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Background Paper

World Economic and Social Survey 2012

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January 2012

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Absorbing Innovative Financial Flows: Looking at Asia

1. Coverage of the paper

This paper focuses on the access to innovative financial flows of the developing and least developed countries (LDCs) of Asia, and its relevance to the developmental agendas as well as need for finance in the countries of the region. Asia encompasses a large region with a population of 3.7 billion which may be disaggregated as follows:

- East Asia and the Pacific : 1.98 billion
- South Asia : 1.73 billion

Of the seven continents, Asia hosts more than half of the world's population. For the purposes of our paper we will focus on East and South Asia. However, in discussing the scope for widening financial flows within the Asia region, we will also take into account the resources of West and Central Asia for reasons which will be explained later.

The paper is structured under four heads:

- Conceptual issues
- Contextualizing Innovative Development Finance (IDF) in the Asia region
- IDF in Asia
- Making more effective use of IDF opportunities in Asia

2. Conceptual Issues

The concept of Innovative Development Finance (IDF) has yet to satisfactorily resolve the issue of innovation. The discourse on innovation is possibly of recent origin and two decades ago did not figure in any substantive discussion within the literature and practice of development. The search for innovation was possibly inspired through two different problems arising out of the global commitment in 2000 to attain the Millennium Development Goals (MDGs). These are, *inter alia*, insufficiency of development finance to meet the challenge of MDGs, and, ineffective use of development finance in mitigating poverty.

The global conference in 2002 at Monterrey, Mexico focused on the need to generate a sufficiency of development finance to meet the MDGs. The conference culminated in the so called *Monterrey Consensus* where DAC countries were encouraged to ensure that at least 0.7% of their GDP would be disbursed as Official Development Assistance (ODA). How far any country actually accepted, even at Monterrey, that the *Consensus* was a set of binding commitments, remains contestable. It was hardly surprising that only 5 countries have come close to crossing the targets set at Monterrey a decade ago. The follow up to Monterrey at Doha in 2008 was designed to remind defaulting ODA providers of the commitments at Monterrey. However, there must have been some despair at Doha that these ODA targets would be realized. The resultant *Doha Declaration* on Financing for Development, thus, put renewed emphasis on IDF, presumably to compensate for the failures in realizing the *Monterrey Consensus.*

Running parallel to the discussion on mobilizing IDF for the MDGs was the discussion on enhancing aid effectiveness. Global conferences to discuss this issue were held in Rome (2003) and Paris (2005), followed by meetings in Accra (2008) and most recently at Busan in the Republic of Korea (ROK) from 29 November to 1 December 2011, which was designated as the *4th High Level Forum on Aid Effectiveness.* At Busan, aid effectiveness was expected to be realized through:

- Ownership of development priorities by developing countries (DCs)
- Focus on results
- Inclusive development partnership
- Transparency and accountability to each other

The fact that four global conferences have invested enormous human and financial resources to address the issue of aid effectiveness indicates a global and as yet unresolved concern, that billions of dollars of aid flows to developing countries over the last half century could have been used more effectively. The imprecision and possible contradictions inherent in the *Busan Declaration* do not hold promise that other such conferences on aid effectiveness will no longer be necessary. The central weakness of such a discourse originates in the declining significance of ODA as a relevant factor in influencing development in the DCs and the ODA contributors' inability to meet ODA commitments. This perpetuates the growing irrelevance

of ODA while simultaneously eroding its capacity to leverage better development governance.

This symbiotic link between ODA volume and its effectiveness ensured that issues of aid effectiveness would intrude into the discussion on enhanced aid flows at Monterrey and Doha. The consequent discussion on IDF, thus, represents a confluence of these two streams of discussion so that issues of innovation address the scope for both enhancing IDF as well as for improving its effectiveness. This distinction is, however, not always kept very clear. Nor is it recognized that attempts to improve aid effectiveness may not always involve enhanced access to IDF, or that enhanced IDF will necessarily improve aid effectiveness and may well result in the opposite outcomes.

The identification of IDF products will inevitably need to take these two objectives into account in any discussion of the innovativeness of the respective products. Furthermore, the IDF products will need to be linked to the specific circumstances of the different regions/countries of the developing world since the relevance of these products are not likely to be uniformly applicable across the DCs.

The original search for IDF was largely inspired by the shortfalls in development finance in relation to the targets set at the Millennium Summit, in order to attain the MDGs. These targets were subsequently set at Monterrey and later modified at Doha. The original ODA targets of 0.7% of GDP set for all members of the *Development Advisory Committee* (DAC) at Monterrey have continued to lag. By 2010 ODA levels had reached 0.32% of Gross National Income (GNI). At the original level of 0.7%, $282 billion was to be delivered as ODA in 2010. In practice, $129 billion was disbursed, a shortfall of $153 billion. Three Nordic countries, Denmark, Sweden and Norway, along with Netherlands and Luxemburg met their targets of 0.7%. At a subsequent summit of the G-8 countries at Gleneagles, Scotland, the donors committed to deliver around $150 billion as ODA but this too fell short of its target. These shortfalls in meeting ODA targets have, of course, been cumulative over the years so that ODA donors have been engaged in the task of looking for IDF for several decades, in the perhaps mistaken belief that these innovations would contribute to compensate for the ODA shortfalls to DCs.

There is as yet no clear agreement on what should be classified as IDF. The original inspiration of IDF was derived from the search for compensating finance to overcome ODA deficits. However, it is far from clear that IDF constitutes a source of additionality to development finance or merely seeks to repackage and reprioritize traditional forms of financial flows. The actual content of the IDF package and the extent of additionality it has provided to DCs will, thus, need to be examined more closely. Additionality has to a large extent been identified in new forms of public revenue generation in such areas as international financial currency transactions (the Toben tax) or the levy on airline tickets. The Airline tax has already been made operational in some countries and has generated as much as a $1.2 billion so far. However, the Toben tax, though 4 decades have passed since it was proposed, is still to see the light of day. It is reported that under the leadership of President Sarkozy, a formal proposal for such a tax is about to be presented by the French government to the DAC for consideration.

The problem with all such forms of additional finance originating in some form of fiscal levy is that such taxes are really another means of generating public revenues. The relevant tax is then dedicated to underwrite ODA in general (Toben tax) or to provide ODA for a particular sector such as health (airline tax). Such an approach to raise additional fiscal revenues is hardly innovative. A government could, for example, decide that 2% of all taxes collected on sales of gasoline at petrol pumps could be earmarked for promoting global literacy. This would be no different from the Airline tax and would have to be acceptable to tax payers and voters as an acceptable new form of taxation and an improved way to use its revenues. Such additional fiscal levies could also be generated for accommodating many unmet uses of public expenditure, or could be used to finance public health deficiencies in the taxed country itself. In countries such as the United States (US), which has a large constituency supporting lower taxes as well as opposing increases in public expenditure, new taxes to meet the needs of another country, however poor, are hardly likely to find ready acceptance.

Other sources of additionality for ODA provided through mobilizing some new donors mostly from the South or from the private sector are also not particularly innovative. Several of these new donors such as the Peoples Republic of China (PRC) and Saudi Arabia have been providing development finance to DCs for many years. They may now be in a position to provide significantly more aid than before in the same way that a DAC member may choose to do so if their finances or domestic politics so permit.

Attempts to mobilize private resources in the name of IDF are also not very innovative. Private foundations such as the Ford and Rockefeller Foundation have been funding DCs for many years. The emergence of new donors such as the Bill and Melinda Gates Foundation, now operating at an exponentially larger scale than any other Foundation, may have introduced additionality into development finance but this does not indicate innovation. The additionality of such funds will have to be contextualized in relation to aggregate private flows from the voluntary sector to DCs. In practice, the actual content of the IDF packages and the extent of additionality they have provided to DCs needs to be examined in a region and country specific context to assess the value added from this process.

It can be argued that the innovativeness of an IDF largely lies in its ability to improve aid effectiveness. However, it can also be argued that the search for effectiveness may have been at the expense of additionality in ODA flows. In some countries in the Asian context, the new emphasis on effectiveness may not have been particularly effective and may even have served to reduce aid disbursements because of the added conditionalities associated with the IDF product.

IDF products which may be classified under the innovative category as new funds, such as the *Global Fund to Fight Aids, Tuberculosis and Malaria* (GFATM) and the *Global Alliance for Vaccines and Immunization* (GAVI), are directed to the health sector. These IDF products have aspired to innovation through blending public and private funding, front loading some of the delivery of funds pledged over a longer period (IIFM) and relocating the actual management of the funds. The principal point of departure in managing such funds appears to have been in transferring the control and management of a line of funding from the exclusive control of public agencies to a vertically structured, autonomously managed, funding entity. Whether such an arrangement constitutes a form of IDF or is a form of 'innovative' governance, merits separate discussion.

For the purposes of our paper we will focus on examining the contribution of IDF, as it is defined in the discussion by the World Bank and the OECD, to development in the Asia region. In this exercise we will attempt to locate IDF within the broader financial flows, both within and external to the Asia region. These external inflows include ODA, foreign direct investment (FDI) and remittances from overseas migrants. IDF within Asia will thereby be

contextualized within the overall external resource inflows entering the Asia region and countries. However, development in Asia is no less influenced by the flow of domestic resources generated within the faster growing Asian economies, identified through the broader measures of domestic savings and its narrower mobilization in the form of public revenues.

We will, in this discussion, examine the changing role of ODA in these external and domestic financial flows in order to place the issue of IDF in some perspective to the circumstances and funding needs of particular Asian countries. In this task, we will attempt to explore how far IDF can be used to leverage enhanced resource flows from both domestic and external sources and can also contribute to its more effective utilization. Finally, we will identify some more specific sources for generating additional external resource flows within Asia and assess the wider global as well as regional implications for realizing access to such innovative sources.

3. Contextualizing Innovative Development Finance (IDF)

Financial flows within the developing countries (DCs) have been exposed to significant structural changes. High levels of dependence on ODA to underwrite development are today largely limited to Sub-Saharan Africa (SSA) where it accounts for 10% of GDP (2009). Aid shares to SSA have run from 21% in 1960-69 to 40% in 2000-09. Obviously there are significant variations within SSA, with some of the larger countries such as South Africa (0.46) and Nigeria (1.1%) registering much lower levels of ODA dependence.

In contrast to SSA, the share of ODA in Asia (East, South, West and Central) declined from 47% in 1960-69 to 39% in 2000-2009. As a result, dependence on ODA in Asia has declined substantially for most countries so that in 2009 the regional average stands at 1.4% of GDP. This decline is spread across the Asia region within both South and East Asia. If we look at a cross section of Asian countries cited in table 1, in most countries, levels of aid dependence fall below 2% of GDP. We have outliers such as Afghanistan (46%) and Nepal (7%) as well as the micro-economies such as Bhutan in South Asia, and the smaller South-East (SE) Asian economies of Cambodia (8%), Lao PDR (7%), Mongolia (9%) and Timor-Leste (10%) where dependence remains high but has declined over the years.

Surprisingly, Vietnam (4.4%) retains higher levels of ODA dependence than any of the other larger East Asian economies. However, Vietnam's external resource flows for its development have been matched by even higher levels of inflow of FDI (8.5%) and migrant remittances (7.4%) so that its aggregated external resource inflows of 20.3% of GDP are the highest in Asia, which even exceeds the regional average of 15.8% for SSA. What is so unique about Vietnam is that it also retains one of the highest rates of domestic savings (32%) and public resource mobilization (24.4%) in the developing world, which has enabled it to attain a level of gross capital formation of 39% of GDP and sustain a GDP growth of 7.6% between 2000 and 2009, which is exceeded only by PRC, amongst larger DCs.

