

Financing for Sustainable Development in Latin America and the Caribbean

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Financing for Environmentally Sustainable Development

- I. Introduction**
- II. Trends in international financing**
- III. Trends in domestic financing**
- IV. Conclusions**

International Financing for Sustainable Development

External Debt and the Environment

- ❖ **The external debt burden of Latin America and the Caribbean remains high**
- ❖ **Promoting the initiative for debt forgiveness for the poorest countries**
- ❖ **Reformulating the mechanism for debt-for-nature swaps in order to:**
 - ❖ **Assume global responsibility for environmental problems**
 - ❖ **Relieve part of the developing countries' debt burden**

Official Development Assistance (ODA)

- ❖ **In 2000, ODA stood at 0.22% of donor countries' GNP -- far below the target of 0.7%**
- ❖ **Marked differences between donors**
- ❖ **Marked differences between receiving regions and countries: no country in the region is among the 10 top receiving countries**
- ❖ **The region receives ODA amounting to about 0.4% of its GNP, which is equivalent to US\$ 14 per capita**

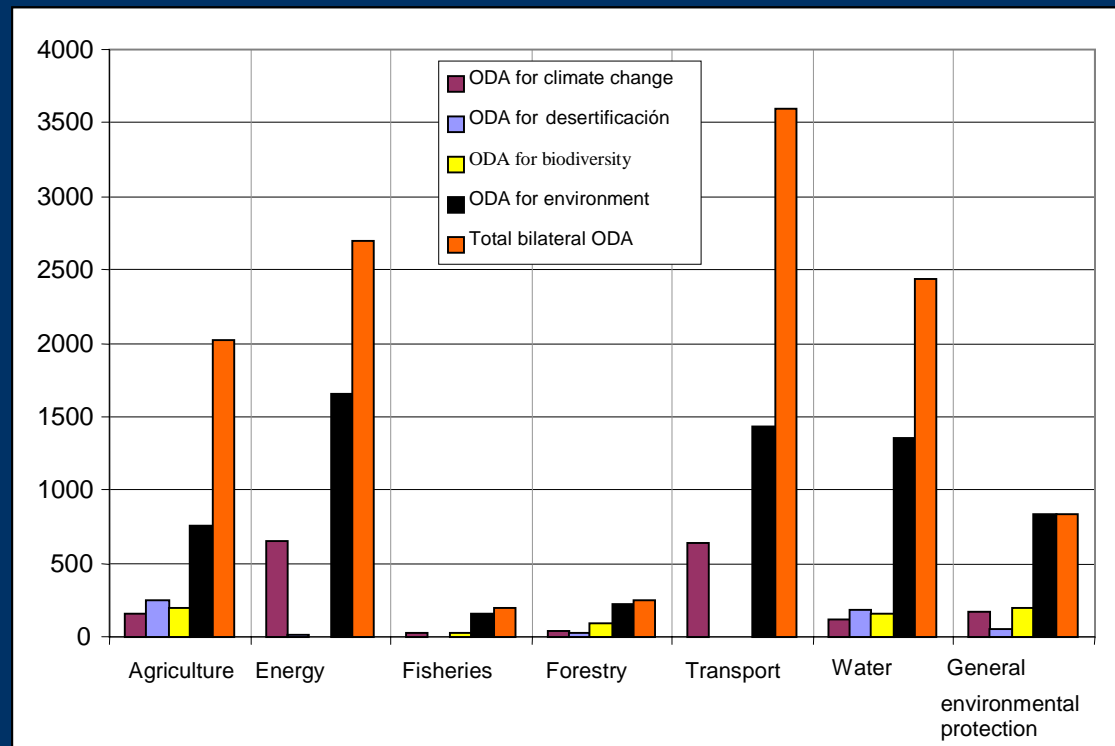
Official Assistance

- ❖ Assistance to the region for general environmental protection accounts for approximately 4%-5% of total assistance
- ❖ In 1998, global assistance for activities relating to climate change amounted to US\$ 1.8 billion, of which 6% was received by the region
- ❖ A total of US\$ 562 million was allocated to projects for combating desertification, of which the region received 20%
- ❖ Assistance for biodiversity-related activities totalled US\$ 778 million, of which 12% went to the region

