UNITED NATIONS **E**

ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED
E/ESCWA/EC.5/2018/5
6 November 2018
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia (ESCWA)

Executive Committee
Fifth meeting
Beirut, 18-19 December 2018

Item 5 of the provisional agenda

Financing for development: progress in implementing the Addis Ababa Action Agenda in the Arab region

Summary

The present document provides an assessment of global financing for development (FfD) outcomes and recommendations from a regional perspective. It makes statistical inferences from the numbers of resolutions and reports issued in 2018 related to the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (hereafter the Action Agenda) to provide an indication of prevalent implementation gaps. It also reviews key FfD messages of United Nations entities and other international stakeholders through a regional lens, and offers a region-sensitive evaluation of their possible applications, spillovers and enforcement prospects under prevalent risk conditions in the Arab region.

While progress has been made in implementing global FfD commitments, their benefits have neither been shared across regions nor have they ended inequalities in FfD within countries. In the Arab region multiple challenges continue to impede national efforts to capitalize on the multiple financing solutions offered by the Action Agenda. The document cautions against employing generic recommendations in isolation from inequalities and geopolitical dynamics. The region has taken deep steps to integrate into the global economy and is therefore influenced by global tightening conditions, the new wave of investment and trade protectionism. It is also witnessing signs of debt distress. However, ample room still exists to prompt action at the regional level, and Arab countries can adopt measures that would put them on a path towards more sustainable economic growth and development.

Executive Committee members are invited to take note of the key messages and findings contained in the present document and of the activities undertaken to support FfD at the regional level, and to provide guidance for the work of ESCWA in this important area, especially since regional commissions are assuming greater roles to advance the Action Agenda as part of reforming the United Nations Development System.

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Introduction

1. The present document provides a regional perspective on progress in implementing financing for development (FfD) outcomes and in fulfilling the commitments arising from the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (hereafter the Action Agenda). It identifies major implementation gaps and highlights the need for interventions to advance a particular FfD priority area by drawing statistical inferences from the numbers of related United Nations General Assembly resolutions and reports. It also assesses the Arab region's specificities and FfD challenges by considering the plausible implications of recommendations and conclusions drawn from the first global FfD assessment undertaken by the Inter-Agency Task Force (IATF) on Financing for Development. It does so in accordance with the common Arab position on financing for development, which was formulated at the twelfth session of the ESCWA Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development, held in Beirut on 4 and 5 December 2017.

I. FINANCING FOR DEVELOPMENT RESOLUTIONS AND PROCESSES

2. At its seventy-second session, the General Assembly adopted 313 resolutions, 58 of which (19 per cent) were related to the implementation of FfD outcomes and to the assessment of progress made. The frequency of resolutions on each of the seven FfD priority areas is revealing: the higher the frequency, the greater the number of challenges associated with achieving progress in that particular area.

3. In 2017 and 2018, there were six General Assembly resolutions, and Secretary-General's and Second Committee reports[1] on following up on progress in implementing the Action Agenda. This was equal to the number of resolutions and reports[2] on reforming the international financial system, highlighting how progress in FfD remains intrinsically contingent on global trends and governance of the international financial system.

4. Over the same period, there were eight resolutions and reports[3] on international trade, underscoring mounting concerns about trade and investment protectionism, and challenges facing the multilateral trading system and their implications for FfD. Five resolutions and reports addressed mounting debt concerns, compared with only two on the subject prior to the 2008 global economic crisis. Seven resolutions and reports were dedicated to illicit financial flows and tax evasion/cooperation, and five others addressed other priority areas, including financial inclusion and the economic governance needed to advance global FfD priorities.[4]

5. Only one resolution[5] was issued on international development cooperation, including official development assistance (ODA); only one resolution was adopted on South-South cooperation as well,[6] although developing countries maintain that South-South cooperation remains a complement to, not a substitute for, ODA.

6. In 2017 and 2018, there were some 43 meetings[7] related to FfD, such as the United Nations Economic and Social Council (ECOSOC) Forum on Financing for Development follow-up, the High-level Political Forum on Sustainable Development thematic review and side event; the ECOSOC special meeting on international cooperation in tax matters, the Global Infrastructure Forum, and the informal technical briefing

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[1] A/72/419; A/RES/72/208; A/C.2/72/L.50; A/C.2/72/L.18; A/73/427; A/73/86.

[2] A/RES/72/203; A/72/418/Add.2; A/C.2/72/L.19/Rev.1; A/C.2/72/L.19; A/72/306; A/73/280.

