The State of Financing for Development

The Arab Scorecard

First Session
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Systemic Risks and Regional Contexts

Domestic & International Private Finance
التمويل الدولي والوطني الخاص

Trade as an Engine for Development
التجارة كمحرك للتنمية

Debt & Debt Sustainability
الديون واستدامتها

Domestic Public Resources
الموارد العامة الوطنية

International Development Cooperation
التعاون الإقليمي الدولي

The Financing for Development Framework
Is there an optimal tax policy?
The optimal choice of tax regime differs depending on administrative Capacity and Compliance.

 Equality | المساواة
Personal Income Taxes (PIT)

 Efficiency | الكفاءة
Trade and Consumption Taxes

 Effectiveness - Transparency | الفاعلية والشفافية
Corporate Income Taxes (CIT)
Value Added Taxes (VAT)

 Compliance | الامتثال
Increasing taxes without a commensurate increase in collection capacity/enforcement prompts tax-based IFFs

1- Not all taxes are created equal
كل ضريبة أثر وعبء وغرض وعائد مختلف

2- Low tax fairness pushes economic activity into informality
قصور العدالة الضرائبية يغذي الاقتصاد غير المنظم

3- The ‘Inconsistent Tax Quartet’...
رابع غير متسق
What do the numbers tell us:

**Tax Buoyancy**

GDP growth doesn’t translate to a commensurate rise in tax revenues.

**Tax Structure**

- **Oil rich**: Oil accounts for ¾ of revenues (1%-5% of GDP); VAT....2% GDP
- **Oil-poor**: Tax share (75%), but revenues less than peers;
- **Indirect taxes**: major source of revenues (45%), regressive with efficiency costs.
- **Trade taxes**: falling: 11%...ACU!

**Tax Effort**

- **Inequality after taxation** is as high as before taxation;
- 6% of GDP gains if the informal sector was brought under statutory taxation.

**Tax Compliance**

- **Tax avoidance**: Trade taxes lost due to import-underinvoicing ($27.8 bn./year)
- **VAT collection efficiency** (hard to tax sectors & professions).

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**Strength**

Enhance Tax Efficiency & Compliance

**Weakness**

Overcome Tax (In)Equality & (In)Efficiency

**Opportunities**

Enhance Tax Equality & Effectiveness

**Threats**

Overcome Tax Compliance & Administration

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For every $1 mobilized in taxes ... 10¢ are lost due to tax avoidance;
Trade taxes foregone on $27.8 billion worth of goods;
‘xXx’ due to tax evasion (Panama papers, Bahama Leaks..)
$60-$77.5 billion/year on average

Illicit Financial Flows

8¢ on every $ in trade is lost due to

Trade misinvoicing is a dominant form of leakage to finance development

The Beirut Consensus
Trade misinvoicing is a dominant form of leakage to finance development

The Beirut Consensus
$1.3 TRILLION in 2018

Arab Region (22 Countries)
$1.5 trillion in 2017

DEVELOPING (152 Economies)
DOWN TO $34.2bn (2%)
ALL-TIME HIGH $88.5bn

DEVELOPED (39 Countries)
$557bn (46%)
$706bn (54%)

Cross-Border Capital Flows | Foreign Direct Investment
$47.8\text{BN} \text{ OUTFLOWS} \quad \text{\$215 billion net lending to international banks} \quad \text{\$31.2\text{BN} INFLOWS}

Arab Claims and Liabilities as reported by the BIS

Foreign Direct Investment in the Arab Region

Cross-Border Capital Flows | Foreign Direct Investment

Billion dollars
Cost of bank transfers: 10.3%

Cross-Border Capital Flows | Remittances

258 Million Migrants
$682.6 billion

Cost of post transfers: 8.09%

Average global cost of sending remittance: 6.84%

$1 generated in remittance:
$2 are repatriated to other regions.
Cross-Border Capital Flows | Remittances

Arab region

$57.9 bn.

