

**ECONOMIC AND SOCIAL
COUNCIL**

Distr.
LIMITED
E/ESCWA/2017/EC.4/4(Part I)
E/ESCWA/EDID/2017/IG.2/5(Part I)
1 November 2017
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia (ESCWA)

Executive Committee
Fourth meeting
Beirut, 13-14 December 2017



Item 4 (a) of the provisional agenda

Regional and global issues**The Arab Financing for Development Scorecard: overall results****Summary**

As countries look for ways to finance the 2030 Agenda for Sustainable Development, the competition for development funds is stiffening. If the Addis Ababa Action Agenda of the Third International Conference on Financing for Development represents a global framework on how to mobilize such funds, the Arab Financing for Development Scorecard is a regional tool for monitoring progress in that regard.

Scorecard results presented in this paper show that, in recent years, the flow of finance into the Arab region has been dwarfed by the resources flowing out. For every \$1 the Arab region gained in development finance, it effectively lost \$2.9 in direct financing that could have been harnessed to fund the region's sustainable development priorities.

The implications are profound. It had been estimated that the region would require the investment of \$3.6 trillion in order to achieve the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda. However, due to the magnitude of net financing flows, the real cost of financing the SDGs could be double that estimate.

ESCWA member States are invited to examine the findings of the Scorecard, endorse its application as a regional tool and support the presentation of its findings to the appropriate entities, including the High-level Political Forum on Sustainable Development and the Economic and Social Council Forum on Financing for Development.

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Introduction

1. The global financing for development (FfD) framework that emerged with the adoption in 2015 of the Addis Ababa Action Agenda of the Third United Nations International Conference on Financing for Development (A/RES/69/313) seeks to combine financial (such as official development assistance (ODA) and foreign direct investment) and non-financial (such as trade, pro-poor and pro-employment macroeconomic policies) means in order to implement the Sustainable Development Goals (SDGs), and to identify channels by which development finance might be directed (public and private; domestic and international; bilateral and multilateral; traditional and innovative).
2. In order to monitor implementation of the Action Agenda and provide a multi-stakeholder platform on financing for development, the Economic and Social Council Forum on Financing for Development Follow-up was established. Its work is based in part on annual reviews by the Inter-Agency Task Force on Financing for Development, which comprises more than 50 institutions.
3. The Action Agenda contains a call for the development of transparent measures of progress on sustainable development (paragraph 129) and underlines the role of the United Nations regional commissions in monitoring implementation of the framework (paragraph 130). Review processes at the regional and global levels are seen as mutually reinforcing.

I. FINANCING FOR DEVELOPMENT MONITORING CHALLENGES

4. Global conditions can create significant challenges for the regional implementation of the financing for development framework. Drops in commodity prices, declining trade growth, volatile capital flows, humanitarian crises, falling levels of ODA, and trade and investment protectionism can all have an adverse impact on the availability of development finance. Monitoring progress on implementation of the framework is therefore no easy task. Adapting global development finance commitments to regional and national realities, taking into account the benefits, trade-offs and risks associated with the different types of financing, is already difficult in itself. Determining how different means of financing interact to provide fiscal space in any given country is equally complex.
5. The structural differences between the Action Agenda and the 2030 Agenda for Sustainable Development, the goals of which the former is designed to support, make it difficult to track progress on similar targets across the two agendas. While the success of the 2030 Agenda is based on a set of goals with quantifiable targets, the success of the Action Agenda is hinged on qualitative dispositions associated with creating normative conditions aimed at bridging financing gaps.
6. The absence of standard tools to track progress on implementation of the many commitments contained in the Action Agenda or to measure financing for development, the lack of a single database on those commitments, and the complexity arising from situations in which no one simple policy or measure can be used as a basis for solutions, all constitute obstacles to monitoring progress.

