Report

Twelfth session of the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development (focus on finance)
Beirut, 4-5 December 2017

Summary

The Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development held its twelfth meeting in Beirut on 4 and 5 December 2017, with a focus on financing for development.

The Committee reviewed actions taken in the field of financing for development pursuant to recommendations made by the Committee at its previous session and under the programme of work of the Economic and Social Commission for Western Asia (ESCWA); and the implementation mechanisms of the Addis Ababa Action Agenda issued at the Third International Conference on Financing for Development, focusing on global commitments versus Arab priorities. The Committee also discussed the Arab Financing for Development Scorecard in the context of financing the 2030 Agenda for Sustainable Development. It considered the feasibility of establishing an Arab forum on financing for development, and the proposed programme of work for the biennium 2018-2019 in the field of financing for development. A high-level discussion panel was also held on mobilizing domestic resources by curbing illicit financial flows and trade misinvoicing.

The Committee recommended separating its financing for development component by establishing an independent committee to tackle financing issues in detail, which would convene biennially.

The Committee made several recommendations regarding its agenda items, some to member States and others to the ESCWA secretariat. The present report sets out those recommendations and a brief summary of the main points raised during the discussions.
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Introduction

1. The Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development held its twelfth session pursuant to the recommendations issued by the Committee at its ninth session, held in Amman on 7 and 8 April 2015, and the resolution adopted at the twenty-seventh session of the Economic and Social Commission for Western Asia (ESCWA), held in Beirut from 7 to 10 May 2012, on holding annual sessions of the Committee with one session on trade and a second on financing for development. The twelfth session of the Committee focused on financing for development.

2. The present report sets out the recommendations made by the Committee and a brief summary of the main points raised during the discussions.

I. RECOMMENDATIONS MADE BY THE COMMITTEE ON LIBERALIZATION OF FOREIGN TRADE, ECONOMIC GLOBALIZATION AND FINANCING FOR DEVELOPMENT AT ITS TWELFTH SESSION

A. RECOMMENDATIONS TO MEMBER STATES

3. The Committee made the following recommendations to ESCWA member States:

(a) Take note of the secretariat’s efforts in implementing recommendations made by the Committee since its ninth session, which focused on financing for development, and in linking its studies and reports to technical cooperation activities with member States and to the training it provides;

(b) Benefit from the Committee as a unique regional forum where financing for development issues are discussed in an integrated manner, include an agenda item on reviewing and exchanging national experiences, and highlight challenges facing Arab countries in implementing the Addis Ababa Action Agenda;

(c) Confirm that reconstruction costs in conflict-affected countries are immense and require consideration of non-traditional methods of resource mobilization to fund reconstruction needs;

(d) Take note of the secretariat’s initiative on the Arab Financing for Development Scorecard as a tool for monitoring, following up on and assessing the availability and delivery channels of financing for development at the regional and international levels;

(e) Limit significant increases in debt flows given their adverse impact on public debt, and the resulting risk of burdening future generations with those debts; and develop policies that allow debt to become a sustainable means for financing development;

(f) Stress the importance of the role of central banks in reducing the cost of remittances to Arab countries through policies aimed at placing the development role of remittances above profit considerations;

(g) Consider and coordinate new financing and investment channels in the region to meet the development priorities of Arab countries, and increase the available financial resources within the region;

(h) Stress the negative impact of illicit financial flows on Arab countries’ capacity to mobilize domestic public resources to implement the 2030 Agenda for Sustainable Development, and the need to develop regulatory frameworks at the national level to combat this phenomenon in line with Arab countries’ commitments under the 2030 Agenda;

(i) Confirm the commitment to establishing an open, transparent, predictable, inclusive, equitable and non-discriminatory multilateral trading system to ensure that trade serves as an engine to finance development and achieve the Sustainable Development Goals (SDGs);
(j) Focus in the context of financing development on unemployment reduction programmes and small-scale income-generating enterprises, and on assisting displaced persons and reintegrating them in their areas;

(k) Increase coordination between member States to adopt policies aimed at combating organized crime, such as tax evasion, money laundering, terrorism financing, oil and antiquities smuggling, and human trafficking;

(l) Take note of activities and services needed to promote financing for development as set out in the ESCWA programme of work for the biennium 2018-2019, while stressing the importance of flexibility in reorganizing priorities in view of international events related to financing development processes;

