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Committee on Liberalization of Foreign Trade, Economic
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Item 4 (b) of the provisional agenda

Actions taken in the field of financing for development**Implementation of activities related to financing for development
under the ESCWA programme of work since the previous
session of the Committee****Summary**

Since the adoption in 2015 of the Addis Ababa Action Agenda (the Action Agenda) of the Third International Conference on Financing for Development (FfD), the Economic and Social Commission for Western Asia (ESCWA) has undertaken activities (including publications, expert group meetings, capacity-building and advisory services, and technical studies) designed to help member States to implement the Action Agenda.

Financing for development initiatives account for more than one third of the Commission's activities under subprogramme 3 (economic development and integration) of the ESCWA programme of work. This report provides an overview of progress achieved in implementing those activities between April 2016 and July 2017. It is submitted to the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development for discussion and recommendations on follow-up.

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Introduction

1. The Economic Development and Integration Division (EDID) has the task of implementing subprogramme 3, on economic development and integration, of the programme of work of the Economic and Social Commission for Western Asia (ESCWA). The primary objective of subprogramme 3 is “to achieve a decent standard of living for all people in member States, through sustained, inclusive and integrated regional economic development”. Financing for development (FfD) activities pursued over the biennium 2016-2017 have played a key part in realizing that objective.
2. A range of publications, expert group meetings, capacity-building activities, advisory services, technical studies and other initiatives have been undertaken to help member States to meet global development finance commitments and overcome related challenges in the seven action areas of the Addis Ababa Action Agenda (Action Agenda).^{*} This report sets forth the principle activities undertaken by ESCWA in the biennium 2016-2017.

I. STUDIES AND REPORTS

Arab Development Outlook: Vision 2030

3. Chapter 6 of *Arab Development Outlook: Vision 2030*, a major publication issued by the Commission in 2016, looks at the concept of Arab developmental regionalism in the context of the 2030 Agenda on Sustainable Development (2030 Agenda) and development finance. Taking its cue from the Action Agenda (paragraph 87), the chapter assesses various channels for mobilizing development finance in the Arab region and proposes the creation of an Arab citizens common economic security space (ACCESS) a regional integration framework that would serve the SDGs and financing for development, and which would facilitate the operation of the Arab Customs Union and a single market. The report stresses the need to rework the objectives, scope and instruments of Arab integration in order to maximize the returns on financing for development.

Implementation of the 2030 Agenda

4. This survey, submitted at the Commission’s twenty-ninth ministerial session in December 2016, looks at development finance options at the national and regional levels and the opportuneness of pursuing the ACCESS proposal as a priority. It underlines the limits of relying on domestic public resource mobilization to finance sustainable development. Leveraging external debt to that end provokes debt spirals, the consequences of which are aggravated by tax evasion/avoidance and illicit financial flows. The resulting combined losses for developing countries can as much as triple what they receive in annual official development assistance (ODA). The paper also looks at other potential means of channelling development finance, such as: direct investment; international private financing; including through remittances; innovative financing; and public-private partnerships.
5. The survey recommends capitalizing on international trade as an engine for growth and source of development finance. It underlines the potential of Arab developmental regionalism to contribute to the mobilization of public and private funding to achieve sustainable development in the region.

Arab Sustainable Development Report

6. The first edition of the *Arab Sustainable Development Report*, issued in early 2016, contains quantitative and qualitative assessments of the amount of finance needed in the region to achieve the Sustainable Development Goals (SDGs) by 2030. Chapter 6 presents a compendium of assessments measuring sectoral financing gaps and costing of the SDGs, proposes ways to bridge those gaps, and provides an overview of

^{*} [A/RES/69/313](#), chap. II.

potential sources of development finance, including: domestic public resources; domestic and international private finance; international development cooperation; international trade; and sovereign borrowing. The report concludes that the finance needs of least developed countries (LDCs) remain considerable, but may be lower than in middle-income countries. Improving tax systems, combatting illicit financial flows, introducing subsidy reforms and rationalizing military expenditure could all contribute to freeing up funding for development.

