

# Emerging Trends in Financing Sustainable Development

*A Latin American and Caribbean Perspective*

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# Sources of Finance for Development

## Public

- **Domestic** (*Taxes and other revenues*)
- **International** (*ODA , SSC and other Official flows*)

## Private

- **Domestic** (Portfolio, commercial bank lending)
- **International** (FDI, Remittances, portfolio, bank flows)

## Blended

- (PPP projects)

## Innovative Financing

- (carbon pricing policies, FTT, RfI, Diaspora resources)



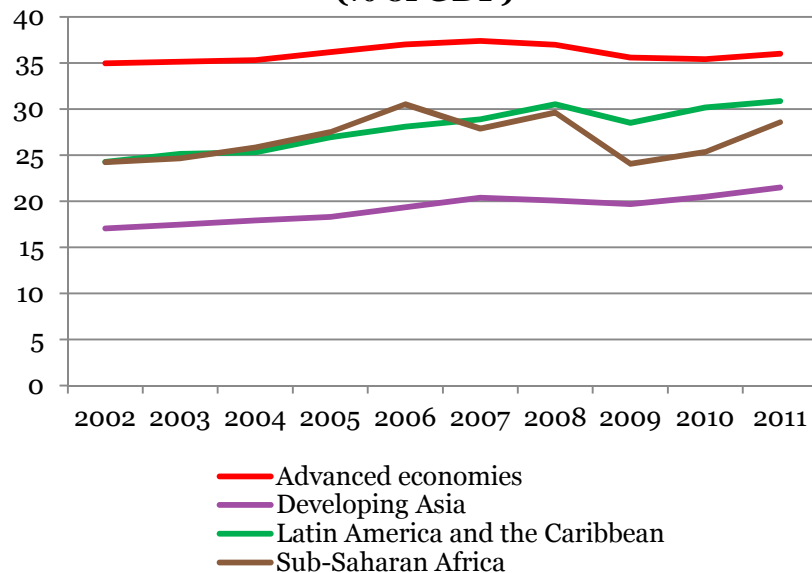
# Public Sources of Finance

- ❑ Domestic
- ❑ International

# Domestic Public Finance-Trends

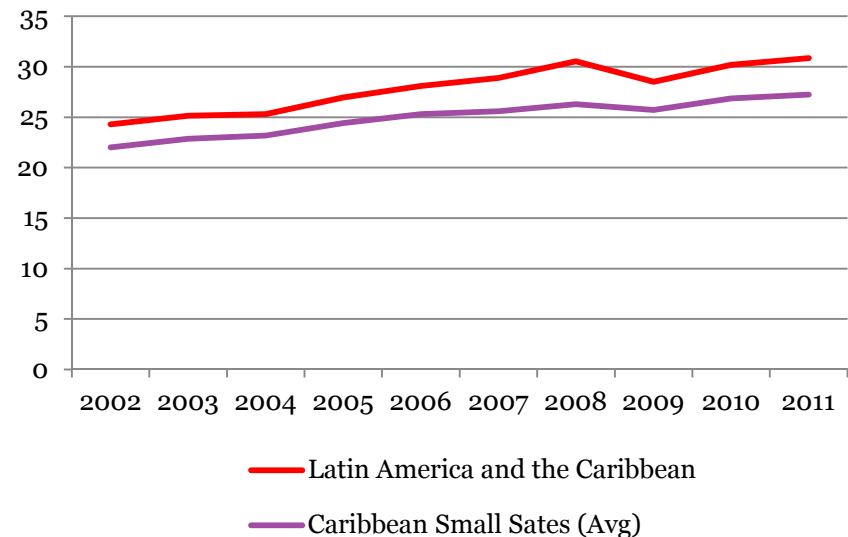
- Improvement in Revenue/GDP ratios ... but still below the level of advanced economies
- Revenue ratio is on the rise in Caribbean Small States ... but average lower than LAC ratios

**General Government Revenue  
(% of GDP)**



Source: IMF WEO

**General Government Revenue  
(% of GDP)**



Source: IMF WEO

# Domestic Public Finance

## Opportunities

Critical source of finance for expenditure on public goods and social services

Most stable and predictable form of financing for development- reduces aid dependency

