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**Global trends and regional realities****Summary**

Progress has been made in implementing global financing for development (FfD) commitments throughout the world. However, benefits have not been shared evenly, especially in the Arab region, where multiple challenges and conflicts continue to impede efforts to capitalize on the full array of financing solutions offered by the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. The region has taken important steps to integrate into the global economy and is therefore influenced by global tightening conditions and the new wave of investment and trade protectionism. It is also witnessing signs of debt distress.

The present document subjects global FfD recommendations to the regional context, providing a region-sensitive evaluation of their possible application and spillover effects. It considers the prospects of enforcement of those recommendations under prevalent risk conditions in the Arab region and in view of its socioeconomic specificities. It concludes that ample room exists to prompt action at the global and regional levels, and that Arab countries can adopt measures that would place them on a path towards more sustainable growth and development.

The Committee on Financing for Development in States Members of the Economic and Social Commission for Western Asia is invited to discuss the contents of the present document and provide comments thereon.

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## Introduction

1. The present document<sup>1</sup> provides an overview of the third joint assessment of progress made in implementing financing for development outcomes undertaken by the Inter-Agency Task Force (IATF) on Financing for Development (FfD), which comprises more than 50 United Nations agencies, programmes, institutions, entities and regional commissions. This joint assessment was published in the [Financing for Sustainable Development Report 2019](#). The present document also offers a regional perspective on its findings and the implications for the Arab region, in view of its priorities and geopolitical context, its socioeconomic specificities and its diverse levels of development.

### I. FINANCING FOR DEVELOPMENT RESOLUTIONS AND PROCESSES

2. The subject of FfD remains at the forefront of global processes and concerns. At its seventy-second session, the United Nations General Assembly adopted 313 resolutions, 58 of which were related to the implementation of financing for development (FfD) outcomes and assessment of progress made. This number remained high during the seventy-third session: 49 out of the 299 adopted resolutions revolved around the same topics. The number of resolutions on each of the seven FfD action areas outlined in the [Addis Ababa Action Agenda of the Third International Conference on Financing for Development](#) is revealing: the higher that number, the greater the challenges associated with making progress in that particular area.

3. From January 2017 to June 2019, there were 10 draft resolutions, resolutions and Secretary-General's and Second Committee reports<sup>2</sup> on following up on progress in implementing the [Addis Ababa Action Agenda](#). This was equal to the number of draft resolutions, resolutions and reports<sup>3</sup> on the international financial system and development. Those texts showed that progress in FfD remained linked to the state, trends and governance of the international financial system.

4. Over the same period, there were 13 resolutions and reports on international trade and development,<sup>4</sup> underscoring mounting concerns about trade and investment protectionism, and challenges facing the multilateral trading system and their implications for FfD. Ten draft resolutions, resolutions and reports addressed mounting debt concerns,<sup>5</sup> compared with only two resolutions on the subject prior to the 2008 global economic crisis. Eighteen resolutions and reports were dedicated to illicit financial flows (IFFs) and tax evasion/cooperation, and 10 others addressed other priority areas, including financial inclusion and the economic governance and development needed to advance the global FfD priorities.

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<sup>1</sup> The present document is an update of document [E/ESCWA/EC.5/2018/5](#), which was presented to the Executive Committee of the Economic and Social Commission for Western Asia (ESCWA) at its fifth meeting (Beirut, 18-19 December 2018). It also sets the scene for the remaining documents presented to the Committee.

<sup>2</sup> [A/73/537](#), [A/73/427](#), [A/RES/73/223](#), [A/73/86-E/2018/68](#), [A/C.2/73/L.17](#), [A/C.2/73/L.42](#), [A/72/419](#), [A/RES/72/208](#), [A/C.2/72/L.50](#) and [A/C.2/72/L.18](#).

<sup>3</sup> [A/RES/73/220](#), [A/73/536/Add.2](#), [A/C.2/73/L.12](#), [A/C.2/73/L.12/Rev.1](#), [A/73/280](#), [A/RES/72/203](#), [A/72/418/Add.2](#), [A/C.2/72/L.19/Rev.1](#), [A/C.2/72/L.19](#), and [A/72/306](#).

