

# Financing the 2030 Agenda for **Sustainable Development** in Latin America and the Caribbean

## The challenges of resource mobilization

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Forum of the Countries  
of Latin America and  
the Caribbean on  
**SUSTAINABLE  
DEVELOPMENT**  
Mexico City  
26 - 28 April **2017**



UNITED NATIONS

ECLAC

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**ECLAC**

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## Foreword

The 2030 Agenda for Sustainable Development, adopted by the 198 Member States of the United Nations in September 2015, poses great challenges in terms of mobilizing resources and shifting the way these resources are financed, organized and allocated. Although implementation of the Agenda is just beginning, it is already clear that the amounts necessary to meet the 17 Sustainable Development Goals and preserve the global commons far exceed the scope of traditional financing for development flows.

In the case of Latin America and the Caribbean, 28 of whose 33 countries are classified in the middle-income category on the basis of their per capita income levels, public financing falls short of what is needed for this task and must be complemented with private flows, which in fact make up the bulk of the region's external financing. The Latin American and Caribbean countries therefore face the challenge of combining public and private resources and identifying innovative financing sources that will give them the leverage they need to maximize the impact of financing for the 2030 Agenda.

Together with the Addis Ababa Action Agenda, adopted at the Third International Conference on Financing for Development, held in Ethiopia in July 2015, which established the global framework for development financing up to 2030, and the Paris Agreement on climate change, adopted in December 2015, the Agenda 2030 is the lodestar for efforts by all the stakeholders over the next 15 years to move towards a model of sustainable development that revolves around equality.

With a view to coordinating efforts, exchanging experiences and best practices and facilitating the discussion of common goals, in May 2016 the countries of the region agreed to establish the Forum of the Countries of Latin America and the Caribbean on Sustainable Development, as a regional mechanism to follow up and review the implementation of the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals and targets, its means of implementation, and the Addis Ababa Action Agenda. At the first meeting of the Forum, which will be held in Mexico City from 26 to 28 April 2017, a special session will be devoted to the means of implementation of the 2030 Agenda.

The Economic Commission for Latin America and the Caribbean (ECLAC), which is coordinating and supporting the work of the Forum as technical secretariat, seeks to contribute to the discussions that will take place at this first meeting, which it is organizing jointly with the Government of Mexico.

This document describes how the landscape of development financing has changed significantly in Latin America and the Caribbean over the past few years, as flows from traditional sources, especially in official development assistance, have dwindled and new actors, instruments and mechanisms have emerged: climate funds and green bonds, for example. This configuration calls for a coherent regional development financing architecture supported by specific policies in the countries.

At the same time, achieving the Sustainable Development Goals will require substantial domestic resource mobilization. The region faces several challenges in this regard. One is its generally low levels of taxation, with an average tax-to-GDP ratio of 22.8% in 2015, 11.4 GDP points below the average for the countries of the Organization for Economic Cooperation and Development (OECD) (34.3% of GDP). Another is the weakness of direct taxation, especially personal income tax.

All this is compounded by the high rate of tax evasion in Latin America and the Caribbean, which ECLAC estimates was around US\$ 340 billion in 2015, equivalent to 6.7% of regional gross domestic product that year.

The 15 points reviewed in this document encompass the evolution of official and private flows, the changes in the outlook for external financial flows and the growing importance of private sources and actors, innovative tools and mechanisms for financing social and productive development, as well as the ECLAC proposal on debt relief for the small island developing States of the Caribbean.

Economic Commission for Latin America and the Caribbean (ECLAC)

The report argues that tax systems must be seen as pillars of financing for sustainable development and that fiscal institutions must afford priority to investment, while protecting social spending in order to stimulate growth and improve income distribution. It also warns of the lack of tax progressivity in the region and the erosion of tax bases by the proliferation of tax incentives.

Other imperatives for the countries are to substantially reduce illicit financial flows and address the tax avoidance stemming from the international transactions of multinational corporations and high net worth individuals. In this regard, global and regional tax cooperation efforts must be redoubled to avoid harmful tax competition between States.

We trust that the data, proposals and reflections contained here will help to inform the discussions and support our efforts to address, both together and in our individual countries, one of the foremost challenges posed by this universal, holistic and civilizing agenda: to obtain sufficient resources to make the Agenda a reality and move steadily towards the 17 Sustainable Development Goals whose achievement will help to build a fairer and more prosperous and sustainable world by 2030.

**Alicia Bárcena**  
Executive Secretary  
Economic Commission for Latin America  
and the Caribbean (ECLAC)

# Introduction<sup>1</sup>

Significant financial resources will need to be mobilized in order to achieve the Goals of the 2030 Agenda for Sustainable Development. Estimates of these financing needs range from roughly US\$ 3 trillion to US\$ 14 trillion (see table 1).

**Table 1**  
Estimated annual financing needs for selected Sustainable Development Goals  
(Billions of dollars)

Main Sustainable Development Goals	Estimated financing needs
<b>Social development</b>	
End extreme poverty	66
End hunger	50
Universal access to health	37
Universal primary education	42
<b>Environment</b>	
Oceans	30-80
Forests	50-100
Biodiversity	300-750
Climate change mitigation	750-3 000
Climate change adaptation	70-750
<b>Energy</b>	
Universal access to energy	40-110
Renewable energy	400-750
Energy efficiency	500-700
<b>Land and agriculture</b>	<b>70-300</b>
<b>Infrastructure (non-energy)</b>	<b>800-7 000</b>
<b>Millennium Development Goals<sup>a</sup></b>	<b>70-400</b>

**Source:** United Nations, *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing* (A/69/315), New York, 2014.

<sup>a</sup> Information on the Millennium Development Goals has been included for reference to help evaluate Sustainable Development Goal financing needs.

Latin American and Caribbean countries must also be capable of raising significant amounts of financing, both domestic and external, in a context in which the dynamic of growth, both global and regional, is not necessarily conducive to the mobilization of development financing.

At the regional level, weak economic growth—combined with low rates of national savings and a complicated fiscal situation—poses a major challenge for public policies as well as for the means of implementation intended for the financing for development. Fiscal space and resource availability remain limited; accordingly public finances will need to undergo comprehensive, sustained reform in order to secure the solvency of the public sector, safeguard investment, protect social achievements and broaden tax resources.

Fiscal efforts must be complemented by increased private investment, in order to regain high and sustainable growth rates. Investment not only affects the speed and rate of capital accumulation but also has a direct bearing on productivity. The causal relationship between capital accumulation and productivity makes the cyclical characteristics of investment an important determinant of long-run growth capacity (ECLAC, 2015a).

In the area of public financing, it is also imperative to improve tax systems in the region, many of which are characterized by insufficient revenue generation due to the negligible tax rates paid

<sup>1</sup> The sections of this document relating to fiscal matters are based on ECLAC (2016a).

by the richest decile, rampant evasion of the income tax and indirect taxes (estimated by ECLAC at 6.7 percentage points of regional GDP, worth US\$ 340 billion in 2015) and tax bases that have been eroded by the proliferation of tax incentives.

With regard to external financing, the past decade has brought changes in the financing for development landscape, with new actors and financing sources gaining importance, including donors which are not members of the Development Assistance Committee: non-government organizations (NGOs), climate funds, innovative financing mechanisms and South-South cooperation initiatives. Private capital has also become an important source of financing, through a diversified 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.

Although these changes have broadened the options for financing activities in the context of the 2030 Agenda, they also pose major challenges, since actors, instruments and mechanisms have to be coordinated within a coherent financing for development framework.

What follows is a discussion of the fiscal policy challenges the region's countries face in terms of generating and channeling resources for development financing, as well as the challenges imposed on development financing by changes in the regional financial architecture.

## **A. To boost growth and improve income distribution, fiscal institutions must give priority to investment, while protecting social spending**

Over the past few years, the region's governments have made multiple efforts to reduce their public deficits, including through spending cuts and measures to increase spending, as has been broadly documented in recent publications (ECLAC, 2017). In a context of growing budget constraints, achieving the Sustainable Development Goals and, especially, mobilizing domestic resources imply a dual challenge of improving the quality of public spending and increasing tax revenues.

Given the need to steer public finances along a sustainable path, it is essential to fully appreciate the importance of fiscal policy for medium-term growth in the economies of the region. Cutting investment spending during a period of deceleration is detrimental to the economy, and the accumulated negative effects on GDP from a fall in public investment are greater in times of slowdown or recession. In these periods, countercyclical fiscal policy has a positive impact, whereas procyclical policies substantially prejudice the economy. Prevailing fiscal rules are usually more focused on limiting debt, fiscal balances and spending rather than creating space for the investment necessary for achieving sustainable and inclusive growth.

