The challenge of financing for development in Latin America and the Caribbean

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UNITED NATIONS

ECLAC

Financing for Development
Regional perspectives and the role of the UN Regional Commissions
Dialogue of the Executive Secretaries of the Regional Commissions with the UN General Assembly Second Committee

UN Headquarters, New York, 23 October 2017

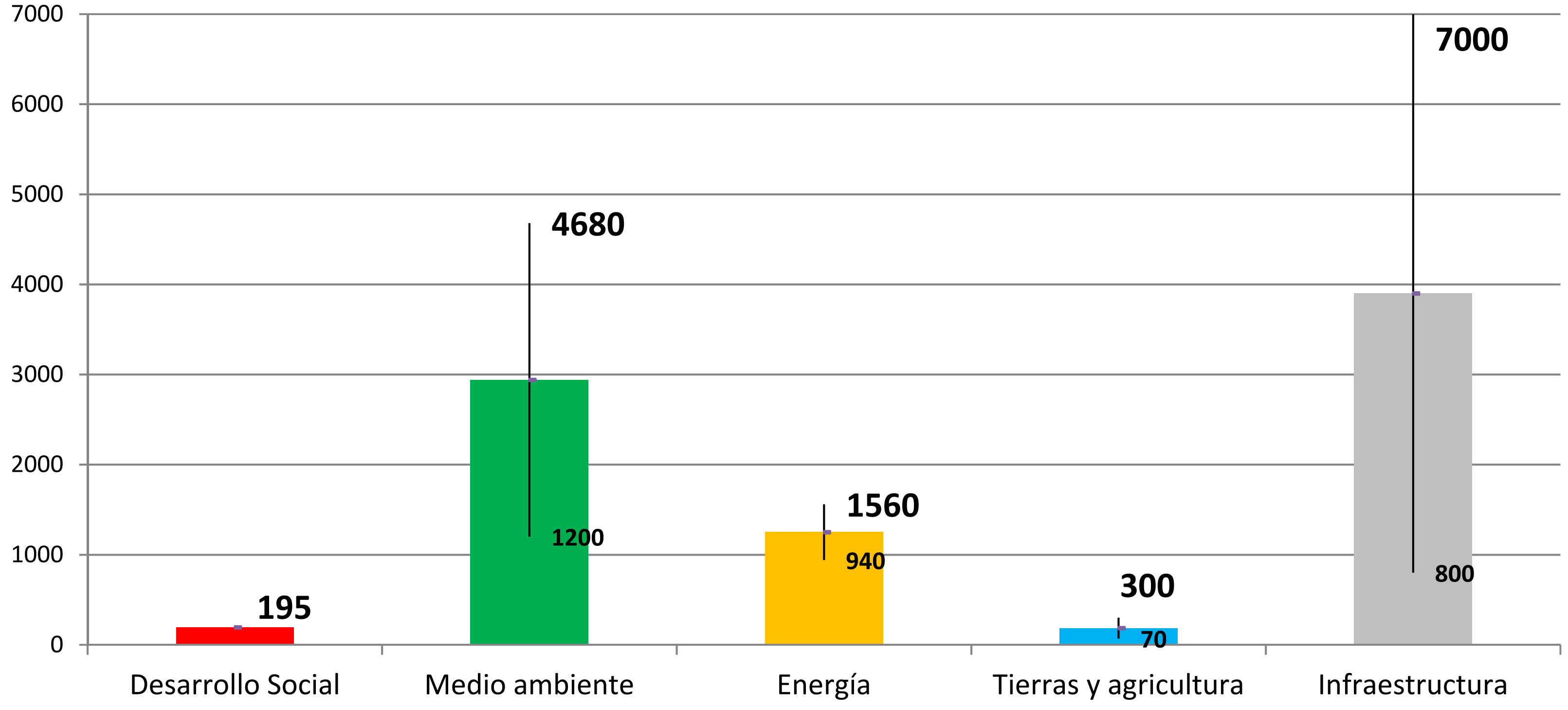
Agenda 2030 proposes a development paradigm shift in a complex context

- Financing Agenda 2030 will cost around 3 to 14 billion dollars annually, more trade and transfer of technology
- Crisis of multilateralism, growing economic nationalism
- A fragmented trading system with more protectionism and growing uncertainty
- An international system with few financial regulations (tax) and weak multilateral mechanisms to regulated the high degree of financiarization

Para alcanzar los Objetivos de la Agenda 2030 se requiere entre los 3 y los 14 billones de dólares anuales en total

ESTIMACIÓN DE LAS NECESIDADES ANUALES DE FINANCIAMIENTO DE OBJETIVOS DE DESARROLLO SOSTENIBLE SELECCIONADOS

(En miles de millones de dólares)