II. THE ARAB FINANCING FOR DEVELOPMENT SCORECARD

7. The *World Economic Situation and Prospects 2017* report concludes that relying on a single measure to assess financing for development results can distort assessments of the resources available to any given country. Rather, it favours a more elaborate approach based on a scorecard of measures. The Arab Financing for Development Scorecard is designed as a regional measurement tool and as an analytical compendium. It thereby also tests the malleability of the global framework against the context and conditions in the Arab region.
8. The Scorecard captures the dynamics associated with the region's prime cross-border (direct and indirect) capital inflows, including: foreign direct investment (FDI); capital equity; private philanthropic

contributions; remittances; ODA; and lending by multilateral development banks. It also takes into account: net changes in other financial flows; external debt stocks; innovative financing; international trade and humanitarian financing; debt and interest forgiveness; and the Bank of International Settlements (BIS) reporting claims of Arab countries. It also captures the corresponding outflow channels: remittances abroad; illicit hot money narrow outflows and trade misinvoicing; profits repatriated by foreign investors; ODA; the principal on public and publicly guaranteed long-term debt, and International Monetary Fund (IMF) credits; interest payments on foreign debt (short and long-term, and privately guaranteed); humanitarian aid; the costs of conflict; excessive military expenditure; the cost of remittances; and total liabilities as declared by the BIS. It takes into consideration the full array of officially supported financing channels that have been proposed for the total official support for sustainable development (TOSSD) measure and goes further to estimate financing for development dynamics in the region based on net resource transfers accruing from financial and non-financial flows, as well as opportunity costs.

9. Many international institutions have employed the methodology of estimating net resource transfers, using a variety of definitions. The Scorecard expands on them by tallying, in addition to financing channels, non-financial means of implementation and FfD opportunity costs (including those associated with conflict, humanitarian crisis, illicit finance, trade misinvoicing, excessive military expenditures, and the high cost of remittances).

10. Although the Scorecard also factors in the regional impact of global risks, conclusions may not be free from inherent biases due to the diverse range of methods for assessing those risks and the lack of standardized data on how different financing channels interact at the regional level. The Scorecard is not intended as a substitute for national or regional monitoring mechanisms, but rather to complement global and regional follow-up exercises.

III. SCORECARD RESULTS

A. COST OF CONFLICT AND DISPLACEMENT

11. By the end of 2016, the Arab region was host to 41 per cent of the world's internally displaced people (IDPs) and 37 per cent of the global refugee population, according to the Internal Displacement Monitoring Centre (IDMC) and Office of the United Nations High Commissioner for Refugees (UNHCR). The opportunity cost of improving fiscal space arising from hosting refugees in the region could be \$18.6 billion a year, assuming a cost per refugee of less than half the average of between \$12,882 and \$13,053 per year calculated by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). The true costs, however, are obscured by a failure to account for the effects of crowding and the strains already facing public services.

12. By employing the methodology used by the High-level Panel on Humanitarian Financing to estimate the minimum cost for preserving the life of people most in need (of whom there were some 58.2 million in 2017, according to the United Nations Office for the Coordination of Humanitarian Affairs), the humanitarian assistance needed in the Arab region would run as high as \$26.5 billion.

13. According to the Uppsala Conflict Data Program, the Arab region today accounts for 40 per cent of global battle-related deaths since 1946. In its *Survey of Economic and Social Developments in the Arab Region 2015-2016*, the Economic and Social Commission for Western Asia (ESCWA) estimated that wars in the region since 2011 had led to a net loss of \$613.8 billion in economic activity. Taking as its basis a calculation by the IMF, whereby countries in conflict in the region and affected neighbouring countries are susceptible to a reduction of 5.2 per cent and 1.7 per cent in real GDP growth respectively, the Scorecard revealed a loss of \$752 billion between 2011 and 2015. The methodology employed, unlike previous estimates, covers the direct costs incurred by four conflict-afflicted countries (Iraq, Libya, the Syrian Arab Republic and Yemen) and the indirect costs or spill-over effects on neighbouring economies. Like any quantitative assessment, however, the results can be no more than subjective approximations.

