

The challenges
facing **Latin America**
and **the Caribbean**
regarding financing
for the **2030 Agenda**
for Sustainable
Development



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ECLAC



FOR SUSTAINABLE
DEVELOPMENT WITH EQUALITY

The challenges
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Development



Alicia Bárcena
Executive Secretary

Mario Cimoli
Deputy Executive Secretary a.i.

Raúl García-Buchaca
Deputy Executive Secretary for Administration and Programme Analysis

Daniel Titelman
Chief, Economic Development Division

Ricardo Pérez
Chief, Publications and Web Services Division

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Work on this document was coordinated by Alicia Bárcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC).

The chapters were written by Daniel Titelman and Esteban Pérez, with important inputs from Dillon Alleyne, Georgina Cipoletta, Michael Hanni and Adriana Matos. Research assistance was provided by Luis Méndez and Salvador Figuerero.

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Introduction

The 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, the Sendai Framework for Disaster Risk Reduction for 2015-2030 and the Paris climate accord map out a new development agenda. Fulfilling this new agenda will entail sweeping changes in the approach to sustainable development that will, in turn, call for the mobilization of a massive amount of internal and external resources, along with changes in the way that initiatives are financed and organized and in the way that resources are allocated.

On the domestic front, given the fact that fiscal space and the supply of resources are limited, a comprehensive, sustained reform of public finances will continue to be necessary in order to ensure the public sector's solvency, safeguard investment, maintain the social ground that has been gained and broaden the tax base. Fiscal efforts must be coupled with increased private investment in areas that back up those efforts in order to regain high and sustainable growth rates. In addition, it is imperative that action be taken to bolster public finances by upgrading the region's tax systems. Most of these systems are plagued by collection shortfalls, have tax bases that have been eroded by a proliferation of tax incentives and are subject to high rates of income and value added tax evasion; in fact, the extent of tax evasion has been estimated by the Economic Commission for Latin America and the Caribbean (ECLAC) to amount to the equivalent of 6.7 points of the region's GDP, or nearly US\$ 340 billion in 2015.

On the external front, numerous changes have occurred in the landscape of financing for development in the past decade. These changes are related to the growing importance of new stakeholders and sources of development finance, including donor countries that do not belong to the Development Assistance Committee (DAC), non-governmental organizations, climate funds, innovative financing mechanisms and South-South cooperation initiatives. Private capital has also become an important source of financing and is being channelled through a diverse range of instruments, including shares, bonds, debt securities, concessional loans and risk hedging instruments (including guarantees), as well as workers' remittances and voluntary private contributions.

An analysis of the dynamics of financial flows to Latin America and the Caribbean shows that flows of official development assistance (ODA) have declined considerably by comparison with flows to other developing regions and relative to the region's average gross national income (GNI). Currently, ODA flows amount to 0.25% of the region's GNI, which is markedly below the 0.4% mark of past decades.

A countervailing trend relative to the slump in ODA is the growing importance of private financing, which amounted to US\$ 282.723 billion in net terms in 2016, or 95% of total financial flows. The largest component of these flows is foreign direct investment (FDI), which represented 2.18% of the region's GDP in 2015. These flows are directly related to the trade specialization patterns and comparative advantages of the region.

Another major part of these private flows is made up of remittances from migrant workers, which totalled US\$ 20 billion in 2000 and US\$ 60 billion in 2015, or nearly 25% of the region's net financial flows. Portfolio investment flows are the third-largest component of these financial flows, but because of the uses made of them and their volatility, they are not regarded as a source of financing for development.

The growing importance of private flows poses a key challenge for the region. To meet that challenge, the region must find ways of mobilizing these resources and channelling them into uses that will contribute to the achievement of the Sustainable Development Goals.

Private capital is largely driven by profit rather than development. Thus, private investment may fall short in areas that are crucial for sustainable development if the expected yield in those areas is less than the profit-making opportunities offered by other types of investments. The public sector is playing

an increasingly important role in incorporating social returns into cost-benefit analyses for investment activity, however. Public funding can be provided to sectors that do not attract large enough private flows, and the public sector can also furnish attractive incentives to channel private capital towards the achievement of the Sustainable Development Goals.

Meeting the challenge of mobilizing a sufficient volume of a mix of public and private funds has been made more difficult by the fact that major changes have been taking place in recent decades in the development financing landscape; these changes include the appearance of new actors, mechanisms and sources of financing. This last category includes new donor countries that are not members of the Development Assistance Committee (DAC), innovative financing mechanisms and climate funds, all of which are coming to play a more influential and visible role in development finance.

While these changes in the financial landscape have broadened the number of available sources of funding for development, they have also heightened the complexity of coordinating the diverse range of actors, funds, mechanisms and instruments and incorporating them into the framework of a coherent development financing architecture. This is particularly true of climate funds and innovative financing mechanisms, which stand in need of greater clarity in terms of development objectives, sources of funding and conditions of use and access.

Achieving an effective and efficient form of funding that will accelerate progress towards the attainment of sustainable development in countries with differing income levels should not distract policymakers' attention from the need to prevent ODA from being withheld from some countries on the basis of their levels of per capita income.

Finally, mapping out the landscape of development financing will not be enough in itself to steer countries towards the adoption of a strategic approach to such financing. The multiplicity of existing financial options does not amount to effective access.

The capacities and capabilities of the Latin America and Caribbean countries for gaining effective access to public and private finance vary greatly. Access to private finance options is subject to a vast range of requirements and conditions, which makes it difficult for countries to take a strategic approach in their efforts to obtain financing for their development priorities and to assess the impact and effectiveness of development finance sources. What is more, not all development finance providers impose the same conditions and to have the same eligibility requirements as public sources of financing do.

I. The challenge of mobilizing domestic resources for the achievement of the Sustainable Development Goals of the 2030 Agenda

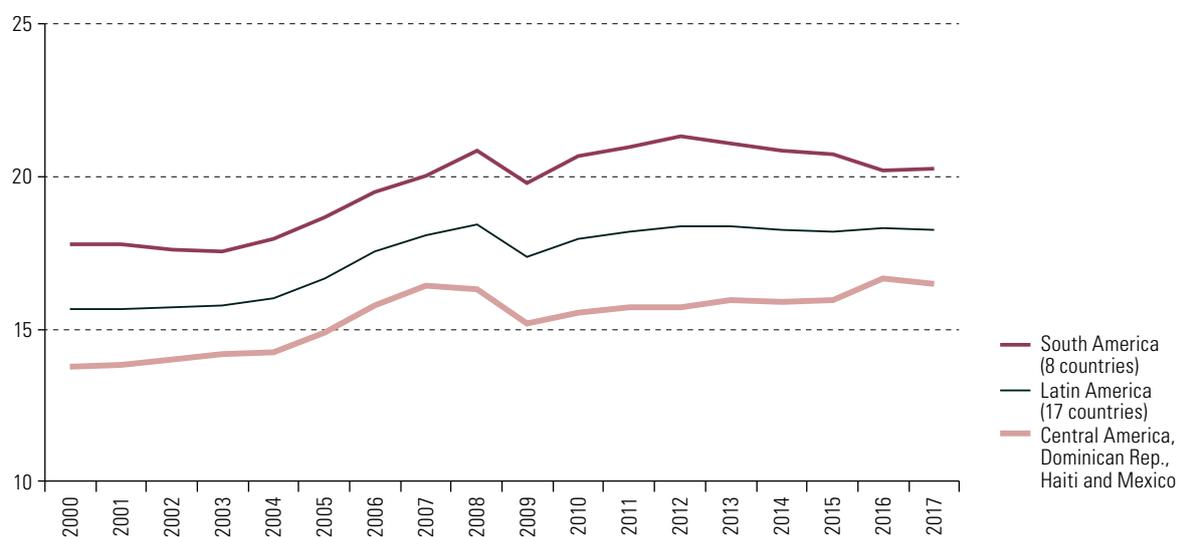
A. Resource mobilization through the region's tax systems continues to be a crucial issue for achievement of the Sustainable Development Goals

The economic slowdown, which turned into a recession in some countries, severely impacted public revenues in the aftermath of the global crisis of 2008 and 2009. While central government revenues in Latin America rose by an average of 0.3 percentage points of GDP per annum between 2000 and 2008, the rate of increase was just 0.03 percentage points per year in the post-crisis period (from 2010 to 2017)

(see figure 1). In addition, the regional average masks significant variations between the northern and southern parts of the region. Revenues in South America have fallen sharply since 2012, mainly as a result of the downturn in earnings from non-renewable natural resources. In contrast, in Central America, the Dominican Republic, Haiti and Mexico, although total revenues dropped steeply in the immediate aftermath of the crisis, they have been on the rise ever since (apart from some slippage in the last year).

Figure 1

Latin America (17 countries and selected subregions): total central government revenues, 2000-2017
(Percentages of GDP)



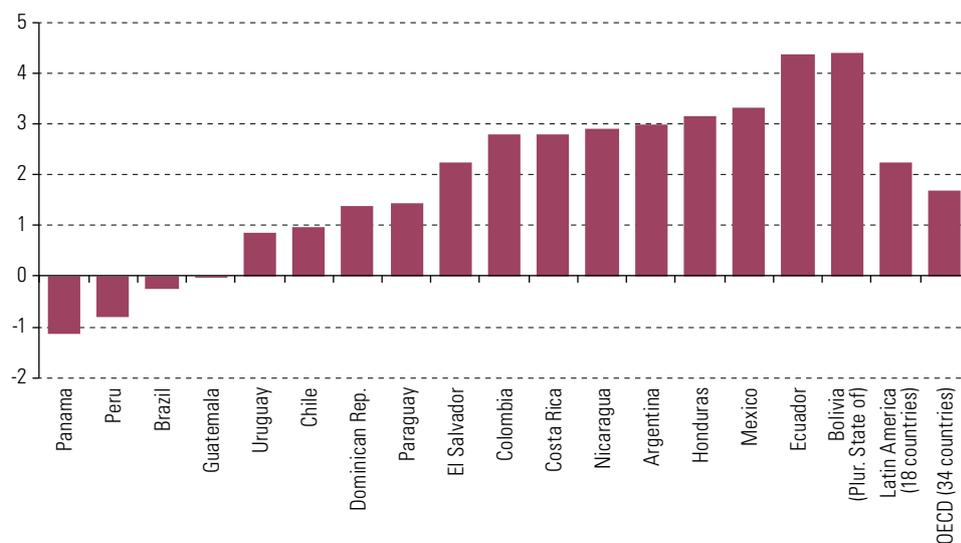
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

These trends in total public revenue notwithstanding, tax receipts have trended upwards since 2010, thanks to the tax activism displayed by the countries of the region between 2010 and 2015 (the period covered in figure 2). Fifteen Latin American countries have implemented substantial tax reforms: the Bolivarian Republic of Venezuela (2010), Brazil (2015), Chile (2014), Colombia (2010, 2012, 2014), the Dominican Republic (2012), Ecuador (2011), El Salvador (2011), Honduras (2010, 2013), Guatemala (2012), Nicaragua (2012), Mexico (2013), Panama (2010), Paraguay (2012) and Peru (2012, 2014).

A more detailed look at the updated values (see figure 3) shows that some countries, such as Argentina and Brazil, have a tax burden (32.1% and 32.0% of GDP, respectively) that is close to the average for the countries of the Organization for Economic Cooperation and Development (OECD), which was 34.0% of GDP in 2015. Also noteworthy are the figures for Uruguay (27.0% of GDP), the Plurinational State of Bolivia (24.7% of GDP, with an increase of 16 percentage points since 1990) and Costa Rica (23.1% of GDP), which are well above the average of 20.9% of GDP for the 18 selected countries of Latin America in the most recent period.

Figure 2

Latin America (18 countries) and the Organization for Economic Cooperation and Development (OECD) (34 countries): changes in the tax burden, 2010-2015
(Percentages of GDP)

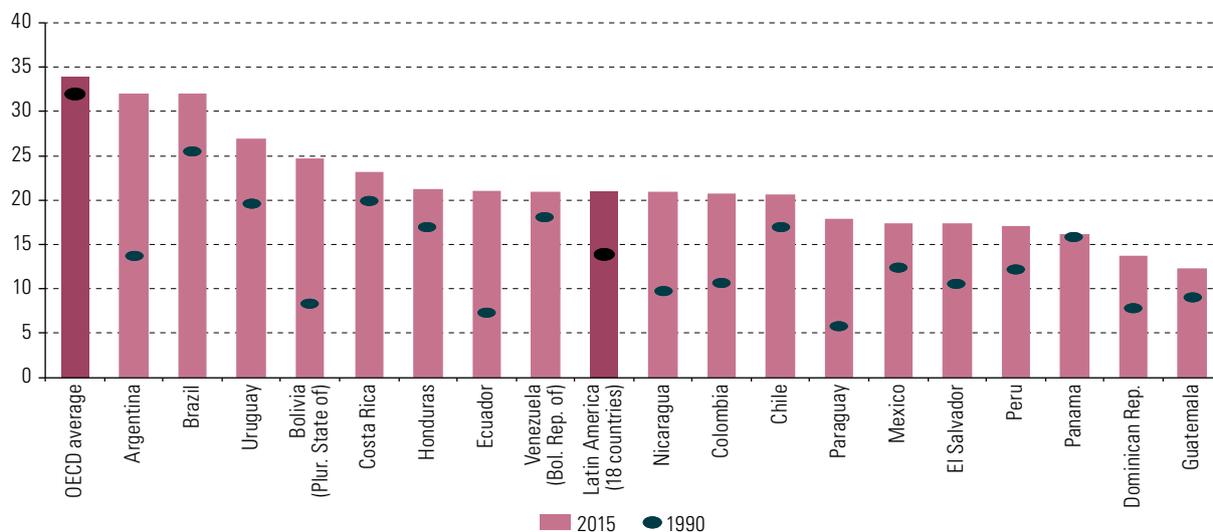


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/ Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Center of Tax Administrations (CIAT)/ Inter-American Development Bank (IDB), *Revenue Statistics in Latin America and the Caribbean 1990-2015*, Paris, OECD Publishing, 2017.

Note: Average for Latin America including the Bolivarian Republic of Venezuela (not shown).

Figure 3

Latin America (18 countries): tax revenues, 1990 and 2015
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/ Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Center of Tax Administrations (CIAT)/Inter-American Development Bank (IDB), *Revenue Statistics in Latin America and the Caribbean 1990-2015*, Paris, OECD Publishing, 2017.

Note: General government figures for 18 selected countries.

There is another group of countries whose tax burdens are close to the average for the 18 selected countries and ranged between 21.2% of GDP (Honduras) and 20.6% of GDP in 2015 (Chile). This group includes Colombia, Ecuador and Nicaragua, all of which have sharply increased their tax rates since 1990. As shown in figure 3, this upward trend was also seen in countries such as Paraguay (17.9% of GDP—12 percentage points higher than in 1990) and El Salvador and even in countries where the tax burden still lags behind the regional average, as is the case of the Dominican Republic and Guatemala. The same cannot be said of Panama, where, in terms of GDP, the increase in the tax burden between 1990 and 2015 was negligible.

B. Personal income tax must continue to be strengthened as a redistributive instrument and to finance public goods

Economic inequality in Latin America has been reduced considerably over the past 15 years. Nevertheless, the statistics show that it is still the most unequal region in the world and that 11 of its countries are among the 20 with the highest levels of inequality in the world (Duryea and Robles, 2016).

Fiscal policy can influence income distribution in two ways, both of which are linked to market forces. First, improvements in income distribution can be brought about directly by transfers of public funds targeting the main functions of government (health, education, sanitation, social assistance, etc.) Tax systems play a leading role in capturing resources to finance those transfers.

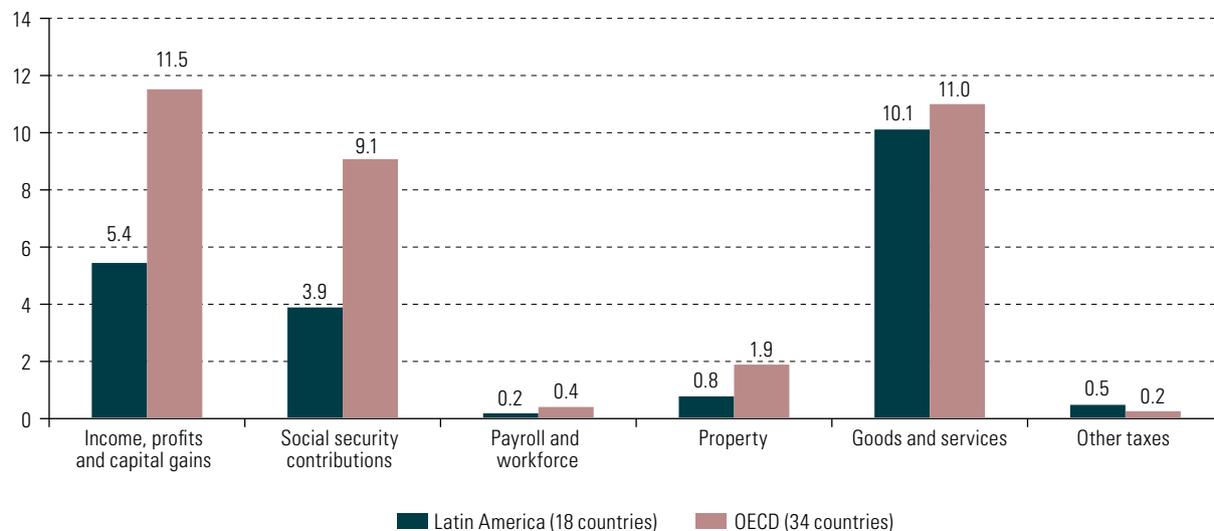
Second, tax systems can be designed to bolster that effort by strictly abiding by the principle of the ability to pay, whereby a greater effort is demanded of higher-income taxpayers in a progressive system of taxation.

