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
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)

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

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

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

Foreign direct investment, net (BoP, current US$, Million) - Cumulative total last 5 years

Diagram showing the foreign direct investment net for various islands and countries, indicating negative values for most, with Fiji and Kiribati showing significantly larger negative values compared to others.
Private resources: Remittances

- Remain a stable and important flow for many SIDS

Personal remittances, received (% of GDP)
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:
  - Timor Leste 490 M (2018)
- Energy:
  - 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)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Business regulatory environment</th>
<th>Deb. policy</th>
<th>Economic management</th>
<th>Efficiency of revenue mobilization</th>
<th>Equity of public resource use</th>
<th>Financ. sector management</th>
<th>Fiscal policy</th>
<th>Macroeconomic policy and institutions</th>
<th>Environmental policy and institutions</th>
<th>Property rights and rule-based governance</th>
<th>Public sector management and financ. management</th>
<th>Quality of public adminis.</th>
<th>Structural policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samoa</td>
<td>3.5</td>
<td>3.5</td>
<td>4.2</td>
<td>4.5</td>
<td>4.5</td>
<td>3.5</td>
<td>4.5</td>
<td>4.5</td>
<td>3.5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3.8</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>3</td>
<td>4</td>
<td>3.7</td>
<td>3.5</td>
<td>3.5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3.5</td>
<td>3.3</td>
<td>3.5</td>
<td>3</td>
<td>3.3</td>
</tr>
<tr>
<td>Tonga</td>
<td>3</td>
<td>3</td>
<td>3.3</td>
<td>4</td>
<td>4</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3</td>
<td>4</td>
<td>3.5</td>
<td>3</td>
<td>3.7</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>3</td>
<td>3.5</td>
<td>3.2</td>
<td>3</td>
<td>2.5</td>
<td>3</td>
<td>2.5</td>
<td>3.5</td>
<td>2.5</td>
<td>3</td>
<td>2.7</td>
<td>2</td>
<td>3.2</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>3</td>
<td>3.5</td>
<td>3.0</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>2.5</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2.9</td>
<td>3</td>
<td>3.5</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>2</td>
<td>3.5</td>
<td>3.0</td>
<td>3</td>
<td>3.5</td>
<td>2.5</td>
<td>2.5</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2.5</td>
<td>3</td>
<td>2.8</td>
</tr>
<tr>
<td>Kiribati</td>
<td>2.5</td>
<td>2.5</td>
<td>2.7</td>
<td>3.5</td>
<td>3.5</td>
<td>2.5</td>
<td>2.5</td>
<td>3</td>
<td>3</td>
<td>3.5</td>
<td>3.2</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Maldives</td>
<td>3.5</td>
<td>2.5</td>
<td>2.7</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2.5</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2.5</td>
<td>3</td>
<td>3.5</td>
</tr>
<tr>
<td>Micronesia, Fed. Sts.</td>
<td>2</td>
<td>2.5</td>
<td>2.7</td>
<td>3</td>
<td>3</td>
<td>2.5</td>
<td>2.5</td>
<td>3</td>
<td>2.5</td>
<td>3</td>
<td>2.9</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>2.5</td>
<td>2</td>
<td>2.7</td>
<td>3</td>
<td>3</td>
<td>2.5</td>
<td>2.5</td>
<td>3</td>
<td>3</td>
<td>3.5</td>
<td>3.1</td>
<td>3</td>
<td>2.5</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>2.5</td>
<td>2</td>
<td>2.5</td>
<td>2.5</td>
<td>2</td>
<td>2</td>
<td>2.5</td>
<td>3</td>
<td>3.5</td>
<td>2.8</td>
<td>2.5</td>
<td>2</td>
<td>2.5</td>
</tr>
</tbody>
</table>
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…
Opportunities of the Blue Economy: Fisheries
The Real Sector: Fisheries

- Varied importance

- Source of revenue:
  - Access fees for foreign fishing
  - Transhipment
  - Domestic license fees
  - Fish processing establishment
  - Export certificates
  - Domestic market table rents
  - Sale of ice
The Real Sector: Fisheries

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

![Graph showing total fisheries production divided by EEZ size for various countries over the years. The graph compares the production trends for PNG & Kiribati against Maldives & Vanuatu.](chart.png)
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?**

![Graph showing marine protected areas (% of territorial waters) from 2016 to 2018 for various countries.](image-url)
The Real Sector: Tourism

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

![International Tourism receipts (Share of Exports)](image_url)
The Real Sector: Tourism

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