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Global and regional issues

Implementation of the Addis Ababa Action Agenda

Summary

The present document examines the Addis Ababa Action Agenda and its applicability to the Arab region, and proposes different tools to support member States in fully utilizing their financing sources to achieve the Sustainable Development Goals.

This document also sets out a strategy proposed by ESCWA for financing the Sustainable Development Goals.

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Introduction.....	1-10	3
<i>Chapter</i>		
I. ADDIS ABABA ACTION AGENDA	11-16	4
A. Action Agenda initiatives	14-15	4
B. Analysis of the Action Agenda and its impact	16	6
II. ESCWA 2016-2019 PLAN TO SUPPORT MEMBER STATES IMPLEMENT THE ADIS ABABA ACTION AGENDA	17-29	7
A. Domestic resources mobilization.....	19-23	7
B. Remittances	24-26	8
C. Investment policy	27-29	9
III. CONCLUSIONS	30-32	9

Introduction

1. Stakeholders attending the United Nations Sustainable Development Summit, held in New York from 25 to 27 September 2015, adopted the 2030 Agenda for Sustainable Development that is underpinned by 17 Sustainable Development Goals (SDGs), whose primary focus is to eradicate poverty and pursue a sustainable future. Through addressing the unfinished business of the Millennium Development Goals (MDGs), the SDGs promise to reach a balance between the three interlinked dimensions of sustainable development: economic, social and environmental. In view of the shifting development context, there is a general consensus on the importance of tackling the various issues and challenges that the Arab region is currently facing, including developing means for implementing the 2030 Agenda.
2. Demand for sustainable development financing in the region over the coming 15 years will be substantial. There are pressing needs to reduce poverty, implement universal social protection floors, rebuild the infrastructure destroyed by conflicts, promote a green economy and create fiscal space. ESCWA has estimated that the total financing gap in the Arab region to achieve sustainable development is \$3.6 trillion for the period 2015-2030, equalling \$240 billion per year.¹ The estimated \$650 billion needed for reconstruction of conflict-affected countries is considered as an additional challenge for achieving inclusive growth in the region.
3. This financing gap has arisen during a period where the effectiveness of traditional sources of finance in the region is shrinking. The current levels of official development assistance (ODA) are well below the pledged 0.7 per cent of gross national product (GNP), equalling only 0.3 per cent on average in 2013, with this trend expected to persist over the coming years. Arab countries have suffered the most, with a comparatively diminishing share of development aid when analysing global ODA. Over the last two decades, development assistance to the Arab region has decreased both in terms of total ODA as a percentage of gross national income (GNI) and ODA per capita as a percentage of GNI by 38 per cent and 61 per cent, respectively.
4. Since the 2008 financial crisis, foreign direct investment (FDI) in the region has consistently decreased over the past years because of political instability, underdeveloped infrastructure and weak regulatory frameworks, inducing a defective business environment. Net FDI in some Arab countries is negative.
5. Recent sweeping political changes in the Arab region and the sharp drop in oil prices has led many Arab countries to increasingly resort to public domestic debt. Fiscal deficits are expected to deepen further with the propagation of tensions in the region. Over the period 2015-2016, 13 to 15 Arab countries are expected to experience a financing deficit.
6. In the Arab region, countries display the lowest level of financial inclusion in the world when considering the proportion of individuals and enterprises using formal financial services. Only 18 per cent of the population of Arab countries has an account with a financial institution, compared with 43 per cent for developing countries. The figure for women is even lower, with only 13 per cent of adult women in the region possessing a formal account. Equally alarming is that only 8 per cent of total bank loans are allocated to small and medium enterprises, although they represent the engine of private sector growth with a high potential of productive job creation.
7. Domestic public finance is a critical component of resource mobilization for sustainable development. Nevertheless, many Arab countries present a low tax effort, signifying the need to improve tax administration and collection efficiency. On average, tax to gross domestic product (GDP) ratios in the Arab

¹ The financing gap is defined as the difference between available financing sources at a given point in time and the resources needed to achieve a specific growth level. Financing requirements can be calculated according to Thirlwall-Hussein's (T-H) model, which is based on balance of payments constrained growth.

region are 20 per cent compared to 35.4 per cent for countries of the Organisation for Economic Co-operation and Development (OECD).

