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Item 4 (j) of the provisional agenda
Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific and issues pertinent to the subsidiary structure of the Commission: Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development

Economic policies and financing strategies to build resilient, inclusive and sustainable economies

Note by the secretariat

Summary

The present document includes a discussion of a range of economic policies and financing strategies that Governments can consider and implement to ensure that policy support is sustained for economic recovery and investments in Sustainable Development Goal areas such as health, social protection, digital infrastructure and climate action. The discussion centres around two broad themes. One, enhancing fiscal space and finding ways to finance the required government spending in a manner that has minimal adverse implications for debt sustainability and overall macroeconomic stability. Two, channelling investments towards sustainable development, both public and private, through the development of appropriate financing instruments and by leveraging technological potential.

The Economic and Social Commission for Asia and the Pacific is invited to discuss these policy recommendations and provide guidance to the secretariat on further analysis, with a view to implementation at the country level. This would help to guide the secretariat’s forthcoming analytical work and more importantly, its planning and creation of technical assistance and capacity-building projects.

I. Introduction

1. The coronavirus disease (COVID-19) pandemic is a truly unprecedented shock that has resulted in severe economic contraction, substantial job losses and a considerable increase in poverty. The shock has also revealed the fault lines of persistent inequalities, the environmental impacts resulting from excessive focus on the growth of gross domestic product (GDP), and the overall lack of resilience in economies around the world, and it has made the achievement of the Sustainable Development Goals more challenging.
2. Governments have deployed trillions of dollars in emergency health response and immediate relief measures for households and businesses. This spending is vital, but it has led to a considerable squeeze in countries’ fiscal space and a substantial rise in governments’ debt levels. To initiate and sustain recovery, economies in the region will require significant and continuing fiscal support and stimulus, together with other supportive policy measures. Such support is essential to ensure that countries are on track to achieve the Sustainable Development Goals.

3. The present document contains a discussion of a range of economic policies and financing strategies that Governments can consider and implement to ensure that policy support is sustained, for economic recovery and investments in Sustainable Development Goal areas such as health, social protection, digital infrastructure and climate action. The discussion centres around two broad themes. One, enhancing fiscal space and finding ways to finance the required government spending in a manner that has minimal adverse implications for debt sustainability and overall macroeconomic stability. Two, channelling investments towards sustainable development, both public and private, through the development of appropriate financing instruments and by leveraging technological potential.

II. Economic outlook for 2021–2022

A. Recent developments

4. Asia and the Pacific suffered its worst economic recession in the past five decades due to the COVID-19 pandemic in 2020. The latest estimates of the Economic and Social Commission for Asia and the Pacific (ESCAP) suggest that the combined GDP of the developing Asia-Pacific countries have contracted by 1.0 per cent in 2020, which is 4.7 percentage points lower than earlier estimates at the beginning of 2020 and 5.2 percentage points lower than the region’s average GDP growth rate in 2019. High frequency indicators suggest economic recovery continued across Asia-Pacific subregions in the last quarter of 2020 (figure I).

5. Although significant divergence in the depth of the recession and the speed of the recovery is observed (figure II), effective containment of the disease proved the first and foremost determinant for economic resilience and recovery. Countries which succeeded in containing the outbreak swiftly, such as China or Viet Nam, were able to resume economic activities early and bring annual economic growth back to the positive bracket. In contrast, subregions with prolonged outbreaks, such as North and Central Asia, South and South-West Asia, and parts of South-East Asia, had to maintain stringent lockdown measures for longer periods, resulting in much greater economic disruptions.
Figure I
Manufacturing, Purchasing Managers Index

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Note: The Manufacturing Purchasing Managers Index summarizes whether market conditions, as viewed by purchasing managers of the manufacturing sector, are expanding (if the index is above 50) or contracting (if the index is below 50).

Figure II
Quarterly gross domestic product growth
(Percentage)

Source: ESCAP calculations based on data from CEIC Data, see figure I (accessed on 21 January 2021).

