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## TRENDS AND CHALLENGES IN INTERNATIONAL COOPERATION AND THE MOBILIZATION OF RESOURCES FOR DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN

Resource paper prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) for the Regional Consultation Preparatory to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus.

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SIXTY YEARS WITH LATIN AMERICA AND THE CARIBBEAN

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## INTRODUCTION

This document has been prepared by the Economic Commission for Latin America and the Caribbean for the Regional Consultation Preparatory to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held in Santo Domingo on 11 and 12 June 2008. The purpose of the document, which reviews the various elements present in the debate on financing for development, is to provide background and inputs for the discussions.

The first section examines issues relating to trends in official development assistance (ODA), initiatives for innovative financing mechanisms, and aspects concerning North-South and South-South cooperation. It underscores the need for donor countries to intensify their efforts to fulfil the commitment made in Monterrey to allocate 0.7% of their gross domestic product (GDP) to ODA, explore new sources of financing to increase the availability of resources for development, and make the allocation and management of ODA more efficient. The section also underlines the importance of efficient integration of middle-income countries into the international cooperation system, both in their role of recipients of assistance and in South-South cooperation.

The second section analyses the shortcomings exhibited by financial systems in the countries of the region in terms of the mobilization of resources for development, particularly in the long term, together with their limitations in generating sufficient levels of national saving. It discusses the growing importance of microfinancing as a tool for promoting low-income groups' access to the financial system and channelling resources towards productive areas. Also considered is the need to generate a greater number of mechanisms to facilitate and improve risk management and the allocation of resources to small and medium-sized enterprises, emphasizing the roles of both commercial banking and domestic development banks.

The third section addresses systemic issues. Concerning the strengthening of the international financial system, it notes the importance of improving countercyclical mechanisms, particularly liquidity instruments. It also emphasizes the importance of regional financial cooperation and of regional and subregional development banks, as well as that of the Latin American Reserve Fund.

As for climate change, the document argues that sustainable economic development requires the reduction of greenhouse gas emissions and the design of policies to deal with the present and future effects of climate change. International cooperation thus takes on a crucial role in terms of financial assistance and technology transfer from industrialized economies in support of strategies to promote investment in improved energy efficiency and new renewable energy sources. Attention is also drawn to the need to devise policies to prevent natural disasters and mitigate their effects in order to reduce risk levels and exposure to future disasters.

In the area of trade, the document calls for broader international cooperation to promote integration into world trade in goods and services and greater export diversification. The areas for action identified relate to (i) Infrastructure relating to trade and the provision of public goods; (ii) Financing of trade and export development for small and medium-sized enterprises (SMEs); (iii) Trade facilitation; and (iv) Export promotion and diversification. It is also important to improve the region's share in worldwide aid-for-trade flows. In 2005 that share stood at only 7%, while Asia and Africa received 50% and 30% of the total, respectively. In the case of Latin America and the Caribbean, aid-for-trade flows essentially went towards expanding productive capacity and economic infrastructure.

In the field of social cohesion, it is argued that one of the main challenges facing the countries of the region is to move towards increased social inclusion. A large part of the population lacks the resources and mechanisms needed to exercise full citizenship compatible with a rights-based approach. In this regard, the exercise of economic, social and cultural rights is central to social integration, which in turn is crucial for achieving greater social cohesion. International cooperation can decisively support that process by helping to alleviate resource constraints by promoting economic growth, strengthening State institutions and improving social policies and protection systems. Progress in the process of social cohesion entails advancing in at least three areas: employment and informality, human capital formation, and social protection. Furthermore, it should be noted that social cohesion implies promoting gender equality and the empowerment of women as effective and essential means of eradicating poverty and hunger, combating disease and achieving truly sustainable development, especially in the most fundamental areas of production, such as agriculture, industry and services.

The document highlights the long history of international cooperation in tax matters in the countries of Latin America and the Caribbean. This form of cooperation takes place both at the bilateral level and within the framework of regional integration agreements, and is centred in South America. Despite this tradition of cooperation, most taxation agreements are negotiated with third countries and more specifically with developed nations. The document underlines the need to regulate offshore financial centres in order to produce a form of tax competition beneficial to all the countries involved. Nonetheless, it notes the difficulty of such regulation owing to the rapid pace of financial integration and the complexity of the relevant mechanisms.

Lastly, it urges the signatory countries of the Monterrey Consensus to establish inter-agency and multisectoral monitoring standards and guidelines to facilitate the implementation of multilateral development agreements.

## **I. FINANCING AND COOPERATION**

Countries' domestic policies play a central part in their development, but fluctuations in the world economy do influence their growth rates as well.

Together with private financial flows, ODA can and must play a major part in strengthening the economic growth and productive capacity of developing countries.

It follows that, in addition to increasing the resources available for ODA, improvements are required in the effectiveness of aid and international cooperation. This means, on the one hand, identifying needs for cooperation in the economic and social areas through a joint effort by donor and recipient countries. This also requires the implementation by recipient countries of monitoring systems in order to allocate resources efficiently.

Joint participation by developed and developing countries in defining the goals of official assistance and its allocation would help to extend the freedom of action of the developing countries through the implementation of public policies in accordance with their specific situations.

For most of the developing regions, ODA flows represent the least dynamic component of their financial flows.