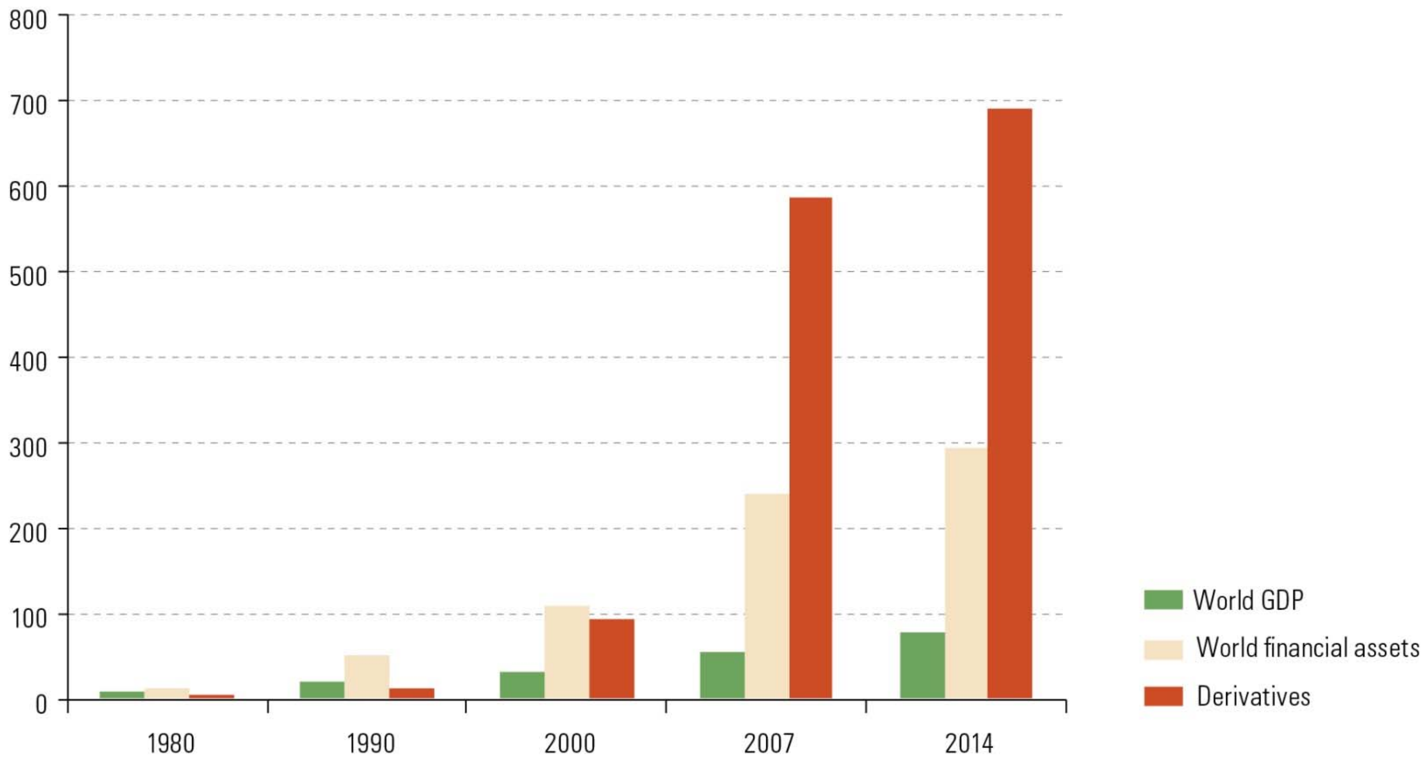


Fuente: Naciones Unidas, Informe del Comité Intergubernamental de Expertos en Financiación del Desarrollo Sostenible (A/69/315), Nueva York, octubre de 2014.

Financial versus real economy: the great decoupling

GLOBAL NOMINAL GDP, FINANCIAL ASSETS AND FINANCIAL DERIVATIVES, 1980-2014

(Trillions of dollars)



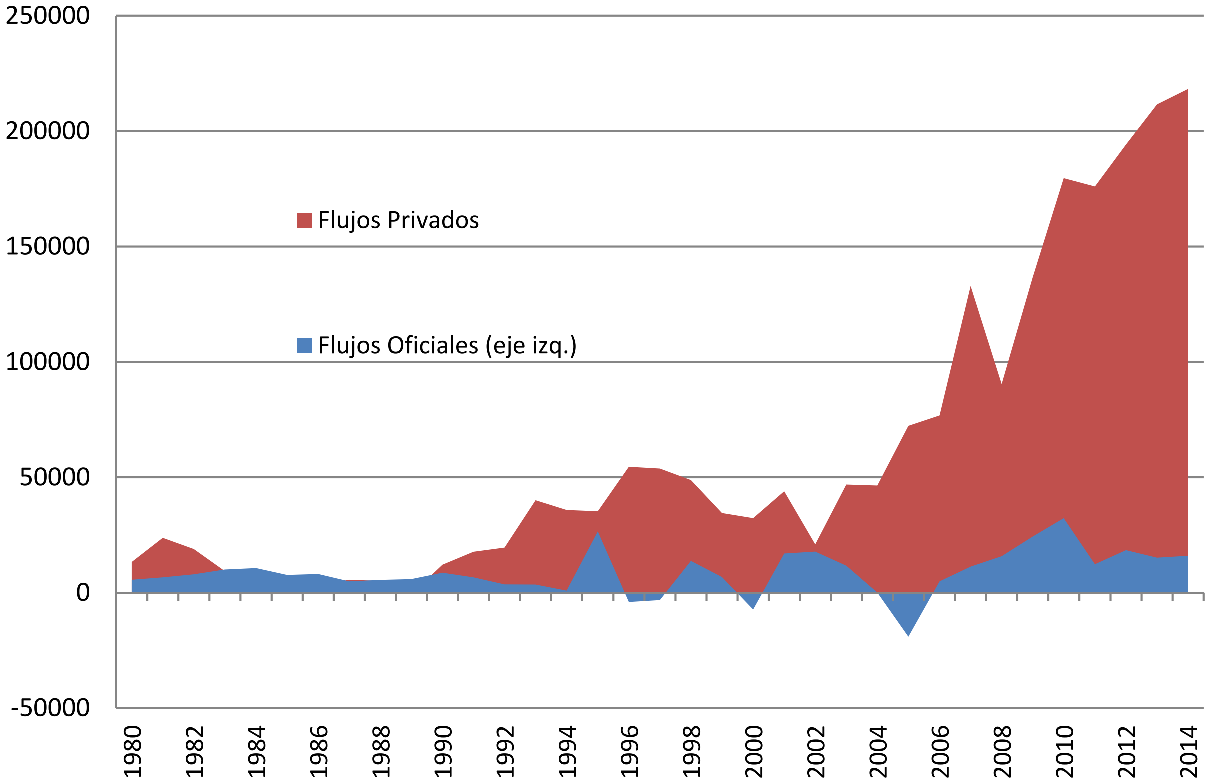
Source: ECLAC, on the basis of Bank for International Settlements (BIS) and World Bank, World Development Indicators, 2015.