Note: “Developed Asia-Pacific countries” include Australia, Japan and New Zealand.
6. Sectoral structures and other inherent economic vulnerabilities also played a significant role. Countries more dependent on contact-intensive services sectors were more exposed, and thus more adversely affected. The ongoing domestic precautionary measures and cross-border travel restrictions have devastated international tourism and dealt significant blows to the economies of Bhutan, Georgia, Maldives, Nepal, Sri Lanka and Thailand, as well as the Pacific island States. At the same time, least developed and low-income countries in South Asia and South-East Asia were more affected, due to the higher share of low-tech, low-skill and informal services in their economies, compared to their more industrialized neighbours. Resource exporting countries of the region were deeply hit as well when commodity prices crashed and exports came to a halt in early 2020 due to disruptions in global value chains and industrial production. This experience is yet another reminder that economies dependent on niche sectors could be extremely vulnerable when exposed to systemic shocks such as the COVID-19 pandemic and that more effective hedging through economic diversification, greater fiscal and financial buffers or strengthened external support and multilateral cooperation may be needed.

B. Impact on employment and poverty

7. The economic impact of COVID-19 directly translated into loss of employment and people’s livelihoods. In the four quarters of 2020, total working hours in the region are estimated to have shrunk by about 6.5, 16.9, 5.4 and 2.8 per cent, respectively, equivalent to losses of millions of full-time jobs (figure II). Contact-intensive services, such as retail, hospitality and transport and labour-intensive manufacturing were among the worst hit. The more vulnerable groups of informal employees, self-employed small businesses, low-wage workers and female workers, who are concentrated in these sectors, were disproportionately affected. In addition to direct job cuts, businesses also resorted to reduced salaries and other labour cost-saving measures to remain financially afloat, putting further downward pressure on the household income of the working class.

8. The latest estimates suggest that the pandemic could push 89 million people in Asia and the Pacific back into extreme poverty (at the $1.90 per day threshold), with most concentrated in South Asia (79 million) and East and South-East Asia (5.1 million). If higher poverty thresholds are applied, the number of people pushed back into poverty by the pandemic also increases (figure III).
The impact of the coronavirus disease pandemic on jobs and poverty in Asia and the Pacific


C. Outlook and risk factors

9. While Asia and the Pacific is leading the global economic recovery from the crisis, this process has been highly uneven within the region. East Asia and parts of South-East Asia (Viet Nam in particular) have achieved the fastest and strongest turnaround worldwide. Other parts of the region followed in the third quarter, with most countries starting to exit stringent lockdowns and seeing economic contraction bottoming out. However, the recovery outside East Asia has not been as strong and robust, hampered by the ongoing outbreak and the occasional reintroduction of lockdowns and slower rebound in private demand and services sectors, as well as a deeper and more prolonged economic contraction in the previous stage. Most economies in the region are still just returning to positive year-on-year economic growth with significant uncertainties.

10. Asia-Pacific countries need to prepare for immediate downside risks and potential medium-term economic headwinds. Containing the outbreak should remain the primary policy concern. Although vaccine development in the region has kept abreast with progress in developed countries, the production, procurement and distribution of vaccines is likely to pose significant challenges, especially for countries with limited industrial, financial and administrative means. Global and regional cooperation and well-targeted domestic policies prioritizing vulnerable and disadvantaged groups will be essential to ensure that no one is left behind. Even so, a large-scale rollout of vaccines is likely to happen only in the latter half of 2021 for many countries in the region. During this period, nonpharmaceutical measures that have been proved effective, such as physical distancing, mask wearing and mass testing/tracking, should continue to be used.
11. The potential financial and debt distress is another immediate policy concern, especially in countries already confronted with related problems before the pandemic. Balancing between fiscal and financial sustainability and spending needs for COVID-19 response and recovery has proved to be a difficult trade off. Prudent public expenditure management to maximize development benefits with limited funds and smart policies to reorient private investment towards areas with greatest development impact would partly address this dilemma. In addition, medium- to long-term risks, such as a slower-than-expected recovery of the global economy, continuing trade tensions, growing policy and security uncertainties, and accelerated economic transition towards digitalization and automation, also deserve the attention of policymakers.

