Retreat on Financing and the Means of Implementation for Post-2015

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Financing and the Means of Implementation
A Latin American and Caribbean Perspective

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The implementation of the post-2015 agenda represents a unique opportunity for Latin American and Caribbean countries

- In spite of economic and social improvements, most Latin American and Caribbean societies still face profound levels of inequality which reflect the concentration in income and wealth, the large heterogeneity of the productive structure and the segregated access to quality goods and services.

- Further, while poverty levels in Latin America and the Caribbean in general have declined over the last few decades, a high percentage of the population has remained economically and socially vulnerable.

- The high and persistent level of vulnerability is a reflection of underlying structural development gaps that have been a major stumbling block to the region's social and economic development.

  - These include an income gap; poverty and inequality gaps; investment, productivity and innovation gaps; infrastructure gap; education and health gaps; financial and fiscal gaps; gender gap; and environmental gap.

Challenges for Latin America and the Caribbean

- More than 29 countries are considered “middle income” but they still face financing and structural gaps that make them vulnerable
- Despite the above, more than 20 LAC counties are not/will cease being eligible for ODA
- Although they are more open commercially and financially, these countries are not able to mobilize domestic or international financial resources
- There still are numerous obstacles to technology transfers, and adoption, appropriation and dissemination of ICTs

The implementation of the Post-2015 agenda will require a huge mobilization of resources that addresses the different dimensions of sustainable development and the structural gaps

- At the financing for development level, the implementation of the Post-2015 agenda must take stock of the significant changes in the composition of flows, actors, instruments and mechanisms of development finance. This entails:

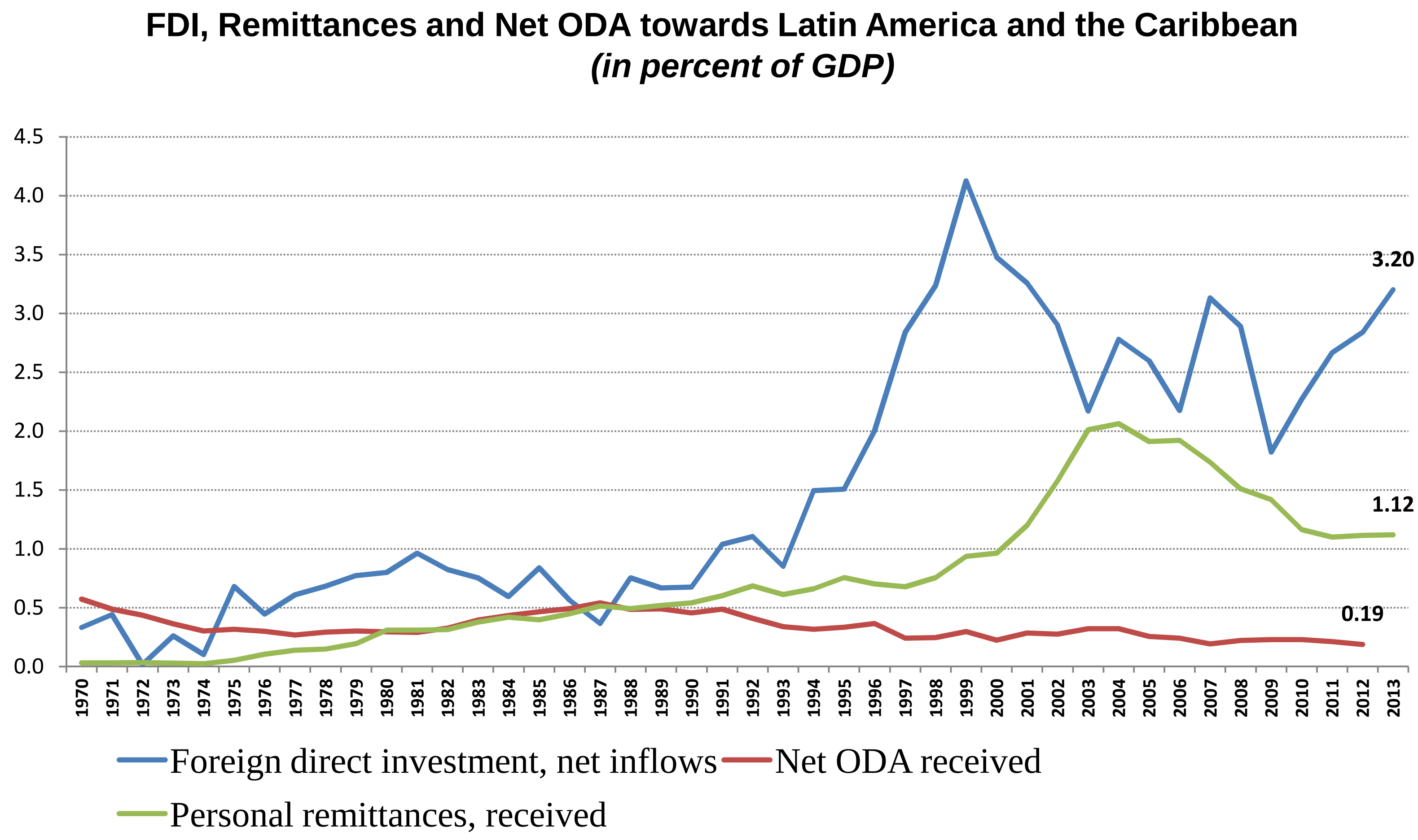
  - Discussing the role and assessing the importance of ODA and non-ODA flows, including private flows, as a source of development finance;

