I. Closing the income-poverty gap

A key challenge for many countries is to further reduce extreme poverty. To achieve this goal, the main strategy is to promote growth that leads to fast increase in household consumption. While all countries can benefit from adopting such strategy, poorer countries are the ones that would see faster reduction in poverty rates. According to ESCAP calculations, Bangladesh and rural India would benefit the most, with one per cent increase in average per capita household consumption reducing the poverty rate by 0.7 percentage points.\(^1\)

The larger impact of growth on poverty reduction in lower-income countries has been verified historically as seen in Figure 1, which shows paths of poverty rates and GDPs per capita in selected countries. While all these paths are downward-sloping, showing that the poverty rate decreases as the GDP per capita increases, poverty has decreased faster at low levels of GDP per capita. As countries become richer, the poverty-reducing effect of economic growth diminishes.\(^2\) In richer countries, re-distribution policies through conditional cash transfers or other social protection schemes are both more affordable and more effective to reduce poverty.

![Figure 1. Paths of poverty rates and GDPs per capita in selected economies](image_url)
But if fast economic growth is instrumental in reducing poverty, isn’t the region doing well already? Not really. Despite Asia-Pacific’s very high rates of GDP growth, such growth has not been fully transmitted to household consumption. As shown in Figure 2, between 1990 and the mid-2000s, GDP per capita grew faster than household consumption in 13 out of 15 countries that account for the majority of the region’s population. This suggests that the region has the potential for reducing poverty faster than it did. The key lies on the implementation of policies that push up the rate of growth of average per capita household consumption closer to the rate of growth of per capita GDP.3

However, just reducing the gap between the two growth rates will not be effective in reducing poverty if most of the increase in consumption accrues to non-poor households. While economic growth normally “trickles down” to all segments, in the Asia-Pacific region it has typically been accompanied by a rise in inequality. Thus, to speed up the impact of economic growth on poverty alleviation it would be necessary to implement policies aimed at boosting specifically the consumption of poor households.

Such policies could contribute not only to reducing poverty but also to boosting aggregate demand and supporting growth.

Figure 3 summarizes the results of a simulation exercise conducted by ESCAP for selected countries in the region.4 It shows that under the “business-as-usual” scenario (in grey), which projects into the future past trends in inequality and growth, all these countries are expected to miss the poverty reduction target. The second scenario (in orange) shows that if inequality remains constant at the current levels, some countries would reach the poverty reduction target earlier: India by 2016; the Philippines and Sri Lanka by 2017; and the Lao People’s Democratic Republic by 2018. The third scenario (in light blue) shows that if inequality remains constant and average per capita household consumption grows 1 percentage point faster than in its projected trend, five of the eight countries would meet their poverty reduction targets by 2015 or earlier.

II. Closing the other MDG gaps

How much investment would it take for the countries of the region to close the other MDG gaps? While the costs vary considerably from country to country, it is useful to consider first the aggregate picture. Figure 4 shows the results of ESCAP estimations for nine MDG indicators covering all countries in the Asia-Pacific region. It shows how much countries are expected to spend on each indicator between 2010 and 2015 based on their projected historical trends (in orange) and the additional cost of closing the gap between the current projection and the target (in light blue).

The figure shows that some of the MDG gaps can be closed with relatively low investment. For instance, the underweight children target can be reached if countries that are off-track on this indicator invest an additional $23 billion on top of the $20 billion that are expected to invest over 2010-15. The gap in the

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3. Notice that if both growth rates were the same, the share of household consumption in the GDP would remain constant, in contrast to the 1990 to mid-2000s period, where this share declined in many countries.

4. The simulation estimates the year of achievement of the poverty reduction goal for selected countries considering three potential scenarios of change in inequality and household consumption. For details see ESCAP (2010). Financing an Inclusive and Green Future: A Supportive Financial System and Green Growth for Achieving the Millennium Development Goals in Asia and the Pacific, United Nations publication Sales No. E.10.II.F.4.
provision of clean water and basic sanitation in rural areas can be closed by an additional investment of $3 billion and $8 billion, respectively - 4 to 10 times cheaper than closing the gaps in urban areas, and around twice as many people would benefit. Notice, however, that the financial gaps that need to be closed for the achievement of eight out of the nine goals represent more than 50% of the total cost estimated to close the gaps (Figure 4). This means that countries should more than double the current projected expenditures for 2010-2015 in order to achieve the targets.

ESCAP estimates that scaling up from the nine indicators presented in Figure 4 to cover the remaining indicators would result in a total cost of $1,084 billion and an associate cost of $636 billion to close the projected gaps in achievement. On an annual basis, the cost of closing the MDG gaps is estimated to increase from $96 billion in 2010 to $117 billion in 2015.5

While for the region as a whole the costs of meeting the targets may not seem unduly high, for some countries, especially the poorest ones, they are steep. This is illustrated in Figure 5. ESCAP estimates that Nepal and Afghanistan would require annual investments of over 20% of GDP to reach the targets, and over two thirds of these investments would require additional funding. Other countries that require large investments are Timor-Leste (17% of GDP), Bangladesh (14% of GDP), Cambodia and Pakistan (12% of GDP in both cases). Moreover, as Figure 5 shows, financing gaps (in blue) exceed projected financial costs (in orange) in all countries except India. Therefore, almost all countries will need to more than double their financial efforts in order to reach the MDG targets.

5. The cost increases over time because it is assumed that in the earlier years the country will have less absorptive capacity. It may, for example, have to train cadres of new teachers, whose numbers and salaries would increase in later years.
III. Concluding Remarks

The above discussion shows that the remaining MDG gaps in Asia-Pacific can be closed by redoubling efforts and reorienting policies. Income poverty target will be within reach for many countries through inclusive policies that boost consumption of poor households and hold inequalities from widening further. Such policies include promoting agriculture growth and rural development, strengthening social protection, financial inclusion and promoting job creation among other policies, as elaborated in ESCAP’s *Economic and Social Survey of Asia and the Pacific 2010*.

Closing other MDG targets will require substantial raising of expenditures on provision of education, health, sanitation, and other basic infrastructure facilities. This means greater resource mobilization from domestic and external sources.

In many countries, it may be possible to raise such resources by augmenting revenue and re-orienting public expenditure as elaborated in ESCAP’s 2010 study *Financing an Inclusive and Green Future: A Supportive Financial System and Green Growth for Achieving the Millennium Development Goals in Asia and the Pacific*. While funding an additional $100 billion per year does not seem daunting for the Asia-Pacific region as a whole, those costs can be steep in terms of proportion of GDP, for some countries especially for the least developed countries. This indicates continued relevance and case for stepping up overseas development assistance (ODA) to meet the challenge of closing the MDG gaps in the poorest countries, as argued by ESCAP studies cited earlier. South-south cooperation is beginning to complement Northern assistance in a meaningful manner and need to be tapped, as well.

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**Figure 5. Least Developed Countries face great challenge to make the investment required to meet the targets**