

# Asia-Pacific Effective Development Co-operation Report 2014



AP-DEF

Asia-Pacific Regional  
Development Effectiveness  
Facility



Australian Government  
Department of Foreign Affairs and Trade



*Empowered lives.  
Resilient nations.*



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## Foreword

I am pleased to present the Asia-Pacific Effective Development Cooperation Regional Report. The report is the result of country preparations and inclusive regional consultations facilitated by the Asia-Pacific Development Effectiveness Facility (AP-DEF) and its members, made possible through partnership with the United Nations Development Programme, Department for International Development and the Australian Government.

It serves as a bridge between country efforts and evidence in implementing the Busan commitments in the Asia-Pacific region and the First High-Level Meeting of the Global Partnership for Effective Development Cooperation (GPEDC) in Mexico on 15-16 April 2014.

Bangladesh, as a member of the GPEDC Steering Committee and Chair of the AP-DEF Steering Committee, has had the privilege of hosting the first regional consultation in Dhaka: Asia Regional Workshop on Global Partnership for Effective Development Cooperation: Links to the Post-2015 Development Agenda, 25-27 August 2013. In Dhaka, the AP-DEF, a regional platform for south-south learning was launched and the Steering Committee with country, CSO, and development partner representation was also announced. The meeting brought together twenty eight Government Development and Economic Cooperation policymakers and practitioners of twelve countries from Asia and the Pacific, Civil Society and business participants, who agreed to a set of recommendations for 'Building Evidence for the First Ministerial'. They urged countries of the region to implement the recommendations by adopting ten specific actions including this draft report and proposed the AP-DEF support stock-taking measures to track implementation.

The report presents evidence-based analysis drawing on countries' data and experiences compiled from existing country and regional studies and analytical work. It provides a snapshot of the changing development and financing landscape in the region. It recognises and captures the diversity of roles of different development actors – from government, international institutions, civil society and the business community. It includes a synthesis of the findings from the Global Partnership for Effective Development Cooperation (GPEDC) global survey for fifteen countries from Asia-Pacific; key findings, conclusions and recommendations from Development Finance and Aid Assessments in Papua New Guinea and Viet Nam, as well as Policy, Expenditure and Institutional Reviews in Indonesia and Thailand; and the outcomes of regional consultations held in advance of the first High-Level Meeting (HLM) of the GPEDC.

The Asia-Pacific country and regional perspectives and practical measures highlighted in this report are expected to ensure an evidence-based global discussion on 'how' countries can achieve the 'what' which will be expressed in the post-2015 sustainable development agenda – ending poverty and leaving no one behind.

As discussions on the GPEDC and about how to implement the post-2015 agenda develop, the AP-DEF Steering Committee members and I hope many will read this report and reflect on the evidence and experiences of countries in the Asia-Pacific region to achieve the global progress we want to see.



**Mohammad Mejbahuddin**

**Secretary for Economic Relations Division, Ministry of Finance, Government of Bangladesh**

**Chair, Asia-Pacific Development Effectiveness Facility**



## Abbreviations

AP-DEF	Asia-Pacific Development Effectiveness Facility	JICA	Japan International Cooperation Agency
AsDB	Asian Development Bank	KS	Knowledge sharing
BRICS	Brazil, Russia, India, China, South Africa	LDC	Least Developed Country
CAMI	Country Assessments and Mapping of Information on South-South Cooperation	LIC	Low income country
CGIAR	Consultative Group on International Agricultural Research	LMIC	Lower Middle Income Country
CPIA	Country policy and institutional assessment	LNG	Liquefied Natural Gas
CPDE	CSO Partnership for Development Effectiveness	MBC	Makati Business Club
CSO	Civil Society Organisation	MDGs	Millennium Development Goals
DAC	Development Assistance Committee	MIC	Middle Income Country
DFAA	Development Finance and Aid Assessment	NEDA	Neighbouring countries Economic Development Agency (Thailand)
DFID	Department for International Development (UK)	NCD	Non-communicable disease
DRF	Development results framework	NGO	Non-Governmental Organisation
DRM	Domestic resource mobilisation	ODA	Official development assistance
EITI	Extractives Industries Transparency Initiative	OECD	Organisation for Economic Cooperation and Development
ESI	Estimated Sustainable Income	OOF	Other Official Flows
EU	European Union	PEIR	Public Expenditure and Institutional Review (of South-South Cooperation)
FATF	Financial Action Task Force	PFCF	Private Fixed Capital Formation
FDI	Foreign Direct Investment	PFM	Public finance management
FSM	Federated States of Micronesia	PNG	Papua New Guinea
GDP	Gross Domestic Product	PNG SDP	Papua New Guinea Sustainable Development Programme
GLC	Government linked corporation	PPP	Public-private partnership
GNI	Gross National Income	PPP\$	Purchasing power parity international dollars
GPEDC	Global Partnership for Effective Development Cooperation	PRSP	Poverty reduction strategy paper
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immunodeficiency Virus	PSG	Peace and Statebuilding Goals
HLM	High Level Meeting (of the GPEDC)	SIDS	Small Island Developing States
HLP	High Level Panel of Eminent Persons on the Post-2015 Agenda	SOE	State-owned enterprise
IATI	International Aid Transparency Initiative	SSC	South-South Cooperation
IBP	International Budget Partnership	SWF	Sovereign Wealth Fund
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing	TB	Tuberculosis
IDA	International Development Association	TICA	Thailand International Cooperation Agency
IMF	International Monetary Fund	TrC	Triangular Cooperation
INGO	International Non-Governmental Organisation	UMIC	Upper Middle Income Country
		UN	United Nations
		UNDP	United Nations Development Programme
		UNHCR	United Nations Human Rights Council
		WHO	World Health Organisation



## Executive Summary

This report aims to bridge the experiences of countries in the Asia-Pacific region with global discussions about how to achieve the post-2015 vision, through the GPEDC, the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) and wider post-2015 financing and implementation debates.

The report builds on extensive consultations with a wide range of development actors in the Asia-Pacific region. It pulls together data from the region and draws evidence from a range of country and regional perspectives about development successes and challenges faced, and the mechanisms and partnerships that have been developed within the region to realise effective development.

The structure of the report builds on the agenda of the first HLM of the GPEDC, held in Mexico in April 2014, and follows the themes of the five plenaries: progress since Busan; partnering for taxation and domestic resource mobilisation for development; south-south, triangular cooperation and knowledge sharing; development cooperation with middle income countries; and business as a partner in development.

The intent of the report is to enrich the debate with evidence. The vision emerging from discussions on the post-2015 agenda – of a world with zero poverty and of progress across the three dimensions of development; social, environmental and economic – is ambitious. Realising it will require partnerships that mobilise the contributions of all actors: public and private, national and international. The results of the GPEDC global survey in 2013 offer some insights into what will be required from the international community to support development cooperation, globally and in the region. As discussions develop it is vital that the perspectives and experiences from Asia-Pacific, as the world's most populous and diverse region, are taken into account.

Countries from across the Asia-Pacific region have diverse experiences to bring to the table. Major successes in the MDGs such as rapid poverty reduction, have been achieved alongside much slower progress in areas such as gender equality. The experiences of how these changes have occurred and how further progress can be achieved that are captured in this report can add weight and depth to discussions at the national and international level as the post-2015 and GPEDC debates continue.

### Progress since Busan

Countries across the Asia-Pacific region have demonstrated their commitment to the development effectiveness principles agreed in Busan. The first GPEDC Monitoring Survey shows that, from fifteen Asia-Pacific countries who participated: 10 have already met mutual accountability targets; 6 have already met or are on track to achieve annual aid predictability targets (and 9 are above average on medium-term aid predictability); and 4 have achieved or are on track on the use of country systems.

Progress in other areas has been slower, especially in gender equality, where only 2 countries have met targets to track allocations towards gender equality and women's empowerment and most others can report no progress. The enabling environment for civil society is deteriorating in some parts of the region – in the last two years at least 7 Asian countries have taken legal or administrative action to restrict funding to CSOs.

Monitoring is essential for identifying challenges to progress and realising the vision of an evidence-based approach to implementation, and there is an urgent need to finalise the monitoring framework for partnerships beyond the public-sector, with civil society and private business. Governments can further prioritise investments in gender equality and women's empowerment, and in the systems that monitor and assess these investments.

### A changing Asia-Pacific development finance landscape: development Cooperation accounts for a declining proportion of development finance, but remains important in the region

Development Cooperation accounts for a declining share of total resources available to countries in the region, falling from 14% of international resource flows to the region in 1990 to 3.4% in 2012. Nevertheless, for many countries – from Least Developed Countries to Small Island Developing States to many Middle Income Countries (LDCs to SIDS to MICs) – it remains an important resource.

Domestic resources are growing rapidly in much of the region but there are considerable differences across sub-regions and countries. In 15 countries government spending is less than PPP\$ 1,000 per person each year, compared to over PPP\$ 15,000 in DAC countries. Private fixed capital formation in the region grew from 12% of GDP in 2000 to 23% in 2012, largely driven by China.



Total international resources to the region have grown more than five-fold since 1990. FDI and remittances have driven this growth and FDI is the largest resource flow to three sub-regions: East and North-East Asia, South East Asia, and North & Central Asia. Remittances were the largest resource flow to 12 countries in the region in 2011.

ODA grew by more than a third from 1990 to 2012; however, rapid growth in other resources means that ODA accounts for a declining proportion of total resources. In 1990 ODA was the largest flow to 27 countries in the region but by 2011 this had fallen to 9 countries, 6 of which are LDCs.

The changing landscape presents both challenges and opportunities. The challenge is for governments, development partners and the development community broadly to articulate a clear vision for the role that Cooperation can play in an increasingly complex landscape. The opportunities are for partnership with actors and resources that are growing rapidly.

ODA has a unique mandate among international resources that means it can be targeted more directly towards poverty reduction and development. It can open opportunities to leverage other resources. Many countries in region are expressing a desire to continue receiving development cooperation. For some this is about knowledge sharing or support for strengthening institutions and governance. For others financial transfers remain important, and this is the case even for some MICs, such as those in the Pacific. It is important to recognise that there is value in Cooperation beyond the dollar value alone, and that other, faster growing, resources do not necessarily perform the same functions.

Providers of Cooperation can work with countries to design tailored Cooperation, while also increasing alignment to country strategies and systems. There is also a need to follow up on the unmet Monterrey targets, particularly those related to LDCs.

#### **It is time to rethink the needs and definitions of 'middle income' countries**

Middle income countries are a diverse group facing varied challenges and with varying capacity to address them. The extent to which they are able to translate rapid economic growth into sustained poverty reduction and broader social and environmental progress could well be pivotal in determining global progress against the post-2015 vision. Many MICs in the region see a continued and important, albeit evolving, role for development Cooperation.

Providers should consider developing appropriate models for flexible, targeted Cooperation with growing MICs, including broader policy coherence – particularly in areas such as trade, migration, the environment and the global financial system, and consideration for the vulnerabilities of MICs that are also fragile states, LDCs or Pacific Islands.

In a post-2015 world that emphasises all three dimensions of development (social, environmental and economic) and the imperative to leave no-one behind, a system for classifying and prioritising Cooperation with countries must go beyond simple economic averages. The way in which countries are classified and the way this classification is used to determine engagement with countries are outdated and need urgent revision.

Donors, foundations, INGOs and governments can work together to encourage healthy and predictable flows of funding for CSOs active in development processes in MICs, whether as service providers, innovators, citizen representatives or advocates. Both the scale of philanthropic financial flows and the volume of vital services provided by civil society in MICs are often overlooked.

#### **Mobilising domestic resources and national capacities are vital for achieving the post-2015 agenda**

Mobilising sufficient resources will be critical to realising the vision of successful country-led implementation of the post-2015 agenda. Domestic resources are growing in the Asia-Pacific region with government spending growing from an average 17% of GDP in 1995 to 26% (over US\$45 trillion) in 2012. However there is a way to go: government resources equate to less than PPP\$1,000 per person in 15 countries in the region, home to some 2.15 billion people – compared to over PPP\$ 15,000 in DAC countries.

Four components of the global debate on domestic resource mobilisation (DRM) are significant to the region: managing natural resources; illicit finance; civil society and DRM; and the role of international actors in supporting DRM.

Close to 35 per cent of exports from the region are from natural resource and extractive industries. As a percentage of total exports, natural resource exports are high in LMICs like Mongolia (81%), Timor Leste (99%), and PNG (77%). Countries in the Asia-Pacific region are making important steps in growing and managing revenue from natural

resources. Timor-Leste has established a successful sovereign wealth fund which has generated assets of US\$ 11.8 billion in 7 years, and Papua New Guinea is establishing a similar mechanism to manage its natural resource wealth.

Bottlenecks and threats to continued progress in domestic resource mobilisation exist. Illicit finance is a considerable drain on domestic resources. Some sources suggest that for 22 of the 31 countries in the region for which estimates of illicit finance exist, these outflows are greater than net ODA in 2012. Co-ordinated action at the international level, such as the automatic exchange of tax information and country-by-country reporting by multinationals, is needed, alongside national actions such as strengthening governance of customs and trade taxes.

Only a small proportion of ODA goes towards DRM. Countries in the Asia-Pacific region received core DRM ODA totalling US\$ 46.8 million, the vast majority to two countries, Afghanistan (US\$ 17.8 million) and Pakistan (US\$ 16.9 million). International support provided to assist developing countries in mobilising domestic resources is difficult to accurately track. Current reporting systems are weak and it is therefore difficult to understand the landscape, the outcomes achieved, or the strengths and weaknesses of different partnerships. To effectively scale up international assistance for DRM it is important to strengthen transparency about what is going on already.

While there are data challenges, the evidence suggests it is likely that domestic philanthropy in developing countries (NGOs, foundations, religious institutions and other CSOs contributing to development) constitute more funds for development than all ODA combined for the region. These resources are likely to be directed to basic service provision and poverty reduction.

### **Where the public and private sectors can work together effectively, great things can be achieved**

The private sector is growing rapidly in the Asia-Pacific region, with growth in both domestic and international investment. However much is concentrated in a few key economies: China, Hong Kong and Singapore accounted for almost two-thirds of FDI in the region in 2012.

The quality and quantity of FDI are critical factors in determining the pace and form of sustainable development for all countries of the region. The role of FDI will depend on the context in relation to its potential for generating employment, catalysing domestic investment and private sector growth.

Different countries have different priorities and face different challenges when it comes to engagement with the private sector, depending on the role that private enterprises play in the economy and the types of investments that are being made.

The convergence of public and private efforts – whether on tourism in a small island context like Palau, or using PPPs to scale up infrastructure investment across South-East Asia – can be transformative, offering scale and innovation that can drive development.

It is vital that transparency principles are retained in public-private collaboration, to allow stakeholders to promote a developmental focus, ensure additionality and reinforce accountability. Company reporting on social and environmental audits, and tax and procurement procedures would be a major step forward. Capacity development is also important, for the public sector to manage relationships with private actors but also within the private sector, particularly in fragile states.

### **South-south Cooperation (SSC) is increasingly important in Asia-Pacific**

Some of the world's largest SSC providers are from Asia. Chinese SSC was US\$ 2.7 billion in 2012, with additional concessional loans totalling around US\$ 1.6 – 1.9 billion.

SSC and Triangular Cooperation (TrC) are growing complements to traditional development Cooperation within the Asia-Pacific region and beyond. SSC is intended for mutual benefit where the economic or development objectives of both the recipient and the provider underpin the modality. SSC in the region takes many forms, from knowledge sharing and technical Cooperation to grants, loans, guarantees or credits. Trade, overseas employment and other forms of Cooperation between governments, private sector and CSOs are also occurring. The wide variation of SSC implies that it means different things for different actors and in different contexts.

Many providers of SSC are dealing with questions of how to formalise a vision and strategy for the Cooperation they offer, and to establish structures to oversee, co-ordinate and improve the effectiveness of this Cooperation.

Countries in the region that receive SSC are adapting the way they engage with and manage this Cooperation to



enhance the contributions that it can make to their development paths. Application of the Busan principles and monitoring framework by SSC providers is voluntary. However, a number of recipient countries from the region are already including SSC providers' development assistance in their monitoring frameworks at the country level and seven countries have included SSC providers in their monitoring for the 2013 GPEDC survey.

The Pacific Island peer review process, which encompasses both the provision and receipt of SSC, is successfully strengthening capacity across the Pacific for managing development resources from all sources (domestic and international) and to assert greater influence over the type of Cooperation they receive. At the same time, sharing lessons and knowledge from country experiences are being institutionalised at the regional and country level.

### What next from AP-DEF?

Beyond Mexico, the Asia-Pacific Development Effectiveness Facility (AP-DEF) will continue to support countries from Asia and the Pacific, draw on evidence generated to date in adapting development finance and cooperation policies, institutions, and technical systems and tools to the changing global, regional and national development and finance landscape. Reforms are already being pursued by a number of countries such as Afghanistan, Bangladesh, Lao PDR, PNG, the Philippines and Viet Nam.

More countries have shown interest in conducting Development Finance and Aid Assessments (DFAA). The AP-DEF has commissioned a review of the DFAA methodology, key findings, conclusions and recommendations from the first five pilot countries. The review will draw out lessons learned and produce an enhanced DFAA Methodological Note which would inform future DFAAs.

Country Assessments and Mapping of Information on South-South Cooperation will be undertaken in Bangladesh and Lao PDR. These will allow the AP-DEF to better identify what SSC is working well and could be replicated as well as up-scaled.

These studies will help countries from the region make better sense of the increasing complexity the various sources have for development planning, public investment programming, budgeting and in coordinating due to the different characteristics of the various sources, modalities and activities of various actors of development.

An Asia-Pacific regional meeting in partnership with the Department for International Development (DFID), United Nations Development Programme (UNDP), Government of Australia and the Asian Development Bank (ADB) is being planned for Quarter 1, 2015. It is an opportunity for the region to turn key messages and voluntary initiatives launched in Mexico into concrete actions. These form part of how countries from Asia and the Pacific are proactively addressing a changing development finance and cooperation landscape and their readiness for implementation of a Post-2015 sustainable development agenda. The meeting will make several linkages:

- Outcome of the ODA definitional review, OECD-DAC meeting on (25 June, 2014, Paris)
- Outcomes of the GPEDC Steering Committee first meeting (8 July, 2014)
- Outcomes of the UN Development Cooperation Forum (9 July 2014)
- Key messages and priorities agreed at the UN General Assembly on Post-2015 development framework (September, 2014)
- Agenda and contributions to the Third International Conference on Financing for Development (July 2015).

The meeting will help shape the focus of an Asia-Pacific regional paper that captures the development finance and cooperation landscape, policy, institutions, systems and human resource capacity of countries from the region. The regional paper may serve as one of many contributions from the region to the Third International Conference on Financing for Development.

## Introduction

The Asia-Pacific Effective Development Cooperation Report presents experiences of effective development Cooperation from countries across the Asia-Pacific region. The evidence presented here aims to support countries in the region and beyond as they start to consider how to implement and finance the post-2015 agenda at the country-level.

The development landscape in Asia-Pacific is changing. Many countries have achieved considerable progress against much of the MDG agenda, notably in poverty reduction. Yet progress has been slow in other areas such as gender equality. Alongside the unfinished agenda from the MDGs, emerging priorities such as climate change will be central to the post-2015 agenda in the region.

The financing landscape is also evolving rapidly. Many countries have access to a larger and more diverse portfolio of national and international resources than ever before. Yet the post-2015 vision for the region will be ambitious, and realising it will require effective partnerships across public and actors that mobilise the contributions of different resources towards effective development.

This report draws from extensive evidence about the progress, practices and development solutions that countries across the region have developed as well as the challenges they face.

The report is based on a bottom-up approach to evidence gathering. It draws from consultations with governments, civil society, international institutions and business from across the region. Consultations were held in Dhaka in August 2013, during which AP-DEF was established, and in Seoul in March 2014, to help countries prepare for the HLM in Mexico. The report draws on the results from the first Busan monitoring survey, in which fifteen countries from the Asia-Pacific region participated, as well as commissioned studies to examine how countries are dealing with increasingly complex resource landscapes (Development Finance and Aid Assessments), the issues that SSC providers face (Public Expenditure and Institutional Reviews of South-South Cooperation), and numerous country, sub-regional and regional reports. In consolidating this wealth of experiences, perspectives and priorities from actors across the region, this report provides a strong evidence base for the world's most populous and diverse region's engagement as the GPEDC and post-2015 implementation debates continue to develop.

The report presents an overview of the development context within the region and trends in the rapidly changing resource landscape. It then presents a chapter on regional evidence relevant to each of the plenary sessions held at the first HLM of the GPEDC in Mexico, April 2014: progress since Busan and inclusive development; domestic resource mobilisation; middle income countries; South-South Cooperation, Triangular Cooperation and knowledge sharing; and business as a partner for development.

At the start of each chapter a section titled 'the how' summaries the key action-oriented and practical messages from the region. The report also includes fourteen case studies that examine how particular countries are dealing with the challenges they face, and the mechanisms, instruments and partnerships they have deployed to overcome them.

As discussions on how to achieve the vision that will be outlined in the post-2015 agenda continue, and countries start to consider how best to implement and finance the post-2015 agenda at the country level, the experiences of countries across the Asia-Pacific region captured here can make a substantial contribution to effective development Cooperation within the region and beyond.



# 1. Context

## 1.1. Regional progress towards the MDGs

Asia-Pacific is the world's most diverse region. It includes three of the four most populous countries in the world, as well as many of the world's smallest. Its level of economic development ranges from Least Developed to High Income, and the politics and aid-dependence of its countries similarly range across the whole spectrum. There are also great cultural, linguistic and religious variations. The region's successes towards achieving the MDGs have made substantial contributions towards global progress, particularly in reducing poverty. Nevertheless progress towards the MDG agenda as a whole has been varied, and there will likely remain a significant 'unfinished agenda' after 2015.

Poverty levels have fallen rapidly, and have driven global progress towards the early achievement of MDG1a, to halve the number of people living on less than \$1.25 a day. China's performance has been instrumental in progress for the region as a whole: China was the first country to achieve the target, with \$1 a day poverty falling from 46% in 1990 to 10.4% in 2005.<sup>1</sup> However, the number of people living in poverty in Asia-Pacific remains high: the region accounts for 62% of people still living on less than \$1.25 a day. Despite rapid progress in countries such as China, Indonesia and Viet Nam, progress has been slower in other countries such as India and the Philippines.

Food insecurity remains a major problem and Asia-Pacific accounts for 60% of undernourishment globally.<sup>2</sup> The region is home to an estimated 543 million people who are undernourished,<sup>3</sup> with South Asia and the Pacific the worst affected regions.

Despite improvements in gender parity in access to education, considerable progress is needed to achieve gender equality more broadly. Women are disproportionately affected by deprivation in education, health, undernourishment, vulnerable employment, asset ownership, and lack access to power, voice and rights. Gender based violence remains a problem in many countries.

Progress on health indicators has lagged behind other MDG areas. Most countries in the region are unlikely to achieve infant mortality or maternal health targets (MDGs 4 and 5)<sup>4</sup>. 3 million children under the age of five died in 2011 and nearly 20 million births were unattended by skilled health personnel. However progress on communicable diseases has been more successful: most countries have already achieved targets to reduce the incidence and prevalence of TB. HIV progress is mixed: many countries are progressing, though at least ten countries are making no progress or regressing.<sup>5</sup>

Access to basic education has grown, although an estimated 18 million children of primary school age remain out of school. Despite improvements in enrolment, concerns about quality remain.

Much of this progress has occurred within a context of rapid economic growth and growing domestic resources. The MDGs themselves have galvanised efforts – they achieved wide political buy-in and served as a rallying point for monitoring development. Almost all Asia-Pacific countries now report specifically on MDG progress through dedicated national reports.

## 1.2. Regional priorities for the post-2015 agenda

Political buy-in to the MDGs was high when they were adopted in 2000 and the region is deeply engaged in the debate about how to move forward in the post-2015 agenda.

### Post-2015 Agenda

As the region looks forward to consider goals for the next fifteen years there is consensus that the post-2015 framework should not only complete the unfinished agenda of the MDGs, but look beyond this to tackle issues that have emerged since the MDGs were agreed.

The unfinished agenda includes finishing the job of eradicating extreme poverty, achieving food security for all, realising broad gender equity, progress in areas of health beyond communicable diseases, and finishing the task of providing education for all.

<sup>1</sup>China MDG report, 2010

<sup>2</sup>Asia-Pacific Regional MDGs Report 2012/13

<sup>3</sup>As defined by the FAO benchmark of average daily consumption of less than 1,800 calories.

<sup>4</sup>Asia-Pacific Regional MDGs Report 2012/13. 15 of 48 countries in the region have achieved or are on-track to achieve under-5 mortality goals (there is no data for 7 countries); other countries are making slow progress, no progress or are regressing. Just 12 of 48 countries have achieved or are on-track to achieve infant mortality goals (no data for 7 countries), 11 of 41 to achieve maternal mortality goals, 21 of 46 regarding skilled birth attendance and 23 of 36 regarding antenatal care.

<sup>5</sup>10 countries of the 28 with data. 27 countries in the region have insufficient data. Source: Asia-Pacific Regional MDGs Report 2012/13.



In addition to finishing the job in areas addressed by the MDGs, a number of issues have emerged since the Millennium Declaration which threaten continued progress and have been identified as priorities for the region in the post-2015 timeframe.

Climate change poses significant threats to progress and countries in the Asia-Pacific region are particularly vulnerable. 10 of the 15 countries most at risk of natural disasters are in the Asia-Pacific region.<sup>6</sup> Climate change can undermine progress in food security and livelihoods, amplify the disease burden and impose large economic costs. The brunt of the impact is often borne by the poorest.

While economic growth has been rapid, it has driven rising inequality. The population-weighted GINI coefficient rose to 37.5 from 33.5 in the early 1990s and inequality of opportunity in health, education, employment, access to markets, asset ownership, and access to services have grown.<sup>7</sup>

Economic insecurity remains a threat to progress and 60% of workers in the region, 1.1 billion people, are in vulnerable employment. Many of these people are working poor: in Bangladesh, more than half of those employed live on less than \$1.25 a day and 80% on less than \$2 a day.<sup>8</sup> While GDP for the region grew at an average 8.5% per year, formal employment growth was just 1.6%.

Educational enrolment rates have improved, but there are concerns about the quality of education and dropout rates are high. One-third of countries that have already achieved, or are on-track to achieve primary enrolment targets are making slow or no progress on pupils reaching the last grade of primary school. This has been linked to low public expenditure on education.<sup>9</sup>

Non-communicable diseases (NCDs), an area not covered by the MDGs, are increasingly prevalent in the region, particularly in the Pacific. The WHO estimates that Asia-Pacific will account for the world's greatest number of NCD deaths by 2020. Health in general is the area in which the region has made least progress, and this is also linked to low expenditure from both public and private sources, as well as numbers of trained health personnel.<sup>10</sup>

### 1.3. Global financing discussions: the post-2015 agenda, Busan commitments and the Global Partnership for Effective Development Cooperation

Every vision needs a financing and implementation strategy and as the post-2015 framework takes shape the question of how to achieve these goals grows increasingly important. The goals articulated through the post-2015 framework will be ambitious. Political consensus around a headline goal of eradicating poverty is strong, and the focus has broadened from the MDGs to include all three dimensions of development: social, environmental and economic.

An ambitious vision needs an implementation plan that is commensurate with that vision.

Realising the vision of the post-2015 agenda will require mobilising the contributions, including development financing resources, of all actors – public and private, national and international. It will require innovation in partnerships and collaboration and alignment of diverse actors. From the Pacific Island Peer Review process to Gender Responsive Budgeting systems in Nepal, there are many examples from the region of partnerships and mechanisms that improve the development effectiveness of the resources available.

The GPEDC was formed at the Fourth High-Level Forum on Aid Effectiveness in Busan in 2010 as an inclusive partnership that brings together diverse actors to work collaboratively towards the end of poverty. Following commitments made in Busan, the GPEDC established a monitoring framework which measures progress on ownership and results, inclusive partnerships and transparency and accountability, covering the contributions of governments, donors, civil society and business.

The first HLM, held in Mexico in April 2014, brought together governments, civil society, business, parliamentarians, private foundations and other actors to discuss how progress has been achieved and challenges overcome in different contexts. Five key areas of development effectiveness and partnership were discussed: Progress since Busan; Partnering for effective taxation and domestic resource mobilisation (DRM) for development; South-south, triangular cooperation and knowledge sharing; Development cooperation with middle income countries; and Business as a partner in development.

As experiences are shared and lessons exchanged, this can form the basis for how the GPEDC can be a platform for implementation of a more ambitious and all encompassing post-2015 agenda within the Asia-Pacific region and beyond.

<sup>6</sup>These countries are (with ranking in brackets): Vanuatu (1), Tonga (2), Philippines (3), Bangladesh (5), Solomon Islands (6), Cambodia (7), Timor-Leste (9), Brunei Darussalam (11), Papua New Guinea (12), Fiji (15). World Risk Report, 2012, pp9

<sup>7</sup>Economic and Social Survey of Asia and the Pacific 2013, UNESCAP

<sup>8</sup>Asia-Pacific Regional MDGs Report 2012/13, pp27

<sup>9</sup>24 of 35 countries with data are on-track or have achieved primary enrolment targets. Of the 24 countries, 8 are making slow or no progress against targets on the percentage of pupils reaching the last grade of primary school. Source: Asia-Pacific Regional MDGs Report 2012/13

<sup>10</sup>Asia-Pacific Regional MDGs Report 2011/12, pp2



## 1.4. Issues specific to particular countries or groups

As the world's most diverse region, countries across the Asia-Pacific region face varied challenges. Two groups that face distinct challenges are the Pacific Islands and fragile states in the region.

### 1.4.1. Pacific islands

#### **Progress towards the MDGs**

Pacific Island progress towards the MDGs has been varied, and there are some areas in which the experience has been quite different from that in Asia.

Poverty reduction remains a considerable challenge for many Pacific countries. Fiji is the only country to have achieved MDG1 early<sup>11</sup>, and only the Cook Islands and Niue are on track to meet the target of halving poverty by 2015<sup>12</sup>. While progress towards gender parity in education has been achieved, only three Forum Island Countries<sup>13</sup> are on track to realise the broader goal of gender equality and empowering women.

#### **Post-2015 priorities**

Building on the MDGs, there are some areas of commonality between the priorities emerging in the post-2015 discussions and those identified by Pacific Islands, but also some areas of divergence. Pacific Islands are calling for a target to keep global average temperature increases below 1.5 degrees Celsius above pre-industrial levels, a more ambitious target than the 2 degrees Celsius targeted proposed in the report of the High-Level Panel on the post-2015 Development Agenda.

The High Level Panel report recognises the detrimental effect of poor ocean management on SIDS and proposed a target on adopting sustainable ocean practices, rebuilding fish stocks and reducing wastewater in coastal areas. Pacific Islands advocate for a greater focus on oceans, and have called for a stand-alone goal.

Regarding infrastructure, the characteristics and vulnerabilities of Pacific Islands mean that many Islands, even those classified as UMICs, are unlikely to be able to expand their narrow domestic resource base sufficiently to finance the necessary infrastructure development.

#### **Financing**

The Pacific Islands have argued strongly for the need to maintain access to concessional finance.

Many Pacific countries remain dependent on ODA, and levels of ODA per capita are among the highest in the world. Net ODA per capita increased for the Pacific from around US\$ 100 in the early 2000s to US\$ 226 in 2012. Per capita ODA to the Pacific is almost 10 times that for all developing countries (US\$23) and almost 5 times the per capita ODA for Africa.<sup>14</sup> Of the ten countries worldwide where ODA is equivalent to more than US\$ 1,000 per capita, eight are Pacific Islands.<sup>15</sup> Following the Forum Compact<sup>16</sup> a regional peer review system has helped drive progress in strengthening country systems for domestic budgeting and aid management (see Annex E). Nevertheless, fragmentation of ODA remains an issue; three recent peer reviews in the region found between 150 and 200 active development cooperation projects in each country, most of which have individual reporting formats, schedules and management requirements.<sup>17</sup> There are calls for simpler and less fragmented aid delivery modalities and progress has been made by some countries in the region. Samoa has reduced the number of active projects from 300 in 2005 to less than 100 in 2010, despite a doubling of total aid. The emphasis on improving the balance between development partners makes the GPEDC an important forum for Pacific Islands in this regard.

The region has also articulated the need to maintain access to international finance for infrastructure and climate finance for adaptation and mitigation. Climate financing should follow established aid effectiveness principles and, given the cross-cutting nature of climate change, should not be distinct from development financing.

<sup>11</sup>Asia-Pacific Regional MDGs Report 2012/13

<sup>12</sup>2013 Pacific Regional MDGs Tracking Report

<sup>13</sup>Asia-Pacific Regional MDGs Report 2012/13

<sup>14</sup>OECD-DAC Statistics, 2014

<sup>15</sup>OECD-DAC Statistics, 2014. The eight Pacific Islands are: Niue, Tokelau, Wallis & Futuna, Nauru, Tuvalu, Cook Islands, Marshall Islands and FSM.

<sup>16</sup>The Forum Compact on Strengthening Development Coordination in the Pacific, agreed at the meeting of the Leaders of the Pacific Islands Forum in August 2009.