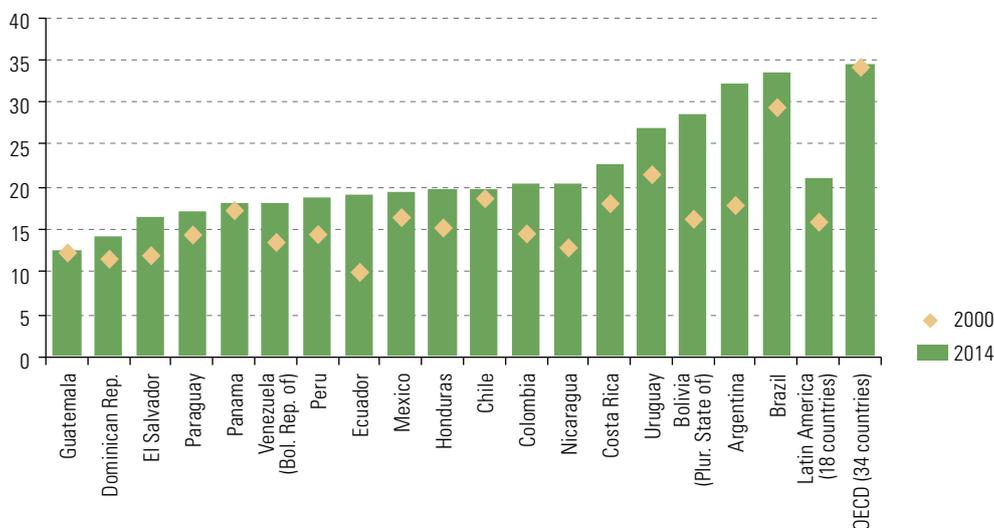
From a functional perspective, many components of public spending—which include combinations of current and capital spending—tend to boost economic growth in the long term. Certain key components of public spending carry a double dividend, since they address growth objectives and income redistribution simultaneously. For example spending targeting education, health, social exclusion, housing, families and children, pensions and unemployment improves macroeconomic efficiency inasmuch as it favors formality, good-quality employment, labour force participation by women and young people, and the integration into the labour force of individuals previously excluded. Thus, many types of social transfer—in addition to the direct spending on education and health—are potentially progressive and pro-growth, such that they could contribute to the achievement of a number of the Sustainable Development Goals.

At the same time, and complementary to efforts to stimulate infrastructure development, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development emphasized the importance of harmonizing government spending with sustainable development principles, for example, with a pledge to rationalize the use of inefficient fossil fuel subsidies.

## B. Tax systems must become a pillar of financing for sustainable development

As stated in a recent report of the Secretary-General, “Domestic public finance is a central component of financing the Sustainable Development Goals, as well as the social compact of the Addis Agenda” (United Nations, 2016a, para. 12). In the absence of structural reforms to public finance systems, the current context of economic slowdown and falling commodity prices could undo the region’s achievements in terms of revenue collection and public spending. In fact, the region’s countries have tax burdens well below those of developed countries: 13 percentage points of GDP below the average for the Organization for Economic Cooperation and Development (OECD) (see figure 1).

**Figure 1**  
Latin America (18 countries) and Organization for Economic Cooperation and Development (34 countries):  
tax burden, 2000 and 2014  
(Percentages of GDP)



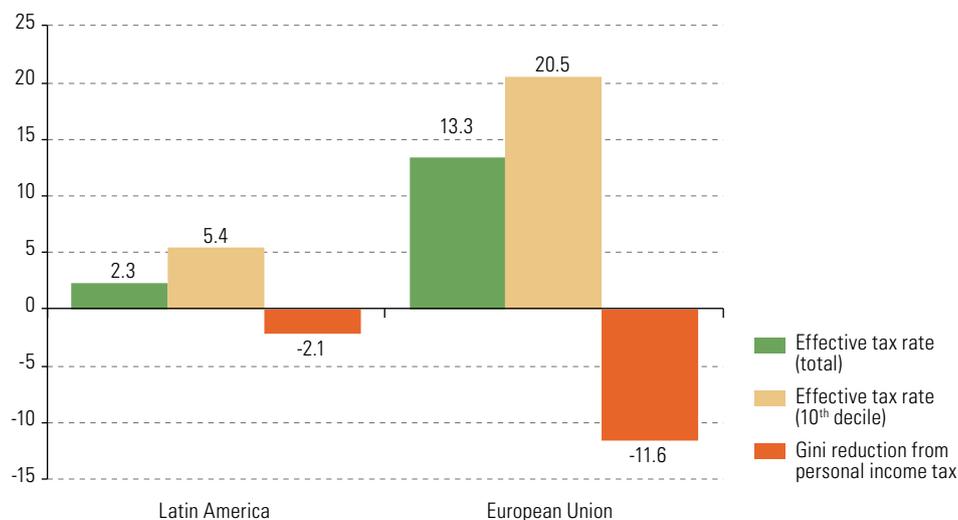
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

## C. Tax systems in the region are not progressive

One of the key features of Latin American tax systems is the high share of general taxes on goods and services in the region’s total tax revenues. These taxes have a regressive bias, while direct taxes do not generate enough income to have a significant impact in terms of redistribution. Personal income tax is especially weak as a redistributive instrument in Latin America (ECLAC, 2016a).

**Figure 2**

Latin America (16 countries) and the European Union (27 countries): effective rate of personal income tax and reduction in inequality due to personal income tax, 2011<sup>a,b</sup>  
(Percentages)



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

<sup>a</sup> Calculated over gross income (market income plus public and private transfers).

<sup>b</sup> Data from EUROMOD include additional direct taxes for some countries, including property taxes and taxes on religious institutions.

## D. Despite the efforts of tax administrations, tax evasion remains rampant

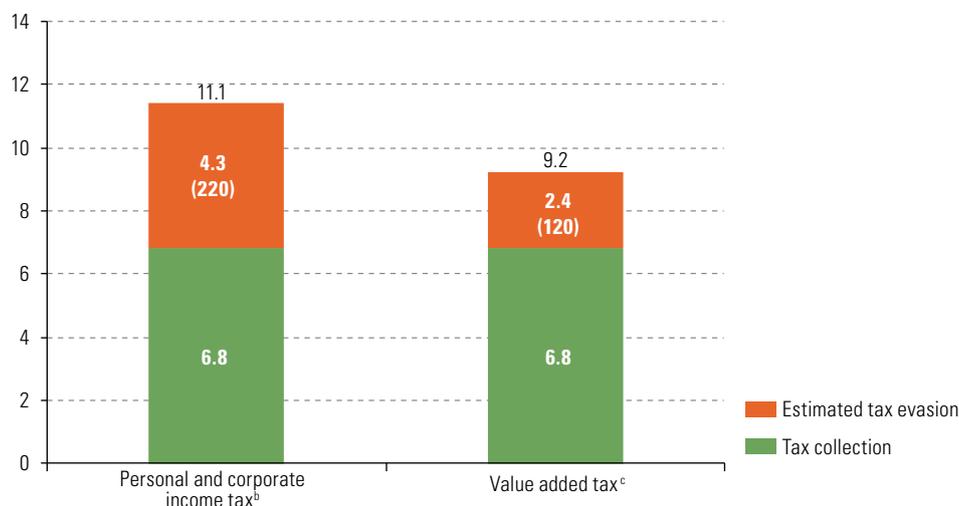
Tax evasion constitutes one of the principal weaknesses of tax systems in Latin America. On the basis of the few recent studies available, ECLAC estimates that non-compliance in that region amounts to 2.4% of GDP for VAT and 4.3% of GDP for income tax, representing a total of US\$ 340 billion in 2015 (see figure 3). The studies reckon that corporate income tax evasion is as high as 70% in some countries. It is, moreover, a very difficult proposition to bring down these figures at a time of economic slowdown. Worse still, the information available is inadequate to even gauge the magnitude of the problem, despite the significant risk of substantial loss of potential tax resources (ECLAC, 2016a).

On average, Latin American countries forgo over 50% of their personal income tax revenues (31.0% in Chile, 32.6% in Peru, 36.3% in El Salvador, 38.0% in Mexico, 49.7% in Argentina, 58.1% in Ecuador and 69.9% in Guatemala).

The region's endemic tax evasion is not confined to personal income tax, however. Corporate income tax and VAT also show high evasion rates, although these vary from one country to another. Corporate income tax evasion ranges, according to estimates, from 26.6% in Brazil to 65% in Costa Rica and Ecuador. What is more, these estimates are based on national accounts data and do not, therefore, distinguish losses arising from aggressive tax planning practices or transfer pricing, which artificially reduce the level of profits registered in the economy.

Evasion of VAT is less pronounced, but it remains significant with rates ranging from around 20% in Argentina, Chile, Colombia, Ecuador and Mexico to nearly 40% in Guatemala and Nicaragua. Although VAT evasion trended downwards in the years leading up to 2008, the economic slowdown generated an up-tick in some countries. In fact, the progress made in reducing VAT evasion in previous years came to a halt with the reversal of the economic cycle.

**Figure 3**  
**Latin America: tax collection and estimated tax evasion, 2015<sup>a</sup>**  
*(Percentages of GDP and billions of dollars)*



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

<sup>a</sup> Effective collection and estimated evasion are calculated on the basis of the take for the two taxes expressed in dollars; the sum of this value is presented as a percentage of the GDP of the reporting countries (weighted average). Lastly, the regional value in dollars is estimated by applying these percentages to regional GDP.

<sup>b</sup> Estimate on the basis of data from Argentina, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico and Peru.

<sup>c</sup> Estimate on the basis of data from Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Plurinational State of Bolivia and Uruguay.

In light of the foregoing, further progress in combating tax evasion will require administrative changes and improvements in structural factors, given the high levels of informality, poverty and socioeconomic inequality, the poor quality of institutions and scant taxpayer awareness and education.

