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

by Alberto Isgut, Acting Chief, Financing for Development Section, ESCAP

ESCAP Financing for Development Series No. 4

Outline

1. Financing the SDGs in the era of COVID-19: A review of selected issues
2. Leveraging Innovative Financing Instruments, Mechanisms, and Policies to Support Climate Action and the SDGs
3. Digital Finance and Sustainable Development in Asia-Pacific: Cultivating an Ecosystem Approach
Financing the SDGs in the era of COVID-19: A review of selected issues – Key messages

1. Ensure equitable access to COVID-19 vaccines
2. Enhance liquidity and address debt vulnerabilities
3. Tackle illicit financial flows, with a focus on tax-related aspects
4. Align public finance with the SDGs and the Paris Agreement, with a focus on national development banks
Ensure equitable access to COVID-19 vaccines: The COVID-19 pandemic is not over yet

Confirmed daily new cases of COVID-19, by country group

Vaccination rates vary significantly across countries

COVID-19 vaccination rates in Asia and the Pacific
Financing the SDGs in the era of COVID-19:
A review of selected issues – Key messages

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Enhance liquidity and address debt vulnerabilities:
External debts increased over 2009 – 2019

- Public external debt in nominal terms doubled between 2009 and 2019
- But the average debt-to-GDP ratio increased less, from 22 to 26 per cent
- The composition of debt changed
  - MDBs and bilateral creditors down from 55 per cent in 2009 to 35 per cent in 2019
  - Debt to bondholders surged from 19 per cent to 50 per cent

External public and publicly guaranteed debt of the Asia-Pacific developing countries, by type of creditor
### Country groups for debt analysis

<table>
<thead>
<tr>
<th>Eligibility to the Debt Services Suspension Initiative (DSSI)</th>
<th>Credit rating</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSSI eligible countries</td>
<td>No credit rating</td>
<td>Afghanistan, Bhutan, Myanmar, Nepal, Samoa, Timor-Leste, Tonga, and Vanuatu</td>
</tr>
<tr>
<td></td>
<td>Below investment grade</td>
<td>Bangladesh, Cambodia, Fiji, Kyrgyzstan, Lao PDR, Maldives, Mongolia, Pakistan, Papua New Guinea, Solomon Islands, Tajikistan, and Uzbekistan</td>
</tr>
<tr>
<td>Non-DSSI eligible countries</td>
<td>Below investment grade</td>
<td>Armenia, Azerbaijan, Georgia, Sri Lanka, Turkey, and Viet Nam</td>
</tr>
<tr>
<td>Non-DSSI eligible countries</td>
<td>Investment grade</td>
<td>China, India, Indonesia, Kazakhstan, Philippines, Russian Federation, and Thailand</td>
</tr>
</tbody>
</table>

#### Evolution of debt by group, 2009 – 2019

- **External public and publicly guaranteed debt of the Asia-Pacific developing countries**, by country group and type of creditor
- **External public and publicly guaranteed debt of the Asia-Pacific developing countries**, by country group, as percentage of GDP
### Solutions

- **Debt Service Suspension Initiative (DSSI)**
  - 11 participants out of 24 eligible countries in Asia-Pacific - small benefit, 1.9% GDP compared to debt services due in 2020-21 for 10.4% of GDP
- IFIs provided $237 billion in emergency support in 2020
- Common Framework for Debt Treatments
- SDR allocation for $650 billion – reallocation through PRGT – new Resilience and Sustainability Trust?
- Development of local currency (LCY) bond markets
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Tackle illicit financial flows, with a focus on tax-related aspects

• Illicit Financial Flows are a major drain on the resources available to governments
  o Money laundering 2.7 per cent of world GDP, private wealth in haven countries $32 trillion, global losses of governments’ tax revenues due to tax evasion and avoidance $300-$600 billion/year

• UN High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda

• Historical agreement of 130+ countries to introduce an international tax on multinational enterprises (MNE) and set a global minimum tax rate of 15 per cent
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Align public finance with the SDGs and the Paris Agreement, with a focus on national development banks

- National development banks (NDB) can play a crucial role in supporting the provision of public goods, including to address climate change
- At the 2020 Finance in Common Summit, the world’s public development banks committed to shift their strategies, investment patterns, and activities to achieve the SDGs and the Paris Agreement.
- Challenges of some NDBs: Weak governance, unclear developmental mandates, non-performing loans, ineffective monitoring and evaluation, limited capital base and conservative lending practices.
- Challenges can be overcome
Leveraging Innovative Financing Instruments, Mechanisms, and Policies to Support Climate Action and the SDGs

a. Thematic bonds: Innovative financing instruments for climate action and SDGs
b. Climate risk disclosure and reporting: Information for better and greener decision making
c. Debt-for-climate swaps as a tool to support the implementation of the Paris Agreement
d. Enabling policy environment to finance climate action

Different types of Thematic bonds
Green, social and sustainability bonds issuance increasing fast

Thematic bonds issuance in Asia and the Pacific

Green Bonds issuance in Asia and the Pacific

Value of issued green bonds in 2020

Green, social and sustainability bonds issuance increasing fast
Key Stages in Issuing Thematic Bonds

- **Feasibility**: Considering the reasons for issuance, project selection, gathering information for analysis, and beginning of stakeholder coordination.
- **Pre-launch**: Stage includes appointing key advisors, selecting the bond framework, risk management, and investor outreach.
- **Launch**: The actual launch, marketing and the roadshow, and finally pricing and closing the bond issue.
- **Post-issuance**: Stage includes monitoring and reporting the project impact, and preparing for future transactions.