<sup>4</sup> [A/RES/73/219](#), [A/73/536/Add.1](#), [A/73/208](#), [A/73/15 \(Part I\)](#), [A/73/15 \(Part II\)](#), [A/C.2/73/L.21/Rev.1](#), [A/C.2/73/L.56](#), [A/72/274](#), [A/RES/72/202](#), [A/72/307](#), [A/72/418/Add.1](#), [A/C.2/72/L.7](#), [A/C.2/72/L.17/Rev.1](#), [A/72/15 \(Parts I-IV\)](#).

<sup>5</sup> [A/RES/73/221](#), [A/73/180](#), [A/73/536/Add.3](#), [A/C.2/73/L.11](#), [A/C.2/73/L.50](#), [A/RES/72/204](#), [A/72/253](#), [A/72/418/Add.3](#), [A/C.2/72/L.15](#), [A/C.2/72/L.46](#); on illicit financial flows: [A/RES/73/283](#), [A/RES/73/222](#), [A/RES/73/69](#), [A/RES/73/63](#), [A/RES/73/52](#), [A/RES/73/190](#), [A/RES/73/36](#), [A/RES/73/34](#), [A/RES/73/192](#), [A/RES/72/267](#), [A/RES/72/207](#), [A/RES/72/127](#), [A/RES/72/57](#), [A/RES/72/40](#), [A/RES/72/47](#), [A/RES/72/32](#), [A/RES/72/35](#), [A/RES/72/44](#); on financial inclusion: [A/RES/73/220](#), [A/RES/72/206](#), [A/RES/72/203](#); on economic governance and economic development: [A/RES/73/207](#), [A/RES/73/185](#), [A/RES/72/119](#), [A/RES/73/14](#), [A/RES/73/240](#), [A/RES/73/246](#), [A/RES/72/201](#).

5. Only one resolution was issued on international development cooperation, including official development assistance (ODA), while three resolutions were adopted on South-South cooperation,<sup>6</sup> although developing countries maintain that the latter remains a complement to rather than a substitute for ODA.

6. In 2017 and 2018, there were some 43 meetings<sup>7</sup> 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, the informal technical briefing 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. An additional 20 events are expected to take place in 2019 and 2020 on FfD.<sup>8</sup>

7. Moreover, at its seventy-third session, the General Assembly held six events on FfD in New York, namely the [High-level Meeting on Financing the 2030 Agenda for Sustainable Development](#) (24 September 2018) ; the [Private Sector Forum](#) (24 September 2018); an event on the theme “[Emerging challenges and shifting paradigms: new perspectives on international co-operation for development](#)” 24 September 2018); the [Sixth Annual International Conference on Sustainable Development: Breaking Down Silos – Fostering collaborative action on the SDGs](#) (26-28 September 2018); an event on the theme “[SDG costing and macroeconomics: spending needs for achieving selected SDGs](#)” (24 September 2018); and the [Bahrain Visions Forum](#) organized by Bahrain and the Global Security Institute (27 September 2018). It held similar events in September 2019 at the beginning of its seventy-fourth session ([SDG Summit](#), 24 and 25 September; [High-level Dialogue on Financing for Development](#), 26 September; and [New Partnership for Africa's Development: progress in implementation and international support](#), 22 October).

8. In 2018, the Secretary-General hosted a special high-level meeting to launch his [Strategy for Financing the 2030 Agenda for Sustainable Development \(2018-2021\)](#), 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.

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<sup>6</sup> On international development cooperation: [A/RES/72/230](#); on South-South cooperation: [A/RES/73/291](#); [A/RES/73/249](#); [A/RES/72/237](#).

<sup>7</sup> See <https://www.un.org/esa/ffd/events.html>.

<sup>8</sup> Ibid.

## II. KEY FINDINGS ON PROGRESS MADE IN FINANCING FOR DEVELOPMENT

9. In its 2019 assessment,<sup>9</sup> IATF concluded that asymmetric progress had been achieved in implementing the different action areas of the [Addis Ababa Action Agenda](#). Benefits of development finance had not been shared evenly among countries. Improvements in the global economy had been accompanied by the emergence of significant FfD risk factors, including tightening financial conditions, increases in interest rates and debt vulnerability, protectionist policies and escalation of geopolitical tensions. Persistently high levels of inequality, declining private investment in infrastructure and public expenditures on critical social infrastructure, as well as increases in global carbon emissions, had continued to reveal the misalignment of investments with long-term sustainable development requirements. IATF made the following recommendations:

