

Enhancing Blue Economy Sectors' for Financing for Development in SIDS

Jose A. Pedrosa Garcia, PhD

Countries with Special Needs Section

Macroeconomic Policy and
Financing for Development Division

UN-ESCAP

Bangkok, 8 November 2019



Structure

- **Context**
- **Investment Needs in SIDS**
- **Financing for Development in SIDS**
- **Selected blue economy sectors**
 - **Fisheries**
 - **Tourism**
 - **[Regional Cooperation]**
- **Questions for Debate**



Context

ESCAP's Initiatives for 2020 are goal-oriented

- **Theme Study on Oceans**
 - **Fisheries**
 - **Marine pollution**
 - **Regional Cooperation**
- **Economic and Social Survey**
 - **Sustainable Consumption & Production**
- **Countries with Special Needs Report**
 - **Financing Development <- Regional Cooperation**
 - **Fisheries**
 - **Tourism**

Investment Needs in SIDS

- Region needs 1.5 trillion for the SDGs = 5% of GDP
- Asia-Pacific CSN
 - LDCs (e.g. Bangladesh)
 - LLDCs (Central Asia)
 - SIDS (e.g. Samoa)
 - LDCs + LLDCs (e.g. Nepal)
 - LDCs + SIDS (e.g. Vanuatu)
- SIDS
 - Remote, vulnerable, narrow economic bases
 - Fiscal volatility

How to finance those investments?*

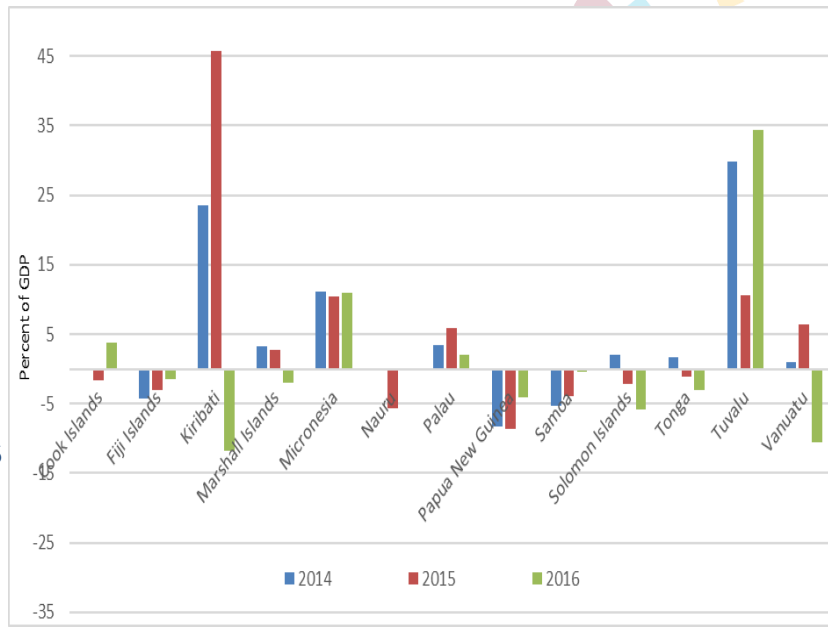
- **Public Resources**
 - **Structure (Tax vs non-tax, volatility and debt)**
 - **ODA**
 - **Climate Finance**
- **Private Finances**
 - **FDI**
 - **Remittances**
- **Mixed**
 - **Bonds**
 - **PPPs**
 - **Public expenditure efficiency**

Fiscal Volatility

- Long-term investments require: i) funds and ii) stability
- Narrow base -> High Govt. expenditure to GDP (e.g. 100% Tuvalu)
 - Low dispersed population
 - Recurrent vs Capital spending
- Volatile revenue
 - Fishing licenses
 - Aid
- Volatile expenditures
 - Natural disasters

↓

 - Wealth/Trust Funds
 - Disaster Insurance
 - MTEF



Public revenue (taxes and non-taxes)

- **Variability: 3 groups***
- **Relevant (ODA + VAT + Tariffs) vs Irrelevant (Income)**

Country	Tax revenue (% of GDP)	Grants and other revenue	Interest payments	Other taxes	Social contributions	Taxes on goods and services	Taxes on income, profits and capital gains	Taxes on international trade
Solomon Islands	27.6	35.0	0.3	0.8		22.1	22.3	19.7
Fiji	25.0	10.4	9.2			43.0	27.9	18.7
Samoa	24.7	25.0	2.4	0.5	1.6	49.0	16.3	7.6
Tonga	22.3	50.2	1.9	0.1		33.3	10.9	5.6
Kiribati	22.2	78.5	0.1	0.0		12.3	7.2	2.0
Nauru	21.7	79.6				2.3	7.8	10.3
Palau	19.6	50.3	0.4	2.0		25.2	9.5	13.0
Maldives	19.5	25.0	6.6	0.2		41.0	20.4	13.5
Marshall Islands	18.2	74.5	0.4	0.5		9.0	10.2	5.8
Vanuatu	17.7	51.8	2.9	1.4		36.3		10.5
Timor-Leste	12.9	67.5	0.0	0.1		7.0	23.9	1.6
Papua New Guinea	12.9	20.7	13.2	0.1		28.2	46.1	4.8
Micronesia, Fed. Sts.	11.3	77.7	0.4	0.2		2.8	15.9	3.4

