

Regional Conversation Series on Building Back Better “Financing for Development in the Era of COVID-19 and Beyond in Asia and the Pacific” 31 August 2020 (13:00-15:00 UTC+7)

Introduction

The Secretary General of the United Nations, along with the Prime Ministers of Canada and Jamaica, launched a global initiative on Financing for Development in the Era of COVID-19 and Beyond on 28 May 2020. At the launch, Heads of State and Government of over 50 countries agreed about the urgency to articulate a comprehensive strategy to overcome the economic and financial consequences of the pandemic and steer the recovery towards the achievement of the SDGs and the Paris Agreement on Climate Change.

Subsequently, six Discussion Groups were set up with the objective of coming up with clear, actionable, and comprehensive policy options in six critical areas : (i) external finance and remittances, jobs and inclusive growth; (ii) recovering better for sustainability; (iii) global liquidity and financial stability; (iv) debt vulnerability; (v) private sector creditors engagement; and (vi) illicit financial flows. The deliberations in these Discussion Groups were led by member States, with support from over 50 institutional partners including UN entities, international financial institutions, think tanks, academic institutions, and civil society organizations. ESCAP also actively supported these discussions by providing technical support and background material. The menu of options resulting from this process will be presented and discussed at two global meetings: a meeting of Ministers of Finance on 8 September 2020 and a meeting of Heads of State and Government on 29 September 2020.

Objective

The objective of the Bangkok event on 31 August was to bring together member states in the Asia-Pacific region, especially those that are the co-leads of some these discussion groups, and eminent persons to explore potential policy options for implementation in the region. The discussion for this Regional Conversation was moderated by Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development Division, ESCAP.



Opening

Ms. Amina Mohammed, Deputy Secretary-General of the United Nations introduced the global initiative on financing for development in the era of Covid-19 and beyond. She highlighted that the SDGs should be at the heart of the recovery plans, which means investing in social safety nets, health, education, decent jobs and climate resilience. She also called for an extension of the debt moratorium under the Debt Service Suspension Initiative (DSSI) through the end of 2021 and change eligibility criteria to include countries facing a high risk of debt distress. She concluded by pointing out that ESCAP, along with the rest of the UN system, is fully engaged in supporting its member States implement concrete actions for building back better.

Ms. Armida Salsiah Alisjahbana, Executive Secretary of ESCAP noted that the socio-economic impact of the COVID-19 pandemic in the region has been severe, leading to economic contraction, job losses and rises in poverty and inequality. To frame the conversation, she suggested three focus areas: (i) addressing the challenges of diminished fiscal space and debt vulnerability; (ii) ensuring that the recovery policies steer economies towards an inclusive, sustainable and resilient development pathway, consistent with the ambitions of the 2030 Agenda and the Paris Agreement; and (iii) harnessing the potential of regional cooperation in support of financing for development.

Mr. Masatsugu Asakawa, President of the Asian Development Bank highlighted a \$20 billion support package offered by the Bank, which includes emergency finance for governments' social protection programs. He pointed out the need to rebuild the region's economies and societies after the crisis with green, resilient, and inclusive measures, promote investment in quality infrastructure, and reduce inequality through affordable, accessible, and high-quality education and health services. Among other measures, he proposed to improve tax policy and administration by broadening the tax base and closing loopholes, introduce a carbon tax, strengthen financial markets, promoting thematic bonds such as gender, green and blue bonds.



Ministerial segment

H.E. Mr. Ibrahim Ameer, Finance Minister of Maldives noted that prior to the crisis induced by COVID-19, Maldives had embarked on an ambitious investment program in infrastructure, including safe water and access to health care, financed through external borrowing. He highlighted that the country depends heavily on tourism, which accounts for 25 per cent of GDP directly and over 60 per cent of GDP indirectly, and its sudden stop due to COVID-19 pandemic has caused government revenues to contract by more than 50 per cent. He observed that the Debt Service Suspension Initiative is helpful but not enough to address the country's financing needs. He suggested that it could be extended to cover publicly guaranteed private debt and called for access to additional concessional financing. On recovering better, he called for development partners to support countries vulnerable to climate change to attract investments with positive environmental, social and economic outcomes, including through the provision of technical assistance to identify potential projects and connect countries with investors. In concluding, he called for the establishment of a global trust fund to support the recovery from the crisis of economies dependent on tourism. Such trust fund would support a resumption of travel and tourism, including by funding, for instance, equipment for real time virus testing.

