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ROAD TO DOHA: AN AMBITIOUS AGENDA FOR THE NEXT DECADE THROUGH REINVIGORATED AND INNOVATIVE FINANCING FOR DEVELOPMENT OF THE ASIA-PACIFIC LEAST DEVELOPED COUNTRIES

Even before the COVID-19 crisis, least developed countries (LDCs) in Asia and the Pacific faced significant financing needs to achieve both the Sustainable Development Goals (SDGs) and the targets of the Istanbul Programme of Action (IPoA). In 2019 ESCAP estimated that the Asia-Pacific developing countries needed to invest an additional \$1.5 trillion on average per year to achieve the SDGs by 2030, or 5 per cent of their combined GDP. However, the financing needs of the region's LDCs were estimated at 16 per cent of GDP of their combined GDP.[1] Given their combined GDP of \$500 billion in 2020, this would amount to financial needs of around \$80 billion per year, an extremely large amount. But even if 5 per cent of the GDP, or \$25 billion per year were to be allocated to the SDGs, this will still be challenging in view of the economic and financial impacts of the COVID-19 pandemic.

The pandemic hit the Asia-Pacific LDCs hard, especially those dependent on the travel and tourism industry, which came to an almost complete halt. The resulting job losses in both the formal and informal sectors increased poverty and vulnerability. The pandemic also led to a decline in foreign direct investment (FDI) flows. For instance, FDI flows to Bangladesh dropped 31 per cent in the third quarter of 2020 compared to the previous year. Another consequence of the pandemic was a disruption in the implementation of projects and programmes funded by official development assistance (ODA), which plays a critical role in LDCs in funding infrastructure, basic services such as health, education, and water and sanitation in LDCs, and poverty alleviation programmes.[2]

To tackle the economic impacts of the pandemic, countries around the world implemented stimulus packages. However, given the limited fiscal resources and access to external financing of the Asia-Pacific LDCs, their stimulus packages had a modest size, 1.7 per cent of GDP, compared to 6.6 per cent of GDP for all the developing countries in the region. On the positive side, three of the region's LDCs, Afghanistan, Myanmar, and Nepal, benefitted from the G20's Debt Service Suspension Initiative which allowed them to postpone up to \$2.9 billion in debt services. In addition, the region's LDCs received a total of \$8.8 billion in emergency support from World Bank, IMF, and Asia Development Bank.[3] However, even with this support the median Asia-Pacific LDC experienced a 1.4 per cent drop in nominal GDP between 2019 and 2020.[4]

[1] United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP) (2019). Economic and Social Survey of Asia and the Pacific 2017: Ambitions beyond growth.

[2] Nuruzzaman, Syed, and Yusuke Tateno (2021). COVID-19 pandemic and the Asia-Pacific LDCs: Impacts, challenges, gaps and way forward. ESCAP Working Paper Series, No. ESCAP/WP/12.

[3] Ibid.

[4] Data from World Bank accessed 15 August 2021. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.



The question is: Going forward, how will the least developed countries of Asia and the Pacific be able to gather enough financing to achieve the SDGs? Several options are possible?

First, the government revenues of the Asia-Pacific LDCs (excluding grants) increased from 19.1 per cent of GDP in 2011 to 22.8 per cent in 2019, driven primarily by a rise in tax revenue, with the median tax-to-GDP ratio increasing from 13.5 per cent to 18.8 per cent.[5] Although this trend is very encouraging, it will be very important that the public spending to be funded by these increasing government revenues is fully aligned with the SDGs. For instance, an area that requires more funding is social protection, in which the region's LDCs invest only 0.9 per cent of their aggregate GDP compared to an average of 6.3 per cent for other developing countries.[6] In addition, not all the region's LDCs have sufficient tax revenues. The three most populous LDCs in the region, Afghanistan, Bangladesh, and Myanmar, have government revenues below 15 per cent of GDP, which is considered a minimum threshold to provide basic services, such as road infrastructure, health care and public safety.[7] To increase tax collection, LDCs could consider upgrading their national tax systems, for instance through technological innovations to modernize tax payers' database and streamline revenue collection processes.

