

# ***Financing sustainable development under current difficult macroeconomic conditions***

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**TUDCN Asia-Pacific Meeting**

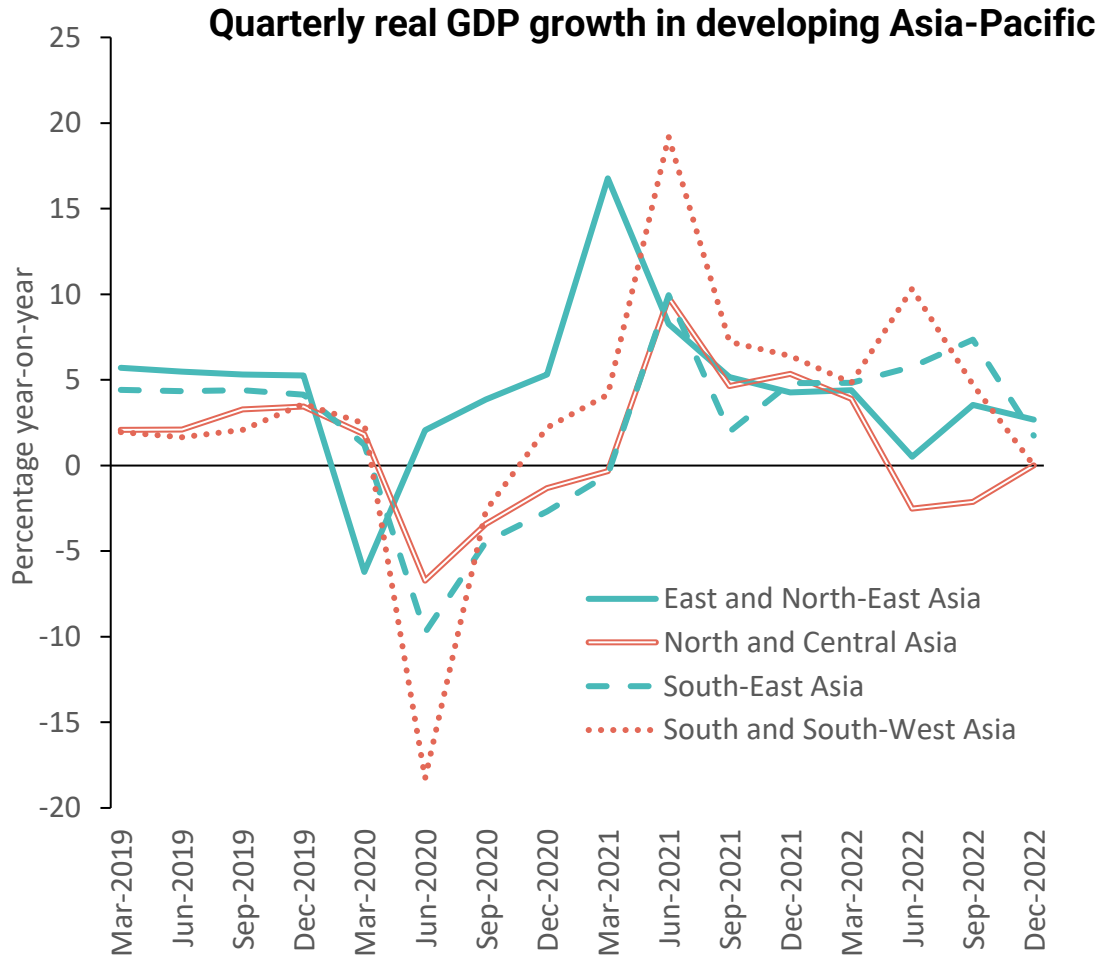
**Bangkok, 8 March 2023**

# Main messages

- Current **difficult economic conditions** – low(er) economic growth and high(er) inflation – are likely to linger for couple of years ... **expect (further) delays in progress towards the SDGs.**
- Substantial **fiscal and debt pressures** along with **increasing interest rates** suggest limited policy space ... **enhancing financing in support of SDGs would be challenging.**
- **Several policy options are available** to enhance financing for sustainable development ... **implementing them would require political will and a wide range of reforms.**

# Understanding Macroeconomic Context

# Post-pandemic economic activity remains weak in Asia-Pacific ... and is likely to leave lasting scars on economies and people



Source: ESCAP, based on CEIC data (accessed 15 February 2023).

Note: Subregional aggregates are the weighted average, based on 28 economies in Asia and the Pacific for which quarterly GDP data are available

