

**Economic and Social Commission for Western Asia (ESCWA)**

Committee on Liberalization of Foreign Trade, Economic
Globalization and Financing for Development
Twelfth session (Financing for development)
Beirut, 4-5 December 2017



Item 6 (c) of the provisional agenda

The Arab Financing for Development Scorecard

International development cooperation

Summary

International development cooperation strategies have been pursued under various bilateral and multilateral formats, including through four United Nations development decades, the Millennium Development Goals and, more recently, the 2030 Agenda for Sustainable Development. However, only a handful of countries have fulfilled the commitment to increase official development assistance to 0.7 per cent of their gross national income.

The international development discourse has shifted to ensure that official development assistance is being effectively spent, benchmarked and coordinated. Today, the scope of official development assistance transcends its traditional development usages to accommodate humanitarian crises and in-donor refugee costs. It has been repackaged, relabelled and blended to complement South-South forms of cooperation, and to support the growing roles of multilateral and regional development banks.

The Arab region stands at the cross-roads of this shifting discourse, given that it is both a source and destination of official development assistance. However, such assistance is not currently sufficient to implement the 2030 Agenda for Sustainable Development in the region, given the significant financial flows leaving the region. On average, 90 cents of every \$1 received in official development assistance by the region is disbursed to support other regions. New approaches are therefore needed to finance the Sustainable Development Goals by 2030. The political and security challenges currently facing the region further complicate the situation, with large sums of official development assistance from the Development Cooperation Directorate allocated to humanitarian and refugee aid.

Representatives of member States are invited to consider the global and regional trends in development cooperation presented in this document and comment thereon.

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Introduction	1-2	3
<i>Chapter</i>		
I. INTERNATIONAL DEVELOPMENT COOPERATION: GLOBAL TRENDS	3-13	3
II. DEVELOPMENT COOPERATION: REGIONAL REALITIES.....	14-24	6

Introduction

1. The Third International Conference on Financing for Development resulted in a new global framework to finance the ambitious 2030 Agenda for Sustainable Development. The Addis Ababa Action Agenda aims to mobilize all sources of finance (public, private, domestic, international, bilateral, multilateral, traditional and innovate)¹ to create a fiscal space for Governments to achieve the 17 Sustainable Development Goals (SDGs).

2. The present document serves as input to the Arab Financing for Development Scorecard. It provides analytical assessments of international development cooperation, including official development assistance (ODA) and its relationship to humanitarian and in-donor refugee costs. It also presents an analytical mapping of Arab ODA inflows and outflows, taking into account regional contexts as prescribed by the Action Agenda.²

I. INTERNATIONAL DEVELOPMENT COOPERATION: GLOBAL TRENDS

3. International development assistance remains a unique source of development financing, given its counter-cyclical influence on countries that are unable to fully access market-based forms of external investment. Global gross concessional development finance reached \$162.7 billion in 2015 (\$17.5 billion or 10.7 per cent was provided by non-members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC)).³

4. OECD-DAC official development assistance rose following the 2007 global financial crisis reaching \$131.6 billion by the end of 2015, representing a 6.9 per cent increase in real terms compared with 2014.⁴ Some argue however that those numbers are deceptive, as the rise in official development assistance was largely due to an increase in humanitarian aid and in-donor refugee costs. Excluding in-donor refugee costs, official development assistance from OECD-DAC members increased by only 1.7 per cent between 2014 and 2015.⁵

5. Nonetheless, ODA figures continue to fall short of the United Nations target for international aid spending of 0.7 per cent of gross national income (GNI) (with 0.15-0.20 per cent of ODA/GNI to be made available to least developed countries). By 2016, only four DAC members met this target. In 2015, the combined official development assistance of DAC countries reached 0.3 per cent of their combined GNI, largely unchanged from 2014 (figure 1).

6. Accordingly, the Action Agenda recognizes that the Monterrey Consensus has not yet been fully implemented, and stresses the need to follow up on commitments and assess progress made in implementing the Monterrey Consensus and the Doha Declaration to further strengthen the new global financing for development framework.

¹ The new global financing for development framework under the Addis Ababa Action Agenda includes the following seven priority action areas: domestic public resources; domestic and international private business and finance; international development cooperation; international trade as an engine for development; debt and debt sustainability; addressing systemic issues; and science, technology, innovation and capacity-building.