Domestic resources can be used to leverage private resources for economic development

## Challenges

Leakages due to tax evasion, illicit financial flows, capital flight, money laundering

High debt service crowds out spending for sustainable development

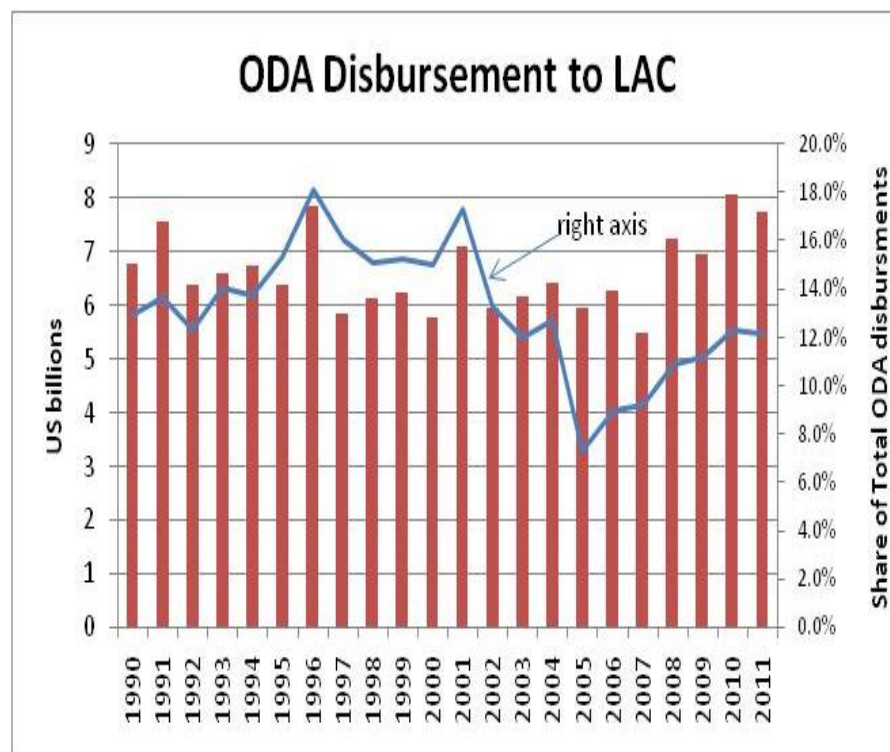
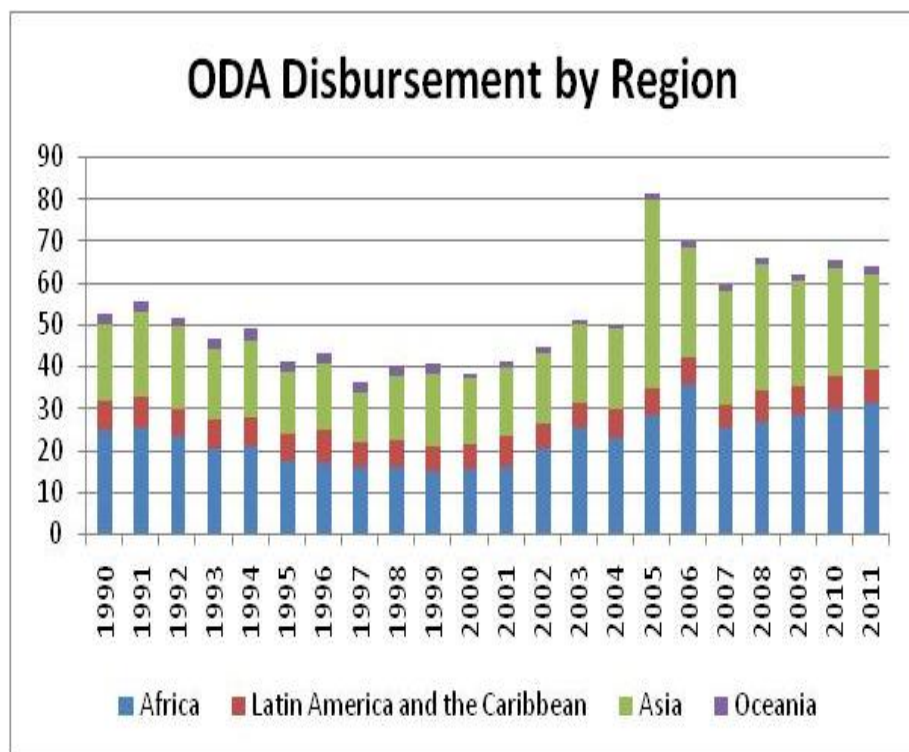
Transparent and effective budgeting frameworks for efficient use of tax revenue

