Financing for development in Latin America and the Caribbean

A strategic analysis from a middle-income country perspective

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A strategic analysis from a middle-income country perspective

Economic Commission for Latin America and the Caribbean (ECLAC)

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Executive summary

The post-2015 development agenda will bring a profound transformation in sustainable development and will require a vast mobilization of resources, along with a change in their funding, organization and allocation

This profound transformation reflects the commitment to a universal approach to sustainable development, taking into account all the different country income groups, considering sustainability concerns in all activities and addressing the drivers of climate change, as well as ensuring respect for human rights in all actions in accordance with international standards. It also reflects a broad list of development concerns including the need to eradicate poverty by 2030, the guarantee of equitable access to education and health care for all, the transformation of economies to achieve a more socially inclusive form of productive development, putting equality at the heart of development, and the promotion of safe, peaceful societies and strong institutions.

As part of this transformation, the post-2015 development agenda will also require thoroughgoing changes in the means of its implementation, including in the global financial architecture and trade system, and in the conditions for the transfer of knowledge and technology from developed to developing countries. The agenda will build on the outcomes of the Millennium Summit, the 2005 Summit Outcome, the 2010 High-Level Plenary Meeting of the General Assembly on the Millennium Development Goals, the outcome of the United Nations Conference on Sustainable Development (Rio+20) and the voices of the people as conveyed in the course of the post-2015 process.

The international community will need to mobilize a vast amount of resources to respond to this paradigm shift in economic development. It will also have to change the whole logic behind development financing. This requires recognition that social and environmental criteria —not only economic criteria— should form the guiding principles for the provision of development finance.

Meeting the goals of the post-2015 development agenda entails mobilizing both public and private resources

Although the post-2015 development goals have still to be defined precisely, it is clear that the sums needed to achieve economic, social and environmental development objectives and preserve the global commons far exceed the capacity of traditional development flows. Public flows will be insufficient for this task and will have to be complemented with private flows, which in fact constitute the bulk of external financing for middle-income countries, including those of Latin America and the Caribbean.

Latin American and Caribbean countries must address the challenge of channelling private inflows towards production needs and development in an effective manner. This involves blending private and public resources, in order to achieve the leverage required to maximize the impact for development financing.

Capabilities for accessing private finance vary among the Latin American and Caribbean countries

The capacities and capabilities of countries within Latin America and the Caribbean to effectively access private finance vary greatly. Access to private finance is accompanied by a multiplicity of access requirements and conditionalities, which makes it difficult for countries to take a strategic approach to financing their development priorities and to assess the impact and effectiveness of development finance sources. Also, private finance providers do not insist upon the same conditions or impose the same access and eligibility criteria as public sources.

Private financial flows tend to be volatile and asymmetric and have a limited impact on development outcomes

Private finance raises some very important issues from a financing for development perspective. Portfolio capital flows are volatile and procyclical. Foreign direct investment (FDI), currently the region's largest source of private finance, is not as stable as previously thought and also tends to be procyclical, which can contribute to widening business cycle fluctuations. Furthermore, FDI flows to Latin America and the Caribbean are concentrated geographically and by sector. And, in spite of the importance of FDI as a source of finance, it can have limited impact on innovation and local knowledge capacities, which may hamper productivity. Finally, FDI also produces considerable financial leakages through profit repatriation.

The downsides of private capital flows reflect the fact that they are mainly profit-driven, which can lead to underinvestment in areas that are crucial for sustainable development (such as efforts to reduce poverty or address climate change) if the expected return —on a risk-adjusted basis— underperforms other investment opportunities.

Harnessing private capital flows and markets to achieve the post-2105 development agenda goals will require efficient and targeted government interventions

The public sector plays an increasingly important role in including social returns in the cost-benefit analysis. It can provide public financing for sectors that generate significant social gains but do not attract sufficient private flows. Alternatively, the public sector can establish an enabling environment and proper incentives, thereby supporting a risk-return profile capable of attracting private capital and directing it towards development objectives. The incentives for private financing need to go hand in hand with proper regulatory frameworks.

The post-2015 financing for development architecture must take on board the changes that have occurred in the development financing landscape in the past decades

The challenge of mobilizing resources to fulfil the objectives of the post-2015 development agenda is compounded by the need to take into account the changes that have occurred in the development financing landscape in the past decades. For middle-income countries such as those of Latin America and the Caribbean, these changes may be summarized as the relative decline in more traditional forms of development financing, such as official development assistance (ODA), and the emergence of new actors,

mechanisms and sources of finance. In this last category are emerging donors that are not Development Assistance Committee (DAC) member countries, innovative financing mechanisms and climate funds, among others. All these are playing a stronger and more visible role in development finance.

If funding is to be deployed efficiently and effectively to accelerate progress toward sustainable development across all income levels, then countries must not be excluded from development finance resource flows on the basis of income criteria alone.

Innovative financing mechanisms and new forms of cooperation must be important components of the post-2015 financing for development architecture

Innovative financing mechanisms can provide stable and predictable financial flows for developing countries. They can also be double dividend instruments by helping to provide public goods in addition to raising income. Moreover, they support collaboration with the private sector.

Countries in the Latin American and Caribbean region have embraced some of the new innovative financing mechanism initiatives, including tax on airline ticket sales, auction (or sale) of emission permits, a sovereign insurance pool known as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), and the Latin American Investment Facility (LAIF).

As part of the changes in the financing for development landscape, traditional forms of cooperation founded on donor-recipient relations and emphasizing the poverty reduction aspects of aid have increasingly been complemented with new forms of cooperation such as South-South and triangular cooperation. These new modalities complement the more traditional ones and provide an innovative angle to economic and social collaboration among countries.

These new forms of cooperation have overcome the long-standing vertical relationship between donor and recipient typical of traditional forms of cooperation, focusing instead on a scheme of collaboration among equals. Similarly, while traditional forms of cooperation place great significance on poverty reduction as a main objective, South-South cooperation emphasizes growth based on infrastructure development, technical cooperation and knowledge-sharing. South-South cooperation can thus significantly boost development, particularly for middle-income countries seeking strategies for sustained growth in production that will enable them to avoid becoming mired in the “middle-income trap”.

The changes in the financial landscape increase the complexity of how to combine financing options under a coherent financing for development architecture

The changes that have occurred in the financial landscape in the past decade increase the options of funding for development. They also increase the complexity of coordinating and combining the variety of actors, funds, mechanisms and instruments under a coherent financing for development architecture. This is particularly the case in relation to innovative financing mechanisms and climate funds, which need more clarity in terms of development objectives, sources of funding, and conditions of use and access.

The existing climate funds architecture presents several shortcomings. It is disorderly and complicated, with a multiplicity of funds that each has its own rationale, objectives and ways of functioning. Moreover, these funds are generally difficult to access for some smaller countries (including some in Latin America and the Caribbean).

Accessing climate funds calls for know-how on the required paperwork, which carries administrative and human resources costs that effectively bar many small countries from financing, whereas larger countries enjoy economies of scale that enable them to benefit more readily. The international community must take decisive action to address these shortcomings and rationalize the global architecture for climate change financing.

In addition, a better, standardized methodology is needed to gauge the environmental dimensions of every activity, such that these dimensions can be included in the cost-benefit analysis determining financing provision.

Middle-income countries such as those of Latin America and the Caribbean require greater financial resources to deal with the effects of climate change

Climate change is becoming an increasingly urgent issue for Latin America and the Caribbean. What is more, the costs and impacts of climate change are unevenly and inequitably distributed among the different income groups. In Latin America and the Caribbean the income groups that contribute least to generating climate change are the most vulnerable to its effects, including in small island developing states (SIDS).

On the one hand, in some of the region's economies the current development model is based on the production and export of renewable and non-renewable natural resources. On the other hand, social and economic progress in the region has led to the emergence of a middle class whose consumption patterns prioritize expenditure on goods and services (e.g. automobiles) that have negative environmental impacts. Both factors have contributed substantially to the generation of atmospheric pollution and contamination which undermine the region's future social and economic development.

Overcoming the negative impacts and, more to the point, the root causes of climate change will require funding for transforming the development style of the countries of Latin America and the Caribbean.

Greater access to external resources must be complemented and balanced with improved domestic resource mobilization

Domestic resource mobilization in Latin America and the Caribbean has historically been limited and difficult to increase. Accordingly, a set of specific economic and financial policies are needed to create the conditions for boosting private and public savings and channelling them towards productive activities and public investment.

Nonetheless, the approach to mobilizing domestic resources in such a heterogeneous region as Latin America and the Caribbean must recognize that the individual countries have different capacities to do so and, in particular, to undertake fiscal reforms.

For some of these economies, such as SIDS, small size is a significant constraint for the mobilization of domestic resources. Given their current debt situation, Caribbean SIDS find themselves in a different position than Latin America and thus need additional support, over both the short and longer terms. This support must include resources to address damage from extreme natural events, which is a key source of vulnerability and debt accumulation for these countries.

Mobilizing domestic resources means more than mobilizing fiscal resources alone

A strategy for mobilizing domestic resources involves improving tax collection systems, as well as further developing financial systems and markets in the region and increasing financial inclusion.

Latin American and Caribbean countries have made significant progress in increasing tax revenues: between 1990 and 2013, the region's average tax-to-GDP ratio increased from 14.4% to 21.3%. Although this still falls short of the average tax-to-GDP ratio of the countries of the Organization for Economic Cooperation and Development (OECD) (34.1% of GDP in 2013), the gap has narrowed over time, from 18 to 13 percentage points between 1990 and 2013.

Nevertheless, the region needs to further increase tax collection, for which fiscal systems need to be made more progressive. It must also tackle the high rates of fiscal evasion and widespread exemptions that currently hamper efforts to boost the tax take. The mobilization of domestic resources

requires stronger tax reforms designed to maintain or increase collection and strengthen income tax, with a view to levelling out incomes as well as raising resources. This can be achieved by reducing tax exemptions and strengthening the capabilities of tax administrations to control evasion and avoidance.

Several countries in the region have carried out tax reforms in recent years. Although a variety of changes have been made, one of the most notable developments with respect to previous decades has been the focus on income tax, not only for the purpose of improving revenue collection, but also for strengthening one of the weakest points of regional fiscal policy: the impact of tax systems on income distribution.

The reforms have addressed various aspects of income tax design, in particular the expansion or reduction of the tax base, rate changes and international taxation. Other changes have sought to expand the income tax base by establishing dual personal income tax systems. In addition, fiscal reform requires easing the often heavy dependence on revenues from non-renewable natural resources by strengthening institutional arrangements to expedite structural change that can turn short-term resources into knowledge and innovation. Also, public spending quality and transparency must be improved to ensure adequate public services by moving towards results-based management for development.

Fiscal reform must also tackle illicit financial flows, which represent a huge transfer of financial resources out of developing economies, including those of Latin America and the Caribbean. In some cases, creating the adequate backing for the necessary reforms will require initiatives to restructure sovereign debt.

The mobilization of domestic resources through fiscal means should be complemented by strengthening the role of development banks

Regional, subregional and national development banks have proven to be a successful source of medium- and long-term resources through investment finance for infrastructure, productive and social development, and for climate change mitigation.

Development banks have traditionally focused on mobilizing long-term savings towards investment and, more precisely, towards strategic production sectors and especially infrastructure. In some emerging market economies, development banks have become one —if not the main— provider of long-term credit in agriculture, housing and infrastructure.

With the passage of time, development banks have also assumed other functions, including the development of financial markets and financial institutions, which are an important source of support for private sector development and greatly facilitate the mobilization of savings. This function also complements government efforts to promote sound financial sector institutions and policies, relieve financial constraints and increase financial inclusion for households and firms.

Efforts to mobilize domestic resources must be placed within an enabling external environment that addresses the existing asymmetries in international finance and trade

Domestic resource mobilization must be a key pillar of the post-2015 financing for development architecture. However, this does not mean that responsibility for the development process should lie with national policies alone. The principle that applies is rather that of common but differentiated responsibilities: countries must assume greater responsibility for their own development and take the driver's seat of their own development agenda.

Adequate levels of domestic resource mobilization are a necessary but not a sufficient condition to render the financing for development architecture effective in responding to countries' development needs. Domestic resource mobilization strategies must be placed within the broader context of an enabling external environment.

In the first place, an enabling external environment should address and narrow the existing asymmetries in the international financial and trade systems. The international financial system is asymmetrical in its governance mechanisms, because it fails to give proper weight and recognition to developing economies, and in countries' differing access to finance and varying costs of funding. The international financial system has also failed to deliver stability as a global public good and to channel resources to the production sector.

The trade system also exhibits asymmetries reflected in the inconsistency between the importance of developing economies and their share in world trade and opportunities for market access. Asymmetries are evident, as well, in developing economies' limited possibilities to reap the benefits of technology transfer and knowledge acquisition.

Second, an enabling external environment should recognize that global economic conditions do not affect all countries, particularly middle-income countries, in the same way.

The differentiated impact of fluctuations in the world economy reflects the heterogeneity of middle-income countries, including their different sizes and levels of economic development, the composition of their particular production structure, their domestic financial conditions, and their varying degrees of integration into global financial and goods and services markets.

Introduction

The post-2015 development agenda will bring a profound transformation in sustainable development, reflecting the commitment to a universal approach that must take into account all the different country income groups, consider sustainability in all activities and address the drivers of climate change, as well as ensuring respect for human rights across all actions in accordance with international standards. It must also reflect a broad list of development concerns, as identified by the Open Working Group of the General Assembly on Sustainable Development Goals (see box 1), including the need to eradicate poverty by 2030, guarantee equitable access to education and health care for all, transform economies to achieve a more socially inclusive form of production development, put equality at the heart of development, promote safe, peaceful societies and strong institutions, and build a global partnership to mobilize the means and create the environment for the implementation of the agenda.

The agenda will build on the outcomes of the Millennium Summit, the 2005 Summit Outcome, the 2010 High-Level Plenary Meeting of the General Assembly on the Millennium Development Goals, the outcome of the United Nations Conference on Sustainable Development (Rio+20) (2012) and the voices of the people as conveyed in the course of the post-2015 process.[1]

In order to respond to the paradigm shift that all this will entail in economic development, the international community will need to mobilize a vast amount of resources. It will also have to change the whole logic behind development financing, including by recognizing that social and environmental criteria —not only economic criteria— should form the guiding principles for the provision of development finance. While there is no single or precise estimate, it is clear that the sums needed to achieve economic, social and environmental development goals and preserve the global commons far exceed the capacity of traditional development flows, including official development assistance (ODA). Public flows will be insufficient to meet this task, and will have to be complemented with private flows, which in fact constitute the bulk of external financing for middle-income countries, including those of Latin America and the Caribbean. A key challenge is how to mobilize these resources and blend private and public resources, in order to achieve the leverage required to maximize the impact for development financing.