However, fiscal policy has continued to play a limited role in improving the distribution of disposable income in Latin America. While the levels of market income inequality in the countries of the region are only slightly higher than they are in OECD countries, the latter countries' fiscal policies play a significant role in reducing inequality, since the application of transfers and direct taxes lowers the Gini coefficient by 36%, compared with only 6% in the Latin American countries (Hanni, Martner and Podestá, 2015). While there are clear-cut differences across countries, on average, 61% of this 6% reduction in the Gini coefficient in Latin America is accounted for by cash transfers (including pensions), while only one third of this quite limited redistributive impact is attributable to taxation (primarily in the form of personal income taxes and social security taxes).

This is largely a reflection of the low rates of direct taxation in the region. As shown in figure 4, Latin American countries obtain half of what the OECD countries collect in income tax and social security payments. On the other hand, the level of receipts from the taxation of goods and services in the region is quite similar to what it is in developed countries (10.1% of GDP versus 11.0% of GDP, respectively).

A closer analysis of the use of personal income tax as a redistributive tool shows that the collection of these receipts is highly concentrated in the highest income decile in all the Latin American countries (see figure 5, right scale) The share in total personal income tax receipts accounted for by that decile amounts to over 80.0% in all the countries of the region except Uruguay and Argentina and averages 88.0%, marking a sharp contrast to the average figure for the European Union of just 39.2%. Thus, in the region, the tax revenues from personal income taxes are generated almost entirely by the highest income bracket. This not only limits potential tax receipts but also reduces the system's ability to modify income distribution in more general terms. This is why the application of this tax to the middle classes is, both currently and historically, one of the major challenges to be met in terms of tax policy across Latin America (ECLAC, 2017b).

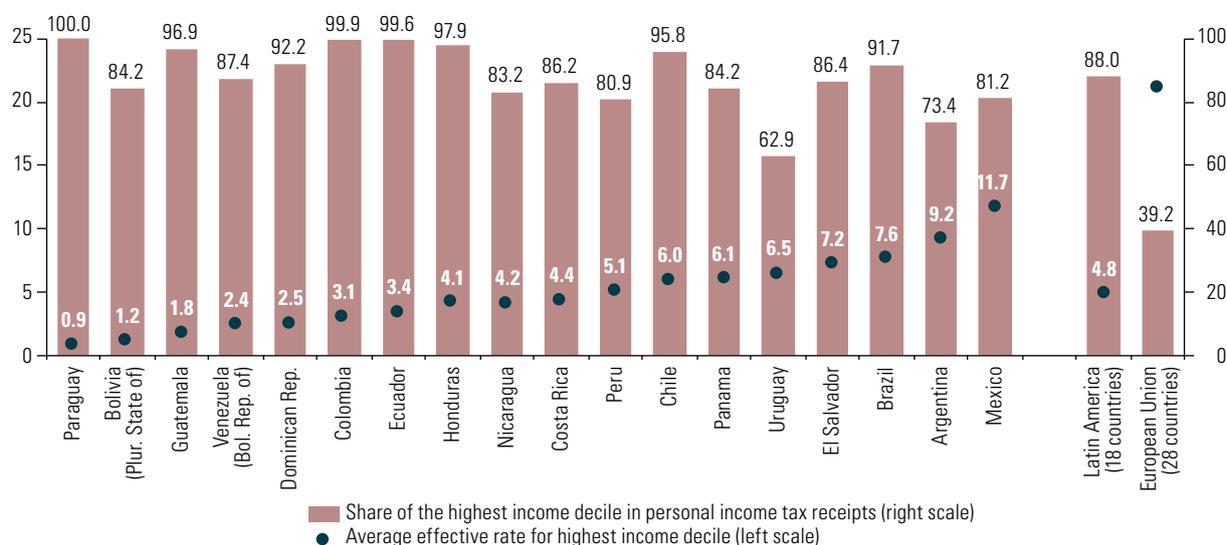
Figure 4
Latin America (18 countries) and OECD countries (34 countries): tax structure, around 2015^a
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/ Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Center of Tax Administrations (CIAT)/ Inter-American Development Bank (IDB), *Revenue Statistics in Latin America and the Caribbean 1990-2015*, Paris, OECD Publishing, 2017.

^a Simple averages. The latest year for which data were available for OECD was 2014.

Figure 5
Latin America (18 countries) and the European Union (28 countries): effective average rate for the tenth decile and its relative share in personal income tax receipts, around 2014
(Percentages)

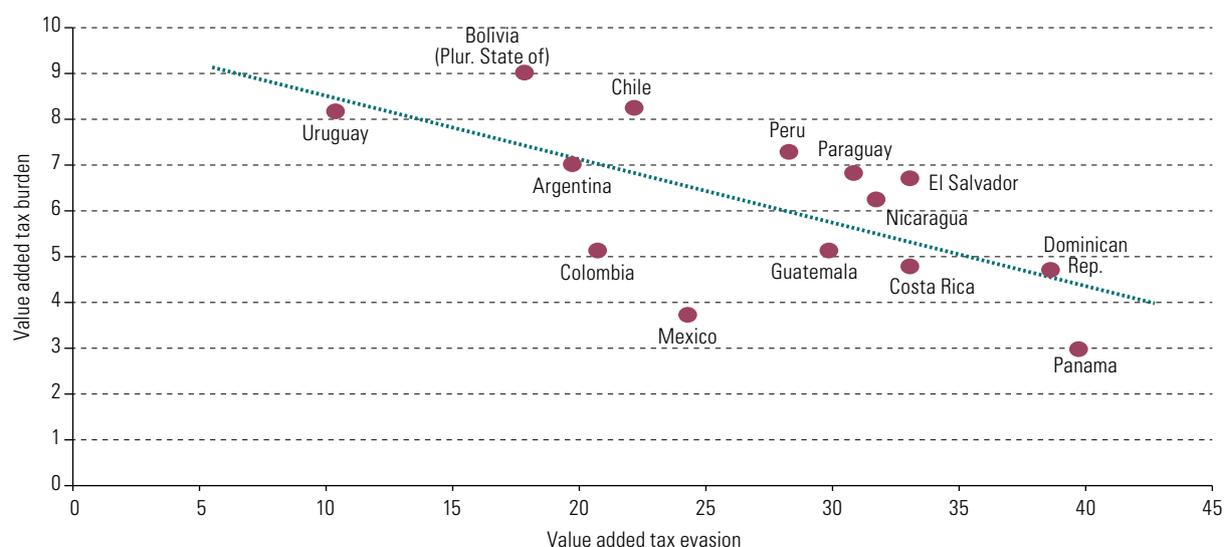


Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean, 2017* (LC/PUB.2017/6-P), Santiago, 2017.

C. Tax evasion is the root cause of many of the challenges faced by the region in terms of the mobilization of domestic resources

Tax evasion continues to be one of the main problems undermining public finances in Latin American countries. Most of the countries of the region do not measure the extent of tax evasion on a regular basis as part of any institutional system or publish the results of that kind of exercise. The most up-to-date estimates for the region point to an unacceptable level of tax evasion in most cases, however, and this is particularly true of the Central American countries; for example, in Panama and the Dominican Republic, the value added tax (VAT) generates less tax revenues than anywhere else in the region (see figure 6).

Figure 6
Latin America (14 countries): tax receipts and estimated evasion of the value added tax, 2014 or later^a
(Percentages of GDP and percentages of potential receipts)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Center of Tax Administrations (CIAT)/ Inter-American Development Bank (IDB), *Revenue Statistics in Latin America and the Caribbean 1990-2015*, Paris, OECD Publishing, 2017, for tax revenue figures; J. C. Gómez Sabaini, J. P. Jiménez and R. Martner, *Consensos y conflictos en la política tributaria de América Latina*, ECLAC Books, No. 142 (LC/PUB.2017/5-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2017, and official figures, for the estimation of value added tax (VAT) evasion.

^a The data for both value added tax (VAT) receipts and evasion correspond to the following countries and years: Argentina, 2007; El Salvador, 2010; Mexico and Panama, 2012; Costa Rica, 2013; Nicaragua and the Plurinational State of Bolivia, 2013; Chile, Colombia, Dominican Republic, Guatemala, Paraguay, Peru and Uruguay, 2014.

While few estimates are available, the data appear to indicate that the level of income tax evasion on the part of both private individuals and companies is higher than it is in the case of other taxes. Overall, according to ECLAC estimates, evasion of the value added tax amounted to the equivalent of 2.4% of the region's GDP in 2015, while income tax evasion represented 4.3% of the region's GDP, for a total, in monetary terms, of approximately US\$ 340 billion.

Until a few years ago, the prevailing approach was to concentrate on taxes levied at the national level, but there has been an increasing tendency to begin to address the international dimension of tax evasion in view of the mounting evidence that huge capital flows are being moved from their countries of origin to other jurisdictions where advantage can be taken of legal tax breaks. These flows are originated by multinational corporations seeking to minimize their worldwide tax burden and by individuals with very high incomes who succeed in paying lower taxes by concealing their assets in foreign countries where they are beyond the reach of national tax collectors.

However, very little is known as yet about the actual magnitude of this problem. Some studies conducted by international agencies suggest that the fiscal losses associated with tax base erosion and profit shifting are enormous. For example, OECD (2015) has estimated the total net resource losses at between 4% and 10% of annual corporate income tax revenues, which totalled somewhere between US\$ 100 billion and US\$ 240 billion in 2014.

Although there are no studies quantifying how much the region may be losing in tax receipts owing to base erosion and profit shifting, ECLAC has made an effort to gauge the size of the illicit financial outflows deriving from the manipulation of transfer pricing and the revenues lost by the region's treasuries as a result. According to its calculations, the amount of foregone tax revenue amounts to around 0.5% of GDP (see figure 7). This comes to approximately US\$ 31 billion annually, which is equivalent to between 10% and 15% of the corporate income tax revenue that is actually collected (Podestá, Hanni and Martner, 2017)

Figure 7
Latin America and the Caribbean: tax revenue losses associated with the international trade mispricing, 2004-2013
(Billions of dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

D. The debate surrounding the role of tax incentives for investment in Latin America and the Caribbean should be reopened

The countries of the region will need both external and internal funding sources if they are to attain the levels of investment required to meet the goals of the 2030 Agenda for Sustainable Development. To this end, it is of key importance for the region to develop appropriate policies and to create conditions that will attract foreign direct investment. The countries must also mobilize more of their domestic resources by strengthening tax collection, in particular through the limitation, rationalization and/or elimination of certain tax incentives (tax expenditures) that are eroding the tax base.

As shown in table 1, these exemptions total around 1% of GDP in Brazil, Ecuador, El Salvador, Honduras, Mexico, Peru and the Plurinational State of Bolivia. The highest level of investment-inducing tax expenditure, in terms of GDP, is found in Uruguay (3.3% of GDP). It is also quite high in Chile, Costa Rica and Argentina (2.4%, 1.7% and 1.6% of GDP, respectively), while the lowest levels are seen in Guatemala (0.6% of GDP) and Paraguay (0.4% of GDP).

Table 1
Latin America: fiscal cost of tax incentives for investment, 2014-2018
(Percentages of GDP)

Country	Year ^a	Percentage of GDP
Argentina	2018	1.6
Bolivia (Plurinational State of)	2015	1.0
Brazil	2018	1.2
Chile	2016	2.4
Costa Rica	2016	1.7
Ecuador	2016	1.2
El Salvador	2014	1.1
Guatemala	2016	0.6
Honduras ^b	2017	0.9
Mexico	2018	0.9
Paraguay	2014	0.4
Peru	2018	0.9
Uruguay	2014	3.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

^a Latest year for which information is available.

^b Includes only income tax incentives for investment.

Above and beyond the question as to whether tax incentives are or are not an effective way to boost investment, it is important to note that these incentives are only one of numerous factors that may affect FDI flows and investment rates; there are other forces, outside the tax system, that have proved to be more influential in terms of attracting investors. In addition, these types of tax measures have a number of harmful effects: apart from the loss of revenue for the State, which interferes with efforts to increase equity and limits the State's fiscal space, infrastructure investment and the scope of social policy, they also make the tax system more complex, increase its administrative and enforcement costs, open up opportunities for tax evasion and avoidance, undermine the transparency of fiscal policy and distort resource allocation.

E. Illicit financial flows remain a matter of concern in Latin America and the Caribbean

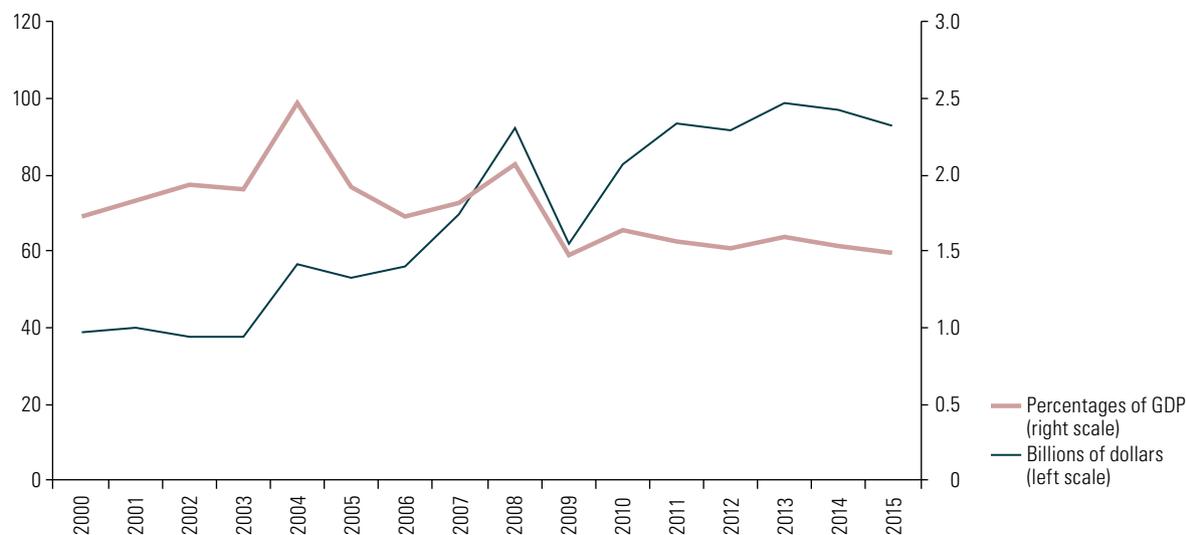
Illicit financial flows arising from international trade mispricing have declined in recent years in Latin America and the Caribbean (see figure 8). In 2015, gross outflows totalled US\$ 92.6 billion, down from a peak of US\$ 98.9 billion in 2013. Nonetheless, when measured in relative terms, it can be seen that these flows have been aligned with the region's overall output, since they have held steady at approximately 1.5% of GDP in the wake of the crisis. The fact that ECLAC has revised its estimates of these types of illicit financial flows downward reflects improvements in the data and the elimination of intraregional illicit financial flows.¹

It is estimated that illicit financial flows from commodity-exporting countries (in particular Argentina, Brazil, Chile and Peru) have fallen considerably owing to the drop seen in the value of these exports as prices weaken. The illicit financial flows associated with international trade mispricing in the mining sector remain a matter of concern for the region, however (see box 1).

¹ The data for the Bolivarian Republic of Venezuela in 2014 and 2015 are incomplete, and the figures on illicit financial flows for those years should therefore be regarded as representing a lower limit. The results presented in this section are sound, however, even if the data for that country are excluded from the analysis.

Figure 8
Latin America and the Caribbean: gross illicit financial outflows attributable to international trade mispricing, 2000-2015

(Billions of dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Box 1
Illicit financial flows in the mining sector of the Andean countries

The mining sector is a major source of GDP, exports, investment and tax revenues in several countries in Latin America and the Caribbean. It is also a highly globalized sector in which large multinational corporations are usually the ones directing mining operations. The size and global reach of these corporations give them considerable flexibility in deciding how to structure their transactions in order to maximize their profits, sometimes at the expense of the countries' fiscal revenues. Furthermore, metal and mineral prices are usually determined as part of contract negotiations between mining companies and refineries in which the market price is only one of many factors.

Hanni and Podestá (2016) have analysed the illicit financial flows associated with Andean countries' exports of mineral and metal products. In doing so, they used the methodology that is traditionally employed to analyse flows between trading partners (comparing export prices with import prices and adjusting for shipping costs, insurance and freight (c.i.f.)), as well as price filtering methods (comparing unit prices with market prices). Using this approach, they found signs of a significant level of illicit financial flows involving the four countries that they reviewed. The flows estimated on the basis of the first of these methodologies amounted to US\$ 5.5 billion in 2000-2014. However, this is equivalent to just 2% of the value of mining exports for that period.

In order to gauge the possible extent of price manipulation, however, the authors of that study also used a new price filtering method which incorporates information on the structure of the annual contracts covering the various products concerned. These results indicate that the unit prices of a number of products (especially copper and lead concentrates) may differ substantially from the prices projected on the basis of market prices, contractual factors and product quality. Large unit-price differentials were also found to exist in the case of gold exports from Peru.

This study attests to the difficulty of auditing international transactions involving mining products from the Andean countries. In order to move forward, the compilation of customs data in this sector will have to be upgraded and will have to include information on the contractual agreements linked to sales of these commodities and detailed data on the composition of the ore or metal being exported. Consideration should also be given to the possibility of stepping up audits or inspections of exported goods, particularly concentrates, which may contain significant (potentially undeclared) amounts of precious metals.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Hanni and A. Podestá, "Flujos financieros ilícitos en los países andinos: una mirada al sector minero", *Project Documents* (LC/W.724), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2016.