Table 1: Structure of External Resource Flows to Developing Countries in Asia (2009)

External resource flows (% of GDP)*				
Region	**FDI (net) (% of total)**	**ODA (% of total)**	**Remittances (% of total)**	**Total (%)**
East Asia Pacific	1.9 (51.4)	0.4 (10.8)	1.4 (37.8)	3.7 (100)
Latin America and the Caribbean	2.1 (52.5)	0.4 (10.0)	1.5 (37.5)	4.0 (100)
South Asia	2.1 (26.3)	1.4 (17.5)	4.5 (56.2)	8.0 (100)
Sub-Saharan Africa	3.7 (23.4)	9.9 (62.7)	2.2 (13.9)	15.8 (100)
South Asia				
Afghanistan	1.3 (2.8)	45.7 (97.2)	0.0 (0.0)	47.0 (100)
Bangladesh	0.8 (5.8)	1.3 (9.3)	11.8 (84.9)	13.9 (100)
Bhutan	2.9 (23.2)	9.6 (76.8)	0.0 (0.0)	12.5 (100)
India	2.5 (39.7)	0.2 (3.2)	3.6 (57.1)	6.3 (100)
Iran	0.9 (75.0)	0.0 (0.0)	0.3 (25.0)	1.2 (100)
Nepal	0.3 (1.0)	6.7 (21.7)	23.8 (77.3)	30.8 (100)
Pakistan	1.5 (17.4)	1.7 (19.8)	5.4 (62.8)	8.6 (100)
Sri Lanka	1.0 (9.3)	1.7 (15.9)	8.0 (74.8)	10.7 (100)
South-East and East Asia				
Cambodia	5.4 (32.7)	7.7 (46.7)	3.4 (20.6)	16.5 (100)
PRC	1.6 (66.7)	0.0 (0.0)	1.0 (33.3)	2.6 (100)
Hong Kong (China)	24.9 (99.2)	0.0 (0.0)	0.2 (0.8)	25.1 (100)
Indonesia	0.9 (27.5)	0.2 (8.4)	1.3 (54.1)	2.4 (100)
Korea, Rep. of	0.2 (40.0)	0.0 (0.0)	0.3 (60.0)	0.5 (100)
Lao	5.4 (40.9)	7.2 (54.5)	0.6 (4.6)	13.2 (100)
Malaysia	0.7 (50.0)	0.1 (7.1)	0.6 (42.9)	1.4 (100)
Maldives	7.6 (73.8)	2.4 (23.3)	0.3 (2.9)	10.3 (100)
Mongolia	14.8 (51.0)	9.4 (32.4)	4.8 (16.6)	29.0 (100)
Philippines	1.2 (8.7)	0.2 (1.5)	12.3 (89.8)	13.7 (100)
Singapore	9.2 (100)	0.0 (0.0)	0.0 (0.0)	9.2 (100)
Thailand	1.9 (76.0)	0.0 (0.0)	0.6 (24.0)	2.5 (100)
Timor-Leste	0.0 (0.0)	9.5 (100)	0.0 (0.0)	9.5 (100)
Vietnam	8.5 (41.9)	4.4 (21.6)	7.4 (36.5)	20.3 (100)

*Figures in parentheses indicate the share of each source in total external resource flows into the country.
Source: Human Development Report (2011)

Table 1 shows that Asian countries have substituted their dependence on ODA with increasing reliance on FDI or migrant remittances to underwrite their external resource needs.

FDI flows have emerged as the major source of external finance in the case of India, Iran, Vietnam, PRC, Hong Kong, ROK, Malaysia and Singapore. In this context, remittances have emerged as the largest source of external resource flows in most South Asian countries, excluding Afghanistan, Maldives and Bhutan. In East Asia, Philippines (90% of all external inflows) is the only country which matches South Asia's reliance on remittances but a few other countries such as Vietnam (37%), Indonesia (54%) and interestingly, PRC (33%), also receive a significant inflow of remittances.

What is of special interest in the Asia region is the concurrent increase in the share of savings in the GDP which has contributed to the reduced dependence on ODA. Table 2 shows that with the exception of Pakistan (13%), rates of savings exceed 20% and in many cases come close to or cross 30%. Such high levels of savings, matched in some cases with appreciable inflows of FDI and occasionally ODA, as in the case of Nepal, have contributed to high levels of gross domestic investment (GDI) in relation to GDP which again exceeds 20% in all countries of the region except Pakistan (17%), Cambodia (17%) and Philippines (16%). Such levels of savings and investment are appreciably higher, again with some individual country exceptions, to rates registered for SSA and even Latin America.

High levels of gross national savings (GNS) are not necessarily always captured by the state and channeled into development. Table 2 shows that countries such as Bangladesh can raise only 11% of its GDP as public revenue compared to a GNS of 29%. Other Asian countries have recorded higher levels of public revenue collection though here the record of East/SE Asia appears rather better than for South Asia.

Table 2: Savings and Investment in Asia, 2010

Countries	Savings (% of GDP)	Govt Revenue (% of GDP)	Govt Expenditure (% of GDP)	Gross domestic investment (% of GDP)	
South Asia				*2009*	*2010*
Afghanistan	28.31	20.57	21.98	27.2	25.1
Bangladesh	29.18	10.50	14.53	24.4	25.0
Bhutan	80.18	40.44	38.56	-	-
India	34.18	17.98	27.35	36.5	37.0
Iran	37.20	25.84	27.77	-	-
Nepal	35.92	16.78	19.76	31.9	38.2
Pakistan	13.24	14.70	19.87	19.0	16.6
Sri Lanka	24.77	14.53	24.91	24.5	27.8
South-East and East Asia					
Cambodia	10.84	15.63	18.97	21.4	17.2
PRC	54.20	20.01	23.10	48.2	50.7
Hong Kong (China)	29.91	19.05	17.50	21.3	23.8
Indonesia	33.58	16.50	18.26	31.0	32.5
Korea, Rep of	29.86	24.01	23.97	25.9	-
Lao PDR	-	17.72	24.52	-	-
Maldives	-3.54	27.32	50.12	-	-
Malaysia	30.99	27.02	32.96	14.5	21.3
Philippines	20.45	14.61	18.55	14.6	15.6
Singapore	45.40	18.77	19.59	26.4	23.8
Thailand	29.53	20.82	24.00	-	-
Timor-Leste	-	347.93	108.65	-	-
Vietnam	31.56	24.40	33.40	-	-

Source: IMF World Economic Outlook database (2011)

We have attempted to situate IDF in the wider context of external and domestic sources of finance for development in order to establish that for virtually all Asian countries, even those with a relatively higher level of aid dependence, ODA is no longer a decisive variable in influencing their levels of development. In countries such as Bangladesh, Sri Lanka, Pakistan, even Nepal, ODA/GDP ratios in the 1980s exceeded 10%. In 3 of these countries this ratio has fallen below 2%. In the case of Nepal, its dependence has fallen and would, in practice, have been much below the current 7% had their development process not been interrupted by the recent years of insurgency and political turmoil. In contrast, Vietnam which two decades ago had little access to ODA, has used its improved access to aid with great effectiveness to not only enhance its level of development but to access a large share of FDI as well as generate domestic savings to sustain its high levels of domestic investment.

In East Asian countries, such as PRC, ROK, Thailand, Malaysia, Indonesia and Vietnam, FDI is now the principal source of external resource inflows but is not necessarily the principal source of development finance which is increasingly being underwritten by rising rates of domestic savings. In the countries of South Asia, only India has so far emerged as a significant recipient of FDI but its principal inflows originate from migrant remittances which amounted to 3.6% of GDP in 2009 and accounted for 57% of external inflows. Table 3 shows that India's most recent figures for remittances has, in 2010, reached $54 billion and are projected to reach $57 billion in 2011. In other South Asian countries such as Bangladesh, Nepal, Pakistan and Sri Lanka, remittances are by far the most important source of external resource inflows as is also the case for Philippines in SE Asia.

Remarkably, remittances into Asia have been the least exposed of all resource inflows to volatility. FDI and ODA have been volatile and sensitive to the overall economic conditions of the sending countries. As a result, remittances have significantly eased foreign exchange constraints and improved the balance of payments of these countries. They have also played an important role in improving household incomes and thereby contributed to reducing poverty in these countries. However, the full development potential of these remittances, which could be realized by using these resources for development, remains a work in progress. The truly innovative source of IDF in Asia would appear to lie in transforming these flows, contributed by the hardworking citizens of these countries, into a substantive development resource. This will be discussed in the concluding section.

Table 3: Remittance Inflows to Asia

Countries	Migrant remittance inflows (US$ million)				Remittances as a share of GDP, 2010 (%)
	2000	2009	2010	2011(e)	
Bangladesh	1,968	10,521	10,852	11,989	9.6%
Cambodia	121	338	369	407	3.0%
PRC	4,822	48,852	53,038	57,282	0.8%
India	12,883	49,468	54,035	57,817	3.0%
Korea, Rep.	4,858	8,913	8,708	9,257	0.9%
Lao PDR	1	38	41	44	0.6%
Malaysia	342	1,131	1,301	1,457	0.5%
Maldives	2	4	4	4	0.2%
Myanmar	104	116	133	137	0.3%
Nepal	111	2,986	3,468	3,951	20.0%
Pakistan	1,075	8,717	9,690	12,190	4.8%
Philippines	6,961	19,765	21,423	23,026	10.7%
Sri Lanka	1,166	3,363	4,155	4,542	6.9%
Thailand	1,697	1,637	1,764	2,177	0.5%
Vietnam	1,340	6,020	8,260	8,600	5.1%
Total	37,451	161,869	177,241	192,880	

Source: World Bank staff estimates based on the International Monetary Fund's Balance of Payments Statistics Yearbook 2011.

Finally it should be recognized that the Asia region, which extends beyond East and South Asia, into West and Central Asia, is now the largest repository of external resources in the globe. This, in addition to Asia's high levels of domestic savings, is perhaps the world's largest potential source of innovative additional finance. This resource is of special significance for meeting the development needs of Asia. We will discuss the potential for IDF provided by such South-South sources of external finance and the implications for deploying these resources within Asia in a later section.

4. IDF in Asia

The coverage for Asia

IDF at the global level has not as yet made any significant contribution to development finance. If we look at the World Bank's measure of IDF, around $57 billion have been generated through such products. The two principal sources of IDF, according to the World Bank, have been *Emerging Donors* ($10.7 billion), drawn principally from countries of the South and *Local Currency Bonds* ($40 billion) generated from within developing countries. These two heads of finance account for 89% of all IDF. Significantly both these resources originate in the DCs. The *Local Currency Bonds* are, by definition, utilizable in the country where they will be used for development so that the role of ODA can, at best, be catalytic to this process. While data on country level mobilization of local bond financing could not be

accessed, most of such resources mobilized within Asia, originated in a few of the stronger economies.

The other source of information on IDF, OECD, has estimated that $36 billion of resources have been explicitly raised as IDF, of which, $28 billion (77.8%) has been raised through *Carbon Emission Trading* under the Kyoto Protocol. Here again it is uncertain as to how much of the resources from Carbon Trading have been transformed into IDF. It is estimated that around 2% of such resources are to be channeled into IDF. Germany, for one has invested its carbon funds in IDF in supporting projects for Climate Change. Pakistan has received $1.7 million from this fund.

It is evident that IDF products, whether from local bond finance or climate finance, have not made any noticeable contribution to providing additional finance for Asian countries. In table 4 we look exclusively at climate finance and some health related products which have provided some of the largest sources of IDF, to estimate their direction to Asia. The table reveals that in some of the larger countries, which have been the biggest recipients of IDF, overall contribution to the totality of development finance in the country has been marginal.

Table 4: Innovative Development Finance (IDF) in ODA, GDP and TPE, 2009

Countries	Total GFATM+GAVI* (US$ million)	Total GEF* (US$ million)	Total IDF (US$ million)	Share in ODA (%)	Share in GDP (%)	Share in total public expenditure (%)
Afghanistan	44.7	0	44.7	0.78	0.31	1.62
Bangladesh	51.1	1.1	52.2	3.53	0.06	0.38
Bhutan	1.8	2.5	4.3	4.34	0.34	1.01
Cambodia	51.2	1.1	52.3	8.16	0.24	2.5
PRC	122.7	61.3	184	6.5	0.00	0.02
India	143.7	55.3	199	4.79	0.01	0.06
Indonesia	161	8.4	169.4	5.12	0.03	0.17
Lao PDR	19	3.2	22.2	7.89	0.38	1.61
Malaysia	0	5.4	5.4	5.08	0.00	0.01
Nepal	2.2	1	3.2	0.32	0.02	0.13
Pakistan	50.4	8.3	58.7	1.08	0.04	0.18
Philippines	22.7	15	37.7	2.59	0.02	0.13
Sri Lanka	24.9	0.9	25.8	2.76	0.06	0.25
Thailand	47	0.7	47.7	4.79	0.02	0.08
Timor-Leste	13.6	0	13.6	7.32	2.27	2.25
Vietnam	24.9	5.9	30.8	0.84	0.03	0.1
Total in Asia	**831.3**	**180.3**	**1011.6**			

*From the OECD-CRS Database http://stats.oecd.org/Index.aspx?DatasetCode=CRSNEW (Accessed on 19/01/2012).
**Calculation from the IMF's World Economic Outlook database.
Source: Author's calculation from the OECD-CRS database and the World Economic Outlook database.

In most other cases of IDF, the resources generated have been modest and their contribution to the financing needs of Asian countries have been even less significant, given Asia's generally reduced dependence on ODA. We will, therefore, limit our review of IDF in Asia to disbursements under some of the more promising IDF products.

The two sectors where IDF appears to have been most effectively deployed are health and climate change. In this section we will examine the access to funds from the two most important programs in the health sector, the GFATM which has generated $19.5 billion (upto 31 May 2011) and the GAVI fund which has generated only $5.4 billion (upto 15 April 2011). However, according to the OECD, only 2% of the GFATM and 37% of the GAVI fund is classified as innovative. This stringent down grading of the innovative character of the two funds owes to the fact that the largest share of these funds have originated as ODA from particular bilateral and multilateral donors, and should, thus, be classified as normal ODA rather than as IDF. We will not linger over these conceptual issues but will attempt to deconstruct the allocation of these funds to examine its deployment in the Asia region. The GFATM has committed $3.4 billion to East Asia and $1.9 billion to South and West Asia. The total funds committed to Asia thus accounts for 25% of the Global Fund. The GAVI fund accounts for $1.9 billion (disbursement from 2008 to 2011), of which, 29% has been invested in Asia.