Official Assistance

World assistance for objectives set out in the Rio conventions represents a very small share of bilateral aid, but accounts for a significant percentage of the assistance provided for sectoral activities related to the environment

ASSISTANCE FOR PROJECTS PURSUING THE OBJECTIVES SET OUT
IN THE RIO CONVENTIONS, 1998
(millions of US\$)



Official Assistance

- **It is urgent for the developed countries to comply with the objectives of Agenda 21 and to make more efficient use of existing resources**
- **Donor countries are urged to develop new mechanisms for increasing the provision of global public goods**

Private International Financial Flows

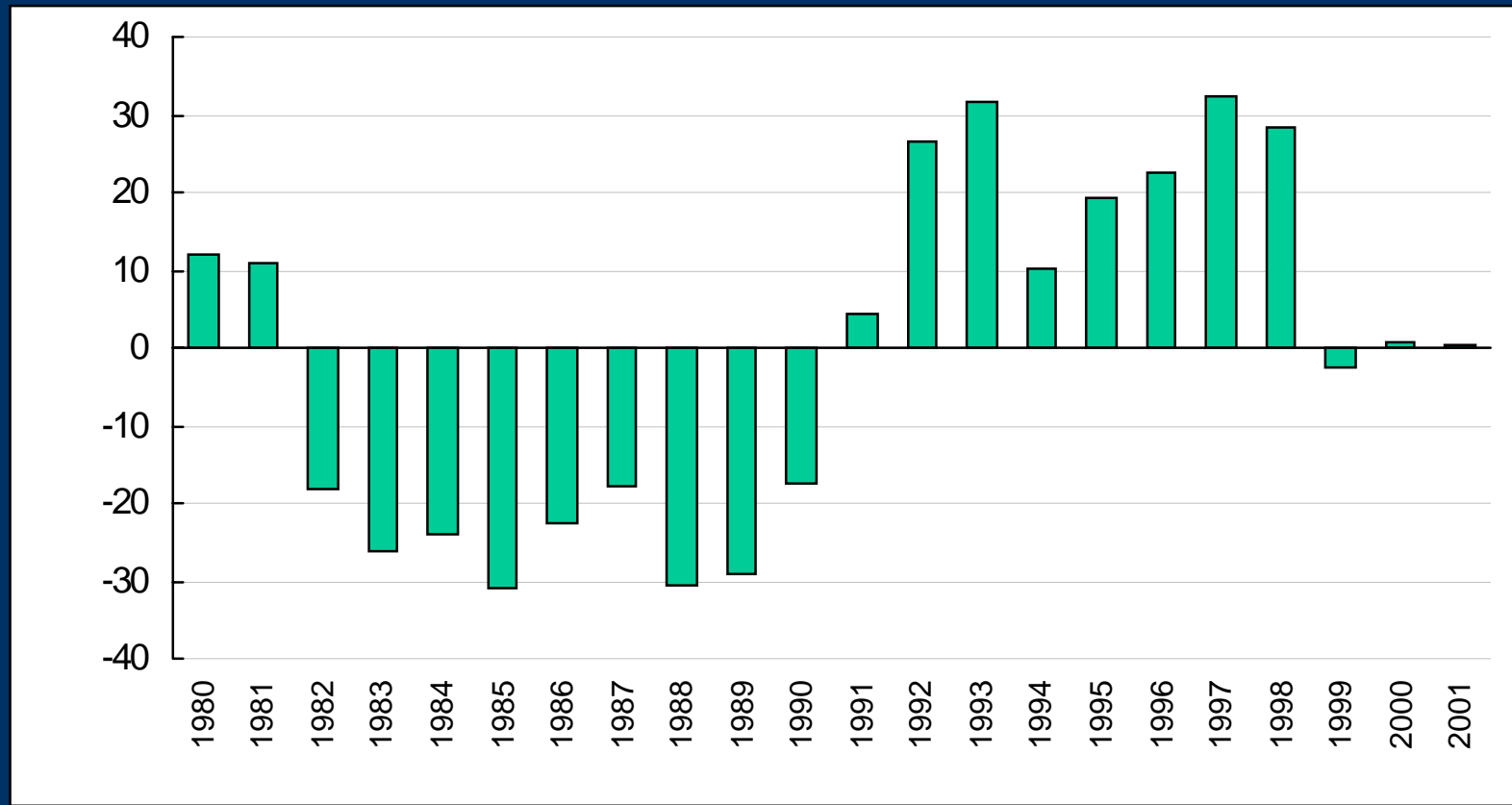
- **Private financial flows account for 86% of total capital flows to developing countries and are 6 times higher than ODA**
- **Until the recent crisis, these flows were growing steadily thanks to privatizations and the opening of economies to FDI**
- **World FDI and portfolio flows are concentrated in just a handful of countries (China, Mexico, Singapore, Malaysia, Argentina y Brazil)**
- **In Latin America and the Caribbean the 1990s saw a shift in FDI away from the extraction of natural resources and towards services, including, in some cases, “environmental services”**

