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The Arab Financing for Development Scorecard**Domestic and international private business and finance****Summary**

The Addis Ababa Action Agenda (Action Agenda) recognizes private businesses as key partners in achieving the 2030 Agenda for Sustainable Development. The Action Agenda highlights the importance of domestic and international private business activity and investments in driving productivity, creating jobs and increasing growth. Yet, the Arab region's current levels of domestic and international private finance remain meagre. The Arab region needs to improve its investment climate in several fields that are lagging: business sophistication, financial market development and labour market efficiency.

Since 2008, cross-border capital inflows, with the exception of remittances, have been decreasing in the Arab region, while capital outflow levels have almost remained unchanged, despite considerable volatility. In addition, the region has one of the least developed capital markets and has limited external financing options. Improving the financing infrastructure is vital to the development of small and medium enterprises and subsequently, the economies overall. Achieving sustainable development requires a long-term perspective. Public and private incentives need to be aligned with long-term sustainable development horizons so that all financing decisions incorporate sustainability as a central concern. Fundamentally, this entails averting the "privatization of benefits while socializing the costs" when it comes to blending or actively pursuing public-private partnerships.

The Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia is invited to consider the analyses presented in this paper.

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Introduction

1. The Addis Ababa Action Agenda (Action Agenda) underscores the importance of domestic and international private business activity for sustainable development and recognizes in this regard the diversity of the private sector, ranging from micro and small-enterprises to multinationals. In this vein the Action Agenda called on all private business activity (domestic and international) to invest in areas critical to sustainable development, particularly given that foreign direct investment remains concentrated in a few sectors in many developing countries. The Action Agenda equally recognized that international capital flows, which are often short-term oriented, need to be aligned with the longer horizons required to finance the 2030 Agenda for Sustainable Development.

2. The Action Agenda also underscored the linkages between establishing well-functioning private business activities to deliver sustainable development outcomes, and the promotion of sustainable corporate practices and principles for responsible business and investing (paragraph 37); risk mitigation (paragraph 38); financial literacy and inclusion (paragraph 39). It also recognizes the positive contributions of migrant remittances (paragraph 40); philanthropic financial and non-financial contributions (paragraph 42); the role of the development banks and national banking systems in mitigating risk management (paragraph 44); and foreign direct investment which need to be aligned with national and regional sustainable development strategies (paragraph 45).

3. The present document is intended to serve as input to, and should be read in conjunction with, the Arab Financing for Development Scorecard. The first section maps the landscape of international private finance in 2017 and 2018 (the intersessional period of the Committee) and monitors the implementation and progress achieved under the second priority area of the global financing for development framework. The second section provides an analytical assessment (qualitative and quantitative) of the state of private finance in the Arab region, including cross-border flows, and the main determinants affecting the mobilization of such finance, taking into account regional contexts and realities as emphasized by the Action Agenda.

I. GLOBAL TRENDS IN DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE

4. The Action Agenda considers private international capital flows, particularly foreign direct investment, along with a stable international financial system, as vital complements to support and finance national development efforts. The new global financing for development framework therefore calls for the need to develop appropriate investment climates that (a) foster cross-border capital flows, (b) enhance financial inclusion, and (c) facilitate the flow of international remittances.

A. INVESTMENT CLIMATE

5. The United Nations Inter-Agency Task Force on Financing for Development (IATF-FfD) found a positive correlation between removing regulatory impediments and improvements in quantitative measures of competitiveness. Creating business environments that have less red tape, more transparency and improved regulatory frameworks increases a country's competitiveness and boosts its economy. In 2017, 65 economies adopted 126 investment policy measures related to foreign investment, the highest numbers of policy changes introduced over the past decade. Of these measures, 84 per cent were related to the liberalization of entry conditions into specific sectors and investment promotion, including in special economic zones.¹ Moreover, according to the World Bank's 2019 Doing Business report, in 2017/18, 186 economies undertook 3,517 reforms—a record number.² While not all reforms have the same impact (due, for instance, to inefficient

¹ UNCTAD, World Investment Report 2018, available at <https://worldinvestmentreport.unctad.org/world-investment-report-2018/chapter-3-investment-policy-trends/>.

² Doing Business, "Training for Reform", 2019.

design, poor implementation, or the quality of implementing institutions), the IATF-FfD considers that these reforms do improve the business environment overall.

6. Despite the overall investment liberalization trends in 2017, the share of restrictive and regulatory investment policy measures more than doubled reflecting concerns over national security, foreign ownership over land, natural resources and foreign takeovers. Between October 2017 to April 2018, about 30 per cent of newly introduced investment measures were considered restrictive, and the number of State-Investor dispute settlement claims remained high. According to the World Investment Report 2018, 65 new cases were initiated in 2017 bringing the total number of the disputes to 855, 60 per cent of which were won by investors by 2017.³

7. In 2017, the number of new International Investment Agreements (IIAs) was the lowest since 1983 as countries concluded 18 new IIAs while the number of effective treaty terminations reached 22, leaving the stock of IIAs at 3,322 globally.⁴ This reaffirms the protectionist trend observed in trade. On the other hand, investments undertaken by many companies and the private sector have not yet amounted to the systemic change needed to transform economies and societies.⁵ Sustainable investment opportunities often remain unrealized even in markets with well-developed business climates and regulatory frameworks. Too much investment remains short-term oriented and volatile.