Leveraging Innovative Financing Instruments, Mechanisms, and Policies to Support Climate Action and the SDGs

- **a. Thematic bonds**: Innovative financing instruments for climate action and SDGs
- **b. Climate risk disclosure and reporting**: Information for better and greener decision making
- **c. Debt-for-climate swaps**: As a tool to support the implementation of the Paris Agreement
- **d. Enabling policy environment**: To finance climate action
Climate risk disclosure and reporting
Information for better and greener decision making

- Climate change entails new financial risks
  - Physical risks due to climate and weather-related events, such as floods and storms that damage property
  - Transition risks such as technologies becoming obsolete due to regulatory changes and disruptions to existing business models
- $20 trillion in stranded assets estimated by 2050
- Risks need to be disclosed to be factored in by investors and markets
- Many reporting frameworks – Global Reporting Standards (GRI), Task Force of Climate-related Financial Disclosures (TCFD)
- Growing consensus on the need to align disclosure standards and move towards mandatory disclosures

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Making debt-for-climate swaps work

1) Conduct consultations with all relevant stakeholders to understand their views and seek to ensure a strong political support for a debt swap deal

2) Design a debt-for-climate swap term sheet to reduce transaction costs and negotiation times

3) Adopt an effective monitoring, reporting, and verification (MRV) framework

4) Ensure national ownership

5) Additionality

A debt-for-climate swap scheme to support the implementation of the Paris Agreement
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Enabling policy environment to finance climate action

- Climate Finance Policy Index measures the legal, regulatory, and institutional basis to enable the financing of climate action
- Elements
  a) Green Taxonomy and green budgeting
  b) Carbon pricing
  c) Climate-related sectors
  d) Green Capital Market Development
  e) Climate risk disclosure and sustainable finance reporting
  f) Ease of doing business.
Digital Finance and Sustainable Development in Asia-Pacific: Cultivating an Ecosystem Approach

a. The development of “digital rails” in Asia and the Pacific
b. Digital finance offerings and solutions in Asia and the Pacific
c. Digital Financial Services Barriers and Risks
d. Enhancing Digital Finance: An Action Agenda in Asia and the Pacific

Digital access increases with income levels

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Average per cent of individuals with Internet access</th>
<th>Average active mobile broadband subscriptions per 100 inhabitants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income Economies</td>
<td>16.4</td>
<td>33.4</td>
</tr>
<tr>
<td>Lower-Middle-Income Economies</td>
<td>34.7</td>
<td>70.8</td>
</tr>
<tr>
<td>Upper-Middle-Income Economies</td>
<td>63.1</td>
<td>75.6</td>
</tr>
<tr>
<td>High-Income Economies</td>
<td>91.7</td>
<td>144.3</td>
</tr>
<tr>
<td>Total Average</td>
<td>51.3</td>
<td>80.8</td>
</tr>
</tbody>
</table>
Digital payments developing in many ways

- Large e-commerce, ride-hailing, or social media platforms – Alipay, WeChatPay, GrabPay, GoPay
- Mobile Network Operators – payment agents facilitate access to digital payments in the last mile to unbanked individuals
  - P2P transfers, utility payments, more recently savings, loans
- Public payments gateways – Fast Payments Systems (FPS) provide countrywide retail payments, QR codes: PromptPay in Thailand, Bakong in Cambodia
- Next: Central Bank Digital Currencies (CBDC) – digital yuan in China being piloted for domestic retail payments

Digital IDs and tiered KYC to facilitate financial inclusion

- Expansion of digital IDs helping individuals comply with financial institutions know your customer (KYC), customer due diligence (CDD) requirements
- Complementary solution: eKYC, tiered KYC, proportionate, risk-based anti-money laundering and countering financing of terrorism (AML/CFT) controls
  - Basic mobile money products with capped limits to wallet holdings and transfers
  - Basic identification requirements, such as a phone number, for an account with a low financial limit
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Digital finance offerings and solutions

1) Cross-border Remittances
2) Digital Financing for MSMEs
3) P2P Lending and Crowdfunding
4) Aggregation of Micro-savings to Finance the SDGs
5) Digital Insurance
6) Digital Technologies and the Public Sector
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Selected barriers to and risks of digital financing

- Digital and/or financial illiteracy
- Lack of transparency in the use of private data, unauthorized sale to third parties; cybersecurity
- Digital fraud, theft, and money laundering
- Irresponsible digital financial products, or products and offerings with misleading terms and conditions or insufficient recourse measures
- Unfair treatment of consumers arising from discriminatory algorithms and data analysis methods
- Market concentration
- Incomplete, outdated, or unsuitable regulations
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An Action Agenda to enhance digital finance in Asia and the Pacific

Regulation

Infrastructure  Literacy
Thank you for your attention