B. RECOMMENDATIONS TO THE ESCWA SECRETARIAT

4. The Committee made the following recommendations to the ESCWA secretariat:

(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 systems 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;

(b) Publish the results of the Arab financing-for-development scorecard periodically given their importance as a tool for decision makers to develop policies supporting development financing;

(c) Prepare a report on illicit financial flows, including practical recommendations on developing a regional framework to combat this phenomenon;

(d) Continue to provide technical support and training to member States on issues related to development financing;

(e) Continue to participate in the Inter-Agency Task Force on Financing for Development and collaborate with relevant international organizations in advancing financing development processes and concepts in order to protect Arab interests; and attend international and regional events and coordinate with member States to incorporate those priorities in the agendas of international development financing forums, including the High-level Political Forum on Sustainable Development;

(f) Continue considering the establishment of an Arab forum on financing for development and prepare a report thereon, divide the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development into two committees, one of which is an independent committee on financing for development that meets biennially to discuss financing development issues, and present such proposal at the next ESCWA ministerial session.

II. TOPICS FOR DISCUSSION

A. ACTIONS TAKEN IN THE FIELD OF FINANCING FOR DEVELOPMENT
(Agenda item 4)

1. Implementation of recommendations made by the Committee at its previous session

5. The representative of the secretariat, with reference to document E/ESCWA/EDID/2017/IG.2/3(Part I), presented the activities undertaken by ESCWA in the field of financing for development pursuant to the recommendations made by the Committee at its ninth session. She reviewed each of the recommendations and the measures taken to implement and monitor them. The Committee took note of the following implemented activities: preparing studies, reports and technical papers on various topics such as domestic financing sources,
remittances, illicit financial flows, the financing deficit and financing for development scorecards; holding workshops and expert group meetings on tools for monitoring development financing, and illicit financial flows and trade misinvoicing, in addition to organizing two sessions of the Arab Forum on Sustainable Development; and participating in regional and international forums such as the Forum on Financing for Development follow-up and the High-level Political Forum on Sustainable Development organized by the United Nations Economic and Social Council, and the Euromoney Jordan Conference.

2. **Implementation of activities related to financing for development under the ESCWA programme of work since the previous session of the Committee**

6. With reference to document E/ESCWA/EDID/2017/IG.2/3(Part II), the representative of the secretariat presented the 42 activities implemented since the ninth session of the Committee. Such activities included preparing studies and reports, holding meetings and workshops, and providing advisory services on issues related to financing development in the Arab region. She said that the main aim of those activities was to ensure a decent living standard by achieving inclusive and sustainable development.

7. Representatives discussed the obstacles hampering development financing, such as conflict and instability in some Arab countries and the resulting displacement and destruction of infrastructure. They stressed the importance of mobilizing financial resources to finance sustainable development and reconstruction efforts, and of identifying non-traditional tools to implement those priorities.

B. **IMPLEMENTATION MECHANISMS OF THE ADDIS ABABA ACTION AGENDA: GLOBAL COMMITMENTS VERSUS ARAB PRIORITIES IN THE FIELD OF FINANCING FOR DEVELOPMENT**

(Agenda item 5)

8. The representative of the secretariat presented this agenda item with reference to document E/ESCWA/EDID/2017/IG.2/4. He said that the Addis Ababa Action Agenda, adopted at the Third International Conference on Financing for Development, set out a new global framework for financing sustainable development that included several processes and action areas, such as increasing the efficiency of domestic resource mobilization by improving tax administration, among other methods; stimulating private domestic and international investment; providing official development assistance; promoting international and intraregional trade; and managing debt and increasing the capacity to sustain debt burdens. He highlighted the differences between the Arab position and the international position regarding each of those processes and action areas. For example, Arab countries supported simultaneously broadening the tax base and reducing the tax burden as a tool for mobilizing financial resources, while the Action Agenda stressed the importance of following up on each of them separately. He said that the Arab region did not assign the same importance to domestic and international investments, and did not differentiate with regard to worker’s remittances between funds allocated to covering living costs and those earmarked for financing development. Arab countries had also requested increasing official development assistance from 0.7 per cent to 1 per cent of gross national income by 2020, while the Action Agenda encouraged borrowing to finance development.