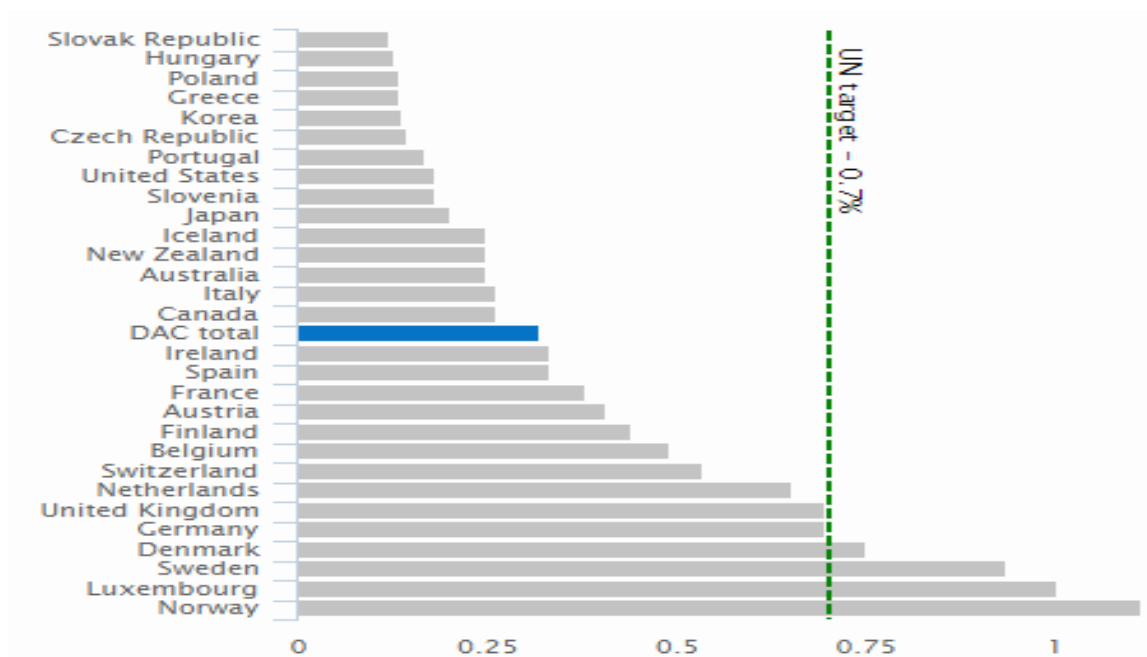
² In the present document, development cooperation refers to activities not mainly driven by profit, which aim explicitly to support national or international development priorities, discriminate in favour of developing countries, and are based on cooperative relationships that seek to enhance developing country ownership.

³ <https://stats.oecd.org/qwids/>.

⁴ http://www.un.org/esa/ffd/wp-content/uploads/2016/01/ODA_OECD-FfDO_IATF-Issue-Brief.pdf.

⁵ <http://evidencebase.usc.edu/?p=986>.

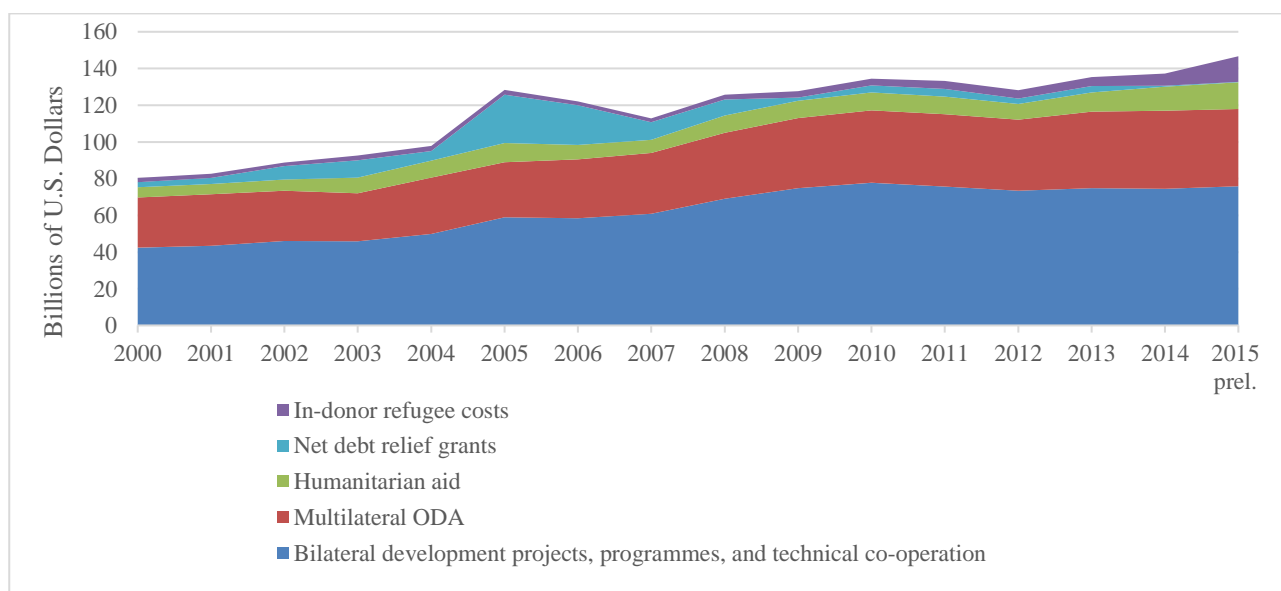
Figure 1. OECD-DAC official development assistance, 2016



