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**GLOBAL CRISES AND POVERTY ERADICATION EFFORTS IN THE  
LEAST DEVELOPED COUNTRIES: SOME PERSPECTIVES FROM  
THE ASIA-PACIFIC LDCs**

By

Syed Nuruzzaman

Chief

Countries with Special Needs (LDCs, LLDCs and SIDS)

Macroeconomic Policy and Development Division

ESCAP, Bangkok

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It has been issued without formal editing for discussion only.

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## I. PROGRESS IN REDUCING POVERTY IN ASIA-PACIFIC LDCs<sup>1</sup>

### A. Introduction

The least developed countries (LDCs) constitute some of the poorest and most vulnerable members of the global community. These countries are most vulnerable socially, economically, politically, and ecologically. Approximately 300 million people live in Asia-Pacific's 13 LDCs. This represents nearly a quarter of the total population of the world's low-income countries. Moreover, challenges faced by the LDCs are becoming more pressing and complex, as the region's share of the global population is rising and there are no effective international support mechanisms to protect them from external shocks.

The Asia Pacific LDCs are characterized by high incidence of poverty and hunger, and their social indicators are underdeveloped. Structurally handicapped, they also have limited access to various resources and technologies. Most of them suffer from natural handicaps and several of them are landlocked. The Pacific LDCs are made up of far-flung, small islands and are plagued by frequent natural disasters. External shocks such as food-fuel crisis and the global economic crisis seriously affected their development gains that have taken them years to acquire. These factors also make sustained economic growth and poverty reduction a formidable challenge for the LDCs.

The Fourth United Nations Conference on the LDCs, held in May 2011, adopted the Istanbul Programme of Action (IPoA) for the decade 2011-2020. "The overarching goal of the Programme of Action for the decade 2011-2020 is to overcome the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category"<sup>2</sup>. The LDCs are characterized by low income, weaknesses in human resources, and economic vulnerability. Therefore, urgent actions are needed through well-coordinated country-specific approaches and activities in eight priority areas, supported by sufficient and effective international support measures:

- Productive capacity
- Agriculture, food security and rural development
- Trade
- Commodities
- Human and social development
- Multiple crises and other emerging challenges
- Mobilizing financial resources for development and capacity-building
- Good governance at all levels

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<sup>1</sup> The Asia-Pacific LDCs are: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao PDR, Myanmar, Nepal, Samoa, Solomon Island, Timor-Leste, Tuvalu and Vanuatu

<sup>2</sup> United Nations, Programme of Action for the Least Developed Countries for the Decade 2011-2020, A/CONF.219/3/Rev.1, 23 May 2011, page 6.

## B. Overall Progress

A recent review of progress made in reducing poverty and hunger and achieving other MDGs records the impressive gains made by the Asia-Pacific region in many MDG indicators, especially in reducing poverty (ESCAP/ADB/UNDP 2010).<sup>3</sup> For several other indicators, the Asia-Pacific region as a whole has 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 subregions. At the subregional level, the greatest progress can be seen in South-East Asia followed by the North and Central Asian countries (ESCAP 2010c). The region's 13 LDCs have made slow or no progress on most indicators—performing well only on gender equality in primary and secondary education, and stopping the spread of HIV and TB (table 1). It shows wide divergence in performance across the countries and with respect to overall status of the Asia-Pacific region, the progress in reaching the MDGs has been uneven for the LDCs. Moreover, even in countries where good progress has been made towards the MDGs, there are often glaring disparities between rural and urban areas, between the rich and the poor, between women and men, and between girls and boys.

In terms of 21 indicators of the MDGs for which status of the LDCs is reported in table 1 using internationally comparable data until 2008, the countries are seen to be lagging in some major areas, such as reducing the extent of hunger, ensuring that girls and boys reach the last grade in primary education, reducing child mortality, improving maternal health, and providing basic sanitation. It can be seen that, among the LDCs, most of them are off-track in most of the indicators.

Regional and subregional averages, although useful, mask the extent and depth of deprivation. Figure 1 shows that, although the incidence of income poverty is declining in the region as a whole, there are some 947 million people who still live below US\$ 1.25 a day. Similarly a vast number of people, almost 1.9 billion are living without basic sanitation. The number of people without safe drinking water is 469 million. Many of these deprived people live in the region's LDCs.

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<sup>3</sup> Between 1990 and 2008, the countries of the Asia-Pacific region have reduced the number of people living on less than \$ 1.25 a day from 1.5 billion to 947 million despite an increase of population by 800 million in the region during the same period. As a result, the region as a whole is on track to achieve the target of halving the proportion of people living in extreme poverty.

**Table 1: Progress in Achieving the MDGs by Asia-Pacific LDCs**

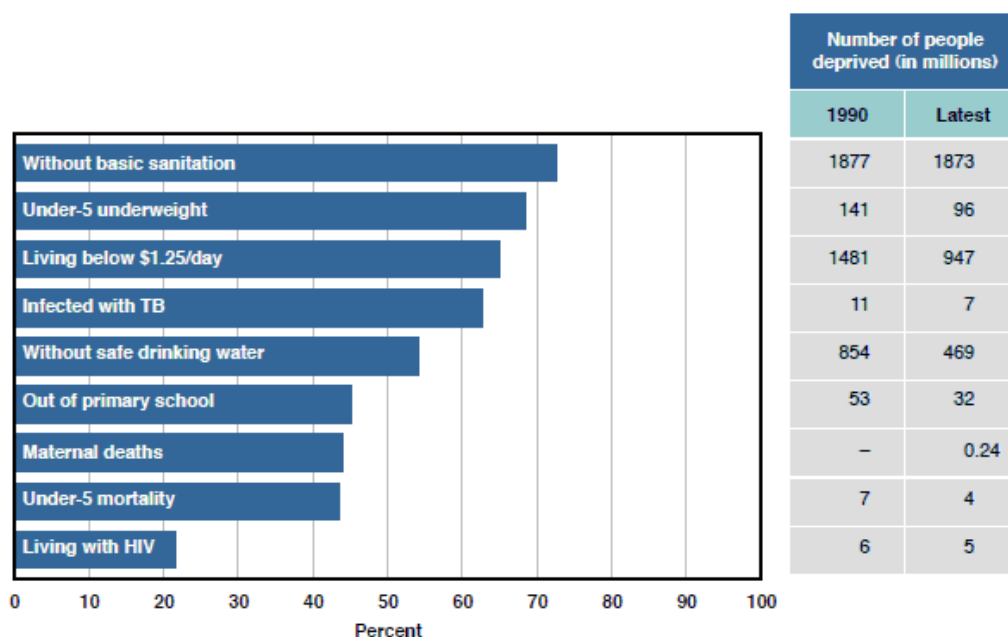
Goal	1	2	3	4	5	6	7
Country/Goal	\$1.25 per day poverty Underweight children	Primary enrolment Reaching last grade Primary completion	Gender primary Gender secondary Gender tertiary	Under 5-mortality Infant mortality	Skilled birth attendance Antenatal care ( $\geq 1$ visit)	HIV prevalence TB incidence TB prevalence	Forest cover Protected area CO <sub>2</sub> emissions ODP substance consumption Safe drinking water Basic sanitation
Afghanistan	... ■		■ ▲	■ ■	■ ▲	▶ ▶ ●	▶ ▶ ▶ ● ▶ ■
Bangladesh	■ ▶	▶ ▶	● ● ■	▶ ▶	■ ■	▶ ▶ ▶ ●	▶ ● ▶ ▶ ● ■ ■
Bhutan	... ...	■ ■ ▶	● ● ■	■ ■ ■	▶ ▶	▶ ● ●	● ● ▶ ● ■ ■
Cambodia	▶ ■	■ ■ ▶	▶ ▶ ■	■ ■ ■	■ ■	● ● ●	▶ ● ▶ ▶ ● ▶ ■
Kiribati		●	● ●	■ ■	■ ▲	● ● ●	▶ ● ● ● ▶ ■
Lao PDR	■ ■	■ ■ ■	▶ ■ ▶	▶ ▶ ▶	■ ■	▶ ● ●	▶ ● ▶ ▶ ● ■ ▶
Myanmar		■ ●	● ●	■ ■	■ ▲	● ▶ ●	▶ ● ▶ ▶ ● ■ ●
Nepal	■ ■	■ ■	▶ ▶ ■	▶ ▶ ▶	■ ■	▶ ▶ ▶ ▶	▶ ● ▶ ● ● ● ■ ■
Samoa		▶ ▶	● ●	■ ■	●	● ▶ ▶	● ● ▶ ● ▶ ▶ ●
Solomon		■	● ▶	■ ■	▶ ▶	● ● ●	▶ ● ▶ ▶ ● ■ ■
Timor-Leste	▶ ▶	■	▶ ▶ ▶	■ ■	▶ ▶	▶ ● ●	▶ ● ● ● ▶ ▶ ▶
Tuvalu			●	■ ■	▶ ▶	● ▶ ▶	▶ ● ● ▶ ● ■
Vanuatu		● ■ ▶	● ▶	▶ ▶	▶ ▶	● ▶ ▶	▶ ● ● ▶ ● ■
Asia-Pacific	▶ ■	■ ▶ ■	● ● ●	■ ■	■ ■	● ● ●	▶ ● ▶ ▶ ● ● ■
Asia-Pacific LDCs	■ ■	■ ■ ■	● ● ▶	■ ■	■ ■	● ● ●	▶ ● ▶ ▶ ● ■ ■

● Early achiever    ▶ On-track    ■ Slow    ▶ Regressing/No progress

Source: Staff calculations based on the United Nations MDG Database.