B. CROSS-BORDER CAPITAL FLOWS (Foreign direct investment, mergers and acquisitions, greenfield, portfolio and other investments)

8. In 2018, Foreign Direct Investment (FDI) flows reached \$1.2 trillion, a decrease of 18.4 per cent from 2017 when it was \$1.47 trillion. This was the third consecutive drop bringing FDI levels to the low point reached previously after the global financial crisis. In a contrasting view, the IATF-FfD indicated in its 2019 report that FDI had quadrupled over the past two decades. Notwithstanding, this decrease was mainly concentrated in developed countries where FDI inflows decreased from \$749 billion to \$451 billion (a 40 per cent drop).⁶ This is mainly due to the repatriation of more than half a trillion of dollars of profits held overseas by American companies following the 2017 corporate tax reforms in the United States.⁷ On the other hand, FDI to developing countries increased by 3 per cent to reach \$694 billion but this increase was unevenly spread across regions. FDI remains concentrated with inflows to the top ten host countries representing 81.4 per cent of total FDI, by meaning East and South East Asian economies galvanized a good portion of the growth in FDI. FDI has been continuously decreasing since 2015.⁸

9. The pace of financing for development inflows into developing countries appears to have been more resilient, but FDI inflows have not been translated into an equal expansion of productive capacity across developing countries, including the Arab region. FDI patterns in developing countries are yet to be aligned with aspirations of realizing structural transformation, social inclusion, environmental sustainability and achieving the SDGs. Cross-border mergers and acquisitions in developing countries increased by 9 per cent

³ United Nations Conference on Trade and Development (UNCTAD), “World Investment Report 2018”, available at <https://worldinvestmentreport.unctad.org/world-investment-report-2018/>.

⁴ Ibid.

⁵ Digital multinational enterprises make about 70 per cent of their sales abroad with only 40 per cent of their assets based outside their home country.

⁶ UNCTAD, “Investment Trends Monitor”, January, 2019. Available at https://unctad.org/en/PublicationsLibrary/diaeiainf2019d1_en.pdf?user=46.

⁷ Sujata Rao and Ritvik Carvalho, “U.S. companies repatriate over half a trillion dollars in 2018, but pace slows”, *Reuters*, December 2018. Available at <https://www.reuters.com/article/us-us-repatriation-companies/u-s-companies-repatriate-over-half-a-trillion-dollars-in-2018-but-pace-slows-idUSKCN1OU0ME>.

⁸ UNCTAD, “Investment Trends Monitor”, January 2019.

reaching \$122 billion with the value of greenfield investments rising strongly by 47 per cent to reach \$539 billion in 2017.

10. Total global capital flows including FDI, portfolio (equity and debt) flows and other private sector capital flows (mostly bank lending) are continuing to recover since the global crisis but remain well below pre-crisis levels. It is worth noting that the sale of the foreign portfolio equity seen in 2016 was reversed in 2017. Debt-related flows, especially bank loans, have been the most volatile external sources of finance. According to UNCTAD, the overall net capital flows to developing countries were negative for 2015 and 2016 before turning positive in 2017.

11. In the pre-crisis era, international bank lending represented the largest form of cross-border capital flows. The World Economic Situation and Prospects 2017 report indicates that long-term lending to developing countries stagnated since the 2008 financial crisis and that the relatively small or “declining share of long-term claims shows that the growth of bank credit has been fuelled by short-term loans”.⁹ The decline and volatility of total flows to developing countries, predominantly driven by shifts to short-term lending and the stagnation of long-term credit, hold severe implications for the 2030 Agenda at the global and regional levels.¹⁰

12. According to the Bank for International Settlements, international banking activity showed an increase in 2018. The overall activity reached \$29 trillion at the end of September 2018. The annual growth rate represented 2 per cent of global output. It also showed some variation in trends across regions. For example, for the United States, cross-border claims slowed considerably but they continued to grow for Japan and the European Union. When it comes to the Emerging Market and Developing Economies (EMDE), the cross-border bank lending increased by \$25 billion during the same period. This change was mainly driven by cross-border credit of \$27 billion to China. Turkey faced the biggest cross-border lending decrease of \$15 billion.¹¹

C. FINANCIAL INCLUSION

13. In 2017, international funders pledged \$42 billion to support financial inclusion in the world, an increase of \$5 billion from 2016. Debt is still the main funding instrument, and it currently stands at \$16 billion, or 40 per cent of total funding. On another note, equity funding has been on the rise while grants have decreased for the first time in a decade.¹² Progress has been evident since 2011 in terms of the number of people with formal bank accounts which rose from 51 per cent in 2011 to 69 per cent in 2017.¹³ In high-income countries, almost every adult has an account at a bank or other financial institution, compared to only 35 per cent of adults in low-income countries. Nevertheless, around 1.7 billion adults globally don't have access to a bank account. Most of these adults are EMDE citizens.¹⁴ There is a sizeable gender gap: more than 1 billion women don't

⁹ United Nations Department of Economic and Social Affairs, *World Economic Situation and Prospects 2017* (New York, 2017).