Source: OECD Development Finance Database.

7. According to a 2016 report by the Secretary-General on trends and progress in international development cooperation,⁶ official development assistance to non-emergency situations fell in 2014 and 2015. Since 2010, increases in official development assistance have been mainly attributed to increasing humanitarian aid and in-donor refugee costs. As such, official development assistance has remained unchanged in real terms over the last five years; rather, it has been rechannelled to address humanitarian and costs associated with hosting refugees in donor countries (figure 2).

Figure 2. Components of DAC donors' net official development assistance, 2000-2015

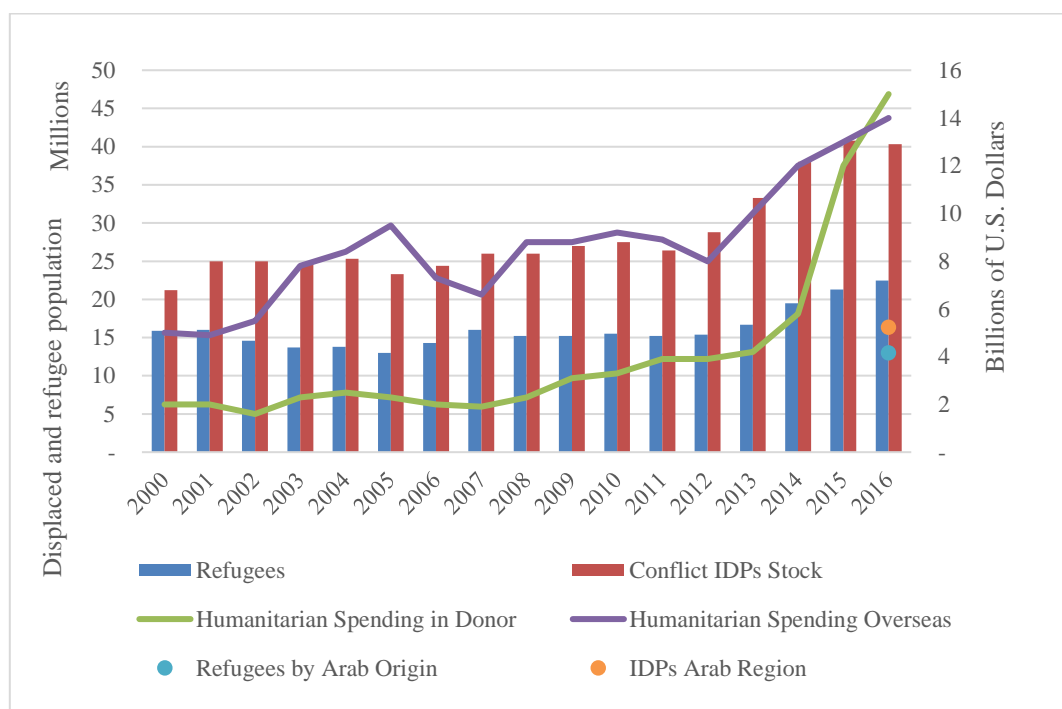


Source: Compiled by ESCWA based on the OECD database.

