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## Financing Development Gaps in the Countries with Special Needs in the Asia-Pacific Region

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### FINANCING DEVELOPMENT GAPS IN THE COUNTRIES WITH SPECIAL NEEDS IN THE ASIA-PACIFIC REGION

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## 1. INTRODUCTION

The Asia-Pacific region has witnessed impressive growth in recent years which has almost doubled the real income per capita in the region since the early 1990s. While growth in the region has been accompanied by significant declines in poverty, income inequality has also risen in many countries dampening the positive gains of growth. Despite rising inequality and other adverse developments including the global economic crisis, the Asia-Pacific region as a whole has made impressive progress in many MDG indicators, especially in reducing poverty.<sup>1</sup> For several indicators, the Asia-Pacific region has already achieved the targets, e.g. reducing gender disparities in primary, secondary, and tertiary education enrolment; preventing a rise in HIV prevalence; stopping the spread of tuberculosis (TB); reducing the consumption of ozone depleting substances; and halving the proportion of people without access to safe drinking water. On the other hand, the region lags behind in some major areas, such as in reducing the extent of hunger, ensuring that girls and boys reach the last grade of primary education, reducing child mortality, improving maternal health provision, and providing basic sanitation. The overall progress in the Asia-Pacific region, however, masks considerable variations between country groupings and sub-regions. In particular, several of the region's countries with special needs (CSN) have made slow progress in terms of a number of indicators. Indeed, the region still remains home to two-thirds of the global extreme poor.

Against this background, the 2012 triennial review of the Committee for Development Policy (CDP), a subsidiary body of the UN Economic and Social Council, stresses that “financing needs also differ across countries and regions. While financing needs are disproportionately large relative to the size of their economies in many developing countries, there are specific needs in least developed countries (LDCs)”.<sup>2</sup> In particular, the CSN in the Asia Pacific would require substantial financing especially through public investment to fill the development gaps faced by these countries. Therefore, strategies for mobilizing resources for financing the development gaps remain one of the critical areas for the CSN in the Asia-Pacific region.

The ESCAP commits ‘to assist countries with special needs, especially least developed countries, landlocked developing countries and small island developing States, in taking advantage of opportunities arising from regional economic cooperation and integration, including, as appropriate, through support to enhance their capacities and through technical assistance’. It further recognizes that ‘there is a need to implement specific policies that focus on productive capacity-building related to infrastructure development, broadening the economic base, access to finance and providing assistance in overcoming the risks and shocks of entering into a regional trade block.’<sup>3</sup>

In addition, ESCAP is currently undertaking research and related programmes on sustainable development financing (SDF) that can significantly contribute to the implementation of the post-2015 development agenda. These activities, among others, are aimed at addressing new

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<sup>1</sup> See ESCAP, Asian Development Bank (ADB), and United Nations Development Programme (UNDP), *Asia Pacific Regional MDGs Report 2012/13* (Bangkok, 2013). Available from [www.unescap.org/resources/asia-pacific-regional-mdg-report-201213-asia-pacific-aspirationsperspectives-post-2015](http://www.unescap.org/resources/asia-pacific-regional-mdg-report-201213-asia-pacific-aspirationsperspectives-post-2015).

<sup>2</sup> United Nations Department of Economic and Social Affairs (UNDESA), *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*. Available from <http://sustainabledevelopment.un.org/content/documents/4588FINAL%20REPORT%20ICESD F.pdf>.

<sup>3</sup> See ESCAP, *Implementation of the Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific*, E/ESCAP/RES/70/1. Available from [www.unescap.org/sites/default/files/E70\\_RES1E.pdf](http://www.unescap.org/sites/default/files/E70_RES1E.pdf).

challenges and emerging issues related to mobilization and effective use of financial resources in Asia and the Pacific. One of the important agendas of these efforts is to analyze the scope, trends and potential of all sources of financing at the national, sub-regional and regional levels for the region. In particular, SDF needs to highlight a number of areas, including (i) the scope for domestic resource mobilization through broadening of tax base and capital market intermediation, (ii) infrastructure financing and leveraging resources through public-private partnerships, (iii) greater involvement of institutional investors including pension funds, sovereign wealth funds, insurance companies, (iv) broader and more effective use of trade and small and medium enterprise (SME) finance, (v) expanding the role of financing for science, technology and innovation, (vi) need for financial inclusion for all, (vii) climate finance requirements for adaptation and mitigation including specifics of natural disaster related financing, (viii) external resources with reference to official development assistance (ODA), foreign direct investment (FDI) and private flows, and (ix) efforts to forge new, better and innovative partnerships for financing sustainable development for the CSN.

