Economics Environment Inclusive Growth

Why 2015 is key for sustainable development

By Alicia Bárcena Ibarra
May 6 2015

In the upcoming months, decision-makers and leaders will have unprecedented opportunities to establish, within a multi-lateral framework, a transformational agenda for the future of sustainable development. In a context of global paradigm shifts, the concurrence of three key global summits will define the route and aspirations of this agenda for the coming decades.

The Third Conference on Financing for Development, to be held in Addis Ababa in July, represents a unique forum for recasting development financing to meet the approach of the post-2015 development agenda. This agenda, to be adopted in the framework of the UN General Assembly in September, represents the most important effort by the international community to come to grips with the major development challenges facing the world, which will be expressed in the Sustainable Development Goals (SDGs). Finally, the 21st Conference of the Parties on climate change will take place in December with the prospect of establishing a win-win agreement paving the way for targeted emissions reductions as well as mitigation and adaptation measures.

These three tracks share a common root: the demand that emerged in the 1990s under the leadership of the UN for more sustainable patterns of growth and development. Each one has followed its own dynamics and now faces different but complementary dilemmas. The Financing for Development track is caught in the debate over whether it relies on traditional public and concessional financing or on a new enabling environment with innovative means of financing that include more coordination among governments and greater involvement of the private sector.

Leave no one behind

Regarding the SDGs, the process has gained momentum and governments are leaving behind the traditional trade-off approach, consisting “in growing and accumulating first, then seeking environmentally sustainable growth with equality”. The new agenda has overcome this false dilemma and now clearly integrates the economic, social and environmental spheres of development within a universal approach, aiming at “leaving no one behind”. It emphasizes eradication of extreme poverty, the need to transform economies through inclusive growth, increased productivity and decent work with equality at the centre.

The climate change track is sending the long-term message, on top of the immediate agreements, that the world will have to make a critical structural change in production and consumption patterns linked to energy and spatial use, which will shy from certain activities and embrace others, whether voluntarily or induced by a combination of regulations, incentives and disincentives.

Against this backdrop, the ongoing global paradigm shifts call for a fundamental rethinking of the relations between governments, the private sector, civil society and multilateral organizations. These shifts include the unaddressed challenges from the economic and financial crisis of 2008; the reconfiguration of economic, trade and manufacturing relations, including the emergence of new mega-regional trends; the quickly unfolding knowledge, technological and data revolutions; and the new social demands of empowered citizenship.

Tackling tax evasion

In terms of financing for development, meeting the SDGs will require not only an unprecedented mobilization of resources but also a reassessing of the way in which resources are obtained, organized and allocated. A first important issue is how to foster the mobilization of domestic resources, which is the single most important source of funding for development, and yet in vast parts of our world, is highly constrained by insufficient revenues, tax evasion and elusion and illicit flows. In the particular case of Latin America and the Caribbean, while tax reforms undertaken in the region in the past two decades have modestly increased the tax burden and shifted fiscal policy towards improving redistribution, tax evasion remains very high by international standards (the rate of VAT evasion is between 17.8% and 37% of total revenue in the region, whereas it reaches between 10% and 22% in OECD countries).

In addition, governments are facing new challenges, including illicit flows, which account for a massive outflow of financial resources from developing economies. In Latin America and the Caribbean, they surpass FDI flows, while representing twice the amount of remittances and 15 times the amount of official development assistance (ODA) received by the region. International cooperation in fiscal matters thus becomes a key issue to overcome the challenges of domestic resource mobilization. International and regional agreements should be the basis for common international tax rules and standards to improve transparency and prevent the erosion of tax bases. In this respect, ECLAC supports the organization of a tax summit in Addis Ababa in July to address these issues collectively.

Addressing the finance flow

A second fundamental concern stems from the recognition that public flows, including traditional development flows such as ODA, will simply be insufficient to meet the post-2015 development agenda, and must be complemented with private flows, which constitute the bulk of external financing for middle-income countries (MICs) as emphasized by ECLAC in the report Financing for development in Latin America and the Caribbean: A strategic analysis from a middle-income country perspective.

The fact that private capital is driven by profit rather than developmental concerns can lead to underinvestment in areas that are crucial for development if the expected return – on a risk-adjusted basis – underperforms. The challenge is to mobilize private 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 incentives and 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.

A complex funding landscape

A third challenge is the fact that mobilizing an adequate volume of combined public and private funds is made more complex by the significant changes in recent decades in the development financing landscape. While these changes 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.

Additionally, while national policies must play a key role in a renewed financing for development architecture, they are a necessary but not a sufficient condition to make the architecture effective in responding to countries' development needs. An enabling external environment must address the asymmetries in the international financial architecture and reflect in its institutional structure the shift in global economic and political power towards developing countries and MICs. It must also point out the inconsistency between the importance of developing economies and their share in world trade, and enhance their opportunities for market access, technology transfer and knowledge acquisition.

The scale and role of foreign direct investment (FDI) must also be placed into perspective. FDI should complement domestic capital, given its substantial impact on the domestic economy. The majority of investment in Latin America and the Caribbean is local and the ratio of FDI inflows to gross fixed capital formation is approximately 20% in most countries. While the two magnitudes are not exactly comparable (FDI includes cross-border mergers and acquisitions, which are not included in GFCF), this ratio gives a rough estimation of the weight that FDI has over total investment.

But FDI is not free: as stocks of FDI have grown across the region, the profits that transnational corporations make have also grown, with a great impact on the current account deficits that have expanded in the past five years. Countries should target the types of FDI that can boost their productive capacity and contribute to structural change in their economies towards more knowledge-intensive sectors.

In the area of climate change, the private sector also has the opportunity to be a key driving force in generating cleaner patterns of production and consumption, and contribute to this structural change that the new aspirations of development call for. As a matter of fact, research and development for the new low carbon economy is expected to come largely from the private sector, in close coordination with governments, academic and research centres.

In Latin America and the Caribbean, there are numerous opportunities for this approach. As the most urbanized region in the world, with over 80% of population living in cities, urban development may make possible new opportunities in areas such as intelligent urban public transport and traffic management, solid waste and waste-water treatment, low carbon and low energy buildings, making the most of the digital, technological and data revolutions. Greening the economy through lower carbon production systems in industry, improved energy management, enhanced spatial location, lighter vehicles and the development of renewable energies has huge potential, including at the transnational level.

All these opportunities must be seized in order to convert the new development agenda into a powerful catalyst of a renewed equation between state, market and society, in which all actors are able to establish new rules of engagement and complementary partnerships for the common good.

The World Economic Forum on Latin America 2015 **takes place in Riviera Maya, Mexico, from 6-8 May.**

Author: Alicia Bárcena, Executive Secretary, Economic Commission for Latin American and the Caribbean (ECLAC).

Image: An aerial view shows Natal city January 22, 2014. REUTERS/Sergio Moraes

Posted by Alicia Bárcena Ibarra - 21:01

Economics | Environment | Foreign Direct Investment (FDI) | Forum | Inclusive Growth | LA15 | Latin America | Public And Private Funds | Sustainable Development | Sustainable Development Goals (SDGs) | World Economic Forum On Latin America 2015

Related posts

Suggested next articles

How the tourism industry is adapting to

KATHLEEN MATTHEWS

How can Latin America provide quality

HENK DE JONG

Forum on Twitter