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Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia
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Item 12 of the provisional agenda

Towards an Arab financing for development framework

Summary

The present document sets out a framework for Arab priorities and positions on financing sustainable development. The framework draws on the outcomes of numerous global, regional and national workstreams in the field of financing for development (FfD), including several high-level dialogues and events organized under the initiative entitled “Financing for development in the era of COVID-19 and beyond”. The framework relies on the findings of country-specific studies and research centred around financing national sustainable development (both qualitative and quantitative), and takes cue from the menu of FfD policy options that have garnered the highest expression of political support at the international level.

The framework focuses on the following five priority areas highlighted in the Addis Ababa Action Agenda, namely: domestic public resource mobilization and financial management; international private business and finance; international development cooperation and development assistance; international trade as an engine to finance sustainable development; and debt leveraging, liquidity and debt sustainability. The framework lays down an integral set of policy recommendations and guidance, including a vast array of proposed concerted actions to be advanced at the international, regional and national levels for each of the aforementioned five main areas of interest. The framework also serves as compendium of the reforms that have been advanced in different settings to address the most salient financing challenges facing the Arab region.

The Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia (ESCWA) is invited to review the proposed framework and comment thereon, with a view to ensuring its alignment with regional priorities before adoption.

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Introduction

1. The COVID-19 pandemic has set back progress in nearly all aspects of financing sustainable development. It has exacerbated financing inequalities, both across and within countries, and undermined decade-long development achievements. The Secretary-General's report to the High-level Political Forum (HLPF) on Sustainable Development entitled "Progress towards the Sustainable Development Goals" enumerates the cascading challenges facing SDG financing and implementation. Following six months of marathon discussions, the FfD initiative entitled "Financing for development in the era of COVID-19 and beyond" sets out various policy options, with more than 250 financing interventions to support COVID-19 recovery and post-pandemic resilience, receiving the highest expression of political support from Heads of State and Government.

2. The Economic Commission for Western Asia (ESCWA) has also articulated an elaborate regional emergency response to support its member States in mitigating the socioeconomic consequences of COVID-19. The 2021 HLPF voluntary national review process provided an opportunity to take stock of SDG implementation and showcase national SDG achievements. Regionally, however, engagement on financing remains timid, asymmetric and, for the most part, fragmented. On this particular point, the Arab Forum for Sustainable Development (AFSD) concluded its 2021 session by calling for a more coherent, responsive and coordinated regional approach to financing development.

I. Objectives

3. A proposed framework to unify Arab positions on salient regional financing priorities and principles is set out in the annex to the present document. The framework aims to reinvigorate Arab joint action on financing for development to bridge the gap between political ambition and financing outcomes. It offers an opportunity to revisit key Arab priorities adopted, prior to the pandemic, in the lead up to the Third International Conference on Financing Development, and to build on relevant financing for development resolutions adopted at the Arab economic and social summits. The framework strives to ensure that the voice and interests of the Arab region are heard at the many international, intra- and inter-regional forums that have been established to address different aspects of financing, including implementing the seven action areas of the Addis Ababa Action Agenda, addressing specific financing challenges related to COVID-19 recovery; building forward resilience; SDG-financing; the tax challenges of digitization; the financing implications of the proposed global tax reforms; domestic resource mobilization and illicit financial flows; and debt financing and sustainability.

II. Foundation

4. Acting on the terms of reference of the present Committee on monitoring developments in international forums, conferences and processes with regard to financing for development, and coordinating regional efforts towards the implementation of related resolutions and recommendations emanating from such platforms, the ESCWA secretariat is proposing the annexed framework, cognizant that its prospects for success are predicated upon its political viability and technical feasibility in the Arab region's diverse context. Hence, the framework takes it cue from the priorities expressed by Arab leaders and dignitaries at the High-Level Event on Financing for Development in the Era of COVID-19 and Beyond, HLPF, the FfD Forum of the Economic and Social Council (ECOSOC), AFSD, and the resolutions and commitments adopted at ESCWA sessions.

5. The framework seeks to endorse a set of FfD priorities and advance them, subject to agreement, through thematic financing action plans. The framework is a living document that will be regularly updated to reflect progress, new financing initiatives, and emerging modes of financing. It draws on work undertaken at the national level to finance national sustainable development strategies, and supporting macro-economic and integrated national financing frameworks. It builds on commitments taken by member States at previous sessions of the Committee, and draws on the recommendations advanced at global workstreams, including the intergovernmental Conclusions of the ECOSOC FfD Forum; the Inter-Agency Task Force on Financing for Development; the Financial Accountability, Transparency and Integrity Panel; the Committee of Experts on

International Cooperation in Tax Matters; the SDG-Financing Task Force and the outcome of the International Conference on Financing Sustainable Development organized by ESCWA in coordination with the G77 and China (Beirut Consensus on Financing for Development).