8. Workers' remittances represent huge potential for financing needs in the Arab region, with an approximate amount of \$51 billion in 2014 alone. Remittances in the region have been larger than all net FDI and ODA flows combined since 2010. However, the utilization of remittance inflows to enhance development confronts the following three major challenges: the absence of national strategies and policies to channel remittances to development; relatively weak financial and institutional infrastructure supporting remittances; and a lack of sufficient data/information on workers' remittances.

9. Given that development financing is at the core of the 2030 Agenda, the third International Conference on Financing for Development, held in Addis Ababa from 13 to 16 July 2015, assessed progress in implementing the Monterrey Consensus and the Doha Declaration, discussed new and emerging issues, and identified means for reinvigorating and strengthening the financing for development follow-up process.² The Conference produced the Addis Ababa Action Agenda, which contributes to and supports the 2030 Agenda.

10. The present document examines the Action Agenda and its applicability to the Arab region, and proposes different tools to support member States in fully utilizing their financing sources to achieve the SDGs.

I. ADDIS ABABA ACTION AGENDA

11. On 16 July 2015, 193 United Nations member States met in Addis Ababa at the third International Conference on Financing for Development and agreed on an outcome document entitled the Addis Ababa Action Agenda. This agreement is intended to provide a basis for implementing the 2030 Agenda on Sustainable Development, given that it covers various financing sources and takes account of cooperation in several issues related to technology, science, innovation, trade and capacity-building. The Action Agenda builds on the outcomes of the two previous financing for development conferences, held in Monterrey, Mexico, and in Doha.

12. The framework provided by the Action Agenda paves the way for developing public policies and regulatory frameworks to encourage private investments that support the SDGs. It explains the potential contributions of public finance by highlighting the growing role of national, international and multilateral development banks. It also draws attention to some key means of implementation for the 2030 Agenda, including technology dissemination and capacity-building.

13. This framework covers over 100 measures that lead financial investments in the public and private sectors in order to meet a wide range of challenges. These measures include commitment to direct financing for social protection, assistance to the poorest countries, cooperation on tax issues and the need to address illicit financial flows that divert resources away from development. It is worth noting that member States also pledged to achieve equal economic rights and opportunities for women and girls.

A. ACTION AGENDA INITIATIVES

14. In view of the changing global context and emerging patterns of resource flows, the following new commitments in different areas have been set out in the Action Agenda to ensure a sustainable development financing strategy.

(a) **Taxation:** developing countries have emphasized the importance of combating tax evasion and tax avoidance, and the need to reform tax administration, strengthen institutional capacities and fight illicit capital outflows. This will create additional tax revenues to finance the new social compact and to fund

² Further information on the Conference is available from www.un.org/esa/ffd/overview/third-conference-ffd.html.

sustainable development. To assist in these efforts, countries have agreed to strengthen capacity-building and support existing international initiatives for tax cooperation. In this regard, the Action Agenda highlights the need to improve the efficacy and effectiveness of the work of the United Nations Committee of Experts on International Cooperation in Tax Matters;

(b) **Official Development Assistance:** it was emphasized that ODA will remain relevant to sustainable development in developing countries. The Action Agenda urges developed countries to meet their commitment to allocate 0.7 per cent of GNI as ODA to developing countries, and 0.15-0.20 per cent for least developed countries (LDCs). Developed countries have also pledged to overturn the decline in aid provided to the poorest countries after it fell by 16 per cent last year. The European Union has committed itself to increasing its aid to least developed countries to 0.2 per cent of GNI by 2030. Developed countries will also work on improving investment promotion regimes in least developed countries, through financial and technical support. Governments also aim to operationalize the technology bank³ for this group of countries by 2017;

(c) **Micro, small and medium enterprises:** countries committed themselves to applying the Global Jobs Pact of the International Labour Organization by 2020,⁴ in addition to developing a global strategy for youth employment. Member States have also pledged to provide reasonable and stable access to credit for smaller enterprises;

(d) **Infrastructure:** recognizing the importance of new investment projects that are environmentally, socially and economically sustainable, member States have decided to form a Global Infrastructure Forum to identify those projects and tackle infrastructure gaps. The aim is to ensure that the commitment to the social and environmental dimensions of sustainable development is respected. The Action Agenda does not specify who will finance those projects and does not offer any modes of finance;