The present paper (i) reviews various financing options for narrowing development gaps in the region; (ii) examines the complementarities and relationships between various investments in social, economic and climate change areas and identify the trends for the CSN in different areas of the Monterrey Consensus (2002) since its adoption; (iii) analyzes issues of financing for the CSN and identifies their links to various aspect of financing instruments; (iv) examines the role of enabling environment and governance measures which are critical to the implementation of financing in these countries; and (v) identifies various policy initiatives at the country level in the region and highlights key messages for appropriate implementation of financing for meeting the development gaps in the CSN. One of the underlying efforts is to contextualize the analyses and policy discussions in the light of the UN global post-2015 development agenda where sustainable development financing is critical for implementing the sustainable development goals (SDGs). This is also expected to contribute towards developing a regional financial cooperation framework in Asia and the Pacific.

## **2. DEVELOPMENT GAPS IN THE ASIA-PACIFIC CSN**

This section provides a brief overview of the major development gaps faced by the CSN in the Asia-Pacific region. In the region, the CSN comprise of 31 countries covering the least developed countries (LDCs), landlocked developing countries (LLDCs) and the small island developing States (SIDS) (see table 1). These countries are home to more than 380 million people, a quarter of the total population of the Asia-Pacific developing countries excluding China and India. The economies of CSN are marked by persistent structural challenges, fluctuating growth and dependence on a limited number of commodities or low-wage manufactured products for export earnings.

**Table 1. Countries with special needs in the Asia-Pacific region**

<b>Least developed countries (LDCs)</b>	<b>Landlocked developing countries (LLDCs)</b>	<b>Small island developing States (SIDS)</b>
Afghanistan	Afghanistan	Cook Islands
Bangladesh	Armenia	Fiji
Bhutan	Azerbaijan	Kiribati
Cambodia	Bhutan	Maldives
Kiribati	Kazakhstan	Marshall Islands
Lao PDR	Kyrgyzstan	Micronesia
Myanmar	Lao PDR	Nauru
Nepal	Mongolia	Niue
Solomon Islands	Nepal	Palau
Timor-Leste	Tajikistan	Papua New Guinea
Tuvalu	Turkmenistan	Samoa
Vanuatu	Uzbekistan	Solomon Islands
...	...	Timor-Leste
...	...	Tonga
...	...	Tuvalu
...	...	Vanuatu

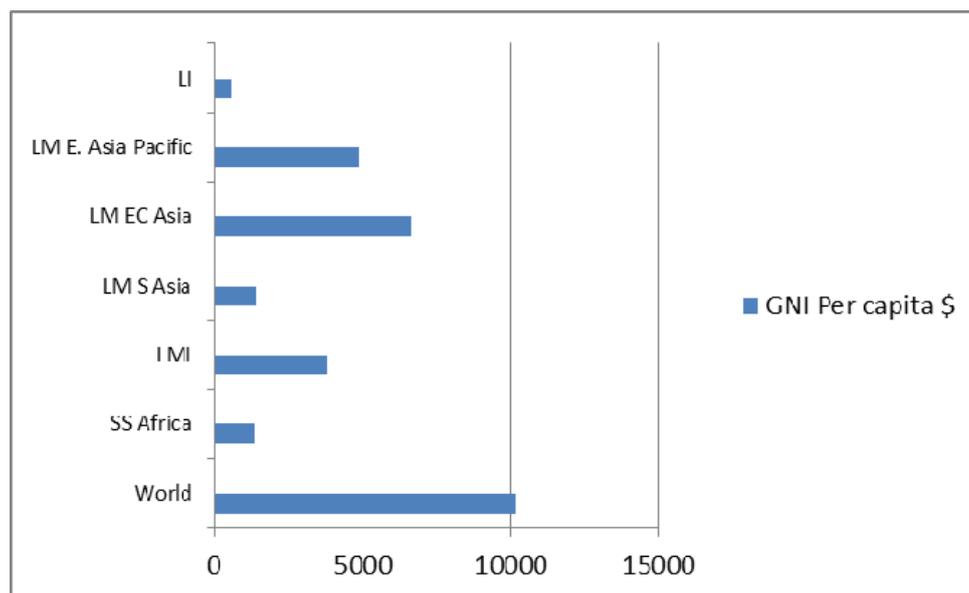
Source: ESCAP.

The UN has adopted a range of strategic actions to address the developmental challenges faced by the CSN through the implementation of global mandates, including the Istanbul Programme of Action for the LDCs, the Almaty Programme of Action for the LLDCs and the Mauritius Strategy for the SIDS. In the Asia-Pacific region, ESCAP along with other UN agencies and development partners are providing assistance to these countries through the implementation of global and related regional mandates emphasizing a number of priority areas including productive capacity, human resources development, private sector development, infrastructure, trade and transport facilitation, targeted use of official development assistance (ODA) and other external assistance, and institutional development including promotion of governance at all levels.