  - Continuing to foster the mobilization of domestic resources through different mechanisms, actors and instruments (not only fiscal efforts).

  - Further developing instruments for productive development and innovative financing mechanisms;

  - Developing creative ways to mix the different modalities of funding and strengthen productive development.

In the case of Latin America and the Caribbean, net ODA and concessional flows have declined over time while private flows account for the lion's share of external resources



Source: on the basis of WDI, World Bank

Even though a larger mobilization of private resources could be potentially beneficial, some very important issues arise from a financing for development perspective…

- Public and private flows obey a different logic and respond to different incentives
  - ✓ Private capital mostly driven by the profit motive (economic profitability)
    - Private sector will under-invest in certain areas relevant for development if the expected private return -on a risk adjusted basis- underperforms other investment opportunities
  - ✓ Public resources play a unique role, providing financing for sectors that do not attract sufficient private flows (social profitability)
  - ✓ But there are also space and mechanisms for public policies to steer private capital towards development objectives
    - Requires an adequate regulatory environment and incentive scheme

New trends in financing sources have been accompanied by changes in the players channeling these funds…

- Some players have the potential to increase their relevance in the financing for development landscape
  - ✓ Private philanthropy
    - At the global level, it now amounts to nearly US$ 60 billion per year, equivalent to almost half the net ODA disbursed in one year by DAC donor countries
  - ✓ South-South cooperation and non-DAC donor countries
  - ✓ Private and public institutional investors: Pension Funds, Insurance Companies, Mutual Funds, Sovereign Wealth Funds, etc.
    - With growing assets under management and the potential to provide long-term financing, they can become important players in development finance

A more diverse set of external sources of development finance does not necessarily ensure a greater capability to strategize development priorities

- The existing multiplicity of external sources of finance is also accompanied by a multiplicity of requirements of access and conditionalities:

    - This makes it difficult for countries to take a strategic approach to financing their development priorities and to assess the impact and effectiveness of different sources of development finance.