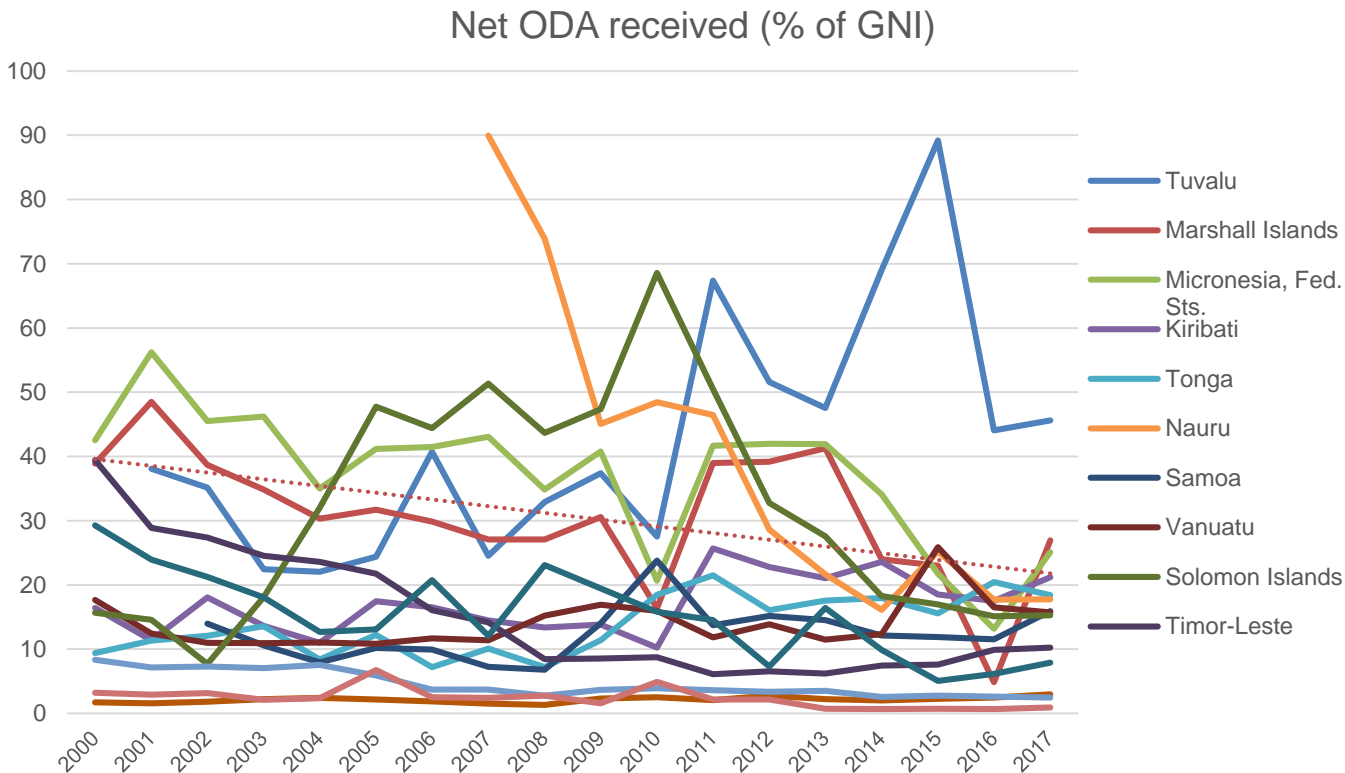
Public Debt

- Acceptable debt levels and not worrying in the short term...
- If anything, some countries should monitor external debt

Country	Central government debt, total (% of GDP)	Present value of external debt (% of GNI)	Short-term debt (% of total external debt)	External debt stocks (% of GNI)
Fiji	-	13.9	5.6	18.7
Kiribati	-	-	-	-
Maldives	57.3	18.3	0.4	32.2
Marshall Islands	50.4	-	-	-
Micronesia, Fed. Sts.	25.6	-	-	-
Nauru	-	-	-	-
New Caledonia	-	-	-	-
Palau	66.7	-	-	-
Papua New Guinea	29.8	8.6	1.3	85.6
Samoa		38.8	0.0	53.5
Solomon Islands	7.0	5.9	8.0	28.6
Timor-Leste	-	0.7	6.2	1.9
Tonga	51.8	27.8	0.6	39.1
Tuvalu	-	-	-	-
Vanuatu	-	20.6	14.9	46.0

Public resources: ODA

- Still important for many countries...
- but clearly downwards trend (except for Tuvalu)