¹⁰ [E/ESCWA/EDID/2017/IG.2/5\(Part III\)](#).

¹¹ Bank for International Settlements (BIS), “BIS International Banking Statistics at end of September 2018”, available at <https://www.cgap.org/research/data/international-funding-financial-inclusion-2017-global-data#targetname1>.

¹² Consultative Group for Assisting the Poor (CGAP), “CGAP Funder Survey 2017: Trends in International Funding for Financial Inclusion”, Brief, January 2019. Available at <https://www.cgap.org/sites/default/files/publications/Brief-CGAP-Funder-Survey-2017-Jan-2019.pdf>.

¹³ World Bank Group, “The Global Findex Database 2017”. Available at <https://globalfindex.worldbank.org/>.

¹⁴ Niall McCarthy “1.7 Billion Adults Worldwide do not have access to a bank account”, *Forbes*, 8 June 2018. Available at <https://www.forbes.com/sites/niallmccarthy/2018/06/08/1-7-billion-adults-worldwide-do-not-have-access-to-a-bank-account-infographic/#1f039e634b01> (Forbes).

have access or use to the financial system.¹⁵ Conservative estimates show that closing the gender gap in women's access to financial products and services would boost to the financial sector and the global economy, unlocking \$330 billion in global revenue per year in retail banking, investment and insurance products.¹⁶

14. Over 95 per cent of private enterprises across the world are MSMEs (Micro, Small- and Medium-sized Enterprises). These firms generate most of the employment in developing economies. MSMEs consider lack of financing as a major constraint across both developed and developing economies (figure 1). The MSME financing gap varies widely between the two groups and from one source and estimate to another. In developing economies, more than 200 million MSMEs lack adequate financing. According to the SME Finance Forum, 41 per cent of formal MSMEs in developing countries have unmet financing needs which are estimated to be about \$4.5 trillion or 1.3 times the current MSME lending. In addition, there is a \$300 billion credit gap for women-owned enterprises. Women-owned businesses comprise 28 per cent of MSMEs and account for 32 per cent of the MSME finance gap.¹⁷ In 2018, the Inter-Agency Task Force on Financing for Development estimated that the unmet credit for small and medium enterprises amounted to \$5.2 trillion in developing countries.¹⁸

Figure 1. Obstacles for business operations, 2006-2017
(Percentage of firms)



Source: World Bank Enterprise Surveys (2018).

15. The main factors behind lack of financing are the lack of credit information and lack of collateral. Lack of credit information is a factor that places a constraint on MSMEs. Financial institutions cannot assess the creditworthiness of these firms. MSMEs find it difficult to develop a credit history since they have less access to traditional sources of financing such as commercial banks and other financial institutions. On top of that,

¹⁵ International Finance Corporation (IFC). "Bridging the gender gap in access to finance", available at https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/bridging+the+gender+gap+in+access+to+finance.

¹⁶ BNY Mellon, "Closing the Gender Gap in Women's Access to Financial Products and Services Could Unlock \$330 Billion in Annual Global Revenue", *PRNewswire*, 2 March 2018. Available at <https://www.prnewswire.com/news-releases/closing-the-gender-gap-in-womens-access-to-financial-products-and-services-could-unlock-330-billion-in-annual-global-revenue-300604445.html>.

¹⁷ Inter-Agency Task Force on Financing for Development (IATF-FfD), *Financing for Sustainable Development Report 2019* (New York, 2019).

¹⁸ SME Finance Forum, "MSME Finance Gap", available at <https://www.smeffinanceforum.org/data-sites/msme-finance-gap>.