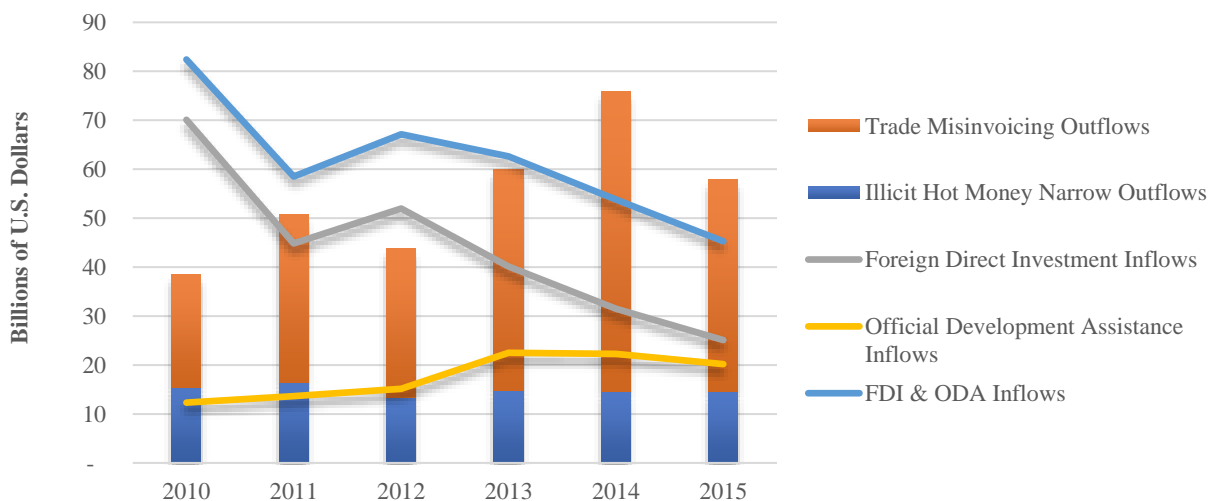
14. Excessive military expenditure also weighs heavily on the capacity of States to achieve the SDGs. According to the Stockholm International Peace Research Institute, reallocation of 10 per cent of global military spending would be enough to achieve considerable progress on key SDGs. The Scorecard reveals that the opportunity lost due to high military spending in the region amounts to \$67.8 billion since 2011.

B. DOMESTIC PUBLIC RESOURCES

15. According to the Financial Transparency Coalition, developing countries lost \$7.8 trillion in 2015 due to the cross-border movement of illicit financial flows. Trade misinvoicing accounted for 83.4 per cent of all measurable illicit outflows between 2004 and 2013. Other types of illicit flows are difficult to track and estimate. The Scorecard is primarily concerned with providing a conservative estimate of the magnitude of trade fraud or trade-based money laundering, which has a direct impact on domestic public resources available for financing sustainable development.

16. Trade misinvoicing in the Arab region in non-oil trade amounted to \$482.7 billion on aggregate between 2008 and 2015. More than 68 per cent of illicit outflows between 2011 and 2015 were associated with trade misinvoicing, or gross excluding reversals (GER), which constitute the sum of over-invoicing of imports and under-invoicing of exports. ESCWA estimates that the region's average illicit financial flows through trade misinvoicing, averaged 8.2 per cent of total non-oil trade with the world, or the equivalent of \$60.3 billion a year between 2008 and 2015. Since 2014, illicit financial outflows have outstripped the combined aggregate of total ODA and FDI inflows (figure 1).