See ESCAP/ADB/UNDP, Paths to 2015, Asia-Pacific MDG Report 2010/11

**Figure 1: Asia-Pacific’s Share of the Developing World’s Deprived People**



Source: Ibid.

### C. Slow and Uneven Progress in Reducing Non-Income Poverty

Table 2 shows the progress in terms of two indicators for MDG 1: the percentage of population living below \$1.25 purchasing power parity (PPP) per day and percentage of underweight children under age five. In several LDCs for which poverty data are available, progress is relatively slow, and the challenge is to substantially raise the poverty reduction rate in most LDCs. A somewhat similar situation also exists for underweight children under age five.

It should be noted, however, that the performance of the LDCs reflected above refers to the period prior to the global economic slowdown. Thus, the data do not take into account the impact of the crisis. Indeed, the LDCs have felt the adverse impact of the economic, food, and fuel crises beginning from 2007 through lower economic growth, lower government revenues, higher debt burdens, decline in investments, increases in inflation and cost of living, job losses, and reduced remittances (see ESCAP 2010b, 2010c). It has been estimated that this crisis has prevented some 21 million people from escaping poverty in the Asia Pacific region, most of whom belong to the LDCs.<sup>4</sup> The depth of poverty, as shown in table 3, is also quite high in the LDCs.

<sup>4</sup> Using the historical relationship between economic growth and changes in MDG indicators, it is estimated that the economic crisis would result, in the Asia Pacific region by the year 2015, in (i) 35 million extra people in extreme income poverty; (ii) a cumulative number of 900,000 extra children suffering from malnutrition from 2008 through 2015; (iii) 1.7 million births not attended by skilled professionals; and (iv) 70 million additional people without access to improved sanitation. See ESCAP/ADB/UNDP 2010. Needless to say, a good part of these deprivations are in the LDCs.

**Table 2: Progress in Eradicating Extreme Poverty and Hunger in LDCs (MDG1)**

	Population living below \$1.25 (2005 PPP) per day				Undernourished population		Prevalence of underweight children	
	Percentage				Percentage		Percentage of children under 5	
	1990	1996	2002	2007	1991	2005	Earliest	Latest
Afghanistan							48(97)	39.3(04)
Bangladesh	66.8(92)	59.4	57.8(00)	49.6(05)	36	26	67.4(92)	46.3(07)
Bhutan				26.2(03)				18.7(99)
Cambodia		48.6(94)		25.8	38	25	39.8(93)	35.6(05)
Kiribati					8	5		
Lao PDR	55.7(92)	49.3(97)	44.0		27	19	44.0(93)	37.1(06)
Myanmar					44	17	32.4(90)	31.8(03)
Nepal		68.4		55.1(04)	21	16	48.7(95)	45.0(06)
Samoa					9	5		
Solomon					25	9		
Timor-Leste			52.9(01)	37.2	18	23	42.6(02)	48.6(07)
Tuvalu								
Vanuatu					10	6		15.9(07)

Source: ESCAP/ADB/UNDP, Paths to 2015, Asia-Pacific MDG Report 2010/11

Note: The number in parenthesis is the year of the data point.

**Table 3: Poverty Gap in the Asia Pacific LDCs**

Country	Poverty Incidence (%)			
	\$1 a day	\$1.25 a day	National poverty line	Poverty Gap (\$1 a day) %
Afghanistan	...	...	53.0	...
Bangladesh	41.3	49.6	40.0	8.1
Bhutan	...	26.2	31.7	...
Cambodia	34.1	40.2	35.0	9.7
Kiribati	38.0	...	...	...
Lao PDR	27.0	44.0	33.0	6.3
Maldives	...	...	21.0	...
Myanmar	...	...	32.7	...
Nepal	24.1	55.1	30.9	9.7
Samoa	15.0	...	...	6.6
Solomon	...	...	...	7.5
Timor-Leste	...	52.9	42.0	...
Tuvalu	17.2	...	...	13.0
Vanuatu	26.0	...	...	5.6
Yemen	15.7	17.5	45.2	4.5

Source: ESCAP 2009

Note: The figures refer to the latest year for which data are available over 1990-2005 for \$1 a day. 2000-2007 is used for the remaining indicators.

The LDCs' progress in reducing non-income poverty such as reducing child and maternal mortality and combating communicable diseases has been quite uneven. Although significant progress has been made compared to the situation in 1990, the under-five mortality rate and infant mortality rate are quite high in several LDCs (table 4). However, there are wide disparities, particularly in terms of location, in the under-five mortality rates. In all the countries examined (see figure 2), the under-five mortality rates in the rural areas far exceed that of the urban areas.

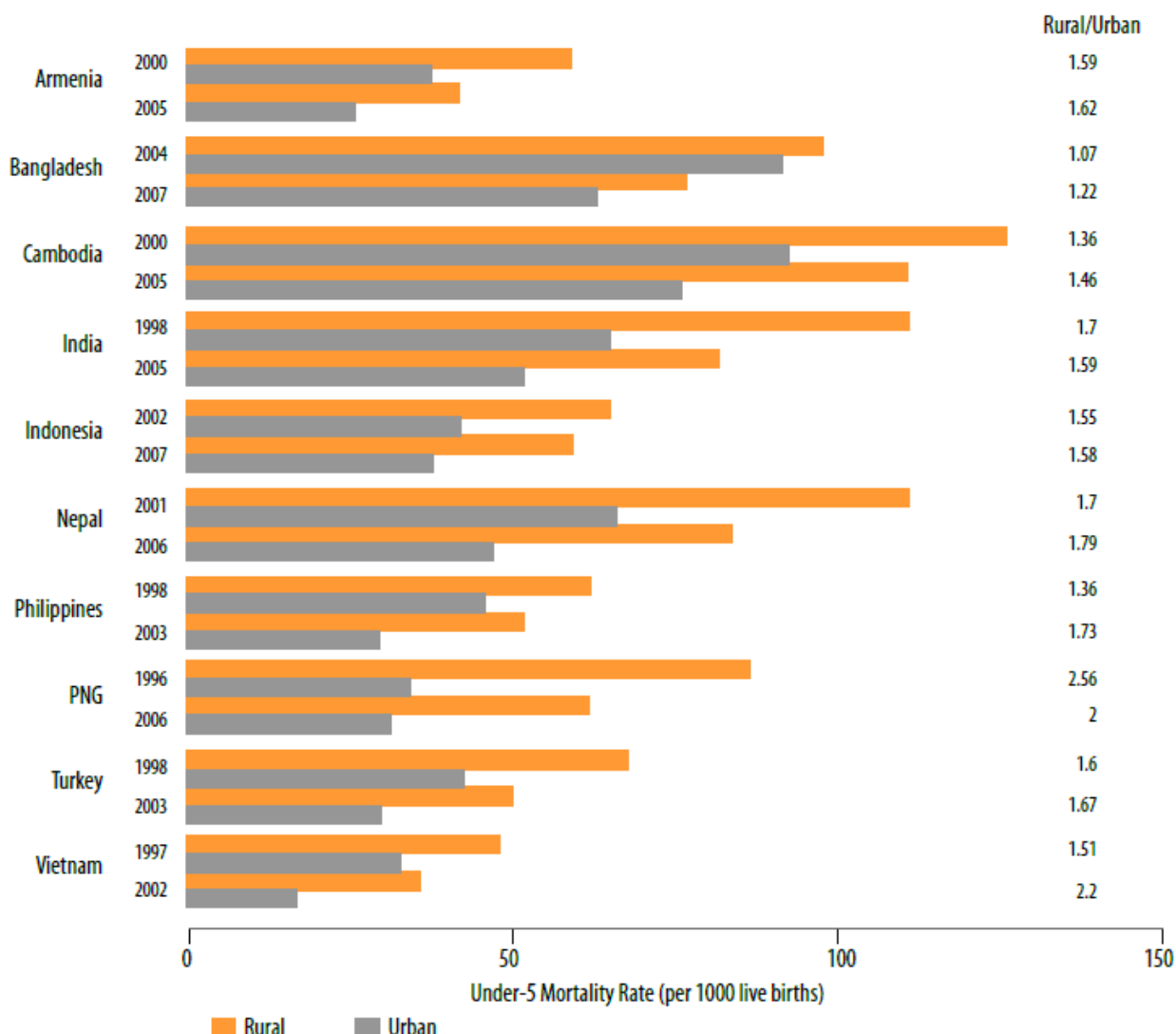
**Table 4: Child Mortality in Asia-Pacific LDCs**