**The pandemic is likely to leave lasting scars:**

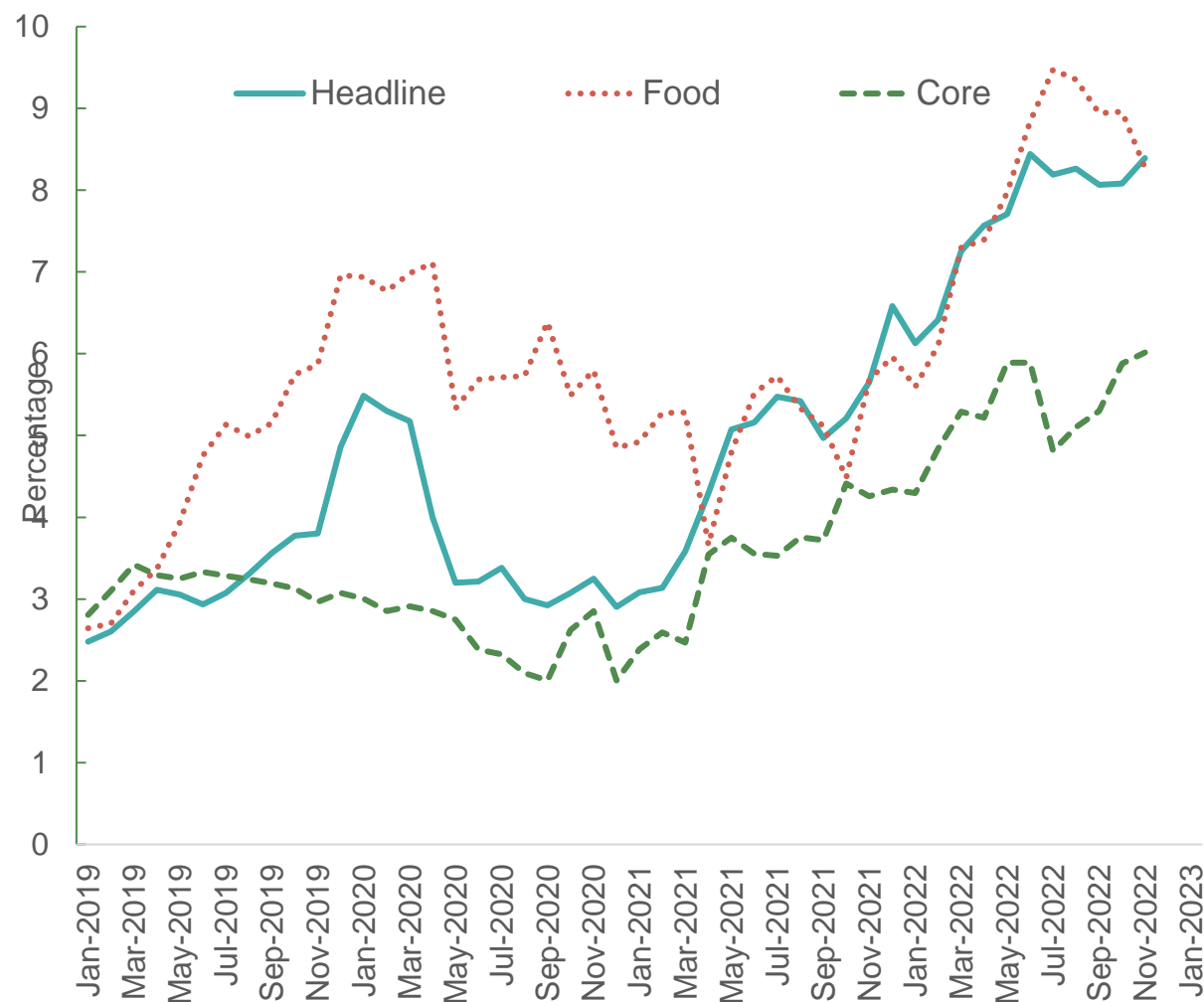
**Disruptions to labour markets** – prolonged duration of unemployment contributes to erosion in workers' skills and reduction in their chances of returning to the workforce

**Lack of capital investments** – weaker economic prospects and balance sheets may lead to an extended period of low investments in capital and R&D, reducing productivity and eroding future growth potential.

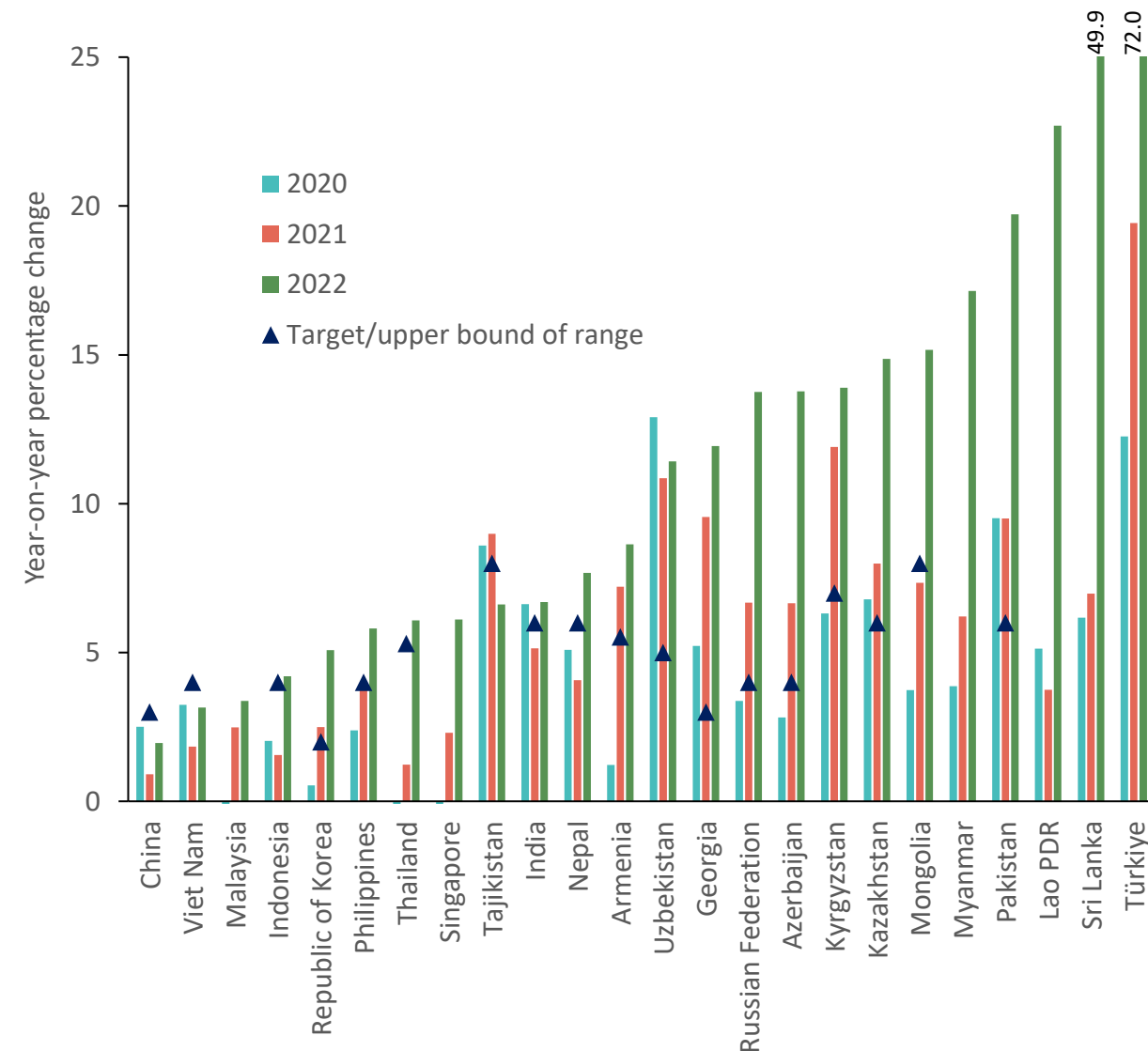
**Learning deficits** – long-term consequences on learning and earning potentials from prolonged school closures; digital divide is aggravating the challenge

