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Innovative Development Finance: The Latin American Experience

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Background Paper

World Economic and Social Survey 2012

Innovative Development Finance: The Latin American Experience

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August 2012

[1] Based on background paper prepared for the UN-DESA. I am thankful to Nazrul Islam for helpful comments and editorial suggestions, and for the comments from the participants in the UN-DESA First Workshop on the World Economic and Social Survey (WESS) 2012: Innovative Development Finance, on 2 December 2011, New York, when the preliminary findings were presented. I am also grateful to Carolina Viola, Felisa Miceli, Giorgio Romano, Marcos Antonio Macedo Cintra, Ryna Elizabeth Garay Araniva, Soledad Bernuy Morales and Stephany Griffith-Jones for the material provided and for their views and opinions on IDF in their countries and the LAC region, which have been critical for the preparation of this paper. The usual caveats apply.

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Abstract

This paper assesses the scope and impact of innovative development finance (IDF) in the Latin America and the Caribbean (LAC) countries in the 2000s. It also reports the views from the region's relevant actors regarding IDF. The paper finds that very little IDF flowed to LAC in the 2000s, though it was significant for a few, poorer, and smaller countries, such as Haiti and Nicaragua. The views from the region suggest that LAC should fight for greater share of existing and prospective IDF, but also make better use of other available resources, such as remittances and flows through South-South cooperation.

1. Introduction

The past decade saw the emergence of new types of development finance to support developing country efforts towards achievement of the Millennium Development Goals (MDGs) and sustainable development. These new types vary widely but can be termed as innovative development finance (IDF) to the extent that they contain an innovative element either in source, financing and disbursement mechanism, and use (United Nations, 2011).

This paper assesses to what extent the developing Latin America and the Caribbean (LAC) region benefited from IDF since its emergence in the early 2000s. It focuses on global health and climate funds through which most widely recognized IDF flows have been channelled. However, the paper also discusses remittances, flows ensuing from South-South Cooperation (SSC), and financial transactions taxes, in view of their importance on the ground as new sources of external finance, no matter whether these are recognized as IDF or not. The paper provides information on quantitative dimensions of these various resources and examines their qualitative significance. It also presents LAC views on IDF drawing upon interviews with prominent relevant actors.

The paper is organized as follows. Section 2 provides background information on the resource availability, financing needs, and growth performance of the LAC region in the 2000s. In order to do so, it classifies LAC countries into three groups and examines the relative importance of different sources of external finance across these groups as well as in individual countries. Section 3 discusses the quantitative dimensions of IDF in LAC as channelled through the global health and climate funds. Section 4 considers their impact on LAC countries. Section 5 discusses the issues related to remittances and Section 6 discusses the role of SSC in LAC. Section 7 presents LAC views on IDF drawing upon interviews. Section 8 concludes and offers some policy recommendations.

2. Growth, financing needs and resource flows of LAC countries in the 2000s

Since the early 2000s, particularly from 2004, LAC has experienced accelerated GDP growth, averaging 5.3 per cent a year during 2004-2008. The annual GDP growth rate for the decade as a whole was, however, lower (3.0 per cent), due to the impact on the region of the global economic slowdown in the early 2000s and the 2008-2009 global financial crisis.[2] In per capita terms, annual GDP growth rate was nearly 2.0 per cent during 2001-2010, as against 1.4 percent in 1991-2000 and -1.0 percent in 1981-1990 (Table 1). The better economic performance during 2001-2010 is, to a significant extent, due to the commodity boom the region experienced during the period. Exports in nominal dollar more than doubled, reflecting both volume expansion and more favoured terms of trade – the latter improved by 27 per cent between 2001 and 2010 (ECLAC, 2010).

Table 1: Growth of GDP and per capita GDP in LAC during 1981-2010[1]

(Annual averages in percent)[2]

	1981-1990	1991-2000	2001-2010
Real GDP Growth	1.0	2.8	2.9
Real GDP Growth per capita	-1.1	1.4	1.9

Source: Author's computation based on ECLAC figures.
[1] The calculations include all countries from the region.

[2] Growth in the LAC was about 3.0 per cent a year over 2001-2010.

[2]Geometric averages.

Despite the faster GDP growth, gross domestic investment (GDI), which on average was 20.5 per cent of GDP during 1991-2000, remained at the same level during 2001-2010. However, between these two decades, gross national saving (GNS) increased from 18.1 to 20.5 per cent. Therefore, the external financing gap in the region narrowed significantly, from 2.7 to 0.1 per cent of GDP, and became even negative during 2003-2007 (Table 2).[3] Moreover, LAC benefited from large positive inflows of foreign capital – in 2007 alone, net capital flows totalled more than US$110 billion, equivalent to three per cent of the region's GDP. Higher national savings and net positive capital flows, together with modest investment levels, led to a large increase in the region's international reserves, which more than trebled between 2001 and 2010, from US$ 163 billion to over US$ 600 billion.

Remittances are a very important component of the balance of payments of LAC, accounting for over 80 per cent of net current transfers. The weight of the latter in GDP increased from 0.9 per cent in 1991-2000 to 1.7 per cent in 2001-2010. If one excluded remittances from national savings, the region's external financing gap would be significantly higher, reaching 1.8 percent of GDP in 2001-2010.[4] Moreover, current transfers were 50 per cent larger than capital flows to the region during the decade, providing further evidence of the important role of remittances for the region (Table 2). However, just as the role of other external sources differed across LAC countries, so did the weight of different types of IDF.

Table 2: LAC Financing of Gross Domestic Investment (as percent of GDP)

	1990	1995	2000	2005	2010	1991-2000	2001-2010
(1) Gross Domestic Investment	20.2	20.2	21.1	20.2	20.1	20.8	20.6
(2) National Saving	19.9	18.1	18.8	21.6	19.0	18.1	20.5
(3) Net current transfers	0.8	0.9	1.0	1.9	1.2	0.9	1.7
(4)External Saving	0.3	2.1	2.3	-1.4	1.1	2.7	0.1
(5)Capital and Financial Account				0.9	2.3		1.1
(3)+(4)	1.1	3.0	3.3	0.5	2.3	3.6	1.8
(3)/(5)							1.5

Source: Author's computation, based on ECLAC figures.

Within LAC, the countries differ widely with regard to their GDP size and per capita level, growth performance, domestic resource mobilization capacity, and external resource position (Table 3). Differing current account positions (Table 3) point to different degrees of need for foreign financing. Also, given the need, different countries appear to differ with regard to their reliance on different types of external resource flows. In terms of external resource composition, some of the larger economies, such as Brazil and Peru, benefited in the 2000s from private capital flows for meeting their financing needs, while others, such as Honduras and El Salvador, had to depend mainly on remittances. As for ODA, the region on average attracted during 2001-2010 only around seven percent of all aid flows to developing countries, and these flows accounted for only about 0.2 per cent of the region's total GDP.[5] However, for some of the smaller and poorer economies, ODA flows were significant – well above one per cent of their GDPs, and for a couple of countries, above 10 per cent.

[3] If the external financing gap is calculated for all LAC except Bahamas, Barbados and Trinidad and Tobago (which are high income countries), then it would be 0.2 of GDP instead.
[4] If the external financing gap excluding current transfers is calculated for all LAC except Bahamas, Barbados and Trinidad and Tobago (which are high income countries), then it would be 1.9 of GDP instead.
[5] Author's calculations based on OECD and ECLAC figures respectively.

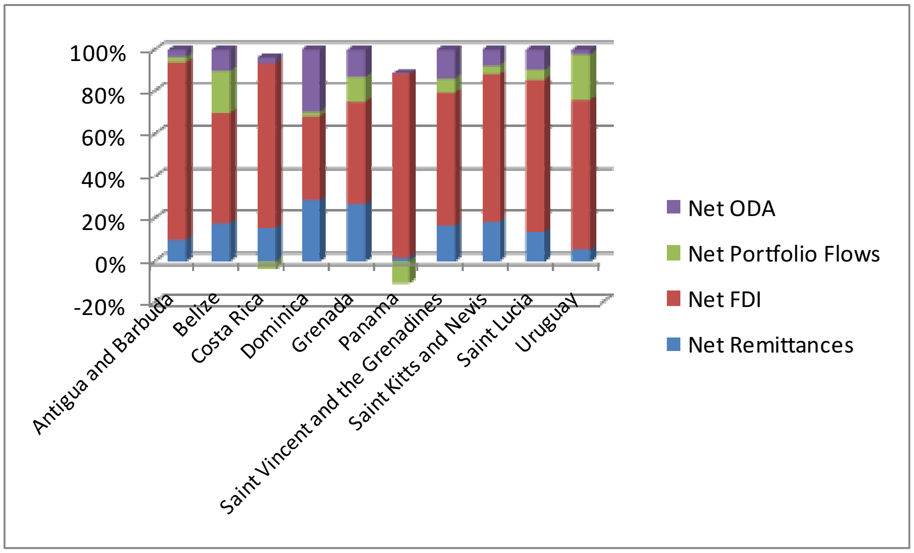
Table 3: GDP, current account, and government revenues of LAC countries during 2000s.