	Under-5 mortality rate (per 1,000 live births)		Infant mortality rate (per 1,000 live births)	
	1990	2008	1990	2008
Afghanistan	260	257	168	165
Bangladesh	149	54	103	43
Bhutan	148	81	91	54
Cambodia	117	90	85	69
Kiribati	89	48	65	38
Lao PDR	157	61	108	48
Myanmar	120	98	85	71
Nepal	142	51	99	41
Samoa	50	26	40	22
Solomon	38	36	31	30
Timor-Leste	184	93	138	75
Tuvalu	53	36	42	30
Vanuatu	27	33	23	27

*Source:* ESCAP/ADB/UNDP, Paths to 2015, Asia-Pacific MDG Report 2010/11



**Figure 2: Under-Five Mortality-Rural-Urban Rates and Ratios, Selected Countries**



*Note: Years indicate the year of DHS. Data for Papua New Guinea have yet to be officially released.*

Source: ESCAP/ADB/UNDP, Achieving the Millennium Development Goals in an Era of Global Uncertainty Asia-Pacific Regional Report 2009/10

Maternal mortality rates are quite high in several countries in the region, particularly in South-Asia. Regional experience suggests that births attended by skilled workers and access and use of antenatal care can significantly reduce the maternal mortality rates. In that context, the performance of most of the LDCs continues to be abysmal (table5).

**Table 5: Maternal Health in Asia-Pacific LDCs**

	Skilled birth attendance (%)		Antenatal care (≥ 1 visit) (%)	
	Earliest	Latest	Earliest	Latest
Afghanistan	12.4 ( 2000 )	14.3 ( 2003 )	36.9 ( 2000 )	16.1 ( 2003 )
Bangladesh	9.5 ( 1994 )	18.0 ( 2007 )	25.7 ( 1994 )	51.2 ( 2007 )
Bhutan	14.9 ( 1994 )	71.4 ( 2007 )	51.0 ( 2000 )	88.0 ( 2007 )
Cambodia	34.0 ( 1998 )	43.8 ( 2005 )	34.3 ( 1998 )	69.3 ( 2005 )
Kiribati	72.0 ( 1994 )	63.0 ( 2005 )	...	88.0 ( 1994 )
Lao PDR	19.4 ( 2001 )	20.3 ( 2006 )	26.5 ( 2001 )	35.1 ( 2006 )
Myanmar	46.3 ( 1991 )	57.0 ( 2001 )	75.8 ( 1997 )	75.6 ( 2001 )
Nepal	7.4 ( 1991 )	18.7 ( 2006 )	15.4 ( 1991 )	43.7 ( 2006 )
Samoa	76.0 ( 1990 )	100.0 ( 1998 )	...	...
Solomon	85.0 ( 1994 )	70.1 ( 2007 )	...	73.9 ( 2007 )
Timor-Leste	25.8 ( 1997 )	18.4 ( 2003 )	70.9 ( 1997 )	60.5 ( 2003 )
Tuvalu	100.0 ( 1990 )	97.9 ( 2007 )	...	97.4 ( 2007 )
Vanuatu	87.0 ( 1994 )	74.0 ( 2007 )	...	84.3 ( 2007 )

Source: ESCAP/ADB/UNDP, Paths to 2015, Asia-Pacific MDG Report 2010/11

Note: The numbers in parenthesis are the years of the data point.

In water and basic sanitation, here too there is a mixed picture. Most of the LDCs have made very slow progress (table 6), and disparities along rural-urban dimensions continue to persist. But what is worrying is that several LDCs are either regressing or not making any progress in expanding access to basic sanitation to the poor (table 7). At the current trends, some 120 million people will be without basic sanitation in 9 LDCs, the vast majority of whom are coming from Afghanistan, Bangladesh and Nepal (table 7).

**Table 6: Water and Sanitation**

	Safe drinking water (% population)		Basic sanitation (% population)	
	1990	2008	1990	2008
Afghanistan	3 ( 1995 )	48	29 ( 1995 )	37
Bangladesh	78	80	34	53
Bhutan	91 ( 2000 )	92	62 ( 2000 )	65
Cambodia	35	61	9	29
Kiribati	48	64 ( 2005 )	26	35 ( 2005 )
Lao PDR	44 ( 1995 )	57	18 ( 1995 )	53
Myanmar	57	71	49 ( 1995 )	81
Nepal	76	88	11	31
Samoa	91	88 ( 2005 )	98	100
Solomon Islands	69 ( 1995 )	70 ( 2005 )	30 ( 1995 )	32 ( 2005 )
Timor-Leste	52 ( 2000 )	69	32 ( 2000 )	50
Tuvalu	90	97	80	84
Vanuatu	57	83	35 ( 1995 )	52

Source: ESCAP/ADB/UNDP, Paths to 2015, Asia-Pacific MDG Report 2010/11

Note: The numbers in parenthesis are the years of the data point.

**Table 7: Progress Required to Meet the Basic Sanitation Target**

Country	Affected population in 2015 on current trend (thousands)	Average annual change needed to reach target (percentage points)	Affected population in 2015 if target reached (thousands)
Afghanistan	19,995	3.93	12,157
Bangladesh	68,900	2.00	57,822
Bhutan	249	2.29	146
Cambodia	9,585	3.64	7,443
Kiribati	0	2.80	0
Nepal	18,099	3.50	14,464
Solomon	395	3.30	209
Tuvalu	0	0.86	0
Vanuatu	107	2.21	90

*Source:* Staff calculations based on the United Nations MDG database

## II. IMPACT OF THE GLOBAL CRISES

### A. Impact on Growth and Equity

The pattern and extent of impact of the global crises of 2007-2008 in the economies of the LDCs was determined by a number of factors. These included the economies' initial conditions, the breadth and depth of its integration with the global economy, and the speed and intensity of the government's countercyclical measures.

Although the economies of the Asia Pacific LDCs are relatively less integrated in the global economy, most of these economies experienced sharp drops in growth due to the food-fuel and financial crises. There were also sharp declines in current account and foreign trade surpluses across most countries. The impacts, however, were low in relatively closed economies. Most countries substantially expanded government spending directed at countering the adverse impacts of the crises on their citizens' economic security and social well being. Public investments in large infrastructure projects, for example, accelerated. Much of the rapid economic growth in these countries prior to the global economic crisis came through increased external integration, mainly through trade and investment, particularly in natural resources and remittances. During the crisis, despite rising protectionist pressures and temptation to reverse externally oriented growth policies, the Asia Pacific LDCs generally maintained their commitment to keeping trade, investment, finance, and labour markets open. Moreover, reforms to improve the business climate and encourage FDI inflows continued. As a result, a return to positive growth in all these countries was possible in 2010. During the crisis, both exports and imports slowed and helped contain trade and current account deficits in the region's LDCs.

**Table 8: Economic Growth and Income Inequality in the LDCs**

Country	GDP growth rate (% per year)				Per capita GDP growth rate (% per year)				Per capita GNP US\$	Gini coefficient (income)	
	2004- 2007	2008	2009	2010	2004- 2007	2008	2009	2010		2007	Earliest
Afghanistan	11.1	3.4	22.5	8.9	8.8	1.3	20.4	6.8	...	...	...
Bangladesh	6.3	6.2	5.7	6.0	5.0	4.9	4.3	4.7	470	0.262	0.310
Bhutan	8.5	11.5	6.0	7.0	7.1	10.2	4.5	5.5	1,770	0.468	0.468
Cambodia	11.2	6.7	-2.0	5.0	8.9	5.1	-3.6	3.4	540	0.383	0.419
Kiribati	-1.2	-1.1	-0.7	0.5	-3.1	-3.0	-2.6	-1.4	1,170	...	...
Lao PDR	7.5	7.2	6.5	7.4	3.6	5.3	4.6	5.5	580	0.304	0.326
Maldives	7.5	6.2	-3.1	3.5	5.7	4.6	-4.7	1.9	3,200	...	...
Myanmar	13.1	3.6	4.4	5.0	11.7	2.2	3.2	3.8	...	...	...
Nepal	3.5	5.8	4.0	3.5	1.3	3.2	2.0	1.5	340	0.377	0.473
Samoa	3.7	-3.0	-0.8	0.5	3.3	-3.4	-1.2	0.1	2,430	...	...
Solomon	7.4	6.9	0.0	3.5	4.4	3.9	-2.9	0.6	730	...	...
Timor-Leste	3.1	12.8	12.2	10.4	-0.6	9.4	8.8	7.0	1,510	0.395	0.395
Tuvalu	2.3	1.3	1.5	1.6	1.8	1.0	1.2	1.3	...	...	...
Vanuatu	6.5	6.3	3.8	4.0	3.9	3.6	1.3	1.5	1,840	...	...

