Ten key messages of the Latin American and Caribbean regional consultation on Financing for Development

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1. Monterrey and Doha have a different political process and history than Rio + 20, the post-2015 development agenda and Climate Change. It is important to review this history, especially with regards to the principle 7 of the Rio Declaration from 1992 of Common But Differentiated Responsibilities, which was applied to the environmental field. With regards to trade and finance as contemplated in Monterrey and Doha the concept of "leveling the playing field" is what is accepted.

    - The Post-2105 development agenda will integrate the different dimensions of sustainable development: economic (including trade and finance), social, and environmental.

    - Integrating these different dimensions under an overarching framework implies that the principle of common but differentiated responsibilities should be applied across the board to include climate change and also trade and finance.

    - It also requires taking on board the need for effective participation by middle-income countries including those of Latin American and Caribbean countries, which have emerged as an important players at the economic, social and political level. Middle Income countries account for about 46% and 70% of world's GDP and population respectively.

2. Financing the post-2015 development agenda requires a significant mobilization of domestic resources. Domestic mobilization of resources is constrained by internal and international factors.

    - At the internal level governments need to tackle tax evasion and avoidance. The rates of VAT evasion in the Latin American countries vary from 17.8% to 37% of the total VAT take, compared with much lower figures of between 3% and 22% for OECD countries. Estimates for personal and corporate income tax evasion are even higher: they vary from 46% to 49% of total receipts for these taxes for 2006-2010,

    - Besides domestic problems of evasion and avoidance, the region's governments are facing new challenges internationally including combating illicit flows and capital flight; the practices of multinationals which include the manipulation of transfer prices allows transnational companies to avoid taxes by declaring profits in jurisdictions with lower tax rates.; and the existence of what are ill-described as tax havens, which are not only a significant source of tax evasion but foment pernicious tax competition and activities that produce negative externalities.

- In 2012 illicit flows were estimated to represent US$ 154 billion dollars for Latin America and the Caribbean above foreign direct investment flows, remittances and ODA (US$ 129, 63 billion and 10 billion respectively). According to estimates for developed countries, particularly in Europe, the annual cost of tax avoidance through transfer price manipulation by multinationals amounts to US$ 150 billion.

- As part of these efforts, tax havens and offshore financial centres must also be regulated and these should comply with international standards on commercial banking.

- Fostering domestic resource mobilization requires "multi-lateralizing" international cooperation in terms of fiscal policy lead to the creation of major tax agreements and fiscal rules on a global scale with the the participation of developing countries. For this we need to expand the function and power of the commission of fiscal experts of the General Assembly in the context of the ECOSOC. The Committee of Experts on International Cooperation in Tax Matters, a subsidiary body of the United Nations, can play a vital role by providing spaces for agreements and consensuses that can pave the way for a progressive coordination and harmonization of taxes and fiscal rules internationally, including in the countries of Latin America and the Caribbean.

3. Domestic resource mobilization also includes the resources mobilized by national and subregional development banks

- Subregional and national development banks have taken on a crucial role in the provision of credit to the production sector through investment finance for infrastructure, production and social development, and climate change mitigation.

  - In 2014 the share of sub regional development banks in total lending to Latin America and the Caribbean equals that of the Inter American Development Bank (IDB) (above 40% of the total) and surpasses that of the World Bank (less than 20% of the total). For their part the share of credit provided by national development banks exceed 20% of the total.

- Development banks have traditionally focused on mobilizing long-term savings towards investment strategic production sectors and especially infrastructure and more recently towards the development of financial markets and financial institutions. This greatly facilitates the mobilization of savings as well as financial inclusion.
- Finally development banks also play an important counter cyclical function mitigating the fluctuations in the business cycle. Public development banks were the most important instrument used by Latin American government to partly offset the contraction of credit during the Global Financial Crisis (2007-2009).

4. The most pressing issues related to sovereign debt and indebtedness are the creation of a sovereign debt restructuring framework and to explore the possibility to condone the multilateral debt of Caribbean countries

- The creation of a framework for debt restructuring must take into consideration the conditions of debtor countries including the need that the payment for the debt service, should depend in part on contingent macroeconomic conditions. This framework must also permit solving conflicts of interest that arise out of sovereign defaults as the most recent Argentina case illustrates.

    - Sovereign debt crisis and litigation is particularly relevant for middle-income countries since they account for the majority of debt litigation cases. Latin America and the Caribbean accounts for 65.8% of all sovereign debt litigation cases between 1970 and 2000.

- Jointly with the creation of a framework for debt restructuring, the international community must explore the possibility of debt forgiveness for Caribbean countries. In the case of the Caribbean SIDS, high debt burdens are a major obstacle to growth and economic and social development. In 2014, Caribbean countries public gross debt represented 79% of GDP with a minimum and maximum of 29% and 141% of GDP for Suriname and Jamaica respectively. All English speaking Caribbean countries debt to GDP ratios exceed 50%.

5. South-to-South and triangular cooperation provides a new model of cooperation based on equals.

    - South-South cooperation overcomes the long-standing vertical relationship between donor and recipient typical of traditional forms of cooperation, focusing instead on collaboration among equals. Similarly, while traditional forms of cooperation place great significance on poverty reduction as a main objective, South-South cooperation emphasizes growth based on infrastructure development, technical cooperation and knowledge-sharing. South-South cooperation can thus significantly boost development, particularly for middle-income countries seeking strategies for sustained growth in production that will enable them to avoid becoming mired in the “middle-income trap”.