(a) On *planning*: integrated national sustainable development strategies and financing frameworks are essential and should incorporate the policies, plans and regulatory frameworks needed to achieve the SDGs, and include a topology of the domestic and international financing flows available and those that should be mobilized. These strategies and financing frameworks should move away from the project funding mindset towards broader financing approaches. They should be facilitated by a global enabling environment for long-term, quality investments, particularly in developing countries;

(b) On the *operational level*: public policies and actions are at the heart of the [Addis Ababa Action Agenda](#). Incentives for actors in public and private financial institutions should be aligned with sustainable development needs. While both public and private finance are key to financing sustainable development, public leadership is indispensable to set rules and overcome structural constraints. In many areas, particularly for public goods, public financing remains indispensable;

(c) On *focus*: there is a need to serve the poorest and most vulnerable to ensure that no one is left behind. Financing gaps are greatest in least developed countries, yet, international support for these countries has not been commensurate and the development finance made available to them remains insufficient;

(d) On *governance*: strong institutions, rule of law and transparent, consistent and good-quality regulatory frameworks are needed to create an enabling investment climate, manage monopolies, boost innovation and limit bureaucracy. Without such an enabling environment, investment risks remain high, and neither public nor private domestic and international financing is likely to ensue in a cost-efficient manner.

10. On the action areas of the [Addis Ababa Action Agenda](#), which are the building blocks for the implementation of the [2030 Agenda for Sustainable Development](#), the IATF made the following recommendations to reinvigorate sustainable development financing:

(a) Mobilizing additional domestic resources and spending them more effectively remains critical. Effective revenue collection and public service delivery form the basis of the new social contract. In many countries, however, fiscal space remains constrained and debt sustainability continues to be a major concern. This underscores the need for boosting public financial resources, both domestically, largely through improved taxation, and internationally, through ODA. International cooperation should complement national efforts, including by increasing financial support for fiscal capacity-building and ensuring that developing countries benefit fully from new international standards on tax transparency. New technologies can increase efficiency in revenue collection and eliminate, or at least reduce, the drainage in domestic resource mobilization capacities caused by IFFs;

(b) Long-term investment in sustainable development, especially in least developed countries, remains insufficient. There are supply and demand constraints on greater private investment. Countries should

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<sup>9</sup> Inter-Agency task Force on Financing for Development, *Financing for Sustainable Development Report 2019* (New York, 2019).

strengthen enabling environments, thus reducing investment risks. Effective regulation is necessary to monitor systemic risks that may arise from the digitization of finance;

(c) Development cooperation remains central: international public finance is increasing, but critical funding gaps remain. ODA providers should continue to increase aid in order to meet their commitments. Multilateral development banks and South-South cooperation providers are scaling up their contributions to 2030 Agenda implementation; however, the international community should lend greater support to countries' efforts in managing transitions (be they political, economic or even environmental) and increase flexibility of access to financing sources;

(d) Trade reinforcing policies should be considered to serve as an engine for sustainable growth. An open dialogue is warranted to align new trade agreements with the SDGs. Trade finance plays a key role in helping developing countries to participate in global trade; it can be enhanced by promoting greater standardization in rules, practices and programmes;

(e) Debt risks are increasing, raising the specter 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. To lessen financial stress on countries affected by shocks, the international community should work toward realizing the potential of State-contingent debt instruments. The changing composition of debt in developing countries also calls for a re-examination of creditor coordination mechanisms.

### **III. REGIONAL ASSESSMENT OF PROGRESS MADE ON FINANCING SUSTAINABLE DEVELOPMENT**

11. Regional dimensions are not consistently captured when measuring global progress. Moreover, global assessments fall short of measuring financing gaps and of providing remedies for shortcomings. By overlooking country-specific and regional dynamics, such global assessments may entail an element of bias by 'cherry picking' achievements.

12. The Arab region suffers from an FfD reflux: for every dollar in cross-border inflows that the region has mobilized or received, \$2.5 are lost in FfD outflows.<sup>10</sup> The region is thus consistently losing opportunities to finance its development. Escalated geopolitical tensions are derailing FfD progress. According to United Nations estimates, nearly half of the world's internally displaced persons and more than half of the global refugee population live in the region. Under the current instability trajectory, it risks consuming more than half of the projected increase in the global humanitarian aid budget by 2030.<sup>11</sup> That is an indicator of a largely unsustainable situation, especially as the hefty reconstruction bill of war-torn economies is not being factored into the FfD costing equation.