International Financial Agencies and the Environment



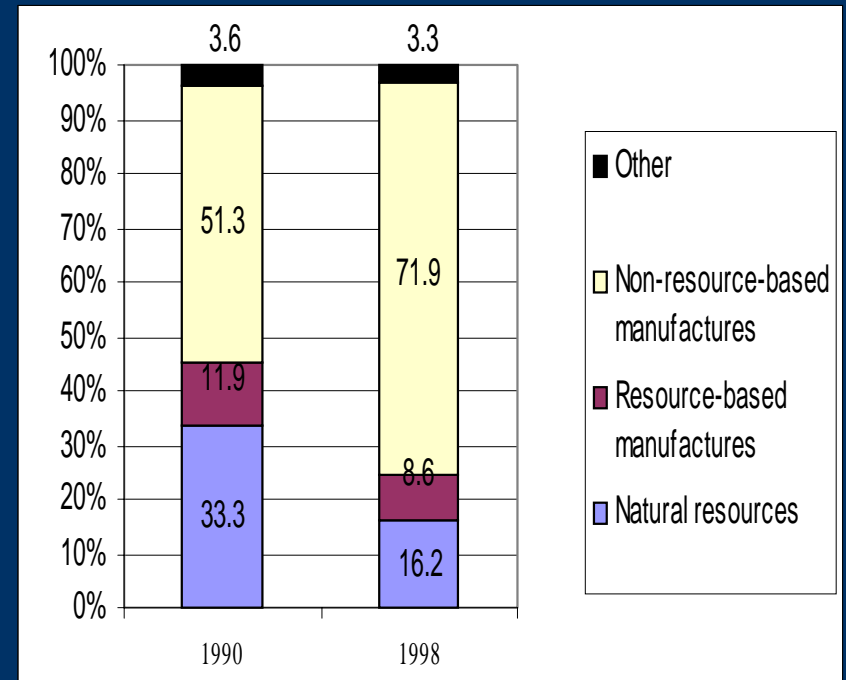
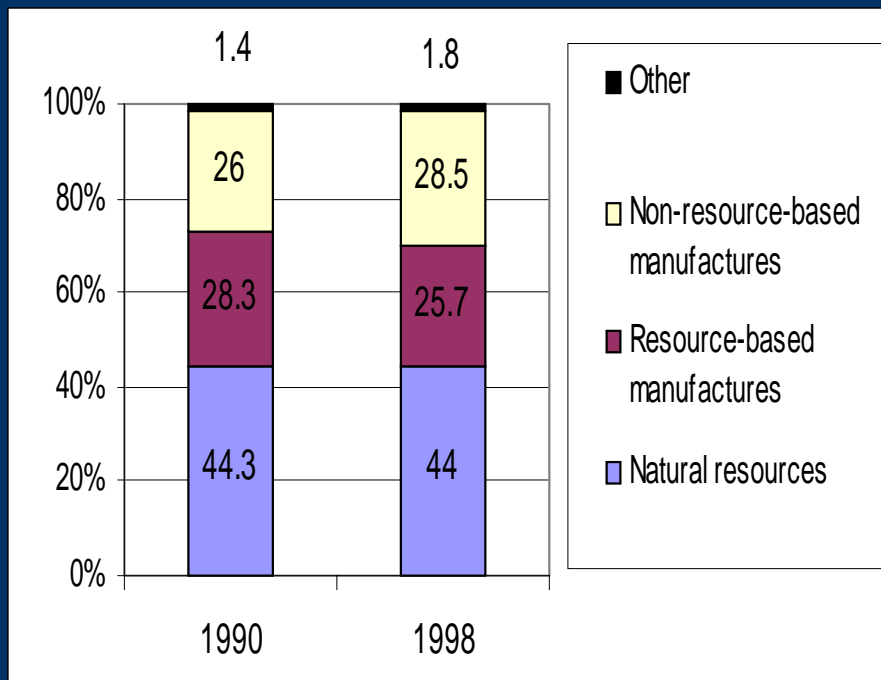
Private International Financial Flows