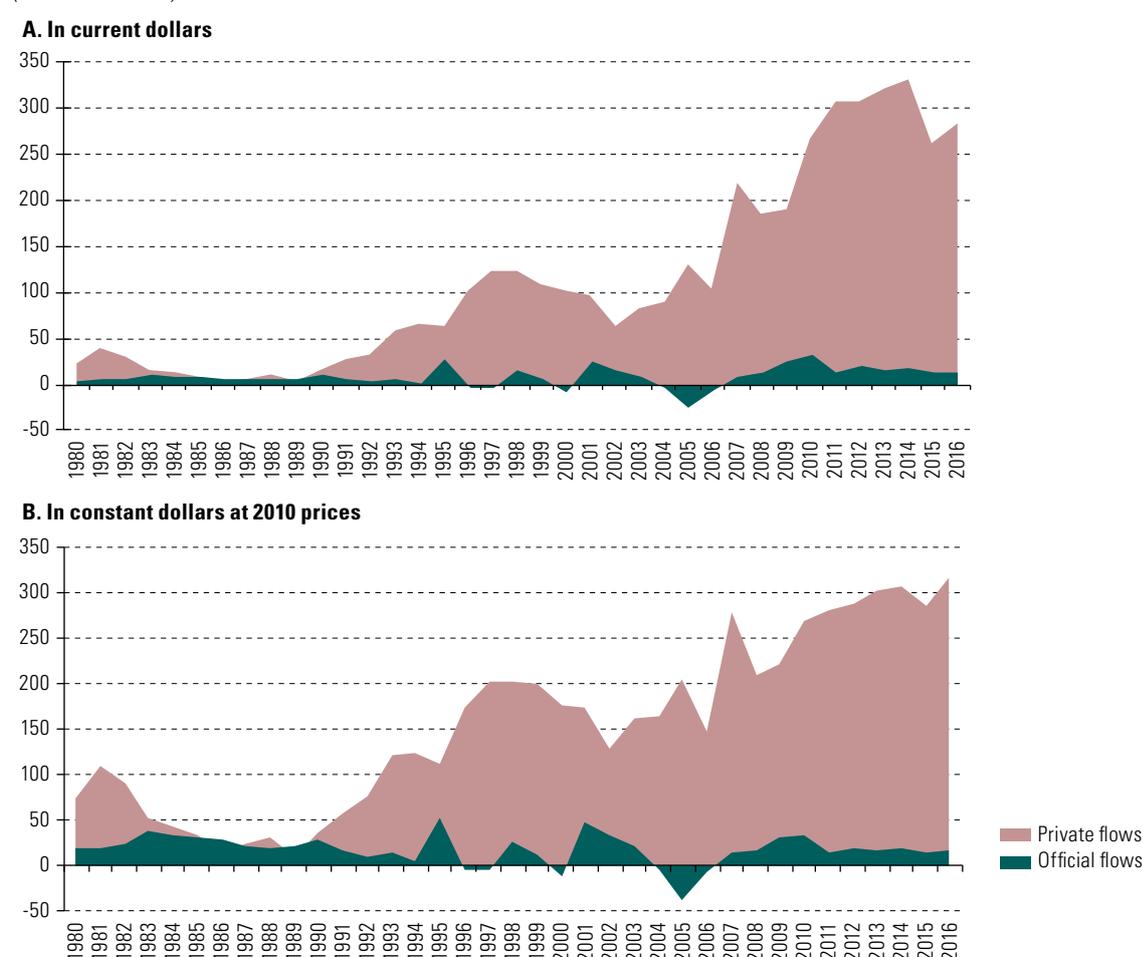
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The closure of a semiconductor facility in Costa Rica also led to a significant reduction in illicit financial flows from that country. ECLAC (2016a) examined this case in detail and found that the estimates of illicit financial flows arrived at (see box 1) reflected the use of transfer pricing between related parties that was giving rise to sharp differences between the unit values of the exporting and importing countries.

II. External sources of financing for Latin America and the Caribbean

In 2016, the net flow of external financing to Latin America and the Caribbean amounted to US\$ 296.582 billion, for an increase of 8.4% over 2015, when the flow had declined (see figure 9) This upswing was primarily attributable to portfolio flows and, in particular, the portfolio of public or publicly guaranteed bonds. In all, as of the end of 2016, official flows accounted for 4.7% of the combined total of private and official flows. Official flows expanded more slowly than the net total. Personal remittances continued to grow in net terms at the same pace as before, rising by 8.2% in 2016, while net flows of FDI shrank by 1.0%.

Figure 9
Latin America and the Caribbean: net inflows of external financing, 1980-2016
(Billions of dollars)



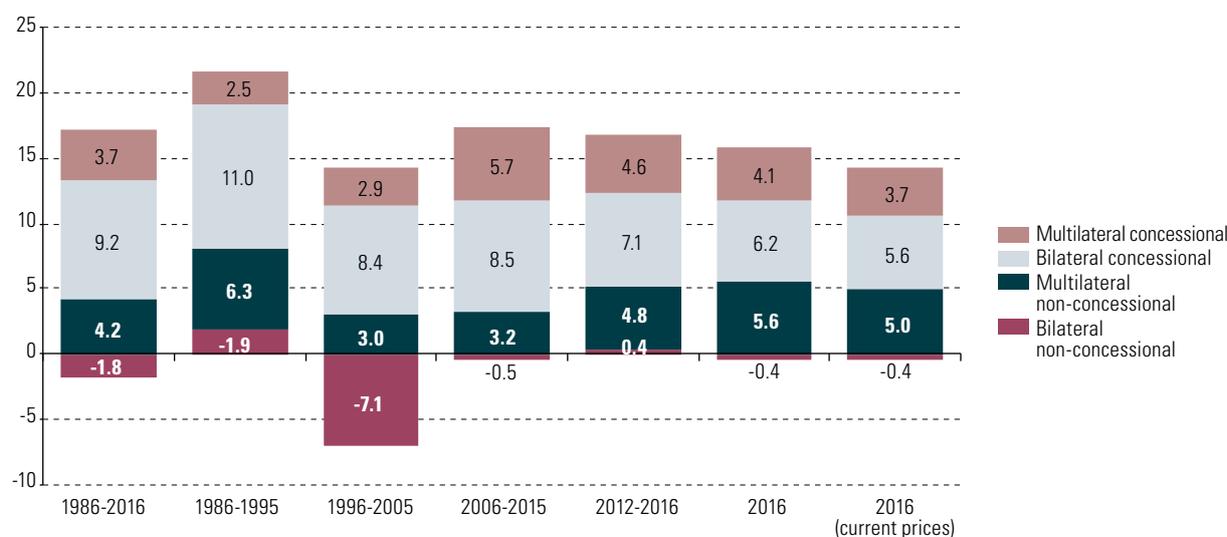
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> and World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>; and grant data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee.

The following sections will discuss the different components of official and private flows to the Latin American and Caribbean region and the variations in those flows.

A. Official flows

The composition of official flows in 2016 did not differ a great deal from their average distribution over the last five years (see figure 10). The largest component of official flows is concessional bilateral flows (40% of the total), followed by non-concessional multilateral flows (36%) and concessional multilateral flows (26%). Non-concessional bilateral flows are minimal and reflect the steady downward trend in non-concessional bilateral debt (see figure 11), which was down by 3% in 2016 from the preceding year's level.

Figure 10
Latin America and the Caribbean: composition of average net official flows, by periods, 1986-2016
(Billions of dollars)^a



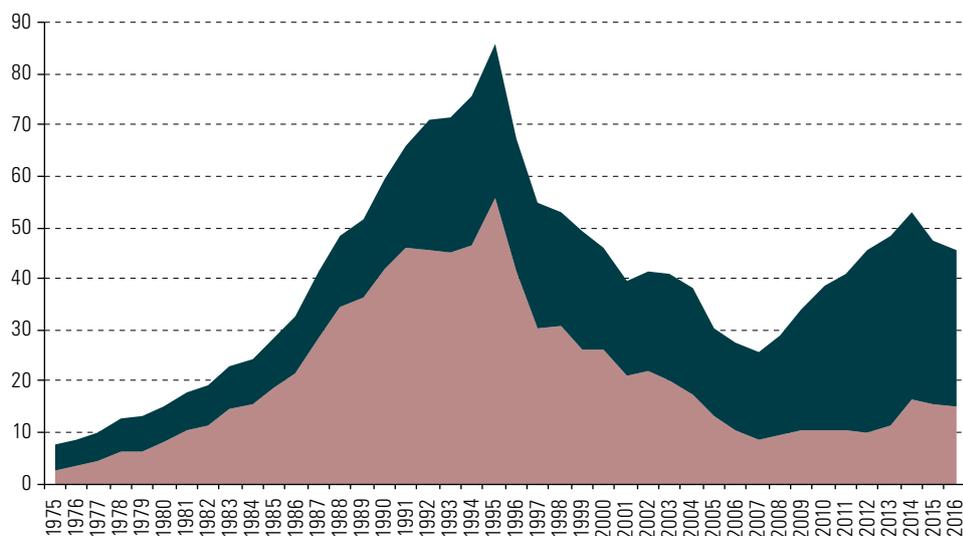
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> and World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, and grant data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC).

^a In constant dollars at 2010 prices, except for the last bar, which was calculated in 2016 dollars at current prices.

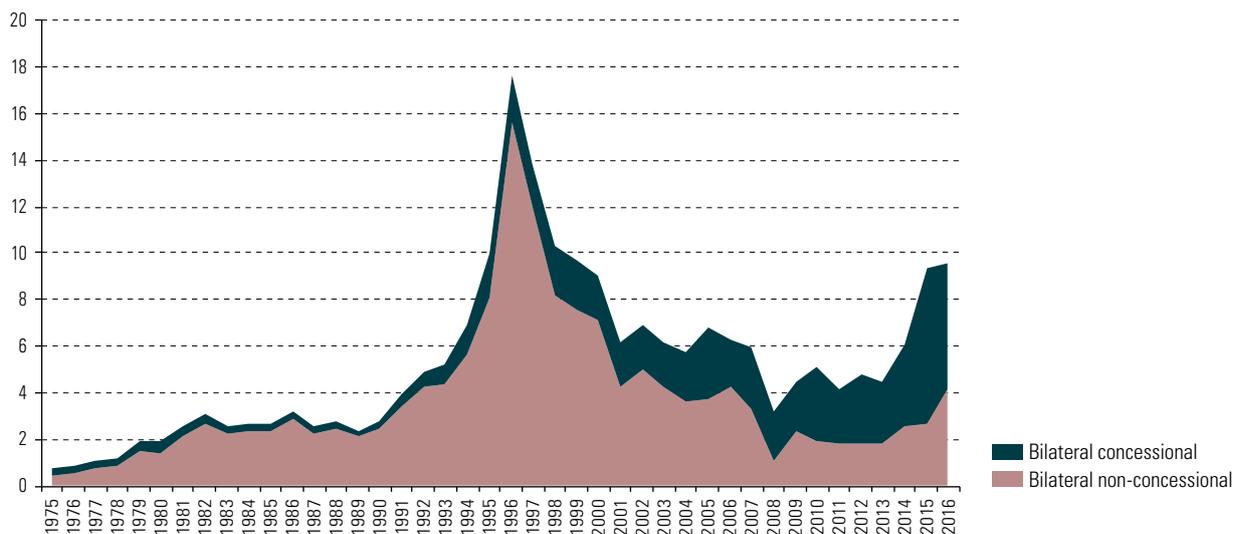
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Figure 11
Latin America and the Caribbean: cumulative bilateral debt and repayments with interest, 1975-2016
(Billions of dollars)

A. Total debt outstanding and disbursed



B. Repayments of principal and interest



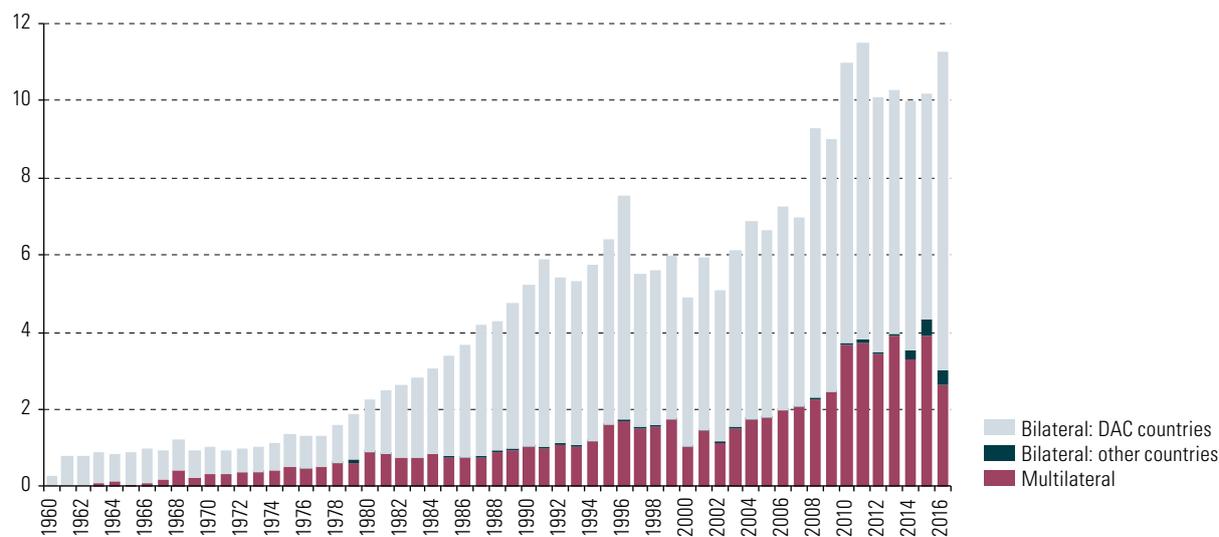
Source: World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> [consultation date: February 2018].

Note: Non-cumulative area graph. The official flows depicted in the figure include both bilateral and multilateral grants and donations and both concessional and non-concessional lending (debt securities, bank debt and other types) by official creditors. Private flows include foreign direct investment, portfolio shares, migrant remittances and debt flows (debt securities, bank debt, commercial debt and other types) originating with private lenders. The World Bank data do not include high-income economies.

1. Official concessional flows: official development assistance

In 2016, net official flows of official development assistance (ODA) to Latin America and the Caribbean were up by 11% over the preceding year and amounted to US\$ 11.284 billion, or 0.25% of the region's average gross national income (GNI).² As can be seen in figure 12, the bilateral flows from countries that are members of the Development Assistance Committee (DAC) swelled by 40% over their 2015 level, while multilateral flows were down by 33%. Nevertheless, the long-term trend indicates that multilateral flows are increasing more than bilateral flows. In 2016 the share of bilateral flows from countries that are not members of DAC also increased. This result is mainly a reflection of the flows originating in the Russian Federation.

Figure 12
Latin America and the Caribbean: net disbursements of official development assistance to the region, 1960-2016
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC).

In recent years, the largest multilateral provider of ODA to the region has been the Inter-American Development Bank (IDB), which accounted for 12.1% of total net ODA disbursements during the period from 2008 to 2016 (in constant 2015 dollars). In 2016, its share of the total was 6.6%. European Union institutions contributed 10.2% during that period and 9.8% in 2016 (see table 2). The sources of the largest amounts of net bilateral ODA flows between 2008 and 2016 were the United States, Germany and Spain (in constant 2015 dollars); in 2016, these countries' shares were 16.4%, 13.4% and 19.7%, respectively.

In 2016, ODA rose to 0.25% of GNI, marking a turnaround in what has been a long-standing downward trend in this series. In absolute terms as measured in constant 2015 dollars, however, there has generally been an upward trend over the years (see figure 13).

² The net ODA flows reported by OECD are greater than the sum of all net concessional flows as calculated using data from the World Bank (see figures 10 and 11). This is, at least in part, accounted for by the fact that the World Bank does not include the higher-income economies in its aggregate measurements for Latin America and the Caribbean, even though they are still eligible for ODA, and uses a different measurement for the aggregation or composition of the sample.

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Table 2

Latin America and the Caribbean: main sources of official development assistance for the region, 1960-2016

(Percentages of total net disbursements in each period)^a

	1960-1989	1990-1999	2000-2007	2008-2016	2016
United States	39.7	United States 23.5	United States 26.9	United States 21.8	Spain 19.7
IDB	12.3	Japan 8.8	Spain 10.0	IDB 12.1	United States 16.4
Germany	8.6	European Union institutions 8.5	European Union institutions 10.0	Germany 10.9	Germany 13.4
United Nations	7.4	Germany 8.5	Germany 7.0	European Union institutions 10.2	European Union institutions 9.8
Netherlands	6.4	Netherlands 6.9	Japan 6.0	Spain 8.5	France 7.7
France	5.0	Spain 6.5	Canada 4.1	France 7.6	IDB 6.6
United Kingdom	4.5	United Nations 5.0	IDA 4.0	Canada 4.9	Canada 3.5
Japan	3.3	IDA 4.2	IDB 3.7	Norway 2.5	Russian Federation 3.3
Canada	2.9	France 3.8	Netherlands 3.7	IDA 2.5	United Kingdom 3.2
European Union institutions	2.1	Italy 3.8	France 3.5	United Nations 2.1	United Nations 2.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC).

Note: IDB: Inter-American Development Bank; IDA: International Development Association (IDA) (the concessional arm of the World Bank).

^a Dollars at constant 2015 prices.