9. The representative of the secretariat confirmed that ESCWA was committed to serving Arab interests by participating in international forums established to support the implementation of the new global framework for financing development. He said that ESCWA was a member of the Inter-Agency Task Force on Financing for Development, which was considered the authority responsible for providing guidance on intergovernmental follow-up processes to bridge gaps and take corrective action, while taking into account regional and international considerations. ESCWA had contributed to the Task Force’s report on mobilizing domestic resources, trade and regional integration. Although some progress had been made in monitoring and following up on development financing, he stressed the need for consensus on a unified monitoring standard. He also underscored the importance of conducting a joint Arab assessment of the new global framework for financing development and its resulting opportunities and challenges, and of agreement between Arab countries on resource mobilization policies to implement national and regional development plans and to secure funds for reconstruction efforts in war-torn countries.
10. In the ensuing discussion, representatives considered the possibility of financing development in Arab countries with few resources through the support of resource-rich Arab countries, and whether ESCWA could enhance the flow of funds between those countries. The representative of the secretariat said that the region was full of resources but lacked the channels to transfer them to needy countries; ESCWA studies included recommendations in that regard. Representatives questioned the possibility of reaching consensus between Arab Governments on establishing an Arab bank for financing development and reconstruction. The representative of the secretariat said that the financing agenda was no longer limited to government financing of official development assistance, but also included other financing measures such as remittances, direct and indirect investments, trade and public-private partnerships.

C. ARAB FINANCING FOR DEVELOPMENT SCORECARD  
(Agenda item 6)

1. Overall results

11. The representative of the secretariat presented the overall results of the Arab Financing for Development Scorecard, with reference to document E/ESCWA/EDID/2017/IG.2/5(Part I). He said that the challenges of financing sustainable development in Arab countries were not limited to achieving development and increasing and sustaining growth rates but were also linked to other structural dimensions and characteristics of the region, which entailed five war-torn countries, fifteen conflict-affected countries and one country suffering from entrenched Israeli occupation. To date, $10 billion were spent in humanitarian aid, and rebuilding costs could exhaust the resources allocated to financing sustainable development. Estimates showed that the region, comprising 5 per cent of the world’s population, hosted 41 per cent of all displaced persons and refugees globally, 20 per cent of the Arab population lived in extreme poverty, and 52 million Arabs faced unemployment. If the situation remained unchanged by 2030, four Arab countries alone would consume half of the global humanitarian aid budget. He added that the estimated cost of achieving the SDGs in the Arab region by 2030 was between $3.6 trillion and $4.7 trillion in gross fixed capital formation.

12. As such, ESCWA had prepared the Arab Financing for Development Scorecard as a regional tool to monitor progress in mobilizing development resources while taking into account the above-mentioned challenges. The scorecard set out revenue sources and assigned each source a monetary value.

2. Domestic and international private business and finance

13. With reference to document E/ESCWA/EDID/2017/IG.2/5(Part III), the representative of the secretariat gave a presentation on domestic and international private business and finance, which constituted the second pillar of the new global framework for financing development (the first pillar on domestic public resources was presented at the high-level discussion under agenda item 7). He said that the Arab region was rich in financial and natural resources but was witnessing significant negative financial flows as a result of considerable investments made abroad, rather than within the region to enhance sustainable development opportunities. The Arab region received $25 billion in foreign direct investment inflows whereas it invested $34.5 billion abroad. The cost of workers’ remittances between Arab countries peaked at 14 per cent compared with a global average of 7.3 per cent. Accordingly, the level of workers’ remittances to the region was modestly increasing, but remittances from non-Arab workers to countries outside the region were increasing.

14. In the ensuing discussion, representatives focused on the importance of remittances as a major source of development financing in the region, and called on central banks to interfere to reduce remittance costs. They said that foreign investors received greater protection compared with Arab investors, and that it was necessary to strengthen the rule of law when dealing with Arab investors. They also stressed the importance of Arabs investing in their own countries before investing in other countries.
3. International development cooperation

15. With reference to document E/ESCWA/EDID/2017/IG.2/5 (Part IV), the representative of the secretariat gave a presentation on international development cooperation – the third pillar of the new global framework for financing development. He said that official development assistance flowing into the Arab region had increased by an estimated 9 per cent compared with previous years. However, such estimates were misleading because that increase was due to allocating a share of official development assistance to covering the cost of hosting refugees within donor countries themselves and to calculating humanitarian aid as part of official development assistance. He gave a historical overview of the changing trends in official development assistance since the 1960s. He mentioned that Arab bilateral funds invested in non-Arab countries double the amounts offered to Arab countries. He said that for every $1 received in official development assistance, the region spent 90 cents on average to support other regions. Consequently, it was not possible to rely on official development assistance as the sole source of development financing, given the significant outflows from the region and the numerous ways in which such financial resources were being spent (in some cases, in ways that conflicted with the international definition of official development assistance).

