



## COVID-19 and the future of development finance in South Asia

The COVID-19 crisis has significantly stressed the already constrained development financing resources in South Asia making sustainable development goals (SDGs) a further steep task. Given the structural changes in the region like declining significance of foreign aid and the progressively diversified development financing options that have arisen especially with the rise of China, South Asia needs to rethink its development finance strategies, noted eminent speakers in a virtual meeting titled **“Future of development finance and South Asia’s development”** organized by **South Asia Watch on Trade, Economics and Environment (SAWTEE)** in association with Biruni Institute, Afghanistan; Centre for Policy Dialogue (CPD), Bangladesh; Research and Information System for Developing Countries (RIS), India; Sustainable Development Policy Institute (SDPI), Pakistan; and Institute of Policy Studies of Sri Lanka (IPS), Colombo. The session provided country-specific as well as region-wide assessment of the stressed development finances due to COVID-19 and discussed potential strategies to address the resource shortfalls.

Ms. Amena Arif, Country Manager, International Finance Corporation, Sri Lanka and the Maldives, set the context by outlining that the region’s already significant development financing gaps have further widened due to the COVID-19. Ms. Arif cited the region’s 10 percent decline in private consumption in the recent months wherein workers in sectors like retail, transport, and hospitality, three quarters being informal, have been disproportionately hit. The pandemic-induced pressure on remittance flows and official development assistance (ODA) and the enhanced demand for borrowings has meant that the region needs to rethink its development financing strategies, she observed.

Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD), Dhaka, began the keynote address by emphasizing the structural changes that region has had when it comes to development finance in the recent decades. Steady decline in dependence on ODA; remittance transfers becoming the principal and the largest source of external financing; rising significance of domestic resources driven both by growth in GDP as well as rising government revenues; and a somewhat lackluster growth in FDI (foreign direct investment) with the exception of India, are the structural changes, Prof. Sobhan observed. There are exceptions like Afghanistan and to a lesser extent, Nepal, wherein dependence of ODA remains significant. Prof. Sobhan, indicating the rising significance of domestic resources in countries like Bangladesh, suggested that while growth in GDP has translated into greater government revenues despite a low government revenue to GDP ratio, the latter requires significant effort if development financing gaps are to be addressed. Along with the structural changes in the region, there have been shifts in the global economy and geopolitics, particularly the emergence of Asia as a major source of external financing given its volume of foreign exchange reserves and sovereign wealth funds, noted Prof. Sobhan. China being a key driver of the potentially beneficial shifts—along with regions like East Asia and South Asia—both in economic and political terms, Prof. Sobhan suggested that enhanced regional cooperation in South Asia offers greater opportunities to benefit from the changed order. He added that China’s initiatives like the Asian Infrastructure Investment Bank are increasingly considered well governed initiatives and have the potential to reduce infrastructure deficits in the region. Prof. Sobhan observed that the structural changes at the national, regional as well as global level call for recalibrated and innovative development financing

strategies and mechanisms in the region. Important efforts need to be made in handling of remittance flows in the region to develop and upgrade individual and collective capabilities, he remarked.

Dr. Selim Raihan, Professor, University of Dhaka and Executive Director, South Asian Network on Economic Modeling (SANEM), Dhaka, highlighted that while the issue of development financing is important, the region has paid less attention on setting its development priorities. He suggested that there is an extremely unhelpful obsession of economic growth numbers. Dr. Raihan observed that social development metrics, be it inequality or working conditions for workers, are problematic including in the rapidly growing countries in the region like Bangladesh, among the few countries in the world poised to register positive growth in 2020. Focusing on getting development priorities right, Raihan highlighted the need to make private sector more accountable in, for instance, ensuring the safety of workers. Dr Raihan, responding to a question on how corruption has crippled governance in South Asia, observed that along with government reforms, there was a need for civil society to spearhead anti-corruption drives.

Dr. Prabir De, Professor, Research and Information System for Developing Countries (RIS), India, drew attention to the modest outcomes from monetary policy interventions in the region. De observed how the investment levels have remained stagnant amid rising savings rate and despite liquidity injections, borrowings have not expanded. Matters have been made worse by rising non-performing assets (NPA), he added. De observed that while mechanisms like SAARC have potential to enhance regional cooperation including in development finance—there are mechanisms like the SAARC Development Fund headquartered in Thimpu, Bhutan—the progress so far create no grounds for optimism. De remarked that subregional initiatives such as Bangladesh, Bhutan, India, Nepal (BBIN) may offer greater opportunities for functional and effective cooperation mechanisms.

Discussing Afghanistan, Nazir Kabiri, Executive Director, Biruni Institute, Kabul, drew attention to the obviously greater vulnerabilities of Afghanistan where, owing to the pandemic, poverty is set to increase from the already problematic levels of over 50 percent. Kabiri suggested how the already limited government revenue collection has declined further. Mr. Kabiri reminded the participants that Afghanistan was structurally different from other countries in the region in that it was an outlier when it comes to dependence on ODA. Mr. Kabiri suggested that the pandemic-induced stresses on fiscal sustainability require initiatives like debt relief and concessions for the poorest countries.

SAWTEE, in association with other prominent think-tanks in the region, has been hosting a series of webinars from 22 September to 16 October to deliberate on various socio-economic aspects of the COVID-19 pandemic, how they relate to South Asia and what should be the future course of action for South Asian countries. The video recording of the webinar can be accessed [here](#).

*We encourage you to visit SAWTEE's work on the COVID-19 crisis by [clicking on this link](#). Likewise, please [visit the website](#) for more details about the COVID-19 webinar series hosted by SAWTEE and for the full video recordings of the meetings.*