Beyond the health funds we will look at the funds invested in climate change. Here again, beyond the realization of the $28 billion generated by trading in carbon emissions, most of which is yet to be allocated, little of these funds can be classified as IDF insofar as it is directed to development finance. Of this fund we estimated that only $1.5 billion has actually been invested in DCs of which 80% has been invested in PRC (58%) and India (22%). In the subsequent section we will discuss the commitment and disbursement of the GFATM, the GAVI fund and the various funds directed to climate change, in order to assess their distribution in the Asia region and their possible impact in relation to the needs and resources of the Asian countries.

IDF in the Health Sector: GFATM and GAVI

Upto 2011, $22.8 billion worth of projects had been approved under the GFATM of which $15.7 billion had been disbursed. Of this, East Asia accounted for 15% of the approved proposals and 14% of disbursements, while South Asia accounted for 9% of approved funds

and 8% of disbursement. East and South Asia were recipients of 22% of disbursements under the fund.

In table 5, we present the distribution of the GFATM disbursements within the various Asian countries. India ($802 million) and PRC ($626 million) were the largest recipients of this fund in the Asia region. Other large recipients include Indonesia ($385 million), Thailand ($291 million), Cambodia ($626 million), Bangladesh ($190 million), Philippines ($167 million) and Vietnam ($131 million).

A significant feature of the GFATM was its attempt to draw upon both the government and civil society to both bid for funds and utilize them. The fund was thus managed through an autonomous entity in each country made up of members from the government, civil society and multilateral institutions working in the recipient country. In practice, this admixture of public and non-governmental ownership over the fund was not always possible and largely depended on the role of the state and the strength of civil society in the respective countries. Table 5 shows that in Cambodia, PRC, Lao PDR, Vietnam, Timor-Leste and Bhutan, 100% of the fund was contributed and used by the government. In India (89%), Indonesia (91%), Thailand (86%), Pakistan (76%) and Sri Lanka (62%), the state was the dominant partner.

It should be noted that in Philippines the dominant role was played by civil society and private sector (93%). Interestingly, in Myanmar, where the state is the dominant player, 66% of the $55 million fund was catalyzed by the multilateral agencies and 34% by NGOs. This possibly owes to the fact that many of the development agencies, both bilateral and multilateral, were embargoed from funding the Myanmar government which would normally have meant that no ODA funds would have been made available to Myanmar. However, the military government appears to have conceded to GFATM funds entering Myanmar through non-government agencies, though it is possible that some of the NGOs receiving such funds are fronts for government agencies.

Table 5: Distribution of the GFATM in Asia

Countries	Total disbursements (in US$)	Share of government (%)	Share of civil society and private sector (%)	Share of multilateral organizations (%)
Afghanistan	56,197,790	52.3	47.7	0.0
Bangladesh	189,746,201	44.8	55.2	0.0
Bhutan	7,939,951	100.0	0.0	0.0
Cambodia	278,219,722	100.0	0.0	0.0
PRC	626,171,096	100.0	0.0	0.0
India	801,648,737	88.8	9.8	1.4
Indonesia	384,640,912	90.9	9.1	0.0
Lao (Peoples Democratic Republic)	86,189,479	100.0	0.0	0.0
Malaysia	1,333,367	0.0	100.0	0.0
Myanmar	55,298,890	0.0	33.8	66.2
Nepal	70,773,620	44.4	36.4	19.2
Pakistan	90,188,800	76.3	23.7	0.0
Philippines	166,991,020	7.2	92.8	0.0
Sri Lanka	40,965,653	61.7	38.3	0.0
Thailand	290,602,309	85.8	14.2	0.0
Timor-Leste	30,072,614	100.0	0.0	0.0
Viet Nam	130,892,904	100.0	0.0	0.0

Source: Author's calculation for the country-wise disbursement as recorded in the Global Fund website at http://portfolio.theglobalfund.org/en/DataDownloads/CustomizeReportDownload (Accessed on 12/12/2012)

In tables 6a and 6b, we present data on the funds committed and disbursed under the GAVI. Between 2008 and 2012, globally $2.3 billion was committed under this fund and $1.9 billion was disbursed, of which 28.5% ($546 million) was disbursed within East and South Asia. Within Asia, the three largest recipients of this fund, Afghanistan ($65 million), Bangladesh ($129 million) and Pakistan ($205 million) are all from South Asia. This may be contrasted with the GFATM where the largest disbursements outside of India, were in East/SE Asia.

Table 6a: Global Alliance for Vaccines and Immunization (GAVI), Commitments (US$ million)

Country	2008	2009	2010	2011	2012	Grand Total for Asia Pacific (2008-2012)
Afghanistan	9.50	26.12	20.00	17.97	12.51	86.1
Bangladesh	2.86	64.56	38.28	32.43	28.97	167.1
Cambodia	1.37	1.78	5.93	4.97	4.52	18.57
India	0	6.94	102.74	62.26		171.94
Indonesia	10.81	18.26	$0	2.63		31.7
Lao PDR	0.34	0.96	2.03	1.55	1.13	6.01
Myanmar	5.75	2.53	1.62	0.30	8.63	18.83
Nepal	6.43	14.22	11.26	2.91	10.20	45.02
Pakistan	63.03	71.67	53.58	39.14	148.55	375.97
Sri Lanka	6.08	1.01	4.46	4.87	3.19	19.61
Vietnam	4.94	5.79	23.22	15.77	11.47	61.19
Grand Total (including all other countries)	**445.51**	**578.12**	**576.44**	**727.15**	**$1,157.27**	**229.17**

Table 6b: Global Alliance for Vaccines and Immunization (GAVI), Disbursements (US$ million)

Country	2008	2009	2010	2011	Grand Total for Asia Pacific (2008-2011)
Afghanistan	18.87	17.53	22.99	5.38	64.77
Bangladesh	27.72	26.79	52.00	24.07	130.58
Cambodia	0.93	4.75	3.56	4.91	14.15
India	7.19	1.46			8.65
Indonesia	9.06	1.85			10.91
Lao PDR	0.68	0.59	3.38	0.44	5.09
Myanmar	3.16	0.60	0.09	5.37	9.22
Nepal	10.86	2.15	13.39	5.83	32.23
Pakistan	71.10	31.78	95.37	7.57	205.82
Sri Lanka	2.72	3.27	6.32	1.09	13.4
Vietnam	16.02	2.45	19.43	13.05	50.95
Grand Total (including all other countries)	594.71	335.32	584.41	401.90	545.77

Source: http://www.gavialliance.org/results/disbursements/ (Accessed on 12/12/2012)

The disbursement of these two funds, which are viewed as some of the prize examples of the use of IDF, was of some benefit to the recipient countries. However, how useful and relevant they may have been in each country needs to be examined in relation to the broader expenditures for health care, the role of the governments in health expenditure and the role of ODA in the funding of the government's health programs. In table 7, we attempt to place the GFATM and GAVI disbursements under this broader disposition of resources in the health sector.

Table 7: Profile of Health System Financing in Asia, 2009

Countries	Total Expenditure ($ million)	Per capita expenditure ($)	Aid Fund ($ million)	GAVI+GFATM ($ million)	Aid Fund as % of total health expenditure	Public expenditure as % of total health expenditure	Aid Fund as % of public health expenditure	IDF as % of total health expenditure	IDF as %of public health expenditure[c]
Afghanistan	1,400	51	252	44.7	18	21	86	3.2	15.24
Bangladesh	3,000	19	240	51.1	8	33	24	1.7	5.15
Bhutan	68	98	5	1.8	8	82	10	2.6	3.17
Cambodia	639	43	58	51.2	9	21	43	8.0	38.10
PRC	227,000	169	104[a]	122.7	> 0[a]	50	>0[a]	0.1	0.20
India	54,000	44	540	143.7	1	30	3	0.3	1.00
Indonesia	13,000	55	260	161	2	52	4	1.2	2.31
Lao (Peoples Democratic Republic)	227	36	34[b]	19	15[b]	19	79[b]	8.4	44.21
Malaysia	9,300	337	0	0	0	45	0	0.0	0.00
Maldives	102	331	1	0	1	65	2	0.0	0.00
Myanmar	624	12	62	0	10	10	100	0.0	0.00
Nepal	743	25	104	2.2	14	35	40	0.3	0.86
Pakistan	4,100	23	7	50.4	4	33	12	1.2	3.64
Philippines	6,100	66	244	22.7	4	35	11	0.4	1.14
Sri Lanka	1,700	84	34	24.9	2	45	4	1.5	3.33
Thailand	1,100	168	11	47	1	76	1	4.3	5.66
Timor-Leste	83	73	29[b]	13.6	35.0[b]	71	49[b]	16.4	23.10
Viet Nam	7,000	80	140	24.9	2	39	5	0.4	1.03

Notes: [a]Author's calculation from the funds disbursed under GFATM (annual average of 2006-11); [b]Data for 2007 from World Health Statistics 2010. [c]These figures should be carefully interpreted given that not all IDF fund is channeled through the government.

Source: Author's compilation from the Health System Financing Country Profile available at the World Health Organization (WHO) website - http://apps.who.int/nha/database/StandardReportList.aspx (Accessed on 15/01/2012)

Looking at table 7, two issues come to light. First, in a number of countries public expenditure is superseded by private expenditure in health financing. This partly reflects the inadequacy of the public health services and the corresponding emergence of the private sector to fill the gaps left by pubic provisioning. This has, in some measure, impacted on the design of the GFATM which seeks to draw in civil society and the private sector in delivering particular services within its ATM program. If we take into account total expenditure on health (public + private) the role of external assistance or ODA becomes much less significant. Except for Afghanistan (18%) and Nepal (14%), ODA accounts for less than 10% of health expenditure. If, however, we relate external assistance only to public health expenditure, the dependence on aid rises appreciably for countries such as Afghanistan (86%), Cambodia (43%), Nepal (40%), Lao PDR (79%) and even Bangladesh where it accounts for 25% of public expenditure. On the other hand, for most other countries, including the bigger countries such as PRC, India, Pakistan, Indonesia, Philippines, Thailand and Vietnam, aid constitutes an insignificant part of public expenditure on health. In the above circumstances the contribution of programs such as GFATM and GAVI become less important in the overall scheme of health care.

If we look at the additionality provided by GFATM and GAVI, these two funds together account for a relatively low share of the public health care budget. According to table 7, we note that even among the biggest of the recipients such as PRC ($123 million in 2009), and India ($144 million in 2009), the proportion of the IDF funds for health amounted to less than 2%, an insignificant amount of total public expenditure in health care. In most other cases, expenditure under these two funds accounted for less than 10% of the aid budget and less than 3% of the public health budget. It, thus, becomes difficult to work out the causal link between reduction, if any, in ATM infections and fatalities contributed by the funds, compared to the total public health budget. In practice it is likely that in some of the smaller economies, some of these funds did make some impact on ATM or at least released public health funds so that it could concentrate on other sectors.

In the case of Bangladesh, for example, the two funds in 2009 accounted for 21% of the aid budget for health but only 5% of the total public health budget. Under these circumstances, the GFATM and the GAVI funds cannot be said to have injected much additionality either into the total development or even health care aid budgets, or to public expenditure on health care.

If we are to look for any value addition from these health funds it will need to be in the form of more effective uses of aid, derived from the vertical and autonomous management of the fund where such arrangements are permitted by the respective governments. In actual practice it remains questionable how far a stand alone arrangement, where the government surrenders its right to select projects, disburse and manage the funds, would be sustainable as a regular *modus operandi* for managing ODA. Some governments may have accommodated themselves to such a process but this should not be seen as the trend of the future in order to seek external resources for some particular diseases. At the end of the day effective use of aid, which is largely disbursed through governments, will depend on the quality of governance in the use of such resources. It is clear that certain countries such as PRC, Vietnam, Lao PDR, and India, who preside over strong states, have chosen to disburse the funds either exclusively or mostly through public agencies. How far the new funding dispensation governing GFATM has had a substantive impact on the management of these diseases again remains unclear. More intensive study is required to explore the effectiveness of these two funds on ATM. In Annex A, we present a profile of the impact of GFATM and GAVI on one Asian country, Bangladesh.