# Inflation is on the rise ... surpassing central bank targets in several economies

## Inflation trends in developing Asia-Pacific

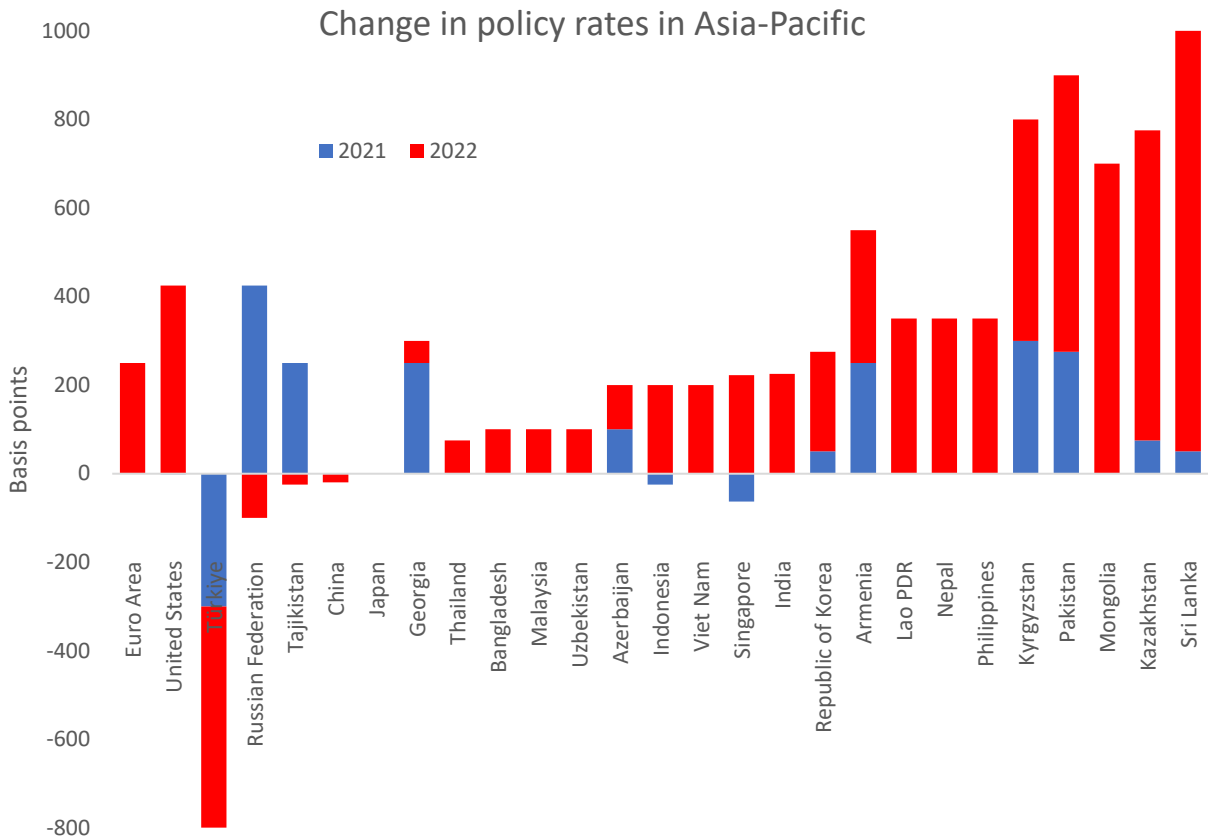
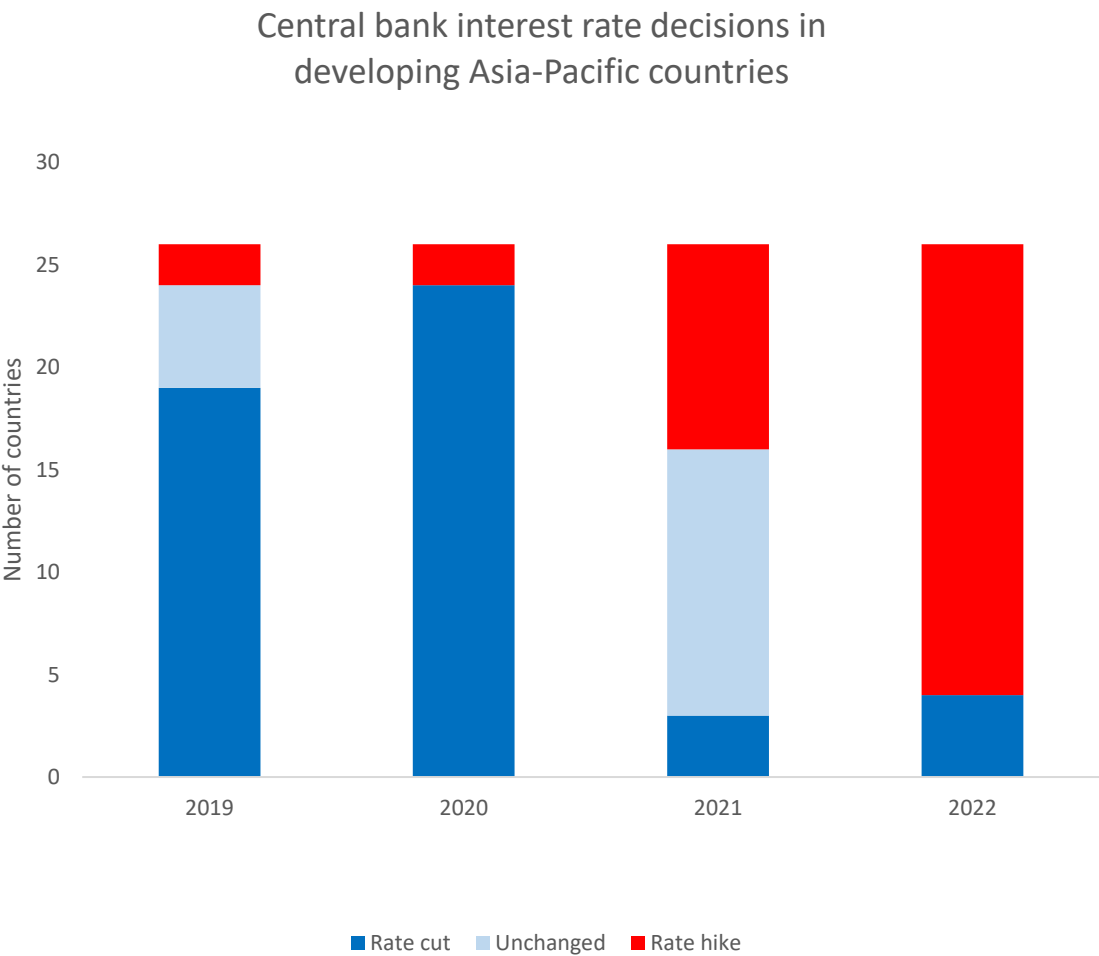


