Economic and Social Commission for Western Asia (ESCWA)

Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia
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Item 5 of the provisional agenda

Implementation of recommendations made by the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development at its twelfth session (focus on finance)

Summary

At its twelfth session held in Beirut on 4 and 5 December 2017, the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development adopted a set of recommendations, some addressed to member States of the Economic and Social Commission for Western Asia (ESCWA) and others to its secretariat.

The recommendations to member States included benefiting from the Committee as a unique regional forum to discuss financing for development issues; confirming that rebuilding costs in conflict-affected countries are immense and require consideration of non-traditional methods of resource mobilization; taking note of the secretariat’s initiative on the Arab Financing for Development Scorecard as a monitoring tool; limiting significant increases in debt flows given their adverse impact on public debt; stressing the importance of the role of central banks in reducing the cost of remittances to Arab countries; considering and coordinating new financing and investment channels in the region; stressing the negative impact of illicit financial flows on Arab countries’ capacity to mobilize domestic public resources to implement the 2030 Agenda for Sustainable Development; confirming the commitment to establish an open, transparent, predictable, inclusive, equitable and non-discriminatory multilateral trading system that serves as an engine to finance development and achieve the Sustainable Development Goals; focusing on unemployment reduction programmes and small-scale income-generating enterprises; and increasing coordination to adopt policies aimed at combating organized crime, such as tax evasion, money laundering and terrorism financing. Member State representatives are invited to share information on any progress achieved in those areas.

The present document reviews action taken by the ESCWA secretariat pursuant to the recommendations addressed to it. Some activities are already presented in detail in document E/ESCWA/C.9/2019/3 submitted to the Committee under agenda item 4 of its current session and will be briefly mentioned again. Others will be reviewed in more detail. The Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia is invited to take note of progress in implementation of the recommendations and provide guidance on the way forward in that regard.
RECOMMENDATIONS AND ACTION TAKEN

Recommendation (a)

Continue preparing technical studies and reports on regional and global developments in the various financing development processes, especially a paper on the reform of the United Nations development system and its effects on the financing development process and Arab countries’ priorities therein, and on the mechanisms for implementing the Addis Ababa Action Agenda including monitoring the implementation of global commitments and their impact on the Arab region’s priorities.

Action taken

1. ESCWA prepared a number of such reports, studies and technical papers. Those publications monitor progress made in implementing the Addis Ababa Action Agenda in the region, taking into account its geopolitical context and specificities. They include:

(a) A report entitled “Illicit Financial Flows in the Arab Region”, which provides compelling evidence of the structural, socioeconomic, governance and security vulnerabilities that continue to undermine Arab economies due to the pervasiveness of such flows. The report analyses the motives, drivers and patterns of illicit finance and finds that Arab economies fall prey to $60.3 billion–$77.5 billion per year in damages due to the cross-border movement of illicit finance. Fundamental questions are raised as to how trade-based money laundering and trade mis invoicing are influenced by financial innovation and the digitization of finance;

(b) A compendium of the “State of Financing Development in the Arab Region”, providing the first integral mapping of the Arab financing for development (FfD) landscape. It captures the dynamics of the region’s prime cross-border flows (direct and indirect financial flows) and its exposure to loss of financing opportunities, assessing progress made in implementing the Addis Ababa Action Agenda in the regional context;

(c) The main thematic chapter of the 2018 report of the Arab Forum for Environment Development titled “Financing Sustainable Development in Arab Countries”, which showcased the results of the ESCWA Arab FfD Scorecard, providing the most recent data in the region to track the prime direct and indirect cross-border inflows and outflows of resources available to the region to finance the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs);

(d) A synthesis report of the international high-level Conference on Financing Sustainable Development: Curbing Illicit Financial Flows (Beirut, 28-29 November 2018). The report showcased the views and assessments of 40 international regional experts and speakers on fiscal equalization and domestic resource mobilization as a means to overcome pervasive financing gaps and inequalities;