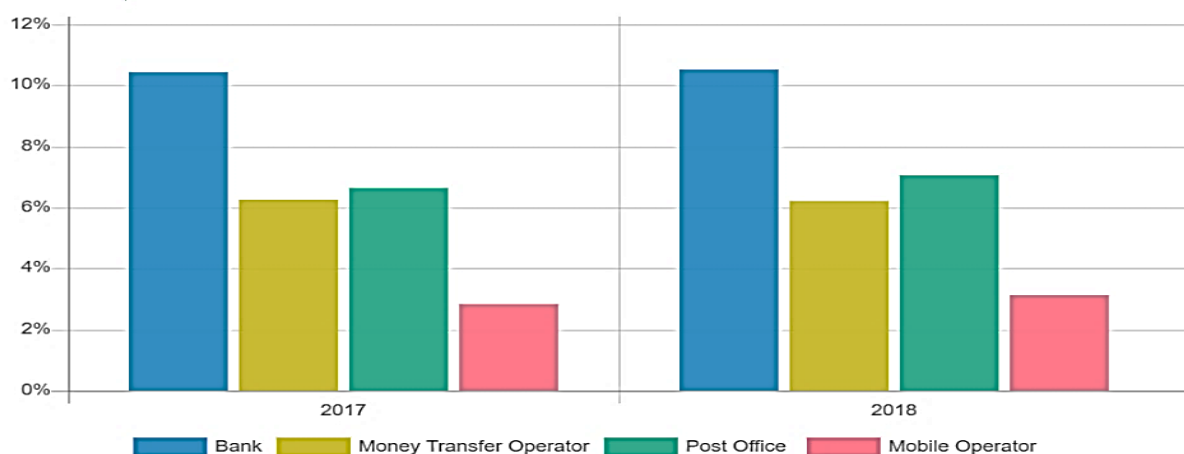
MSMEs do not usually have collateral, such as land or real estate assets, which are usually required by banks to secure a loan.¹⁹

D. REMITTANCES AND PRIVATE INVESTMENTS

16. In 2017, there were about 164 million migrant workers²⁰ and \$633 billion in remittances worldwide. In 2018, global remittances reached \$689 billion, a 10.3 per cent increase year-over-year, an increase of 9.6 per cent over the previous record high of \$483 billion in 2017. In 2019, remittance flows to low- and middle-income countries are expected to reach \$550 billion, to become their largest source of external financing. Remittance flows increased to all recipient regions. Europe and Central Asia region witnessed the highest increase of 20 per cent, while the Arab non-resource economies witnessed an increase of 9.1 per cent. This upward trend was mainly due to increased outward flows from the Gulf countries and Russia and to a stronger economy in the United States.²¹

17. The global average cost of transferring money reached 7 per cent in the first quarter of 2019. Despite the ongoing decrease in average cost in recent years, this level represents more than double the remittance costs of 3 per cent set under Sustainable Development Goal (SDG) 10.7.²² Cutting remittance costs by 5 percentage points worldwide, as prescribed by the Action Agenda, can provide \$16 billion a year in additional development finance, equivalent to 12 per cent of official development assistance in 2015.²³ Traditional financial intermediaries wire transfers continue to pose high-cost transfer corridors for remittances as opposed to the new digital and telecommunication solutions provided through mobile operators.²⁴

Figure 2. Cost of remittances average cost by remittance service provider type
(Percentage)



Source: World Bank Remittances Prices Worldwide.

¹⁹ World Bank, *Improving Access to Finance for SMES*, (Washington, D.C., May 2018).

²⁰ International Labour Organization (ILO), “New ILO figures show 164 million people are migrant workers”, Press release, 5 December 2018. Available at https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_652106/lang--en/index.htm.

²¹ World Bank, “Record High Remittances Sent Globally in 2018”, Press release, 8 April 2019. Available at <https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018>.

²² World Bank, “Accelerated remittances growth to low- and middle- income countries in 2018”, Press release, 8 December 2018. Available at <https://www.worldbank.org/en/news/press-release/2018/12/08/accelerated-remittances-growth-to-low-and-middle-income-countries-in-2018>.

²³ World Bank, *Remittance prices worldwide*, available at <http://remittanceprices.worldbank.org/en>.

²⁴ IATF-FfD, “Monitoring development finance, facilitating the flow of remittances”, available at <https://developmentfinance.un.org/Facilitating-the-flow-of-remittances>.

II. REGIONAL TRENDS IN DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE

A. INVESTMENT CLIMATE IN THE ARAB REGION

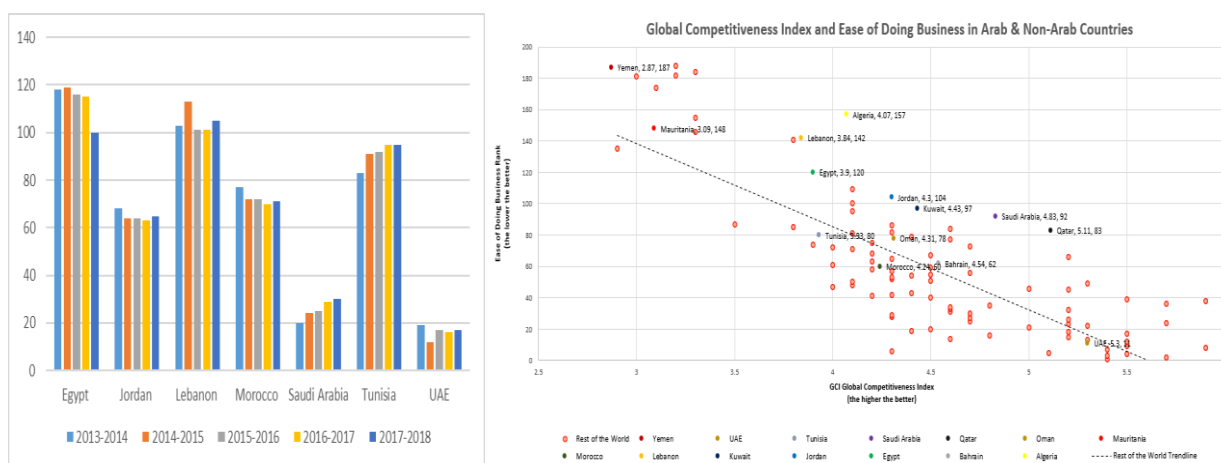
18. The Global Competitiveness Index (GCI) sets out the policies, institutions and other factors needed to set a path to sustainable socioeconomic development. Although country rankings do not necessarily account for regional or country-specific idiosyncrasies, the Index remains useful for tracking progress in creating a conducive and supportive environment for sustainable development. The Index assesses several factors and measures institutional efficiency and governance which are considered key for productivity improvement. Productivity improvement is the main basis for long-term growth and a key factor to achieve sustainable development and more broadly raise prosperity.²⁵