Figure 1. Illicit Financial flows vs. FDI & ODA to the Arab Region

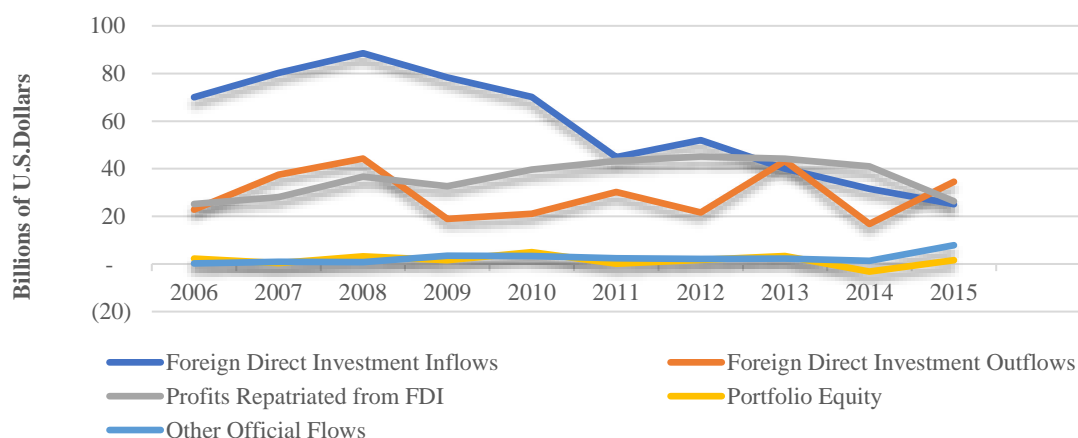


Source: ESCWA calculations based on GFI report (2017), UNCTAD, & OECD QWIDS database.

C. DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE

17. The Arab region received \$25.08 billion in FDI in 2015 (2.55 per cent of total such investment to developing countries), continuing a downward trend since 2008, and witnessed an outflow of \$34.5 billion. The volatility of FDI inflows can be attributed largely to downside risks associated with declining commodity prices, especially for crude oil, metals and minerals. Between 2011 and 2015, the average annual inflow of FDI, portfolio investments and other official flows into the region amounted to \$42.6 billion, compared with outflows along the same channels of \$69.2 billion (figure 2).

Figure 2. The state of investment in the Arab region

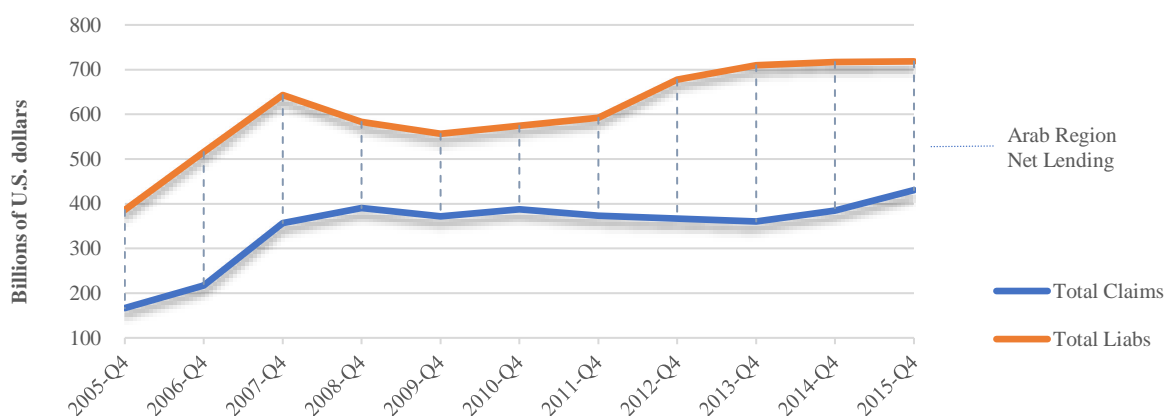


Source: ESCWA calculations based on UNCTAD, WDI in the World Bank, OECD.Stat, and IMF BOP.

18. Profits repatriated on FDI outside the Arab region averaged \$39.9 billion per year between 2011 and 2015. Oil-rich Arab economies generated 69 per cent of the total profits repatriated by foreign nationals. Combining incoming and outgoing FDI with repatriation of profit, it would appear that the region has become a net exporter of capital: for every dollar received as FDI, \$1.79 dollars have been returned abroad.

19. As FDI has become more risk-averse, countries in the region have resorted to beggar-thy-neighbour efforts to attract inward investment. At the same time, sovereign wealth funds have benefitted from fiscal incentives designed to encourage investment in rich economies. By some estimates, the capital stock of those funds amounted to \$3.025 trillion in mid-2016. Those outflows, however, are small compared with the money managed by leading foreign financial institutions. Indeed, cross-border deposits by Arab clients with leading international banks outside the region (liabilities) have been persistently higher than borrowings from them (claims). The region thus remains a lender to international banks with a net total stock of outflows of \$287.8 billion in 2015 (figure 3).