⁶ <https://developmentfinance.un.org/financing-development-progress-and-prospects-2017>.

8. Today, the world is facing its most acute forced displacement crisis. Data from the Office of the United Nations High Commissioner for Refugees show that by the end of 2016, the global forcibly displaced population reached 65.6 million: 40.3 million were internally displaced, 22.5 million acquired/maintained refugee status, and 2.8 million sought asylum (figure 3). Around 10 million remained stateless. In 2016, 10.3 million persons became newly displaced due to conflict and persecution. On average, 20 people worldwide were displaced every minute of every day in 2016.⁷ Between 2008 and 2015, 203.4 million were displaced because of natural disaster.⁸

Figure 3. Displaced and refugee population compared with humanitarian spending in donor countries and overseas



Source: International Displacement Monitoring Center.

9. International humanitarian assistance⁹ to people affected by conflict and natural disaster totalled \$28 billion in 2015 (\$19.2 billion from OECD- DAC donors, \$6.2 billion from private donors, and \$2.6 billion from non-DAC countries).¹⁰ In 2015, humanitarian aid from OECD-DAC countries increased by 11 per cent in real terms to \$13.6 billion. Official development assistance for in-donor refugee hosting doubled to \$12 billion, constituting nearly 10 per cent of total official development assistance for 2015. In real terms, 75 per cent of the increase in official development assistance from OECD-DAC countries never left donor countries.¹¹

⁷ <http://www.unhcr.org/statistics/unhcrstats/5943e8a34/global-trends-forced-displacement-2016.html?query=global%20trends%202016>.

⁸ http://www.ifrc.org/Global/Documents/Secretariat/201610/WDR%202016-FINAL_web.pdf.

⁹ Humanitarian aid is an ODA sector that aims specifically to save lives, alleviate suffering, and maintain and protect human dignity during and in the aftermath of emergencies. It includes disaster prevention and preparedness, reconstruction relief, relief coordination, protection and support services, emergency food aid, and other emergency and distress relief. International humanitarian assistance includes DAC humanitarian aid, and aid provided by non-DAC and private donors. However, it remains distinct from the traditional ODA definition, which includes flows provided by official agencies to promote economic development and welfare in developing countries; and is concessional in character with a grant element of at least 25 per cent.

¹⁰ <https://reliefweb.int/report/world/global-humanitarian-assistance-report-2016>.

¹¹ http://www.ifrc.org/Global/Documents/Secretariat/2012_WDR_Full_Report.pdf.

Discounting funds spent on refugees, total official development assistance from DAC members (\$131.6 billion) increased by only 1.7 per cent in real terms in 2015.¹²

10. Only three OECD countries do not factor refugee costs under official development assistance (Australia, Korea and Luxembourg). DAC rules allow countries to report in-donor refugee costs as part of their ODA commitments. This is evidenced by Greece, Italy and the Netherlands, whose refugee costs accounted for more than 20 per cent of their ODA disbursements in 2015.

11. According to the Centre for Economic and Social Research, almost 30 per cent of all international aid projects fail to meet their development objectives. In 2015, around \$40 billion of total official development assistance (\$131.6 billion) provided by DAC countries was not put to effective use. Around 30 per cent of all international aid projects fail to meet their development objectives.¹³ To complicate matters further, and contrary to conventional wisdom, official development assistance tends to be lower in countries where the depth of poverty is greatest.¹⁴

12. Middle-income countries have seen their share of global official development assistance fall from just above 60 per cent in 2000 to around 50 per cent in recent years. In parallel, the use of less concessional instruments has become more prominent: ODA loans reached 45 per cent of gross ODA disbursements in 2015.¹⁵

13. The Action Agenda recognizes that blended finance (the use of both concessional public financing and non-concessional private financing, and expertise from the public and private sectors) provides various channels for financing development. Between 2012 and 2015, the private sector mobilized approximately \$81.1 billion in official development financing.¹⁶ According to OECD, during this period, middle-income countries received \$62 billion or 77 per cent of private sector investments, while 26 per cent targeted climate mitigation and adaptation (21 per cent for mitigation, only 1 per cent for adaptation, and 4 per cent for both) mainly through guaranteed and syndicated loans. However, there is insufficient evidence to aggressively push for ‘blending’, as the impact of employing official development assistance to leverage additional private flows can be ambiguous.

