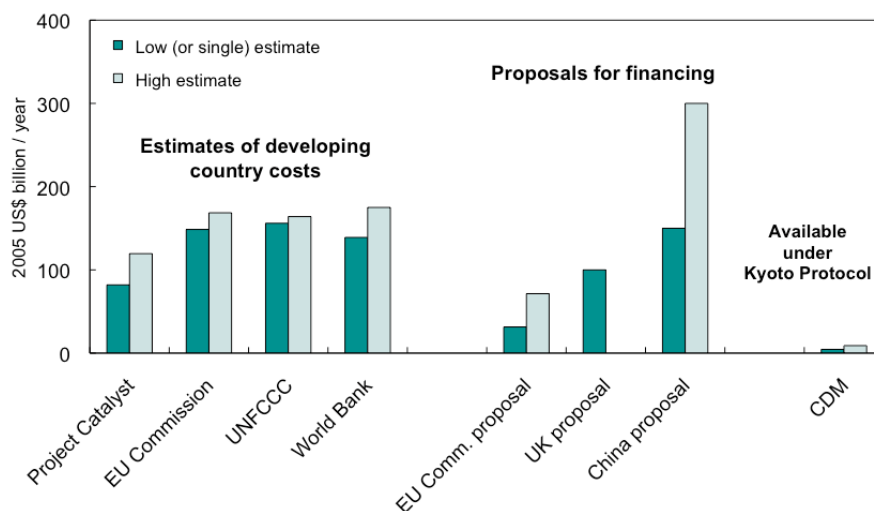
The CEFC's investments help businesses operate more profitably and achieve emissions reductions whilst delivering a return to taxpayers. Investments the organization makes

are profitable for the CEFC and for the businesses they work with. So projects provide emissions reduction at a negative cost i.e. provide a positive net benefit to the taxpayer of around \$2 per tonne abated. To date, the projects the CEFC has invested in, once operating, are expected to deliver over 4.2 million tonnes of CO2 emissions abatement p.a and involve over 600MW of clean electricity generation capacity.

As Indonesia has identified, “In an increasingly carbon-constrained world, there is likely to be an expansion of both private market and public finance to support climate change mitigation in developing countries (figure 1 below). If suitable mechanisms are put in place internationally and domestically, Indonesia could be a major recipient of such finance. Indonesia currently accounts for less than 2% of the Clean Development Mechanism market, but might be able to attain 10% of much larger future carbon finance flows, based on its share of emissions.”²⁷

There have been regional attempts at dealing with this problem. A notable one is the Asian Development Bank’s Carbon Market Program. A key initiative of this scheme is the Future Carbon Fund (FCF), which seeks to support energy efficiency schemes and reduce the risk in adopting low carbon technologies. Further efforts to build regional approaches, potentially modeled on the CEFC, could provide opportunities to address a problem threatening every nation.

Figure 1. Carbon finance needs in developing countries, financing proposals, and the size of the Clean Development Mechanism²⁸



²⁷ Ministry of Finance (2009), Ministry of Finance Green Paper: Economic and Fiscal Policy Strategies for Climate Change Mitigation in Indonesia, Ministry of Finance and Australia Indonesia Partnership, Jakarta, page 4.

²⁸ Ibid Ministry of Finance (2009)

(ii). Carbon pricing

From 1 July 2012 until 30 June 2014, Australia had a carbon pricing scheme in place, the centrepiece of the 'Clean Energy Future' policy (Clean Energy Act 2011) passed by the Labor government in 2011. However, following a change of government in September 2013, the carbon price was repealed in July 2014. Australia, therefore, provides a unique test case on the impact of a carbon price policy on emissions by comparing data before, during, and after its operation.

Under the carbon pricing mechanism, emitters responsible for over 60 per cent of Australia's emissions were covered by a liability to acquire permits for their emissions arising from the combustion of fossil fuels as well as some process and other emissions. In 2012-13, this equated to 349 of Australia's highest emitting entities, including power stations, mines and emissions-intensive manufacturers²⁹.

The carbon pricing mechanism was a permit scheme where, the price was fixed at \$23AUD per tonne of carbon dioxide and equivalent in 2012-13 and \$24.15 in 2013-14. The Government sold an unlimited amount of permits at the fixed price and neither international trading nor banking of permits was allowed. The legislation anticipated the fixed price scheme would move to a floating price in 2015, linked with international carbon markets, including the European Union, however it was repealed before this transition could occur.