Figure 13

Latin America and the Caribbean: net disbursements of official development assistance for the region, 1960-2016

A. In real terms

(billions of dollars at constant 2015 prices)

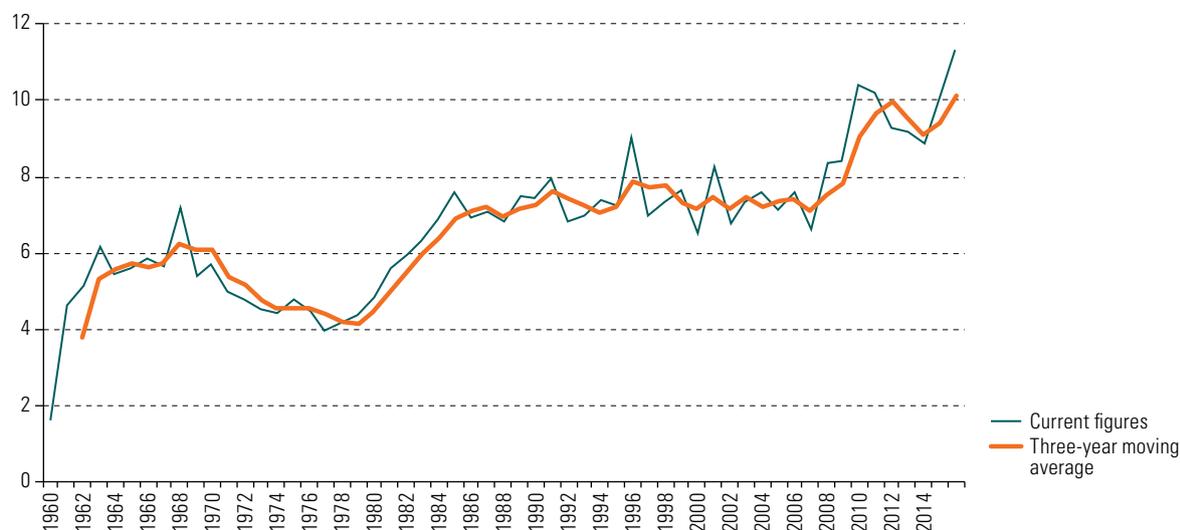
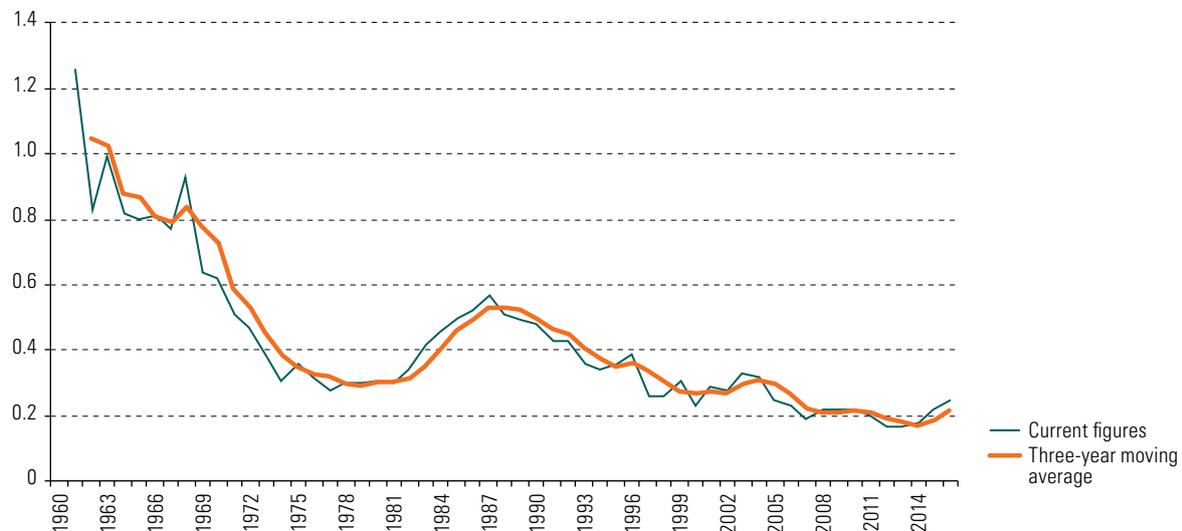


Figure 13 (concluded)

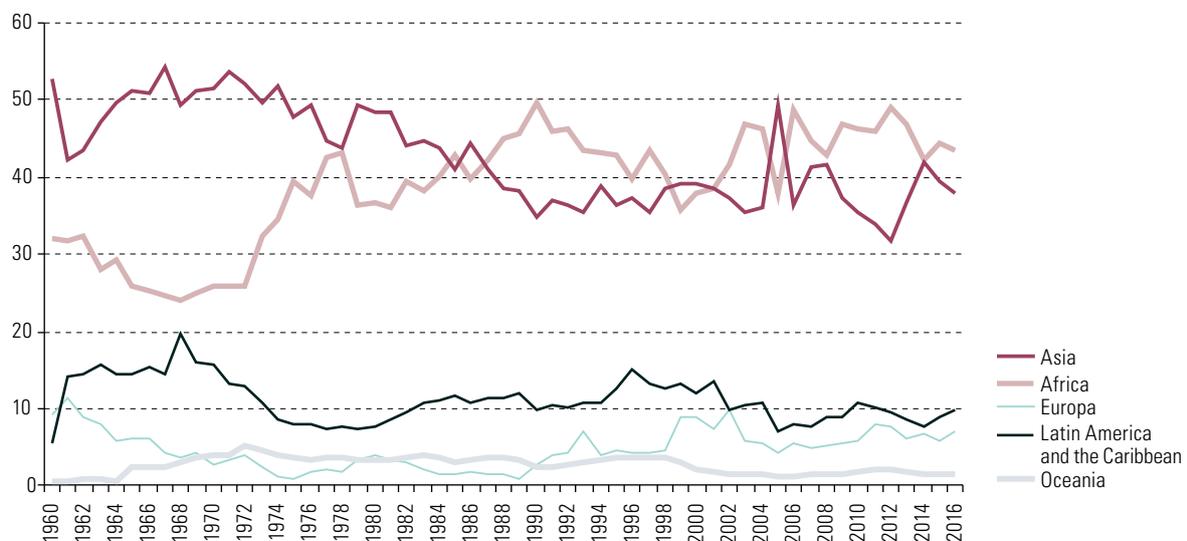
B. As a percentage of the Latin American and Caribbean region's gross national income

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee.

Note: The orange line represents three-year moving averages.

Figure 14 shows the various world regions' shares of total ODA disbursements. It can be seen that, since 2014, what had been a downward trend in ODA disbursements to Latin America and the Caribbean has given way to an upswing. Disbursements to the region make up 8.9% of total disbursements (if multiregional ODA flows for which the country recipients are not specified are discounted from the calculations).

Figure 14
Shares of ODA disbursements, by region, 1960-2016
(Percentages)



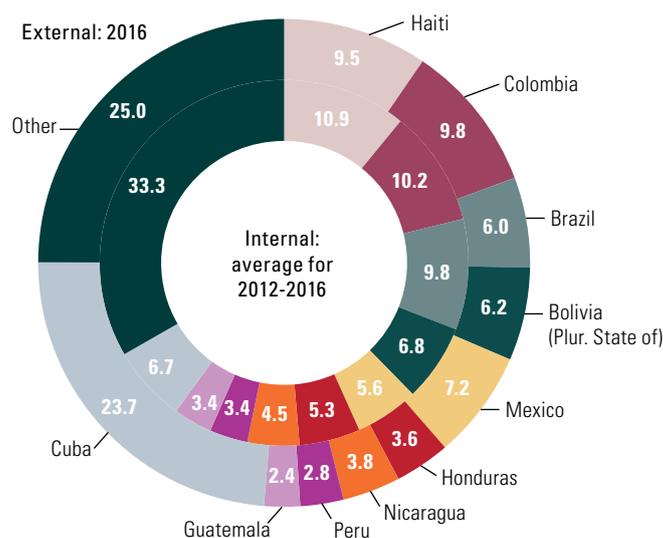
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC).

Note: Does not include multiregional ODA for which the recipient regions are not specified.

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Over the past five years, the main recipients of concessional flows have been Haiti, Colombia, Brazil, the Plurinational State of Bolivia, Mexico, Honduras and Nicaragua. On average, the countries that received the most ODA in 2012-2016 were Haiti (10.9%) and Colombia (10.2%) (see figure 15). In 2016, there was little variation in the distribution of flows across the countries of the region, with the exception of a significant increase in flows to Cuba, where they soared from US\$ 553 million in 2015 to US\$ 2.68 billion in 2016, which represented 23.7% of total ODA disbursements to Latin America and the Caribbean. Spain was the main source of ODA for Cuba, contributing US\$ 2.12 billion in 2016; of that amount, more than US\$ 1.5 billion was in the form of the forgiveness of interest arrears. Under a debt restructuring agreement with the developed-country creditors belonging to the Paris Club, Cuba will be granted some US\$ 4 billion in debt forgiveness, but will remain responsible for paying back approximately US\$ 2.6 billion over an 18-year period.³

Figure 15
Latin America and the Caribbean: main recipients of net flows of official development assistance, 2012-2016
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC).

An analysis of ODA by sector, as shown in table 3, indicates that the social sectors received the largest share of these funds, averaging 35.8% in 2012-2016. These sectors include the Government and civil society, which received 15.9% of this assistance. In 2016, most of the assistance received by this sector in the region as a whole was used for peacekeeping and conflict resolution and the development of the countries' legal and judicial systems, followed by the promotion of democratic participation and civil society.

³ See *The Wall Street Journal*, "Cuba reaches deal to pay \$2.6 billion in arrears to Paris Club," 12 December 2015 [online] <https://www.wsj.com/articles/cuba-reaches-deal-to-pay-2-6-billion-in-arrears-to-paris-club-1449947319>.

Table 3

Latin America and the Caribbean: average distribution of official development assistance, by sector, 2003-2016
(Percentages of the total)

	2003-2007	2008-2012	2012-2016	2016
Assigned by sector	66.2	81.0	81.5	71.2
Non-production sectors	47.7	60.1	59.8	51.3
Social sectors	39.0	39.1	35.8	28.7
Education	7.2	8.3	6.9	6.0
Health	4.0	4.0	4.3	3.6
Population	3.6	4.5	3.6	2.6
Governance, civil society, laws and institutions	10.3	15.0	15.9	13.3
Other	14.0	7.3	5.1	3.2
Infrastructure	6.9	17.4	20.1	17.7
Water	3.4	6.8	5.3	5.6
Transport	2.1	5.5	7.0	5.5
Communications	0.4	0.6	0.5	0.2
Energy	1.0	4.6	7.3	6.4
Banking, finance and business services	1.7	3.6	4.0	4.8
Production sectors	8.8	9.9	8.3	7.4
Agriculture, forestry and fishing	6.6	6.6	5.8	5.5
Industry	1.2	2.0	1.4	1.0
Mining	0.2	0.1	0.2	0.2
Construction	0.0	0.0	0.0	0.0
Tourism	0.1	0.3	0.2	0.1
Trade regulations	0.6	0.9	0.9	0.6
Multisectoral	9.8	11.0	13.4	12.6
Environmental protection	4.1	6.0	8.2	7.7
Other	5.8	5.0	5.2	4.9
Not assigned by sector^a	33.8	19.0	18.5	28.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC).

^a General budget, food aid, debt relief, humanitarian or emergency aid, assistance for refugees, administrative assistance and other unassigned services.

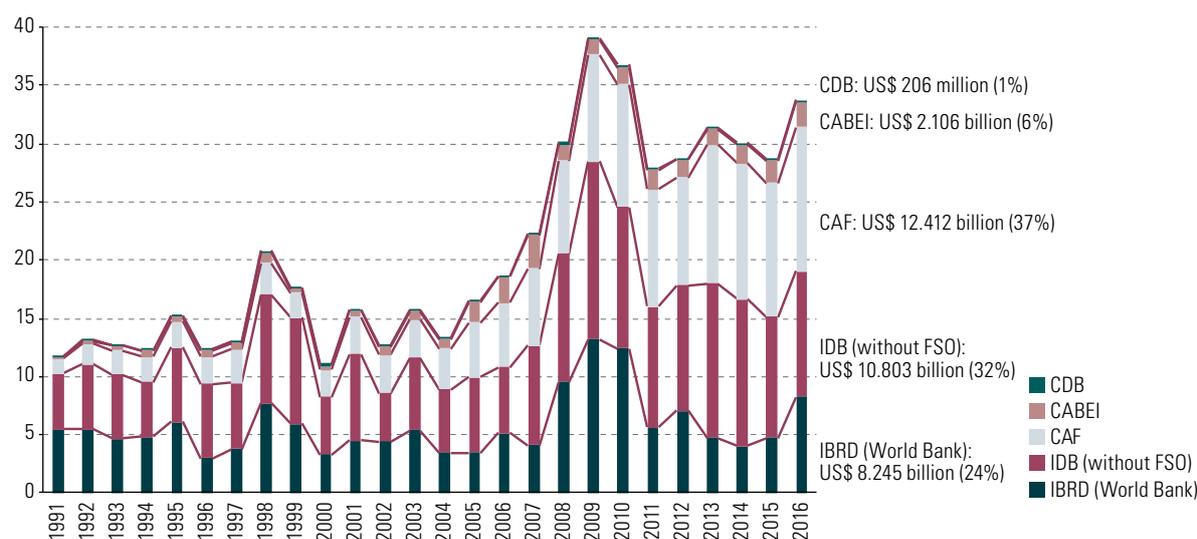
Since 2003, there has been an increase in the flows of financing for infrastructure. In terms of the percentage share of total ODA, these flows expanded from an average of 6.9% in 2003-2007 to an average of 20.1% in 2012-2016. The main types of infrastructure targeted by these flows have been in the energy, transport and water sectors. Net flows earmarked for banking and financial infrastructure and business services also expanded. The average share of this sector has increased in each reporting period, rising to 4.0% of total ODA funds in Latin America and the Caribbean for the past four years (and to 4.8% in 2016).

The share of ODA allocated for environmental protection climbed from an average of 4.1% in 2003-2007 to an average of 8.2% in 2012-2016, reflecting donor countries' increased awareness of environmental issues and climate change and of recipient countries need for support in this sector.

2. Official non-concessional flows

Almost all official non-concessional funds for Latin American and Caribbean countries come from three international institutions: the World Bank, via the International Bank for Reconstruction and Development (IBRD), which accounts for 24% of those funds; the Inter-American Development Bank (IDB), which supplies 32% of this type of assistance and is a regional development banking institution; and the Latin American Development Bank (CAF), which accounts for 37% and is a subregional development bank. Two smaller subregional banks, the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB), provide the remaining 6% and 1%, respectively (see figure 16). For the most part, these funds take the form of loans, guarantees and equity. During 2016, total bank approvals exceeded the level registered for 2015.

Figure 16
Latin America and the Caribbean: non-concessional funding for the region (regional and multilateral development bank approvals) 1991-2016^a
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the annual reports of the respective banks; for IBRD data: World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> [date of reference: February 2018].

Note: IBRD: International Bank for Reconstruction and Development; IDB: Inter-American Development Bank; FSO: Fund for Special Operations; CAF: Andean Development Bank; CABEI: Central American Bank for Economic Integration; CDB: Caribbean Development Bank.

^a Funding approvals were used to compare the amounts of financing provided by different banks, since figures on net flows are not available for all institutions. All beneficiary countries of the region are included. Since these calculations concern non-concessional flows, they cover financing provided by the Inter-American Development Bank (IDB) other than that released via the concessional window of the Fund for Special Operations (FSO). In the case of the World Bank, the financing routed through the window of the International Bank for Reconstruction and Development (IBRD) is considered, but not the funding channelled through the concessional window of the International Development Association (IDA). The total financing provided by the Latin American Development Bank (CAF) and the Caribbean Development Bank (CDB) (prior to 2005) are used, however, since the concessional portion of these funds is negligible.

In figure 16 and the following discussion, bank approvals are used for purposes of analysis rather than net flows owing to the absence of complete and comparable information on all the development banks. Approvals for the entire region are used, without excluding the countries that are classified as high-income countries. The data shown in figure 16 are therefore not directly comparable with the data shown in previous figures.

In 2016, total official non-concessional funds approved for Latin America and the Caribbean amounted to US\$ 33.771 billion: a 17.6% increase over the previous year. This was mainly a reflection of the fact that IBRD approvals jumped by US\$ 3.516 billion.

The share of total funding from international sources for Latin America and the Caribbean accounted for by subregional banks has grown. Prior to 2000, the financing provided by subregional banks (CAF, CABEL and CDB) was no more than 27% of the total, while, after that year, the share of funding associated with those banks came to stand at 47% in 2015 and 44% (US\$ 14.723 billion) in 2016. Most of this increase was accounted for by CAF, which currently provides more non-concessional financing to the region composed of its member countries than any other international development bank. During the period from 2012 to 2016, the average share of financing provided by CAF was around 41%.

In the years leading up to the global financial crisis, the shares of CABEL and CDB in total non-concessional lending by the main international development banks operating in Latin America and the Caribbean rose sharply, with their combined approvals amounting to 14% of the total. After 2008, however, their involvement reverted roughly to its earlier levels, hovering between 5% and 7%. Although CABEL and CDB are the smallest of these banks in terms of their operations and geographic coverage, they play an important role in providing financing for development to their member countries (see annex 1). In 2012-2016, CDB member countries received an average of 28% of their total international non-concessional funding from CDB. The member countries of CABEL received an average of 12% of such financing from CABEL, while the share of financing provided by CAF to these countries amounted to almost 24% (see table 4).

Table 4

Latin America and the Caribbean: average share of concessional financing provided by the development banking system to the member countries of the Latin American Development Bank, the Central American Bank for Economic Integration and the Caribbean Development Bank, 2012-2016^a

(Percentages)

	IBRD (World Bank)	IDB	CAF	CABEL	CDB	Total
CAF member countries	20.1	36.9	40.7	2.2	0.1	100
CABEL member countries	19.9	44.0	23.7	12.2	0.2	100
CDB member countries	11.1	52.9	7.1	0.7	28.2	100
	< multiregional-----regional <----- subregional----->					

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the annual reports of the respective banks; for IBRD data: World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> [date of reference: February 2018].

Note: IBRD: International Bank for Reconstruction and Development; IDB: Inter-American Development Bank; CAF: Latin American Development Bank; CABEL: Central American Bank for Economic Integration; CDB: Caribbean Development Bank.

^a Calculations based on estimated non-concessional loan approvals. Countries are grouped by membership; for alternative classification methods, see annex 1.

Although it is difficult to make direct comparisons because sectors and strategic areas are grouped differently by each bank, the general trend is similar to the trend seen in the changing distribution of ODA in recent years. A great deal of emphasis is being placed on developing sound financial systems, capital markets and business services, and an ongoing effort is being made to promote social institutions and social services. The support being provided for these sectors will enable countries to build up a functional network of physical infrastructure (e.g. well-connected roads and highways), but it will also equip them with a sturdier economic and social infrastructure that will be capable of generating efficient, transparent resource flows which will boost local productivity.