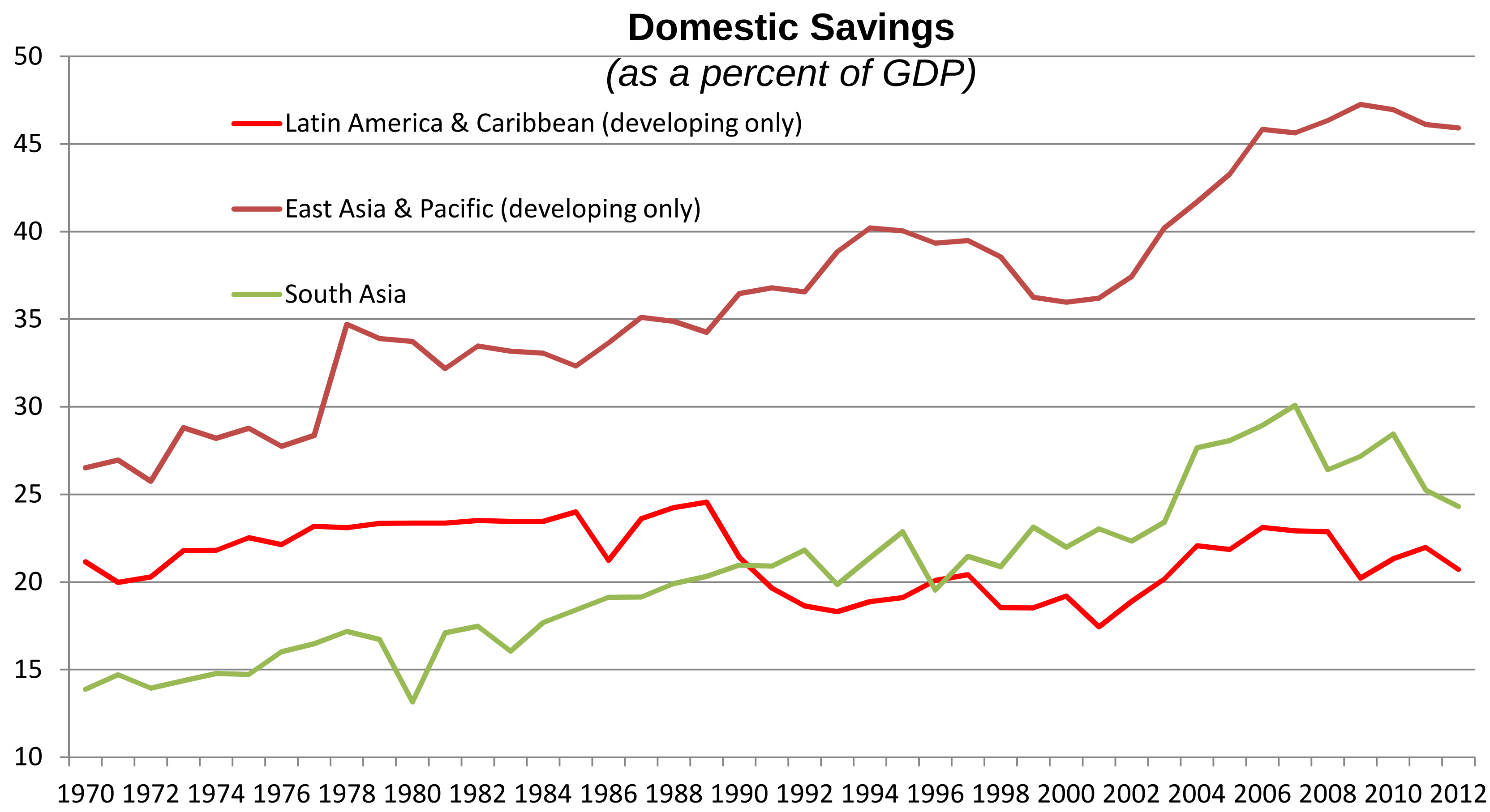
- Not all actors of development finance provide the same conditions and requisites of access and eligibility (in terms of costs and conditionalities)

    - Moreover, while the funding options have increased countries exhibit differential capacities and capabilities of 'effectively' accessing development finance funds, both public and private.

- The issue becomes even more complex in those cases where the provision of funds involves not only public actors but also private providers of funds. In some instances, in order to attract private investment, countries can implement policy measures that limit their own policy space.