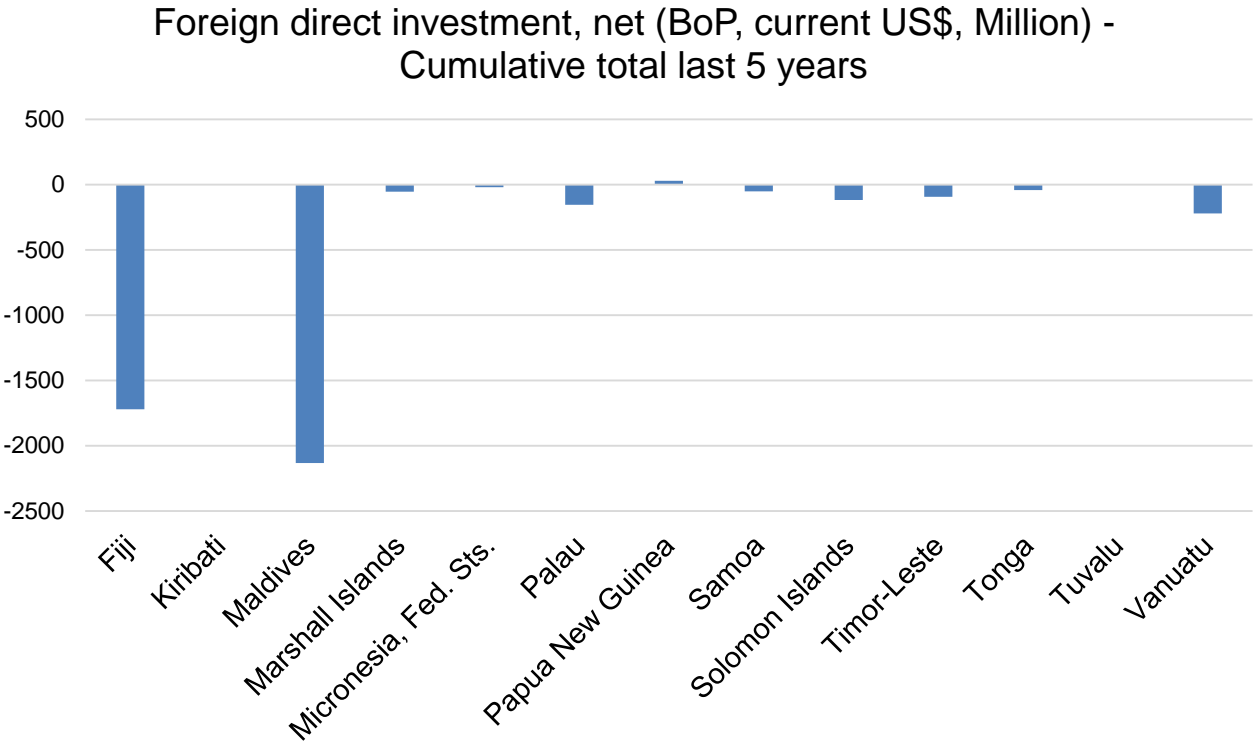


Public resources: Climate Finance

- **Difficult to estimate**
- **Institutional limitations**
- **Very large financial needs relative to their economies**
 - **235 M / year in 2020 -> 285 M / year in 2040**
 - **796 M / year in 2020 -> 1bn / year in 2040**
- **Mobilized: 4.6% of Asia-Pacific's 1.3 bn**
- **Some successful examples**

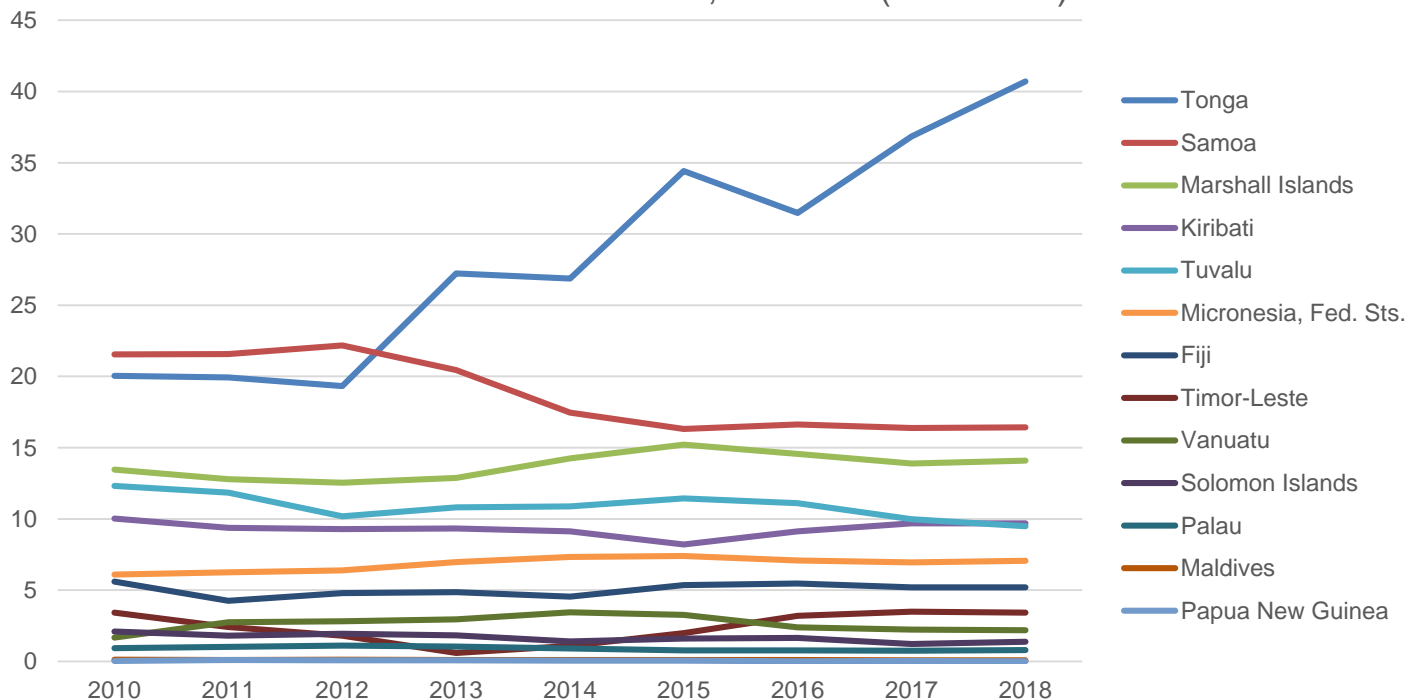
Private resources: Foreign Direct Investment