(e) **Social protection:** member States have committed themselves to a new social compact that supports poor and vulnerable groups by requesting Governments to provide them with social protection systems and essential public services, including health, education, energy, water and sanitation. To achieve this goal, Governments will mobilize additional domestic public resources backed by an international community committed to strong international support for these efforts. Mobilizing additional domestic public resources will not be sufficient, however, especially in low-middle income countries and LDCs. Developed countries have not made any financial commitment towards social protection;

(f) **Climate change:** developed countries are urged to implement their commitment and mobilize a joint amount of \$100 billion by 2020 to address the needs of developing countries to fight climate change. Developed countries have refused the proposal of developing countries to mention that a “climate change fund” should not be part of ODA;

³ In 2013, a [report](#) of the United Nations Secretary-General was published, outlining a conceptual framework for a technology bank, and a [General Assembly resolution](#) was adopted requesting the formation of a high-level panel of experts to carry out a feasibility study and examine the bank’s scope and functions. According to a report released by the high-level panel on 22 September 2015, the bank could consist of three parts: a patents bank to improve LDC access to intellectual property; a science and technology depository facility serving science, technology and innovation in LDCs; and a supporting mechanism within the bank to build capacity in science, technology and innovation. This structure should support the following three inter-related goals: facilitation of technology transfer; promotion of science, technology and innovation; and capacity-building and mobilization of global support.

⁴ The Global Jobs Pact is a policy instrument that addresses the social and employment impact of the international financial and economic crisis. It promotes a productive recovery centered on investments, employment and social protection. It is a set of balanced and realistic policy measures that countries, with the support of regional and multilateral institutions, can adopt to ease the impact of the crisis and accelerate recovery in employment. Adopted in June 2009 by the International Labour Organization, it calls on its member States to put decent work opportunities at the core of their crisis responses. It addresses the social impact of the global crisis on employment and proposes job-centered policies for countries to adapt according to their national needs. In short, the Pact is about promoting jobs and protecting people, about responding to both the people’s agenda and the needs of the real economy.

(g) **Technology:** countries have agreed on the importance of encouraging innovation and entrepreneurship, in addition to investing in human capital and sustainable technologies. To help facilitate development in this sector, countries have decided to create a technology facilitation mechanism, which will support the sustainable Development Goals by enhancing cooperation between Governments, the private sector, civil society and the scientific community;

(h) **Health:** to discourage the consumption of harmful materials, countries have decided to consider taxing such substances. This will increase their revenues on the one hand and help maintain individual health on the other. As an example, they have agreed to levy taxes on tobacco.

15. Other significant issues in the Action Agenda involve expanding efforts to end hunger and malnutrition, supporting sustainable industrialization, ensuring decent work for all, and preserving the ecosystem.

B. ANALYSIS OF THE ACTION AGENDA AND ITS IMPACT

16. Whether the Action Agenda will succeed in helping Arab countries realize the Sustainable Development Goals will have to be explored over the coming 15 years. However, a number of developing countries have expressed concern that the Action Agenda may not deliver the proper financing needs to reach the ambitious Sustainable Development Goals set by the 2030 Agenda. Some economists argue that the Action Agenda does not provide a solid plan to fund actions and does not refer to concrete commitments or implementation mechanisms. It is also vague on role specification and sources of funds. The following critical issues highlight the main points of concern.

(a) **Private finance:** the Action Agenda allows the private sector to act without binding commitments that ensure its ability to operate in the public interest. There are no solid requirements for respecting human rights and transparency or for benefiting the local community. The risk is that private companies will focus on increasing profits rather than supporting sustainable development;

(b) **International tax policy:** during the Action Agenda negotiations, developing countries were in favour of establishing an intergovernmental body to coordinate global tax policies, but developed countries strongly rejected the proposal arguing that the Global Forum on Transparency and Exchange of Information for Tax Purposes managed by OECD was sufficient. Failure to agree on the creation of a United Nations global tax body is a major drawback in the Action Agenda, as it implies that developing countries will not take part in designing global tax systems. Overall, tax revenues that developing countries lose as a result of tax evasion exceed development assistance, and could have helped fund different sectors' efforts towards reaching the SDGs;