[3] A/RES/72/205; A/72/418; A/RES/72/202; A/RES/72/201; A/72/307; A/72/274; A/C.2/72/L.17; A/73/208.

[4] On external debt: A/RES/72/204, A/72/418/Add.3, A/72/253, A/73/180, A/C.2/73/L.11; on illicit financial flows: A/RES/72/207, A/RES/72/57, A/RES/72/40, A/72/418/Add.6, A/C.2/72/L.53, A/C.2/72/L.16, A/RES/72/267; on financial inclusion: A/RES/72/206, A/72/418/Add.5, A/C.2/72/L.51, A/C.2/72/L.10; and on economic development: A/RES/72/213.

[5] A/RES/72/230.

[6] A/RES/72/237.

[7] See http://www.un.org/esa/ffd/events.html.

series on the report of the IATF on Financing for Development, the Secretary-General's High-level Meeting on Financing the 2030 Agenda for Sustainable Development, the Voluntary National Review Lab on Mobilizing Resources for the Sustainable Development Goals (SDGs), and the First Global Conference of the Platform for Collaboration on Tax –Taxation and the SDGs.

7. At its seventy-third session, the General Assembly held six events on FfD, namely the High-level Meeting on Financing the 2030 Agenda for Sustainable Development; the Private Sector Forum; an event on the theme "Emerging challenges and shifting paradigms: new perspectives on international co-operation for development"; the Sixth Annual International Conference on Sustainable Development on the theme "Breaking down silos: fostering collaborative action on the SDGs"; an event on the theme "SDG costing and macroeconomics: spending needs for achieving selected SDGs"; and an event organized by Bahrain and the Global Security Institute: The Bahrain Visions Forum.

8. In addition, the Secretary-General hosted a special high-level meeting to launch his Strategy for Financing the 2030 Agenda for Sustainable Development (2018-2021),[8] which aims to undertake the following:

(a) Ensure a surge in financing and investments to secure $5-7 trillion to achieve the SDGs;

(b) Take concerted action towards:

- Supporting developing countries' efforts in mobilizing domestic resources through tax reforms and other governance and economic rationalization measures;
- Combatting illicit flows of capital, money laundering and tax evasion;
- Developing innovative financing and mobilizing private investment, such as green bonds and sustainable development bonds.

(c) Propose urgent actions to:

- Align global economic policies and financial systems with the 2030 Agenda;
- Enhance sustainable financing solutions and investments at the regional and country levels;
- Invest in financial innovations, new technologies and digitalization to provide equitable access to finance, especially for those living in marginalized areas.

II. REGIONAL ASSESSMENT OF PROGRESS MADE IN FINANCING SUSTAINABLE DEVELOPMENT

9. In 2018, the IATF released its first integral assessment of progress made in achieving global financing for development outcomes.[9] The assessment is based on findings drawn from analysis and data collected by over 50 United Nations agencies, programmes and international institutions that are IATF members. The assessment nonetheless falls short of measuring financing gaps and of providing remedies for shortcomings. Moreover, regional dimensions are not consistently captured when measuring global progress. Consequently, by overlooking country-specific and regional dynamics, such global assessments may entail an element of bias by 'cherry picking' achievements.

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[8] https://www.un.org/sustainabledevelopment/wp-content/uploads/2018/09/SG-Financing-Strategy_Sep2018.pdf.

[9] Report of the *Inter-agency Task Force on Financing for Development - Financing for Development: Progress and Prospects 2018* (United Nations publication, Sales No. E.18.I.5). Available at https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF_2018.pdf.

10. The 2018 IATF assessment recognizes that asymmetric progress has been achieved in implementing the different action areas of the Action Agenda. In the Arab region, the situation is dire as there is an FfD reflux: for every dollar in cross-border inflows that the region has mobilized or received, more than double is lost in FfD outflows.[10] The region is thus consistently losing opportunities to finance its development.

11. The assessment also recognizes that escalated geopolitical tensions are derailing FfD progress. Today, the Arab region hosts nearly half of the world's internally displaced people and more than half of the global refugee population. Under the current instability trajectory, the region risks consuming more than half of the projected increase in the global humanitarian aid budget by 2030, an unsustainable situation from both a financing and a development perspective. Moreover, the hefty reconstruction bill of war-torn economies is not being factored into the global FfD costing equation, although it does include selected reconstruction efforts in countries affected by natural disasters.