Although the average contributions of the member countries of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD), measured as a percentage of their GDP, are currently at the highest levels since 1997, they are still well below the target provided for in the Monterrey Consensus (0.7% of GDP) and are far from sufficient to finance the efforts needed to attain basic development goals, including those identified in the Millennium Declaration (1999).

Only 5 of the 22 donor countries have reached the 0.7% target, and greater efforts must be made to ensure that the remaining countries, which currently average 0.34 of GDP achieve the agreed target. The ODA flows delivered by DAC totalled US\$ 104 billion in 2006, which represents, on average, 0.46% of the gross national income (GNI) of the donor countries represented on the Committee.

The share of Latin America and the Caribbean in total ODA flows has diminished from an average of 13% in 1980-2000 to 9% in 2002-2006. This decline is mainly due to the reduction in the share of upper-middle-income countries, which fell from an average of almost 3% of the total in 1980-2000 to 1% in 2002-2006, while the share of lower-middle-income countries fell by almost one percentage point over the same period. The low-income countries have maintained their share at about 3% of the total (table 1).

Table 1  
**LATIN AMERICA AND THE CARIBBEAN: SHARE OF ODA FLOWS, BY INCOME LEVEL, 1980-2006**  
(Percentage of the total)<sup>a</sup>

	1980-1990	1991-2001	2002-2006
Latin America and the Caribbean	13.3	12.9	9.4
Middle-income countries <sup>b</sup>	10.7	9.0	6.3
Upper-middle-income countries	3.4	2.5	1.1
Lower-middle-income countries	7.3	6.5	5.2
Low-income countries	2.5	3.9	3.1

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), calculations on the basis of official figures.

<sup>a</sup> All percentages are calculated in relation to ODA allocated by income levels.

<sup>b</sup> Total of lower-middle- and upper-middle-income countries. The low-income countries include Guyana, Haiti, Honduras and Nicaragua. The upper-middle-income countries include Antigua and Barbuda, Argentina, Barbados, Bolivarian Republic of Venezuela, Brazil, Chile, Costa Rica, Mexico, Panama, Trinidad and Tobago and Uruguay. The lower-middle-income countries are Belize, Bolivia, Colombia, Cuba, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Jamaica, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Suriname.

The downward trend in the relative share of the middle-income countries as ODA recipients should be reversed, and they must continue to receive the required support in their fight against poverty and their efforts to deal with changes in the world economy and achieve sustainable growth rates.

In the case of Latin America and the Caribbean, consideration should be given to the fact that 60% of those living in poverty and 50% of the indigent live in upper-middle-income countries. Middle-income countries as a group are home to 96% of the region's poor and 92% of its indigent people.

The countries of the region, particularly the smallest economies and landlocked countries, remain highly vulnerable to external shocks and have difficulty in achieving a dynamic position in world trading activity.

To diversify sources of financing in middle-income countries, current flows of bilateral and multilateral aid must be complemented by innovative modalities and mechanisms of international financing and cooperation.

To this end, a broad spectrum of innovative development financing mechanisms has been proposed, ranging from the application of global taxes to global funds and voluntary private donations.

Global taxes could be levied on currency transactions, arms trade and pollution. These types of taxes are double-dividend instruments because they serve to collect revenue for developing economies while at the same time accomplishing the important objective of providing global public goods.

The global funds would include the creation of special drawing rights for development and an international finance facility.

With these new mechanisms, developing countries would continue to be recipients of assistance but upper-middle-income countries would become donors. This would emphasize not only the relationship between developed and developing countries, but also cooperation among developing countries. In this context, financial responsibility for the achievement of internationally agreed targets and goals would be shared by developed and developing economies.

Preliminary calculations suggest that the taxes on currency transactions, arms sales, and pollution could generate over US\$ 400 billion. Most of the revenue from these taxes would be generated in the more developed countries, which would contribute over 75% of the total. The participation of Latin America and the Caribbean as a donor would be very limited and would be concentrated in a few of the region's largest countries.

Innovative financing mechanisms provide an example of triangular South-South and North-South cooperation. This source complements traditional North-South cooperation and should be encouraged at the multilateral level in order to include both developed and developing countries among the donors.

South-South cooperation represents an important alternative among the new forms of international cooperation and would help to modify the existing relationship between developing countries and the international cooperation system. It is therefore considered important that the United Nations Development Programme (UNDP) should fulfil its commitment to devote 0.5% of its resources to the programme of the Special Unit for South-South Cooperation (UNDP, 2007).

Middle-income countries have theoretical and practical knowledge which may be useful for less developed countries. They can also make a significant contribution in the provision of public goods in the region such as efforts to maintain peace and financial stability, generating technological externalities, and promoting trade integration and environmental sustainability. The design and successful implementation of regional public goods require international cooperation and coordination, and the middle-income countries can play a major role in this process.

Examples of triangular cooperation include the Fund against Hunger and the New York Declaration on Action against Hunger and Poverty proposed by the Technical Group on Innovative Financing Mechanisms, under the auspices of Brazil, Chile, France and Spain and with the support of the Secretary-General of the United Nations. Another example is the active involvement of the region's larger economies in peacekeeping missions, particularly in the case of the United Nations Stabilization Mission in Haiti (MINUSTAH).