## **2.1. Key Development Gaps**

The fact that the Asia-Pacific CSN belong to the LDC, LLDC and SIDS categories testifies that there persist significant development gaps in these countries. Despite wide variation in their socioeconomic performance over the last decade, many of these countries are the poorest in the Asia-Pacific region and home to a large majority of the poor in the world. As a group, GNI per capita (using the Atlas method) of the Asia-Pacific LDCs is recorded at \$868 in 2013 which is only about 16 percent of the average GNI per capita in East Asia and the Pacific and 8 percent of the global GNI per capita (Table 2). There are significant variations in the level of GNI per capita across the CSN with a low of below \$1,000 in four countries (Afghanistan \$690, Cambodia \$950, Nepal \$730 and Tajikistan \$990). As a region, low and middle income countries in South Asia had GNI per capita of \$1,437 in 2012 compared with \$590 for low income countries (see figure 1).

**Figure 1. GNI per capita \$, 2012 (Atlas method)**



Source: World Bank, *World Development Indicators 2014*

Note: LI is low income countries; LM E Asia Pacific is low and middle income East Asia and Pacific countries; LM EC Asia is low and middle income Europe and Central Asia countries; LM S Asia is low and middle income South Asia countries; SS Africa is low and middle income Sub Saharan Africa countries.

Most CSN also witnessed limited structural transformation and their vulnerability to external shocks has not been reduced. Changes in the sectoral composition of GDP have been slow with the share of manufacturing, which is the driving force of growth, rising only marginally. There has been rising inequality and the impact of growth on employment creation and poverty reduction has also been rather limited. Overall, economic growth in the Asia-Pacific CSN needs further acceleration along with measures to reduce wide fluctuation for which growth needs to be more broad based and inclusive.<sup>4</sup>

Moreover, the commitments of creating the framework for a strong global partnership were only partially realized. The progress in addressing the needs of the Asia-Pacific CSN regarding financial and technical assistance, ODA, trade capacity, market access, and debt relief was less than expected. Although the aggregate ratio of ODA to gross national income of Development Assistance Committee (DAC) members slightly increased but still remains well below the 0.15-0.20 percent target. As a result, the Asia-Pacific CSN face a huge financing gap despite some success in increasing domestic resource mobilization. Similarly, full realization of the commitments on duty-free quota-free market access for products originating in the Asia-Pacific CSN (especially the LDCs) in conformity with the Hong Kong Ministerial Declaration adopted by the World Trade Organization (WTO) in 2005 is yet to be fully achieved.

<sup>4</sup> For example, only a few LDCs have succeeded in achieving the threshold level of 7 percent growth set in the Istanbul Programme of Action (IPoA). More importantly, several Pacific Island LDCs have witnessed strong growth deceleration after the recent global economic crisis.

**Table 2. Population and GNI per capita, Atlas method (current US\$)**

Country	Population (million) 2013	GNI per capita 2013
<b>LDCs</b>		
Afghanistan	30.6	690
Bangladesh	156.6	1,010
Bhutan	0.8	2,330
Cambodia	15.1	950
Kiribati	0.1	2,620
Lao PDR	6.8	1,450
Myanmar	53.3	...
Nepal	27.8	730
Samoa	0.2	3,970
Solomon Islands	0.6	1,600
Timor-Leste	1.2	3,940
Tuvalu	0.0	5,840
Vanuatu	0.3	3,130
<b>LLDCs (excluding countries included in LDCs)</b>		
Armenia	3.0	3,800
Kazakhstan	17.0	11,550
Kyrgyzstan	5.7	1,210
Mongolia	2.8	3,770
Tajikistan	8.2	990
Turkmenistan	5.2	6,880
Uzbekistan	30.2	1,880
<b>SIDS (excluding countries included in LDCs)</b>		
Fiji	0.9	4,370
Marshall Island	0.1	4,310
Micronesia	0.1	3,280
Palau	0.0	10,970
Papua New Guinea	7.3	2,010
Tonga	0.1	4,490
<b>GNI per capita</b>		
East Asia and Pacific	...	5,536
Europe and Central Asia	...	7,118
Pacific Island Small States	...	3,460
South Asia	...	1,482
LDCs	...	868
World	...	10,679

Source: World Bank, World Development Indicators 2014.

Despite some increase in participation, the share of Asia-Pacific CSN in global trade still

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