Other notable features of the scheme included recycling of around half the revenue to low- and middle-income households through lower income tax rates and increases in welfare payments; assistance to emissions-intensive trade-exposed industries through output-linked free permits at a declining rate; an offset mechanism for agriculture and forestry; funding for investment in renewable technology and innovation; and newly created independent institutions such as the Climate Change Authority to provide independent advice on national emissions targets.

The impact of the policy on the electricity sector is of most relevance as emissions from electricity generation are the largest contributor to Australia's overall emissions, and are the largest opportunity for reducing emissions both in the near term and the longer term. The electricity sector also made up the majority of emissions covered under the carbon price³⁰.

Research by the Australian National University (ANU) found that carbon emissions in Australia's national electricity market would have been 11 to 17 million tonnes higher during 2012/13-2013/14 if Australia had not introduced a carbon price.

It found that the carbon price had been performing well in its main job: delivering

²⁹ Clean Energy Regulator 2013, 'Liable Entities Public Information Database', <http://www.cleanenergyregulator.gov.au/Carbon-Pricing-Mechanism/Liable-Entities-Public-Information-Database/LEPID-for-2012-13-Financial-year/Pages/default.aspx>

³⁰ O'Gorman, M. and Jotzo, F., 2014, 'Impact of the carbon price on Australia's electricity demand, supply and emissions', July 2014. CCEP Working Paper 1411, Crawford School of Public Policy, The Australian National University available at: https://ccep.crawford.anu.edu.au/sites/default/files/publication/ccep_crawford_anu_edu_au/2014-07/ccep1411.pdf

emissions cuts in the power sector, which is the largest source of emissions in Australia and the sector with the biggest opportunity for cuts. Besides helping to reduce power demand by households and industry, the carbon price had a strong effect on the relative costs of running different types of power plants, making highly polluting plants more expensive, and cleaner ones cheaper. Some black and brown coal generators reduced their hours of operation; others were mothballed. As a result, electricity generated from renewables and gas increased significantly whilst the share of electricity generated from black and brown coal reached a record low. Together, ANU estimated that the emissions intensity (the amount of carbon dioxide released per kilowatt hour of electricity produced) of Australia's power grid fell by 2-3% as a direct result of the carbon price, while demand fell by 1-2% and overall emissions by 3-5%.

Because the revenue from the carbon price was recycled to reduce distortionary taxes for low-income earners, invest in renewable energy and provide incentives for energy efficiency for households and businesses, the actual economic cost of the scheme was much smaller than the value of permits sold, or the tax take.

Political uncertainty however dogged the carbon pricing policy over its entire existence. At the introduction of the carbon price in mid-2012, a survey found that 40 per cent of experts, including decision makers at liable entities under the Australian carbon pricing mechanism, expected the scheme to be repealed by 2016³¹. As a result its effect was not as great as it would have been under a stable policy framework.

For investors in assets with lifetimes of several decades, what matters most is the expectation of policy settings over the medium to longer term. For any country seriously considering moving to a carbon pricing or emissions trading scheme, a stable, bipartisan, long-term policy framework that creates economic incentives to cut emissions will be the foundation of its success. The world's major economies are pushing ahead with policies that will clean up their energy systems and modernize their economies, and cut carbon emissions in the process and many are incorporating some form of emissions pricing policy. The Australian experience shows that pricing the emissions externality directly is the most efficient and cost-effective approach to tackling climate change. Other mechanisms such as implementing strict regulations or introducing subsidies and incentive schemes can play a complementary role to emissions pricing and help to address areas where emissions pricing alone is insufficient because other externalities are at play (for example, in targeting clean energy innovation where positive externalities exist). But Australia's experience is that a rigorous pricing mechanism should be the primary vehicle for emission reduction.

By adopting a carbon price, Australia was not only putting a price that captures the externalities of carbon emissions and thereby changing behavior, but also incentivising investment in more sustainable forms of energy production. Carbon pricing presented an opportunity to generate alternative forms of finance for development, while the policy itself also contributed to the achievement of sustainable development.

Australia's experience of adopting a carbon price (subsequently repealed) and success of the CEFC provides potential lessons for the region. Many developing nations in the region stand to be major beneficiaries of international reforms to address climate change.

³¹ Jotzo, F 2012, 'Australia's carbon price', Nature Climate Change, vol.2, p.2.

3.5. Overseas Development Assistance (ODA)

The discussion of sources of finance for development is often premised on the notion that ODA is declining and consequently alternatives to aid need to be found. While this indeed is the case, it disguises the need for ODA to continue to be provided as a necessary source of finance in particularly vulnerable environments where alternative sources of finance are unlikely to be forthcoming in the short, medium and even longer-term and also to ensure the truly vulnerable are supported today. ODA also has a critical role to play as a catalyst for development and other financial innovations for development.