Source: ADB 2009, 2010; ESCAP 2009, 2010.

Note: For Gini coefficient of income distribution, “Earliest” refers to data available in years between 1991 and 2001, and “Latest” to years between 2001 and 2005.

Therefore, approximately two years after the global economic crisis hit the Asia Pacific region, the LDCs face challenges relating to the need for domestic policy reforms and changes in global environment geared to more inclusive and sustained growth of their economies. The LDCs were affected because of their significant vulnerability to global developments, primarily through trade and financial channels. The degree of vulnerability of individual LDCs varied with the extent of dependence on trade, nature of demand structure, depth of fiscal space, extent of foreign exchange reserves, and strength of other macroeconomic fundamentals. Individual countries’ abilities to adopt counter-cyclical macroeconomic policies depended on the fiscal capacity to meet the necessary costs and the institutional capacity to implement such policies. This was especially the case if the countries were to contribute to protecting their societies’ poor and the vulnerable groups. While most LDCs adopted policies to stimulate their economies out of the downturn, the response varied among the countries depending on the fiscal and policy space they had in accommodating expenditure increase and implementing relevant programmes.

While fluctuations in economic activities are normal in market economies, the frequency and severity of such fluctuations are usually more severe in developing economies, like those of the LDCs. Hence, it is important for the LDCs to be prepared to face such crises. It becomes increasingly necessary, moreover, as crises originating in the financial world spread to the real world and affect people’s lives and livelihoods through a variety of transmission channels. As such, policy responses to a crisis in the LDCs need to address not only the economic impact but also social

dimensions, such as poverty and employment. It may also be prudent for the LDCs to consider the idea of creating a “basic social floor” for the poor. Such a mechanism, like a desirable package of employment and labour market policies, would protect countries from the fallout of similar crises in future. While national policy reforms are important, the LDCs also require regional coordination in economic and financial policymaking to provide the supportive environment for inclusive growth.

As a result of the global financial crisis, economic growth in the LDCs was severely affected by vulnerability to trade and, to some extent, financial exposure. In particular, export dependent LDCs suffered large reductions in GDP growth. In effect, the global crisis has sparked a debate regarding the role of trade in development and the importance of market diversification, especially for the LDCs. During the crisis, the extent of vulnerability depended on a number of factors, such as the degree of openness of the economies, market orientation of exports, and the product mix of trade. The LDCs’ export dependence varies significantly across countries. The export sector of the Asia Pacific developing economies comprises close to 38 per cent of GDP. This is two and a half times larger than the corresponding share of the developed economies in the region.

The destination market for exports is also an important indicator of vulnerability, since it reflects the exposure of an economy to the source of market disturbance. The trade intensity index reveals whether a country exports more, as a percentage, to a given destination than the world does on average.<sup>5</sup> Although data on the index for all Asia Pacific LDCs are not available, the trade intensity index with the United States in 2007 is reported at 1.69 for Bangladesh and 4.28 for Cambodia (ESCAP 2010b). The trade patterns of other LDCs are also more likely to reveal similar dependencies on specific countries, indicating increased vulnerability.

### **B. Impacts on Inflation, Income and Employment**

The economic crisis, especially the collapse in aggregate demand from the developed countries through the trade channel, generated high inflation (table 9) – specially food inflation- which emerged as a serious problem in most of the LDCs and led to job and income losses in most of the Asia Pacific LDCs’ key export industries. The unemployment rate also rose sharply in many LDCs, creating deep socio-political repercussions in the absence of sufficient social protection programmes. Most of the LDCs have low public expenditure on social protection, creating a danger for millions of people to fall back into poverty. It is estimated that in the Asia Pacific region, the recent global crisis could trap an additional 21 million people below the poverty line of \$1.25 per day -- and 25 million based on the \$ 2-per-day poverty line -- between 2009 and 2010 (ESCAP/ADB/UNDP 2009). Although separate figures are not available for the LDCs, it is more likely that these countries will have to bear a more than proportionate burden of the people who would slip back into poverty due.

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<sup>5</sup> More specifically, the trade intensity index measures the ratio of the trade share of a particular country to a partner country, and the world trade share to the same country. An index value of greater than one indicates that the country’s export volume to the destination is greater than the world average. The country would then have a more intense export trade relation with that partner than does the rest of the world.

**Table 9: Inflation Rates**

	<b>Inflation rates</b>				
	<b>(Percentage)</b>				
	2007	2008	2009	2010 <sup>b</sup>	2011 <sup>c</sup>
Afghanistan	13.0	26.8	-8.3	8.2	9.5
Bangladesh	7.2	9.9	6.7	7.3	7.2
Bhutan	5.2	8.8	3.0	6.1	7.5
Cambodia	7.7	25.0	-0.7	4.1	6.0
Kiribati	4.2	11.0	8.4	0.8	6.7
Lao PDR	4.5	7.6	0.0	5.4	6.1
Myanmar	32.9	22.5	8.0	7.9	9.1
Nepal	6.4	7.7	13.2	10.7	8.0
Samoa	4.5	11.5	6.6	1.0	3.0
Solomon	7.7	17.3	7.1	3.0	4.2
Timor-Leste	10.3	9.1	0.7	6.5	7.5
Tuvalu	2.2	10.4	0.0	-1.9	1.5
Vanuatu	4.1	4.8	4.5	3.4	5.0

Source: Economic and Social Survey of Asia and the Pacific 2011

<sup>b</sup> Estimates

<sup>c</sup> Forecasts (as of 8 April 2011)

For most of the workers in these countries, shifting to vulnerable and informal employment is often the only means of survival, since they are low-skilled workers at the bottom of the income scale. Joblessness among youth is also a major challenge for LDCs (see table 10 for Bangladesh). In addition to reducing overall family income, this can exacerbate social tensions. From the onset of the global economic crisis, many LDCs have responded to the worsening employment situation with a wide range of measures. However, it should be noted that recovery in the labour market generally trail behind economic recovery, and real wages and labour productivity take time to recover. The appropriate mix of macroeconomic policies is, therefore, an essential prerequisite, along with labour market reforms and adequate resources for building effective social protection systems.

**Table 10: Unemployment in Selected LDCs**

	<b>Total unemployment rate</b>			<b>Total unemployment rate, female</b>			<b>Total unemployment rate, male</b>			<b>Youth unemployment</b>		
	Percentage of labour force			Percentage of female labour force			Percentage of male labour force			Percentage of labour force aged 15-24		
	1995	2000	2009	1995	2000	2009	1995	2000	2009	1995	2000	2009
Afghanistan												
Bangladesh		3.3			3.3			3.2			10.7	
Bhutan												
Cambodia		2.5			2.8			2.2				
Kiribati												
Lao PDR	2.6			2.6			2.6			5.0		

Source: Economic and Social Survey of Asia and the Pacific 2011

### **C. Migration and Remittances**

Over the years, remittances have become an increasingly important source of external development finance, supporting the balance of payments and contributing to LDCs' income growth. For poor households in these countries, remittances provide a vital lifeline. These funds augment family incomes, help in developing human capital by contributing to education and healthcare needs, and foster entrepreneurial development through income earning investment activities. Although remittances fell or slowed in several LDCs as a result of the global crisis, they remained the most resilient source of foreign exchange earnings compared with other capital flows to these countries. This was mainly the result of the relatively stable migrant populations in most destination countries. However, recognizing the great importance of remittances in national development, the LDCs should design appropriate measures to counteract negative impacts of global crises on migrant workers. These countries can adopt aggressive labour export strategies to identify areas with a high demand for labour, and negotiate bilateral labour migration agreements with those countries. Governments can also create expatriate livelihood support funds to help returning migrants find new jobs.

### **D. Natural Disasters and Climate Change Impacts**

According to the International Disaster Database (EM-DAT), the number of disaster events reported globally more than doubled from 1,690 during 1980-1989 to 3,886 during 1999-2009. Over the 1980-2009 period, 45 per cent of these disaster events took place in the Asia Pacific region, and the region suffered more disasters than any other during these years. Moreover, the Asia Pacific region has experienced a sharp increase in the number of disasters in the last decade. In terms of losses, the region was proportionally harder hit, as well, suffering 42 per cent of the economic losses due to disasters while generating 25 per cent of the world's GDP. All subregions are affected by disasters, with South and South West Asia having the highest number, followed by South East Asia. Since eight out of 13 LDCs are located in these two regions, the share of disaster events of the Asia Pacific LDCs is also high (ESCAP 2010d).