Country	Economy Size[1]	GDP per capita[2]	Current Account[3]	Government Revenues[4]
	(2008-2010)	(2007-2009)	(2001-2010)	(2007-2009)[5]
	% LAC GDP	in US thousand	% GDP	% GDP
Antigua and Barbuda	0.03	13246	-15.8	22.6
Argentina	7.58	7505	3.1	19.5
Belize	0.03	4399	-11.2	27.8
Bolivia	0.40	1619	4.8	28.2
Brazil	40.00	7949	-0.6	23.3
Chile	4.02	9889	1.1	24.3
Colombia	5.77	5055	-1.8	15.3
Costa Rica	0.71	6303	-4.9	15.1
Cuba	1.42	5406	-0.3	48.0
Dominica	0.01	5445	-18.4	33.6
Ecuador	1.22	3749	-0.3	22.1
El Salvador	0.48	3455	-3.7	14.6
Grenada	0.02	6120	-26.3	30.0
Guatemala	0.89	2699	-4.3	12.0
Guyana	0.05	2485	-9.7	27.3
Haiti	0.15	644	-1.7	11.4
Honduras	0.33	1850	-6.5	18.8
Jamaica	0.31	4841	-10.4	26.6
Mexico	22.69	9230	-1.1	16.3
Nicaragua	0.14	1057	-16.7	22.2
Panama	0.54	6553	-5.3	19.2
Paraguay	0.37	2314	0.0	18.2
Peru	3.13	4240	-0.5	17.3
Dominican Republic	1.08	4603	-3.0	15.8
Saint Kitts and Nevis	0.02	10522	-20.3	36.9
Saint Vincent and the Grenadines	0.02	5264	-21.1	28.7
Saint Lucia	0.03	5672	-19.5	28.3
Suriname	0.05	4098	2.5	29.3
Uruguay	0.77	8618	-0.7	20.4
Venezuela	7.73	10093	9.6	25.0

Source: author's elaboration, based on ECLAC and IMF country reports.
[1] Based on averages of 2008-2010 GDP shares in total LAC GDP.
[2] Based on averages of 2007-2009 GDP per capita.
[3] Based on averages over 2001-2010.
[4] Central Government revenues including grants.
[5] For Bolivia, Dominica, Grenada and St Lucia, averages are over 2006-2008.

For a more detailed depiction of the different role of various sources of external finance in the economies of LAC countries, we classify the countries into three groups and show the relative importance for them of ODA, FDI, PFI, and remittances. (For details about this grouping exercise, see Gottschalk 2012.)

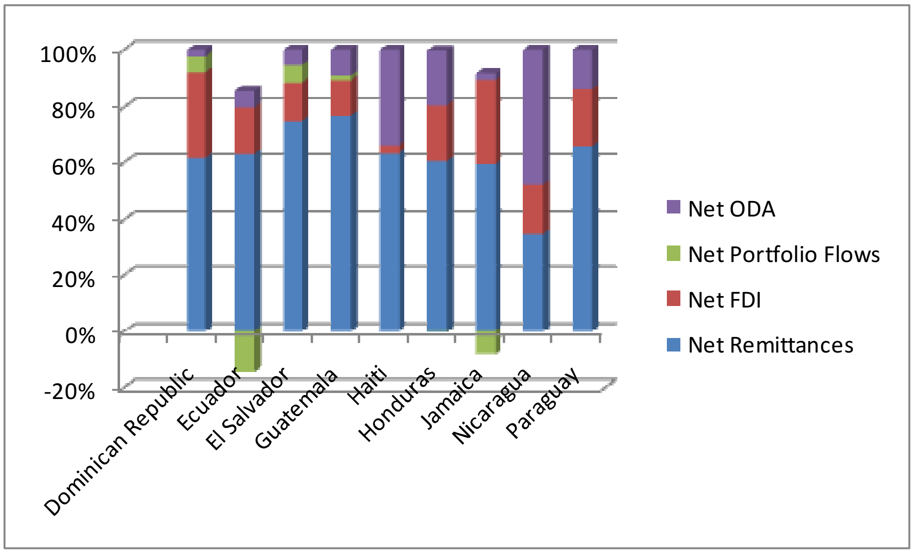
Figure 1: Relative importance of various external resource flows for LAC Group 1 countries during 2001-2010



Source: author's elaboration, based on figures from ECLAC and World Bank databases.

Figure 1 shows the composition of flows for the LAC countries from Group 1, which comprises mostly of the small Caribbean countries, Costa Rica and Panama from Central America, and Uruguay from South America. Most of these countries had very large current account deficits. Among the small Caribbean Islands, current account deficit varied from 15.8 per cent of GDP in Antigua and Barbuda to 26.3 per cent in Grenada. FDI was critical in financing these countries' financing gap.

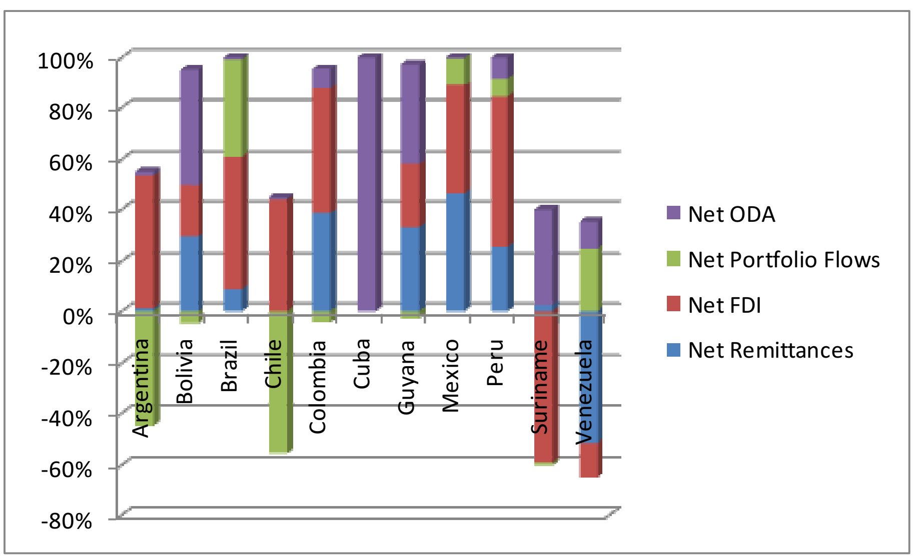
Figure 2: Relative importance of various external resource flows of LAC Group 2 countries during 2001-2010



Source: author's elaboration, based on figures from ECLAC and World Bank databases.

In contrast with that of Group 1 countries, remittances were the resource flows that dominated Group 2 countries, which were mostly from Central America (Figure 2). This was especially true for the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Paraguay. Were not for the remittances, external financing gap, which in most cases was in the range of 3-4 per cent GDP, would have been extremely high – e.g., 20 per cent rather than 3.7 per cent in El Salvador; and over 22 per cent rather than 6.5 per cent in Honduras. However, for Haiti and Nicaragua, ODA was a critical resource flow, alongside remittances.

Figure 3: Relative importance of various external resource flows for LAC Group 3 countries during 2001-2010



Source: author's elaboration, based on figures from ECLAC and World Bank databases.

For Group 3 countries, which included most of the large economies of South America, the distribution of different sources of external resources was more even. FDI played a prominent role in most of these countries. Portfolio flows were positive and large for Brazil, but negative and large for

Argentina and Chile. Remittances were important for Ecuador, Mexico, Colombia, and to a lesser extent, Bolivia. Finally, ODA was important for Bolivia, Cuba, Guyana and Suriname.

