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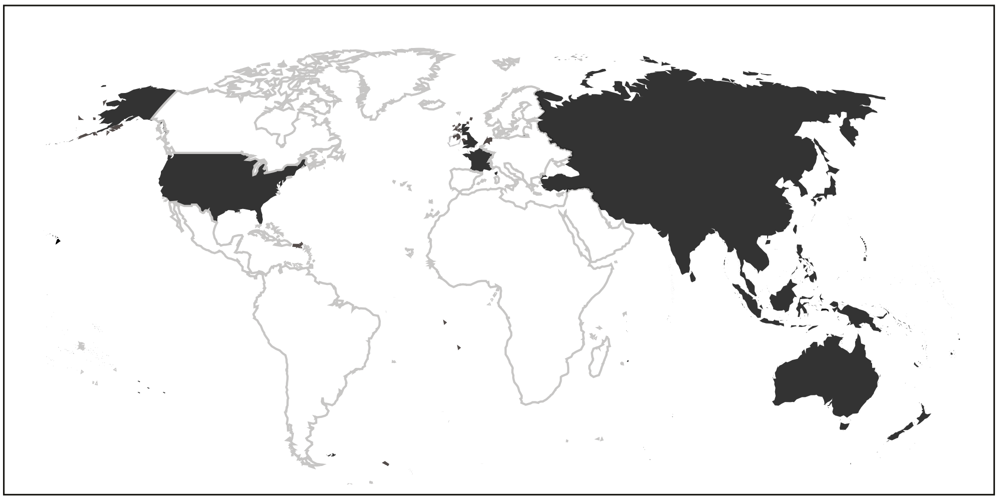
FINANCING THE SDGs TO BUILD BACK BETTER FROM THE COVID-19 PANDEMIC IN ASIA AND THE PACIFIC



*The shaded areas of the map indicate ESCAP members and associate members.**

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FOREWORD

The financing needs to achieve the Sustainable Development Goals (SDGs) were substantial even before the COVID-19 pandemic; US $1.5 trillion for the Asia-Pacific region or 5 per cent of the region's combined GDP. The pandemic has rolled back decades of economic progress, wrought havoc on public finances and exacerbated such financing challenges. To build back better, effectively pursue the SDGs, and tackle climate change, sizeable investments, especially by the public sector, need to be sustainably financed.

The latest issue of ESCAP's Financing for Development Series, *Financing the SDGs to build back better from the COVID-19 pandemic in Asia and the Pacific,* reviews a range of financing instruments, strategies and mechanisms that can help Asia-Pacific economies recover from the pandemic, work towards achieving the SDGs and support climate action. The report builds on the global initiative of the United Nations system on *Financing for Development in the Era of COVID-19 and Beyond.* The initiative put forward a comprehensive menu of policy options that can help member States finance economic recovery and accelerate progress towards the 2030 Agenda for Sustainable Development and the Paris Agreement under the pandemic.

The report starts with a discussion on the importance of ensuring access to vaccines, and then delves into policy considerations that can help countries to address rising debt vulnerabilities, deal with taxation-related aspects of illicit financial flows and strengthen the role of national development banks in support of SDGs. In the following two dedicated chapters, the report takes a "deep dive" into the role of innovative and digital finance strategies to address the financing gaps and suggests key regulatory and solution-oriented policy actions that can help scale-up financing in support of the SDGs.

Financial backing for programmes related to the achievement of the Sustainable Development Goals remains fundamental for countries to "build forward better" to create resilient, inclusive and sustainable economies. However, the rising debt burden faced by developing countries in the region is becoming a daunting challenge and constraining fiscal space considerably. Therefore, innovative financing instruments are required to both streamline existing financial flows and generate additional financial resources in a fiscally responsible and sustainable manner. The "deep dive" chapter on innovative financing covers policy instruments such as green bonds, mechanisms such as debt for climate swaps, and strategies such as climate risk disclosure and reporting. The chapter also discusses the importance of enabling policy frameworks for climate action.

The second "deep dive" chapter looks at the potential of digital finance to support the achievement of the SDGs. Digital finance has the potential to transform how we engage in economic activities and do business. New solutions in the digital space are enabling unbanked and underbanked individuals to access financing and engage in the real economy. Digital platforms linked with digital payment systems have also supported businesses to swiftly transition during the pandemic to online means of doing business. Despite the global shift towards digital finance, barriers still remain. Digital infrastructure, interoperable payment systems and the ability for financial clients to meet customer due-diligence processes are just a few of the critical challenges still faced by the policymakers and regulators in ensuring an inclusive and reliable digital finance ecosystem. The chapter takes a critical look at these challenges and identifies opportunities and policy options which can drive digital finance adoption in the Asia-Pacific region.