Since private flows respond to market incentives, appropriate public policies are needed at both the national and global levels to define the role of public and private flows and their different levels of interaction. This requires, in particular, specifying the conditions under which countries can access funding and the criteria and mechanisms guiding the allocation and use of financial resources.

1 See General Assembly resolution 55/2 [online] http://www.un.org/millennium/declaration/ares552e.htm.

Box 1
Sustainable development goals

The Open Working Group of the General Assembly on Sustainable Development Goals has proposed the following 17 sustainable development goals:

Goal 1. End poverty in all its forms everywhere
Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3. Ensure healthy lives and promote well-being for all at all ages
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5. Achieve gender equality and empower all women and girls
Goal 6. Ensure availability and sustainable management of water and sanitation for all
Goal 7. Ensure access to affordable, reliable sustainable and modern energy for all
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10. Reduce inequality within and among countries
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12. Ensure sustainable consumption and production patterns
Goal 13. Take urgent action to combat climate change and its impacts
Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

Source: United Nations, The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet. Synthesis report of the Secretary-General on the post-2015 sustainable development agenda (A/69/700), New York, 2014.

The challenge of mobilizing resources to fulfil the objectives of the post-2015 development agenda is compounded by the need to take into account the changes that have occurred in the financial development landscape in the past decade. These changes include the growing importance of new actors and sources of development finance, including donors that are not Development Assistance Committee (DAC) member countries, non-governmental organizations (NGOs), climate funds, innovative financing mechanisms and South-South cooperation initiatives. Similarly, private capital has emerged as an important source of finance with a diversified set of instruments such as equity, bonds, debt securities, non-concessional loans, and risk mitigation instruments (including guarantees), together with worker remittances and private voluntary contributions.

While these changes have increased the options for funding the post-2015 development agenda, they also raise substantial challenges in terms of coordinating and combining the actors, instruments and mechanisms of finance under a coherent and consistent financing for development framework. This is particularly the case in relation to new, innovative financing mechanisms and climate change funds, which need greater clarity, from a development perspective, in terms of objectives, sources of funding and conditions of use and access.

Within this new and evolving context, the need for effective participation by middle-income countries is especially relevant as this grouping, including Latin American and Caribbean countries, has witnessed a decline in its share of the main flows of development finance, including ODA. Middle-income countries have also found their possibilities narrowing of benefiting from other sources of development finance, such as private philanthropic organizations. As a result, middle-income countries must rely on alternative sources of finance to spur their development and tackle the demands of the complex post-2015 development agenda. Such sources include domestic resource mobilization, which already constitutes a major source of finance, and external private flows, as well as innovative financing mechanisms.

Moreover, middle-income countries, including those of Latin America and the Caribbean, make up a heterogeneous grouping in terms of size, stage of development, and production structure, and have different capabilities for extracting domestic resources and accessing foreign capital markets. Policies to mobilize and channel resources must therefore take account of countries' specific characteristics and national circumstances, including those of small island developing States (SIDS).

The Third Conference on Financing for Development, to be held in Addis Ababa in July 2015, represents a unique opportunity to overcome the challenges faced by middle-income countries, to deploy effective funding across all income levels and recast the global development financing architecture to meet the transformative goals of the post-2015 development agenda. This requires, a new approach reflecting the specific needs of the different countries at every income level, while also identifying the best forms of cooperation for overcoming the greatest obstacles to attaining an inclusive and sustainable development path over time.

The Conference should also explore existing synergies by building on the policy commitments of the Monterrey Consensus (2002), the Doha Declaration on Financing for Development (2008), the initiatives of major conferences such as the United Nations Conference on Sustainable Development (Rio+20) (2012), and the insights and analyses of their outcome documents and other key reports.[2]

Central to this endeavour is the underlying principle of common but differentiated responsibilities as countries assume on greater responsibility for their own development and take the driver's seat of their own development agenda. Equally important is a bold approach to developing effective means of implementation for the post-2105 agenda, with an enabling external environment that corrects for the existing financial and real asymmetries of the current international order (ECLAC, 2014d). The new rules of the international game must reflect the importance of developing economies in its governance structure, avoid discrimination in access to funding, guarantee stability as a global public good, enhance the international trade participation of developing countries, including middle-income countries, and open up opportunities to reap the benefits of technology and knowledge transfer and acquisition.

[2] These include the Report of the Open Working Group of the General Assembly on Sustainable Development Goals (United Nations, 2014a) and the Report of the Intergovernmental Committee of Experts on Sustainable Development Financing (United Nations, 2014b).

I. An enabling external environment

National policies must play a key role in a renewed financing for development architecture. However, adequate national policies are a necessary but not a sufficient condition to render the financial for development architecture effective in responding to countries' development needs. National policies must necessarily be placed within an enabling external environment.

In the first place, an enabling external environment should address and narrow the existing asymmetries in the international financial and trade systems. The international financial system is asymmetrical in its governance mechanisms, because it fails to give proper weight and recognition to emerging and developing economies, and in countries' differing access to finance and varying costs of funding. The international financial system has also failed to deliver stability as a global public good and to channel resources to the production sector.

The trade system also exhibits asymmetries in the form of inconsistency between the importance of developing economies and their share in world trade and opportunities for market access. Asymmetries are also evident in the developing economies' limited possibilities to reap the benefits of technology transfer and knowledge acquisition.

Second, an enabling external environment should recognize that global economic conditions do not affect all countries, particularly middle-income countries, in the same way. On the contrary, the differentiated impact of fluctuations in the world economy reflects the heterogeneity of middle-income countries, including their different sizes and levels of economic development, the composition of their particular production structure, their domestic financial conditions, and their varying degrees of integration into global financial and goods and services markets.

A. A stable, inclusive and pro-development international financial architecture

The international financial architecture presents three major long-standing challenges: to improve the governance structure of multilateral financial institutions, which is asymmetrical in terms of representation and participation of emerging market economies and middle-income countries; to enhance its limited capacity to channel resources to the financing of sustainable and inclusive development; and to promote greater financial stability as a global public good.

The international financial architecture has traditionally been governed by a small group of developed countries, the Group of Seven (G7) and Group of Eight (G-8),[3] who hold the largest influence in terms of participation, voting rights, and decision-making in international bodies, with a minor role played by developing countries' own regional bodies and forums. This approach to the governance of the financial international architecture created a system whereby this small group of "rule makers" set international rules and standards according to the practices of developed countries which were, for the most part, unsuited to the domestic needs and context of the developing "rule taking" countries (Helleiner, 2010).

The shift from the G7 and G8 to the G20, or Group of Twenty, in global governance was aimed at addressing this asymmetry recognizing, at least partly, that a one-size-fits-all approach was not representative given the countries' different stages of development (Working Group on Strengthening Financial Systems, 1998). The creation of the G20 was a change in the right direction, since the body also encouraged a review of the membership of several international regulatory bodies,[4] with a view to making them more representative through the inclusion of developing economies.

However, the initiative encouraged a rule of governance based on what has been termed "elite multilateralism". Although the decisions of the G20 affect both member and non-member States, most countries do not have a voice or vote in its decision-making process.

The analysis and policy recommendations put forth by multilateral bodies could be misleading and incomplete where developing countries are not properly represented. Multilateral institutions need the participation of all countries in order to devise globally accepted and legitimized codes and regulatory standards.

The pressing need to reform the governance of the international financial system became more apparent than ever during the global financial crisis of 2008-2009. The reform process that ensued involved, in part, revitalizing the multilateral financial institutions by increasing their capital and enabling them to provide financing on more flexible terms. However, specific initiatives on modernizing the governance structure have been minimal and their implementation has suffered successive delays, underscoring the fact that developed countries have failed to deliver on their promise of ensuring that developing countries be afforded a greater voice and stronger representation within the international financial architecture.

The reform process has thus failed to do justice to the global economic and political power shift towards developing countries and, within that group, towards middle-income countries. This changing balance of power is not reflected in the executive councils and decision-making bodies of the international financial institutions. Indeed, voting rights and quota shares are not consistent with countries' economic and political importance.

As shown in table 1, emerging markets' and developing countries' weight in global GDP equals that of developed countries. However, the former hold 38.8% of International Monetary Fund (IMF) quotas and 40.8% of the World Bank's voting rights, whereas the latter hold 61.2% and 59.2%, respectively. Middle-income countries account for 46.1% of the world's production of goods and services, but hold just 29% of IMF quotas and World Bank voting rights.

Similarly, the BRICS (Brazil, the Russian Federation, India, China and South Africa), which have emerged as a powerful developing country grouping and represent 26.5% of the world's real income and 42.2% of its population, hold only 14.2% of IMF quotas and 11.3% of World Bank voting rights.

[3] The Group of Seven (G7) consists of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The Group of Eight (G8) also includes the Russian Federation, which joined in 1998.

[4] These include the International Organization of Securities Commission (IOSCO), the Basel Committee on Banking Supervision (BCBS), the Committee on Payment and Settlement Systems (CPSS), the International Accounting Standards Board (IASB) and the Financial Stability Board (FSB).

Table 1
Selected countries and groupings:[a] shares of International Monetary Fund quotas and World Bank voting rights, and proportion of total global GDP, household final consumption, gross fixed capital formation, exports of goods and services, and population
(Percentages)

	IMF quota share [b]	World Bank voting rights [c]	GDP in purchasing power parity (PPP)	Household final consumption	Gross fixed capital formation	Exports of goods and services	Population
	(percentages)		*(percentages of global total)*				
Industrial economies	61.2	59.2	50.4	64.0	51.2	59.4	14.2
Group of seven (G7)	43.3	42.5	38.2	51.2	37.9	32.8	10.5
United States	17.4	15.7	19.5	26.5	17.7	9.9	4.4
Japan	6.5	7.8	5.5	6.9	5.8	3.6	1.8
Euro area	21.9	20.2	19.2	17.0	14.1	24.7	4.7
Australia, Canada and New Zealand	4.0	4.6	3.1	4.6	5.0	3.9	0.9
Emerging markets and developing economies	38.8	40.8	49.6	36.0	48.8	40.6	85.8
East Asia and the Pacific	13.0	11.2	25.6	10.8	27.3	14.6	28.2
Latin America and the Caribbean	7.9	7.8	8.7	8.4	6.1	5.0	8.3
The Middle East and North Africa	6.6	8.3	5.1	…	…	2.2	4.8
Sub-Saharan Africa	3.5	5.1	2.5	2.5	1.7	2.0	13.1
High-income countries	69.1	68.1	52.5	70.3	57.2	70.4	18.3
Middle-income countries	29.0	29.0	46.1	29.0	42.4	29.0	69.8
Low-income countries	1.8	2.8	1.5	1.1	0.8	0.7	11.9
BRICS [d]	**14.2**	**11.3**	**26.5**	**16.7**	**31.9**	**16.5**	**42.2**

Source: International Monetary Fund (IMF), World Economic Outlook, 2014 and World Bank, World Development Indicators, 2014.
[a] See annex A1 for the list of country groupings.
[b] Percentage of total IMF quotas as of August 2012.
[c] Percentage of total votes as of December 2014.
[d] Brazil, the Russian Federation, India, China and South Africa.

In the Asian Development Bank (ADB), too, developed countries hold a disproportionate share of power. The Organization for Economic Cooperation and Development (OECD) countries which are members of ADB hold 65% of the Bank's capital and 59% of its voting rights. Conversely, China and India, whose combined GDP exceeds that of both the United States and Japan, hold just 11% of ADB voting rights (Reisen, 2014).

Another, related asymmetry in the international financial system is that it does not ensure equal opportunities of access to finance or similar funding costs for all countries. In relation to middle-income countries, higher income levels do not mean greater capacity to access financial resources and moving up the per capita income ladder does not necessarily guarantee the ability to mobilize a larger pool of international resources to finance development needs.

In fact, the evidence shows that access to external resources can depend on many factors besides per capita income, including external conditions beyond the control of middle-income countries, such as credit rating, risk perceptions and existing vulnerabilities (which are highly significant in the case of SIDS), external demand conditions and country size.

Another important challenge facing the international financial system is the difficulty of mobilizing resources in pursuit of sustainable and inclusive development and the propensity to channel resources towards the development of the financial system itself.

In the past two decades, the financial sector and its instruments and financial innovations have expanded exponentially, far exceeding GDP growth. Between 1990 and 2012 the value of global financial assets (not including derivatives) shot up from US$ 50 trillion to US$ 225 trillion, while global GDP expanded from US$ 22 trillion to US$ 64 trillion. By 2020, global financial assets will be worth an estimated US$ 600 trillion, compared with GDP of some US$ 100 trillion. Including derivatives, one of the most common and dynamic forms of financial innovation, global assets easily exceed US$ 1,000 trillion (Lund and others, 2013).

This financial expansion reflects the rise of capital markets in financial intermediation and the growing importance of liquid assets rather than the allocation of savings to the financing of production development objectives. Indeed, the increase in global financial depth (total global financial assets as percentage of world GDP) between 1990 and 2007 —a hefty 92%— is explained mainly by the issuance of financial bonds (financing for the financial sector) and equity, which together account for 90% of the total increase— rather than by the financing of real sector activity.[5]

The exponential growth of the financial sector and its instruments over the past decade has generated a complex web of externalities at the macro level, whose ultimate consequences are difficult to predict. That being said, the global financial crisis of 2008-2009 and the euro crisis of 2008-2013 showed the disruptive effects of unregulated (or poorly regulated) and unfettered finance and underscored its potential for increasing volatility for all and creating systemic risk for the global economy.

The most recent effects of this process of financialization have been felt with particular intensity in the commodities market, where after a stretch of historically high prices from 2000 to 2011, the prices of most commodities, and in particular oil and metals, have declined sharply since mid-2014. The evolution of commodity prices reflects not only real factors, such as supply and demand, but also the use of commodities as a financial asset (BIS, 2015).

This downward trend in commodity prices has had differentiated impacts among developing countries, including those of Latin American and the Caribbean, reflecting the heterogeneity in their production and export structures. While the decline in prices has benefited net commodity importers (mainly the smaller economies of Latin America and the Caribbean), it has also hampered the growth possibilities of commodity exporters and countries whose tax structure depends on commodity prices. However, in spite of the positive consequences for some of the Latin American and Caribbean economies, the fact that commodities have taken on the characteristics of financial assets increases the possibility of instability and uncertainty in the commodities market.

