Fourth South Asia Forum on the SDGs

Fostering Sustainable and Resilient Recovery from COVID-19 in South Asia

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Main Messages

• COVID-19 is a truly unprecedented shock, causing severe economic contraction, substantial job losses and considerable increase in poverty … pursuit of SDGs has become even more challenging

• Governments have announced policy packages worth billions of dollars, but this has led to a considerable squeeze in policy/fiscal space … sustaining policy support in the near-term will not be easy

• To build resilient, inclusive, and sustainable economies, policy packages must prioritize investments in people and planet … thinking beyond a GDP-centric recovery is critical
South and South-West Asia was not fully on track to achieve the SDGs, even before the COVID-19 pandemic

- On track to achieve the Goals related to affordable clean energy and good health and wellbeing
- Reasonable progress on Goals related hunger, education and sanitation
- Limited progress on the Goals related to poverty, inequalities, climate and sustainability
- Lacking progress on goals related to responsible consumption/production and strong institutions

Snapshot of SDG progress in 2020: South and South-West Asia

Source: ESCAP SDG Gateway Asia Pacific.
Making matters worse, financial flows needed to accelerate progress are small relative to SDG investment needs.

<table>
<thead>
<tr>
<th>Country</th>
<th>Additional SDG investment needs (% of GDP per year)</th>
<th>Projected increase in financial flows (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>25</td>
<td>2% growth (actual rate during 2016-19)</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>25</td>
<td>5% growth (optimistic case)</td>
</tr>
<tr>
<td>Bhutan</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Iran (Islamic Rep.)</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Maldives</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>


Source: ESCAP calculations.
Covid-19 has resulted in severe economic contraction, leading to additional challenges to achieve the SDGs …

GDP growth, 1971 – 2020 (forecast)

Source: ESCAP (as of 31 July).
... with significant downgrades in GDP growth across the region

Downgrade of GDP growth in 2020 for selected countries and country groups

![Chart showing GDP growth downgrades for selected countries and regions.](chart)

- Total ESCAP region
- Developing ESCAP economies
- South and South-West Asia
- Afghanistan
- Bangladesh
- Bhutan
- India
- Iran
- Maldives
- Nepal
- Pakistan
- Sri Lanka
- Turkey

Source: ESCAP (as of 6 August 2020).
… but the impact of Covid-19 is more than just decline in GDP growth … hundreds of millions of people have experienced job losses …

Equivalent number of full-time jobs (48 hours/week)

Share of total working hours lost

... consequently, several million people could be pushed into poverty

Estimates of impact on poverty due to COVID-19

As a response to Covid-19, almost all countries have rolled out significant fiscal packages…


Note: Left panel - If a country announced a fiscal stimulus package but did not reveal its size, then it is not included in calculating the range and the median.
… aided by supportive monetary and financial measures

Changes in policy rates since the beginning of 2020

Supplementary policies to provide liquidity

- Set up special financing facilities
- Set up loan refinancing
- Interest and principal repayment deferrals
- Lower liquidity ratio
- Lower reserve requirement
- Reduced repurchase rate

Targeted financial support for SMEs

- Interest and principal repayment deferrals
- Tax payment deferrals
- Support microfinancing organizations
- Loan classification freeze

Source: ESCAP, based on information available up to 4 November 2020 from IMF Policy Responses to COVID-19, Bank for International Settlements and various national sources.
Path to recovery, however, will be difficult … fiscal positions have deteriorated considerably …

Fiscal balance (as a share of GDP) in Asia and the Pacific

Difference of fiscal balance (as a share of GDP) in 2020 between October 2019 and October 2020 projections


Note: The red bars illustrate three years before and after the crises. The black dotted lines provide average fiscal position during three years before and after the crises. Median is taken to estimate fiscal balance in the region.
Looking forward … Build Forward Better

The short-term: focus on lives and then livelihoods

• Contain the pandemic and ensure adequate and equal access to medical services

• Plan the reopening of economies in a staggered manner

• Sustained policy support is a must. Avoid premature fiscal consolidation and safeguard development expenditures

• Introduce sustainability requirements in the immediate policy responses

The medium- to long-term: build resilient, inclusive, and sustainable economies for the People and the Planet