Thus overall, we see that the small Caribbean islands and many South American countries benefited greatly from FDI, while remittances played a critical financing role in Mexico, Central American countries, and in a few countries in South America. Portfolio capital flows played an important but volatile role for large economies of South America.

In the light of this general background regarding the relative importance of various forms of external finance, we now turn to the question of role of innovative finance in LAC. Though there is no agreed definition of IDF, most of the recognized IDFs have been channelled through global health and climate funds. In the next section, we discuss the quantitative dimensions of the flows from these funds to LAC and their IDF components.

3. Quantitative dimensions of flows from global health and climate funds to LAC

In the area of health, we look at the following three funds: Global Alliance for Vaccines and Immunisation (GAVI), Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and UNITAID. GAVI provides vaccines for immunisation to save children's lives and to protect people from life threatening diseases. GFATM is focused on prevention of AIDS, tuberculosis and Malaria, in addition to care and treatment of these diseases. UNITAID provides resources to make HIV/AIDS related drugs more accessible (via reduced prices) and quickly available to the poor in low-income countries.[6]

All these funds are public-private partnerships operating worldwide. They pool resources from smaller funds created in the 2000s to support the MDGs in area of health – chiefly the International Finance Facility for Immunisation (IFFIm), which has been a more targeted and successful follow up to the International Finance Facility (IFF) proposed by the UK Treasury in 2003; the solidarity levy on airline tickets; PRODUCT RED; Advance Market Commitments (AMCs); Affordable Medicines Facility (Malaria – AMFm); resources from private philanthropists such as the Gates Foundation; Debt2Health and budgetary resources from donor governments.[7]

GAVI Alliance:

Between the year 2000 and March 2011 the GAVI Alliance disbursed a cumulative amount of nearly 2.9 billion dollars. Only 38 million, or 1.3 per cent of the global total, was allocated to LAC

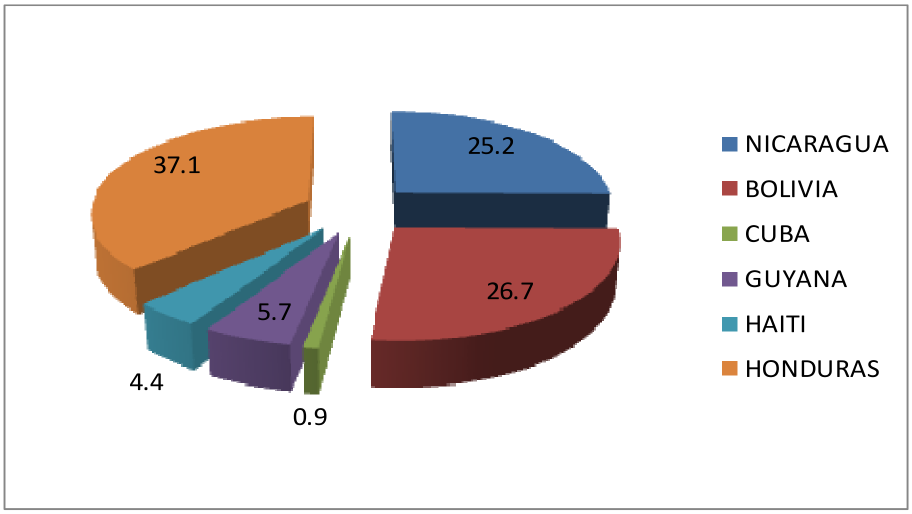
[6] Based on their mission statements available on their websites: GAVI Alliance at http://www.gavialliance.org/; UNITAID at http://www.unitaid.eu/; GFATM at http://www.theglobalfund.org/en/.

[7] The IFFIm frontloads budgetary resources from the UK, France, Norway, Italy, Sweden, South Africa and Spain governments by using future government receipts as guarantees to raise funds on the international capital markets; the resources raised are used to finance immunisation programmes worldwide through the GAVI Alliance; the solidarity levy on air tickets was launched in 2006 and by 2009 13 countries had adhered to it. However, most of all the resources it generated has come from France (95 per cent – see Sandor et al., 2009, page 1; and UN, 2011, page 7); PRODUCT RED is a brand with the (PRODUCT) RED logo which is licensed to 'partner companies' to raise funds for the GFATM, with the money coming from the profits on the sale of products with the logo; Advance Market Commitments (AMCs) provide incentives for pharmaceutical companies to develop vaccines for malaria, HIV/AIDS, diarrhea and other diseases common to developing countries, and a commitment to guaranteeing the price of vaccines once developed ; Affordable Medicines Facility (Malaria – AMFm) aims to make artemisinin-combination therapies (ACTs) more available and affordable; Debt2Health is partial debt forgiveness on the condition that the beneficiary country invests in health through Global Fund approved programmes (see Gottschalk and Martins, 2011, for a comprehensive description of different innovative financing mechanisms).

countries. The beneficiary countries were: Bolivia, Cuba, Guyana, Haiti, Honduras and Nicaragua. The largest beneficiaries were Honduras (37 per cent of the total), Bolivia (27 per cent) and Nicaragua (25 per cent – see Figure 4).

As hinted earlier, what is really innovative financing and what is not is debatable. However, if we think that IFFIm and AMC represent innovation, then only US$ 14.1 million or 37 per cent of the resources allocated to LAC can be considered IDF, most of it coming from the IFFIm.[8] However, to the extent that IFFIm is also basically a mechanism for frontloading of committed ODA, the actual additional component of funds channelled through GAVI becomes even less significant.

Figure 4: Disbursements of GAVI funds among LAC countries: 200-2001 (March)
Share in total LAC %



Source: Author's computation, based on information from GAVI Alliance website.

Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM):

Since its creation, GFATM has disbursed a total of US$ 19.5 billion around the world. Of this amount, 5.9 per cent went to LAC. In contrast to the GAVI funding which was limited to only 6 LAC countries, funding from GFATM was more widely distributed, reaching 22 LAC countries. Table 5 shows the distribution of GFATM funding among LAC countries, and their share in the LAC and global total.

Table 4 shows that Haiti was by far the largest recipient of GFATM fund in LAC, attracting 17.5 per cent of the LAC total. It was followed by Peru (11 per cent), Dominican Republic (8.6 per cent), Guatemala (7 per cent), Honduras (6.6 per cent) and Cuba (6 per cent). The funding was concentrated on Central America and the Caribbean, since countries from these two sub-regions attracted nearly 60 per cent of the total. Using the strict interpretation of innovative financing, only two per cent of the GFATM resources came from innovative sources such as AMFm and PRODUCT RED.

[8] The 37 per cent share of innovative financing in the total of GAVI funds allocated to LAC is taken from UN (2011, p. 19).

Table 4: GFATM Funds Distributed by Countries *Total disbursed in the 2000s (March 03-Oct 11)*

		Total US$	% of Total LAC	% of Global Total
Haiti	(Feb03-May11)	199754862	17.4	1.0
Peru	(Nov03-Oct11)	124991343	10.9	0.6
Dominican Republic	Jun04-Sep11)	98831210	8.6	0.5
Guatemala	(Nov04-Sep11)	78611122	6.9	0.4
Honduras	(Apr03-Sep11)	75294757	6.6	0.4
Cuba	(Jun03-Sep11)	67919383	5.9	0.3
Jamaica	(May04-Jun11)	51711301	4.5	0.3
El Salvador	(Jul03-Sep11)	49470609	4.3	0.3
Nicaragua	(Apr03-Jul11)	47262189	4.1	0.2
Ecuador	(Mar05-Sep11)	40202062	3.5	0.2
Brazil	(Apr07-Jul11)	38135632	3.3	0.2
Bolivia	(Jul04-Jul11)	37594238	3.3	0.2
Guyana	(Jan05-Jun11)	33971054	3.0	0.2
Chile	(Jul03-Jul07)	28835307	2.5	0.1
Colombia	(Apr04-May11)	25965672	2.3	0.1
Argentina	(Mar03-Oct10)	24986502	2.2	0.1
Paraguay	(Nov04-May11)	23989323	2.1	0.1
Suriname	(Jan05-May11)	17282441	1.5	0.1
Mexico	(Dec10-Oct11)	13352401	1.2	0.1
Costa Rica	(Sep03-Feb09)	3566949	0.3	0.018
Belize	(Oct04-Oct09)	3077177	0.3	0.016
Panama	(Mar03-Mar07)	553817	0.05	0.003

Source: author's elaboration based on GFATM Report of 10 Oct 11, available on http://www.GFATM.org/

UNITAID

Between its establishment in 2006 and December 2010, UNITAID mobilized US$1.3 billion, of which US$955 million was disbursed. It also transferred US$39 million to GFATM. The disbursements were used to support projects in 94 countries around the world, 11 of which were in the LAC region. The countries were: Antigua and Barbuda, Dominica, Dominican Republic, Grenada, Guatemala, Guyana, Haiti, Jamaica, Saint Lucia, St Kitts and Nevis, St Vincent and the Grenadine As the list shows, most were from the Caribbean sub-region, except for one from Central America and one from South America.