Moreover, the risks for most hazards have been increasing in the region. The climate change findings for the Asia Pacific region relate particularly to surface warming; sea level rise; extreme events, such as frequent hot extremes and heat waves; precipitation events, like more precipitation at higher altitudes and less in most subtropical land areas; cyclones, and more. An analysis using the EM-DAT database for the period of 2000-2004 to 2005-2009 suggests that the LDCs have experienced an increase in the risk of loss caused by multi-hazard, geophysical, and meteorological events. Overall, the risk is increasing in the poorer countries of the Asia Pacific region, most of which are the LDCs.

Disasters in the LDCs, like in other developing countries, constitute unresolved problems of development and require a risk reduction and mitigation perspective rather than a response-based approach. Since many of the hazards are likely to intensify due to climate change, it is vital for the LDCs to address the issues

on a broad front, integrating disasters and climate change policies with socioeconomic policies aimed at reducing poverty and inequalities.

As in other developing countries, the issues of increasing climate change consequences are emerging as important barriers for achieving the poverty reduction targets in the Asia Pacific LDCs. Climate change is projected to have serious economic and social impacts that will impede progress towards reducing poverty and achieving other MDGs (UN 2005, 2007). Since climate change adaptation action is mostly local, the LDCs should link organized and local adaptation approaches. This will provide a better understanding of ways to improve coping and adaptation strategies by communities affected by climate change. This will also provide support in creating an environment to make such practices sustainable and more effective by fostering participation, empowering the participants, and incorporating indigenous knowledge. The urgent need is for the LDCs to prepare comprehensive disaster risk management action plans along the lines of the HFA. In view of the cross-national nature of climate change impact, the response by the LDCs needs to be regional and subregional. This may cover various dimensions, such as sharing knowledge, information, and good practices; developing common frameworks and understandings; reaching agreements on common laws, institutions, and protocols; and pooling common resources.

### **III. WAY FORWARD: SOME SUGGESTED OPTIONS**

A critical concern for the LDCs is to introduce deliberate changes in growth patterns and government policies so that economic growth becomes more inclusive. This allows the benefits of growth to be shared more equally among different socioeconomic groups. In the LDCs, if inequality can be reduced, or at least held constant, poverty and other social deprivations can be reduced more rapidly and the MDGs can be achieved more quickly. The LDCs, therefore, need to promote the growth of activities that provide more benefits to the poor. These include agriculture and productive employment in small and medium enterprises (SMEs) and the informal sector. In order to create greater opportunities for the poor, governments must also adopt policies to promote increased employment generation and invest more in education, health, and other basic services. Further, the LDCs should focus on promoting environmentally sustainable development by enhancing the efficiency of natural resource use, reducing energy intensity, preserving biodiversity, reducing waste generation, and adapting to the effects of climate change.

#### **A. Closing the Income-Poverty Gap**

One of the principal tasks for the LDCs continues to be on track for poverty reduction. ESCAP (2010) study suggests that, failing to meet the MDG poverty target would mean an additional 128 million people living in poverty. ‘Additional’ means on top of the 420 million people who would still be extremely poor even if the target were reached. The same study suggests that, based on their past performance, eleven Asia-Pacific countries with poverty headcounts above 5 per cent are likely to miss the income-poverty target: Bangladesh, Cambodia, Georgia, India, Kyrgyzstan, Lao PDR, Mongolia, Nepal, Philippines, Sri Lanka and Uzbekistan.



For addressing poverty the main strategy should be to increase economic growth while making sure its benefits are distributed equitably (table 11). The scenarios considered in table 11 suggest that faster economic growth will only reduce poverty if income distribution either does not deteriorate or, preferably, improves. Whether growth or distribution offers the greatest potential for reducing poverty depends on a country's level of development. Generally, the poorer countries will benefit more from promoting economic growth that leads to an increase in average household consumption. Among the economies that would benefit most would be Bangladesh and rural India (the latter not shown in table 11) where every percentage point increase in mean consumption per capita would reduce poverty by 0.7 percentage points. Lao PDR, Uzbekistan and urban India would also benefit significantly from such a strategy, with a reduction of more than half a percentage point.

**Table 11: GDP Growth Required to Reach the MDG1 Target  
(Assuming Different Scenarios)**

	<b>Scenario 1 Business as usual</b>			<b>Scenario 2 No change in inequality</b>		<b>Scenario 3 Additional 1% in average household consumption per capita</b>	
	Average annual GDP growth rates, IMF forecasts 2010- 2015 (%) (1)	Year of achievement based on IMF forecasts (2)	Estimated annual GDP growth to reach MDG 1 target by 2015 (%) (3)	Year of achievement based on IMF forecasts (4)	Estimated annual GDP growth to reach MDG1 target by 2015 (%) (5)	Year of achievemen t based on IMF forecasts (6)	Estimated annual GDP growth to reach MDG 1 target by 2015 (%) (7)
Bangladesh	6.2	2021	12.4	2019	10.0	2015	5.2
Cambodia	6.1	2025	16.3	2024	15.2	2019	9.8
Lao PDR	7.1	2019	10.9	2018	9.8	2012	3.4
Nepal	5.1	2021	10.4	2021	9.9	2016	5.8

Source: Financing an Inclusive and Green Future, ESCAP 2010

As countries become richer, the benefits from increasing household consumption become relatively less significant and it becomes more important to focus on equity. In Sri Lanka, for example, a 1 per cent increase in household consumption per capita would reduce poverty by only about half as much as it would in Bangladesh; on the other hand, a 1 per cent decrease in inequality would reduce poverty by 0.58 percentage points compared with only 0.47 percentage points in Bangladesh (ESCAP 2010).

In practice, economic growth is typically accompanied by a rise in inequality. If this happened, the 4 LDCs listed in table 11 would need to boost economic growth considerably to meet their poverty targets – in some cases more than doubling it. But if they could hold inequality constant and increase the consumption of the poor by just

1%, the prospects would change dramatically. Bangladesh, for example, would achieve the target by 2015 with 5.2 per cent growth rate; Lao PDR would reach the poverty reduction target by 2012 with only 3.4 growth rate; and Nepal would do so by 2016 with 5.8 percent growth rate.

Poverty remains a rural phenomenon in the LDCs and hence policies that promote employment and income opportunities and improve access to basic social services especially in the rural areas are essential in reducing poverty and rural-urban imbalances. Since the rural poor derive most of their income from agricultural activities, policies to facilitate the access of smallholder producers to land, agricultural inputs, finance, extension services, and markets would both contribute to enhancing food security and reducing poverty. This will also promote nonfarm business and employment opportunities.

For policy purposes, one important element of poverty and hunger is that these two dimensions of deprivation are very context specific and should not be abstracted from the country's realities in which they exist. The evidence suggests that the poorest and the hungriest in the LDCs have benefitted the least from the past pattern of economic growth, which was reasonable in terms of the rates of growth in most countries. This shows that these extremely deprived groups not only suffer from low level of endowments, but also that there are mismatches between their structure of endowments and the opportunities that are created by the process of growth itself. Thus, there are two important dimensions of policy at the national level. First, it is necessary to enhance the endowments and capabilities of the poorest and the hungriest groups. And second, it is essential to minimize the mismatches between new opportunities created by the growth process and the level and structure of endowments of the poorest groups.

The policies at the national level, therefore, should be directed at raising economic growth, since high economic growth is necessary to reduce both extreme poverty and hunger. However, it may not be adequate to help the most disadvantaged groups via growth alone. This would require context specific complementary policies to remove the constraints that prevent them from accessing and benefit from the emerging opportunities.

For instance, many macro-level constraints facing the poorest, such as a limited market size, can be relaxed through stimulating economic growth. This would expand opportunities and enable these people to earn higher returns from available endowments. It would also be necessary to create a pattern of growth that may lead to the relaxation of structural constraints emerging from the availability of a limited basket of endowments for the poorest. Depending on country specific characteristics, such policies may encompass changing the sectoral pattern of growth, balancing its geographical distribution, making use of appropriate technologies and undertaking similar measures. These policies would be designed to change the nature and distribution of opportunities created by growth in a manner that the poorest would be able to take advantage of an increasingly larger share of opportunities.