Illicit financial flows, trade misinvoicing and development finance in the Arab region

7. The Action Agenda directs the spotlight on to illicit financial flows and recommends their elimination by 2030. In that context, the Commission is preparing a report on the motives, patterns and extent of those flows and trade misinvoicing in the region. Due to be published in 2017, it assesses data sources and the available means for tracking trade misinvoicing and balance of payment leakages. It also provides a detailed quantitative assessment of trade misinvoicing, and discusses its adverse impact on trade and financial systems.

8. Preliminary figures contained in the report indicate that illicit financial flows associated with commodity trade misinvoicing in the region stand at an average 8.2 per cent of total non-oil trade with the rest of the world, equivalent to an average \$60.3 billion per year. The findings raise fundamental questions with regard to the enforcement of regional trade agreements (intra and extraregional) and the pending launch of the Arab Customs Union by 2021.

Arab Financing for Development Scorecard

9. Under the Action Agenda, United Nations regional commissions, including ESCWA, are mandated to monitor and encourage implementation of the global financing for development framework. The Commission's Arab Financing for Development Scorecard is intended to measure progress across the seven action areas of the Action Agenda, tracking resources, funding channels, datasets and indices, including those proposed to measure total official support for sustainable development (TOSSD).

10. The Scorecard shows that, in recent years, the flow of finance into the Arab region pales before the volume of resources flowing out of the region. For every dollar in development finance invested between 2011 and 2015 in the region, it effectively lost \$4.16 in direct and indirect financial outflows and opportunity cost. It had been estimated that the region would need to invest \$3.7 trillion in order to achieve the SDGs, but that estimate appears to have overlooked those substantial financial outflows and leakages. The real amount needed could therefore be as much as double.

Financing the SDGs in the Arab region

11. This study employs a statistical forecasting methodology to estimate the investment needed to build up gross fixed capital formation and finds that the aggregate financing needs for Arab countries range between \$3.77 billion and \$4.38 billion in new capital to achieve the SDGs. Traditional inflows (including foreign direct investments), remittances, ODA, innovative sources and public-private partnerships, are all factored in. The study contains recommendations on how to generate smart growth and increase productive employment.

Assessing the financing gap in the Arab region

12. Due for publication in 2017 is an update of an earlier assessment by ESCWA, which appeared in its *Survey of Economic and Social Developments in the Arab Region 2013-2014*, of the financing gap in the Arab region. The same methodology is used as was employed in the *Survey*, which was based on 2009 data. The assessment concludes that capital requirements to sustain 7 per cent output growth (SDG 8.1) in Arab middle-income countries, excluding those affected by conflict, amounted to \$105.5 billion by the end of 2015 and that the finance gap that year was 46 per cent greater than in 2009.

Domestic public resource mobilization

13. This ESCWA technical paper underlines that the capacity of the Arab region to finance achievement of the SDGs with domestic resources alone is limited. High public deficits and the levels of public and publicly guaranteed external debt, and excessive reliance on indirect taxation have an adverse impact on welfare and socioeconomic conditions. The latter also fuels corruption and tax evasion and avoidance, which further complicates matters.

Domestic and international private business and finance

14. This technical paper demonstrates that domestic and international private finance fall short of what is needed in terms of investment in sustainable development in the region. As foreign direct investment has become more volatile and risk averse in recent years, competition for such capital has sharpened, prompting beggar-thy-neighbour incentives and investment schemes. Most remittance inflows into the region are used for household consumption and only a small share for investments and to accumulate physical capital. However, since remittance flows have been stable and counter-cyclical, they have the potential to be an important tool for sustainable development finance.

Trade as an engine for development

15. In this technical paper, the Commission examines ways in which trade (intra and extraregional) can help to mobilize financing for development in the Arab region. It establishes that trade policy in the region needs to be recalibrated. Regional trade integration should be favoured over the many extraregional trade agreements in place. Every 10 per cent increase in intra-Arab trade would produce a 0.08 per cent increase in regional GDP. Arab countries should thus pursue a just multilateral trade reform agenda.

International development cooperation

16. The Arab region is a source and destination for ODA. In 2015, according to this technical paper, the region received an average net of \$205 in ODA every second of every day. Nevertheless, given the political and security situation, additional finance is needed to fill a humanitarian finance gap estimated at \$26.5 billion (2.5 times higher than the total humanitarian and refugee aid channelled into the region in 2015). For every dollar the region receives in ODA, it spends \$0.90 on ODA in other regions.