Latin America and the Caribbean: a MICs region in transition

- Region returns to positive growth rates of 1,2%
- In 2016 the region's exports are projected to fall 5% and its imports 9%, completing four years of contraction
- Fiscal reforms have increased public income
- Weak private-public partnerships
- More external private flows: FDI (change trends), portfolio and remittances

Greater access to external private flows which have become the main source of external financing

LATIN AMERICA AND THE CARIBBEAN: PRIVATE AND OFFICIAL FLOWS, 1980-2014
(In billions of US$ dollars)



Fuente: CEPAL (2016)

FDI:

- 52% of the total private financial flows in LAC
- goes mainly to natural resource and service sectors and 5-6 countries

Migrant remittances:

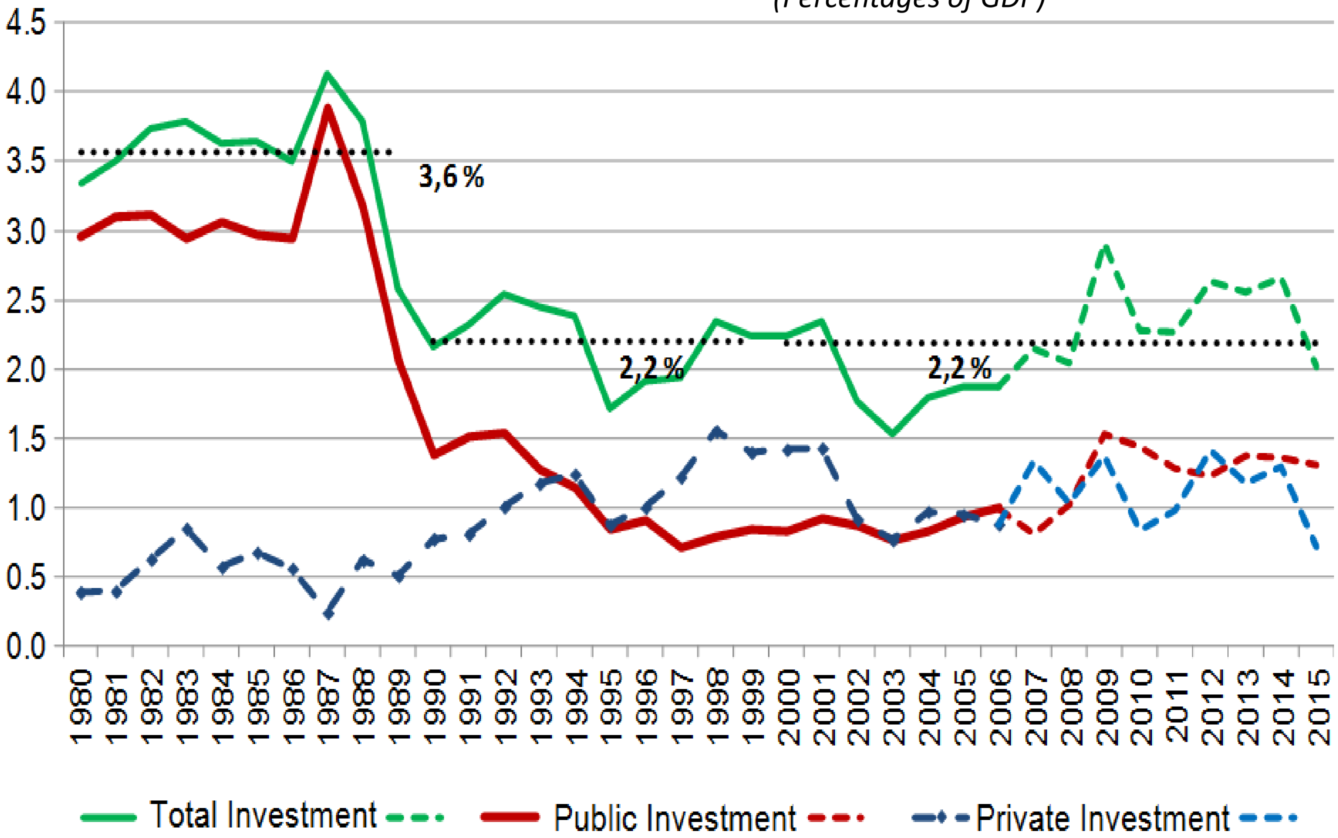
24% of total private financial flows in LAC

Private flows respond to different logic, incentives and objecives

Mobilizing private resources towards Agenda 2030 requires to change the conversation with the private sector

LATIN AMERICA: INFRASTRUCTURE INVESTMENT BY SECTOR, PUBLIC AND PRIVATE, 1980-2015

(Percentages of GDP)



Multiplicity of actors and sources of finance comes with more **requirements and conditionalities that requires a strong public regulation to take strategic approaches**

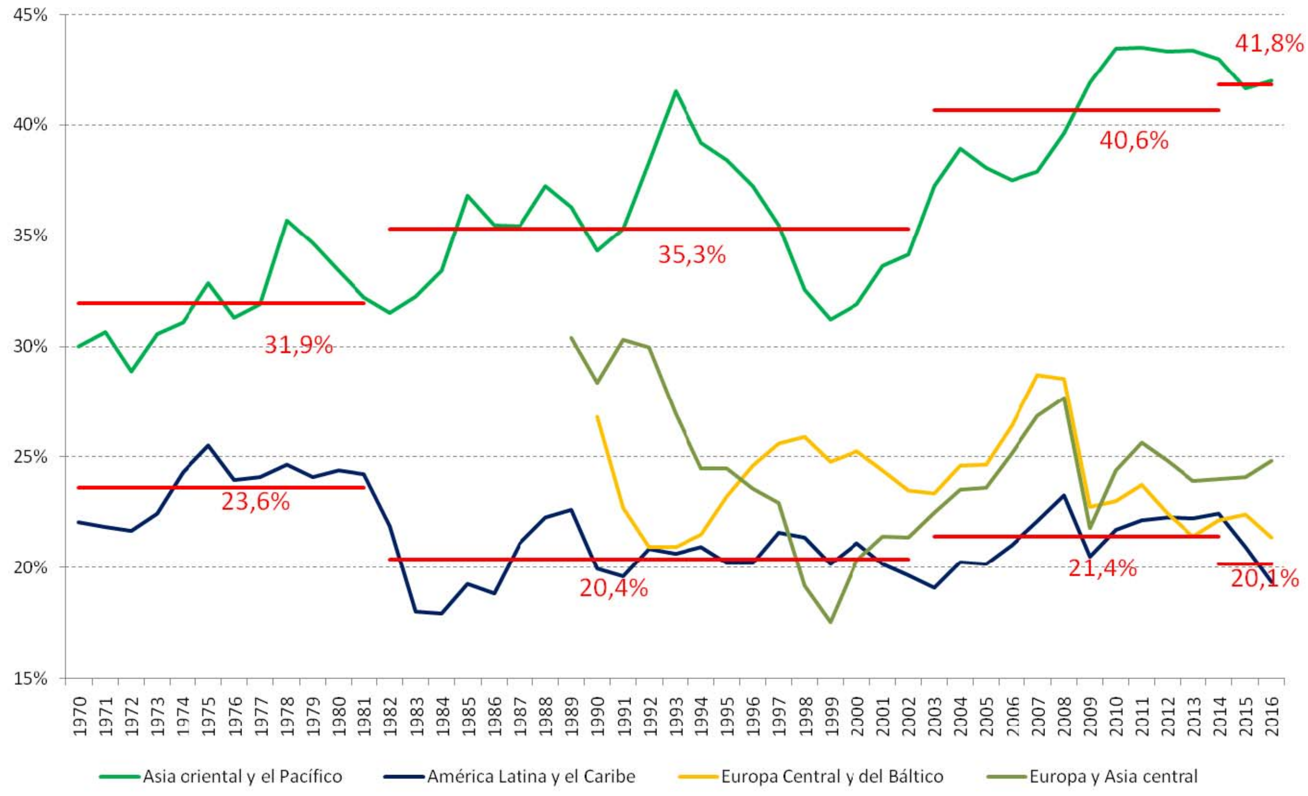
Source: Sánchez, et al. (2017). *"Inversión en infraestructura en América Latina. Tendencias, brechas y oportunidades"*. Series Recursos Naturales e Infraestructura No 184. ECLAC. Santiago.