Figure 3. Arab region: claims and liabilities



Source: Bank for International Settlements, Locational banking statistics database. Available from www.bis.org/statistics/bankstats.htm.

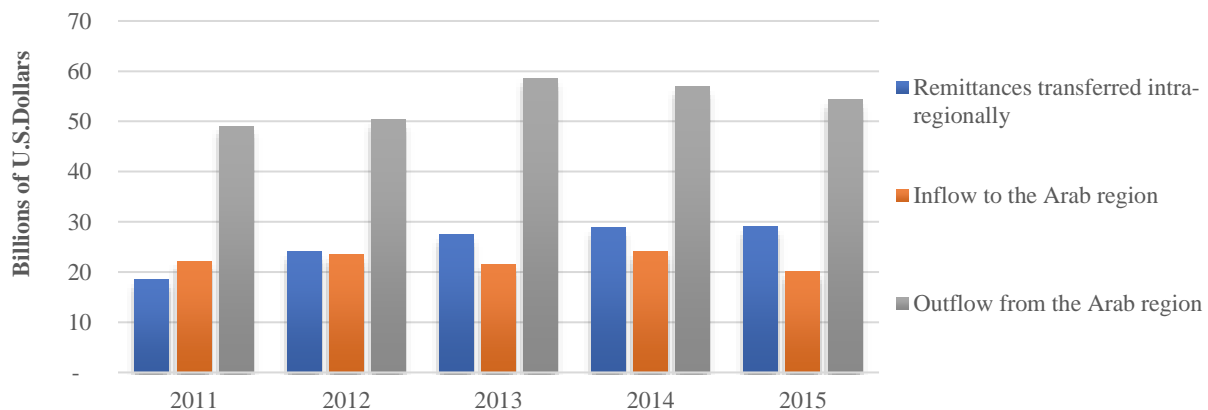
20. The Arab region is a source *and* destination for migrant remittances. Remittances into the region amounted to \$20 billion in 2015, representing 5 per cent of total remittances sent to developing countries, according to the World Bank. Intra-regional remittances (\$29 billion in 2015) are discounted from the Scorecard as they flow within the region. Remittances sent by all foreign nationals residing in the region to non-Arab countries rose from \$49.07 billion in 2011 to \$54.39 billion in 2015. The upshot is that, for every \$1

of remittances flowing into the region between 2011 and 2015, \$2.42 flowed out. ESCWA arrived at those estimates using World Bank migration and remittances data and World Development Indicators (figure 4)¹.

21. Traditionally, most remittances flowing into the Arab region have been used to finance household consumption, education and health. In that fashion, they encourage the development of human capital, and thereby stimulate growth, in the long run. However, only a small portion are channelled into investment and the accumulation of physical capital that can help to achieve sustainable development. According to some studies, the investment of remittances has, to varying degrees, had a positive effect on growth in Djibouti, Egypt, Jordan, Lebanon, Morocco, Oman and the Sudan.

22. The cost of repatriating remittances in the Arab region remains a structural problem and accounts for large development finance leakages. The cost of sending remittances from Saudi Arabia to Egypt averaged 14.57 per cent of the amount sent in the fourth quarter of 2016, but only 1.45 per cent of amounts sent to Nepal, according to the World Bank. Had those costs been reduced, as called for in the Action Agenda and SDG-10, the Arab region could have saved \$8.3 billion between 2011 and 2015 and used those savings to finance development.

Figure 4. Remittances in the Arab Region



Source: ESCWA calculations based on the World Bank (WDI and Remittance and Migration data).