Debt and debt sustainability

17. This technical paper looks at whether external debt should be encouraged as a means of financing development in the Arab region. It finds that, while borrowing in developing countries has declined steadily over the past 15 years, that is not the case for many Arab economies. While the rise in global debt was driven by private non-guaranteed and corporate short-term borrowing, the rise of external debt in the Arab region has been due predominantly to the swelling of public and publicly guaranteed debt. Moreover, the political and security situation has effectively led to a rise in the cost of sovereign borrowing. The report proposes a three-pronged strategy to ensure that debt is used to provide a sustainable path to development in the region.

II. MEETINGS AND WORKSHOPS*Expert group meeting on illicit financial flows and trade misinvoicing in the Arab region
(Beirut, 8 May 2017)*

18. Participants at this meeting looked at recommendations on how to enforce curbs on illicit financial flows and trade misinvoicing. They discussed the need to establish a common working definition of the two phenomena and a methodology for qualifying and quantifying them.

Expert group meeting on Arab Financing for Development Scorecard
(Beirut, 9 May 2017)

19. In view of the lack of a standard method for measuring progress on the seven action areas of the Action Agenda, ESCWA has developed its Arab Financing for Development Scorecard. This meeting was convened in order to test its usefulness and examine the findings it had generated thus far. Participants appreciated the way in which the Scorecard captures a full array of financing sources available to the Arab region and supported its development as a regional tool for monitoring development finance flows.

High-level Political Forum on Sustainable Development
(New York, 10-19 July 2017)

20. ESCWA representatives at the High-level Political Forum took part in a side event organized by the Islamic Development Bank on the theme “From Financing to Empowerment: Islamic Finance as an Enabler in Eradicating Poverty”. The Commission also presented a regional perspective on the role of financial and non-financial means of implementation (trade, science, technology transfer and capacity-building) in achieving the SDGs, the Action Agenda, and the Paris Agreement under the United Nations Framework Convention on Climate Change.

Arab Forum on Sustainable Development
(Rabat, 3-5 May 2017)

21. During the plenary session of this regional forum on implementation of the 2030 Agenda, the Commission highlighted the pathways by which the SDGs could be financed and noted that there had been little concerted effort to make progress on financing achievement of the SDGs in the Arab region. Participants also discussed: the need for enhanced regional and international cooperation; the potential contribution of non-financial means to sustainable development; regional finance mechanisms; and investment strategies to generate employment and spur development.

Euromoney Conference
(Amman, 22 March 2017)

22. In the context of financial inclusion and sustainable development in Jordan, ESCWA observed in a presentation at the conference that broadening access to financial services to the poorer strata of society, including individuals, and micro, small and medium-sized enterprises, would lead to a decrease in the incidence of poverty and unemployment. ESCWA advocated enhancing the provision of credit guarantees and lending programmes tailored to the needs of the poor, and the promotion of healthy competition, efficient regulation, and innovation (such as mobile banking). Financial inclusion should be seen as integral to the concept of equality of economic opportunities.

Arab Thought Foundation FIKR Conference
(Abu Dhabi, 12-14 December 2016)

23. The theme of this annual conference was Arab economic integration. Representatives of ESCWA asserted that the establishment of an Arab common citizens economic security space (ACCESS), with free movement of goods, services, capital and labour, could help to reduce regionwide transport costs, boost employment opportunities for Arab migrant workers, provide the means to mobilize regional development finance, and lead to an increase in the regional GDP of up to \$750 billion by 2020.

Annual Arab Banking Conference
(Beirut, 24-25 November 2016)

24. Representatives of ESCWA to this conference stressed the need for more cooperation between Arab banks, which should redirect investment to the Arab region. They recommended the establishment of an Arab banking conglomerate. Further recommendations included: activating the role of Arab banks in formulating

financial, monetary and economic policy and decisions articulated by international institutions; revitalizing efforts to curb illicit financial outflows and tax evasion; and articulating a regionwide strategy to enhance financial inclusion.