12. In parallel, Asia-Pacific countries should start to adjust to a post-COVID-19 economic paradigm, likely to be characterized by lower economic growth over the years, greater demand for public services and support on social fronts, and an ever-more urgent need for the transition towards environmentally sustainable economies. This could compel Asia-Pacific countries to rethink and recalibrate their development strategies, planning and financing, with a view to maintaining social harmony and pursuing higher quality, rather than faster, economic development.

III. Policy responses to date

13. Most countries in Asia and the Pacific have implemented extraordinary measures to contain the spread of the COVID-19 pandemic. Of the 58 regional members and associate members of ESCAP, 57 implemented travel bans, 53 implemented physical distancing measures, 52 closed schools and universities, 44 closed their borders and 41 closed public spaces. This section contains a brief discussion of some elements of the region’s policy responses.

A. Fiscal response and international assistance

14. Between March and September 2020, Asia-Pacific developing countries announced an estimated $1.8 trillion, or 7 per cent of their GDP, would go to COVID-19 health response and relief measures for households and businesses (figure IV). These relief measures were vital for mitigating the adverse impacts on poor households, small and medium-sized enterprises, and hard-hit sectors. However, countries which entered the crisis with limited fiscal space – including least developed countries, small island developing States and countries at high risk of debt distress – relied on smaller fiscal support packages, at the risk of delaying the recovery. Indeed, the size of the fiscal response had a strong correlation with sovereign credit ratings and, to a lesser extent, with sovereign bond spreads and public debt levels. The low capacity of countries with limited fiscal space to respond to the crisis effectively is worrisome. A strong fiscal response is essential not only to facilitate the recovery but, even more importantly, to avoid major disruptions in the implementation of the 2030 Agenda for Sustainable Development. To support the implementation of urgent solutions, the Secretary-General, together with the Prime Ministers of Canada and Jamaica, launched the global Initiative on Financing for Development in the Era of COVID-19 and Beyond.¹

Figure IV
Fiscal support packages


Note: Data on fiscal support packages are disaggregated by budgetary support to health and non-health sectors and liquidity support such as loans and guarantees. Based on the International Monetary Fund/World Bank debt sustainability assessment, “high risk of debt distress” countries are Afghanistan, Kiribati, the Lao People’s Democratic Republic, Maldives, Marshall Islands, the Federated States of Micronesia, Papua New Guinea, Samoa, Tajikistan, Tonga, and Tuvalu.

15. International assistance to date has been helpful, but more is needed. Between March and September, the International Monetary Fund (IMF) and multilateral development banks committed $38 billion to assist Asia-Pacific developing countries in combating the pandemic (figure V). Such support was greater than 1 per cent of GDP in 22 out of 37 recipient countries and on a par or exceeding the Government’s COVID-19 fiscal package in eight countries. However, support was predominantly in the form of loans, with grants and debt relief accounting for less than 4 per cent of total support. Moreover, given that many countries need to continue servicing debt to these same multilateral lenders, net inflows are substantially smaller, as shown in figure V for Asia-Pacific least developed countries.
16. Going forward, policymakers will have less room to manoeuvre. The average fiscal deficit among Asia-Pacific developing countries is projected to widen from 1.5 per cent of GDP in 2019 to 6.8 per cent in 2020 and 5.6 per cent in 2021, owing to discretionary fiscal measures as well as the direct impact of the pandemic on revenues.