D. INTERNATIONAL DEVELOPMENT COOPERATION

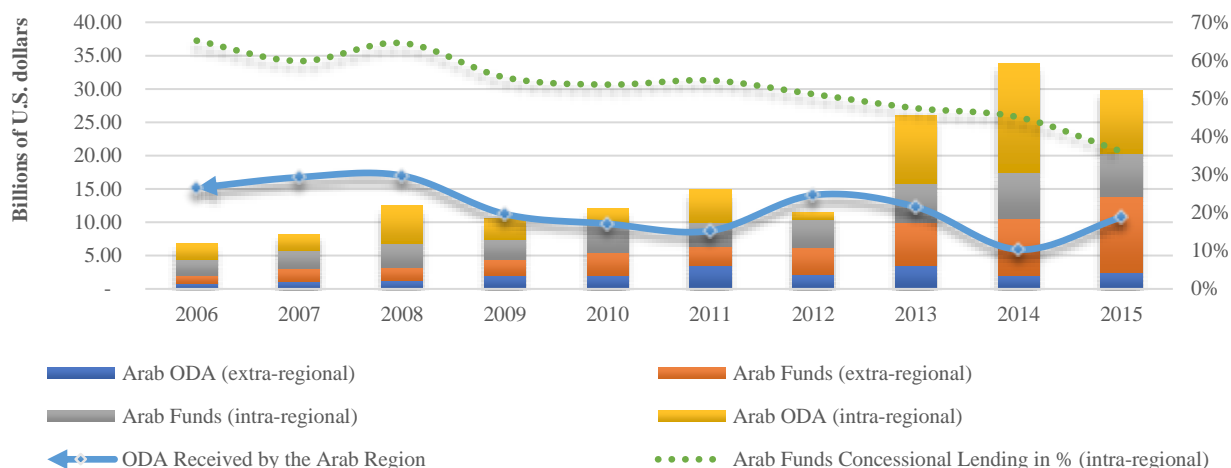
23. ODA to Arab countries in 2015 totalled \$20.3 billion, \$9.5 billion of it sent by Arab donors. That figure represented 12.5 per cent of total gross ODA to developing countries, according to the OECD, but was 10 per cent less than the amount received by the Arab region in 2013. However, the region saw other official flows, mainly in the form of grants for commercial or export promotion, trade facilitation, official bilateral transactions and net acquisitions issued to the private sector, rise to \$7.8 billion in 2015 (2.5 times higher than the regional average between 2011 and 2015). Private philanthropic grants also increased, with an inflow of \$630 million in 2015, compared with \$244 million in 2011.

24. Arab donors have historically accounted for most ODA granted by non-DAC countries. Between 1970 and 2015, Arab ODA outflows represented on average 84.2 per cent of non-DAC ODA and 11.4 per cent of total DAC ODA. The cumulative aggregate of total Arab bilateral ODA between 1970 and 2015 reached \$202.7 billion. According to the Arab Monetary Fund, bilateral ODA by Arab countries totalled \$12.1 billion in 2015

¹ No data has been reported for the years 2010 to 2012 for Algeria, Lebanon, Morocco, Libya, Somalia, the Syrian Arab Republic and Yemen.

(\$2.1 billion in ODA outflows). Nearly all is provided by five Gulf Cooperation Council (GCC) countries (Saudi Arabia, Kuwait, Oman, Qatar and the United Arab Emirates). In 2015, their combined ODA represented 0.86 per cent of their gross national income (GNI), surpassing the United Nations 0.7 per cent target.

Figure 5. Arab official development assistance and bilateral and regional development funds



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

25. Total ODA provided by Arab development funds² in 2015 amounted to \$17.7 billion (64 per cent of which took the form of extra-regional concessional lending outflows to other regions). Between 1970 and 2015, the cumulative aggregate ODA provided by those funds was \$253 billion (according to the Arab Monetary Fund, Arab countries received 55 per cent, or \$90 billion, of a total \$163 billion ODA outflows provided to developing countries, least developed countries, and small and vulnerable economies.) In sum, the Arab region witnessed a record high outflow of ODA in 2015, amounting to \$13.8 billion, with concessional lending by Arab funds accounting for 82 per cent of total extra-regional Arab ODA (figure 5). For every \$1 the region received in ODA inflows, \$0.90 left the Arab region. At the same time, donor countries spent 11 per cent (\$15.4 billion) of their ODA on refugee costs.³ (In principle, such spending should not be considered ODA, since it is not linked to any development objectives.) That figure reached more than 15 per cent on average for European Union countries.

E. INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT

26. An inclusive, non-discriminatory and equitable multilateral trading system is seen as a prime means for achieving the SDGs and, indeed, the Action Agenda urges members of the World Trade Organization (WTO) to conclude negotiations on the Doha Development Agenda promptly. However, only 13 Arab countries have been granted membership of the WTO since 1987, and several accession requests are still pending. (The State

² The Coordination Secretariat of the Arab National and Regional Developmental Institutions, the Islamic Development Bank, and the OPEC Fund for International Development (the Coordination Group) consists of 10 institutions. They include four national entities (the Abu Dhabi Fund for Development, Kuwait Fund for Arab Economic Development, Qatar Development Fund and Saudi Fund for Development) and six regional organizations: the Arab Bank for Economic Development in Africa, Arab Fund for Economic and Social Development, Arab Gulf Programme for United Nations Development Organizations (AGFUND), Arab Monetary Fund, Islamic Development Bank and OPEC Fund for International Development.

³ SEEK Development, *Understanding the impact of the refugee crisis on European donors' development budgets* (May, 2017). Available from https://donortracker.org/sites/default/files/donor_pdfs/17-05-30_Donor%20Tracker_Impact%20of%20refugee%20crisis%20on%20ODA.PDF.

of Palestine, although not granted permanent observer status at the WTO, is able to exercise trade autonomy through the Paris Protocol on Economic Relations.) Although trade can help to spread efficient and less polluting technologies, and generate the wealth to pay for them, sustainable development does not appear to be of prime concern to the WTO. The Agreement Establishing the World Trade Organizations contains no legal incentives to promote sustainable development. Indeed, inconsistencies can even arise between non-discriminatory multilateral trade practices and promoting sustainable development.

27. By 2015, the Arab region had become a net importer of goods and services, in part due to the drop in commodity prices, leading to current account deficits in most Arab countries, shrinking foreign reserves and rising external debt. Exports totalled \$777 billion (around half, \$385 billion, in oil revenue), while total imports into the region amounted to \$844 billion, according to the World Bank. Deteriorating terms of trade between 2006 and 2008, and again between 2010 and 2014, were driven by a variety of factors, including: structural deficiencies, protectionism, the lack of opportunities to liberalize trade, and the erosion of special and differential treatment (SDT) provisions within and outside regional trade agreements. On average between 2011 and 2015, the region's declining terms of trade have resulted in \$54.8 billion annually in indirect lost commodity trade opportunities.

28. Deepening Arab trade integration is seen as an alternative source of trade-led growth. Evidence suggests that intra-regional trade has a positive influence on GDP growth. (The impact of trade in goods is greater than that of trade in services.) In order to fully exploit the potential influence of trade on growth, regulatory and structural reforms that reduce trade barriers and/or services liberalization are encouraged. Scorecard estimations show that every 10 per cent increase in intra-regional trade leads average GDP to grow by 0.08 percentage points. The period between 2011 and 2015, due to the political turmoil that engulfed the region, was the exception.⁴

29. With the launch of the Arab Customs Union (ACU) by 2021, a substantial share of the Arab region's imports could be circulating freely with the region by 2030. However, that and trade preferences that may be granted to at least 110 countries around the world by then would combine to erode capacity to raise trade taxes (tariffs, quotas, tariff-rate quotas, para-tariffs and/or fiscal charges) that could be mobilized to finance development.

F. DEBT AND DEBT SUSTAINABILITY

30. Although the Arab region has witnessed, as elsewhere in the world, high gross public and external debt stocks, its debt dynamics otherwise stand in contrast with international trends. While net debt flows to developing countries had turned negative in 2015, the Arab region witnessed a surge in debt inflows, needed to offset constraints on financing and fiscal space arising from political transition and turmoil in the region. Overall, borrowing by developing countries around the world from official creditors has steadily declined since the early 2000s, but that is not the case in the Arab region. Globally, the rise in debt over the past years has been driven by private non-guaranteed and corporate short-term borrowings, whereas in the Arab region it results from the swelling of public and publicly guaranteed debt.