Climate Change Funds

Table 8 indicates a plethora of funds dedicated to climate change across the globe. These funds indicate significant gaps between pledges, deposited funds and actual disbursements which added up to $2.66 billion by end 2011. Some of biggest of the funds such as from Japan or the LDC Fund which was pledged at Copenhagen have yet to take off. The Adaptation Fund which was identified by the OECD as the largest potential source of IDF was expected to generate $28 billion. The Adaptation Fund is a financial instrument under the UN Fund on Climate Change, and is guided by the Kyoto Protocol which was established to reduce the adverse effect of climate change. The Fund was expected to be financed by a share of the proceeds from the *clean development mechanism* (CDM) project activities as well as through voluntary pledges by donor governments. The share of proceeds of the CDM amounts to 2% of the *certified emission reduction* that are issued for CDM activities and it has so far provided around $384 million. Small contributions from bilateral donors such as Germany, Spain and Sweden have provided a modest enhancement to the fund where around $254 million have been deposited in the CDM. Only 13.7% of the fund has actually been received for project in Asia in contrast to 30.7% for Africa, 21.6% to South America and 26.5% to Central and North America. Since only $25.6 million of the CDM has actually been

disbursed, only $4.5 million has been delivered to Asia where Pakistan has been the largest recipient with $1.7 million of funding.

Table 8: Climate Change Funds

Fund	**Pledged**	**Deposited**	**Approved**	**Disbursed**
Adaptation Fund	$254.95	$254.90	$84.46	$25.61
Amazon Fund (Fundo Amazônia)	$1,027.93	$53.20	$127.05	$32.73
Clean Technology Fund	$4,433.00	$2,992.47	$1,936.50	$384.00
Congo Basin Forest Fund	$165.00	$165.00	$20.34	$15.71
Forest Carbon Partnership Facility	$436.90	$386.90	$22.46	$11.35
Forest Investment Program	$599.00	$348.34	$60.79	$14.00
GEF Trust Fund - Climate Change focal area (GEF 4)	$1,032.92	$1,032.92	$1,035.93	$915.70
GEF Trust Fund - Climate Change focal area (GEF 5)	$1,141.00	$1,048.10	$79.01	$1.00
Global Climate Change Alliance	$226.12	$224.62	$196.34	$130.99
Global Energy Efficiency and Renewable Energy Fund	$169.50	$65.66	$64.07	
Indonesia Climate Change Trust Fund	$18.47	$10.92	$5.48	
International Climate Fund	$4,640.00	$40.00		
International Climate Initiative	$680.40	$680.40	$557.60	$557.60
International Forest Carbon Initiative	$216.27	$67.06	$47.60	$47.60
Japan's Fast Start Finance - private sources	$4,000.00			
Japan's Fast Start Finance - public sources	$11,000.00			
Least Developed Countries Fund	$379.86	$278.62	$159.11	$107.71
MDG Achievement Fund – Environment and Climate Change thematic window	$89.50	$89.50	$89.52	$83.30
Norway's International Climate and Forest Initiative	$517.00		$90.80	$70.10
Pilot Program for Climate Resilience	$982.00	$708.54	$143.46	$55.00
Scaling-Up Renewable Energy Program for Low Income Countries	$352.00	$236.35	$31.64	$6.00
Special Climate Change Fund	$206.39	$145.21	$118.18	$86.10
UN-REDD Program	$150.84	$98.25	$137.13	$117.90
Grand Total:	$32,719.05	$8,926.96	$5,007.47	$2,662.40

Source: Climate Funds Website http://www.climatefundsupdate.org/ (Accessed on 21/01/2012)

Drawing upon the somewhat uneven data bases covering the deployment of the various climate change funds identified in table 9, we have attempted to work out a rather improvised distribution of these funds within the Asia region which shows that the funds have, indeed, been distributed rather unevenly. The 3 largest Asian countries, PRC ($187 million), India ($144 million) and Indonesia ($87 million) account for 16% of these funds. Bangladesh, regarded as one of the countries most vulnerable to climate change has received $18 million. The total funds disbursed in the world's most populous region, with some of the highest level of exposure in terms of people to climate change, received only 0.7% of the aggregate of these funds.

Table 9: Climate Change Funds in Asia, 2011

Countries	Total Number of Projects	Number of projects (received funding)	Amount Approved (US$ million)	Amount Disbursed (US$ Million)	Sources of Funds
			South Asia		
Afghanistan	3	2	10.01	4.24	Least Developed Countries Fund, MDG Achievement Fund - Environment and Climate Change
Bangladesh	5	4	19.78	18.06	Global Climate Change Alliance, Least Developed Countries Fund, GEF Trust Fund, Pilot Program for Climate Resilience
India	31	30	143.69	143.56	GEF Trust Fund, International Climate Initiative
Nepal	9	4	34.08	14.92	Global Climate Change Alliance, Least Developed Countries Fund, GEF Trust Fund, Pilot Program for Climate Resilience, Scaling-Up Renewable Energy Program for Low Income Countries, Forest Carbon Partnership Facility
Pakistan	6	4	8.48	15.13	GEF Trust Fund, Adaptation Fund, Special Climate Change Fund
Sri Lanka	4	2	10.06	5.7	GEF Trust Fund
			East Asia		
Cambodia	9	6	10.97	33.46	Global Climate Change Alliance, Least Developed Countries Fund, Pilot Program for Climate Resilience, GEF Trust Fund, UN-REDD Program
PRC	38	35	237.57	187.31	International Climate Initiative, GEF Trust Fund, MDG Achievement Fund - Environment and Climate Change
Indonesia	24	15	230.94	86.56	International Forest Carbon Initiative, International Climate Initiative, GEF Trust Fund, Indonesia Climate Change Trust Fund, Norway's International Climate and Forest Initiative, Clean Technology Fund, Forest Investment Program, Forest Carbon Partnership Facility, Special Climate Change Fund, UN-REDD Program
Lao	8	4	12.32	6.64	Least Developed Countries Fund, Forest Investment Program, Forest Carbon Partnership Facility, GEF Trust Fund
Malaysia	2	2	9.2	9.2	GEF Trust Fund
Thailand	12	8	96.31	20.07	GEF Trust Fund, International Climate Initiative, Special Climate Change Fund, Clean Technology Fund
Philippines	10	8	63.23	32.23	International Climate Initiative, GEF Trust Fund, MDG Achievement Fund - Environment and Climate Change, Special Climate Change Fund, UN-REDD Program, Clean Technology Fund, Special Climate Change Fund
Vietnam	14	10	68.78	33.38	International Climate Initiative, GEF Trust Fund, Special Climate Change Fund, Clean Technology Fund, UN-REDD Program

Source: Author's compilation from the Climate Funds Update website (http://www.climatefundsupdate.org/projects) Accessed on 06/01/2012

Within the wider context of ODA, the IDF funds, committed to climate change in Asia, even for the largest of the recipients remains insignificant. In relation to the overall financial flows into the region, dedicated climate funds remain virtually off the map in every country of Asia. If we aggregate the climate funds with GFATM and the GAVI, this adds up to $1 billion in 2009. These funds for IDF, which remain the principal sources of innovative funding, add up to less than the $3.5 billion worth of migrant remittances flowing into just one Asian country, Nepal.

Placing IDF funds in the Asian perspective

In table 4, we have attempted to place these 3 sources of IDF within a national perspective, across the Asia region. It can be seen that IDF amounts to less than 0.1% of GDP in every listed Asian country and less than 3% of public expenditures in these countries. Indeed, except for small countries such as Bhutan, Cambodia, Lao PDR and Timor-Leste and war ravaged Afghanistan, IDF funds account for less than 1% of public expenditure across Asia.

The exclusion of Asia from the distribution of the HIPC Fund

In case of another IDF, identified as the *Heavily Indebted Poor Countries* (HIPC) initiative, which was considered as another successful form of IDF, $43.3 billion in debt to 24 countries, was written off. As it transpired not one Asian country was included in the HIPC list, even though the absolute volume of debt and debt service involved for countries such as Bangladesh, Nepal and Cambodia, were higher than for many SSA countries. The Asian countries were, in fact, penalized for their success in export diversification and growth as well as the energy and enterprise demonstrated by their migrants in sending back a rising volume of remittances. Their rising export earnings enabled these countries to service their debt more effectively. Today Bangladesh bears an external debt of $24 billion (2008) which covers 20% of its GNI. Nepal's debt comes to 21% of its GNI and Cambodia's debt comes to 42% of its GNI. However, Bangladesh's debt service ratio in 2010 stood at 3% of its export of goods and services, Nepal's ratio was 6% and Cambodia's was as low as 1%.

In contrast to Asian countries, those countries from SSA whose debt was written off, such as Ethiopia (8% of GNI), Ghana (20%), Kenya (19%), Mali (11%), Nigeria (5%), Senegal (26%), Tanzania (14%) and Uganda (10%), today carry lower weights of external debt than the three South Asian LDCs, cited above. Indeed, in absolute terms, Bangladesh's volume of debt of $24 billion is higher than any of the SSA LDCs and is more than double that of

Nigeria which has a GDP of $169 billion compared to $89 billion for Bangladesh, and whose per capita income (PCI) at $1140 is also more than double that of Bangladesh's PCI of $590.

Given the difficult circumstances faced by many SSA countries no one should grudge them the right to have their debts forgiven. But the debt forgiveness rationale should be more flexibly designed so that economic success by LDCs or other low income countries, who face many complex problems and also carry sizeable debt burdens, is rewarded not penalized. Such perverse measures for defining conditions for debt forgiveness would appear to be neither efficient nor just, nor should they be regarded as a form of IDF since it originates exclusively through ODA.

5. Making more Effective use of IDF in Asia

IDF in its present configuration has not generated much in the way of additional finance. Nor is it as yet appropriate to establish whether some of its products provide a more effective service to DCs. In such circumstances it may be useful to explore some more credible and sustainable sources of IDF which has the potential for providing a significantly larger source of external finance or could ensure its more effective use. This discussion will be carried forward in the Asian context where such sources of funding are available in sizeable volume.

Asia's capacity to both generate and effectively utilize IDF derives from the following strengths:

- Asia and particularly East Asia have emerged as a major source of exports in the global economy
- Asia's global competitiveness in the manufacturing sector has enhanced its attraction for FDI
- Most Asian countries have relatively strong macroeconomic fundamentals which make them attractive to FDI
- Asian countries, including LDCs, have enhanced their capacity for generating domestic savings
- Low income households across Asia, but particularly South Asia, have increasingly entered the formal financial sector through MFIs and demonstrated high levels of creditworthiness
- Asia, including West Asia, is the principal source of global capital surplus.

The dynamism of the Asian economies

Asia today has emerged as the most dynamic region in the global economy in terms of both economic and export growth. The share of global GDP of East and South Asia has grown from 4.9% in 1990 to 15.4% in 2010 whilst its share of global exports has grown from 20.6% to 31.4% in the same period. The region's GDP growth has been fairly uniform. Although East Asia, led by the global powerhouse PRC, averaged 9.5% between 2010-2012, South Asia averaged 6.5% and South East Asia averaged 6.3%. Only 2 countries, Pakistan and Cambodia registered GDP growth rates below 4%.

Growth rates of merchandise exports have also been particularly robust. Again, in the last 4 years, from 2009-2012 (projected) East Asia's exports grew at 20%, South Asia did even better, with an average export growth of 23% while SE Asia sustained growth rates of 19%. Again the dispersal of export growth has been uniformally high with most countries across these three regions registering double digit growth in the last two years.

What is significant is that this export growth from Asia, in most countries, is not derived from traditional commodity based exports, but is largely attributed to export diversification into the manufacturing sector. Whilst exports in this sector, for a number of LDCs at least, remain highly concentrated in a few labor intensive activities, their ability to establish global competitiveness in these value added areas holds promise for further growth and export diversification.

In most Asian countries manufacturing exports exceed two thirds of total commodity exports. Even in countries such as Indonesia (41%) and Vietnam (55%) which still have a dependence on export of primary products, their manufacturing exports have registered high rates of growth. Manufacturing exports from Vietnam which in 2009 amounted to around $31 billion and Indonesia where it amounted to around $48 billion, reflected their substantial and growing competitiveness in manufacturing exports at the global level.

The significant point of emphasizing the substantial diversification and growth of exports from the Asia region is that the region's international fortunes do not depend on the instability associated with the export of primary products, but from their global competitiveness derived from the exploitation of their comparative advantage. In a more rational and coherent global trading regime these factors would indicate the long term

capacity for growth and change in these countries. These forces may not always be able to resist the negative influences of a global recession as was manifested by the negative export growth registered by most Asian countries in 2009. But beyond such exogenous global shocks, the Asia region shows a consistent uniform pattern of export growth through the last decade, mostly registered through the growth of competitive manufacturing export. This form of export dynamism has considerable relevance for inviting innovative sources of development finance particularly within the Asia region, in the form of FDI. The scope for using ODA to leverage such FDI will be discussed in the concluding section.

There have been two significant outcomes from the economic and export growth registered by the Asian economies. These are manifested in their increasing capacity to mobilize domestic savings for investment and their accumulation of capital surpluses in the form of foreign exchange reserves derived from the growth of external earnings. These external earnings derive both from growth in export of goods as well as the explosive growth of migrant remittances, particularly into South Asia, through the export of labour services. Migrant remittances contribute both to the growth of domestic savings as well as the accumulation of foreign reserves.