Small and Medium-Enterprises Forum
(Beirut, 16 November 2016)

25. This forum was part of Global Entrepreneurship Week (held from 14 to 19 November 2016). ESCWA representatives told participants that the activities of small and medium-sized enterprises (SMEs) in the Arab region were hampered by a range of macroeconomic and regulatory factors, and the business and trade environments, and not just by problems of access to finance. Four initiatives could facilitate financial inclusion: the establishment of an SME observatory; reinvigoration of the Arab Fund for Financing Small and Medium Private Sector Projects in the Arab Countries; industrial mapping of rules of origin; and the creation of an SME accreditation body.

Conference of the Chambers of Commerce, Industry and Agriculture for Arab Countries
(Beirut, 23-24 March 2016)

26. At this forty-second session of the conference, ESCWA representatives touched on the role to be played by national chambers of commerce in financing for development and reiterated the need for domestic resource mobilization, international development cooperation, foreign direct investment and intraregional trade as engines for growth.

III. SUPPORT FOR FFD COORDINATION MECHANISMS

Financing for development and the global compact for safe, orderly and regular migration

27. The Commission has prepared a proposal on the links between the global compact for safe, orderly and regular migration proposed in the New York Declaration for Refugees and Migrants (General Assembly resolution 71/1 of September 2016) and the Action Agenda, and on the positive contribution by migrants to inclusive growth and sustainable development in countries of origin, transit and destination. The Commission's proposal contains a request for additional funding for activities in the Arab region related to those two documents. Such initiatives could include: improving conditions, transparency and competition for cheaper, faster and safer transfer of remittances in source and recipient countries; promoting financial inclusion and literacy, and innovative financing mechanisms; and improving data collection.

United Nations World Economic Situation and Prospects

28. In its contribution to the 2017 World Economic Situation and Prospects report, ESCWA estimated that conflict had cost the region \$613.8 billion in forgone GDP since 2010, equivalent to 6 per cent. Noting subdued growth in the Arab region and underlining the need for macroeconomic adjustments, the report concludes that the economic outlook remains turbulent.

Inter-Agency Task Force on Financing for Development

29. ESCWA is one of more than 50 member institutions of the Inter-Agency Task Force (IATF) on Financing for Development and focuses on domestic public resources and international trade as an engine for development. The Commission aims to ensure that the positions and interests of the Arab States are reflected in the work of the Task Force, as evidenced in its 2017 report, *Financing for Development: Progress and Prospects*.

30. The Commission submitted a policy brief in the online annex of the report on domestic public resources in the Arab countries, with a focus on taxation. It concludes that large disparities remain between oil-rich and

oil-poor countries in the Arab region in terms of revenue mobilization. The former enjoy a good revenue to GDP ratio (at around 40 per cent in 2014, it is considered among the best in the world) but remain exposed to price volatility and the long-term depletion of oil and gas resources. Arab economies face severe fiscal constraints but must boost socioeconomic expenditure in order to progress towards achieving the SDGs, in addition to tackling the finance needs of countries affected by conflict. There is a need for integrated strategies at the national and regional levels to achieve transformation, attain long-term stability and muster the resources needed to fund implementation of the SDGs.

31. The Commission submitted a substantive contribution on regional to the annual report of the Economic and Social Council Financing for Development Forum, voicing concern that trade dynamics in the Arab region had been overlooked in the report's chapter on international trade, which deals mainly with multilateral trade issues. It also made a contribution regarding a decision by the 22 Arab States to deepen regional integration and outlining how the ACCESS framework would facilitate the mobilization of development finance.

Meeting on illicit financial flows and trade misinvoicing

32. Representatives of the Commission joined international experts from some 50 United Nations agencies and other institutions in an IATF expert group meeting on 22 September 2017 in New York to discuss illicit financial flows and tax avoidance and evasion. Many participants supported the idea of keeping efforts to measure such flows disaggregated and to improve methods of measuring separate components and modes of transfer. The need for a global effort to estimate such financial flows was recognized.

Meetings on total official support for sustainable development (TOSSD)

33. ESCWA participated in an expert group meeting on 5 December 2016 organized by the United Nations Department of Economic and Social Affairs on developing a single indicator to assess total official support for sustainable development (TOSSD), in line with the call in the Action Agenda to modernize measures of ODA (paragraph 55). The IATF deliberated on the proposed working definition submitted by the Organization of Economic Cooperation and Development (OECD), which, it was concluded still requires work.