#### **A. DOMESTIC RESOURCE MOBILIZATION**

##### *1. Public finance*

13. 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

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<sup>10</sup> Unless otherwise indicated, data in the present section are author's calculations.

<sup>11</sup> [E/ESCWA/EDID/2018/TP.2](#).

been implemented, it is necessary to consider the following factors that characterize Arab countries' public finances.

## 2. *Resource and non-resource-based revenues*

14. Many experts contend that GDP per capita growth is not a suitable indicator to measure FfD progress. Equally, tax revenue to GDP ratio may not be best suited to evaluate the efficacy of domestic resource mobilization capacity. Generic assessments based on those indices show large disparities between oil-rich and oil-poor Arab countries. In the case of the latter, this share remains lower than that of other developing countries and experienced a declining trend since 2008. For oil-rich countries, the tax revenue to GDP ratio is relatively high, reaching 70 per cent for some.

15. Being dependent on oil revenues makes the economies of Arab countries vulnerable to international oil price fluctuations. Under these conditions, the prospects of harnessing revenues from oil sources remains bleak in the long term, and while a rise in oil prices may benefit this category of countries, it adversely affects oil-poor, importing countries. Lower oil prices help to reduce external and fiscal vulnerabilities, but such an assessment should factor in the fact that the benefits from reduced oil import bills are partially offset by declining non-oil commodity export prices in oil-poor Arab countries.

16. Unlike in developed countries, the structure of the tax base in developing countries remains far less reliant on income taxes, and more slanted towards corporate income tax (middle-income countries) and trade taxes (least developed countries). The share of income tax in total tax revenue in oil-poor Arab countries remained stagnant or declined over the period 2005-2014. Wealth tax constitutes a negligible share of total tax revenue in most Arab countries, and trade taxes remain a significant source of revenue for many conflict-affected countries.

17. Governments of Arab countries mostly rely on indirect taxes, including value added tax (VAT), to raise revenues. However, by design, indirect taxes are regressive and the burden of taxes tends to be higher on middle- and lower-income groups (the largest sections of the consumer base in Arab countries). Exempting basic food items and other products consumed by the poor can reduce, but not eliminate, regressivity of VAT. However, raising VAT on goods and services is still seen as a quick win to raise domestic revenues. 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 GDP.

18. Achieving progressivity through income taxes may improve equality but needs to be weighed against the broader socioeconomic conditions of a country. The income tax legislation proposed by the Government of Jordan in the summer of 2018 and ensuing unrest is a stark reminder of the implications of swift or short-term reforms under constrained macroeconomic conditions, such as rising inflation, unemployment and low trade growth. Evidence from Jordan shows that the imposition of direct taxes does little to correct income inequality, but aiming for progressive distribution may correct high-income inequality, especially as the tax burden lies less on the rich than that on the middle class. In Lebanon, income is highly concentrated, with 0.01 per cent of the income distribution accounting for over 3 per cent of total income in 2015.<sup>12</sup> 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 by moving up the income distribution, with the difference being almost non-existent at the top end.<sup>13</sup>

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<sup>12</sup> Lydia Assouad, "Top incomes and personal taxation in Lebanon, an exploration of individual tax records 2005-2012", Masters Thesis, Paris School of Economics, 2015.

<sup>13</sup> Audi Bank, "A lackluster real sector activity yet coupled with persistently sound financial and monetary conditions", Lebanon Economic Report, Second Quarter 2018. <http://www.bankaudigroup.com/GroupWebsite/openAudiFile1.aspx?id=3889>.

19. In the Arab region, public budgets are under pressure and there are significant disparities between oil-rich, oil-poor middle-income, and low-income countries in terms of fiscal space. Even for oil-rich countries, financing through oil revenues remain volatile and unpredictable. Raising income tax revenue remains negatively correlated with the size of the shadow economy. Generic recommendations advocating for tax reforms 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.