The international agenda to identify finance for development should not be a guise for reducing ODA where it is needed.

According to the OECD, ODA reached an all-time high of USD 134.8 billion in 2013. At this level of investment, ODA clearly remains an important source of finance for many nations and “particularly for countries dealing with widespread extreme poverty and/or conflict – in the foreseeable future.”³²

Like many nations, the United Kingdom being the noteworthy exception, Australia has not achieved its commitment to 0.7% of GNI for ODA. While significant increases in ODA were made under the previous government, the economic and political imperative for ongoing increases in ODA proved challenging in a drastically changing economic environment. Subsequent cuts to the ODA budget will return Australia’s aid program to its least generous level ever in 2016-17 at 0.22 per cent of GNI.³³

Central to this challenge was not only the fiscal environment where declining revenues were placing pressure on the budget, but also concerns around the effectiveness of an aid program which had been growing at a significant pace. Declining public support for ODA during a period of fiscal consolidation is also a real consideration for governments.

While there can be no excuse for reduced efforts to alleviate poverty throughout the world, governments remain accountable to their constituency. Any global agreement to finance development and particularly ODA post-2015 must be mindful of this ongoing challenge.

The domestic challenge to maintain commitments to ODA will require significant international consensus to regain momentum and support. As we look to alternative and innovative sources of finance for development, ODA will have an ongoing and important role to play.

As much as we will it, many fragile countries will not see private sector development in the short term. Further, private sector development is unlikely to take place in the least developed countries or fragile states without the support of an enabling environment. It is particularly in these nations that there is clearly an ongoing role for ODA. Developed

³² OECD statement on Financing For Development on ODA. Available at: <http://www.un.org/esa/ffd/wp-content/uploads/2015/02/1ds-ipf-Statement-oecd-Jan2015.pdf>

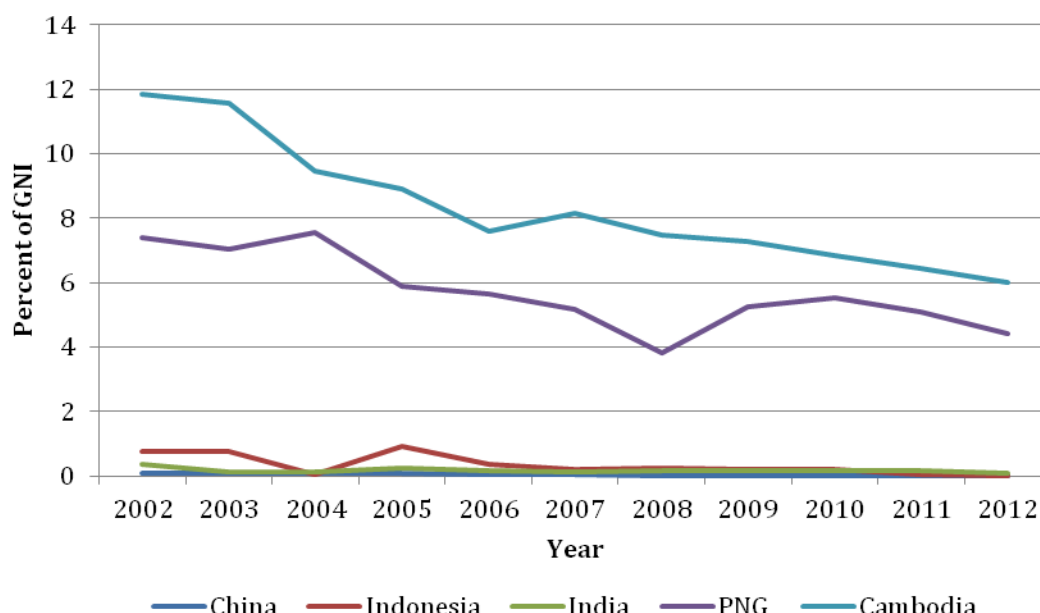
³³ Stephen Howes and Jonathan Pryke, *Biggest aid cuts ever produce our least generous aid budget ever*, Development Policy Centre, December 15, 2014. Available at: <http://devpolicy.org/biggest-aid-cuts-ever-produce-our-least-generous-aid-budget-ever-20141215-2/>

nations cannot walk away from investing in more inclusive growth amongst the least developed nations.