[a] Period 1980 - 2006: Calderón, César and Luis Servén, (2010), "Infrastructure in Latin America", World Bank Policy Research Working Paper, No. 5317, Washington, D.C., The World Bank.

[b] Period 2007 - 2013: ECLAC and BID/CAF/CEPAL initiative.

Latin American Investment rate vis a vis other developing regions

LATIN AMERICA AND SELECTED REGIONS: GROSS FIXED CAPITAL FORMATION, 1970-2015
(as a percentage of GDP)

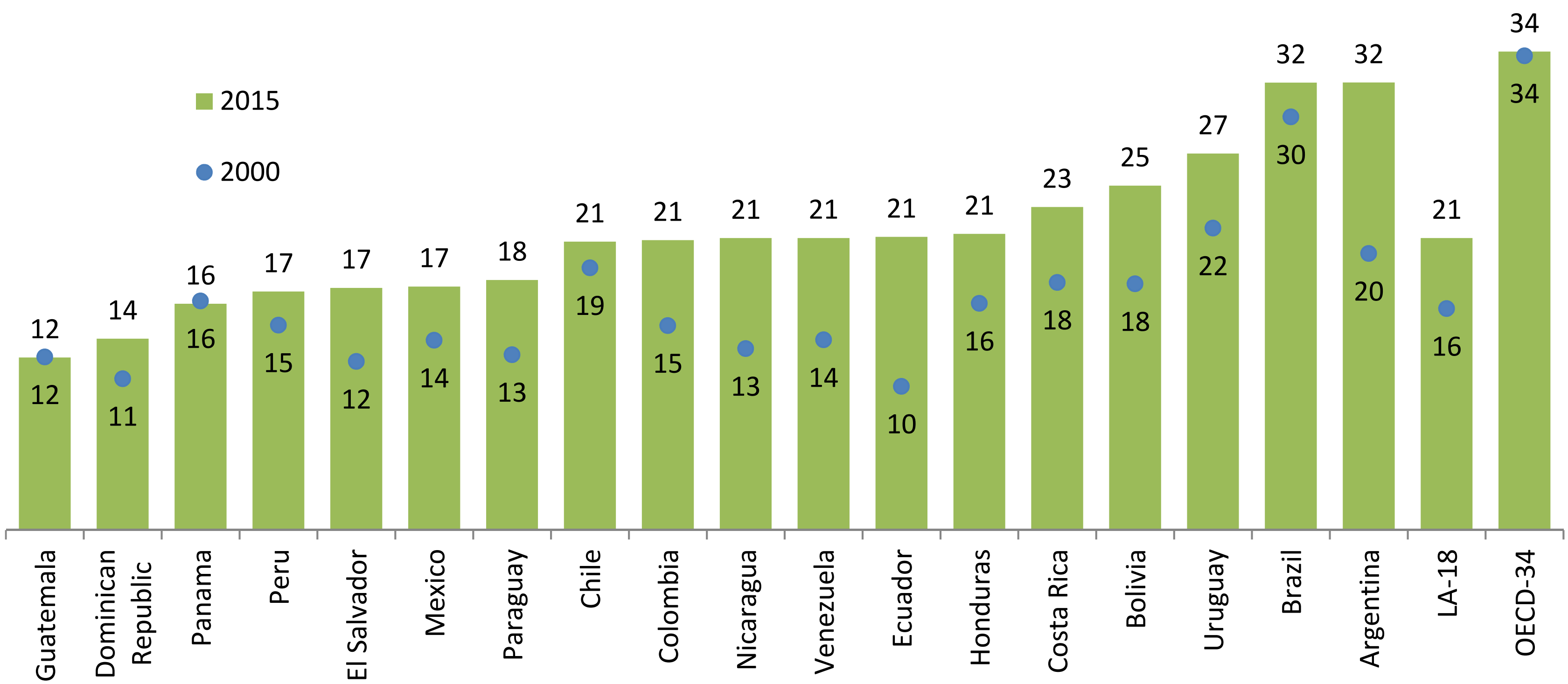


Source: Economic Commission for Latin America and the Caribbean (ECLAC) and World Bank on the basis of official figures.

