EMERGING TRENDS IN OFFICIAL DEVELOPMENT ASSISTANCE AND ITS IMPACT ON FINANCING POVERTY AND HUNGER ERADICATION IN LATIN AMERICAN AND THE CARIBBEAN

Background paper prepared by ECLAC and presented at the Regional Consultations on the Economic and Social Council Annual Ministerial Review on Key Challenges of Financing Poverty and Hunger Eradication in Latin America and the Caribbean

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Introduction

The current view of development finance underscores the importance of scaling up official development assistance (ODA) in order to move forward with basic development objectives, including the Millennium Development Goals (MDGs). Recognition of this need has not, however, prevented current and expected levels of ODA from falling short of the Monterrey commitment of 0.7% of donor countries' gross national income (GNI).

Given the difficulties involved in moving towards the Monterrey target, new innovative financial instruments such as global taxes, global funds and voluntary private donations have been proposed to supplement traditional ODA flows. These are double-dividend instruments with a significant revenue-raising potential.

Some of these instruments (e.g., global taxes), approach developing countries and, in particular, middle-income economies, from the point of view of donor countries. Even though this is a welcome change inasmuch as it promotes South-South cooperation, it must not overshadow the status of middle-income countries as recipient nations.

Middle-income countries such as those of Latin America and the Caribbean face significant constraints in their efforts to achieve a self-sustaining financial capacity that will enable them to foster economic growth and reduce poverty. This situation is aggravated by the fact that ODA flows are increasingly channelled towards the poorer developing economies.

Latin American and Caribbean countries are not free from a number of the challenges that also affect lower-income countries. Increases in the level and effectiveness of ODA flows could have a significant impact on the capacity of these countries to reach the Millennium Development Goals.

This document analyses the challenges for development finance posed by current ODA trends. It also presents and examines the new financial instruments being proposed. The focus is on the Latin American and Caribbean context.

The first section presents the stylised facts of poverty and hunger in the Latin American region and an assessment of the progress achieved towards meeting the MDG1. [1] The second section presents a brief overview of current thinking with regard to development finance and its challenges. The third section discusses the current status and trend of ODA flows. The fourth section deals with innovative sources of finance.

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[1] The first objective is to eradicate extreme poverty and hunger. It contemplates in particular halving between 1990 and 2015 the proportion of people whose income is less than US1$ a day and the proportion of people who suffer from hunger. See, The Millennium Development Goals Report. United Nations, 2006.

1. Stylized facts of poverty and hunger in Latin American [2]

Latin American and Caribbean countries are, on average, on the right track to meet the MDG1 targets. According to the latest ECLAC estimates the percentage of poor people in the region declined from 44% in 1997-2002 to 39.8% in 2005, while the extreme poverty rate has declined from 19.4% to 15.4% of the total. For 2006 ECLAC projections point to a further decrease in the rate of extreme poverty to 14.7% reflecting a reduction of 7.8 percentage points with respect to the levels of the 1990's. Approximately 41.8 million of the extremely poor live in urban areas and almost 39.3 million reside in rural areas[3] .

Poverty and hunger will remaning significant issues for the region. Even though the average rate of poverty and indigent have shown a decline, in absolute terms the poor population is still too high reaching 205 million in 2006 (126 million non-indigent and 79 million indigent respectively).

For its part the number of undernourished also declined from 59 to 52 million people between 1900-1992 and 2001-2003.[4]However, even if the region succeeds in meeting the hunger reduction target, population growth projections indicate that, in 2015, Latin America and the Caribbean will still have more than 40 million undernourished inhabitants. Of greater importance is the fact that the countries with the highest rates of undernourishment and extreme poverty are also the ones that will continue to post the highest rates of population growth in the coming decade.

Despite the importance of ODA flows to pursue MDGs objectives, Latin American economies have been losing relative importance as recipient countries. As will shown in the following sections, despite the fact that upper middle income countries in Latin American and the Caribbean concentrate 60% of total poor and 50% of indigent population these countries show a declining trend in ODA flows and receive a very small share of ODA close to 0.8% of the total.[5]

Extreme poverty rates in the region differ considerably across countries. In Bolivia, Guatemala, Honduras, Nicaragua and Paraguay, more than 30% of the population lives below the extreme poverty line. At the other end of the spectrum in Argentina, Chile, Costa Rica and Uruguay, extreme poverty or indigence rates are below10% (see table 1 below).[6]

As things stand, two countries, Brazil (lower income) and Chile (middle income), have already achieved the target of halving, between 1990 and 2015, the proportion of

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[2] This section is based on "The Millennium Development Goals: A Latin American and Caribbean Perspective" United Nations 2005 and the Social Panorama of Latin America and the Caribbean (ECLAC, 2006).

[3] The fact that the two figures are so similar in a region in which 75% of the total population lives in urban areas, reflects the existence of higher extreme poverty rates in rural areas (33%) than in urban areas (10%).

[4] FAO. (2006) The State of Food Insecurity in the World 2006 (Rome: FAO).

[5] For 2001-2005

[6] The cross-country differences in indigence rates are closely associated with a number of economic and social variables, such as per capita GDP, average years of schooling, mean household size and the total fertility rate. By way of example, in Chile, Costa Rica and Uruguay (the countries with the lowest extreme poverty rates), the mean household size is less than four persons and the total fertility rate is below 2.5. In contrast, in some of the countries with the highest poverty rates (such as Guatemala, Honduras, Nicaragua and Paraguay), mean household size is nearly six persons and the total fertility rate is 3.5 or higher.

people whose income is less than one US$ dollar a day. Seven other countries (Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama and Peru) are poised to do so by the announced target year. The rest of the non-compliant countries, with the exception of two upper middle countries Argentina and Uruguay, nonetheless show improvements in poverty reduction.

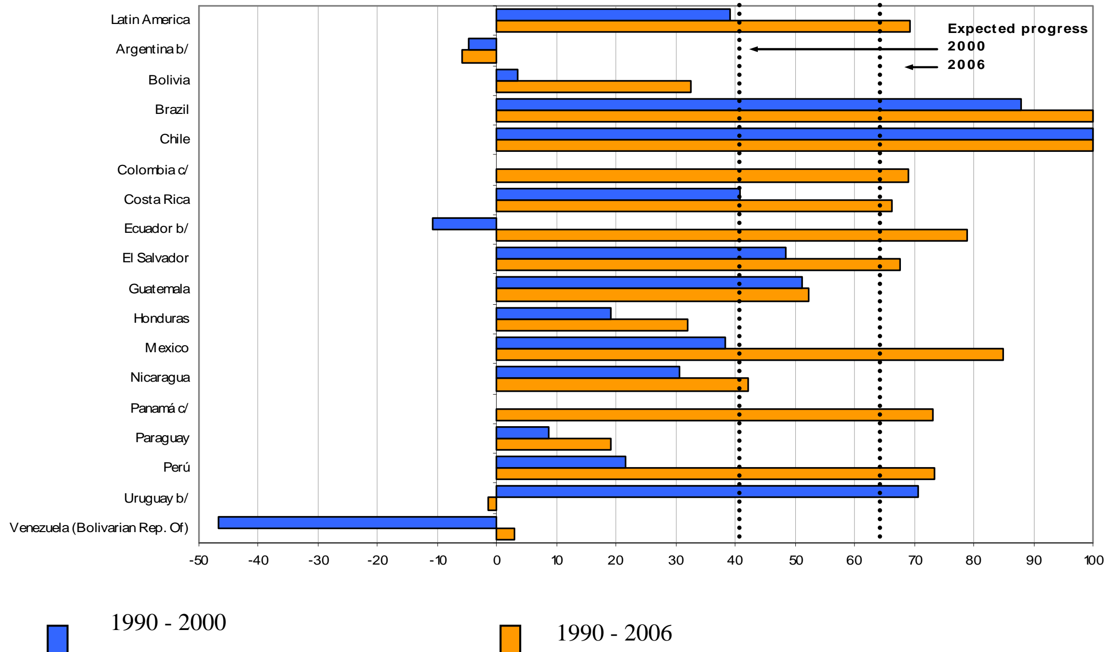
Table 1
LATIN AMERICA (18 COUNTRIES): INDICATORS FOR FOLLOW-UP TO THE FIRST MILLENNIUM DEVELOPMENT TARGET [a]