(c) **A new social compact:** concrete commitments to implement integrated social protection systems, including floors, remain ambiguous. Although the Action Agenda includes a commitment to a new social compact, it does not mention how its implementation will be financed; developing countries will have to find funds themselves;

(d) **Shifting responsibility towards developing countries:** the principle of "shared responsibilities" now apply in the financing for development process, replacing the principle of "common but differentiated responsibilities", which implies that developed countries are trying to avoid making any commitments. They also seem to be shifting away from North-South cooperation by putting emphasis on South-South cooperation and domestic resource mobilization. Despite the European Union promise to reach the 0.7 per cent ODA target for developing countries and the 0.2 per cent target for least developed countries, developed countries did not provide a commitment to any additional funds that are pivotal for achieving the SDGs, particularly in least developed countries;

(e) **Transparency and accountability commitments:** despite repeatedly mentioning the importance of transparency and accountability, there are no concrete commitments from Governments and others actors to publish timely, comprehensive and accessible information about all development activities and resource flows;

(f) **Islamic finance:** an important shortcoming of the Action Agenda is the lack of reference to Islamic finance, although its assets have grown rapidly over the last decade, including in the areas of infrastructure financing, and social and green investments. There is significant evidence that Islamic finance can contribute to greater financial stability;

(g) **Climate change:** developed countries have not offered any new sources of finance to help developing nations deal with the rising challenge of climate change. This raises concerns that climate funds might be financed from ODA and not from separate funds;

(h) **Domestic resource mobilization:** among the key issues highlighted in the Action Agenda is domestic resource mobilization.; however, the agenda fails to mention the challenges facing developing countries in mobilizing financial resources as a result of unresolved issues related to international trade and agricultural subsidies in developed countries;

(i) **Repatriation of stolen assets:** Arab countries have called for increased international cooperation to repatriate stolen assets. While the Action Agenda mentions this issue, it does not commit developed countries to fighting illicit capital outflows. Capacity-building in developing countries is not a sufficient measure on its own to resolve this issue.

II. ESCWA 2016-2019 PLAN TO SUPPORT MEMBER STATES IMPLEMENT THE ADIS ABABA ACTION AGENDA

17. The third International Conference on Financing for Development highlighted that developing countries should build their capacity and rely mainly on domestic resources. ODA will continue, but a good part of it will be diverted towards tackling climate change. Given the significant economic challenges some countries still face, current levels of ODA resources are considerably insufficient to put countries on the path to sustainable development.

18. In line with SDG 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; SDG 10 on reducing inequality within and among countries; and SDG 17 on strengthening the means of implementation and revitalizing the global partnership for sustainable development, the ESCWA work programme in the area of financing for development will focus on the following areas.

A. DOMESTIC RESOURCES MOBILIZATION

19. There is room for developing countries to enhance their tax systems. Currently, tax evasion and avoidance pose a heavy burden; the cumulative amount of illicit financial flows for the Arab region over the period 2003-2012 is estimated at \$727 billion.⁵

20. Mobilizing domestic resources should be the primary financing source for implementing the 2030 Agenda and SDGs in Arab countries. The ESCWA objective is to promote capacity-building in member States to enhance their taxation systems and to drastically reduce tax evasion and avoidance.

⁵ Dev Kar and Joseph Spanjers, *Illicit Financial Flows from Developing Countries: 2003-2012*, Global Financial Integrity, 2014.

21. Over the next four years, ESCWA will intensify its efforts to counter tax evasion in the region through a number of activities, including supporting member States to revise their tax treaties with foreign countries and working on the overall efficiency of their tax regulations.

22. The main objectives include the following:

(a) Supporting member States in establishing effective national tax systems to maintain fiscal sovereignty, evaluate existing tax principles and assess their relevance in the light of the new principles on which the international tax system is based;

(b) Studying tax incentives to maintain appropriate measures, eliminate unproductive ones and propose incentives that will lead to an increase in investments at the national and global levels;

(c) Proposing a legislative framework for internal tax codes that includes developing a broader tax base and combating base erosion and the transfer of profits exercised by international companies;

(d) Ensuring capacity-building for government officials in tax administrations in the area of international conventions and regulations, tax planning, transfer pricing and the exchange of information;

(e) Supporting member States in establishing tax legislation to fight internal and international aggressive tax planning;

(f) Supporting member States in strengthening and improving fiscal transparency and tax information exchange at the national and international levels.