## Inflation and central bank targets



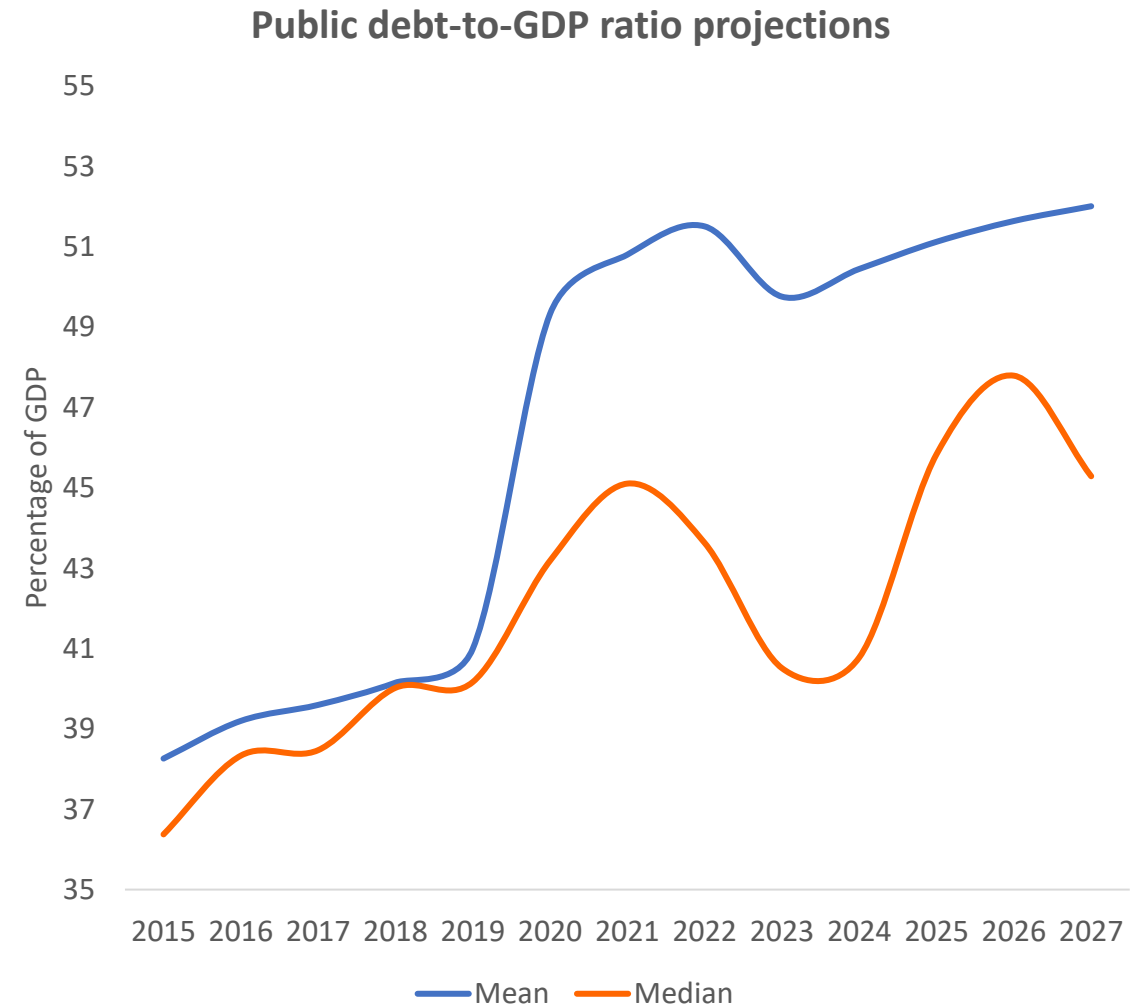
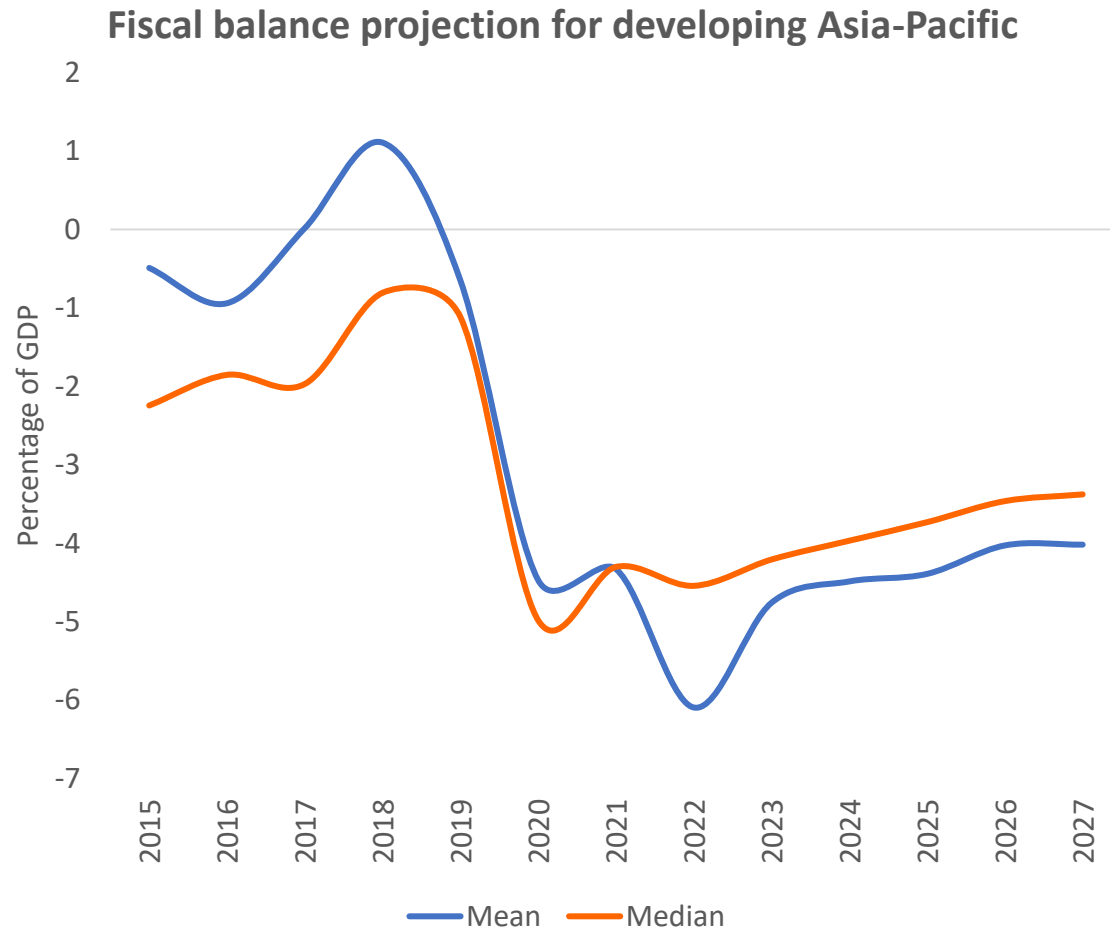
Source: ESCAP, based on CEIC (accessed 15 February 2023).