(e) An infographic and media content summarizing the findings of the aforementioned reports and recommendations, disseminated at the 2019 Arab Economic and Social Summit held in Beirut in January 2019. The main findings were cited by the World Bank as important evidence;

(f) A paper entitled “Improving Arab regional development planning: an assessment of good economic governance tools to support science, technology, and innovation policymaking”, which finds that fostering high-technology industries and promoting small and medium enterprises are key to boost the economy and leverage funds to finance development;

(g) A study entitled “Perspectives on the Digital Economy in the Arab Region” that assesses the state of the digital economy in Arab countries and presents policy recommendations to enhance its performance, with a view to generating employment opportunities, driving economic growth and financing sustainable development;
(h) A report on “Innovation Policy for Inclusive Sustainable Development in the Arab Region”, which advocates for the adoption of appropriate modalities and solutions to finance sustainable development, chiefly through innovation and particularly innovative financing solutions such as venture capital and business angel investments;

(i) A background paper on “Domestic and international private business and finance”, which found that access to credit continues to be a constraint for private sector development and financial inclusion in the Arab region. The contribution of small, medium and micro enterprises to gross domestic product (GDP) are higher than global levels when the size of informal enterprises is factored in, however their access to financing in constrained. They are also hampered by the non-favourable investment climate and business environment, and by trade barriers that should be addressed through regional action;

(j) A technical paper on “Innovative sources of financing for development”, which showed that many innovative financing instruments, such as green bonds, Islamic finance assets and green sukuk remain largely untapped in the Arab region, although they have the potential to finance the current funding gap of several Arab countries. However, they cannot be deployed in isolation from legal and regulatory frameworks and the supporting technical and human capacity needed to develop related greenfield projects;

(k) A technical paper on “Progress and prospects in financing sustainable development: global trends versus regional realities”, which served as a regional assessment of the third edition of the report of the Inter-Agency Task Force on Financing for Development (IATF) on Financing for Development: Progress and Prospects 2018, and was used by Egypt, then-Chair of the Group of 77 and China, to inform the Group’s Ministerial Declaration of 2018;

(l) A parliamentary document on “Financing for development: progress in implementing the Addis Ababa Action Agenda in the Arab region”, which was submitted to the fifth meeting of the ESCWA Executive Committee (Beirut, 18-19 December 2019). It makes statistical inferences from the numbers of resolutions and reports issued in 2018 related to the Addis Ababa Action Agenda to provide an indication of prevalent implementation gaps;

(m) A contribution to the Survey of Economic and Social Developments in the Arab Region 2017-2018 which captured the empirical assessments of illicit financial flows and trade misinvoicing in the Arab region;

(n) A background note to serve the twenty-fourth Regional Coordination Mechanism, which held a special session on FfD to discuss pathways to mobilize financing for the 2030 Agenda;

(o) A concept note on FfD for the 2018 Arab Forum on Sustainable Development;

(p) Updates to the Arab FfD Scorecard, measuring progress in implementing FfD commitments (five parliamentary documents will be submitted to the Committee on that subject under agenda item 7 of its current session).

**Recommendation (b)**

Publish the results of the Arab FfD Scorecard periodically given their importance as a tool for decision makers to develop policies supporting development financing.

**Action taken**

2. ESCWA published the updated results of the Arab FfD Scorecard through its report on the State of Financing Development in the Arab region, which was launched, alongside the global Financing for Sustainable Development Report 2019 prepared by the IATF, at a dedicated event organized in Beirut on 8 April 2019.
3. The Arab FfD Scorecard was cited in a June 2018 Secretary-General’s report as part of regional measuring efforts applied in support of the financing for development agenda, and considered as “a regional toolbox to measure financing requirements and availability of finance to achieve the 2030 Agenda and the Sustainable Development Goals.” (E/2018/15, para. 30). Results are also disseminated in different events and forums.

**Recommendation (c)**

Prepare a report on illicit financial flows containing practical recommendations on developing a regional framework to combat the phenomenon.