The necessary reform for redressing the main deficiencies of the current international financial architecture will require a collective effort to fill the existing institutional vacuum as regards the coordination and governance of globalization. It must be founded upon a shared, integrated development agenda based on policy coherence at the international, regional and national levels that recognizes that development and equality are fundamental and that development and economic stability are not mutually exclusive goals.

In this sense, the reform of the international financial architecture must be inclusive so as to take into account the requirements and needs of all countries, especially developing and middle-income countries, in the decisions and establishment of rules and procedures. This collective effort should reflect a global partnership and be aimed at making monetary, financial and trade systems and networks more coherent and consistent, so that they will support the multilateral development objectives —such as social and environmental sustainability goals— that are agreed upon multilaterally and form part of the consensus of the global policy agenda.

Accordingly, the global financial architecture must adequately represent the current global economic equilibrium, including the importance of emerging economies, some of which are fundamental to ensure sound growth. In other words, it must take into account the needs of all countries.

[5] See Lund and others (2013); Manyika and others (2014).

B. The role of trade, linkages with the global economy and technology transfer

An effective approach to the means of implementation of the post-2015 development agenda requires not only a more stable and pro-development financial system, but also improved trade opportunities and linkages with the global economy. Trade both drives and is served by growth and prosperity.

One of the main challenges facing the developing countries, and in particular middle-income countries, is the need to increase their share in world trade, commensurately with their importance in the world economy.

Although emerging and developing economies produce half of the world's GDP, they account only for 40.6% of global exports. Middle-income countries also show a clear asymmetry between their contribution to world production and their share of world exports (46.1% and 29%, respectively). A similar disparity characterizes the countries of Latin America and the Caribbean (see table 1).

Developing countries, including middle-income countries, also need to diversify their exports and increase their technology content in order to strengthen the connection between trade and the creation of decent jobs, thereby fostering inclusive and sustained economic growth.

To meet this challenge, multilateral trade practices and agreements need to be made more flexible to take into account the specificities of middle-income countries. This would help level the playing field so that all countries could benefit equitably from international trade.

At the same time, export diversification and trade liberalization must be applied on the basis of flexible trade rules, including on adequate financing and an appropriate time frame for implementing the necessary adjustments and domestic economy restructuring. This applies particularly to the smaller and more vulnerable States, including Caribbean SIDS. In this sense, the global trade system should seek fairness in its rules and mechanisms and promote market access by all participants, especially developing countries, which as things stand often face discriminatory measures.

Besides improved market access and market practices, Latin America and the Caribbean also needs stronger production linkages with the global economy. A key challenge in this area is to enhance embedded knowledge in exports and increase and support the international market entry and positioning of Latin American and Caribbean companies, especially small and medium-sized enterprises (SMEs).

SMEs are important players in the development of Latin America and the Caribbean, as a large proportion of the population and the economy depends on their activity and performance. SMEs are very heterogeneous, however, and although they are important for job creation they are generally less so for output. The region's SMEs account for around 99% of all firms and some 60% of employment, but only 40% of output. Moreover, most of them have low levels of technology and production upgrading and productivity.

International positioning of the region's companies is a challenging task, since economic relations between countries are increasingly organized around global value chains whereby the production of final goods is undertaken in different countries and whose structure is more complex than that of traditional trade, involving a multiplicity of flows of goods (in particular intermediate goods), services, information, and people. In this context, trade barriers —mostly non-tariff (regulatory) barriers— are easier to impose but harder to identify and regulate. In fact, the World Trade Organization (WTO) has not yet been able to generate adequate rules for the organization of trade around global value chains.

The restructuring of production has led to the establishment of megaregional trade agreements covering far larger trade volumes than traditional free trade agreements. Such is the significance of these megaregional trade agreements[6] that they may effectively rewrite the rules of international trade,

[6] These include the Trans-Pacific Partnership (TPP) (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Viet Nam); the Transatlantic Trade and Investment Partnership (TTIP) (United States and the European Union); the Regional Comprehensive Economic Partnership (RCEP) (Australia, China, India, Japan, New Zealand, Republic of Korea and the 10 members of ASEAN); the China-Japan-Republic of Korea free trade agreement; and the European Union-Japan free trade agreement.

with little participation by Latin America and Caribbean countries. This could have an adverse impact on the region through the diversion of trade and investment, the imposition of new requirements (such as environmental and technical standards) and the strengthening of the primary commodity exporting model. On the other hand, the new configuration may be seen as a source of opportunity to expand production and reduce costs. The course the region takes in this regard is immensely important, given that countries that are involved in the megaregional trade agreements represent 70% of Latin American and Caribbean trade.

Fostering trade will also require efforts to deepen and strengthen regional production integration. The Latin American and Caribbean region is itself a source of demand growth and job creation and is, currently, the market for the highest-value-added exports. It has also great potential for strengthening regional and national value chains. Moreover, where national markets are small, as in the Caribbean SIDS, regional approaches might be the best avenue to pursue.

However, the region's intraregional trade is limited and offers as yet only a weak basis for production integration. Although intraregional exports have expanded tenfold in the past two decades, they have never surpassed 20% of total exports. This contrasts with the pattern in other regions, particularly Asia, where intraregional trade represents roughly 40% of the total. This state of affairs reflects, in part, the fact that production integration in Latin America and the Caribbean (measured by the share of intermediate goods in intraregional exports) is also low by comparison with other regions (with this measure at only 9.5% in Latin America and the Caribbean, versus 30% in Asia).

Creating and strengthening ties and cooperation with more advanced and innovative firms is part of a process of internationalization that can open the way to the development of new capabilities and new kinds of learning for Latin American and Caribbean firms. This can not only strengthen their employment creation capacities but also help them to achieve higher levels of technological innovation and productivity. The modalities for this type of cooperation include technical assistance activities, participation in subcontracting systems, the creation of networks of firms to attain quality standards and, most importantly, the generation of strategic partnerships for market positioning for participation in global value chains and joint ventures.

This type of cooperation must, however, overcome the numerous obstacles to the adoption, appropriation, dissemination and transfer of technology. Severe restrictions related to intellectual property rights limit the dissemination of innovation and technology, which still falls short of the goals outlined in Article 15 of the International Covenant on Economic, Social and Cultural Rights and the provisions of Agenda 21.

In the case of Latin America and the Caribbean, this is reflected in part in levels of research and development (R&D) expenditure that are below developed country standards, and in large productivity gaps relative to industrialized countries. The region must consider the new opportunities that technological changes can bring and build capacities with a long-term vision and sustainable development perspective. An alliance to build capacity and transfer technology at the regional level is even more essential in countries, such as some SIDS, that are highly indebted and face difficult trade-offs between short-term solutions and long-term technological innovation. In this connection, it would beneficial if developed countries would further open their markets to higher-value-added and knowledge-intensive goods from Latin America and the Caribbean.

II. Changes in the development finance landscape

If funding is to be deployed efficiently and effectively to accelerate progress toward sustainable development across countries of all income levels, then the current financing for development architecture must be expanded to take into account the significant changes that have taken place in the composition of flows, actors, instruments and mechanisms of development finance.

The past decades have witnessed a decline in some of the more traditional forms of financing for development flows, such as ODA, in relation to other external flows, particularly towards middle-income countries, alongside the emergence of new actors, mechanisms and sources of finance. In this last category are grants from philanthropic institutions and financing from emerging donors who are not Development Assistance Committee (DAC) member countries, innovative financing mechanisms and climate funds, among others, which are all playing a stronger and more visible role in development finance. Nevertheless, traditional forms of financing must continue to play a part in development finance, and countries should not be excluded from their benefits mainly on the basis of income criteria. Also, private capital and its different instruments —which have in practice become a major source of finance— should be part of the development toolkit.

As well as its relative loss of share in ODA, the Latin American and Caribbean region seems to have less scope than other regions to benefit from other sources of development finance such as private philanthropic organizations. As a result, it is obliged to rely on alternative sources of finance, including private flows (which represent the bulk of external finance for the region), innovative financing mechanisms and domestic resource mobilization as means to spur development and tackle the complex post-2015 agenda.

Latin American and Caribbean countries must address the challenge of effectively channelling private inflows towards production and development needs since these flows are typically driven by profit rather than development considerations. A related issue is how to blend public and private resources in order to achieve the leverage required to maximize the impact for development financing. Also, while new instruments and funds such as innovative financial mechanisms and climate funds expand the funding options for the region, as they stand, they lack clarity with respect to development objectives, sources of funding, and conditions of use and access.

A. Trends in flows of official development assistance and the middle-income country dilemma

For most developing regions, including Latin America and the Caribbean, ODA flows are the least dynamic component of external financial flows.[7]

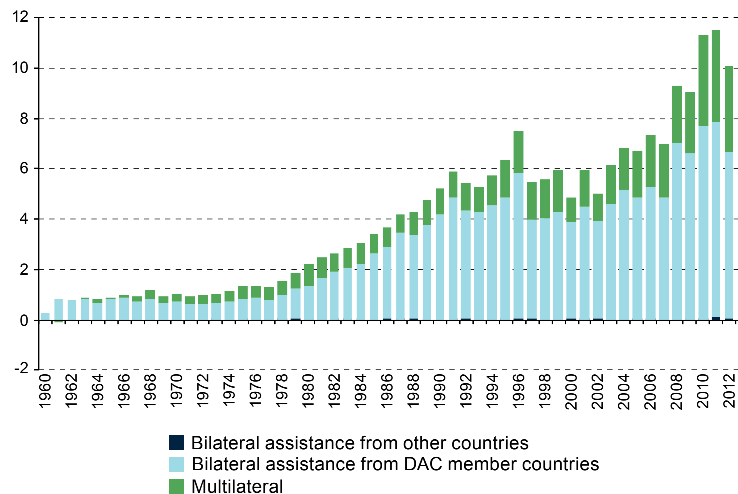
Although the average contributions of the member countries of the Development Assistance Committee of OECD, measured as a percentage of their gross national income (GNI), are currently at the highest levels since 1997, they are still well below the target established in the Monterrey Consensus (0.7% of GNI). These levels are far from sufficient to finance the efforts needed to attain development goals, including those identified in the Millennium Declaration (1999) and the social development goals (United Nations, 2014c).

Only 5 of the 28 donor countries have reached the 0.7% target, and greater efforts must be made to ensure that the remaining countries achieve the agreed target. The ODA flows delivered by DAC countries totalled US$ 134 billion in 2013, which represents, on average, 0.3% of the GNI of the donor countries represented on the Committee.

Analysis of ODA to Latin America and the Caribbean shows these flows rising from US$ 500,000 per year in the 1960s to US$ 10.2 billion in 2013. Within that period, the figure reached more than US$ 1 billion per year in the 1970s and US$ 3 billion in the 1980s, before hovering around US$ 5 billion annually in the 1990s and the first half of the 2000s, then jumping to over US$ 10 billion in 2010 (see figure 1A).

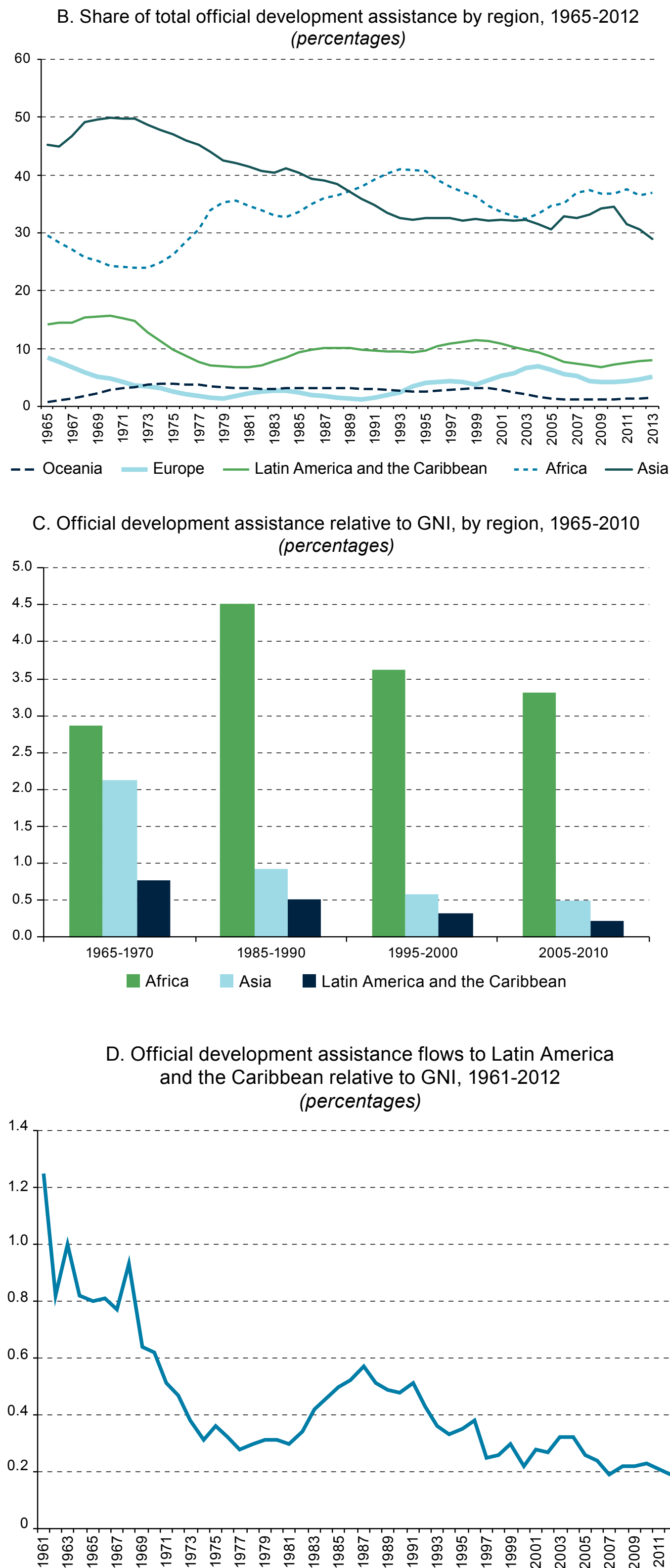
However, when measured as a percentage of GNI, ODA flows now represent 0.18% of the region's GNI —a large drop from the 0.4% or thereabouts seen in the 1970s, 1980s and 1990s (see figure 1D). At the same time, the region's share in global ODA flows has fallen from 15% in the 1980s and 1990s to about 8% in the 2000s (see figure 1B).[8]

Figure 1
Latin America and the Caribbean and other selected regions: official development assistance, 1960-2012
(Percentages and billions of dollars)



[7] See annex A2 for a list of the different components of ODA.
[8] In a few economies, including Haiti and some Caribbean countries, ODA has risen as percentage of GDP in the 2000s.