There is also an ongoing role of the development banks, including in relation to accountability of development finance and investment. Finance for development must increasingly reflect the need for sustainable investment, with development banks supporting this work through both technical expertise and some level of oversight of investment decisions. For instance, increasingly, investors appreciate the problem of “carbon bubble” or stranded asset risks of building infrastructure with a 40-50 year life that will be caught by CO2 regulations potentially in a 5-20 year timeframe. In developed countries, as a consequence, new coal-fired power plants are becoming increasingly difficult to finance. Ensuring finance for similar projects in the developing world also reflects the challenge of stranded assets over time will be critical. The problem is when those building such infrastructure understand this challenge, and yet continue to expand their markets in the developing world via ODA and development banks.

There is a clear need for nations to renew efforts to fund ODA and agree a global approach to meeting the outstanding challenge to reduce poverty and achieve more inclusive growth. While the Monterrey Consensus target of providing 0.7 percent of GNI in ODA is looking challenging for many nations in the current economic and political environment, setting out post-2015 development agenda financing goals will remain critical to gaining a genuine commitment to development and the alleviation of poverty more generally.

Overseas Development Assistance (Per cent of GNI)



Source: World Development Indicators

The proposal by the Brookings Institute to increase the share of ODA targeting the most vulnerable nations has merit. The goal of a 0.15% GNI target for LDCs “could provide

an essential boost in trust across the international development system”. One of the foremost political challenges of the current Financing for Development (FFD) process is the fact that, between 2002 and 2005, so many DAC countries set high-profile timetables to achieve the 0.7 ODA target by 2015 but then, with the notable exception of the United Kingdom, failed to follow through. The 0.7 target has formed a core premise of global development deliberations since being universally affirmed in Monterrey, but in practical terms the combination of failed promises and challenging fiscal environments suggest that it will be difficult to progress beyond the current global stalemate of reaffirming 0.7 as a principle in 2015. An achievable near-term timetable for supporting LDCs could help break the stalemate by rebuilding intergovernmental confidence that time-bound commitments matter, emphasizing results in the countries with greatest need.”³⁴

If we return to the objective of development, namely to alleviate poverty, arguably by achieving more inclusive growth, ODA has an ongoing role in the sources of financing for development. All nations must renew their commitment to this as part of the post-2015 development agenda. We must agree to another decade of development that hopefully reaps further gains MDGs for the world’s remaining poor.

It is important that future ODA programs keep in mind the growth of Asian nations such as China, India, South Korea, Thailand, Malaysia, Indonesia and Singapore in shifting from aid receivers to aid donors. This opens up additional avenues of finance for ODA and allows priority to be placed on those most in need. Given these Asian nations recently underwent transformation they are perhaps best placed to provide advice to neighbouring developing Asian countries.

4. SUMMARY OF POLICY LESSONS

The above discussion has identified a range of experiences and lessons from reform that have the potential to inform future approaches to policy reform into the future and across the Asia Pacific region. A number of policy implications are briefly summarised below:

- Given the role of public revenue to deliver essential services and ensure an inclusive economy, strengthening domestic revenue remains critical to financing development. Broadening the tax base, ensuring an efficient and equitable tax regime, and strengthening the capacity of governments to raise revenue and avoid revenue leakage are critical to financing the post-2015 development agenda.
 - Nations need to build institutional capacity to administer and collect revenue.
 - Donor nations should support these activities through development assistance.
 - Multilateral institutions such as the IMF have a role in strengthening the capacity of nations to design and implement an efficient tax regime.

³⁴ Homi Kharas and John McArthur, *Nine Priority Commitments to be Made at the UN's July 2015 Financing for Development Conference in Addis Ababa, Ethiopia*, The Brookings Institution, February 2015, page 11.

- Global efforts towards improving international tax arrangements and the treatment of multinational corporations must continue including the G20's work on Base Erosion and Profit Shifting and automatic exchange of information between tax authorities, as well as the OECD's work on multinational taxation and tax transparency.
- There is a need to continue to strengthen financial systems throughout the Asia Pacific region. This includes ensuring stable, independent central banks, a stronger regulatory environment, and deepening capital markets. Clearly countries throughout the Asia Pacific region are at very different stages of development and therefore the process and sequencing of financial sector reforms must be staged accordingly. There a role for international and regional institutions, including the IMF, ADB, WB, and ASEAN and G20, in supporting reforms to strengthen financial markets.
- Meeting the financing needs for infrastructure is critical to development, but also generating demand and growth. Policies need to be adopted that recognise the role of public and private finance in infrastructure where there is clear public benefits.
 - The establishment of institutions such as Infrastructure Australia, an independent body that would undertake cost-benefit analysis of potential infrastructure projects and prioritise projects, could be beneficial to other nations.
 - Opportunities for sovereign wealth or superannuation funds to invest in major public infrastructure will require stability of the economy and investment environment, as well as strengthened regulatory, legal and political frameworks to make investing viable. The multilateral development banks will have a role to play in supporting leadership in financing infrastructure.
- Innovative approaches to addressing climate change exist and developing nations in the region stand to be major beneficiaries of international reforms to address climate change.
 - Australia's Clean Energy Financing Corporation, a national clean investment bank that facilitates finance into the clean energy market, is a potential model that could help transform the Asia Pacific region in a carbon constrained world.
 - Carbon pricing, despite having been repealed in Australia, has been found to be an effective and efficient mechanism for delivering emissions cuts in the power sector. For any country considering moving to a carbon pricing or emissions trading scheme, a stable, bipartisan, long-term policy framework that creates economic incentives to cut emissions will be the foundation of its success.
- ODA will continue to have a critical role to play in financing development. Renewing global commitments to ODA will require significant international consensus. To achieve this domestic governments and multilateral organisations have a role to play in demonstrating aid effectiveness and ensuring