**THE HIGHLY POSITIVE NET TRANSFER OF RESOURCES SEEN IN THE 1990S
HAS DROPPED TO NEAR-ZERO LEVELS SINCE 1999**
(billions of US\$)



Private International Financial Flows

The share of natural resource-based exports has declined in Mexico and the Caribbean basin, but South America's export structure has changed very little



Private International Financial Flows

- ❖ **FDI cannot take the place of ODA because the neediest countries attract the least investment**
- ❖ **The environmental dimension must be an integral part of the weighting criteria used by countries to determine what types of investments to attract**
- ❖ **Consistent and stable environmental regulations must be applied on an equal basis to all investors**
- ❖ **Environmental policies in the region must be coordinated to avert unfair competition for new investment**

International Financial Agencies and the Environment

- ❖ **Growing tendency to support explicitly environmental projects**
- ❖ **Over 30% of the cost of the environmental projects being funded is covered by domestic financing**
- ❖ **Major advances in assessing the environmental impacts of project lending and implementation**

Concessional Multilateral Funds for Tackling Global Problems

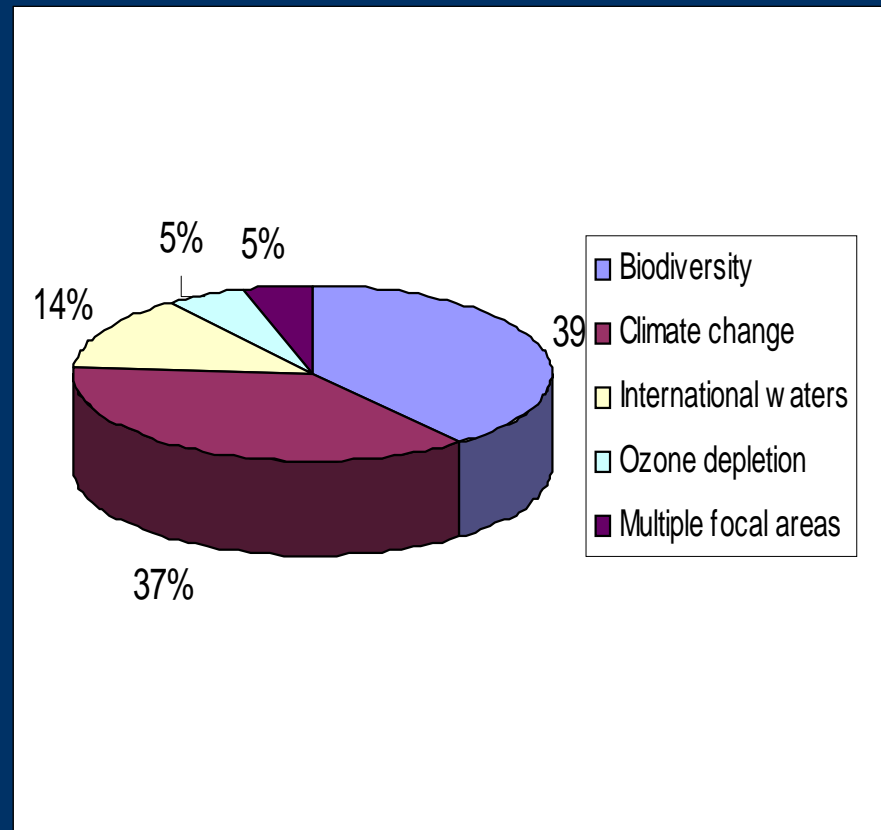
- ❖ **During the last decade steps have been taken to strengthen concessional funds (Global Environment Facility, Multilateral Fund for the Implementation of the Montreal Protocol), but funding still falls short of what is needed**
- ❖ **Very little progress has been made in developing mechanisms for setting up global environmental markets**