<sup>17</sup>Sustaining progress and moving forwards: 2013 Tracking the Effectiveness of Development Efforts in the Pacific Report, pp15



### 1.4.2. Fragile states

There are fourteen countries in the region classified as fragile states.<sup>18</sup> Four countries are members of the g7+<sup>19</sup> and two, Timor-Leste and Afghanistan, are pilot countries for the New Deal. Progress on the MDGs among fragile states in the region is mixed: 4 countries have already achieved MDG1A to halve extreme poverty, but 1 has made slow progress and 9 have no data to evaluate progress. Six countries have achieved targets on safe drinking water, while another 6 are making slow progress.

#### **Mixed contexts**

Fragility comes in various guises and the underlying factors that determine fragility vary considerably from country to country. The Failed States Index<sup>20</sup>, which analyses the contributions that different factors make towards overall fragility, highlights this variety. In Sri Lanka, for example, 'group grievance', factionalised elites and human rights are the largest contributing factors, while in Timor-Leste the top three factors are quite different – demographic pressures, external intervention and the provision of public services.

Aid dependency also varies considerably between fragile states. Based on ODA as a proportion of national income, the Solomon Islands and Tuvalu are highly aid dependent: ODA was equivalent to 39% and 37% of GNI in 2012. ODA is also equivalent to more than 30% of GNI in the Marshall Islands, the Federated States of Micronesia (FSM) and Afghanistan. However in Timor-Leste ODA is equivalent to less than 5% of GNI, and in Pakistan and Sri Lanka it is less than 1% of GNI.

#### **Cooperation that drives transformation**

The New Deal principles established in Busan on cooperation with fragile states remain relevant to development partners. Development cooperation should look to drive transformation that is aligned to the country's own definition of progress and vision of the steps needed to achieve it. Fragility assessments, which articulate a country-owned view on the causes, features and drivers of fragility and resilience, and measure progress against the peace and statebuilding goals (PSG) are powerful tools for empowering fragile states to articulate a clear vision and for encouraging donors to align their cooperation to a country-led strategy. Timor-Leste is the only New Deal member country in the region to have undertaken a fragility assessment. The country's assessment highlighted the significant progress made in the area of security (PSG 2), further progress in legitimate politics and revenue and services (PSGs 1 and 5), and that further attention is needed in the areas of justice and economic foundations (PSGs 3 and 4). Other Asia-Pacific countries in the g7+ grouping may wish to consider conducting fragility assessments.

Development partners can also look to support domestic resource mobilisation in fragile states, to support growing public sector capacity to address domestic issues, and for statebuilding.<sup>21</sup>

#### **Capacity development**

Enabling institutions is critical to progress in fragile states and effective institutions underpin many of the PSGs in the New Deal: legitimate politics, security, justice, economic foundations and revenue collection and service provision. Human resources are critical for building and maintaining the processes that effective institutions are built on and the situation that fragile states face varies – some countries, such as Afghanistan, can draw on a larger pool of foreign educated citizens than others. Capacity building is important not only in the public sector but also in the private sector – in many fragile states private sector capacity for development is low and capacity building should be an important component of effective cooperation.

<sup>18</sup>As defined in the 2014 Fragile States Report, OECD INCAF. The fourteen countries are: DPR Korea, Nepal, Kyrgyz Republic, Afghanistan, Pakistan, Sri Lanka, Bangladesh, Myanmar, Timor-Leste, FSM, Solomon Islands, Marshall Islands, Tuvalu and Kiribati.

<sup>19</sup>Afghanistan, Solomon Islands, Timor-Leste and Papua New Guinea. Note however that Papua New Guinea is no longer classified as a fragile state according to international classifications such as those used in the OECD INCAF Fragile States Report 2014.

<sup>20</sup>2013 Failed States Index, produced by the Fund for Peace. The Index is a composite of 12 social, economic and political indicators of fragility. A score is given to each country in each of the 12 indicators (the maximum score is 10), and the overall score is the sum of the 12 indicators.

<sup>21</sup>OECD Fragile States Report 2014



## 2. The changing resource landscape

### KEY MESSAGES

- ▶ Traditional development cooperation accounts for a declining proportion of the overall development finance envelope in Asia and the Pacific, falling from 14% of total international resource flows to the region in 1990 to 3.4% in 2012
- ▶ Despite rapid growth, 2.15 billion people live in 15 countries in which government spending is less than PPP\$ 1,000 per person each year – compared to PPP\$ 15,000 in DAC countries
- ▶ International resources to the region have grown more than five-fold since 1990
- ▶ FDI is the largest flow to three sub-regions: East and North-East Asia, South East Asia, and North & Central Asia. Long-term loans are the largest flow to South and South-West Asia and the Pacific (due to LNG investments in Papua New Guinea).
- ▶ In 1990, ODA was the largest resource flow to 27 countries in the region but by 2011, had fallen to only 9 countries, 6 of which are LDCs. Remittances are the largest flow to 12 countries
- ▶ ODA has a unique mandate among international resources that means it can be targeted more directly towards poverty reduction and development and many countries in region from LDCs, to SIDS, to MICs are expressing a desire to continue receiving development cooperation
- ▶ Many countries maintain that development cooperation is still important and has a continued contribution to make towards their development paths
- ▶ The challenge is to design and clearly articulate the added-value that development cooperation can bring in an increasingly complex and diverse landscape; this will look different in different country contexts
- ▶ Leveraging other resources and unleashing the development potential of partners from across the public and private sectors at the national and international levels is crucial
- ▶ There is a growing potential, especially in MICs, for mobilizing resources domestically – from taxes, philanthropy and private investment in particular

### 'THE HOW'

- ▶ Countries to articulate a clear vision for the added-value that development cooperation can bring to their development paths within an increasingly complex landscape
- ▶ Strengthen dialogue between national institutions and development partners about the design and implementation of cooperation
- ▶ Development partners to work with recipient countries to design tailored and appropriate cooperation, and reinvigorate efforts to strengthen ownership and the use of country systems
- ▶ Follow up on commitments: particularly the unmet Monterrey target for donors to provide 0.15% - 0.20% of GNI in ODA to LDCs; and the commitment to provide ODA of 0.7% of GNI

There has been dramatic change in the resources available to countries in the Asia-Pacific region over the last two decades. This presents a challenge to traditional development cooperation: to articulate its place among a larger and more diverse development finance envelope. It is also an opportunity: to develop ways of working that leverage, strengthen and unleash the potential of wider resources to contribute towards development in the region.

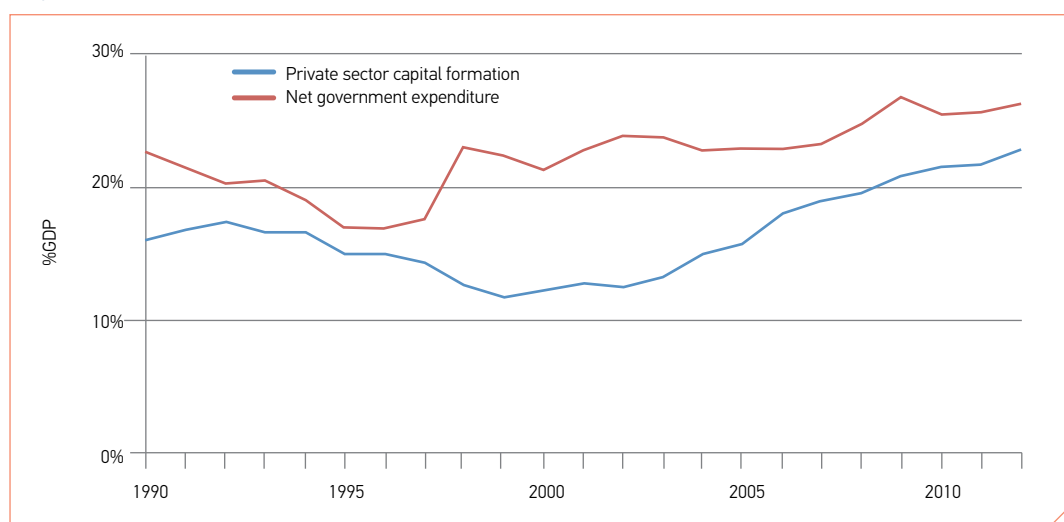
In order to develop and articulate the role that development cooperation can play over the next fifteen years it is important to first understand the trends and context in which it operates. This chapter outlines key trends across the Asia-Pacific region and breaks down data for each sub-region.

## 2.1. The Asia-Pacific Region

The resources available across the Asia-Pacific region have grown rapidly in scale and diversity in the last two decades. International resource flows have grown more than five-fold since 1990, to US\$ 1.2 trillion in 2012. Rapid economic growth and closer integration with international finance have given many countries access to a larger and more varied pool of resources. As discussions on how to realise the post-2015 vision continue it is important to recognise the opportunities and challenges that an increasingly complex resource landscape presents in order to find ways to unleash the potential of wider resources and to articulate the added value that development cooperation can bring in different contexts.

At the domestic level, both public and private resources have grown since the mid 1990s and early 2000s (Figure 1). Government spending<sup>22</sup> has grown from an average 17% of GDP in 1995 to 26%, over US\$ 4.5 trillion, in 2012.<sup>23</sup> Fixed capital formation by the private sector has also grown rapidly over the same period, from 12% of GDP in 2000 to 23% in 2012, with China driving much of this growth (excluding China, private fixed capital formation in the region is 19% of GDP).

**Figure 1** Public and private domestic resources have grown rapidly across the region



Source: Author's calculations based on World Bank and IMF.

Note: government spending figures are net of general budget support ODA. The figure only covers 25 countries for which data is available.

Despite rapid growth domestic resource levels remain low in absolute terms for many countries in the region.

2.15 billion people in the region live in countries where the government spends less than PPP\$ 1,000 per person each year (Figure 2). These levels are considered extremely low in relation to the responsibilities of government<sup>24</sup> and in comparison with the average spending of more than PPP\$ 15,000 per person each year by DAC country governments.

Around 585 million people in these countries live on less than \$1.25 a day – 50% of global extreme poverty.

<sup>22</sup>Note that general budget support ODA has been removed from government spending figures throughout the report. Analysis of government revenues is not covered here due to the limited availability of comparable cross-country data.

<sup>23</sup>Based on 25 countries in the region with available data.

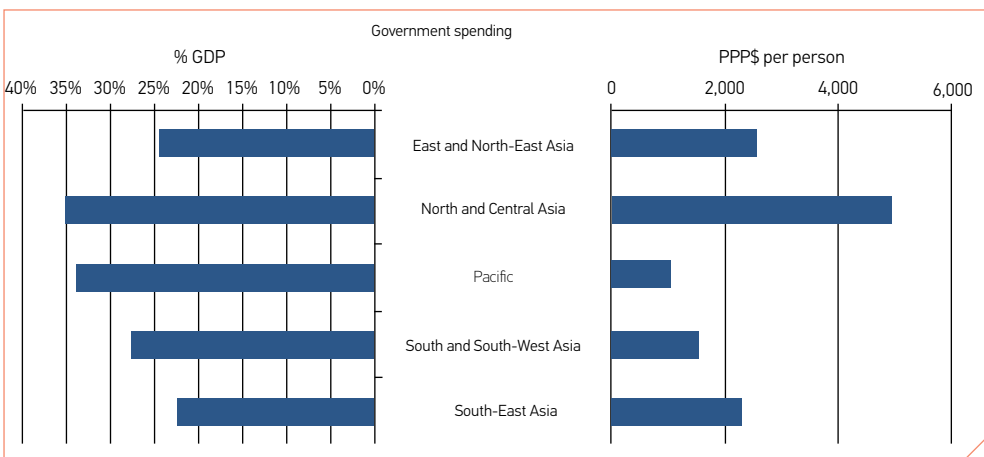
<sup>24</sup>For example, the WHO estimates the cost of funding basic healthcare coverage at between \$45 and \$60 per person in LICs. UNESCO estimates the cost of primary education to be in the region of \$50-\$100 per pupil and secondary education \$100-\$200 in LICs. Governments are also expected to facilitate security and the rule of law; supply infrastructure for water, sanitation, energy and transportation; protect the environment; provide social safety nets; conduct foreign policy; formulate policies for growth; regulate the private sector – and reduce poverty. Source: *Investments to end poverty, 2013, Development Initiatives*

**Figure 2.** 2.15 billion people live in Asia-Pacific countries where government spending is less than PPP\$ 1,000 per person each year



Source: Investments to End Poverty (2013)

**Figure 3.** There are considerable differences in domestic resource levels between sub-regions and countries

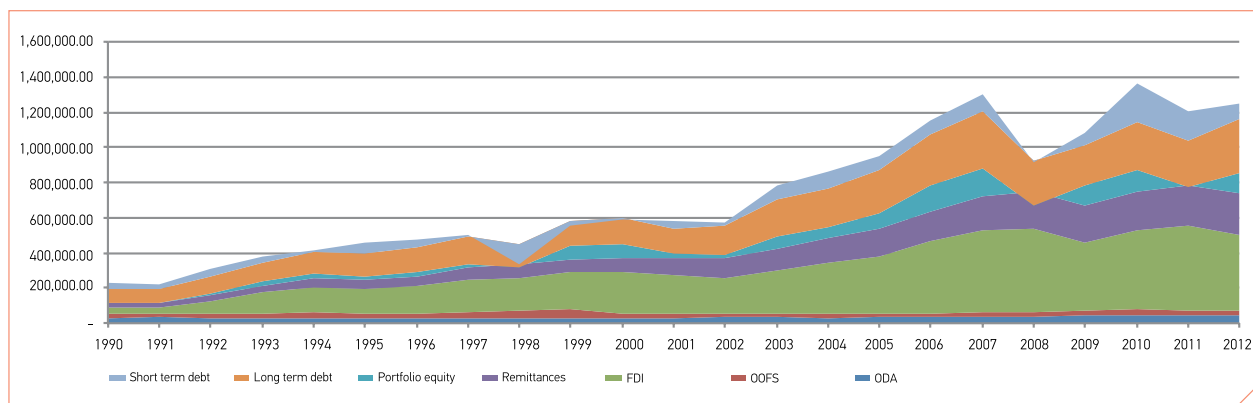


Source: World Bank, IMF, OECD<sup>25</sup>

At the international level, resource flows have also grown rapidly. Total international resource flows to countries in the region grew from around US\$ 227 billion in 1990 to US\$ 1.2 trillion in 2012. This transition has been driven by FDI and remittances, which each grew roughly ten-fold over the period, and lending.

<sup>25</sup>Note that although government spending per person is above PPP\$ 1,000 per person on average in all sub-regions within Asia-Pacific, it is less than PPP\$ 1,000 for many countries within those sub-regions, including India, Indonesia, Pakistan, Bangladesh, and the Philippines.

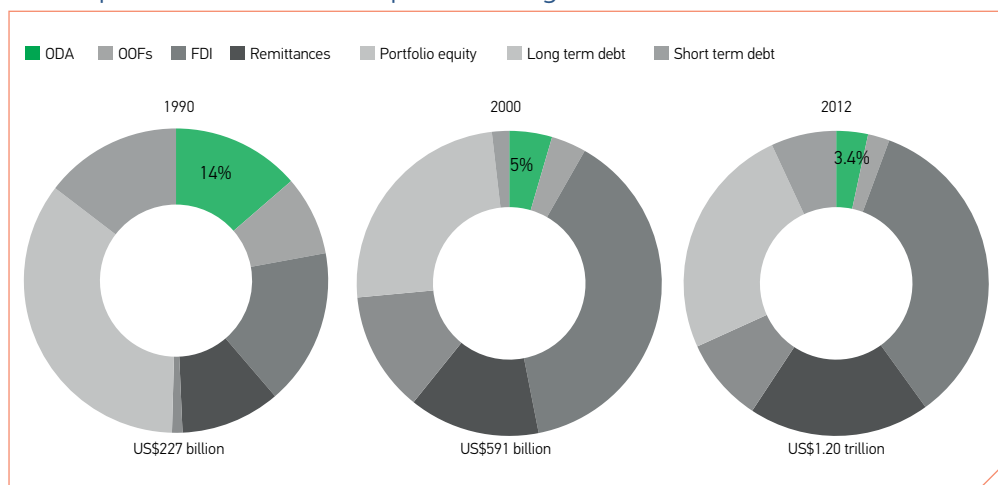
**Figure 4.** Growth in international resource flows to the region has been driven by FDI, remittances and lending



Source: Investments to End Poverty (2013)

Official development assistance (ODA) grew by more than a third over the period, from US\$ 31.0 billion in 1990 to US\$ 42.1 billion in 2012.<sup>26</sup> However, the rapid growth in other resources means that ODA accounts for a declining proportion of the overall development finance envelope.

**Figure 5.** Traditional development cooperation accounts for a declining portion of the development finance envelope in the region



Source: Author's calculations based on data from OECD, UNCTAD and the World Bank.

In 1990, ODA accounted for 14% of total international resource flows to the Asia-Pacific region. By 2000 this had fallen to 5%, and by 2012 to 3.4%.

At the same time the number of countries for whom ODA was the primary international resource also fell. In 1990, ODA was the largest flow to 27 countries in the region – by 2011 this had fallen to 9 countries.<sup>27</sup> 6 of these countries are LDCs, and LDCs across the region continue to emphasise the need to meet the Monterrey targets, including donors allocating 0.7% GNI to ODA and providing ODA of 0.15% - 0.20% GNI to LDCs. In 2012, just 7 OECD donors reached the 0.15% target.<sup>28</sup>

In 2011 remittances were the largest resource flow to 12 Asia-Pacific countries; FDI was the largest for 9 countries.

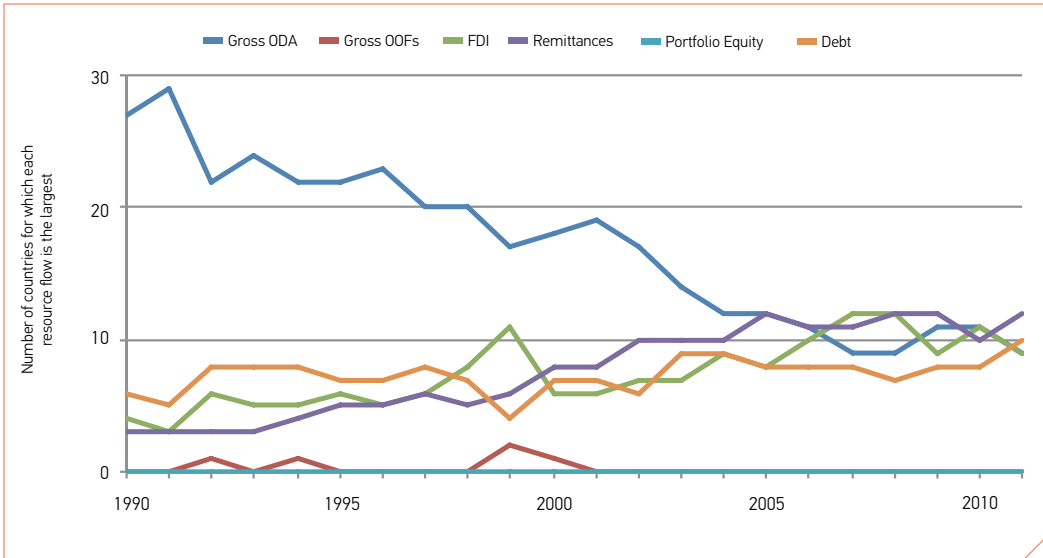
<sup>26</sup>These figures are gross disbursements of ODA.

<sup>27</sup>Afghanistan, Kiribati, Marshall Islands, FSM, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu

<sup>28</sup>Luxembourg, Denmark, Sweden, Norway, Ireland, United Kingdom and Finland. Netherlands and Belgium had met the target in 2011 but levels fell in 2012. Authors calculations based on OECD DAC.



**Figure 6** The number of Asia-Pacific countries for which each international resource flow was the largest received in each year, 1990-2011

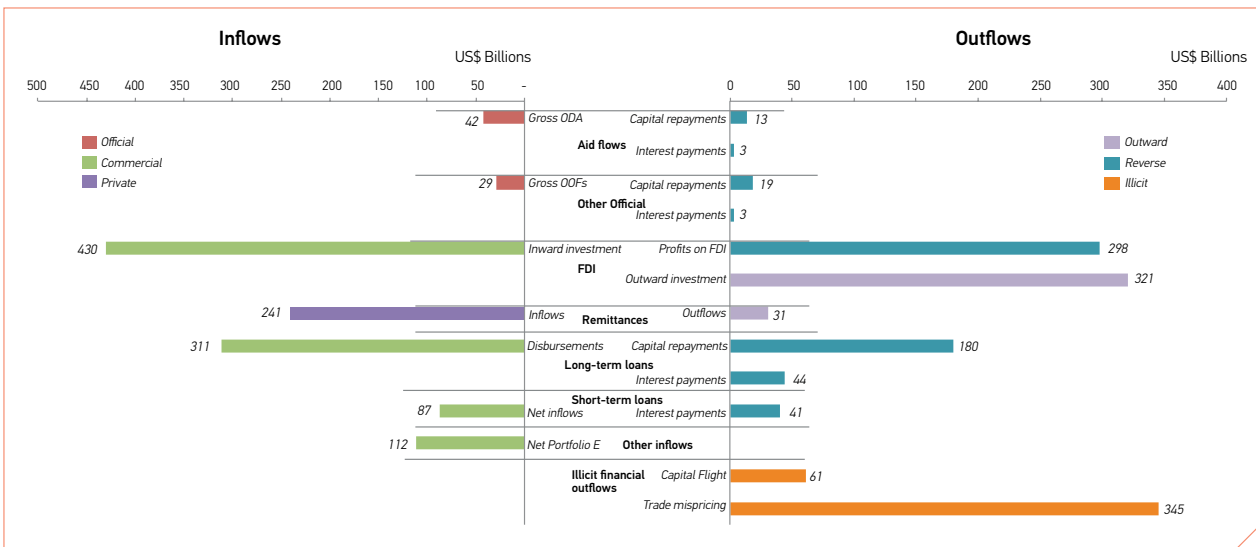


Source: Investments to End Poverty (2013)

A complex mix of resources flows to and from countries within the region.

Many of the largest resource flows out of countries in the region are not productive investments in the rest of the world, but repatriated profits, repayments on loans or illicit financial outflows. The best available data estimates that the resources moved out of the region through trade mispricing alone are equivalent to almost 30% of inflows, totalling US\$ 345 billion in 2011. Repatriated profits on FDI totalled US\$ 298 billion and capital and interest repayments on long- and short- term loans a further US\$ 265 billion. Outward FDI from countries in the region totalled US\$ 321 billion in 2011.

**Figure 7.** A dynamic mix of resources flow into and out of the Asia-Pacific region



Source: Investments to End Poverty (2013)

Note: Note that illicit financial outflows data on capital flight and trade mispricing is from 2011 or the latest available year

While ODA represents a declining proportion of overall resources available this should not lead to the conclusion that it is becoming irrelevant as different resources perform different functions that are not necessarily replicable. ODA has a unique mandate among international resources that means it can be targeted more directly towards poverty reduction and development and many countries in the region – from LDCs to SIDS to MICS – are expressing a desire to continue receiving development cooperation.

The challenge for the development community is to design and articulate the added value that cooperation can bring in this increasingly complex resource landscape. This will look different in different contexts, and will involve a range of roles, whether reaching places or sectors that other resources do not, or leveraging other resources to unleash their development potential and increase effectiveness.

The Asia-Pacific Development Effectiveness Facility (AP-DEF) is a country-led regional facility that supports south-south learning, exchange of country and regional knowledge and experiences and regional dialogue on development effectiveness that is evidence-based. It is supporting countries in the region to reform their development cooperation policies in ways that allow better management of development finance beyond aid in an increasingly complex landscape of domestic and international resources. Since 2013 the AP-DEF has helped Papua New Guinea and Viet Nam conduct Development Finance and Aid Assessments (DFAAs). It has also supported Thailand and Indonesia in conducting Public Expenditure and Institutional Reviews of South-South Cooperation (PEIRs) in Thailand and Indonesia. The AP-DEF is continuing this work and also undertaking Country Assessments and Mapping of Information on South-South Cooperation (CAMI) – the first of which will be conducted by Bangladesh.

## 2.2. The sub-regions of Asia-Pacific

Sections 2.2.1 – 2.2.5 present key data on the resource landscape within each sub-region of Asia and the Pacific (see Annex A for a list of countries). Sections 2.2.6 – 2.2.8 present key data on LICs, LMICs and UMICs in the Asia-Pacific region.<sup>29</sup>

### Notes for the graphs on the following pages

Figure A at the top left of each page looks at trends in government spending and domestic private investment. Figure B at the top right shows levels of government spending as a proportion of GDP and in per capita terms for each country in the sub-region. Figure C on the second row shows the mix of international resources flowing to each sub-region in 1990, 2000 and 2012, with ODA highlighted. Figure D shows the mix of international resources flowing to and from the sub-region in 2012.

The figures are based on available data, sourced from the World Bank Data Bank, OECD DAC, UNCTAD Stat, IMF, Global Financial Integrity and Development Initiatives. The sources of data used for each series presented in this section are as follows. World Bank: private fixed capital formation; remittances (Migration and Remittances Factbook); portfolio equity; long- and short- term debt, interest and principal repayments on debt (International Debt Statistics). IMF World Economic Outlook: government spending data, with calculations by Development Initiatives; GDP. OECD: ODA and OOFs, capital and interest repayments on ODA and OOFs. Global Financial Integrity: capital flight and trade mispricing. Note that overlaps between data series has been accounted for where possible, but may exist between some series.<sup>30</sup>

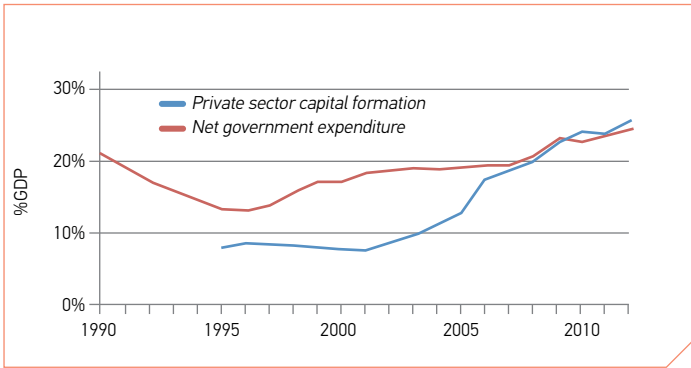
<sup>29</sup>Note that these profiles are based on current income group classifications: i.e. historic data covers trends in countries that are currently LICs / LMICs / UMICs respectively.

<sup>30</sup>For a more detailed examination of the quality of data on international resources, see *Harnessing all resources to end poverty*, 2013

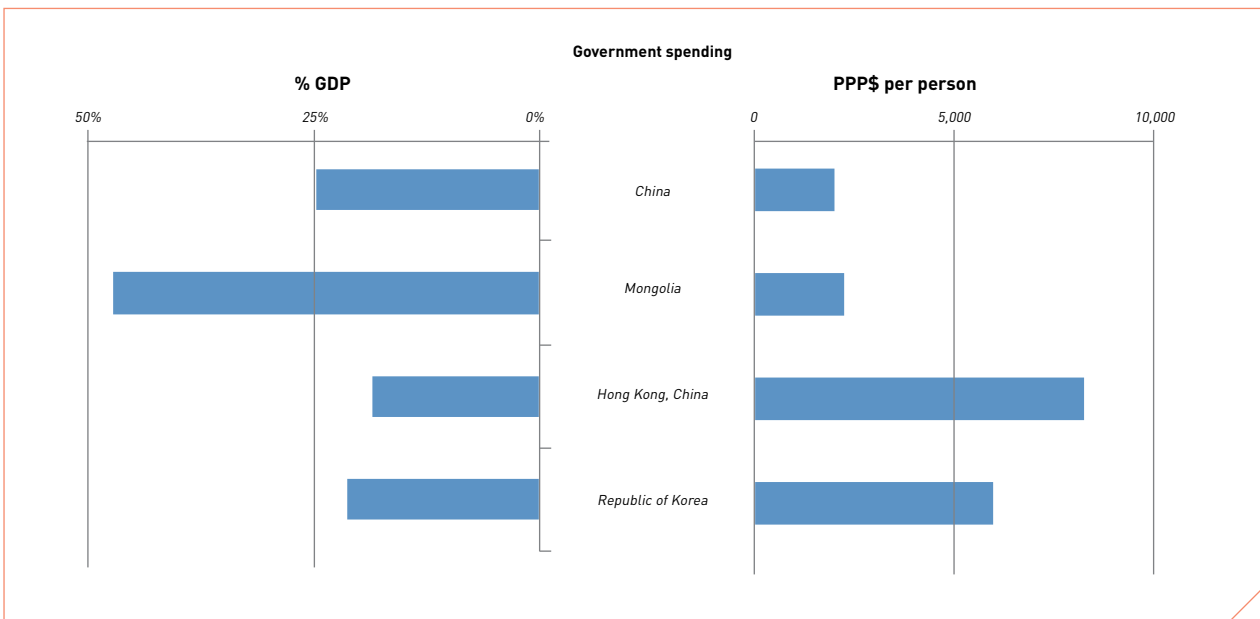


### 2.2.1. East and North-East Asia

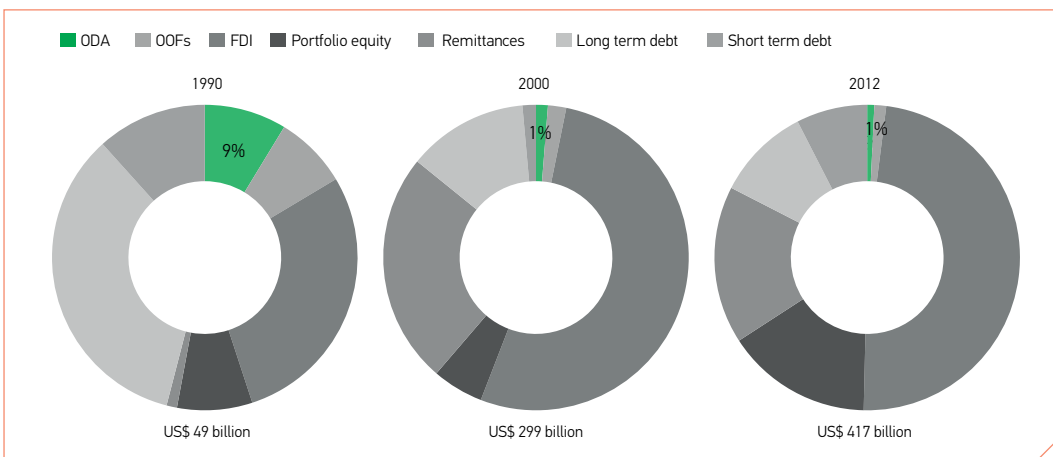
Domestic public and private resources have grown rapidly since the early 2000s



Government spending per person is above the average PPP\$ 1,360 for developing countries

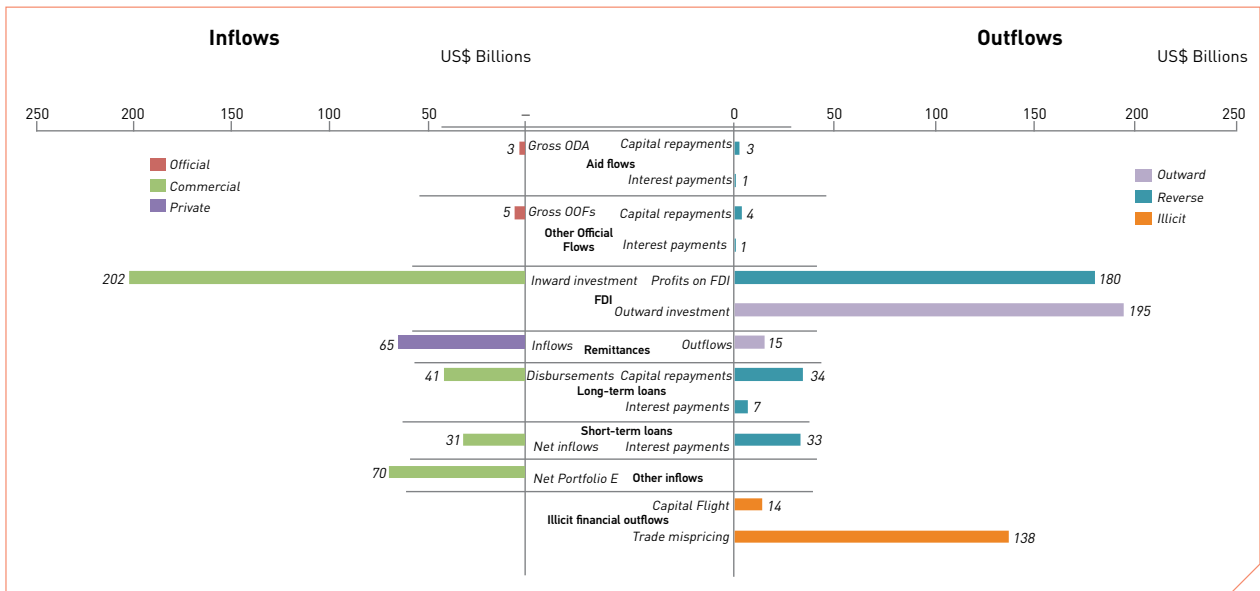


FDI has driven growth in international resource flows; ODA has fallen as a portion of the total





FDI is the largest resource flow to the region; outward FDI as well as profits on FDI are large outflows

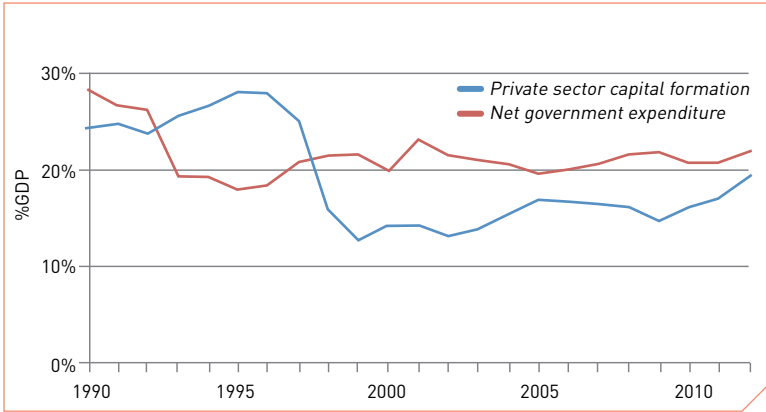


FDI has grown almost fifteen-fold since 1990, with China and Hong Kong the major destinations. Mongolia has also experienced rapid growth in FDI, from US\$ 186 million in 2000 to US\$ 4.2 billion in 2012. Remittances to the region have grown rapidly since 2000, and account for 15% of total international resources. Growth in private resources has driven down ODA as a share of total international resources, although ODA to the region has fallen 26% in real terms since 1990.