A. Domestic resource mobilization

1. *Public finance: the SDG social contract and the FfD compact*

12. It is vital to enhance the collection of domestic public revenues and to spend those resources more effectively to deliver quality public services. These two complementary policies form the two flanks of the new social contract driven by global economic rationalism as advanced in the SDGs. They can strengthen the link between citizens and the State, enhance accountability and reinforce the social contract. However, to assess the extent to which the SDG-based social contract and the financing for development compact have been implemented, it is necessary to consider the following factors that characterize Arab countries' public finances.

2. *Apparent tax disparities giving rise to generic recommendations*

13. Tax efficiency continues to be assessed on the basis of GDP per capita growth, which is not a suitable indicator to measure FfD progress. Equally, the tax to GDP ratio is not best suited to evaluate the efficacy of domestic resource mobilization capacity. Until suitable and uniform indicators are developed, generic assessments based on those indices tend to show large disparities in the average revenue to GDP share between oil-rich, oil-poor, developing and least developed Arab countries. This may give rise to generic non-case sensitive recommendations that argue for higher taxation to mobilize domestic resources.

14. Unlike in developed countries, the structure of the tax base in the Arab region remains far less reliant on income taxes, and more slanted towards corporate income tax (middle-income countries) and trade taxes (least developed countries and conflict-affected economies). More perplexing is that the share of income tax in total tax revenue in oil-poor Arab countries remained stagnant or declined over the period 2005-2014. For oil-rich countries, the revenue-to-GDP share is relatively high, reaching 70 per cent for some, depending on oil wealth. Wealth tax constitutes a negligible share of total tax revenue in most Arab countries.[11]

15. These tax asymmetries reflect the underlying socioeconomic paradoxes that Arab countries contend with when setting optimal tax systems based on recommendations made by the international community, including the following:

- Ensuring tax progressivity in a manner that does not aggravate poverty or raise the tax effort on the lower income deciles: yet, empirical analysis offered by international organizations continues to argue that regressive taxes remain easier to collect and provide quick wins to generate public revenues;

[10] Unless otherwise indicated, data in the present section are author's calculations undertaken for a forthcoming ESCWA report on the State of Financing Development in the Arab Region (E/ESCWA/EDID/2018/TP.2).

[11] Najib Saab and Abdul-Karim Sadik, eds., *2018 Report of the Arab Forum for Environment and Development*: *Financing Sustainable Development in Arab Countries* (Beirut, Arab Forum for Environment and Development, 2018).

- Tax systems in the Arab region mostly rely on indirect taxes, including value added tax (VAT), to raise revenues. However, by design, indirect taxes are regressive and so the burden of taxes tends to be higher on middle- and lower-income groups (the largest sections of the consumer base in Arab countries). A simulation exercise for Gulf Cooperation Council (GCC) countries suggests that a 5 per cent VAT rate could generate fiscal revenue of 2 per cent of GCC GDP. Exempting basic food items and products consumed by the poor can reduce, but not eliminate, VAT progressivity. In Egypt, empirical assessments suggest that taxes on goods and services may raise 368 billion Egyptian pounds in the fiscal year 2018-2019;[12]

- Achieving progressivity through income taxes may improve equality but needs to be weighed against the broader socioeconomic conditions of a country. Promoting structural transformation (i.e. moving away from agriculture and low-value added services to high-value manufacturing) by providing needed incentives and tax breaks to prompt such transformation has downsides. These measures erode the tax base, and complicate tax administration and compliance. Moreover, there are limits to what countries can provide as fiscal incentives to achieve such a transformation under multilateral trade and prevalent risk conditions in the region and the apparent competitiveness gap;

- Broadening the tax base while ensuring a certain threshold of corporate tax exemptions and incentives (given the global race to the bottom and proliferation of tax havens) to counter de-investment. Nonetheless, corporate tax exemptions erode the tax base and are predominantly applied with a high degree of discretion; if not applied consistently, they may give rise to a breach in national treatment principles;

- Combating tax avoidance and tax-based illicit financial flows (evasion). This becomes very cumbersome given weak tax collection capacities, growing informality, non-intact stolen asset recovery frameworks, and less than ideal international cooperation conditions to tax undeclared off-shore wealth, multinational profit shifting practices and trade-based money laundering.