II. DEVELOPMENT COOPERATION: REGIONAL REALITIES

14. In 2015, total official development assistance provided to Arab countries amounted to \$20.3 billion (including Arab intraregional official development assistance). Official development assistance granted exclusively by external donors, including OECD-DAC, amounted to \$10.7 billion in the same year. Total official development assistance received by Arab countries (intra and extraregional) accounted for 12.5 per cent of total gross aid extended to developing countries in 2015.¹⁷ The figures reflect an overall 9 per cent decrease in official development assistance to the Arab region from the previous year (22.3 billion). This was preceded by a period of volatile ODA inflows, both in aggregate and per capita terms, especially between 2005-2006 and 2013-2014.

¹² <http://www.oecd.org/dac/development-aid-rises-again-in-2015-spending-on-refugees-doubles.htm>; <https://www.oecd.org/dac/stats/ODA-2015-detailed-summary.pdf>.

¹³ <http://evidencebase.usc.edu/?p=986>.

¹⁴ http://www.un.org/en/ecosoc/docs/adv2014/2014_def_sg_report_adv.pdf.

¹⁵ http://www.un.org/esa/ffd/wp-content/uploads/2017/03/2017-IATF-Report_Key-messages-and-recommendations.pdf.

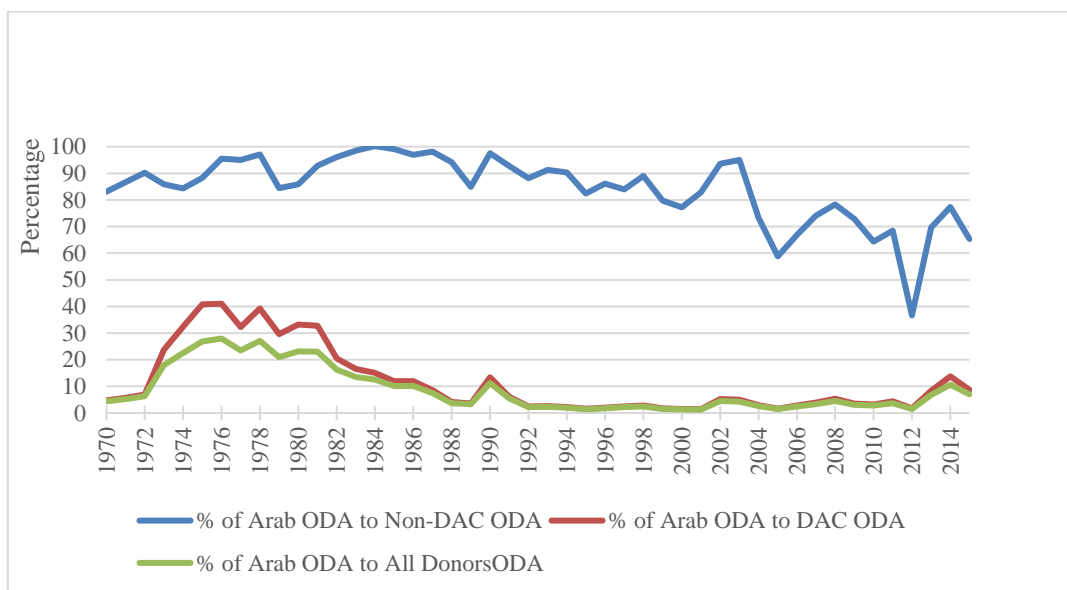
¹⁶ <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Preliminary-results-MOBILISATION.pdf>.

¹⁷ <https://stats.oecd.org/qwids/>.

15. The Arab region is currently facing serious geopolitical crises. Today, it hosts 41 per cent¹⁸ of the world's displaced persons, and 37 per cent of its refugee population.¹⁹ It has the highest ratio worldwide of refugees as a percentage of total population. In 2015, four Arab countries (Iraq, Sudan, Syrian Arab Republic and Yemen) received \$10.1 billion in humanitarian and refugee aid. However, by employing the methodology adopted by the High-Level Panel on Humanitarian Financing to estimate the minimum cost of preserving the lives of forcibly displaced populations,²⁰ the humanitarian gap in the region amounts to \$26.5 billion, or 2.5 times larger than the humanitarian and refugee aid channelled into the region in 2015.