20. Multinational corporations are adopting practices such as profit shifting, aggressive tax planning and “tax-treaty shopping” to avoid paying corporate income tax in the countries where they do business. Corporate tax exemptions and/or incentives, which are regressive in nature, adversely impact domestic revenue mobilization efforts, complicate tax administration and provide means for corruption. The global corporate tax race to the bottom continues to erode the capacity of developing countries to raise domestic revenues, especially under increased international capital mobility conditions.

21. It is generally recommended that Arab Governments leverage taxes to mobilize additional revenues, in particular by improving progressivity, compliance and broadening tax bases equitably. Reducing informal activity and tax evasion can bring more economic activities under the coverage of personal income tax. However, such recommendations typically ignore the complications created by size of the informal economy and the extent of tax evasion in the region. Moreover, taxes can discourage labour supply and savings and induce tax evasions, pushing more activity into the informal sector.

22. Proposals to capitalize on subnational financing require reflection, as municipalities and governorates need to enjoy a minimum level of decentralization and capacity to administer their “own” resources or raise capital through markets. Such proposals overlook the fact that these levels of decentralization may not be prevalent in many developing countries, as security and other considerations continue to determine the degree of decentralization, especially in conflict-afflicted countries.

23. Equally, proposals to phase out water and fossil fuel subsidies may hold considerable socioeconomic implications. Rationalizing subsidies could be a more suitable alternative to ensure that SDGs 1 and 2 are realized. Congestion tax, for example, is regressive and adversely affects vulnerable populations. Improvement of public transport systems and networks, traffic management and investment in infrastructure development are better alternatives for the region. Pricing water, air pollution and carbon emissions poses a critical concern, as such measures could adversely affect competitiveness and structural transformation in Arab countries. Providing incentives for green transformation-related investments would be a better option to increase access to clean and affordable energy.

24. There is great potential for enhancing domestic resources mobilization through the elimination of IFFs. Although there is no agreed definition of IFFs, the need to track their various motives and delivery channels and provide estimates for them is a point of consensus. There is disagreement, however, on whether abusive tax practices should be considered part of IFFs. Nonetheless, taxation affects the behaviour of multinational enterprises and the extent they resort to tax evasion.

## B. DOMESTIC AND INTERNATIONAL PRIVATE FINANCE

25. 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, several considerations associated with these approaches affect the major channels of domestic and international private financial flows to the region and are worth highlighting.



26. Public policies should remain at the heart of implementing FfD priorities. While public and private finance play important roles in financing sustainable development, public leadership is indispensable 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, IATF adopts the view that private funds could ease fiscal space 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.

27. 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 the World Bank's role in promoting these 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.<sup>14</sup>

28. 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 SDGs, private finance is not a perfect substitute for public finance, especially when delivering on vital public infrastructure. 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.<sup>15</sup>

### C. INTERNATIONAL DEVELOPMENT COOPERATION

29. International public finance is increasing, but critical funding gaps remain. ODA providers should continue to increase aid in order to meet their commitments. Multilateral development banks and South-South cooperation providers are also increasing their contributions to 2030 Agenda implementation, but such forms of international collaboration only complement (rather than substitute) ODA commitments. The international community should lend greater support to country efforts to manage transitions and reconsider graduation status.

30. 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 covering refugee costs in donor countries, 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

31. The 2019 IATF report stresses the need to reinforce trade policies to finance sustainable growth. However, it makes no reference to the Doha Development Round, although it is mentioned in the [Addis Ababa Action Agenda](#) as a key way to turn international trade into an engine for growth. Trade has not been reviewed against the relevant commitments made under the [Addis Ababa Action Agenda](#), raising concerns over selectivity when analysing trade and trade-related measures. For example, the IATF reviewed progress in

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<sup>14</sup> 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".

<sup>15</sup> [E/ESCWA/EDID/2017/IG.2/9/Report](#).

removing agricultural export subsidies, but avoided examining the effects of introducing disciplines and other export restrictions on agriculture.

32. 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 for 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 the [General Agreement on Tariffs and Trade](#) or the “enabling clause”) unless there is a new mandate to be issued on the matter by the World Trade Organization (WTO) through the Negotiating Group on Rules. Reference to these proposed dialogues should be qualified, especially in relation to environmental and social principles over which the WTO does not necessarily have an exclusive mandate.