B. Monetary and related financial measures

17. Asia-Pacific countries maintained a highly accommodative monetary regime during the pandemic to support collapsing economic activity while ensuring financial market stability. Countries with more constrained fiscal space took more aggressive monetary measures (figure VI). Policy rate reductions and relaxations of deposit reserve requirements remained the primary policy instruments, but a range of more innovative and targeted interventions were also used. These include the expansion of special liquidity support mechanisms, central bank backing of selected corporate and household loans, regulatory relaxation on borrowing by specific sectors and groups (e.g. small and medium-sized enterprises or poor households) and targeted loan repayment moratoriums. Most notably, five Asia-Pacific developing countries, including India, Indonesia, the Philippines, Thailand, and Turkey, launched programmes for their central banks to purchase government bonds to support public expenditures in response to the COVID-19 pandemic (figure VI).
18. The expansionary monetary measures are likely to continue into 2021 in most countries of the region, given the relatively moderate inflationary pressure, improved cross-border financial inflows, and the need for adequate and stable financial liquidity to support businesses and households during the pandemic and throughout the post-pandemic recovery phase. However, as the economic recovery picks up pace, selective and better targeted approaches would be preferable.

C. Policies to support small businesses

19. In the wake of the plunge in the market demand for goods and services and the drastic disruption in domestic and international supply chains, the two immediate challenges for micro-, small and medium-sized enterprises have been (a) sustaining sufficient working capital to continuously run their business and (b) maintaining employment to protect their vulnerable labour force, including women and youth. To deal with these challenges, three broad categories of interventions have been observed: (a) concessional loans; (b) financial support to deal with unemployment; and (c) reduction or deferral of taxes. Other measures include reduction in business costs, demand stimulus and improving the business environment.

20. Micro-, small and medium-sized enterprises are likely to face additional challenges as they grapple with how to deal effectively with the new environment emerging after the COVID-19 pandemic. It is likely they will need to strengthen their organizational capacities, for example through business continuity planning with adequate access to finance so that they can
deal effectively with future crises. Governments must also strengthen a pro-business environment while encouraging the banking and financial sector to facilitate commercial and trade transactions and micro-, small and medium-sized enterprises’ access to finance, particularly in relation to the expansion of the digital economy.

IV. Aligning recovery packages with the 2030 Agenda for Sustainable Development

21. Amid unprecedented policy responses to the COVID-19 pandemic, an important consideration is whether these responses help countries to build forward better. Asia-Pacific countries should ensure that their policy responses to the pandemic place them in a better position to move forward with the 2030 Agenda. That is, policy packages should not only aim to swiftly regain economic strength but also to support inclusive and green development. For example, a fiscal stimulus that emphasizes renewable energy over fossil fuels would generate more jobs, especially during the construction stage, and foster greener recovery through decarbonization.

A. Missed opportunity

22. The extent to which socioeconomic policy responses in Asia and the Pacific incorporate gender equality appears modest. Based on a policy tracker compiled by the United Nations, only 57 out of 441 policy measures introduced in 45 Asia-Pacific economies can be defined as gender sensitive. These policies benefit women’s economic security amid notable job and income losses or address the unprecedented increase in unpaid care work. Despite their limited number, gender-sensitive policies introduced in the region are wide-ranging. Examples include financial assistance to economic sectors that disproportionately employ more women, cash transfers to pregnant women and mothers with young children, provision of food and hygiene kits to women-headed households, grants to promote women entrepreneurs, and extra leave days to people who needed to take care COVID-19 infected family members and children due to school closures.

23. Coronavirus policy responses in the region do not sufficiently promote green recovery and development. According to an index that measures the environmental impact of announced fiscal stimulus packages, the stimulus packages in all 10 Asia-Pacific countries covered in the study tend to have a net negative impact on climate change, biodiversity or air quality. This is because the volume of financial flows to environmentally intensive sectors, such as agriculture, industry, waste, energy and transport, exceeds the flows that benefit the environment. In this regard, countries should further invest in green infrastructure, avoid committing fiscal funds to fossil fuel production and consumption, and reduce fiscal supports that provide subsidies, waived fees or tax reductions for environmentally harmful activities and products. Moreover, limits on carbon emissions, energy mix or wastes should be tied to financial bailouts.