16. Over 90 per cent of Arab development assistance is provided by three countries: Kuwait, Saudi Arabia and the United Arab Emirates. Total bilateral official development assistance (intra and extraregional) provided by Arab countries amounted to \$18.5 billion in 2014 and to \$12.1 billion in 2015 (a decline of 35 per cent). In 2015, official development assistance from Kuwait, Saudi Arabia and the United Arab Emirates accounted for 65 per cent of non-DAC official development assistance, and 9 per cent of total DAC official development assistance (figure 4).

Figure 4. Arab intra and extraregional official development assistance



Source: ESCWA calculations based on data from the Arab Monetary Fund and OECD.

17. As a percentage of GNI, official development assistance from Gulf Cooperation Council countries amounted to 0.86 per cent in 2015, surpassing the 0.7 per cent target set by the United Nations. Despite the drop in oil prices, Arab official development assistance fell by only 0.2 percentage points of total GNI for Gulf Cooperation Council countries. The cumulative aggregate of total Arab bilateral ODA between 1970 and 2015 reached \$202.7 billion.²¹ In 2014 and 2015, the total amount of official development assistance received by the Arab region from the rest of the world was less than what the region gave in return as ODA outflows (bilateral ODA and from Arab development funds) over those two years (figure 5). The composition of Arab bilateral ODA has shifted significantly over the past decade. Until 2000, over two-thirds took the form of

¹⁸ <http://www.internal-displacement.org/database/>.

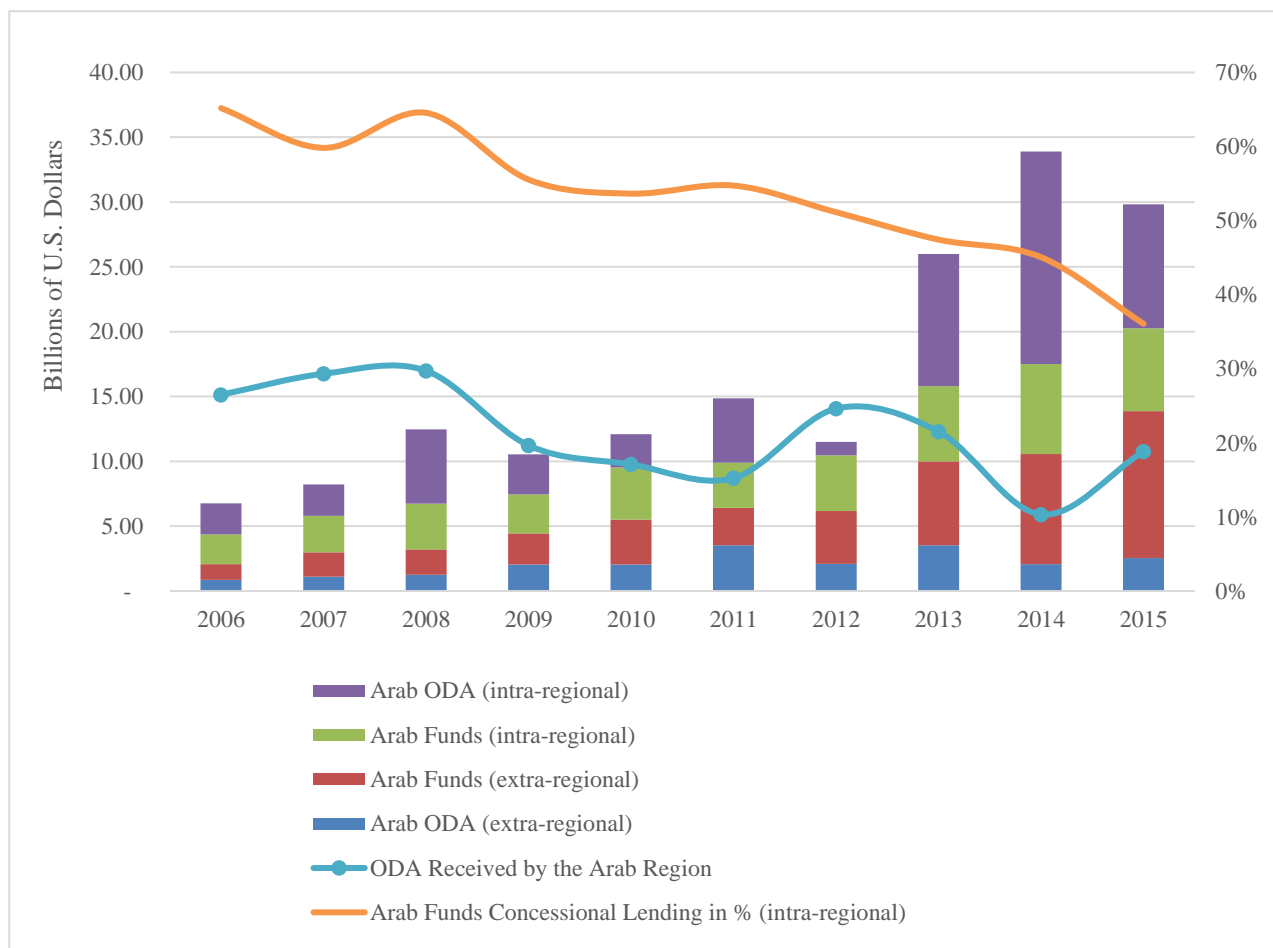
¹⁹ <http://www.unhcr.org/statistics/unhcrstats/5943e8a34/global-trends-forced-displacement-2016.html?query=global%20trends%202016>.