# Improving Domestic Resource Mobilisation

- Implement policies to broaden tax base and improve efficiency of collections
- Explore innovative sources of finance eg. diaspora resources financial transaction taxes, carbon and environmental taxes
- National development plans to guide spending into priority areas
- Strengthen PFM through reforms:
  - Debt sustainability
  - Budgeting
  - Procurement
- Implement policies to curtail illicit financial flows
  - International tax cooperation

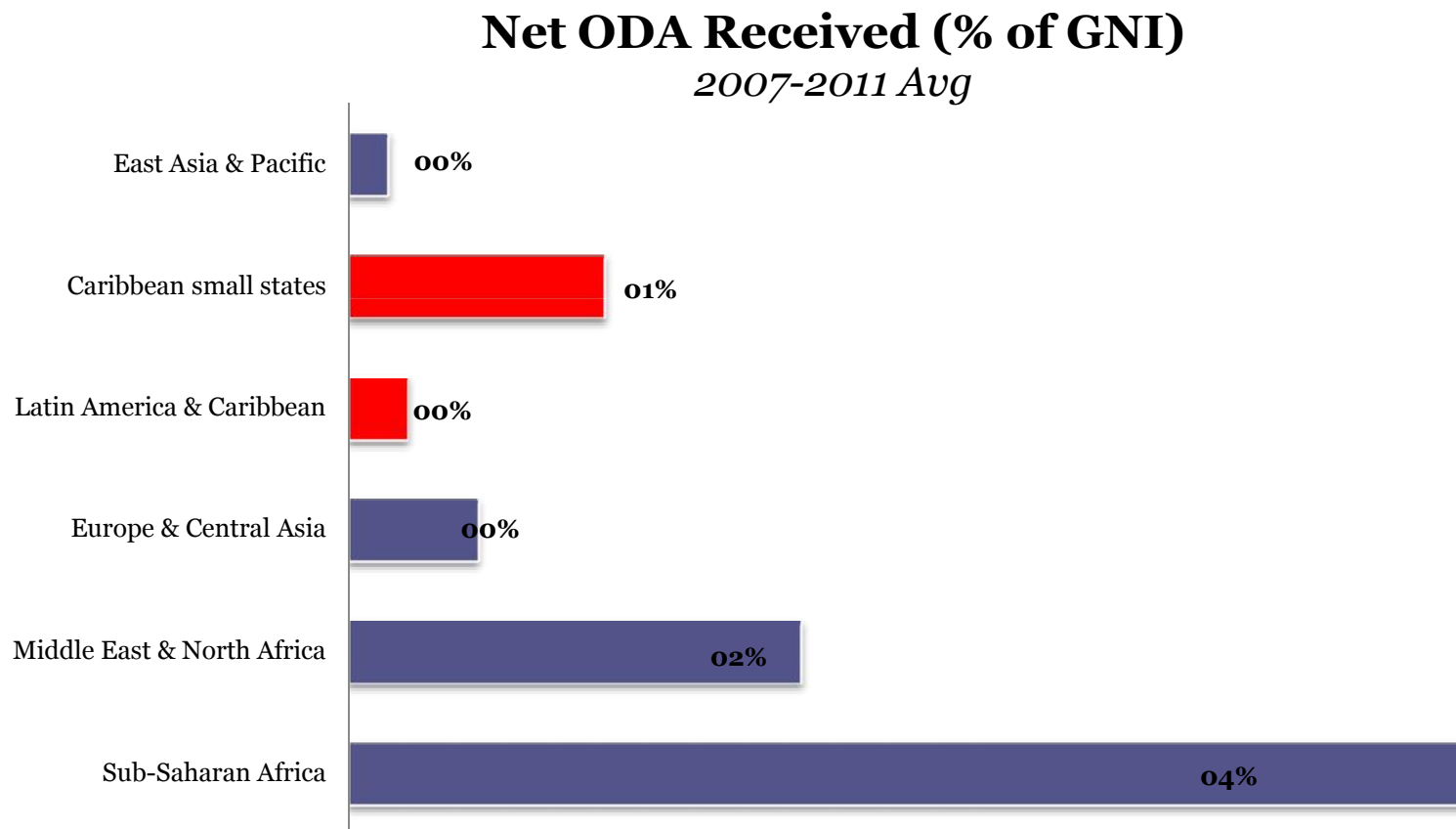
# International Public Finance

LAC receives a marginal share of ODA to developing countries...



Source: World Bank Development Indicators

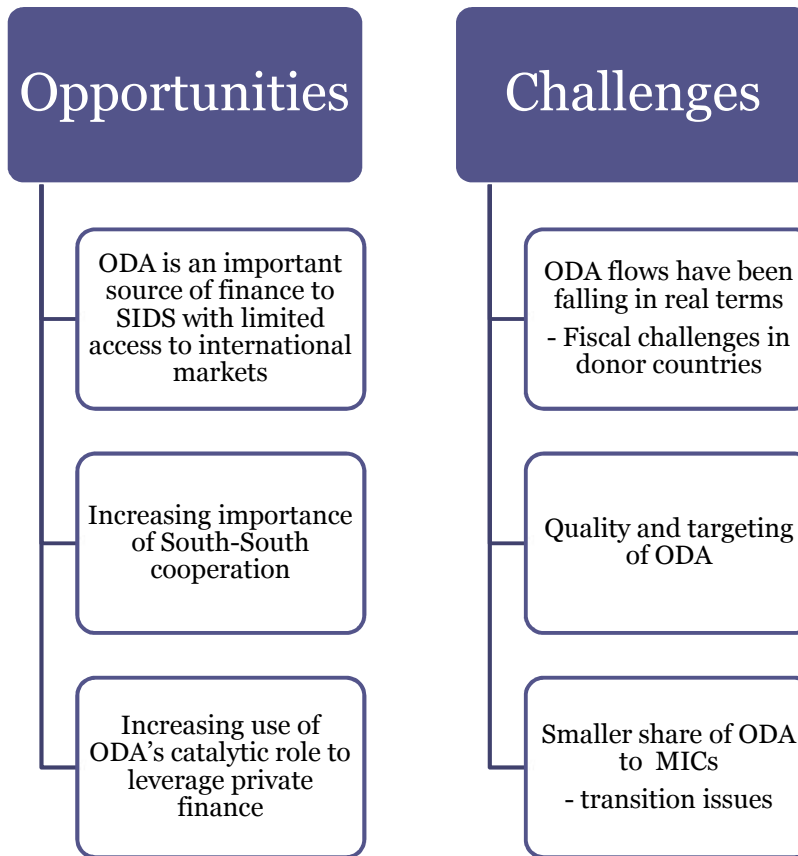
... however Net ODA to SIDS is higher than average of the wider LAC group...