**Action taken**

4. ESCWA published the first region-wide report on *Illicit Financial Flows in the Arab Region* in 2018 (above-mentioned). The findings were discussed at different meetings throughout the period of preparation and cross-checked for evidence by the think tank *Global Financial Integrity*. The final results of the report were shared with representatives from ESCWA member States, and international and regional experts at the aforementioned *Conference on Financing Sustainable Development* (Beirut, November 2018).

5. The report recommends the establishment of national bodies (councils/commissions) supported by multi-agency units and regional bodies led by the League of Arab States to track and curb illicit financial flows. It also proposes establishing a ministerial council within the League of Arab States to promote action against trade and tax-based illicit financial flows and other forms of aggressive tax planning strategies on the part of multinational enterprises operating in the Arab region.

6. Moving forward and taking cue from the Secretary-General’s Strategy for Financing the 2030 Agenda for Sustainable Development (2018-2021), ESCWA intends to work on two fronts in the medium-term: (a) articulating a regional road map for the reforms that should be introduced at the regional level, the draft of which is submitted to the Committee under provisional agenda item 9 of its current session; and (b) assessing the applicability of best practices on tax base protection in the Arab region.

**Recommendation (d)**

Continue providing technical support and training to member States on issues related to development financing.

**Action taken**

7. ESCWA organized an *advanced national workshop* for Bahrain in Manama, from 23 to 26 April 2018, to provide an outlook on FfD, fiscal policy and taxation, given that Bahrain was listed by the European Union among uncooperative tax jurisdictions.

8. The workshop was attended by 20 high-level officials, in addition to legal advisors from front-line ministries (finance, commerce, tourism and justice) and senior officials from the Central Bank. Based on its research findings, ESCWA highlighted the possible outcomes of curbing illicit financial outflows, including through international tax cooperation and by protecting the tax system from base erosion and profit shifting. Following the workshop, Bahrain announced that it would adopt ESCWA recommendations and declared its intention to adopt the *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting* and the *Inclusive Framework on Base Erosion and Profit Shifting*. Bahrain was later de-listed from uncooperative tax jurisdictions.

9. As a follow-up to the Conference on Financing Sustainable Development, ESCWA received a request from the Ministry of Finance of Jordan in 2019 to organize a series of workshops on taxation (base erosion
and profit shifting, tax strategies and related concepts). ESCWA is currently working with Jordanian officials on the services it will provide in response to that request.

Recommendation (e)

Continue participating in the Inter-Agency Task Force on Financing for Development and collaborating with relevant international organizations in advancing financing development processes and concepts to protect Arab interests; and attending international and regional events and coordinating with member States to incorporate those priorities in the agendas of international development financing forums, including the High-level Political Forum on Sustainable Development.

Action taken

10. ESCWA remained an active member of the IATF and contributed to its third report on Financing for development: Progress and Prospects 2018. It took part in the meeting organized by IATF to discuss the draft report, and prepared a regional assessment for this report (para. 1 (k) of the present document).

11. ESCWA provided inputs to the 2018 Forum on FfD Follow-up of the Economic and Social Council (New York, 23-26 April 2018) and the High-level Political Forum on Sustainable Development (New York, 9-10 July 2018). Its interventions during both meetings echoed the findings of its technical papers and reports. The particularities of the regions’ geopolitical and socioeconomic contexts and its diverse levels of development were presented.

12. During 2019, ESCWA continued its collaboration with the IATF and provided inputs to the Financing for Sustainable Development Report 2019, which it launched in Beirut on 10 April 2019 in tandem with the global launch in New York.

13. During the 2019 Forum on FfD Follow-up (New York, 15-18 April 2019), ESCWA contributed to the statement of the regional commissions during the side event on “Navigating the headwinds and tailwinds: current global economic context and emerging trends” and provided inputs from the Arab regional perspective.

14. ESCWA has also contributed to three high-level panels on the following themes: “Fostering an enabling environment for financing the 2030 Agenda”, “Mobilizing private investment for sustainable development” and “Innovative solutions to finance the SDGs”, at the Secretary-General’s High-Level Meeting on Financing the 2030 Agenda for Sustainable Development (New York, 24 September 2018). It has also contributed to the World Investment Forum (Geneva, 22-26 October 2018).