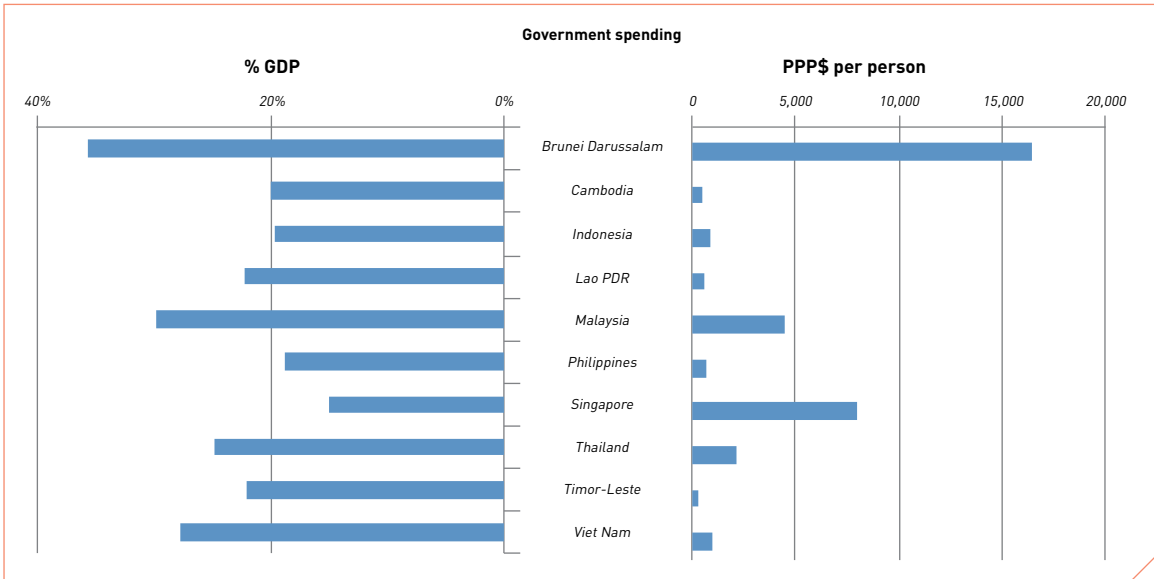


### 2.2.2. South-East Asia

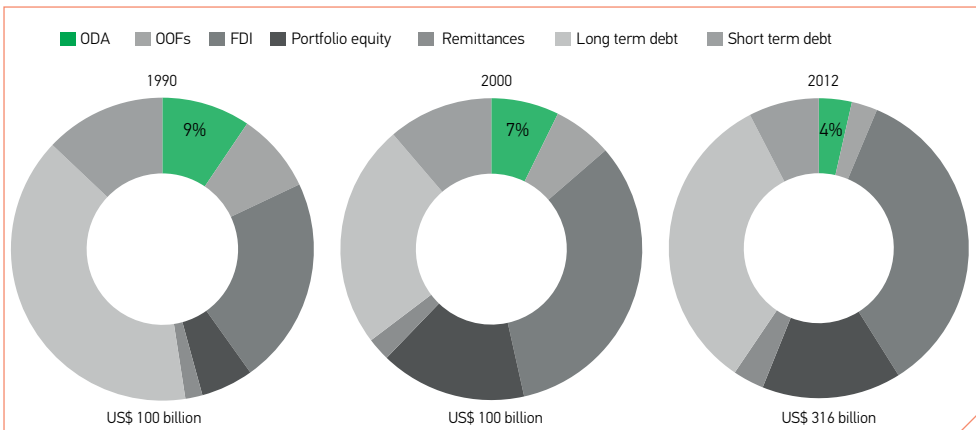
Public resources have grown slowly; trends in private investment vary by country



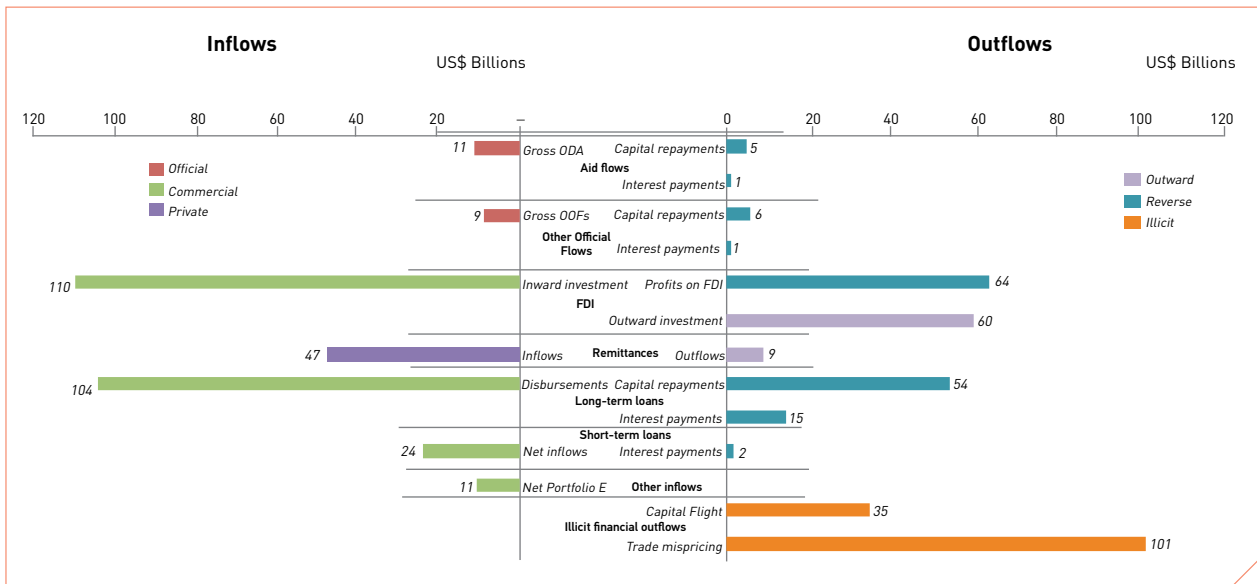
Government spending is low in much of the region: less than PPP\$ 1,000 in six countries



FDI and lending have driven rapid growth in international resources since 2000



FDI and loans are the largest inflows; illicit finance accounts for significant outflows from the region

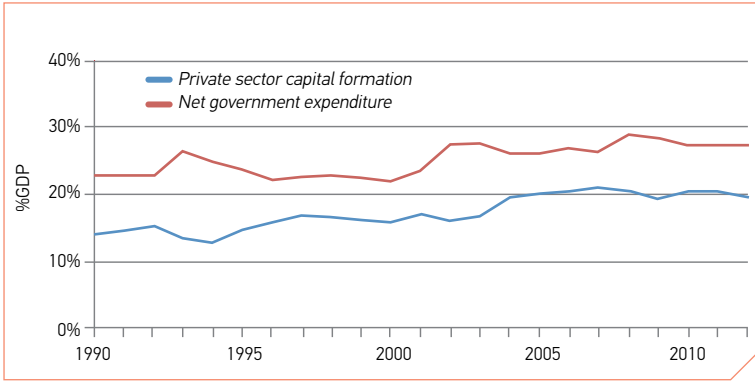


Growth in FDI and lending have driven increasing resource flows to South-East Asia. Despite remaining steady, ODA has fallen as a proportion of total resource flows received by the region. Nevertheless, ODA remains an important portion of financial flows to many countries: Bhutan (26% of total international flows), Cambodia (22%), Vietnam (17%) and Myanmar (16%). However, other flows such as FDI and long-term loans are increasing in these countries. Disbursements on long-term loans are the largest resource flow to Indonesia, while remittances dwarf all other flows to the Philippines, totalling US\$ 24 billion in 2012 (65% of total international flows to the country).

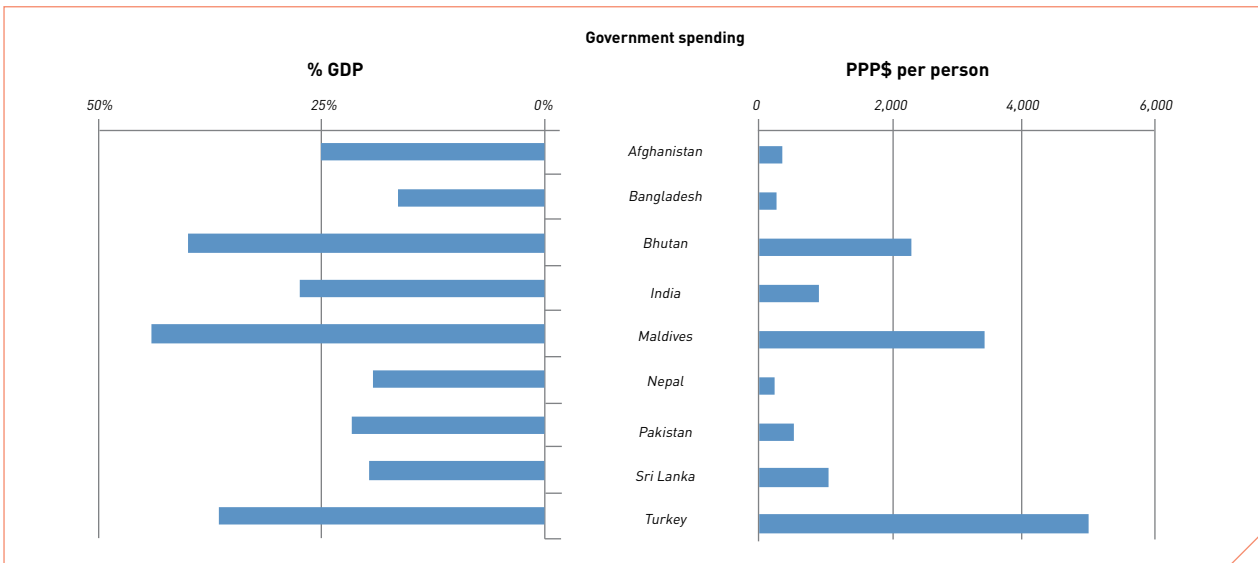


### 2.2.3. South and South-West Asia

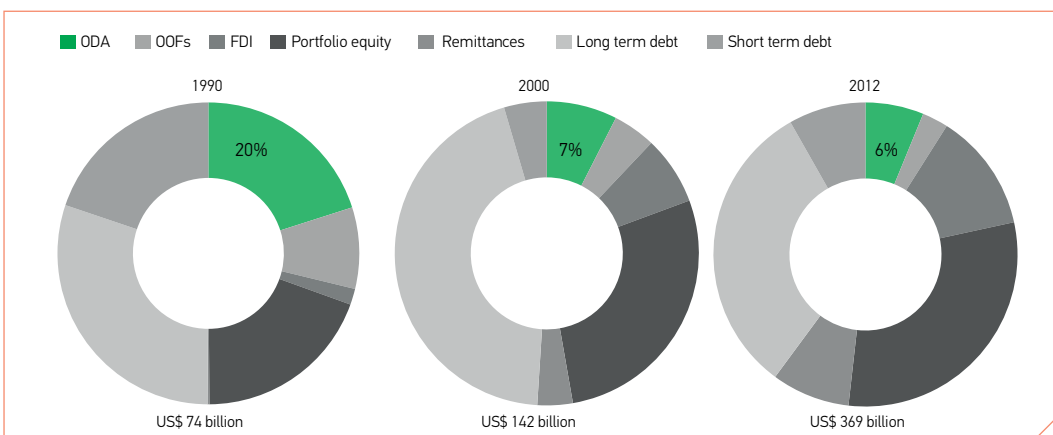
Public and private resources have grown since the early 2000s



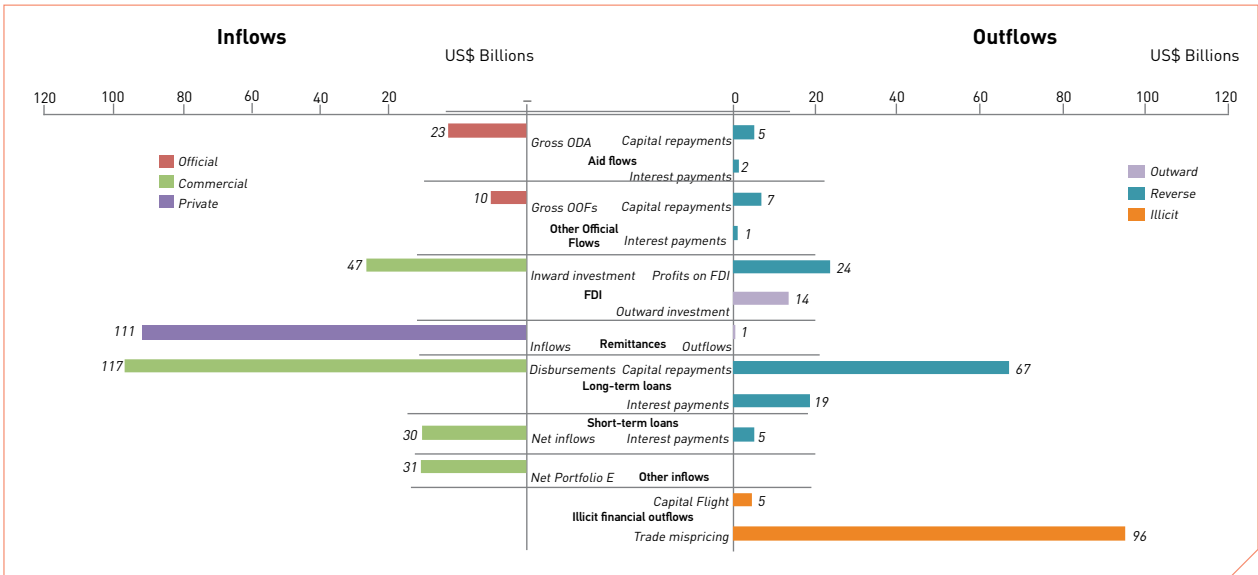
Government spending is low in much of the region: less than PPP\$ 1,000 in five countries



ODA accounts for a declining proportion of international resources; 6.2% or US\$ 23 billion in 2012



Long term loans and remittances are the largest inflows; trade mispricing outflows are significant



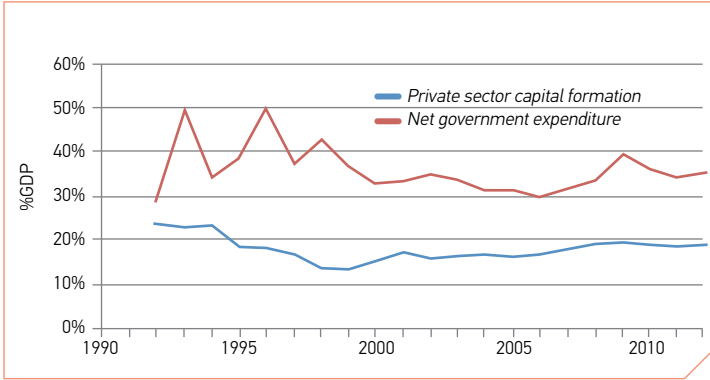
ODA has fallen from 20% of total financial inflows in 1990 to 6% in 2012, despite increasing from US\$10.6 billion in 2000, to US\$22.9 billion in 2012, primarily driven by increases to Afghanistan.

Remittances are the largest inflow to the region as a whole, and the largest individually to five countries in the region (Bangladesh, India, Nepal, Pakistan and Sri Lanka). Turkey and India also received large disbursements of long-term loans.

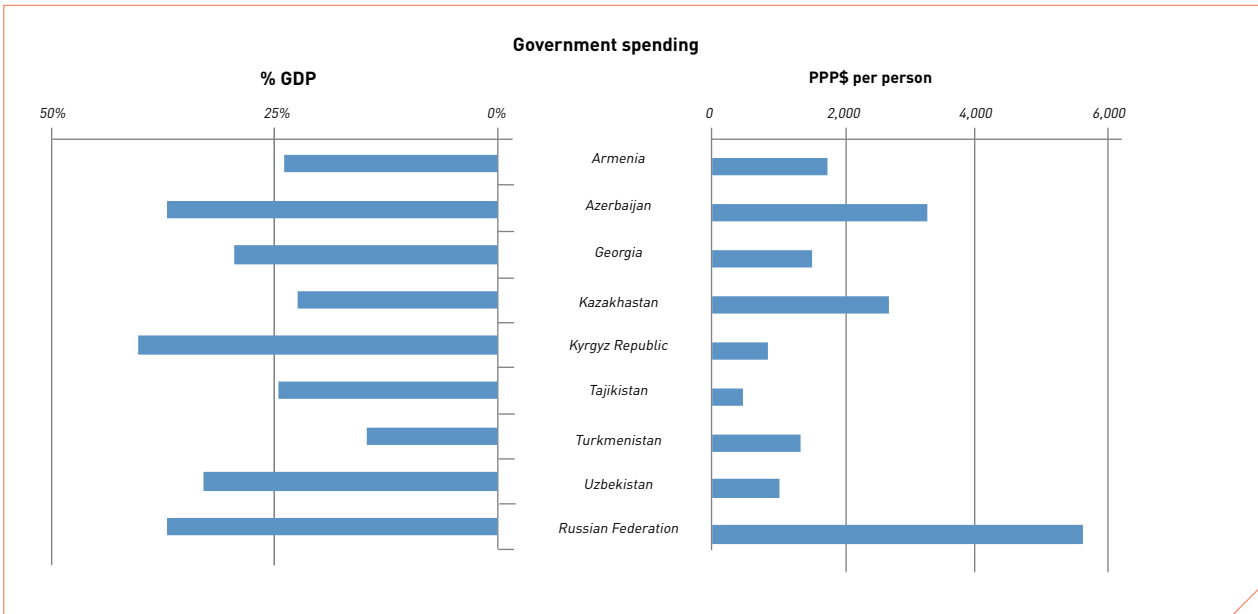


### 2.2.4. North and Central Asia

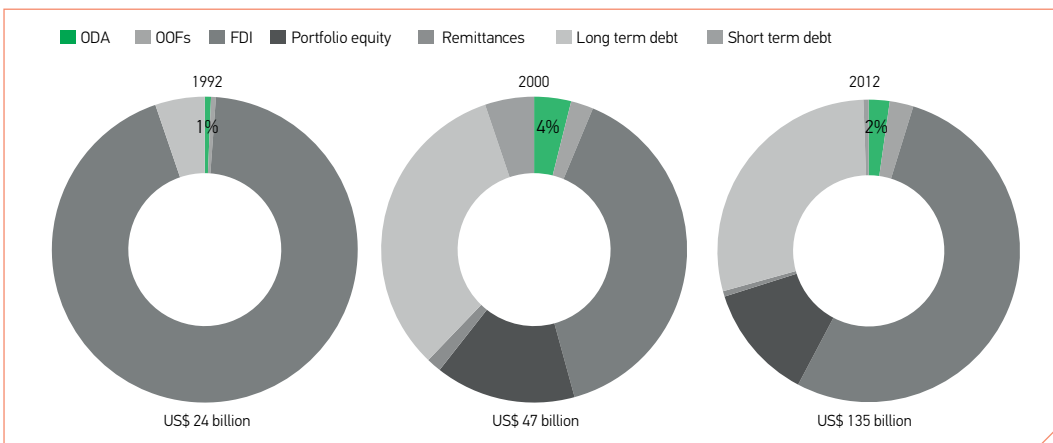
Public and private spending has grown slowly since the mid 2000s



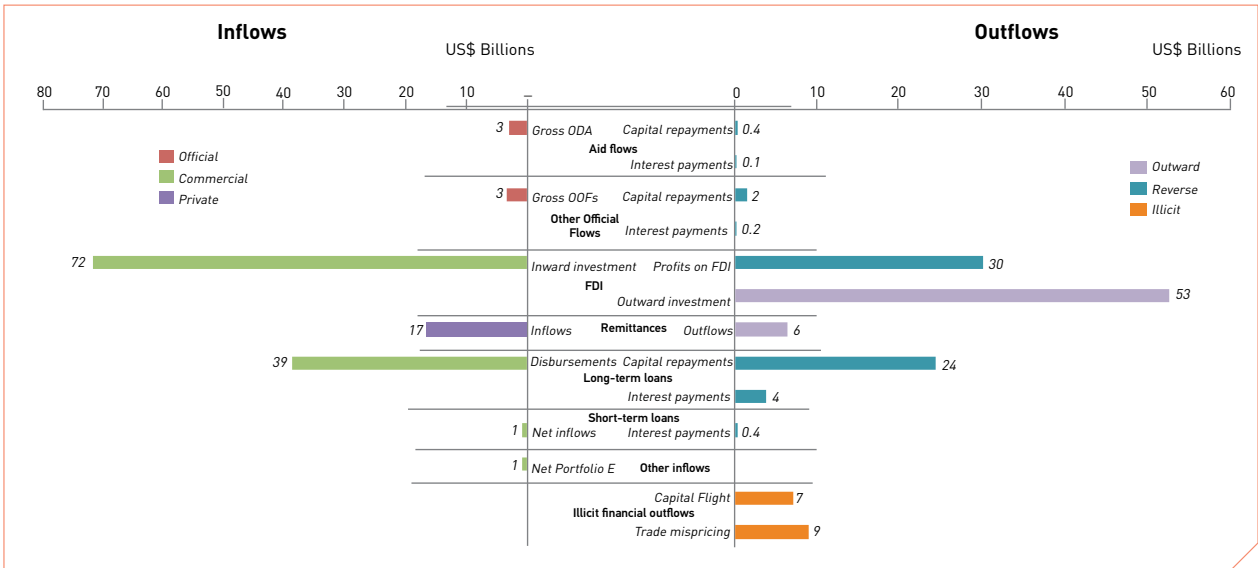
Government spending is less than PPP\$ 1,000 per person in Kyrgyz Republic and Tajikistan



Growth in lending and FDI has driven down ODA as a share of total international resources



Loans are the largest inflows; outward investment and profits on FDI account for significant outflows

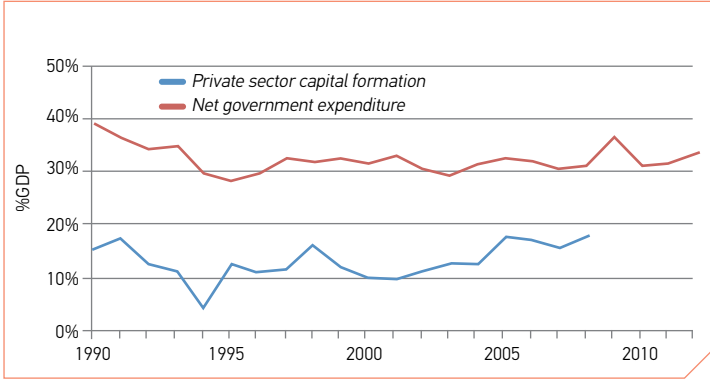


FDI is the largest resource flow to the region, with Russia and Kazakhstan the primary destinations. Long term loans and remittances have also grown, driving down ODA as a proportion of total international resources, despite steady growth in ODA to the region. Remittances are an important resource flow for a few countries: they made up 75% of total international flows to Tajikistan in 2012, 53% to Kyrgyz Republic and 48% to Armenia. FDI was the largest flow to Turkmenistan in 2012, totalling US\$ 2.9 billion.

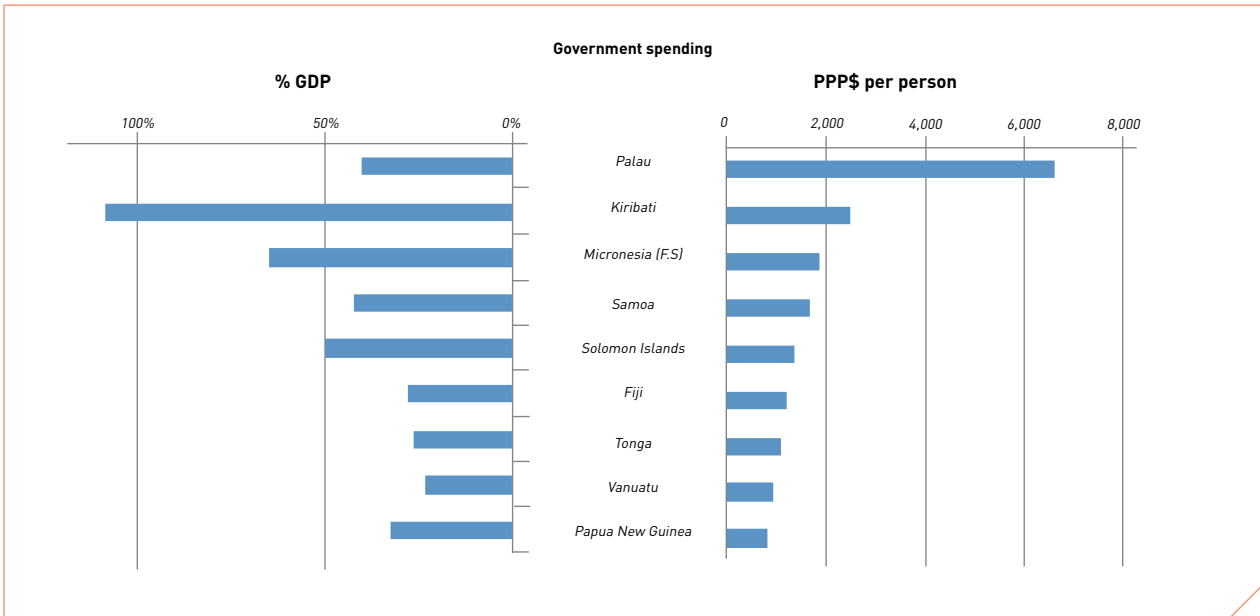


### 2.2.5. Pacific

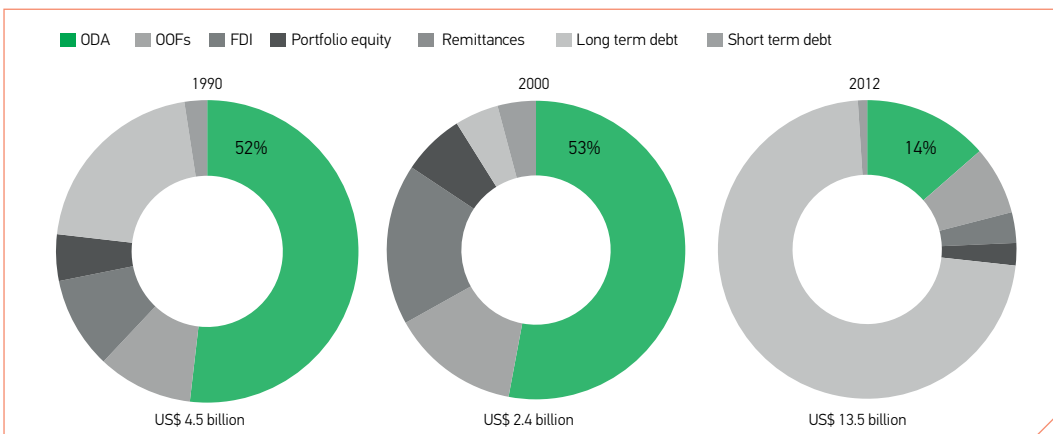
Domestic private investment has grown since the early 2000s



Government spending is less than PPP\$ 1,000 per person in Papua New Guinea and Vanuatu

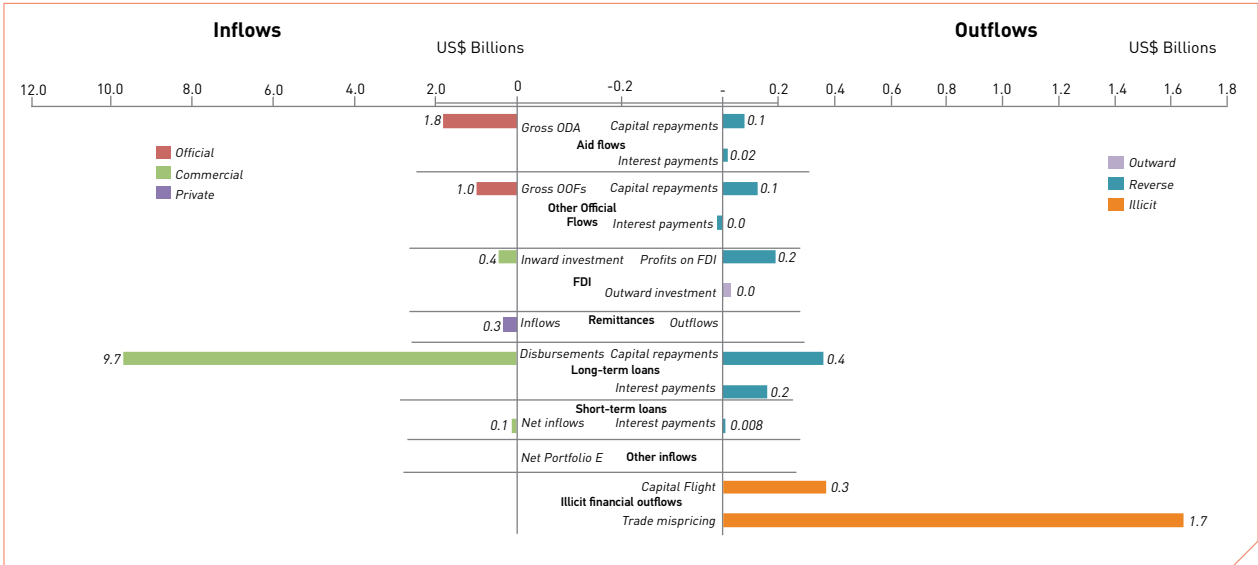


Recent growth in long-term loans has driven rapid growth in total international resource flows





Long-term loans are the largest inflow; outflows due to trade mispricing are significant



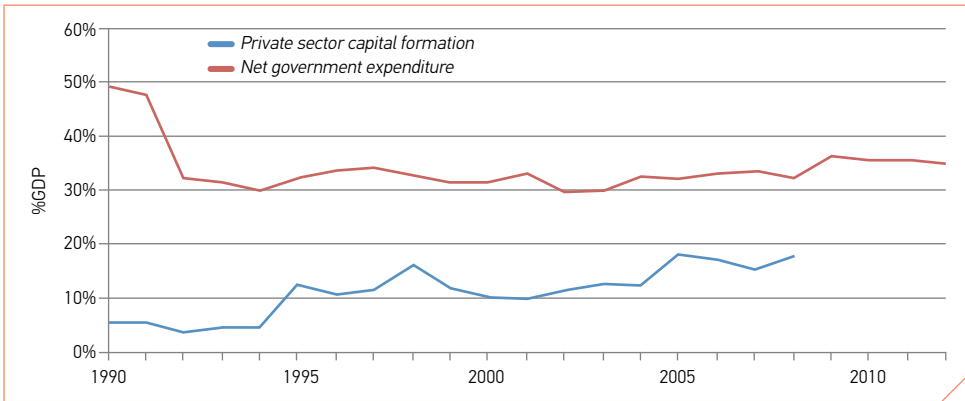
ODA remains very important to the Pacific region and until 2009 it was the largest international resource received. Since 2010 long-term loans have grown rapidly, with levels reaching US\$9.7 billion in 2012. The growth in long-term loans is almost entirely attributed to Papua New Guinea.

Excluding PNG, ODA share of international resources received is markedly different for 2012.