Annex

Arab framework for financing sustainable development

(*Contextual introduction to be drafted based on the deliberations of the Committee on Financing for Development*)

The Arab region is in the midst of a financing quagmire caused by the following five major financing rifts: financing the COVID-19 response; financing insolvencies; funding shortfalls and fiscal space constraints; debt-financing overhangs; and financing inequalities, both across and within countries. A "new financing normal" is needed, which builds forward recovery and a resilient path to finance the 2030 Agenda for Sustainable Development.

The "Financing for development initiative in the era of COVID-19 and beyond" furnished systemic responses to support COVID-19 mitigation and post-pandemic resilience to finance the 2030 Agenda. Through a vested expression of political support, the menu of FfD policy options needs to be synthesized and reflect national/regional contexts to ensure that the Arab region's FfD priorities are acted upon and advanced harmoniously through intra- and inter-regional settings and at the international level. Equally important is the need to recognize that mismatching regional and/or country priorities, and pursuing piecemeal interventions with misaligned outcomes, will frustrate the path to recovery.

The following key FfD options are of interest for the Arab region:

(*Key areas to be revised and updated based on priorities identified by members of the Committee on Financing for Development*)

I. Domestic public resource mobilization and financial management

Fiscal space depends on the efficiency of domestic resource mobilization and the soundness of public financial management. The design and outcome of each is contingent on eight strands of policy action, and the interaction between the factors shaping these policies at the national, regional and global levels.

Governments are invited to:

1. **Preserve the revenue generating role of taxation** by guaranteeing tax progressivity, fairness and compliance, and ensuring that taxes are collected efficiently, including by improving tax buoyancy and enhancing tax enforcement and transparency (through automatic exchange of financial information, beneficial ownership disclosures, and public country-by-country reporting of multinational corporation profits). In the pandemic of inequality, Governments need to recommit to the application of these benchmarks to high-net worth individuals, professional service, and foreign nationals that have a tax liability under domestic laws. Equally, tax justice principles should be acted upon to lessen the incentives for productive capacity to slip further into informality, and relieve the vulnerable from bearing the brunt of the tax effort, especially in settings of high informality and narrow tax nets. Building policy and administrative capacity underpins efficient tax systems, and preserves the revenue generating role of taxation.

2. **Protect the tax base from erosion, abuse and tax competition.** The G20/OECD global tax reforms hold profound implications for the Arab region, especially with respect to the reallocation of taxing rights; taxing digital services; tax competition; dispute settlement; and the viability of administering tax incentives in the future, all of which would have evident effects on the revenue raising role of taxation. The reforms may prompt a reconsideration of a series of bilateral and regional Arab conventions and agreements, including the Unified Agreement for the Investment of Arab Capital in the Arab States. The global minimum effective tax puts to question the raison-d'être of maintaining special economic zones, tax holidays and other incentives, while the primacy of the proposed binding dispute preventions and settlement mechanism may prompt changes to domestic laws with implications for regional bodies, including the Arab Investment Court.

Alternatively, taxing digital services could be based on the amendments introduced to the United Nations Model Double Tax Convention, given the foregone revenues from digitization that the region faces as a net importer of digital service. Consideration should also be given to the creation of an advisory centre for tax disputes and monitoring taxing rights, as well as the establishment of a regional Arab forum to analyse the impact of proposed tax reforms and build regional positions with respect to the international tax debate.

3. **Curb resource leakages associated with illicit financial flows (IFFs)** by combatting corruption, trade fraud and trade-based money laundering; and clamping down on tax abuse, notably those associated with tax evasion and avoidance. The following three levels of policy interventions are needed to combat IFFs:

(a) At the national level: adopt a whole-country approach to combat IFFs by ensuring that the necessary laws and/or regulations are locked in place, alongside the bodies and transparency mechanisms to enforce them, and the mandate that allows them to trace, track, confiscate and arrest gatekeepers and enablers. Enforcing Financial Action Task Force (FATF) standards can promote effective implementation of legal, regulatory and operational measures for combating money laundering and other related threats, whereas mutual evaluations can lessen the risks of being placed on the list of non-cooperating jurisdictions.