Figure 1 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), "The New Development Finance Landscape: Developing Countries' Perspective. Working draft presented at the OECD workshop on development finance on 25 June 2014" [online] http://www.francophonie.org/IMG/pdf/the_new_development_finance_landscape_master_19_june.pdf.

The aggregate ODA figures hide large disparities between countries, as the relative level of ODA still varies widely, from 0% (Trinidad and Tobago) to roughly 17% (Haiti) of GNI for 2000-2013. In between, ODA exceeds 10% of GNI in two countries (Guyana and Nicaragua); ranges from 1% to 6% in another 10 countries; and falls short of 1% in a further 18. Table 2 shows the wide disparities in significance of ODA by country in Latin America and the Caribbean, by decadal averages.

Table 2
Latin America and the Caribbean: official development assistance, maximum, minimum and median, decadal averages 1980-2013
(Percentages of GNI)

	Maximum	Minimum	Median
1970-1980	16.7	0.015	1.5
1980-1990	17.7	0.023	1.9
1990-2000	29.7	0.025	1.1
2000-2013	17.1	0.007	0.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), “The New Development Finance Landscape: Developing Countries’ Perspective. Working draft presented at the OECD workshop on development finance on 25 June 2014” [online] http://www.francophonie.org/IMG/pdf/the_new_development_finance_landscape_master_19_june.pdf.

At the sectoral level, ODA is assigned mainly to social services, economic infrastructure and production sectors, which account for 37%, 12% and 12% of the total, respectively (see table 3). To some extent, this distribution reflects certain patterns in recent ODA allocation, including the tendency to focus on results and value for money, greater risk aversion regarding budget support, and the use of assistance to catalyse private sector engagement (Greenhill and Prizzon, 2012).

Table 3
Latin America and the Caribbean: distribution of official development assistance by sector, average for 1995-1997 and 2011-2013
(Percentages)

Sector [a]	1995-1997	2011-2013
Social infrastructure	10	6
Social services	26	37
Economic infrastructure	12	12
Economic services	2	7
Production sectors	10	12
Multisector	12	13
Commodity aid /General programme assistance	5	2
Action relating to debt	17	0
Humanitarian aid	3	5
Non-sector allocable	5	7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), “The New Development Finance Landscape: Developing Countries’ Perspective. Working draft presented at the OECD workshop on development finance on 25 June 2014” [online] http://www.francophonie.org/IMG/pdf/the_new_development_finance_landscape_master_19_june.pdf.

[a] Infrastructure categories include buildings, equipment and materials; large-scale transmission/conveyance and distribution systems; networks; and other projects. Services categories include sector policies; planning and programmes; assistance to ministries; administration and management systems; institutional capacity-building and advisory services; management; research, education, training, counselling and communication; and governance.

Donors' allocation of ODA by country is guided by income, that is, a criterion that essentially equates development with per capita income. Specifically, countries above a certain per capita income threshold are considered to have achieved adequate institutional development and access to private capital markets.

Attainment of a certain per capita income threshold, which currently stands at US$ 12,745, triggers the beginning of a discussion on graduation, which looks beyond the income proxy to determine whether the country meets the criteria for graduation. In this sense, the US$ 12,745 threshold is taken to represent a country's capacity to pursue sustainable long-term development without having recourse to aid.

Graduation is seen as depending on the degree of institutional development and on countries' ability to access foreign credit markets —i.e. the willingness of foreign markets to lend, measured mainly by country risk.

The World Bank also considers countries' vulnerability to shocks, for which export concentration and country size are used as proxies. Overall, the World Bank sustains that, as countries become wealthier, develop higher-quality institutions and become more creditworthy, they tend to rely less on World Bank financing for their development needs (Heckelman, Knack and Halsey Rogers, 2011).

However, per capita income does not capture a country's capacity to sustain long-term development without recourse to aid, nor does it provide a representative measure of its level of development. Indeed, analysis of middle-income countries shows that this group is highly heterogeneous and their development entails not only improving living standards but also achieving sustainable and inclusive growth capable of overcoming their hallmark social and economic inequalities. It also implies fostering conditions to create and establish political, economic and social systems that will promote respect, diversity, human dignity and equality.

The downward trend in the relative share of the middle-income countries and of the Latin American and Caribbean countries in overall ODA 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.

With regard to 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. And at the global level, middle-income countries as a group are home to the majority of the world's poor, by both income and multidimensional poverty measures (Sumner, 2012). Furthermore, some of the region's countries, particularly the smallest economies, SIDS and landlocked developing countries, remain highly vulnerable to external shocks and have difficulty in achieving a strong position in world trading activity (see box 2).

Box 2
The specificities of small island developing States (SIDS) and their constraints on development

Owing to their status as upper-middle- or high-income countries, several small island developing States (SIDS) in the Caribbean are graduating from eligibility for official development assistance (ODA) without any guarantee of access to other financial resources. Furthermore, the increasing liberalization of global trade and finance have eroded their preferential access to developed country markets thus heightening their vulnerability to changes in external market conditions.

SIDS are subject to several structural constraints that limit their ability to achieve their full development potential. Their small size prevents them from reaping the benefits of economies of scale and scope: suboptimal firm size leads to high unit production costs and there is a lack of complementarity between tradable activities and domestic production of inputs. This, in turn, limits their capacity to enhance the quality of their export products and to adapt to changes in external demand or conditions. Investments by small producers are also seen as risky, which hinders their access to bank lending.

Moreover, these small countries have limited natural-resource endowments and labour supplies. Finally, transport costs are higher per unit of traded good than for other countries owing to their insularity, which constrains the development of productive activities, such as agriculture and manufacturing, that are dependent on imported inputs.

Box 2 (concluded)

Currently, one of the main challenges for the small economies in the Caribbean is to expand and diversify their export base in order to purchase the imports needed to satisfy growing domestic consumption and investment demands. The highly concentrated export sector (in few commodities, mass tourism and some offshore services) of these islands has difficulty adapting to changes in external demand owing to the structural constraints described above. The result for the Caribbean economies has been poor export performance, albeit with some exceptions, in both goods and services and in both extraregional and intraregional trade. The degree of trade dependence of these islands thus places significant constraints on their growth potential.

SIDS require support to overcome these constraints imposed by their size and specificities. To this end, donor countries must meet their obligations under the Monterrey Consensus with respect to ODA commitments and should not exclude SIDS from ODA or other types of financial support on the basis of their income status.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, "SIDS Accelerated Modalities of Action (SAMOA) Pathway", General Assembly resolution 69/15, 2014.

B. Dynamics of private flows and related development challenges

As concessional and official flows have declined, private capital in the form of equity, bonds, debt, non-concessional loans, risk mitigation instruments (including guarantees), as well as worker remittances, have become greater sources of funding and account for the bulk of financial flows to emerging market economies, including middle-income countries.

Latin America and the Caribbean is no exception to this trend, since its main sources of inflows are foreign direct investment (FDI) and remittances. FDI flows have traditionally been the largest component of financial flows and, in absolute terms, net FDI flows to the region averaged US$ 6.2 billion in the 1980s, US$ 37 billion in the 1990s, and US$ 65 billion in the 2000s. In 2013, FDI reached an all-time high of US$ 155 billion. In relation to total flows, FDI increased from 36% in the 1980s to 44% in the 1990s and 54% in the 2000s (see table 4). In 2013, FDI represented 63% of all flows.

Table 4
Latin America and the Caribbean: foreign direct investment, private portfolio investment, official development assistance, other official flows and remittances, 1980-2013
(Percentages of total flows)

	1980-1989	1990-1999	2000-2007	2008-2009	2010-2013	2000-2013
Foreign direct investment (net)	36.0	44.3	58.2	49.8	47.7	54.0
Private portfolio flows (net)	2.1	11.7	-4.2	4.1	20.5	4.0
Official development assistance	19.5	12.3	6.4	5.3	4.3	5.7
Other official flows	26.0	12.2	-0.4	6.6	4.2	1.9
Remittances (received)	16.4	19.6	39.9	34.2	23.3	34.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators, and International Monetary Fund (IMF), World Economic Outlook, 2014.

Remittance flows to Latin America and the Caribbean have risen significantly in recent decades, representing 16.4%, 19.6% and 34%, respectively, of the total for the 1980s, 1990s, and 2000s, respectively. In 2013, remittances into Latin American and Caribbean countries totalled US$ 63 billion (1.1% of the region's GDP). Remittances represent a particularly important source of finance and balance-of-payments liquidity for smaller economies, including those of Central America and Caribbean SIDS, amounting in some cases to over 10% of GDP.

Since remittances are such a major component of national income for some countries, the main challenge in these cases is to channel these resources into production activity, although those used for consumption purposes do serve to improve living standards in the recipient population. Effectively mobilizing remittance resources for development also requires reducing the average costs of transferring funds, for which greater information, transparency, competition and cooperation efforts are needed.

Larger mobilization of private resources can potentially help to confront the development challenges of Latin America and the Caribbean. The private capital market is a means for raising capital, increasing the level of savings and enhancing government spending on sustainable development projects (Aviva, 2014). However, private financing raises some very important issues from a financing for development perspective. In this regard, the financing for development architecture must also address the policy issues that arise from the growing importance of private finance.

For one thing, FDI, currently the region's largest source of financing, is not as a stable as previously thought and tends to be procyclical, which can contribute to widening business cycle fluctuations. Portfolio flows, too, have sometimes been a significant source of finance for the region, but they have generally been highly volatile and procyclical also.

Moreover, FDI flows to Latin America and the Caribbean are concentrated geographically and by sector. By subregion, South America takes the lion's share, accounting for 79% of total FDI into Latin America and the Caribbean. Central America receives only 5% of all FDI coming into the region. By country, FDI goes mainly to the larger economies: Brazil, Mexico, Chile, Colombia, Argentina and Peru account for 85.4% of total FDI flows to Latin America and the Caribbean (see table 5).

Table 5
Latin America and the Caribbean: foreign direct investment, by major recipient countries, averages for 2008-2013
(Percentages of the total and of GDP)

Country	Percentage of total FDI	Percentage of GDP
Brazil	35.5	2.5
Mexico	16.6	2.3
Chile	13.1	8.6
Colombia	7.9	3.9
Argentina	6.4	2.0
Peru	5.9	5.7
Panama	1.9	8.9
Venezuela (Bolivarian Republic of)	1.7	1.0
Dominican Republic	1.6	4.4
Uruguay	1.6	5.8
Costa Rica	1.4	5.4
Trinidad and Tobago	1.1	8.1
Bolivia (Plurinational State of)	0.8	6.1
Guatemala	0.6	2.3
Honduras	0.6	5.7
Bahamas	0.5	9.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2013* (LC/G.2613-P), Santiago, Chile, 2014.

FDI is also highly concentrated by sector, going mainly to the extractive industries (such as mining and oil), resource-based manufacturing and the services sector, including financial activities, electricity, gas and water, transport, storage and communications and technology. The latest available estimates show that in 2013, the natural resources (hydrocarbons and mining sectors), manufacturing and services sectors received 26%, 36% and 38%, respectively, of total FDI flows (ECLAC, 2014b).

In spite of the importance of FDI as a source of finance, it can have little impact on innovation and local knowledge capacities, which may hamper productivity. FDI does not necessarily promote technology and knowledge transfer, or boost domestic firm capabilities. International demand tends to exacerbate the "locking-in" of the region's specialization in commodities and low-productivity sectors. On average, the region spends roughly 0.5% of GDP on research and development (R&D) activities, a quarter of the figure for developed economies. Latin America and the Caribbean is also a marginal player in terms of R&D-related FDI, accounting for only 4% of such operations worldwide.

In addition, FDI produces considerable financial leakages through profit repatriation. In Latin America and the Caribbean, FDI profit repatriation has represented more than half of net FDI inflows on average since the 1990s and is a major contributor to current account deficits.

The downsides of FDI may reflect the fact that private capital is mostly profit-driven, which can lead to underinvestment in areas that are crucial for sustainable development (such as efforts to reduce poverty or address climate change) if the expected return —on a risk-adjusted basis— underperforms other investment opportunities.

By the nature of their incentives —including the fact that the cost of capital does not consider sustainability issues— capital markets and capital flows operate within a short-run framework which can lead them to disregard long-term returns on capital investments, misprice sustainability and misallocate resources to areas that need them less. Short-termism and the neglect of external effects erode incentives to invest in sustainable business (Aviva, 2014).

If private capital is to be harnessed to promote sustainable development, incentives must be created for all the relevant players within capital markets to consider sustainability issues. At the same time, "policy makers should integrate sustainable development issues into capital market policymaking. We need policy makers to internalise corporate externalities onto company accounts via, for example, fiscal measures, standards and market mechanisms" (Aviva, 2014, p. 46).

Efficient and targeted government interventions will be needed to create appropriate incentives for private capital to contribute to fulfilling the sustainable development goals. The public sector must build on its increasingly important role in including social returns in the cost-benefit analysis. It can provide public financing for sectors that generate significant social gains but do not attract sufficient private flows. Alternatively, it can establish an enabling environment and proper incentives, thereby supporting a risk-return profile capable of attracting private capital and directing it towards development objectives.

Such incentives for private financing need to go hand in hand with proper regulatory frameworks. A balance needs to be struck between business strategies and development objectives in host countries in order to: (i) allocate a larger share of FDI flows to the funding of production development (innovation, technology SMEs, new sectors, among others); (ii) promote the incorporation of local SMEs into global value chains headed by transnational corporations; (iii) prioritize FDI projects which help to close gaps in environmentally-friendly technologies and develop modern infrastructure (including broadband Internet); and (iv) develop a better institutional structure for attracting quality FDI.

The challenge of attracting capital towards production development must be addressed if the region is to foster greater diversification towards more knowledge-intensive sectors, develop local capacities and remain competitive in the long run, while promoting sustainable development.

C. New and innovative instruments and mechanisms for financing social and production development

Greater mobilization of external resources should be accompanied with the promotion of new and innovative instruments and mechanisms for financing social and production development.