19. According to the Global Competitiveness Report 2018, the Arab region exhibited shortcomings mainly in: business sophistication/dynamism (most of the reforms have therefore concentrated on addressing the weak insolvency frameworks which inhibit businesses from entering the market, making appropriate investment decisions and thriving through business cycles), financial market development, labour market efficiency and mobility. Despite heavy investment in digital and technological the region's level of financial innovation still lags.

20. Notwithstanding, the region improved its average performance and standings (figure 3). This change is attributed to the new normal of low energy prices that forced many countries to implement new reforms to increase diversification. The country that improved most across the region is Egypt which advanced 14 places in the global competitiveness index.

21. The fall in oil prices has affected the macroeconomic environment in the region. This has mainly affected GCC (Gulf Cooperation Council) economies' macroeconomic performance negatively. While in other countries, the fall in oil prices has improved the fiscal space due to the reduction in energy subsidies.²⁶

Figure 3. Global Competitive Index for selected countries in the Arab region 2013-2018



Source: Based on data from the World Economic Forum 2019 World Bank Doing Business report panel A: number of reforms; Panel B: type of reforms 2017-2018.

²⁵ These include “human capital, innovation, resilience and agility. These are qualities that captured through a number of new, critically important concepts (e.g. entrepreneurial culture, companies embracing disruptive ideas, multi-stakeholder collaboration, critical thinking, meritocracy, social trust) complementing more traditional components (e.g. ICT and physical infrastructure, macroeconomic stability, property rights, years of schooling).” World Economic Forum, *Global Competitiveness Report 2018* (Geneva, 2018) pg. vii. Available at <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>.

²⁶ World Economic Forum, *The Global Competitiveness Report 2017-2018* (Geneva, 2017).

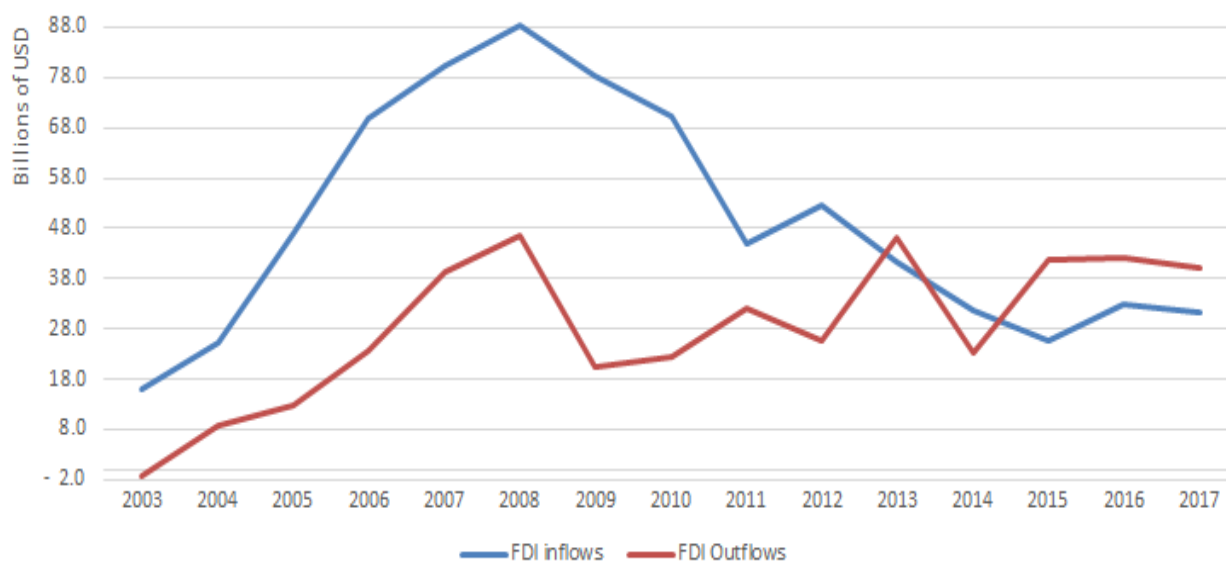
B. CROSS-BORDER CAPITAL FLOWS AND FINANCIAL STABILITY IN THE ARAB REGION

22. The Action Agenda recognizes foreign direct investment (FDI) as a driver of productivity, inclusive economic growth and job creation. In this context, the new global financing for development framework underscores the importance of managing volatilities associated with the movement of FDI across borders, and the need to foster long-term quality investment flows. Nonetheless, inward FDI flows in the Arab region remain considerably volatile, and do not reveal an expansion in productive capacities.