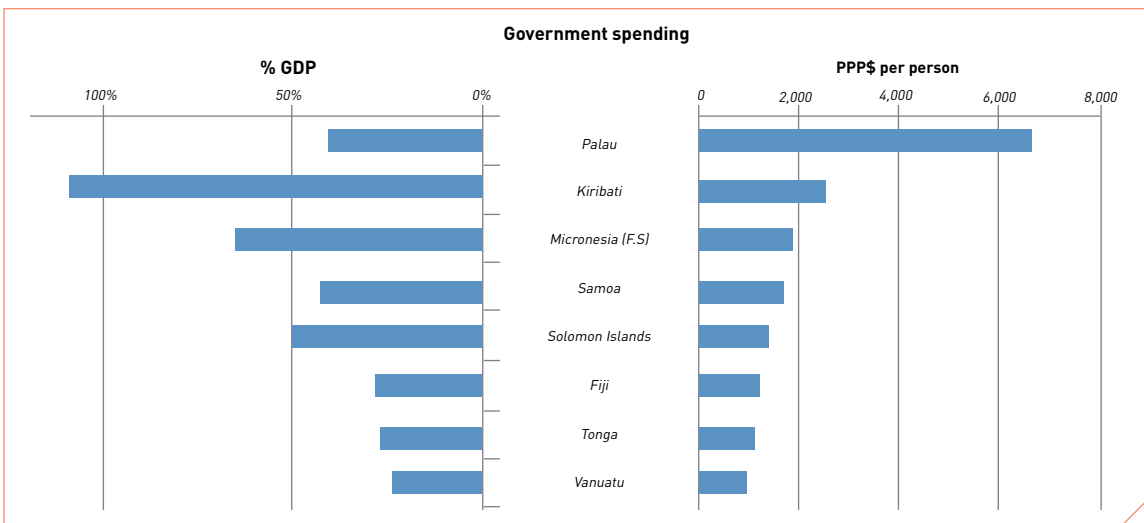


### 2.2.6. Pacific (excluding PNG)

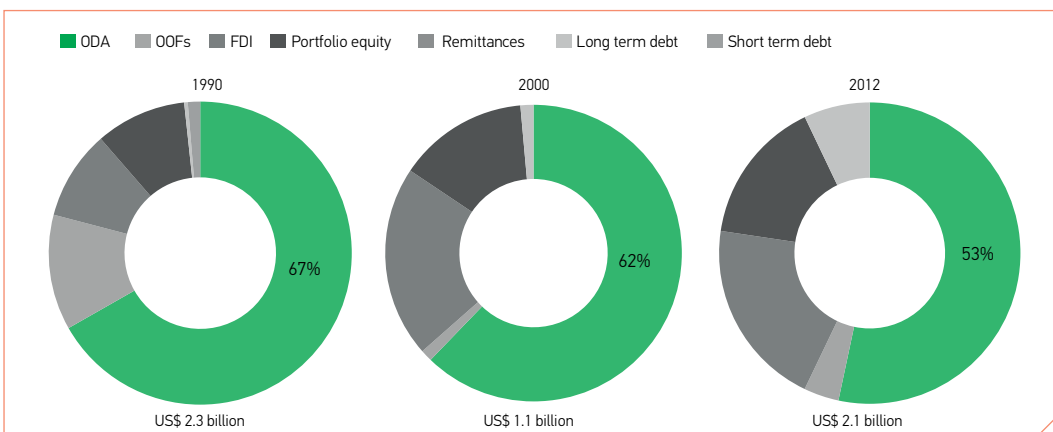
Since the early 2000s government spending has been around one-third of GNI across the Pacific excluding PNG, though has grown in four countries and fallen in six



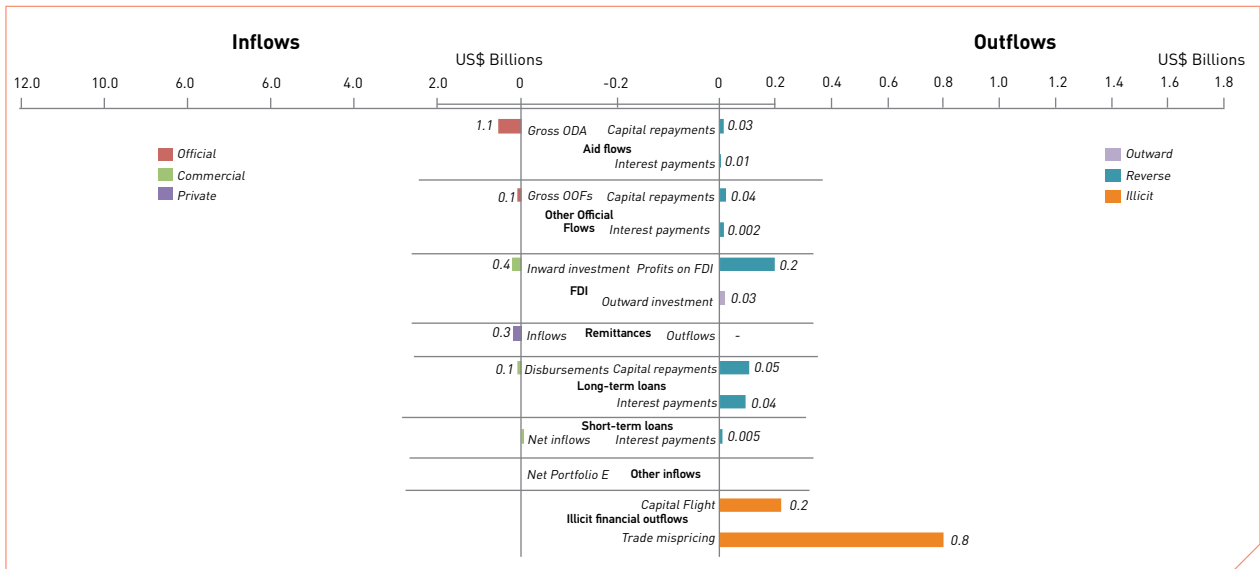
Government spending per person is close to or above the average PPP\$ 1,360 for all developing countries in most Pacific countries



ODA accounts for a much larger proportion of international resource flows (53%) in the rest of the Pacific than PNG (6.3%)



ODA is over 2.5 times larger than the second largest resource flow to the Pacific excluding PNG; illicit finance accounts for the largest outflows

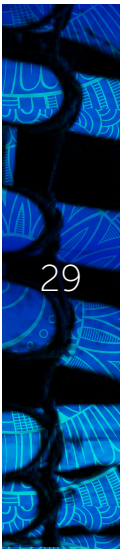


ODA share in the Pacific for 2012 is significantly different, when PNG is excluded. ODA remains the largest share of international resources received. From 67% in 1990, only slightly reducing to 62% in 2000 and remaining at more than 50% in 2012.

ODA remains a significant financial flow to many countries in the region. For example, it was the largest flow to the Solomon Islands, at US\$310 million in 2012 equivalent to 76% of total flows to the country. At US\$130 million, ODA also made up 38% of flows to Samoa in 2012, nearly equaling remittances, the largest inflow.

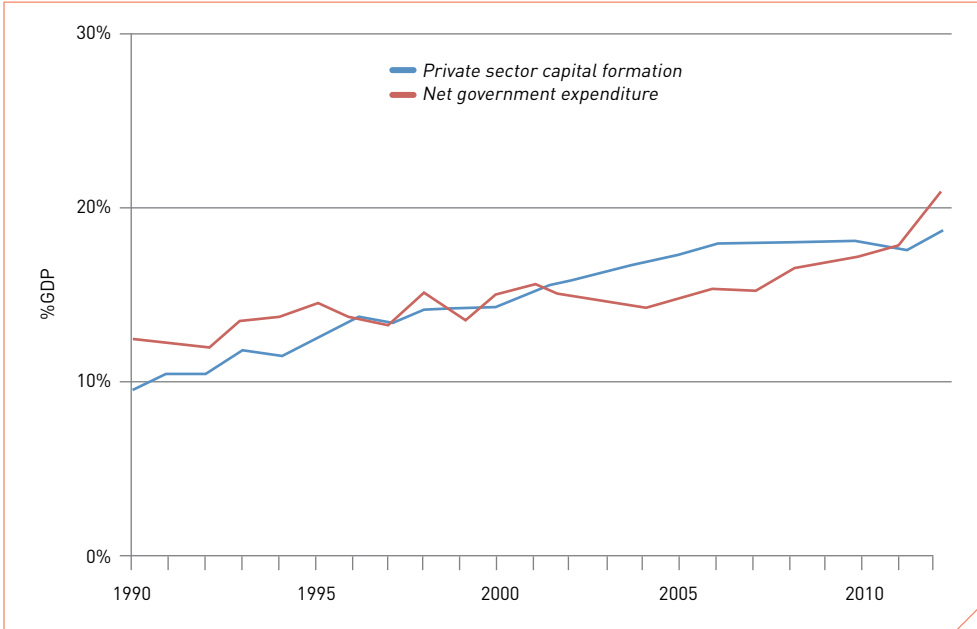
However, illicit financial outflows, in particular trade mispricing, reduces by more than 50% when PNG is excluded.

Total international resources received in 2012 is 84% less (from USD\$13.5 billion to USD\$2.1 billion) when PNG is excluded.



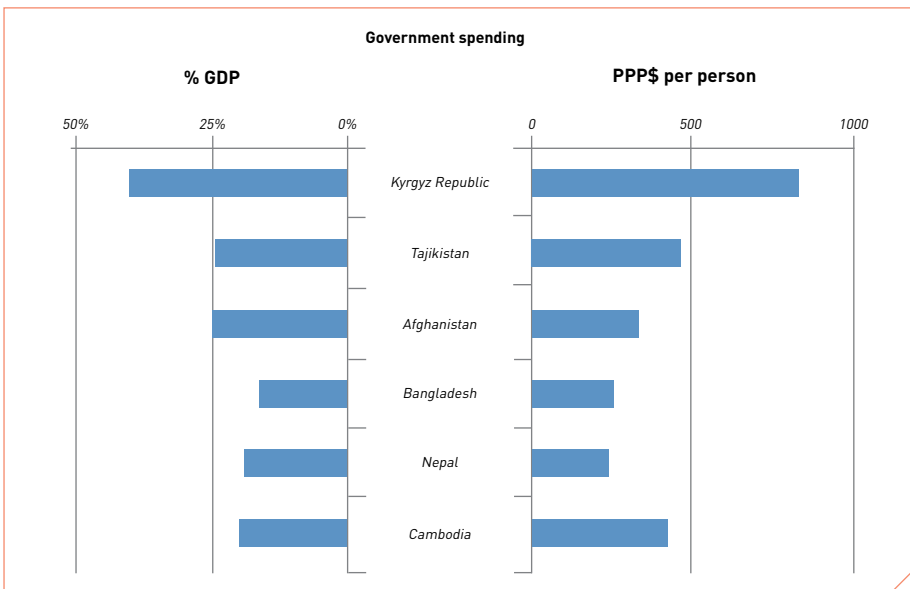
### 2.2.7. Low income countries

Public and private resources have grown since the 1990s

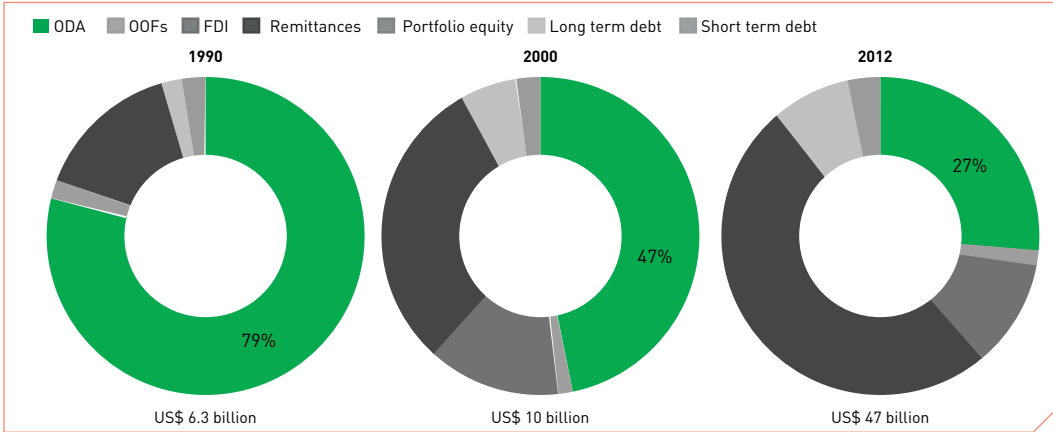


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Government spending is below PPP\$ 500 per person in all but one LIC



ODA has fallen as a share of total resources, but remains important to LICs



Remittances and gross ODA are the largest inflows; recorded outflows are comparatively low

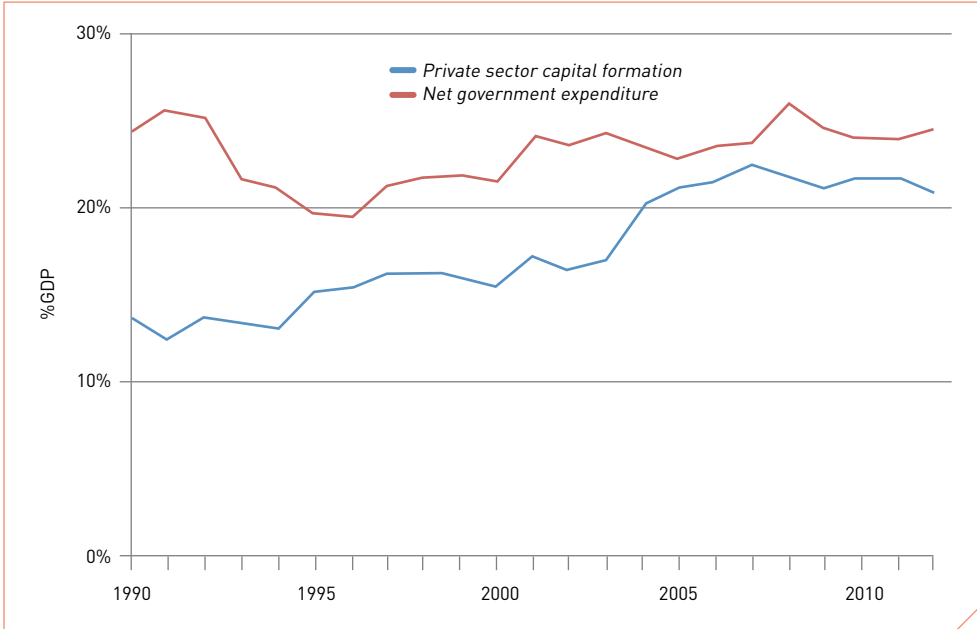


Remittances to Asia-Pacific LICs grew more than 7 fold from 2000 to 2012, and now make up 53% of international inflows. Remittances make up over three quarters of international resource inflows to the Kyrgyz Republic, Bangladesh and Nepal. ODA as a % of total recorded financial inflows has fallen from 79% in 1990 to 27% in 2012, despite growing by 172% during this period. Cambodia is the only Asia-Pacific LIC for which FDI is the largest inflow, at 38% of its international resource inflows.

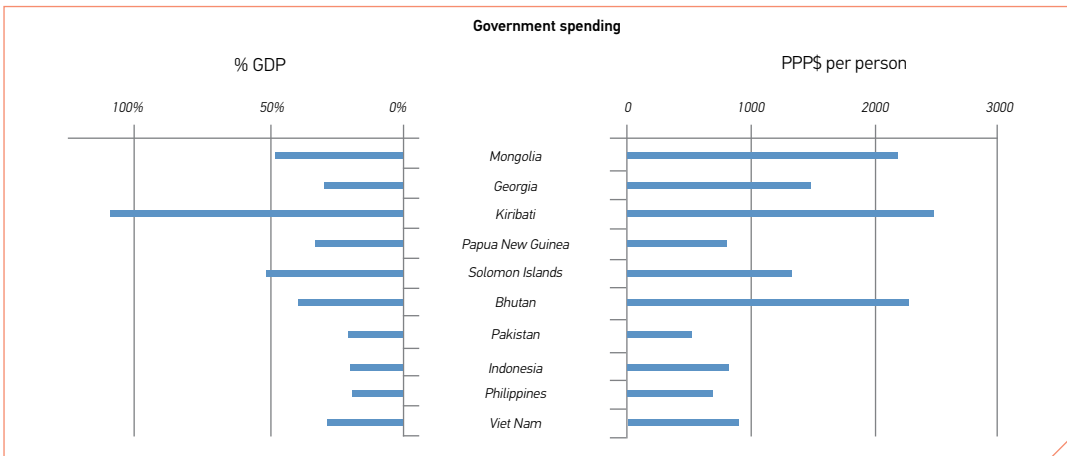


### 2.2.8. Lower-middle income countries

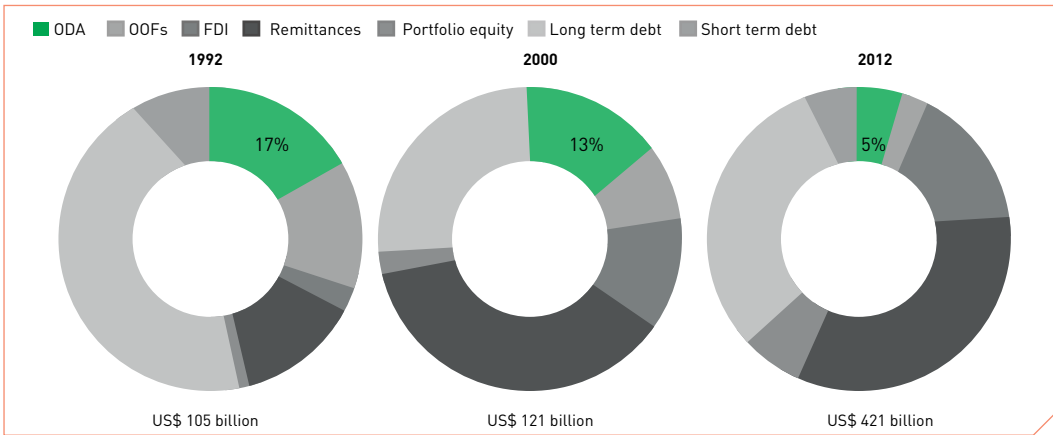
Private investment as a % of GDP grew from 1990, but stagnated after 2007



Government spending per person varies widely among LMICs



Long-term debt and remittances have driven growing international resource flows to LMICs



Remittances and long-term debt are the largest inflows; reverse and illicit outflows are large

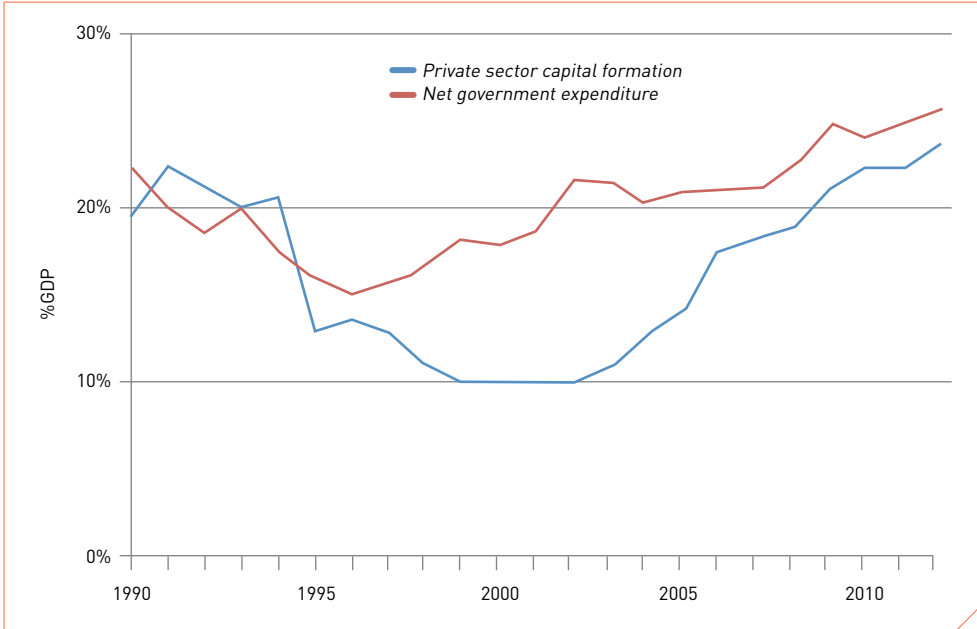


ODA fell as a proportion of all international flows to Asia-Pacific LMICs from 17% to 5%, despite increasing 29% from 2000 to 2012. It makes up only 2% of international flows to India, but is larger in other LMICs, such as Laos (36%), Timor-Leste (58%), and especially SIDS. FDI grew by over 20 times during this period, but remittances and long term debt are the most significant inflows to this group of countries, making up 32% and 31% of all flows respectively. Remittances account for more than half of international flows to Pakistan, Sri Lanka, and the Philippines. Long term debt accounts for 84% of inflows to Papua New Guinea, 57% to Bhutan and 54% to Indonesia.

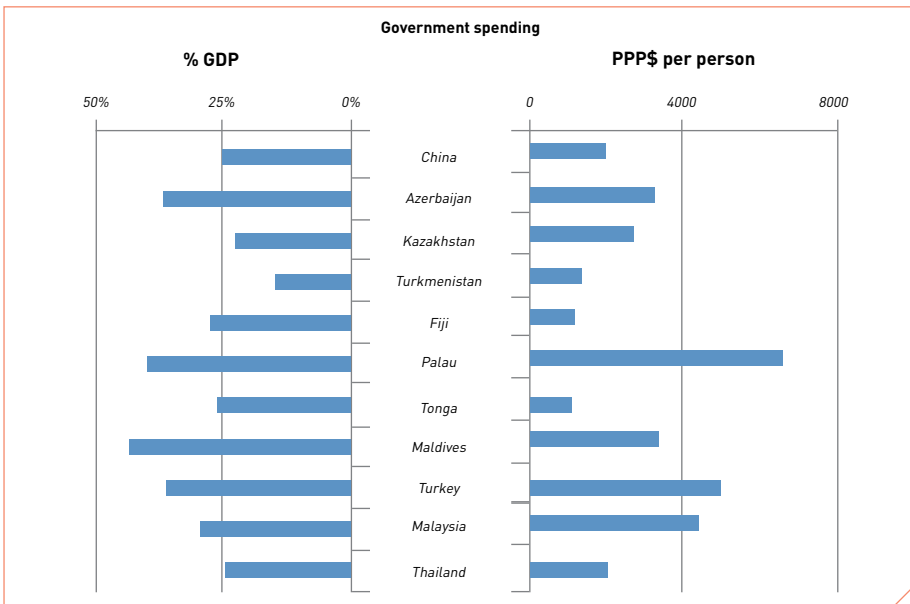


### 2.2.9. Upper-middle income countries

After falling in the 1990s, private investment has grown rapidly since 2002

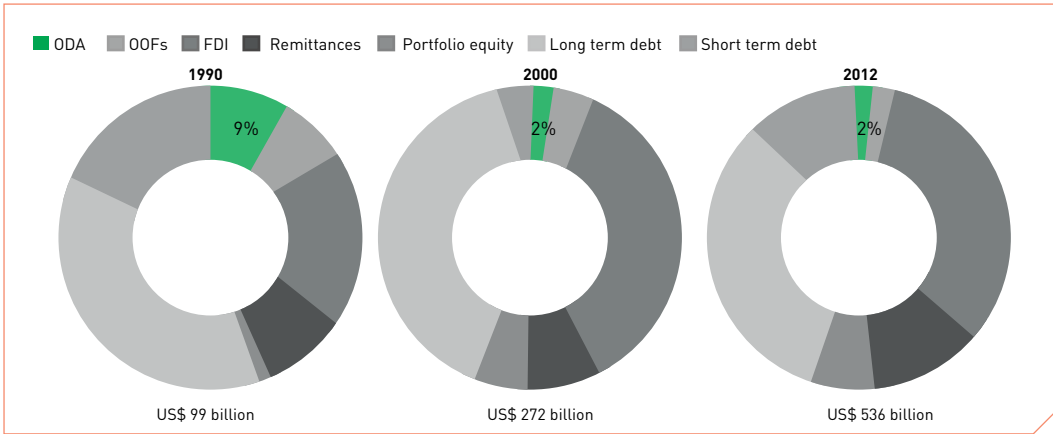


Government spending is above PPP\$ 1,000 per person for all UMICs

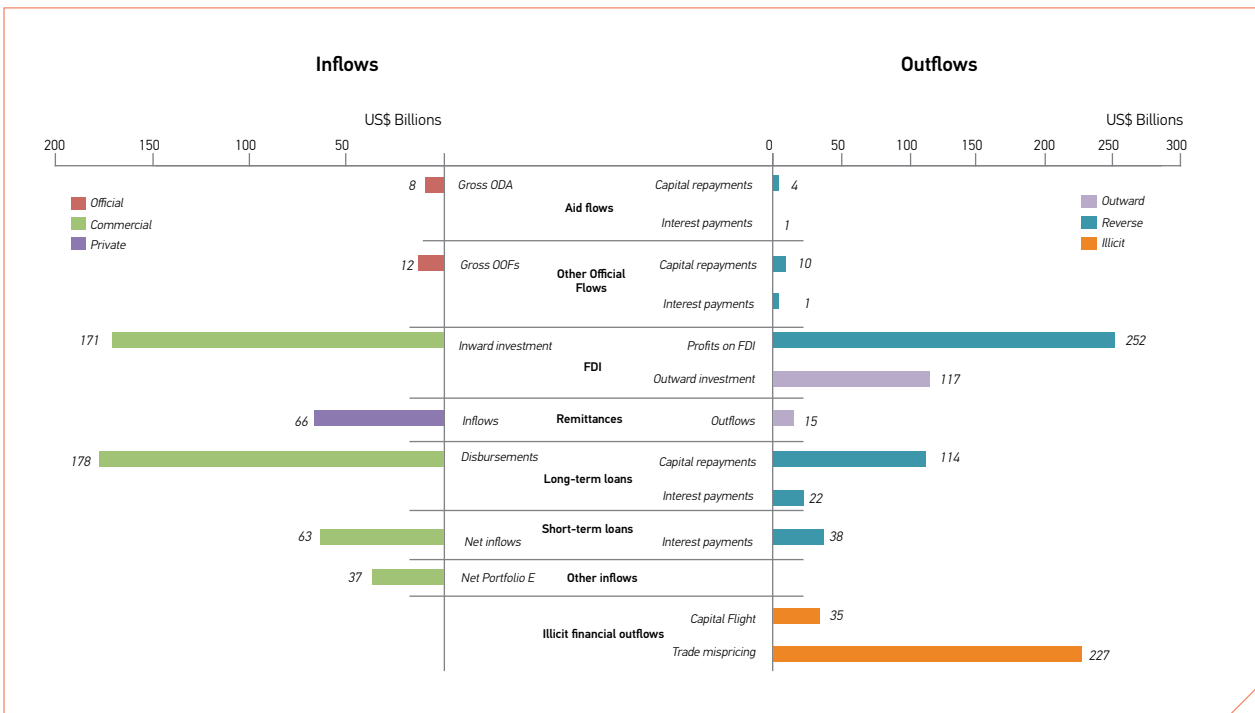




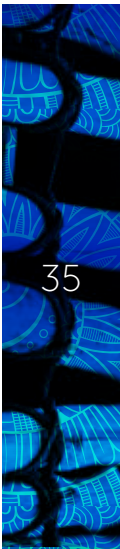
Flows of FDI and long-term debt have grown rapidly to UMICs



Remittances and long-term debt are the largest inflows; reverse and illicit outflows are large



Foreign Direct Investment and long term debt flows are by far the largest resource flows to UMICs in the Asia & Pacific region, at 33% and 32% of inflows respectively. FDI makes up more than half of flows to China, Turkmenistan and the Maldives, while long term loans are the most significant inflow to most countries. ODA accounts for 2% of resource flows to UMICs, down from 9% to the same countries in 1990.



### 3. Progress since Busan and inclusive development

#### KEY MESSAGES

- ▶ Progress towards meeting the Busan commitments on development effectiveness is mixed, but the view from the region is of a glass half full
- ▶ Mutual accountability has seen the most progress: targets have already been met by 10 of the 15 countries surveyed in the region
- ▶ Progress has been made in many countries on predictability: nine countries in the region scored above the global average on medium-term predictability and four countries have already met annual predictability targets, with another two on track
- ▶ Untied aid rose in more than half of all countries surveyed, and there has been some progress in the use of country systems: three countries have already achieved the target and one is on track
- ▶ Nevertheless continued and accelerated progress is needed, notably in the systems for tracking allocations towards gender equality and the enabling environment for civil society, which has deteriorated in many countries
- ▶ The story for most countries is one of general progress, but Samoa is the only country in the region not to have regressed in any area covered by the survey
- ▶ There is an urgent need to finalise the monitoring framework. Without monitoring the challenges and bottlenecks to progress cannot be identified and the vision of an evidence-based approach for implementation cannot be realised
- ▶ Governments and donors are not the only actors; civil society, the private sector and citizens – especially women – all play pivotal roles in achieving the Busan goals

#### 'THE HOW'

- ▶ Finalise the monitoring framework – particularly regarding indicators on the enabling environment for civil society and partnerships with the private sector
- ▶ Strengthen the enabling environment for CSOs as independent development actors and improve access to sustainable domestic and foreign funding
- ▶ Further establish institutionalized, inclusive, multi-stakeholder mechanisms for determining and monitoring development policy and planning critical to democratic ownership
- ▶ Prioritise investments in gender and women's empowerment, and in the systems to monitor and assess these investments
- ▶ Encourage healthy and predictable flows of funding for CSOs active in development processes, whether as service providers, innovators, citizen representatives or advocates

Monitoring progress against the commitments made in Busan (see Annex B) is vital to understanding the challenges faced in improving development effectiveness and realising the vision of an evidence-based approach to implementation by all partners.

This chapter examines the results of the first monitoring survey, which fifteen countries in the region participated in. It presents areas in which countries have achieved progress, two case studies that lay out how this progress has been achieved, and concludes with an examination of areas in which further progress is needed. Two areas: the enabling environment for civil society, and gender parity beyond education, are explored in detail.

### 3.1. The Busan commitments

As the focus on aid effectiveness shifted in Busan towards a broader focus on development effectiveness, so a new monitoring framework to capture progress against commitments in this broader agenda was developed. The GPEDC monitoring framework covers three areas with ten indicators (Table 1 and Annex B).

**Table 1** GPEDC Monitoring Framework

Area	Indicators
<b>Ownership and results</b>	Use of country results frameworks (Indicator 1)
	Aid on budget (Indicator 6)
	Quality and use of country systems (Indicator 9)
	Untying aid (Indicator 10)
<b>Inclusive partnerships</b>	Enabling environment for civil-society organisations (Indicator 2)
	Private sector engagement (Indicator 2)
	Gender equality (Indicator 8)
<b>Transparency and accountability</b>	Transparency (Indicator 4)
	Predictability (Indicator 5)
	Mutual accountability (Indicator 7)

Monitoring of the Busan commitments has begun with a survey of progress against six indicators. 46 countries worldwide participated, including 15 countries from the Asia-Pacific region. Progress against these indicators for countries in the region is summarised in table 2 below.

The areas in which the region has achieved most progress are mutual accountability and predictability. Progress in other areas is mixed and accelerated progress is needed across many countries in areas such as gender equality and women's empowerment.



**Table 2** Asia-Pacific results from the GPEDC monitoring survey-2013

INDICATOR	Development Cooperation is more predictable		Aid on budget is subject to parliamentary scrutiny	Mutual Accountability strengthened by inclusive reviews	Gender equality and Women's Empowerment	Development and use of country systems		Aid is untied
	5A	5B				9A	9B	
Country	5A	5B	6	7	8	9A	9B	10
Armenia	Red	Green	Yellow	Green	White	Blue	Green	Red
Bangladesh	Green	Blue	Yellow	Green	Blue	Blue	Green	Red
Cambodia	Green	Green	Red	Green	White	White	Yellow	Red
Kiribati	White	Blue	White	Green	Blue	Blue	White	Green
Marshall Islands	White	Green	White	Red	Blue	White	White	Red
Micronesia, Fed. States	White	Blue	White	Green	Blue	White	White	Red
Nauru	White	Blue	White	Red	Blue	White	White	Green
Nepal	Green	Green	Green	Red	Green	Blue	Green	Green
Niue	White	Green	White	Green	Blue	White	White	Green
Palau	White	Blue	White	Red	Blue	White	White	Green
Philippines	Green	Green	Yellow	Green	Green	White	Red	Green
Samoa	Green	Green	Green	Green	White	Blue	Green	Green
Tajikistan	Red	Blue	Yellow	Green	White	Blue	Red	Red
Timor-Leste	Green	Green	Red	Red	White	Blue	Red	Green
Vietnam	Red	Green	Red	Green	White	Red	Yellow	Red

Met target already
On track
Progress but off track
No change (or not met static target)
Negative change
No data

Source: GPEDC Monitoring Survey data

\*Note that 2013 is the first year for which data has been collected on indicators 5B and 8, so no dynamic analysis is possible. Countries are marked as green under indicator 5B if the proportion of development cooperation funding covered by forward spending plans exceeded 70% (the average across all 46 countries surveyed globally) in 2013, and blue if less than 70%. Countries are green under indicator 8 if they have achieved two or more of the four contributing measures (government statement on tracking systems, allocations systematically tracked, system leadership/oversight by government and budget information publicly available) and blue if they have achieved less than two.

## 3.2. Examples of success

Many countries across the Asia-Pacific region are progressing against many of the Busan commitments covered by the GPEDC monitoring framework. The most significant progress has been experienced in mutual accountability and predictability. Samoa is the country that has made progress across the largest number of areas in the survey, and is the only Asia-Pacific country that participated in the survey that has not regressed in any areas (see case study in Annex C).

### Ownership and results

Untied aid rose in eight of the fifteen countries surveyed. In Palau the proportion of untied aid rose from 79% in 2010 to 93% in 2013, and in Timor-Leste it rose from 83% to 93%. Kiribati, Nepal, Samoa and the Philippines experienced smaller increases in untied aid. Untied aid also rose in Niue and Nauru, reaching 99% in both countries.