The emergence of a range of new financial instruments and innovative financial mechanisms aimed at mobilizing and channelling larger volumes of international finance represents one of the key changes in the landscape of financing for development. Notwithstanding, from a development perspective, the existing new and innovative set of funds and instruments require greater clarity in terms of objectives and sources of finance.

Innovative financing mechanisms are considered to complement flows of international resources (ODA, FDI and remittances), mobilize additional resources for development and address specific market failures and institutional barriers. They also support collaboration with the private sector. Such financing mechanisms can provide stable and predictable financial flows for developing countries. They can also be double dividend instruments by helping to provide public goods in addition to raising income.

Innovative financing for development comprises a wide variety of mechanisms and instruments, some already implemented and others still at the planning phase. There are four broad categories: (i) those that generate new public revenue streams, such as global taxes and special drawing right (SDR) allocations; (ii) debt-based instruments and front-loading, such as through debt swaps and international finance facilities; (iii) public-private incentives, guarantees and insurance, such as advance market commitments (AMCs) and sovereign insurance pools; and (iv) voluntary contributions using public or public-private channels, such as person-to-person giving (see annex A3 for a more detailed description).

An illustrative example is the Global Fund to Fight AIDS, Tuberculosis and Malaria, which mobilizes nearly US$ 4 billion per year. This initiative is funded with a solidarity levy on air tickets, which is implemented by nine countries (including Chile, Côte d'Ivoire, Gabon and Mauritius) and helps UNITAID to fund the purchase of medications to combat AIDS in children (IISD, 2015a).

Countries in the Latin American and Caribbean region have embraced some of these new innovative financing mechanism initiatives, including the tax on airline ticket sales, auction (or sale) of emission permits and a sovereign insurance pool known as the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

The airline tickets solidarity levy has been applied since 2006 in Chile and France, which have since been followed by Côte d'Ivoire, Gabon and Mauritius. In 12 other countries, parliamentary meetings have been held to set up initiatives of this type and 19 countries have pledged to introduce voluntary contributions. It is estimated that the levy has the potential to raise between US$ 480 million and US$ 590 million per year as more countries adopt the scheme in the coming years. In France alone, US$ 1.09 billion has been raised since the tax's implementation in 2006.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a sovereign insurance pool that was established by Caribbean countries in 2007 to provide affordable coverage for immediate budget support after major natural disasters. The Facility works as a form of parametric mutual insurance, insofar as there is an ex ante agreement to make payment upon occurrence of a parametric trigger (such as a specified intensity of a natural disaster in a specific location as measured by an independent agency) rather than against actual losses. Claims can thus be settled much faster than on an actual-loss basis, which could take much longer to quantify.

Financial instruments in the region also include mechanisms aimed directly at financing and fostering production development, such as the Latin American Investment Facility (LAIF). This Facility uses limited funds contributed by the European Commission to attract sizable loans from the European Investment Bank, the Inter-American Development Bank (IDB) and bilateral sources. It therefore involves not only ODA but also cooperation in a broader sense: the initial funding provided by the European Commission is leveraged to ultimately generate considerable volumes of financing from other sources, which are channelled into physical and energy infrastructure projects (among others) of greater scope than could otherwise be attempted.

D. Financing for climate change

Environmental issues and climate change are essential parts of the international development agenda. Climate change is a cross-cutting issue that affects all activities of economic agents across all world regions, at several levels and degrees of intensity.

The provision of finance for climate change mitigation and adaptation is a global public good akin to the eradication of communicable diseases (and other public goods such as international trade, international financial architecture, and global knowledge for development), and is not independent of the other development goals of the post-2015 agenda.

Such finance demands not only a huge mobilization of resources, however, but also restructuring and mainstreaming of the existing funds and their allocation. The current global architecture for tackling climate change consists of a multiplicity of funds each with its own rationale, objectives and ways of functioning.

Climate finance flows reached US$ 333 billion in 2013, with the private sector being the largest source (contributing US$ 193 billion, or 58% of the total). Public flows totalled US$ 140 billion, of which the bulk (US$ 126 billion) was accounted for by development finance institutions (DFIs), such as national and multilateral development banks and bilateral finance institutions (see table 6). Development finance institutions harmonize the tracking and reporting of climate finance through initiatives such as the International Finance Development Club (IFDC). Among DFIs, multilateral development banks also manage climate financing resources from multilateral climate funds.

Table 6
Global climate finance breakdown by source and purpose, 2013
(Billions of dollars)

Source or intermediary		Mitigation	Adaptation	Total [a]
Private flows	Project developers	88	0	88
	Corporate actors	47	0	47
	Households	34	0	34
	Institutional investors	1.5	0	1.5
	Commercial financial institutions	21	0	21
	Venture capital, private equity and infrastructure funds	1.6	0	1.6
	Total			193.1
Public flows	Government budgets	9.75	2.25	12
	National development banks			69
	Multilateral development banks			43
	Bilateral finance institutions			14
	Climate funds	1.7	0.5	2.2
				140.2
Total		302	25	333

Source: Climate Policy Initiative (CPI), *The Global Landscape of Climate Finance 2014*, CPI Report, 2014.
[a] Totals may not add up exactly owing to rounding.

Multilateral climate funds such as the Global Environment Facility and the Climate Investment Fund are funded by developed country contributions. These funds play a role in financing climate change-related actions, albeit a smaller one than other providers.[9] In 2013, multilateral and national climate funds contributed US$ 2.2 billion to climate financing— equivalent to 0.6% of the total.

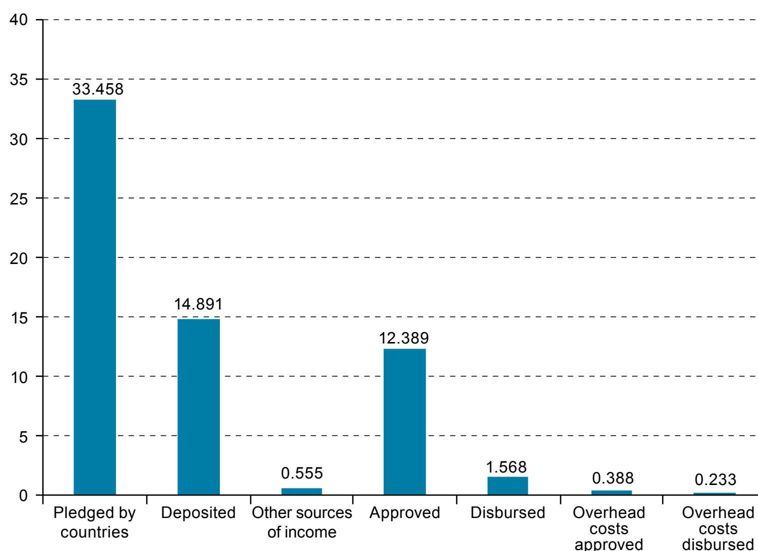
[9] Between 1991 and 2014 the Global Environment Facility provided grants totalling US$ 13.5 billion for programmes and projects in developing countries and countries in transition. The Global Environment Facility administers the Special Climate Change Fund and the Least Developed Countries Fund. The Climate Investment Fund operates through the Clean Technology Fund and the Strategic Climate Fund with resources of US$ 4.5 billion and US$ 2 billion (Cabral y Bowling, 2014).

In addition, a growing number of recipient countries have set up national climate change funds that receive funding from multiple developed countries, in an effort to coordinate and align donor interests with national priorities. An example of such national efforts is Brazil's Amazon Fund, created in 2008 and administered by its national development bank, BNDES. Between 2009 and 2013, the Fund received donations for a total of US$ 102 million from Germany, Norway and Petrobras, Brazil's national oil company. At the end of 2013, the Amazon Fund resources were estimated at US$ 500 million, with a portfolio of 50 projects worth US$ 272 million. The projects focus on the environmental impact of climate change on the Brazilian Amazon forest, on control of deforestation and on systems to monitor forest cover in the member countries of the Organization of the Amazon Cooperation Treaty (ECLAC, 2014e).[10]

Climate finance is provided via three main types of instrument: grants, low-cost debt (including concessional loans) and commercial finance. The most common type (representing 74% of the total in 2013) is commercial finance, extended in the expectation of earning commercial returns (CPI, 2014). Among these instruments, Green Bonds are gaining in importance. According to the Global Climate Policy Initiative (CPI, 2014) more than US$ 30 billion in Green Bonds were issued in 2014 and some estimates point to US$ 100 billion by 2015.

However, despite the broad range of climate change funds, the amounts actually mobilized are very small. Pledges for all funds currently add up to US$ 35 billion, with US$ 14.5 billion actually deposited and only US$ 1.5 billion disbursed (see figure 2). In the case of the Amazon Climate Fund, in 2013 less than a third of the amount available for project finance had been disbursed.

Figure 2
Status of climate funds, 2013
(Billions of dollars)



Source: Climate Funds Update [online] www.climatefundsupdate.org.

[10] The Amazon Climate Fund supports the management of public forests and protected areas; environmental control, monitoring and inspection; sustainable forest management; economic activities created with sustainable use of forests; ecological and economic zoning, territorial arrangement and agricultural regulation; preservation and sustainable use of biodiversity; and recovery of deforested areas; as well as the development of systems to monitor and control deforestation in other Brazilian biomes and in biomes of other tropical countries.

Nevertheless, the pledges made by the United States (US$ 2.5 billion) and Japan (US$ 1.5 billion) and those announced for the Green Climate Fund (CGF) at the G20 Summit held in Brisbane in November 2014 are significant steps towards the United Nations informal target of reaching US$ 10 billion and represent progress towards reaching a global climate deal. Other developed countries, including France, Germany and the United Kingdom, have promised US$ 1 billion each and Sweden has pledged over US$ 500 million. The Czech Republic, Denmark, Luxembourg, the Netherlands, Mexico, Norway, Switzerland and the Republic of Korea, also participate but with lower pledges. The Green Climate Fund is an initiative aimed at helping countries invest in clean energy and green technology and build resilience against rising seas, worsening storms and natural disasters.

Aside from funding availability, countries differ in their capabilities to access financing for climate change, with some smaller countries (including some in Latin America and the Caribbean) generally finding it more difficult. Accessing climate funds calls for know-how on the required paperwork, which carries administrative and human resources costs that effectively bar many small countries from financing, whereas larger countries enjoy economies of scale that enable them to benefit more readily. As a result, climate finance has tended to be concentrated in a small number of regions and large countries. The geographical distribution of climate funding shows that it goes mainly to Asia and the Pacific and Western Europe, which account for 61%-67% of the total. The Latin American and Caribbean region receives only between 7% and 8% of climate funds (see table 7). [11]

Table 7
Allocation of climate change finance by region, 2013-2014
(Billions of dollars and percentages)

	Billions of dollars		Percentages	
	2013	2014	2013	2014
East Asia and the Pacific	105.0	98.0	32.0	32.0
Western Europe	115.0	90.0	35.1	29.4
North America	31.0	32.0	9.5	10.4
Japan	16.0	30.0	4.9	9.8
Latin America and the Caribbean	25.1	23.2	7.7	7.6
South Asia	14.4	13.2	4.4	4.3
Sub-Saharan Africa	14.4	13.2	4.4	4.3
Middle East	3.6	3.3	1.1	1.1
North Africa	3.6	3.3	1.1	1.1
Total	328.0	306.3	100.0	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Climate Policy Initiative (CPI), *The Global Landscape of Climate Finance 2014*, CPI Report, 2014.

Within Latin America and the Caribbean, climate finance has gone mainly to the larger economies in the region. SIDS have, in general, received only limited finance so far. Table 8 shows resources (consisting of refundable and non-refundable loans, grants and donations) approved to finance climate-change-related projects in Latin American and Caribbean countries in 2013, by funding source. As is evident in the table, Brazil and Colombia receive the bulk of approved resources (45.83% and 25.14% of the total). The evidence also shows the importance of development banks in providing climate finance for the region, consistently with their role at the global level. Again, at the country level, multilateral bank funds are allocated mainly to the larger economies including, in order of importance, Argentina, Chile, and Brazil.

[11] According to the Policy Climate Initiative, in 2013, climate finance invested in developed countries was roughly equal to that invested in developing countries (around US$ 166 billion).

Table 8

Latin America and the Caribbean (selected countries): resource approvals for climate change-related projects by country, 2013 [a] [b]

Country	Funding source							Total	Share of total
		Development banks							
			Multilateral and regional						
	Climate funds	World Bank	European Investment Bank	Inter-American Development Bank	Development Bank of Latin America (CAF)	Public banks [c]	Other public funds [d]		
	(Millions of dollars)								*(Percentages)*
Antigua and Barbuda	5.10							5.10	0.02
Argentina				302.15	391.74			693.89	2.44
Bahamas				0.65				0.65	0.00
Barbados				6.41				6.41	0.02
Belize		36.09						36.09	0.13
Bolivia (Plurinational State of)		45.50		13.09	168.96			227.55	0.80
Brazil	120.85	15.02	4.02	115.69	413.05	11 304.00	1 041.56	13 014.19	45.83
Chile				165.76	20.15			185.91	0.65
Colombia				67.41	0.51	5 997.00	1 074.00	7 138.92	25.14
Costa Rica			69.41	1.27				70.68	0.25
Dominican Republic	8.10			0.50	33.00			41.60	0.15
Ecuador				103.70	395.49			499.19	1.76
El Salvador				1.16				1.16	0.00
Guatemala	5.43			4.58				10.01	0.04
Guyana				30.75				30.75	0.11
Haiti	8.10	50		26.77				84.87	0.30
Honduras				13.09				13.09	0.05
Jamaica				0.15				0.15	0.00
Mexico		39.52		67.25	20.20			126.97	0.45
Nicaragua				3.71				3.71	0.01
Panama	3.20		253.13	2.00	100.30			358.63	1.26
Paraguay				0.16	50.01			50.17	0.18
Peru				30.67	653.79			684.46	2.41
Regional			4 308.03	42.35	31.76			4 382.14	15.43

Table 8 (concluded)

Country	Funding source							Total	Share of total
	Climate funds	Development banks					Other public funds [d]		
		World Bank	Multilateral and regional			Public banks [c]			
			European Investment Bank	Inter-American Development Bank	Development Bank of Latin America (CAF)				
	(Millions of dollars)								*(Percentages)*
Suriname				9.40				9.40	0.03
Trinidad and Tobago				89.68				89.68	0.32
Uruguay				142.25	75.00			217.25	0.76
Venezuela (Bolivarian Republic of)				0.03	416.25			416.28	1.47
Total	150.78	186.13	4 634.59	1 240.63	2 770.21	17 301.00	2 115.56	28 398.90	100.00

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Samaniego and H. Schneider, “Financiamiento climático en América Latina y el Caribe en 2013”, Santiago, Chile, ECLAC, 2015, unpublished; and information from National Bank for Economic and Social Development (BNDES) of Brazil, Banco de Desarrollo Empresarial (Bancóldex) of Colombia, Inter-American Development Bank (IDB); Development Bank of Latin America (CAF); European Investment Bank (EIB); World Bank; United Nations Framework Convention on Climate Change (UNFCCC) and Intergovernmental Panel on Climate Change (IPCC).