33. There is a tendency to down play the effects of trade protectionism, while overemphasizing those that stem from trade facilitation. The IATF has shown that the trade coverage of import-facilitating measures has outpaced the value of import-restricting measures. However, this 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 and is subject to deteriorating terms of trade. There is a need to qualify such assessments based on product coverage rather than employ aggregate trade values indistinctly from the nature of preferential arrangements regulating trade between Arab countries and their developed counterparts.

34. Trade post the 2008 financial crisis and investment protectionism are distorting the trade-growth nexus. Cumulatively, nearly 1,500 trade restrictive measures have been adopted, more than 1,000 of which were imposed by developed economies. Only 25 per cent of restrictive measures put in place after the financial crisis were removed.<sup>16</sup>

#### E. DEBT AND DEBT SUSTAINABILITY

35. 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. 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.

36. ESCWA had proposed a strategy to ensure that debt remains a viable means to finance sustainable development, built on: (a) a strong component of debt relief mustered multilaterally to aid countries facing sovereign debt distress; (b) a structural and deleveraging component for non-oil-rich Arab countries based on growth, raised consumption and a return to normal interest rates/inflation; and (c) a balance sheet deleveraging component to avoid 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.

37. Multilateral action should aim to preserve debt sustainability, be it on the basis of the “[Sovereign Debt Workouts: Going Forward - Roadmap and Guide](#)” or the General Assembly resolutions 68/304 of 17

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<sup>16</sup> 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.

September 2014 and [69/319](#) of 29 September 2015, and draft resolution [A/C.2/69/L.4](#) of 14 October 2014. It should consider the establishment of a debt workout institution, as had been called for. The debt implications arising from proposals under other chapters of the Addis Ababa Action Agenda, such as private and official loans, blending finance and public-private partnerships should be addressed in tandem and their influence on raising national debt stocks should be assessed.

#### F. SCIENCE, TECHNOLOGY, INNOVATION

38. The 2019 IATF report tackles the income-technology nexus and suggests that incentives be provided to invest in more productive technologies and make imports of technology-intensive capital goods cheaper. However, this is a rather generic approach which would encourage developing countries to reduce their import tariffs on capital goods. A counter argument would be requiring developed countries to provide such technologies on preferential commercial terms, through a derogation or plurilateral agreement for example. Nevertheless, the transfer of technology through traditional, overregulated routes, such as compulsory licensing, is still necessary. Since innovation funds have been established well before the adoption of the [Addis Ababa Action Agenda](#), there is a need to assess the value of existing ones and to inform decisions on the development and operation of new ones to support implementation.

39. The Paris Agreement emphasizes that its means of implementation (finance, technology, and capacity-building) should be provided by industrialized countries to developing ones. However, the agreement did not clarify how the transfer of climate-friendly technologies should be conducted, or how intellectual property rights should be handled.

40. There should be an analysis of impediments to technology flows to developing countries. International technology flows take three main forms: embodied technology, tacit knowledge and codified knowledge. Embodied technology, namely the scientific and technological knowledge embodied in machinery and equipment, falls under the realm of the multilateral trading system. Tacit knowledge flows that enable imported machinery and equipment to function optimally, for example, are types of foreign direct investment. They take place through a positive demonstration effect, labour mobility and establishment of upstream and downstream linkages. Codified knowledge is transferred in patents, blueprints, training manuals and books. Until now and with few exceptions, developing countries have had difficulties in technology capability-building and innovation. Increased technology flows of the three kinds requires a thorough review of international trade measures.

#### IV. CONCLUDING REMARKS

41. To date, there is no single tool or measure to assess the amount of financing available to finance sustainable development, nor a single database to document all FfD platforms and commitments. There is no single methodology to monitor financial (such as ODA, foreign direct investment etc.) and non-financial means of implementation (trade, pro-poor and pro-employment macroeconomic policies financing enablers) along with their delivery channels (public and private; domestic and international; bilateral and multilateral; traditional and innovate) to provide an estimate of the fiscal space that Governments could have to manage a sustainable path to development.

42. The complexity in devising such tools and frameworks resides in determining how different means of financing interact with each other to create fiscal space in specific national contexts and within integrated national financing frameworks. The different FfD sources and channels tend to interact differently and render different outcomes under different regional and national contexts. The case of the Arab region will be the subject of documents submitted under subsequent agenda items of the Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia at its first session.

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