Country	Year	Extreme poverty rate (H) [a]	Mean distance from indigence line (I) [b]	Extreme poverty gap ratio (PG) [c]	First quintile's income share [d]	Progress towards the target, [e] 2006 (%)
Argentina	2005[f]	9.1	0.40	3.4	5.1	-5.9
Bolivia	2004	34.7	0.53	15.0	2.2	32.5
Brazil	2005	10.6	0.44	4.3	3.2	100.0
Chile	2003	4.7	0.36	1.7	4.9	100.0
Colombia	2005	20.2	0.42	8.3	3.5	69.0
Costa Rica	2005	7.0	0.47	2.9	4.2	66.2
Ecuador	2005[f]	21.2	0.36	7.9	5.1	78.9
El Salvador	2004	19.0	0.43	8.1	4.1	67.6
Guatemala	2002	30.9	0.35	10.7	4.8	52.2
Honduras	2003	53.9	0.49	26.3	3.8	31.9
Mexico	2002	11.7	0.28	3.6	5.9	84.8
Nicaragua	2001	42.4	0.45	19.0	3.7	42.2
Panama	2005	15.7	0.42	6.9	3.3	73.1
Paraguay	2005	32.1	0.46	13.1	3.8	19.2
Peru	2004[g]	18.9	-	….	4.3	73.5
Dominican Republic	2005	24.6	0.46	10.4	3.4	…
Uruguay	2005[f]	4.1	0.23	1.0	8.8	-1.5
Venezuela (Bolivarian Republic of)	2005	15.9	0.42	7.4	4.3	2.9

Source: United Nations, *The Millennium Development Goals: A Latin American and Caribbean Perspective* (LC/G.2331-P), J.L. Machinea, A. Bárcena and A. León (coords.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), June 2005.

[a] Percentage of population under the extreme poverty line. This is one of the official indicators for the corresponding Millennium Development Goal.
[b] Distance between mean income of indigent persons and the indigence line, expressed as a fraction of the indigence line (the higher the value of the indicator, the worse the situation).
[c] Corresponds to indicator H multiplied by indicator I. This is one of the official indicators for the corresponding Millennium Development Goal.
[d] Proportion of income received by the poorest fifth of all households. This is one of the official indicators for the corresponding Millennium Development Goal.
[e] These figures refer to the national total, except in the cases of Argentina, Ecuador and Uruguay, where they correspond to urban areas. The percentage of the required progress that has been achieved is calculated by dividing the reduction (or increase) in indigence in percentage points by half of the 1990 indigence rate.
[f] Urban areas.
[g] Figures provided by the National Institute of Statistics and Informatics (INEI) of Peru.

Figure 1
LATIN AMERICA (17 COUNTRIES): PROGRESS MADE, IN PERCENTAGE TERMS, IN REDUCING EXTREME POVERTY BETWEEN 1990 AND 2006 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC, 2006), on the basis of projections derived from national household surveys .

[a] Progress is calculated as a percentage by dividing the reduction (or increase) in indigence, expressed in percentage points, over the relevant period by one half of the 1990 indigence rate. The dotted lines represent the percentage of progress expected by 2000 (40%, left-hand line) and 2004 (56%, right-hand line).

[b] Urban areas.

[C] In Colombia, the level of indigence in 2000 was the same as it was in 1990. As a result the progress made in percentage terms is equal to 0%. In the case of Panama, information was not available at the aggregate level for 2000.

Given the differences in the magnitude of the challenge and the progress made by the countries up to 2005, it is clear that the very countries with the highest levels of extreme poverty and lowest per capita incomes are precisely those that are facing the most difficulties. Moreover, if current trends hold, these nations will probably fail to meet the target by 2015.[7]

Guatemala is estimated to have reduced extreme poverty by almost 10 percentage points. However, Bolivia, Honduras, Nicaragua and Paraguay have made considerably less progress (between 10% and 33%) than the 56% they would need to have achieved in order to be on track to reach the target. In order to do so, over the next 10 years (2006-2016), these four countries would have to reduce extreme poverty by between 15 and 25

[7] The per capita GDP of these countries is close to half the regional average (Paraguay) or considerably below it (Bolivia, Honduras and Nicaragua).

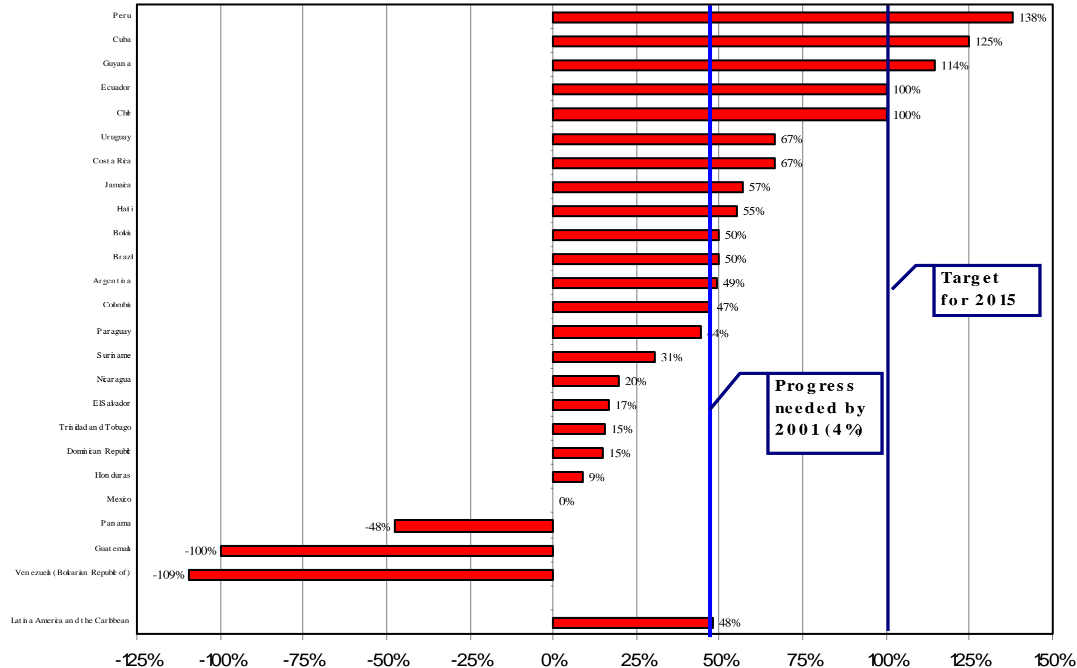
percentage points). Upper middle-income countries such as Argentina, Uruguay and Venezuela also face significant challenges.

In relation to the target of halving, between 1990 and 2015, the proportion of people who suffer from hunger, 5 out of 24 countries of Latin America have reduced undernourishment (utilized as a proxy of hunger).

In the early 1990s, about 13% of the Latin American and Caribbean population suffered from undernourishment. By the start of the current decade, this proportion had dropped to approximately 10%, representing a decrease of 6.6 million in the number of undernourished people (from 59 million to 52 million). At that point, according to the Food and Agriculture Organization (FAO) estimates, the population with insufficient access to food was concentrated primarily in three upper-middle income countries (Brazil (15.6 million), Mexico (5.2 million), and the Bolivarian Republic of Venezuela (4.3 million)) one lower middle-income country (Colombia (5.7 million)) and one least developed country (Haiti (3.8 million)). These five countries accounted for almost two thirds of the total undernourished population in the region.

Figure 2

LATIN AMERICA AND THE CARIBBEAN (24 COUNTRIES): CHANGES IN THE UNDERNOURISHED POPULATION BETWEEN 1990-1992 AND 2000-2002, EXPRESSED AS THE AMOUNT OF PROGRESS MADE TOWARDS THE TARGET FOR 2015



Source: Food and Agriculture Organization of the United Nations (FAO), *The State of Food Insecurity in the World 2004*, Rome, 2004.

As can be seen in figure 2, one upper middle-income country (Chile) and three lower middle income countries (Cuba, Ecuador, Guyana and Peru) made the most progress in the 1990s. Moreover all of them have already met the target. Nine countries (Argentina, Bolivia, Brazil, Colombia, Costa Rica, Haiti, Jamaica, Paraguay and Uruguay) including four middle-income countries (Argentina, Brazil, Costa Rica and Uruguay) have made considerable headway, reducing undernourishment by about 60% with respect to the 1990-1992 level. Six others which include both lower and upper middle-income countries (Dominican Republic, El Salvador, Honduras, Nicaragua, Suriname and Trinidad and Tobago) have also registered improvements, but to a much lesser degree than the previous group and are unlikely to meet the target by 2015. Lastly, undernourishment increased over this period in two of the middle-income countries (the Bolivarian Republic of Venezuela, and Panama) and one lower middle income country (Guatemala). As a result, these countries have less of chance of reaching the target.

