Policy Dialogue on "Financing a Sustainable Recovery from COVID-19 and Beyond"

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Based on the *Asia-Pacific Countries with Special Needs Development Report 2022*

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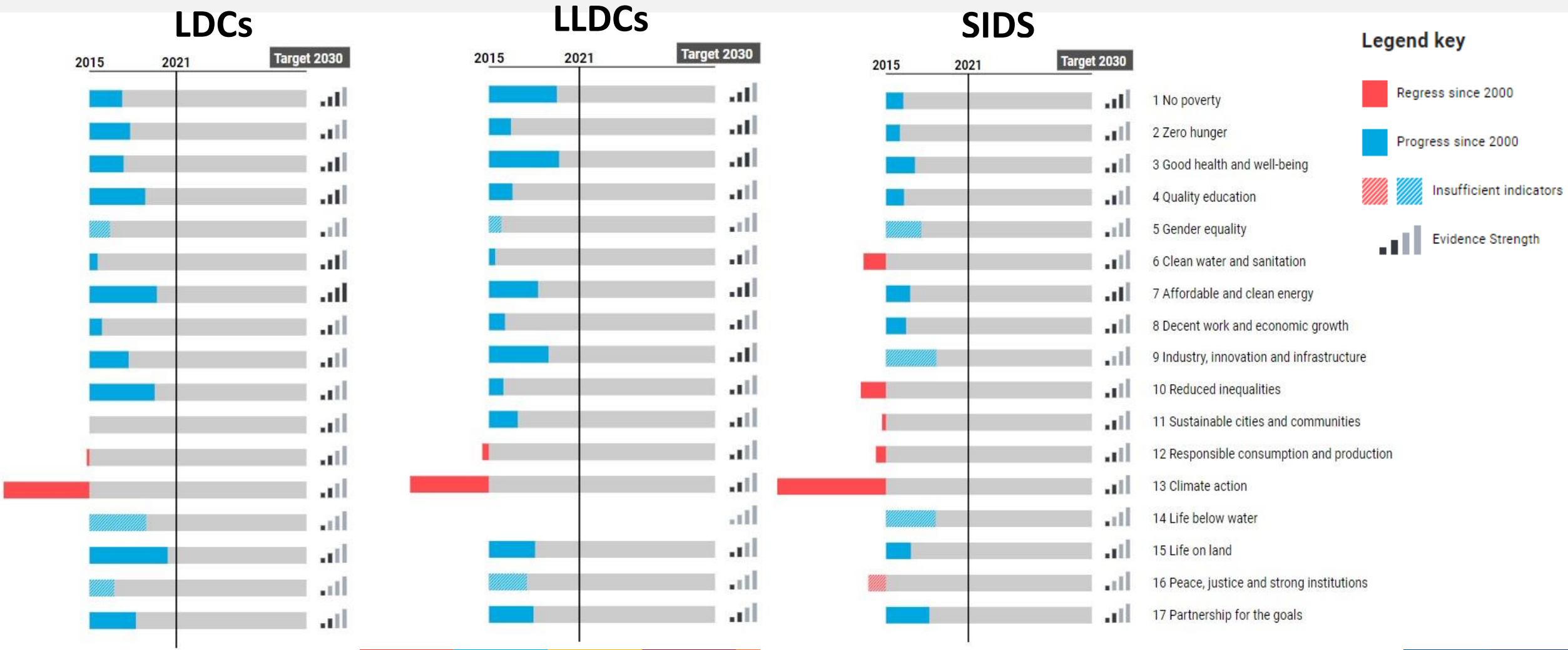
Asia-Pacific Countries Special Needs (CSN) Development Report