A good example of South-South cooperation is the support provided by some countries for the Heavily Indebted Poor Countries (HIPC) Debt Initiative. Brazil, for example, has applied debt relief measures aimed at alleviating the financial burden of HIPC countries, whose debt to Brazil totalled US\$ 1 billion as of December 2004. Brazil has also granted debt relief totalling US\$ 150 million to other debtor countries, mostly in Latin America.

Private capital flows are certainly the largest source of external financing for developing countries. They made up more than 80% of total net financial flows to those countries in 2006, over 90% of the total in the case of Latin America and the Caribbean.

Within that category, foreign direct investment (FDI) flows are the largest component, at 44% of the total in 2006 for developing countries and 51% of the total for Latin America and the Caribbean. FDI flows to the region are currently estimated at US\$ 69 billion (2006).

Flows of remittances to Latin America and the Caribbean have risen significantly. Together with FDI, they have become the most dynamic component of financial flows. Remittances make up 31% of total net financial flows, representing over 10% of GDP in some Central American and Caribbean economies.

Since remittances are such a major component of national income, the main challenge for the countries is the channelling of these resources into productive activity. Nonetheless, inflows from remittances which are used for consumption purposes improve the standard of living of the recipient population.

## **II. MOBILIZATION OF INTERNAL RESOURCES**

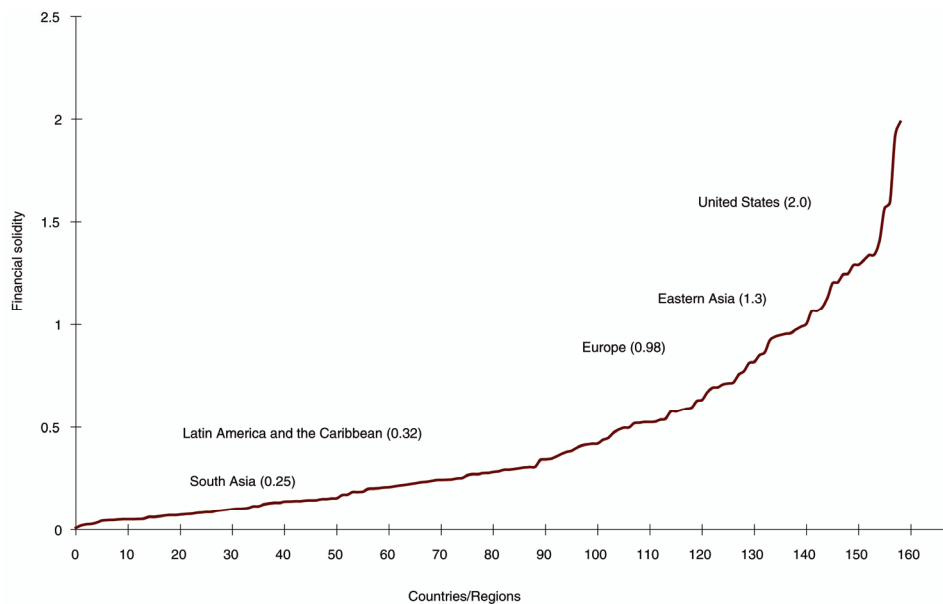
Access to finance in the countries of Latin America and the Caribbean has generally been limited affected by their historically low rates of national saving, the fragility of their financial systems, which primarily offer short-term bank instruments, and their underdeveloped capital markets.

Promoting the internal mobilization of funds in this context requires a set of economic and financial policies to develop financial markets and promote the generation of savings for long-term financing. The ability and effectiveness with which the financial system channels financing towards productive activities depend on the provision of low-cost intermediation services and on the development of financial instruments and institutions which can adapt to the productive sector's varied risk profiles, liquidity needs and financing periods.

The development of financial systems has proved to be a complex process which requires public and financial policies designed to strengthen economic stability and economic and legal institutions, among other things, and to develop new instruments to manage economic and financial risk. After several years of financial reforms, the region's financial markets are still mostly underdeveloped and lacking in solidity.

The ratio of private-sector credit to GDP is not only low in comparison to more developed regions such as North America and Europe, but also below the levels recorded for other regions of the developing world such as East Asia (see figure 1).

Figure 1  
**FINANCIAL SOLIDITY IN SELECTED COUNTRIES AND REGIONS, 2005**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of T. Back, A. Demircug-Kunt and R. Levine, “A new database on financial development and structure”, World Bank Economic Review, No. 14, Washington, D.C., 2000 and revisions to 2005.

Depending on the level of development of the financial systems in the countries of the region, national development banks can play a significant role in achieving the aforementioned results. This means that development banking must have a clearly defined corporate mission, that its financial intermediation processes must be free from political interference in the allocation of credit and the management of the relevant instruments. Care should be taken in this respect to ensure financial equilibrium, appropriate profitability and prudent risk portfolio management.

Not only has the development of national financial systems proved to be a difficult task, but efforts to raise levels of national saving have not proved fruitful. As can be seen in table 2, even in periods of high relative growth, saving levels remain low in comparison with other developing regions.