2. The current approach to development finance and its challenges for development

The Monterrey Consensus and the Millennium Development Goals provide good examples of the efforts made by the international community to reinforce its commitment and policies to promote economic and social development. While the Goals set specific targets and timetables for the struggle against poverty and hunger, the Monterrey Consensus defines new targets for ODA.

The Consensus espouses the idea that financing for development requires a holistic and interconnected approach. It also emphasizes the need for the full participation of all stakeholders in order to achieve better harmonization and coordination of donor countries' policies, together with an improvement in the coordination of ODA flows and the domestic policies of recipient countries.

Despite donor countries' commitment to make concrete efforts towards raising their ODA levels to 0.7% of their gross national product (in 2005, 16 of the 22 donor countries agreed to meet the 0.7% target by 2015), currently only five of them have reached or exceeded the 0.7% threshold.[8]

Implementation of financial commitments by donor countries has been a slow and uneven process. For example, in 2006 the average donor country's ODA disbursements amounted to 0.30% of its gross national income (GNI), which is equal to the level attained in 1992. In order to reach the 0.7% target, ODA disbursements must increase in real terms by 11% annually.[9] This contrasts with current ODA forecasts, which indicate that flows will taper off in 2007 and that by 2010 they will still have reached no more than 0.36%.[10]

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[8] Denmark, Luxembourg, Netherlands, Norway and Sweden have surpassed the 0.7% target. Belgium, Finland, France, Ireland, Spain and the United Kingdom have set specific timetables for meeting the 0.7% target by 2015.

[9] Since the International Conference on Financing for Development (Monterrey, 2002), ODA disbursements have increased by only 5% annually in real terms.

[10] On the basis of OECD (2007).

Current ODA levels will not suffice to finance achievement of the targets associated with the Millennium Development Goals. In view of the difficulties hampering increases in ODA, new proposals for innovative ways of financing development and supplementing ODA flows are being devised. In general, these new financing mechanisms comprise a wide variety of instruments ranging from the implementation of global taxes to global funds and private voluntary donations.[11]

One of the positive characteristics of these instruments is that they are double-dividend tools in the sense that, at the same time that they collect revenue, they also provide global public goods. The successful implementation of new financial instruments is premised on the fact that the bulk of the financing burden will be borne by developed countries. It also presupposes that developing countries should improve the effectiveness of their allocation and spending decisions. In this sense, aid monitoring and good governance are preconditions for the effectiveness of such assistance.

The new instruments do not rely exclusively on the unrequited transfer of funds from developed/donor to developing/recipient countries, that is, on the traditional way of providing ODA. Global taxes, for example, entail the participation of both developed and developing countries in raising revenue. Developing countries will remain recipients, but under this new scheme, both developed and middle-income developing countries become donors, which puts more emphasis not only on developed-developing country relationships, but also on developing-developing country cooperation. In this context, the task of securing the necessary funding to achieve internationally agreed goals and objectives, including those contained in the Millennium Declaration, is viewed as a shared responsibility of developed and developing economies.[12]

The idea of incorporating middle-income countries into the set of donors countries stems from the fact that middle-income economies possess knowledge and expertise which can be of benefit to countries with relatively lower income levels. It also has to do with the fact that the main financing gaps in terms of the Goals are those found in lower-income countries. According to the Millennium Development Goals Report to the Secretary-General (United Nations, 2006), some of the lower-income countries, in particular those located in Sub-Saharan Africa, have an estimated financing gap of over 20% of GDP. By contrast, it is estimated that, in the case of middle-income countries such as those of Latin America and the Caribbean, a financing gap exists only in a few countries and, even in those instances, it is less than 10% of GDP.

Incorporating and engaging developing countries more fully in the attainment of fundamental development objectives such as those set out in the Goals is a welcome initiative. It provides an opportunity for middle-income countries to play a more active part in the decision-making process regarding the distribution of the funding burden and the allocation of resources.

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[11] A good example of these proposals is provided by the 2004 Report of the Technical Group on Innovative Financing Mechanisms: Action Against Hunger and Poverty.

[12] It is worth noting that some middle-income developing economies, including China, India, the Republic of Korea and Turkey, and some oil-producing countries provide some ODA flows, albeit on a minor scale (4% of the total for 2005).

At the same time, however, the greater emphasis now being placed on directing ODA flows to the poorer developing economies should not eclipse middle-income countries' continuing need for ODA flows. The vast majority of all reported aid (96.4% of the total for 2001-2005) goes to low-income countries (including the least developed, those classified as "other low-income nations", and lower-middle-income countries). For the period 2001-2005, the least developed nations and low-income countries received, on average, 52.4% of reported aid. Middle-income countries received 47.6% of the total. Within this last category, lower-middle-income countries received 44%, while upper-middle-income countries received just 3.6% of the total.[13]

This current ODA distribution is justified in terms of financing gaps and unsatisfied needs of lower middle-income countries. However, middle-income countries and, in particular, upper-middle-income countries such as those of Latin America and the Caribbean also face important challenges, including persistent poverty and inequality levels, vulnerability to external shocks and impending pressures from globalization and economic integration. In the case of Latin America and the Caribbean, some upper-middle-income countries which receive a negligible share of total ODA have made insufficient progress towards meeting the first Millennium Development Goal. Moreover, upper-middle-income countries account for 60% of the total poor population and 50% of the indigent population,[14] while the category of middle-income countries as a whole accounts for 96% of the poor population and 92% of the region's indigents.

Aid by itself is insufficient to achieve basic development goals. Traditional aid flows must be channelled to expand and improve countries' capacities to benefit from the improvement of trade related and other capacities allowing these countries to benefit from the increased global movement towards the free trade of goods and services.[15]

With this in mind aid should be seen as a complement to other initiatives such as the Doha round which grant provisions allowing developing countries greater flexibility in terms of obligations and time frames to overcome the adjustment costs to international integration. These include measures that reduce or ease the rules and obligations that developing economies have to meet; provisions providing for longer time-frames for the implementation of obligations; and provisions for technical assistance (WTO, 1999c, p.225).[16]

At the same time, Latin American and Caribbean countries must work to promote high and stable rates of economic growth, which play a key role in the struggle against poverty and hunger. Unfortunately, the pace of growth in the Latin American and Caribbean region has been disappointing over the last 25 years, even though it has

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[13] The percentages were computed using assigned ODA income levels as total ODA.

[14] For the purposes of this document Argentina, Brazil, Chile, Costa Rica, Mexico, Panama, Uruguay and Venezuela are considered upper middle income countries as well as the majority of Caribbean countries. The totality of middle income countries exclude Haiti and Nicaragua. The former is classified as least developed and the latter as a low income country.

[15] United Nations Millenium Project. Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, New York, 2005.

[16] See, WTO. Special and Differential Treatment. Sypnosis of WTO Agreements and Related Topics. MM/LIB/SYN4. 23 October 2000 for a detailed list of the provisions of the WTO Agreements on Special and Differential Treatment.

improved since 2002, with the rate in Latin America averaging 2.2% between 1990 and 2002 and 4.1% between 2003 and 2006.

According to ECLAC estimates, and assuming that income distribution will remain constant throughout the relevant period, Latin America's per capita GDP will have to grow by 2.9% annually during the next 11 years in order to meet the target of halving extreme poverty by 2015.[17] This rate is equivalent to total GDP growth of 4.3% per year, a figure quite similar to the growth rate achieved in the last four years.[18]

2. The current status of development funding

Development funding is provided mainly through ODA and, to a lesser extent, under debt relief initiatives.[19]

2.1. ODA flows

ODA flows trended upward from 1980 to 2005, rising from US$ 27 billion to US$ 73 billion, on average. In 2005, ODA flows provided by the Development Assistance Committee (DAC) totalled US$ 107 billion and according to initial estimations declined to US$ 104 billion in 2006.