- Difficult context for SIDS



Private resources: Remittances

- **Remain a stable and important flow for many SIDS**



Mixed: Bonds

- **Blue bonds (e.g. 15M USD in Seychelles, 2018)**
- **Green bonds (e.g. 50M USD in Fiji, 2017)**
- **A word of caution:**
 - **Clarify the project's design**
 - **Revenue cash flow: public or private but...**



- **Make sure it generates positive revenue**

Mixed: Public-Private Partnerships (PPPs)

- Limited potential to have commercially viable projects
- Limited institutional capacity
- Transport:
 - Maldives: 478 M (2010)
 - Timor Leste 490 M (2018)
- Energy:
 - Tonga: 7 M (2000), 6.4 M (2011)
 - Vanuatu: 5.6 M (2009)
- No PPPs in ICT
- No PPPs in Water & Sanitation

Mixed: Public expenditure efficiency

- Room for improvement (CPIA 1 = lowest, 6 = highest)

Country	Business regulatory environment	Debt policy	Economic management	Efficiency of revenue mobilization	Equity of public resource use	Financial sector	Fiscal policy	Macroeconomic management	Environmental policy and institutions	Property rights and rule-based governance	Public sector management and institutions	Budgetary and financial management	Quality of public administration	Structural policies
Samoa	3.5	3.5	4.2	4.5	4.5	3.5	4.5	4.5	3.5	4	4.1	4	4	3.8
Vanuatu	3	4	3.7	3.5	3.5	3	3	4	3.5	3.5	3.3	3.5	3	3.3
Tonga	3	3	3.3	4	4	3.5	3.5	3.5	3	4	3.7	3.5	3.5	3.7
Solomon Islands	3	3.5	3.2	3	2.5	3	2.5	3.5	2.5	3	2.7	2.5	2	3.2
Papua New Guinea	3	3.5	3.0	3.5	3.5	3.5	2.5	3	2	2	2.9	3	3	3.5
Timor-Leste	2	3.5	3.0	3	3.5	2.5	2.5	3	2	2	2.5	3	2	2.8
Kiribati	2.5	2.5	2.7	3.5	3.5	2.5	2.5	3	3	3.5	3.2	2.5	3	2.8
Maldives	3.5	2.5	2.7	4	3	3	2.5	3	3	3	3	2.5	3	3.5
Micronesia, Fed. Sts.	2	2.5	2.7	3	3	2.5	2.5	3	2.5	3	2.9	2.5	2.5	2.8
Tuvalu	2.5	2	2.7	3	3	2.5	3	3	3	3.5	3.1	3	2.5	2.8
Marshall Islands	2.5	2	2.5	2.5	2	2	2.5	3	3	3.5	2.8	2.5	2	2.5

A quick summary half the way...

- To reach the SDGs, SIDS need to invest massively
- and they have room for some more debt, but...
- Internal resources and fiscal space are limited
- International cooperation not boding too well
- Explore and nurture “Innovative” finance
- Public sector efficiency can improve
- Can the real sector in SIDS help more?

Opportunities of the Blue Economy

- Land vs EEZ
- Multi-sectoral opportunities:
 - Fisheries
 - Tourism
 - Pearl farming
 - Seaweed farming
 - Seabed mining
 - Renewable energies
 - Linkages between sectors, copra...