Aid on budget targets have already been achieved in two countries, Nepal and Samoa. The proportion of disbursements to the government sector recorded in the government's annual budget rose from 68% in 2010 to 96% in 2013 in Nepal, and from 83% to 100% in Samoa. Bangladesh has almost met the 85% minimum threshold, with the proportion recorded on budget rising from 80% to 84%, although slightly accelerated progress is needed in order to achieve the target of 90% by 2015. In Tajikistan, considerable progress has been made, with the proportion rising from 46% to 61% in 2013 – although accelerated progress is needed to meet the minimum 85% target by 2015.

Use of country systems targets have been achieved already in three countries in the region, and one country is on track to meet the target. The proportion of disbursements to the government sector that use country PFM and procurement systems rose in Armenia from 38% in 2010 to 59% in 2013, in Bangladesh from 56% to 72% and in Samoa from 49% to 73%. Nepal is on track to meet its target of 70% by 2015, having risen from 55% in 2010 to 68% in 2013.

There is inadequate data on the use of country results frameworks for a systematic evaluation of progress across the region. However it is noted that many countries, including Bangladesh (see case study below) and Cambodia (see Annex D), are actively encouraging development partners to utilise results frameworks linked to national development plans.

### Case study: Results frameworks in Bangladesh<sup>31</sup>

Bangladesh introduced a Development Results Framework (DRF) built into its Sixth Five Year Plan, 2011-2015. The aim of the DRF is to monitor progress against the five year plan and to assess the results of development cooperation.

Bangladesh's DRF covers nine thematic areas<sup>32</sup>, each with a set of quantitative economic and social indicators that are tracked against a target for 2015, with baseline data from 2010.

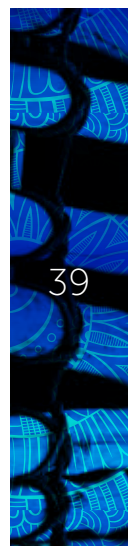
The DRF is designed to be incorporated into the systems of line ministries within the government and development partners, although progress to date is mixed. A number of development partners are gradually aligning their programmes to the DRF, typically as country strategies are revised and updated. The UN has anchored its Development Assistance Framework 2011-2016 in the government system with a joint action plan, results framework and monitoring and evaluation system that links to the DRF and draw indicators from the Bangladesh Bureau of Statistics. The World Bank has also linked components of its Country Assistance Strategy 2011-2015 to the DRF. However, some development partners and line ministries within the government have not yet incorporated the DRF into their planning.

The major challenges limiting full uptake are awareness about the DRF and the processes that have been established to track it, particularly among line ministries, limited use of government systems generally among some development partners, and the perception that the DRF is a means for holding the government to account, rather than a tool for use in programming. Capacity constraints within line ministries present a further issue.

There are also a number of technical issues to be overcome. Gaps in the coverage of indicators have been recognised and a process is underway to revise aspects of the DRF in 2014. While some sector frameworks are well developed and linked to the DRF – notably agriculture, food security and rural development, health, education and gender – other

<sup>31</sup>The information in this case study is drawn from *Use of Development Results Frameworks in Bangladesh and Progress and Challenges in the Implementation of the Busan Commitments: Bangladesh Country Brief*

<sup>32</sup>The nine thematic areas are income and poverty; human resource development; water and sanitation; energy and infrastructure; gender equality; environmental sustainability; information communication technology; urban issues; and governance.



sectors do not yet have robust results frameworks. To date, the DRF is only able to capture disbursements against committed funds in the health and education sectors, and is unable to capture the contributions of the private sector or NGOs. The information systems currently used were designed for debt management, and an Aid Information Management System is under development.

Bangladesh has made significant progress against social and economic indicators in recent years, but strengthening institutional frameworks for developing, implementing and reviewing policy has been identified as necessary for continued progress. The DRF is an important step forward. While uptake among development partners and line ministries to date is only partial, developing and building consensus around a sustainable country-led results framework requires time and strong leadership. Bangladesh's DRF is an important development for effective development within the country, and there have already been successes in aligning cooperation from some providers.

### Inclusive partnerships

Gender equality and women's empowerment targets have been met by two countries in the region, Nepal and the Philippines.<sup>33</sup> Both countries achieved all four criteria on government systems that track and make public gender equality budget allocations.

Outside the GPEDC Monitoring Framework, many countries across the region have achieved success in equal access to education, particularly at the primary and secondary levels. 39 of 46 countries with data have already met targets to achieve gender equality in primary education, and 4 countries are on track to meet the target. 32 of 42 countries with data have already met gender equality targets in secondary education, and 4 more are on track to meet the target. There is less data on equality targets in tertiary education, but 19 of 32 countries have already met the target with 3 on track to do so by 2015. Women's representation in national parliaments has grown, from 4% to 12% in Western Asia and 7% to 19% in Southern Asia, some of the fastest progress worldwide (although there remains a long way to go).<sup>34</sup> Beyond these areas, however, many countries are making little or slow progress (see section 3.3 below).

### Case study: Gender responsive budgeting in Nepal<sup>35</sup>

Nepal is a leader within the Asia-Pacific region in terms of the systems in place to allocate and track expenditure towards gender equality and women's empowerment. The country is one of only two countries in the GPEDC monitoring survey in the region that has already met gender equality targets.

Nepal's approach is rooted at the strategic level with a strong emphasis on gender equality as a high national priority. Gender equality and inclusion is one of the four pillars of the country's poverty reduction strategy paper (PRSP).

At the functional level, Nepal has developed a system tracking allocations towards gender equality that is built into the national budget process. As the budget is developed, thirteen national ministries are required to mark each budget line item with a score against different aspects of gender sensitivity. These cover: participation, capacity building, benefit sharing, increased access to employment, income earning opportunities and reductions in women's workloads. Based on the scores given to each aspect of gender sensitivity, line items are then classified as 'directly gender responsive', 'indirectly gender responsive' or gender neutral. Women's interest groups are invited to pre-budget consultations convened by the gender responsive budget committee to comment on the gender sensitivity of the budget. To monitor progress, a set of performance indicators and a system of annual assessments has also been introduced.

### Opportunities for Civil Society

Civil society is increasingly recognized as playing important roles in development, including in resource mobilization (see 4.4). Governments around the world increasingly recognize the importance of the services provided by NGOs – the formally constituted, public benefit (as opposed to mutual benefit) non-governmental organizations. Hence they

<sup>33</sup>Note that global coverage for progress towards gender equality and women's empowerment was limited in the initial monitoring survey, and was informed by a UN WOMEN study of 15 countries worldwide.

<sup>34</sup>MDGs Gender Chart, March 2014, UN WOMEN

<sup>35</sup>The information in this case study is primarily drawn from *Integrating gender responsive budgeting into the aid effectiveness agenda: country summary for Nepal*, UNIFEM, 2009

are becoming a primary source of NGO financial support, and NGOs have become the major delivery system for a wide range of government-funded services. NGOs and other CSOs play an ever-growing role especially in:

- the direct delivery of vital services, especially providing services for hard-to-reach groups and in providing specialist services for which NGOs have key advantages;
- partnering with governments to improve the delivery and up-take of their services
- mobilizing community participation to improve services and make them more cost-effective;
- helping to shape more effective and popularly-responsive policies; and
- enhancing governance of public services through “social accountability”, or engaging citizens directly in strengthening oversight and governance of public offices;

#### **Examples in Asia-Pacific<sup>36</sup>**

**China:** NGOs really only started to emerge in the 1980s and experienced a rapid growth spurt after the Yellow River flood of 1996 and the Sichuan earthquake of 2008. Government support for NGO growth (under the slogan “Big Society, Small Government”) started in the late ‘90s. Hence in 1989 there were 4544 registered NGOs but by 2006 there were 354,000, and perhaps 10 times this number unregistered. A 2009 telephone survey by Charities Aid Foundation found that 80% of (telephone-owning) people in China gave to charity – twice that in other BRICs. NGO domestic revenues totalled \$15.7bn in 2008 (including funds from government) plus contributions from foreign sources.

**India:** has one of the largest and oldest civil societies in the world. According to a Gol-commissioned study there are an estimated 3.3 million registered CSOs employing 2.7 million staff and 16.5 million volunteers. The most recent estimates from within the sector indicate total revenues of \$9-18bn/year in 2007, of which about \$1bn to \$1.8bn was from personal giving and \$2.8bn from foreign sources, including the Indian diaspora and overseas charities. Most of the balance (about half total revenues) came from fees, and funding from central and state governments was also important.

**Philippines:** has one of the most vibrant and active civil societies in the world; 46% of adult Filipinos count themselves as active members of at least one NGO. However in revenue terms the sector is modest, compared with India and China. The total income of the NGO sector is about \$280 million (about 38% from foreign donors and foundations). Of the 89,000 registered NGOs, about 4000 are classified as Development NGOs (generally the best resources) and are active primarily in health and education services and poverty reduction, but also in housing, training, enterprise development and the environment.

#### **Transparency and accountability**

The areas in which the region has seen most progress overall are mutual accountability and predictability.

Mutual accountability targets have already been met by ten of the fifteen countries surveyed in the region. Three countries, the Philippines, Samoa and Tajikistan, met all five sub-indicators contained within the target.

Annual aid predictability targets have already been met in four countries in the region and another two are on track to meet them by 2015. In the Philippines, the proportion of disbursements made as scheduled grew from 86% in 2010 to 98% in 2013, and in Timor-Leste from 69% to 92% over the same period. Nepal and Samoa also met the target, having started from a better position. Bangladesh and Cambodia on track to meet the target by 2015. It is also important to note that disbursements exceeded those scheduled in a number of countries in 2013, notably Nepal, where disbursements were 84% greater than scheduled and Cambodia where they were 26% greater. When disbursements exceed scheduled amounts, countries have to deal with this volatility and the impact it has on planning and expenditure systems.

Nine of the fifteen countries surveyed in the region scored above average on medium-term predictability. 2013 is the first year in which data is available so there is no previous baseline against which to assess progress over time. The average proportion of funding covered by indicative forward spending plans for the three years following the year of the survey (2014-2016) across all countries surveyed globally was 70%. Nine Asia-Pacific countries scored above 70%, with Samoa ranking highest in the region (100%), followed by Cambodia (98%), Armenia (97%) and Viet Nam (93%)

<sup>36</sup>Statistics in these country examples come from a World Bank report - “International Good Practices in State-NGO Relations: A Benchmark for West Bank and Gaza”, May 2012. The report was prepared at the Palestinian Authority’s request and partly funded by AFD.



### 3.3. Areas where further progress is needed

#### Ownership and results

Untied aid fell in seven countries in the region. The greatest decline was in Viet Nam, where untied aid fell from 77% of bilateral aid in 2010 to 70% in 2013. In Tajikistan it fell from 64% to 59%, in Armenia from 84% to 80% and in Bangladesh from 80% to 76%. The Marshall Islands, FSM and Cambodia experienced smaller declines in untied aid.

The proportion of aid on budget declined in three countries in the region. In Cambodia, the proportion fell from 95% in 2010 to 79% in 2013, in Viet Nam from 81% to 72% and in Timor-Leste from 61% to 54%.

The quality of country systems, as measured by CPIA scores, did not improve in any countries in the region and worsened slightly in Viet Nam, which fell from a score of 4.0 to 3.5.

Use of country systems declined in two countries, Tajikistan and Timor-Leste, falling from 31% to 6% and 17% to 7% respectively. In both countries this was driven by declining use of country systems by the largest providers – by Australia in Timor-Leste, and by four multilaterals (AsDB, IMF, EU and World Bank) in Tajikistan. In Cambodia and Viet Nam progress has been made but needs to be accelerated in order to meet the 2015 targets.

#### Inclusive partnerships

Gender equality and women's empowerment targets are some way from being met in many countries in the region. While two of the nine countries surveyed met all four criteria, the other seven countries do not have the systems in place to track allocations towards gender equality and did not meet any of the four criteria.

Beyond the monitoring survey, while there has been progress towards gender equality in education in most of the region, there is a way to go for some countries,<sup>37</sup> and gender equality beyond education is lacking.

Gender gaps in employment in Southern Asia and Western Asia are among the highest in the world, with female employment 48.9 and 48.3 percentage points lower than male employment in the same region.<sup>38</sup> Violence against women by an intimate partner is higher in South-East Asia than any other region worldwide, with 37.7% of women experiencing violence during their lifetimes. Southern Asia is the only region in the world in which under five mortality rates are higher for girls (who have a natural physiological advantage in terms of child survival) than boys, which implies the existence of discriminatory practices

Given the lack of progress towards improving gender equality beyond access to education, establishing systems to track government programmes and allocations is an important step.

The monitoring framework for the enabling environment for civil society and for partnerships with the private sector is not yet finalised. Civil-society within the Asia-Pacific region has highlighted the urgent need to finalise the framework for monitoring the enabling environment, as CSOs in many countries in the region face significant threats (see below). While the framework is being finalised, it is notable that the Asia-Pacific region scores poorly in CIVICUS' enabling environment index.<sup>39</sup> Asia-Pacific has the lowest regional average score for the governance dimension of the index and five of the ten lowest ranking countries in this dimension are from the region (Tajikistan, Viet Nam, Iran, Uzbekistan and China).

<sup>37</sup>Two countries are making only slow progress towards gender equality in primary education and one (Niue) is regressing; four countries are making slow progress towards equality in secondary education and two (Macao, China and Pakistan) are regressing; eight countries are making slow progress towards equality in tertiary education, three (Afghanistan, Timor-Leste and Uzbekistan) are regressing and 22 countries have no data to track equality in tertiary education.

<sup>38</sup>The regions are second only to North Africa, where the gender employment gap is 50.0 percentage points. MDGs Gender Chart, March 2014, UN WOMEN

<sup>39</sup>CIVICUS' 2013 Enabling Environment Index, 2013



## Challenges for civil society

In many countries CSOs face an increasingly hostile environment and challenges from governments.

CSO activists continue to face traditional forms of repression such as imprisonment, harassment, disappearances, and execution. However, many governments have become more subtle in efforts to limit the space in which CSOs, especially democracy and human rights groups, operate.<sup>40</sup> These measures include legal or quasi-legal obstacles, such as barriers to the formation of organizations; barriers to operational activities; barriers to advocacy and public policy engagement; barriers to communication and cooperation with others; barriers to assembly; and barriers to resources.<sup>41</sup>

The UN Special Rapporteur on the Rights to Freedom and Peaceful Assembly and of Association has identified two key areas concerning civil society worldwide: restrictions on freedoms of peaceful assembly and the 'increased control and undue restrictions' on funding on civil society, particularly foreign funding. In his second annual report the Special Rapporteur Maina Kiai noted that these controls that are designed to 'silence the voices of dissent and critics.'<sup>42</sup>

In the last decade, over 50 governments worldwide have considered or enacted measures that restrict civil society, and the Asia-Pacific region is unfortunately prominent in this regard.<sup>43</sup> In the last two years at least seven countries in the Asia-Pacific region have taken legal and/or administrative measures to restrict NGO access to funding, especially from foreign sources.<sup>44</sup>

The increased imposition by governments of restrictions on NGOs' funding sources should be of major concern to the GPEDC and post-2015 processes for two reasons. Firstly it results in the loss of precious development resources, and secondly it hobbles a potentially crucial development actor – civil society. The undue funding restrictions combined with the global financial crisis that has compelled some donors to reduce funding, has in many instances, led to a decline in the number of associations and a reduction in their activities.

Another trend that erodes the place of civil society in development relates to the interpretation of collaborative approaches to development. Emphasis on harmonisation of initiatives and stronger country ownership has stimulated the development of stronger consultative group processes at the country level, with oversight from governments and parliaments. However, civil society can often find itself left out of this framework, where it previously played a more prominent (albeit informal) role both in advocating specific development priorities and as an implementation watchdog. While development rhetoric gives increasing weight to civic engagement, the processes of decision-making are in some contexts more exclusively governmental.

## Transparency and accountability

Despite progress in many countries in the region on predictability and mutual accountability indicators, further progress is needed in others, and a few countries have regressed against targets.

Mutual accountability targets were met in Nepal in 2010, but have since regressed. In 2013 the assessment of progress towards targets did not involve non-executive stakeholders and was not made public. The Marshall Islands and Nauru did not meet the target in 2013 for the same reasons, while Timor-Leste does not have country-level targets and Palau has neither country-level targets nor an aid/partnership policy.

Annual predictability fell in three countries – Armenia, Tajikistan and Viet Nam. In Armenia the proportion of funds disbursed as scheduled fell considerably, from 88% in 2010 to 69% in 2013.

<sup>40</sup>John Clark, 2011, "Civil Society in the Age of Crisis", *Journal of Civil Society*, 7:3, 241-263

<sup>41</sup>International Center for Not-for-Profit Law (ICNL) and World Movement for Democracy (WMD), 2012, *Defending Civil Society*, USA

<sup>42</sup>Report of the Special Rapporteur on the rights to freedom of peaceful assembly and of association, Maina Kiai, UN HRC, A/HRC/23/39, 24 April 2013

<sup>43</sup>International Center for Not-for-Profit Law (ICNL) and World Movement for Democracy (WMD), 2012, *Defending Civil Society*, USA

<sup>44</sup>ICNL, 2013, *Global Trends in NGO Law: The Legal and regulatory Framework for Civil Society 2012-13. The seven Asian countries identified are Pakistan, Bangladesh, India, Malaysia, Turkmenistan, Tajikistan and Kyrgyzstan*

Medium term predictability is below the global average 70% in six countries in the region. Five countries, Palau, Bangladesh, Nauru, Tajikistan and FSM, scored between 60% and 70%. Kiribati scored less than 50%. In three countries, Nauru, FSM and Kiribati, predictability is high (93%, 90% and 72% respectively) for the two years following the survey, but no indicative data is available for 2016.

Transparency at the national level is not addressed by the GPEDC Monitoring Framework, which will only capture information on transparency at the global level (data is not yet available). Nevertheless, the availability of information at the country level is a pressing concern for many countries in the region as a lack of detailed information on cooperation hampers countries' ability to plan and co-ordinate national strategies effectively, and to hold partners to account for their contributions.

## 4. Domestic resource mobilisation

### KEY MESSAGES

- ▶ Mobilising sufficient resources will be critical to realising the vision of successful country-led implementation of the post-2015 agenda
- ▶ Domestic resources are growing in the Asia-Pacific region with government spending growing from an average 17% of GDP in 1995 to 26% (over US\$45 trillion) in 2012. However there is a way to go: government resources equate to less than PPP\$ 1,000 per person in 15 countries in the region, home to some 2.15 billion people – compared to over PPP\$ 15,000 in DAC countries
- ▶ Bottlenecks and threats to continued progress in mobilising domestic resources exist
- ▶ Some challenges are specific to certain countries – managing natural resources, curtailing large outflows of illicit finance and tackling corruption
- ▶ Others are common to many countries in the region: broadening the tax base, overcoming the challenges of large informal sectors and capacity to manage efficient revenue collection systems
- ▶ There are strong links between service provision, corruption and resource mobilisation: if the perception is that resources aren't well used, citizens and companies are less inclined to pay tax
- ▶ Mobilising domestic resources will be an increasingly important area of development cooperation – there are many calls to scale up this type of support, though current levels of ODA for mobilising domestic resources are small
- ▶ Domestic resource mobilisation is not only about the state: civil society and non-governmental organisations play an important role mobilising domestic resources and providing basic services in many countries in the region

### 'THE HOW'

- ▶ Use country-developed mechanisms like Timor-Leste's sovereign wealth fund to manage natural resource revenues: Papua New Guinea is establishing a similar mechanism
- ▶ Address illicit finance, particularly trade mispricing: at the national level by strengthening governance of customs and trade taxes; and at the international level through country-by-country reporting by multinationals and automatic exchange of tax information
- ▶ Improve information and transparency about development cooperation that supports DRM, to better understand what works and to hold international actors to account for progress
- ▶ Strengthen mechanisms for sharing knowledge and experiences about overcoming common challenges and mobilising domestic resources
- ▶ Recognise the importance of non-state resource mobilisation, particularly by the philanthropic sector, encourage sustainable access for NGOs to foreign funding and ensure legislation is enabling for domestic philanthropy

Mobilising sufficient domestic resources is critical to realising the vision of country-led implementation of the post-2015 agenda and domestic resources are growing across the region.

Growing tax revenues are driving increases in public spending across the Asia-Pacific region: government spending grew from an average 17% of GDP in 1995 to 26% (over US\$ 45 trillion) in 2012. Nevertheless resources remain low in absolute levels and there is some way to go before governments and other institutions with a mandate for social progress are equipped with sufficient resources to realise that vision. In 15 countries in the region, home to 2.1 billion people, government spending is less than PPP\$ 1,000 per person.

The sources and factors affecting tax revenue vary considerably from country to country. For some resource rich countries in the region, revenue from extractives industries is significant, and managing mineral wealth sustainably and effectively is a key challenge. For others, illicit finance is a major drain on natural resources – for example an estimated 25% of all goods imported to the Philippines go unreported to customs, and reforming governance and enforcement of tax collection is a pertinent challenge.



International actors can play an important role supporting countries with DRM. This can take many forms, from supporting institutional improvements in tax systems, support related to sectors such as the extractives industries, or international co-ordination around illicit finance. Afghanistan and Pakistan are the largest recipients of ODA for DRM worldwide, while other countries in the region received smaller levels of support.

Domestic resources beyond the public sector are also growing. Civil society contributes an often under-recognised volume of domestic resources that may exceed official aid in many countries. Civil society is playing an increasingly important role in service provision.

This chapter considers four components of the debate that are significant to countries in the Asia-Pacific region: managing natural resources; illicit finance; civil society and DRM; and the role of international actors in supporting DRM.

#### 4.1. Mobilising resources from the extractives sector

The wealth generated by extractives in Asia-Pacific developing countries has the potential to contribute towards considerable social progress, but natural resources are particularly difficult to manage effectively. The large and volatile revenues generated by natural resources are notoriously susceptible to rent-seeking and corruption and can place significant strain on the institutional structures and processes governing them. Hence, natural resources have historically become a curse more than a blessing for many countries worldwide.

Resource rich countries in the Asia-Pacific region are dealing with many issues regarding the management of extractives revenues. Close to 35 per cent of exports from the region are from natural resource and extractive industries. As a percentage of total exports, natural resource exports are high in LMICs like Mongolia (81%), Timor-Leste (99%), and PNG (77%). In Mongolia, Azerbaijan, Turkmenistan and Brunei Darussalam natural resource rents are equivalent to more than 40% of GDP.<sup>45</sup> Various responses have been developed by countries across the region, including mechanisms to smooth volatile and unpredictable swings in prices or demand, and a number of countries have established or are establishing sovereign wealth funds. There are questions of the legal basis for governing the sector, ensuring that investments remain sustainable and that the government and country receive a fair share of the revenues. Fiji recently introduced a new clause (30) in its Constitution stating that resource owners will get a fair share of the revenue from extractives. Papua New Guinea is in the process of reviewing legislation and arrangements for revenue generated in its mining and petroleum sectors. The question of transparency is also critical, as transparency underpins accountability mechanisms for both the generation and use of resources. A number of countries use best practice from the Extractives Industries Transparency Initiative (EITI) to guide transparent and accountable management of resources from the extractives sector.<sup>46</sup>

Countries are also facing the question of how to effectively use resources from the sector, and how to balance current and future needs. Timor-Leste and Papua New Guinea have each established mechanisms that allocate a certain level of resources for current spending, while safeguarding assets for future revenue streams. There are important questions of absorption capacity and the levels of resources that can be effectively used and invested without generating waste or opportunities for corruption.

##### Case study: Timor-Leste Petroleum Fund<sup>47</sup>

In 2005 Timor-Leste established a petroleum fund to manage resources from the petroleum sector. This fund has been widely recognised as having successfully managed revenues in an open and transparent mechanism within a post-conflict context of low institutional capacity.

The Timorese economy is highly dependent on petroleum; in 2010 revenues from the sector accounted for 73% of national GDP. The fund was established to prudently manage revenues from the sector, to stabilise government revenue and to shield the economy from variations in prices and production.

<sup>45</sup>World bank data on total natural resource rents as a % of GDP for 2011. See: <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>

<sup>46</sup>Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic and Mongolia are EITI compliant countries. Afghanistan, Indonesia, the Philippines and Tajikistan are EITI candidate countries. Papua New Guinea submitted an application to join EITI in 2013. Source: Extractives Industries Transparency Initiative, <http://eiti.org/countries>.

<sup>47</sup>The information in this case study is primarily drawn from *Managing Natural Resource Revenues: The Timor-Leste Petroleum Fund*, A. McKechnie, 2013, Overseas Development Institute

The fund receives all revenues from the petroleum sector and is structured such that transfers to the government cannot exceed a maximum Estimated Sustainable Income (ESI) without approval by parliament. The ESI is calculated on the basis of forecasts for future oil prices (sourced from the US Energy Information Agency) and projections of petroleum production.

In practice, Parliament has successively approved excess withdrawals above the ESI levels. To do this the government must first undertake an audit on the impact of excessive withdrawals on the future ESI and justify why excess withdrawals are in the long-term interest of the country. This has been an area of some debate and, at its core, lie questions about appropriate levels of investment and alternative sources of revenue. The ESI model deployed by the Petroleum fund is based on the Norwegian Sovereign Wealth Fund model. However levels of investment in Timor-Leste, a country with a recent history of conflict and without a long history of public investment, may be justifiably higher than in an advanced economy like Norway. The rate of return on marginal investments may be considerably higher and demand for services outweighs current levels of basic service delivery expenditure by a large margin. On the other hand, there are risks of the economy overheating, of Dutch disease and limits to the absorption capacity of government. Extending transfers beyond the level at which they can be used effectively risks the waste of resources and opportunities for corruption. There is an impetus therefore for improving budget execution and strengthening the capacity of public institutions to spend effectively.

In addition to the debate about appropriate levels of investment is the question about diversification of the economy. Timor-Leste's economy is heavily reliant on the fuel sector and without the development of non-fuel sectors, pressure on the Petroleum Fund as a source of revenue is exacerbated.

Transparency has been a key characteristic of the Timorese Petroleum Fund. Timor-Leste is a signatory to EITI and a member of the International Working Group on Sovereign Wealth Funds. Detailed information on the fund's investments is published in annual, quarterly and monthly reports. There are requirements in law for regular reporting and auditing.

The Timorese experience in managing its petroleum resources has been widely regarded as a success. By December 2012, the assets of the fund amounted to US\$ 11.8 billion, equivalent to US\$ 10,700 for every person in Timor-Leste. The fund has successfully shielded the government and economy from fluctuations in international markets, including successfully adjusting to shocks in international financial markets in 2008. It is also highly regarded in international rankings of governance and effectiveness for sovereign wealth funds, for example ranking 6th out of 44 sovereign wealth funds in an assessment by the Peterson Institute for International Economics.<sup>48</sup>

### Case study: Papua New Guinea

Domestic resources are growing in Papua New Guinea (PNG), although shortfalls remain in meeting the cost of the country's medium term development plan. The government is looking at ways to manage extractives revenues with the establishment of a sovereign wealth fund (SWF) and by reviewing the legislation and arrangements that govern the extractives sectors. The development finance landscape is also characterised by the Papua New Guinea Sustainable Development Programme (PNG SDP), a large private fund.

The domestic resources available to PNG have grown rapidly since the Millennium. Tax revenues have grown overall rapidly from just over 1 billion Kina in 2000 to over 6.5 billion Kina in 2012. Nevertheless, domestic resource mobilisation has not kept pace with rapid headline economic growth.

A significant proportion of the growth in domestic resource mobilisation has been driven by revenue from the mining and petroleum sectors, although tax revenue from these sectors has been volatile and unpredictable year-on-year. Against this backdrop and within a context in which the terms of governance around mining and petroleum are more favourable on average than other resource-rich countries,<sup>49</sup> PNG is reviewing the governance of extractives industries and management of these revenues.

Governance of the sector is being reviewed along a number of strands. A review of the Mining and Petroleum policy, found that there are margins to extract additional resources from the mining sector. The government is therefore reviewing arrangements with resource owners and reviewing the legislation on which mining and petroleum taxes are based. The country applied to join the Extractives Industries Transparency Initiative (EITI) in December 2013, and is developing plans to implement the initiative.

<sup>48</sup>McKechnie, 2013, pp5

<sup>49</sup>Both in terms of royalties and profit tax. See Papua New Guinea DFAA, pp34



**Figure 8.** Expanding tax revenues in PNG - Tax revenues by main categories 2000-2012


Source: Papua New Guinea DFAA, pp36

In addition PNG is in the process of creating a SWF made up of two funds, a Stabilisation Fund and a Development Fund. The Development Fund will provide an on-going funding stream for economic and social priorities while the Stabilisation Fund aims to absorb and smooth the impact of fluctuating international demand and prices on PNG's budget and economy. All mining revenues will be captured by the stabilisation fund, which will transfer an amount not exceeding the 15 year moving average of resource revenues as a share of the annual budget, thereby shielding government budgets from fluctuations in mining revenue.

Effective DRM policy in extractives industries extends beyond taxation of production of extractive exports themselves. Following large investments in mining and petroleum in PNG, employment has increased and government policy has successfully expanded the tax base among workers within the mining and petroleum sectors and their value chains.

PNG SDP is a unique large scale philanthropic organisation in PNG and is the second largest development agency in the country.<sup>50</sup> It is a privately-held investment fund, with a mandate to invest in short- and long- term development projects, with a focus on Western province. It was established after the company BHP Billiton divested some of its holdings, in exchange for indemnity against law suits seeking compensation for environmental damage. Between 2002 and 2012 the fund made commitments totalling 1.3 billion Kina (US\$ 578 million), 42% of which went towards infrastructure with a further 8% to education and 5.6% to health.

## 4.2. Illicit finance

International attention about illicit finance has grown in recent years, and illicit financial flows are a major issue in the Asia-Pacific region.

Illicit finance is the unrecorded flow of resources through capital flight, from activities such as bribery, theft, kickbacks and smuggling, and trade mispricing, the over- or under- invoicing of goods or services. One of the primary motives for illicit finance is to reduce the tax bill, so the losses to government and society are substantial.

Given the fact that illicit finance is deliberately unrecorded by nature, it is difficult to accurately measure the true size of these flows. Nevertheless, the estimates of the scale of these flows show that it is a substantial issue. Illicit outflows from the Asia-Pacific region are estimated at over US\$ 400 billion in 2011. The majority, US\$ 345 billion is due to trade mispricing.

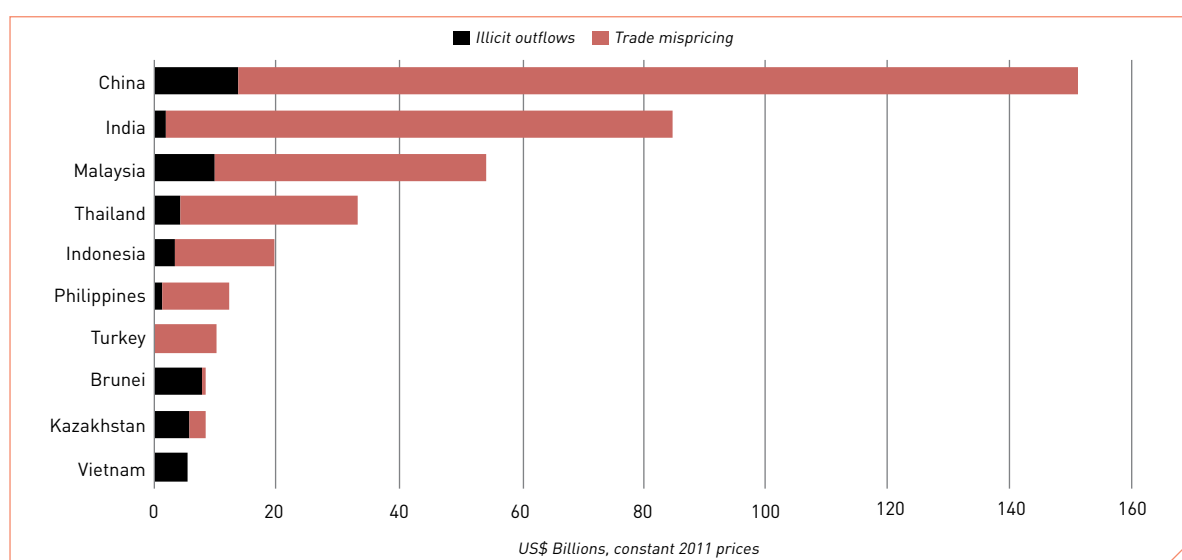
Countries in the region with significant illicit financial outflows exceeding US\$10 billion include China, India, Indonesia, Malaysia, Philippines, Thailand and Turkey. China accounts for the largest illicit financial flows in the region (Figure 9), estimated at US\$ 151 billion in 2011, the majority of which is due to trade mispricing (US\$ 138 billion).

For 22 of the 31 countries in the region for which estimates of illicit finance exist, these outflows are greater than net ODA in 2012.

<sup>50</sup>PNG Development Finance and Aid Assessment, 2013

There are various responses to the problem of illicit finance, some of which are implementable at the national level, but many of which require co-ordinated international action. At the national level, steps can be taken to strengthen governance of customs and trade taxation to reduce trade mispricing. Internationally, increasing transparency and co-ordination between countries are important steps – this includes the automatic exchange of tax information as well as requiring multinational companies to report on their activities on a country-by-country basis.