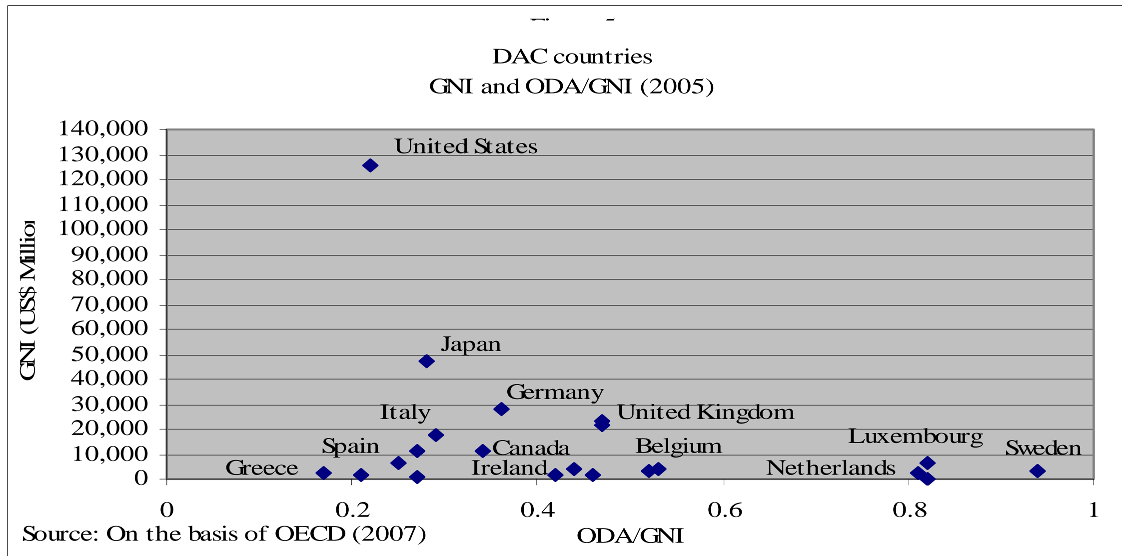
ODA flows reached an average of 0.33% of the GNI of DAC member countries in 2005. While short of the 0.7% target, this is nonetheless the highest figure since 1997 and similar to the level attained in 1992. Differentials across countries are significant. Some countries' ODA disbursements exceed 0.80% of their GNI, while others donate less than 0.25% (see figure 3).

[17] See ECLAC (2004) for a brief description of the method used to prepare the projections presented below. This method differs slightly from the one originally developed in ECLAC/IPEA/UNDP (2003).

[18] This growth rate is consistent with the information provided by the World Bank (2004), according to which a 2.4% annual increase in per capita GDP up to the year 2015 would reduce extreme poverty to 61% of the 1990 level and would thus be insufficient to meet the target.

[19] ODA flows include bilateral grants, bilateral loans and contributions to multilateral institutions. Bilateral grants are the largest source, amounting to 78% of total flows in 2005. Within this category, technical cooperation, debt forgiveness and humanitarian aid are the biggest components (32%, 12% and 10% , respectively).

Figure 3



The regional distribution of ODA by individual donor indicates that for the biennium 2004-2005, 16 out of the 22 donor countries channel the majority of their gross aid disbursement to sub-Saharan Africa. Two donors Australia and New Zealand distribute their aid mainly to other Asia and Oceania. Austria and the United States focus the bulk of their aid in the Middle East and North Africa and in particular to Iraq.[20] Greece centers its efforts on Europe and Spain in Latin America.

The available evidence shows a decline in DAC donors ODA as percentage of GNI from 0.33% in 2005 to 0.30% in 2006. More than half DAC member countries reduced their ODA disbursements as a percentage of GNI with respect to 2005. The level of dispersion among DAC member countries ODA commitments did not vary.

On the recipient side, ODA flows are mainly concentrated in the lower-income group strata. Least developed and low-income countries have been able to maintain, on average, overall ODA shares above 30% and 17%, respectively, since the 1980s (see table 2).[21] Middle-income countries have also managed to maintain a share equivalent to roughly 49%, on average, for the same period. Within this group, lower-middle-income countries have seen a gain in their share from 39% to 44% of the total between 1980 and 2005.[22] In contrast, upper-middle-income countries' ODA shares have shrunk (9% and 3.6% of the total, respectively, for the same period).

The Latin American and Caribbean region's share of ODA has declined since the 1980s from 11.4% to 7.7% of the total in 2001-2005. In 2005, the region's share dropped further as a consequence of the priorities set by DAC on debt relief.

[20] Iraq received in 2005, US$ 21.4 billion or 32% of registered ODA (i.e., assigned ODA) for that year.

[21] Countries with a per capita GNI of US$ 3,256 and 10,065 in 2004 classify as upper middle income countries. Countries with a per capita GNI of US$ 826 and 3,255 are considered lower middle income countries. Countries with a per capita GNI of less than US$ 825 are low income countries. The rest are least developed countries. The computations presented above are based on assigned bilateral ODA and do not include the multilateral contributions to ODA flows nor unassigned ODA flows by income levels.

[22] The share of lower middle income countries experienced a significant increase from 2004 to 2005 (39% and 53% of the total) due to the debt relief granted to Iraq and Nigeria.

When the Latin American countries are divided into lower- and upper-middle-income categories, it becomes clear that the lower-income countries receive the bulk of the ODA channelled to Latin America. In fact, upper-middle-income countries account for an insignificant portion of Latin America's total ODA, and their share is dropping over time.

When measured in terms of its regional GNI, ODA flows to Latin America and the Caribbean have shown a declining trend in the last 15 years, slipping from 0.39% in 1990 to 0.19% in 2005 and falling even more sharply in the last biennium (see figure 4). This trend is also apparent when comparing ODA to other financial flows, as ODA flows declined from 11% of the total in 1980-1990 to 4.6% in 2001-2005. The countries receiving the largest amounts in 1990-2005 included Nicaragua (16%), Dominica (15%), Bolivia (6%) and Honduras (6%).

Table 2
TOTAL ODA AND ITS REGIONAL DISTRIBUTION BY INCOME GROUPING, 1980-2005

(Millions of US dollars)

	1980-1985		1986-1990		1991-1996		1996-2000		2001-2005		2001		2002		2003		2004		2005 d/	
Total ODA a/ (1+2)	26915.4		44700.7		58881.4		52625.1		73199.8		52,435		58,292		69,085		79,410		106,777	
1. Contribution to multilateral institutions	8,614		13,217		17,635		16,508		20,791		17,312		17,540		19,330		25,127		24,644	
2. Bilateral ODA (3+4)	18,301		31,484		41,247		36116.9		52409.3		35,124		40,752		49,755		54,282		82,133	
3. Unassigned	4,663		7,975		10,251		10,636		12,865		9,536		10,438		12,496		15,612		16,244	
4. Assigned by country income levels	13,638	100.0	23,509	100.0	30,996	100.0	25,481	100.0	39,544	100.0	25,588	100.0	30,314	100.0	37,259	100.0	38,670	100.0	65,890	100.0
Least developed countries	4,777	35.0	8,391	35.7	9,404	30.3	7,752	30.4	13,374	33.8	7,766	30.3	10,365	34.2	16,513	44.3	15,964	41.3	16,265	24.7
Other low-income countries	2,381	17.5	3,990	17.0	5,585	18.0	4,920	19.3	7,345	18.6	5,719	22.3	5,906	19.5	5,563	14.9	6,128	15.8	13,408	20.3
Middle-income countries b/	6,480	47.5	11,128	47.3	16,007	51.6	12,810	50.3	18,825	47.6	12,104	47.3	14,043	46.3	15,183	40.8	16,577	42.9	36,217	55.0
Lower-middle-income countries	5,258	38.6	9,375	39.9	13,828	44.6	11,660	45.8	17,418	44.0	11,153	43.6	12,687	41.9	13,718	36.8	14,954	38.7	34,580	52.5
Upper-middle-income countries	1,222	9.0	1,752	7.5	2,180	7.0	1,149	4.5	1,407	3.6	950	3.7	1,357	4.5	1,465	3.9	1,623	4.2	1,638	2.5
Latin America and the Caribbean c/	1,549	11.4	2,777	11.8	3,177	10.3	2,467	9.7	3,035	7.7	2,910	11.4	2,988	9.9	3,299	8.9	3,000	7.8	2,979	4.5
Lower-middle-income countries	1,188	8.7	2,097	8.9	2,219	7.2	2,215	8.7	2,718	6.9	2,718	10.6	2,716	9.0	2,897	7.8	2,722	7.0	2,534	3.8
Upper-middle-income countries	361	2.6	680	2.9	958	3.1	252	1.0	318	0.8	192	0.8	272	0.9	402	1.1	278	0.7	445	0.7

Source: Organisation for Economic Co-operation and Development (OECD), Statistical Database, 2007.