²⁰ <https://reliefweb.int/sites/reliefweb.int/files/resources/%5BHLP%20Report%5D%20Too%20important%20to%20fail%20E2%80%94addressing%20the%20humanitarian%20financing%20gap.pdf>.

²¹ <http://www.amf.org.ae/en/content/joint-arab-economic-report-2016>.

grants. Since then, the share of grants steadily dropped to 40 per cent by 2015, with most aid currently provided as soft loans.²² Between 2010 and 2015, only 1.3 per cent of Arab development funds' operations took the form of grants (including technical assistance).²³

Figure 5. Official development assistance (intra and extraregional), 2006-2015



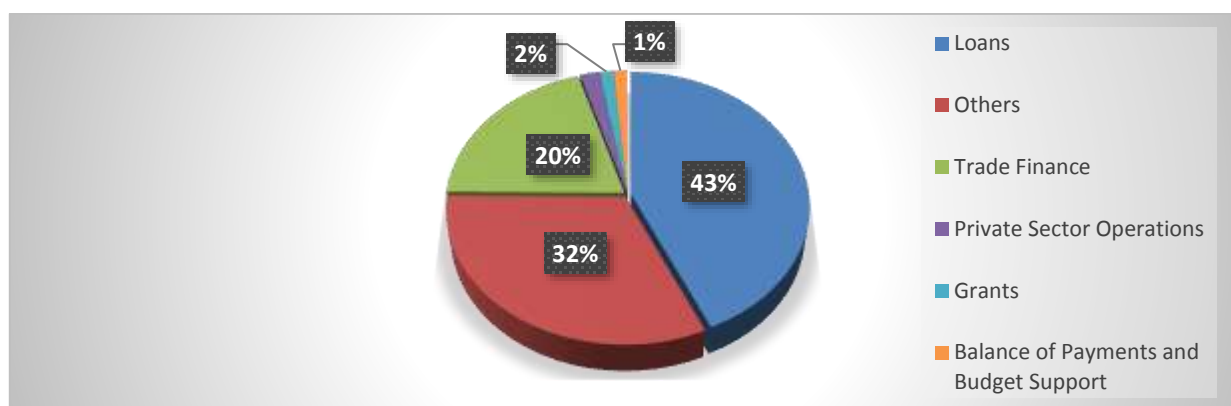
Source: ESCWA compilation, based on data from the Arab Monetary Fund, Joint Arab Economic Report, 2016.

18. Total official development assistance provided by Arab development funds amounted to \$17.7 billion in 2015, with 36.1 per cent (\$6.4 billion) provided to Arab recipients in 2015 compared with 45.1 per cent in 2014 (\$6.9 billion). Between 1970 and 2015, the cumulative aggregate official development assistance provided by Arab development funds to Arab countries reached \$90 billion (55 per cent) out of a total \$163 billion provided to developing and least developed countries since the establishment of those funds.²⁴ Arab financial assistance is largely concessional, with a grant element ranging from 30 per cent to 60 per cent, well above the 25 per cent threshold of OECD-DAC countries. Debt forgiveness is not allowed under the charters of Arab financial institutions, in sharp contrast to OECD-DAC countries where debt relief plays a major role in aid flows, especially over the past decade (figure 6).