Table 2  
**SELECTED REGIONS: GROSS DOMESTIC SAVINGS AS A PERCENTAGE OF GDP,  
 1980-2006**

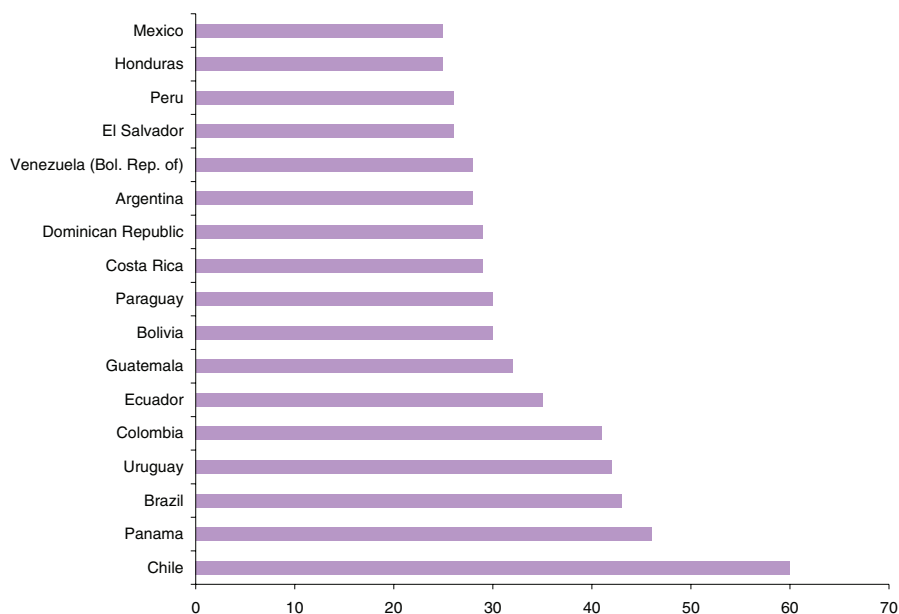
	1980-1990	1991-2001	2002-2006
Latin America and the Caribbean	20.3	17.9	20.5
South Asia and the Pacific	...	37.5	42.3
Europe and Central Asia	27.1	23.5	22.7
Middle East and North Africa	....	26.4	29.7
South Asia	20.3	23.6	29.9

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



Low levels of saving and the shortcomings of these financial systems have severely limited access to financing for both households and businesses. Given the relationship between access and a financial system's degree of development, the economies with more sophisticated financial systems or fewer financial restrictions, such as those of Brazil, Chile and Panama, exhibit greater financial solidity and a wider use of related services (see figure 2).

Figure 2  
**FINANCIAL ACCESS IN SELECTED COUNTRIES OF LATIN AMERICA AND THE CARIBBEAN:  
 INDEX COMPOSED OF ESTIMATED NUMBERS OF BANK ACCOUNTS AND AVERAGE  
 VOLUME OF DEPOSITS, 2007**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Honohan, "Cross-country variation in household access to financial services", paper presented at the Conference on Access to Finance, Washington, D.C., World Bank, 15-16 March 2007.

In comparative terms, the percentage of households using financial services (measured by credit and savings) in Latin America and the Caribbean is 24%, whereas the figure is 90% for the OECD countries, 46% for Asia and 23% for the countries of Europe and Central Asia.

Microfinancing has become increasingly important as a means of supplying financial services to households or microenterprises that have few resources and are generally unable to provide a guarantee or security for a loan. Microfinancing includes a wide range of financial services, including lending, savings attraction, money transfers, remittances and insurance.

Microfinancing activities are concentrated in three types of institutions: non-governmental organizations, specific microfinancing institutions, and commercial banks.

The loan portfolio of microfinance institutions worldwide has risen sharply, from US\$ 3.68 billion in 2002 to US\$ 15.48 billion in 2006. In this latter year, Latin America and the Caribbean accounted for a 36.5% share of the developing regions' credit portfolio, (see table 3).

Table 3  
**LOAN PORTFOLIO IN SELECTED DEVELOPING REGIONS**  
*(Millions of United States dollars)*

	2002		2003		2004		2005		2006	
	Credit	Percentage	Credit	Percentage	Credit	Percentage	Credit	Percentage	Credit	Percentage
Africa	590	16.0	661	10.5	949	11.0	1 105	9.4	1 376	8.9
East Asia and the Pacific	1 428	38.8	2 532	40.1	3 109	36.0	3 695	31.3	4 602	29.7
Eastern Europe and Central Asia	163	4.4	319	5.1	502	5.8	717	6.1	1 121	7.2
Middle East and North Africa	106	2.9	148	2.3	216	2.5	311	2.6	593	3.8
South Asia	669	18.2	880	13.9	1 197	13.9	1 694	14.4	2 135	13.8
Latin America and the Caribbean	725	19.7	1 776	28.1	2 665	30.9	4 274	36.2	5 652	36.5
<b>Total</b>	<b>3 681</b>	<b>100.0</b>	<b>6 316</b>	<b>100.0</b>	<b>8 638</b>	<b>100.0</b>	<b>11 796</b>	<b>100.0</b>	<b>15 479</b>	<b>100.0</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Microfinance Information Exchange (MIX) [online] <http://www.mixmarket.org/>.

To promote the development of microfinance in the region, public policies must be formulated to improve the capacity of the relevant institutions to obtain resources in the market. This involves dealing with management and regulation challenges in order to facilitate risk monitoring. The regulatory issues to be addressed depend on the nature of the microfinance institutions involved. There is also a need for accessible low-cost technologies for these institutions.