Notes:

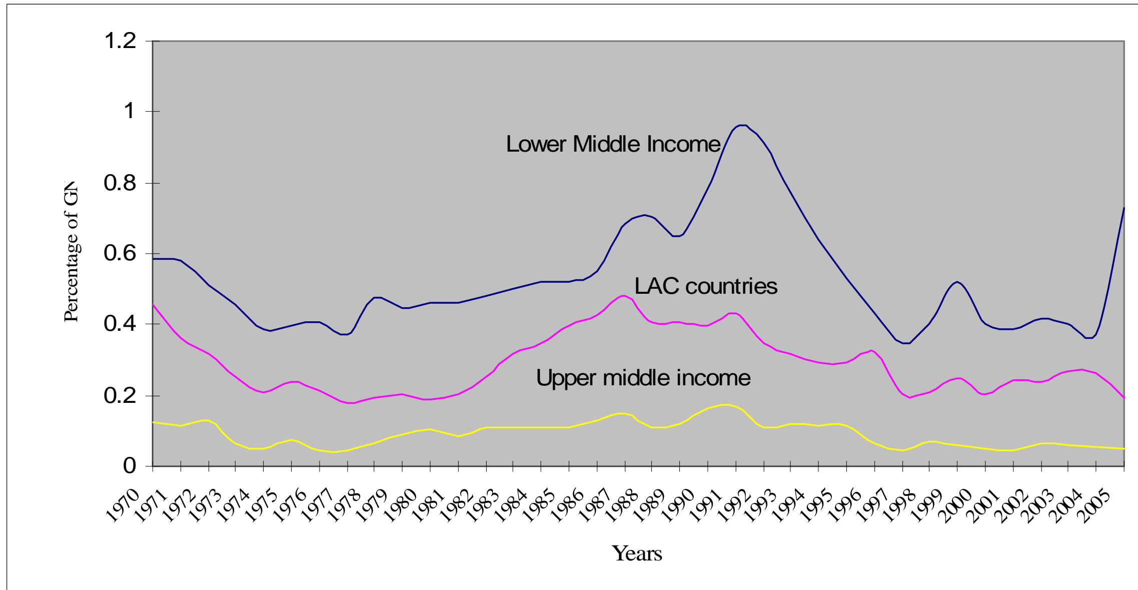
a/ Total ODA flows correspond to the amounts reported by donor countries. Bilateral ODA includes a portion which is not assigned by country income level. In some cases, this portion may represent more than 25% of total bilateral ODA. All percentages are computed with respect to ODA flows which are assigned by income levels.

b/ Represents the sum of lower- and upper-middle-income countries.

c/ The disaggregation into lower- and upper-middle-income countries does not include Haiti, Nicaragua or, in some years, Honduras, as well as some of the non-independent territories.

d/ The figures for 2005 reflect the unusually large increases in ODA to Iraq (classified as a lower-middle-income country) and Nigeria (classified as a low-income country). These increases are the result of Paris Club debt relief operations.

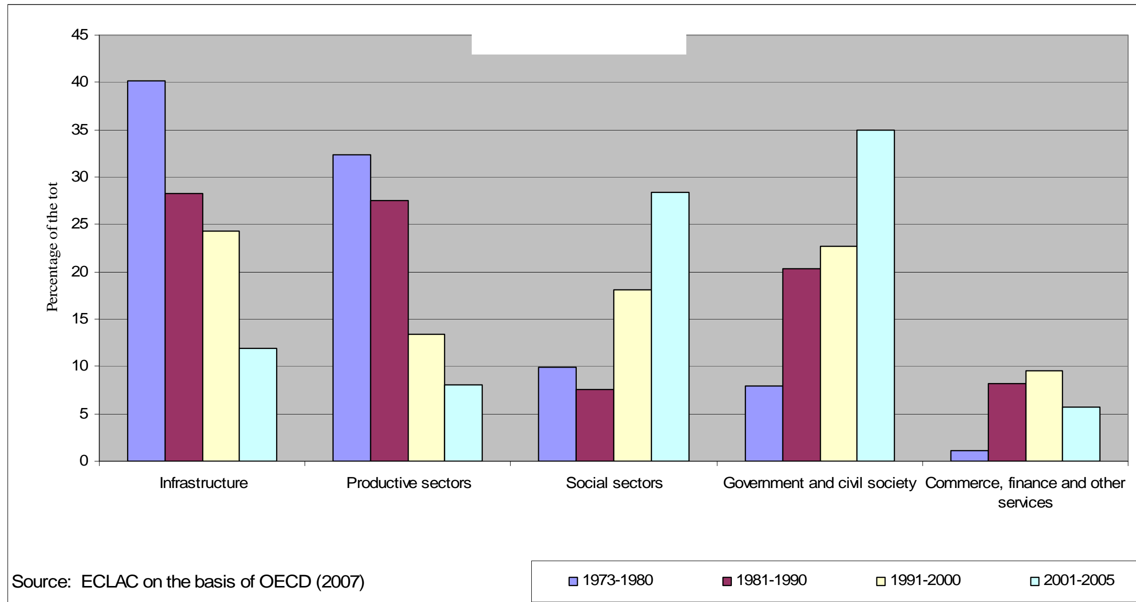
Figure 4
ODA AS PERCENTAGE OF GNI IN LATIN AMERICA AND THE CARIBBEAN
1970 - 2005



Source: Organisation for Economic Co-operation and Development (OECD), Statistical Database, 2007.

At the sectoral level, the data show a change in the orientation of ODA. On the one hand, there has been a decline in the significance of infrastructure and production sectors as ODA recipients, with their share going from more than 70% of total ODA in 1973-1980 to 35% in 1990-1995 and to roughly 17% in 2001-2005. On the other, social sectors gained ground, moving from 10% of the total in 1973-1980 to more than 25% in 2001-2005. This is mainly due to contributions to the health sector and education. Government and civil society also saw a major rise in ODA receipts. This category's share, which was 8% of the total in 1973-1980, has been rising steadily and reached 35% of the total in 2001-2005 (see figure 5).

Figure 5
SECTORAL DISTRIBUTION OF ODA IN LATIN AMERICA AND THE CARIBBEAN
1973-2005



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), Statistical Database, 2007.

2.1.2 Debt relief initiatives for heavily indebted countries

The HIPC initiative was launched in 1996 to assist countries having a per capita GNP equal to or less than US$ 695 that were shouldering an unsustainable debt burden. Unsustainability was measured by the net present value of the debt-export and debt-government revenue ratios and was defined as existing when those ratios were in excess of 200%-250% and 280%, respectively. The sustainability criteria were revised and reduced to 150% of exports and 250% of government revenue in 1999.[23]

HIPC initiatives have focused on reducing the burden of debt service by forgiving debt and providing a longer time frame for the repayment of the remainder. A more recent proposal (the Gleneagles commitments, July 2005) calls for the forgiveness of all debt owed to three multilateral agencies (the International Monetary Fund, the World Bank and the African Development Fund).

As can be seen in table 3, the HIPC initiative managed to reduce both the debt stock and debt burden. It should be pointed out, however, that the reductions in the debt burden have had a low impact, given the fact that the HIPC initiative was initially applied to debt

[23] The HIPC initiative granted debt relief to the world's poorest and most indebted countries to reduce the constraint on economic growth and poverty reduction. In order to qualify for this initiative, countries had to have a three-year proven reform record. In 1999, developed countries introduced the enhanced HIPC, which, besides lowering the sustainability threshold, also provides greater debt relief and access to it. Currently 28 countries benefit from the HIPC initiative.

levels that were very high by international standards and extremely difficult if not impossible to repay.

Indeed, between 1990-1995 and 2001-2005 the debt stock declined from 150% and 233% to 107% and 120% of GDP for all HIPC and Latin American HIPC countries, respectively. The debt burden for all HIPC countries declined by roughly three percentage points of GNI between 1990-1995 and 1996-2000 (the latter period covers the first four years following the launch of the first HIPC initiative). The enhanced HIPC initiative of 1999 lowered debt service by approximately 1 percentage point of GDP between 1999 and 2005.

For their part, Latin American HIPC countries show marked differences in behaviour.[24] Bolivia has not benefited a great deal from HIPC, since its debt service ratio has remained fairly constant on average since 1996. Guyana and Nicaragua, however, have shown significant changes in their debt service ratios since that year. Finally Honduras seems to have benefited mainly from the enhanced HIPC initiative of 1999. Any assessment of these results should, however, take the fact into consideration that these countries still maintain very high debt stocks, as their initial starting points were very high by international standards.