# Most central banks are hiking interest rates ... leading to increases in financing costs



Source: ESCAP, based on CEIC (accessed on 15 February 2023).  
Note: Central bank interest rates decisions are based on policy rate data for 26 countries in developing countries in the Asia-Pacific region

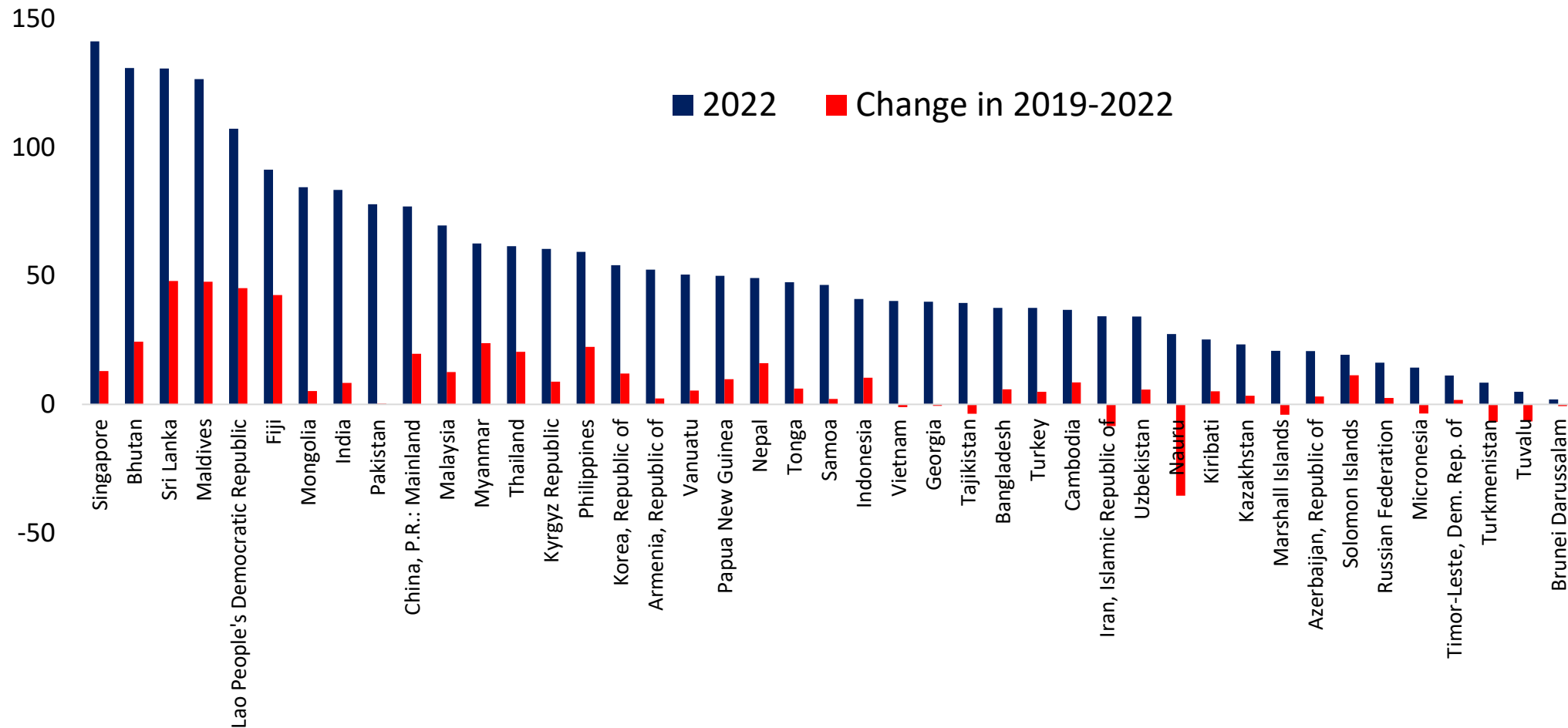
# Fiscal space has dwindled ... higher interest rates will shrink it further and bring debt sustainability concerns to the fore



Source: IMF, Fiscal Monitor Database, October 2022.