31. By 2015, measures of debt servicing to government revenues in the Arab region exceeded the corresponding averages for low and middle-income countries, reversing the previously predominant situation. External debt repayments by Arab countries, including principal and interest payments on public and private

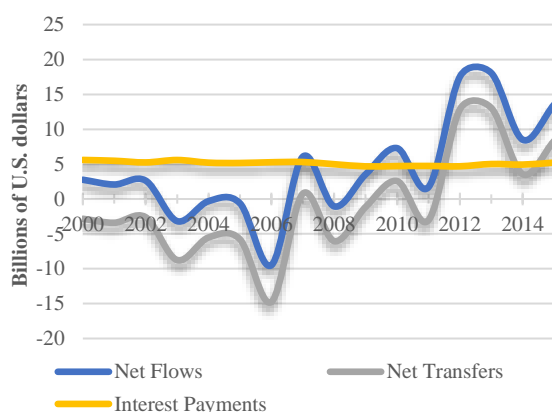
⁴ Regression analysis undertaken by ESCWA shows a significant and positive correlation between intra-regional trade in goods and GDP growth between 1995 and 2010. However, when the period between 2011 and 2015 is introduced in to the sample, that correlation becomes insignificant. The data was extracted from the World Bank's World Integrated Trade Solution (WITS) database.

sector short-term and long-term debt and IMF charges, amounted to \$18.7 billion in 2015 (\$5.2 billion in interest and \$13.5 billion in principal).⁵

32. In 2015, no debt relief measures, either on principal or interest repayments, were recorded, although four countries (Comoros, Mauritania, the Sudan and the Syrian Arab Republic) had traditionally received such relief. In a reversal of the earlier situation, calculations of net transfers on external debt⁶ show that, between 2011 and 2015, for every \$1 dollar of debt inflows into the Arab region, \$2.1 was paid back in arrears on the outstanding debt stock.⁷

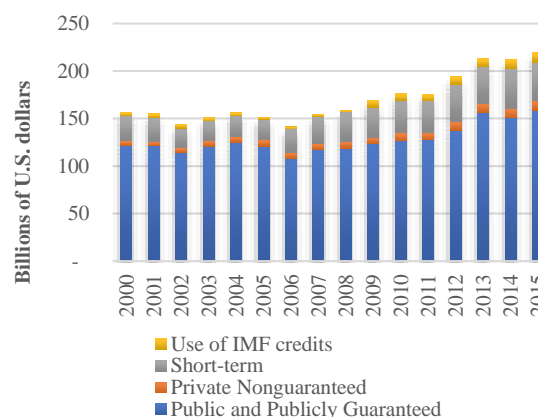
33. According to a joint survey prepared by the IMF and AMF, 84 out of 216 Arab banks have been subjected to some form of de-risking. Between 2012 and 2015, there was a significant decline in the scale and breadth of correspondent banking relationships (CBRs) in the region. The number of account closures also appears to be increasing, with 63 per cent of Arab banks reporting the closure of CBR accounts in 2015, as opposed to 33 per cent in 2012. Reasons cited include the overall risk-averse stance of foreign financial institutions, changes in regulatory requirements in those institutions, and sovereign credit-risk ratings of Arab countries.

Figure 6. Debt flows and transfers in the Arab region



Source: World Bank, International Debt Statistics. Available from <https://data.worldbank.org/products/ids>.

Figure 7. Arab external debt stocks (2000-2015)



Source: World Bank, International Debt Statistics. Available from <https://data.worldbank.org/products/ids>.

⁵ Data for oil-rich Arab countries, except Algeria, is missing.

⁶ Calculated as net debt inflows, both long and short-term, received from official and private creditors, including bonds and commercial loans, less interest repayments. Net flows on external debt are disbursements on long-term external debt and IMF purchases, minus principal repayments on long-term external debt and IMF repurchases. Up to 1984, this calculation included only long-term external debt and IMF flows. Since 1985, the calculation has included the change in stock of short-term debt (excluding interest arrears on long-term external debt).

⁷ Debt stocks include public and publicly guaranteed, short-term, and privately guaranteed debt, as well as IMF credits.