Table 3

DEBT SERVICE AND GRANTS AS PERCENTAGES OF GNI, 1980-2005

(Averages)

	1980-1989	1990-1995	1996-2000	2001-2005	2005
Debt stock					
HIPC countries	95.2	149.8	125.2	107.5	96.1
Latin American HIPC countries	167.8	232.9	144.4	120.4	101.6
Bolivia	125.6	79.0	69.2	68.9	71.3
Guyana	311.2	460.6	209.1	185.4	162.0
Honduras	76.9	131.5	105.8	79.4	65.9
Nicaragua	157.5	260.3	193.5	147.8	107.3
Debt service					
HIPC countries	6.2	8.3	5.3	4.0	3.0
Latin American HIPC countries	11.0	18.8	10.2	6.2	4.8
Bolivia	12.4	6.3	6.0	6.2	6.0
Guyana	19.8	41.7	16.0	7.9	4.0
Honduras	7.7	13.0	11.1	5.7	5.0
Nicaragua	3.9	14.0	7.6	5.1	4.0
Grants					
HIPC countries	6.1	14.0	9.3	11.4	10.7
Latin American HIPC countries	3.2	15.3	7.5	7.7	8.6
Bolivia	2.9	5.5	3.5	6.0	3.0
Guyana	3.1	22.4	12.3	6.0	10.0
Honduras	2.5	6.9	3.3	4.5	11.6
Nicaragua	4.3	26.5	10.8	14.2	9.8

[24] Haiti is also an HIPC country but, since it has just recently reached the decision point, it is still too early to assess the effects of debt relief initiatives.

Source: World Bank, Global Development Finance (GDF) database, 2007.

The recent Gleneagles proposal would further reduce the HIPC debt service to between US$ 1 billion and US$ 2 billion per year (which amounts to 0.01% of the OECD economies' GDP) (Arslanalp and Henry, 2003 and 2006). While this is a welcome initiative, its implementation would yield no more than the equivalent of 1% of the estimated additional financing needed to achieve the Millennium Development Goals.

In the particular case of HIPC countries, the level of grant flows, a major component of ODA, has declined from 14% of GNI in 1990-1995 to 11% in 2001-2005. In the case of Latin America HIPC countries, the drop has been even more pronounced (from 15% of GNI to 8% of GNI for the same period) (see table 3 above).

Developing countries have also begun to play an active role in helping to build a more equal, less asymmetrical world. In the Arab region, the GCC countries provided a total of $US 13.7 billion in development aid during the period 2000-2003. In fact, aid from Saudi Arabia, the largest donor, reached 1.3% of its GDP in 2003, far exceeding the target of 0.7% of GDP to which most developed countries had committed to and are yet to realize. Brazil has supported the Heavily Indebted Poor Countries (HIPC) Initiative by granting debt relief to such countries, which by the end of December 2004 owed Brazil a total of US$ 1 billion. Brazil has also granted relief to its other debtors, mainly in Latin America, for another US$ 150 million.

2.2 Innovative financing mechanisms

The current levels of funding provided by development initiatives such as ODA fall short of the amounts required to meet agreed international development objectives, including the Millennium Development Goals. The most recent computations indicate that the amount of ODA required to meet these goals for all developing countries in 2006 is of the order of US$ 135 billion and will increase to US$ 152 billion in 2010, and US$ 195 billion in 2015. Given the current levels of ODA for 2006 (US$ 104 billion), this means that an additional increase in ODA of around US$ 90 billion will be required by 2015.[25]

Closing the financial gap will require determined efforts by developed countries in order to increase the financial flows channelled through ODA. Since this has proven to be a difficult task, recommendations have been made to supplement ODA with new innovative sources of finance.

Global taxes and global funds are two of the main such innovations now under discussion (see tables 5 and 7 for a detailed description of these instruments). Global taxes would be levied on currency transactions, the arms trade and pollution. These are double-dividend instruments, since, at the same time that they collect revenue for developing economies, they also accomplish another important objective, namely, the provision of global

[25] United Nations Millenium Project. Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, New York, 2005.

public goods. The proposals regarding global funds, for their part, include the creation of special drawing rights (SDRs) for development and an International Finance Facility (IFF).[26]

According to some of these proposals, development funding is a shared responsibility of developed and developing economies. This marks a change in attitude, inasmuch as, traditionally, this type of funding has been regarded as the sole responsibility of developed economies. Under the new proposals, the funding burden to be borne by developing economies is placed on the middle-income countries among them.

In this regard, there are three issues that need to be addressed: First, what is the revenue-raising potential of the new financial instruments? Second, what is the revenue-raising potential –and, more generally, the role-- of middle-income countries in this new scheme? Third, what benefit will these countries derive from undertaking this new responsibility?[27] The following two sections provide tentative answers with a focus on Latin American countries.

2.3.1 Global taxes

A currency transactions tax was initially proposed to constrain speculative behaviour.[28] Within the framework of the Goals, however, the tax is seen strictly as a revenue-raising device. The proposed tax is small (ranging from 0.01% to 0.02%), and would be levied on spot, forward and future transactions, swaps, and the purchase or sale of a number of other derivatives, would provide a double dividend, since it would raise funds and, at the same time, should help to reduce foreign-exchange speculation. Currently, Belgium is the only country that has passed legislation on such a tax (see table 5).

There is a consensus that the proposed currency tax rate will not have distortionary effects on real transactions. At the global level, the latest available data indicate that the daily average total turnover of foreign-currency transactions reached US$ 2.4 trillion for 2004.[29] According to preliminary computations, this implies that a 0.01% tax could yield up to US$ 60 billion in revenue and a 0.02% tax could yield up to US$ 120 billion per year.[30] Most of the revenue-collecting potential (76% of the total) is concentrated in seven economies: United States, United Kingdom, Japan, Singapore, Germany, Hong Kong Special Administrative Region and Australia.

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[26] Private remittances and voluntary contributions also fall under the umbrella of innovative financial mechanisms. These instruments will not be discussed here, however, as the focus of this report is on official development initiatives. Report of the Technical Group on Innovative Financing Mechanisms (September, 2004); Atkinson (2005).

[27] Beyond the need to implement global taxes and funds and the commitments required in order for these taxes to be operable, some of the main concerns focus on their feasibility, the amount of revenues they would generate, and the types of collection and distributional mechanisms to be used.

[28] The original argument is found in Tobin (1978). The proposed tax rates range from 0.05% to 0.25%.

[29] This is computed by the Bank for International Settlements net of local inter-dealer double counting. See BIS (2005).

[30] These estimates are calculated under the assumption of the respective tax rates being applied across the board on all foreign-exchange transactions.

Table 4
LATIN AMERICA
REVENUE ESTIMATES FOR A TAX ON FOREIGN-EXCHANGE TRANSACTIONS, 2004
(Billions of US dollars)

			Tax rate 0.25% a/	As % of GDP	Tax rate 0.02%	As % of GDP	Tax rate 0.01%	As % of GDP
	Daily average transactions	Yearly average transactions	Yearly average revenue collection		Yearly average revenue collection		Yearly average revenue collection	
Argentina	0.7	174	0.44	0.28	0.03	0.02	0.02	0.01
Brazil	3.3	825	2.06	0.34	0.16	0.03	0.08	0.01
Chile	2.4	608	1.52	1.60	0.12	0.13	0.06	0.06
Colombia	0.8	197	0.49	0.51	0.04	0.04	0.02	0.02
Mexico	14.6	3,641	9.10	1.33	0.73	0.11	0.36	0.05
Peru	0.3	76	0.19	0.27	0.02	0.02	0.01	0.01
Total	22.1	5,520	13.80	0.69	1.10	0.06	0.55	0.03

Note: a/ the 0.25% tax rate represent one of the upper bounds of the tax rates proposed for the currency transactions tax as a device to reduce currency speculation

It is included in the table above purely for comparative purposes (see footnote 20).