Improved domestic resource mobilization through a decade of fiscal reforms

TAX REVENUES, LATIN AMERICA AND THE OECD, 2000 AND 2015

(In percentages of GDP)

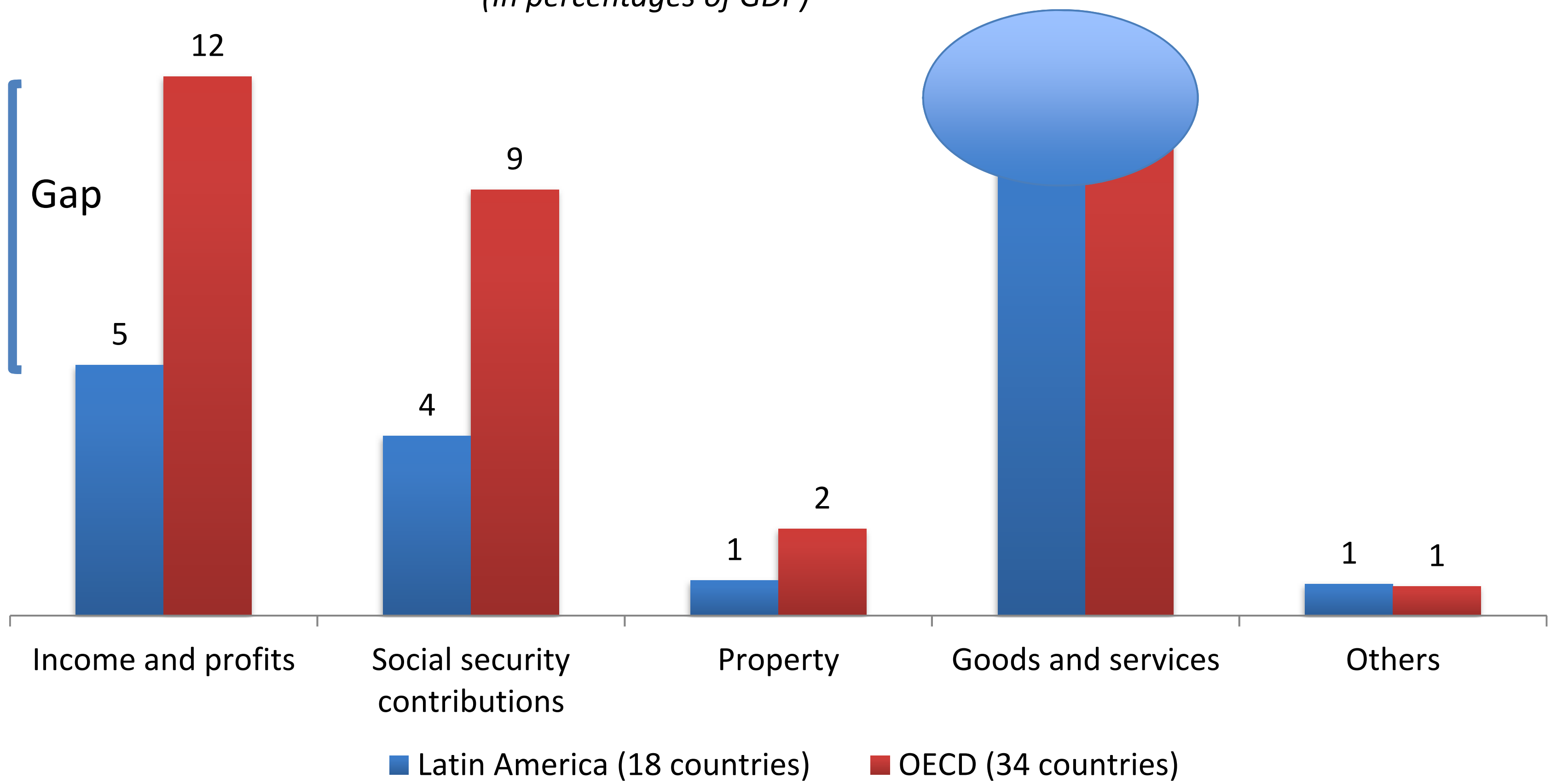


Source: RevStat.

But tax revenues are regressive: highly dependent on indirect taxes and direct taxation remains particularly weak

TAX STRUCTURE, LATIN AMERICA AND THE OECD, 2014

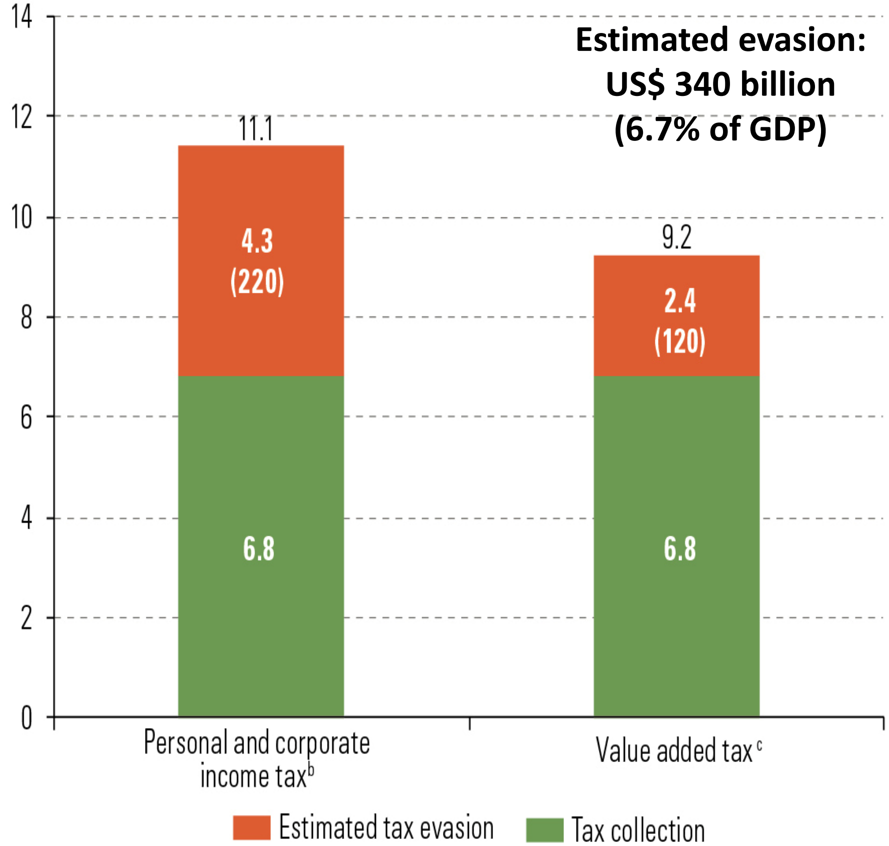
(In percentages of GDP)



Source: RevStat.