**Figure 9.** Estimates of illicit finance leaving Asia-Pacific



Source: Global Financial Integrity (2013)

### Case study: The Philippines<sup>51</sup>

Recent research has found that the Philippines suffers from both illicit financial flows out of the country and illicit financial into the country. Both have caused significant losses to the Filipino economy and to the resources available to the government.

An estimated US\$ 133 billion in illicit finance left the Philippines between 1960 and 2011, and an estimated US\$ 278 billion flowed in. The primary mechanism through which these resources move is trade mispricing, whereby export or imports are misinvoiced. Both cause a loss of tax revenue, and have negative consequences for national savings.

Taxes on international trade account for around 22% of total tax in the Philippines and since 1990 the government is estimated to have lost around US\$ 23 billion in tax revenue through export and import trade mispricing. The majority of this is from import trade mispricing, where an estimated 25% of all goods imported to the country goes unreported to Filipino customs.

The impact on expenditure is substantial – estimated tax losses of around US\$ 3.85 billion in 2011 are equivalent to 95% of spending on social benefits in the same year and are more than twice the size of the fiscal deficit.<sup>52</sup>

### 4.3. International assistance for domestic resource mobilisation

While most of the changes necessary to mobilise domestic resources must be driven at the national level, there is a role for external actors in supporting reform within countries. The international community is increasingly asking itself how it can support developing countries to scale up tax revenues and mobilise domestic resources.

<sup>51</sup>The information in this case study is primarily drawn from *Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011*, Kar, D., LeBlanc, B., 2014, *Global Financial Integrity*

<sup>52</sup>*Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011*, pp13

International support for DRM is split between programmes dedicated exclusively to mobilising domestic resources ('core' DRM ODA), and broader programmes of which DRM is an identifiable component ('wider' DRM ODA).<sup>53</sup> While it is difficult to accurately track ODA provided in either type of DRM programme, it is clear that only a small proportion of total ODA goes towards domestic resource mobilisation. In 2011 an estimated US\$ 105 million ODA went towards core DRM ODA. A further US\$ 579 million went towards wider DRM ODA.

Countries in the Asia-Pacific region received core DRM ODA totalling US\$ 46.8 million (45% of the total to all developing countries). However the vast majority of this went to two countries, Afghanistan (US\$ 17.8 million) and Pakistan (US\$ 16.9 million), the two largest recipients of this type of assistance worldwide. 17 other countries received core DRM ODA, although for thirteen of these the total received was less than US\$ 1 million. The UK, IDA and the EU are the largest providers of core DRM assistance to Asia-Pacific countries.

Afghanistan and Pakistan were also the largest regional recipients of wider DRM ODA, receiving US\$ 148.3 million and US\$ 36.9 million respectively in 2011 for projects in which DRM was an identifiable component of a broader programme. India (US\$ 22.2 million), Tajikistan (US\$ 21.9 million) and the Solomon Islands (US\$ 13.0 million) also received significant amounts. The majority of support for Afghanistan, Pakistan and India went towards programmes that support decentralisation processes, of which revenue mobilisation is a component. In India, decentralisation programmes have focused on three of the poorest states, Karnataka, Andhra Pradesh and Uttar Pradesh (table 3).

21 other countries in the region received smaller amounts, totalling less than US\$ 10 million each. The United States is the largest provider of wider DRM ODA to the Asia-Pacific region, totalling US\$ 203.8 million in 2011, followed by IDA, Australia and the Asian Development Bank.

**Table 3** Wider DRM ODA to Indian states, 2006-2011

State	US\$ millions, 2006-2011
Karnataka	82.9
Andhra Pradesh	35.0
Uttar Pradesh	11.2
Orissa	2.9

Source: Development Initiatives

In order to effectively scale up international assistance for DRM it is important to strengthen transparency about what is going on already. Current reporting systems are weak and it is therefore difficult to understand the landscape, the outcomes achieved, or the strengths and weaknesses of different partnerships.

#### 4.4. Philanthropy and Resource Mobilization<sup>54</sup>

NGOs, foundations, religious institutions contributing to development and other CSOs comprise a philanthropic sector which, in most countries (especially wealthier ones), makes a much larger contribution to development resources than is commonly realized. A recent World Bank review of the situation in 10 countries (North and South) revealed that philanthropies handle about \$1.8 trillion dollars per year. That is more than the combined GDP of all countries in the Middle East and Africa.<sup>55</sup>

Philanthropies in developing countries probably mobilize more funds for development from private sources than all official aid combined, and these resources are more likely to be directed to basic service provision and poverty reduction. And international NGOs contribute an estimated \$49bn per year from resources they mobilize privately to development activities in the South (equivalent to 45% of ODA) plus a further \$10bn of official aid channelled through them.<sup>56</sup>

<sup>54</sup>This note is based on a World Bank report - "International Good Practices in State-NGO Relations: A Benchmark for West Bank and Gaza", May 2012 that was requested by the Palestinian Authority.

<sup>55</sup>The 10 countries whose NGO sector was assessed for this report were: Brazil, China, France, Hungary, India, Kenya, Philippines, Turkey, USA and United Kingdom.

<sup>56</sup>Figures are for 2007 - the latest for which this information is available. In this year, total ODA was \$107bn.



In developing countries, most NGO funds are raised privately, comprising earnings from services etc. and philanthropy. Their international receipts are largely private aid from international NGOs (INGOs). Hence their resources largely come from non-governmental sources; they do not "compete" significantly with developing country governments for official aid. However they do get some funding from donors (perhaps \$10-12bn per year) – but these are largely funds that would not otherwise go to the governments in question. Southern NGOs increasingly get funding from their own governments through a variety of outsourcing arrangements, grant schemes to promote NGO innovation, and tax concessions for NGOs providing a clear public service. There are also increasing flows from indigenous philanthropy – and not just in rich countries. In 2011 about \$12bn was donated by wealthy people in the four "BRIC" countries (Brazil, Russia, India and China), and this is rising exponentially – especially in China.

The bulk of NGO funding is allocated to the social sectors however the balance between health, education, welfare and other social services varies greatly from country to country. NGOs also finance cultural, sporting, recreational, religious and other activities. Sometimes NGOs provide services in parallel to the state (and when this is the case the available research, albeit scant, indicates that the NGO programs are both more cost effective and better targeted). However co-production of services is becoming increasingly important in which both government units and NGOs contribute according to their specific strengths and work in complementary ways.

In developing countries, governments sometimes wrongly assume that donor funds for NGOs crowd-out donor funds for governments. A 2009 survey of 39 countries<sup>57</sup> revealed that fees and philanthropy contributed on average 50% and 15% respectively of NGO revenues while 35% comes from governments and official sources. In other words, NGOs do not significantly compete with southern governments for resources. Indian NGOs, for example, mobilize 50% of their revenues from fees for services they provide.



<sup>57</sup>Salamon, L., L. Irish, and K. Simon, 2009, *Outsourcing Social Services to CSOs: Lessons from Abroad, A Study Prepared for the Ministry of Civil Affairs, Department of CSO Administration, The Peoples' Republic of China*

## 5. Middle income countries

### KEY MESSAGES

- ▶ The countries in the Asia-Pacific region classified as middle-income are a diverse group that face varied challenges and have differing capacity to address these challenges.
- ▶ Eight of the region's thirteen LDCs are also MICs
- ▶ Many MICs in the region see themselves as countries in transition and see development cooperation as important for their continued development, though the nature of cooperation and the role it plays may evolve
- ▶ The development community should look beyond income groups to understand the true complexities of the context a country and its people face
- ▶ Using a simplistic average income measure as the basis for decisions to reduce cooperation ignores the needs of many people: 57% of the world's extreme poor live in MICs in Asia-Pacific
- ▶ The effects of reducing cooperation with MICs are not limited to the state – civil society organisations in many MICs in the region face existential threats due to reduced access to international funding
- ▶ There are serious questions about the appropriateness of a classification system that focuses solely on average income per capita in a post-2015 world that emphasises:
  - ▶ all three dimensions of development: social, environmental and economic (income groups consider only narrow economic factors);
  - ▶ and that strives to leave no-one behind (income groups are based entirely on averages)

### 'THE HOW'

- ▶ There is an urgent need to revise both the way in which countries are classified and the way in which classification systems are used to determine the provision of development cooperation.; the GPEDC is a forum in which this conversation can begin
- ▶ Providers can consider appropriate models for flexible, targeted and context-specific cooperation with growing MICs
- ▶ Strengthen broader policy coherence in cooperation with MICs, particularly in areas such as the environment, trade, migration and the global financial system
- ▶ Many MICs with high levels of poverty and social needs can direct greater proportions of their budgets to tackling these challenges
- ▶ Donors, foundations and governments can work together to encourage healthy and predictable flows of funding for CSOs active in development processes in MICs, whether as service providers, innovators, citizen representatives or advocates.

Middle income countries occupy much of the debate about development in the region and worldwide. MICs in Asia-Pacific are a large group, home to 3.6 billion people, including 57% of those living in extreme poverty worldwide. Yet they are a diverse group, facing varied challenges and threats to progress, and with differing capacity and opportunity to address these challenges.

The progress that Asia-Pacific MICs make in coming years will have a considerable bearing on the global success or failure of the post-2015 vision. It is vital therefore that the 'how' of this agenda carefully considers the role of development cooperation with MICs in the region, their access to concessional finance and, indeed, whether the income group classification system itself has a place in a broader and more complex agenda.

## 5.1. Middle income countries: a diverse group

The 34 middle income countries in the Asia-Pacific region are a diverse group. There is considerable variety in the economic, social and environmental challenges they face as well as the capacity and institutions they have to address these challenges.

In healthcare, for example, while 13 MICs in the region have met skilled birth attendance targets, 10 are only achieving slow progress and 7 are regressing. 11 MICs have achieved or are on track to achieve HIV prevalence targets, but 8 are regressing.<sup>58</sup> Most MICs have already achieved targets on tuberculosis prevalence, but prevalence is rising in 3 Pacific MICs.

Spending on health varies widely across MICs in the region: spending per person ranges from over PPP\$3,000 in Niue, PPP\$1,600 in Palau and PPP\$1,160 in Turkey to less than PPP\$100 in three countries (Timor-Leste, Lao PDR and Pakistan). Funding sources vary considerably too; in the Solomon Islands and Samoa the government accounts for around a quarter of health expenditure; in 15 Asia-Pacific MICs households bear over 80% of total expenditure on health.<sup>59</sup>

MICs within the region face a variety of environmental and climate related challenges. The Asia-Pacific region as a whole is the world's most disaster prone region and MICs remain vulnerable to these challenges. While some environmental threats can be mitigated with national efforts, others cannot. India's preparedness meant that the 2013 death toll of Cyclone Phailin in Odisha state stood at around 15 people, a sharp contrast to 10,000 people killed by the last major cyclone in 1999.<sup>60</sup> However rising sea levels that threaten MICs in the Pacific are a supranational issue that requires international cooperation and action.

Eight of the thirteen least developed countries in the region are also MICs.<sup>61</sup>

Even the economic characteristics of MICs in the region differ considerably from country to country. 57% of the world's extreme poor (based on the \$1.25 a day measure) live in MICs in the Asia-Pacific region. But poverty levels vary considerably between countries. \$1.25 a day poverty rates range from less than 1% of the population in four Asia-Pacific MICs<sup>62</sup> to more than 30% in another four. The proportion of people living on less than \$2 a day ranges from less than 5% in five countries, to over 60% in three countries (India, Lao PDR and Pakistan).

Government spending per person, a proxy for the resources available to domestic institutions, varies widely, from a little over PPP\$ 500 per person in Pakistan to over PPP\$ 2,200 in Mongolia. MICs also receive a very different mix of international resources. For 9 MICs, ODA accounts for more than 10% of total international resources received in 2012. In three MICs ODA is the largest international resource flow (Lao PDR, Tonga and FSM). In other countries private resource flows are much larger. FDI is the largest resource flow to China, Turkmenistan, Maldives and Fiji. Long-term debt is the largest resource flow to nine MICs in the region and for six countries, remittances are the largest international flow.

<sup>58</sup>Asia-Pacific Regional MDGs Report 2012/13, pp8. There is only data for 19 Asia-Pacific MICs on progress towards HIV prevalence targets.

<sup>59</sup>WHO Health Financing Statistics. Data is for 2011. These 15 countries are: Turkmenistan, Cook Islands, Kazakhstan, Iran, Bhutan, Mongolia, Azerbaijan, Vietnam, Armenia, Pakistan, Georgia, Uzbekistan, Niue, Tuvalu and Maldives.

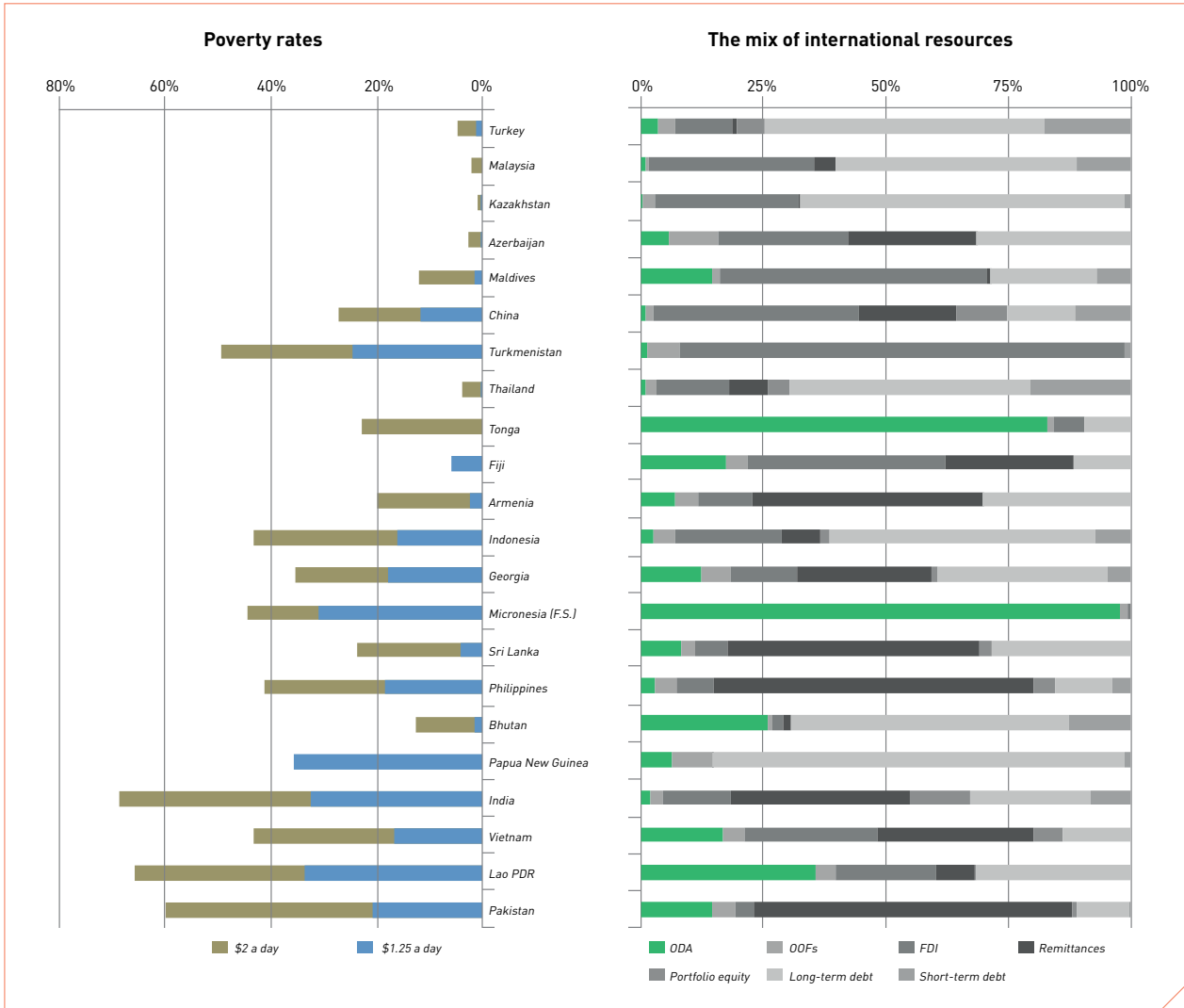
<sup>60</sup>Reuters, October 2013. See: <http://www.reuters.com/article/2013/10/13/us-india-cyclone-idUSBRE9990LK20131013>

<sup>61</sup>As defined by the UN list of least developed countries. See: <http://unctad.org/en/pages/aldc/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx>. The eight countries in the region that are both LDCs and MICs are: Bhutan, Kiribati, Lao PDR, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu. The other five LDCs in the region (which are all classified as low income countries) are: Afghanistan, Bangladesh, Cambodia, Myanmar and Nepal.

<sup>62</sup>Of those with data



**Figure 10** Diversity in MICs: poverty rates and international resources in Asia-Pacific MICs



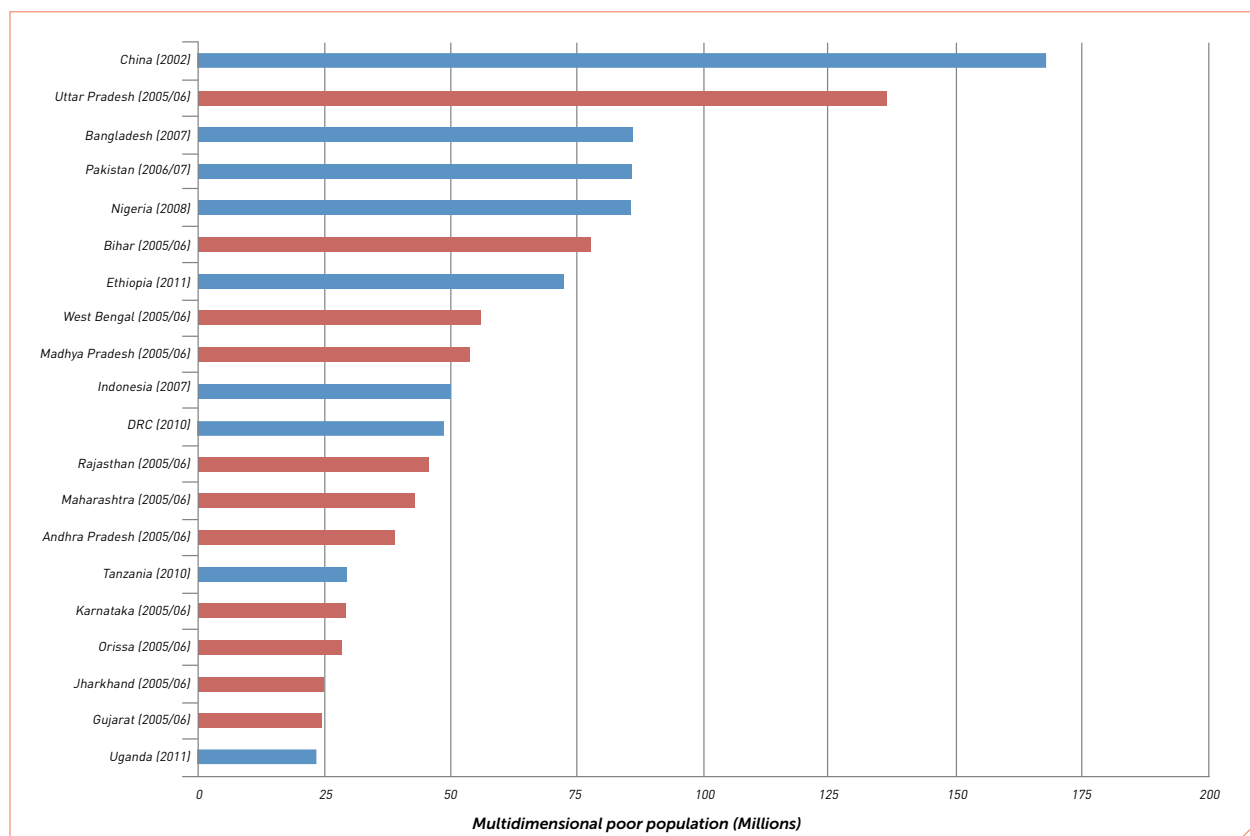
Source: Author's calculations based on World Bank, Investments to end poverty (2013)

In more populous MICs, average income per capita also masks huge geographic disparity, where the prosperity in wealthier regions masks the poverty of others. India, the MIC that is home to more people living in extreme poverty than any other nation on earth is a good example of this. Income per capita is \$1,580 p.a.<sup>63</sup> (or \$4.33 a day) yet almost 400 million people live on less than \$1.25 a day, with significant numbers concentrated in the most populous states. If one ranks Indian states alongside other countries, 11 would be among the top 20 with the highest number of people living in multidimensional poverty (Figure 11).

<sup>63</sup>Current income per capita data for 2012 from the World Bank data bank, using the Atlas method



**Figure 11** Numbers of people living in multidimensional poverty in Indian states and other countries



Source: Investments to End Poverty (2013), pp25

Middle income countries face varied challenges and have differing capacity and capability to address these challenges. In sum, MICs in the Asia-Pacific region are a large group, and the progress or lack of progress they make in social, economic and environmental development over the next fifteen years will make a considerable contribution to global progress.

## 5.2. Role for development cooperation in MICs

The realisation that the majority of the world's poor live in countries that are classified as middle income has prompted many cooperation providers to rethink the way in which they allocate scarce development cooperation resources. An increasing number of providers are scaling down cooperation with MICs, largely because of their income group status.

There are many reasons why the development community should take a much more nuanced view.

Development cooperation is motivated by poverty eradication and social progress, and the progress or lack of progress that MICs make will go a long way to determining global progress. MICs in the Asia-Pacific region are home to 57% of people living on less than \$1.25 a day worldwide. Ending poverty will require continued progress in these countries so it can be argued that it is inconsistent to reduce cooperation merely because income per capita has passed the lower boundary for LMIC status.

Many middle income countries have also highlighted the valuable contributions that development cooperation can continue to make towards their development paths and expressed a desire to continue receiving cooperation. While some MICs have stated that they no longer need traditional development cooperation, this is not common across all MICs. The counter-argument is that many MICs should be able to mobilise the resources they need to eradicate poverty from their citizens and that this will not become the political priority that it should be while ODA is still available to them.



The resolution of this dilemma may be to argue for continuing ODA for MICs facing high levels of poverty and vulnerability but to tailor that support appropriately. The type and nature of cooperation will vary as countries develop economically. In Papua New Guinea, for example, the government is encouraging development cooperation providers to focus more on investment in economic sectors and migrate away from the social sectors in which cooperation has traditionally focused. In Viet Nam, the need articulated by the government is less about the transfer of resources and more about cooperation in areas of governance and institutional development (see below). In stronger MICs, continuing ODA should urge, not deter, stronger government effort. In such situations cooperation can prioritise support for civil society and for local or state governments that are least well resourced, focusing on governance reforms that help create a political and administrative context in which pro-poor development gets its deserved attention.

Many MICs have also called for broader policy coherence in development cooperation, in areas such as trade, migration, the environment and the global financial system.<sup>64</sup> As their economies develop, enhanced cooperation in these areas becomes increasingly important to continued progress.

The challenge of cooperation with MICs should not be in justifying the very need for cooperation; rather it should be to clearly articulate the role and added value that cooperation can bring.

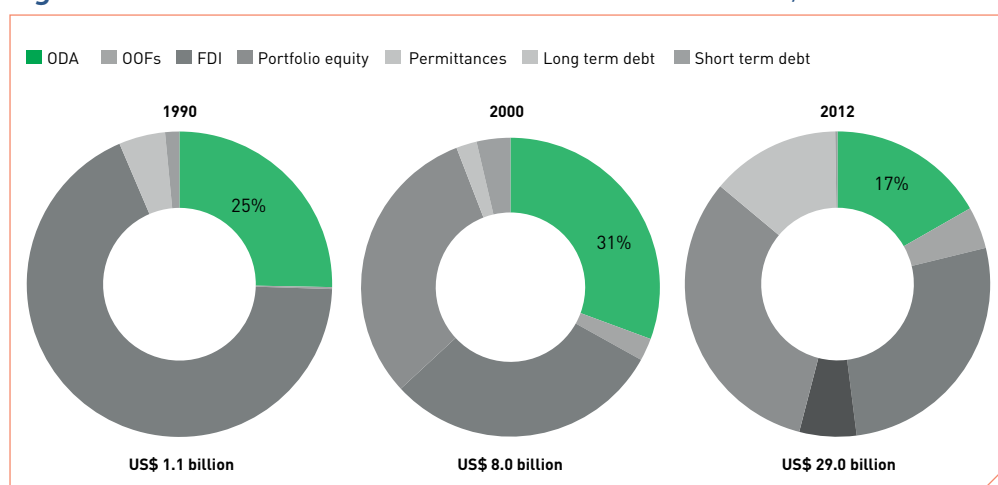
### Case study: Viet Nam

Viet Nam is a middle income country that has experienced rapid growth in the economy and resource availability – yet the government continues to see an important role for development cooperation into the future.

Following reforms in the 1980s, Viet Nam experienced a sustained period of high investment and rapid economic growth until the global economic crisis in 2007. Average annual growth exceeded 7% over a twenty year period and the economy quadrupled in size. Viet Nam became a MIC in 2009. However, growth in the economy and in the volumes of resource flows to the country have slowed and the challenge facing the country now is to increase the effectiveness of existing resources.<sup>65</sup>

ODA accounts for only a small proportion of the development finance envelope in Viet Nam (figure 12), but its significance extends beyond its dollar value alone. The processes of analysis, dialogue and policy design that are built into ODA-financed projects are recognised among Vietnamese line ministries as strengthening weaker national budget appraisal processes.<sup>66</sup> ODA also provides a considerable portion of the funds available for addressing new policy challenges, given poor integration between policy making, planning and budget systems in Viet Nam.<sup>67</sup>

**Figure 12** International resource flows to Viet Nam in 1990, 2000 and 2012



Source: Author's calculations based on data from OECD, UNCTAD and the World Bank

<sup>64</sup>Consultations Report, Asia-Pacific Regional Outreach Consultation on Building Evidence for the First HLM of the GPEDC, March 2014

<sup>65</sup>Cox, M., Tran Thi, H., 2013

<sup>66</sup>Ibid, pp40

<sup>67</sup>Ibid, pp41

A UNDP-commissioned study<sup>68</sup> found numerous ways in which ODA can play a valuable role in increasing the development effectiveness of other sources of finance going forward.

Through sharing knowledge and evidence and via targeted capacity building, development partners can support improvements in evidence-based decision making. Technical support to the government can strengthen fiscal decentralisation priorities. Infrastructure development can be supported by leveraging private investment resources into the sector, supporting the development of a framework for designing and negotiating PPPs, as well as by funding triangular cooperation with countries such as Indonesia that have built up expertise in this area.

Development partners have played an important role in developing a health sector financing plan that encompasses the national budget, development partners, the private sector and contributions from citizens. Similar initiatives in other sectors such as education can also be supported. Development partners can also support capacity development and growth in the private sector, for example by linking Vietnamese institutions and companies with counterparts overseas. Finally, development partners can also strengthen national accountability mechanisms with sustainable support to civil society and academic and research institutions.

In Viet Nam the role of development cooperation is evolving from a focus on financial transfers (though access to concessional credit is still important to the country: see section 5.3). Despite reaching MIC status, there are clear and important roles for development cooperation in supporting institutional development and increased effectiveness going forward. The Vietnamese government has expressed a desire to continue receiving development cooperation.

### 5.3. Access to international concessional finance

Income group status has a significant bearing on a country's access to international concessional finance beyond the effect on donor allocation decisions described above. Eligibility for the International Development Association (IDA is the World Bank window that provides concessional loans and grants) is determined primarily by income per capita.<sup>69</sup> Other institutions are guided by the way that the World Bank classifies countries.

Viet Nam is expected to graduate from IDA in 2017 and the Asian Development Fund (the concessional window of the Asian Development Bank) in 2020, although formal decisions have not yet been made. Following graduation the country will lose access to concessional loans and borrowing will only be possible on commercial terms. There are concerns that this will result in a decline in spending in the social sectors in Viet Nam. The government has historically only used non-concessional financing to fund investments that generate a direct revenue stream that can cover repayments while concessional financing has supported expenditure in the social sectors.<sup>70</sup>

The Pacific Islands, many of which are MICs (and some of which are UMICs) have articulated their need to maintain access to international concessional finance for infrastructure and climate finance for adaptation and mitigation. They argue that access to concessional financing for infrastructure in particular should move beyond conventional economic considerations to take social and environmental factors into account. The particular circumstances and vulnerabilities of small island developing states (SIDS) mean that access to concessional credit for infrastructure will remain important, despite MIC status.

### 5.4. The effects of 'graduating' to middle income status on civil society

Civil society plays an increasingly important role as both an implementer and funder of development activities in MICs. While growth has been associated with a general rise in domestic philanthropy, this is uneven across countries and is countered both by a general decline in international funding for CSOs in MICs and growing demand for their services. Given differences in the types of CSOs supported by domestic and international financing, CSOs tackling 'less sexy' subjects such as monitoring governance or agricultural development in many MICs face considerable challenges. In addition CSOs in many MICs are face increasing restrictions on their activities.

Economic growth is generally associated with an increase in philanthropy, although this is far from uniform and few MICs have experienced high volumes of corporate philanthropy. Nevertheless, private funding for CSOs in just three

<sup>68</sup>Ibid

<sup>69</sup>IDA borrowing countries – criteria. See: <http://www.worldbank.org/ida/borrowing-countries.html>. Eligibility for IDA is determined primarily by income per capita relative to a threshold that is updated annually (in 2014 the threshold is US\$ 1,205), although some countries with income per capita above but who lack the creditworthiness to borrow from the IBRD remain eligible for IDA support.

<sup>70</sup>See *Development Finance and Aid Assessment for Viet Nam*, pp18



countries (China, India and the Philippines) amounts to between \$25 – 34bn per year, equivalent to 65 – 90% of total ODA to the region.<sup>71</sup>

Most domestic philanthropy is personal (from wealthy individuals and middle-income families) and through faith-based CSOs. Funding is often erratic, rising or falling steeply in response to natural disasters or crisis and with variations in public perceptions of CSOs. A high proportion of domestic philanthropy is allocated very locally: philanthropists often like to see the evidence of their largess on their doorstep and since they generally live in more prosperous parts of a country, there is an inherent inequity in such targeting (albeit the beneficiaries may well rank amongst the neediest in the locality). Similarly, CSOs financed by remittances tend to flourish in the (often wealthier) communities in which expatriate workers originate.

In contrast to the general, albeit uneven, rise in domestic philanthropy as countries in the region have developed economically, there has been a steep decline in official funding for CSOs in MICs.

Many donors are shifting funds away from MICs towards conflict-affected countries and LDCs. International NGOs often similarly prefer funding partners in 'more needy' countries. Coupled with a decline in overall ODA and private philanthropy since the global recession, the shift away from CSOs in MICs has led to hard times for organisations that depend on foreign contributions.

While at face value the decline in international funding for CSOs may appear to be offset by growth in domestic philanthropy as well as CSO-funding financed by remittances, closer inspection reveals that this would not be comparing like with like.

Private charity in MICs tends to focus on the social sectors, and giving by wealthy individuals is often focused on highly visible 'prestige projects'. While social sectors such as health and education may be deserving causes, the overall effect is a decline in support for areas that are typically funded internationally, such as agricultural development, micro-finance, training, water and sanitation. Critical advocacy activities that monitor governance to unearth corruption, poor targeting or inefficiency may become especially difficult to fund. In Russia, 50% of NGOs experienced a considerable funding drop (especially in corporate giving); hence most cut their staff or reduced (or deferred) salaries.<sup>72</sup>

Alongside reductions in financing, CSOs in MICs that seek to provide rounded contributions to development and who tackle these 'less sexy' subjects face increased demand as a result of the economic crisis and rising unemployment.

Furthermore, the governments of MICs are often proving the most ready to restrict CSO freedoms and to more rigorously supervise their fundraising activities. This is partly because these governments, being increasingly dependent on ODA, are becoming less concerned about their image in the donor community, partly because they are more exposed to the arguments OECD countries use for scrutinizing their own domestic CSOs in the wake of the rise of international terrorism (see section 3.3 on Challenges for Civil Society), and partly because they have greater capacity to implement the more restrictive policies and laws.

## 5.5. Do we need to rethink the way countries are classified?

The design and use of the income group classification system conflicts deeply with the spirit of debates about global goals for the post-2015 agenda.

While the post-2015 debate emphasises the incorporation of all three aspects of development – social, environmental and economic – the income group system reduces this to a narrow view of the economic dimension alone. There is increasing recognition about the need to look beyond averages and to disaggregate data in order to understand and support progress for all people. Yet the income group system reduces the perspective to an average that masks progress for people either side of the average.

In practice, income groups are often used in decision making as a proxy for understanding capacity to address domestic issues within a country. The reasoning goes that as income increases, capacity is likely to increase, so the need for development cooperation diminishes. However, income per capita is a poor proxy for the levels of resources within the control of domestic institutions with a mandate to address domestic issues, the human and technical

<sup>71</sup>John Clark et al., May 2012, "International Good Practices in State-NGO Relations: A Benchmark for West Bank and Gaza", World Bank Report (requested by the Palestinian Authority); ODA statistics from OECD. Although some funding may be allocated to activities such as sports or cultural sectors that do not contribute to national development and some may derive from international or government sources.