23. In 2017, FDI to the Arab region declined to \$31.3 billion from \$32.9 billion a year earlier. Traditionally, Saudi Arabia has been the recipient of the largest amount of FDI in the region, taking in on average a quarter of the region's FDI. However, inflows decreased to \$1.4 billion (4.5 per cent of the region's FDI) from \$7.4 billion in 2016. This huge decrease is attributable to political risk, significant divestments and negative intracompany loans by foreign multinational enterprises (MNEs). FDI inflows to Saudi Arabia represented more than 53 per cent of Arab region's FDI inflows in 2009, but currently only represent 4.5 percent. Nearly 57 per cent of the entire FDI inflow stock in 2017 is goes to the United Arab Emirates and Egypt.

24. Six countries (Bahrain, Jordan, Lebanon, Oman, Qatar, and the UAE) experienced an increase in FDI. However, the increase did not help the region's offset FDI outflows. FDI to the United Arab Emirates increased to \$10.4 billion, an 8 per cent increase, driven by cross-border mergers and acquisition sales. Inflows to Jordan grew by 7 per cent reaching \$1.7 billion.²⁷ In 2014, FDI outflows in the region reached \$31.9 billion in 2014 and the region has been witnessing a net FDI outflow since then. In 2017, the net FDI outflow reached \$3.3 billion (figure 4).

Figure 4. Fdi dynamics in the Arab region, 2003-2017

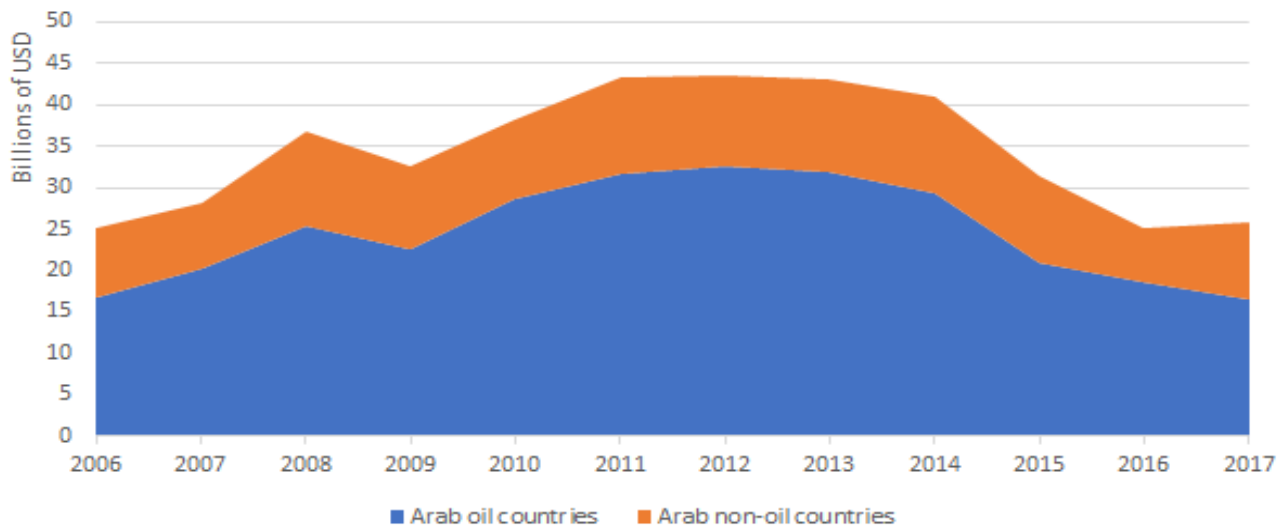


25. When these figures take into account the magnitude of repatriated profits on FDI (derived by foreign investors using primary income on direct investments), the situation challenges the contemporary view that FDI in the case of the Arab region constitutes a sustainable financing channel. According to statistics from the International Monetary Fund, profits repatriated on FDI or reinvested in places other than in the Arab region averaged \$35.01 billion between 2012 and 2017 (figure 5). Oil-rich Arab economies accounted for 70 per cent of the total profits repatriated by foreign nationals outside the region between 2007 and 2017. In 2017,

²⁷ UNCTAD, *World Investment Report 2018* (Geneva, 2018).

repatriated profits on FDI amounted to \$26 billion or 83 per cent of the value of FDI inflows, representing returns on investment, interest, income on equity and fund shares.