About 75 per cent of the UNITAID fund came from the solidarity levy on airline and Norway's CO2 tax. Thus the share of innovative finance in UNITAID was relatively high. However, information on how much of the UNITAID funding each region or country received is not available. For the purpose of subsequent computation, we assume that LAC share in UNITAID global disbursement was the same as in GFATM, namely 5 percent. We further assume that distribution of UNITAID among the 11 LAC countries listed above was equal.

Overall, we see that only a small part of funding from GAVI, GFATM, and UNITAID went to LAC, and that, within the region, this funding was concentrated on Central American and the Caribbean countries, which represent relatively smaller sized economies in the region.

Climate Funds

The climate funds that came into existence since the early 2000s are numerous. However, unlike the health funds, they are not pooled in a few larger funds such as GAVI and GFATM. This implies that each climate fund has well specified missions and criteria for disbursement. The geographic distribution of disbursement also varies considerably across funds.

In order to quantify the amount that has been channelled from these funds to developing LAC, we begin by looking at all the 23 funds listed in the *Climate Fund Update* website[9]. We then exclude funds for which information on resources approved is not available, and funds which target countries and regions that are outside of LAC. Examples of the latter are the Indonesia Climate Change Trust Fund and the Congo Basin Forest Fund. Through this elimination process, we arrive at 18 funds for which we compile information and add them up to obtain the total. In the process, we also identify funds that have clear innovative features, and we estimate their share in the total.

Not all funds provide information on geographic distribution of disbursement. We compute the share of the LAC region and LAC countries in the disbursement of funds for which such information is available, and apply a weighted average of these shares to find the shares of LAC and LAC countries in the disbursement of funds for which necessary information is not available.

The total amount approved for projects relating to climate change around the world is nearly US$ 9.9 billion. Of these, we estimate that about 21 per cent or US$ 2.1 billion have been allocated to the LAC region. Table 5 shows the amount received by LAC countries from these funds and their share in the LAC and global total disbursement.

[9] See www.climatefundupdate.org/listing/

Table 5: Climate Funds received by LAC Countries

Million dollars and %

Countries	Innovative Climate Funds[1]	Total Climate Funds[2]	% Total LAC	% Total Global
Colombia	77.8	307.9	14.9	3.1
Mexico	76.0	300.9	14.6	3.1
Brazil	73.4	290.6	14.1	3.0
Argentina	37.7	149.3	7.2	1.5
Peru	24.7	97.8	4.7	1.0
Ecuador	22.7	90.1	4.4	0.9
Nicaragua	17.2	68.3	3.3	0.7
Haiti	15.1	59.8	2.9	0.6
Honduras	14.8	58.6	2.8	0.6
Jamaica	14.7	58.3	2.8	0.6
Venezuela	14.2	56.3	2.7	0.6
Panama	12.5	49.5	2.4	0.5
Chile	9.2	36.4	1.8	0.4
Paraguay	8.7	34.4	1.7	0.3
Bolivia	8.7	34.3	1.7	0.3
Uruguay	7.4	29.2	1.4	0.3
Dominica	1.6	6.4	0.9	0.2
Saint Vincent and the Grenadines	1.6	6.4	0.9	0.2
Saint Lucia	1.6	6.4	0.9	0.2
Costa Rica	2.7	10.6	0.5	0.1
El Salvador	1.8	7.1	0.3	0.1
Guyana	0.4	1.5	0.1	0.0

Source: author's elaboration. The individual country values are estimates based on information from Climate Funds Update at: www.climatefundsupdate.org/listing. They are obtained by applying the country shares from a sub-sample of funds, for which information on geographic distribution is available.

[1] The innovative part of climate funds is obtained by summing the following: 65 per cent of the Adaptation Fund, i.e. the portion of this fund that comes from the sales of Certified Emission Reduction (CER) obtained under Clean Development Mechanism (CDM) of the Kyoto Protocol; leveraged resources from the private sector using donated funds from Global Energy Efficiency and Renewable Energy Fund, based on a leverage factor of 8.5; private resources from the Hatoyama Initiative; and all funds from the International Climate Initiative, since 100 per cent of the funds come from the sale of tradable emission certificates.

[2] Sums of resources approved by the following 18 climate funds: Adaptation Fund; Amazon Fund; Clean Technology Fund; Forest Carbon Partnership Facility; Forest Investment Program; GEF Trust Fund – Climate Change Focal Area; Global Climate Change Alliance; Global Energy Efficiency and Renewable Energy Fund; Hatoyama Initiative (private sources); Hatoyama Initiative (public sources); International Climate Initiative; Least Developed Countries Fund; MDG Achievement Fund – Environment and Climate Change Thematic window; Pilot Program for Climate Resilience; Scaling-Up Renewable Energy Program for Low-Income Countries; Special Climate Change Fund; Strategic Priority on Adaptation; and UN-REDD Programme.

Two things stand out in the results obtained from this computation. First, LAC share in the global disbursement from climate funds stood at 21 percent, which is much higher than the corresponding share in the disbursement from health funds. Second, unlike health funds, which target smaller LAC economies, over half of the disbursement from climate funds went to larger economies of the region. The five largest recipients, all relatively large economies – Colombia, Mexico, Brazil, Argentina and Peru –attracted 56 per cent of the total of resources allocated to the LAC region. By contrast, small islands of the Caribbean seem to have been totally left out, except for some allocation for Dominica, St Vincent and the Grenadines and St Lucia.

What explains the difference across LAC countries in receipt of money from global health and climate funds? In relation to health funds, one explanation may be needs, since smaller and poorer countries, especially from Central America and the Caribbean, are found to be the most successful ones in attracting such funds.

As for climate funds, the fact that more went to the larger LAC economies may be explained by their greater absorption capacity – technical, institutional, even financial. Similarly, one reason why Caribbean islands, despite being more vulnerable to adverse effects of climate change, failed to receive greater amounts from climate funds, may be their limited domestic capacity to come up with attractive mitigation and adaptation project proposals. This capacity issue is further discussed below.

IDF as compared with resource need and availability in LAC

The aggregate amount of IDF reaching LAC through the health and climate funds can be seen in Table 6. While the amounts reported for health funds represent actual disbursements, the amounts reported for climate fund represent approved allocation. Ignoring this difference, and adding up, we can see that the total amount reaching LAC in the 2000s through the health and climate funds was US$3.3 billion, of which US$0.6 billion can be attributed to IDF.

Table 6: Cumulative flows from global health and climate funds to LAC in the 2000s

Millions of dollars

Health Funds						**Climate Funds**[1]		**Total**	
Gavi Alliance		**GFATM**		**UNTAID**					
Innovative Financing	**Total Financing**	**Innovative Financing**	**Total Financing**	**Innovative Financing**	**Total Financing**[2]	**Innovative Financing**	**Total Financing**[3]	**Innovative Financing**	**Total Financing**
14.1	38.0	23.0	1150.5	34.4	45.8	522.3	2068.0	593.7	3302.3

Source: author's elaboration, based on information available on the websites from: GAVI; GFATM, UNTAID, and Climate Funds Update.
[1]Resources approved.
[2] Based on assumption that 5.0 per cent of total worldwide is allocated to LAC.
[3] Based on the estimate that 21 per cent of total worldwide is allocated to LAC.

How do these compare with the LAC countries' financing needs and resource availability? To answer this question, we adopt the following terminology. We will refer to total flows channelled through global health and climate funds as 'total flow' and the IDF part of these flows as 'IDF part'. Similarly, we will refer to a country's external resource availability from ODA, FDI, PFI, and remittances as 'other external resources'.