In table 2 we observed that the growth of GNS now underwrites a substantial part of the rising rates of GDI in the Asia region. There are some exceptions to this trend in Asia where, for example, Pakistan's GNS is as low as 13.2% which permits for low investment levels of 16.6%. The some situation prevails in Cambodia where a GNS of 10.8% sustains a GDI of 17.2%. In contrast, Vietnam now generates a GNS of 32% but finances an investment level of 39% through high inflows of FDI and remittances. Vietnam's GDI is exceeded in Asia only by PRC's GDI of 50%.

Asia as a source of capital surpluses

Rising levels of GNS in the Asian regime are matched by the accumulation of external reserves (see table 10). This explosive growth of reserves is largely underwritten by PRC whose reserves grew from $165 billion in 2000 to $2.9 trillion in 2010 (in 2011 this now stands at $3.2 trillion). However, the rest of these three Asian regions have contributed 46% to the global reserves in 2010 compared to 40% in 2006, where every single country, with the exception of Pakistan and quite paradoxically Vietnam, augmented their reserves.

Table 10: Asia's Gross International Reserves and holdings of US Treasury Bills (US$ billion)

	International Reserves					US Treasury Bills (TBs)	
	2006	2007	2008	2009	2010	Reserves held in US TBs	TBs as % of Reserves
Central Asia							
Armenia	1.1	1.7	1.4	2	1.9		
Azerbaijan	2.5	4.3	6.5	5.4	6.4		
Georgia	0.9	1.4	1.5	2.1	2.3		
Kazakhstan	19.1	17.6	19.9	23.1	28.3		
Kyrgyz Republic	0.8	1.2	1.2	1.6	1.7		
Tajikistan	0.1	0.09	0.2	0.3	0.6		
Turkmenistan	8.1	13.2					
Uzbekistan	4.7	7.5	9.5	12.2	13.5		
Total Central Asia	37.3	46.9	40.2	46.7	54.7		
East Asia							
PRC	1068.5	1530.2	1949.3	2416	2900	1152	39.7
Hong Kong, China	133.2	152.7	182.5	255.8	268.7	132	49.1
Korea, Rep. of	239	262.2	201.2	270	291.6	39	13.4
Mongolia	0.7	1	0.6	1.3	2.2		
Taipei, China	266.1	270.3	291.7	348.2	382	153	40
Total East Asia	1707.5	2216.5	2625.4	3291.3	3844.5	1476	
South Asia							
Afghanistan	2	2.8	3.6	4.2	5		
Bangladesh	3.5	5.1	6.1	7.5	10.8		
Bhutan	0.5	0.6	0.6	0.7	0.9		
India	191.9	299.2	252	278.2	301.8	40	13.2
Maldives	0.2	0.3	0.2	0.3	0.4		
Nepal	1.8	2	2.5	2.9	2.8		
Pakistan	10.8	13.3	8.6	9.1	13		
Sri Lanka	2.8	3.5	1.8	5.1	6.6		
Total South Asia	213.6	326.9	275.4	307.9	341.2	40	
South-East Asia							
Brunei Darussalam	0.5	0.7	0.8	1.4			
Cambodia	1.1	1.6	2.2	2.4	2.7		
Indonesia	42.6	56.9	51.6	66.1	96.2		
Lao PDR	0.3	0.5	0.6	0.6	0.7		
Malaysia	82.2	101.5	91.6	96.7	106.6	12	11.3
Myanmar	2.5	3.6	4	5.2	5.5		
Philippines	23	33.8	37.6	44.2	62.4	19	30.4
Singapore	136.3	163	174.2	187.8	225.8	57	25.2
Thailand	67	87.5	111	138.4	167.5	50	29.9
Vietnam	11.5	21	23	14.1	12.4		
Total South-East Asia	367	470	496.7	557.1	679.7	138	
West Asia							
Iraq	20.1	31.5	50.1	44.3	50.6		
Kuwait	14.2	18.8	19.3	23	24.8		
Oman	5	9.5	11.6	12.2	13		
Qatar	5.4	9.7	10	18.8	31.2		
Saudi Arabia	229	309.3	451.3	421	459.3		
United Arab Emirates	27.6	77.2	31.7	36.1	42.8		
Yemen	7.5	7.8	8.2	7	6		
Total West Asia	308.8	463.8	582.2	562.4	627.7	215	34.2

Total Asia	**2634.2**	**3524.1**	**4019.9**	**4765.4**	**5547.8**		
Japan	895.3	973.3	1030.8	1050.1	1096.1	861	78.5
Total global reserves	**5788.4**	**7380**	**8058**	**9392**	**10768.4**		
Asia's share in global reserves (%)	46	48	50	51	52		
Japan's share in global reserves (%)	15	13	13	11	10		

Source: ADB (2011); World Development Indicators (WDI) for estimates of West Asia and global reserves.

For a number of countries in the Asia region the growth of reserves have been driven by the growth of remittances which have increased from $37 billion in 2000, for a selection of Asia countries to $193 billion in 2011. Table 3 earlier showed that Bangladesh, PRC, India, Nepal, Pakistan, Philippines, Sri Lanka and Vietnam have registered exponential growth in remittances.

The build up of reserves in the East and South Asia region may be linked to the growth of reserves in two other regions of Asia, Central and West Asia, where reserve accumulation is largely driven by export of energy resources. As a result, the reserves from this region have grown from $346 billion in 2006 to $682 billion in 2010. The two main drivers of reserve growth have been the energy rich economies of West Asia along with energy exporters in Central Asia - Kazakhstan ($28 billion), Azerbaijan ($6 billion) and Uzbekistan ($13.5 billion).

The sizeable reserves in West Asia are driven by the energy exporting economies of the Arab world which include Saudi Arabia, UAE, Kuwait and Iraq along with Iran. The reserves of West Asia stood at $627.7 billion in 2010. Reserve accumulation by the energy exporting regions of Asia remains a more unstable proposition driven by the global demand and price of energy. However, the relatively lower capacity to absorb its energy related earnings through economic growth and diversification, ensures that reserves in West Asia will continue to build up even when energy prices decline in particular years.

If we total the reserves of the 5 Asian regions and add to these Japan’s reserves of $1.1 trillion in 2010, then greater Asia presides over $6.6 trillion in reserves which accounts for 62% of global international reserves. It will be argued that these sizeable reserves, located within the developing regions of Asia, have enormous implications for promoting IDF, particularly within the dynamic Asia region.

6. Catalyzing Asia's Strengths through IDF

In this section we will seek to draw upon Asia's strengths identified above in section 5 to stimulate IDF through:

- Mobilizing additional funds from within the Asia region
- Using innovative financial mechanisms and IDF to make more effective use of remittances in the development process

Mobilizing additional funds from within the Asia region

Asia is now the repository of the largest volume of investible resources accumulated in the history of the world. Table 10 has shown that Asia's current international reserves (excluding Japan) amount to $5.5 trillion. However, most of these reserves are not readily available for development purposes. International reserve accumulation is largely viewed as a resource kept on deposit for use on a rainy day when a country needs ready access to an internationally fungible currency. These reserves are, thus, mostly invested in short term financial instruments, such as US Treasury Bills (TB) which yield very low returns. The current yield on TBs is 2.05% (for a five-year bond). These assets have to be held in currencies which can be universally transacted which preserve their value and can be encashed on demand. Dollar denominated US TBs, were seen as the safest repository of the reserves of many countries, including PRC. The current holdings of TBs amount to US$ 4.6 trillion of which PRC alone holds $1.1 trillion.

Whilst US TBs pass the test of convertibility it has, particularly in recent years, neither been able to pass the test of stability in value, nor, in particular cases, ready encashability. The US dollar is no longer the strongest currency in the world. Its value has fluctuated greatly and has, for long periods, depreciated against major currencies such as the Euro, the Japanese Yen and most recently the Chinese Yuan. For a country such as PRC which holds $3.2 trillion as international reserves, of which 70% is held in dollar denominated assets, depreciation of the US dollar against the Yuan reduces the capital value of its reserves held in US dollars.

Interestingly, PRC is under severe pressure, particularly from the US Congress, to appreciate the Yuan against the dollar on grounds that an undervalued Yuan gives it an unfair competitive advantage in global exports. Appreciating the Yuan against the US dollar is a

double edged weapon for PRC. Whilst appreciating the Yuan may help US exports to PRC, the appreciation of the Yuan is more likely to benefit many Asian and even European countries who are also major exporters to PRC. However, the real benefit to the US will be through the devaluation of PRC's reserves held in US dollars, which would be appreciably larger than any export gains accruing to the US from the appreciation of the Yuan. The notion that US politicians are motivated by principles of enforcing fair competition and not by the need to reduce their country's debt liabilities should be further explored.

More serious, for countries such as PRC and some of the energy exporting countries of West Asia who hold sizeable reserves in US TBs and other dollar denominated liquid assets, is the difficulty of encashing such assets on any scale in the short or even medium term. Were PRC to liquidate even 20% of its US TBs within 2012 it would create a run on the dollar which would severely devalue its dollar denominated assets. It would create an economic crisis in the US and even the global economy which could jeopardize PRC's exports to the US and Europe. Any such move by PRC would, in all likelihood, be viewed by the US administration and Congress as a threat to US national security and could lead to a freeze on PRC financial assets in the US. In such a world, large investors in the US such as PRC, Japan or the energy surplus West Asian countries, are effectively held hostage to both US economic policy as well as US national security. Thus, holding reserves in any one country, on the scale that we have seen for East, West and even some South Asian country such as India, is not the most efficient or even secure way to hold reserves.

Such large investments, held at low interest rates on grounds of security of the asset, are in practice neither secure nor good value for money for Asia's investors. Thus, it could be argued that one of the most innovative sources of IDF which would provide instant additionality to resource flows into Asia would be to relocate just 2% of dollar denominated reserves held in US TBs by just PRC and Hong Kong, Taiwan, Saudi Arabia, Kuwait, UAE, Qatar, India and Japan and channel this into FDI within the Asia region or even into special purpose, fixed interest bonds guaranteed by DAC members. A 2% move of low yield TBs into higher yield investments would serve an important developmental purpose within Asia.

The operative issue would be to persuade prospective reserve holders that the relocation of their investments into Asia would also be secure, fungible and financially rewarding. In all these areas, an international effort to underwrite or guarantee such investments in lower

income Asian countries, hithertoo less receptive to FDI or external capital flows, would need to be developed. Some of the major recipients of FDI and capital flows such as India, Indonesia, Malaysia, Thailand and Vietnam have already established their attractiveness to FDI (See table 11). Such an intervention may, however, be initially useful in establishing the long run investment worthiness of these weaker Asian countries.

Table 11: Foreign Direct Investment (FDI) (US$ million)

	2006	2007	2008	2009	2010
Central Asia					
Armenia	450	701	925	725	750
Azerbaijan	-584	-4749	15	2899	2272
Georgia	1186	1675	1523	659	553
Kazakhstan	6663	7966	13118	10653	2155
Kyrgyz Republic	182	208	377	190	-
Tajikistan	66	160	190	100	160
Turkmenistan	731	804	820	1355	-
Uzbekistan	174	700	711	838	944
Total Central Asia	8868	7465	17679	17419	6834
East Asia					
PRC	72715	83521	108312	94065	105735
Hong Kong, China	45058	54343	59622	52394	68903
Korea, Rep. of	3586	1784	3311	2249	-150
Mongolia	290	382	845	570	1635
Taipei, China	7424	7769	5432	2805	2481
Total East Asia	129073	147799	177522	152083	178604
South Asia					
Afghanistan	238	243	300	201	220
Bangladesh	743	793	748	961	636
Bhutan	6	73	30	15	11
India	7693	15893	19816	35600	27600
Maldives	64	91	135	112	164
Nepal	-6	5	5	24	164
Pakistan	3521	5140	5410	3720	2151
Sri Lanka	451	548	691	384	500
Total South Asia	12710	22786	27135	41017	31446
South-East Asia					
Brunei Darussalam	70	260	237	-	-
Cambodia	483	867	815	539	801
Indonesia	4914	6929	9318	4878	12736
Lao PDR	650	790	930	769	394
Malaysia	6060	8594	7242	1430	8584
Myanmar	428	715	976	963	958
Philippines	2921	2916	1544	1963	1713
Singapore	29056	37033	8589	15279	38638
Thailand	9460	11330	8539	4976	6668
Vietnam	2315	6516	9279	6900	-
Total South-East Asia	56357	75950	47469	37697	70492
West Asia					
Bahrain	2915	1756	1794	257	156
Iraq	383	972	1856	1452	1426
Kuwait	121	112	-6	1114	81

Oman	1596	3332	2952	1509	2333
Qatar	3500	4700	3779	8125	5534
Saudi Arabia	18317	24334	39455	36458	21560
United Arab Emirates	12806	14187	13724	4003	3948
Yemen	1121	917	1555	129	-329
Total West Asia	40759	50310	65109	53047	34709
Total Asia	247767	304310	334914	301263	322085
Japan	-6784	22180	24552	11834	-1359
Total Global FDI	1594552	2352055	1905620	1345818	1331495
Asia's share in global FDI (%)	16	13	18	22	24
Japan's share in global FDI (%)		1	1	1	

Source: ADB (2011); World Development Indicators (WDI) for estimates of West Asia and global reserves.