34. The Commission provided an Arab perspective on the matter, highlighting: the need for a shared understanding of the use of TOSSD; its possible uses and misuses; the intricacies involved in calculation and data limitations. It voiced apprehension that such an indicator could be used in an attempt to assert that current levels of funding are sufficient to finance development gaps and the 2030 Agenda.

35. The TOSSD measure attempts to capture all officially supported resource flows irrespective of the level of concessionality, although that is a critical determinant in deciding whether to resort to such financing channels. It is unclear what purpose it would serve to group bilateral, regional and multilateral financing sources, irrespective of their sources and benchmarks, along with all private (domestic and international) resources into a single framework. It appears to lack sensitivity to debt sustainability implications arising from different sources of financing.

*Executive Committee on Economic and Social Affairs (ECESA) Plus Meeting of Principals
(New York, 19 July 2016)*

36. The Executive Secretary of ESCWA addressed the Executive Committee on the need to develop strategic partnerships with regional organizations beyond the United Nations system, such as the League of Arab States, in order to ensure coordination of concerted efforts on the various thematic priorities of the Action Agenda in the Arab region.

Spring meetings of the World Bank and International Monetary Fund
(Washington D.C., 21-24 April 2017)

37. The Commission submitted a contribution for inclusion in the address by the Secretary General to the spring meeting of the International Monetary Fund and World Bank Group. In it, ESCWA made clear that the multiple crises faced by the region rendered the pursuit of sustainable development aspirations something of a luxury. There was little fiscal space to support an expansion of investment in the region, even in oil-rich economies. Already, expenditure on critical areas such as health care, education and social protection, was inadequate. Generating funds to meet the goals of the 2030 Agenda would be particularly challenging. Moreover, net resource outflows from the region were far exceeding the inflows.

Istanbul Plan of Action for Least Developed Countries
(Antalya, Turkey, 27-29 May 2016)

38. ESCWA contributed to the Comprehensive Midterm Review for the Istanbul Programme of Action for the Least Developed Countries. The Commission highlighted the challenges facing Arab LDCs, which are particularly vulnerable due to their dependence on natural resources and their limited resilience to conflicts and natural hazards. They were facing declining capital inflows, and rising debt and fiscal pressures. ODA remained the key to building the capacities of Arab LDCs and supporting their sustainable development efforts.

IV. EXTRABUDGETARY ACTIVITIES

39. Since 2015, EDID has looked at how to help ESCWA member States to harness remittances to finance development. It has drawn up a draft extrabudgetary project on the subject with a view to raising awareness of the development finance potential of remittances among governments and central banks. The failure to make the most of that potential thus far can in part be attributed to the absence of national strategies or policies designed to channel remittances into development, the relatively weak financial and institutional infrastructure supporting remittances, and the lack of sufficient data on remittances. EDID is currently exploring possible partnerships to launch the project.

V. ADVISORY SERVICES

40. ESCWA received several technical cooperation requests from member States following the adoption of the Action Agenda, in particular with regard to tax policy, transparency and administration, and ways of avoiding double taxation and other practices in the context of base erosion and profit shifting (BEPS).

41. ESCWA conducted a national workshop on international taxation, base erosion and profit shifting in February 2017, in Cairo, in partnership with the Egyptian Ministry of Finance and Tax Authority. The aim of the workshop was to form a team of national experts to review all avoidance of double taxation treaties signed by Egypt. Participants examined international taxation concepts and how they apply to Egypt, and discussed case studies and best practices. There were also tutorials on the financing for development framework, its implications for base erosion and profit shifting in the Arab region, the region's perspective on international taxation, and the negotiation of international tax treaties.

42. A regional workshop on international taxation and avoidance of double taxation agreements was held in March 2016, in Manama. It aimed at strengthening the capacity of participants to deal with tax treaties and address tax avoidance issues. International experts reviewed the latest developments in that area, including the taxation of cross-border permanent establishments and the treatment of base-eroding payments of interest. Participants requested another workshop on the matter, which may take place during the last quarter of 2017, subject to the availability of resources.