In addition, policies are needed to address issues relating to the limited endowments of the poorest. This may cover a wide array of measures, depending on country characteristics and the nature of the constraints of specific groups of the poor

and hungry people. This would include measures to enhance the quantity and quality of endowments of the poor groups. This could comprise activities such as:

- expanding ownership and access to productive assets through improving credit markets;
- implementing redistributive policies and removing entry barriers;
- expanding human capital through access to education and skills;
- reducing vulnerability and enhancing capacity to absorb shocks by introducing insurance programmes for the poor and expanding health services;
- reducing gender discrimination and empowering women;
- providing social security and safety nets; and
- undertaking targeted measures that are directed to change the structure of endowments of the poor households through multiple avenues. These measures could include:
  - enabling the accumulation of physical assets over time;
  - helping to maintain the asset base in times of shocks;
  - permitting the investment in human capital; and
  - developing social networks and accessing institutions to sustain upward transitions.

The Asia Pacific LDCs also need to put an emphasis on reducing the high and rising levels of inequality in assets, opportunities, social networks, and participation among poor people. High inequality reduces the poverty-alleviation impact of economic growth and creates social and political tensions that hinder sustainable and inclusive growth. Thus, gender is an important dimension of inequality. Rising inequality is not an inevitable consequence of economic growth, however. A mix of policies that address both growth and distributional aspects, strengthens empowerment, and deals with gender, ethnicity and other biases should be adopted.

## **B. Leveraging the Nexus Between Employment, Growth and Poverty Reduction**

Another important concern for the LDCs is strengthening the employment nexus between economic growth and poverty and hunger reduction. Along with high economic growth, this requires improvements in the quantity and quality of employment and integration of the poor with employment opportunities created through economic growth. For this to happen, growth sectors need to be employment intensive and closely linked to the rest of the economy. Most of the Asia Pacific LDCs have yet to generate sufficient productive nonfarm employment to absorb the growing labour force seeking employment outside the agriculture sector. In addition, poor workers need to have the health, education, skills, and resources to gain access to such expanded employment opportunities. Further, macroeconomic, structural, and equity focused policies need to be well integrated to create a rapid expansion of poverty reducing employment. Since informal employment is the main source of poor workers' employment in the LDCs, an integrated policy response is needed. Such a response should take into account the diversity and heterogeneity of the informal

economy. The goal should be to design appropriate regulations for both informal enterprises and employment relations that balance economic efficiency and social goals. Policies are also needed to raise the productivity of informal enterprises through access to capital, business development services, infrastructure, and supportive regulations and policies. In promoting such policies, public investment has to play a key role in growth and development. Moreover, massive programmes are needed to strengthen education and training and provide social protection, ensuring a representative voice, legal identity and rights, and health services for the poorest people.

### **C. Promoting Food Security**

Food and energy price rises are again emerging as an issue of serious concern across much of Asia-Pacific region with food prices increasing by between 10 and 35 per cent since 2009. The LDCs are amongst those that will be most affected. Securing and sustaining food security in the LDCs requires raising the productivity of the farmers in ways that conserve water, land, and energy-intensive inputs while building resilience to the effects of climate change. It is also important to improve the environment for rural development, including farm and nonfarm activities at local, national, and regional levels. There should also be renewed focus on stabilizing the domestic food economies of these countries. The provision of social safety nets to the rural and urban poor will be necessary because of the significant risks and vulnerabilities that these countries continue to face in terms of food insecurity.

### **D. Strengthening Social Protection**

Government expenditure as a percentage of GDP on the social protection programmes in some LLDCs falls below the “Asian average” and is among the lowest in the world (figure 3). Social safety nets (table 12) that exist in these countries are fragmented and lack the framework of institutionalized welfare systems. They are also not adequately funded in many LDCs and do not provide coverage to protect the majority of the vulnerable populations.

As opposed to the narrow view of social protection as safety nets and short-term response to crises and shocks, a broader perspective to social protection is necessary. This perspective involves both social protection and livelihood promotion. Such a view sees social protection as having both short- and long-term roles. The goal, here, is helping people to conserve and accumulate assets and develop socioeconomic relationships in order to seize emerging opportunities. The strategic thrust of social protection needs to focus on addressing the causal factors underlying specific contexts ingrained in multiple hazards and risks faced by the poorest of people. It is important to address these people’s vulnerability to the impact of these on their well being, and allow the poor to developing the capacity to deal with such events. Such a social protection strategy can directly reduce poverty and raise the poorest peoples’ chances to take advantage of the opportunities created by economic growth.

Therefore, policies that provide social protection during times of adversity and reduce unacceptable levels of deprivation are important for the LDCs. Such policies both reduce poverty and protect populations from the risk of falling into poverty as a

result of unexpected shocks and disasters. Social protection systems are essential to attaining inclusive development by providing automatic stabilizers during periods of crisis by providing additional incomes to the poor and enabling them to maintain access to food and basic services. Various types of programmes may be considered for the LDCs, such as employment generation measures, cash transfer programmes, targeted social services, and microfinance programmes. A minimum floor of social security benefits for all citizens in these countries could include:

- (i) guaranteed universal access to essential health services;
- (ii) guaranteed income security for all children through family and/or child benefits;
- (iii) guaranteed access to basic means-tested or self-targeted social assistance for the poor and the unemployed; and
- (iv) guaranteed income security through basic pensions for people in old age and people living with disabilities (ESCAP 2009; ESCAP 2011A).

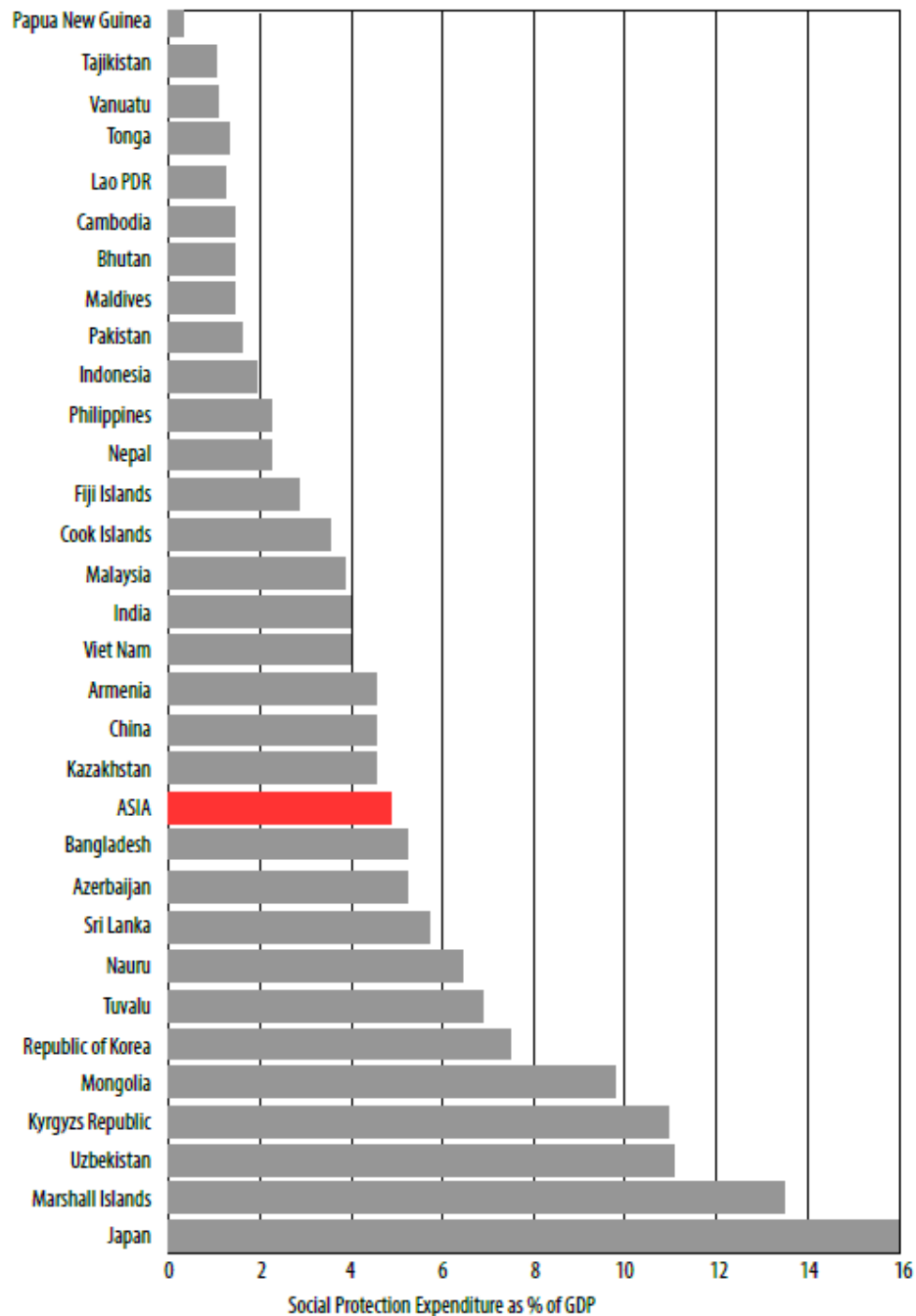
Along with reprioritizing public expenditures, significant efficiency gains can be realized through appropriate reforms within the existing social safety net system. These would allow the countries to consolidate existing programmes and expand the scope and coverage of the system.