Source: World Bank Development Indicators



# Public Finance- International





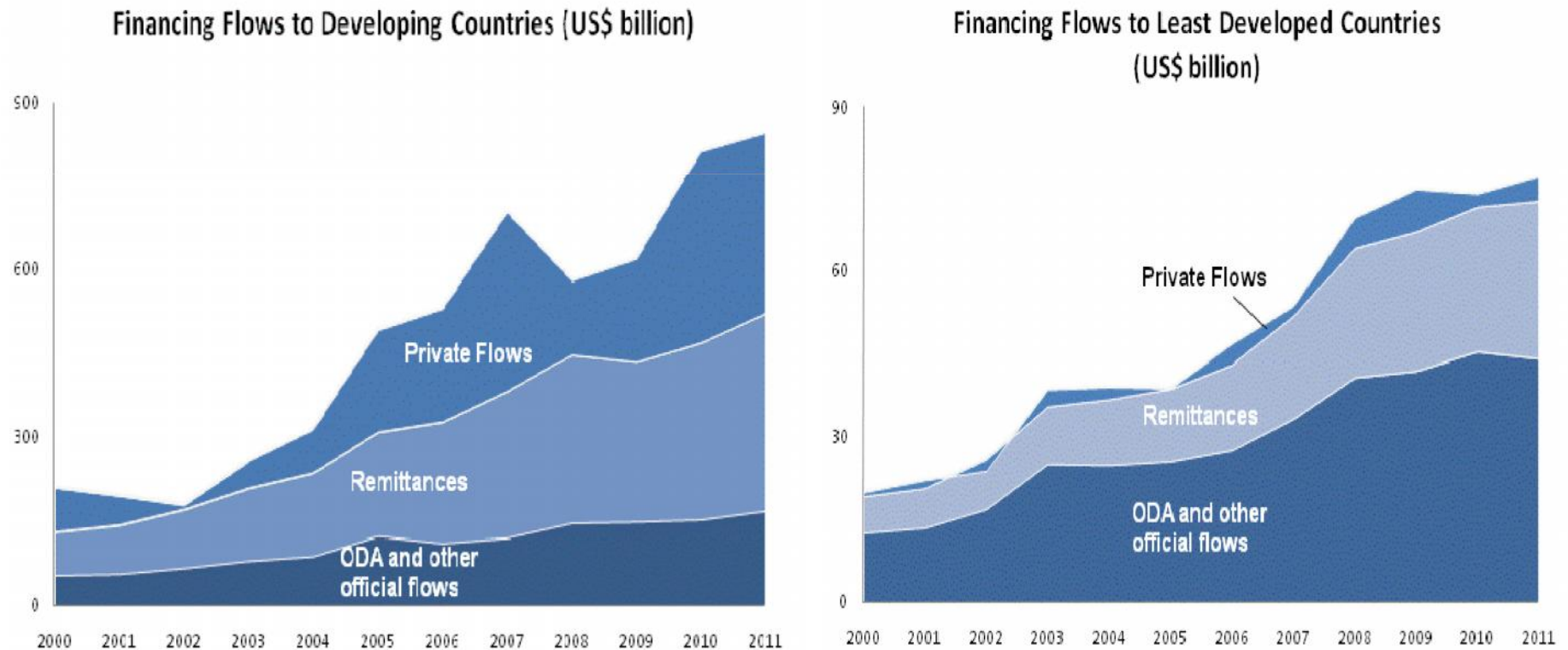
# Improving the Efficiency and Effectiveness of Aid

- Better defined eligibility and graduation criteria to channel ODA to areas with the most needs
- The delivery on ODA commitments by donors
- Implementations of systems for improved evaluation and monitoring
- SSC/OOF should not be seen as substitute for shortfalls in traditional aid but as a complement



# Private Sources of Finance

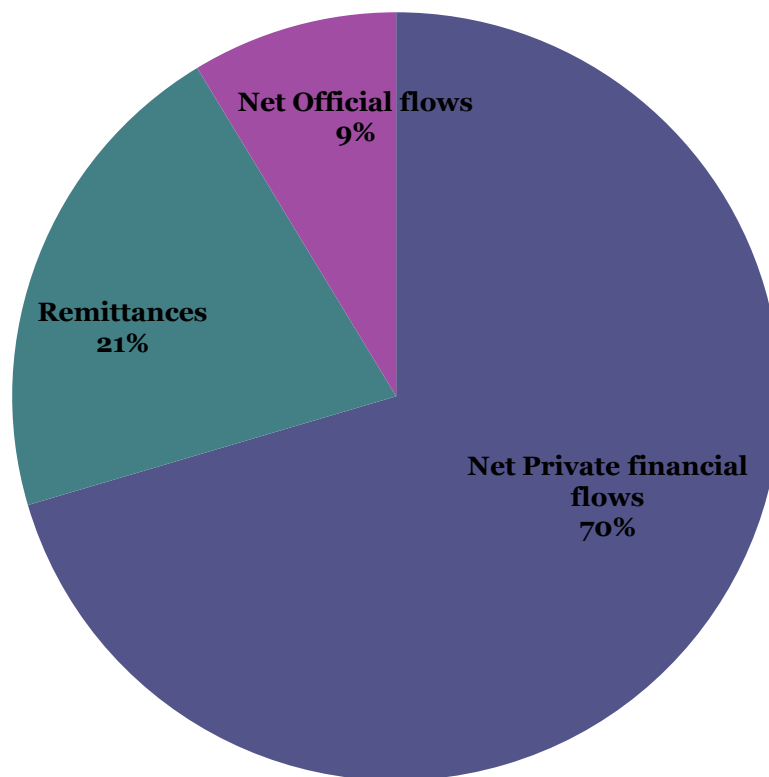
## Private flows and remittances are more significant sources of finance for developing countries...