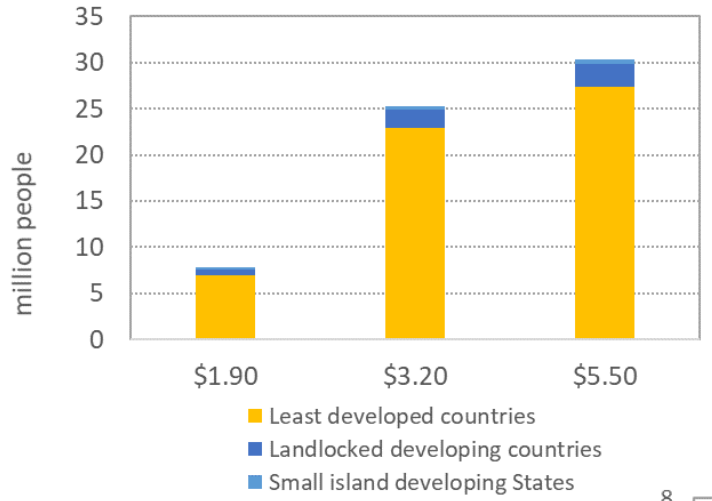
- Annual publication, to be launched in May 2022.
- Countries with special needs (CSN) = countries in special situations (CSS)
  - Least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS)
  - Include 12 LLDCs - Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan, Turkmenistan and Uzbekistan
  - Continue to face structural challenges and vulnerability to shocks
- 2022 issue on "Financing a sustainable recovery from COVID and beyond"
  - *Motivations*: Stalled SDG progress, only 8 years left till 2030, large financing needs

Stalled SDG progress amid the pandemic…

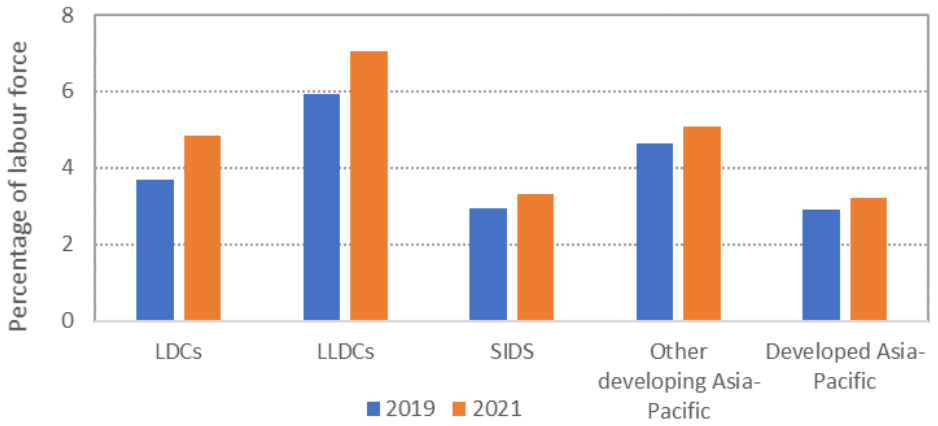


Stalled SDG progress amid the pandemic…

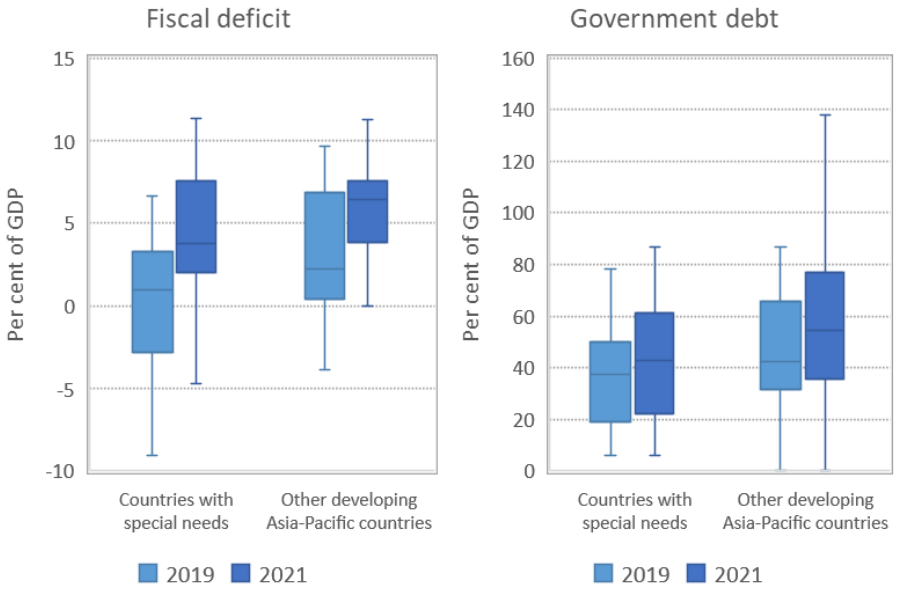
Additional 7.8 million people in extreme poverty