(b) At the regional level: a road map providing solutions to monitoring and measuring trade and tax-based illicit financial flows is needed alongside an inter-governmental process to review the enforcement and scope of regional conventions and instruments on anti-corruption, including the Arab Anti-Corruption Convention, and money laundering given the challenges arising from digitization. Consideration should be given to prohibit exportation of products and natural resources from illegal Israeli settlements in the West Bank, including occupied East Jerusalem, and the Syrian Golan Heights, which pose a peculiar anomaly with respect to trade-based IFFs. With regard to export labelling requirements, a form of deliberate misinvoicing – misrepresenting the origin – takes place, so incentives for these practices, including multilateral or preferential treatment/duty suspension and market access, should be suspended.

(c) At the international level: develop a global asset recovery regime to generate information, monitor and report asset recovery activity, and develop the legal multilateral premise to ensure the swift return and recovery of confiscated funds, including the creation of a multilateral mediation mechanism along with the necessary workstreams to review regulations, practices and norms governing stolen assets recovery resulting from corruption, transnational crime, trade and tax-based illicit financial flows; assist on legal and administrative aspects; turn recommendations of the FACTI Panel into binding resolutions through relevant United Nations bodies; strengthen tax and customs administrations to improve compliance and oversight, including by harnessing digital technologies; support the launch of an intergovernmental process at the United Nations to address tax havens, tax abuses and other illicit financial flows; and enhance transparency and exchange of financial information to generate potential revenues (exchange of information aided tax administrations in collecting €10 billion and can generate further revenues given that between $8.7 trillion and $36 trillion of private wealth is hidden in tax havens).

4. **Promote and diversify sources of public revenues** as opposed to adopting indistinct and outright austerity prescriptions**.** Given that public revenues remain unaligned with long-term sustainability horizons, public investment requirements need to be mapped, backed by sustainability assessments, and meet the principles for quality infrastructure investment so that they can be mobilized with certainty. Overall, medium to long-term revenue strategies need to be developed and anchored on integrated national financing frameworks that allow possibilities to exploit financing synergies and manage potential trade-offs across different policies. Moving from regressive indirect taxation to progressive and more direct forms of taxation merits consideration. The full potentials of property, effective excises, net wealth and carbon taxing or emission trading systems need be assessed in national contexts. The United Nations Handbook on Carbon Taxation can provide guidance on different options for the design and administration of a carbon tax, considering the existing policy and legal frameworks. Reducing allowances and deductions on certain capital gains can generate revenues and expand the tax base. Improving public procurement and reducing wastefulness remain critical components to unleash fiscal space and generate revenues from efficiency gains, including publicly administered assets and State-owned enterprises.

Diversify the supply base to build more productive capacity and expand the tax net offer pathways to generate potentials for public revenues. Equally, shifting focus from narrow specialization to the expansion of high-value manufacturing, and positioning industries at the right stage of global value chains, can create linkages that offset relatively low intake from indirect trade taxes with higher direct revenues accrued from exports with higher value creation. A common denominator for revenue generating proposals is improved governance and enhancing public financial management, defined as the set of laws, rules, systems and processes used to mobilize revenue, allocate funds, undertake spending, and account for funds. Governments that wish to see more tax revenues need to spend more and effectively. Higher social investments, when supported by coordinated macroeconomics and prudent industrial policy, can crowd in private investment to unleash innovation, expand productive sectors and provide decent jobs, all of which can generate more direct public revenues and/or reduce the burden on public expenditures.

5. **Rationalize and better target public expenditures:** expenditures destined to boost demand and job creation through increased spending on labour-intensive sectors, social protection, and to reduce out-of-pocket health and education expenditures are vital for any socially conscious fiscal policy. The extraordinary fiscal and monetary measures taken by many Governments to cushion the socioeconomic impact of the pandemic should be maintained and coordinated to the extent possible to secure the transition towards an inclusive and sustained post-pandemic recovery. Stimulus packages in the region, nonetheless, remain uncoordinated and fall short of what is needed (collectively, Arab stimulus represented 0.8 per cent of the combined global aggregate relief packages in 2020).

6. **Subsidy reforms and efforts to dampen their regressive distributional incidence and procyclicality of unwarranted subsidization should be pursued alongside the introduction of social protection tools.** Improving the targeting of social assistance provides pathways to create fiscal space, noting that indirect taxation can offset the potential impacts of social cash benefits. In the absence of targeted and comprehensive social security systems, supporting real incomes through generalized subsidies, a form of social protection, comes with efficiency costs and can aggravate inequality as high-income groups tend to accrue the largest benefits from these subsidies, partly because of higher consumption levels. In some countries, pre-tax subsidies exceed public expenditures on health and education budgets and do not account for the environmental costs or the over consumption arising from subsidization, which would need to be covered by increased subsidy spending (the region provides more than one fourth of global energy subsidies estimated at $436 billion worldwide). These lost opportunities in terms of public expenditures inherently give rise to a bias against building human capital and investing in more sustainable production patters, including on renewable energy. Equally, subsidized staples and fuels can also create opportunities for corruption and smuggling, and increase governance challenges and the social cost of subsidization.