**Table 12: Social Protection in Selected Asia and the Pacific LDCs**

Country	Social Insurance and labour market initiatives	Social assistance				Emergency Transfers	Child Protection
		Poverty related: (universal or means tested)	Health related transfers (e.g. maternity benefits)	Education related transfers (e.g. school meals, stipends)	Employment Related transfer (e.g. public works schemes)		
Afghanistan	X	X			X	X	
Bangladesh	X	X	X	X	X	X	
Bhutan	X	X		X			
Cambodia	X	X		X	X	X	
Lao PDR			X		X	X	
Nepal	X	X	X	X	X	X	X
Samoa	X					X	

Source:

**Figure 3: Expenditure on Social Protection as a Percentage of GDP, Selected Countries**



Source: Baulch et al, 2008

### E. Reorienting Public Expenditure

Spending more on poverty reduction could probably mean diverting resources from other government expenditure. In some LDCs, half of this is for the administrative function which includes defense, public order and safety, a part of which could be diverted to more direct spending on poverty reduction. Some are also spending significant sums servicing public debt; while no Asia-Pacific LDC has a

debt crisis, several of them nevertheless still have sizable debt servicing commitments, which can be reduced by seeking concessional international aid that carries a lower interest burden. In the spirit of MDG-8, the LDCs should also be able to rely on debt waivers. A number of LDCs also devote considerable funds to subsidizing fossil fuels. Such subsidies have a number of disadvantages beyond their large costs. One is that the benefits are frequently skewed towards the rich; another is that they encourage the use of fossil fuels which add to pollution and the production of CO<sub>2</sub>.

## **F. Raising Government Revenue and Offering Poverty**

### **Reduction-Friendly Fiscal Incentives**

As well as changing spending priorities, LDC governments should boost domestic revenue that they can dedicate to poverty reduction efforts. A number of LDCs in the region have the fiscal space to raise revenue domestically, especially, through better tax administration. They collect most of their revenues from indirect taxes. These may be easier to administer but are regressive as everyone pays the same rates with the poor paying a higher proportion of their income in tax than do the rich. Direct taxes, while generally more progressive, requires comprehensive systems for keeping track of incomes. Nevertheless, the LDCs can widen their tax bases by ensuring that the wealthy do at least file tax returns and by simplifying their tax systems to reduce the range of exemptions and loopholes, and strengthen the tax administration system. As LDC governments consider ways of raising more revenue, they can also use fiscal policy to adjust the pattern of development and to promote employment. For example, corporate tax laws usually provide an allowance for depreciation which gives companies an incentive to invest in new equipment. Instead LDC governments could offer incentives for generating new employment.

## **G. Investing in Basic Infrastructure Services and Close the Gaps**

Achieving the poverty reduction target in the LDCs will require stronger basic infrastructure, particularly road transport, water supply, sanitation, electricity, information technology, telecommunications and urban low-income housing. Surprisingly, the MDG framework has no specific goals, targets or indicators for basic infrastructure such as roads and electrification. Table 13 illustrates the linkage between infrastructure and MDGs. Better rural roads, for example, expand markets for marginal and small farmers and thus reduce rural poverty. They also allow households to have better access to schools and health centres.

More than 70 per cent of Asia's investment in infrastructure has been made by the public sector. Scaling up infrastructure spending will require more finance from private sources. Private investment does not usually focus on the needs of the poor, particularly in rural areas. Even public-private partnerships are rare in rural areas, though there have been some promising cases. Private-public partnerships can play an important role with the government providing fiscal and other incentives. The region lags developed countries in quality owing to poor construction, repair and maintenance. A recent World Economic Forum business survey found Asia to be well behind the G7 countries. South Asia and Central Asia are particularly behind. Basic infrastructure, often the responsibility of provincial and local governments, is also

frequently of poorer quality as a result. When scaling up construction of basic infrastructure, much closer attention must be paid to the environment.

**Table 13: Positive Impacts of Basic Infrastructure on the Poor**

Sector	Direct impact on poor	Indirect impacts on poor	MDGs impacted
Electricity	Mainly for lighting, TV, and radio at low levels of income Appliances for self-employment	Reduced energy costs for enterprises, encouraging employment creation Improved health and other services (refrigeration, lighting, etc) Improved ICT access	Direct impact: MDG 1 Indirect impact: MDGs 2,3,4,5
Roads	Access to employment and markets Access to services (health, education)	Reduced transport costs and improved market access for enterprises and service providers, lowering costs of serving remote communities	Direct impact: MDG 1 Indirect impact: MDGs 2,4,5
Urban mass transit	Access to employment opportunities	Employment creation from more efficient labour markets	Direct impact: MDG 1 Indirect impact: MDG 7
ICT	Better communication access, aiding migration, information on opportunities, access to knowledge and potential engagement in wider communities	Employment creation through improved knowledge of markets, reduced management supervision costs, access to wider knowledge base	Direct impact: MDGs 1,8 Indirect impact: MDGs 2,3
Water supply	Improved health outcomes; time savings; lower costs	Limited	Direct impact: MDGs 4,5,6,7 Indirect impact: MDG 3
Sanitation	Improved health outcomes	Improved health outcomes (e.g. reduced pollution by non-poor households and others)	Direct impact: MDGs 3,4,5,6,7

Source: ESCAP/ADB/UNDP 2009, *Achieving the Millennium Development Goals in an Era of Global Uncertainty, Asia Pacific Regional Report 2009/10*, United Nations

Infrastructure construction can have adverse environmental consequences: e.g. roads may cause felling of trees, dams can affect the ecological balance etc. But many other forms of infrastructure can benefit the environment. Piped water supply in urban areas can reduce ground water extraction and mass public transportation in urban areas can reduce pollution.

Basic infrastructure must also be designed with climate change in mind. Roads may have to be constructed to withstand more frequent floods. These will require adoption of new "green" technologies and options. In recent years countries across the region have made considerable progress in building new infrastructure. Seen through an MDG lens, however, the results are uneven and inadequate - with futuristic new airports and modern mass transit systems on one side and crowded urban slums, potholed rural roads and villages without electricity on the other. The challenge now is to change the criteria of success – achieve higher standards of basic infrastructure that can underpin the Millennium Development Goals.

The limited availability and low quality of infrastructure in the LDCs constrains the contribution of this sector to economic growth. This is because the values of multipliers are limited in terms of investment, employment, output, income and ancillary development. So closing the infrastructure gaps across these countries is a necessary condition for their balanced and inclusive development. In general, the LDCs have very wide gaps in the levels of infrastructural development, and these must be closed. The resource requirements for bridging or even narrowing these gaps are substantial, and appropriate financing mechanisms are needed.



It is also important not merely to bridge infrastructure development gaps, but also to address the quality of infrastructure. A recent study that rates infrastructure, giving a maximum score of 7 points, finds a weak performance by the LDCs (see ADBI/ADB 2009). For overall infrastructure, the scores are 2.2 for Bangladesh (2.8 for roads and 1.9 for electricity), 3.1 for Cambodia (3.1 for roads and 2.5 for electricity) and 1.9 for Nepal (1.9 for roads and 1.7 for electricity). The low quality of infrastructure in the LDCs disproportionately affects poor and the rural people. This is due to wide gaps in the quality of infrastructure between the urban and rural areas. Since most of the MDGs-related infrastructure development is likely to come from the public sector, important issues for LDCs include:

- mobilization of finances;
- commitment to repairs and maintenance;
- reforms in governance and efforts to increase capacity, bringing better coordination; and
- paying closer attention to the environmental impact and the implications of climate change.

It is critical for LDCs to tap the opportunities for improving infrastructure at regional and subregional levels. In these countries, some of the most immediate benefits of better connectivity will be better cross-national integration between neighbouring border areas, which are often among the more remote and poorer regions in respective countries. In order to derive greater benefits, physical links between the countries should be accompanied by the harmonization of standards. These include aspects such as railway signalling systems and custom codes. This kind of collaboration will no doubt contribute to faster poverty reduction in the LDCs.