Unemployment increased by 1.9 million



Projected increase in fiscal deficit



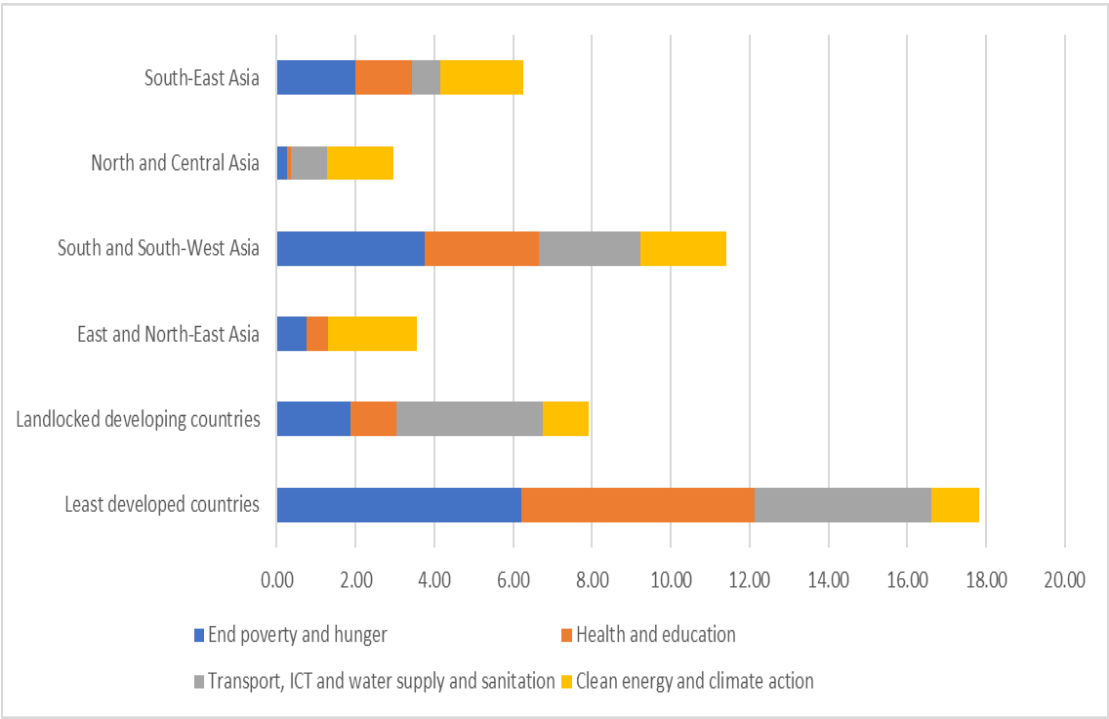
… requires a “sustainable recovery”

- Defined as an integrated approach to supporting economic recovery that enhances environmental sustainability and social inclusiveness and resilience (i.e., contributes to SDGs)
- Stimulus measures so far in CSN are:
  - Not designed to achieve the long-term development goals
  - Small compared to other developing countries in the region (1.7% of GDP in LDCs vs. 6.6% for all developing AP countries), pointing a rising risk “K-shaped” recovery.