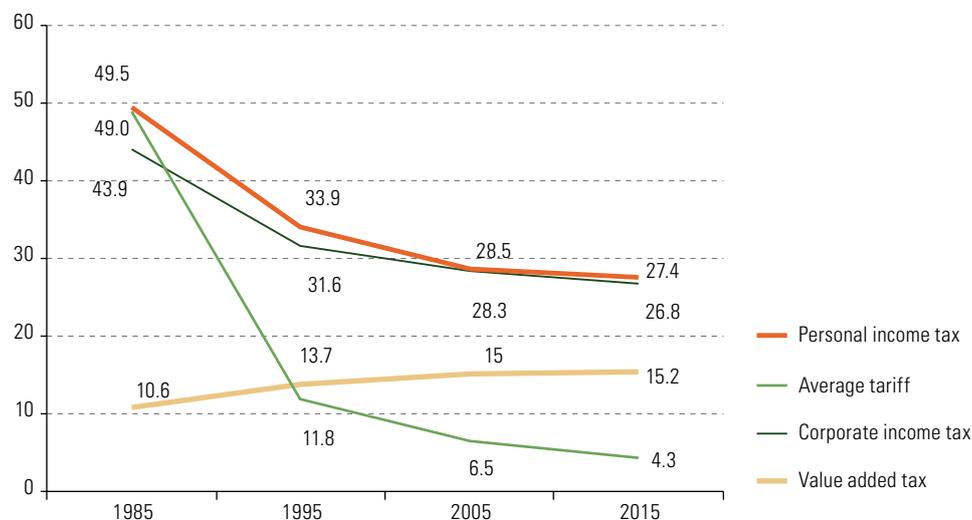
## E. The proliferation of tax incentives has eroded tax bases

Over the past few decades, the macroeconomic context, prevailing ideologies and economic policy matters have led to a wave of tax reforms, with major repercussions for tax structures. In the 1990s, incipient globalization and the search for tax efficiency and neutrality led to the elimination of excise taxes and the substitution of foreign trade taxes with indirect taxes, especially VAT. Above all, the classic Haig-Simons principle, whereby all personal income is taxed in the same way regardless of source, was abandoned.

In response to deepening globalization and moments of economic crisis, fiscal authorities have repeatedly increased tax incentives and exemptions in the (often vain) hope of stabilizing aggregate demand and softening the effects of recessions on employment. As shown in figure 4, quite significant changes were made to tax rates: a sharp drop in the mid-1990s, along with a gradual rise in the general VAT rate, while personal and corporate income tax rates halved from their mid-1980s rate of around 50%.

The region's countries typically encounter major difficulties in applying a comprehensive personal income tax that covers all a taxpayer's income sources using a progressive structure of marginal rates. Income tax is in fact badly threatened by tax base erosion. Most countries have long lists of exemptions and differential treatments depending on the source of income, which interferes with the horizontal and vertical equity of taxation and limits its potential as an instrument for revenue collection and redistribution.

**Figure 4**  
Latin America: general rates for the main taxes  
(Percentages)



**Source:** D. Morán and M. Pecho, “La tributación en América Latina en los últimos cincuenta años”, *Documentos CIAT*, No. 18/2016, Inter-American Center of Tax Administrations (CIAT), 2016.

Recent reforms and the adoption of what are known as “semi-dual systems” in many countries have enshrined this virtual dismemberment of the income tax by limiting taxation on capital income. Generalized capital incentive schemes, with low taxation on profits, dividends and interests—which tend to be justified by the difficulty of oversight in open economies and by the need to stimulate private investment—may be the least beneficial and perhaps even the most damaging feature of “harmful tax competition”.

In many of the region’s countries, the justification for tax incentives is that they attract foreign direct investment (FDI), which should by nature have significant positive externalities for the recipient economies (such as the take-up of new technologies or increased productivity). The question is establishing the net impact of these special arrangements, which at first glance might be described as merely a transfer of resources from poor (recipient) countries to rich ones.

In terms of mobilizing financial resources for development, it would seem much more efficient to take more steps to reduce tax evasion and avoidance than to subsidize investments that very probably would have materialized anyway, given the region’s static and dynamic comparative advantages. As discussed in ECLAC (2016a), investment decisions are largely determined by the quality of the institutional framework, and firms in fact appear to afford little importance to tax advantages. On this basis, more systemic approaches to investment dynamics could be built. For example, prioritizing public spending on social matters or public safety could boost private capital expenditure more effectively than exemptions or incentives.

A basic principle for investment promotion, then, is the need to avoid the proliferation of tax incentives or widespread subsidies. Public and private investment complement each other; one cannot replace the other. Attempting to stimulate private investment by reducing public investment is not a viable path towards development, particularly given that public investment is called upon to play a key role in changing the development pattern, as argued earlier.

The question of tax incentives is also being raised in the international discussion on base erosion and profit shifting. One notable project within the United Nations aims to strengthen developing countries' capacity to protect their tax bases by developing methods and practices to deal with tax incentives and the taxation of extractive industries. The countries participating in a number of Latin American and Caribbean forums have requested analytical frameworks and technical assistance to carry out cost-benefit studies and to consider the gradual dismantling of incentive systems. These initiatives show some promise, but their success will depend on the willingness of countries with similar economic activities not to engage in tax competition.

## **F. The countries of the region must address evasion arising from the international transactions of multinational corporations and high net worth individuals**

Tax evasion is not just a domestic issue: the more a country is engaged in the world economy, the greater the potential erosion of its tax base—the problem of so-called fiscal termites. These termites exist because of the proliferation of avoidance mechanisms, making it helpful to differentiate between three sources of erosion: (a) the burgeoning of tax incentives already described, (b) profit shifting and aggressive tax planning, and (c) illicit financial flows arising from international trade and capital movements.

In today's world order, financial globalization and the progressive monopolization of the economy by corporations have enabled multinational and transnational enterprises to gain greater control over production and trade, giving them a degree of economic power that makes them better able to adapt to regulatory frameworks and deploy sophisticated strategies for reducing their overall tax burden. The corollary is a lessening of countries' ability to retain fiscal revenues that could be used to finance their development.

Strictly speaking, these practices and strategies do not entail tax evasion insofar as they do not involve any illegal manoeuvre (the breaking of laws or formal rules) but rather a systematic search for scope within tax legislation to reduce their tax obligations. From the point of view of States, therefore, efforts to deal with base erosion need to encompass the study of all these phenomena, legal or otherwise, including incentives, exemptions, avoidance, evasion and, of course, illegal activities.

The tax planning of multinationals (and high net worth individuals) creates serious distortions in the equity of tax systems, reflected in large differences in effective tax rates for similar firms in a country and its residents. While these manoeuvres are not always illegal, their existence and persistence are bound up with limitations and shortcomings in tax systems, which need to be understood so that accurate diagnoses can be arrived at and action taken to resolve these issues.

In this context, stress has been laid on the importance of practices involving the transfer of profits or costs between subsidiaries of a single multinational enterprise, from countries or States with high tax levels or administrative constraints on capital flows to jurisdictions with systems applying relatively low or zero taxation (tax havens), via the manipulation of transfer prices.

As may be deduced, monitoring, detecting and scrutinizing these manoeuvres with the instruments available are complex tasks. Tax administrations often do not have the resources to carry them out effectively, and when they do, the legal procedures for proving and resolving them tend to be protracted.

Besides firms, high net worth individuals also make use of tax havens to hide their wealth. It is calculated that 8% of the world's wealth, equivalent to US\$ 7.6 trillion, is held in tax havens. Some US\$ 700 billion of this is estimated to belong to individuals from Latin America, representing 22% of the region's total

financial wealth, and the great bulk of this amount (averaging about 80%) has not been declared to the relevant tax authorities. Even the agencies responsible for collecting taxes and monitoring taxpayers struggle to identify and quantify in detail the scale of this phenomenon, which can be summed up by the concept of “international evasion by high net worth individuals and multinational firms”.

In a highly unequal region like Latin America and the Caribbean, the fact that this amount of wealth (and the income it generates) lies beyond the reach of treasuries weakens yet further the already limited redistributive power of tax systems.

## **G. Illicit financial flows must be substantially reduced**

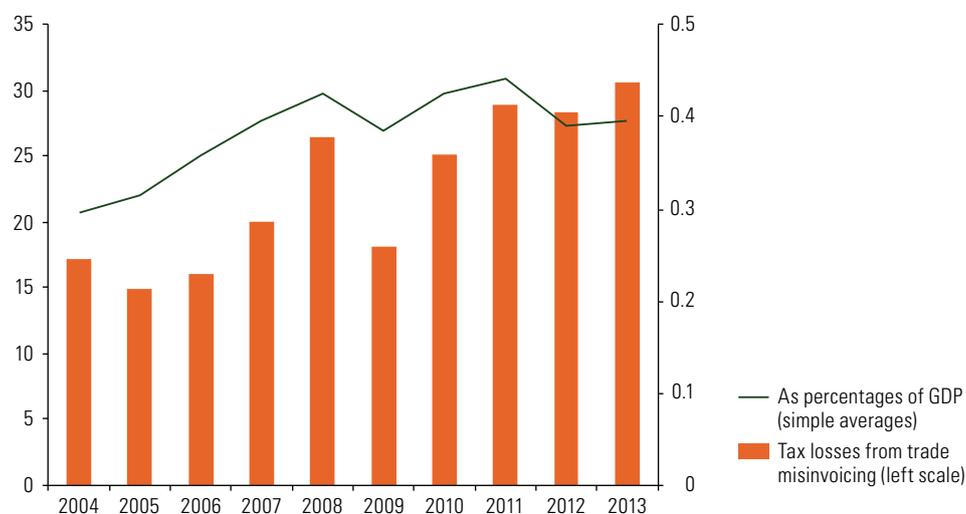
Illicit financial flows have taken on greater and greater importance in the international debate on development financing, within the framework of the 2030 Agenda for Sustainable Development. This discussion has been informed by contributions from both governments and civil society. Of particular note is the work of the High Level Panel on Illicit Financial Flows from Africa convened by the finance ministers of that continent during the joint conference of the African Union and the Economic Commission for Africa (ECA) in 2011. Civil society has also played a prominent role in generating greater awareness of the phenomenon (Christian Aid, 2009; Tax Justice Network, 2012). In particular, the annual reports by Global Financial Integrity (GFI) on illicit financial flows from developing countries have informed the debate with estimates of tax losses associated with these flows.