15. ESCWA provided inputs on regional cooperation to the Secretary-General’s report on Trends and progress in international development cooperation, which centered on FfD issues. ESCWA also shared its views on FfD during 2018 and 2019 Chief Executives Board meetings.

16. At the regional level, ESCWA participated in several events on FfD, including the experts workshop on illicit financial flows (Cairo, 27 November 2017); the Arab Annual Investment Meeting (Dubai, United Arab Emirates, 9-11 April 2018); the eleventh Arab Forum for Environment Development (AFED, Beirut, 8-9 November 2018) and the 2018 Arab Banking Conference (ABC, Beirut, 13-16 November 2018). It had provided input to the AFED report launched at the conference, at which available funding sources in the region to implement the SDGs were discussed. During ABC, “Public private partnership for achieving SDGs” were tackled, including requirements for their success in addressing the sustainable development challenges facing the Arab region.

17. ESCWA contributed in the establishment of the Working Group on FfD of the Regional Coordination Mechanism. The Working Group held its inaugural meeting on 21 March 2019. Currently chaired by ESCWA, it serves as a regional hub for cooperation and coordination among the United Nations, the League of Arab
States (LAS) and their specialized organizations and agencies as well as relevant international financial institutions in the implementation of their work on FfD in the Arab region, including undertaking joint initiatives and research on regional FfD priority areas.

18. ESCWA organized the high-level Conference on Financing Sustainable Development: Curbing Illicit Financial Flows in Beirut, on 28 and 29 November 2018, to accelerate collaborative efforts and engage decision makers over the actions needed to finance sustainable development. The Conference was also organized to support the G77 and China in leading action on fiscal policy equalization to enhance domestic resource mobilization, establish effective taxation systems and overcome pervasive financing gaps and inequalities. An outcome document was adopted at the closing of the Conference, entitled “The Beirut Consensus on Financing for Development”, which contained an assessment of the FfD regional landscape and of lost opportunities undermining SDG financing.

19. During the plenary sessions of the 2018 and 2019 Arab Forum on Sustainable Development (Beirut, 24-26 April 2018, and 9-11 April 2019), ESCWA highlighted the challenges of financing sustainable development worldwide and in the Arab region, especially in aligning national policies and plans with the 2030 Agenda, and presented the outcomes of the high-level Conference on Financing Sustainable Development: Curbing Illicit Financial Flows.

**Recommendation (f)**

Continue considering the establishment of an Arab forum on financing for development and prepare a report thereon, and draft a proposal on dividing the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development into two committees to establish an independent committee on financing for development that meets biennially to discuss financing development issues in detail, and present the proposal at the next ESCWA session.

**Action taken**

20. The decision to split the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development into two committees was adopted by ESCWA at its thirtieth session, held in Beirut from 25 to 28 June, under resolution 332 (XXX) on developing the work of the Technical Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development. The United Nations Economic and Social Council approved that decision in its resolution 2019/30 of 23 July 2019, thus creating the Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia, and the Committee on Trade Policies in the States Members of the Economic and Social Commission for Western Asia. Each Committee will hold biennial sessions, which will not have financial implications.

21. The proposed functions of the new Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia include: discussing priorities under the programme of work and mid-term action plans of ESCWA in FfD; following up on progress in FfD policies in member States and making recommendations in that regard; monitoring developments in regional and international FfD forums and coordinating regional efforts towards the implementation of related resolutions and recommendations; and supporting cooperation between the ESCWA secretariat and specialized regional organizations and unions, including ministerial councils of the League of Arab States, to build capacity and harmonize policies and strategies aimed at leveraging funds to finance development.

22. With reference to preparing a report on the proposed establishment of an Arab forum on financing for development, ESCWA prepared a concept note to determine the budget needed to undertake the report and prepare the project documents to outline the funding, sourcing, structure and operating capital required to establish the forum. However, due to financial constraints, the proposal has been placed on hold.

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