… also requires additional financing to achieve SDGs

- Required additional financing to achieve SDGs: 19% of GDP in LDCs and 8% of GDP in LLDCs
- Only a fraction of the required amount can be currently mobilized.
- Post-pandemic needs will be even greater

SDG financing requirements



Untapped potential exists in mobilizing domestic public resources

- High volatility due to undiversified revenue base
- **COVID-19** - 5% average decline
- Additional tax revenue that can be raised ranges from 1.7 to 12.5 per cent of GDP
- Informality affects base; administration can be improved
- Digital finance has lowered the administrative cost of government cash transfer programmes

Tax ratio vs. per-capita GDP (Latest available year)



Struggles to attract FDI continue, especially to SDG sectors

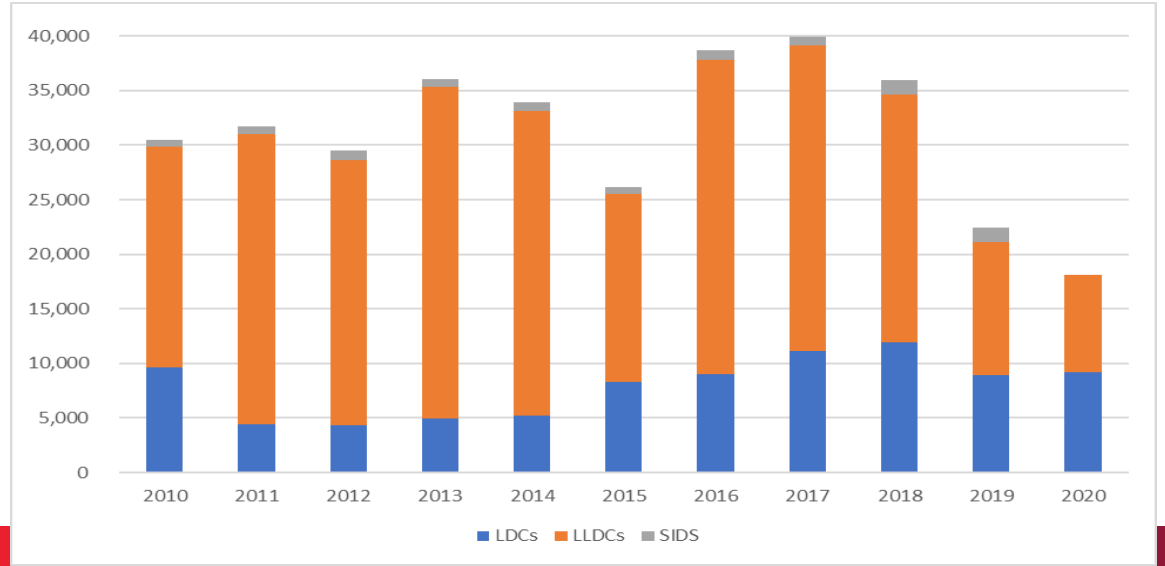
FDI

- Generally low and volatile; unevenly distributed
- Greenfield investments: concentrated in coal, oil and gas sub-sector in LLDCs
- **COVID-19**: record low in LLDCs and SIDS