The intensification of the international debate on this issue led to the importance of illicit flows being recognized at the Third International Conference on Financing for Development held in Addis Ababa in July 2015. Among the measures it contains, the Conference's outcome document establishes the importance of mobilizing domestic resources by widening the tax base, improving collection systems and combating tax evasion and illicit financial flows (United Nations, 2015). Specifically, governments undertook to: (i) redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation; (ii) invite other regions to carry out exercises similar to the High Level Panel on Illicit Financial Flows from Africa; (iii) invite appropriate international institutions and regional organizations to publish estimates of the volume and composition of illicit financial flows; (iv) strive to eliminate tax havens that create incentives for the transfer abroad of stolen assets and illicit financial flows (United Nations, 2016b).

Illicit financial flows may have gained a place on the international development agenda, but their scale and composition are still a matter of intense debate. Because of their nature—they usually take the form of concealed transactions—there is no single measuring methodology and no definitive statistics on their extent. It is therefore important to analyse and quantify these flows in the countries of Latin America and the Caribbean, and to identify the sectors generating the greatest illicit financial flows. Accordingly, ECLAC (2016a) has prepared its own estimates which represent the lower bound of foreign-trade-linked illicit financial flows occurring in the region. The abuse of transfer prices in related party transactions—when transactions between related firms, especially within multinationals, are priced differently from similar operations conducted between independent firms under market conditions—is well documented.

As figure 5 shows, estimated tax losses in the region resulting from trade misinvoicing were approximately US\$ 31 billion or 0.5 of a percentage point of GDP (weighted average) in 2013. This represented between 10% and 15% of the actual corporate income tax take in that year. Potential losses at the country level vary greatly, with illicit outflows estimated to be particularly large in countries such as Costa Rica (mainly involving integrated circuits and electronic microstructures), and Mexico (arising from the country's high level of integration in value chains in different sectors, especially electrical machinery and motor vehicles, in which transactions between related firms are very significant).

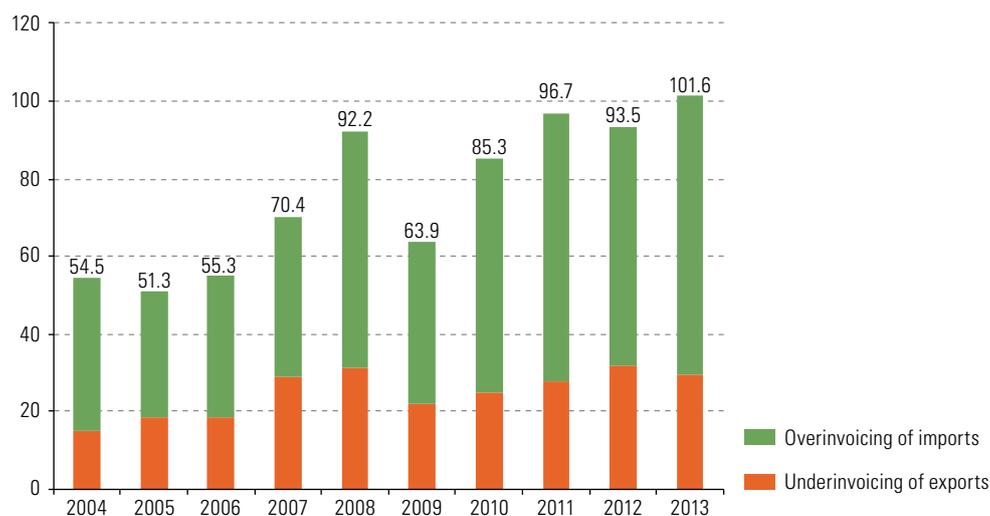
**Figure 5**  
Latin America and the Caribbean: tax losses associated with trade misinvoicing, 2004-2013  
(Billions of dollars and percentages of GDP)



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

A key finding of this analysis is that illicit financial flows have increased sharply in the last decade, with outflows from trade misinvoicing rising by an average of some 9% a year in the Latin America and Caribbean region. These flows averaged 1.8% of regional GDP over the 10 years considered, implying a cumulative total of US\$ 765 billion in 2004-2013 (two thirds being due to overinvoicing of imports and a third to underinvoicing of exports). Illicit outflows climbed to US\$ 101.6 billion in 2013, the latest year with full information available (see figure 6).

**Figure 6**  
Latin America and the Caribbean: estimated value of trade misinvoicing, 2004-2013  
(Billions of dollars)



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

## **H. Tax cooperation efforts must be redoubled at the global and regional levels**

In recent years, the world has experienced a number of significant changes where trade openness and international finance are concerned, forcing countries to rethink their existing rules on international taxation. The Addis Ababa Action Agenda called for additional measures to strengthen cooperation on tax matters, including through the work of the Committee of Experts on International Cooperation in Tax Matters of the United Nations. In order to strengthen the Committee's effectiveness and operational capacity, the signatory governments agreed in the Agenda to increase the frequency of its meetings from one five-day session to two four-day sessions per year.

In October 2015, OECD presented a package of measures aimed at achieving comprehensive, coherent and coordinated reform of international tax rules, in order to combat the phenomenon of base erosion and profit shifting (BEPS) on the basis of a 15-point action plan established under the OECD/G20 Base Erosion and Profit Shifting Project. Among other measures, the package includes new minimum standards establishing requirements regarding: country-by-country reporting which, for the first time, will provide tax administrations with a global picture of the transactions of multinational corporations; the prevention of treaty abuse, including treaty shopping, to impede the use of conduit companies to channel investments; limiting harmful tax practices, mainly in the area of intellectual property and through automatic sharing of taxpayer-specific rulings or agreements; and, lastly, effective mutual agreement procedures, aimed at ensuring that efforts to eliminate double taxation do not give rise to situations of double non-taxation (OECD, 2015).

Great strides have been made in relation to information-sharing between countries. Thus far, almost 100 countries have undertaken to adopt the Standard for Automatic Exchange of Financial Account Information, also known as the Common Reporting Standard (CRS), whose aim is to facilitate the automatic exchange of financial information between governments. A large group of countries have agreed to implement CRS by the end of 2017 or in 2018.

A common thread running through the initiatives described above is their recognition that both tax evasion and avoidance and base erosion and profit shifting are global problems and as such require global solutions. These matters must therefore be tackled in a multilateral manner within the United Nations, taking into account the needs and realities of all countries. This way, progress can be made on a global fiscal covenant that will end, among other things, aggressive tax practices by transnational firms, the proliferation of tax incentives as growth-stimulus mechanisms and the opacity of trade and financial systems that allow illicit flows to multiply. In order to ensure "true multilateralism" it is important to establish, under the auspices of the United Nations, an intergovernmental forum to flesh out the global fiscal covenant and host the discussion of tax matters of global, regional and national scope. Such a forum must be universal, as stated in the Addis Ababa Action Agenda: "We stress that efforts in international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries".

Despite these advances, stronger calls are needed to place the issue of international taxation within the purview of the United Nations, owing to institutional weaknesses in emerging economies, and their limited direct involvement in base erosion and profit shifting. The recent initiatives represent important progress, but they will not put an end to global tax evasion, which is now organized as an "industry" or structured system of aggressive planning. For example, they do not address the share-out of fiscal sovereignty over taxes or urgently needed tax harmonization measures, and will not end the "race to the bottom", as countries are continuing to practise tax competition. As things stand, corporate income tax, with its widely varying rates between different countries and its many exemptions and benefits, will continue to be eroded, undermining fiscal revenues the world over, including in Latin America and the Caribbean.

In this regard, the Latin American and Caribbean countries should have a common voice to give them greater influence in global proposals on tax matters. The region's approach should not be limited to global tax matters and tax havens, but should bring to the table the particular realities and needs of individual countries.