# Elevated debt levels and debt servicing costs will limit financing opportunities

Debt-to-GDP, developing Asia-Pacific.



Source: ESCAP estimates based on World Bank data.



# Selected Policy Considerations to Finance Sustainable Development

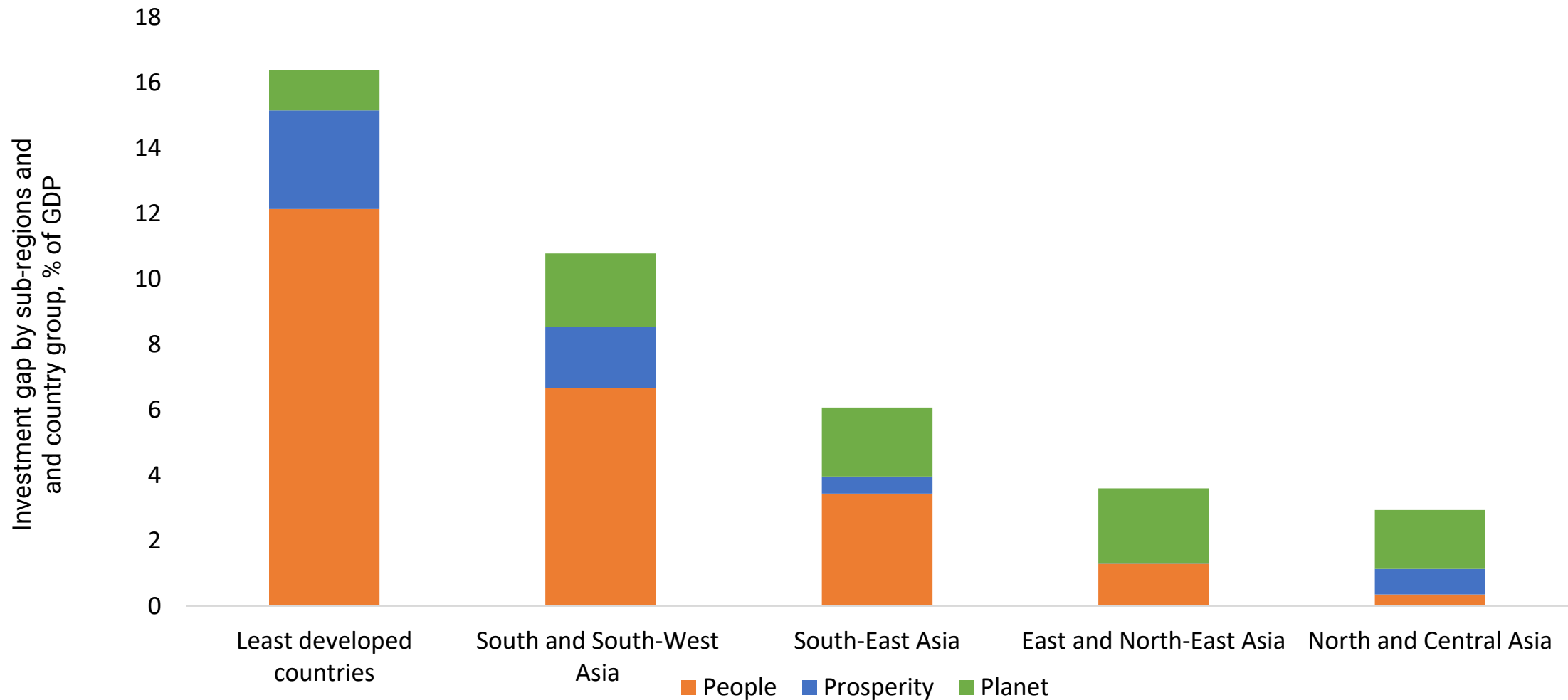
# Develop and implement Integrated National Financing Frameworks



## ■ INFFs help:

- Align financing with long-term priorities
- Focus on binding constraints to mobilize resources
- Identify targeted policies and reforms
- Facilitate sequencing of reforms

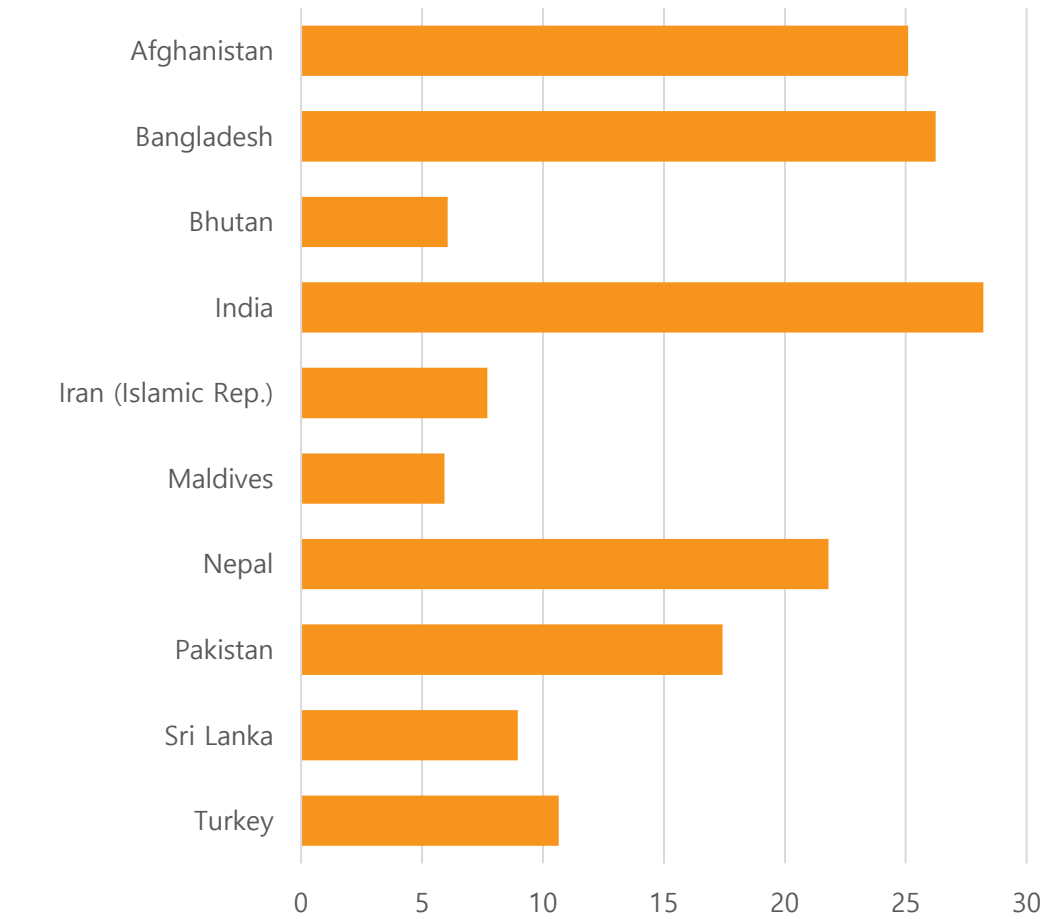
# Estimating financing needs – 5% of GDP on average per year for Asia-Pacific ... much higher for LDCs