7. **Raising public investment efficiency is critical to create fiscal space.** This may be prompted by a series of actions, including by changing incentives in multiple areas such as energy, fossil fuels, climate change and food systems to accelerate the transition towards sustainable production and consumption, which in turn spur employment and growth and eventually relieve/redirect public spending to priority social and capital investments within an overall effort to transition to SDG-centric budgeting. Improving oversight and engaging various national stakeholders in decision-making processes can also generate public revenues and curb wasteful spending by putting forth more concrete incentives for public accountability. Greater transparency on beneficial ownership for all legal vehicles established within the different jurisdictions provides pathways to recuperate potentially lost revenues. At the regional and global levels, there is a need to establish public country-by-country registries to better tax the profits of multinational corporations where sales and real economic activity has been created. Equally, there is a need to rethink the role of tax expenditures. Taxes are more than just revenue creating instruments: they serve as automatic stabilizers that can be employed to better align behaviours and decisions with the 2030 Agenda.

8. **Expanding the use of risk-sharing tools to unleash fiscal space,** notably through people-first public-private partnerships (PPPs). These partnerships, however, need to be devised with appropriate risk-return profiles, so that they do not constitute contingent liabilities that end up burdening public accounts. There is a need to assess the cost of blending versus other forms of financing (in some cases, public investment might be

more appropriate, even if a complex blended deal could be arranged), and level the playing field to avoid crowding-out effects. A public concession to incentivize the private sector should be reciprocated with accountability to avert socializing risks, while privatizing or guaranteeing private benefits. By developing more transparency and competition benchmarks and requirements for SDG-oriented PPPs and blended finance instruments, countries can level the playing field and avoid crowding out the private sector to relieve public spending.

9. **Tax expenditures need to be consistently applicable, quantified and made conditional** on achieving defined development targets with the possibility of replacing them by direct transfers to the extent admissible by multilateral and preferential arrangements, and they should be periodically evaluated if they are to do more good than harm. Tax expenditures remain an important fiscal policy tool to ensure social equity and welfare, but they can potentially hamper tax revenue collection, and beyond certain thresholds can be construed as a form of harmful State-aid or subsidy that distort conditions of competition, providing grounds for retaliatory action. Consider non-tax alternatives to reduce the benefits of being informal, including leveraging access to finance and financial inclusion, which can provide pathways to reduce tax expenditures and source additional revenues.

10. **Reducing the deadweight costs of enacting excessive tax incentives** to mobilize more public resources. Tax incentives can be an appropriate policy tool only when tax expenditures are weighted against the benefit/net present value accruing from extending these incentives. Tax expenditures in this case comprise exclusions, carve-outs, deductions, deferrals, credits, tax rebates and tax rates that benefit specific activities or groups of taxpayers and corporates. Given the new global reforms being negotiated, there is a need to reconsider the application of tax incentives, especially in the case of low corporate tax Arab jurisdictions, which could lose taxing rights and see potential tax revenues flow out to other jurisdictions. Reviewing how extractive industries are taxed, be it through royalties, withholding taxes, corporate income taxes, production sharing agreements, tariffs and licensing fees, can also provide pathways to secure more revenues by considering ways to effectively tax capital gains and reduce overlapping deductibles.

II. International private business and finance

11. **Synthesize the volatility and unalignment of capital inflows with long-term sustainability horizons.** The great decoupling between the real economy and financial activity has increased the cross-border movement of capital, especially under increased terms of international mobility. As such, capital inflows to the region became more volatile and remain unaligned with long-term sustainability horizons. Conversely, record capital outflows from the region have been witnessed following the outbreak of the pandemic and led, in some instances, to the depreciation of exchange rates, higher funding costs and limited access to external financing. Country practices demonstrate increasing reliance on multiple policy instruments to deal with capital flow volatility. These include monetary policy, macroprudential policies, foreign exchange interventions, and capital flows management measures, including prudent current account management. The question of which policies – or combination of policies – are most effective in mitigating the risks of sharp capital flow movements generated by global shocks, and the near- versus medium-term trade-offs of different policies, is important to consider under country-specific contexts and given the region’s high-risk exposures.