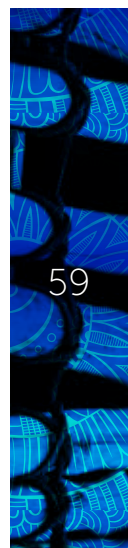
<sup>72</sup>John Clark, 2011, "Civil Society in the Age of Crisis", *Journal of Civil Society*, 7:3, 241-263



capacity available to these institutions and the political or other factors that can be conducive or detrimental to progress. For example, while GNI per capita is slightly higher in Indonesia than Mongolia, at US\$ 3,420 and US\$ 3,160 respectively, government resources per person are considerably lower: spending per person is PPP\$ 700 in Indonesia and PPP\$ 1,700 in Mongolia.

Even within a framework in which ranking countries by average income per capita is desirable, it is important to note the arbitrary, and extremely low, threshold above which countries are currently labelled 'middle' income. In 2012 the lower boundary for classification as a lower middle income country was \$1,035, equivalent to an average daily income of slightly under \$3. While this is above the widely used \$1.25 a day measure of extreme poverty, it nevertheless represents a very low level of income and a level at which people are generally considered to be extremely vulnerable to falling back into extreme poverty. An emerging literature<sup>73</sup> on economic vulnerability and poverty argues that people with income levels between \$4 and \$10 a day are vulnerable to falling into extreme poverty, and that only once levels reach above \$10 or \$12 does this vulnerability starts to subside. Countries with an average income of \$3 per day – even without considering inequality – are some way off achieving these levels. Even in new UMICs, anyone living around or below the average level of income may still be vulnerable to poverty as the threshold for classification as an UMIC is \$3,976 per person, or \$11 a day. Of the 34 MICs in the region, 19 are LMICs and 15 UMICs (of which 10 have graduated to UMIC status since 2009).

There is an urgent need to re-evaluate both the way in which countries are classified and the way that these classifications are used. The income group system is a forty year old concept that was designed for a purpose entirely different<sup>74</sup> from that to which it is applied in a modern and increasing complex development landscape. Looking forward, through the vision that is being expressed in the emerging post-2015 debate, there is a clear need to develop more advanced systems for understanding and engaging with countries that adequately accounts for needs and capacity.



<sup>73</sup>See, for example, *The strugglers: the new poor in Latin America*, 2013, Birdsall, N., Lustig, N., Meyer, C.

<sup>74</sup>The original income group thresholds were designed on the basis of the World Bank's civil works preference system for procurement, and haven't been updated since (except for inflation). See Ravallion, M., 2012 and Kenny, C., 2011.

## 6. South-South and Triangular Cooperation

### KEY MESSAGES

- ▶ South-South Cooperation (SSC) and Triangular Cooperation (TrC) is increasing and many of the world's largest SSC providers are from Asia
- ▶ As SSC grows recipients are engaging more closely with SSC providers to improve the alignment and efficiency of this cooperation
- ▶ SSC and TrC – defined below – offer enormous potential as tools for empowering countries and advancing progress through sharing knowledge and expertise in overcoming common challenges
- ▶ From a SSC provider's perspective, cooperation often begins with demand-led, ad hoc opportunities to support (usually neighbouring) countries: as cooperation grows so the benefits of improving co-ordination and determining a vision for cooperation grow
- ▶ Many SSC providers in the region are in the process of developing objectives, rationales, institutional structures and toolsets for the cooperation they want to offer
- ▶ Providers need not be official: NGOs, academic centres and private firms can also contribute, for example by providing expertise, knowledge and finance, or in implementation and monitoring
- ▶ From a recipient's perspective, there are examples of SSC where the recipient country has little bargaining power in the design or implementation of projects and where cooperation is unaligned to developmental priorities
- ▶ Countries in the Pacific have institutionalized a strong Peer Review process to strengthen human resource capacity and country systems for managing development cooperation and public resources, and to help countries assert greater influence over the cooperation they receive

### 'THE HOW'

- ▶ SSC providers in consultation with national and local stakeholders can develop clear strategies that articulate the rationale and objectives for providing cooperation as well as the tools to be used and the mechanisms for oversight, co-ordination and knowledge management
- ▶ For some SSC providers this may involve establishing a co-ordination mechanism or agency that leads and oversees the cooperation they provide
- ▶ Recipients of SSC can take a proactive role in managing the cooperation they receive: by engaging closely with SSC providers and encouraging the use of national sector plans that incorporate all development partners, countries such as Cambodia are aiming to improve the efficiency and effectiveness of this type of cooperation
- ▶ Traditional providers can innovate and increase their use of and funding for TrC that augments SSC, alongside traditional cooperation

South-South Cooperation (SSC) and Triangular Cooperation (TrC) are growing as important complements to traditional development cooperation within the Asia-Pacific region and beyond. Many countries are providing increasing levels of cooperation and, as this grows, are dealing with questions about the objectives they are aiming to achieve through cooperation and ways to formalise and improve the cooperation they offer.

At the same time growth in SSC means recipients have greater access to finance beyond ODA. Many recipients of SSC are recognising the potential contribution this cooperation can offer to their development paths and are engaging more actively with SSC providers to improve the alignment, ownership, efficiency and effectiveness of cooperation.

## 6.1. Defining South-South Cooperation

In comparison to other international financial resources, SSC is a loose concept which means different things for different providers in different contexts. For some SSC providers, cooperation is mainly about knowledge sharing or technical cooperation, whereas for others the provision of grants, loans, guarantees or credits are important modalities. Trade, overseas employment and other forms of cooperation between private actors and civil society are also important modalities.

Many countries in the Asia-Pacific region are active as providers of cooperation, although the information about the scale and nature of the cooperation they provide is partial. In part this is due to the uncoordinated nature of cooperation from many providers, where alignment and information capturing systems among agencies within the provider country are underdeveloped. There is also no central forum in which information is captured across SSC providers.

AP-DEF is leading work to map SSC within the Asia-Pacific region to provide a platform for exchange and learning about SSC among SSC providers and recipients.

Table 4 below presents estimates of the scale of cooperation provided by different SSC providers. Turkey, Russia and Thailand report cooperation to the OECD, although estimates may capture only partially capture the true volume of activities (see case study on Thailand below).

China is the largest provider of SSC worldwide, and the cooperation it provides – estimated at US\$ between US\$ 4 and 5 billion in 2012 – is equivalent in scale to many major traditional donors. Turkey has grown as a provider of cooperation in recent years, in part due to rising humanitarian assistance to neighbouring countries. India and Russia also provide considerable volumes of cooperation.

**Table 4** Estimates of the scale and nature of cooperation from providers in the region

SSC provider	Rough scale	Notes
<b>China</b>	US\$ 2.7 billion non-military aid excluding concessional loans + concessional loans from the Exim bank of around US\$ 1.6 – 1.9 billion. Cooperation is provided to 160 countries worldwide.	
<b>Turkey</b>	US\$ 2.4 billion	Cooperation is primarily bilateral and focused on neighbouring countries. Turkey was the fourth largest provider of humanitarian assistance worldwide in 2011.
<b>India</b>	US\$ 787million disbursements + US\$ 1.1bn commitments on concessional lines of credit. Disbursements include technical and economic Cooperation (US\$ 479 million), loans and advances to foreign governments, contributions to international organisations and interest subsidies on lines of credit.	
<b>Russia</b>	US\$ 479million	Cooperation reported to the OECD consists entirely of grants. Russia reported Cooperation with 27 countries, the largest being Nicaragua and DPR Korea.
<b>Thailand</b>	US\$ 23million	Cooperation reported to the OECD focuses on the provision of finance, although Thailand provides other forms of Cooperation that are not reported. Laos is the major recipient.
<b>Indonesia</b>	US\$ 6million of Cooperation is identified in the PEIR, although this is thought to grossly underestimate true levels of Cooperation.	

Sources: UNDP (2013C), Investments to End Poverty (2013), OECD DAC Table 2A, Thailand PEIR (2013), Indonesia PEIR (2013)



## 6.2. The recipients' perspective

Asia-Pacific countries receive a growing volume of SSC in the form of financial assistance, technical assistance, knowledge sharing and TrC. Much of this comes from other countries within the region – many recipients are benefiting from being in 'good neighbourhoods', where economic expansion in their neighbours is driving growing regional cooperation. In the Pacific, the Forum Compact has underpinned closer integration within the region with the establishment of the peer review process (see case study in Annex E). Cooperation from SSC providers beyond the region is also growing.

SSC has unique characteristics that may be specific to the provider and which are often different to the characteristics of cooperation from traditional development partners.<sup>75</sup> As such, there are strengths and weaknesses of SSC and TrC that are unique to these types of cooperation, and which require a different approach on the part of the country receiving them.

While providers of SSC were not signatories to the Busan principles and monitoring framework, a number of providers are applying the principles to their cooperation on a voluntary basis. Many recipient countries have also included the cooperation provided by certain SSC providers in their national development effectiveness framework as well as the GPEDC 2013 monitoring survey results.<sup>76</sup> The inclusion of some SSC within the monitoring results suggests that SSC providers may wish to consider developing a framework or tool that includes indicators for measuring the development results and impact of SSC as a modality of cooperation.

AP-DEF is working to support countries to better understand the volume, delivery and impacts of SSC. It has started to map out the flows and types of cooperation provided through DFAAs, PEIRs and forthcoming CAMIs such as the one being piloted in Bangladesh.

Institutional capacity building that improves the ability of recipient countries to strengthen policy and enabling conditions for SSC, and to enhance policy coherence, coordination and institutional arrangements, is important for ensuring that SSC has the greatest impact on development.

### Case study: SSC in Papua New Guinea

South-South Cooperation in Papua New Guinea (PNG) is growing and while this brings greater access to development cooperation and finance, the DFAA for PNG highlighted a number of issues about the type of cooperation that is received from SSC providers.

Chinese assistance to PNG has grown almost three-fold since 2005 (nominally) and is expected to double by 2017. China was estimated to be the fifth largest provider of grants to PNG in 2012.

However, the experience of PNG has been one where Chinese ODA operates differently to other bilateral partners, with different programming, disbursement and forward planning structures. This adds complexity on PNG's development cooperation management systems.

## 6.3. The providers' perspective

Many countries in the region are providing increasing amounts of SSC. Chinese cooperation has grown to levels equivalent to those of many established donors; Turkey, India and others are also providing increasing amounts. Within these countries, in different ways, initiatives are underway to strengthen policies and institutions with oversight of development cooperation. Other countries in the region, such as PNG, have expressed an objective of becoming a provider in the future.

Most SSC providers in the region see SSC as distinct from ODA and there is a need for SSC providers to develop an appropriate definition for SSC, and to develop measures on its development impact.

The cooperation offered by many countries as they begin to offer assistance is often demand-driven, ad hoc and uncoordinated. Issues may arise, often in neighbouring countries, that an agency or ministry within the SSC provider is able to offer support on. As this type of cooperation grows, or as development cooperation becomes more politically

<sup>75</sup>Bogota Statement Towards Effective and Inclusive Development Partnerships, March 2010

<sup>76</sup>These countries include Cambodia, Kiribati, Marshall Islands, Nepal, Philippines, Samoa and Tajikistan from the Asia-Pacific region.

important within the provider, the need to co-ordinate and develop an institutional structure to guide and support cooperation, grows.

Many SSC providers in the region are dealing with questions that arise as the cooperation they offer grows beyond small and ad hoc engagement. Central to this is establishing the aims and objectives that the country seeks to achieve through cooperation, and determining the balance between seeking to reinforce their own development path through strategic cooperation, and supporting other countries for more altruistic reasons. Alongside the question of objectives lies the question of what needs exist and what capacity the SSC provider has to address them.

Practically, SSC providers are establishing the toolset they can use in their development cooperation. As noted above, this looks quite different for different countries and will evolve over time. Different modalities may be viewed in different perspectives. Thailand, for example, engages with countries in the region through a range of modalities, including the provision of finance, knowledge sharing and technical cooperation. However, rather than viewing different modalities as part of an overall package, they are viewed as distinct from one another, and Thailand reports only the financial support it offers as aid.

As cooperation grows so the trade-offs between fragmented and coordinated, flexible and formalised models of cooperation arise. Different institutional structures will be appropriate in different contexts, given differing objectives and varying political and institutional contexts within the SSC provider. Greater coordination allows stronger oversight and alignment to a centralised strategy as well as improved knowledge sharing amongst practitioners that are often disbursed across many ministries or departments. More formalised structures may be necessary to mainstream the monitoring, evaluation and feedback loops that are needed to improve the effectiveness of cooperation. One key question that many SSC providers are asking is whether to establish a dedicated entity that leads or coordinates cooperation. Thailand's PEIR recommended that the country consider establishing a single entity to bring together cooperation provided by various agencies. In Indonesia a secretariat has been established but struggles with low capacity and the task of coordinating numerous entities that are involved in providing cooperation.

As countries develop different motivations and priorities for their cooperation models, so the nature of that cooperation, the partnerships it entails and the institutional structure it sits within will differ. SSC providers across the region offer various types of cooperation and are at various stages of dealing with these issues.

### Case study: Indonesia

Indonesia has a long history of active international engagement and as its economy grows, the country is becoming more active as a SSC provider. The key issues facing Indonesian cooperation are strengthening co-ordination and information sharing among the many agencies providing cooperation.

Institutionally, Indonesia's cooperation is rooted in the Jakarta Commitment (2009) and the country's national development plans. In 2010 a Coordinating Team for the Development of South-South Cooperation was established to develop a Grand Design that will guide SSC over the period 2011-2025, and a Blue Print setting the policy framework for the first phase, over 2011-2014. The goals of Indonesian cooperation are to accelerate the country's own economic development, to support Southern countries to achieve 'collective self-reliance', and to support foreign policy objectives of Indonesia as a global player.<sup>77</sup>

However, despite a developing oversight structure for cooperation, in practice the cooperation offered to date has been largely ad-hoc and uncoordinated.

Financing streams for cooperation are unsecured and cooperation has not been integrated into the state budget system. Given the large number of line ministries and agencies, a lack of clarity about how Indonesia defines the development cooperation it provides, and the absence of an information system to report or track development cooperation, estimates for the total volume of activities undertaken by Indonesia vary quite considerably. Information sharing and lesson-learning within the government is difficult and there are many 'hidden' programmes. A secretariat dedicated to SSC has been established, but is reported to suffer from a lack of capacity.

<sup>77</sup>Sofjan, D., and Kenngott, C., 2014, pp11



A UNDP assessment of Indonesian cooperation proposed that, in order to move the agenda forward, Indonesia can consider a number of recommendations. These included a review of the legal and policy structure to mitigate stumbling blocks to progress, considering the establishment of a single entity to scale up SSC and knowledge sharing programmes, and awareness-raising among key stakeholders. These steps may help improve co-ordination and knowledge sharing.

### Case study: Thailand

Thailand continues to engage as a provider of development cooperation, largely to countries within the South-East Asia region. The key issues facing Thai cooperation are improving coordination within government and with partners, and articulating a clear strategy for engaging in cooperation.

Thailand reported cooperation totalling US\$ 23 million to the OECD in 2012, down from a high of US\$ 166 million in 2008.<sup>78</sup> However the true total, including all forms of cooperation, is likely to be higher. The majority of cooperation reported to the OECD (US\$ 16.4 million) was in the form of grants while a portion was loans (US\$ 6.2 million), and most was disbursed within the region: Laos has historically been the largest recipient of Thai cooperation.

There is no overarching strategy that governs Thailand's goals or tools for international development cooperation, although two key national policies highlight development cooperation as a mechanism that can support Thailand's own development needs.<sup>79</sup> As such one of the issues Thai cooperation faces is that different actors have different views on how to meet the needs and interests of their partners.

There are two agencies focused on development cooperation: Thailand International Development Cooperation Agency (TICA), which administers technical cooperation, and the Neighbouring Countries Economic Development Cooperation Agency (NEDA). However various other ministries and institutions including the EXIM bank also engage in cooperation with partners. This is highlighted in table 5, which shows the range of implementing agencies involved in cooperation with Myanmar over 2009-2011.

<sup>78</sup>These figures are gross disbursements of ODA as reported to the OECD DAC (table 2A)

<sup>79</sup>These national policies are the Policy Statement by the Council of Ministers and the 11th National Economic and Social Development Plan.

**Table 5** Thai cooperation with Myanmar by implementing agency, 2009-2011

Implementing Agency	Sectors	Cooperation, 2009-2011, Thai Baht millions
Ministry of Commerce	Technology transfer and technical assistance, trade	6.12
Ministry of Education	Education	0.33
Ministry of Energy	Education, technology transfer and technical assistance	7.00
Ministry of Foreign Affairs	Education, health	0.34
Ministry of Justice	Technology transfer and technical assistance	0.03
Ministry of Labour	Technology transfer and technical assistance	0.17
Ministry of Natural Resources	Technology transfer and technical assistance	0.05
Ministry of Public Health	Health	0.78
Ministry of Science	Technology transfer and technical assistance	0.70
Ministry of Transport	Education, technology transfer and technical assistance	1.71
Neighbouring Countries Economic Development Cooperation Agency	Transport infrastructure	0.11
Office of Higher Ministry of Education Commission	Education	8.34
Office of the Prime Minister	Education	0.26
Thailand International Development Cooperation Agency	Agriculture, education, trade	9.27

**Source:** Strategic Review of Thailand's International Development Cooperation, 2013

The institutional structures that co-ordinate development cooperation activities both across and within agencies have been identified as areas that could be improved in order to increase the overall efficiency of Thai development cooperation.<sup>80</sup> At present there is no committee that oversees all development cooperation and economic, technical and other types of cooperation are viewed as distinct from one another. This is reflected by Thai reporting to the OECD, which focuses on the financial cooperation Thailand provides, excluding other forms of cooperation. In addition to coordination of activities, the lack of structures to capture information and knowledge on the practices and experiences of different agencies constrains lesson learning about efficient delivery.

Steps to improve coordination have been implemented within some ministries, such as the committee on international cooperation within the Ministry of Public Health. This committee was created as a forum to share and integrate strategies and information, and identify areas where different actors working on public health can add greater value by working together. However coordination remains a challenge in many agencies involved in development cooperation.

<sup>80</sup>M. Miller and W. Prapha, 2013, pp30

Monitoring and evaluation has been emphasised in TICA's strategic framework and is integrated into some technical assistance programmes. However macro-level evaluations of Thailand's development cooperation is difficult because there is no overarching strategy against which success can be measured and, even where evaluation processes do collect information, feedback mechanisms to improve the design of future policy and programmes are weak.

Thailand is actively seeking to promote itself as a regional knowledge hub, particularly in the area of higher education through the Office of Higher Education Commission, and to scale up partnerships with international organisations that provide support for triangular cooperation. Both of these have been highlighted as areas in which clearer strategies, and identification of needs as well as the capacity to meet them, could improve cooperation efficiency.<sup>81</sup>



## 7. Knowledge sharing

### KEY MESSAGES

- ▶ The knowledge and experience of their peers is often more valuable to developing countries than that traditionally offered by OECD donors and other rich world institutions, since the context in which the experience is gathered is more comparable.
- ▶ Knowledge sharing (KS) can help strengthen the international standing of countries that provide the knowledge, even leading to strengthened trade and investment links.
- ▶ Identifying the knowledge needs of different countries and who is best placed to meet those needs, as well as facilitating the connection, will be haphazard unless a dedicated framework is developed to play these roles.
- ▶ Knowledge sharing is not just government-to-government and in many contexts non-state actors may be better placed to provide knowledge.
- ▶ Donors can usefully help finance the knowledge hubs and coordinating mechanisms needed for this framework.

### 'THE HOW'

- ▶ Donors to encourage and offer funding to help form bilateral KS links and to establish knowledge hubs for particular topics in Southern countries, possibly also establishing an international unit to foster KS. Where possible these hubs should be housed within existing institutions.
- ▶ Conduct and share globally a stocktaking of existing knowledge hubs (whether based in the North or South): a) to enable Southern governments and other actors to judge which offer priority skills and experience to them, and b) assess which Southern entities (governmental or non-governmental) could usefully contribute their knowledge through these hubs.
- ▶ Southern countries who are prepared to share their expertise could anchor responsibility for promoting and nurturing KS in a specific government agency – perhaps the agency responsible for the country's SSC programme, if there is one.
- ▶ These nodes could be connected with counterparts in other countries as SSC (including KS) becomes a more widely used development approach. Such a global network will help countries identify KS opportunities that are most relevant to their needs and comparative advantages.
- ▶ Institute Learning Reviews to identify key lessons from development initiatives, both to point to mid-course corrections and to distil lessons of experience for the benefit of others; the knowledge hubs could play an important role in these reviews.

Funding is not the only essential ingredient of sustainable development. Acquiring and making effective use of pertinent knowledge is pivotal to addressing the toughest development challenges. The most precious knowledge is often based on the experience of development initiatives elsewhere, especially where the contexts have significant similarities.

Mainstream development literature often implies that the knowledge needed lies mostly in the global North and that therefore donor organizations and centres of excellence in the North are the principal actors in KS. However in reality it is developing countries, especially those who have graduated to MIC status, that are likely to have the experience that poorer counterparts most urgently need, and many are increasingly prepared to release their skilled manpower for the time needed to share their skills with others. This South-South exchange of knowledge helps level the development playing field. Donors may support KS (e.g. through facilitation or financing) but the most important roles – identifying and sharing needed knowledge – are played by Southern actors.

There are many examples of successful KS from the region and beyond. Indonesia was widely praised for its handling of reconstruction in the province of Aceh following the 2004 tsunami, in particular for the emphasis on community-based housing reconstruction. Following the devastating Haitian earthquake of 2010, Indonesia provided invaluable advice to Haiti about clean-up and reconstruction in an exchange facilitated by the World Bank.<sup>82</sup>

<sup>82</sup>Armida S. Alisjahbana, Indonesian Minister for National Development Planning, 2014 *Why knowledge sharing matters for development cooperation*, UNDP, Indonesia



In 2008 the Government of Indonesia entered a 5-year partnership arrangement with the Palestinian Authority to provide training in various development fields, such as growing tropical fruit trees, in a KS programme financed by the Japanese government (JICA). While Indonesia is very distant from the West Bank and there is no common language, their shared Muslim faith provided a strong socio-cultural bond. Indonesia has also provided advice to Afghanistan, in the fields of public health, agriculture and community development, and is poised to share its knowledge with Muslim countries in various fields. This may be particularly appropriate in more sensitive areas of development and nation-building such as good governance and democracy building.<sup>83</sup>

Knowledge sharing is a two-way street, however, and Indonesia has learned as well as taught. Brazil's highly praised Bolsa Familia programme of conditional cash transfers to poor households was adapted to the national context and used as a pilot for a similar scheme in Indonesia – the Program Keluarga Harapan (Family Hope Programme). The pilot, financed by the World Bank, was highly effective and has now been scaled up, after certain modifications, to become a national programme funded by the national budget covering 3.2 million households in 2014.<sup>84</sup>

Beyond its direct benefits, KS has helped Indonesia establish trade and investment ties with other Southern countries. The division between the donor and recipient is not as clear cut as in traditional ODA relations: all parties may contribute and draw benefits. Hence KS can create many positive spill-over effects beyond those intended. It has also helped strengthen Indonesia's global standing.

Many developing countries are increasingly keen to be more assertive as regional and global leaders of development and KS is an important part of the strategy towards this goal.

One rationale is to achieve greater bargaining power in the international community through regional cooperation. Guided by its International Development Cooperation Agency, Thailand has an overt strategy of promoting cooperation with their neighbours in order to create a stronger ASEAN Community in the economic, socio-cultural and security areas.

In an increasingly interconnected world, there is also recognition that many pivotal challenges can only be overcome by closer cooperation, sharing experience and developing a more unified voice (such as in areas of climate change, bio-technology and food security).

Finally, many countries that have made important development advances feel a duty or at least a calling to share that experience with others who have yet to make those advances.

As the dividing line between rich and poor nations becomes more diffuse, and MICs have a more prominent place in global policy-making, many MICs recognize that KS (and other elements of SSC) help them strengthen their international relations and gain increased international recognition from working as an effective development partner. The Thai government, for example, considers that providing knowledge and technical cooperation to other developing countries will enhance its international standing, making it better placed to meet the development needs of Thai society.

Building knowledge hubs is a key component of KS. Knowledge hubs help seekers and providers of development solutions to network and provide a clear reference point for expertise in specific areas. Thailand's Office of Higher Education Commission is building an educational hub in the ASEAN region to exchange and share knowledge about higher education quality and standards.

Knowledge hubs are not a new phenomenon and have historically sparked transformative change around the world. In the 1950s a Rockefeller Foundation project in Mexico led to the establishment of an institute to research crop disease and drought resistance, and to develop hybrid crop varieties better suited to the Mexican context. Not only was the project itself effective, but it inspired agricultural scientists in India and Pakistan in the 1960s to learn and adapt the approach for the South Asian context – out of this was born the 'Green Revolution'. The Mexican centre duly evolved into an international hub, renamed the International Maize and Wheat Improvement Center.

This model of South-based world-class agricultural research was successfully replicated by the International Rice Research Institute in the Philippines and by research institutes in other regions which formed an umbrella organization,

<sup>83</sup>D. Sofjan, and C. Kennngott, 2014, *South-South and Triangular Cooperation: stocktaking and strategic review*, Bappenas and UNDP

<sup>84</sup>Alisjahbana *op. cit.*

now called the Consultative Group on International Agricultural Research (CGIAR). While initially funding was from philanthropic foundations, the centres and CGIAR are now supported by ODA, with a secretariat in the World Bank. While Northern funding, expertise and innovation was important, what made this programme effective was the inputs of thousands of Southern agriculturalists and scientists and the close connection that was possible between the research centres and the farmers who came to benefit from the research.

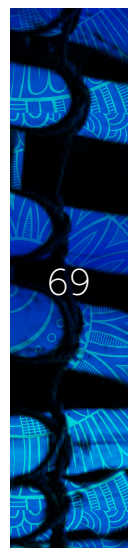
This example also illustrates that knowledge sharing is not just government-to-government and in many contexts non-state actors may be better placed to provide knowledge. Foundations, universities, NGOs and the private sector can and should also participate in KS.

The Grameen Bank, which millions of poor people (mostly women) in Bangladesh through micro-finance, went on to develop the Grameen Foundation. The Foundation has helped initiate micro-finance programmes in scores of countries, adapting the lessons from Bangladesh and elsewhere. It has also established 'Banking without Borders', another non-profit body, to enlist funds and volunteers from the commercial banking sector in advancing micro-finance in the global south.

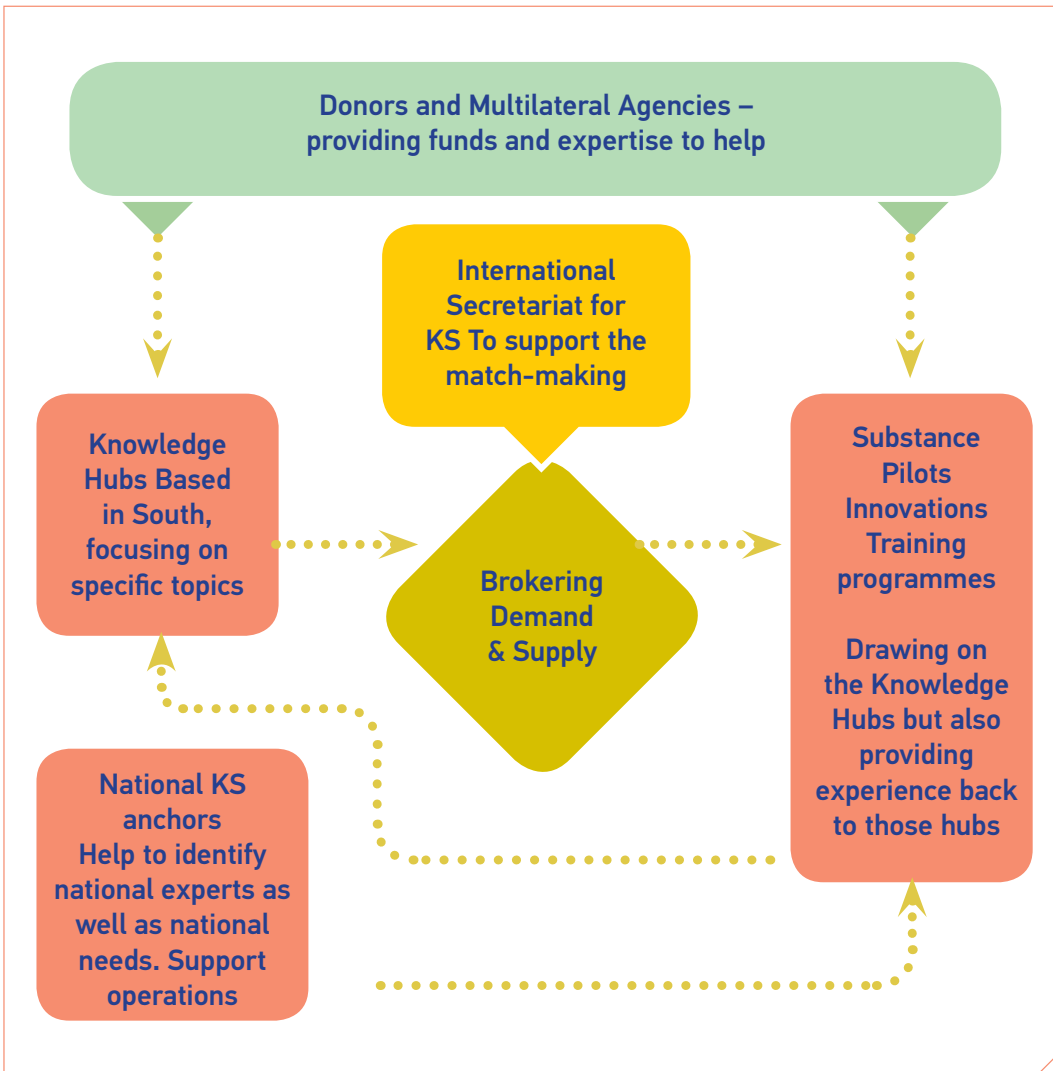
Many international NGOs are, in practice, largely knowledge networks that promote the sharing of experience amongst the network's members. The International Budget Project (IBP) connects and promotes exchange between CSOs engaged in budget analysis worldwide to advocate for pro-poor policies and enhance the accountability and effectiveness of national and local public expenditure. IBP started in 1985 when a group called DISHA in Gujarat, India realized it needed to better understand budgeting and expenditure processes to achieve its goal of including marginalised tribal people of Gujarat in the state's development priorities. It sought help from a US NGO, and the endeavour quickly made CSOs in other countries recognize that these tools would be valuable for their advocacy too.

The private sector can make important contributions to KS. In 2007, the mobile phone company Safaricom launched a mobile phone based payment and money transfer service, known as M-Pesa. This was based on a DFID-funded pilot undertaken with Vodaphone. The scheme was extremely successful in Kenya and is now one of the most widely used money transfer mechanisms – whether as payment for goods and services or for making micro-finance deposits. Safaricom and Vodaphone have since helped replicate the approach in Afghanistan, India, Tanzania, South Africa and Egypt.

Based on their experience in knowledge sharing and SSC, the governments of Indonesia, Korea and Mexico are collaborating with the World Bank, UNDP and others to advance ideas for promoting this important topic, in particular by establishing country-led knowledge hubs. The structure for a framework to underpin effective KS could look something like the structure in figure 13.



