COMMENT

Financing sustainable development

GOALS: Addis Ababa Action Agenda requires better interaction by all concerned

> *"**The roles and interaction of governments, businesses and civil societies as partners need to be pushed harder** on how they will deliver the sustainability aspects of the SDGs.*

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THE year 2015 is a watershed year for development. The world will embrace a post-2015 development agenda, the Sustainable Development Goals (SDGs) as the Millennium Development Goals (MDGs) are expiring at the end of this year.

A recent conference on Financing for Development in Addis Ababa, Ethiopia was the first of three milestones in the year 2015. It will be followed by the United Nations Summit in September where countries will adopt new SDGs and the UN Climate Change Conference, COP21 in Paris this December.

Similar to the spirit of the eight MDGs which were aimed to end poverty and the impasse of the North-South dichotomy, SDGs embody a set of 17 universal development goals that are applicable to every country. The SDGs complement MDGs through greater emphasis on environmental, economic, and social sustainability, yielding a more comprehensive overarching development framework for the next 15 years.

This ubiquitous ambition leads to one pivotal question: How to take on these SDGs from rhetoric to reality?

Naturally, it is an act of folly to lay out a grand plan without having money to pay for it. Having an operational plan with viable business model to internalise these goals is the crux of the matter.

A bigger challenge is not where to find resources to achieve these goals, but rather how to tap into the existing resources. Experience from the previous global talk shops and the money parties are pointing to one key message — countries' ability in addressing social and environmental challenges is dependent on their revenue generating and managing capabilities.

Financing strategies adopted during the implementation course of MDGs that were largely funded by aid flows did not fully materialise. The Asian Development Bank (ADB) estimated that financing the anticipated and wide-ranging SDGs in Asia and the Pacific alone could cost well over US$1 trillion (RM3.81 trillion) per year and infrastructure needs alone may require over US$750 billion per year over 2010-2020.

In comparison, official development assistance (ODA) to the region only stood at US$26 billion in 2012. Evidently, public finance and aid-centric approach on financing development are not enough. Dramatic changes in the landscape of financing require bolder collective and corrective measures that are constructed at a fine level in order to have an impact.

The latest endorsement of Addis Ababa Action Agenda (AAAA) was hailed as a "ground-breaking" outcome by the UN last week. However this agreement was heavily criticised for its missed opportunity to commit to an international tax body system.

Contrasting with the current global tax standards development that is monopolised by the Organisation for Economic Cooperation and Development (OECD) which excludes 80 per cent of the world's countries from the decision-making processes, the proposed system would enable developing countries to have an equal say in global tax rules and help them combat tax avoidance and evasion. Developing countries currently lose US$1 trillion a year in illicit financial flows.

While ADB reported that at least 75 per cent of the national government revenues in Asia-Pacific countries are generated from taxes, the ratio of tax revenues to GDP in developing Asia is lagging behind at 18 per cent compared with 29 per cent worldwide.

Through a better taxation architecture, curbing illicit financial flows and reviewing subsidy patterns and priorities could direct more finance for development. It's not all doom and gloom despite the failure in committing in the global tax body. The rich nations and the OECD announced two parallel tax initiatives: Tax Inspectors Without Borders and the Addis Ababa Tax Initiative. That being said, tax reform is likely to be a focal point in the long-term transformation agenda.

A paradigm shift in the private sector from seeing only photo opportunities to profit opportunities in pursuing sustainability agenda is also emerging. ADB estimated that Asia Pacific in 2012 had US$7 trillion in private savings, received US$212 billion in remittances and reported US$1.3 trillion in insurance premiums. Financial markets could instead be aligned more closely with sustainable and inclusive development.

An increasingly broader spectrum of funding such as bond markets is an important complement to equity markets. Interestingly, Malaysia reportedly has the largest public bond market at 53 per cent of GDP and second-largest private bond market at 59 per cent in Southeast Asia that can be further tapped into.

Another major shift in development finance is the establishment of the Asian Infrastructure Investment Bank and the New Development Bank which will strengthen existing public and private financial institutions to foster greater financial and development cooperation.

The AAAA framework offers more than 100 measures that could attract private sector investments through public policy and market intermediation in meeting an array of different challenges. The roles and interaction of governments, businesses and civil societies as partners need to be pushed harder on how they will deliver the sustainability aspects of the SDGs. Implementation strategies falter in the absence of political diligence in articulating, nationalising, and institutionalising SDGs.

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