RCM Special Session on Financing For Development

Monday 22 October, 2018
League of Arab States Headquarters, Tahrir Square, Cairo, Egypt

Purpose of the Special Session

Mobilizing the necessary funds to finance the achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals is a key priority for the Arab region. Financing for Development (FfD) is about promoting a comprehensive and integrated approach to providing the policies and resources needed to support sustainable development, and as such requires integrated advice and support from development actors in the region.

The purpose of the RCM Special Session on Financing for Development is to:

1. Identify ways in which RCM members, including UN Agencies, LAS and IFIs, could **coordinate their efforts in supporting countries to develop integrated financing frameworks** for the 2030 Agenda (as called for by the AAAA);
2. **Identify areas for further joint research** with regard to financing for development that respond to regional priorities (e.g. mapping of successful initiatives/strategies or initiatives already underway), and;
3. Identify possible common areas of interest related to supporting Arab countries implement the 2030 Agenda and national development priorities, in which UN Agencies would wish to pursue **greater policy coordination and alignment with the World Bank and Arab Funds and Banks** (e.g. guidance to member states in terms of policies/regulations, identification of priority projects that would have the greatest impact on national and regional development, etc.).
4. The RCM may also wish to **consider if and how it could contribute to the 2019 FfD Forum**, which is expected to discuss the report of the Inter-Agency Task Force on Financing.
5. Identify the optimal **roles and responsibilities for different actors** in order to avoid duplication and maximize synergies.

Background

The 2030 Agenda for Sustainable Development is a universal agenda that requires a revitalized global partnership for sustainable development based on strengthened global solidarity. The Addis Ababa Action Agenda (AAAA) provides the global framework for financing sustainable development and implementation of the SDGs, by aligning all financing flows and international and domestic policies with economic, social and environmental priorities.

The economic and financial outlook for the Arab region remains turbulent. According to recent estimates, the Arab region's financing gap[1] for achieving sustainable development is widening. This funding gap is due **not solely to a lack of sufficient resources**, but also to due to the fact that **financial flows are not used in productive investments**.

In 2015, ESCWA[2] estimated that the Arab region's resources – domestic as well as foreign direct investments and official development assistance entering the region – were **sufficient to meet the shortfall in funding development**, but these resources were not effectively channeled to investment crucial for contributing to development in the region, such as developing the private sector, diversifying economies and boosting growth.[3]

The fiscal space across Arab countries masks **significant disparities between the oil-rich, oil-poor middle-income, and low-income countries**. For the oil-rich countries, financing through oil revenues remains volatile and unpredictable. The budgets of oil-poor middle-income countries, who largely depend on taxation revenues, are tight pressed given their low tax-to-GDP ratios. The low-income countries face a broad range of development challenges and are starting from an even lower baseline.[4] Furthermore, several countries have challenges of reconstruction and development, suffering from a significant loss of revenue base as a result of crisis and conflict.

In fact, the **cost of conflicts in the region is rising**, with an estimated $752-$856 billion lost in terms of loss of economic activity and material damages.[5] Excessive military spending, at about 5 percent of GDP (during 2011 through 2016), compared to the global average of about 2 percent of GDP, risks further diverting attention away from the development financing requirements of the region.[6]

Achieving the SDGs will require a change of mindsets, approaches and accountabilities. There is need to rebuild economic structures, reformulate investment strategies, and identify resources to support national sustainable development plans. These should be brought together in **national integrated financing frameworks**, which can guide public finance allocation and policymaking. It includes policies and regulations that can incentivize

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[1] Calculated by estimating the external financing needs of countries, defined as the current account balance plus scheduled principal payments on private debt. This estimate is compared to a forecast of private capital flows, which includes new loans on private debt, net equity flows and net unidentified capital outflows. The difference between the calculated financing needs and the projected private capital flows represents the financing gap. E/ESCWA/EDID/2015/IG.1/5
[2] E/ESCWA/EDID/2015/IG.1/5
[3] The public sector continues to be the main driver of growth and job creation, highlighting the need to transition to more diversified, private-sector led growth models.
[4] E/ESCWA/EDID/2018/1
[5] E/ESCWA/EDID/2015/IG.1/5
[6] E/ESCWA/EDID/2018/TP.2

international and regional actors to make **productive and meaningful investments that contribute to sustainable development**.[7]

Domestic Resource Mobilization

The AAAA recognizes that public policies and the mobilization and effective use of domestic resources is the cornerstone of national development. Indeed, **countries across the Arab region are pursuing a range of domestic resource mobilization efforts** to broaden the tax base, remove tax exemptions and rationalize inefficient fuel subsidies. However, the **current efforts are likely to fall short of generating sufficient public revenue to enable achievement of the SDGs**. In addition, illicit financial flows – including those associated with tax evasion, drug trafficking, illicit trade in small arms, light weapons and antiques, and undeclared oil trade – also impede domestic resource mobilization.

Public budgets are under pressure across the region. The time for making appropriate choices toward spending priorities that can contribute to achieving the SDGs is now.[8] In addition, there is **high potential to improve tax-to-GDP ratios by improving the fairness and progressivity of tax systems as well as by improving tax compliance**. Nevertheless, to embark on the kind of transformation agenda required to address the socio-economic challenges faced, **Arab countries will likely have to mobilize additional private sector financing** and tap into innovative sources of finance, such as philanthropy and Islamic finance.