• Key principle: put the 2030 Agenda at the center of the post-COVID recovery efforts, rather than just a GDP growth-centric rebound
Policy Options (1) – Enhance fiscal space

- **Reprioritize public spending** ... e.g. by abolishing fuel price subsidies

- **Widen the tax base** ... e.g. through introducing carbon pricing schemes

- **Improve tax administration** ... e.g. through using digital technologies to reduce tax avoidance

- **Increase progressivity of the tax system** ... e.g., by strengthening direct taxation

- **Relax fiscal rules** ... e.g. by redefining deficit ceilings and increasing borrowing limits

- **Consider innovative financing instruments** ... e.g. issuance of SDG-oriented bonds

- **Improve debt management** and revisit debt sustainability assessments

- **Reduce/postpone public debt services** ... e.g. by participating in ongoing global debt relief initiatives (e.g. DSSI), and negotiating with key bilateral creditors (e.g. China)

- **Reduce illicit financial flows** ... e.g. by targeting trade-misinvoicing, and reducing base erosion and profit sharing

- **Manage and generate income from the assets** ... e.g. through land/property monetization
Example 1: reprioritize public spending and improve tax administration …

Source: ESCAP Survey 2020 for energy subsidies, and ESCAP Survey 2018 for tax administration.
… and invest in social protection and public health emergency preparedness

Public spending on social protection, as a share of GDP

Additional annual investment to provide basic human rights and build human capacities

- Universal access to quality education
- Universal health coverage
- Agricultural productivity
- Nutrition-specific interventions
- Social protection floor
- Targeted cash transfer

Example 2: introduce carbon pricing and increase public investments in green sectors

Reductions in carbon emissions

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage reduction below business as usual in 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolia</td>
<td>50%</td>
</tr>
<tr>
<td>China</td>
<td>40%</td>
</tr>
<tr>
<td>India</td>
<td>30%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>20%</td>
</tr>
<tr>
<td>Nepal</td>
<td>10%</td>
</tr>
</tbody>
</table>

Carbon tax revenue in 2030 (% of GDP)

- Based on $35 per ton
- Additional amount based on $70 per ton

Source: ESCAP, based on IMF (2019)

Source: ESCAP Survey 2020
Policy Options (2) – channel finance towards sustainable development

- Encourage private investments to improve transport connectivity … e.g., by providing an enabling policy environment for PPP projects, and strengthening the capacity of national PPP agencies

- Increase contribution of public institutional investors to the SDGs … e.g., by relaxing investment restrictions on development projects by sovereign wealth funds (SWFs) and pension funds

- Increase contribution of remittances to investment in sustainable development … e.g., by reducing transaction cost of transferring remittances through digital finance, and issuing diaspora bonds

- Facilitate private investments for environmental protection … e.g.,
  - Introduce guidelines on green investment
  - Adopt green bank lending practices
  - Require disclosure of carbon footprint
Example 3: Increase the role of PPP projects and institutional investors to finance connectivity

Source: ESCAP Survey 2018 for PPP index, and ESCAP calculations based on OMFIF’s 2020 Global Public Investor.
Example 4: encourage investments in ESG conscious businesses

**Environment**
- Water and pollution
- Resource depletion
- Greenhouse gas emission
- Deforestation
- Climate change

**Social**
- Employee relations and diversity
- Working conditions, including child labour and slavery
- Local communities; seek explicitly to fund projects or institutions that will serve poor and underserved communities globally
- Health and safety
- Conflict

**Governance**
- Tax strategy
- Executive remuneration
- Donations and political lobbying
- Corruption and bribery
- Board diversity and structure
How is ESCAP supporting member States to **Build Forward Better**

- Monitoring policy announcements to cope with COVID-19
- Providing knowledge products to assess the impact of COVID-19 and advise policymaking
- Organizing high-level regional policy dialogues to facilitate exchange of experiences
- Training government officials to use technical tools for policymaking
- Working with regional networks to support transition towards sustainable development
Key Takeaways

• COVID-19 is threatening people’s lives and livelihoods as never before … **policy support must continue – austerity is not an option**

• COVID-19 offers an opportunity to rethink and transform the development pathways … **invest in people and planet**

• Several policy tools are available to build resilient, inclusive and sustainable economies … **put the 2030 Agenda at the center**