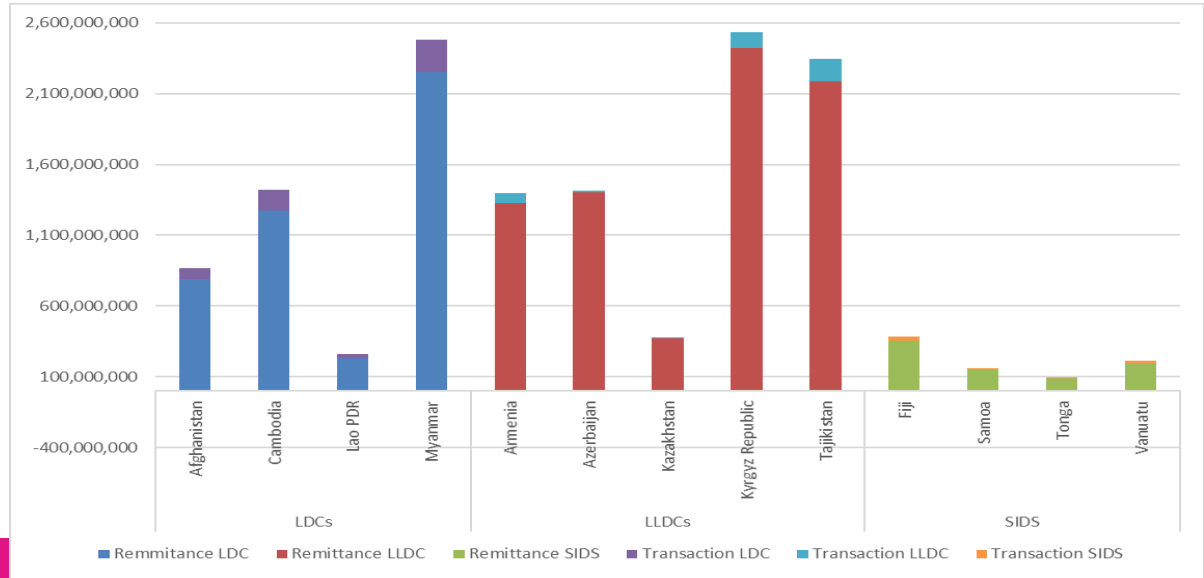
Remittances

- LDCs-3.5%; LLDCs-8.8%; SIDS-6.1% of GDPs
- Costs are still high: between 2016-2020 a total of $10.7 billion incurred by 16 CSN

Total FDI flows to CSS



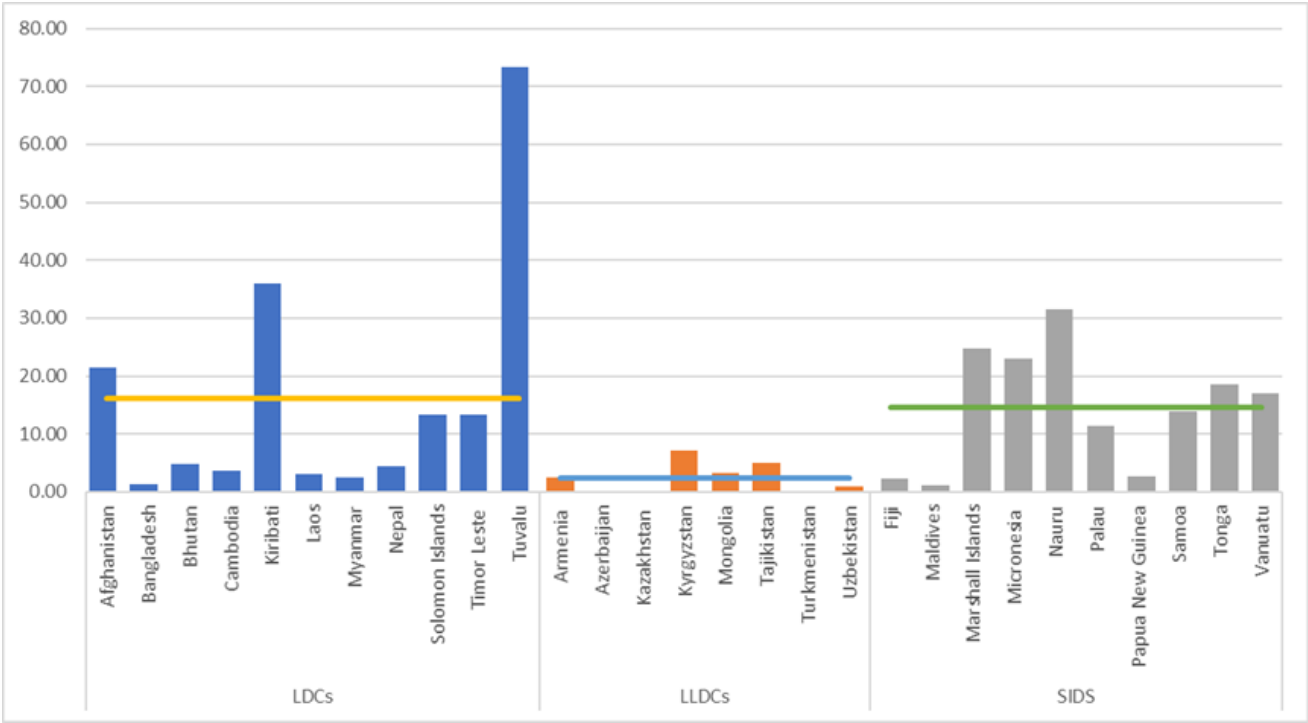
Total vs. cost of remittances, 2020



While uncertainty remains for bilateral ODA, IFIs provide immediate liquidity relief