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On average, between 2012 and 2016, the World Bank and IDB channelled most of their funding into non-production sectors (see table 5), thereby mirroring the trend observed in flows of ODA. Social sectors continue to be an important objective for the development banks, and this is particularly true of the World Bank, which allocated an average of 59.8% of its funding for social issues and social infrastructure. Within the social sector, both of these banks devote a significant portion of their funding to the development and modernization of civil society, governance, laws and public institutions. The World Bank allocated 30.4% of its financing to these areas while, for IDB, the figure was 14.1%. The subsector that received the most funds from IDB was fiscal policy reforms for promoting growth and development (IDB, 2018b). The World Bank has also placed great emphasis on enhancing the efficiency and transparency of governance and fiscal resource distribution. As for the subregional banks, CABEL allocated an average of 25% of its funding activity to human development and CDB assigned around 30% to social sectors. In 2016, CAF channelled nearly 15% of its funding into social sectors.

Table 5
Latin America and the Caribbean: average distribution, by sector, of non-concessional multilateral flows to the region, 2012-2016
(Percentages of the total)

	World Bank	Inter-American Development Bank
Non-production sectors	89.4	84.0
Social sectors	59.8	34.5
Governance, civil society, laws and institutions	30.4	14.1
Health and other	16.3	15.6
Education	13.2	4.8
Infrastructure	24.9	33.0
Water and sanitation	7.2	9.1
Transport	13.2	15.7
Communications	0.5	-
Energy	4.0	8.3
Banking, finance and business services	4.7	16.4
Production sectors	11.5	8.1
Agriculture, forestry and fishing	4.0	1.9
Industry	7.4	0.6
Tourism	-	0.7
Regional integration and trade regulations ^a	-	4.9
Multisectoral	-	7.9
Natural disaster preparedness and environmental protection		3.5
Other		4.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the annual reports of the respective banks available as of February 2018.

Note: World Bank data refer to fiscal years 2013 to 2017, which end in June. The World Bank's lending activity includes a small portion of funds from the International Development Association, while IDB lending includes a small portion of preferred claims, but these components do not change the strategic pattern of these banks' non-concessional financing activity.

^a The World Bank includes trade regulations under the heading of "industry".

All of these banks play an important role in the development of infrastructure that will enhance the productivity of the region. When measured in terms of five-year averages, investment in infrastructure (transport, water and energy) represents 33% of the funds approved by IDB and nearly 25% of World Bank approvals. About half of the support provided by each of these banks to the sector was used for the development of transport infrastructure with a view to improving the region's highways and

regional connectivity. The subregional banks are making a valuable contribution to the development of infrastructure, and especially energy infrastructure, in the region as well. CDB devoted 39% of its funding to infrastructure, and almost half of this went to transport development, with the remainder going to the energy and water sectors. CABEL allocated about 53% of its funding to infrastructure, with 21% of that amount going to the energy sector. In 2016, CAF allocated nearly 21% of its financing to infrastructure development. The largest shares of this funding went to energy (10%) and transport (6%).

Development banks are channelling resources into the areas of finance, capital markets, banking and business services, including small and medium-sized enterprises (SMEs) engaged in these activities. Between 2012 and 2016, the World Bank and IDB allocated, on average, 4.7% and 16.4% of their resources, respectively, to these sectors. IDB focused its attention on institutional reforms aimed at heightening the financial inclusion of rural populations, SMEs and other groups that currently do not make use of formal-sector financial services. This approach is based on the tenet that the participation of these groups will improve the production fabric of the region. IDB also funds projects designed to improve the financial sector's regulatory framework and to develop the banking market (IDB, 2018c). Among the subregional banks, CAF used 59% of its total funding in 2016 to address issues related to commercial and development banking in an effort to support and strengthen financial institutions in the region. CAF also devoted 14% of its funding to the maintenance and consolidation of macroeconomic stability in the countries of Latin America and the Caribbean. On average, CABEL devotes 13% of its funding to the areas of financial intermediation and development finance, while CDB allocates 6% of its lending to finance and business services.

In 2012-2016, IDB and CDB channelled 3.5% and 9.6%, respectively, of their financing into the important but often underrepresented areas of environmental protection and natural disaster preparedness.

3. The countercyclical role of official flows

Net official flows have played a countercyclical role in two ways: (i) lenders have stepped up their support during periods when GDP growth in the region has been sluggish; and (ii) countries have repaid debts during periods of more robust economic growth. This countercyclical pattern was not particularly evident during the economic slowdown seen in Latin America and the Caribbean between 2010 and 2016, however. In the latter year, the region's GDP (excluding the output of the high-income countries) fell by 79 basis points, while net official flows to the region, measured in constant 2010 dollars, rose by 7% (see annex 2)

4. Official development assistance: an assessment

Trends in ODA reflect the approach used by the international cooperation system, which relies on per capita income to determine countries' levels of development and use that as a basis for deciding how to allocate official assistance flows. The assumption is that having a higher level of per capita income means that more domestic and external resources for financing development are available and can be mobilized, which in turn enables a country to rely less on ODA.

Access to external resources can be influenced by factors that have nothing to do with per capita income, however, such as external conditions that are beyond the control of middle-income countries. The ability to mobilize domestic resources also depends on factors unrelated to per capita income, such as the level of internal saving, the degree of financial inclusion and the government's tax collection capacity.

The decline in ODA flows to middle-income countries, including those in Latin America and the Caribbean, poses a major challenge in terms of the mobilization of resources for use in seeking to attain the goals of the 2030 Agenda.

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This situation is compounded by the challenge of channelling resources coming from new stakeholders and sources of development financing (donor countries that are not members of the OECD Development Assistance Committee (DAC), non-governmental organizations, climate funds, innovative financing mechanisms and South-South cooperation initiatives) which are taking on a growing role in the provision of financing for development.

In order to adapt to changes in the landscape of development financing and marshal additional resources for use in meeting the challenges of the 2030 Agenda, DAC member countries have designed a new indicator —Total Official Support for Sustainable Development (TOSSD)— for use in measuring the amount of external financing, above and beyond ODA, flowing to developing countries.

This indicator encompasses all official flows —regardless of the type of financial instrument, degree of concessionality or whether it is bilateral or multilateral in nature— that may be channelled to individual developing countries or that may be distributed at the regional or global levels. In order for financial flows to be included in this new indicator, they must: (i) be directed towards achieving the Sustainable Development Goals and supporting the means of implementation agreed upon for the Addis Ababa Action Agenda and any overarching sustainable development strategies to be agreed upon in the future; (ii) comply with the multilateral standards, principles and rules (e.g. those of the World Trade Organization); and (iii) be aligned with the development priorities of the recipient countries.

The development of a concept of international cooperation that is broader than ODA is a step forward in the effort to adapt the architecture of development financing to a more complex reality. In addition, however, progress need to be made towards a better allocation of all existing officially supported resource flows in order to leverage sustainable development efforts. This involves moving beyond the limitations of the criterion of per capita income and embracing the heterogeneity of the economic and social development processes of countries with similar income levels, such as middle-income countries (including those of Latin America and the Caribbean).

The approach devised by ECLAC, which focuses on structural gaps, can be used to supplement the criterion of per capita income for this purpose. This approach involves developing a broad set of indicators to reflect the actual conditions and factors at work in each country, as well as their development needs and shortfalls, that can be used to identify the main specific needs of each country. This makes it possible to identify, quantify and prioritize the barriers and bottlenecks that prevent middle-income countries from achieving sustainable and equitable levels of growth in the long run. The significance and impact of these various structural gaps may differ across countries, since they are a reflection of a very heterogeneous world.

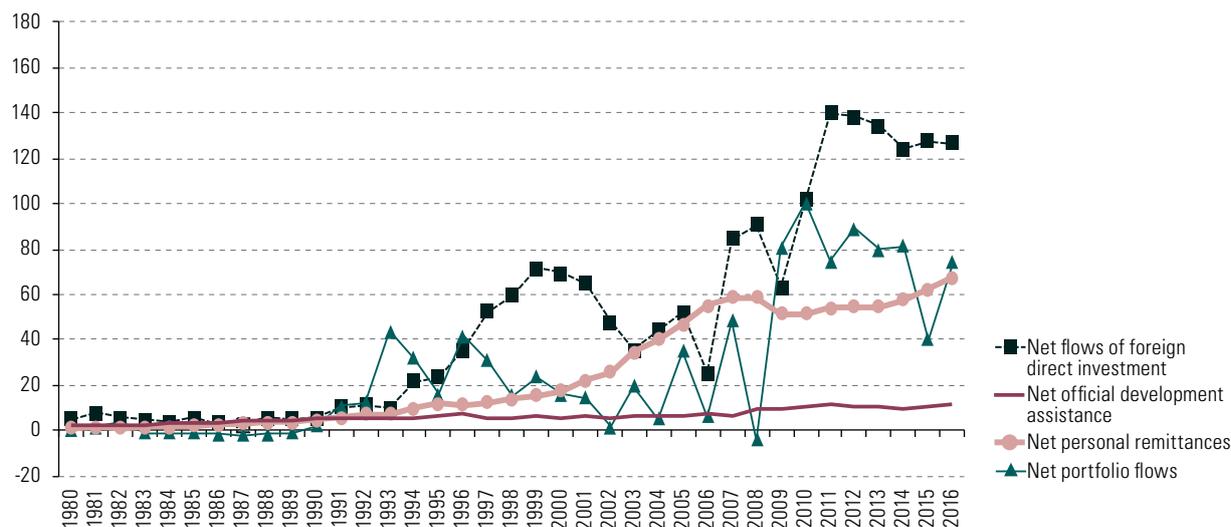
This structural-gap approach may prove to be a useful methodology for determining how total official flows in support of sustainable development should be channelled. It may also help to overcome the obstacles which are preventing middle-income countries from sharing in the economic and social benefits afforded by those flows.

B. Private flows

The majority of the net flows into Latin America and the Caribbean are private flows, and most of these flows are made up of foreign direct investment (FDI), portfolio flows (which include equity shares and debt securities or bonds) and migrant remittances. Figure 17 traces the trends in these variables over the past 36 years; as may be seen from the figure, net flows of FDI have been in the range of US\$ 120 billion to US\$ 130 billion for the last three years in a row and have amounted, on average, to 2.42% of GDP. In 2016, portfolio flows rebounded, mainly thanks to net flows of public or government-guaranteed bonds.

The figure also depicts the gradual but steady growth of remittances. For a more detailed figure that compares the components of these flows to official flows, see annex 3.

Figure 17
Main flows of external finance to Latin America and the Caribbean, 1980-2016
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, and data on official development assistance (ODA) available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee.

Note: The data obtained from the World Development Indicators database do not include countries that are classified as high-income economies.

1. Foreign direct investment

In 2016, net foreign direct investment (FDI) amounted to US\$ 130.116 billion, or 2.33% of the region's GDP, which represented a drop of 11% from the previous year. This was the fourth year running during which the region's net FDI inflows had declined after peaking at US\$ 149.794 billion in 2012.⁴ In fact, overall, inward flows of FDI (net investment in the region by non-residents) have been trending downward ever since 2010. Even though there was also a downturn in outward FDI flows (net investment outside the region by residents of Latin America and the Caribbean), the net result was a decrease in inward FDI. In 2016, inward FDI flows totalled US\$ 165.237 billion, while outward FDI amounted to US\$ 35.121 billion (see figure 18).

⁴ CEPALSTAT <http://estadisticas.cepal.org/cepalstat/Portada.html> [date of reference: February 2018]; data for the preceding year indicate that net flows peaked in 2011 at US\$ 153 billion. The aggregate figures include data for the economies of ECLAC member countries and thus do not exclude those that are classified as high-income economies.

Figure 18
Latin America and the Caribbean: foreign direct investment, 1980-2016
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT [online database] <http://estadisticas.cepal.org/cepalstat/Portada.html> [date of reference: February 2018].

Note: The aggregate figures include data for the economies of ECLAC member countries and thus do not exclude those that are classified as high-income economies.

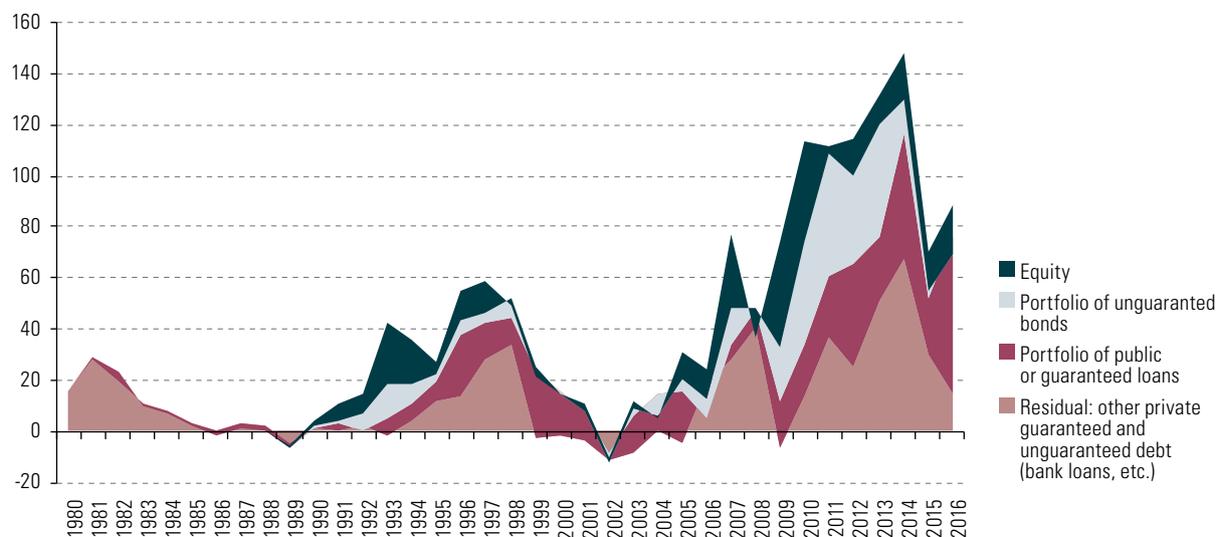
The decline in FDI flows into emerging countries is a worldwide trend that has taken shape as developed economies repatriate production operations, partially because of changing sentiments about global trade and production and partially because of technological changes and competitive pressures that call for the use of more technology-intensive production methods (ECLAC, 2017a). In the case of Latin America in particular, the decline in inflows of FDI is also due to the fact that investment in natural-resource sectors has faltered ever since the boom in commodity prices came to an end.

2. Portfolio flows and other claims

Total net portfolio flows amounted to 1.52% of GDP in 2016, which was a sharp increase over the 0.80% level recorded in 2015. Portfolio flows for 2016 totalled US\$ 73.896 billion, which far outstripped the US\$ 40.334 in such flows registered in 2015 and, what is more, were quite similar to the levels seen in each of the four years preceding 2015, when they averaged US\$ 81.227 billion (see figure 17).

Generally speaking, trends in portfolio flows have been similar to FDI trends over the past 15 years, although they have always been much more volatile and likely to change suddenly in response to changes in economic conditions. Debt securities (public, publicly guaranteed and unguaranteed bonds) make up most of the region's portfolio flows (see figure 19). This trend has strengthened since the 2008 financial and banking crisis owing, first of all, to the fact that financing through debt securities has tended to substitute bank credit while banks were reassessing their loan portfolios and business models in the wake of the crisis and, second, to expanding foreign investment flows as investors chase higher asset returns that they can still find in Latin America and the Caribbean, while interest rates in developed region are revised downward due to quantitative easing policies in developed economies.

Figure 19
Latin America and the Caribbean: net flows from private creditors and equity, 1980-2016
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> and World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> [date of reference: February 2018].

In 2014-2015, a drop in net portfolio flows, and especially of unguaranteed bonds, coincided with a slowdown in the economies of the region that was coupled with the uncertainty sparked by falling raw material prices and rising volatility in the second half of 2015. Bond issues in Latin America and the Caribbean were down sharply in 2015 but then rebounded in 2016 and 2017.⁵ The composition of net bonds flows, which totalled US\$ 54.537 billion, also differed in 2016, with net flows of US\$ 60.958 billion in public and/or guaranteed bonds contrasting with an outflow of US\$ 6.421 billion in unguaranteed bonds.

3. Worker and migrant remittances

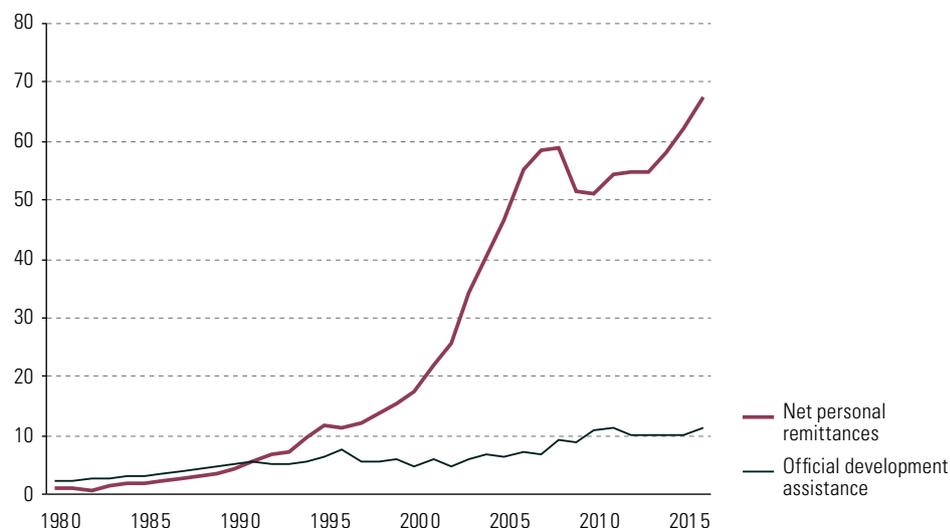
Migrant remittances continued to climb throughout 2016, yielding total net flows of US\$ 67.229 billion during the year; this amounted to an 8% upswing, thus matching the rise recorded in 2015. In 2016, these flows accounted for 1.39% of GDP. This situation is reflected in higher average employment and wage rates in the economies of the countries where the majority of migrant workers reside, particularly the United States and Spain (CEMLA, 2017). Since the late 1980s, the flows of remittances to Latin America and the Caribbean have been both sizeable and stable, and they continue to grow. Figure 20 illustrates the almost exponential growth of these flows and their magnitude as compared to historical ODA flows to the region.