23. Overall and in line with other regions, ESCWA will assist member States in establishing an Arab taxation platform to coordinate tax policies and exchange information to fight aggressive tax planning, evasion and avoidance.

B. REMITTANCES

24. Remittances are especially important for low-income countries in the Arab region, such as Palestine, the Sudan and Yemen. Palestine tops the list of recipient countries in terms of GDP share, with remittances accounting for 18 per cent of Government revenues in 2012. For Yemen, remittances represent 10 per cent of GDP. As for the Sudan, the large gap between the official exchange rate for United States dollars and the one used on the black market has caused migrants to use unofficial channels to send money to their families. For that reason, official figures appear to be low but actually remain substantial and vital for the final beneficiaries. Various middle-income Arab countries also rely extensively on remittances, such as Jordan (11 per cent of GDP) and Lebanon (18 per cent of GDP).

25. With a total migrant population estimated at 24 millions, there is a huge potential for mobilizing \$255 billion between 2016-2030 from the Arab Diaspora's savings.⁶ ESCWA will provide technical assistance to policymakers in Arab labour-exporting countries to mobilize Diaspora savings to finance sustainable development. A programme will be tailored to each member State to suit its circumstances.

26. The programme has the following objectives:

(a) By 2020, the Arab Diaspora will be able to transfer remittances to all places, including remote areas, in a cost-effective manner;

⁶ This figure is calculated assuming that 50 per cent of the 24 million living abroad are willing to invest \$104 a month for the coming 15 years.

(b) By 2020, the national development plans of at least five Arab countries will reflect the role and impact of migration and remittances;

(c) By 2020, at least two Arab countries will offer financial products and services that are tailored to the needs of their Diaspora and can support medium- and long-term development efforts at the national level;

(d) By 2020, officials in Arab countries will have the required knowledge to implement procedures for compiling, recording and disseminating data on remittances, in line with international standards.

C. INVESTMENT POLICY

27. The global investment map is dramatically changing. For the first time, the United States of America and Europe are not the main drivers of global FDI; Asia is now the main source of FDI outflows and inflows. FDI inflows to the Arab region reached \$44 billion in 2014, down from \$97 billion in 2008. Furthermore, the Arab share of global FDI inflows decreased from 6.8 per cent in 2009 to 3.6 per cent in 2014. FDI in the region has decreased over the past years because of political instability, underdeveloped infrastructure and weak regulatory frameworks inducing a defective business environment. Furthermore, FDI in the Arab region tends to be short-term oriented and profit-seeking, at the expense of generating employment. It is primarily directed towards oil-producing countries, such as Saudi Arabia and the United Arab Emirates, mainly in the construction and energy sectors, rather than to sustainable development projects.

28. The business environment is also changing in the Arab region. Recently, five Arab countries introduced changes to their investment laws, namely Egypt, Jordan, the Sudan, Tunisia and Yemen. In addition, several Arab countries are in the process of revising their investment agreements, including Egypt, Lebanon, the Sudan and Tunisia.

29. ESCWA will continue to support member States to further develop investment policies, enhance business environment, and strengthen regulatory and institutional frameworks to support sustainable investment.

III. CONCLUSIONS

30. The Addis Ababa Action Agenda may not have lived up to the expectations of Arab countries, but it can be used as a platform for achieving the SDGs. However, a great deal depends on the work of Arab Governments in partnership with the private sector and the international community.

31. To finance the SDGs, Arab countries need to assess the efficacy of each available funding source (public or private), its optimal use and its impact on sustainable development. History has proven that no fiscal measure alone or quick-fix solution can help achieve sustainable development. Serious effort and hard work are needed to fight corruption, curb illicit cash flows, create accountable public institutions, instil governance and rule of law and establish the necessary institutional, legal and capacity frameworks. At the international and regional levels, development assistance should be used as a win-win tool benefiting both donors and recipients depending on their respective areas of strength.

32. The ESCWA Executive Committee is kindly requested to take note of the strategy that ESCWA is proposing for financing SDGs and provide guidance on the actions that need to be taken.