Access to financing for enterprises, particularly in the long term, is also difficult in the countries of the region, especially for small and medium-sized enterprises (SMEs), which play an important part in job creation and are faced with considerable restrictions in terms of their access to both short- and long-term bank credit.

Improving access to financing for SMEs entails strengthening the instruments of financial intermediation at the disposal of commercial and development banks. Development banks can play a role which complements that of commercial banks by allocating resources on the basis of financial criteria such as profit maximization. An important component in this non-traditional role for development banking is the use of new mechanisms such as loan guarantee schemes, risk capital and factoring.

### III. SYSTEMIC ISSUES

#### 1. The international financial system

Although the role of national policies is essential for achieving a sustainable development process, national efforts should be complemented by an international financial architecture geared to promote the stability of economic growth.

The current international financial system provides few instruments which can support the countercyclical role that it should play. The most recent proposals for strengthening financial and institutional stability include: (i) Prudent supervision of capital, liquidity and risk management; (ii) Improvements in transparency and risk assessment processes; (iii) Changes in the use of risk assessment; (iv) Stronger responses by countries to changes in risk perception; and (v) Creation of appropriate mechanisms to deal with unexpected liquidity problems in the financial system.

In order to promote prudent supervision of capital, liquidity and risk management, the guidelines on liquidity included in the New Basel Capital Accord (Basel II) should be revised. Improved transparency and risk assessment entails the need to make credible estimates of the risks associated with financial innovations. Changes in the use of risk assessment mean that rating institutions have to pay greater attention to their operational practices. Strengthening countries' response to variations in risk perception involves improving the capacity to disseminate information and the modalities for cooperation between the authorities concerned. Lastly, mechanisms to deal with tensions resulting from insufficient liquidity in the financial system include the use of a set of instruments offering different levels of protection and different maturities.

Given the lack of institutions, mechanisms and resources to deal with the danger of contagion, the countries of the region, as in other regions, have opted for a precautionary policy based mostly on the accumulation of reserves. This policy has been facilitated by the significant commodity price boom. At the same time, the accumulation of resources entails considerable social opportunity costs. In 1990-2006, the level of reserves of the Latin American and Caribbean region increased by US\$ 59 billion to US\$ 302 billion. This increase was particularly noticeable from 2001 onward, when the external sector's results began to improve markedly and net international reserves averaged 10% of the region's GDP.

Regional financial cooperation can and must play a significant role in complementing the international financial architecture. The strengthening of regional institutions would thus be a major contribution to the stability and proper operation of the international financial system.

In the regional context, financial cooperation revived in the 1990s. There are currently three areas of importance for improving and strengthening that cooperation: the new role to be played by subregional development banks, the strengthening of the Latin American Reserve Fund (FLAR), and progress in establishing a capital market at the subregional or regional level.

In relation to regional and subregional development banks, emphasis should be placed not only on their role as providers of medium- and long-term resources but also on the part they play in stabilizing financial flows by improving the instruments at their disposal for the management of financial risks.

The need to accumulate international reserves in order to deal with external shocks can be reduced by creating a reserve fund system. This is the role that has been played by FLAR, albeit to a limited extent.

To strengthen FLAR, country coverage needs to be broadened and its functions should be diversified beyond balance-of-payments and liquidity assistance. It should in fact support the coordination of macroeconomic and monetary policies in the region, which would lead to improved effectiveness for its operations. Lastly, given the imperfections of capital markets and in order to reduce the use of reserves to deal with external shocks, FLAR could also help to deepen regional financial integration by developing mechanisms such as securities issues in national currency. This would, however, require intensified macroeconomic coordination efforts among countries.

The countries of Latin America and the Caribbean have recognized the benefits of a regional or subregional capital market which would make it possible to supply medium- to long-term financing at a lower cost, thereby overcoming the limitations resulting from the shortage of available resources and at the same time generating economies of scale. The integration of capital markets could also reduce liquidity risks and the instability of asset prices and their rates of return. This, in turn, would have a positive impact on investor confidence and would increase the chances of obtaining higher rates of return by reducing transaction costs.

Efforts to create a capital market at the regional or subregional level have been fruitless, an outcome which contrasts with that of other regions, especially Asia. In that regard, the following three issues should be considered carefully: (i) the reasons why so little progress has been made in creating them; (ii) the lessons that can be learned from the experience of other regions, and (iii) the regulatory mechanisms and instruments which should be part of the regional capital market.