⁵ The region's bond issues slipped from US\$ 133.1 billion to US\$ 79.8 billion in 2015. The recovery seen in 2016 and 2017 up to November amounted to US\$ 129.4 billion and US\$ 137.9 billion, respectively, Velloso (2017).

Figure 20

Latin America and the Caribbean: migrant remittances to Latin America and the Caribbean, 1980-2015

(Billions of dollars)



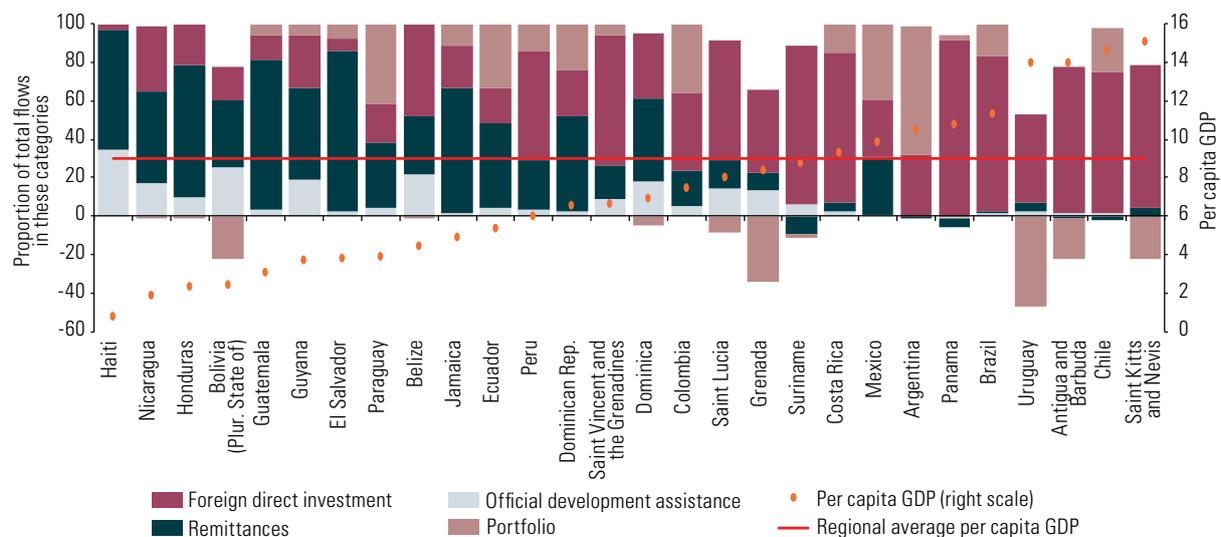
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, and data from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee.

4. External financing at the country level

Turning away from an aggregate analysis of the Latin American and Caribbean region, it can be seen that there are sharp differences between the three major subregions, the Caribbean, Central America and South America, and that an individual country's per capita GDP is a strong indicator of the type of financial flows directed towards that country. On average, in 2012-2016, remittances and ODA made up 51% of the net flows from abroad entering countries whose per capita GDP was well below the regional average, while countries with a GDP close to or higher than the regional average attracted more foreign capital in the form of direct investment and portfolio flows, while remittances and ODA made up just 14% of their total financial flows (see figure 21). Remittances make up a major part of inflows for the Central American countries, and the inverse relationship between per capita GDP and remittances as a percentage of total GDP is most notable in these economies.

Figure 21

Latin America and the Caribbean (28 countries): relative significance of sources of external financing in Latin American and Caribbean countries, 2014-2016^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (for remittances), Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (for official development assistance (ODA), and ECLAC (for foreign direct investment (FDI) and portfolios).

Note: GDP data are expressed in constant terms. The countries are shown in order of their per capita GDP, which is represented by the black dots in the figure. The horizontal red line represents the average GDP of the countries of the region.

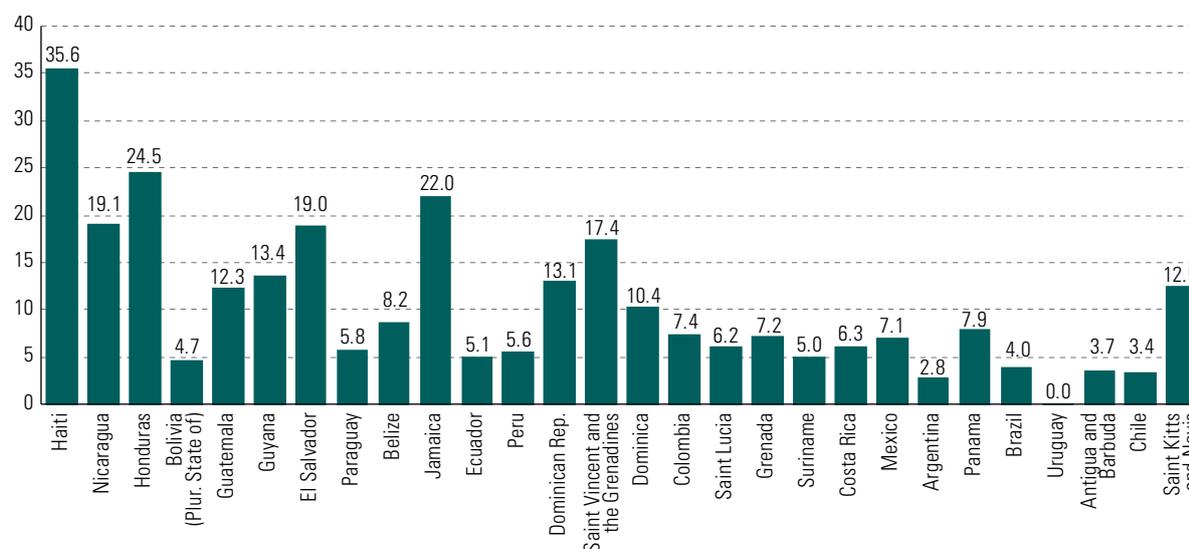
^a The figures shown are averages for 2014-2016.

Another difference among the countries of the region has to do with the relative magnitude of foreign capital as a percentage of GDP (see figure 22). Between 2014 and 2016, on average, total foreign financial flows to the Caribbean amounted to 10.1% of GDP. In the Central American economies, these flows were also significant, averaging 16.1% of GDP, but tended to be markedly lower relative to GDP the higher the country's per capita national income was. Meanwhile, on average, foreign financial flows to South America totalled 4.3% of GDP, with the highest level being 7.4% of GDP, but no correlation was seen between the level of those flows and per capita national income.

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Figure 22

Latin America and the Caribbean: foreign direct investment, portfolio investments, remittances and official development assistance as percentages of nominal GDP, 2014-2016^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (for remittances), Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (for official development assistance (ODA), and ECLAC (for foreign direct investment (FDI) and portfolios).

Note: The countries are shown in order of their per capita GDP. No recent GDP data are available for the Bolivarian Republic of Venezuela.

^a The figures shown are averages for the period.

C. Debt relief for small island developing States (SIDS) of the Caribbean: an innovative proposal for addressing an urgent problem

1. An overview of the debt challenge facing the Caribbean

Caribbean countries are among the world's most heavily indebted nations —so much so that the unsustainably high debt levels that they have accumulated over the years have become the most important issue facing the Caribbean today. In 2015, 4 of the 25 most highly indebted countries in the world (measured by gross general government debt levels relative to GDP) were in the Caribbean: Antigua and Barbuda, Barbados, Grenada and Jamaica. At the end of 2015, the overall debt burden amounted to US\$ 52 billion, which represents 70% of the subregion's GDP.

Table 6
The Caribbean: public debt, 2015

	Domestic	External (millions of dollars)	Total	Total (percentages of GDP)
Anguilla	18.6	60.2	78.8	24.6
Antigua and Barbuda	562.8	581.1	1 143.9	84.4
Bahamas	5 284.6	2 169.3	7 453.9	84.2
Barbados	3 185.1	1 609.7	4 794.8	109.9
Belize	247.2	1 175.8	1 423.0	82.6
Dominica	125.5	279.3	404.8	78.3
Grenada	252.9	600.8	853.7	86.8
Guyana	395.6	1 143.0	1 538.6	48.4
Jamaica	7 371.5	10 331.3	17 702.9	126.8
Montserrat	0.0	3.4	3.4	5.7
Saint Kitts and Nevis	360.8	213.0	573.7	65.5
Saint Lucia	615.0	498.8	1 113.8	77.8
Saint Vincent and the Grenadines	198.8	380.3	579.1	78.5
Suriname	1 070.9	1 056.5	2 127.4	51.6
Trinidad and Tobago	9 623.4	2 490.2	12 113.6	51.2
Total	29 312.8	22 592.7	51 905.5	70.4 ^a

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

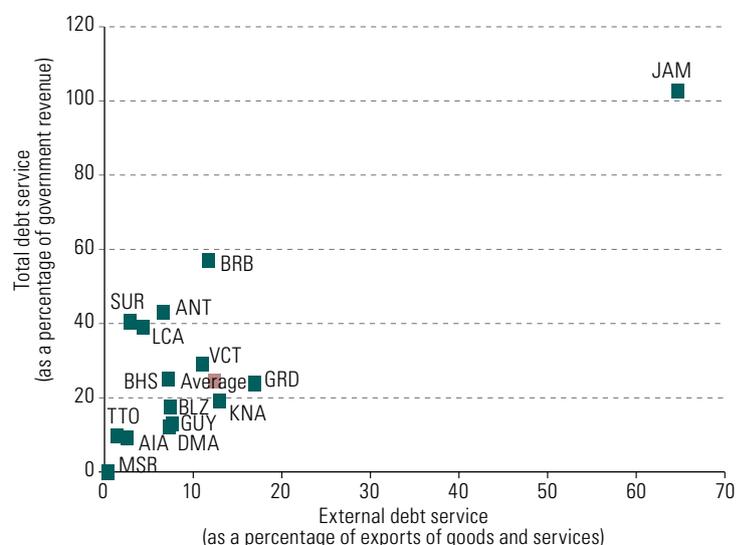
^a Average.

Although the subregion's debt levels are high, its total debt with the rest of the world is relatively insignificant at a global level, and its resolution would therefore not pose any systemic risk to global financial stability. The external debt burden of all the English- and Dutch-speaking Caribbean countries is equivalent to only about 1% of the world's external debt. This figure reflects the small size of the Caribbean economies, which may be one of the reasons why addressing this problem has not appeared to be a matter of urgency.

Another important feature of the debt challenge facing the Caribbean is the high cost of its debt service, which has greatly reduced these countries' fiscal space and undermined their ability to assume the costs involved in achieving the Sustainable Development Goals, particularly those associated with investment in social and economic development programmes. In 2015, external debt servicing absorbed an average of 11% of the subregion's earnings from its exports of goods and services (see figure 23). Debt servicing thus absorbs a major portion of foreign exchange earnings that could otherwise be used to import intermediate and capital goods and technology that could then be used to spur growth or to build up international reserves. In fact, in 2015 the Caribbean subregion's total debt service payments represented, on average, over 20% of total government revenue that year.

Figure 23

The Caribbean: total debt service as a percentage of government revenues and external debt service as a percentage of earnings from exports of goods and services, 2015



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

Note: The red square represents the average for the subregion.

The level and composition of public debt is highly heterogeneous among Caribbean SIDS, which adds to the difficulty in finding a workable subregional solution. In 2015, the total public debt stock ranged from 6% of GDP for Montserrat to 127% of GDP in the case of Jamaica. In that same year, domestic public debt ranged from 0% of GDP (Montserrat) to 73% of GDP (Barbados), while the public external debt component varied from 6% of GDP (Montserrat) to 74% of GDP (Jamaica). Barbados, the Bahamas, Jamaica and Antigua and Barbuda stand out for their high levels of domestic public debt.

Given the wide range of total public debt levels, Caribbean countries may be subdivided into three categories: heavily indebted countries (over 80% of GDP), moderately indebted countries (40%-80% of GDP) and less indebted countries (40% of GDP or less). Using this classification, 13 of 15 Caribbean economies can be said to be moderately or heavily indebted (see figure 24).

Figure 24
The Caribbean: composition of the total public debt, 2015
(Percentages of GDP)



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

2. The core elements of the ECLAC debt relief proposal

Given the slow-growth outlook for the subregion, the Caribbean's debt ratios are likely to continue to rise. These countries' high debt levels are exacerbated by their heavy reliance on imported fossil fuels to meet their energy needs.

The Caribbean subregion's debt dilemma must be addressed by means of a sustainable approach that will foster structural change and economic diversification. ECLAC is therefore proposing a shift in focus that will not only help to tackle the subregion's high levels of indebtedness but will also spur the development of areas that will drive growth, rather than limiting the scope of debt relief efforts to stabilization alone.

While corrective efforts such as fiscal consolidation measures, prudent fiscal debt management and structural reforms aimed at boosting economic growth have met with some degree of success in some economies, they have been unable, thus far, to solve the Caribbean's high debt-low growth conundrum. This may be due to the fact that the debt burden of the subregion and its pace of economic growth are closely associated with the impact of natural disasters. The notion of swapping debt for climate change adaptation measures may therefore be a useful tool in building a viable solution.

The idea of this kind of debt swap is loosely based on the concept of debt-for-nature swaps, which are designed to reduce the debt of a debtor country in exchange for a greater commitment to conservation efforts. In exchange for a given extent of debt forgiveness or cancellation, the debtor country undertakes to allocate funds to environmental conservation projects. These projects may deal with such areas as natural resource management, investment in renewable energy technologies and climate adaptation, building resilience, education and training, and the designation and management of protected areas.

Generally speaking, there are two types of debt-for-nature swaps: bilateral and trilateral swaps. Bilateral debt-for-nature swaps entail a creditor country's or financial institution's forgiveness of a specified percentage of debt. In exchange, the debtor country pledges to allocate funding to environmental

projects. Usually, this kind of financing for environmental projects is channelled through a fund that is administered by a mutually agreed upon institution or board. A trilateral debt-for-nature swap typically involves at least three counterparts: the debtor country; the creditor country or institutional creditors; and an international non-governmental organization.

The international NGO in question is typically one that is involved in environmental conservation efforts, and it may buy up debt on a secondary market in order to facilitate the debt swap. In most cases, the international NGO in question will have an agreement with a national non-governmental organization to facilitate the administration and implementation of these environmental projects.

A debt-for-nature swap entails a number of steps. The first is to secure the sponsorship of an international NGO to which the donor will then transfer the funds for the implementation of environmental projects. The international NGO may still be involved in discussions with the debtor country at this stage in order to set out its plans and clarify the needs of the debtor country. The second step is for the international NGO to purchase external public debt on the secondary market. This debt is generally bought at a discount. The third step is for the debtor country to allocate the resources to an environmental project fund. A national NGO then works alongside its international partner and the debtor country to implement the designated environmental projects.

The approach for providing debt relief for the Caribbean being proposed by ELCAC is based on this concept, but it avoids entering into the secondary debt market altogether. It also ushers in a resilience-building component that has thus far been absent from other proposed debt reduction mechanisms.

This approach to debt relief has two main dimensions: for countries with high levels of official debt, the Green Climate Fund (GCF) will be used to cancel out 100% of the multilateral and bilateral debt at a negotiated discount; and (ii) for countries with high levels of private debt, a debt buy-back plan and debt-for-equity swap will be arranged for.

The approach being advocated by ECLAC is based on a recognition of the fact that different Caribbean countries have widely varying debt levels and profiles and different mixes of multilateral, bilateral and private debt. It provides for a mechanism for addressing the debt overhang while also relying on green industries to help finance climate change funds. Funds will be administered through a Caribbean resilience fund, or CRF.

The establishment of a CRF is a key element of this initiative. It remains to be decided what institution should administer such a fund, but the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB) would be the preferred candidates. It is expected that this Caribbean resilience fund will provide funding for a balanced mix of public and private projects in green industries that meet the high standards of the Green Climate Fund and that will work to develop a green industrial value chain.

Another defining feature of the initiative is the requirement that member States which decide to join in must move forward with structural reforms. Debt relief would therefore be contingent on member States' fulfilment of the obligations they will have assumed in implementing sustainable fiscal consolidation programmes and conducting public expenditure reviews (PERs). The conditions to be established will be based on agreements reached between creditors and debtors. ECLAC also believes that countries should demonstrate a desire to pursue a sound fiscal administration programme in order to forestall future debt problems.

A task force composed of key regional institutions, including the Eastern Caribbean Central Bank (ECCB), the Caribbean Community Climate Change Centre (CCCCC), the CARICOM secretariat and the Organisation of Eastern Caribbean States (OECS), was set up in December 2017 to deal with the technical details and disbursement modalities, project proposals, the selection of priority sectors for investment, accountability and information requirements. Implementation of the ECLAC debt relief

proposal, together with the resilience-building initiative, has already begun. The first of the four phases that will be involved in its implementation focused on the creation of a working group to outline various aspects of the initiative.

The second phase will focus on developing debt profiles for up to three Caribbean countries that agree to participate in the pilot project for this initiative. The third phase will require an ongoing commitment with creditor countries and institutions and with the Green Climate Fund as work proceeds on the determination of how best to move the initiative forward with their support. Finally, the fourth phase will involve an assessment of the operational feasibility of the initiative and, in the event that the pilot project is successful, its expansion to include other member States.

D. The development role of external private capital

The challenge of attracting capital for use in the development of the production sector must be addressed if the region is to diversify towards more knowledge-intensive sectors, build local capacities and remain competitive in the long run, while at the same time promoting sustainable development (ECLAC, 2015b).