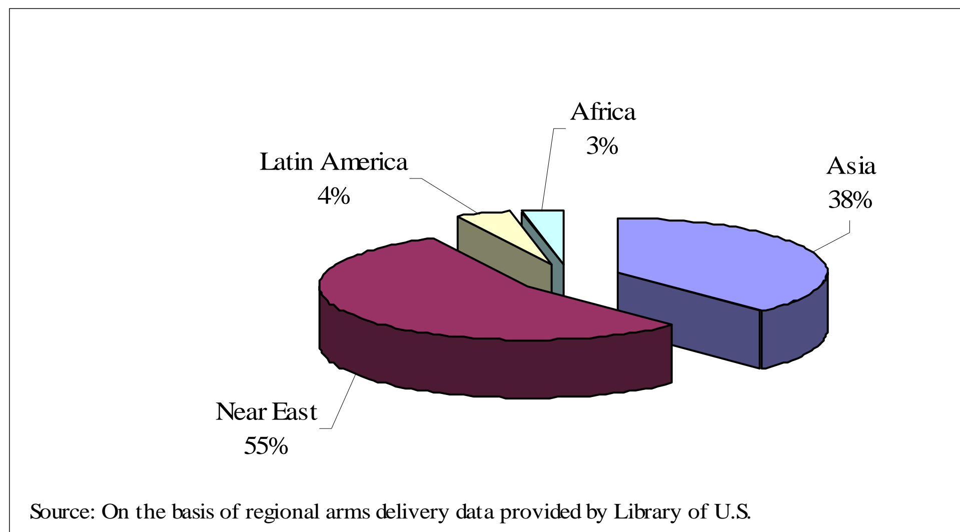
Source: ECLAC, on the basis of the Bank for International Settlements (2005).

In the case of Latin American countries for which data are available (Argentina, Brazil, Chile, Colombia, Mexico, Peru), the volume of currency transactions is so much smaller that such a tax's revenue-collecting potential would, for all intents and purposes, be relatively insignificant. In concrete terms, the potential would be equivalent to US$ 0.6 billion per year if for example a 0.01% tax were applied (table 4). In relation to the global revenue potential of the tax (US$ 60 and US$ 120 billion for a 0.01% and 0.02% tax rates(table 5)), the Latin American revenue potential represents 0.01% of the total.

One proposal for distributing the revenues is for developed countries to direct 80% of the revenue on foreign exchange transactions to development cooperation. Given the current regional distribution of ODA, own estimations show that the Latin American and Caribbean countries would receive somewhere between US$ 2 billion and US$ 5 billion per year from this tax, or 0.1%-0.2% of their combined GDP. This is roughly equivalent to the current level of ODA flows for Latin America and the Caribbean.

Taxation of the arms trade is another compulsory mechanism by which countries could raise revenue to combat poverty and hunger. In 2005, the value of all conventional arms transfer agreements amounted to US$ 44 billion, with developing nations accounting for 68% of all conventional arms transfer agreements. Tax revenues from such a levy are estimated at US$ 11 billion on the basis of a 25% tax rate. In the developing world, the brunt of the tax burden would be placed on the Near East and Asia. Latin America would contribute little to the revenue-raising potential of this tax.[31]

Figure 6
CONTRIBUTION TO ARMS TAX REVENUE BY REGION (PERCENTAGE OF TOTAL)
2002-2005



Source: Congressional Research Service (CRS), *CRS Report for Congress. Conventional Arms Transfers to Developing Nations, 1998-2005*, Washington, D.C., Library of the United States Congress, 2006.

[31] According to the United States Congressional Research Service (2006), the value of total arms deliveries from 2002 to 2005 to the developing world is equal to US$ 80 billion. Out of which Asia, the Near East, Latin America and Africa received the equivalent of US$ 31, 44, 3.2 and 2.7 billion respectively. These computations overestimate somewhat the contribution to the tax revenues since the proposal for arms tax refers to the taxation of heavy conventional weapons.

Latin American economies' regional arms deliveries represented only 0.2% of their combined GDP for 1998-2005. Own computations show that the tax would yield revenues equivalent to just 0.05% of their combined GDP if applied on all conventional arms and an even smaller amount if limited to heavy conventional weapons.

Viewing Latin America from the perspective of a recipient region and taking into account the current distribution of ODA, preliminary estimations show that the region could receive an amount equivalent to US$ 440 million, or 0.02% of its current GDP.

The third type of tax being proposed under the rubric of innovative sources of finance is the global pollution tax. This instrument should be designed so that it would be levied on high-income countries' production of goods and services that generate environmental externalities through the use of hydrocarbon fuels such as carbon dioxide and chlorofluorocarbons (CFCs), which are two main examples of common environmental pollutants. The tax could generate a level of revenue equivalent to US$ 50 billion.

Carbon emissions taxes seek to achieve "the lowest-cost emission reductions across all fossil carbon sources."[32] By changing the relative prices among different fuels, this kind of tax increases the efficiency of energy use while at the same time encouraging the development of alternative energy sources. Three types of carbon taxes have been proposed in the literature: the pure carbon tax, an environmentalist price-effect carbon/energy tax and an environmental trust fund tax.

Energy taxes have been introduced by some countries. New Zealand has introduced a tax on carbon emissions which will be implemented in 2007. France has introduced an aviation tax on plane tickets to finance a global health fund (the International Drug Purchase Facility).[33] This tax was implemented in July 2006 in France and is being enforced in Brazil, Chile and Gabon (see table 6).[34] These countries are expecting to raise US$ 300 million from the tax.[35]

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[32] See Muller (1995); Dower and Zimmerman (1992) and Oates and Portney (1991).

[33] The functions of IDPF include: (i) the negotiation of the best possible prices for drugs through international tenders calling for large amounts of the drugs in question, within a framework of long-term contracts and rigorous quality standards; (ii) funding of drugs for beneficiaries of programmes executed by the Global Fund and other multilateral institutions.

[34] The French tax is levied on all public air transport companies. The tax rate, which is assessed on the number of passengers boarded and tons of freight and mail loaded in France, is equivalent to: €3.92 for destinations within France and Europe; €7.04 for destinations to other States; and €1.17 per ton of freight or mail. These rates are applicable to flights undertaken in 2007.

[35] The global pollution tax is similar to the financial transactions tax in that its burden falls mainly on developed economies. However, the issue of allotment and distribution is dealt with by deciding in advance to channel the resources from the tax to combat the spread of malaria, tuberculosis and the HIV/AIDS virus (diseases mainly found in low-income countries, with Sub-Saharan Africa accounting for 63% of all cases), which is the objective of target 6 of the Millennium Development Goals.

Table 5

THE EXISTING CONSENSUS ON GLOBAL TAXES

Source	Brief description	Potential to fund development	Double dividend	Disadvantages	Requirements	Implications
Currency transactions tax	Tax on foreign-exchange operations covering a range of different transactions (spot, forward, derivatives); applied on bank settlements of such transactions.	There are different yearly estimates. US$ 60 billion for a 0.01% rate. US$ 120 billion for a 0.02% rate. US$ 602 billion for a 0.1% rate. US$ 1.505trillion for a 0.25% rate.	Reduces foreign-exchange speculation. It is however agreed that a 0.01%-0.02% tax rate would have an insignificant impact on foreign-exchange transactions. A higher tax rate is a pre-requisite for a double-dividend effect.	Variable revenue depending on the fluctuation of foreign-exchange transactions. Administrative costs of operating the tax. Distributional effects on economic sectors and households.	General agreement of high-income countries. Consistency with national tax legislation. Closing loopholes.	Suppression of tax havens. Tax reform legislation. The possible creation of an international administrative organization.
Arms tax	Tax levied on heavy conventional weapons. The current proposal is to include the seven categories of conventional arms used by the United Nations.	A 25% tax has a revenue-earning potential of US$ 11 billion a year.	Increase the price of arms and discourage the rise in military spending.	Can be viewed as a regressive tax. Developing economies spend more on arms relative to their resources than developed economies do. As a result, they would bear the weight of the tax and experience an outflow of resources which would undermine the objective of the tax (i.e., the transfer of resources to developing economies). Also, national defence is, by its nature, a public good and does not respond to the general cost laws of markets. Higher arms costs may simply increase the tax burden rather than decrease arms production. Revenue can be unreliable.	General agreement of the Governments to tax themselves.	
Global environmental tax	A tax on goods or services which generate a negative externality. The most common example is the pure carbon tax. This tax corrects for the gap between the socially optimal level of activity and the private optimum. It internalizes economic externalities and allows prices to reflect the full extent of social and environmental costs.	US$ 200 billion if universally applied and US$ 100 billion if levied on high-income countries only.	Reduces hydrocarbon use and carbon emissions, which improves the global environment.	Distributional effects may not be proportional to earned income and thus may not benefit developing countries.	General agreement. In particular the agreement of hydrocarbon producing countries.	

Source: Atkinson (2004, 2005).; Addison et al. (2005); Aryeety (2004 a and b); Clunies Ross (2004); Report of the Technical Group on Innovative Financing Mechsnisms (2004); Global Policy Forum (2007); Williamson (2006).