Sovereign Wealth Funds (SWFs) as a Source of IDF for Asia

We have discussed the opportunities provided for IDF through access to the large accumulation of international reserve in particular Asian countries. The relevant issue in this area is the willingness of concerned countries to move largely liquid funds, held on short maturities, into longer term development resources. Whilst the suggested volumes for transfer of funds remain relatively small, the move to change the maturity composition of a country's external holdings, however attractive the alternative possibilities, requires a major policy decision to redeploy these reserves. A number of Asian countries preside over sizeable *Sovereign Wealth Funds* (SWF). These are portfolios designed to generate a secure stream of revenues for a future day when the countries in question may not be able to generate such high volumes of current export earning, which have made it possible for them to build up reserves. The emergence of the SWF was itself motivated by the search for longer maturity, somewhat more risk prone investments which could generate higher rates of return than on offer by US TBs. Thus, the idea of moving some reserves into longer term IDF had already been anticipated by these Asian countries when they set out to establish their SWF.

SWF initially emerged as investment options in resource rich, particularly energy exporting countries, who anticipated that their natural wealth may be finite. They argued that a part of their current export earnings should thus be invested to generate a sufficiency of revenues from longer term investments which could compensate for the possible erosion in their export earnings. The earliest of the SWFs, possibly established by Norway, derived from the export bonanza generated by the discovery of enormous energy resources in the North Sea. The later, better known SWF, emerged in West Asia following the build up of capital surpluses

acquired through the sharp escalation in global energy prices in the 1970s and 1980s. The energy/natural resource based SWFs originating in the Asian regions are listed in table 12.

These energy based SWFs were eventually matched by similar funds originating from Asian countries who managed to build their funds drawing on more sustainable export earnings derived from a more diversified export base. Such countries as PRC, Hong Kong, ROK, and Singapore have accumulated reserves built up from their trade surpluses which have enabled them to establish sizeable SWF for addressing future needs. Since these countries derive their current earnings from their export competitiveness rather than a finite natural resource, it is presumed that they can go on expanding the size of their funds. In the not so distant future, such SWF with an inexhaustible source of replenishment will enable these countries to acquire a level of financial power in the global system which is today associated with Wall Street and the City of London.

However, beyond addressing future revenue needs what is more relevant about the SWF is that the funds accumulate in the hands of state owned institutions. The deployment of such funds, which are usually managed by highly competent professionals committed to maximizing investment returns, are in the final analysis driven by government policy. This means that the placement of these funds are not exclusively driven by market considerations but can also be influenced by both public policy and the strategic interests of the concerned governments. A government may, thus, decide, as a matter of policy, that it would like to invest a part of the fund in particular countries, as long as these investments are not prejudicial to the returns being derived from the asset. For such reasons, it is not to be ruled out that such SWF investments may be willing to sacrifice a few percentage points on their investments for both longer term economic and political gains to be derived from such investments in a particular country. To invest in a super highway opening up a region rich in natural resources in Lao PDR, or even Angola, may not immediately be more profitable than investing in real estate in London or Manhattan. But it may well be a more sensible investment in the long run. Such longer term decisions may not be taken by the manager of a private mutual fund but can be take by a state directed SWF.

Table12: Share of Asia in Sovereign Wealth Funds (SWFs), 2011

Region/Countries	Fund Name	Assets in US$ billion	Inception	Origin
Central Asia				
Kazakhstan	Kazakhstan National Fund	$38.6	2000	Oil
Azerbaijan	State Oil Fund	$30.2	1999	Oil
Total in Central Asia (% share in global SWFs)		**$68.8 (1.4)**		
Eastern Asia				
PRC	SAFE Investment Company	$567.9**	1997	Non-Commodity
	China Investment Corporation	$409.6	2007	Non-Commodity
	National Social Security Fund	$134.5	2000	Non-Commodity
	China-Africa Development Fund	$5.0	2007	Non-Commodity
PRC Sub-total		$1,117 (23.4)		
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	$293.3	1993	Non-Commodity
Mongolia	Fiscal Stability Fund	n/a	2011	Mining
South Korea	Korea Investment Corporation	$37	2005	Non-Commodity
Total in East Asia (% share in global SWFs)		**1,447.3 (30.3)**		
South Asia				
Iran	Oil Stabilisation Fund	$23	1999	Oil
Total in South Asia (% share in global SWFs)		**$ 23 (0.5)**		
South-East Asia				
Indonesia	Government Investment Unit	$0.3	2006	Non-Commodity
Malaysia	Khazanah Nasional	$36.8	1993	Non-Commodity
Singapore	Government of Singapore Investment Corporation	$247.5	1981	Non-Commodity
	Temasek Holdings	$157.2	1974	Non-Commodity
Singapore Sub-total		$441.8 (9.3)		
Timor-Leste	Timor-Leste Petroleum Fund	$6.3	2005	Oil & Gas
Vietnam	State Capital Investment Corporation	$0.5	2006	Non-Commodity
Total in South-East Asia (% share in global SWFs)		**448.6 (9.4)**		
West Asia				
Azerbaijan	State Oil Fund	$30.2	1999	Oil
Bahrain	Mumtalakat Holding Company	$9.1	2006	Non-Commodity
Kuwait	Kuwait Investment Authority	$296	1953	Oil
Oman	State General Reserve Fund	$8.2	1980	Oil & Gas
	Oman Investment Fund	n/a	2006	Oil
Qatar	Qatar Investment Authority	$85	2005	Oil
Saudi Arabia	SAMA Foreign Holdings	$472.5	n/a	Oil
	Public Investment Fund	$5.3	2008	Oil
Saudi Arabia Sub-total		432.8 (9.1)		
UAE	Abu Dhabi Investment Authority	$627	1976	Oil
	Investment Corporation of Dubai	$70	2006	Oil
	International Petroleum Investment	$58	1984	Oil

	Company			
	Mubadala Development Company	$27.1	2002	Oil
	RAK Investment Authority	$1.2	2005	Oil
	Emirates Investment Authority	n/a	2007	Oil
	Abu Dhabi Investment Council	n/a	2007	Oil
UAE Sub-total		783.3 (16.4)		
Total in West Asia (% share in global SWFs)		**1,689.6 (35.4)**		
Total in Asia (% share in global SWFs)		**3,677.3 (77.0)**		
Global SWF Total		**4,771.9**		

Source: Author's calculation from the Sovereign Wealth Fund Institute (SFWI).

The SWFs listed in table 12 indicate the long term investment capacity of a selection of Asian countries. Investments by these Asian SWFs add up to $3.7 trillion which accounts for 77% of the total worth of SWF around the world. The biggest single fund and the oldest in Asia, the *Abu Dhabi Investment Authority* (ADIA), was set up in 1976 and is today worth $627 billion. The UAE presides over a number of other, smaller, SWF which together add upto $783 billion. The other major energy based SWFs include the Saudi based, *Saudi Arabian Monetary Authority* (SAMA) *Foreign Holdings* which manage a fund of $472.5 billion, the *Kuwait Investment Authority* (KIA) with a fund of $296 billion and the *Qatar Investment Authority* with a fund of $85 billion. The emergence of Kazakhstan, the largest of the Central Asian countries, as a large energy exporter, has enabled it to build up a SWF of $39 billion and even Azerbaijan has managed to accumulate a state oil fund worth $30 billion.

Outside of the energy based SWF, the oldest of the Asian funds were established in Singapore where *Temasak Holdings,* set up in 1974 ($157 billion), followed by the *Singapore Investment Corporation,* set up in 1981 ($247.5 billion), together manage investments worth $404 billion. Singapore, as a major sovereign wealth investor, has now been overtaken by PRC which has established 3 major SWF which together preside over investments worth $1.1 trillion, perhaps the largest single collective investment resource, public or private, in the financial world. PRC has even set up a SWF dedicated to Africa, the *China-Africa Development Fund*, with a capitalization of $5 billion, indicating its long term strategic stake in Africa. These Chinese funds may be supplemented, as a global investment resource, by the $293 billion SWF managed by the *Hong Kong Monetary Authority*. ROK and Malaysia have also established sizeable SWFs though not on the same scale as PRC or Singapore.

We should examine the deployment of these various funds in order to learn more about where these funds have been invested. Some earlier studies on the location of SWF investments originating in the West Asian region indicated that in the early years of the oil boom in the 1970s and 1980s, these funds were largely invested in North America and Europe. Today the direction of these funds is somewhat more diversified with a growing share of investments being directed to the more dynamic countries of East/South East Asia and even into India and Pakistan. Nor do we know much about the investment strategies of the SWF in PRC, Hong Kong or Singapore, though here again available evidence suggests that some of these investments have been directed within Asia, including within the home country of the SWF.

The evidence that we have presented above gives some measure of the vast resources which are currently available within Asia in the form of both international reserves and SWF, under the direct control of the respective governments of Asia. These state controlled resources dwarf not just current flows of IDF which we have seen are insignificant, but even total ODA flows into Asia. They remain a far larger resource than some of the hypothetical IDF resources associated with the realization of the Toben Tax, the utilization of SDRs or other big ticket opportunities for enhancing capital inflows to DCs. The challenge for those seeking to channel IDF resources into Asia will be to explore the rationale, policies, institutional arrangements and financial instruments needed to capture potential investible resources from the Asia region for reinvestment within developing Asia.

Channeling IDF within Asia

Some of the rationale underlying intra-Asian investment flows has already been spelt out above. We observed that Asian countries have demonstrated a consistent pattern of high GDP and export growth. The macro-economic fundamentals of most Asian countries compare well with other global regions. There are a few outliers within Asia such as Nepal and Pakistan, who have been victims of specific political problems though prior to these events their development performance had been quite promising.

These favorable economic indicators in Asia have been compounded by the growth in both intra-Asian trade and investment flows. This increasing economic connectivity within the Asia region is symbiotically linked to the broader dynamism of the Asian economies where trade and investment opportunities, in turn, stimulate growth across the region. Asia's share of trade in the world economy has increased considerably. Developing Asia's (East Asia +

South Asia) share of world exports rose from 15% in 2000 to 23% in 2010, whilst its share of imports in this period rose from 14% to 22%. Whilst a significant part of this increase was driven by the emergence of PRC as the world's largest exporting nation and the second largest destination for global imports, other Asian countries also improved their share in global trade.

A significant part of Asia's rising share in global trade was driven by trade within Asia. PRC remains the driving force of intra-Asian trade where its share of exports to developing Asia was 34% of its total exports. However, other countries in Asia also increased their intra-Asian exports, not just to PRC but to other Asian countries. In East Asia outside of PRC, ROK increased their export share within Asia from 34% in 2000 to 44.3% in 2009, whilst China-Taipei increased its share from 41% to 61.5%. South Asian countries also increased their export share to Asia from 19% to 26% with PRC emerging as India's second largest global export destination. SE Asia also increased its share from 41% to 52%. Smaller economies such as Cambodia (10% to 47%) and Lao PDR (45% to 64%) exponentially increased their trade shares within Asia, whilst the bigger economies such as Indonesia (37% to 50%), Malaysia (43% to 53%), Thailand (35% to 45%) and Singapore (48% to 62%), also increased their export share to Asia.

It is evident that within East and South East Asia in particular, intra-Asian trade is increasingly critical for both export and economic growth. Whilst PRC is the driving force in the growth of intra-Asia trade, trade within the region outside of PRC is also playing a significant role. This growth in intra-Asian trade is built upon the construction of trading networks within the region which stimulate such trade. PRC's dynamic growth has, thus, spilled over, through such trade links into sustaining growth in the Asia region among both the big and smaller economies.

Asia's growth dynamism has spilled over into West Asia where the Asia region including Japan has emerged as the largest destination for West Asia's energy exports (68%). If we look at West Asia's total trade then 62% of its exports mostly energy based and 44% of its imports now connect the region to East/South Asia. The enhanced trade links have been preceded by the heavy dependence of the energy rich countries of West Asia on migrant labour from the Asia region, particularly South Asia. This immigrant labour has not just been essential to the maintenance of the comfortable levels of living in West Asia but is integral to

the dynamic of the economic growth of the energy rich economies. This structural change in West Asia's economic links from Europe/North America to Asia provides the economic logic for realizing a redirection of West Asia's capital flows along the same lines.

The dynamism of the Asian economy has already made the region an increasingly attractive magnet for FDI. Between 2005-2009, an annual average of $560 billion of FDI stocks was invested in Developing Asia. The bulk of the investment ($349 billion) was located in PRC. Whilst the US still remains the largest destination for FDI, investments in Asia, indeed in PRC alone, exceed FDI stocks to 27 EU countries ($248 billion).

However, Asia is now graduating into an outward source of FDI and accounted for an average of $260 billion of overseas investment between 2005-2009. Here again PRC was the leader ($121 billion) but India ($44 billion) and the rest of Asia ($92 billion) were not far behind. $71 billion of FDI flows into Asia, in this period, originated from within Asia where PRC alone invested $59 billion in 2010. If we look at just 7 countries, PRC, Hong Kong, China-Taipei, India, ROK, Malaysia and Thailand, 40% of their outward investment went to Asia and 32% of their inward investment originated in Asia.