- The single most important source of external finance for many CSN
  - LDCs:16% of GDP
  - SIDS: 15%
  - LLDCs: 2%
- Impact of **COVID-19** on bilateral ODA is uncertain
- IFIs have stepped up activities
  - Globally: Flows to increased by 66% over 2019-2020. LDCs, LLDCS and SIDS

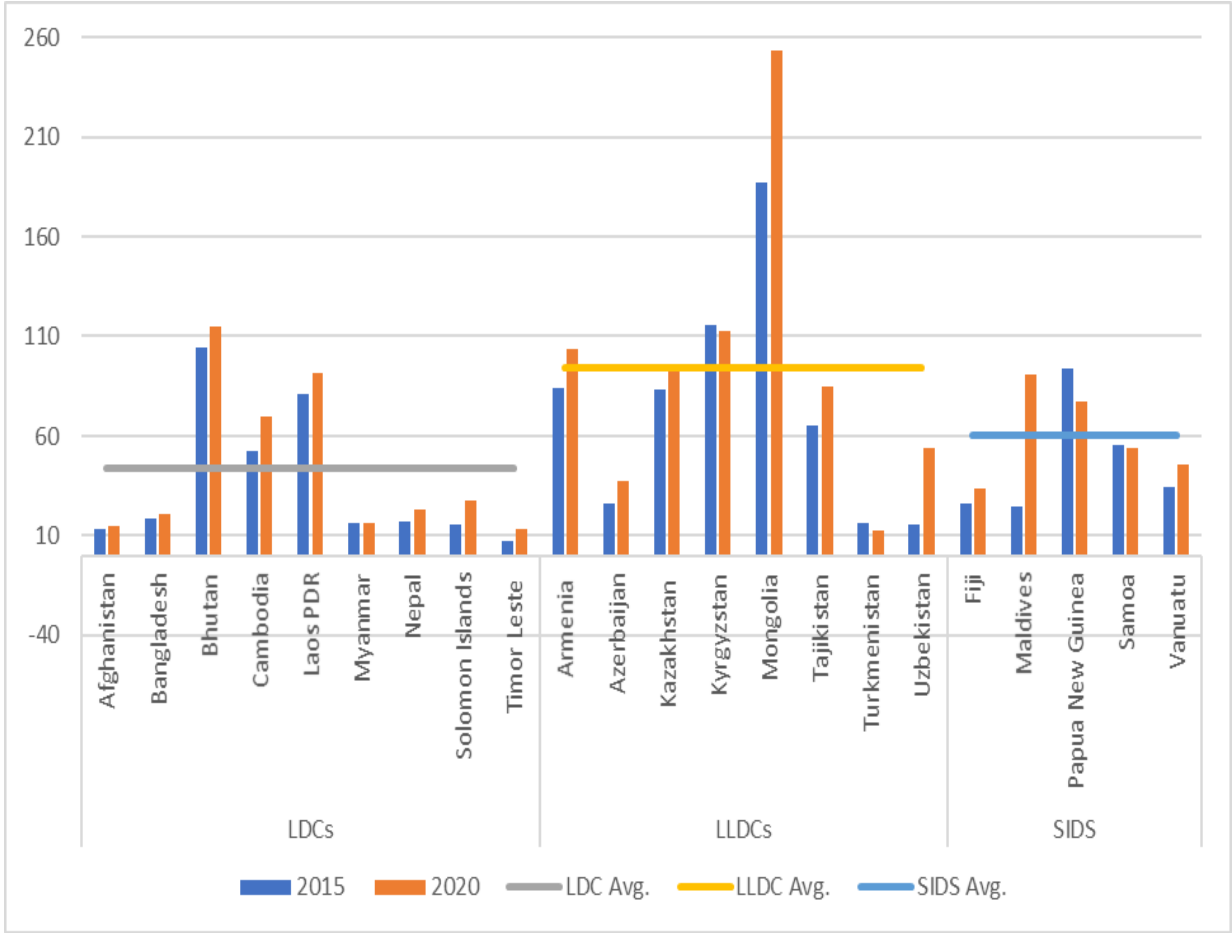
Average ODA as a share of GDP (2015-2019)