[a] Resource approvals refers to refundable and non-refundable loans, grants and donations. Information relating to private funds and institutions, non-governmental organizations, insurance companies and retirement funds is not included. The definition of climate finance was taken from the Intergovernmental Panel on Climate Change (IPCC) (Gupta and others, 2014) because the objective is to recognize and individually identify all kinds of resources mobilized in relation to climate change, for either mitigation or adaptation, of different origins and through different financial instruments.

[b] For the World Bank, refers to the 2013-2014 biennium; for the European Investment Bank, refers to the 2012-2013 biennium.

[c] Refers to National Bank for Economic and Social Development (BNDES) in Brazil and Banco de Desarrollo Empresarial (Bancóldex) in Colombia.

[d] Refers to part of the ABC programme funded by Banco do Brasil in Brazil; and the La Niña Phenomenon de Adaptation Fund, 2010-2011 in Colombia.

The international community must take decisive action to address the existing shortcomings of the global climate financing architecture, rationalize it and make it consistent with countries' requirements and needs. This last point is particularly relevant to adaptation versus mitigation funding.

Efforts to mitigate climate change are fundamental. But it is just as important to assist countries, particularly developing countries, in adapting to the climate change impacts they are already experiencing. Most climate change finance supports mitigation rather than adaptation, however. Nearly 65% of total climate finance since 2008 has been approved in support of mitigation activities in fast-growing countries, primarily for the development of renewable energy technologies.

Adaptation finance is fundamental to developing regions such as Latin America and the Caribbean, since the effects of climate change potentially threaten specific geographical areas, such as coastal zones, and key sectors including tourism and transportation. Mitigation of the effects of climate change will require the promotion of clean and advanced energy technologies, among others.

The global architecture for climate change finance needs more than streamlining: it needs a change in the whole logic behind development financing, with recognition that social and environmental criteria —not only economic criteria— should form the guiding principles for the provision of development finance. Accordingly, a better, standardized methodology is needed to gauge the environmental dimensions of every activity, such that these dimensions can be included in the cost-benefit analysis determining financing provision. This implies that the different components of the post-2015 financing for development architecture should be consistent with one another and with the post-2015 development agenda goals.

Climate change is becoming an increasingly urgent issue for Latin America and the Caribbean. The region contributes only 9% of total greenhouse gas (GHG) emissions, but is increasingly vulnerable to the impacts of climate change. Different estimates, albeit with high levels of uncertainty, suggest that the economic costs of a 2.5ºC rise in global temperature, which is virtually certain to occur by 2050, will reach between 1.5% and 5% of regional GDP. More specifically, environmental hazards, such as the retreat of Andean glaciers and the continued deforestation of tropical forests, are starting to threaten the natural-resource-based economies of the region, potentially costing around 1% of annual GDP.

What is more, the costs and impacts of climate change are unevenly and inequitably distributed among the different income groups. In Latin America and the Caribbean, the income groups that contribute least to generating climate change are the most vulnerable to its effects.

While the full effects of climate change will be felt in the long term and thus imply time scenarios ranging from 50 to 100 years, addressing it requires immediate action. In this regard, the current consumption and production patterns in Latin America and the Caribbean are not sustainable.

On the one hand, in some of the region's economies, the current development model is based on the production and export of natural resources. On the other hand, social and economic progress in the region has led to the emergence of a middle class whose consumption patterns prioritize expenditure on goods and services (e.g. automobiles) that have negative environmental consequences. Both factors have contributed substantially to the generation of atmospheric pollution and contamination. The current development model thus has negative externalities that carry significant present and future economic costs and undermine the social and economic development of the region in years to come (ECLAC, 2015).

Overcoming the negative impacts and, more to the point, the root causes of climate change will require transforming the development style of the countries of Latin America and the Caribbean. Middle-income countries such as those of Latin America and the Caribbean require greater financial resources for climate change mitigation and adaptation —not fewer as their middle-income status would imply— from the international community in order to attain a sustainable growth trajectory.

III. Domestic resource mobilization

Domestic resources are the largest component of funding for social and economic development. However, in Latin America and the Caribbean the low levels of savings, the particular dynamics of financial systems and the absence of adequate fiscal policies have hampered their potential as a source of revenue and funding.

Although major fiscal efforts and reforms are needed (some, such as the control of illicit flows, are already under way), domestic resource mobilization should not be equated with fiscal resource mobilization. Domestic resource mobilization is a broader concept which also includes the private sector savings mobilized through the financial system as well the resources mobilized by national and subregional development banks, which have taken on a crucial role in the provision of credit to the production sector.

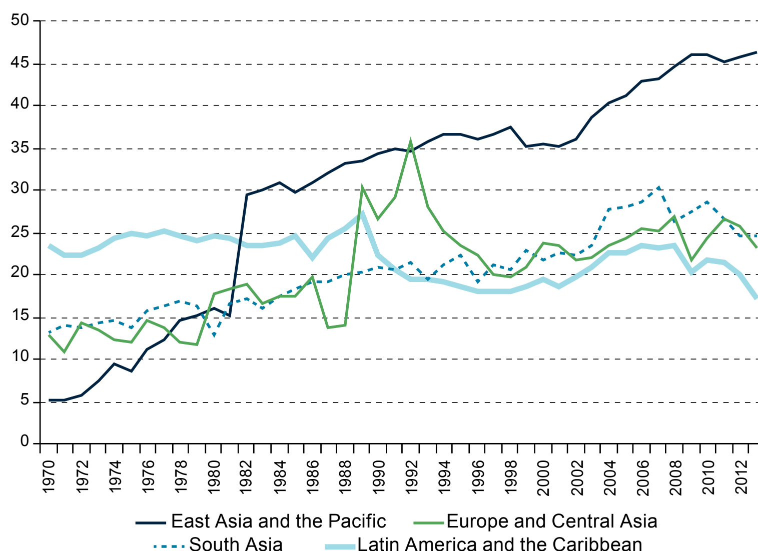
Nonetheless, the approach to mobilizing domestic resources in such a heterogeneous region as Latin America and the Caribbean must recognize that the individual countries have different capacities to do so and, in particular, to undertake fiscal reforms. For some of these economies, such as SIDS, small size is a significant constraint for the mobilization of domestic resources.

A. Trends in domestic resource mobilization

Greater access to external resource must be complemented and balanced with improved domestic resource mobilization. In Latin America and the Caribbean, domestic resource mobilization has historically been limited and difficult to increase. The region's domestic savings rate —including both public and private savings— stands at 21% on average, compared with 46% for East Asian and Pacific countries. High debt burdens are an additional impediment in some countries, especially SIDS, which have found their fiscal space substantially reduced (see figure 3).

A specific set of economic and financial policies are needed to create the conditions for boosting private savings and channelling them towards production and public investment. Improving tax collection systems, further developing domestic financial systems and markets in the region, and increasing financial inclusion are key aspects of a strategy for creating these conditions.

Figure 3
Selected developing regions: domestic savings, 1970-2013
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators, 2014.

The financial system's ability to channel savings effectively towards production activities depends, among other factors, on the availability of instruments capable of adapting to the production sector's varied risk profiles, liquidity needs and financing periods.

This has proved to be a complex process in Latin America and the Caribbean. Structurally, most countries' financial systems are still dominated by the banking system, which generally offers short-term financing unsuited for covering private firms' longer-term financing needs for investment projects. Bond markets, meanwhile, tend to be composed mainly of sovereign issues. Equity markets are little developed in most Latin American and Caribbean countries, generally being limited to —and concentrated in— a few large firms, with smaller firms usually excluded from this form of raising fresh capital.

B. Tax reform and the fiscal space

Fostering domestic resource mobilization requires a greater fiscal effort to improve tax collection and make the tax structure more progressive. Although the region's fiscal revenues have increased in recent years, the tax take is still too low to close development gaps. Strengthening the region's tax systems must be a priority for partners in international cooperation for sustainable development.

In the case of the Caribbean SIDS, where high debt burdens are a major obstacle to growth and economic and social development, fiscal reform remains an important challenge. In this regard, Caribbean SIDS find themselves in a different position than Latin America, given their debt concerns, and thus need both short- and longer-run support. This support must include resources to address damage from extreme natural events, which is one of the key sources of vulnerability and debt accumulation for these countries. As highlighted in the outcome document of the Third International Conference on Small Island Developing States SIDS Accelerated Modalities of Action (SAMOA Pathway), concrete actions need to be undertaken to reduce the debt of SIDS, increase their resilience, and help them fulfil their development potential.[12]

[12] See General Assembly resolution 69/15.

The mobilization of domestic resources requires strengthening tax reforms designed to maintain or increase the tax take and strengthen income tax, with a view to levelling out incomes as well as raising resources. This can be achieved by reducing tax exemptions and strengthening the capabilities of tax administrations to control evasion and avoidance.

Latin American and Caribbean countries have made significant progress in increasing tax revenues, and the region's average tax-to-GDP ratio increased from 14.4% to 21.3% between 1990 and 2013. While this still fell short of the average ratio for OECD (34.1% of GDP in 2013), the gap has narrowed over time, falling from 18 to 13 percentage points between 1990 and 2013 (OECD, 2015b). This gain reflects improved growth conditions during the 2000s as well as tax reforms, including changes in the design of tax systems and the strengthening of tax administrations.

Several countries in the region have carried out tax reforms in recent years. Although a variety of changes have been made, one of the most notable developments with respect to previous decades has been an increased focus on income tax, not only for the purpose of improving revenue collection, but also for strengthening one of the weakest points of regional fiscal policy: the impact of tax systems on income distribution (see table 9 for a summary of the recent reforms to personal and corporate income tax by country).

The reforms have addressed various aspects of income tax design, in particular the expansion or reduction of the tax base, rate changes and international taxation. Other changes have sought to expand the income tax base by establishing dual personal income tax systems (Uruguay in 2007 and Peru in 2009). Tax reforms adopted in several Central American countries have established set rates ranging between 10% and 15% for capital income that was previously exempt (with waivers for income earned by non-residents), as well as higher corporate tax rates and progressive taxes on labour income (see table 9).

Other countries in the region have recently succeeded in broadening the personal income tax base by including some types of capital income that were previously exempt. Most of the reforms have included international taxation provisions by adapting regulations on transfer pricing, tax havens and the income of non-residents (Chile, Colombia, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Peru). Several countries have also signed information-sharing agreements in order to combat tax evasion.

Notwithstanding these reforms, the countries of Latin America and the Caribbean need to foster a fiscal compact to further improve their tax systems in order to make them more progressive and, in some cases, eliminate regressive tax structures, as well as high fiscal evasion and widespread exemptions, which translate into low collection levels in most Latin American and Caribbean countries (ECLAC, 2014a).

Latin American and Caribbean countries rely to a significant extent on indirect taxation, mainly VAT and sales taxes, which together accounted for 32.2% of total tax revenues for 2013, 12 percentage points above the OECD average of 20.2% for 2013. The region needs to shift away from this pattern by increasing the importance of direct taxation on income and profits, which represented 26.6% of tax revenues in 2013, compared with 33.6% in OECD.

In addition, fiscal reform requires easing the often heavy dependence on revenues from non-renewable natural resources by strengthening institutional arrangements to expedite structural change that can turn short-term resources into knowledge and innovation. Lastly, public spending quality and transparency must be improved to ensure adequate public services by moving towards results-based management for development.

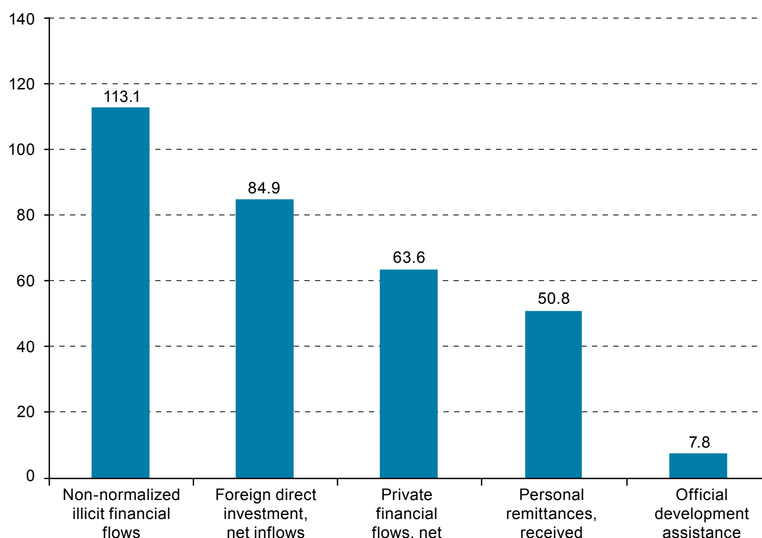
Table 9
Latin America and the Caribbean (selected countries): fiscal reforms by main points of reform concerning personal and corporate taxes, 2007-2014