B. A build forward better recovery package

24. The model policy package developed by ESCAP helps Asia-Pacific countries to build forward better. Such a package has three objectives: first, provide universal access to health-care services and social protection floors through higher health-care spending and cash transfers to vulnerable population groups; second, close the digital divide through spending hikes in information and communications technology and education; and third, promote green development through greater spending on energy access and efficiency, renewable energy, climate-resilient infrastructure and biodiversity preservation, as well as the introduction of a carbon tax and the elimination of fuel price subsidies.

25. Implementing the building forward better package would bring notable social and environmental benefits. Based on model estimations, the package would result in lower poverty, reduced income inequality, lower carbon emissions, and better air quality. Under the required spending level scenario, where the magnitude of spending increases is assumed to match additional investment needs in different Sustainable Development Goal areas, almost 180 million people in the Asia-Pacific region would escape poverty when measured at $5.50 per day. The poverty reduction impact is much smaller at 55 million people under the business-as-usual spending level scenario, where the magnitude of spending increases is assumed to be at a certain portion of additional Goal investment needs based on each country’s past trend of financial resources. On an environmental front, carbon emissions would be nearly 30 per cent below the baseline, supported by a higher share of renewable energy in the energy mix, greater energy efficiency and a decline in total energy use. Moreover, air quality could improve notably due to greater use of clean energy and the shift in the energy mix away from coal and oil.

C. Fiscal implications of the package

26. Despite its significant social and environmental benefits, the building forward better package would place greater pressure on Governments’ fiscal positions. Under the required spending level scenario, the public debt-to-GDP ratio is estimated to be at 10 percentage points above the baseline in the long run. While seemingly modest, the package assumes that all Asia-Pacific countries abolish fuel subsidies and introduce a carbon tax, which are considered bold policy moves in this context. Moreover, when combining with the large urgent fiscal needs to address the COVID-19 pandemic, fiscal strength could be at risk. In this regard, ESCAP estimates that, while pursuing the building forward better package and combating the pandemic, the government debt-to-GDP ratio in developing Asia-Pacific countries would rise steeply from 51 per cent of GDP in 2019 to about 74 per cent of GDP by 2030. In the least developed countries, the public debt ratio is set to surge from 35 per cent in 2019 to 90 per cent by 2030, given the larger spending needs to deliver the building forward better package. Finally, public debt sustainability faces greater risk with adverse economic shocks and realization of fiscal contingent liabilities. For example, when real GDP growth rates in 2021 and 2022 are assumed to be one standard deviation below the baseline, the public

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5 Based on estimates in Economic and Social Survey of Asia and the Pacific 2019: Ambitions Beyond Growth (United Nations publication, 2019).
debt ratio in developing Asia-Pacific countries rises by another 10 percentage points, to 84 per cent by 2030.

V. Enhancing fiscal space

27. There are a wide range of economic policies and financing strategies that Governments can consider and implement to ensure that policy support is sustained in the near future, for both economic recovery and investments in Sustainable Development Goal areas such as health, social protection, digital infrastructure and climate action. This section contains a discussion of how countries can enhance fiscal space and find ways to finance the required government spending in a manner that has minimal adverse implications for debt sustainability and overall macroeconomic stability.

A. Budget reforms

28. Prudent public expenditure management and effective fiscal governance would minimize wastage and maximize development benefits with limited funds. In this regard, investing in Sustainable Development Goal priorities such as social protection and climate action could reap a double dividend by enhancing a country’s resilience to future shocks as well as support economic recovery. There are three recommendations for this area.

29. First, Governments can ensure that fiscal recovery packages build forward better by adopting a sustainability checklist to assess if interventions meet both short-term needs to deliver as many jobs, income and economic demand as quickly as possible, and long-term needs to deliver socially and environmentally sustainable growth and resilience to future shocks. Second, additional fiscal space can be created by exceptional and unconventional measures of relaxing fiscal and borrowing rules and generating income from government balance sheets.