16. In Lebanon, for instance, income is highly concentrated at the top end, with 0.01 per cent of the income distribution accounting for over 3 per cent of the total income.[13] The scheduler form of the Lebanese personal income tax and the complexity of the tax laws tend to disproportionately benefit the rich, partly because they leave room for tax evasion at the top. Furthermore, estimates indicate that the difference between pre- and post-tax income narrows when moving up the income distribution, with the difference being almost non-existent at the top end (tax evasion amounted to $5 billion in 2017 or 10 per cent of Lebanon's GDP, $2 billion of which is tied to income tax, including $1 billion in uncollected taxes on profits; $1.5 billion related to VAT evasion; $0.5 billion to custom duties; $0.7 billion to corruption, namely linked to unpaid electricity services; and $0.2 billion in property tax evasion).[14]

3. *Volatile and unpredictable resource-based revenues*

17. Oil-rich Arab countries influence oil prices in as much as they are vulnerable to international oil price changes. Yet, oil prices continue to be set against global political and growth considerations in places outside the region. The economic growth of oil-rich countries shadows oil price fluctuations. Under such conditions, the prospects of harnessing revenues from oil sources remain bleak, and while a rise in oil prices may benefit

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[12] According to data from the Ministry of Finance of Egypt, available at http://www.mof.gov.eg/MOFGallerySource/Arabic/budget2018-2019/Financial-Statement-2018-2019.pdf.

[13] Lydia Assouad, "Top incomes and personal taxation in Lebanon, an exploration of individual tax records 2005-2012", Masters Thesis, Paris School of Economics, 2015.

[14] Audi Bank, "A lackluster real sector activity yet coupled with persistently sound financial and monetary conditions", Lebanon Economic Report, Second Quarter 2018. Available at http://www.bankaudigroup.com/GroupWebsite/openAudiFile1.aspx?id=3889.

these countries, it adversely affects oil-importing economies. For the latter, lower oil prices may help to reduce external and fiscal vulnerabilities, but the benefits from reduced oil import bills are partially offset by declining non-oil commodity export prices in oil-poor Arab countries.

4. *Taxation under the influence of the shadow economy*

18. Raising income tax revenue is negatively correlated to the size of the shadow economy. Generic recommendations advocating tax reforms in the Arab region should be assessed carefully as they may discourage labour supply and savings, and induce greater incentives to evade taxes and push more activity into the informal sector, making the fight against illicit financial flows more difficult. Considerable revenue potentials can be reaped by eliminating those flows.

5. *Corporate tax leakages and base erosion*

19. Taxation influences the behaviour of multinational enterprises and tax evasion. The treatment of base erosion and profit shifting practices therefore remains a priority to enhance domestic resource mobilization potentials. Profit shifting, aggressive tax planning and tax-treaty shopping allow multinational corporations to avoid paying corporate income tax in countries where they do business.

20. Corporate tax exemptions/incentives that are regressive in nature adversely impact domestic revenue mobilization efforts, complicate tax administration and may prompt tax avoidance, evasion and rent-seeking behaviour, as well as adversely impacting the business environment. The race to the bottom in terms of global corporate tax continues to erode the capacity of many Arab countries to raise domestic revenues, especially under increased capital mobility conditions and fixed exchange rates.

6. *The inconsistent quartet*

21. Countries are required to factor the intricacies arising from the ‘inconsistent quartet’, a concept in international economics that describes why fixed currencies, monetary autonomy, free capital mobility and free trade are incompatible. In other words, reducing budget deficits through taxation while applying discretionary interest rates to control for inflation can act as hidden taxes on savers and traders, in the form of higher trade finance costs and rising public debt repayments. This could induce pro-recessionary effects that in turn lower tax revenues for Governments, prompting capital flight under increased capital mobility conditions.

22. Consequently, there is a need to assess the productivity of taxes associated with broadening the tax base and reducing informality and tax evasion. Only after factoring these variables by bringing more economic activities under the coverage of personal income and corporate tax can an optimal design for a tax policy be developed. Until then, recommendations for the optimal design of tax policy will continue to overlook complications created by the informal economy and tax evasion under the inconsistent quartet. Tax base-broadening may add up to 2 per cent of the region’s GDP; however, poor tax records and complex tax procedures render tax compliance and tax fairness analysis weak.

7. *Subnational public revenue generation*

23. Proposals advocating for subnational financing models require thorough reflection as they presume that municipalities and governorates in Arab countries enjoy a minimum threshold of decentralization that allows them to administer own resources and independently tap financial markets to raise capital. Such proposals tend to overlook the fact that these levels of decentralization may not be prevalent in many Arab countries. Implementing some of the recent proposals in this area requires constitutional and statutory reforms. However, such proposals largely overlook the considerations that generally determine the degree of decentralization, especially in conflict-afflicted countries where ensuring territorial authority is of the utmost importance.