6. The financial for development architecture must address the asymmetries in the international financial architecture in its governance mechanisms including its failure to give the proper weight and recognition to developing economies. The multilateral elite (G20, G7, etc.) must evolve towards a representative entity within a Global Economic Coordination Council

    - The international financial architecture has to reflect, in the executive councils and decision-making bodies the shift in global economic and political power shift towards developing countries and, towards middle-income countries.

        - As things stand emerging markets’ and developing countries’ weight in global GDP equals that of developed countries. However, the former hold 38.8% of International Monetary Fund (IMF) quotas and 40.8% of the World Bank’s voting rights, whereas the latter hold 61.2% and 59.2%, respectively. Middle-income countries account for 46.1% of the world’s production of goods and services, but hold just 29% of IMF quotas and World Bank voting rights.

- Global governance must be universal, inclusive and reflective of the interests, needs and objectives of the international community as a whole. To this end the multilateral elite (G20, G7, etc.) must evolve towards a representative entity within a Global Economic Coordination Council. The Global Economic Coordination Council (GECC) that would meet at the heads-of-state level (like the current G-20) and would enjoy the formal support of a subset of existing UN system entities.

7. The financial for development architecture must also close trade asymmetries: including the inconsistency between the importance of developing economies and their share in world trade and opportunities for market access and developing economies' limited possibilities to reap the benefits of technology transfer and knowledge acquisition.

   - One of the main challenges facing the developing countries, and in particular middle-income countries, is the need to increase their share in world trade, commensurately with their importance in the world economy, diversify their exports and increase their technology content in order to strengthen the connection between trade and the creation of decent jobs, thereby fostering inclusive and sustained economic growth.

     - Although emerging and developing economies produce half of the world's GDP, they account only for 40.6% of global exports. Middle-income countries also show a clear asymmetry between their contribution to world production and their share of world exports (46.1% and 29%, respectively).

   - To meet this challenge, multilateral trade practices and agreements need to be made more flexible to take into account the specificities of middle-income countries. This would help level the playing field so that all countries could benefit equitably from international trade.

   - At the same time, export diversification and trade liberalization must be applied on the basis of flexible trade rules, including on adequate financing and an appropriate time frame for implementing the necessary adjustments and domestic economy restructuring. In this sense, the global trade system should seek fairness in its rules and mechanisms and promote market access by all participants, especially developing countries, which as things stand often face discriminatory measures.

8. Given the growing role of private flows as a source of finance, a key challenge of a post-2015 financing for development architecture is how to enhance public-private partnerships and how to mobilize and channel private resources towards development objectives.

   - Public-private partnerships (PPPs) pose potential benefits in terms of lower costs and higher quality, since they take advantage of private sector expertise and create competition in the field. However, Latin American experience –mainly with costly contract renegotiations- shows that their success requires rigorous planning and design, a clear legal framework, and suitable and well-equipped institutions in charge of their supervision.

- Mobilizing private resource for development effectively involves blending private and public resources, and creating public and private partnerships in order to achieve the leverage required to maximize the impact for development financing.

- It also means addressing the issues raised by private finance including the fact that that they are mainly profit-driven, which can lead to underinvestment in areas that are crucial for sustainable development (such as efforts to reduce poverty or address climate change) if the expected return —on a risk-adjusted basis— underperforms other investment opportunities.

- Harnessing private capital flows and markets to achieve the post-2105 development agenda goals will require efficient and targeted government interventions. The public sector plays an increasingly important role in including social returns in the cost-benefit analysis. It can provide public financing for sectors that generate significant social gains but do not attract sufficient private flows. Alternatively, the public sector can establish an enabling environment and proper incentives, thereby supporting a risk-return profile capable of attracting private capital and directing it towards development objectives. The incentives for private financing need to go hand in hand with proper regulatory frameworks.

9. Ensure gender equality when dealing with Financing, meaning being alert about the effects of women's financial inclusion, with regards to credit, assets and financing in general. Rethink the issues related to remittances, as they are included as financing for development mechanisms yet there is an ethical-political contradiction as migration is not included in the post-2015 development agenda. Indeed, remittances are transfers from migrants that are not welcomed in developed countries yet are charged high transaction costs for their transfers.

    - Remittance flows to Latin America and the Caribbean have risen significantly in recent decades. These flows represent around 34% of total financial flows and 1.1% of the region's GDP. Remittances represent a particularly important source of finance and balance-of-payments liquidity for smaller economies, including those of Central America and Caribbean SIDS, amounting in some cases to over 10% of GDP.

    - Since remittances are such a major component of national income for some countries, the main challenge in these cases is to channel these resources into production activity, although those used for consumption purposes do serve to improve living standards in the recipient population. Effectively mobilizing remittance resources for development also requires reducing the average costs of transferring funds, for which greater information, transparency, competition and cooperation efforts are needed.

10. These intergovernmental processes are highly enriched by the participation of civil society. They should be invited to participate at the national, regional and global levels. The participation of developing countries should be guaranteed, so the vision from the South is represented.