## **H. Addressing Ecological Imbalances and Enhancing Green Growth**

Ecological imbalances in the LDCs are reflected in the degradation of key natural resources such as forests and freshwater, and in unsustainable uses of energy. Although the impacts of these imbalances are not fully apparent in the short run, they pose formidable challenges to the sustainability of development of the LDCs, particularly in the long run. The production system, especially in the agriculture sector, and the livelihoods of a large majority of the people living in rural and fragile areas are also adversely affected because of the increased frequency of droughts and other extreme weather events associated with climate change. Thus, as ensuring food security becomes increasingly important in these countries as the population grows, measures are needed to protect natural capital and address ecological imbalances. Along with expanding “new economy and green industries” through investments in renewable energy and in energy efficient technologies, addressing ecological imbalances of growth would also contribute substantially to reducing poverty in the LDCs. This is because the poor usually live in ecologically vulnerable areas, and they depend more on natural resources for their livelihood. A key to addressing the LDCs’ ecological imbalances will be the introduction of technological innovations to reduce the adverse impacts of production and consumption activities on the environment and unsustainable pressures on natural resources.

It should be emphasized, however, that the LDCs that are disproportionately vulnerable to the consequences of climate change do not have the financial resources and expertise to develop appropriate and new technologies. The United Nations Framework Convention on Climate Change (UNFCCC) recognizes these constraints and stresses that developed countries need to provide support to LDCs based on the principle of common but differentiated responsibilities. So far, though, little progress has been made both in terms of providing financing on preferable terms and in enhancing green market access opportunities for LDCs.

The new and sustainable sources of growth for the LDCs are the new green industries that emphasize environmentally sustainable economic growth to foster socially inclusive development. The pillars of this approach are: sustainable production and consumption; the greening of businesses and markets; sustainable infrastructure; green tax and budget reforms; and investment in natural capital (ESCAP 2008). Similarly, the LDCs can use the flexibilities provided in the TRIPs Agreement to facilitate the adoption of environmentally sound technologies. There are also valuable opportunities for sharing development experiences and best practices among these and other developing countries in the area of sustainable production and consumption. These countries could work more closely on bio-fuels, solar and wind power, waste management, and similar other areas.

### **I. Ensuring Financial Inclusion**

An inclusive financial system offers the poor access to financial products and services, including the ability to obtain credit and insurance on favourable terms and conditions. This also includes accessing payment services for undertaking transactions and remittances in a secure and cost effective manner. Poor households with access to financial services can improve their economic well being while investing in children's education and enjoying better nutrition and health status. Nevertheless, the vast majority of the population, especially poor households, are typically excluded from accessing financial services offered by the formal financial sector.

In the Asia Pacific LDCs, barriers to financial inclusion exist on both demand and supply sides. The demand side factors primarily include the capacity of potential clients to deal with the banks and the appropriateness of the products and services offered by these institutions. On the supply side, the barriers consist of the banks' perception of the profitability and risks involved in dealing with poor customers and the costs of dealing with a large number of clients involved in small transactions. In general, development finance institutions (DFIs) and microfinance institutions (MFIs) have been more successful in reaching out to the poor and small and microenterprises. In addition, public and technology-enabled networks such as post offices, telecommunications companies, and the Internet hold significant potential for bringing financial inclusiveness to the LDCs. The regulatory environment also needs to encourage diversity in the provision of financial services in order to increase the options available to the poor. A new range of products and services can be provided to the poor through developing innovative partnerships with NGOs, MFIs, and other entities, including mobile banking services.

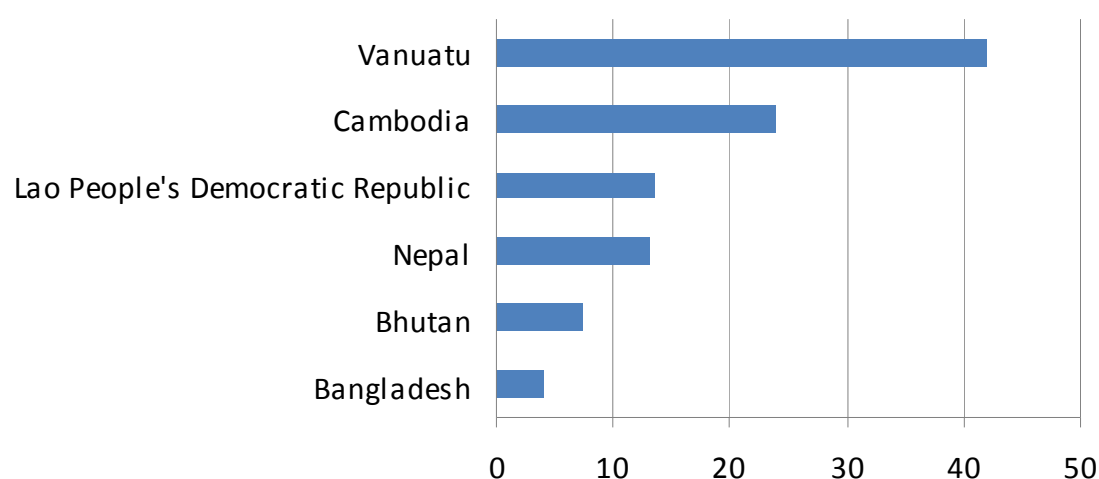
#### IV. FOSTERING REGIONAL COOPERATION AND GLOBAL DEVELOPMENT PARTNERSHIP

In addition to raising more of their own resources for investing in poverty reduction targets and in other MDGs, the LDCs should be able to rely on substantial support from the international community, both within the region and beyond.

##### A. Official Development Assistance

Since the adoption of the Brussels Programme of Action for the LDCs, donors have generally been providing more official development assistance (ODA), even though most of them, the large ones in particular, are yet to reach the target of 0.15 per cent of gross national income. Asia and the Pacific will probably continue to get a steadily declining proportion of this. Any reduction in aid flows will be of particular concern to countries such as Cambodia and Vanuatu, where ODA plays a significant role in their economies. ODA also plays a critical role in the fixed capital formation of several LDCs (figure 4).

**Figure 4: Aid as a Percentage of Fixed Capital Formation**



*Source:* Financing an Inclusive and Green Future, ESCAP 2010.

In view of the LDCs' severe structural disadvantages, assistance through external resources such as ODA will continue to play a key role in supporting their economic development and social progress. These countries need external resources to build their economic and social infrastructure, especially for investing in basic services such as water, sanitation, energy, transport, shelter, health, and education. Such resources can also assist these countries in expanding their productive capacities, promoting FDI and trade, adapting to technological innovations, fostering gender equality, ensuring food security, and reducing income poverty.

At the same time, it will be important to improve the quality of aid and increase its development impact by building on the fundamental principles of national ownership, harmonization, and managing for results. This also requires aligning aid by sector, with internationally agreed development goals and country priorities.

In order to make ODA more effective, the LDCs need to improve their institutions and governance structures. Meanwhile, donors need to increase the predictability of their support, reduce fragmentation, and invest while keeping long-term national goals within view. Overall, there should be improved coordination and accountability.

## **B. South-South Cooperation**

*South-South Aid:* More aid now takes the form of transfers from one developing country to another, which within Asia and the Pacific primarily means the better-off developing countries helping their neighbours. China, for example, is Cambodia's biggest aid donor as is India for Nepal and Bhutan. Similarly, Thailand is the largest donor to Lao PDR and the second largest to Myanmar. Much of this South-South aid thus goes to LDCs where it is expected to be used in support of poverty reduction.

*Workers' remittances* – In 2008, countries in the region that were the sources of labour migrants received a total of US\$ 169 billion in remittances. These have provided a stable source of foreign exchange at times when trade and other flows have been more volatile – so have helped stabilize currencies. At the micro level, families have been able to use remittances to boost human development – frequently using the funds to invest in their children's education.

*Private capital inflows* – Private capital inflows, particularly foreign direct investment, should help create employment and thus contribute to poverty reduction. Following the economic crisis, even though global FDI inflows have declined, FDI inflows to Asia-Pacific have continued to expand from US\$ 333 billion in 2007 to US\$ 389 billion in 2008. Emergence of new sources of FDI in the region such as China, Russian Federation, Hong Kong, China, India, and Malaysia, among others, is likely to further enhance FDI inflows in the region. The region is also receiving growing amounts of portfolio foreign investments that tend to be highly volatile in nature seeking speculative returns on the capital markets, real estate, currency and commodity futures and lead to formation of asset bubbles, inflation and appreciation of exchange rates. The region's governments may consider taking steps to moderate these inflows through some sort of capital controls in view of massive expansion of liquidity in the western markets which may find outlet in the region.

*New innovative sources of finance* – Prompted by a recognition that ODA is unpredictable and needs to be supplemented, recent times has seen some international initiatives involving governments, charitable foundations, NGOs, and prominent individuals to develop some new innovative sources of finance for development. Three such initiatives are already functioning in the area of health. These are (i) UNITAID and the solidarity levy on airline tickets, (ii) The International Finance Facility for Immunization (IFFIm) / Global Alliance for Vaccines and Immunization (GAVI), and (iii) Advance Market Commitment for pneumococcal vaccines (AMC-PV).

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