Country	Year	Main content			
		Personal income tax		Corporate tax	
		Tax base	Tax rate	Tax base	Tax rate
Argentina	2013	Tax on share transactions and distribution of dividends	…	…	…
Bolivia (Plurinational State of)	2007	…	…	Mining royalties creditable under certain circumstances	Surtax for mining companies set at 12.5%
Chile	2012 and 2014	Tax credit for education expenditures; tax on real estate capital gains of individuals with high incomes (applicable only to realized capital gains)	Reduction in marginal tax rates, except for top rate	Elimination of the retained earnings ledger (FUT) and creation of a semi-integrated tax system; incentives for investments by SMEs	Raised from 20% to 27% (gradual); maximum effective rate set at 44.45%
Colombia	2012	…	…	…	Lowered from 33% to 25%, new “equality” tax (CREE) introduced at 9% (8% after 2015)
Dominican Republic	2012	Limit placed on deductions; tax levied on dividends and interest	…	…	Lowered from 29% to 27%
Ecuador	2007, 2011 and 2013	Deductions for personal expenditures (housing, health, education)	Top rate raised from 25% to 35%, and new brackets introduced	Exemptions for certain investments; deductions for new jobs and vehicles; incentives for exporters	Raised from 25% to 30%
El Salvador	2011	Limits placed on personal deductions; tax levied on capital income	Top rate raised from 25% to 30%	…	Raised from 25% to 30%
Guatemala	2012	VAT credit eliminated and tax levied on capital income	Top rate for wage workers lowered from 31% to 7% (2 brackets)	Limit placed on deductions for expenses	Lowered from 31% to 25%
Honduras	2012 and 2013-2014	Exempted minimum amount increased	…	Certain exemptions revoked	Temporary solidarity contribution (surcharge) raised from 5% to 10% (until 2015); surcharge of 5% re-established for net income over 1 million lempiras
Mexico	2010 and 2013	Limit placed on deductions and exemptions; capital gains tax introduced	Top rate from raised 30% to 35%, and new top brackets introduced	Preferential treatments eliminated or reduced	Lowered from 28% to 30% (temporarily)
Nicaragua	2012	Tax levied on dividends and interest	…	…	…
Panama	2010	Deductable expenditures and reduction of deductions repealed	Raised from 7%-27% range to 15%-25% range (with fewer brackets)	…	Lowered from 27.5% to 25% and from 30% to 25% for certain sectors
Paraguay	2012	…	New tax introduced with rates of 8% and 10%	…	…
Peru	2009 and 2014	Tax on capital gains and dividends increased.	Rate on dividends raised; tax brackets increased and rate of personal income tax changed.	Tax on capital gains and dividends lowered	Lowered from 30% to 28% (2015-2016), then to 27% (2017-2018) and 26% (from 2019 onwards)
Uruguay	2012-2013	Tax introduced for sales of bearer shares	Top rate raised from 25% to 30%	…	…
Venezuela (Bolivarian Republic of)	2013	…	…	Exemptions for investments in natural-resource projects	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Panorama Fiscal de América Latina y el Caribe 2014. Hacia una mayor calidad de las finanzas públicas* (LC/L.3766), Santiago, Chile, 2014.

Fiscal reform must also tackle illicit financial flows, which represent a huge transfer of financial resources out of developing economies, including those of Latin America and the Caribbean. At the global level, illicit outflows from developing countries averaged US$ 590 billion between 2002 and 2011, and approached US$ 1 trillion —or roughly 1.5% of global GDP and 5% of global savings— in the final year of that period. As in the case for other developing regions, illicit flows out of Latin America and the Caribbean far exceed other financial inflows. Illicit flows represent roughly twice the amount of private financial flows and remittances and 14 times the amount of ODA received by the region (see figure 4).

Figure 4
Latin America and the Caribbean: illicit flows, average 2002-2011
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by Global Financial Integrity; Organization for Economic Cooperation and Development (OECD); World Bank, World Development Indicators, 2014; and International Monetary Fund (IMF), World Economic Outlook, 2014.

In some cases, creating the backing for the necessary reforms will require initiatives to restructure sovereign debt. Contrary to the general perception that this is an issue affecting mainly poor countries and addressed by the Heavily Indebted Poor Countries (HIPC) Debt Initiative, sovereign debt is also a problem for middle-income countries, such as many Caribbean SIDS and even some larger countries, as shown by the current situation in Argentina (see table 10).

Specifically, it has been shown that increased litigation against sovereign States is damaging because of the longer timescales for debt resolution, with all the associated costs and negative impacts on the welfare of the population. This is particularly relevant for middle-income countries since they account for the majority of debt litigation cases. Latin America and the Caribbean accounts for 65.8% of all sovereign debt litigation cases between 1970 and 2000.

The region has gained little from the few restructurings that have been carried out, partly because of high litigation costs but especially owing to the damage done to the credibility of the States involved. No multilateral regulatory framework yet exists for proper prevention and resolution of sovereign debt crises, and both legal vacuums and recent decisions have strengthened the hand of vulture funds in this regard.

Table 10
Sovereign debt litigation cases by decade and region, 1970-2000
(Number and percentage of total)

		Number	Percentage of total
Decade	1970	2	1.7
	1980	6	5.0
	1990	51	42.5
	2000	55	45.8
Region	Africa	27	22.5
	Asia	12	10.0
	Europe	2	1.7
	Latin America and the Caribbean [a]	79	65.8

Source: J. Schumacher, C. Trebesch and H. Enderlein, "Sovereign Defaults in Court", *Working Paper*, May 2014 [online] http://www.webmeets.com/files/papers/res/2013/1056/SovereignDefaultsinCourt.pdf.
[a] If Argentina is excluded from the sample, the number of litigations corresponding to Latin America and the Caribbean drops to 38 and the region's percentage of the total to 48.1%. Under this scenario, Africa, Asia and Europe account for 27%, 12% and 2% of total sovereign debt litigation cases, respectively.

C. The role of national and regional development banks

Domestic resource mobilization through fiscal means should be complemented by strengthening the role of development-oriented financial institutions, such as national and subregional development banks. These development banks have proven to be a successful source of medium- and long-term resources through investment finance for infrastructure, production and social development, and climate change mitigation.

Development banks have traditionally focused on mobilizing long-term savings towards investment and, more precisely, towards strategic production sectors and especially infrastructure. In some emerging market economies, development banks have become one —if not the main— provider of long-term credit in agriculture, housing and infrastructure. Development banks have also assumed the role of identifying, appraising, promoting and financing investment projects.

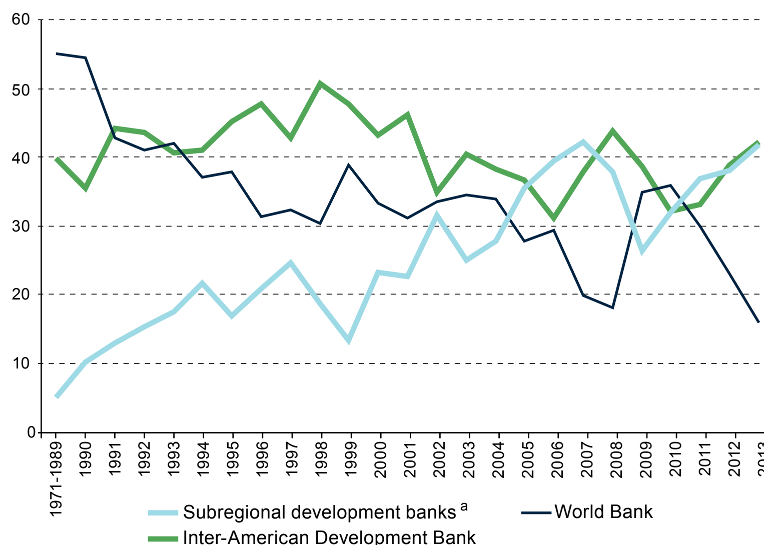
With the passage of time, development banks have taken on other functions, including the development of financial markets and financial institutions. This is a key source of indirect support for private sector development and greatly facilitates the mobilization of savings. This function also complements government efforts to promote sound financial sector institutions and policies and to relieve financial constraints and increase financial inclusion for households and firms. Lastly, most national development banks provide finance for SMEs that the commercial banking sector will not supply.

Development banks in the Latin American and Caribbean region gained renewed impetus in the 2000s following a decline in the 1980s and 1990s. Albeit with wide disparities, between 2000 and 2009, net lending by development banks increased by 15% annually for the region on average. The momentum gained by these banks' activities is reflected in the relevance they have acquired within the region's financial systems. National development banks currently hold an average share of 30% of total assets, and 24% of total deposits,[13] and have gained recognition for their role in financing social and economic projects.

Subregional development banks have significantly increased their lending volume and relative share of total multilateral development bank lending to Latin America and the Caribbean since 2000. In 2011, subregional banks, including the Central American Bank for Economic Integration (CABEI), the Development Bank of Latin America (CAF) and the Caribbean Development Bank (CDB), lent almost US$ 12 billion in Latin America and the Caribbean, representing 36% of total multilateral development bank lending to the region. Meanwhile, IDB accounted for 34% of lending to the region, and the World Bank for 30% (see figure 5).

[13] In Latin America and the Caribbean there are over 100 development financial institutions.

Figure 5
Latin America and the Caribbean: development banks' share in total multilateral lending, 1971-2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), "Notas sobre financiamiento para el cambio climático en América Latina y el Caribe: una visión desde el desarrollo sostenible", Santiago, Chile, 2015, unpublished.
[a] Refers to the Central American Bank for Economic Integration (CABEI), the Development Bank of Latin America (CAF) and the Caribbean Development Bank (CDB).

Subregional banks have become more important not only in terms of greater lending volumes, but also in respect of sectoral diversification and the emphasis afforded to infrastructure and production sector financing and, more recently, to financial intermediation. These sectors account for the bulk of lending by the Latin American and Caribbean subregional banks (see table 11).

Table 11
Central American Bank for Economic Integration and Development Bank of Latin America (CAF): loan portfolio [a] by economic and social sector, 2011 and 2012
(Percentages of the total)

Economic and social sectors	2011	2012
Central American Bank for Economic Integration		
Infrastructure/construction	31	29
Electricity, gas and water	26	25
Financial intermediation	15	15
Multisectoral	11	15
Transport, storage and communications	5	4
Health and social services	3	3
Agriculture, livestock, hunting and forestry	2	
Real estate activities and entrepreneurship	2	2
Manufacturing		2
Others	5	5

Table 11 (concluded)

Economic and social sectors	2011	2012
Latin American Development Bank (CAF)		
Agricultural infrastructure	0	0
Mining and quarrying	0	0
Manufacturing	2	1
Electricity, gas and water	33	34
Transport, storage and communications	35	35
Commercial banking	7	7
Development institutions	2	4
Education, health and social services	12	12
Other activities	7	7

Source: Central American Bank for Economic Integration (CABEI), *Annual Report*, 2013 and 2014; Development Bank of Latin America (CAF), *Informe Anual*, 2013 and 2014.
[a] Loan portfolio refers to loan approvals.

D. The importance of new forms of cooperation to increase financial resources for development

The traditional forms of cooperation founded on donor-recipient relations and emphasizing the poverty reduction aspects of aid have increasingly been complemented with new forms of cooperation such as South-South and triangular cooperation. These new modalities complement traditional ones and have the potential to become a key pillar of sustainable development by providing an innovative angle to economic and social collaboration among countries.

South-South cooperation overcomes the long-standing vertical relationship between donor and recipient typical of traditional forms of cooperation, focusing instead on collaboration among equals. Similarly, while traditional forms of cooperation place great significance on poverty reduction as a main objective, South-South cooperation emphasizes growth based on infrastructure development, technical cooperation and knowledge-sharing. South-South cooperation can thus significantly boost development, particularly for middle-income countries seeking strategies for sustained growth in production that will enable them to avoid becoming mired in the “middle-income trap”.

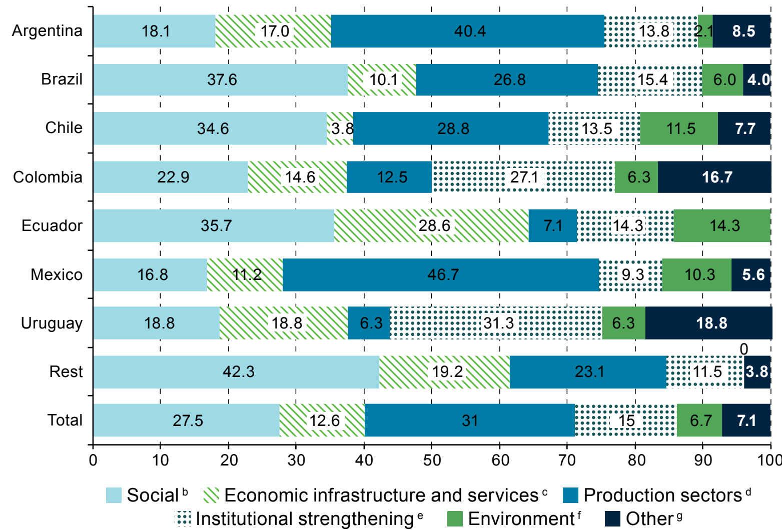
The most recent available evidence on South-South cooperation (SEGIB, 2015) shows that supply is highly concentrated: in 2012, four Latin American countries (Argentina, Brazil, Chile and Colombia) accounted for 90% of all projects executed. Other countries participating in project supply include Uruguay and Ecuador.

The range of recipient countries is more diverse, however. The evidence shows all Latin American countries participating as recipients of assistance, with Ecuador the main recipient, followed by El Salvador, the Plurinational State of Bolivia and Paraguay.

The allocation of funds by country and sector shows that the majority of projects are aimed at developing the production and social sectors (see figure 6).

Like bilateral South-South cooperation, triangular South-South cooperation is concentrated by provider. In 2012 the main provider in 95% of projects was Chile (44%), Mexico (31%), Colombia (12%) or Brazil (8%). Notable second providers were Germany, Japan, the United States and Australia, which were involved in two thirds of projects. In terms of sectoral allocation, two thirds of the projects focused on strengthening economic and social capacities, one in five on environmental needs, and one in ten on strengthening public institutions and governments.

Figure 6
Latin America and the Caribbean (selected countries): main sector allocations of South-South cooperation projects, 2013 [a]
(Percentages of the total)



Source: Ibero-American Secretariat (SEGIB), *Report on South-South Cooperation in Ibero-America 2013-2014*, 2014.

[a] Includes only suppliers involved in at least 10 projects.

[b] Includes education, health, reproductive health, sanitation and water supply, and a general item entitled "others", which consists mainly of social policies and housing.

[c] Includes energy, transport, communications, science and technology, finances, employment and enterprises.

[d] Includes extractive activities, agriculture, forestry, fisheries, construction, industry, tourism and commerce.

[e] Includes all those activities whose final objective is support to governments and civil society.

[f] Includes measures and policies concerning environmental protection and preservation, as well as disaster prevention.

[g] A multisector category, which currently includes activities related to culture, gender and an item entitled "others", which refers to alternative development models.

Conclusions

The post-2015 development agenda represents a universal transformation in the way countries view and understand sustainable development. In order to achieve the broad list of development goals that will form part of the agenda, the financing for development architecture will need to mobilize a vast amount of resources and to change the way in which resources are obtained, organized and allocated.