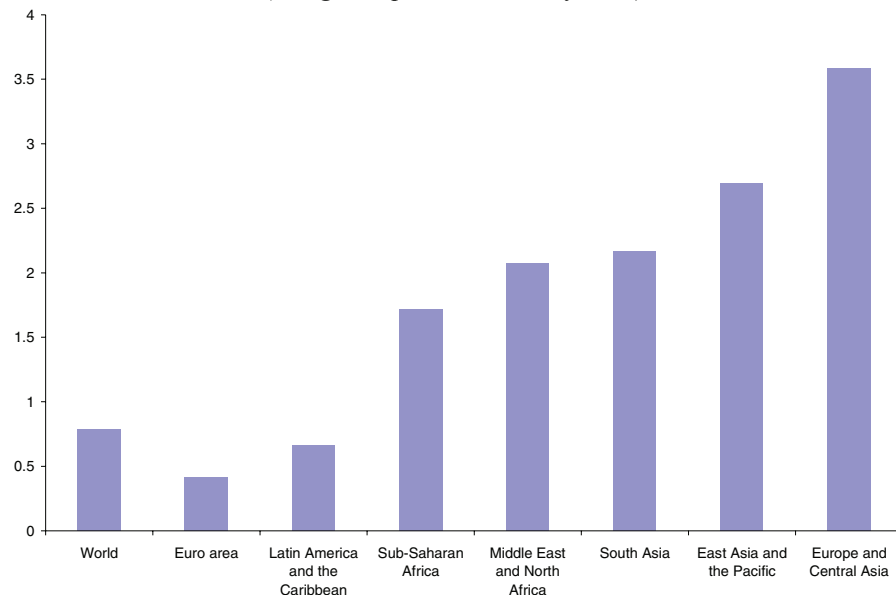
## **2. Climate change**

To achieve sustainable economic development, greenhouse gas emissions must be reduced and policies must be designed to deal with the current and future impacts of climate change.

This was the central reason for establishing the Kyoto Protocol to the United Nations Framework Convention on Climate Change, pursuant to which the majority of developed States undertook to reduce emissions of greenhouse gases. At the latest meeting of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, held in 2007 in Bali, Indonesia, it was agreed that a timetable should be set for defining a framework agreement to replace the Kyoto Protocol. Negotiations for this purpose will be held in 2008.

In comparison with other regions in the world, Latin America and the Caribbean has a low level of carbon dioxide emissions and therefore does not contribute significantly to the output of greenhouse gases. The region's emissions are approximately 902,000 kilograms of CO<sub>2</sub>, equivalent to 4% of the worldwide total (see figure 3).

Figure 3  
**SELECTED REGIONS: CARBON DIOXIDE (CO<sub>2</sub>) EMISSIONS, 1994-2004**  
*(Kilograms per US\$ 2,000 of GDP)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database].

The greenhouse gas emissions of Latin America and the Caribbean are partly caused by high rates of deforestation resulting from the expansion of cultivated land. Another significant factor is the level of emissions resulting from the activities of the energy sector.

Apart from being costly for the region, it is expected that continuing deforestation may alter the worldwide level of carbon emissions, contributing to climate change. Forested areas in Latin America and the Caribbean make up 22% of the region's territory and 27% of the world's forested areas, and have a decisive effect on the world's climate and the balance of its carbon emissions.

According to recent estimates, climate change in Latin America and the Caribbean means that temperatures may rise by from 2 to 6 degrees Centigrade by the end of the twenty-first century. Climate change can affect not only ecological and natural systems but also water resources, coastal areas, agriculture and health and the population's socio-economic situation. This may give rise to a process of rural and coastal migration, and may worsen existing social tensions.

One of the fundamental effects of climate change in Latin America and the Caribbean is an increase in the number of natural disasters, whose frequency doubled from 1970-1999 to 2000-2005.

Natural disasters produce serious damage in production sectors and retard growth and improvements in social and economic well-being. From 2000 to 2005, the cost of quantified natural disasters, 19% of the total, is estimated to have stood at US\$ 20 billion.

The impacts of natural disasters are harmful for the region's smaller economies, which are particularly vulnerable to such phenomena.

Countries should intensify their efforts to prevent natural disasters and mitigate their effects in order to reduce the risk and exposure to future disasters. They should also regularly monitor reconstruction projects and the measures adopted following a natural disaster to ensure that they help to improve the population's resilience and its level of awareness about the risks involved.

Reducing greenhouse gas emissions in the countries of the region should be compatible with a level of growth that can sustain economic and social development. This requires significant support from the developed countries through financing, technology transfer and capacity-building.

One of the central aspects of reducing greenhouse gas emissions is land use and deforestation. A desirable approach in this regard would be to support local communities whose survival depends on cropping, providing them with financial resources and technology transfer designed to improve their land use. Changes also need to be promoted in the generation and supply of energy, through investments in new renewable energy sources and the achievement of better energy efficiency.

International cooperation has a crucial part to play in that regard. The Bali Action Plan has established a strong basis for international cooperation on climate change, linking the mitigation and adaptation plans of the developing countries with financial support and technology transfer from the industrialized economies.

In this context, strategies promoting investment in greater energy efficiency and new renewable energy sources need to be combined with technological support, the creation of regulatory mechanisms and investment in education and research.