accountability for development finance and investment. Increasing the share of ODA targeting the most vulnerable nations should be part of this increased focus and accountability.

- Each of the above approaches to financing development requires consideration of the political and economic context within each nation. Innovation in finance and policy reform often challenges the status quo and as such nations could do well to share policy experiences and approaches to achieving lasting reform. There is a role for international forums to support dialogue on the process of reform and for international organisations to support the achievement of development and poverty alleviation.

5. CONCLUSION

There are significant opportunities to pursue finance for development in the Asia Pacific region. The above discussion sets out the changing sources of finance but also considers challenges involved in accessing those sources of finance.

Across all sources of finance for development, whether domestic revenue strengthening, foreign capital and investment, new sources of finance for climate change and ODA, amongst others, the domestic political and economic environment will be critical to delivering the reforms that are necessary access to those sources of finance.

The lesson from Australia's relatively recent experience is that delivering reform to finance and supporting sustainable investment can be challenging. Whether it is ensuring the economic case is made for reform, managing existing interests in the design of policy reforms, or ensuring reforms are future proofed, achieving the goal of financing development through innovative policy and new sources of finance can be difficult. Emphasis should be placed on financial market liberalisation, regulatory stability and deciphering the public good away from vested interests.

At the same time, the potential sources of finance for development are many and great. They present a real opportunity to fill the investment gap in many nations across the Asia Pacific. The potential for innovative finance and policy also provides an opportunity to deliver investment that is inclusive and sustainable.

It is vital that international consensus is reached on financing the development necessary to achieve the post-2015 development agenda. The 2015 Addis Ababa meeting presents an opportunity to build on the achievements of Monterrey and Doha, address emerging issues in global financial systems and support avenues to finance development post 2015. This is not only necessary to assist countries in their domestic efforts to grapple with some of the challenges identified above, but also to provide the momentum necessary for developed and developing nations to deliver the support and reform necessary to realise the potential of new sources of finance for development. The lessons from Australia are hopefully pertinent to dealing with emerging issues in the financing of global development, especially in the post-GFC environment.

Domestic revenue strengthening, financial market reform and economic governance, are critical to future financing of sustainable development. Developed nations have a

particular role, along with international organisations like the OECD, to support nations in building their revenue systems to be able to afford the services and public investment necessary for inclusive growth. An increased share of ODA should be allocated to strengthening domestic revenue systems. Efforts to improve revenue collections should also be coordinated with greater measurement and support for effective allocation of revenue to achieve inclusive growth.

There are clearly also lessons from developing nations in how they pursue reform, including the need to plan for domestic reform to be challenged by existing interests, and to factor in the need for reform and investments to be sustainable. Again, there is a role for international forums to support dialogue on the process of reform and for international organisations to provide greater accountability and oversight of both ODA and international investment. The UNESCAP may also usefully support member States at the regional level.

Innovative opportunities exist to finance development. Whether it relates to new approaches to climate finance or creating the necessary environment to enable pension funds to invest in development, non-traditional opportunities exist to support the achievement of the post-2015 development agenda.

These sources of finance will not, however, replace the ongoing role of ODA. All nations, including Australia, need to consider how we maintain and renew our commitment to alleviating poverty both through new and innovative approaches, but also continuing to commit to the delivery of effective ODA.

There is a clear role for regional partnerships in the delivery of this agenda. However, those partnerships will be contingent on ensuring greater coordination across the various international forums such as the G20, APEC and ASEAN and the expanding number of international financial organisations, new development banks, and philanthropists.

The challenge for the post-2015 development agenda will be achieving not only consensus on what finance for development looks like, but making sure it is both realistic in the domestic political and economic context, as well as able to achieve the development outcomes the world needs to see in the next decade.

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