Tax evasion and trade misinvoicing need to be significantly reduced

LATIN AMERICA: TAX COLLECTION AND ESTIMATED EVASION, 2015
(Percentages of GDP and billions of dollars)



LATIN AMERICA AND THE CARIBBEAN: TAX LOSSES ASSOCIATED WITH TRADE MISINVOICING, 2004-2013
(Billions of dollars and percentages of GDP)

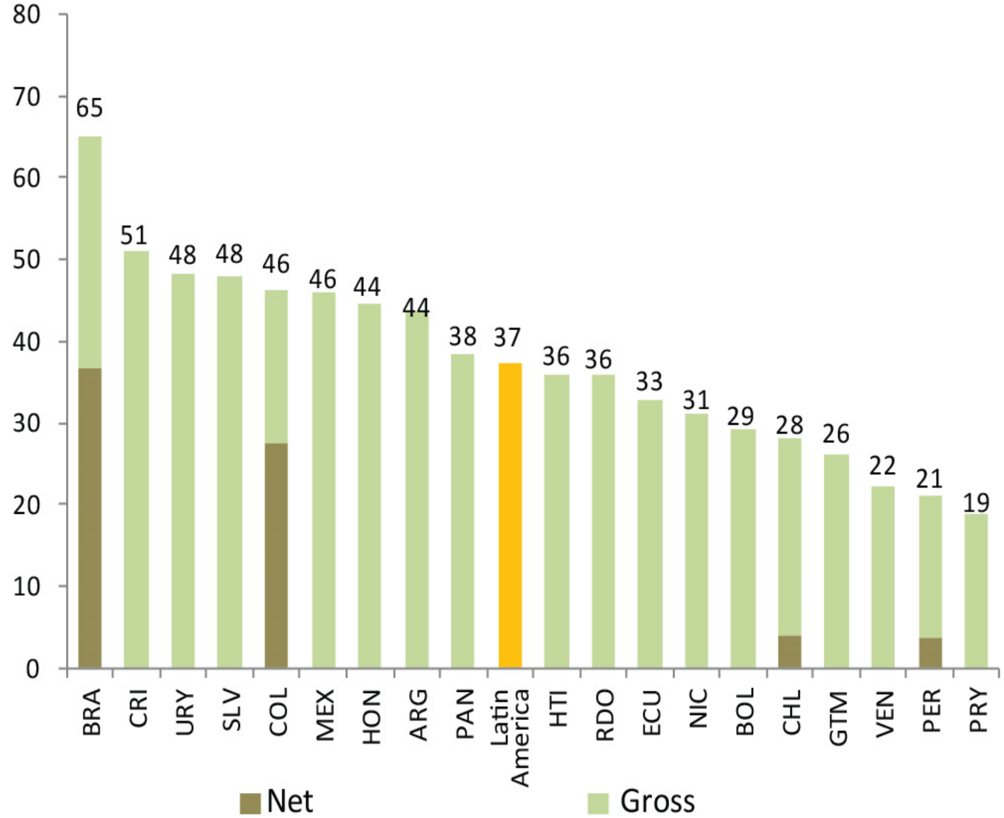
Soruce: Economic Commission for Latin America and the Caribbean (ECLAC), *Financing he 2030 Agenda for Sustainable Development in Latin America and the Caribbean: the challenges of resource mobilization,* (LC/FDS.1/4), Santiago, 2017. [Online: http://foroalc2030.cepal.org/2017/sites/default/files/17-00214_fds1-financing_the_2030_agenda_web.pdf]

Effective control of tax evasion and illicit flows requires international cooperation and networking

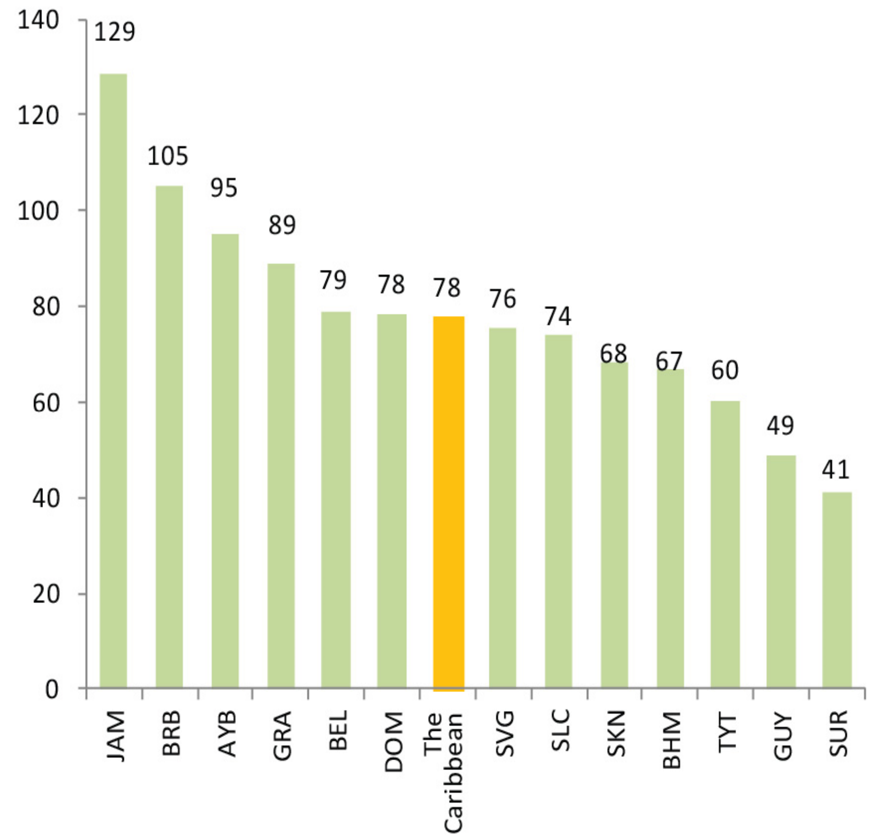
- **Illicit flows** represent a huge transfer of financial resources out of developing economies
- **Global Financial Integrity estimated that in 2014 outflows of illicit flows reached US$ 164 billion dollars for the region**
- **Illicit flows near FDI flows (US$ 167 billion for 2016) and represent more than twice the amount of remittances (US$ 62 billion in 2016) and roughly times the amount of ODA (US$ 16 billion) received by the region.**
- The **tax practices of multinationals** must also be subject to regulation
- **According to estimates for developed countries, particularly in Europe, the annual cost of tax avoidance through transfer price manipulation amounts to US$ 150 billion, BEPS is ok but we need to go beyond so multinationals pay taxed not only in their jurisdiction but in the place they make the gains**
- **Tax havens and offshore financial centers** must also be regulated and these should comply with international standards on commercial banking.