12. **Reverse the trend where international private inflows remain insufficient to fill the SDG financing gap** (estimated at more than $6 trillion in terms of gross financing needs). The pandemic has exacerbated this gap (developing countries need an additional $2.5 trillion to tackle with the pandemic). Yet, COVID-19 provides an opportunity for review and overhaul of investment frameworks to refocus on long-term sustainability goals, mainstream SDGs in national investment policies and bilateral/regional investment treaties, especially since foreign direct investment (FDI) has become more risk averse, falling short of incentivizing the investment-employment nexus as more outflows of primary income have been witnessed as opposed to the volume of re-invested earnings. Given that, 10 per cent of the world’s GDP continues to be held in untaxed offshore assets; $1.3 trillion in annual corporate profits are shifted from countries where economic activity takes place to a small number of tax haven causing $500-$600 billion in corporate tax revenue losses, or nearly a quarter of the estimated annual SDG financing gap in developing countries, the

gaps in the global financial and tax architecture need to urgently be addressed to attend to these leakages if international private capital is to serve sustainable development.

13. **Improving investment environment at all levels** remains a key consideration to incentivize international private finance. Embracing new business models that take into account the environmental, social and governance (ESG) considerations is vital. For this purpose, there is a need to establish a multilateral framework for standards, metrics upon which ESG investment related disclosures can be monitored and reported upon consistently, including through integration of these metrics in capital markets. Equally, impact investing (which combines the commercial return on investment with non-financial impacts) needs to go beyond mere consequential positive externalities to better assess their impact on the SDGs and ensure their alignment with national priorities, and to maintain accountability.

14. **Promoting the use of Islamic social financing to support SDG-financing.** With both its values and modalities aligned with the SDGs, Islamic social finance aims to channel financing into the real economy, creating real value for societies by sharing risks and limiting debt burdens. Traditional Islamic social finance instruments, such as *zakat* (obligatory almsgiving); *sadakah* (charitable giving); *waqf* (endowments and trusts), and Islamic microfinance (mainly based on *qard hassan* “benevolent loans”) can be blended to provide higher impact within a new social finance ecosystem. The future application of these instruments will be exceedingly sophisticated, thus addressing existing challenges in calculation, poor collection and distribution channels may prove worthy of attention. For this purpose, there is a need to converge regulatory modalities and guidelines for structuring Islamic finance products alongside social ones. These requirements vary across markets and financial institutions. A stable and predictable regulatory framework, compliant with Shariah principles, is necessary if we are to advance the Islamic social finance ecosystem and the notion of blending to maximize impact.

15. **Ensure SDG-sustainability financing by developing integrated national financing frameworks,** supported by coherent and comprehensive national investment mapping, complemented by regional SDG investment compacts that shift the strategic policy direction from global to building export-oriented regional value chains. This would require overcoming obstacles that impede sustainable investments that have been identified by institutional investors, including addressing issues related to industrial clustering (involving cooperatives of micro, small and medium enterprises); risk-adjusted returns on investment products that are too low; excessive regulation; underdeveloped human capital; and insufficient support for investments through risk insurance, guarantees, and unquantified risks arising from political instability, local currency volatility and external shocks/disasters.

16. **New frontiers of action by the Global Investors for Sustainable Development Alliance (GISD) are needed** to deliver concrete outcomes, at the regional and national levels. GISD can play a role in addressing root causes and implications arising from the loss of correspondent banking relations. Equally, given the many standards being used to define “sustainable”, “responsible” or “SDG-aligned” investments, these terminologies and their analytical approaches, including measurement metrics, need to be harmonized to facilitate engagement with private actors, align interventions with the 2030 Agenda, and avoid information asymmetries and SDG washing. As advanced by the FfD initiative, non-traditional institutional investors and pension and sovereign wealth funds need to also be incentivized to direct their investments towards supporting SDG-related sectors. In this regard, connecting SDG localization processes promoted at the subnational level as SDG investment opportunities/roadmaps merits consideration.

17. **New and more developmental forms of credit rating,** especially for developing countries and banks, are needed. Creation of publicly owned credit rating agencies, so that agencies are not both market evaluators and market players as at present, is crucial, noting that debtor countries participating in the Debt Service Suspension Initiative (DSSI) have been reluctant to request private creditors to join the initiative out of fear that this could lead to downgrades in their sovereign credit ratings and higher borrowing costs. As it stands, however, long-term productive investments in the SDGs are not accounted for in credit ratings. Credit rating agencies should consider issuing long-term ratings alongside traditional ratings. A favourable long-term rating

could create incentives for countries to invest more effectively in sustainable development and help them raise long-term capital for the SDGs.