H.E. Mr. Abdul Hafeez Shaikh, Advisor to the Prime Minister of Pakistan on Finance and Revenue mentioned several initiatives that Pakistan has implemented to protect its citizens and the economy from the impact of the COVID-19 pandemic, including a programme to provide liquidity to firms, a cash transfer programme for households, and subsidies for firms' payroll expenditures. He referred to some of the recommendations of the Discussion Group on Debt Vulnerability, which Pakistan co-leads with the Netherlands and the African Union, including (i) an extension of the DSSI for a minimum of one year; (ii) consideration for DSSI support for middle income countries affected by the crisis, particularly small island developing States; (iii) debt swaps for SDGs or climate investments; (iv) reprofiling of debts to be considered on a case-by-case basis. He also mentioned that two recent regional proposals – a regional resilience fund proposed by ECLAC and a sustainability and liquidity facility proposed by ECA – could be considered by ESCAP for the Asia-Pacific region. He pointed out that there is a huge gap in capacities to provide liquidity support between the central banks of the OECD countries and the central banks of developing countries and called the former to support the latter. Going forward, he emphasized the importance of improving the quality and allocative efficiency of investments, both through appropriate budgetary policies and by providing appropriate incentives to private domestic and foreign investors.



H.E. Mr. Aiyaz Sayed-Khaiyum, Attorney-General and Minister for Economy, Civil Service, and Communications of Fiji, represented by Ms. Makereta Konrote, Permanent Secretary of the Ministry of Economy, noted that the current crisis provides an opportunity to fundamentally rearrange our policies and investment priorities by adopting policy paradigms and a financing architecture that mainstream zero carbon and sustainability principles. As co-lead of the Discussion Group on Recovering Better for Sustainability, she shared the following recommendations: (i) invest in equitable, resilient health systems; (ii) ensure, with support from multilateral development banks, that any vaccines developed for COVID-19 or any future global pandemic are made available as a global public good; (iii) scale up social protection policies and investments that have measurable benefits for human well-being, significantly reduce gender gaps and inequality, and promote skills development; (iv) implement nature-based solutions to develop sustainable ecosystems, climate-smart agriculture, and sustainable resource management; (v) encourage multilateral development banks and international financial institutions to use their resources, knowledge and convening power to systematically align their operations with the SDGs and the Paris Agreement and elevate their focus on small states and least developed to recover from COVID-19; (vi) encourage a shift towards sustainable investments through countries' commitment to sustainability-related disclosure frameworks that align with global standard-setting initiatives, and through the development of financial instruments such as green and blue bonds; (vii) promote the development of open, inclusive, affordable and secure digital infrastructure and technology; and (viii) implement carbon pricing, carbon budgets, and other incentives to accelerate the transition to net-zero greenhouse gas emissions.



Eminent persons roundtable

The following eminent speakers shared their perspectives and insights: **Ms. Zeti Akhtar Aziz, Former Governor of the Central Bank of Malaysia; Mr. Chatib Basri, Former Finance Minister of Indonesia; Mr. Ronadol Numnonda, Deputy Governor, Financial Institution Stability, Bank of Thailand; Ms. Yuefen Li, United Nations Independent Expert on Foreign Debt and Human Rights; Mr. Kairat Kelimbetov, Governor, Astana International Financial Center, Kazakhstan; and Mr. Victor Fung, Chairman, Fung Group, Hong Kong, China.** Below is a summary of the main issues discussed at the roundtable:

Debt vulnerability

- *Contain the spread of the virus to avoid unsustainable debt accumulation.* Economies across the region have adopted expansionary fiscal policies to boost their health response and protect vulnerable workers and businesses. As a result, public debt is rising in many countries. In this context, the most urgent priority is to contain the spread of the virus to save lives and livelihoods. The longer the pandemic lasts, the heavier the debt burden will be. Therefore, regional and international cooperation is needed to ensure global access to vaccines and end the pandemic as soon as possible.
- *Debt relief.* The pandemic is a massive exogenous shock and constitutes a state of necessity for debt relief. The temporary debt standstill provided by the G20's Debt Service Suspension Initiative (DSSI) is a welcome step, but it is far from sufficient. The country coverage, duration and depth of debt relief should be expanded and extended beyond the current DSSI. Countries which would like to maintain access to the international capital market could consider market-based solutions such as debt buybacks and debt swaps, which would not lead to credit downgrades and could be good exit strategies from heavy debt burdens. Debt exchanges, reprofiling and restructuring can result in loss of access to capital markets but lead to deeper debt reductions. Efforts should be made to improve the international financial architecture including a framework for debt restructuring.



