

Session 5 :

## **Financing development gaps, urging to Keep promises and equitable policy Spaces for LDCs, LLDCs and SIDS : Focus IPOA, VPOA and SAMOA**

### **Characteristics of LDCs especially of LDCs in Asia Pacific (AP): Victim of deprivation and illicit flow**

Uneven growth is so high in AP, e.g. while during 1970-1972 GNI gap was 25 times between LDC and developed countries in AP, during 2010 it has increased 57 times. In respect of getting ODA (overseas development assistance) per poor person in AP LDC was getting US \$ 63 while in Latin America it is 361 and in Sub Saharan Africa it is 113.

There will be 15 countries will be worse impacted due to climate change as IPCC reports, among them 9 are in AP, mostly LDCs, especially small island countries. During 2004 to 2013, due to natural disasters AP LDCs loss amount over \$ 11.2 billion, which is annual average loss, is over \$ 1 billion.

While WTO was established to facilitate trade work for poor, but what result has happened it is in contrast, before WTO LDCs share in global trade was about 3-4 %, now it has gone down to less than 1.5 %

In view of Christian Aid study while developing countries received annually \$ 130 billion as ODA (Overseas Development Assistance) but in respect of illicit flow these developing countries loss annually around \$ 900 billion, it means while developing countries ODA \$ 1 it losses around \$ 9 in illicit flow. Of all least developed countries globally, illicit outflows from LDC Bangladesh are the largest, reaching \$ 35 billion between 1990 and 2008. During 2010 to 2013 Bangladeshi people accounts deposit in Switzerland (one of the top ten bank secrecy jurisdictions in the world) has increased around 63 %, while this figure has reduced down in respect of developed country people deposits as because of EU (European Union) pressure for more bank transparency in Switzerland.

### **What AP LDCs can do in respect of domestic public resource mobilization?**

In most AP LDCs tax GDP ratio is less than 12 % but in most of AP countries it is around 24 % and above, so there are scope to increase, but there are concern that it must be progressive policy, e.g. while more than 50 % comes of indirect taxes (e.g., from VAT), so there should be emphasize on personal income tax, capital tax and corporate tax. In developed countries major of the domestic resource mobilization comes from direct sources, which is more than 50 %.

Generated resources priority wise should be invested to the health, education and infrastructure. In respect of AP LDCs 4.1, while in AP developing countries spend 5.1 % and AP developed countries spend 9.3 %.

Domestic credit to private sector in LDCs is very low comparing to develop e.g. OECD countries, e.g., while in Bangladesh it is 24 % of GDP in OECD it is 158 %. LDCs are also suffered for their population on access to reliable financial services due to low financial literacy and capability. Recent data shows that 50 % of global adult has a bank account, but in LDC the rate is far below. These will off course increase national rate of savings. But there is a big question on management of domestic financial institutions, it is one the reason is interest rate is high.

AP LDCs enjoyed robust positive trend in remittance growth from workers working abroad. These increased \$ 2.3 billion of 200 and \$ 23 billion in 2013. These are the largest external financial inflows in AP LDCs. Most of this remittance being utilized for consumptions, but these could be turned for investment, here challenges are that govt should create policy environment and govt should do more to reduce remittance transaction cost too.

**Major barriers: Stopping illicit flow and greater policy space in global financial architecture and trade.**

There are different theories that, as most of the LDC were the past colony of the developed countries then ODA should be considered as reparation. This is also related to climate change impact while these LDCs populations are not at all responsible then in view of polluter pay principles it has also to be considered as reparation, it is the rightful share of LDC population. Developed countries have to keep promises of GNI 0.7 % developing countries and especially 0.1 % LDCs.

As because of shock from 2008 economic recession OECD countries has started a process title BEPS (Base Erosion Profit Shifting) to reduce tax dodging by MNCs (multi national companies). But the process has several limitations, i.e., there are no participation of developing countries especially of LDCs. Moreover there are hardly any issue of universal bank transparency and accounting standard, in this regard UN tax committee mandate have to be upgraded, it should re mould as a political committee and also there should be a tax and bank transparency UN convention in this regard. Even such a universal standard will not be enough; LDCs have to give technical assistance to stop illicit flow. UNESCAP initiative for AP Tax Forum could be a welcome step in this regard. Apart from this universal effort, LDCs can tighten their own home rules to stop illicit flow, go for bilateral agreement with secrecy jurisdictions country for having tax and bank information.

Developed countries have to take step stop tax havens and also stop tendency of luring LDCs people for money transfer through program like "Second Home".

There are long debate on providing 100 % DFQF (duty free and quota free) trade facilities, although it was in principlly agreed in WTO Hongkong but in US it is 97%, in 3 % especially Bangladeshi garments export has included, that's why one Bangladeshi garments pay 16 % taxes while a garments from Europe pay only 1 %. In last WTO Bali meeting again it was agreed again but it is still yet to operationalized, although developed countries has succeeded got the signal of "trade facilitation" which is one of the Singapore issue, which will push LDCs to liberalize more to their own market, though liberalizing and upgrading custom facilities and infrastructure.

Most important is that LDCs has very little spaces in IFIs (international financial institutions) and most of the soft credit comes with stringent conditionality. New investment institutions is coming e.g. AIIB and BRICS Bank, but the question how much these new investment institutions will provide sufficient policy spaces to LDCs, whether they will again over run "one dollar one vote or one country one vote". LDCs need infrastructure investment especially in national and regional links, in fact which will also pave the passage of trade and thereby employment creation.

In respect of climate finance the AP region has received about 54 % total global spending. The distribution of climate fund in the region however been uneven and LDCs received 6.9 % of the total AP region. Often institutional weakness has been mentioned as a stumbling block in this regard. So global climate fund should have easy and especially facilities for all these LDCs, and also technical assistance in this regard.

## **Review of IPOA, VPOA and SAMOA: 2015 is crucial to deliver for these countries**

There are policy shifts in BPOA (Brussels Plan of Action) to Istanbul Plan of Action (IPOA) in 2011. While BPOA given importance on human development IPOA give emphasize on trade, employment creation, aid for trade, infrastructure investment etc. Meantime LDC no. has been all most double and we have already mentioned what is the marginalization of LDCs in trade.

VPOA (Vienna Plan of Action ) which was adopted during November 2014 to accelerate sustainable development in land lock developing countries (LLDC) , it has especially emphasize reducing transit time, promoting regional infrastructure development, structural transformation toward global value chain. ESCAP can facilitate the regional integration especially through encourage integrating AP region through infrastructure development.

During September 2014 SIDS (Small Island Dev Countries) accelerated modalities of action (SAMOA), pathway adopted in Apia, Samoa. This include integration of climate change and disaster risk reduction, sustainable energy, maritime transport connectivity, regional connectivity through ICT, water and sanitation, ocean bio diversity etc.

All these pledges is depend upon adopting transformative agenda in Addis Ababa FfD conferences, UNFCCC CoP 15 (especially institutional mechanism for loss and damages, real commitment of developed countries on drastic cut in emission and climate finances as they have promises). And if global leaders again failed to do so like past these countries will be in jeopardy.