24. Fiscal decentralization may shift resources from central Governments that have higher rates of capital spending to regional and local governments that spend relatively more on consumption: there are significant productivity gaps, capital investment gaps and income gaps between urban and rural areas across the region. The result may be detrimental to structural and transformative change. Fiscal decentralization may shift public capital investments because national priorities are unlikely to be the same as those of subnational governments. Decentralizing taxing power is thus likely to increase regional inequality. However, despite these severe problems, there are arguments for assigning some taxes to subnational governments where feasible.

8. *Public revenues and subsidy rationalization*

25. Proposals to phase out water subsidies hold considerable socioeconomic implications for the Arab region. Rationalizing subsidies could offer a more suitable and measurable alternative to ensure that SDGs 1 and 2 are achieved. Many tax systems attempt to mitigate the regressive nature of VAT (through multiple rates, the exclusion of goods and services from the tax base and/or a combination of both). However, these interventions overlook the fact that they do not necessarily differentiate between taxpayers to improve the provision or targeting of services to benefit lower-income deciles. Rather, these measures are equivalent to a generalized subsidy that mostly favours the richest segments of society at a high cost to public finances.

26. Pricing water, air pollution and carbon emissions poses a critical concern, as such measures could adversely affect competitiveness and structural transformation in Arab countries, and may negatively impact multilateral trade. In contrast, providing incentives to invest in green transformation-related projects increases access to clean and affordable energy. For example, greenfield projects have been engines for foreign direct investment (FDI) inflows in the region, as reported by the *2018 World Investment Report*.[15] However, there are limits to the value and type of incentives that can be provided without impinging on the multilateral trade rule-book.

9. *Effective and efficient public expenditures/investments*

27. Improvements in public investment management and expenditure could significantly enhance the efficiency and productivity of public investment. Based on the International Monetary Fund’s Public Investment Management Assessments,[16] strengthening key institutions that shape the planning, allocation, procurement and implementation of public investments by making them more predictable, credible, efficient and productive could close two thirds of the public investment efficiency gap in selected Arab countries.

B. Domestic and international private finance

28. The high levels of inequality and declining levels of private investment in the Arab region are a stark reminder of the inability to sufficiently align both domestic and international private investment with long-term sustainable development needs. There is ample room to realign the region’s economic and financial policies with the 2030 Agenda. The conclusions and recommendations adopted at the ECOSOC Forum on Financing for Development follow-up propose ways to incentivize institutional investors to take long-term approaches while considering public interests. In this regard, it is worth highlighting several considerations associated with these approaches that affect the major channels of domestic and international private financial flows to the region.

1. *Foreign direct investment and repatriated profits*

29. Following the global economic downturn and political change in the region, FDI inflows decreased from $88.5 billion in 2008 to $32.4 billion and $28.7 billion in 2016 and 2017, respectively. Inflows into the region

[15] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2018: Investment and New Industrial Policies* (Geneva, 2018).

[16] See https://www.imf.org/external/np/fad/publicinvestment/#3 for details on the methodology and reports.

remain volatile because of the risks associated with the commodity bust and the deteriorating terms of trade, especially for crude oil, metals and minerals. To achieve the SDGs in the region, inflows must exceed outflows in a sustainable manner, which is not currently the case: the region witnesses FDI inflows, portfolio investments and other official flows of $44 billion annually, but outflows and repatriated profits average $70 billion per year.

30. Moreover, when primary income is factored, the region appears to have witnessed outflows on FDIs and has effectively become a net exporter of capital, as, for every dollar received as FDI, approximately $1.8 dollars is reinvested abroad.

2. *International and Arab migrant remittances*

31. Traditionally, the Arab region has been both a source of and destination for migrant remittances. Arab migrant remittances have steadily increased in three directions. First, interregional cross-border remittance inflows reached $21.4 billion in 2016, representing 5 per cent of total remittances sent to developing countries. Secondly, intraregional remittances rose to $27.1 billion in 2016. Thirdly, extraregional remittance outflows – sent by all foreign nationals residing in the region to their home countries of origin or to third country nationals in non-Arab countries – decreased from $60.4 billion to $54.3 billion in 2011 and 2016, respectively. These patterns suggest that the Arab region remains a net remittance exporter. Between 2011 and 2016, for every $1 of remittances generated, the Arab region repatriated on average $2.8 dollars to other regions.

