Midterm review meeting of Latin American countries preparatory to the comprehensive midterm review of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024

CELSO FURTADO ROOM, ECLAC HEADQUARTERS, SANTIAGO, CHILE, 11-12 JUNE 2019

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The past decades have witnessed some changes and emerging trends in the financing for development framework...

- A widening array of priorities within the Global Development Agenda (MDGs to SDGs) that demands a huge mobilization of resources (social, economic and environmental)
  - Huge challenges: 0 poverty and hunger, climate change, provision of global public goods, protection of the global commons (atmosphere, oceans, biodiversity, forests)

- Challenges within internal financing: to ensure the solvency of the public sector, encourage public and private investment, defend social achievements and expand tax resources

- Within external financing: Changing relevance of different sources of finance and increasing importance of private flows

- In consonance with these trends, changes in the players, instruments and mechanisms through which financing is intermediated
Changes over time in the components of external financing flows to Latin America and the Caribbean

1980 – 2017 (net flows, in billion dollars)

- Total de flujos privados
- Flujos oficiales, IMF, donaciones
- Cartera de portafolio, patrimonio
- Cartera de portafolio, bonos no garantizados
- Cartera de portafolio, bonos públicos o garantizados
- Residual - otras deudas privadas garantizadas y no garantizadas (prestamos bancarios, etc.)
- Inversión directa neta
- Remesas
- AOD

Source: Elaboración propia sobre la base de datos de International Debt Statistics y World Development Indicators del Banco Mundial; base de datos del CAD de la OCDE para donaciones, 2018.
Nota: Gráfico de área no acumulado. En el gráfico los flujos oficiales incluyen donaciones tanto bilaterales como multilaterales y flujos de deuda (títulos de deuda, deuda bancaria o deuda de otros tipos) tanto concesionales como no concesionales cuyos acreedores sean oficiales. Los flujos privados incluyen Inversión Extranjera Directa, flujos de acciones de portafolio, remesas de migrantes y flujos de deuda (títulos de deuda, deuda bancaria, deuda comercial o de otros tipos) cuyos acreedores sean privados. Los datos provenientes del Banco Mundial excluyen economías clasificadas de ingresos altos. Se trata de flujos netos.
In the case of Latin America and the Caribbean, net ODA has represented decreasing shares or regional GNI across time …
The behavior of ODA reflects the operational logic of the international cooperation system...

...which is based on per capita income as a variable that summarizes the level of development of countries, guiding the allocation of official assistance flows.

LAC has the highest proportion of Middle Income Countries worldwide (22% of the total)

LAC is a middle-income region: 23 of 33 (70%) Countries are MICs.

Within the MIC category, most LAC countries are classified as Upper MIC (58%). Lower MIC account for 12% of total LAC countries.

9 countries are High income and Haiti is the only Low income country.

Source: ECLAC, on the basis of the last country classification of The World Bank (June 2018) and OECD.stat
Migrant remittances have become an important flow of financing towards LAC…since the beginning of the 90’s they represent a larger share of GDP than ODA does.
Among capital flows, Foreign Direct investment (FDI) is currently the most important and is well above ODA and remittances.…

FDI, Remittances and Net ODA towards Latin America and the Caribbean, 1980-2018
(% of GDP)

Source: on the basis of WDI, World Bank
Portfolio flows have at times been a relevant source of finance for the region but they have been volatile and during the nineties they were highly procyclical...

Source: on the basis of WEO, IMF
Even though a larger mobilization of private resources could be potentially beneficial, some very important issues arise from a financing for development perspective…

- **Public and private flows** obey a different logic and respond to different incentives

  - **Private capital** mostly driven by the profit motive (economic profitability)
    - Private sector will under-invest in certain areas relevant for development if the expected return on a risk adjusted basis-underperforms other investment opportunities
  
  - **Public resources** play a unique role, providing financing for sectors that do not attract private flows sufficiently (social profitability)

  - But there is also space and mechanisms for public policies to gear private capital towards development objectives
    - Requires an adequate regulatory environment and incentive scheme
New trends in financing sources have been accompanied by changes in the players channeling this finance...

Some players have potential to increase their relevance in the FfD landscape

- **Private philanthropy**
  - At the global level it now amounts to nearly US$ 60 billion per year, equivalent to *almost half the net ODA disbursed in one year by DAC donor countries*

- **South-South cooperation, Triangular and non-DAC donor countries**

- **Private and public institutional investors**: *Pension Funds, Insurance Companies, Mutual Funds, Sovereign Funds, etc.*
  - With *growing assets* under management and the potential to provide *long-term* financing they can *become important players in development finance*

- **Social Impact Investors**
  - Donor funding is used to repay capital (plus a potential return) once clearly pre-defined and measured *social goals are achieved*

- **Regional Development Banks**
  - Have *increased* their share, providing *diversified, stable and contracyclical* financial flows
Subregional and Multilateral Development Banks: share in the FfD of LAC by decades

1971-89: 50%
1990-1999: 40%
2000-2009: 30%
2010-2017: 20%

BID
Banco Mundial
Bancos subregionales (CAF+BCIE+BDC)

Source: Economic Development Division, ECLAC on the base of development banking data.
Consistently with these trends, mechanisms and instruments for development finance have also been changing and growing…

✓ Latin American Investment Facility (LAIF), 2010
  o Uses limited funds *(grants)* contributed by the EU *to leverage loans* from multilateral or bilateral Development Banks (infrastructure projects in transport, energy, social and environmental sectors in LAC)

✓ Development Impact Bonds (DIBs)
  o Transforming social problems into “investible” opportunities, mobilize private investment towards development objectives

✓ Green Bonds / Infrastructure Bonds
  o Used in climate and environmental projects / transport infrastructure projects

✓ Project Finance
  o PPPs with Sp.P.V. created to finance projects payable back from the cash flow generated

✓ Fondo de Seguros Soberanos Contra Riesgos de Catástrofe (Caribe)

✓ Impuestos sobre las Ventas de Pasajes Aéreos

✓ Subasta o Venta de Permisos de Emisión
In summary…

• The financing for sustainable development architecture faces important future challenges
  ➢ Take charge of a widening set of development objectives
  ➢ Take charge of regulatory/policy issues that arise from the growing importance of private financing
  ➢ Take charge of the necessary balance between foreign and domestic resource mobilization
  ➢ To work for improving the transparency and efficiency of new financing alternatives and instruments, improve regional coordination and strategy to attract resources, especially among new financial options, new cooperation mechanisms and new players that are gaining strength to increase the range of options for the provision of resources for sustainable development.
“THANK YOU VERY MUCH FOR YOUR ATTENTION”

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