²² <http://siteresources.worldbank.org/INTMENA/Resources/ADAPub82410web.pdf>.

²³ <http://www.amf.org.ae/en/content/joint-arab-economic-report-2016>.

²⁴ Ibid.

Figure 6. Arab development funds: distribution of operations, 2010-2015

Source: ESCWA based on data from the Arab Monetary Fund.

Note: 'Others' include debt rescheduling and emergency relief.

19. According to a 2016 report by the Secretary-General,²⁵ the most significant shifts in sectoral patterns in ODA disbursements since 2014 were decreases in debt relief and general budget support. The trend away from programme-based approaches, including budget support, can be partly attributed to an over-emphasis on short-term results. Arab donor countries have shifted away from reliance on grant-based aid since 2000. Today, nearly all Arab bilateral official development assistance reported to OECD-DAC is in the form of soft loans.

20. The Action Agenda underscores the valuable contributions of South-South cooperation as an important complement to North-South international cooperation for development. Arab official development assistance remains a key channel for providing development assistance, particularly in relation to other South-South forms of cooperation, including non-DAC official development assistance. While Arab aid flows have been broadly correlated with trends in petroleum prices, Arab national and multilateral financial institutions, given their capitalization, are not necessarily influenced by fluctuations in oil prices.

21. The Action Agenda recognizes the importance of multilateral development banks, noting that well-functioning national and regional development banks and institutions can play a dominant role in financing sustainable development, particularly in credit market segments where commercial banks are not fully engaged and large financing gaps exist. The Action Agenda also acknowledges the importance of establishing regional development banks to provide counter-cyclical financing.

22. In this vein, several developing countries have established regional development banks to finance regional sustainable development priorities. For instance, it was suggested that the establishment of the New Development Bank, which aims to mobilize resources for development projects in BRIC countries, could provide concessional financing of \$9 billion by 2034.²⁶ The Asian Infrastructure Investment Bank will provide an estimated \$15 billion in loans annually over the next 15 years. These regional development banks can leverage resources from various sources by issuing bonds denominated in local or international currencies to finance regional sustainable strategies and priorities.

23. In its 2017 annual report, the Inter-Agency Task Force on Financing for Development recommended that, as more countries pass per capita income thresholds, additional efforts will be needed to broaden eligibility criteria for concessional financing that more accurately reflects their continued vulnerabilities. In 2008, the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development

²⁵ http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/65.

²⁶ http://unctad.org/en/PublicationsLibrary/osgdp20141_en.pdf.

suggested that the multiplier effect generated if developing countries were to allocate 1 per cent of their reserves to paid-in capital so as to expand or create new regional development banks, which provided an additional annual lending of approximately \$77 billion, would be more than double the lending capacity of the World Bank, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank combined.²⁷

24. Given the situation in the Arab region today, some advocate reconsidering the 2015 review conducted by the Arab Monetary Fund on the operation of Arab financial institutions.²⁸ At the time, the review concluded that existing Arab financial institutions and development agencies had adequately covered the financial needs of both Arab and developing countries. Accordingly, it argued that the Arab region was not in need for new financing structures. However, to mobilize all sources of finance to achieve the 2030 Agenda, it would be prudent to consider new channels through which financing and investment decisions could be taken and streamlined to address regional development priorities, especially given the surmountable financing challenges that the Arab region may witness by 2030, including the following:

(a) The capital flows required to achieve SDG 8.1 and sustain a 7 per cent growth rate in a selected number of non-oil Arab economies stand at \$105.5 billion per year (based on 2015 conditions and data);

(b) The Arab Financing for Development Scorecard finds that the Arab region continues to finance the development of other countries/regions. For every \$1 gained in financing for development, \$2.9 dollars are lost in net financing for development outflows (or \$4.16 when indirect financing for development and opportunity costs are factored in). In other words, the Arab region has been financing the development of other regions, rather than its own sustainable development imperatives. If current trends are maintained, the region will witness outflows far exceeding the estimated cost of financing the SDGs by 2030 (\$3.7-4.3 trillion).

²⁷ http://unctad.org/en/Docs/gdsmdpg2420081_en.pdf.

²⁸ <https://openknowledge.worldbank.org/handle/10986/10919>.