30. Third, additional fiscal space can also be created by reorienting public expenditures and implementing taxation reforms. Examples include curbing non-development expenditure such as on defence, removing fuel subsidies, implementing carbon taxes and strengthening progressive taxation. In the Economic and Social Survey of Asia and the Pacific 2020: Towards Sustainable Economies, it was highlighted that phasing out fossil fuels and introducing carbon pricing could open up significant fiscal space as well as address air pollution and climate change (figure VII). Countries could also tap the market for green and sustainability bonds, which has seen rapid growth in recent years.
B. Sovereign borrowing

31. Amid widening fiscal deficits, emerging Asia-Pacific economies have adopted less conventional debt financing strategies. As part of monetary injections, central banks in countries such as India, Indonesia, Malaysia, the Philippines, Thailand and Turkey have purchased government bonds in primary and/or secondary markets. While helping to maintain financial stability and low interest rates during this unprecedented economic turbulence, prudent economic management is needed as this unconventional approach could lead to higher inflationary expectations and interest rate volatility and could jeopardize central bank independence. Meanwhile, the Governments of Indonesia and Thailand also engaged with innovative sovereign bond financing in mid-2020. In particular, the Government of Indonesia raised $2.5 billion from a globally available green sukuk financing instrument, while the Government of Thailand issued its first sustainability bond to finance the COVID-19 relief package and an urban transportation project.

32. Countries with weaker sovereign credit risk ratings and underdeveloped financial markets have typically relied on external loans, including concessional financing, as their main borrowing instrument. However, going forward, these countries could increasingly explore public bond financing. For this, they would need to develop domestic financial markets. While developing domestic financial markets is a lengthy process, it offers several benefits over conventional fiscal borrowing mechanisms, such as diversifying investor risks.

33. In the meantime, one policy option for countries with a small market size is to issue sovereign bonds in a more developed neighbouring economy with strong economic ties. For example, during 2013–2020, the Government of the Lao People’s Democratic Republic, a power project and a state-owned electricity company issued in Thailand a total of 43 Thai baht-denominated bond series for a total value of approximately $2.1 billion. Another bond financing option is diaspora bonds, especially in countries with sizeable remittance flows such as Bangladesh, Kyrgyzstan, Nepal, Pakistan, Tajikistan and Viet Nam. Some of the Governments of these countries have previously issued diaspora bonds with varying degree of success. In this regard, a demand
to gauge the willingness and ability of diaspora communities to invest in these types of bonds is essential.

34. For countries severely affected by COVID-19 with limited fiscal buffers, stronger international assistance will also be critical. While the Debt Service Suspension Initiative by the members of the Group of 20 and the Paris Club has been helpful, further action is needed in the form of targeted debt relief. The objective of the Group of 20’s Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative is to provide a platform for the restructuring of unsustainable sovereign debts with all bilateral creditors, including members of the Group of 20 and the Paris Club and others on a voluntary basis. While this is an important initiative, its emphasis is on ensuring fair burden sharing among creditors, but it is silent about the development needs of debtor countries. In addition, eligible countries are only those eligible for the Debt Service Suspension Initiative, leaving out middle-income countries facing debt difficulties. An important issue in debt restructuring negotiations is the imbalance in negotiation and technical capacities between creditors and developing country debtors. The United Nations, as a global platform with broad representation among developing countries, could support debtors in their negotiations with creditors by setting up panels of legal and financial experts in debt restructuring processes. United Nations regional commissions such as ESCAP may be able to contribute to such efforts through policy dialogues and technical meetings.

C. Emergency financing and state-contingent instruments

35. Emergency financing mechanisms could help countries to enhance their preparedness for future shocks. An effective mechanism provides quicker, larger financial assistance during emergency situations. In the longer term, an effective financing mechanism helps to reduce fiscal contingent liabilities and post-event budgetary disruptions.