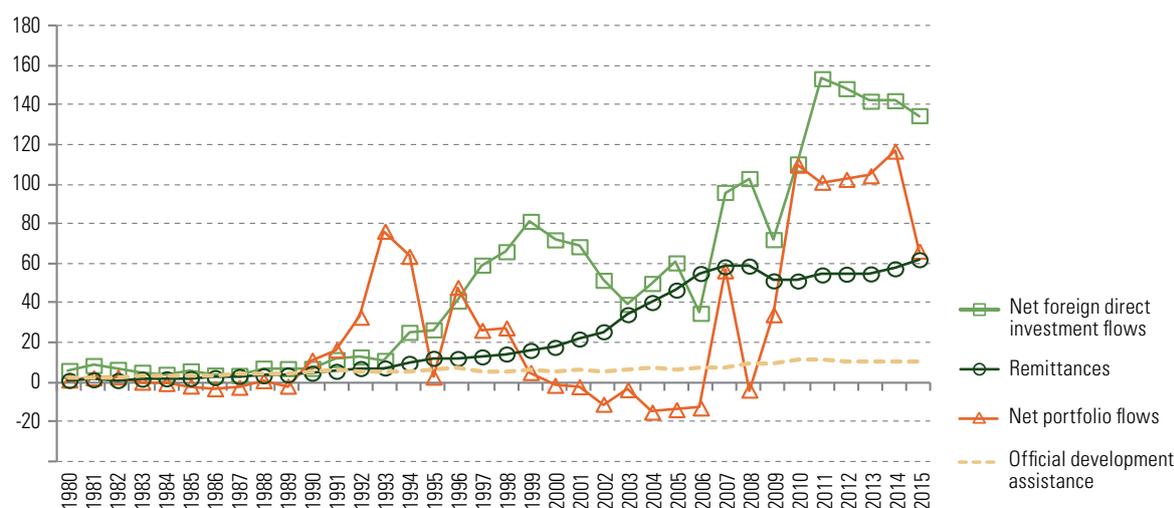
In summary, there is clearly a need in the current international context to enhance international mechanisms for cooperation between countries and regional blocs, to which end multilateral organizations can provide spaces where agreements and consensus can be reached. The central goal is for these to create viable conditions for progressive tax coordination and harmonization regionally and internationally, especially between the countries of Latin America and the Caribbean, rather than being confined merely to bilateral negotiations.

## I. Changes in the outlook for external financial flows and the growing importance of private sources and actors

A breakdown of financing flows shows that private flows have become the main source of financing for Latin American and Caribbean developing countries. In turn, the main component of private sector financial flows is FDI, which in the last decade represented an average of some 42% of the total in developing countries and 52% in Latin America and the Caribbean.

FDI flows go mainly to natural resource and service sectors, thus tying in directly with the region's trade specialization patterns and comparative advantages. The evolution of FDI flows between the 1980s and 2015 shows that FDI peaked at US\$ 150 billion in 2012 and has fallen since then. Over the past few years, FDI flows have come down to US\$ 134.8 billion, representing 2.18% of the region's GDP (see figure 7). This reflects the decline in investment in hydrocarbons and mining in the context of lower prices for raw materials, and the downturn in economic activity, particularly in Brazil.

**Figure 7**  
Latin America and the Caribbean: main external financing flows, 1980-2015  
(Billions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT for foreign direct investment (FDI) and portfolio flows; and World Bank, World Development Indicators for remittances.

Latin America and the Caribbean has also seen a large rise in migrant remittances which, together with FDI, have become the fastest-growing component of financial flows. Remittances represent 24% of total net private financial flows in the region, exceeding 10% of GDP in some economies of Central America and the Caribbean. In 2015, they totaled US\$ 62 billion (1% of GDP), showing growth of 8.0% over 2014.

Net portfolio flows (which include equity and debt securities) have also increased over the last two decades, coming to account for 7% of total private financial flows. After Asia-Pacific, Latin America is the region most dependent on financing from short-term financial flows. Indeed, portfolio investment flows represented the same share of the region's GDP in 2010 as FDI, an average of some 2.2%.

Portfolio investment flows tend to be more volatile than FDI and remittances, showing their sensitivity to abrupt changes in economic conditions. After rising significantly after the international financial crisis (2008-2009), portfolio flows continued to grow modestly until 2014, when they reached US\$ 116.9 billion, then contracted significantly —by 43%— to stand at just US\$ 66.3 billion in 2015.

## **J. Private flows and challenges for financing the 2030 Agenda**

Given the growing role of private flows as a source of finance, a key challenge of the 2030 Agenda's development financing architecture is to mobilize private resources and channel them towards the Sustainable Development Goals. Private flows —including FDI and remittances— constitute the bulk of external finance in the region. Private and public resources must therefore be combined to achieve the leverage required to maximize the impact for development. However, public and private flows obey a different logic and respond to different incentives.

Private capital is largely driven by profit rather than developmental considerations, which can mean that investment falls short in areas that are crucial for sustainable development. Within this context, the public sector plays an increasingly important role in including social returns in the cost-benefit analysis, providing public financing for sectors that do not attract sufficient private flows and establishing an enabling environment and proper incentives for gearing private capital towards the Sustainable Development Goals.

The challenge of mobilizing an adequate volume of combined public and private funds is made more complex by the significant changes that have taken place in recent decades in the development financing landscape, in terms of actors, funds, mechanisms and instruments. For middle-income countries such as those of Latin America and the Caribbean, these changes may be summarized as the relative decline in more traditional forms of financing for development, such as official development assistance (ODA), and the emergence of new actors, mechanisms and sources of finance. In this last category are emerging donors that are not Development Assistance Committee (DAC) member countries, such as innovative financing mechanisms and climate funds, among others. All these are playing an increasingly stronger role in development finance.

While these changes in the financial landscape increase the options of funding for development, they also increase the complexity of coordinating and combining the variety of actors, funds, mechanisms and instruments under a coherent development financing architecture. This is particularly true in the case of climate funds and innovative financing mechanisms, which need more clarity in terms of the Sustainable Development Goals, sources of funding, and conditions of use and access. At the same time, the relative decline in significance of traditional developmental flows should not exclude countries from development finance resource flows on the basis of income criteria alone.

It should be stressed that mapping out the financing architecture is not enough to guarantee that countries adopt a strategic approach to financing for development policies. The multiplicity of existing financial options does not amount to effective access. The capacities and capabilities of countries within Latin America and the Caribbean to effectively access public and private finance vary greatly. Access to private finance options is accompanied by numerous requirements of access and conditionalities, which makes it difficult for countries to take a strategic approach to financing their development priorities and to assess the impact and effectiveness of development finance sources. Not all development finance providers impose the same conditions and access and eligibility requirements.

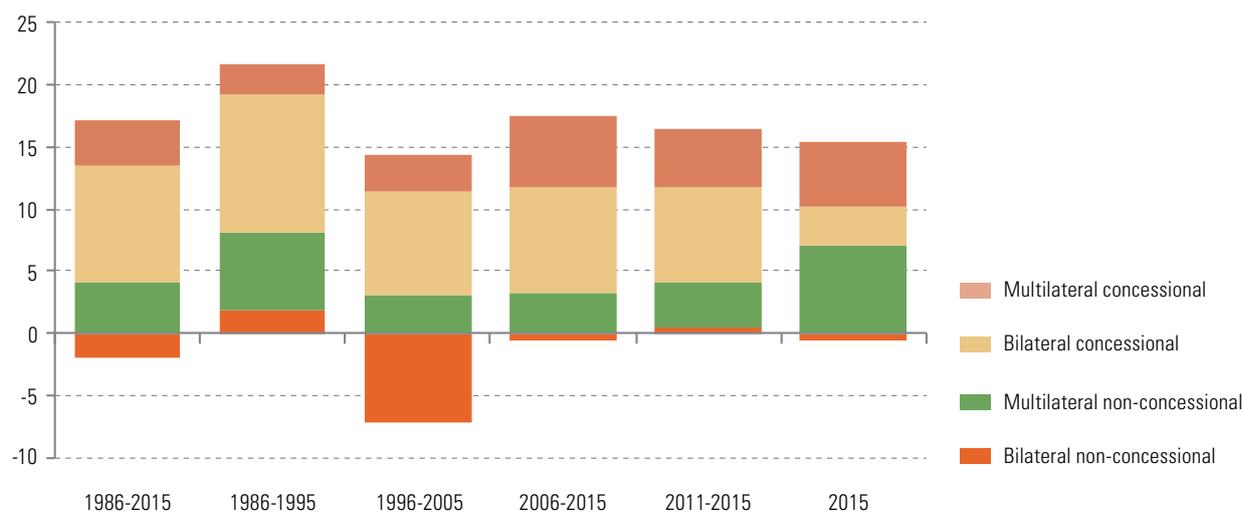
## K. The evolution of official flows

The counterpart of rising private flows is the decline in official flows, which are estimated to have fallen from US\$ 19.9 billion to US\$ 13.2 billion, or 4.9% of total financial flows. These figures contrast with the much higher value of net private flows, which represent roughly US\$ 263 billion.

Classifying official financing flows as bilateral (from other countries) or multilateral (from multilateral institutions) and as concessional or non-concessional reveals that concessional official flows predominate at the bilateral level and non-concessional official flows at the multilateral level.