18. **Remittances should be incentivized as they remain the single largest source of private capital inflows** to the region, outpacing the combined aggregate inflows of FDI and ODA. Remittances are considered an essential bloodline for more than 26 million migrant families in the region, and are a vital source of financing, liquidity and achieving inclusive growth. Ensuring the sustainability of these cross-border private flows deserves attention, especially as these flows can increase the exposure and risks of migrating macroeconomic shocks from sending to recipient countries Several proposals have been advanced to this effect, including harnessing remittances and channelling them in the form of productive capital investments, improving government accountability to lower rent seeking behaviour, lower/eliminate high remittances cost corridors (remittances cost 7 per cent on average in the region, twice as much as called for by the SDGs), instituting a transitional waiver on taxing remittances, mitigating the risks associated with loss of correspondent banking relations, and exploring instituting an innovative/digital mechanism or new payment infrastructure and arrangements to secure and lower the cost of cross-border payments and to address the deadweight arising from cross-currency payments that take place through multi-layered settlement networks.

III. International development cooperation and development assistance

19. **Re-assert the need to honour ODA commitments.** ODA remains an indispensable source of external financing to support the achievement of the SDGs, particularly for low-income countries. In a context of scarce public resources exacerbated by the impact of COVID-19, there is a need to maintain, if not scale up ODA levels to the region. ODA providers should make every effort to meet the 0.7 ODA/GNI target. Meeting ODA commitments can unleash more than $2.5 trillion in additional funds for sustainable development. An immediate and outstanding priority for the donor community is to support bridging the financing gap arising from a lack of access to COVID-19 vaccines, and rally behind their equitable distribution across countries. Equally, developed partners should honour climate finance commitments ($100 billion per year through 2025).

20. **ODA quality, scope and effectiveness should be enhanced** by optimizing its allocation, especially considering the detracting share of ODA channelled to vital sectors, such as water supply and sanitation, education, health and commodity aid. Development partners should align their support with the priorities of Arab countries, as identified in national sustainable development strategies. The effectiveness of ODA should be upheld in line with established principles on aid effectiveness. Development cooperation actors should align their support to recipient priorities, as identified through country-owned sustainable development strategies and integrated national financing frameworks that provide a basis to translate country priorities into concrete and viable finance commitments. ODA recipient countries need to accentuate that the scope of ODA, as per its definition, remains distinct from purely humanitarian purposes, which do not necessarily target long-term investments needed for sustainable development, as called for by the Secretary-General’s Strategy on Financing the 2030 Agenda.

21. **Collaboration on ODA allocation, disbursement and measurement needs to be fostered.** The increasing dispersion of ODA to recipient Arab countries is largely influenced by in-country “refugee” costs. But equally, it has been influenced by in-donor refugee spending which, in some instances, has been discounted to dilute ODA commitments. It remains, nonetheless, important that both cash flow and grant equivalent methodologies continue to be reported with transparency to provide comparability of ODA volumes. The quality of data and information on ODA needs to be reassessed to improve measurements of official support, including the total official support for sustainable development. Governments reiterate that ODA measurement should not be diluted under influence of double counting, over-estimating or re-packaging under any pretext, including by discounting debt rescheduling and relief from ODA. In addition, work needs to ensue to reverse the trend whereby ODA has become less concessional, raising concerns on whether ODA is a contributing factor in the build-up of debt stocks.

22. **South-South cooperation remains a distinct form of international cooperation that needs to be supported.** ODA not provided by the Development Assistance Committee, including bilateral and regional

assistance provided by several Arab countries, regional funds and banks within the context of South-South cooperation, is welcome, but should not be a substitute for unmet ODA commitments. At the regional level, and in the spirit of South-South cooperation, the proposal to establish a regional solidarity fund to support low and middle-income countries in the Arab region recover better from COVID-19 deserves consideration. The time for solidarity has come to ensure the extension of social protection schemes to the most vulnerable, unemployed and informal workers, and to support the purchase of food, medicines and urgently needed medical equipment to combat the pandemic.

23. **ODA can play a key role in promoting the alignment of external private finance** with the SDGs by supporting country-led SDG financing strategies, and mobilizing and aligning private external finance with the SDGs. Blended finance can provide ample opportunities and financial returns for private partners, but should also support the delivery of public goods and services, and move away from the dominating mantra where profits are privatized, and costs are socialized. Donors should not divert the grant element of ODA, necessary to finance social needs, for blending. Development cooperation partners should prioritize the use of non-concessional loans to mobilize private finance. Blended finance has grown since the adoption of the Addis Agenda, but its developmental impact remains largely unknown owing to weak monitoring and poor transparency. Clear result frameworks, measuring, reporting on and communicating on financial flows and commercial returns are essential for the success of any blending configuration.

24. **Multilateral and regional development banks should consider allocating more of their concessional lending** portfolios to Arab countries, especially given the dire humanitarian situation faced by many countries, the overly stretched public services due to hosting large refugee communities, and the loss of credit worthiness that has increased the spread for leveraging debt and tapping capital markets. Less than half of the assistance provided by Arab development funds and institutions continues to be directed to the region. Regional development banks are encouraged to scale up and leverage private finance in support of sustainable development efforts in the region.