36. Asia-Pacific economies face various gaps in disaster risk financing strategies. In many countries, there are large funding gaps when recurrent disasters strike, comprehensive strategies to manage the financial impacts of natural disasters are absent, and information on disaster impacts is not fully used for fiscal planning. Several countries also face limited budget execution capacity for emergency responses at a local government level.

37. Countries should consider a mix of financing instruments that match their catastrophic risks. For catastrophes that take place frequently and/or have small impacts, countries could rely on instruments such as government reserves and budget reallocation. For catastrophes that take place less frequently and/or have larger impacts, contingent loans could be used during the relief and recovery phases. Finally, for catastrophes that occur only occasionally but have significant impacts, countries should explore instruments which help transfer sovereign catastrophic risk to other entities.

Examples of such ex ante instruments include catastrophe bonds, swaps and insurances.

38. The Asia-Pacific region has used various risk-retention financial instruments to deal with shocks. For natural disasters, countries such as Fiji, Myanmar, Pakistan and Solomon Islands have dedicated reserve funds. In response to the COVID-19 pandemic, the Government of Australia set up a national relief and recovery fund. At the subregional level, countries in South-East Asia and South and South-West Asia have introduced COVID-19 emergency funds. In addition to emergency funds, Asia-Pacific Governments have also reoriented existing spending to cope with the pandemic. For example, the Government of China increased central budget transfers to provinces, while the Government of India announced a $650 million budget reallocation.

39. With regard to risk-transfer financial instruments, there are more than 50 risk insurance schemes in the Asia-Pacific region. Subregional catastrophe risk pool initiatives have also been established in South-East Asia and the Pacific. Despite the growing number of catastrophe insurance schemes, their scope is usually limited to few risks of disasters and specific categories of damages and losses, while the fund size is often inadequate.

40. To cope with balance of payments and short-term liquidity crises, Governments have adopted various tools, such as maintaining adequate foreign exchange reserves and engaging in swap arrangements. An example of regional financial safety nets in this context is the Chiang Mai Initiative Multilateralization, which was established in 2010 as a network of bilateral swap arrangements among the Association of Southeast Asian Nations plus China, Japan and the Republic of Korea (ASEAN+3) cooperation economies. Currently, its total lending capacity is $240 billion.

41. Regional cooperation can enhance emergency financing mechanisms. For disaster risks, several political forums in Asia and the Pacific have supported the idea of joint solutions, which cover financing, policy dialogues and knowledge-sharing activities. An important consideration to take into account is the diversity at the country level. For example, less developed economies tend to suffer from losses in agriculture and rural housing and have less room to leverage risk-transfer instruments. More developed economies tend to suffer from losses in manufacturing facilities and public infrastructure and have more room to leverage risk-transfer instruments.

VI. Channelling private investments towards the Sustainable Development Goals

42. The previous section contained a discussion of how to enhance fiscal space to facilitate public investments in sustainable development, in accordance with the proposed building forward better package. Building on that discussion, this section contains a discussion of the role of private investment in supporting the achievement of the Sustainable Development Goals.

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9 ESCAP, Disaster Risk Financing: Opportunities for Regional Cooperation in Asia and the Pacific (Bangkok, 2018).
A. Thematic bonds

43. Fixed income markets have seen a substantial rise in the issuance of themed bonds, such as a debt security issued on the condition that the funds obtained are used to finance projects with a social or environmental impact. The signing of the Paris Agreement in 2015 triggered the emergence of a new segment in the bond market with the issuance of green and climate bonds in response to the need for global institutional investors to help to address climate change and invest their capital according to sound environmental principles (figure VIII). In 2020, bond issuers located in the Asia-Pacific region supplied a total of $36 billion in labelled green bonds.