Remittances EXCEED Net FDI + ODA
<table>
<thead>
<tr>
<th>Sovereign Wealth Fund</th>
<th>Total Assets (Trillion dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway Government Pension Fund</td>
<td>$1</td>
</tr>
<tr>
<td>China Investment Corporation</td>
<td>$1</td>
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<tr>
<td>Abu Dhabi Investment Authority</td>
<td>$1</td>
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<tr>
<td>Kuwait Investment Authority</td>
<td>$1</td>
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<td>Hong Kong Monetary Authority Investment Portfolio</td>
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<td>GIC Private Limited</td>
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<tr>
<td>National Council for Social Security Fund</td>
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<tr>
<td>SAFE Investment Company</td>
<td>$1</td>
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<tr>
<td>Temasek Holdings</td>
<td>$1</td>
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<tr>
<td>Qatar Investment Authority</td>
<td>$1</td>
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<tr>
<td>Public Investment Fund</td>
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<tr>
<td>Investment Corporation of Dubai</td>
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<td>Mubadala Investment Company</td>
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<tr>
<td>Korea Investment Corporation</td>
<td>$1</td>
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<tr>
<td>National Welfare Fund</td>
<td>$1</td>
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<tr>
<td>Other funds for Arab countries</td>
<td>$1</td>
</tr>
</tbody>
</table>

Arab SWF assets make up around 32% of the global SWF assets.
International Development Cooperation
Official Development Assistance (ODA)

Rough Road Ahead

For every $1 the region received in ODA inflows, 87¢ were retuned as ODA elsewhere.
International Development Cooperation
Official Development Assistance (ODA)

Net ODA from DAC donors, by components, 2000-2018
(2017 constant prices)

Multiple Roles

Bilateral development projects, programmes and technical co-operation
Multilateral ODA
Humanitarian aid
In-donor refugee costs
Net debt relief grants
International Trade an Engine for Growth

COMMITMENTS TO ADVANCE TRADE-FINANCE & GROWTH NEXUS

- Inclusive and equitable Multilateral Trading System
- Conclude the Doha Development Round
- Trade Tensions
  - Harmful trade interventions are 1.5x greater than trade liberalizing interventions
  - More than 1000 restrictive barriers imposed per year

Trade Protectionism
- Most certainly harmful
- Trade Remedy Measures
- Trade Finance Gap
- Most certainly harmful

Harmful trade interventions are 1.5x greater than trade liberalizing interventions.
التجارة العربية

تصادقات: 923 مليار دولار صادرات منها 475 مليار صادرات غير نفطية (51%)
114 مليار دولار صادرات عربية بİNية (12% أو 30% من الصادرات غير النفطية)
واردات: 807 مليار دولار منها 20 مليار دولار واردات نفطية

أين تحرير تجارة الخدمات
التفاق على الإطار دون جداول التحرير
رغم أنه بعضها محرر مع أطراف أجنبية

لماذا يتعثر قيام الاتحاد الجمركي
رغم وجود فرص لقيام فضاء
للأمن الاقتصادي العربي

عوائق تجارية
قواعد تفصيلية للمنشأ
تطبق في التجارة غير العربية .. ولكن هل هناك
جدوى منها بعد اكتمال الاتحاد الجمركي العربي
قيود غير جمركية
تفرض على 40% من الصادرات البينة
إمكانيات تصديرية غير مستغلة
131 مليار دولار

Vision 2030
‘ACCESS’
The Global Debt Bubble
Record High Debt Financing

$7.8 Trillion
External Debt - Developing Countries↑

$1.2 Trillion
Gross Arab Debt↑

$247 bn. Net debt inflows (Arab)
($529 bn. Net inflows in 2018)

IMF & Official Creditors
Declined from 35% to 16% between 2000-2018

$344 billion
External Arab Debt
A 7% increase ($21.6 bn.) in 2018
The Arab Debt Bubble
Record High Debt Financing

Total External Debt Stock, Arab Region, Non-Oil Economies

- Private nonguaranteed
- Public and publicly guaranteed
- Short-term
- Use of IMF credit

Billions Dollars