**Figure 13** A framework for effective knowledge sharing



## 8. Business as a Partner for Development

### KEY MESSAGES

- ▶ The private sector is growing rapidly in Asia-Pacific: private capital formation grew from 11% of GDP in 2000 to 19% in 2012
- ▶ Holistic development in the region must incorporate the contributions of all actors – the private sector should be centrally involved in the development agenda
- ▶ Where the government and private sector work together, great things can be achieved
- ▶ The convergence of public and private efforts – whether on tourism in a small island context like Palau, or using PPPs to scale up infrastructure investment in South-East Asia – can be transformative, offering scale and innovation that drives development
- ▶ Many Asia-Pacific economies are characterised by dominant state-owned enterprises that can negatively impact private investment
- ▶ Low capacity can be a blockage to successful private sector development and to effective partnerships between the public and private sectors
- ▶ The response to climate change must involve both the public and private sector
- ▶ Business networks can play vital roles in exposing and fighting corruption and promoting efficient and transparent government

### 'THE HOW'

- ▶ Establish effective country-level dialogue mechanisms between the public and private sector, as effective ongoing dialogue is essential for successful development-orientated partnerships
- ▶ Develop capacity: in the public sector, for example in managing PPPs; and in the private sector itself in many contexts, particularly fragile states
- ▶ Governments to promote democratic ownership in PPPs and other public-private collaboration, ensuring participation in the design, implementation, delivery and evaluation of programmes
- ▶ Encourage the expansion of development-focused businesses, which are being established in a number of contexts across the region
- ▶ Public actors to reinforce transparency and openness in partnerships with the private sector: there is a lot of experimenting with different modalities for partnerships between public and private institutions – this is a good impetus but transparency is vital to ensure that new models (i) retain a focus on developmental outcomes; (ii) are financially and operationally additional; and (iii) so that lessons can be shared about the strengths and weaknesses of different models in different contexts
- ▶ Support business networks as an effective mechanism for promoting codes of conduct amongst their members and mustering commitments not to pay bribes
- ▶ Encourage companies to report on their financial affairs, including tax and procurement procedures, and carry out social and environmental auditing

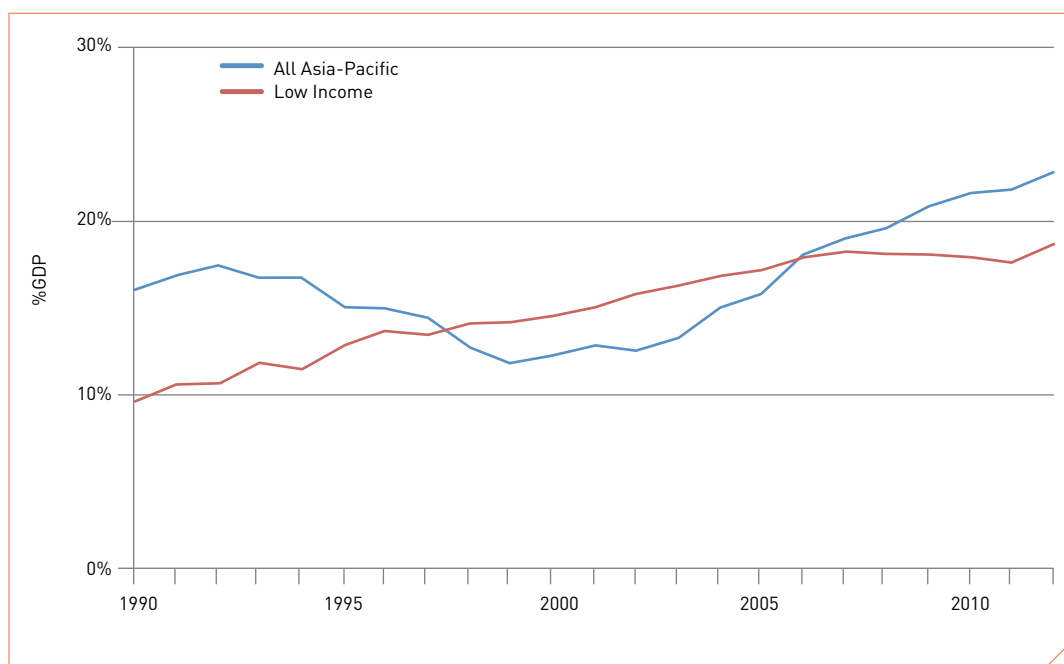
The private sector is growing rapidly across much of the Asia-Pacific region and holistic development must incorporate business as a key actor. The priorities and challenges faced by different countries with respect to developing a strong business sector are varied. Public-private partnerships are being used by many countries in the region, particularly in infrastructure, although there are challenges with regard to implementation capacity and management of risks. There are also a growing number of examples of socially-motivated businesses being established across the region.



### 8.1. The scale of private business in Asia-Pacific

The private sector is growing rapidly in Asia-Pacific and accounts for an increasing proportion of economic activity in many countries in the region. Private gross fixed capital formation (PFCF) grew across the region as a whole from an average 12% of GDP in 2000 to 23% in 2012.<sup>85</sup> However levels and trends vary across countries. PFCF in LICs grew less rapidly, from 14% in 2000 to 19% in 2012 while in UMICs PFCF grew from 10% in 2000 to 24% in 2012. PFCF ranges from over 40% of GDP in Bhutan and Mongolia to less than 10% of GDP in Pakistan, Cambodia and Tajikistan.

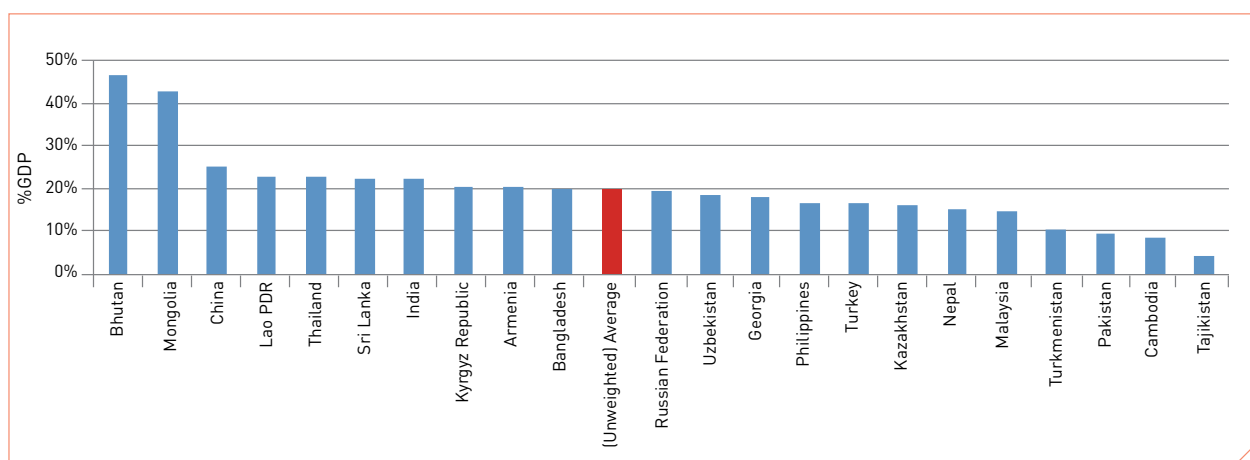
**Figure 14a** Private gross fixed capital formation in Asia-Pacific



Source: World Bank data bank

Note: Note that private gross fixed capital formation includes both domestically funded and foreign funded investments. LICs data in the left hand graph is for all countries that are currently LICs (countries which graduated from LIC status before 2012 are not included)

**Figure 14b** Private gross fixed capital formation in Asia-Pacific



Source: World Bank data bank

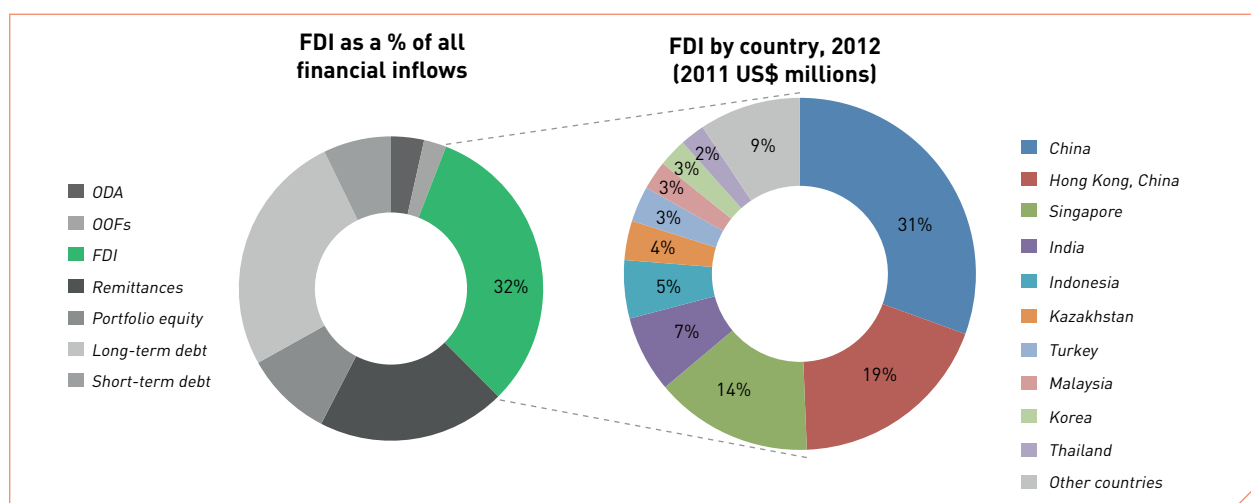
Note: Data in the right hand graph is for 2012 or most recent observation. Note that private gross fixed capital formation includes both domestically funded and foreign funded investments

<sup>85</sup>Based on a sample of 19 countries in the region.



FDI has grown rapidly, increasing roughly ten-fold since 1990, and is the largest international flow to the region as a whole (see chapter 2). However, it is heavily concentrated in a few key economies: China, Hong Kong and Singapore accounted for almost two-thirds of regional FDI in 2012.

**Figure 15** Foreign Direct Investment in Asia-Pacific



**Source:** Investments to end poverty (2013), UNCTAD Stat. Data is for 2012.

The scale of the private sector and the speed of growth highlight the potential that successful, development-effective partnerships with business could have on development outcomes in many countries. The private sector, particularly small and medium enterprises, is the largest employer in much of the region. The private sector provides essential goods and services and, if taxed effectively, can contribute less volatile revenues to the government through taxation.

### State-owned enterprises in Asia-Pacific

The structure of many Asia-Pacific economies is such that state-owned enterprises (SOEs) dominate or account for a significant proportion of economic activity. SOEs account for an estimated 33% of GDP in Viet Nam, 30% in China, roughly 25% in India and Thailand and close to 15% in Singapore. Beyond their share of total production, SOEs are also major employers (roughly 15% of the workforce in China) and major contributors to fiscal revenues (25-30% in Viet Nam).<sup>86</sup>

The existence and role of large SOEs in many countries has an impact on the potential for effective partnerships with business. For many countries the dominance of SOEs is thought to be crowding-out private investment in key sectors (see case study on Malaysia in Annex F).

## 8.2. Public-private collaboration

Where corporate and social incentives are aligned, and effective partnerships are built between the public and private sectors, great things can be achieved. The private sector can offer greater efficiency and innovative technological solutions. When combined with the public sector's mandate to serve and vision to achieve progress in social goals, there is great potential for development progress.

<sup>86</sup>The statistics in this paragraph are from *Policy brief on Corporate Governance of State Owned Enterprises in Asia*, OECD, 2010.

Public-private partnerships (PPPs) between the government and a for-profit business are increasingly used in certain sectors, notably infrastructure and transportation. PPPs have been used to fund investments in the power, gas, telecoms and transports sectors in Bangladesh and in ports, power, telecoms, roads and railways in Sri Lanka. PPPs are a core part of the AsDB's Strategy 2020, with the bank aiming to 'promote public-private partnerships in all of its core operational areas'.<sup>87</sup>

It is estimated that the Asia-Pacific region needs to invest US\$ 8 trillion in infrastructure by 2020, and funding from traditional sources is insufficient. PPPs have been identified by many governments as a way to reach scale and increase the amount of funding available for infrastructure across the region. The Malaysian government has proposed 52 infrastructure PPPs over 2011-2015 and aims to raise US\$ 5 billion from the private sector each year. In Viet Nam, the government aims to source US\$ 6.5 billion annually over 2011-2020 and in Indonesia US\$ 4.2 billion per year over 2011-2025.<sup>88</sup>

While PPPs offer considerable potential, they are not appropriate in all contexts or for all investments. There are also challenges to implementing them successfully. Many governments in the region have limited capacity to manage PPPs effectively – evidenced, for example, by the fact that a number of Pacific Islands as well as other countries like Mongolia still routinely contract out key aspects of the PPP cycle, such as undertaking a cost-benefit analysis. Where public capacity to manage PPPs is low the risk of projects overrunning, suffering from poor work specifications, or failing for other reasons, is greater. Studies conducted by civil society groups have also shown that privatization of public services has led to the exclusion of the poor and has had severe ramifications on issues of equity and access to services.<sup>89</sup>

There is also global evidence that PPPs can be an expensive form of financing that increase the cost to the public purse, due to investor demands for high rates of return even on low-risk projects and costs of up to 10% for arranging financing.<sup>90</sup> To minimise risks to the public purse, governments can strengthen the legal and institutional environment underpinning PPPs, ensure that transparent accounting, reporting and auditing is undertaken, build value for money assessments into the PPP process, and ensure that budgeting procedures are aligned to wider procurement processes.<sup>91</sup>

In pursuing PPPs and other forms of public-private collaboration it is vital that hard-won principles of development effectiveness are retained: openness, transparency and accountability, democratic ownership, inclusivity, financial and operational additionality and a focus on development outcomes.

### Case study: Palau

Palau's experience of partnerships between the public and private sectors shows the potential that alignment of interests, effective dialogue and cooperation can have.

Tourism is the main private-led sector of Palau's economy. In 2005, visitor receipts were equivalent to 45% of GDP, and the number of visitors in 2007 was four times the total population. Historically, there had been little collaboration between the public and private sectors, however, concerns about environmental management, Palau's image as a tourism destination and other issues brought actors from the government and private sector together. In 2008, the Tri-Org – a partnership between the government (Palau Visitors Authority), tourism industry (Belau Tourism Association) and the wider private sector (Palau Chamber of Commerce) – was created to develop the Tourism Action Plan.

The plan presents detailed actions to address the issues facing the sector, setting out how to share responsibilities among public and private actors. Actions are prioritised and scheduled, with capital and recurrent costs specified. Since its development the plan and the partnerships that it captures have enabled co-ordinated effort to address the challenges facing tourism in Palau. One example of this is the recent announcement that Palau plans to become the world's first commercial fishing-free nation. While commercial fishing is important economically, recognition that the benefits of improved oceans outweighed the costs of losing commercial fishing meant that this move was supported by both the public sector and by organisations representing the private sector as a whole.

<sup>87</sup>Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020, 2008, Asian Development Bank, pp14.

<sup>88</sup>Public-private partnership operational plan 2010-2020, 2012, Asian Development Bank, pp5

<sup>89</sup>See for example, Reality of Aid 2012: Aid and the Private Sector, Catalysing Poverty Reduction and Development?

<sup>90</sup>Financing for development post-2015: improving the contribution of private finance, 2014, Griffiths, J., Martin, M., Pereira, J., Strawson, T., European Parliament

<sup>91</sup>Key issues in managing fiscal risks from public private partnerships, 2012, IMF



### Socially-motivated business

Many countries in the region have also seen a growth in businesses that are established explicitly for developmental purposes or organisations that target businesses as a mechanism for reinforcing social progress.

The Asia-Pacific Business Coalition on AIDS is one such example.<sup>92</sup> This network of business coalitions brings together national organisations in eleven countries to support companies in managing the impact of HIV/AIDS, tuberculosis and malaria. Through education, development of workplace policy and leveraging corporate resources such as marketing skills and human resources, it aims to strengthen the effort against HIV/AIDS, tuberculosis and malaria through the private sector across the region.

### Ethical business networks

Private sector umbrella organizations and business leaders clubs can play important and innovative roles in promoting high ethical standards in public and private life, including by requiring commitments to a defined code of conduct as a membership criterion. One of the world's leading examples of this is in the Philippines. The most powerful such network, the Makati Business Club (MBC), lists among its core objective: "promoting the role of the business sector in national development efforts ... [and a commitment] to addressing national economic and social issues that affect the development of the Philippines."

Promoting good governance in the public sector and high ethical standards in all sectors is part of the MBC's work. Its Integrity Initiative promotes high integrity standards in the business community, and also reaches out to government and other sectors. Its Coalition Against Corruption is an alliance with academe, civil society, and the Church to fight corruption through strengthening public participation in governance, supporting counter-corruption projects and ensuring the proper use of public funds, especially by encouraging ethical procurement processes. And its Transparent Accountable Governance project, again with CSOs, assesses the scale and public attitudes towards corruption and promotes public awareness of and debate about the subject.

Business leaders in other countries also promote high ethical standards in public life, for example by forming the Corporate Social Responsibility Institute in the Thai Stock Exchange.

## 8.3. Priorities and challenges for engaging with the private sector

Different countries have different priorities and face different challenges when it comes to engagement with the private sector, depending on the role that private enterprises play in the economy and the types of investments that are being made.

In Viet Nam the priority for the government is in raising the 'quality' of FDI. Foreign investment has been high in Viet Nam, and foreign businesses have played an important part in the country's recent development and employment growth.

However the majority of this investment has been in low value-added sectors, such as textiles and simple assembly production lines. The global value chains in these areas mean that companies often import components from overseas, limiting the multiplier and spillover effects on investment within the local economy. The benefits have been limited in other ways too – historically relations with foreign investors have been decentralised to the provincial level, which has left provinces to compete with one another through tax breaks and other incentives that reduce government revenue.

The Vietnamese government aims to improve the quality of FDI in Viet Nam both by attracting higher value added investment, and by improving the systems and climate in which investments are made, so that the benefits to the economy are increased. A resolution issued in August 2013<sup>93</sup> targets a number of high-value added sectors such as IT, bio-technology, education and modern services, aiming to attract both investors linked into large global value chains and smaller projects that are aligned to local needs. To implement this, the government will develop sectoral and regional master plans for the mobilisation and use of FDI.

<sup>92</sup>The Asia Pacific Business Coalition on AIDS: <http://apbca.com/>

<sup>93</sup>Resolution no. 103/NQ-CP of August 29 2013, On Orientations to increase the efficiency of attracting, using and managing foreign direct investments in the future, Government of Viet Nam



In other countries in the region, the priority is attracting investors to a nascent private sector or encouraging recovery in FDI following financial crisis. The global financial crisis hit many countries in the region and in a number, including Cambodia, Pakistan and Kazakhstan, investment levels have not fully recovered.

Countries also face varied challenges in realising private sector growth. Table 6 highlights the results of a survey of business leaders<sup>94</sup> who were asked about the most problematic factors for doing business. Across the Asia-Pacific region, corruption was highlighted as the most common constraint to doing business, topping the list in 11 countries (of 29 surveyed in the region). Access to financing was the primary constraint in 7 countries. Inefficient government bureaucracy was identified as one of the three most problematic factors for doing business in 15 countries in the region. In 8 countries policy instability and in 7 countries an inadequately educated workforce, were also listed as one of the three most problematic factors for doing business.

Alongside the factors listed above, capacity building has also been identified by a number of countries in the region as a key constraint to private sector development. While this is partly about capacity within the public sector for managing private sector relationships (see section 8.2 above), low capacity within the private sector itself is also a constraint in some countries, particularly LDCs and fragile states. Afghanistan and other countries have highlighted this as a priority for development of the private sector.

**Table 6** The most problematic factor for doing business in Asia-Pacific countries

	Countries
<b>Corruption</b>	Armenia, Azerbaijan, Bangladesh, Cambodia, Indonesia, Kazakhstan, Kyrgyz Republic, Pakistan, Russian Federation, Thailand and Timor-Leste
<b>Access to financing</b>	Bhutan, Brunei Darussalam, China, Korea, Myanmar, Sri Lanka and Viet Nam
<b>Inadequate supply of infrastructure</b>	India, Philippines
<b>Policy instability</b>	Iran
<b>Inadequately educated workforce</b>	Lao PDR, Mongolia
<b>Tax rates</b>	Turkey
<b>Restrictive labour regulations</b>	Singapore
<b>Insufficient capacity to innovate</b>	Hong Kong
<b>Inefficient government bureaucracy</b>	Malaysia
<b>Government instability</b>	Nepal

**Source:** Global Competitiveness Report, 2013-14, World Economic Forum

<sup>94</sup>The Executive Survey, run by the World Economic Forum. Globally, the survey featured inputs from 13,638 business leaders in 144 countries in 2013-14.

## Annexes

### Annex A. Countries covered in the report

This report covers the 55 Asia-Pacific countries covered by the regional MDG reports, as follows:

East and North-East Asia	North and Central Asia	South and South-West Asia	South-East Asia	The Pacific
China	Armenia	Afghanistan	Brunei Darussalam	American Samoa
DPR Korea	Azerbaijan	Bangladesh	Cambodia	Cook Islands
Hong Kong, China	Georgia	Bhutan	Indonesia	Fiji
Macao, China	Kazakhstan	India	Lao PDR	French Polynesia
Mongolia	Kyrgyz Republic	Iran (Islamic Rep. of)	Malaysia	Guam
Republic of Korea	Russian Federation	Maldives	Myanmar	Kiribati
	Tajikistan	Nepal	Philippines	Marshall Islands
	Turkmenistan	Pakistan	Singapore	Federated States of Micronesia
	Uzbekistan	Sri Lanka	Thailand	Nauru
		Turkey	Timor-Leste	New Caledonia
			Viet Nam	Niue
				Northern Mariana Islands
				Palau
				Papua New Guinea
				Samoa
				Solomon Islands
				Tonga
				Tuvalu
				Vanuatu



## Annex B. The GPEDC Global Monitoring Framework indicators

### Area 1: Ownership and results:

- ▶ *Use of country results frameworks (indicator 1).* The target is for all providers to use country results frameworks by 2015 (only piloted as yet, results are not yet available)
- ▶ *Aid on budget (indicator 6).* The target is to halve the proportion of disbursements to the government sector that are not reported on government budgets, reaching a minimum of 85%.
- ▶ *Quality and use of country systems (indicators 9A and 9B).* PFM/CPIA scores measure the quality of country systems for indicator 9A, with a target that at least half of all developing countries improve on at least one measure.<sup>95</sup> Indicator 9B measures the use of procurement and public financial management systems, capturing whether disbursements to the government sector are: on budget; subject to financial reporting and PFM auditing; and use country procurement systems. The target is to reduce the gap in use of country systems by two-thirds in countries with a CPIA score of 5 or more and by one-third in countries with a CPIA score of 3.5 to 4.5.
- ▶ *Aid untying (indicator 10).* The target is continued progress on reducing tied aid over time, measured as a proportion of bilateral aid reported to the OECD DAC.

### Area 2: Inclusive partnerships:

- ▶ *Enabling environment for civil-society organisations (indicator 2).* The measure for this indicator is still being finalised; the target is continued progress over time. CSOs in the Asia-Pacific region have highlighted the urgent need to finalise this indicator (see section 3.3 below).
- ▶ *Private sector engagement (indicator 3).* This indicator is due to be piloted shortly; no data on progress to date is available yet.
- ▶ *Gender equality (indicator 8).* The target is for all countries to have systems in place that make and track public allocations towards gender equality by 2015. Countries should meet at least 2 of the following 4 components: a government statement on tracking systems; systematic tracking of allocations; systematic oversight by government; and publicly available budget information.

### Area 3: Transparency and accountability:

- ▶ *Transparency (indicator 4).* The target is full implementation of the common open standard by 2015, measured through reporting to the International Aid Transparency Initiative (IATI) and the OECD on timeliness, comprehensiveness and forward looking nature. This will be a global, rather than country-level indicator. Data is not yet available.
- ▶ *Predictability (indicators 5A and 5B).* Annual predictability is measured by the proportion of funding disbursed within the fiscal year for which it was scheduled. Medium-term predictability is measured by the proportion of funding covered by forward spending plans for the following three years. The target for both indicators is to halve the gap against baselines, although indicator 5B is being assessed for the first time in 2013.
- ▶ *Mutual accountability (indicator 7).* This indicator is a compilation of five sub-indicators; whether there is an aid or partnership policy; whether there are country-level targets; whether there is assessment towards those targets; whether non-executive stakeholders are involved; and whether the results are made public. Countries should meet 4 of the 5 criteria by 2015.

<sup>95</sup>An improvement on 0.5 on the CPIA scale

## Annex C. Progress against the Busan commitments in Samoa

Samoa has made considerable progress towards the Busan commitments and has already achieved all targets covered by the monitoring survey except one (improvements in CPIA scores). Samoa is also the only country in the Asia-Pacific region not to have regressed in any of the indicators.

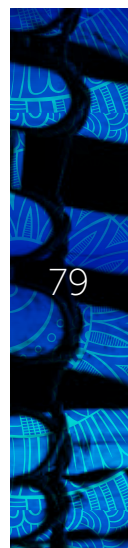
The government of Samoa began efforts to reform the delivery and effectiveness of aid and development finance during the 1990s. National development has been guided by a series of development strategies<sup>96</sup> that form the foundation for more detailed sector strategies. These strategies are costed and encourage development partners to incorporate their cooperation within the relevant government strategy. Both the national and sector plans incorporate strong monitoring and evaluation frameworks that link expenditure to results over the medium term. The government has also developed strong analytical capacity to track progress and identify gaps and challenges.

The strength of these country planning and monitoring systems has helped the Samoan government to lead its development agenda and encourage development partners to align their cooperation with the national vision. Development partners are closely engaged with the implementation of national plans. Quarterly donor-government meetings are held to align cooperation and ensure complementarity between partners. Donors also sit on sector steering committees, and the government's sector plans reflect the contributions of all donors engaged in each sector. Samoa's success is highlighted in many ways, for example, the sector plans identify areas in which there are capacity constraints, and Samoa has successfully encouraged development partners to provide technical cooperation that builds capacity in these areas. Fragmentation and use of parallel systems has been reduced – for example, the number of development partners operating parallel implementing units fell from 12 in 2007 to 8 in 2010.<sup>97</sup>

Samoa's success in leading its own development agenda and encouraging development partners to align their cooperation to the national plan has encouraged others within the Pacific and beyond to implement similar reforms.

<sup>96</sup>The current Strategy for the development of Samoa covers the period 2012-2016

<sup>97</sup>Synthesis of Development Partner Reporting on Aid Effectiveness in Forum Island Countries



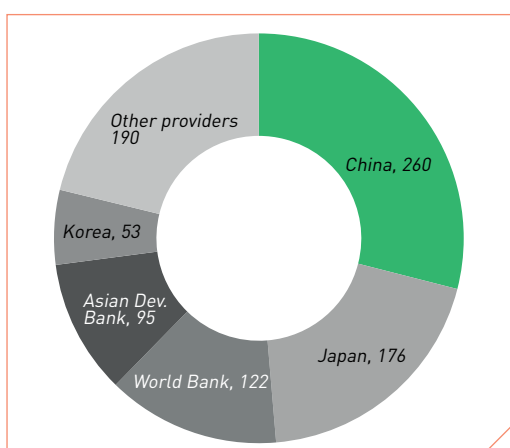
## Annex D. Managing South-South Cooperation in Cambodia

Given the unique characteristics of cooperation from SSC providers, recipient countries may have to tailor their approach to managing SSC and take different steps to match their needs with the capacity of SSC providers, ensure national ownership and promote effectiveness. Cambodia is one country that is taking an active approach in managing relationships with SSC providers.

Cambodia receives an increasing amount of cooperation from Southern providers within the sub-region and beyond. Engagement with south-south providers forms an important part of the government's Development Cooperation & Partnerships Strategy 2014-2018 (DCPS).

Results from the GPEDC Global Monitoring Survey show that China was the largest provider of disbursements to the government sector of all providers, SSC and OECD DAC (Figure 14). Cambodia receives cooperation from other countries in the region – Malaysia, Thailand, Indonesia, India and Singapore, as well as others from further afield – India, Brazil, Russia, Hungary, Kuwait, Qatar. This cooperation covers a variety of areas, including infrastructure, agriculture, health, education, water, public sector management, preservation of monuments and drug control.<sup>98</sup>

**Figure 16** Providers of Cooperation disbursed to the government sector in Cambodia, 2013



**Source:** GPEDC Monitoring Survey data. Figures are disbursements to the government sector, US\$ millions.

Recognising the growing scale of cooperation from SSC providers, the Cambodian government has prioritised engagement with SSC providers, which it sees as a complement to North-South cooperation. Convening all development partners is one of the three key areas of the DCPS, which envisions SSC modalities as having the potential to 'provide policy solutions and technologies that are more contextualised, demand-led, responsive, flexible, cost-effective and sustainable'.<sup>99</sup>

To increase the effectiveness of SSC contributions to the country's development path, the government has prioritised a number of key principles for SSC in the country. This includes the use of established processes such as the country's programme-based approach, which aims to promote operational coherence while recognising the different practices of development partners. SSC providers are encouraged to link to a sector results and monitoring framework and participate in the policy and planning dialogue processes with other partners, as part of government-led sector programmes. In addition, SSC providers are encouraged to improve knowledge management about their activities to facilitate lesson sharing among partners working within the country, and to improve processes for matching identified needs with capacity among partners to meet them.

<sup>98</sup>Promoting the effective use of south-south and triangular cooperation in Cambodia, UNDP, 2013

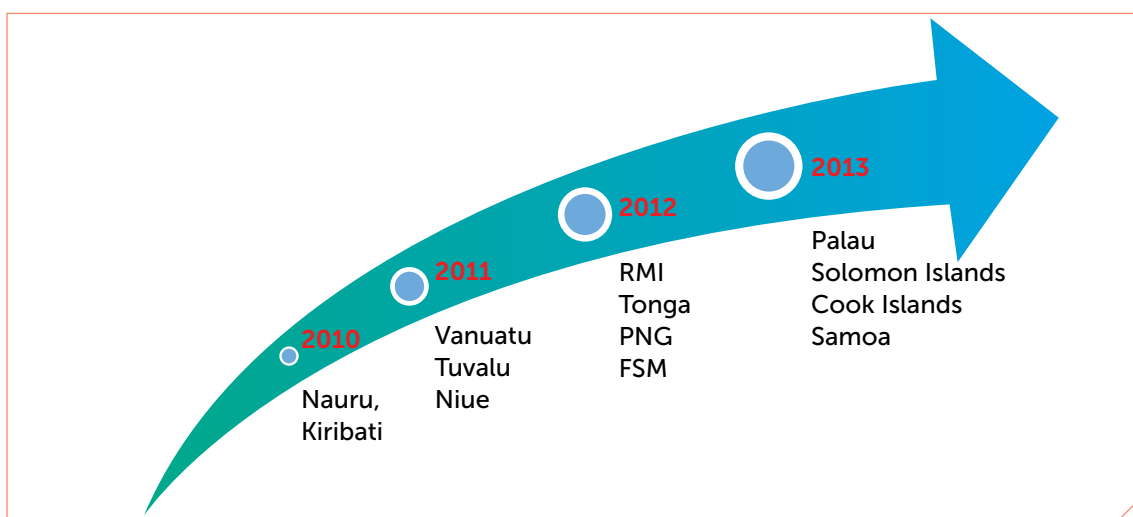
<sup>99</sup>Development Cooperation and Partnerships Strategy 2014 – 2018, Royal Government of Cambodia, pp8

## Annex E. The Pacific Islands Peer Review Process<sup>100</sup>

In 2009 leaders from across the Pacific committed to the Forum Compact on Strengthening Development Co-ordination. This compact laid a framework for developing Pacific solutions to improve the effectiveness of domestic and aid resources. From it was borne the Pacific Islands Peer Review – a process that encompasses both the provision and receipt of SSC.

The peer review process is a unique country-led solution that, in four years, has seen exchanges of knowledge, expertise and recommendations between all thirteen Pacific Island Forum member countries (Figure 15). Countries volunteer themselves for a peer review, agree a team that incorporates experts from within the region and from development partners, and agree terms of reference for the review. The team is then given access to government systems and processes for national planning and budgeting, PFM and aid management, and consults with stakeholders from across the executive, legislature, government, development partners, and civil society and business community.

**Figure 17** Pacific Islands undertaking peer reviews, 2010-2013



**Source:** Schuster (2014)

The team develops recommendations for the country being reviewed that aim to be action and solution-oriented. As a review between partners, the review aims to be helpful, to identify what works and doesn't, and to offer useful advice based on experiences in the rest of the Pacific.

Recommendations from the peer review are published in a report that is approved by the country being reviewed, and have been used in many instances to drive reform for greater effectiveness in resource use. They have strengthened the rationale for reforms that were already planned, and identified change in new areas to enhance planning, budgeting, PFM and aid management systems.

The Pacific Islands Peer Review process has achieved great success in improving development effectiveness in the region. It has developed Pacific solutions to the challenges that countries face in managing domestic and aid resources, and driven and strengthened reform. Political commitment to the process has been key – to support the mandate for reform within national institutions and to encourage donors to align the cooperation they provide with country and regional priorities.

Given their experience of the peer review process, Pacific Islands see SSC as an important delivery mechanism for the post-2015 agenda for building capacity, systems, and processes that can effectively deliver development results.

<sup>100</sup>This case study is largely based on Schuster, A., *Pacific Islands Forum Secretariat, South-south cooperation in the Pacific: Pacific Islands helping each other through peer reviews, Presentation to the Asia-Pacific regional consultation on the GPEDC, March 2014*

## Annex F. Government linked corporations in Malaysia<sup>101</sup>

Government-linked corporations (GLCs)<sup>102</sup> play a key role in the Malaysian economy and there are concerns that their dominance is crowding out investment in key sectors. GLCs account for at least 30% of net income in eight key sectors in Malaysia (Table 7) and are particularly dominant in utilities, transportation and warehousing, retail trade and banking.

**Table 7.** The share of GLCs in key sectors in Malaysia

	Total assets	Net income
Admin., Waste Management and Remediation Services	16.2%	35.8%
Agriculture, Forestry, Fishing and Hunting	42.9%	38.1%
Banking	56.1%	58.3%
Information and communications	67.1%	48.9%
Retail trade	39.9%	60.2%
Transportation and warehousing	78.8%	77.0%
Transportation equipment manufacturing	28.0%	30.5%
Utilities	88.4%	87.2%

**Source:** Menon, J. and Hee Ng, T. (2013)

Recent research<sup>103</sup> by AsDB found that private investment is significantly lower in sectors in which GLCs are dominant, and private investments are greater in sectors in which GLCs do not play a significant role. This has been recognised by the government, which has called for a reduced role for government in business, and divestment programmes are in place in some sectors. Nevertheless, in some sectors GLCs continue to grow – notably in finance and property development.

<sup>101</sup>This case study is largely based on *Are Government Linked Corporations Crowding Out Private Investment in Malaysia?*, Menon, J., Hee Ng, T., 2013, Asian Development Bank

<sup>102</sup>Government linked corporations are defined as those in which the government owns a controlling stake in major decisions.

<sup>103</sup>*Are Government Linked Corporations Crowding Out Private Investment in Malaysia?*, Menon, J., Hee Ng, T., 2013, Asian Development Bank



## Resources from the region

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