Innovative instruments could help leverage private capital, but with risks and challenges

- CSN can take advantage of expanding global markets for thematic bonds.
- 11 CSS are classified as ‘high risk’ out of which 8 are SIDS
- **COVID19**- Public debt increased from 51% of GDP in 2019 to 61% in 2020 and 63% in 2021
- Debt-for-climate swaps could reduce debt exposure while also increasing investments in climate adaption or mitigation.

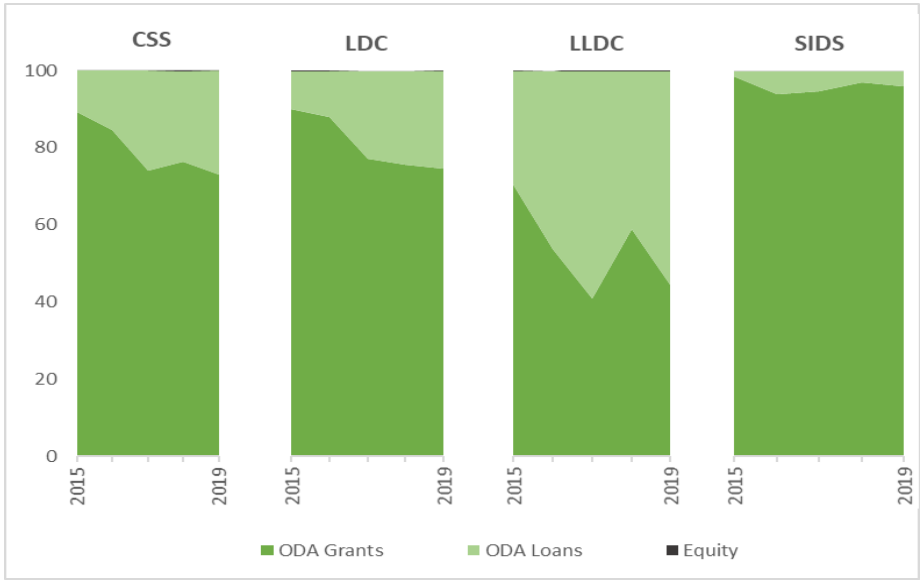
Public debt as % of GDP, 2015 and 2020



Multilateral priorities

- Foster cooperation to address international taxation challenges
- Renewed efforts to meet ODA commitments
- Addressing immediate debt vulnerabilities and restoring long-term debt sustainability
- Addressing cross-border infrastructure financing gaps
- Promoting capital market development through regional financial cooperation
- Meeting climate commitments and leveraging innovative climate and environment-related finance
- Accelerating digital finance for financial inclusion
- Harnessing regional value chain-linked FDI for sustainable development
- Promoting multistakeholder approach in the process of sustainable recovery

Gross ODA disbursements by DAC countries by instruments



Key takeaways

- The pandemic has widened the already significant financing gaps to achieve SDGs in CSN and increased the difficulty in closing them
- Traditional sources will continue to be the dominant source of finance. While insufficient on their own, these can be mobilized further and made sustainable.
- Innovative sources and instruments have the potential, but constrained by capacity, policy and regulatory gaps
- The current context provides an opportunity to introduce wide-ranging policy reforms, including for public expenditure management, with SDG budgeting and tagging.
- Strengthened partnerships and solidarity are essential to fill the financing gaps (e.g., by addressing debt vulnerabilities and fostering regional tax cooperation)

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