Source: OECD DAC Stats, World Bank Migration and Remittances Data

Private flows account for 70 percent while remittances account for 21 percent of financing flows to LAC...

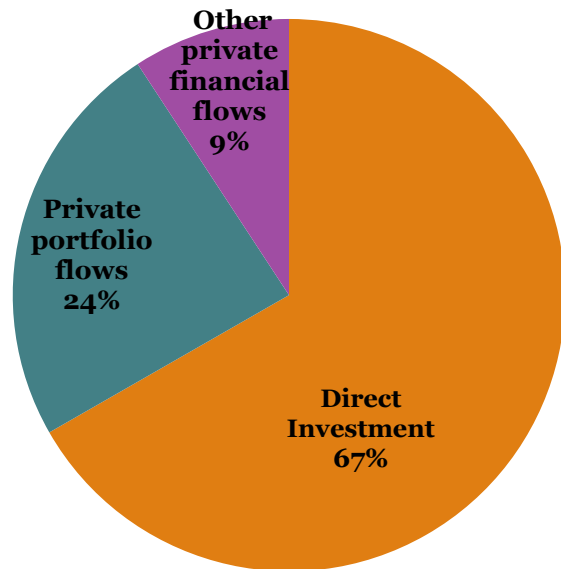
### **Financing flows to LAC (2011)**



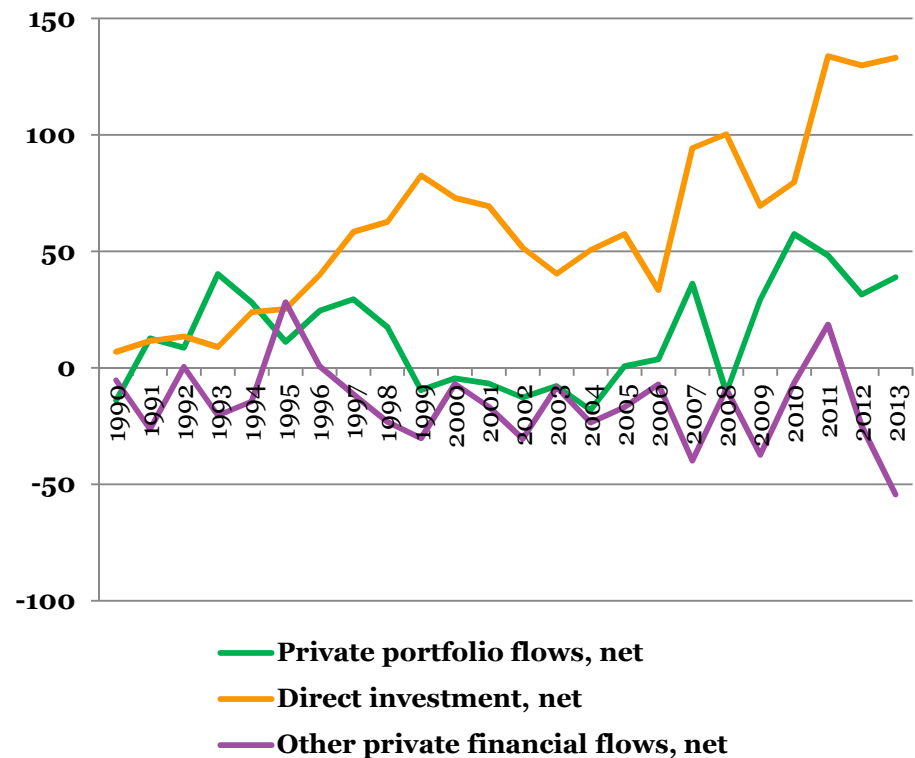
Source: IMF WEO, World Bank Database

FDI is a dominant source of financing to LAC and is on an increasing trend...