Recovering better for sustainability

- *Structural unemployment, digitalization and education.* Currently there is a situation of structural unemployment, which affects mainly young people and is caused by the transition of economic activities towards the digital sphere. To support the digital transformation, it will be necessary to change the nature of education, to ensure that young people have the required skill sets. Investment in education also needs to change. Priority should be given to investments in IT infrastructure and online learning platforms that allow the virtual delivery of education and digital learning. The aim of these reforms should be the delivery of quality education to all, to ensure that no segment of the population is marginalized in their access to education. Digitalization can also support the development of other sectors, such as healthcare and finance. It can also help accelerate the implementation of the WTO Trade Facilitation Agreement and cut trade costs significantly.
- *Strong institutions to build resilience.* Countries with strong public health institutions have been more resilient in protecting their people from the pandemic. Such institutions can and should be built. An example of how strong institutions create resilience is given by the financial reforms undertaken by several countries of Southeast Asia in the decade after the Asian Financial Crisis. Such reforms created new institutions, such as local currency bond markets, and built capacities in old institutions, such as central banks, to make financial systems more robust to both external and internal shocks. Continuing strengthening financial systems is important in the context of the COVID-19 crisis, to prevent adverse impacts on financial stability resulting from emergency monetary expansions by most central banks. Ensuring that banks have appropriate capital buffers, conducting stress tests for worst-case scenarios are important in this regard. Going forward, it is also important to ensure that financial systems in the region provide appropriate levels of trade finance and credit to SMEs.

Regional cooperation

- *Policy coordination.* National-driven policy responses in areas such as finance, public health and food security can have unintended consequences that can lead to a deeper and more prolonged downturn. For instance, restrictions of exports of food and medicines to ensure enough supplies in exporting countries can lead to scarcity, price rises and panic in importing countries.
- *Set up and/or expand regional frameworks.* On finance, an expansion of bilateral currency swaps among central banks of the region can provide much needed liquidity. On public health, it is critical to support the development, production and equitable distribution of diagnostic tests, vaccines, and treatments. This could be done through a collective commitment of funds to the WHO 's COVID-19 Solidarity Response Fund or through the expansion of the coverage of the COVID-19 ASEAN Response Fund can also be considered. It is also important to collaborate by setting up protocols for the resumption of international travel through the standardization of health certification and precautionary measures.



Open discussion

During the open discussion, several additional issues were raised, including:

- Because the current crisis affected both the demand and the supply sides of regional and global value chains, these issues need to be addressed through multilateral cooperation.
- The selection of infrastructure projects is critical to ensure that development is sustainable going forward.
- Many countries will need to run fiscal deficits going forward to support additional emergency measures to address the pandemic and the recovery. This will require access to additional resources. In this context, a surcharge on fossil fuels is good alternative, as it can both raise much needed fiscal revenue and reduce consumption of fossil fuels and carbon emissions.
- The extensive dissemination of accurate public information about the pandemic, health precautions and access to resources, both through social and traditional media, is very important to reduce uncertainty and expedite the control of the virus spread.
- Stimulus packages and cash transfers need to prioritize protecting the most vulnerable, especially for women, who are engaged in jobs such as retail and in the informal sector, that have been severely affected by the pandemic.
- Governments should consider providing support to businesses through credit guarantees, rather than through direct subsidies. Credit guarantees are less expensive, as only a fraction of the guaranteed amounts will be lost. In addition, credit guarantees support the development of banks and other financial institutions.
- Quantitative easing and similar monetary measures leading to very low interest rates can adversely affect financial stability, as they create an incentive for investors to seek investments with higher returns and risks. Also, these policies are not effective to stimulate economic activity if they are sustained for a long time, as in the aftermath of the global financial crisis of 2008.



Closing

Providing her closing remarks, **Ms. Armida Salsiah Alisjahbana, Executive Secretary of ESCAP** pointed out that the longer the pandemic lasts, the higher will be its costs and future debt burdens. As such, the immediate priority is to contain the spread of the virus to save lives and livelihoods. She also emphasized the need to safeguard the sustainability of debt obligations in vulnerable countries, particularly those negatively impacted by the collapse of tourism revenues and declines in remittances. For that purpose, she called for an extension of the Debt Service Suspension Initiative (DSSI) at least through the end of 2021 and pointed out that some countries may require a reduction, not just a postponement, of their debt obligations. In this case, options such as debt buy-backs or debt for sustainable development swaps could be considered.

In order to build back better in the aftermath of the COVID-19 emergency, she highlighted the need for fundamentally rearranging policies and investments to put the SDGs and the Paris Agreement at the heart of the recovery plans. This means investing in equitable and resilient health systems, ensuring that social protection policies provide measurable benefits for human well-being and promoting the development of necessary skills. Along with allocating public funds wisely, she emphasized the need to enhance fiscal space by implementing appropriate tax reforms and improving tax administration through broadening the tax base and closing loopholes. She also noted that scaling up digitalization can improve the efficiency of social protection, enhance financial inclusion and provide more opportunities to small and medium-sized enterprises.

Finally, she noted that no country can combat the pandemic alone and called for enhancing regional cooperation in Asia and the Pacific. Among important areas for cooperation, she highlighted the need to coordinate the opening of borders to facilitate the safe resumption of international travel through the adoption of common health protocols. She also expressed interest in further discussing proposals for a regional dedicated funds to support the recovery and the achievement of the SDGs in vulnerable countries. She also emphasized the need for to ensure that global public goods like vaccines and diagnostic tools are accessible and affordable to all countries.

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