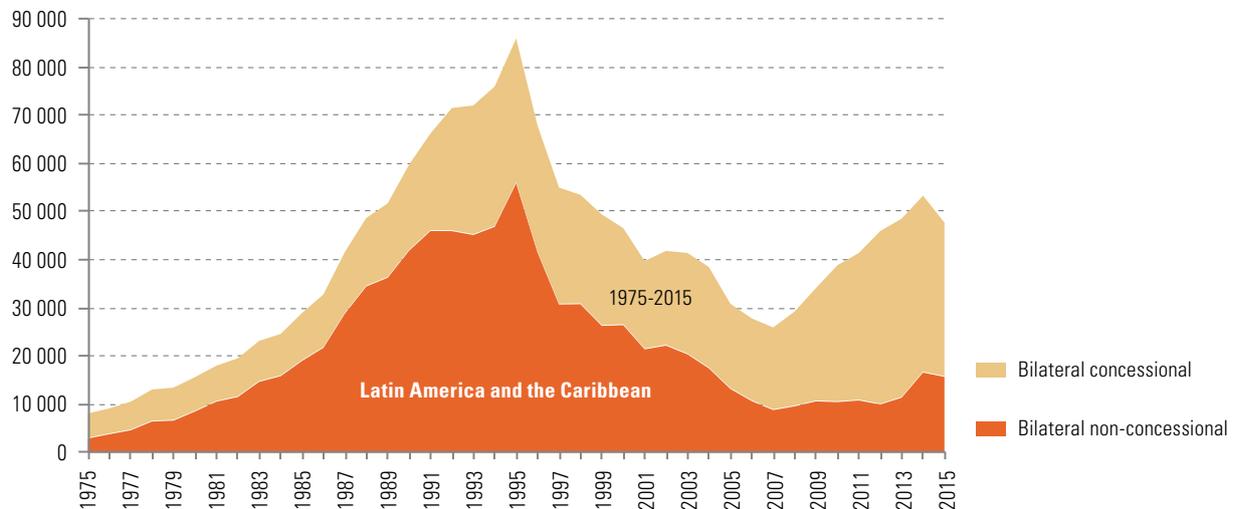
The breakdown of net official flows in concessional and non-concessional categories and by type of provider—multilateral or bilateral—has varied over the decades (see figure 8). At present, non-concessional bilateral flows are trending downwards: Latin American and Caribbean countries have paid back the bulk of these loans over the past 20 years and have not incurred many new liabilities of this sort in net terms. Figures 9 and 10 show, respectively, the total non-concessional bilateral debt stock and capital and interest repayments since 1975. In the 1980s and early 1990s, almost all bilateral debt was non-concessional, but in the course of the 1990s the countries in the region began to pay down such debt and incur more favourable types of loans instead.

**Figure 8**  
Latin America and the Caribbean: classification of net official financing by bilateral and multilateral flows and by concessional and non-concessional conditions, average for each period, 1986-2015  
(Billions of dollars at constant 2010 prices)



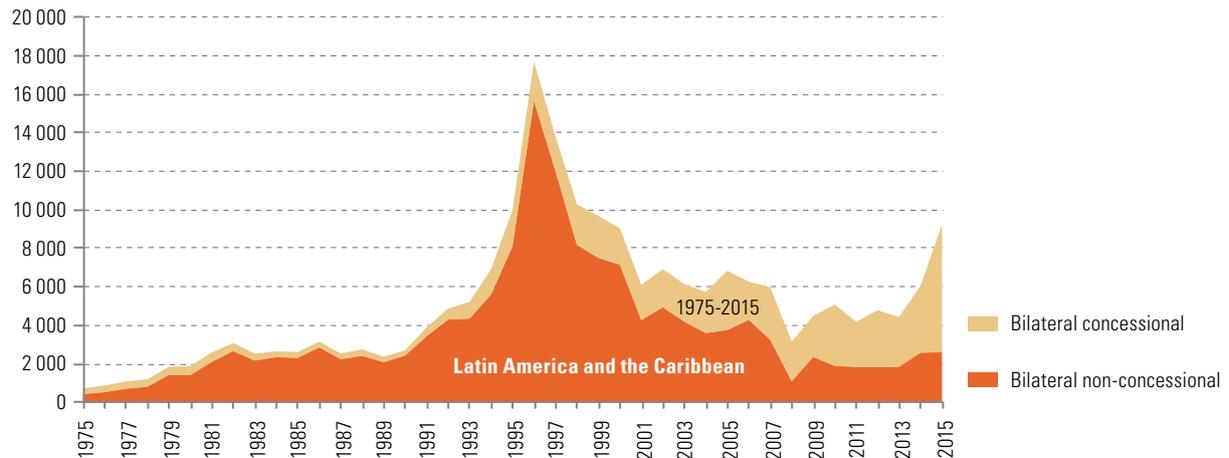
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT; World Bank, International Debt Statistics and World Development Indicators; and Organization for Economic Cooperation and Development (OECD), Development Assistance Committee database, 2016.

**Figure 9**  
Latin America and the Caribbean: total debt disbursed and outstanding, 1975-2015  
(Millions of dollars)



Source: World Bank, International Debt Statistics.

**Figure 10**  
Latin America and the Caribbean: debt capital repayments and interest, 1975-2015  
(Millions of dollars)

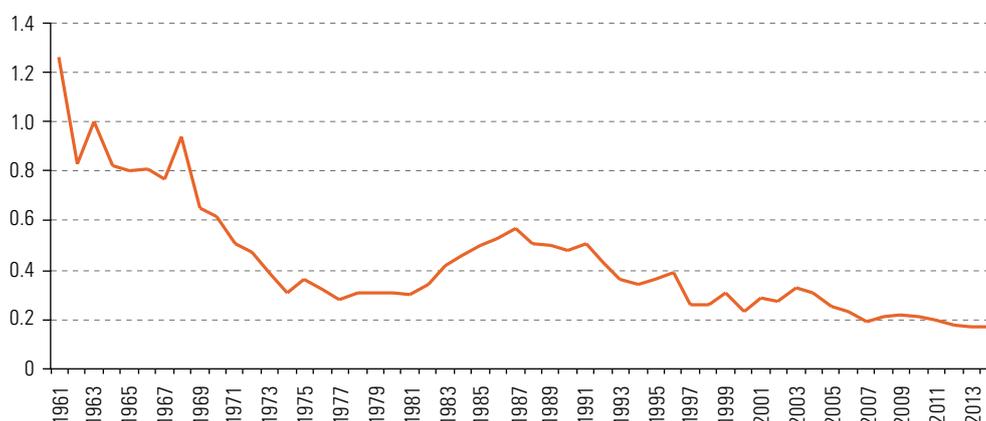


Source: World Bank, International Debt Statistics.

Like other middle-income regions, Latin America and the Caribbean has seen its share of ODA (concessional flows) diminish. More specifically, the proportion of ODA received by the region has been in clear decline, both as compared with other developing regions and relative to its average gross national income (GNI). ODA flows currently represent 0.25% of regional GNI, a significant drop from the 0.4% that was the average for the 1970s, 1980s and 1990s (see figure 11).<sup>2</sup> At the same time, the region's share of total ODA dropped from 11% in the 1980s and 1990s to roughly 8% in the 2000s.

<sup>2</sup> Aggregate ODA figures mask large disparities between countries, as relative levels vary widely, from 0% of GNI (Trinidad and Tobago) to roughly 17% (Haiti) in 2000-2014. Between these extremes, ODA is over 10% of GNI in 2 countries (Guyana and Nicaragua), between 1% and 6% in 10 and below 1% in another 18.

**Figure 11**  
**Latin America and the Caribbean: official development assistance (ODA), 1961-2014**  
*(Percentages of gross national income)*



**Source:** Organization for Economic Cooperation and Development (OECD), "Development Finance Statistics", 2016 [online] <http://www.oecd.org/development/stats/>.

## L. The significance of external financing for Latin America and the Caribbean and differences between countries

A breakdown of external financial flows to Latin America and the Caribbean reveals notable differences between the three principal subregions—the Caribbean, Central America and South America—and that a country's per capita GDP is a strong predictor of its main sources of financial flows.

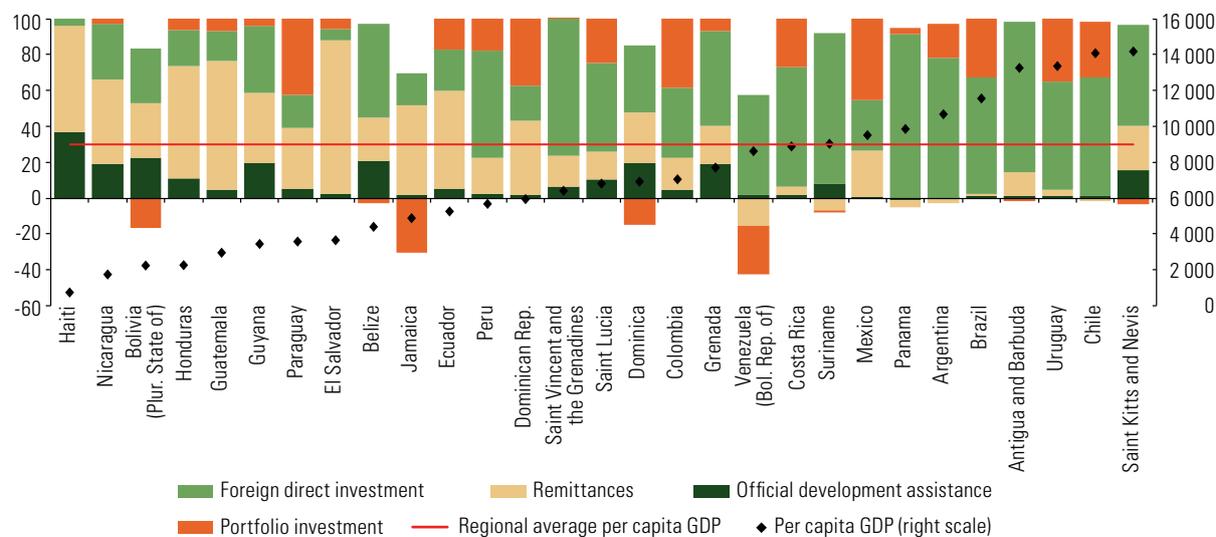
On average, over the past three years, those countries with per capita GDP significantly lower than the regional average tended to receive around half their flows from ODA and remittances, while those with per capita GDP around or above the regional average attracted more capital in the form of FDI and portfolio flows, with remittances and ODA representing less than 15% of total financial flows.