32. The influence of remittances on output growth is debatable. Considerable disparities exist with respect to the remittances-growth correlation, with Djibouti, Egypt, Jordan, Lebanon, Morocco, Oman and the Sudan showing positive but varying results. Nevertheless, the role of remittances in reducing poverty and improving investment in education and health, and the resulting long-term effects on economic growth, cannot be ignored.

33. The cost of repatriating remittances in the Arab region remains a structural problem and accounts for large development finance leakages. Had remittance costs been reduced as mandated by both the Action Agenda and SDG 10 to ensure that financial services were more affordable to migrants, the Arab region would have saved up to $16 billion worth of additional development finance by 2030.

3. *Public and private partnerships*

34. Compared with other regions, the Arab region performs poorly in mobilizing private capital for financing larger infrastructure projects. Of a world total of $2.5 trillion in 2014, private participation in infrastructure in the Arab region reached $113.5 billion – less than 5 per cent of global public-private partnership (PPP) activity.[17] The region is showing a recovery trend for infrastructure PPP, with a relatively larger share of greenfield projects. However, those projects have been successful in only a handful of countries. Arab countries with the largest private participation in public projects are Morocco (with a 28 per cent share of the region's PPP activities), followed by Egypt at 23 per cent, Algeria at 13 per cent, Iraq and Jordan at 9 per cent, and Tunisia at 6 per cent.

35. The main challenges that hamper the spread of PPPs are categorized as political, regulatory and institutional in addition to capacity, funding and public opinion-related issues. The following four considerations should be highlighted:

- Public policies remain at the heart of implementing FfD priorities. While public and private finance play important roles in financing sustainable development, public leadership is vital for setting rules and overcoming structural constraints that impede structural transformation towards sustainable development. In many areas, particularly those with public good characteristics, public financing remains indispensable. Yet, the 2018 IATF report claims that private funds could ease fiscal space

[17] ESCWA, Background paper for the 2018 Report of the Arab Forum for Environment and Development (unpublished).

to achieve sustainable development. While this may be true for revenue generating projects, it does not necessarily apply to public goods and projects unless they are for a philanthropic cause. The paradox lies in acknowledging that the necessary safeguards need to be in place to ensure the fiscal sustainability of public projects in a manner that preserves public interests, while guaranteeing access to private returns on investments;

- More than 150 international civil society organizations launched a PPP global campaign, expressing alarm at the use of PPPs to deliver public goods, and in particular at the World Bank's role in promoting such contracts. The organizations called for an independent review into the development outcomes of the PPP portfolio. They further indicated that where the public sector is a financial or tax incentivising agent, or provides other regulatory or contractual concessions to the private sector, there are less standards applied on robust transparency, accountability and impact assessment;[18]

- These positions broadly resonate with the Arab unified FfD position, according to which, although there is a need to mobilize both public and private finance to achieve the sustainable development goals, private finance is not a perfect substitute for public finance, especially when delivering on vital public infrastructure.[19] In fact, international private capital has been flowing out of the Arab region, which has become a net exporter of both capital and primary income;

- Offering incentives to the private sector to adopt global standards on responsible business conduct can promote a better alignment of public and private goals. The IATF recognizes the need to improve the definitions, standards, measurement and disclosure of environmental, social and governance impacts and of new instruments. Given the proliferation of competing reporting guidelines for businesses, there is a need to introduce greater standardization in sustainability metrics, and to ensure that the metrics are aligned with global standards so as not to duplicate efforts.

C. International development cooperation

36. International public finance is increasing, but significant SDG funding gaps remain. ODA providers should increase aid and meet the 0.7 per cent gross national income (GNI) target expressed in the Action Agenda. Multilateral development banks and South-South cooperation providers are increasing their contributions to implement the 2030 Agenda, but such forms of international collaboration only complement (rather than substitute) ODA commitments. The international community should support country efforts to manage transitions and reconsider graduation status.

37. There is also a need to recognize that ODA is becoming increasingly non-concessional and is redirected away from its initial intended usages to serve humanitarian action, cover the cost of hosting refugees in donor countries, and cover the costs associated with debt relief frameworks. This is gradually establishing new norms by changing the definition of ODA and the manner in which commitments are reported. Reporting should be sufficiently disaggregated to determine if any increases are attributed to humanitarian spending and in-donor refugee costs, and to assess the level of concessionality of disbursed ODA, including the portion directed through multilateral development banks.