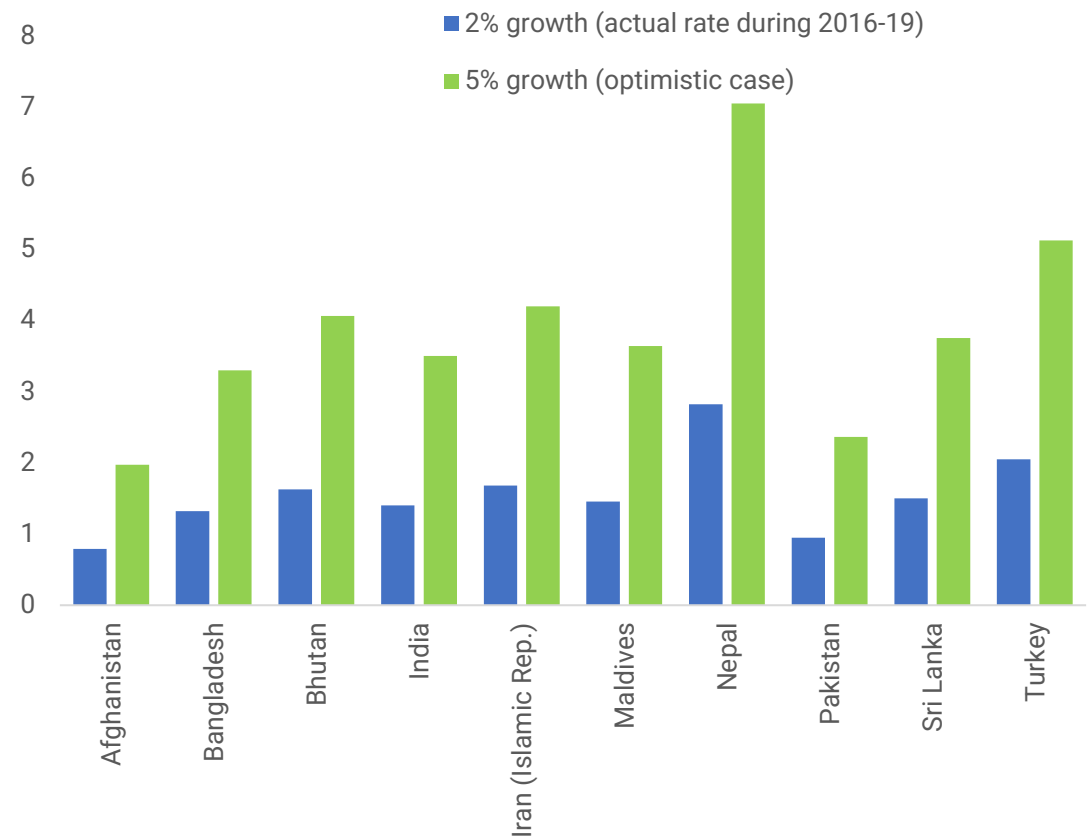
Source: ESCAP Survey 2019

# Current financial flows towards SDGs are small relative to SDG investment needs

Additional SDG investment needs (% of GDP per year)



Projected increase in financial flows (% of GDP )



Source: ESCAP estimates and calculations.

# Enhancing fiscal space and improving debt sustainability: Immediate and short-term policy options

- **Domestic measures:**

- By **leveraging technology and data**, enhance revenue mobilization and ensure targeted fiscal transfers and subsidy schemes.
- **Improve public spending efficiency** and protect spending for healthcare, education and social protection.
- Start discussions with major creditors for **debt restructuring**, and explore **innovative options** such as debt for climate swaps

- **Multilateral considerations:**

- **Enhanced Debt Service Suspension Initiative (DSSI-E)**: expand country coverage to middle-income countries and expand the duration/scope
- Move **from debt service suspension to debt restructuring**: kicking the can down the road may result in repeated debt distress and prolonged macroeconomic stagnation
- **Bring private creditors into the debt restructuring/relief discussion**: create incentives for private creditor participation in the *G20 Common Framework for Debt Treatment*

# Enhancing fiscal space and improving debt sustainability:

## Long-term reforms (1)

## Improve access to and reduce the cost of development financing

- **Domestic measures:**

- Promote **domestic savings** and develop **domestic financial markets**
- Leverage the potential of **public development banks** and long-term funds
- **Mobilize private finance** for development through blended finance and public-private partnership modalities

- **Multilateral considerations:**

- Fulfill **international commitments** to climate and development financing
- Promote healthy development of the '**thematic**' **bond market**
- Strengthen cooperation to tackle **illicit financial flows**