Countries with high levels of FDI, such as Panama and Suriname, also recorded small net outflows of remittances. The rise in FDI is associated with a larger expatriate community sending home part of their wages and salaries. Something similar occurs with Argentina and Chile, but on a smaller scale. Political and economic conditions in the Bolivarian Republic of Venezuela may explain part of the large outward flows of portfolio capital and personal transfers, as both investors and residents leave the country amid political instability.

Another difference within the region is the relative importance of foreign capital as a percentage of GDP. On average, between 2013 and 2015, foreign financial flows into the Caribbean represented 15% of GDP and did not appear to vary in relation to per capita GDP. External financing has also increased in the Central American economies as national per capita income has risen, while foreign financial flows into the economies of South America represented at most 7% of GDP, regardless of per capita income (see figures 12 and 13).

**Figure 12**

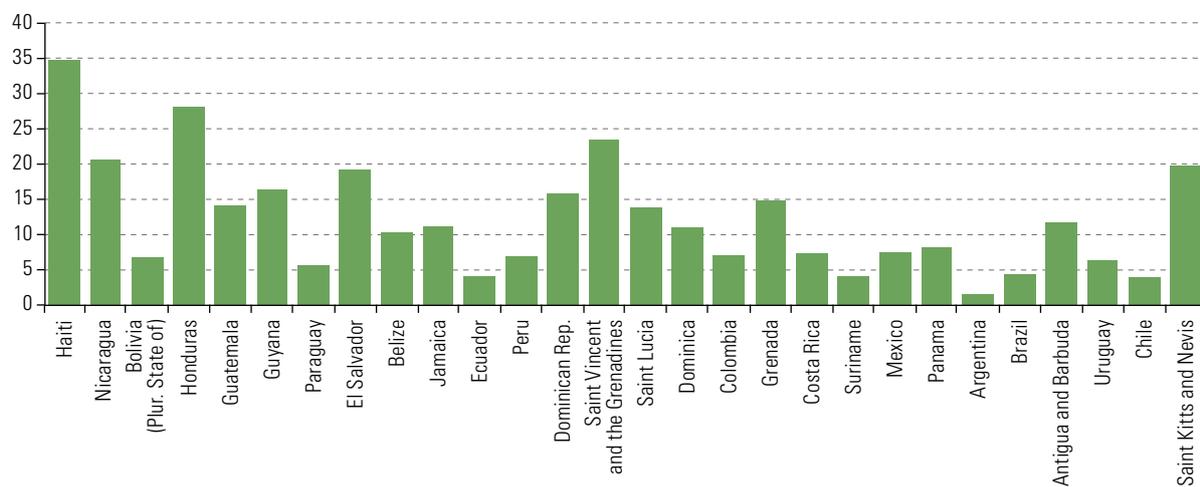
Latin America and the Caribbean (selected countries): a relative significance of selected external financing sources (2013-2015 average) and per capita GDP (2011-2015 average)  
(Percentages of all flows analysed and dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT and World Bank, World Development Indicators.  
<sup>a</sup> The figure does not include countries for which full information was not available for the reference period.

**Figure 13**

Latin America and the Caribbean (selected countries): a flows of foreign direct investment, portfolio investment, remittances and official development assistance, average 2013-2015  
(Percentages of nominal GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT and World Bank, World Development Indicators.  
<sup>a</sup> The figure does not include countries for which full information was not available for the reference period. The countries are shown in order of per capita GDP.

## M. New and innovative instruments and mechanisms for financing social and production development

Greater mobilization of external resources should be accompanied with the promotion of new and innovative instruments and mechanisms for financing social and production development. The emergence of a range of new financial instruments and innovative financial mechanisms aimed at mobilizing and channelling larger volumes of international finance represents one of the key changes in the landscape of financing for development (ECLAC, 2015b). Notwithstanding, from a development perspective, the new funds and instruments require greater clarity in terms of objectives and sources of finance.

Innovative financing mechanisms are considered to complement flows of international resources (ODA, FDI and remittances), mobilizing additional resources for development and addressing market failures and institutional barriers. They also support collaboration with the private sector. Such financing mechanisms can provide stable and predictable financial flows for developing countries. They can also be double dividend instruments by helping to provide public goods in addition to raising income (see box 1).

### Box 1 Existing innovative financing mechanisms

Innovative financing mechanism	Description and revenues raised
<b>Taxes, dues or other obligatory charges on globalized activities</b>	
Taxes	Specific tax earmarked by the government to raise funds for a specific development challenge. Revenue: US\$ 2.4 billion in 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 collects funds for the International Drug Purchase Facility (UNITAID) and for the International Finance Facility for Immunization (IFFIm) through nationally employed, yet internationally coordinated tax on airline ticket sales. Each passenger is charged a low tax rate on each air ticket purchased. Fourteen countries currently participate in this initiative and the tax level varies from one country to the next. Revenue: US\$ 1 billion between 2006 and 2011.
<b>Voluntary solidarity contributions</b>	
Carbon auctions (voluntary)	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 a designated development challenge. Revenue: US\$ 200 million between 2000 and 2013.
Product (RED)	Consumers are encouraged to purchase (RED) branded products. In turn, collaborating producers donate 50% of profit to the Global Fund to fight AIDS, tuberculosis and malaria. Revenue: Since its launch in 2006, (RED) has generated over US\$180 million for the Global Fund.
<b>Frontloading and debt-based instruments</b>	
Guarantees	Financial commitment to provide payment in case 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 with concessionary repayment terms to borrowers for implementing specific development interventions, such as green credit lines. Revenue: US\$ 1.8 billion between 2000 and 2013.
International Finance Facility for Immunization (IFFIm)	IFFIm raises funds by issuing bonds in international capital markets. In so doing, it makes more resources available for development today. IFFIm repays bondholders over periods of up to 20 years with the long-term (legally binding) ODA commitments of donor governments. This arrangement effectively allows governments to "buy-now but pay later" or "frontload" ODA. Launched in 2006 by six donor governments (France, Italy, Norway, Spain, Sweden and the United Kingdom). Australia, Brazil, the Netherlands and South Africa have also joined. 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: unknown amounts for debt-for-nature and debt-for-education swaps. Debt2Health has written-down 163.6 million euros. US\$ 316 million in IDA credits have been bought down for Nigeria and Pakistan.

Box 1 (concluded)

<b>Innovative financing mechanism</b>	<b>Description and revenues raised</b>
Bonds and notes	Debt financing raised in capital markets to fund development interventions like microfinance or climate change interventions. <b>Revenue: US\$ 23.2 billion between 2000 and 2013.</b>
Sustainable investing bonds (e.g. Green Bonds, etc.)	Sustainable investing bonds target investors that wish to integrate social and environmental concerns into their investment decisions. Proceeds are credited to special accounts at the World Bank that support loans for development or climate change adaptation and mitigation projects. Examples are World Bank Eco notes, World Bank Cool bonds and World Bank Green bonds. <b>Since the inaugural issue in 2008, the World Bank has issued approximately US\$ 3 billion in Green Bonds through 44 transactions and 16 currencies.</b>
Diaspora bonds	A diaspora bond refers to a debt instrument issued by a country or a sovereign entity aiming to raise funds through its overseas diaspora. <b>Revenue: the Governments of India and Israel have raised over US\$ 35 billion.</b>
Microfinance investment funds	Investment funds that finance microlenders who extend credit to low-income borrowers and those without access to regular financing in developing countries. <b>Revenue: US\$ 9.1 billion between 2000 and 2013.</b>
Other investment funds	Investment vehicles that are structured and financed to address a specific development challenge, often mixing investments with different risk and return profiles. <b>Revenue: US\$ 5.8 billion between 2000 and 2013.</b>
Other derivatives	Financial instruments whose value is derived from the performance of another asset, such as mortgage-backed securities or climate bonds. <b>Revenues: US\$ 600 million between 2000 and 2013.</b>
<b>State guarantees, public-private incentives, insurance and other market-based mechanisms</b>	
Advance Market Commitments (AMC) for a pneumococcal vaccine	Advanced market commitments (AMC) are funding mechanisms that ensure that a product will have a guaranteed price or market once it has been developed. Under AMC, donors commit funds to guarantee the price of pneumococcal vaccines. These financial commitments provide, in turn, a new incentive to 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. <b>Revenue: US\$ 1.5 billion donor commitment in total.</b>
Rewards and prizes	Financial reward for development solutions in a competitive selection process. <b>Revenue: US\$ 300 million between 2000 and 2013.</b>
Development impact bonds	Investors finance the development intervention up front, and the government or donors pay them with interest based on the results obtained. <b>Revenue: NA</b>
Performance-based contracts	Grant contracts structured to disburse tranches based on the fulfilment of specific performance targets. <b>Revenue: US\$ 5 billion between 2000 and 2013.</b>
Debt swaps and buy-backs	Developing countries' debt liabilities are transferred or reduced in exchange for the adoption of measures to promote local investment or to protect the environment. <b>Revenue: US\$ 1.4 billion between 2000 and 2013.</b>
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 targets. <b>Revenue: US\$ 28 billion under the Kyoto Protocol and US\$ 810 million from auctioning and sales of emissions permits under EU ETS.</b>
2% share from the sale of Certified Emissions Reductions (CERs)	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 one ton of CO <sub>2</sub> , which count towards meeting Kyoto targets. A 2% levy on carbon credits generated through CDM is channelled in turn into the Adaptation Fund which finances climate adaptation projects and programmes in developing countries. <b>Revenue: 12 projects so far totalling approx. US\$ 70 million.</b>

**Source:** Global Development Incubator, *Innovative Financing for Development: scalable business models that produce economic, social, and environmental outcomes*, 2014; and United Nations Development Programme (UNDP), *Innovative Financing For Development: A New Model For Development Finance?*, New York, 2012.