D. International trade as an engine for growth

38. The 2018 IATF report stresses reinforcing trade policies to finance sustainable growth. However, it makes no reference to the Doha Development Round, although it is mentioned in the Action Agenda as a key

[18] Civil Society Financing for Development (FfD) Group, "Collective input by the Civil Society FfD Group, including the Women's Working Group on FfD, in preparation for the 2018 IATF Report on FfD". Available at https://developmentfinance.un.org/sites/developmentfinance.un.org/files/IATF%202018_CS%20FfD%20Group_input_0.pdf.

[19] E/ESCWA/EDID/2017/IG.2/9/Report.

way to turn international trade into an engine for growth. Trade has not been reviewed against the relevant Action Agenda commitments, raising concerns over selectivity when analysing trade and trade-related measures. For example, the IATF reviewed progress in removing agricultural export subsidies, but avoided examining the effects of introducing disciplines and other export restrictions on agriculture.

39. Labour conditions, the empowerment of women and environmental sustainability in bilateral and regional free trade agreements should not be used as new forms of non-tariff barriers. The IATF calls for an open dialogue over environmental and social principles to be included in new trade agreements. In this context, further precision is required to qualify the purpose and format of the proposed dialogue as it remains bilateral/regional and non-preferential in nature, and falls within the scope of free trade agreements concluded as an exception to the general rules governing the multilateral trading system (either on the basis of article XXIV of GATT or the Enabling Clause), unless a new mandate is issued by the World Trade Organization (WTO) through the Negotiating Group on Rules. Reference to those proposed dialogues should be qualified, especially in relation to environmental and social principles over which the WTO does not necessarily have an exclusive mandate.

40. There is a tendency to downplay the effects of trade protectionism, while overemphasizing those that stem from non-binding trade facilitation measures. In doing so, the 2018 IATF report illustrates that the trade coverage of import-facilitating measures ($169 billion) has outpaced (more than double) the value of import-restricting measures ($79 billion). However, this narrative does not necessarily imply that all developing countries are better off. In the Arab region, a substantial share of exports is exposed to trade protectionism, entry prices and tariff-rate quotas, and is subject to deteriorating terms of trade. There is a need to qualify such assessments based on preferential trade product coverage, rather than employ aggregate trade values indistinctly from the nature of preferential arrangements regulating trade between Arab countries and their developed counterparts. The accumulation of post-crisis trade and investment protectionism are further distorting the trade-growth nexus. Nearly 1,500 trade restrictive measures have been adopted, with more than 1,000 imposed by developed economies. Only 25 per cent of such restrictive measures in place since the 2008 financial crisis have been removed.[20]

E. Debt and debt sustainability

41. The IATF finds that debt risks are rising, increasing the possibility of a renewed cycle of debt crises and economic disruption. Countries face pressing demands for additional public investments in the SDGs at a time when constraints on further debt financing are likely to become more binding. The changing composition of debt in developing countries calls for a re-examination of creditor coordination mechanisms. Egypt and Iraq, for example, abandoned plans to issue sovereign bonds owing to prohibitive interest rates sought by investors. The prospects for tighter global liquidity associated with a normalization of United States interest rates and a weaker growth outlook could raise the cost of market-based issuances. These conditions exacerbate the challenges facing the Arab region and may lead to a growth in sovereign borrowing spreads. According to the Global Sovereign Indebtedness Monitor, six Arab countries are vulnerable and likely to witness renewed debt distress/crises.

42. In Lebanon, government debt rose to 153 per cent of GDP, the third highest globally after Japan and Greece. Debt servicing costs consume 44 per cent of government revenues.[21] As the cost of issuing debt goes up, public finances become more unsustainable. The yield on dollar-denominated Lebanese bonds jumped to

[20] Roberto Azevêdo, "A healthy trading system requires progress and engagement at all levels", statement to the Inter-Pacific Bar Association, Kuala Lumpur, 14 April 2016. Available at https://www.wto.org/english/news_e/spra_e/spra119_e.htm.

[21] International Monetary Fund, "IMF Executive Board Concludes Article IV Consultation with Lebanon", Press Release, No. 18/250 (Washington, D.C., 2018). Available at https://www.imf.org/en/News/Articles/2018/06/21/pr18250-imf-executive-board-concludes-article-iv-consultation-with-lebanon.