The financing for sustainable development architecture must therefore also ensure an adequate balance between foreign and domestic resource mobilization

- In the case of Latin America, domestic resource mobilization has historically stagnanted at low levels



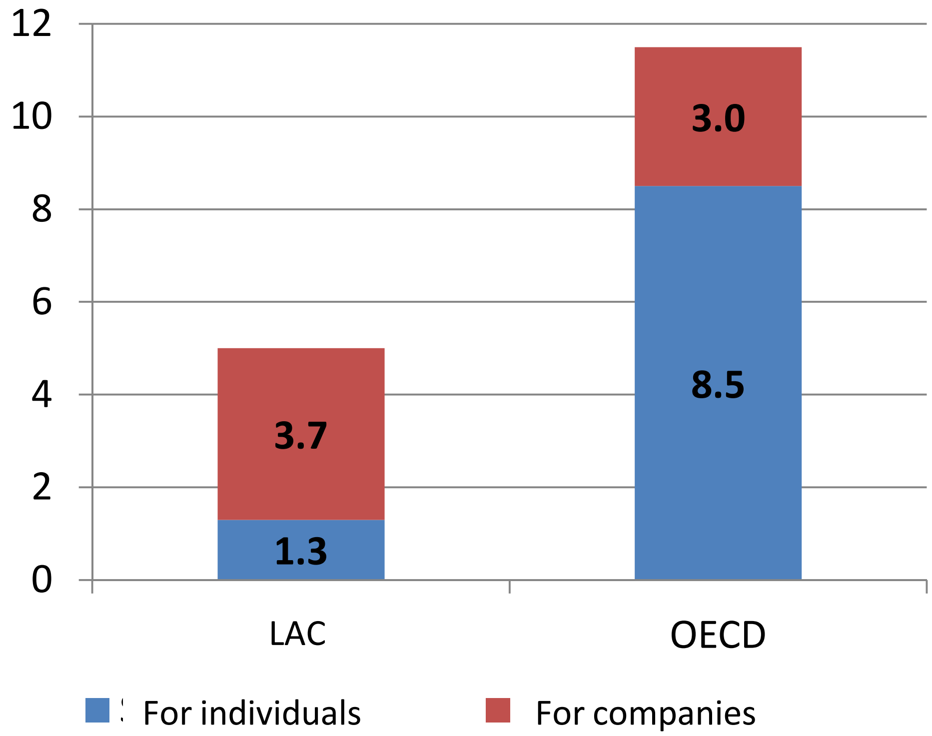
Source: WDI, World Bank

Mobilization of domestic resources requires an important tax effort: Tax collection is low and inadequate in LAC…

Tax systems are characterized by:

- Regressive tax structure
- Low tax collection in most countries
- High fiscal evasion
- Generalized exemptions
- Social spending has a limited redistributive effect

LAC AND OCDE: COMPARISON OF INCOME TAX COLLECTION, 2011 *(As a percentage of GDP)*



Source: Economic Commisison for Latin America and the Caribbean (ECLAC) on the basis of Comisión“Estadísticas tributarias en América Latina 1990-2012” (OECD, CIAT and ECLAC 2013.

But the mobilization of public domestic resources must not be equated only with increased fiscal resources

- The mobilization of domestic resources involves also mobilizing resources through development oriented financial institutions such as regional and national Development Banks.

- Subregional development banks are a major and successful source of development finance.

  - In the 2000s, subregional banks significantly increased their lending volume and relative share of total multilateral development bank lending to Latin America and the Caribbean.

  - In 2011, subregional banks made almost US$ 12 billion in loans to the region, representing 36% of total multilateral development bank lending to the region. The Inter-American Development Bank accounted for 34% of the lending, the World Bank for 30%.

- National development banks are also gaining renewed momentum, as their role in financing social and economic projects has been recognized.

In line with the changes in the composition of financial flows, mechanisms and instruments for development finance have also been changing…

- New initiatives that use limited public concessional resources (grants) to leverage sizeable non-concessional resources (loans)
  - ✓ Latin American Investment Facility (LAIF), 2010

- New initiatives that use public resources to mobilize private investment towards development objectives
  - ✓ Development Impact Bonds (DIBs)

- Other Innovative financing mechanisms have been increasingly discussed in view of shortfalls in ODA and include:
  - ✓ Those that generate new public revenue streams (such as global taxes or auctioning of emission permits)
  - ✓ Voluntary contributions using public or public-private channels (such as person-to-person giving).