# Enhancing fiscal space and improving debt sustainability:

## Long-term reforms (2)

## Reduce fiscal risks and avoid debt distress

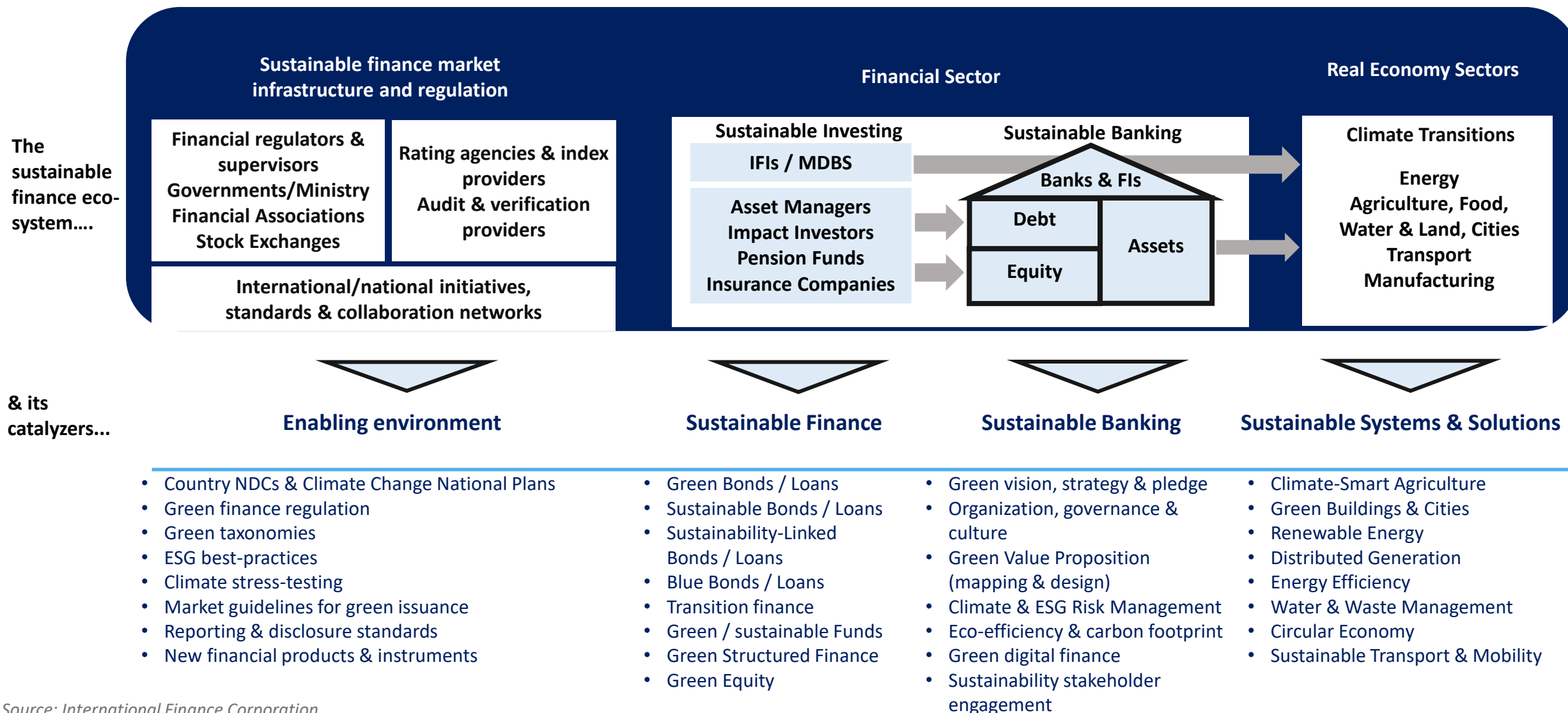
- **Domestic measures:**

- Expand **tax base** and improve **progressivity of income taxes**
- Adopt **prudent debt management** principles and develop medium-term debt strategies
- **Incorporate catastrophic risks** into fiscal planning

- **Multilateral considerations:**

- **Incorporate SDG investment requirements and climate risks into debt sustainability analysis** and sovereign credit ratings
- Promote the adoption of **collective action clauses (CACs)** or **state-contingent debt instruments (SCDI)** in sovereign borrowing
- Accelerate progress towards **common international debt restructuring frameworks**.
- Strengthen **consensus building and coordinated discussions**, including through platforms provided by the UN, among debtors and creditors to resolve debt distress.

# Develop the sustainable finance ecosystem





# Focus on both the two broad aspects of sustainable finance

1

## Sustainable use/outcome-based finance



Capital is invested in activities that deliver sustainable development (e.g. use-of-proceeds defined green bonds, outcome – linked Sustainability Bonds, debt for climate swaps)

*Countries need to scale access to this sustainable finance*

2

## Sustainably-managed finance



Banks, issuers, investors and regulators are aware of and actively manage finance according to Environmental, Social and Governance (ESG) considerations

*Countries need to strengthen this finance to be more sustainable*

# Policy considerations to strengthen sustainable finance



**Converge with international norms** - Peer-to-peer learning and benchmarking to advance sustainable finance frameworks, particularly at the regulator level (ex. WB Sustainable Banking and Finance Network, UNEP-FI's Sustainable Stock Exchange Initiative). Better frameworks incentivize more capital to flow.



**Implement whole-of-government coordination** – (i) integrate ESG risks into financial stability tools and models; (ii) support the development of green, social and sustainability-linked (GSS) local and international currency instruments (iii) align ESG and sustainable finance standards across government



**Develop Financial Sector Infrastructure** – (i) support financial sector development, with focus on financial inclusion and growing capital markets, especially to develop local investor base; (ii) strengthen GSS and/or ESG Monitoring, Reporting, and Verification (MRV) capacity

# Policy considerations to strengthen sustainable finance



**Incentivize Sustainable Economic Development in the Real Economy** – (i) Enhance stress-testing and modelling of physical and transition risks in the real economy to ensure the factoring in of climate risks into risk and prices (ii) Uniformly enforce the ESRM framework for banks and their corporate borrowers to enable a “level playing field”, (iii) encourage development of bankable pipelines in the real economy



**Mobilise Sustainable Finance** – (i) mobilise MDB/IFIs support in appropriate concessional or blended financing, ii) encourage the application of innovative regulatory incentives and supervisory interventions to encourage sustainable finance, iii) build capacity and skills in sustainable finance across the system

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