10.3 per cent in 2018, thus increasing the spread on the country's dollar bonds above those registered in Argentina, Turkey and Ukraine. The cost of insuring Lebanon's debt also rose.[22]

43. ESCWA has proposed a three-pronged strategy to ensure that debt remains a viable means of sustainably financing the region's development. The strategy entails a strong component of multilateral debt relief to aid countries facing a sovereign debt distress; a structural and deleveraging component for non-oil-rich Arab countries based on growth, raising consumption and a return to normal interest rates/inflation; and a balance sheet deleveraging component to avoid the crowding out of the private sector, underinvestment and tightening liquidity through debt repayment, asset purchases and restructuring private debt, and to overcome derisking practices that have obliged Arab banks to curtail correspondent banking relationships with foreign banks, thereby hindering access to capital markets.

III. IMPLEMENTATION OF FINANCING FOR DEVELOPMENT ACTIVITIES

44. Over the past year, the ESCWA secretariat has undertaken various activities on FfD issues within and beyond its regular work programme. Such activities revolved around the three key functions of ESCWA to ensure that ESCWA normative work supported member States through advisory services, to build regional consensus on key challenges facing Arab countries, and to promote the interests of the region at the global level.

A. Consensus-building and advocacy

45. Consensus-building and advocacy work centred on making proposals and providing analyses to safeguard Arab financing for development interests at the global and regional levels, including the following:

- Providing extensive inputs to United Nations thinking on FfD. This included the recently launched Secretary-General's Strategy for Financing the 2030 Agenda for Sustainable Development (2018-2021) and the work of the IATF;

- Contributing to three high-level panels on the following themes: "Fostering an enabling environment to finance the 2030 Agenda", "Mobilizing private investments for sustainable development" and "Innovative solutions to finance the SDGs" at the Secretary-General's High-Level Meeting on Financing the 2030 Agenda for Sustainable Development (New York, 24 September 2018); and to the UNCTAD-led World Investment Forum (Geneva, 22-26 October 2018);

- Providing inputs for the preparation of key global United Nations events, such as the 2019 High-level Dialogue on Financing for Development; and the 2018 ECOSOC Financing for Development Forum and the regional commissions side event on financing for development (New York, 23-28 April 2018);

- Providing a background note for the special session on FfD at the twenty-fourth meeting of the Regional Coordination Mechanism (Cairo, 22 October 2018);

- Contributing to the regional high-level expert workshop on illicit financial flows (Cairo, 27 November 2017);

- Contributing to key regional events such as the Arab Investment Conference (Abu Dhabi, 8-11 April 2018).

[22] Ibid.

B. NORMATIVE WORK

46. Normative work undertaken in the past year on FfD included the following publications, policy reports, background papers and analytical briefs:

- Publishing the first edition of the ESCWA report on the state of financing development in the Arab region (forthcoming);
- Preparing the Arab Financing for Development Scorecard;
- Publishing the Report on Illicit Financial Flows in the Arab Region (E/ESCWA/EDID/2018/TP.1);
- Publishing a policy brief entitled "Global financing for development dynamics and their implications on the Arab region" (E/ESCWA/EDID/2018/TP.5);
- Contributing to the ESCWA Survey of Economic and Social Developments in the Arab Region 2018 (forthcoming);
- Preparing a concept note entitled "Development and dissemination of financing for development media content";
- Drafting a concept note on FfD for the 2018 Arab Forum on Sustainable Development (Beirut, 24-26 April 2018);
- Contributing to the preparation of the Secretary-General's report entitled "Trends and progress in international development cooperation" (E/2018/55);
- Preparing a chapter on financing development in the Arab Forum for Environment and Development 2018 Report (forthcoming);
- Preparing an assessment of the 2018 IATF report for the G77 and China.

C. TECHNICAL COOPERATION AND ADVISORY SERVICES

47. The ESCWA secretariat undertook the following three major technical cooperation and advisory services in the area of FfD in 2018.

- Organizing a national workshop on the theme "Fiscal policy and taxation, the multilateral agreement and inclusive tax framework" (Manama, 23-26 April 2018);
- Organizing the Conference on Financing Sustainable Development – Curbing Illicit Financial Flows, upon a request by the Chairman of the G77 and China (Beirut, 28-29 November 2018).

48. Representatives of member States are invited to take note of the key messages and findings contained in the present document and of the activities undertaken to support of FfD at the regional level, and to provide guidance for ESCWA future work in this important area, especially since regional commissions are assuming greater roles to advance the Action Agenda as part of reforming the United Nations Development System.