Concessional Multilateral Funds for Tackling Global Problems

- ✓ **Assessment of the region's potential, based on its natural capital and biodiversity, in terms of global environmental goods and services**
- ✓ **The Clean Development Mechanism provides opportunities, but they will not become a reality in the short term**
- ✓ **Role of regional and subregional institutions as coordinators**

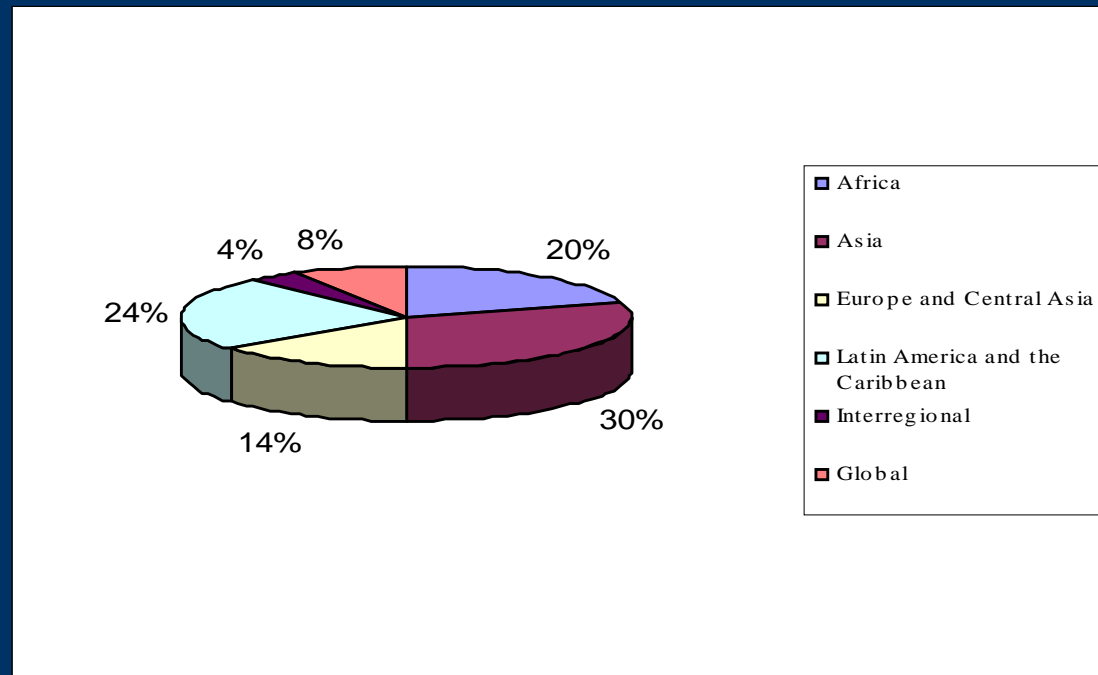
Concessional Multilateral Funds for Tackling Global Problems

The Global Environment Facility (GEF) has allocated US\$ 3.2 billion for projects providing global environmental benefits - Cofinancing has amounted to US\$ 8 billion