These figures of FDI flows within Asia do not distinguish between private and public flows. We cannot, therefore, indicate the extent to which these investments originate from SWF investments in the Asia region. Here again estimates of FDI flows into Asia from the West Asia region indicate that a growing volume of resources were being invested in Asia. We cannot identify what part of this investment originated from West Asia's SWF for which further study will be required.

This discussion of both trade and FDI flows into and within Asia indicates the extraordinarily promising prospect for promoting intra-Asian flows of capital. If such south-south flows can be categorized as IDF, then both emerging practice and future potential indicate that intra-Asia investments by PRC including Hong Kong, Singapore and West Asia remain the most promising of all IDF opportunities for Asia.

Resource flows within Asia are not limited to FDI but also include a rising volume of ODA originating from the larger economies within the region. PRC, for example, has been providing grants and soft loans to a variety of DCs around the world. Its aid has quadrupled

from $0.5 billion in 1999 to $1.9 billion in 2009. About 50% of its aid has gone to Africa and a third to Asia. India has also become more visible as an ODA donor which amounted to about $700 million in 2009/10. This mostly goes to its South Asian neighbours though ODA to Africa has recently increased. PRC and India also extend commercial loans to DCs in the form of suppliers credit and hard loans. By way of example, PRC extended $934 million in suppliers credit to Bangladesh between 1994 and 2010 and another $327 million as hard loans. These were mostly invested in the financing of industry, energy projects and the telecom sector. This may be compared with the $307 million in ODA as grants ($86 million) and soft loans ($221 million) extended by PRC to Bangladesh between 1979-2010. India has also extended some ODA as soft loans as well as in commercial credits to Bangladesh between 1972-2010. However, its biggest investment was made in 2011 through a soft loan of $1 billion to Bangladesh, its largest single ODA program anywhere in the world.

Migrant Remittances as IDF

Another major resource generated within Asia, which could be categorized as IDF, are the remittances sent back to particular Asian countries by their overseas migrants. These migrants may be permanent residents, as is the case of those located in North America and Europe, or temporary migrants, as is the case of most of the labor flows to West, South-East and East Asia. We also need to take account of the large numbers of undocumented migrants from Asia distributed all over the world but also within Asia and particularly in South Asia, whose remittances constitute a sizeable source of external resource inflows.

Such unrecorded flows used to be much higher when the official rate of exchange for the currency of the recipient country was noticeably overvalued in relation to the curb rate. However, over the last three decades, in most countries of Asia, exchange rates have increasingly tended to be driven by market forces so that the gap between the official and curb rate has drastically narrowed. Furthermore, formal banking channels, now increasingly helped by advances in IT, are in a position to match the *hawala* houses in the delivery time of their remittances. As a result there has been a sharp upturn in remittances between 2000 and 2011 (See table 3) in every single country in Asia. Much of this increase has, indeed, been driven by the sharp rise in labor flows from the sending countries but some part of this also reflects the graduation of informal flows into formal flows which are thereby recorded in BOP statistics.

For the purposes of our discussion it will be useful to take both formal and informal inflows into account but for purposes of recording the quantitative significant of remittances in IDF,

we use only the official numbers. Table 3 records the quite remarkable escalation in remittances into East, SE and South Asia which increased from $37 billion in 2000 to $193 billion in 2011. The world's two largest recipients of remittance, PRC ($57.3 billion in 2011) and India ($57.8 billion) are also the region's largest economies. Among the smaller economies, Philippines ($23 billion) in East Asia, Pakistan ($12.2 billion) and Bangladesh ($12.0 billion) in South Asia are major recipients of remittances. For some countries such as Nepal whose official remittances add up to just $4 billion in 2011, they account for 20% of their external resource inflows.

This sizeable flow of remittances into Asia remains underused as a development resource. Whilst formal remittances serve to strengthen a country's balance of payments and reserve position, these resources are not recorded in the accounting of public expenditure or private investment. The ultimate disposition of these resources remains in the hands of millions of remittance receiving households across Asia who are the ultimate beneficiaries of these resource flows. The bulk of the remittances serve to enhance household consumption in low income families which may include liquidation of debt obligations or investment in home improvement. Investment in land is much favored by migrants across Asia. Such land purchases in particular countries serve as a form of asset transfer rather than capital creation so they cannot be strictly regarded as developmental investments. We should not, however, dismiss such consumption oriented resource inflows as entirely disconnected from development. Migrant remittances, used for various forms of current consumption, have boosted domestic effective demand thereby stimulating local economic activity which can play a developmental role. Enhanced purchases of foodstuffs, clothing and even home construction, have boosted both farm and non-farm agriculture, as well as the domestic construction industry which has a strong linkage effect in the economy.

It has been argued in virtually every Asian country that more effort should be made to channel such remittance into more conventional and commercially beneficial forms of investment. In all countries, host to large remittances, there has been some diversion of funds into family based SMEs or trading activities. But very little of these funds have been captured by the capital market or within the national development budget. Much of this deficiency originates in the lack of imagination of governments in accessing these remittances. However, this deficit also reflects a significant market failure by the financial institutions in designing financial instruments which could mediate these remittances into capital

investments. The omission is particularly noticeable as a much larger volume and share of remittances are now being transacted through domestic financial institutions with banking facilities located in the remitting country.

At the official level there have been some efforts. In Bangladesh, for example, the government has floated some investment products to capture remittances and has reserved 10% of *Initial Public Offerings* (IPOs) in the capital market for remittances by non-resident Bangladeshis. This has yielded some results, mostly from better off Bangladeshi migrants, usually permanently settled professionals, who are more comfortable in interfacing with financial institutions, both public and private. But very few, if any products of any relevance or accessibility, have been designed to attract the remittance of temporary migrants, mostly from the working class. These migrants remain unrecognized as prospective investors and on their own are unlikely to explore investment opportunities outside their own local or family domain.

One of the more conspicuous efforts to capture some part of the large remittances entering India was attempted through the flotation of *Diaspora Bonds* (DBs). The work by Suhas Ketker and Dilip Ratha has explored the experience of the Government of India (GOI) in floating DBs. There studies indicate that India was inspired by the earlier, more sustained experience of the government of Israel to reach out to a large and affluent Jewish diaspora with a strong emotional stake in the security and development of the state of Israel. These bonds were initially floated by the government of Israel in 1951 and managed by a separate entity, the *Development Corporation of Israel* (DCI). Bonds of varying design and amounts have been floated by the DCI which raised over $26 billion upto 2004. The resources raised from these floatations were invested in Israel, mostly in infrastructure related projects, such as water resources, energy, transportation and telecommunications.

In contrast to Israel, the GOI has been more episodic in its resort to diaspora finance and has used the existing, government owned State Bank of India (SBI) to mange these flotation. The first of these bonds, titled *India Development Bonds* (IDB) was issued in 1991 as a response to a severe balance of payments crisis faced by India when India's external reserves had been almost exhausted. The IDB raised $1.6 billion. Subsequent floatations carrying such patriotism-inspiriting titles as *Resurgent India Bonds* (RIB) were motivated by sanctions imposed on India due to its nuclear tests in 1998 and raised $4.2 billion. Another bond,

termed the *India Millennium Deposit*, floated in 2000, raised $5.5 billion. Whilst Israeli bonds invoked patriotism to secure some discounts below market rates from its investors, India's bond rates tended to be market determined and proximate to rates on comparable US corporate bonds. In contrast to Israel, which established a large establishment under the DCI, to market its bonds within the Jewish community in the US, the SBI outsourced the marketing of their DBs to institutions such as Citibank and HSBC, who had no special stake beyond their commission fees, in marketing these bonds.

Ketkar and Ratha argue that the Israeli and Indian experience with DBs provides a useful insight into opportunities open to other countries with large diaspora populations. They draw on this experience to list other countries with huge diasporas who may attempt to develop similar financial instruments to mobilize funding from their diaspora. Ketkar and Ratha identify only 5 Asian countries Philippines, India, PRC, Vietnam and Pakistan as sources for diaspora financing. They identify their highly skilled emigrant stock, located in OECD countries, as the prospective market for such bonds. Such a criterion inevitably omits migrants from countries such as Bangladesh, Nepal and Sri Lanka, where the majority of migrants are less skilled and mostly located in West Asia. The design of the proposed DBs would, thus, need to be such as would appeal to educated investors living in an OECD country, who may have no strong reason to divest their savings from corporate bonds issued in the US, UK or France. For the same reasons, they also include governance indicators as a measure of the attraction of these countries for purchase of bonds.

The conceptualization of the Ketker study implies that no sensible Pakistani professional working in the US would be willing to divert some of his corporate savings into an ill-governed state such as Pakistan with a governance rating of -0.29! In contrast to Pakistan, India, with a highly skilled emigrant stock living in OECD countries and a governance indicator of +0.09, would obviously be a strong market for its DBs compared to PRC with a population of 817,000 migrants and a governance rating of -0.47. The connectivity between governance and the potential for investment in DBs is questionable, given the fact that PRC attracted $106 billion in FDI in 2010 compared to $28 billion coming into India. Presumably foreign investors, who are not even nationals, were better persuaded about the governability of PRC than of India.

Targeting remittance from the working people of Asia

Whilst every effort should be made to attract well endowed Asian migrants to invest in their respective countries of origin in special purpose financial products, it should be kept in mind that such prospective investors are not the only migrant investors in the market. We should bear in mind that the class of migrants targeted by Ketkar and Ratha are mostly drawn from permanent migrants. Such migrants have decided to make their fortunes, rear and educate their families, invest in homes and secure their sustainability after retirement, in their countries of settlement. Much of their current income and any available investible resources are invested in the realization of these family-centric obligations. This is not to rule out the possibility that such permanent migrants will not seek to support family members remaining in their countries of origin or invest in the uplift of their ancestral village. There has also been a steady stream of prospective diaspora investors, both for patriotic and occasionally also for profit seeking reasons, who are now more willing to invest in their original home country. Today, as particular Asia countries become much more attractive areas of opportunity, more such investors are seeking out such investment possibilities due to their potential for profit.

However, all such permanent migrants continue to retain their primary loyalty to their country of settlement so that investments in the country of origin, remain only a residual possibility after they have satisfied all their livelihood related goals abroad. For these reasons this class of well healed migrants have never been a significant source of remittances, even though much of the energy of governments in South Asia have been invested in providing incentives and designing financial products specifically targeted to this class.

The most reliable and the largest source of remittance to their home country, particularly in the South Asia region, remain working class migrants, mostly of the non-permanent variety. Even those seeking permanent settlement abroad, such as Bangladeshi taxi drivers in New York or restaurant workers in London, retain obligations to less well-off family members at home. However, the migrants across much of Asia, as also undocumented workers in Europe and North America, all leave behind major household obligations at home. They thus live in conditions of great austerity in their country of migration in order to send home as much of their earnings as they can beyond meeting their subsistence needs. The higher remittance figures for Asia and particularly for South Asia, cited in table 3 are largely underwritten by the social compulsions of this class. To tap the remittance of this class for IDF it is, thus, not

just pie in the sky since this class is actually already investing at home as part of their revealed preference without any special official incentive to do so.

The operative challenge for governments in Asia is to channel some of these remittances into special purpose investment products which would persuade the remitter that there is a more remunerative source of investment than buying land in their village or bringing home a 64" color TV set which can be sold off at home. Such explorations of investment products would need to be structured according to the needs and circumstances of particular Asian countries. Here we present a few suggestions which could be tested out immediately in particular South Asian countries.

1. Design special purpose *Migrant Mutual Funds* (MMF), exclusively targeted to a large number of migrant workers who may be invited to subscribe to the fund through small denomination share units. Exit from the fund by a prospective investor would be limited to the sale of the asset within the MMF so that the fund would always retain its collective personality rather than expose itself to capture by larger private funds. The MMF may then subscribe to a dedicated bond flotation on offer to migrants by their home government. Since this will be a government sponsored bond its return will be guaranteed and hopefully secure. The point of using a mutual fund for such a purpose will be that the migrant funds will be held as a collective resource which can be easily mobilized, invested and professionally managed for prospective investors who would, on their own, not be able to undertake any of the above tasks.
2. Such MMF, designed to market bonds to migrants, could also be used for mobilizing a part of migrant remittances for collective investment in corporate IPOs or even divestiture of assets of state owned enterprises. As in Bangladesh, where 10% of IPOs are targeted for individual, presumably wealthy diaspora members, this same facility or a part of it or an additional 10% of IPOs could be targeted to the proposed MMF.
3. Government designed MMFs can also be supplemented by similar funds set up by private financial institutions in South Asia which are already handling a large volume of remittance from West Asian countries. Large micro-finance or civil society based institutions such as Grameen Bank, BRAC and ASA in Bangladesh, or SEED in Sri Lanka, or the Kushali Bank in Pakistan who have strong links with

the rural areas may also be appropriate entities to enter the remittance market. These entities could be permitted to set up branches in migrant-rich countries such as Saudi Arabia, UAE or Kuwait, where they could initially establish their credibility and connectivity with migrants through establishing their efficiency as services providers in delivering their remittances to the door steps of the beneficiaries. Grameen Bank and BRAC for example, have branch offices in virtually every village in Bangladesh. Nearly all of Grameen's branches are now electronically connected. Grameen Bank's capacity to collect remittances in Abu Dhabi and deliver it into the remotest village in Bangladesh, would be superior to that of any commercial bank. These MFI's have established their financial reliability, earned global recognition and gained the confidence of millions of families in the rural areas. Such organizations could, in due course, move on to design financial products for their migrant clients, again perhaps using the instrument of the mutual fund, to encourage them to collectively invest some of their remittances in IPOs or to buy up government bond floatations, whether dedicated to the diaspora or for a special purpose, or could invest in larger scale projects in rural areas.