Public debt exhibits varying levels of vulnerability

LATIN AMERICA: GROSS AND NET PUBLIC DEBT, NON-FINALCIAL PUBLIC SECTOR, 2015
(Percentages of GDP)



THE CARIBBEAN: NON-FINANCIAL PUBLIC SECTOR GROSS PUBLIC DEBT, 2015
(Percentages of GDP)



Note: Data are for the general government for Brazil; central government for the Dominican Republic, Haiti and Honduras.
Source: ECLAC, on the basis of official figures.

Role of development banks at national and regional level should be countercyclical and stronger on financial inclusion

- They are a source of medium- and long-term resources through investment finance for infrastructure and productive and social development.
- Subregional development banks have significantly increased the volume of resources they provide and their share of business in respect of multilateral development banks and by increasing sectoral diversification and financial intermediation

SUBREGIONAL DEVELOPMENT BANKS' SHARE IN TOTAL MULTILATERAL LENDING TO SUBREGIONAL MEMBER STATES, 2010-2013
(Millions of dollars and percentages)

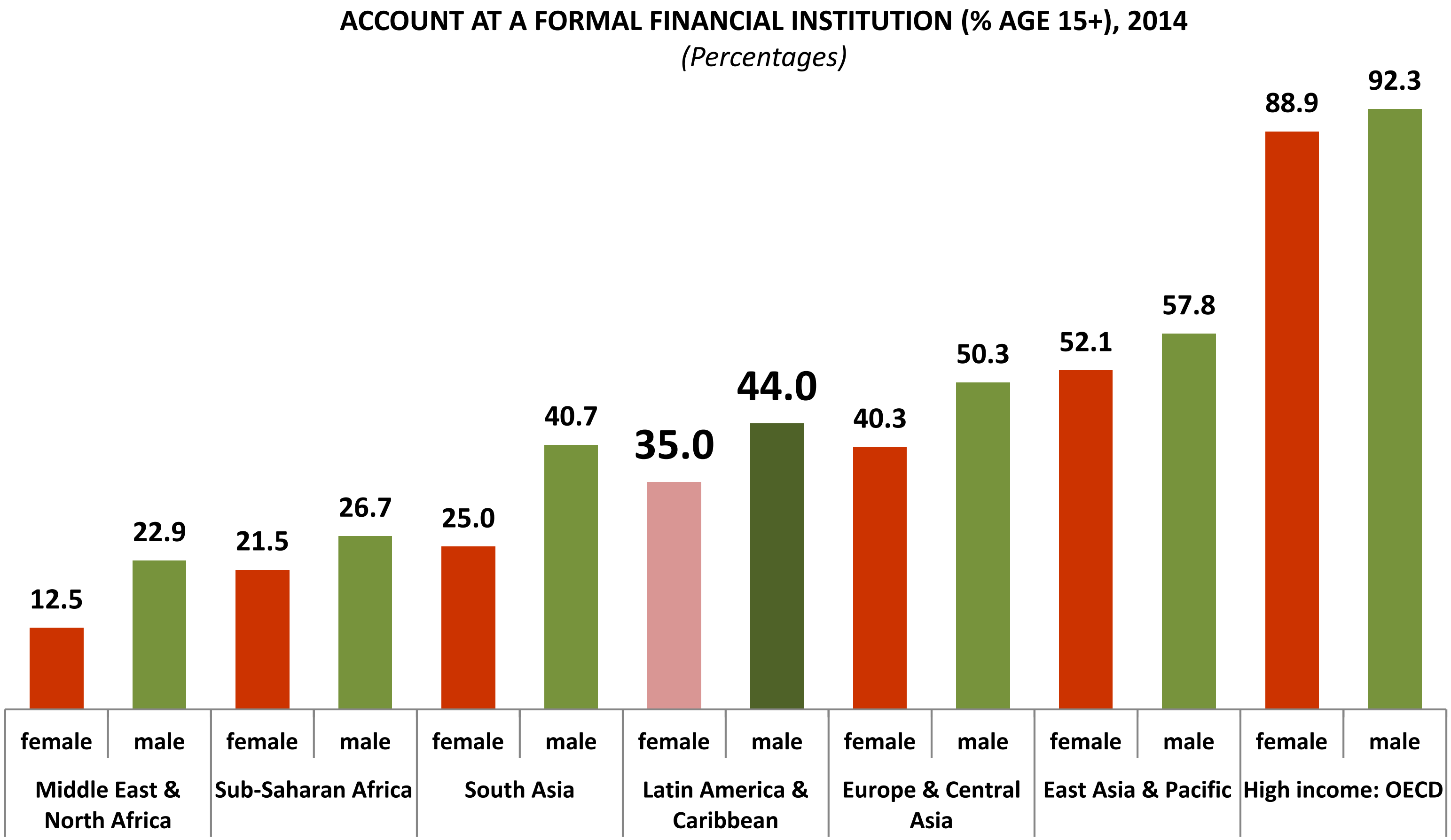
	CABEI member States	CAF member States	CDB member States
Share provided by subregional banks	**44%**	**37%**	**22%**
Share provided by World Bank	15%	28%	30%
Share provided by IDB	40%	35%	48%

Source: prepared by the author on the basis of the annual reports of the relevant banks.