Table 7 shows the total flow and its IDF part as ratio of respective countries' other external resources and national savings. From the first two data columns, we see that the ratio of total flow to other external resources proves to be 0.5, 0.7, and 0.7 percent for LAC countries belonging to Group 1, 2, and 3, respectively. However, at the individual country level, the ratio of total flow to other resource flows does cross 1 percent level, as can be seen for Dominica (1.5 per cent), Guyana (1.4 per cent), Haiti (2.0 per cent), Paraguay (1.2 per cent) and Argentina (2.6 per cent). The value of the ratio for Argentina is due to the fact that it experienced large net negative portfolio flows over the decade. If the IDF part is considered, the ratio to other external resources decreases to 0.2, 0.1, and 0.2 percent for Group 1, 2, and 3, respectively. At the individual country level, the highest value that this ratio reaches is 0.7 for Dominica.

The last two data columns of Table 7 show total flow and its IDF part as ratio of respective countries' national savings. It may be seen that the ratio of total flow to national savings proves to be

0.8 and 0.1 percent for Groups 2 and 3, respectively.[10] At the individual country level, this ratio reaches the highest value of 2.5 percent in Haiti, followed by 2.3 percent in Nicaragua. If the IDF part is considered, the ratio to national savings proves to be 0.1 for Group 2. The highest value of this ratio is 0.4, applicable for Nicaragua, followed by 0.2 percent for Haiti.

Table 7: Flows from health and climate funds as compared to other external resource flows and national savings in LAC[1]

(*Based on accumulated values for 2001-2009*[2] *and expresses as percentages)*

Countries	Innov. Fin/Resource Flows	Total Funds/Resource Flows	Innov. Fin/Nat Savings	Total Funds/Nat Savings
Group 1				
Antigua and Barbuda	0.2	0.2		
Belize	0.0	0.2		
Costa Rica	0.0	0.1	0.01	0.04
Dominica	0.7	**1.5**		
Grenada	0.2	0.2		
Panama	0.1	0.5	0.05	0.19
Saint Vincent and the Grenadines	0.4	0.9		
Saint Kitts and Nevis	0.2	0.3		
Saint Lucia	0.3	0.6		
Uruguay	0.1	0.3	0.02	0.09
Group 1 Average	***0.2***	***0.5***		
Group 2				
Dominican Republic	0.0	0.3	0.00	0.00
Ecuador	0.1	0.6	0.03	0.16
El Salvador	0.0	0.2	0.02	0.31
Guatemala	0.0	0.2	0.00	0.00
Haiti	0.2	**2.0**	0.22	**2.51**
Honduras	0.1	0.6	0.11	0.73
Jamaica	0.1	0.7		
Nicaragua	0.1	0.8	0.41	**2.34**
Paraguay	0.2	**1.2**	0.06	0.38
Group 2 Average	***0.1***	***0.7***	***0.1***	***0.8***
Group 3				
Argentina	0.6	**2.6**	0.01	0.04
Bolivia	0.1	0.6	0.06	0.38
Brazil	0.0	0.1	0.00	0.02
Chile			0.00	0.03
Colombia	0.1	0.5	0.03	0.13
Cuba		0.1		
Guyana	0.2	**1.4**		
Mexico	0.0	0.1	0.00	0.02
Peru	0.1	0.5	0.02	0.14
Suriname				
Venezuela			0.00	0.01
Group 3 Average	***0.2***	***0.7***	***0.0***	***0.1***
Total Average	***0.2***	***0.6***	***0.1***	***0.4***

Source: author's elaboration, based on information available on the websites from Gavi Alliance; GFATM, UNTAID, and Climate Funds Update; plus ECLAC and World Bank databases. [1]The resource flows comprise: ODA, portfolio flows, FDI and remittances, all in net terms. [2]For innovative financing and total funds accumulated values are up to 2011.

4. Impact of IDF in LAC countries

Flows from global health and climate funds may contribute to the creation of policy space to the extent that they i) provide additional foreign exchange, which then increases a country's capacity to import, and ii) provide additional budgetary resources to national governments, which then leads to higher capacity to spend. Given the absolute and relative quantitative dimensions of these flows for most of the LAC countries (Section 3 above), it is clear that they hardly provided any additional

[10] No average is displayed for Group 1 due to lack of information on national savings for most of the countries from the Group.

space for these countries, either in terms of capacity to import or to spend. The fact that flows from global health funds were utilized through separate parallel management structure meant that these did not enhance the governments' spending capacity following its own priorities.

With regard to stability and cyclicality, it may be noted that flows from both health and climate funds were on rise in the 2000s because these funds were just created during those years. So the time span has been too short to reach a definitive conclusion about the stability and cyclicality of these flows.

Though the absolute and relative magnitudes of the flows from global health and climate funds have been small for most LAC countries, for some specific countries the magnitudes were significant. For example, in Haiti and Nicaragua, these flows amounted to 2.0-3.0 per cent of national savings. It may therefore be useful to take a closer look at the experience of these countries.

In Haiti, flows from these funds amounted to 5.7 per cent of the country's government revenues (health funds contributed 77 per cent, while climate funds contributing the remaining 23 per cent). In Nicaragua, flows from global health and climate funds amounted to 1.3 per cent of government revenues (with health funds contributing 46 per cent and the remaining 54 per cent coming from climate funds). Focusing on the health sector, flows from global health funds amount to 3.4 percent of Nicaraguan government's expenditure on health.

Unlike in most other countries, a significant part of flows from global health funds in Nicaragua are utilized through government agencies. For example, GFATM channelled about 50 percent of its flows through Nicaragua's social security system (INSS).[11] The other 50 percent was utilized through NGOs, such as the Federacion Red NICASALUD, which is a network of national and international organisations, created in the aftermath of the Mitch Hurricane.[12] Though GAVI tends to channel its resources using its own delivery mechanisms, it provided support to Nicaragua's health national system during 2008-2011, by channelling to it 11 percent of its total expenditure in the country. However, these amounts were very limited as a proportion of the country's social security pool of resources and the government's health budget. In Haiti, both GAVI and GFATM seem to have used either their own delivery mechanisms or non-government organisations to disburse their resources. GFATM, for example, has used mainly Foundation SOGEBANK, a private bank, for resource disbursement. Thus, due to their general reliance on their own mechanism or on NGOs for utilization of their flows, health funds do not seem to have strengthened national ownership over a country's concrete priorities and polices, even in the case of Nicaragua.

This does not mean that global funds are not having significant effects in LAC countries. For example, GAVI made it possible for Nicaragua to introduce in 2010 the new pneumococcal vaccine within months of its introduction in high-income countries, and the programme is now operating in full steam with co-financing from the country's Ministry of Health, which is now committed to immunisation and child survival (GAVI Alliance, 2010, p. 38). However, as the UN Secretary General's report (United Nations 2011) observes, the results-based approach pursued by global funds deciding about their future flows often penalize weaker/poorer countries, who lack the initial institutional capability to utilize effectively these flows.

5. Role of remittances in LAC

[11] INSS stands for *Instituto Nicaraguense de Seguridad Social*.
[12] See http://www.nicasalud.org.ni/

The importance of remittances for individual LAC countries is revealed more fully by Table 8, which presents the cumulative amounts of remittances received during 2001-2009 and expresses these amounts as percentages of 'Resource Flows' (meaning total external resource flows, including ODA, FDI, PFI, and remittances) and of GDP.