Given the growing importance of private flows, a key challenge of a post-2015 financing for development architecture is how to mobilize and channel these resources towards development objectives. This is of particular relevance to Latin America and the Caribbean, for which private flows —including FDI and remittances— constitute the bulk of external finance. Private and public resources must therefore be combined to achieve the leverage required to maximize the impact for development financing. However, public and private flows obey a different logic and respond to different incentives.

Private capital is largely driven by profit rather than developmental concerns. This can lead to underinvestment in areas that are important for development if the expected return —on a risk-adjusted basis— underperforms other investment opportunities. Within this context, the public sector plays an increasingly important role in including social returns in the cost-benefit analysis, providing public financing for sectors that do not attract sufficient private flows and establishing an enabling environment and proper incentives for gearing private capital towards development objectives.

The challenge of mobilizing an adequate volume of combined public and private funds is made more complex by the significant changes that have taken place in recent decades in the development financing landscape, in terms of actors, funds, mechanisms and instruments.

For middle-income countries such as those of Latin America and the Caribbean, these changes may be summarized as the relative decline in more traditional forms of financing for development, such as ODA, and the emergence of new actors, mechanisms and sources of finance. In this last category are emerging donors that are not Development Assistance Committee (DAC) member countries, and innovative financing mechanisms and climate funds, among others. All these are playing a stronger and more visible role in development finance.

While these changes in the financial landscape increase the options of funding for development, they also increase the complexity of coordinating and combining the variety of actors, funds, mechanisms and instruments under a coherent development financing architecture. This is particularly true in the case of climate funds and innovative financing mechanisms, which need more clarity in terms of development objectives, sources of funding, and conditions of use and access.

Also, the relative decline in significance of traditional developmental flows, such as ODA, should not distract attention from the need to stop excluding countries from development finance resource flows on the basis of income criteria alone, if funding is to be deployed efficiently and effectively to accelerate progress toward sustainable development across all income levels.

Lastly, mapping out the development finance landscape is insufficient to allow countries to adopt a strategic approach towards financing for development. The existing multiplicity of financial options does not amount to effective access.

The capacities and capabilities of countries within Latin America and the Caribbean to effectively access public and private finance vary greatly. Access to private finance options is accompanied by a multiplicity of requirements of access and conditionalities, which makes it difficult for countries to take a strategic approach to financing their development priorities and to assess the impact and effectiveness of development finance sources. Not all development finance providers impose the same conditions and access and eligibility requirements, and the mix becomes even more complex where fund provision involves private as well as public actors.

Domestic resource mobilization must be a key pillar of the post-2015 financing for development architecture. However, this does not mean that responsibility for the development process should lie with national policies alone. The principle that applies is rather that of shared but differentiated responsibilities: countries must take greater responsibility for their own development and move to the driver's seat of their own development agenda.

At the same time, the approach to mobilizing domestic resources in such a heterogeneous region as Latin America and the Caribbean must recognize that the individual countries have different capacities to do so. For some of the economies, such as SIDS, small size poses a significant constraint for domestic resource mobilization.

Finally, adequate levels of domestic resource mobilization are a necessary but not a sufficient condition to render the financing for development architecture effective in responding to countries' development needs. Domestic resource mobilization strategies must be placed within the broader context of an enabling external environment. This requires a profound change in the means of implementation, including in the global trade system and in the conditions for the transfer of knowledge and technology from developed to developing countries.

This external environment must reflect the importance of developing economies in its governance structure, avoid discrimination in access to funding, guarantee stability as a global public good, enhance the international trade participation of developing countries —including middle-income countries— and open up opportunities to reap the benefits of technology and knowledge transfer and acquisition.

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Annexes

Annex A1
Country groupings

Euro Area	Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.
G-7	Canada, France, Germany, Italy, Japan, United Kingdom and United States.
Industrialized economies	Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong Special Administrative Region of China, Iceland, Ireland, Israel, Italy, Japan, Latvia, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Republic of Korea, San Marino, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom and United States.
Developing economies	Afghanistan, Albania, Algeria, Angola, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, The Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bhutan, Bolivia (Plurinational State of), Bosnia and Herzegovina, Botswana, Brazil, Brunei Darussalam, Bulgaria, Burkina Faso, Burundi, Cabo Verde, Cambodia, Cameroon, Central African Republic, Chad, Chile, China, Colombia, Comoros, Democratic Republic of the Congo (the), Congo (the), Costa Rica, Côte d'Ivoire, Croatia, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, The Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hungary, India, Indonesia, Iran (Islamic Republic of), Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Kosovo, Kuwait, Kyrgyz Republic, the Lao People's Democratic Republic, Lebanon, Lesotho, Liberia, Libya, Lithuania, the former Yugoslav Republic of Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Mexico, Micronesia (Federated States of), Moldova, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Palau, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Qatar, Romania, Russia, Rwanda, Samoa, Sao Tome and Principe, Saudi Arabia, Senegal, Serbia, Seychelles, Sierra Leone, Solomon Islands, South Africa, South Sudan, Sri Lanka, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syrian Arab Republic, Tajikistan, United Republic of Tanzania (the), Thailand, Timor-Leste, Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Tuvalu, Uganda, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vanuatu, Venezuela (Bolivarian Republic of), Viet Nam, Yemen, Zambia and Zimbabwe.
Emerging and developing Asia	Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, the Lao People's Democratic Republic, Malaysia, Maldives, Marshall Islands, Micronesia (Federated States of), Mongolia, Myanmar, Nepal, Palau, Papua New Guinea, Philippines (the), Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu and Viet Nam.
Latin America and the Caribbean	Antigua and Barbuda, Argentina, Bahamas (the), Barbados, Belize, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela (Bolivarian Republic of).
Middle East and North Africa	Algeria, Bahrain, Djibouti, Egypt, Iran (Islamic Republic of), Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.
Sub-Saharan Africa	Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo (the), Congo (the), Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, South Sudan, Swaziland, United Republic of Tanzania (the), Togo, Uganda, Zambia and Zimbabwe.

Source: International Monetary Fund (IMF), World Economic Outlook, 2014 [online] http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/groups.htm.

Annex A2
Main categories of official, private, concessional and non-concessional flows

	Concessional	Non-concessional
Official	Official development assistance (ODA)	Other official flows
	• Financial grants • Concessional loans • Debt relief • Technical assistance • First-year in-donor refugee costs • Imputed student costs • Donor administrative costs • Development awareness spending	• Export credits • Non-concessional development loans • Reorganization of non-ODA debt
Private	Private charitable flows (foundations, NGOs)	Private flows at market terms (investment and lending)

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Annex A3
Selected proposals on innovative financing instruments for development

Mechanism	Main features	Development financing potential
A. Mechanisms generating new public revenue streams		
Financial transactions tax (FTT) or currency transaction tax	Some proposals advocate an FTT levied globally on all types of financial transaction; others suggest instead a tax on foreign-exchange transactions. It is generally agreed that such taxes would raise substantial amounts of funding without causing serious distortions in the markets because the revenue base would be very broad and the rate very low (the range proposed is between 0.005% and 0.05%).	An FTT on all international financial transactions levied globally at a rate of 0.05% could raise US$ 661 billion annually (equivalent to 1.21% of world GDP). A currency transaction tax of 0.005% on spot and derivative transactions in the four major trading currencies (dollar, euro, pound and yen) could raise US$ 33.4 billion annually. A proposed European FTT is backed by 11 countries: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain. Meanwhile, an FTT was introduced in France in 2012, and a total of € 648 million was raised within a year.
Carbon tax	This tax would have the dual objective of raising funds for development and promoting the regulation of emissions from all sources of fossil carbons.	A tax on carbon emissions of US$ 0.05-US$ 0.35 per gallon could generate estimated revenue of between US$ 130 billion and US$ 750 billion per year.
Tax on airline ticket sales	The levy has been applied since 2006 in Chile and France, which have since been followed by Côte d'Ivoire, Gabon and Mauritius. In 12 other countries, parliamentary meetings have been held to set up initiatives of this type and 19 countries have pledged to introduce voluntary contributions.	It is estimated that the solidarity levy on airline tickets has the potential to raise 400 million-500 million euros (€) per year with the effective participation of more countries in the coming years. In France alone, US$ 1.09 billion have been raised since the tax's implementation in 2006. Twelve countries have implemented the air ticket levy: Benin, Cameroon, Chile, Congo, France, Jordan, Madagascar, Mali, Mauritius, Niger, Norway and the Republic of Korea. The air ticket levy promotes South–South cooperation by allowing new actors from Africa and Latin America to participate in financing international development.
Special drawing right (SDR) allocations for development	One example is the proposal by investor George Soros to assign SDRs of the developed countries to set up a fund for sustainable development that would be used to finance plans for climate change mitigation and adaptation in the developing countries.	Estimates cited in the Soros proposal indicate that a fund of US$ 100 billion equivalent in SDRs (loaned by the developed countries over 25 years) could provide US$ 7 billion per year in grants, loans and equity capital to the developing countries over the next 30-40 years.
Arms trade tax	This proposed global tax would have the dual aim of reducing trade in arms and raising money for development purposes. Among the objections raised are that such a tax might create incentives for illicit trade in arms and the probability that developing countries —as the purchasers rather than sellers of arms— would end up paying the larger part of the tax (World Bank, 2009).	
Auction or sale of emission permits	Where a cap-and-trade mechanism exists for emissions (for example, within the European Union Emissions Trading Scheme), emission allowances may be auctioned or sold instead of being allocated at no charge to emitters and the proceeds could be directed to financing international development.	In 2008, Germany auctioned European Union allowances totalling nearly € 1 billion, of which € 120 million was earmarked for investment in international climate protection measures in developing countries (World Bank, 2009). The United States, Chile and some European countries report positive experiences with emissions trading.

Mechanism	Main features	Development financing potential
B. Debt-based instruments and front-loading		
Debt swaps	Debt-for-health swaps. Under this initiative (launched in 2007), the creditors of selected beneficiary countries agree to forgive portions of debt on the condition that the beneficiary governments invest an agreed portion in health programmes linked to combating HIV/AIDS, tuberculosis and malaria through the Global Fund. Debt-for-nature swaps. A similar idea is behind this arrangement, which was first conceived in the early 1980s and whereby a portion of a country's foreign debt is forgiven in exchange for local investments in environmental policies or local conservation measures.	Participants in debt-for-health swaps so far: Germany with Indonesia (€ 50 million), Pakistan (€ 40m) and Côte d'Ivoire (€ 19m); Australia with Indonesia (€ 54.6m); France with Madagascar (€ 20m) and Cameroon (US$ 25m); the United States with Peru (US$ 40m).
Loan buy-downs	This arrangement involves a combination of a loan (or credit) being granted to a developing country and a donor committing to buy down that loan provided that predefined targets are achieved by the receiving country.	
International Finance Facility for Immunization (IIFIm)	An example of a financial instrument for the front-loading of resources is the IFFIm, established in 2004 by France and the United Kingdom, who were later joined by Australia, Italy, the Netherlands, Norway, South Africa, Spain and Sweden. Under this mechanism, long-term legally binding pledges of development assistance from donors are used as assets to underpin the issuance of bonds in the international capital markets and thus leverage the resources available for immediate development assistance.	To date, the nine donor countries have pledged more than US$ 6.2 billion to the IFFIm over 23 years. With these pledges, IFFIm has managed to raise a total of US$ 3.4 billion through international bond issues since 2006.
C. Public-private incentives, guarantees and insurance		
Advance market commitments (AMCs)	This mechanism seeks to address the problem of pharmaceutical companies focusing their research on "rich country" diseases, as demand from poor countries may be unpredictable and insolvent. The mechanism introduces a partnership between donors and pharmaceutical companies whereby donors ensure predictable and solvent demand once research is completed and the pharmaceutical companies commit to conducting the necessary research and ensuring that once the medicines or vaccines are ready, they are sold at affordable prices.	Canada, Italy, Norway, the Russian Federation and the United Kingdom and the Bill and Melinda Gates Foundation have pledged US$ 1.5 billion and the GAVI Alliance has promised to allocate US$ 1.3 billion through 2015 to an AMC pilot project for pneumococcal diseases. The project, launched in 2009, is expected to have the new vaccine on the market in the next few years and manufacturers have committed to selling it at a low price for 10 years. The AMC has raised US$1.45 billion to date and aim to accelerate the development and production of vaccines through investment, guaranteeing the price of vaccines once they are developed. The scheme could introduce immunization in 40 countries and save 7 million lives by 2030.
Sovereign insurance pool	The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a sovereign insurance pool that was established by Caribbean countries in 2007 to provide affordable coverage for immediate budget support after major natural disasters. The CCRIF works as a form of parametric mutual insurance, meaning there is an ex ante agreement to make payment upon occurrence of a parametric trigger (such as a specified intensity of a natural disaster in a specific location as measured by an independent agency) rather than against actual losses. In this way, claims can be settled much faster than under insurance based on actual losses, which can take a very long time to quantify.	

Mechanism	Main features	Development financing potential
D. Voluntary contributions using public or public-private channels		
Person-to-person (P2P) giving	Under this arrangement, individuals donate directly to individual recipients, normally through the Internet. For example, there are online platforms that channel direct microfinance investments to entrepreneurs in developing countries.	
Blended value products	The RED initiative launched in 2006 is an example of a "blended value product", which refers to initiatives that stimulate voluntary contributions from individuals by combining charity with consumption. Partner corporations (including Apple, Converse, Dell, Emporio Armani, GAP, Hallmark and Microsoft) design and sell specially branded RED products and contribute the corresponding percentage of the proceeds (World Bank, 2009).	
Voluntary solidarity contributions	Massivegood is a pilot initiative launched in 2010 to allow travellers to contribute to development by making a US$ 2 donation when purchasing travel services (airline tickets, hotel reservations, car rentals) through project-partner companies.	

Source: Esteban Pérez-Caldentey, Cecilia Vera and Daniel Titelman, "Middle-income countries and the system of international cooperation", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2011, unpublished; ECLAC, *Financing for development and middle income-countries: new challenges* (LC./L.3419), Santiago, Chile, November 2011; France Diplomatie, 2015 [online] http://www.diplomatie.gouv.fr/en/french-foreign-policy-1/development-assistance/innovative-financing-for/; UNITAID [online] http://www.unitaid.eu/en/how/innovative-financing; and Organization for Economic Cooperation and Development (OECD), "Emission Permits and Competition, 2011" [online] http://www.oecd.org/competition/sectors/48204882.pdf.

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