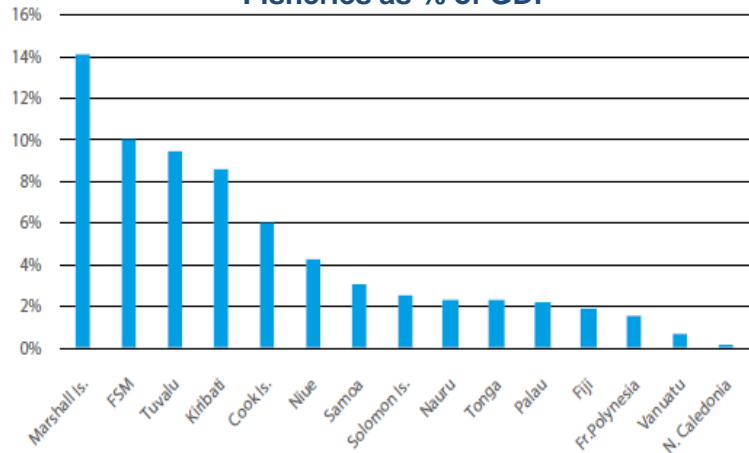




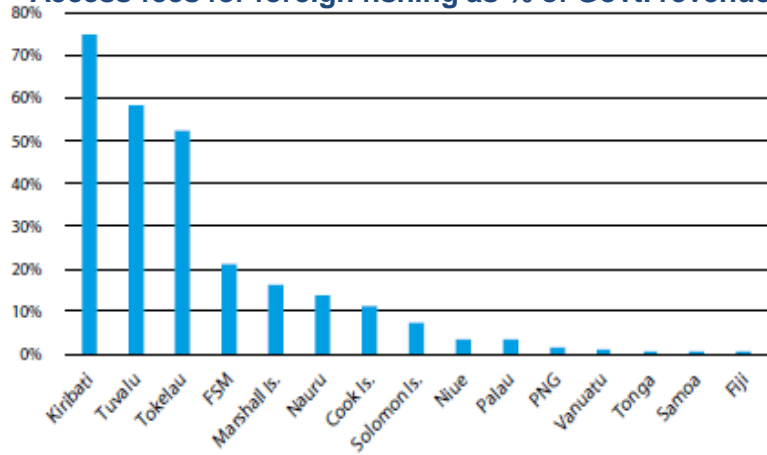
The Real Sector: Fisheries

- Varied importance
- Source of revenue:
 - Access fees for foreign fishing
 - Transshipment
 - Domestic license fees
 - Fish processing establishment
 - Export certificates
 - Domestic market table rents
 - Sale of ice

Fisheries as % of GDP



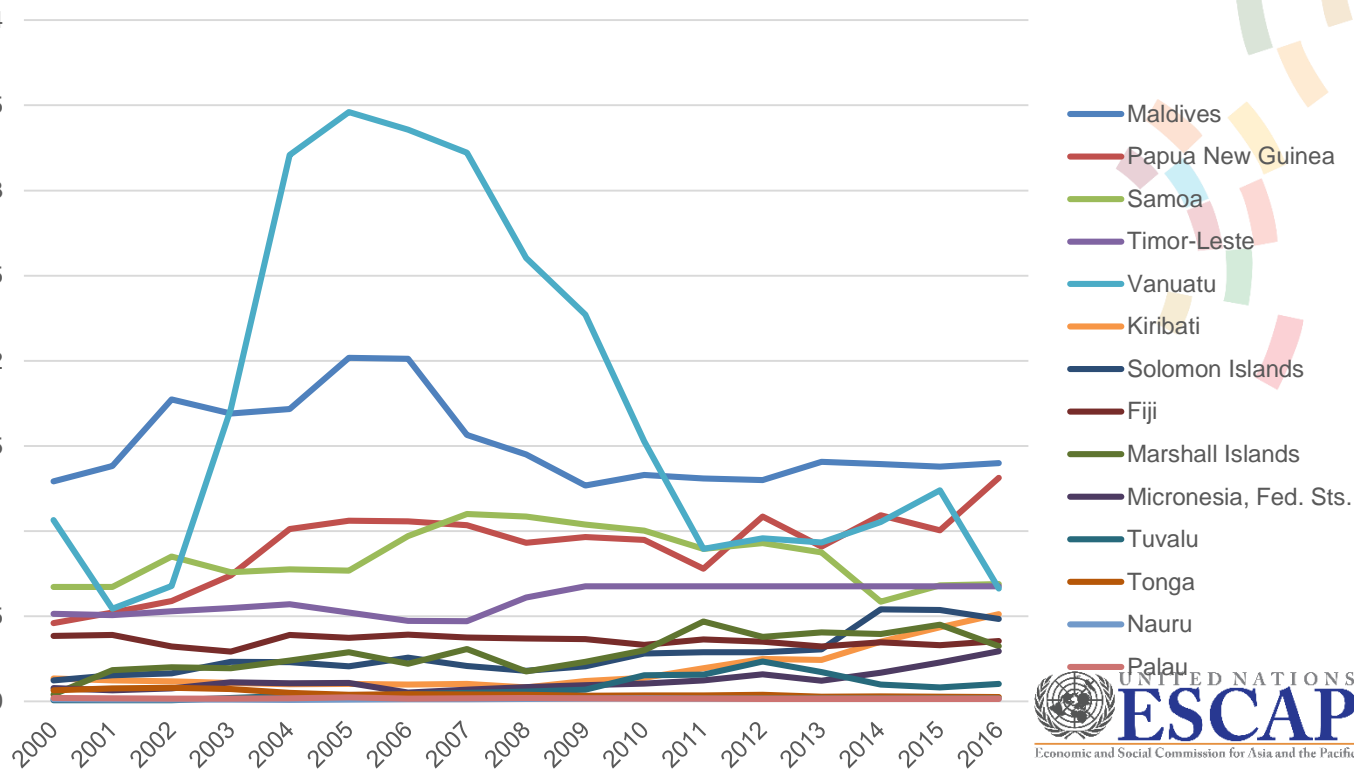
Access fees for foreign fishing as % of Govt. revenue