Table 8: Remittance flows to LAC Countries during 2001-2009 (cumulative)

	Net Remittances	Remittances/Resource Flows	Remittances/GDP
Countries	*US$ Million*	*Share %*	*%*
Group 1			
Antigua and Barbuda	188.5	9.8	2.0
Belize	281.6	17.6	2.6
Costa Rica	1913.3	16.7	0.9
Dominica	199.6	28.5	5.7
Grenada	453.1	26.5	7.7
Panama	210.3	2.0	0.2
Saint Vincent and the Grenadines	189.8	16.5	3.7
Saint Kitts and Nevis	249.4	18.3	5.1
Saint Lucia	223.0	13.5	2.8
Uruguay	580.5	5.2	0.3
Group 2			
Dominican Republic	25032.1	61.6	8.9
Ecuador	19773.7	88.4	5.9
El Salvador	25901.5	75.1	16.3
Guatemala	26109.8	76.9	9.8
Haiti	8463.5	63.2	21.1
Honduras	15681.4	60.8	15.8
Jamaica	12048.2	71.0	11.8
Nicaragua	5309.1	34.3	11.6
Paraguay	3275.2	65.6	3.9
Group 3			
Argentina	685.7	10.4	0.0
Bolivia	4243.6	32.6	3.6
Brazil	26036.8	9.1	0.3
Chile	-28.4	0.3	0.0
Colombia	30787.4	42.2	2.3
Guyana	1032.5	35.0	7.1
Mexico	183125.4	46.1	2.3
Peru	12546.7	25.5	1.5
Suriname	36.9		0.1
Venezuela	-2649.0		-0.2

Sources: author's elaboration based on World Bank and ECLAC figures.

It may be seen that during this period remittances accounted for over 50 percent of the total external resources flowing to the countries of Group 2 (except Nicaragua, for which the ratio was 34.3 percent), and were equivalent to between 4 and 21 percent of these countries' GDP. In Mexico, cumulative value of remittances during the period surpassed US$180 billion and averaged to 2.3 percent of the country's GDP. Among the larger South American economies, the cumulative value of remittances during the period reached US$30 and US$26 billion in Colombia and Brazil, respectively, and these amounts were equivalent to 42 and 9 percent, respectively, of these countries' total external resource flows. Therefore, the important role of remittances was not limited to a few small countries with large cross-border migration. Rather, the importance of remittances was a widespread phenomenon in the LAC region. Unlike the flows from global health and climate funds, remittances were large in magnitude, in both absolute and relative terms. As a result, they had considerable macroeconomic impact in the region.

The empirical literature on remittances in Latin America does point to their significant contribution to growth and poverty reduction in the region. The main channel for the growth effect seems to work through easing of credit constraints, allowing remittances to finance not only consumption but also investment (Acosta et al, 2006). Using figures from the early 2000s, Orozco (2004) shows that, while 60, 77, and 84 percent of remittances were used to finance living expenses in Ecuador, Honduras, and El Salvador, between 4 and 10 percent were used to finance business investment in these countries (Table 4, p. 5). Consumption itself plays a role in growth through the multiplier effect. At the micro level, remittances contribute to the income of households, helping the rural and urban economies where these households are located to become more dynamic and prosperous (Orozco, 2004). Thus, remittances are seen as an important tool in support of growth through both supply and demand channels.

Empirical evidence also shows that poverty has decreased as a result of remittances. The extent to poverty reduction varied depending on a number of factors, including whether or not remittances reach the hands of the poorest households. The latter in turn depends on whether emigration took place from poorer, rural areas or urban areas, and whether migrants were educated or not (Acosta et al, 2006). In some countries, most remittances go to the poorest households, but in others a significant part of remittances goes to richer households. Typically, in Latin America distribution of remittances is less unequal than distribution of non-remittance incomes. As a result remittances prove to be more effective in reducing poverty and inequality.

The empirical assessment of the impact of remittances on poverty reduction seems to be sensitive to the methodology used. When research takes into consideration the income that workers would have earned at home had they not migrated, the poverty reduction effect of remittances appears to be smaller. Also, it is necessary to adopt a dynamic view of the poverty reduction impact of remittances. For example, current growth effects of remittances may lead to poverty reduction effects in the future. Overall, the most powerful factor behind poverty reduction effects seems to be how large the volume of remittances is in relation to the size of the whole economy (Acosta et al., 2006).

Another issue of interest is whether remittances have a counter-cyclical role. Counter-cyclical role of remittances seems to depend, in part, on whether remittances are used for financing consumption or business investment. On the one hand, remittances for consumption tend to increase when needs arise as a result of poorer macroeconomic conditions, and thus play a counter-cyclical role. On the other hand, remittances for investment go up when the economy is doing well, in which case they show to be pro-cyclical (Acosta et al., 2006).

What does the LAC data for 2001-2009 tell us? A preliminary, crude analysis shows that remittances as a proportion of GDP has declined – and in a few cases maintained stable – as a proportion of GDP during the 2008-2009 global financial crisis. Thus, the evidence on the basis of this major external shock is that remittances were either cyclically neutral or even pro-cyclical. However, this was a shock which was caused by a major recession in the remittance-source countries, especially the USA. Looking at other episodes, the evidence seems to be mixed. In some countries remittances proved to be resilient in bad years, increasing their share in total resource flows, but in other countries they lost ground relative to other resource flows. Overall, ascertaining cyclicality of remittances warrants a more careful investigation, using longer time series data, comparing remittances with other flows individually (rather than pooling them together), and filtering GDP from exchange rate effects (which in some cases can be quite sizeable). Also, it may be necessary to adopt a stock-flow approach and look at the life cycle.[13] Potential counter-cyclicality of remittances is very important for LAC in view of its historical vulnerability to different external shocks (including terms of trade shocks, financial crises, natural disasters).

Unlike many countries of other regions, remittances as a source of income have a longer history for LAC countries. Larger migration and improvement of money transfer technology may lead to further increase in the volume of remittances in future. It is also possible for rate of emigration to plateau, as standard of living in LAC countries improve and job opportunities in North American countries remain constrained. However, as of now, remittances are a very important source of external source for LAC countries, enhancing these economies' capacity to import, invest, and consume, both at the household and government levels. Despite the inconclusive nature of their cyclicality, there is less doubt about their growth enhancement and poverty reduction effects.

6. South-South Cooperation (SSC) in LAC

Another source of external resources for developing countries is South-South cooperation. SSC in the 2000s has been driven by a number of large developing countries, such as China, India, Korea, Brazil, Turkey and Saudi Arabia, through bilateral, trilateral and interregional initiatives. SSC does not always fit the definition of ODA adopted by the OECD. As a result, data from OECD sources on SSC does not always capture the full extent and significance of SSC. For example, OECD figures, which exclude large countries such as Brazil, China and India, show that non-DAC countries contributed on average about 6 per cent of all bilateral aid to developing countries over 2001-2009, and 7.4 per cent in 2009.[14] These figures are not too far away from the UN estimates. The latter shows that aid from emerging donors were in the range 7.8-9.8 per cent of total aid in 2006 (ODI, 2010, based on UN, 2008).

However, providing ODA of the conventional sense is not the main form of SSC. Instead it takes a variety of other forms, including investment, infrastructure building, market opportunities, credit facilities, etc. Often cooperation of these forms proves to be more effective than conventional ODA. Also, SSC is not limited to cooperation between smaller developing countries on the one hand and large economies of the south, mentioned above. Often SSC takes the form of technical cooperation and mutual help (in strengthening of institutions and adoption of successful policies) and cultural exchange among smaller developing countries based on their relative areas of expertise, so that the cooperation does not appear in the form of 'financial assistance.'

As mentioned earlier, the LAC region has benefited from a commodity boom during the 2000s. This boom is to an important extent linked to the great dynamism of countries such as China and India, whose rapid economic growth has fuelled demand for all sorts of primary and industrial commodities. An important outcome of the growing demand from these large southern countries for commodities from other parts of the developing world has been the expansion of south-south trade. South-south trade, in turn, has been just one facet of growing relations and SSC among developing countries.

Not unexpectedly, Brazil has an important role in SSC in LAC. Recently, Brazil's government has conducted a survey to try to estimate the total financial assistance provided by the country's different government departments and agencies, for the period 2005-2009 (IPEA, 2010). The figures provided

[13] I thank Valpy FitzGerald for raising this point.
[14] In reality the OECD figures are different from those reported here, because we categorise Korea as a non-DAC country.

are broken in four components: humanitarian assistance, scholarship for foreigners, technical cooperation and contributions to international organisations (Table 9).

Table 9: Brazil's Financial Assistance to Developing Countries

US$ Million

	2005	2006	2007	2008	2009	2005-09	% in Total
Total	158.1	277.2	291.9	336.9	362.1	1426.2	100.0
Humanitarian Assistance	0.5	2.5	16.3	16.3	43.5	79.1	5.5
Scholarship for foreigners	23.1	25.9	28.9	38.6	22.2	138.7	9.7
Technical Cooperation	11.4	15.1	18.3	32.1	48.9	125.8	8.8
Contributions to Int Organisation	123.1	233.7	228.4	249.9	247.6	1082.7	75.9

Source: IPEA (2010, Table 3, p. 21).