Private capital is largely profit-driven, and private investment may therefore fall short in areas that are crucial for sustainable development (such as poverty reduction or climate change) if the expected yield in those areas —after adjusting for the associated risk levels— is less attractive than the profit-making opportunities offered by other types of investments. Because of the types of incentives involved (such as the fact that capital costs do not incorporate considerations of sustainability), capital flows and markets operate within a short-term horizon and may therefore bypass capital investments that offer high yields but only in the long run, may not place sufficient value on sustainability and may channel resources into the areas where they are needed the least. The tendency to place priority on short-term operations and to disregard externalities undermines the incentives for investing in sustainable businesses (ECLAC, 2015b).

If the goal is to channel private capital in a way that furthers sustainable development, then incentives need to be created for all major actors in capital markets to take the dimension of sustainability into account. By the same token, policymakers should incorporate sustainable development issues into the policies that affect their countries' capital markets. It is essential for corporate externalities to be integrated into corporate accounts via fiscal measures, standards and market mechanisms (ECLAC, 2015b).

Efficient, targeted government action will be needed to create appropriate incentives for private capital to help attain the Sustainable Development Goals. The public sector must build on its increasingly important role in incorporating social returns into the cost-benefit analysis and can provide public financing for sectors that generate significant social gains but do not attract sufficient private flows. It can also establish an enabling environment and suitable incentives to support a risk-return profile capable of attracting private capital and directing it towards development objectives (ECLAC, 2015b).

These incentives for private financing need to go hand in hand with proper regulatory frameworks, however. A balance needs to be struck between business strategies and development objectives in host countries in order to: (i) allocate a larger share of FDI flows to the development of production capacity (innovation, SMEs, technology and emerging sectors, among others); (ii) promote the incorporation of local SMEs into global value chains headed by transnational corporations; (iii) place priority on FDI projects which help to close gaps in environmentally-friendly technologies and develop modern infrastructure (including broadband Internet); and (iv) develop a better institutional structure for attracting quality FDI (ECLAC, 2015b).

E. Access to financial markets for Latin America

At the global level, the volume of funds handled by the financial sector and the composition of those funds have changed a great deal, particularly since the mid-1980s, and this has altered the ways in which external financing can be used to promote the economic and social development of the region.

The first way in which these changes in the world's financial systems became evident was their financial deepening, which took place at an incredibly rapid pace. The available data for 1980-2016 indicate that, in 1980, the value of the total stock of financial assets, including derivative contracts, was slightly (18%) higher than global GDP. By 1990, however, the value of the stock of financial assets was almost three times greater (284%, including derivatives) than global GDP and, since 2007, it has been more than 10 times higher than the value of GDP (see figure 25). This spectacular increase in the depth of global financial markets is accounted for by the exponential growth of derivatives, which have come to represent nearly 70% of the world's stocks of financial assets.

Figure 25
Value of world financial assets and world GDP, 1980-2016
(Billions of dollars)



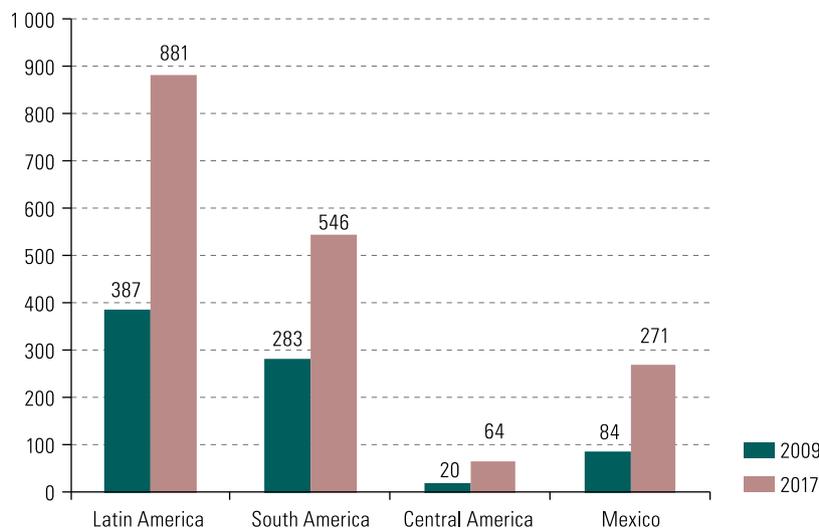
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Bank for International Settlements (BIS) and World Bank, World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.

These changes in global liquidity are coupled with certain types of risk profiles and combinations of liabilities. The available data for 2002-2017 indicate that increased financial deepening was accompanied by increases in both global debt and the level of indebtedness in Latin America. In point of fact, the international bond market has become a key source of funding for a number of emerging economies, including those of Latin America.

Figure 26

Latin America and its subregions: international debt issues for the region, 2009 and 2017

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bank for International Settlements (BIS), "Summary of debt securities outstanding", 2018 [online] <http://stats.bis.org/statx/srs/table/c1>.

In the case of Latin America, the total stock of international debt securities, which stood at US\$ 310 trillion in 2000-2007, had jumped to US\$ 761 trillion by 2017. The size of the debt stock is directly proportional to the size of a country's economy. Argentina, Brazil, Chile, Colombia, Mexico and Peru account for approximately 89% of the total stock of international debt in the region.

The breakdown of the debt stock by sector (including governments, central banks, financial institutions and commercial banks) for 2000-2017 points up several stylized facts. First, governments are the largest issuers of international debt securities, but their position in this respect has declined over time. Between 2000-2007 and 2017, the level of public debt dropped from 70.8% to 39.8% of the total debt at the regional level. For South America and Central America, the stock of public debt shrank from 71.5% to 44.7% and from 89% to 57.2% of the total, respectively.

A second stylized fact has to do with the steep increase in the debt stock of the financial sector and, in particular, the non-financial corporate sector. The financial sector's stock of international debt securities soared, on average, from US\$ 47 billion to US\$ 241 billion between 2000-2007 and 2017. The breakdown of these figures into their public financial-sector and private financial-sector components shows that the latter accounts for the lion's share of the upswing in debt levels (US\$ 41 billion versus US\$ 216 billion).

At the regional level, the debt securities of the non-financial corporate sector climbed from US\$ 49 billion to US\$ 289 billion during that period. South America's stock of corporate debt overshadows Central America's. In Central America, the stock of non-financial corporate sector debt securities rose from 2.0% to 6.8% of the total, while the stock of debt as a percentage of GDP slipped from 1.6% to 1.3% during that same period. In South America, the significance of the stock of non-financial corporate sector debt is reflected in the increases in both its relative share of the total (from 12.2% to 25%) and its level as a percentage of GDP (from 2.4% to 4.0%) between 2000-2007 and 2017.

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The countries that have the most exposure to the international bond market are Mexico and, in South America, Brazil, Chile, Colombia and Peru. Between 2000 and 2015, the available data indicate that Mexico's stock of non-financial corporate-sector debt climbed from 3.1% to 11.9% of GDP. The stock of non-financial corporate debt also rose sharply as a percentage of GDP in Brazil (from 2.2% to 8.5%), Chile (from 3.3% to 16.1%), Colombia (from 1.0% to 6.3%) and Peru (from 0% to 49%) during that same period of time. Other South American countries such as Argentina and Paraguay have a comparatively smaller share of corporate debt (1.4% and 1.1% of GDP in 2015, respectively), while Uruguay has no corporate debt at all.

III. New and innovative instruments and mechanisms for financing social development and the development of production

A. Innovative financing mechanisms⁶

A greater mobilization of external resources should be combined with the promotion of new and innovative instruments and mechanisms for financing social development and the development of the production sector.

The emergence of a range of innovative financial instruments and mechanisms designed to mobilize and channel larger volumes of international finance represents one of the key changes in the landscape of financing for development. From a development perspective, however, the funding sources and objectives of these new funds and instruments need to be defined with greater clarity.

Innovative financing mechanisms are viewed as complementing flows of international resources (ODA, FDI and remittances), serving to mobilize additional resources for development and addressing specific market failures and institutional barriers. They can also facilitate cooperation with the private sector. These financing mechanisms can provide stable and predictable financial flows for developing countries. They can also provide an added dividend by helping to provide public goods, as well as boosting income levels.

Innovative financing for development comprises a wide variety of mechanisms and instruments, some of which are already in use, while others are still at the planning stage. These mechanisms and instruments fall into four broad categories: (i) those that generate new public revenue streams, such as global taxes and special drawing right (SDR) allocations; (ii) front-loading and debt-based instruments, such as debt swaps and international finance facilities; (iii) public-private incentives, guarantees and insurance, such as advance market commitments (AMCs) and sovereign insurance pools; and (iv) voluntary contributions made available through public or public-private channels, such as person-to-person giving.

⁶ This section is based on ECLAC (2015b).

Box 2

Existing innovative financing mechanisms

Innovative financing mechanism	Description and revenues
Existing mechanisms	
Taxes and other obligatory charges pertaining to globalized activities	
Taxes	Excise tax levied by the government to raise funds to meet a specific development challenge. Revenue: US\$ 2.4 billion between 2000 and 2013.
Solidarity levy on airline tickets	Launched in 2006 by the governments of Brazil, Chile, France, Norway and the United Kingdom, this levy is a means of collecting funds for the International Drug Purchase Facility (UNITAID) and for the International Finance Facility for Immunization (IFFIm). It is a nationally administered but internationally coordinated tax on airline ticket sales. Each passenger is charged a low tax rate on each airline ticket that is purchased. Fourteen countries currently participate in this initiative, and the tax rate varies from one country to the next. Revenue: US\$ 1.678 billion between 2003 and 2015.
Voluntary solidarity contributions	
Carbon auctions (voluntary market)	Voluntary participation in legally binding exchanges for trading carbon credits and reducing emissions. Revenue: US\$ 6.5 billion between 2000 and 2013.
Donations as part of consumer purchases	A percentage of each purchase of a consumer product goes to fund efforts to address a designated development challenge. Revenue: US\$ 200 million between 2000 and 2013.
Products (RED)	Consumers are encouraged to purchase (RED) branded products. Participating producers then donate 50% of their profits to the Global Fund to Fight AIDS, Tuberculosis and Malaria. Revenue: Between the time of its launch in 2006 and 2015, (RED) obtained more than US\$ 304 million for the Global Fund.
Front-loading and debt-based instruments	
Guarantees	Financial commitments to provide payment in the event of financial loss, including insurance products that act as a risk-mitigation incentive to attract other funders. Revenue: US\$ 36.1 billion between 2000 and 2013.
Loans	Loans made on concessionary repayment terms to borrowers for use in implementing specific development interventions, such as the creation of green credit lines. Revenue: US\$ 1.8 billion between 2000 and 2013.
The International Finance Facility for Immunization (IFFIm)	IFFIm raises funds by issuing bonds on international capital markets. In so doing, it makes more resources available for development. It then repays bondholders over terms of up to 20 years with the long-term (legally binding) ODA commitments from donor governments. This arrangement effectively allows governments to “buy-now but pay later” or to front-load ODA. IFFIm was launched in 2006 by six donor governments: United Kingdom, France, Italy, Spain, Sweden and Norway. South Africa, the Netherlands, Australia and Brazil have also joined since then. Revenue: US\$ 3.4 billion between 2006 and 2011.
Debt conversions (swaps)	Debt swaps are financial transactions in which a portion of a developing nation's foreign debt is forgiven in exchange for local investments in social or environmental conservation measures. Revenue: Amounts for debt-for-nature swaps and debt-for-education swaps are unknown. Debt2Health has written down 163.6 million euros in debt; US\$ 316 million in IDA credits have been bought on behalf of Nigeria and Pakistan.
Bonds and notes	Debt financing is raised in capital markets to fund development interventions such as microfinance operations or climate change interventions. Revenue: US\$ 23.2 billion between 2000 and 2013.
Sustainable investment bonds (e.g. green bonds, etc.)	Sustainable investment bonds target investors that wish to integrate social and environmental concerns into their investment decisions. The proceeds are credited to special accounts at the World Bank that support loans for development or climate change mitigation projects. Examples include the World Bank's Eco Notes, Cool Bonds and Green Bonds. Revenue: since the inaugural issue in 2008, the World Bank has issued approximately US\$ 3 billion in green bonds via 44 transactions and 16 currencies.
Diaspora bonds	A diaspora bond is a debt instrument issued by a country or a sovereign entity that seeks to raise funds with the help of its overseas diaspora. Revenue: the Governments of India and Israel have raised over US\$ 35 billion.
Microfinance investment funds	These are investment funds that finance microlenders which then extend credit to low-income borrowers who do not have access to regular sources of financing in developing countries. Revenue: US\$ 9.1 billion between 2000 and 2013.
Other investment funds	These investment vehicles are structured and financed in a manner intended to address a specific development challenge, often mixing investments with different risk and return profiles. Revenue: US\$ 5.8 billion between 2000 and 2013.
Other derivatives	These are financial instruments whose value is derived from the performance of another asset, such as mortgage-backed securities or climate bonds. Revenue: US\$ 600 million between 2000 and 2013.

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Box 1 (concluded)

Innovative financing mechanism	Description and revenues
Government guarantees, public-private incentives, insurance and other market-based mechanisms	
Advanced market commitments	These are commitment to ensure that funds will be available for products/product markets once they are developed. Revenue: US\$ 1.1 billion between 2000 and 2013.
Advance market commitments (AMCs) for a pneumococcal vaccine	Under AMCs, donors pledge funds to guarantee the price of pneumococcal vaccines. These financial commitments provide, in turn, a new incentive for vaccine manufacturers to develop a product that might otherwise not be commercially viable and to manufacture it at scale. In exchange, pharmaceutical companies sign a legally binding commitment to provide the vaccines at an agreed price. AMC was launched in 2007 by Canada, Italy, Norway, the Russian Federation, the United Kingdom and the Bill & Melinda Gates Foundation. Revenue: US\$ 1.5 billion donor commitments in total. As of 2015, US\$ 782 million had been raised.
Rewards and prizes	Financial rewards for development solutions proposed as part of a competitive selection process. Revenue: US\$ 300 million between 2000 and 2013.
Development impact bonds	Investors finance the development intervention up front and the government or donors repay them with interest based on the results. Revenue: US\$ 0.0.
Performance-based contracts	Grant contracts that are structured so that tranches are disbursed based on the achievement of specific performance targets. Revenue: US\$ 5 billion between 2000 and 2013.
Debt swaps and buy-backs	The debt repayment obligations of developing countries are transferred or reduced on the basis of specified development goals. Revenue: US\$ 1.4 billion between 2000 and 2013.
Carbon emissions trading	Carbon emissions trading, as set out in article 17 of the Kyoto Protocol, allows countries that have emission units to spare —i.e. emissions permitted to them but not “used”— to sell this excess capacity to countries that are over their target levels. Revenue: US\$ 28 billion under the Kyoto Protocol and US\$ 810 million from auctions and sales of German emissions units under the European Union Emissions Trading System
2% share of sales of certified emissions reduction (CER) units	The Clean Development Mechanism (CDM) allows a country with an emission reduction or emission limitation commitment under the Kyoto Protocol to implement emission-reduction projects in developing countries. Such projects earn saleable certified emission reduction (CER) credits, each equivalent to 1 ton of CO ₂ , which count towards meeting Kyoto targets. A 2% levy on carbon credits generated through CDM is channelled into the Adaptation Fund, which finances climate adaptation projects and programmes in developing countries. Revenue: to date, approximately US\$ 70 million distributed among 12 projects.
Mechanisms focused on agriculture and food security	
Food security certificates	“Food security” labels are issued for brands that allocate a portion of their profits to food security projects. Revenue: N/A.
Lotteries	Revenues from national lotteries are used to support food security and nutrition. Revenue: N/A.
Rounding of banking transaction payments	Direct contributions to food security funds are financed by rounding up clients’ banking transactions. Revenue: N/A.
Mechanisms for financing value chains having an impact on private investment in agriculture	
Public-private partnerships and structured funds	These partnerships invest in agricultural infrastructure and services that benefit smallholder farmers. Revenue: N/A.
Subsidies for smart inputs for use by smallholder farmers	These subsidies are aimed at boosting food production and benefiting poor farmers by promoting crop intensification. This mechanism is designed to have an impact on fertilizer use as a means of increasing profits and yields. Revenue: N/A.
Generating additional funds	
Donations of sovereign funds for emerging economies	Sovereign wealth funds are donated by the member countries of the Development Assistance Committee (DAC) to the International Development Association (IDA) in the form of grants for programmes that help to foster economic growth, reduce inequalities and improve the population’s living conditions. Revenue: US\$ 2.1 billion between 2000 and 2008.
Disaster mitigation loans	The World Bank extends loans that provide immediate liquidity when a disaster strikes in any part of the world. Revenue: N/A.

Source: Global Development Incubator, *Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes*, 2014; United Nations Development Programme (UNDP), *Innovative Financing for Development: A New Model for Development Finance?*, New York, 2012; Leading Group on Innovative Financing for Development, “Innovative financing for agriculture, food security and nutrition. Report of the high-level Committee to the Leading Group on Innovative Financing for agriculture, food security and nutrition”, December 2012 [online] http://www.leadinggroup.org/IMG/pdf/Innovative_financing_for_agriculture_food_security_and_nutrition_dec_2012_english.pdf; World Bank, *Innovative Finance for Development Solutions: Initiatives of the World Bank Group*, Washington, D.C., 2009 [online] <http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf>, and R. Atun, S. Silva and F. M. Knaul, “Innovative financing instruments for global health 2002-15: a systematic analysis”, *The Lancet Global Health*, vol. 5, No. 7, July 2017.

Note: N/A: not applicable.

An illustrative example is the Global Fund to Fight AIDS, Tuberculosis and Malaria (UNITAID), which mobilizes nearly US\$ 4 billion per year. This initiative is primarily financed by an international solidarity tax on airline tickets. This fund makes it possible to provide treatment for HIV/AIDS, tuberculosis and malaria to about 47 million people in 94 countries around the world. It has also reduced the cost of second-line antiretroviral treatment regimens by more than 50%.