The Real Sector: Fisheries

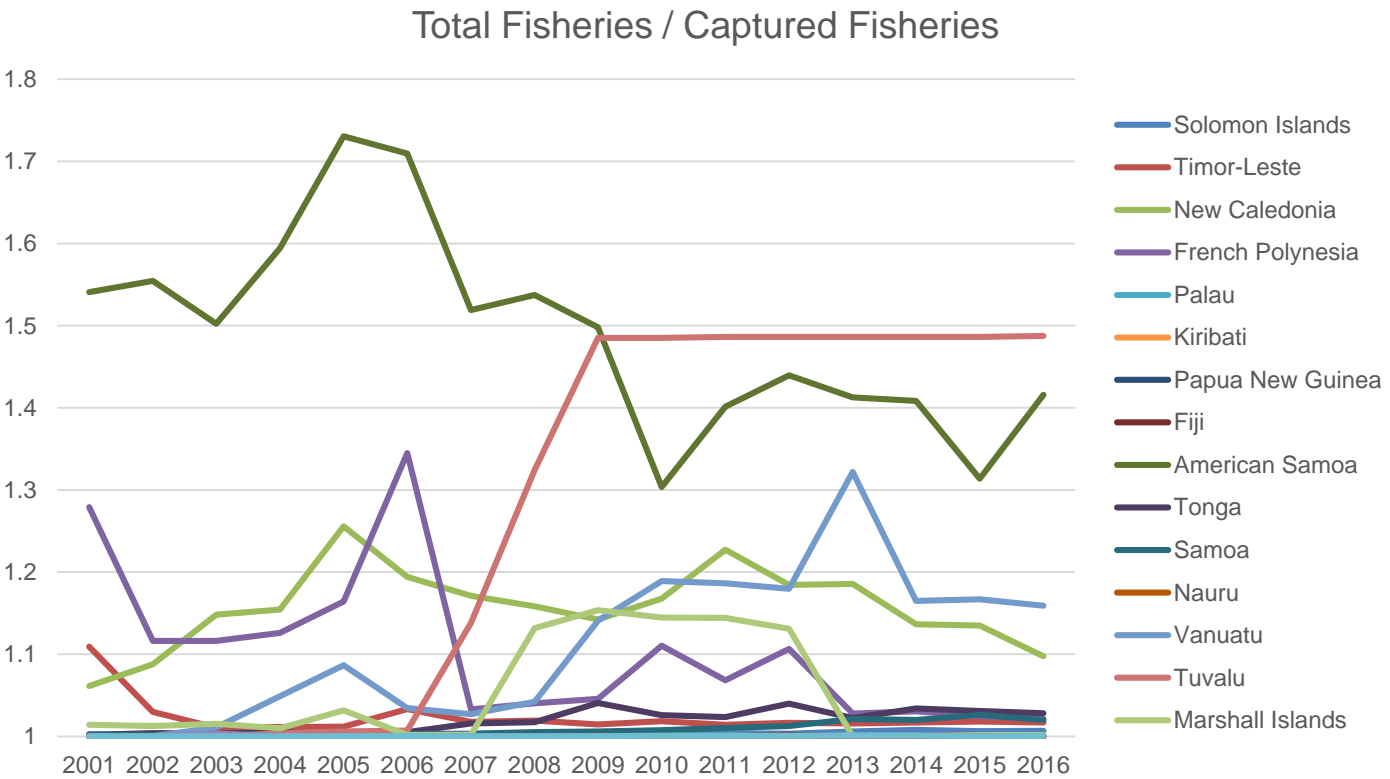
- **Opposite trends: PNG & Kiribati vs Maldives & Vanuatu**

Total Fisheries Production divided by EEZ size



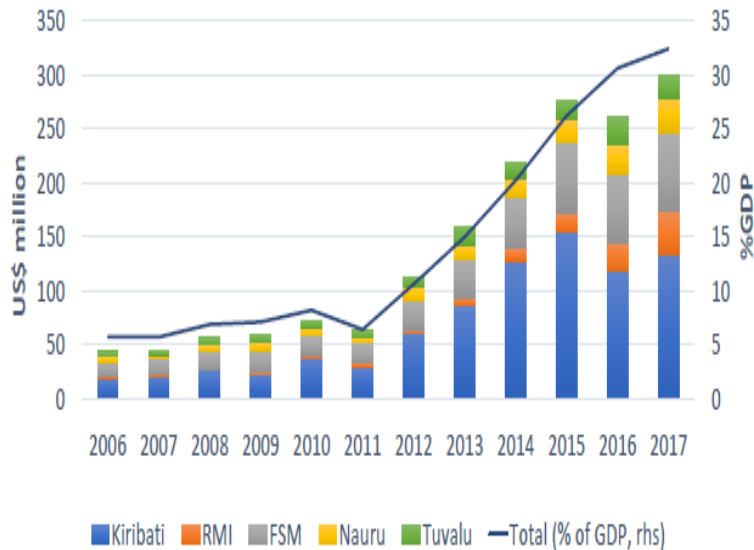
The Real Sector: Fisheries

- Aquaculture is difficult: can sub-regional agreements be reached to promote it?