### **3. Trade**

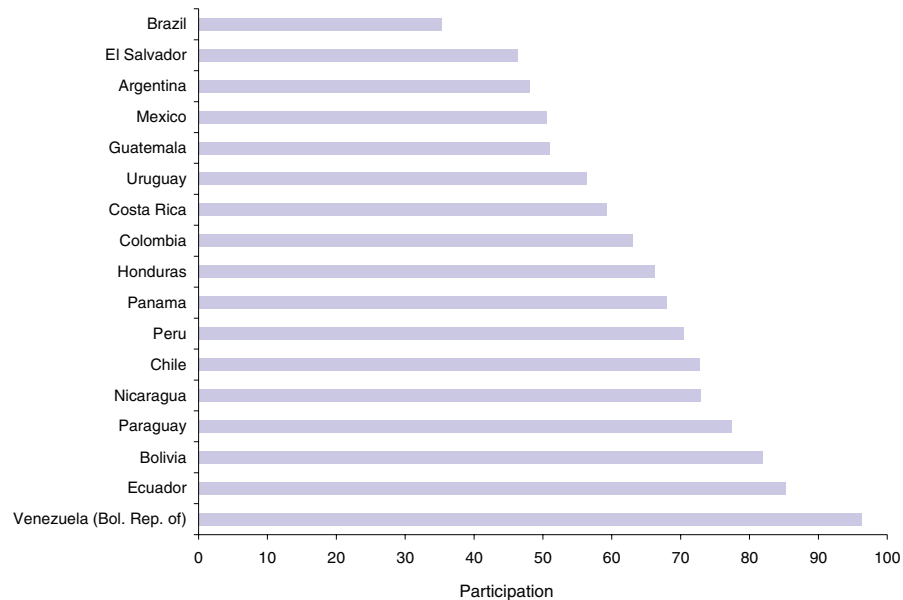
One of the main challenges facing the developing countries is the need to increase their share in world trade, which currently represents almost a quarter of total exports. They also need to diversify their exports and increase their technological content in order to become an attractive target for foreign direct investment. This would enable them to strengthen the connection between trade and job creation, thereby fostering economic growth.

To meet this challenge, greater depth is needed in multilateral trade rules in order to take into account the specificities of developing countries, such as those contemplated in the Doha agenda. This would help to provide a more level playing field so that all countries could benefit equitably from international trade.

Developing countries' integration into the multilateral system also needs to be increased. This would give them greater influence in multilateral negotiations. At the same time, export diversification and trade liberalization must be applied on the basis of flexible trade rules which include adequate financing and an appropriate time frame for implementing the necessary adjustments and restructuring.

The countries of Latin America and the Caribbean have an export structure which lacks diversity. In 2005, the 10 main exports of the majority of those economies, mainly agricultural and mining commodities, made up almost half of their total exports. The exceptions in that regard are the Central American countries and Mexico, whose main exports are clothing.

Figure 4  
**LATIN AMERICA AND THE CARIBBEAN: SHARE OF THE 10 MAIN EXPORT PRODUCTS  
 IN TOTAL EXPORTS, 2005**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean*, 2007 (LC/G.2356-P), Santiago, Chile, 2007.

Activities related to tourism and the financial sector account for a large share of service exports. Despite the liberalization in services applied in the General Agreement on Trade in Services (GATS), trade in services has progressed at no more than a moderate pace. This is due to the fact that the scope of the Agreement is in fact limited, since many countries undertook to liberalize trade in services in only a few sectors.

In the case of the region's most vulnerable economies, exports could be diversified in part by applying a special, differential treatment to incipient sectors which are closely related to the rest of the economy, especially those based on natural resources, the various segments of manufacturing, and service producers. This would make it possible for a special and differential treatment to be based on the production capacities and comparative advantages of the economies in question.

Developed countries can complement their efforts to expand trade by adopting the measures required to benefit developing countries. Multilateral assistance would help to stabilize the income levels of the countries which are highly dependent on commodity exports. Developing countries, in turn, could increase and strengthen their participation in multilateral negotiation processes.

Regional organizations can also play an important role by helping developing countries to achieve their goal of strengthening regulatory frameworks so that clear and transparent conditions could be established for participation by foreign investors.

In order to assist countries in the creation and strengthening of capacities to improve their integration into international markets and mitigate the transition costs of adjusting to a more open

economy, the members of the World Trade Organization (WTO) have emphasized the need to conduct trade-related assistance programmes.

According to initial global estimates (OECD, 2007), trade assistance flows in 2005 totalled US\$ 21 billion. Their distribution among the different regions was uneven: Latin America and the Caribbean received only 7% of the total, but Asia and Africa received 50% and 30%, respectively. In the case of the former, trade assistance flows were basically oriented towards expanding production capacity and strengthening economic infrastructure.

Four essential areas for trade assistance have been identified in the region: (i) Infrastructure relating to commercial exchanges and provision of public goods; (ii) Financing of the trade and export development of SMEs; (iii) Facilitating trade activities, and (iv) Export promotion and diversification.

#### **4. Social cohesion**

Despite improvements in living conditions recorded in the Latin American and Caribbean countries in recent decades, one of the main challenges for the region is to move towards greater social inclusion. Much of the population does not have the necessary resources and mechanisms to exercise full citizenship compatible with a rights-based approach. The exercise of economic, social and cultural rights is a fundamental part of social integration, which is in turn essential for achieving better social cohesion.

Given the universal and normative nature of those rights, they represent a minimum threshold that should serve to guide public policy. In observance of these rights, the State should strive to ensure the conservation of resources, their redistribution and the appropriate access mechanisms.

Social cohesion entails finding synergies between economic growth and social citizenship, and this translates into improved well-being for society.

International cooperation can support this process decisively, helping to alleviate constraints in terms of resources by promoting economic growth, strengthening State institutions and improving social policies and social protection systems.

Advances in social cohesion entail progress in at least three areas of action: job creation and informality, human capital formation and social protection. For the first of these, it is vital to create quality employment and include the informal sector.