Financial inclusion requires innovative practices and instruments

- **Financial inclusion is an unfinished business for the region**
- **LAC has the lowest levels of household financial inclusion**
- **In LAC, on average, only 45.8% of adults have at least one account at a financial institution**
- **This is below the global average (61%) other developing regions ,**
- **Only 45% of small and Medium Sized Firms have access to the formal financial system while 67.5% of large firms have access to formal systems. Gap of 1.5 times**

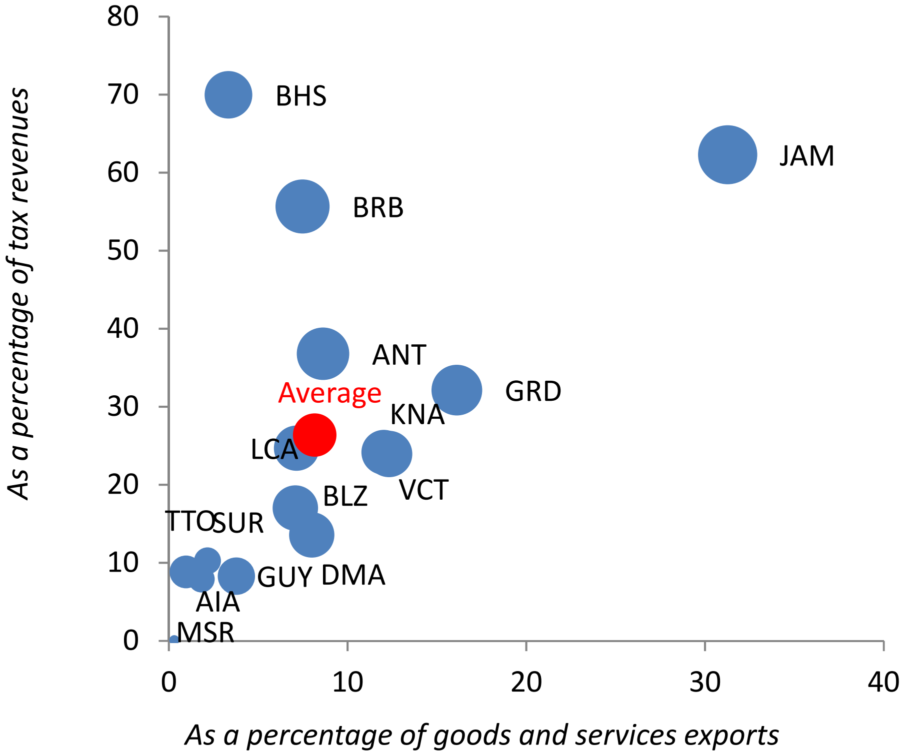
Financial inclusion should also guarantee equal access by gender to the formal financial system



Source: Own elaboration based on World Bank data

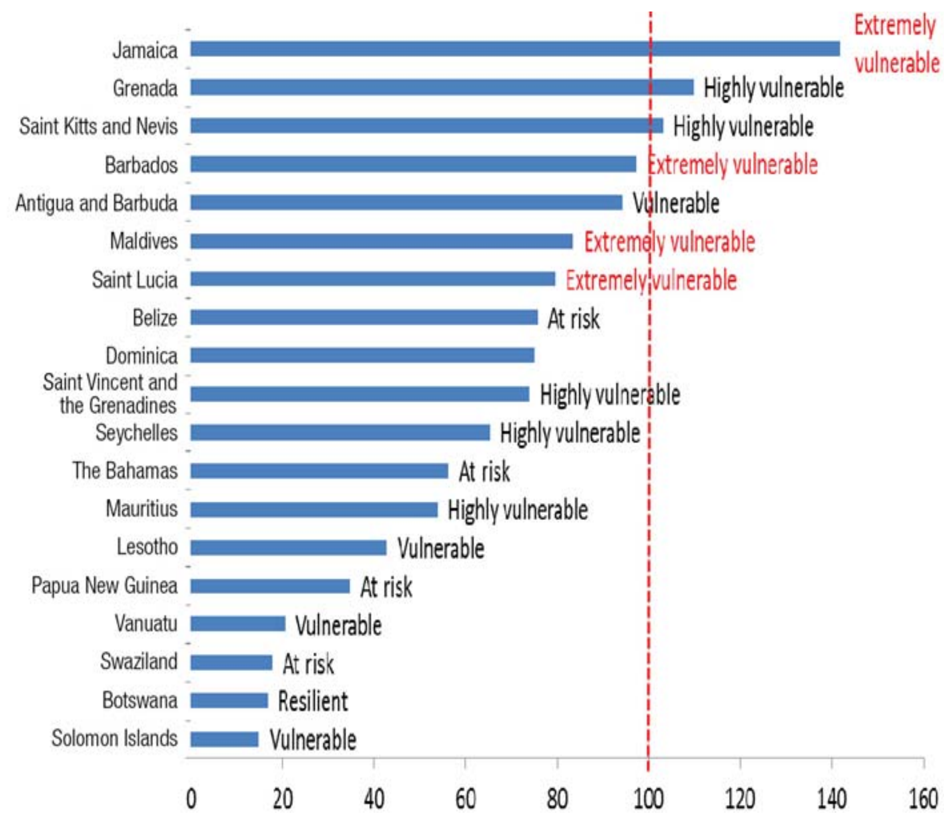
Public debt servicing requirements severely limit Caribbean countries' fiscal space and potential to achieve the SDGs

THE CARIBBEAN: PUBLIC DEBT SERVICE BURDEN, 2014



SMALL STATES: PUBLIC DEBT AND ENVIRONMENTAL VULNERABILITY, 2013

(Percentages of GDP)



Between 1990 and 2008 the cost of natural disasters in the Caribbean is estimated at 136 million USD in constant dollars of 2008

Source: IMF(2016) *World Economic Outlook*, UNEP Environmental Vulnerability Index 2000.

ECLAC is advocating to create a Resilience Fund with debt relief and the Green Fund

- **Relief for 2 billion** multilateral debt out of the total of 42 billion dollars
- Establish a **Resilience Fund** to restore and rebuild new infrastructure after disasters
- **Countercyclical funds** for addressing external shocks since Caribbean is ineligible to borrow concessional funds to rebuild and goes to market rates
- Adaptation to climate change infrastructure in coastal areas

In short: to implement the 2030 Agenda

- **Global, regional and national governance:**
  - **reduction of power asymmetries in the global and regional governance of monetary, financial, trade, technological and environmental matters**
  - **institutional cooperation and coordination within and between countries through RECs and UN**
- **Ensure that private flows are a key contribution to financing for development these flows must be nested in a developing strategy**
- **Consolidate the role of ECOSOC in economic issues and create the intergovernmental body for tax matters and for technology transfer**

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