According to this survey, Brazil's outward financial assistance increased from US$ 158 million in 2005 to US$ 362 million in 2009. The most important component of Brazil's financial assistance is in the form of contributions to international organisations, which includes the multilateral and regional banks. According to the study, 76 per cent of all humanitarian assistance and 35 per cent of technical cooperation were channelled to LAC countries. It should be noted that the data above does not include loans from Brazil's state-owned development bank BNDES. Once these are included, Brazil's total financial assistance would increase to US$ 4 billion a year (The Economist, 2010).

Brazil has also been a big investor in LAC countries. In 2010, Brazil's outward FDI amounted to US$ 11.5 billion, and part of it went to LAC countries such as Argentina, Chile, Colombia and Peru. Most of these investments were in the mining sectors, such as cooper in Chile, phosphate in Peru, and coal in Colombia (ECLAC, 2010, p.50). Although Brazilian companies do receive strong support from the government to invest abroad, including provision of financing from its BNDES development bank, the link between assistance to other southern countries and trade and investment in them is not as strong for Brazil as it is for China. In fact, Brazil's SSC in Latin America seems to prioritise technical cooperation in the agricultural and social development sectors, drawing on the knowledge and expertise Brazil has accumulated in these areas.

In view of the links mentioned above, it is hard to disentangle China's financial assistance from its FDI and trade flows. China today is the third largest trade partner of Latin America, and has also become the third largest investor, following the United States and the Netherlands. China's financial assistance is harder to measure because of the diversity of sources within China and data recording deficiencies. As a consequence, estimates of China's aid vary widely. Estimates by the New York University Wagner School indicate that China's cumulative financial assistance to Latin America, Africa and Southeast Asia was nearly US$ 75 billion from 2002 to 2007. These figures look high partly because China is indeed becoming a major aid player, but also because it is loosely defined to include concessional loans and state sponsored investments, which might be better categorised as FDI. Moreover, these estimates include pledges that may not have been honoured (Lum et al., 2009). China's financial assistance to the LAC region was US$ 26.8 billion over 2002-2007. This is not far below from China's financial assistance to Africa over the same period, amounting to US$ 33.1 billion. Over 90 per cent of this assistance was government-sponsored investment, most of it associated with natural resource projects. This is in contrast with Africa, where most financial assistance went to infrastructure and public work projects (Lum et al, 2009).

Much of China's FDI in the LAC has been in the extractive industries, such as cooper, iron-ore and hydrocarbons, by large state-owned companies, although FDI in manufacturing has also taken place. These investments have been supported by financing from Chinese state-owned banks and in some cases recorded as financial assistance. China has also invested in LAC infrastructure projects, which are typically aimed at easing access to natural resources of the region. The financing for the infrastructure projects usually comes from the government, in the form of loan or grant, with the condition attached that the project should be undertaken by a Chinese company. In 2010 alone, China invested US$ 15 billion in the LAC region, and announced investments from 2011 onwards that have already surpassed US$ 22 billion. The main recipients from China's FDI have been Brazil, Argentina and Peru (ECLAC, 2010, pp. 16-18 and p. 122).

Apart from Brazil and China, India is also another prominent investor in LAC. India's investment in the region took especially the form of mergers and acquisitions (UNCTAD, 2011, p. 59).

Other forms of SSC in LAC[15]

As mentioned above, SSC has also proceeded in LAC in the form of technical cooperation, humanitarian assistance, cultural exchange, etc. among smaller countries, with a focus on technical exchange, and involving just small financing where needed. In part, this was inspired by Brazil's humanitarian assistance and technical cooperation.

A good part of SSC in LAC is taking place through bilateral and multilateral agreements within the region.[16] Such agreements are becoming very numerous, with each country establishing SSC with many countries within the region, both large and small, and sometimes with countries outside the region. These agreements involve equal partnership based on the horizontal principle, in which projects and programmes are co-designed aiming the achievement of mutual benefits and emphasis is put on strengthening of capacities (technical, institutional) and of public policies, especially in the social and agricultural sectors, although they are not limited to these. Often agreements proliferate to imitate success of other agreements.

The sources of financing come mainly from the fiscal resources of participating country governments. Also, a number of national, bilateral and sub-regional funds have been created to support SSC initiatives. Examples of country and bilateral funds are Argentina's FO-AR fund, Colombia's FOCAI fund, Uruguay's FUCI fund, the Mexico-Chile joint fund, and Ecuador-Venezuela's FEVDE fund. Sub-regional funds include the MERCOSUR based FOCEM; technical cooperation funds from CAF (*Corporacion Andina de Fomento*); The FONPLATA (Argentina, Brazil, Paraguay, Uruguay); Special fund from the AEC (Asociacion de Estados del Caribe); and the Alba-Caribe fund and the Caribbean Development Fund. The size of these funds differs, ranging from US$ 1 million (FOCAI fund) to US$ 67 million (FEVDE fund) and sometimes exceeding US$ 1 billion, as in case of FOCEM. The latter is aimed at financing programmes to support regional structural convergence, competitiveness and social integration (SELA, 2011).

This prevalence of intra-region SSC in LAC seems to have been the outcome not of chance but of a conscious effort to strengthen links with countries from the region. The underlying aim has been to help countries at earlier stages of development so that regional structural transformation is accelerated, with the long-term benefits of greater regional convergence and larger regional markets. Every country seems to aim to act both as a recipient and a provider of technical assistance. Even very small countries are setting examples of SSC by providing assistance in areas they have relative

[15] This part of the Section is based on interview material with senior officials from the LAC region, in particular from Argentina, Ecuador, Peru and El Salvador (unless otherwise indicated).
[16] SELA reports that, of more than 50 positive SSC experiences in LAC, 73 per cent were bilateral, 23 per cent triangular and 4 per cent regional (SELA, 2011, p. 3).

advantage, for example El Salvador providing assistance regarding sophisticated remittance transfer mechanisms. See Gottschalk (2012) for further details of examples of SSC involving small LAC countries offering their own specific expertise.

More broadly, SSC is seen as a way to strengthen the voice of the south in international fora. In view of a LAC official, the major goal was to create room for debate at the global level and address current global governance issues/limitations, especially in terms of voice and representativeness. Typically, cooperation is determined by demand, which in turn is aligned with the needs and broader development strategies of the countries. SSC brings together countries which can offer knowledge and expertise that are more easily adaptable to their own realities. In many cases, and as in LAC, cooperation takes place with countries sharing similar history and challenges, culture and language, and this increases the chance of cooperation to be successful.

However, SSC is not without challenges, as even the LAC experience illustrates. For example, SSC in LAC has often faced the difficulty of obtaining financial resources necessary to support various projects and programmes. Problems also arise with regard to assessing projects and distinguishing good practices from bad ones, and with regard to measuring success of SSC. There is therefore a need for better data gathering and to developing measures appropriate for particular cases of SSC.

However, there is a belief in LAC that the region is making progress in overcoming these difficulties. Though it is recognized that SSC can be a complement to traditional aid, there is also the view that SSC is radically different, requiring its own metrics that are different from those applicable for traditional aid.

7. LAC perceptions regarding IDF

While the sections above dealt with objective information regarding IDF, in this section we try to present subjective perceptions IDF, as gathered from interviews with policymakers and other people in LAC involved with IDF.

With regard to flows from global health and climate funds, the common perception is that their countries have received very little. A reason put forward in this regard is lack of clear processes and procedures to attract these flows. Their understanding is that better institutional structure, mechanisms, and strategy are needed in order to attract more from these funds. However, public investments are needed to fulfil these requirements. In general, the feeling is that more active role of the government is required to coordinate the whole process. Leaving matters to NGOs is not satisfactory. As a positive example, the active role of El Salvador government in applying for climate funds is cited.

Regarding SSC in LAC two streams of activities may be noted. One of these is focused on improvement of public polices through technical cooperation among LAC countries themselves. LAC experience offers considerable success in this regard. In particular, the beneficial impact of SSC on public policies in the social and development sectors in LAC is notable. However, financial resources involved in SSC of this type are limited. To the extent that these resources are part of programmes sponsored by joint commissions, they are predictable. The second stream of SSC is associated with China style of cooperation, involving larger amount of resources. In Peru, for example, China’s resources are coming in different forms – such as financial assistance, FDI, credit, etc. – and these are seen to be very important for Peru’s development. Project based resources are also of one-shot kind, and ends with the completion of the project. SSC resources tend to be very sensitive to political changes in the countries involved in the agreements.