**Net Private flows to LAC  
(2011)**



**Net Private flows to LAC  
(In US Billions)**

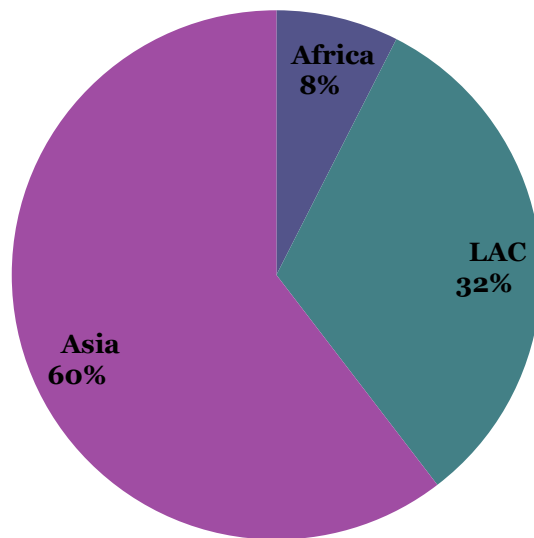


Source: IMF WEO

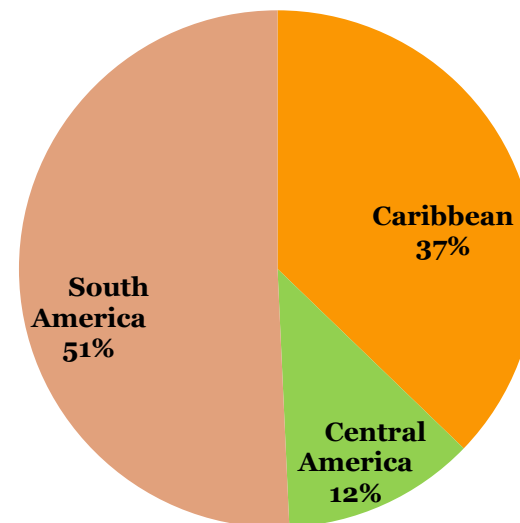
- Developing Asia and LAC have attracted the largest volumes of FDI inflows to developing countries

- Largest share of FDI inflows to LAC goes to South America

**FDI Inflows to Developing Countries**  
*(Avg 2009-2012)*



**FDI Inflows to LAC**  
*(Avg 2009-2012)*



Source: UNCTAD

- While private financing may seem the more dominant source of financing for LAC, however not all countries have the same access


### Barriers to Accessing Finance for Development (SIDS)

- Macro-economic stability- growth prospects, fiscal and debt sustainability
- Costs of doing business
  - Inadequate infrastructure
  - Poor institutional, regulatory, political and financial framework
- Lack of access to capital markets
- Short term horizon of investors



## Going forward the focus must be on:

- Improving domestic resource mobilization
- Creating an enabling environment for investment
  - Implementation of a credible national development plan/strategy to guide spending into priority areas
  - Implement reforms to improve doing business climate ( legal and regulatory, reforms, provision of information, efficient business registration processes, contract enforcement)
  - Develop capital markets for access to financing
    - Develop investor base with long term investment horizon
    - Promote financial services for SMEs



➤ Better aligning private incentives with public goals through effective PPP frameworks:

- Encourage private sector investment in infrastructure by improving risk/return profile:

- Developing bankable projects for private sector to fund
  - Funding costs of preparation- feasibility studies
- Direct risk sharing through co-investment, guarantees and insurances
- Increasing returns such as premium prices and tax credits
- Support industries by providing capacity in areas of research and innovation

## Conclusion

- Growth is key for development and poverty eradication
- Aid remains a critical resource for countries with limited access to private finance
- Improving domestic resource mobilisation to gradually reduce aid dependency
- Provide the right enabling environment to attract private investment
- The use of PPPs to improve risk/reward profile of long term development investments (infrastructure)



Thank you...