Figure VIII
Themed bond issuance in Asia and the Pacific in 2020


44. At the same time, other types of fixed income securities have been created in response to emerging global challenges. For example, the devastating consequences of the COVID-19 pandemic have triggered an influx of social bonds as a source of investment in health and social protection projects. Another example is the issuance of clean air bonds to catalyse domestic financing for sustainable clean energy investments. More than $50 billion in themed bonds were issued in 2020 in Asia and the Pacific, reflecting one fifth of global supply for themed bonds. Nevertheless, in Asia and the Pacific only developed countries such as Japan and few developing countries such as China, Indonesia, the Philippines, the Republic of Korea, Viet Nam and India have issued the green labelled bonds. Countries in the region need to address gaps in national capacities to issue themed bonds. The Commission and other development partners can support countries in building such capacities through technical cooperation or training programmes.
B. Debt-for-climate swaps

45. The pandemic has placed enormous pressure on the debt levels of the developing countries, where efforts to combat climate change are colliding with the need to prioritize health expenditures over climate mitigation and adaption projects. In light of these concerns, there are calls “to explore additional tools that could serve these needs as the crisis evolves, drawing on relevant experiences from previous crises”. One such tool that could be considered is a debt-for-climate swap. A debt swap describes a scenario where a creditor forgives debt owed to them in exchange for a commitment by the debtor to use the outstanding debt service payments for a particular purpose.

C. Climate risk disclosures

46. Under a scenario of a global temperature rise of no more than 2 degrees by 2050, up to $20 trillion of assets across the energy, industry and building sectors globally are estimated to become stranded. While stranded assets cause losses for the companies that own them, they also pose risks for the banks that lend them, the insurers that underwrite them and the asset managers that invest in them. It is, therefore, important for regulators and investors to be able to discover the exposure of businesses and financial institutions to stranded assets. For that purpose, countries should commit to a sustainability-related disclosure framework that aligns with global standard-setting initiatives, including the Task force on Climate-related Financial Disclosures, the Principles for Responsible Investment and the Principles for Responsible Banking.

47. Governments should play an active role in supporting the development of internationally agreed standards for climate-related financial disclosures and other environmental, social and governance factors. Furthermore, government regulations and public policy frameworks should also include incentives for the private sector to shape mission-oriented public investments towards achieving a low-carbon, climate-resilient economy, taking into account country-specific circumstances.

D. Sustainable infrastructure and public-private partnerships

48. The financing of the building forward better package can also benefit from public-private partnerships. The advancement of inclusive and climate-resilient infrastructure projects through public-private partnerships can attract private sector participation and contribute, in the case of sustainable transport projects, towards enhanced connectivity within and among countries in the region. Public-private partnerships can contribute additional financing to public sustainable infrastructure projects and improve service delivery. However, although the Asia-Pacific region has recorded the highest volume of investment in infrastructure under public-private partnerships contracts over the years, only a small number of countries use public-private partnerships. The Commission supports its member States with the exchange of good practices and to disseminate knowledge products on sustainable infrastructure financing through the work of the Infrastructure Financing and Public-Private

10 Shamshad Akhtar and others, “Debt-for-climate swaps are crucial for economic recovery in the developing world”, Mail and Guardian, 1 September 2020.

Partnership Network of Asia and the Pacific, which has welcomed more than 40 countries of Asia and the Pacific.

VII. Issues for consideration by the Commission

49. The present document contains highlights of various policy options that can help Governments to come up with much needed resources to implement economic recovery policies with regard to the building forward better package. The range of policies discussed has been divided into two complementary categories – enhancing fiscal space and channelling public and private investments towards the Sustainable Development Goals. Member States are invited to review them and provide guidance to the secretariat as to which of these should be explored further, with a view to implementing them at the country-level. This would help to guide the secretariat’s forthcoming analytical work, and more importantly, its planning and creation of technical assistance and capacity-building projects. The suggestions of member States during the Commission session will guide the secretariat in developing the provisional agenda for the third session of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development, scheduled for October 2021.