I am sure that policymakers, researchers and other stakeholders in the Asia-Pacific region will find the rich analytical discussion and solution-oriented policy recommendations of this report beneficial. We must understand that without closing the financing gap, we are unlikely to achieve SDGs and implement meaningful climate action. The time for policy action is now.

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EXECUTIVE SUMMARY

The COVID-19 pandemic caused an extraordinary socio-economic crisis throughout the world, and the prospects for recovery remain uncertain and uneven across countries. While in the second half of 2020, the emergency measures to contain the virus were relaxed in many parts of the world, allowing for moderate recovery of economic activity, the spread of the new and more contagious Delta variant of the disease has led to a new wave of infections globally, and especially in the Asia-Pacific region. On the positive side, 2021 has also witnessed the large-scale rollout of several effective vaccines, but the benefits of vaccinating a significant proportion of the global population have been impeded by considerable inequalities in access to vaccines. The overall socioeconomic policy responses have also been rather limited in many developing countries, due to fiscal and financial constraints. It is worth highlighting that the pursuit of sustained economic recovery, sustainable development, and climate action require substantial financial resources going forward.

The United Nations system responded to the financing challenges posed by the pandemic through the launch of a global initiative on Financing for Development in the Era of COVID-19 and Beyond in May 2020, which led to the preparation of a detailed menu of policy options to finance the recovery and accelerate progress towards the 2030 Agenda and the Paris Agreement. The “menu of options” — discussed at two global meetings of Ministers of Finance and Heads of State and Government in September 2020 — was initially structured in chronological order from the most urgent options (need for liquidity) to long-term options (recovering better), with providing fresh external finance and plugging the holes (debt relief, prevention of illicit financial flows) in between.

This report, the fourth issue of ESCAP’s Financing for Development Series, analyzes the selected policy options proposed as part of the global initiative on *Financing for Development in the Era of COVID-19 and Beyond* with a focus on the Asia-Pacific region. Specifically, it reviews a range of financing instruments, strategies, and mechanisms that can help Asia-Pacific economies recover from the pandemic and effectively pursue the SDGs. After an overview of selected policy options in Chapter 1, the report takes “deep dives” on two issues. Chapter 2 examines innovative financing instruments such as green bonds, mechanisms such as debt for climate swaps and regulatory approaches such as climate risk disclosure and reporting to support climate action and the SDGs. Chapter 3 discusses the potential benefits of and risks associated with digital finance to support sustainable development in Asia and the Pacific, and articulates the contours of an action agenda.

Selected policy options: Ensuring access to vaccines, addressing debt vulnerabilities, dealing with international taxation issues, and strengthening national development banks

Chapter 1 discusses four broad options of the global Financing for Development initiative, and assesses their relevance for Asia-Pacific policymakers. The first one, ensuring equitable access to COVID-19 vaccines, was highlighted during the meeting of Heads of State and Government in September 2020. Noting that the pandemic is far from over, with a large spike in the number of COVID-19 infections in Asia and the Pacific in April and May 2021 and a smaller but nonetheless significant increase in cases in August 2021, the chapter underscores the criticality of the rollout of vaccines. In this regard, the region has made substantial progress as of September 2021, with a median vaccination rate of 42.4 per cent of the population, which is slightly higher than the global average. However, the data shows highly heterogeneous access to vaccines in the region, with rates exceeding 60 per cent of the population in countries such as Cambodia, Malaysia, Maldives, Mongolia, and Singapore and less than 20 per cent of the population in others such as Armenia, Kyrgyzstan, Bangladesh, Viet Nam and Nepal. Therefore, there is a need to step up efforts to increase vaccine production and ensure that vaccines reach 70 per cent of the world's population in the first half of 2022, as highlighted by the Secretary-General of the United Nations at the 75th General Assembly session in September 2021.

The second policy option analyzed is enhancing liquidity and addressing debt vulnerabilities. To better understand country-specific issues vis-à-vis debt distress, the analysis classifies countries into three groups: (i) those that are eligible for the G20's Debt Service Suspension Initiative (DSSI), (ii) those that are not eligible to the DSSI and have sovereign credit ratings below investment grade, and (iii) those that are not eligible to the DSSI and have investment grade sovereign credit ratings. The rationale for this grouping is that the first category is eligible to the G20's Common Framework for Debt Treatments beyond the DSSI, in case a debt restructuring is needed, while the third cluster has access to global capital markets to refinance external debt. This leaves the second group, without access to the Common Framework and little access to the global capital markets due to their credit ratings, in the most vulnerable situation. The analysis shows that two of the four countries with highest debt services-to-exports ratios in the region belong to that group. This finding reveals a gap in the current debt architecture that needs policy attention. The report also includes a discussion of other potential solutions to the debt challenge, such as availability of emergency financing by international financial institutions (IFIs) and major multilateral development banks (MDBs), the recent new allocation of special drawing rights (SDRs), and the importance of developing local currency bond markets.