Table 6
RECENT GLOBAL TAX PROPOSALS

Country/Group/Organization	Dates	Proposal	Status
Belgium	July 2004	Currency-transactions tax. The tax provides for a two-tier system and is intended to raise revenue and prevent financial crises.	Legislation on the currency transactions tax was passed by the parliament.
Lula Group Brazil, Chile, France and United Nations Spain, Germany and Algeria join the group.	January2004-September 2005 January 2004 September 2004 September 2005	Setting up of technical group on innovative financing mechanisms. “Action against hunger and poverty.” Proposal for taxes on financial transactions and arms trade. Bring global taxes to the negotiating table at the World Summit to be held in September 2005. Proposal narrowed down to a solidarity contribution of plane tickets.	100 countries sign the New York Declaration on Action against Hunger and Poverty. Declaration on Innovative Sources of Financing for Development. Some countries commit to a tax on airline tickets in 2006.
United Nations University (UNU)/World Institute for Development Economics Research (WIDER)	September 2004	Analysis of existing alternative financing proposals. The proposals are centred on global taxes.	
Landau Report (France)	December 2004	Proposals on international taxes on carbon emissions, financial transactions, arms and profits of multinational corporations.	
European Union	June-September 2005	Contribution based on airline tickets on a voluntary or compulsory basis.	
New Zealand	May 2005	Introduction of a tax on carbon emissions.	To be implemented by 2007.
France	March 2006	Air-ticket solidarity contribution to finance a global health fund.	Brazil, Chile, Congo, Côte d’ Ivoire, France, Jordan, Luxembourg, Mauritius, Nicaragua, Norway and Cyprus announced the implementation of the airline ticket tax.

Source: Katarina Wahlberg (2005) Progress on Global Taxes? Global Policy Forum, December 2005.

2.3.2 Global funds

A proposal to create the International Finance Facility (IFF) was launched by the Treasury and Department for International Development of the United Kingdom in 2003. The IFF is designed to raise development aid from US$ 50 to 100 billion per year between 2004 and 2015.

These resources are to be provided through four- or five-year disbursement programmes that will be monitored under detailed IFF conditionality. This proposal seeks to promote high relative rates of return on investments in order to help put an end to poverty (the first target of the Goals), improve prosperity and heighten participation in the world economy. While the destination of funds is to be decided by donor countries, the focus of IFF is on low-income countries.

This Facility can be a useful complement for the compulsory taxation proposals. It must, nonetheless, specify more clearly whether and how other countries, apart from low-income nations (i.e., middle-income countries), would benefit. [36]

An alternative to IFF would be to raise funds by issuing new special drawing rights (SDRs). The assumption is that, if SDRs are issued frequently enough, the allocation of US$ 25 billion-US$ 30 billion could make a significant contribution to progress towards the development goals.

Currently, the SDR-for-development proposal centres on using this facility for the provision of global public goods, including the improvement of the environment, the prevention of disease, an increase in literacy, and the provision of humanitarian aid.[37] One variant of the proposal advocates periodic SDR injections prefaced on the International Monetary Fund (IMF) Board of Governor's approval in 1997 of a special one-time allocation of SDRs. This approach calls upon rich countries to make their shares of SDRs available to developing countries.[38]

[36] Also, in parallel with the identification of conditionality provisions, IFF should outline mechanisms to avoid the effects of a contraction in aggregate demand or a reduction in financial flows after the year 2015 (see table 7).

[37] The SDR is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions

[38] Under this proposal for the creation of development SDRs, high-income countries would make part of their regular SDR allocations available to the Global Fund for the provision of public goods, and IMF would periodically issue development-oriented SDRs to low-middle-income countries (which include some Latin American countries).

Table 7
THE EXISTING CONSENSUS ON GLOBAL FUNDS

Source	Brief description	Potential to fund development	Double dividend	Disadvantages	Requirements	Implications
International Finance Facility	Temporary financing mechanism to increase ODA by bridging the gap between pledged and required resources to meet the Millennium Development Goals. The associated financing mechanism would consist in the borrowing of funds by the Facility through the purchase of bonds issued on the international market that have been collateralized by long-term donor commitments (lasting up to 15 years). These aid flows would be disbursed where most needed (i.e., to low-income countries) under disbursement programmes of 4-5 years in length monitored under detailed IFF conditionality.	IFF would be designed to raise development aid from US$ 50 billion to US$ 100 billion per year between 2004 and 2015.	The global funds would complement the global tax proposals. It would not require as much political unanimity as global taxes would.	High administrative costs of implementation. Among the various innovative financial instruments, the IFF is the close to traditional forms of development funding.	Requires the participation of a few (but not all) high income countries.	Measures needed to avoid a contraction in aggregate demand and reduction in financial flows after 2015.
special drawing rights (SDRs) for development	The SDR-for-development proposal centres on using this facility for the provision of global public goods, including the improvement of the environment, the prevention of disease, an increase in literacy, and the provision of humanitarian aid.	Allocation of between US$ 25 billion and US$ 30 billion.	Reduction of volatility in the financial system. Would permit the existence of deficits without inevitably bringing on a crisis.	Among the various innovative financial instruments, SDRs are close to traditional forms of development funding.	Agreement of industrialized countries to donate their SDR rights for development purposes.	

Source: Atkinson (2004, 2005).; Addison et al. (2005); Aryeety (2004 a and b); Clunies Ross (2004); Report of the Technical Group on Innovative Financing Mechsnisms (2004); Global Policy Forum (2007); Williamson (2006).

Conclusion

Despite the agreements framed in the Monterrey Consensus, traditional ODA flows are well below the target set out, and they are not expected to significantly increase in the future. Current levels of aid will not suffice to finance the effort needed to achieve basic development goals including the Millennium Development Goals. Hence, various proposals for innovative ways of financing development have been put forward. Good examples include the Hunger Fund and the Action Against Hunger and Poverty initiative proposed by the Technical Group on Innovative Financing Mechanisms under the sponsorship of Brazil, Chile, France, Spain, and with the support of the Secretary-General of the United Nations.

These innovative mechanisms are geared towards supplying stable and predictable official aid flows to developing countries. Their implementation is technically feasible, and they should be viewed as being complementary to traditional ODA. Their revenue-raising potential is satisfactory (above US$ 200 billion annually)[39], and they are double-dividend instruments in the sense that they would not only raise income but would also contribute to the delivery of public goods.

The use of global taxes as a way of raising resources for development implies that developing countries, particularly middle-income countries, are considered as ready to join the ranks of donor nations. Middle-income Latin American and Caribbean countries are increasingly viewed in this light.

While this is a welcome initiative, since it will stimulate South-South cooperation, care must be taken in considering the proposition that middle-income economies should be regarded as recipient countries, since middle-income countries economic performance can also benefit from effective and efficient ODA.

In general, total ODA flows are mainly concentrated in lower-income countries. Within the category of middle-income countries, lower-middle-income nations have maintained a constant share, while upper-middle-income countries have lost ground in terms of their relative share of ODA. Latin American and Caribbean economies have, overall, followed a similar pattern.

On average, for the period 1980-2004, the ODA shares of countries in the region held fairly steady at between 11% and 8% on average of total ODA flows. The significant drop (to 4.5%) seen in 2005 reflects the Paris Club debt-relief component of ODA, which was granted mainly to Iraq and Nigeria.

The trend observed in the Latin American and Caribbean regional average masks an asymmetrical pattern in terms of the region's upper–middle-income economies and its lower-middle-income nations. The former saw a definite drop in their already small

[39] This computation was carried out using a currency transactions tax rate of 0.01% as a benchmark,

share, from an average of 3% in 1980-1995 to 0.9% after 1996. With a few exceptions, the latter's share has remained since 1980 within the vicinity of 7%.

As the Latin American and Caribbean economies converge towards the global upper-income bracket, it is expected that their share of ODA will decline over time.

It should be remembered that the Latin American and Caribbean countries have made progress, albeit at an uneven pace, towards attaining basic development goals. Nonetheless, not only lower-middle-income countries but also most of Latin America's upper-middle-income economies have persistently shown high levels of poverty and have lagged behind in terms of the progress made in this respect. Indeed, upper-middle-income Latin American countries, which receive a negligible share of ODA, contain more than half of the region's poor and extremely poor population. This is indicative of the fact that that the middle-income countries of Latin America still lack a self-sustaining financial capacity to fund development efforts.

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