Figure 5. FDI profit outflows from the Arab region



Source: Compiled by ESCWA, based on International Monetary Fund data.

26. Between 2011 and 2017, total net cross-border capital flows from the Arab region turned negative. During this period, the region witnessed inflows of FDI, portfolio investments and other official flows amounting to \$249 billion. However, the region also witnessed outflows on foreign direct investment and repatriated profits amounting to \$475 billion. Arab intraregional investments remain meagre when compared with total investments of Arab sovereign funds outside the region estimated at \$3.5 trillion (representing 40 per cent of total global wealth held in sovereign wealth funds).

C. FINANCIAL INCLUSION IN THE ARAB REGION

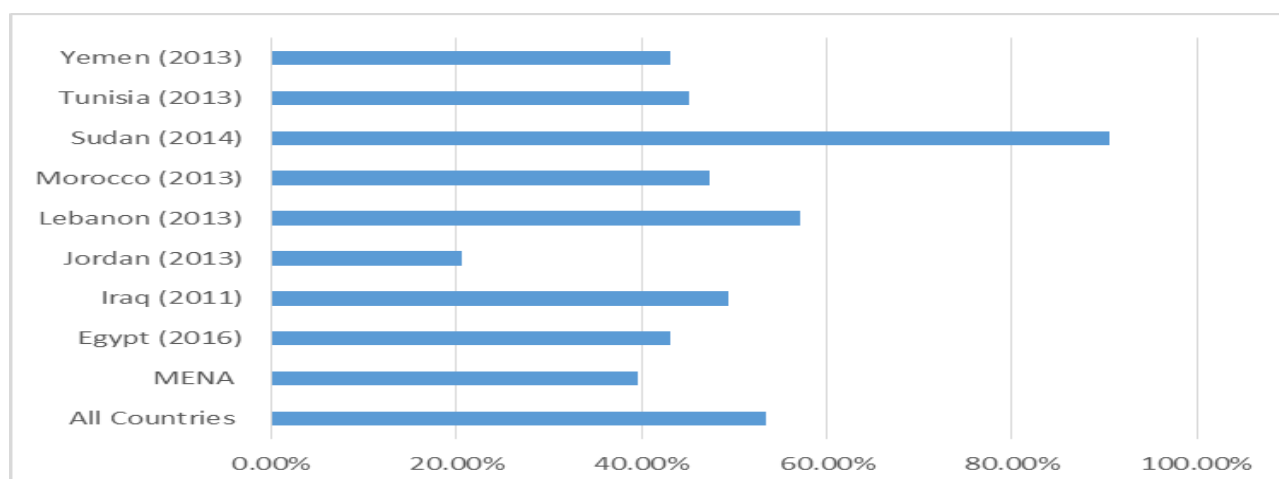
27. The MENA region is behind in fostering financial inclusion. It has the second least developed capital markets of all regions and has relatively limited external financing options. National credit information systems are still developing. Lenders rely on collaterals that are expensive to register and may not be readily enforceable. Only 18 per cent of adults in the region have an account with a formal financial institution compared to a global average of 50 per cent (meaning fewer than one in 5 adults holds a bank account). Only 5 per cent of adults in the Arab countries have received a loan in the last year. In 2017, \$2.7 billion was allocated for financial inclusion in the Arab region, most of which supported micro and small business and were given in the form of debt.²⁸

28. Studies have shown that small and medium enterprise (SME) lending accounts for 8 per cent of credit lending by Arab banks across the region, compared to 18 per cent in middle income countries globally. This is despite the crucial role played by SMEs in the region – they represent 80-90 per cent of all formal sector enterprises, and account for 20-40 per cent of all private sector employment.²⁹ Providing the appropriate financing channels for those enterprises is critical for their growth and for the growth of the economy as a whole. As reflected from the figure 6, SMEs face several obstacles the top two being access to finance and the challenges imposed by informal counterparts.

²⁸ CGAP, “2017 Funding: Middle East & North Africa”, January 2019. Available at <https://www.cgap.org/research/data/2017-funding-middle-east-and-north-africa>.

²⁹ WAMDA and Payfort, *Fintech in the MENA: Unbundling the Financial Services* (Dubai, 16 March 2017).