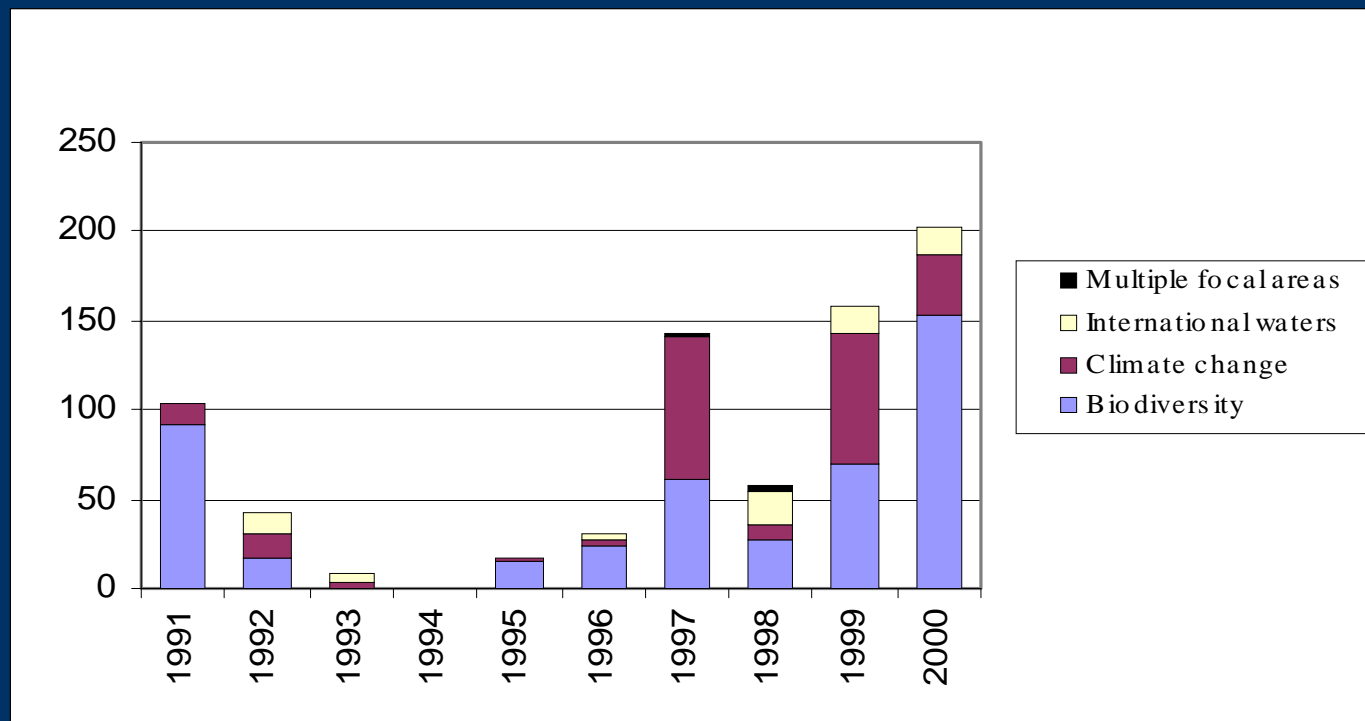
Concessional Multilateral Funds for Tackling Global Problems

As of June 2000 the region had received over US\$ 180 million through GEF, but its approved projects, dealing mainly with biodiversity and climate change, amounted to US\$ 700 million



Concessional Multilateral Funds for Tackling Global Problems

LATIN AMERICA AND THE CARIBBEAN: ANNUAL ALLOCATIONS OF THE GLOBAL ENVIRONMENTAL FACILITY, BY FOCAL AREA *(millions of US\$)*



Domestic Financing for the Environment

- ❖ **Although there were differences across countries, in the 1990s:**
 - ❖ **Total expenditure on the environment generally amounted to 1% of GDP or less**
 - ❖ **Public expenditure on the environment rarely exceeded 3% of total public expenditure**
- ❖ **No general increase in government environmental budgets was seen in the 1990s, and allocations fluctuated sharply as economic conditions in the countries changed**

Domestic Financing for the Environment

- ❖ **Environmental budgets have been used mainly for water treatment, urban waste management and protection of natural areas**
- ❖ **Administrative decentralization and the significant involvement of sectoral ministries and independent agencies in the management of the environmental budget heighten the need for institutional coordination**
- ❖ **In some cases, geographic imbalances in the allocation of funds reflect differences between the national environmental agenda and the environmental agenda of international actors and external financial agencies**
- ❖ **Need for a systematic evaluation of trends in public and private environmental expenditure/investment**

Domestic Financing for the Environment

- **Potential for the use of fiscal instruments to permit the partial self-financing of environmental activities (wilderness areas)**
- **Emphasis should be on the design of economic instruments for environmental management and the elimination of perverse subsidies**
- **Public institution-building complements and strengthens the application of economic instruments**
- **Need for consistent, coordinated efforts on the part of environmental and fiscal authorities**

Domestic Financing for the Environment

- **The private sector is showing increasing signs of concern about the environmental impact of its activities**
- **The presence of foreign firms and the significance of exports in terms of total sales increase the probability of corporate environmental investment**

Domestic Financing for the Environment

- **Improving energy efficiency and technology and obtaining certification (such as ISO 14000) are the main motivations for environmentally beneficial private voluntary investment**
- **Strengthening the role of national and multilateral banks in supporting private environmental investment, particularly by SMEs and by emerging specialist financial firms**