Developing financial markets, attracting foreign direct investment through promoting confidence building measures and incentives, and more importantly, reversing the FDI outflows from the region can contribute significant resources. These developments need to be accompanied by mechanisms to ensure that such financing is governed by appropriate regulatory and policy frameworks, contributes to and is aligned with national sustainable development targets, does not replace or compromise state responsibilities for delivering on social needs, ensures fair returns to the public, and incorporates social, environmental, labour, human rights and gender equality considerations. **Public-private partnerships can only flourish when the State has sound public policies and the required institutional capacity to create, manage and evaluate such partnerships** in a way that ensures viability, appropriate costing and transfer of risk, as well as the quality of service.

Also, **attracting private funding can be a challenge in countries recovering from conflict**, where it would be essential to focus on reforms that create markets and institutions that can attract and manage private capital in a transparent and accountable manner, so that projects pose an acceptable level of risk to both investors and citizens.

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[7] This issue will be covered in detail by the 2019 Financing for Sustainable Developent Report of the UN Inter-Agency Task Force on Financing for Developent.

[8] E/ESCWA/EDID/2017/4, "Rethinking Fiscal Policy for the Arab Region".

Remittances also play a key role in the economies of many Arab countries, and indeed the **volume of remittances in the Arab region currently exceeds the combined volume of FDI and ODA the region receives**. Monetary authorities have an important role to play in mobilising remittances through better design of financial instruments that can particularly attract savings from expatriates. The **positive development impact of migration and remittances can be increased by reducing remittance costs, lowering recruitment costs for low-skilled migrant workers, and mobilizing the diaspora** to contribute in many ways to sustainable development.

Similarly, legal and regulatory reforms could enhance the potential of the Arab philanthropic sector as a source of development finance. Governments would also need to engage the philanthropic sector more actively in national development planning, to ensure better alignment in terms of financing priorities.

Regional and International Support

While the AAAA highlights the importance of domestic resource mobilization, it also recognizes the need of countries to **have access to additional funds from international sources**. The Agenda makes reference to several new funding initiatives launched in different regions, such as the Asian Infrastructure Bank, the Global Infrastructure Hub, the new Development Bank and others, but **no new funding mechanisms were set up for the Arab region,** which arguably continues to face one of the greatest needs.

One response, adopted by the World Bank Group, the IMF and other multilateral development banks has been to set out **a long-term vision of Maximizing Finance for Development, using development assistance and government spending to spur private sector investment**. The AAAA emphasizes that all sources of financing are important and have different functions. Private financing is an appropriate solution in certain sectors, but especially with regard to certain public goods, which have equity considerations and limited cash flows to repay private investors, public finance makes the most sense. **National integrated financing frameworks would be a useful tool for setting the priorities of the government, and providing leadership for the private sector and international development cooperation partners**.

A recent study by ESCWA indicates that oil-rich Arab economies are investing almost $3 trillion in sovereign wealth funds outside the Arab region, and are **financing the public debt of many developed economies at a volume that exceeds the entire external debt stock owned by their non-oil Arab counterparts**.

The Doha High-Level Conference on Financing for Development recognized that **sovereign wealth funds could become an important player in green investment** and that **Islamic finance plays an important role in promoting social inclusion**, channeling resources for social investments through solidarity-based Islamic finance products and **contributes to filling the large financing gap for investment in sustainable infrastructure**.

Questions for Consideration

The Special Session will **explore the following questions:**

- What are the **strengths and weaknesses of existing funding mechanisms** and investment strategies at the national and regional levels for generating sustainable development outcomes in the Arab region?
- What kind of support could UN Agencies and their partners collectively offer Arab countries in strengthening **public policies and regulatory frameworks** to establish **integrated financing frameworks**, mobilize additional FfD, and channel this funding towards achieving the SDGs?
- What could UN Agencies and their partners do to **advocate for greater intra-regional investment** in achieving the 2030 Agenda?
- What **possible new and innovative funding mechanisms** could allow the region to mobilize additional financing, for example from the private sector and philanthropists?
- How could UN Agencies and their partners **channel regional priorities and experiences or innovations** with regard to financing for development **to global fora**?
- **What kind of policy advise** could UN Agencies and their partners give to policy makers regarding the **difference between financing development projects** (raising the necessary funds to implement the project) **and funding them** in the long-term (paying back the financers)?
- What could UN Agencies and their partners do to ensure that the **key principles of the 2030 Agenda** (an integrated approach, leaving no one behind, ensuring multi-stakeholder ownership, etc.) **inform the identification of financing needs and modalities** as well as the allocation and distribution of funds?
- How could RCM members **support the implementation of strategies adopted by LAS** for achieving the 2030 Agenda in the Arab region?

Structure of the Special Session

The Special Session will consist of two panels.

The first panel discussion is scheduled to last 2 hours, and will consist of 4 experts representing UN DESA, the World Bank, the Islamic Development Bank and the Ford Foundation. It will address the questions outlined above through the lens of global trends and their regional implications.

The second panel discussion is scheduled to last 1,5 hours, and will consist of 2-3 experts representing the League of Arab States, through the Union of Arab Banks and the Arab Chambers of Commerce. It will address the questions outlined above through the lens of regional trends and challenges.