Also, measures must be applied to protect job security for those who already have a formal position. It would appear that the most advisable approach to these objectives is to adopt a strategy which can adapt to job “flexi-security” provisions and can move towards the level of labour market flexibility which is needed in more open economies, while at the same time reducing human and social costs which arise from economic adjustments. This requires the creation of active and passive employment policies, such as unemployment insurance and programmes of retraining and labour intermediation which can help to shorten the duration of unemployment.

Education is vital in order to generate greater equality of opportunities for entering the labour market. This is why emphasis must be placed on the need to increase learning opportunities for groups which have traditionally been marginalized. To promote the integrating role of education, a multicultural paradigm must be incorporated, to harmonize equality of opportunities with recognition of diversity.



Social protection is a vital component in social cohesion. In this area, the countries of the region must move forward with the implementation of reforms which, in addition to promoting universal coverage, make it possible to improve efficiency and effectiveness in the use of resources and the quality of services.

This requires increased solidarity in financing, better integration of the various subsystems active in the existing systems, defining a set of guaranteed and enforceable benefits, and reform of access mechanisms, breaking the link between access and types of labour integration.

To achieve real progress in social cohesion, gender considerations must be implemented in the fields of employment, social protection and education. It has been demonstrated that there are major biases and discriminatory practices in the area of labour-market integration and, therefore, in social protection and education. If uncorrected, these could become an obstacle to social integration.

Lastly, social cohesion entails promoting gender equality and the empowerment of women as an effective and essential means of eradicating poverty and hunger and of combating disease, as well as promoting truly sustainable development, especially in fundamental areas such as agriculture, industry and services.

## **5. Tax cooperation**

Tax cooperation involves the provision of mutual assistance, whether for purposes of sharing information or for reasons related to double taxation. Although it does not involve a process of tax harmonization, it does allow homogenization of the design and application of the relevant measures and, thanks to increased information sharing, improvements in the effectiveness of tax policies.

Tax cooperation between the developed and less-developed countries, and among the latter, entails overcoming considerable complexities such as the identification and characterization of the national space for applying economic policies. In the case of some countries, the federal structure of taxation is also relevant, since it generally aims to increase productivity and employment through the use of measures whose application may be obstructed by the implementation of international tax agreements.

The double-taxation agreements between some countries, such as Argentina and Chile (1976), Argentina and Brazil (1980) and Brazil and Ecuador (1983), show that tax cooperation has existed in Latin America for more than 20 years.

In 2006, the countries of Latin America and the Caribbean had signed 316 double-taxation treaties, while among the countries of Asia and Oceania there were 990, among the European countries in transition 590, and 438 in Africa. At the worldwide level, double-taxation treaties between countries of differing levels of development currently predominate, representing 40% of the total.

Generally, the countries of Latin America and the Caribbean have concluded the majority of their double-taxation treaties with extraregional trade partners, mainly in Western Europe and North America. The countries which have treaties in force in this area with other countries of the region include Argentina, Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Mexico and Peru. The Central American countries have no double-taxation treaties.

Aside from double-taxation treaties, tax cooperation also involves regulating offshore financial centres, which attract large volumes of resources to the countries that have this type of legislation in force. From this viewpoint, offshore financial centres constitute a source of financial receipts and employment for the smaller economies of the region that lack a solid tax base. Nonetheless, owing to their scant regulation, offshore financial centres are also a major source of pernicious fiscal competition and of activities which produce negative externalities.

It is agreed that offshore financial centres should comply with international standards on commercial banking. Ensuring compliance with these standards requires regular monitoring of the activities of offshore financial entities, increasing transparency in taxation and operational practices together with bilateral and multilateral donors, and working with the institutions which establish financial regulatory frameworks in order to improve standards of supervision and information sharing.

A number of the countries of Latin America and the Caribbean have financial centres which consider themselves to be offshore centres and whose banking assets had reached a level close to US\$ 4.2 billion as of 2005. The great majority of them have chosen to comply with international regulations on offshore financial centres in order to gradually homogenize the rules of the game in international taxation matters.

Nonetheless, the rapid development of financial innovation and integration has increased the complexity and difficulty of regulating offshore financial centres. To overcome this challenge, cooperation among countries must be institutionalized in order to monitor transfers of funds and reduce the risks related to transactions of non-traditional instruments.

Another aspect of tax cooperation is the creation of forums such as the Inter-American Centre for Tax Administrators for the sharing of national experiences and discussions on future strategies. It is important to mention the cooperation initiatives designed to standardize tax administration in the region, which have led to the publication of a series of manuals (Tax Code Model, 1997 and 2006; customs indicators, 2002; Internal Audit Manual, 2003; and the Code of Conduct Model 2005) establishing best practices in this area.

## **6. Monitoring mechanisms**

In order to implement the Monterrey targets and agreements, consultations must be undertaken with the various institutional agents involved in order to establish monitoring mechanisms. The monitoring process should be periodic, multi-institutional and multisectoral.

Monitoring mechanisms will strengthen awareness of the importance of the objectives promoted by the Monterrey Consensus and the need to adopt multilateral policies and rules to facilitate the achievement of basic development objectives, including those stipulated in the Doha Round and those identified in the Millennium Development Goals. They could also become a means of providing developing countries with an influential role in the decision-making processes which accompany the implementation of multilateral agreements.

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