Despite the SSC of different types mentioned above, it is understood that more and alternative financing sources for development are needed. In this respect, some LAC officials point to considerable regional resources that are available and could be used more effectively. For example, they note resources parked in the domestic financial systems that could be channelled toward infrastructure projects and other productive activities.[17] A second resource they see is the region's international reserves, which could be pooled to reduce the amount necessary for emergency balance of payments support, so that the excess amount can be used for development projects that could yield higher rates of return than currently earned from being invested in US Treasury bonds and other foreign financial securities.

LAC policymakers note that more effective use of regional resources, as suggested above, would require strengthening and creation of new national and regional development banks. An example of the latter is the Andean Development Bank (CAF), which provides lending for infrastructure, social development, and environment projects in different countries from the LAC region.[18]. The earlier mentioned Brazilian bank, BNDES, is another such example. The latter has had a vital development-supporting role not just within Brazil but also in the region, lending to small and even large countries (such as Argentina) for infrastructure projects.

With regard to new international initiatives regarding IDF, there is considerable enthusiasm in LAC for Currency Transaction Tax (CTT) or Financial Transaction Tax (FTT). Argentina's president has already called for FTT. Brazil, a strong supporter of FTT, has actually implemented FTT domestically during 1996-2008 in the form of its CPMF (*Temporary Contribution on Financial Transactions*). The tax rate was initially fixed at 0.25 percent, but was raised to 0.38 percent in 1999, and the amount collected averaged to 1.3 percent of the country's GDP during 2000-2007.[19] In addition to raising resources for social development, the tax proved to be effective against tax evasion. In fact, in 2007, about 50 per cent of CPMF revenues (amounting to 0.65 of Brazil's GDP) owed to information on tax evasion that this tax helped to reveal (IPEA, undated). In 2008, Brazil ended CPMF, but, to compensate for the loss in revenue, raised the rate of Tax on Financial Operations (IOF) by 0.38 percent and extended it to all credit operations.[20] Brazil also allowed IOF to be higher on foreign capital invested in Brazil's financial and capital markets in order to reduce undesired capital mobility (across border). Other LAC countries, such as Chile and Colombia, also imposed capital controls through, for example, unremunerated reserve requirement (URR) as a tool to curb excessive capital inflows. In short, not only that there is a strong support in LAC for FTT and CTT as way both to reduce "public bad" (such as tax evasion and excessive across-border capital mobility) and to generate resources for development, but LAC also offers concrete experience in implementation of such taxes. The international community may therefore make use of the LAC experience as it ponders about taking steps towards FTT and CTT.

There is also support in LAC for other proposed or in-progress IDF, such as Special Drawing Rights (SDR), carbon emission taxes, the levy on airline tickets, and instruments such as Debt2Health, the

[17] In Argentina, a fund called *Fondo bicentenario* has been created whereby resources come from the social security to operate counter-cyclically and to support development projects (interview material).
[18] Of course, regional banks are also powerful institutions for raising resources from outside the region.
[19] The resources raised were to finance the Ministry of Health, Social Security and Social Assistance, and the poverty alleviation fund (IPEA, undated, p. 2).
[20] The tax has different rates on different transactions – it is not only on credit operations, but also on insurance premia, exchange rate transactions, and acquisition of bonds, bills and other securities, and more recently on foreign capital. The tax rates change in response to new policy objectives and changing economic circumstances (IPEA, no date).

IFFIm, AMC and the RED initiative, etc. (CEPAL, 2011). In view of LAC history and vulnerability to external shocks, there is a strong view in LAC in favour of using SDRs as a compensatory financing mechanism to help LAC countries withstand macroeconomic and poverty effects of external shocks. It is important for this mechanism to generate resources on a scale proportionate to the shock, quickly and automatically, since existing compensatory mechanisms are seen as inadequate due to their limited coverage, too late disbursements and subject to conditionality (Ffrench-Davis, 2009). In this regard it is welcome that SDRs are thought to provide resources equivalent to ODA levels (Ocampo and Griffith-Jones, 2011).

There is in LAC strong support for generation of resources through fighting tax evasion and curbing illegal capital flight. In this regard, there is a desire to see the work of the United Nations Committee of Experts on International Cooperation in Tax Matters to reach fruition and greater international tax cooperation to become a reality (Ffrench-Davis, 2009). FitzGerald (2011) estimates that better international cooperation in combating tax evasion can generate a potential tax yield for LAC between US$26 billion to US$48 billion. These figures look plausible and even modest compared to Brazil's revenue recapture figures.

Conclusions

During the 2000s, the LAC region did receive some flows from, what are known as, innovative development finance (IDF). Most of it came in the form of flows from global health and climate funds. These resources did help some LAC countries in dealing with some health and environmental challenges they face. Financing from global health funds played a more important role in some small LAC countries, such as Haiti. Financing from climate funds went more to large LAC countries, such as Brazil and Mexico, leaving much less for the Caribbean countries, which are thought to be more vulnerable to adverse consequences of climate change.

The general perception in LAC is that these flows from the global health and climate funds have not been adequate for the challenges involved. The flows were very small as a proportion of the countries' national savings, government revenue, and GDP. As a result, they did not have appreciable macro impact. Also, most of these flows were channelled through separate mechanisms. As a result, they did not augment the government budget and the fiscal space. The situation was different with regard to remittances, which were very substantial in magnitude and played an important role in raising consumption and investment and in reducing poverty in many LAC countries.

However, LAC countries do require additional finance for development and poverty reduction. This was brought to fore during the 2008-2009 global financial crisis, which hit the region strongly both directly and indirectly through decline in trade flows and remittances. Some large LAC countries, such as Argentina and Brazil, could adopt counter-cyclical measures because these had institutional and financial capacity to draw on domestic sources. However, most small LAC countries had to suffer without much help coming from abroad. It seems that lack of institutional, technical, and financial capacity prevented them from either generating domestic resources or drawing resources from abroad.

The LAC experience shows that SSC even among small countries can be effective in enhancing their institutional and technical capacity through exchange of knowledge and expertise. It also seems necessary for LAC countries to enhance their voice in various international fora so that more of the current and prospective IDF (once implemented) flows to them. They may also raise their voice for implementation of various new proposals for IDF.

It is also true that until the onset of the financial crisis (beginning 2008), the LAC region witnessed higher savings rate. Together with positive net capital flows and unchanged domestic investment levels, this led to a large increase in the region's international reserves. In a sense, therefore, the challenge for the LAC region today is not so much in lack of resources, but in effective utilization of the existing resources. With better intermediation, more of domestic resources can be channelled toward investment. Domestic resource mobilization also promotes self-reliance, strengthens ownership of the development strategy, and enhances stability and predictability of finance. Similarly, through regional pooling the amount of foreign currency reserves necessary to meet emergency balance of payment needs may be reduced, freeing up the rest for productive use at home. Regional cooperation may ensure better utilization of resources and promote convergence among countries of LAC.

Many new proposals for IDF resonate with LAC experience and views. This is particularly true with regard to FTT and CTT. LAC countries, such as Brazil has already moved ahead with domestic FTT, generating resources for social development, helping to detect tax evasions, and curbing unwarranted cross border capital flows. The international community may benefit from this LAC experience as it considers taking up FTT on the agenda. The LAC experience also points to the importance of international tax cooperation both for fighting against tax evasion and for curbing illegal capital flight.

In sum, the LAC experience points to the importance of better utilization of domestic and regional resources. With regard to external resources, it highlights the quantitative significance of remittances, importance of SSC among LAC countries themselves in improving policies and institutions of participating countries, and SSC between LAC countries and large emerging countries (such as China and India) in infrastructure building, mineral resource development, and expansion of trade opportunities. LAC experience also points to the necessity of significant expansion of the scale of the existing IDF and urgency of implementing the new IDF proposals, such as carbon tax, FTT, CTT, SDRs, and international tax cooperation. Progress along all the different dimensions above can bring about significant economic and social improvement in the LAC region.

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