The Real Sector: Fisheries

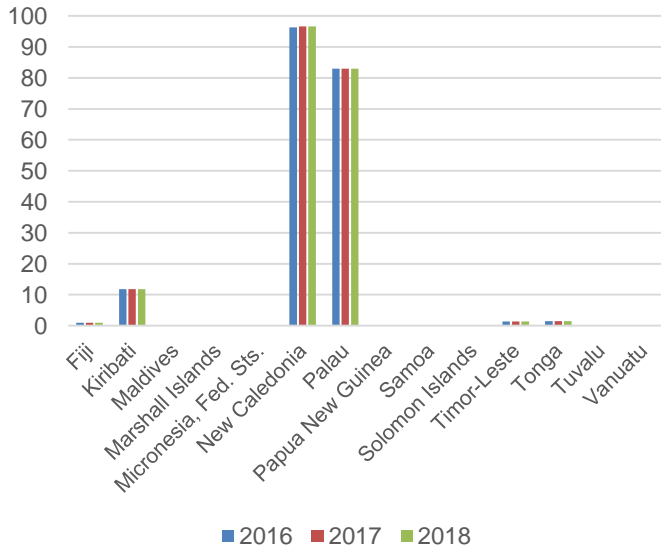
- Does more fish catch lead to more revenue?
 - X2 (220M -> 460M)
- Any concerns?
 - No inflation bump
 - Dutch disease? Revenue in USD or AUD + large + heavily dependent on imports
 - Increased volatility
 - Current/Capital expenditure ratio up
- Out of Nauru Agreement?



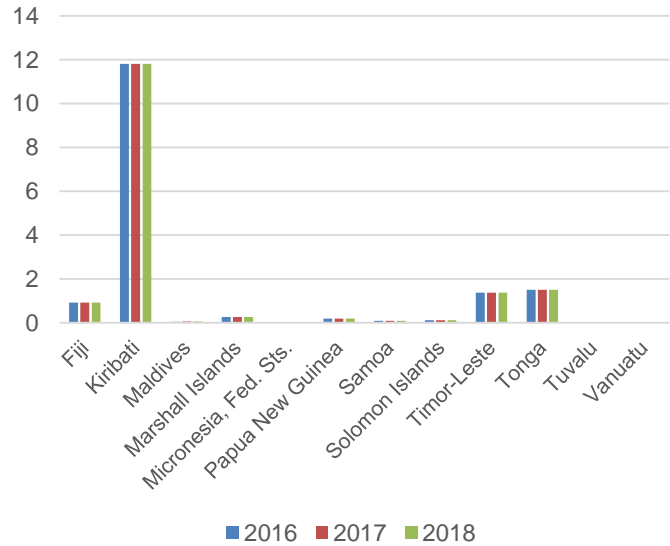
The Real Sector: Fisheries

- **Nauru Agreement (1982) -> ~30% World tuna**
- **Market power vs Sustainability**
- **Should more fishing licenses be given? Raise their price?**

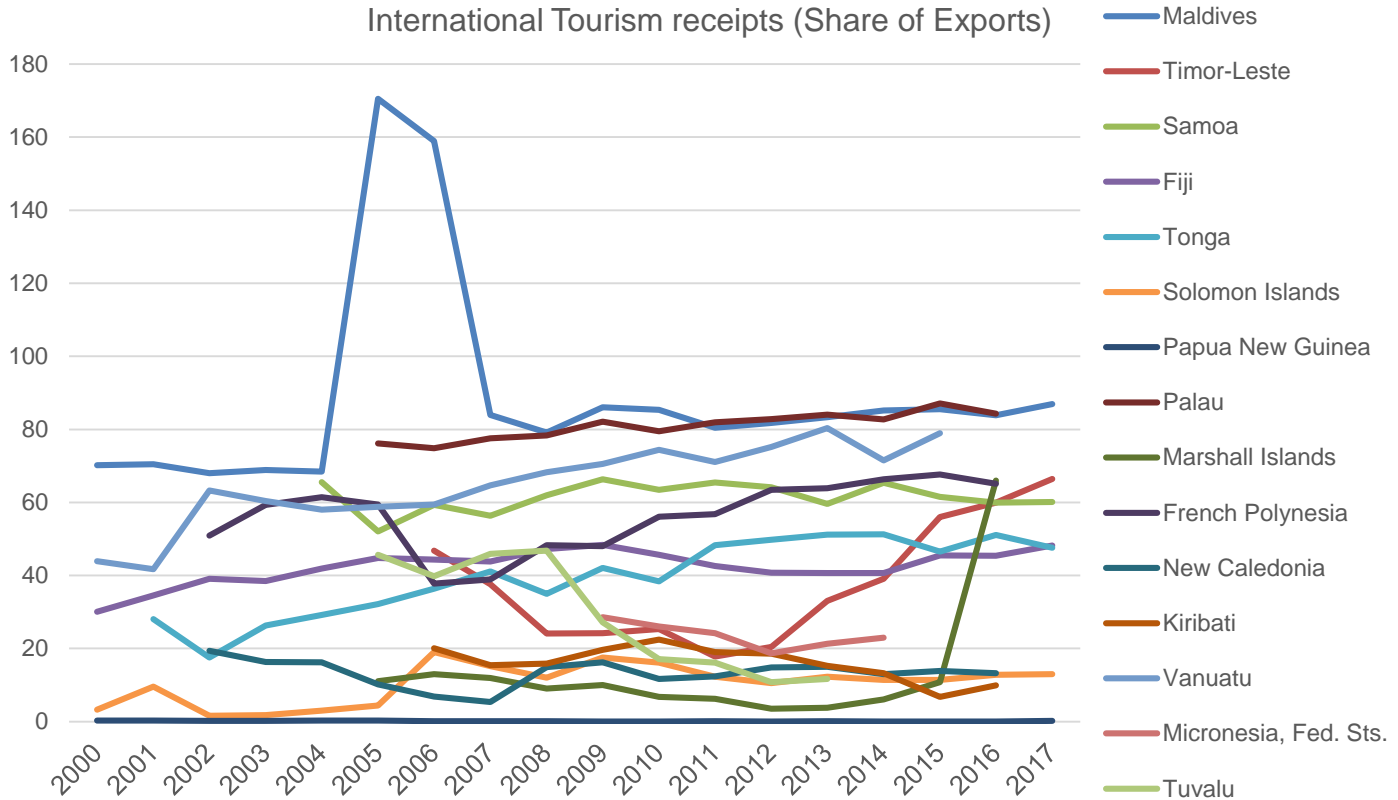
Marine protected areas
(% of territorial waters)