Figure 6. Percentage of Arab firms competing against informal enterprises
(Percentage)

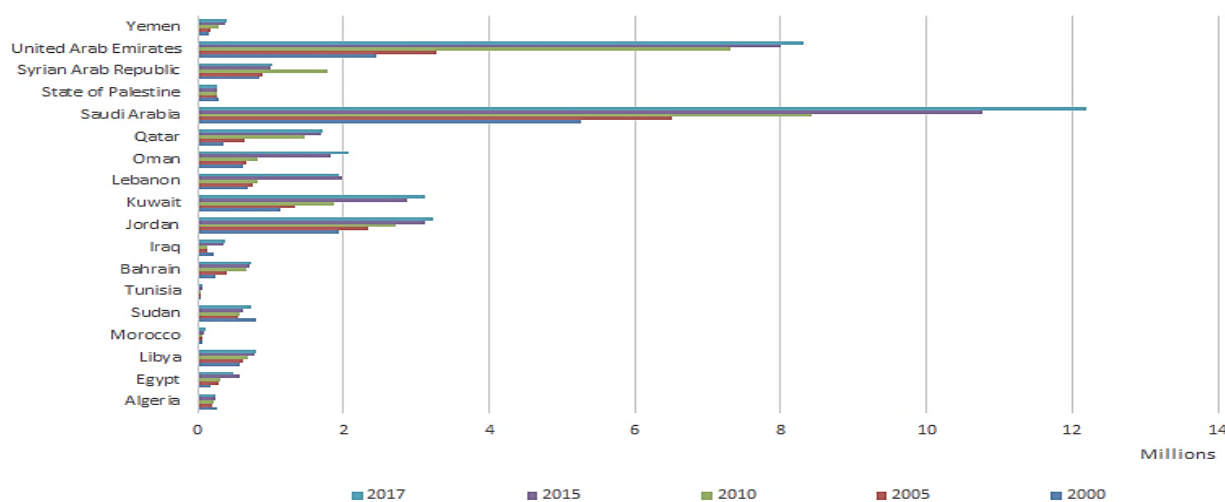


29. Many policy interventions have been proposed over the years to migrate SME activities to the formal economy, including streamlining procedures, simplifying tax codes and regulations and providing tax incentives. Another dimension worth considering is that small and medium enterprises engaging in foreign trade activities are more productive than non-trading firms. However, border barriers and other non-tariff barriers constrain their engagement in international trade, and their ability to connect to global value chains to draw on the technological prowess of international firms.

D. REMITTANCES AND PRIVATE INVESTMENT SUSTAINABILITY REQUIREMENTS IN THE ARAB REGION

30. The Action Agenda recognized the positive impact of migrants' remittances for inclusive growth and sustainable development. Commitment to mobilizing remittances as an international private source of financing development is also captured in SDG 17. In 2017, the number of international migrants stood at 258 million worldwide, of which Arab migrants represented 15 per cent (figure 7 below shows the number of Arab migrants by country for different time periods). In 2010, the Arab migrants represented only 9 per cent of the global migrants.³⁰ Most Arab migration is regional.

Figure 7. Number of Arab migrants by country for 2000, 2005, 2010, 2015, 2017



³⁰ United Nations, Department of Economic and Social Affairs, International Migrant Stock Data. (Accessed on 3 June, 2019).

31. Remittances to the Arab region grew by 9 per cent, reaching \$62 billion in 2018. The growth rate increase was mainly driven by increases in remittance inflows to Egypt, the State of Palestine and the Sudan. Inflows to Arab countries represent 4.3 per cent of total global remittances and 11.4 per cent of total remittances to developing economies. The Arab region ranked as the second smallest recipient in developing markets ahead of the Sub-Saharan Africa region. On top of that, the figures showed that the increase in remittances to Arab countries in 2018 is the second lowest among developing economies ahead of only East Asia and Pacific (6.6 per cent).

32. Egypt's remittance growth is projected to reach \$25.7 billion, 43.6 per cent of total remittance to the region, and a 14 per cent increase year over year. Lebanon's total remittances are expected to reach \$7.8 billion, or 13 per cent of total remittance to the region. In 2018, the economic growth of Europe is expected to boost remittance inflows to Tunisia and Morocco. Total remittances to both countries are expected to reach \$2 billion and \$7.4 billion respectively. Most non-GCC country migrants move to the Gulf region for higher pay and better working conditions. However, tighter foreign employee policies in Saudi Arabia, cuts in subsidies, increases in taxes and fees in Saudi Arabia and the United Arab Emirates are expected to increase the cost of living for migrants, affecting the growth of remittances.³¹

33. Over the past few years, ESCWA has conducted several studies that provide a conceptual foundation for understanding how remittances impact financing for development. The studies examined the relationship between remittances and development and the role of different stakeholders in enhancing the inflows of remittances towards national development. There were three major findings : 1) with the exception of a few countries, there is an absence of national strategies and policies to channel remittances to development; 2) overall, there is relatively weak financial and institutional infrastructure to support remittances, which is aggravated by weak penetration of the banking system to remote areas; and, 3) there is a lack of sufficient and consistent data/information on remittances to provide tailored policy recommendations to harness remittances for development, especially regarding remitters' characteristics, channels used to transfer money and the use of the transferred money by recipients (consumption versus investment).

³¹ World Bank, "Accelerated remittances growth to low- and middle- income countries in 2018", Press release, December 2018. Available at <https://www.worldbank.org/en/news/press-release/2018/12/08/accelerated-remittances-growth-to-low-and-middle-income-countries-in-2018>.