Second, the Asia-Pacific LDCs could support the development of digital finance to expand financial inclusion, reduce poverty, and promote economic equality. The pandemic accelerated the use of digital payments and e-commerce, which has provided opportunities for small businesses to continue in business amid lockdown and social distancing measures and opened employment opportunities for informal workers, for instance in delivery services. Digital finance has also allowed the delivery of government cash transfers during the pandemic in the form of government-to-person (G2P) digital transfers in a few Asian LDCs and is already contributing to lower the cost of international remittances. To support the expansion of digital finance, policymakers and regulators need to address several important barriers and risks. The main barrier is access to digital technologies. Most Asia-Pacific LDCs have low levels of access to broadband mobile phones, and this is more serious for the poor and in rural areas. In addition, new digital technologies and business models are bringing new risks, including data privacy, consumer protection from fraud, money laundering, and monopolization by new Big Tech companies. Tackling both barriers and risks will require a combination of policy and regulatory approaches aimed at both enhancing access to digital technologies and taking measures to mitigate their risks.[8]

Third, there is a rapidly expanding global market for thematic bonds, such as green bonds, social bonds, sustainability bonds and climate bonds. These new financial products are appealing to investors that wish to not only obtain a financial return but also support causes like combatting climate change. Issuances of thematic bonds can also be domestic and target investors within the country. Asia-Pacific LDCs could take advantage of this expanding markets by issuing thematic bonds, either domestically or internationally. While this requires establishing institutional capacities to issue sovereign bonds as a prerequisite, most Asia-Pacific LDCs have experience, at least issuing Treasury bills, while Bhutan issued its first domestic sovereign bonds in 2020 with technical assistance from ESCAP, and Cambodia passed a law at the end of 2020 that will allow the government to issue bonds in Cambodian and foreign currency locally or abroad to finance development needs. Issuing thematic bonds requires an extra effort in selecting projects and verifying the delivery of such projects, but LDCs can acquire the required capacities.[9] For that purpose, regional cooperation could support the Asia-Pacific LDCs in developing the necessary legal and policy frameworks.


[6] Ibid.

[7] Ibid.

[8] UNESCAP (2021). Financing the SDGs to Build Forward Better from the COVID-19 Pandemic in Asia and the Pacific ESCAP Financing for Development Report, FFD Series No. 4 (Sales No. E.21.II.F.13). Chapter 3. Forthcoming October.

[9] For more details on the issuance of thematic bonds see UNESCAP (2021). Op. cit. Chapter 2.





While the issuance of thematic bond market could offer very good opportunities for financing the SDGs, issuing such bonds in global markets poses two critical challenges. First, some institutional investors such as pension funds have restrictions on investing directly in sovereign bonds rated below investment grade. Second, institutional investors are also less interested in small issuances of under \$100 million because of the relatively high costs of conducting due diligence. These two challenges are likely to limit the pool of international investors interested in thematic bond issuances from the Asia-Pacific LDCs. To tackle these challenges, the region's LDCs could initially focus on their domestic markets and fund managers that specialise in emerging and frontier markets. Another possibility that could be explored in future is the setup of a fund or special purpose vehicle (SPV) that could invest in thematic bonds issued by LDCs and other developing countries and combine them into a single bond to be sold in global markets. To further alleviate investors' concerns, such an aggregate bond could utilise credit enhancement tools such as a guarantee or other blended finance instruments provided by a multilateral development bank.

Fourth, while increasing borrowing to finance the SDGs is a good idea, countries should keep their debt exposures within prudent limits. At the moment, four LDCs in the region have been assessed in the latest World Bank-IMF debt sustainability assessments as having a high risk of external debt distress. Moreover, amid rising spending needs and economic contraction due to the COVID-19 pandemic, public debt in most of these countries is estimated to have increased in 2020 by around 5.9 per cent of GDP.[10] In this context, debt-for-climate swaps can be a mechanism that the region's LDCs can consider to simultaneously reduce their debt exposure and increase investments in climate mitigation or adaptation. Debt-for-climate swaps can also be useful for developed countries to fulfill their global commitment at the UNFCCC to provide \$100 billion per year in climate finance to developing countries.[11] For that purpose, developed countries that are official bilateral creditors of Asia-Pacific LDCs could partially forgive their debt under the condition that the debtors allocate 100 per cent of their savings in debt services to commonly agreed climate mitigation or adaptation projects. If they are not official creditors, developed countries could alternatively fund LDCs for them to buyback part of their debt under the same conditions. In both cases a trust fund, facility or SPV could be entrusted by debtors, creditors, and donors to manage the saved debt service payments and invest them in appropriate climate projects.

Guiding questions:

- **What key actions should the LDCs undertake to align their fiscal spending with the SDGs and to enhance the volume, efficiency, and transparency of their tax collection?**
- **What policy actions should the LDCs prioritize to promote digital financing in support of the SDGs?**
- **What institutional capabilities do LDCs need in order to adopt best practices in thematic bond issuance and what steps should they take for that purpose?**
- **What is the potential of debt-for-climate swaps to simultaneously reduce external debts of LDCs, increase financing for climate action projects, and channel developed country finance in the context of their UNFCCC \$100 billion commitment?**

[10] Razzaque and Tateno (2021). Op. cit.

[11] This commitment was made in the Copenhagen Accord of 2009 during COP15 and re-affirmed during COP21.