Effective implementation of development initiatives not only require greater access to tools and sources of development finance but also different funding modalities

- One recent modality for the provision of development funding that is gaining in importance is South-to-South cooperation.

- South-to-South cooperation has the potential to become a key pillar of sustainable development.

- South-to-South cooperation is based on cooperation among equals and is typically focused on fostering infrastructure development and growth.

An effective approach to the means of implementation also needs to be underpinned by improved trade possibilities

- Trade as engine and the handmaiden of social and economic development.
- Developing countries and MICs need to increase their share in world trade.
- Export diversification for developing countries, including MICs and increase ing their technological content in order to strengthen the connection between trade and the creation of decent jobs, and inclusive and sustained economic growth.
- Greater flexibility in multilateral trade practices and agreements, taking into account MICs specificities to level the playing field; all countries could benefit equitably from international trade
- Export diversification and trade liberalization must be applied on the basis of flexible trade rules which include adequate financing and an appropriate time frame for implementing the necessary adjustments and restructuring of the domestic economy

Latin America and the Caribbean also require improved linkages with the global economy

- A key challenge in this area is to improve embedded knowledge in exports and increase the insertion of Latin American and Caribbean companies in global value chains, especially in the case of SMEs.

- Creating and strengthening the ties and cooperation with other 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.

- Making Foreign Direct Investment contribute to sustainable development through : increasing direct job creation and engagement of SMEs in value chains, reducing profit repatriation, enhancing the balance between business strategies and development objectives in host countries.
- This type of cooperation must confront the numerous obstacles to the adoption, appropriation and dissemination of technology. These include severe restrictions related to intellectual property which limits dissemination of innovation and technology.

Fostering trade as a means of implementation of the Post-2015 agenda will also require efforts to deepen and strengthen regional productive integration

- Latin America and the Caribbean's regional space is a source of demand growth and job creation.

  - It is the market for the exports with the highest value added content. It also has a high potential for strengthening the regional and national productive value chain.

- However, the region's intra-regional trade is limited and displays a weak basis for productive integration.

  - In the past two decades intra-regional exports expanded tenfold. However, the the share of intra-regional exports has never surpassed 20% of the total.

- **The regional space is crucial not only for trade and production but also as a basis for complementarity among global and regional institutions within a heterogeneous and diverse set of countries.**

And investing in technology for sustainable development which requires …

- Development of new capabilities and new kinds of learning for Latin American and Caribbean firms through ties and cooperation with other more advanced and innovative firms to achieve higher levels of technological innovation and productivity

- Overcome obstacles to the adoption, appropriation and dissemination of technology, severe restrictions related to intellectual property, limiting dissemination of innovation and technology.

- Build capacities with <u>a long-term vision and sustainable development perspective.</u>

- <u>Combine innovative financing mechanisms for technology and climate change mitigation</u> (Green Climate Fund, Climate Investment Funds, Green Bonds, etc.)

- Greater opening of developed countries markets to higher added-value and knowledge intensive goods from Latin America and the Caribbean.

Final thoughts

- While the post-2015 development agenda is of great importance, it neither excludes nor replaces previous commitments made by countries in regional and global agreements.

- The new agenda should not establish standards, and conditions or be used as a new form of country certification.

- The fulfillment of ODA commitments should remain a central part of the accountability framework of the new agenda and that accountability also applies to developed countries, specifically in the context of the unattained MDG 8, with regards to ODA, market access and technology transfer.

Recommendations and guidelines for actions on means of implementation

- Meeting financing for development commitments
- No politically-motivated conditionalities
- Greater space for alternative financing mechanisms
- Development of endogenous capacities
- Alternative mechanisms for debt payment and refinancing
- An international trading space that is fair, with full access to developed countries
- Better natural resources governance, to empower and enable countries to generate their own wealth
- Technology transfer mechanisms
- Creation of regional spaces for technological innovation