IV. International trade as an engine to finance sustainable development

25. **Reverse international trade restrictions that have been introduced prior and during the pandemic,** noting that the coverage of COVID-19 related trade restrictive measures imposed on goods by G20 economies amounted to $135.7 billion. The COVID-19 crisis has put the brakes on the contribution of trade to the SDGs. Redressing trade protectionism and instituting a temporary moratorium on introducing new export restrictions is needed to support a post-pandemic recovery. The Arab region is already bearing the brunt of detracting commodity prices and interruptions in the delivery of services trade, which has been directly affected by COVID-19 through transport and travel restrictions. As a result, export earnings fell, with those dependent on commodities and exporters of tourism most affected. Arab countries are invited to issue a call to major trading partners to keep markets open to ensure equitable flows of essential goods and services in times of crisis.

26. **Reinvigorate the call for the reform of the World Trade Organization (WTO),** and introduce sustainable development considerations in the multilateral trade rulebook through an inclusive and sustainable recovery lens, apart from the current stipulated security exceptions, especially as in some situations the policy space to enforce capital account management tools may be restricted by trade and investment agreements. Reforms are urgently needed to make the multilateral trading system responsive to sustainable development priorities. This call extends to the functioning of the dispute settlement system. In addition, and according the FfD initiative menu of options, for existing trade and investment agreements, a memorandum of understanding between the parties should be negotiated to provide for more flexibility regarding the use of capital account management tools in situations of exogenous capital flow pressures. Support for foreign exchange trade finance liquidity through swap line arrangements in times of capital flow stress could also be considered. Unilateral application of capital controls can, nonetheless, cause downgrading by credit rating agencies, and make access to fresh borrowing more expensive. State contingency debt instruments have also been advanced and linked to terms of trade shocks and/or export performance.

27. **International food prices represent an important factor in the Arab food security equation.** The increase in world food prices may explain some 20-50 per cent of the transmission of price increases in Arab countries. Exchange rate depreciation can also play its hand in raising food prices but, more importantly, domestic factors, notably inflexible procurement, price controls and poor logistics, play a major role in explaining domestic food inflation in all Arab countries, in addition to low crop productivity which is almost half of the world's average. In other words, there is a need to take action at the national level to adjust monetary, fiscal and customs policies to absorb price shocks from a prolonged COVID-19 crisis. In this regard, there is a need to operationalize the "Arab emergency food security programme", which sets financial contributions and cereal and food stockpiling guidelines to address emergency situations, in line with the conclusions of the Arab Economic and Social Summit held in Kuwait in 2009.

28. **Arab countries should consider a call for a swift decision to allow net food importing countries to be exempt from export restrictions on foodstuffs,** noting that export restrictions enforced by global suppliers were among the factors that have led to record high food prices in the past two decades. There is a need to accentuate that aggressive public stockpiling of agricultural produce in times of crisis will distort global supplies and the food security of others. A code of conduct on public stockpiling and revisiting the relevant WTO ministerial declaration in this regard merit consideration. Prudence should also be sought from developed countries in applying sanitary and phyto-sanitary measures, and avoid resorting to precautionary principles that rely on non-scientific based restrictions (the status of the precautionary principle in international law continues to be the subject of debate). Equally, there is an urgent need to provide technical support and equipment to Arab countries, particularly the least developed and those in conflict, to help identify and clear food imports and fast track clearance trade routes and corridors.

29. **Arab countries should reject vaccine nationalism** and consider re-establishing their rights under the TRIPs Agreement and seek the appropriate derogations, especially under the current health emergency situations, for the production and non-commercial usage of COVID-19 vaccines to safeguard human life and health systems. Sharing the know-how of COVID-19 vaccines is key to not only scaling up production, but also bringing forward the second generation of vaccines needed to address emerging variants, noting that the demand for such vaccines has outstripped supply, with high-income countries taking the lion's share of reserved doses.

30. **A concerted effort is needed to remove all barriers on intra-Arab trade,** namely food, medical products and inputs for industries producing essential goods. At the regional level, Governments are advised to remove all remaining barriers to the Pan Arab Free Trade Agreement (PAFTA) to boost intraregional trade, and develop a strategy to rapidly diversify supply chains and reduce vulnerabilities to shocks in markets. In tandem, there is a need for Arab countries that have not yet joined the Agreement on the Liberalization of Trade in Services among Arab Countries to accede to this regional instrument to facilitate the movement of capital, and ensure the removal of non-tariff restrictions on intraregional services trade. Moreover, there is a need to establish a process to review extra-regional preferential trade arrangements to ensure that their provisions do not constitute a barrier to deeper and comprehensive forms of intraregional integration within the Arab region, including through the proposed Arab Customs Union and the Common Arab Single Market.