A total of 93 countries receive support from UNITAID: 11 in the Americas, 26 in Asia, 7 in Eastern Europe, 8 in North Africa and the Middle East, and 41 in sub-Saharan Africa. These funds are, however, integrated into donors' regular development cooperation budgets and are counted as ODA.

The International Finance Facility for Immunization (IFFIm) is another of these mechanisms. IFFIm raises funds by issuing bonds on international capital markets. It then repays bondholders over terms of up to 20 years with long-term (legally binding) ODA commitments from donor governments. This arrangement effectively allows governments to "buy-now but pay later" or to front-load ODA. It was launched in 2006 by six donor governments: United Kingdom, France, Italy, Spain, Sweden and Norway. South Africa, the Netherlands, Australia and Brazil have since joined in the initiative.

A total of US\$ 3.4 billion was raised by means of this innovative financing mechanism between 2006 and 2011. It is estimated that between 1.3 million and 2.08 million deaths had been averted by the end of 2011 thanks to IFFIm.

Countries in the Latin American and Caribbean region have embraced some of these new innovative financing initiatives, including the tax on airline ticket sales, the auctioning (or sale) of emission permits and a sovereign insurance pool known as the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

The solidarity levy on airline tickets has been applied since 2006 by Chile and France, which have since been joined by Côte d'Ivoire, Gabon and Mauritius. In 12 other countries, parliamentary meetings have been held to set up initiatives of this type, and 19 countries have pledged to introduce voluntary contribution schemes. It is estimated that this tax could raise between US\$ 480 million and US\$ 590 million annually, bearing in mind that more countries will be joining in the coming years. In France alone, US\$ 1.09 billion has been raised since the tax began to be implemented in 2006.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a sovereign insurance pool that was established by Caribbean countries in 2007 to provide affordable coverage for immediate budget support following major natural disasters. The Facility works as a type of parametric mutual insurance scheme, as there is a prior agreement to make payment upon the occurrence of a parametric trigger (such as a specified intensity of a natural disaster in a specific location as measured by an independent agency) rather than against actual losses. Claims can thus be settled much more quickly than would be possible on an actual-loss basis, which would take much longer to quantify.

There are also mechanisms in the region, such as the Latin American Investment Facility (LAIF), that are specifically designed to finance and foster the development of production activities. LAIF uses the limited funds contributed by the European Commission to secure larger loans from the European Investment Bank, the Inter-American Development Bank (IDB) and bilateral sources. It therefore involves not only ODA but also cooperation in a broader sense: the initial funding provided by the European Commission is leveraged to generate considerable volumes of financing from other sources, which are then channelled into physical and energy infrastructure projects (among others) of a greater scope than could otherwise have been attempted.

Other new mechanisms include Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs), which are being used in several countries in the world. The same principles underlie both SIBs and DIBs. All partners agree on a common goal and a way of measuring success. Private investors pledge to put in place a programme aimed at achieving agreed results. They work with service providers, which can

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be any combination of public agencies and private non-professional entities, to manage the programme and create opportunities for innovation and learning. If the programme is successful—with success being confirmed by independent evidence—then the “outcome funder” (usually a public-sector agency) reimburses investors. In general, the more successful the programme, the greater the return for investors.

The first SIB was launched by Social Finance in the United Kingdom in 2010 and was designed to improve outcomes in the Peterborough prison (with the desired result, in this case, being a reduction in the percentage of prisoners who reoffended after their release). This was to be accomplished by orienting prison programmes towards results and creating an opportunity for public services to make better use of evidence, innovation and adaptation.

DIBs are a variation on SIBs and seek to have an impact on investment in the development of technology and innovation. In Latin America, DIBs have been used in Peru to strengthen and modernize the production of cocoa and coffee in the Peruvian Amazon region.

B. New cooperation mechanisms

The development cooperation landscape has been continually shifting as economies and other developing countries become key players in the effort to meet new development challenges. An awareness of the need to find new avenues of cooperation has helped to shape common agendas at the global and regional levels. As well as promoting diversity and wealth-creation, efforts to fulfil these agendas have fostered closer relations between countries and institutions that have played an important role in globalization.

South-South and triangular cooperation have become important vehicles for increasing the pace of human development and will take on even greater importance in the future. These forms of cooperation have increasingly demonstrated their effectiveness in heightening development outcomes through a variety of flexible modalities, including, technology transfer, financing, peer support and neighbourhood initiatives, as well as through countries’ efforts to arrive at shared development agendas and to seek collective solutions.

South-South cooperation transcends the vertical relationship between donors and recipients that has been typical of traditional forms of cooperation and instead focuses on collaboration between equals. This peer-based form of cooperation places emphasis on growth based on the development of infrastructure, technical cooperation and knowledge-sharing. South-South cooperation can therefore be an effective driver of development, particularly for middle-income countries seeking strategies for attaining sustained growth.

These kinds of cooperation activities are not confined to exchanges or bilateral support but instead often lead to the organization of neighbourhood initiatives. Regional mechanisms and global networks are also important forms of South-South cooperation that have a significant development impact.

1. Bilateral South-South cooperation

According to the most recent data available, as provided in SEGIB (2017), a total of 721 bilateral South-South cooperation projects and 155 bilateral cooperation activities were undertaken by the 19 countries of Latin America in 2015. This is a substantial increase over the total of 552 such projects conducted the year before.⁷

During this period, Argentina initiated the largest number of bilateral South-South cooperation projects, with a total of 180 such projects under way, representing one fourth of all the South-South

⁷ The information provided in sections 1, 2 and 3 is based on SEGIB (2017).

cooperation initiatives in the region as a whole. Together with Argentina, other prominent initiators of South-South projects were Mexico (125 projects) and Brazil (110 projects). Chile, with 80 projects, and Cuba, with 59, also figured prominently. These five countries thus accounted for more than three fourths of all bilateral South-South cooperation initiatives in the region.

El Salvador was the largest recipient of bilateral South-South cooperation, with 98 projects (equivalent to 13.6% of the total of 721 projects). It is the only country that is participating in more than 10% of the total.

In 2015, a number of countries—including El Salvador and Guatemala, Paraguay and the Plurinational State of Bolivia and Panama, the Dominican Republic and the Bolivarian Republic of Venezuela—that have mainly been on the receiving end of bilateral South-South cooperation projects began to offer this form of cooperation as well. This corroborates the belief that, as time goes by, bilateral South-South cooperation exchanges will involve more and more countries that will act both as recipients and as providers.

Over 250 projects (or 40.1% of the total) were aimed at building economic capacity. In all, 8 out of 10 of these projects were aimed at strengthening production sectors, while the rest were geared towards building up infrastructure and services that support the operations of different countries' economies.

2. Triangular cooperation

Triangular cooperation involves South-driven partnerships between two or more developing countries, supported by one or more developed countries or multilateral organizations, for the implementation of development cooperation projects and programmes.⁸

In 2015, 94 triangular cooperation projects (equivalent to slightly more than 13% of the number of bilateral cooperation projects) were under way. Over the same period, there were 65 triangular actions were reported. This was equivalent to a somewhat higher percentage (slightly more than two fifths, or 41.9%) of the 155 bilateral cooperation actions being carried out in the region. The top four providers (Chile, Brazil, Mexico and Argentina) accounted for almost three fourths (73.5%) of the 94 triangular cooperation projects in the region.

On average, these projects were carried out over a period of about two and a half years; the cooperation actions averaged approximately one and a half months in duration.

3. Regional South-South cooperation

In 2015, the various countries took part in a total of 44 regional South-South cooperation programmes and 57 projects. Mexico was the country that participated in the largest number (68) of regional South-South cooperation initiatives.⁹ It was followed, in order of the number of projects, by four South American countries (Brazil, Argentina, Colombia and Peru).

For all the countries except one, most of these initiatives were undertaken within the Ibero-American sphere. The sole exception was Honduras, for which the Central American Integration System (SICA)

⁸ Triangular cooperation entails the following roles: (i) the first provider bears primary responsibility for capacity-building. This role can be performed only by a developing country (in this case, a Latin American country); (ii) the second provider can be a developed country, a developing country (of any region) or a multilateral agency. The second provider's role is to supply technical, institutional and/or financial support; (iii) the recipient, or beneficiary, of the cooperation process must be, at the least, a country in Latin America.

⁹ For the purposes of regional South-South cooperation the regions are identified as follows: (a) Central America: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama; (b) Mesoamerica: Belize, Dominican Republic, Mexico and the Central American countries; (c) Andean subregion: Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru and Plurinational State of Bolivia; (d) South America: the five Andean countries plus Argentina, Brazil, Chile, Paraguay and Uruguay; (e) Latin America: the 17 Spanish- and Portuguese-speaking countries of the continent—which stretches from Mexico to Chile—plus the Caribbean countries of Cuba and the Dominican Republic; (f) Ibero-America: the above-mentioned 19 countries plus the 3 countries of the Iberian peninsula: Andorra, Portugal and Spain.

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figured most prominently. The most significant differences had to do with the relative involvement of other stakeholders. In the case of the Central American countries, the second-most influential institutional framework tended to be SICA. For Argentina, Brazil, Chile, Mexico and Peru, the second-most important partner was the International Atomic Energy Agency (IAEA); while, for the Plurinational State of Bolivia, it was the Organization of American States (OAS) and for Paraguay and Uruguay, it was the Southern Common Market (MERCOSUR).

The main partner for Brazil, which participated in 59 regional South-South cooperation programmes and projects in 2015, was Argentina, which worked with Brazil in almost 9 out of every 10 of these initiatives. Argentina's main partners in more than 75% of these programmes and projects were Brazil and Mexico. In addition, in between 6 and 7 out of every 10 of these initiatives, it partnered with Chile, Peru, Paraguay and/or Uruguay.

Just over half of the regional South-South cooperation programmes and projects (53.4%) that were under implementation in 2015 were aimed at addressing social problems (26.7%) or economic issues (another 26.7%).

4. Cooperation between Latin America and other developing countries

In 2015, Latin American countries worked with countries in other developing regions in a total of 330 bilateral South-South cooperation initiatives. They acted as the cooperation provider in the majority of these cases (292) and as recipients in the remaining 38. Over the same period, Latin American countries took part in 21 triangular cooperation initiatives (15 projects and 6 actions) with partners in other developing regions, mainly Caribbean countries that do not form part of Ibero-America and, to a lesser extent, countries in Africa and Asia.

South-South cooperation provides an opportunity for developing new options and partnerships to address issues related to food insecurity, poverty and sustainable agriculture.

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Annex 1

Table A.1

Latin American and the Caribbean: beneficiaries of the Development Bank of Latin America (CAF), the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB)

CAF member countries	CABEI member countries	CDB member countries
Argentina	Argentina	Anguilla
Barbados	Belize	Antigua and Barbuda
Bolivia (Plurinational State of)	Colombia	Bahamas
Brazil	Costa Rica	Barbados
Chile	Dominican Republic	Belize
Colombia	El Salvador	British Virgin Islands
Costa Rica	Guatemala	Cayman Islands
Dominican Republic	Honduras	Dominica
Ecuador	Mexico	Grenada
Jamaica	Nicaragua	Guyana
Mexico	Panama	Haiti
Panama		Jamaica
Paraguay		Montserrat
Peru		Saint Kitts and Nevis
Trinidad and Tobago		Saint Lucia
Uruguay		Saint Vincent and the Grenadines
Venezuela (Bolivarian Republic of)		Suriname
		Trinidad and Tobago
		Turks and Caicos Islands

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the annual reports and data from the respective banks.

Table A.2

Latin America and the Caribbean: average shares of non-concessional financing provided to member countries of the Development Bank of Latin America (CAF), Central American Bank for Economic Integration (CABEI) and Caribbean Development Bank (CDB), 2012-2016^a

(Percentages)

	IBRD (World Bank)	IDB	CAF	CABEI	CDB	Total
South America	20.8	31.3	47.6	0.3	0.0	100
Central America	14.8	52.1	11.7	21.4	0.0	100
The Caribbean	11.1	52.9	7.1	0.7	28.2	100
Allocated to CAF	20.2	36.5	42.4	0.9	0.0	100
Allocated to CABEI	9.3	39.7	0.3	50.7	0.0	100
Allocated to CDB	14.2	49.8	0.0	0.9	35.0	100

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the annual reports of the respective banks; for IBRD data: World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> [date of reference: February 2018].

Note: IBRD: International Bank for Reconstruction and Development; CAF: Development Bank of Latin America; CABEI: Central American Bank for Economic Integration; CDB: Caribbean Development Bank.

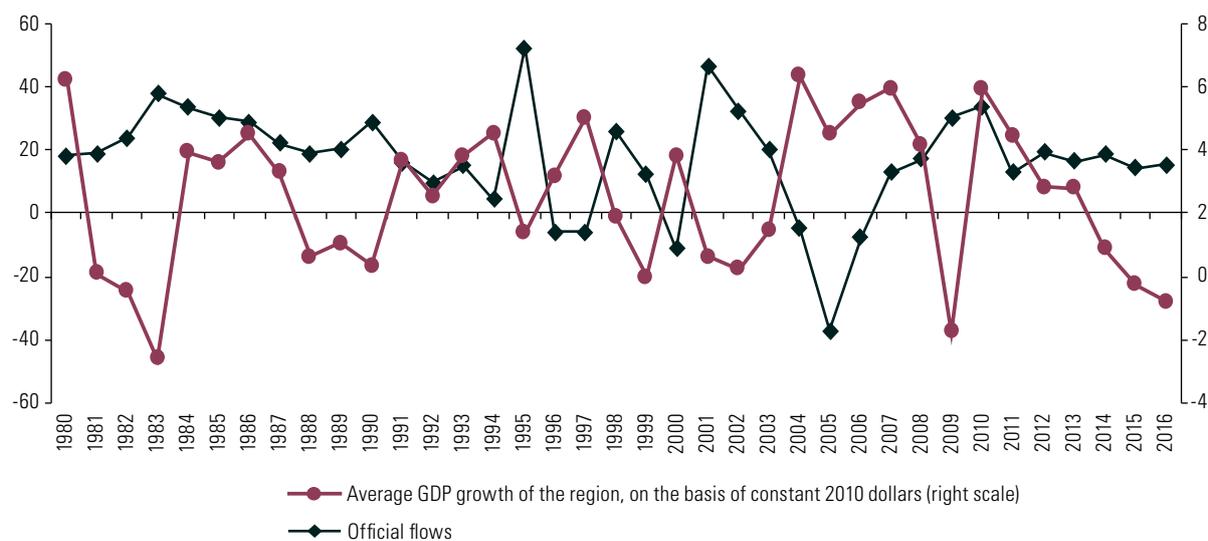
^a Calculations were based on estimated concessional loan approvals. Countries are first grouped by their geopolitical region and, second, assigned to the development bank based on the subregional bank that provides the bulk of financing to that country.

Annex 2

Figure A.1

Latin America and the Caribbean: countercyclical role of official external flows, 1980-2016

(Billions of dollars^a and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> and World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, and grant data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee.

Note: Official flows include both bilateral and multilateral grants and donations and both concessional and non-concessional lending (debt securities, bank debt and other types) by official creditors.

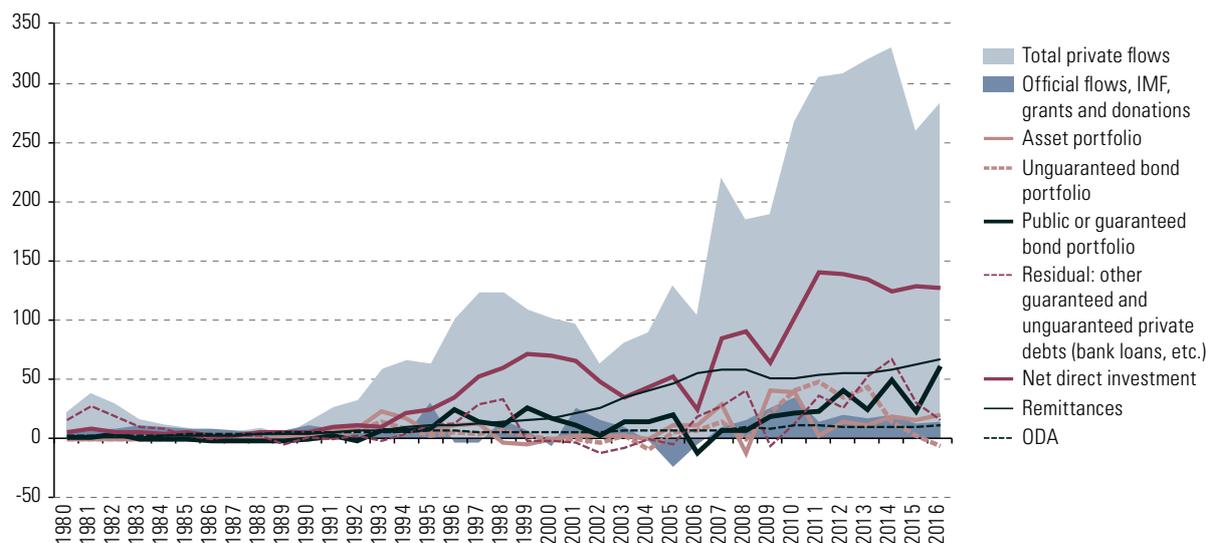
^a In constant dollars at 2010 prices.

Annex 3

Figure A.2

Latin America and the Caribbean: components of flows of external finance to the region, 1980-2016

(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, International Debt Statistics [online database] <https://data.worldbank.org/products/ids> and World Development Indicators [online database] <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, and grant data available as of February 2018 from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee.

Note: Non-cumulative area graph. Official flows include both bilateral and multilateral grants and donations and both concessional and non-concessional lending (debt securities, bank debt and other types) by official creditors. Private flows include foreign direct investment, portfolio shares, migrant remittances and debt flows (debt securities, bank debt, commercial debt and other types) originating with private lenders. The World Bank data do not include high-income economies and refer to net flows.



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