Marine protected areas
(% of territorial waters)



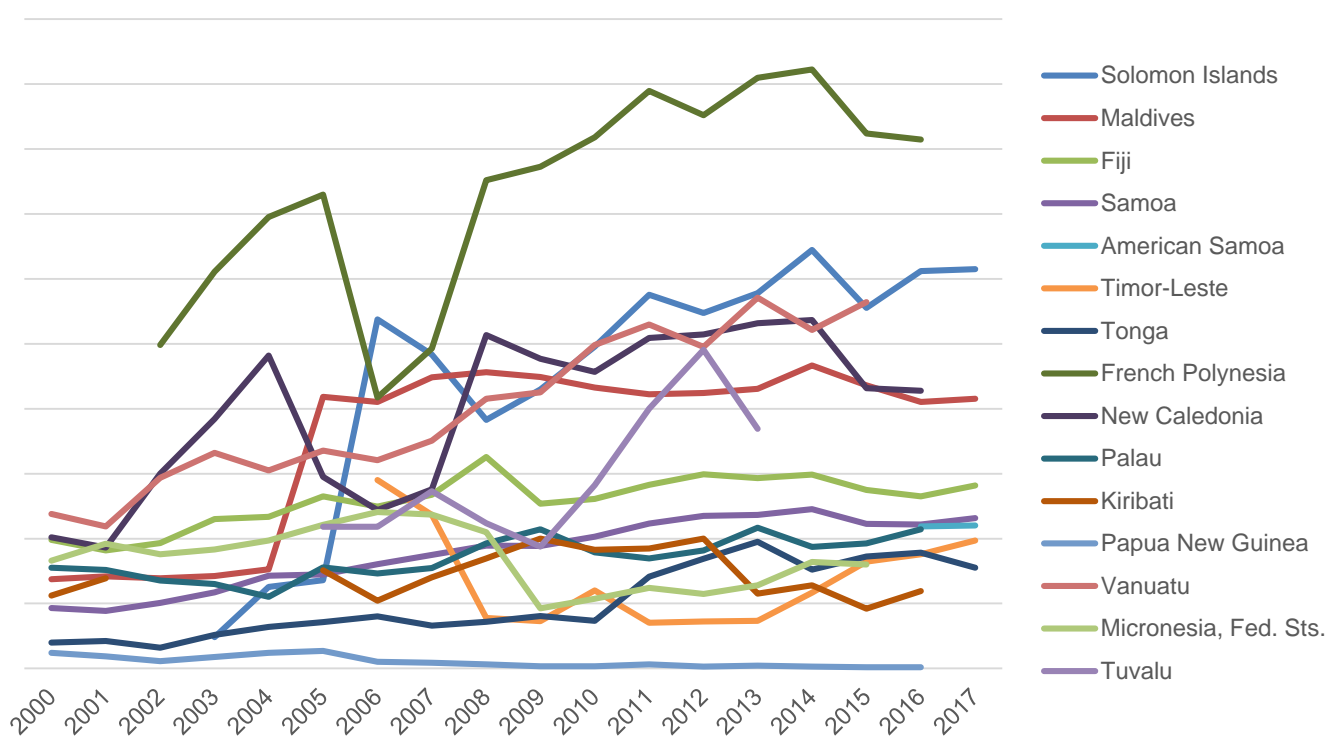
- **Three groups: underdevelopment or diversification?**
- **Slow but solid recovery**



The Real Sector: Tourism

- **Very different profiles: cruises, backpackers, honeymooners, adventure, bird watchers**

International Tourism: Spending (current USD) per tourist arrivals



The Real Sector: Tourism

- **Slow but solid growth (2017 record arrivals)**
- **Current economic context is a potential threat but in the medium to long run ~5% growth mostly from Asia-Pacific**
- **Do more tourists lead to more revenue?**
 - **No bump -> are countries at their full potential?**
 - **Is the Maldives experience replicable?**

Concluding remarks

- **Real economy sectors (fisheries & tourism) have untapped potential for SIDS' FFD**
- **Their development and management must be sustainable**
- **While no panacea, regional cooperation can be useful**

THANKS FOR YOUR ATTENTION ☺

Please visit <https://www.unescap.org/publications/asia-pacific-countries-special-needs-development-report-2019>



twitter.com/unescap



facebook.com/unescap



youtube.com/unescap