Innovative financing for development encompasses a broad range of mechanisms and instruments, some of which are already being used, while others are still at the planning stage. They fall into four main categories: (i) taxes, dues and other obligatory changes on globalized activities; (ii) voluntary solidarity contributions; (iii) frontloading and debt-based instruments; and (iv) State guarantees, public-private incentives, insurance and other market-based mechanisms (see box 1).

UNITAID is an illustrative example. This global health initiative mobilizes more than half of its financing through an international solidarity tax on airline tickets. UNITAID finances treatment for HIV/AIDS, tuberculosis and malaria for approximately 47 million people in 94 countries around the world, including 12 in the Americas, 25 in Asia, 7 in Eastern Europe, 8 in North Africa and the Middle East, and 42 in sub-Saharan Africa. It has also reduced the cost of quality second-line anti-retro-viral treatments by more than 50%. However, the aid sums are included in the donor's regular development cooperation budgets and count as ODA.

Another innovative mechanism is the International Finance Facility for Immunization (IFFIm). IFFIm raises funds by issuing bonds in international capital markets, and repays bond holders over terms of up to 20 years with the long-term (legally binding) ODA commitments of donor governments. This arrangement effectively allows governments to "buy-now but pay later" or "frontload" ODA. IFFIm was launched in 2006 by six donor governments (France, Italy, Norway, Spain, Sweden and the United Kingdom), which were later joined by Australia, Brazil, the Netherlands and South Africa (see box 1).

IFFIm raised US\$ 3.400 billion between 2006 and 2011 and was estimated to have prevented between 1.3 million and 2.08 million deaths by the end of 2011.

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

The tax on airline tickets has been levied since 2006 in Chile and France, which were later joined by Cote d'Ivoire, Gabon and Mauritius. Another 12 countries have discussed initiatives of this type in parliament, and 19 have undertaken to introduce voluntary contributions. It is estimated that this tax could raise between US\$ 480 million and US\$ 590 million annually, bearing in mind that more countries will join in the coming years. France alone has raised US\$ 1.1 billion since the tax was introduced 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 after major natural disasters. The Facility works as a form of parametric mutual insurance, insofar as there is an ex ante agreement to make payment upon 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 faster than on an actual-loss basis, which could take much longer to quantify (ECLAC, 2015b).

Financial instruments in the region also include mechanisms aimed directly at financing and fostering production development, such as the Latin American Investment Facility (LAIF). This Facility uses limited funds contributed by the European Commission to attract sizable 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 ultimately generate considerable volumes of financing from other sources, which are channelled into physical and energy infrastructure projects (among others) of greater scope than could otherwise be attempted.

Lastly, ECLAC has proposed an innovative debt-swap mechanism for the Caribbean countries. This would enable the creation of a fund to finance climate change adaptation and mitigation and thus reduce their vulnerability to natural disasters.

## **N. Debt relief for Caribbean small island developing States (SIDS): an innovative proposal for addressing an urgent problem**

In 2013, 5 of the world's 20 most indebted countries by public debt-to-GDP ratio were in the Caribbean: Antigua and Barbuda, Barbados, Grenada, Jamaica and Saint Kitts and Nevis. The total combined debt of the Caribbean amounted to US\$ 46 billion, or 71% of subregional GDP. Although the severity of the burden varies among countries, the public debt problem is widespread enough to make it a subregional issue that needs to be urgently addressed (ECLAC, 2016b).

This situation has been aggravated by a decline in FDI relative to levels before the outbreak of the global economic and financial crisis in 2008, and by slow economic growth and high levels of unemployment, especially among young people.

The debt challenge is compounded by the slack performance of the domestic private sector, partly due to a reduction in government activity, especially infrastructure investment. In addition, the subregion is highly vulnerable to extreme events and the burden of the attendant costs for rehabilitation and natural disaster risk reduction. Therefore, compelling arguments abound for a debt relief programme for Caribbean countries, particularly those for which the burden is unsustainable. Furthermore, the Caribbean's heavy debt problem was not the outcome of policy missteps. Rather, it is rooted in a series of external shocks, compounded by structural weaknesses and vulnerabilities as small island developing States (SIDS) exposed to natural disasters and the impacts of climate change (ECLAC, 2016b).

ECLAC has proposed a strategy of debt relief aimed at broadening the fiscal space and helping to engineer much-needed economic growth in the member States, while addressing the effects of climate change. Specifically, it proposes a menu approach to tackling the debt problem, since the debt composition is heterogeneous. Some countries have large multilateral debts while others owe a significant proportion of their public debt to private creditors.

The proposed menu has several components. First, multilateral institutions would gradually write off 100% of the multilateral concessional debt stock, contingent on approval from donors and on the condition that the States involved place the equivalent amount of the annual servicing of existing multilateral concessional debt, in local currency, in a trust fund over a period of 10 years. ECLAC also proposes the establishment of a Caribbean Resilience Fund (CRF), which would be used principally for funding climate change adaptation and mitigation (ECLAC, 2016b).

Second, in the case of countries which owe a sizable percentage of public external debt to private creditors, a debt buy-back scheme is proposed to reduce both service payments and the debt stock. Such a scheme would be pursued on the basis of deep discount in the secondary markets and new loan agreements by creditors at lower costs, having regard to continuing borrowing requirements.

Member States would undertake to pursue structural reforms in order to address short- and medium-term challenges. The debt relief would thus be contingent on the fulfilment of obligations to carry out sustainable fiscal consolidation programmes and would be based on agreements between creditors and debtors.

## O. The 2030 Agenda and the external environment

Mobilizing external and domestic resources must be a key pillar of the financing architecture for meeting the challenges of the 2030 Agenda for Sustainable Development. However, this does not mean that responsibility for the development process should lie with national policies alone. The principle that applies is rather that of common but differentiated responsibilities: countries must assume greater responsibility for their own development and steer their own development agenda, but the means of implementation also require a propitious external environment to tackle and reduce existing asymmetries.

Domestic resource mobilization strategies in such a structurally diverse region as Latin America and the Caribbean must take its heterogeneity into account. In some of the region's economies, such as the small island developing States of the Caribbean, small size is a significant constraint for the mobilization of domestic resources.

Lastly, adequate levels of domestic resource mobilization are a necessary but not a sufficient condition to render the financing for development architecture effective in responding to countries' development needs. Domestic resource mobilization strategies must be placed within the broader context of an enabling external environment.

This requires a profound change in the means of implementation, including in the global trade system and in the conditions for the transfer of knowledge and technology from developed to developing countries.

The financial architecture at the global, regional and national levels must govern the current process of globalization and deal with its three major challenges: achieve a greater degree of financial stability, understood as a global public good; improve the governance structure of multilateral financial institutions, which is asymmetrical in terms of the representation and participation of emerging economies and middle-income countries; and broaden its limited capacity to channel resources to finance inclusive and sustainable development.

Global production and trade are increasingly organized around production networks and megaregional agreements. Megaregional agreements represent almost 70% of trade in Latin America. Such agreements are complementary to each other, since they share common underlying principles and are based on the same standards, while covering different regions of the world. On the one hand, they tend to unify the existing array of free trade agreements (the so-called "spaghetti bowl"). On the other hand, they bring about an obvious concentration of global decision-making power over the rules of trade and investment in the developed economies that spearhead these agreements.

This new and complex organization of trade involves multiple flows of goods (especially intermediate goods), services, investment, information and people. For that reason, the barriers affecting such trade tend to be increasingly regulatory rather than tariff-based.

These changes could have a negative impact on the region through the diversion of trade and investment and the imposition of new standards and requirements. New multilateral rules are needed to reflect this new configuration in the organization of trade and production. Such rules must necessarily regulate the transfer of technology to encourage its adoption by developing countries.

An enabling environment must reflect the importance of the developing economies in the global governance structure, avoid discrimination in access to financing, guarantee stability as a global public good, improve the share of developing countries—including middle-income countries—in international trade, and provide opportunities to reap the benefits of technology transfer and knowledge acquisition.

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