31. **The Arab region needs to consider the promulgation and enforcement of the necessary regulatory frameworks** and monitoring mechanisms to address trade fraud and trade misinvoicing, which continue to strip public coffers' significant revenues, thus undermining both the integrity of trade and governance systems in the region. The road map put forward by ESCWA in this regard merits consideration to curb trade-related illicit financial flows. Facilitating a rapid transition to paperless trading can help reduce costs of transactions, while streamlining trade finance verification process; increasing coordination between multilateral development banks and the private sector can in turn help fill trade financing.

32. **International and regional cooperation remains critical for redressing cross-border anti-competitive** and tax abuse practices, and for combating fraudulent and deceptive cross-border commercial practices. The role of the Islamic Development Bank in setting up a special Strategic Preparedness and Response Facility of $730 million to mitigate the health and socioeconomic impacts of the COVID-19

pandemic, and in providing Shariah-compliant trade financing for member States of the Organization of Islamic Cooperation (OIC), with a particular focus on financing intra-trade between member countries, is commendable. In tandem, there is a need to foster the role of the Arab Investment and Export Credit Guarantee Corporation (DHAMAN) and the Arab Export Credit Insurance Scheme designed to support and encourage Arab exporters' efforts to enhance intra- and inter-Arab trade and exports worldwide.

V. Debt leveraging, liquidity and debt sustainability

33. **Improve debt sustainability and liquidity positions through debt relief measures and the redistribution of new and unused SDR allocations on a needs basis for Arab countries.** The high indebtedness in many developing Arab countries that are struggling to recover from the COVID-19 crisis could lead to deep and long-term social and economic scarring. Arab middle-income countries facing high debt burdens remain ineligible to benefit from the Debt Service Suspension Initiative (DSSI) and the Common Framework on Debt Treatments, and there is no clear incentive or mechanisms that can provide an enabling environment or compel private creditors to participate in debt relief efforts.

34. **There is a need to call for extending the period** of DSSI to LDCs; broaden the scope of DSSI beneficiaries to include all highly indebted developing countries, including middle-income countries in the Arab region; widen the scope of DSSI by including multilateral debt; and create mechanisms to enhance private sector participation in the DSSI debt reprofiling, debt buy-back and debt swap mechanisms.

35. **There is also need to build on existing principles, mechanisms and initiatives such as the United Nations Basic Principles on Sovereign Debt Restructurings Processes** and the G20 common framework of debt treatment, and establishing a multilateral sovereign debt forum, as called for by Secretary-General to foster greater coordination among creditors and debtors toward sustainable sovereign debt resolutions and debt relief to promote SDG financing. The United Nations Principles on Sovereign Debt Restructuring Processes should be incorporated into contracts for sovereign bonds.

36. **Reducing debt service burdens requires reverting the declining trends of concessional finance** from official creditors. In tandem, there is a need to promote private creditors participation in debt reprofiling, debt buy-back and debt swap mechanisms, especially as private creditors constitute an increasing share of public external debt in the past decade, amounting to about 40 per cent of public debt of low- and middle-income countries together. In some countries, like Lebanon, private creditors constitute above 90 per cent of public debt.

37. **Innovative debt relief instruments should be explored to ensure the viability of leveraging debt to finance the SDGs,** including through GDP-indexed lending and debt swaps which can improve financing for climate and accelerating the SDGs. Long-term debt sustainability analysis and assessments based on a regionally sensitive framework should be undertaken to ensure that long-term sustainable fiscal, trade balance and growth trajectories based on SDG investments and social need requirements are factored in any national and regional debt analysis.

38. **Reconsider the redistribution and use of the new SDR issuance** as persistent current account deficits pose liquidity challenges in most Arab countries. Of the new issue of $650 billion SDRs, the Arab region would receive only about $37 billion; the low- and middle-income countries of the region (15 out of 22 Arab States) will receive only about $15 billion. The amount is far below what is required (estimated at $462 billion) to catch up to the global average fiscal support of Governments as a share of GDP. Arab economies' fiscal stimulus represented nearly 4 per cent of their GDP, which is significantly lower than the global average of 22 per cent. Limited fiscal space risks the region's recovery from the pandemic. Therefore, there is need for significant redistribution of SDRs, not on the basis of existing quota, but on the basis of need, considering a dashboard of indicators that capture multiple vulnerabilities, including balance of payment and trade imbalances, crisis situations, and required financial needs for recovering from the pandemic.