4. The government or an MFI centred mutual fund could also be used to channel remittances into major infrastructure projects on the lines of the Israel DCI bonds. For example, the prospective Padma Bridge project in Bangladesh which is currently being financed through $2.9 billion in loans from the World Bank and Asian Development Bank, could, in part, be off-loaded to a diaspora-centred mutual fund. Such a fund could be broadened by inviting local Bangladeshi investors of limited means to subscribe to such a fund or a separate fund targeted to locals could also be designed. These infrastructure development funds collected by the mutual funds could be paid back from the permanent revenue stream generated by a heavily used bridge or a road. The revenue stream of such projects could also be securitized and marketed both internationally and at home.

5. The millions of migrants from South Asia who are keeping the balance of payments of Bangladesh, India, Nepal, Sri Lanka, even Pakistan, healthier than it might have been, need not depend exclusively on mutual funds sponsored by MFIs or the government. There is much scope for enhancing the income earning capacity and investment opportunities of migrants through direct collective action by the migrants themselves. Migrants could be organized into professionally

managed labor exporting companies. Such companies could be incorporated and owned by collectives of migrants. The company could raise funds in the market or even establish specially designed funds which are leveraged by ODA. The company could negotiate with prospective employers in host countries to deliver services, for which it would then specially train its worker-owners, finance and organize their migration, manage their living, working relations and welfare in the host country.

These worker-owned entities may also remit their savings and could, eventually, also assume responsibility for providing investment guidance, training and assistance in the management of enterprises set up by prospective individual migrant investors. The organization could also perform the same role for migrants as envisaged for the MMF discussed above and could indeed constitute their own special purpose mutual fund.

6. A series of such labor exporting enterprises of workers from Nepal, Bangladesh or India or for nurses from Philippines or women domestic service providers from Sri Lanka, each with 100,000 or more owner/workers, could eventually evolve into significant corporate enterprises and investors in their country of origin. A world where millions of migrant workers, instead of living precariously as exploited, insecure, debt-ridden individuals, could emerge as a significant source of IDF and a collective force in the economy and society, would be a major contribution to a more efficient and just Asia. The exploration of the feasibility and design of such institutions of migrants should be an important challenge for the international community.

7. Conclusion: Using ODA to stimulate IDF in Asia

Looking at the Asian scene over the last decade we have observed the declining role of ODA as a factor in development finance across the Asia region. There is no single country, with the exception of Afghanistan, where the ODA/GDP ratio has not declined over the last 25 years. This decline in access to ODA has been compensated by the rising role of FDI, mostly in East and South East Asia countries, and the growth of remittances into South Asia.

It may still be useful to explore the scope for arresting the declining role of ODA by exploring IDF mechanisms which enhance the volume and efficacy of ODA flows. Our paper has established that IDF may, in specific cases, have improved the efficacy of ODA outcomes though this remains a contestable proposition. Its contribution to additionality has, however,

depended on how far we are willing to recognize FDI and migrant remittances as the principal instruments of innovation and can ensure that this rising flow of resources is invested in development funds within Asia. Most of the conventionally defined IDF products, as defined by the OECD and World Bank indicators, have remained insignificant contributors to the development process and, with some exceptions, even as a source of development finance in Asia.

In view of the declining influence of ODA in Asia, it would be more productive to focus on the areas where a large and growing volume of resources are available to the Asia region – Asian, including West Asian, based capital resources invested abroad and migrant remittances. These are the two areas which have been discussed above. The operative issue will be to focus on how a larger share of Asia's capital surpluses can be channeled into Asian development. This paper has only identified the extent of these resources and the growing receptivity of the Asia region to host these resources. The possible scope of relocating a fraction of the capital surpluses of Asia, invested at risk and with low returns, from European and North American capital markets into Asia, should be the principal work agenda of both UN and development finance institutions such as the World Bank and ADB, as also of the governments and research institutions of each Asian country. What part of these Asian resources should come into Asian economies as FDI, as commercial debt or as ODA, or as an admixture of all three products, can also be explored.

In such an investigation, perhaps the most innovative use which could be made of the limited volumes of ODA now available to Asia, would be to explore its use in leveraging these intra-Asian resource flows for the development of Asia. Such an exploration need not limit itself to inflows from within Asia. Global FDI, for example, would be no less motivated to enter hithertoo neglected Asian countries, if appropriate guarantees and matching deployment of ODA resources could be used as leverage.

For a range of countries in Asia such as PRC, including its affiliates in Hong Kong and Taiwan, ROK, Malaysia, Thailand and Singapore, FDI has become the prime source of external resource flows. PRC in particular is a magnet for FDI not just from Asia, including West Asia, but from across the world. PRC, in turn, is also emerging as an investor in the developing world, including Asia but its principal investments remain in the developed world. This may be justified for reasons of investment security and contemporary political

expediency but within a longer term perspective, it is an inefficient and even strategically questionable investment strategy for both PRC as well as the global economy.

Two countries in Asia, India and Vietnam, remain big recipients of FDI, ODA and migrant remittances. The resource mix in India has largely titled towards FDI but Vietnam continues to draw heavily on all three resources, which makes its external resource gap one of the largest in Asia. Vietnam, perhaps, remains the best example of how ODA can be used to leverage FDI. Its experience should be carefully studied as an object lesson to other countries, particularly in South Asia.

The countries where ODA can indeed play a more important role in both leveraging FDI and ensuring more effective developmental use of migrant remittances, are the countries of South Asia, other than India, as also Philippines, Cambodia and eventually Myanmar, Lao PDR from SE Asia. These countries have considerable economic potential which makes them more receptive to foreign investors. For example, infrastructure deficits remain critical to every country and serve as perhaps the most important disincentive to FDI. The challenge for IDF would be to identify ways in which ODA targeted to these countries could be blended with domestic savings and FDI as also through the deployment of migrant remittances, to invest in the infrastructure of the region. Such ODA can also be used to underwrite guarantees for the security of both FDI and investment of the remittances of risk averse investors.

Other parts of the developing world such as SSA may be in need of more ODA and its associated innovations, in order to put them on a more sustainable path to development already established in much of Asia. However, in Asia itself, there is a world of opportunity emerging which is already attracting the attention of Asian investors, both public and private. Asian governments, with perhaps some conspicuous exceptions have begun to explore these opportunities but such an exercise remains low on their agendas. The countries, once heavily dependent on ODA, now much less so, have yet to refocus their economic diplomacy away from traditional sources for resource inflows and markets, towards the resource rich and growth prospective countries of Asia.

In articulating the potentially most rewarding sources of IDF into Asia, we should not be carried away by our romantic imagination about the virtues of South-South cooperation.

Asian governments, whether from West or East Asia, will reflect deeply and would need much inducement to move their investments away from real estate in London or even low yield TBs in the US. Nor should we discount the strategic considerations which guide their investment decisions. In such circumstances, we can at best explore the scope for moving a small volume of such North-centred resources into Asia, perhaps 1% of international reserves, which come to $66 billion and 2% of investments as SWF, a sum of $74 billion. Together this comes to $140 billion which is far larger than any available projection of the availability of both current and prospective IDF products and even ODA entering Asia. The challenge would be to initially study very carefully, the economic implications of such a move, with a focus on the investment compulsions of individual Asian countries with large investible surpluses. A second study should explore the scope for transforming remittances, particularly from low income households into innovative development resources. These two studies could provide a more realistic basis for opening up discussions with the capital surplus and capital deficient countries of Asia as to their reception to any such move to relocate their investments. The interest and possible role of ODA supplying countries to facilitate such an agenda for Asia may also be explored.

Whilst such efforts to tap these two IDF sources are being pursued, every effort should be made to augment flows of ODA into the Asia region. There appears to be no good reason why low-income countries of Asia, particularly those with as yet limited access to FDI, should not be rewarded for their promising development performance through enhanced access to ODA which can also serve to leverage FDI. Most of these countries can beneficially draw on ODA to substantially improve both their social and physical infrastructure. Such an exercise in ODA replenishment into Asia may begin with the application of the HIPC process to at least the LDCs of Asia.

There is little doubt that many Asian countries can do much to enhance their governance capabilities which would further improve their performance and receptiveness for both FDI and its IDF component. In a global order committed to poverty alleviation, a region which as yet hosts the largest number of the global resource poor, notwithstanding their comparably strong development performance on a global scale, should not be marginalized in the distribution of ODA.

Annex A

GFATM and GAVI funds in Bangladesh[1]

1. *GFATM*

GFATM, between 2004 and 2012, invested a total of $237.5 million in Bangladesh. This fund is being utilized by agencies of the government of Bangladesh (GOB), NGOs and international agencies. The fund is overseen by a tripartite committee made up of the GOB, BRAC (Bangladesh's biggest NGO) and UNICEF. Applications for grants under GFATM are evaluated and approved for forwarding to the Global Council which oversees the GFATM. The fund's resources have been obligated as follows as between 2004-2012.

Table 13: Utilization of the GFATM in Bangladesh (US$ million)

Agencies	**TB**	**Malaria**	**HIV**	**Total**
GOB	47.4	25.2	43.2	115.8
BRAC and other NGOs	66.6	16.1	-	82.7
International Agencies (ICDDRB and Save the Children)	-	-	39.0	39.0
	114.0	41.3	82.2	237.5

Since the inception of GFATM, there has been some progress in the detection of TB cases from 41 in 2003 to 74 in 2009, though the success of treatment of TB cases was always high. In the case of Malaria, death rates appear to have declined from 50 in 2005 to 37 in 2010 and it has shown no conspicuous improvement, rising from 85% in 2004 to 92% in 2009.

2. The GAVI Fund

The GAVI program has committed and disbursed $293 million between 2004 and 2012. GAVI funds the supply of vaccines for immunization against *hepatitis B*, measles and Penta. Some part of the fund is invested in strengthening the health system support and improving the cold chain through inspection and immunization safety support. The biggest investment of $215 million has been in the supply of the Penta vaccine. Unlike GFATM the GAVI fund is exclusively administered by the Ministry of Health.

It should be kept in mind that in Bangladesh, throughout the 1980s and 90s, UNICEF played a key role in investing in immunization programs. As a result Bangladesh emerged as one of

[1] Prepared from BRAC (2012).

the global success stories in immunization. In recent years, UNICEF's commitments have declined so that GAVI has now emerged as a new source of funding for immunization, though not necessarily as an additional source. There is evidence of UN based funding programs for immunization being substituted by an alternative source of funding provided by governments as ODA and by a large grant from the Gates Foundation.

Similarly, commitments under the GFATM to manage specific diseases such as TB, malaria and HIV/Aids, also reflect an element of substitutability for funding which hithertoo had been channeled to the GOB as part of their general health program. Prior to the emergence of the GFATM and the GAVI funds, donors had collectively invested large sums in the Health and Population Sector (HPS) program. ODA funding in the health sector increased from $73 million in 1997-98 to $266 million in 2009-10 which boosted the GOB's development budget for health from $118 million to $438 million. The health sector remains one of the few sectors in Bangladesh where ODA funding has constituted a major part of the development budget though it still remains a small part of total public expenditure on health due to the large, internally funded current budgetary expenditure. Table 7 shows that ODA thus accounted for 8% of total public expenditure on health. In this broader context of ODA commitment to Bangladesh's health sector, it is not clear if GFATM or GAVI have significantly added resources, or value to the health sector program.

Furthermore, the governance, at least of the GFATM, remains problematic since the fund is managed by a vertical agency rather than the GOB and is executed through a large number of individual entities/projects. Whilst much emphasis is placed on the outcome of individual projects under the GFATM, there is no scope for identifying a more holistic measure of oversight captured through conspicuous improvement in malaria, TB and HIV/Aids control or through general improvements in health. Whist a central coordinating agency in Bangladesh is responsible for overseeing (GFATM) projects, it cannot be held accountable for overall health outcomes in a way that the GOB can be made responsible for the health condition of the people of Bangladesh. This remains a more universal problem for the management of health care under such targeted and autonomously managed programs such as GFATM, around the world.

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