16. In the ensuing discussion, representatives questioned whether Arab funds followed specific standards when financing development projects to ensure that they fulfilled the interests of Arab societies. The representative of the secretariat said that the problem did not lie in resources, but rather in decision-making mechanisms and processes that were separate from those that determined financial feasibility, clarifying that the committee responsible for coordinating financing between Arab funds followed technical guidelines and terms of reference on financing that were not necessarily linked to common action priorities or guidelines emerging from Arab summits. He also warned against a general tendency to recycle and repack ODA into various forms and under different labels, such as aid for trade, debt relief, and in-donor refugee costs.

4. International trade as an engine for development

17. With reference to document E/ESCWA/EDID/2017/IG.2/5 (Part V), the representative of the secretariat gave a presentation on international trade as an engine for development – the fourth pillar of the new global framework for financing development. He mentioned the challenges facing some trade commitments set out in the Addis Ababa Action Agenda, including a commitment to establishing a fair and inclusive international trading system that was challenged by delays in many Arab countries acceding to the World Trade Organization (WTO); a commitment to establishing an international trading system that took into account sustainable development considerations and that was hampered by inconsistencies between WTO regulations and sustainable development considerations and principles; and a commitment to organizing trade to achieve development benefits and prohibit protectionist measures that was impeded by trade restrictions imposed by developed countries, which exceeded the number of trade facilitation measures and negatively affected Arab exports, resulting in a trade deficit for Arab economies. He also stressed the importance of intraregional trade in stimulating growth and financing development.

18. He said that trade in the Arab region relied on bank financing, and that small and medium enterprises were the backbone of Arab economies. However, 50 per cent of them were not eligible for concessional loans that might encourage them to export because of banks’ reluctance to lend following the 2007 financial crisis and the strict conditions set out in Basel III such as the credit conversion factor.

19. In the ensuing discussion, representatives enquired about the effectiveness of trade in stimulating development in the Arab region, especially since it was the first sector to be affected by conflict between neighbouring countries because of border closures, making it a development burden rather than an engine for development. The representative of the secretariat said preferential trade agreements did not generally contain an arbitration mechanism for dispute settlement, unlike agreements reached between Arab countries and foreign entities, which posed a major challenge to establishing an Arab customs union. He mentioned the importance of trade in establishing unions, such as the European Union that offered guarantees to protect its members’ economies from political disputes. He added that the inefficiency of trade in financing development
was the result of political factors and other reasons linked to transport costs, rules of origin and logistics that were rarely tackled although they were the backbone of international trade.

20. In response to a question on similarities in obstacles facing trade, official development assistance and remittances between the Arab region and other regions, the representative of the secretariat said that the situation in the Arab region was not unique. Europe, for example, had a history of political conflict that had not prevented it from achieving economic integration. As such, it was necessary to strengthen integration in the Arab region and establish the Arab Citizens Common Economic Security Space (ACCESS). Some representatives proposed building on commercial and economic interests to limit military conflict. They discussed the reliance of foreign investors in the Arab region on international arbitration mechanisms rather than Arab laws and litigation systems. They suggested that central banks should issue circulars requiring commercial banks to allocate financial resources for small and medium enterprises.

5. Debt and debt sustainability

21. With reference to document E/ESCWA/EDID/2017/IG.2/5(Part VI), the representative of the secretariat gave a presentation on debt and debt sustainability – the fifth pillar of the new global framework for financing development. He indicated the increase in total global debt to $152 trillion in 2015, highlighting that debt in the Arab region differed in composition from global debt. At the global level, the rise in debt was the result of private loans not guaranteed by the government, company loans and short-term loans. In the Arab region, however, the increase in debt had been caused by negative debt flows, for every $1 in external debt received, the region repaid around $2.19 in arrears and interest on outstanding debt stocks.

D. Financing the 2030 Agenda for Sustainable Development in the Arab Region (Agenda item 7)

1. Domestic resource mobilization by curbing illicit financial flows and trade misinvoicing

22. Under this item, a high-level panel discussion panel was organized and keynote speeches were delivered by H.E. Mr. Nicolas Tueni, Minister of State for Combating Corruption of Lebanon; H.E. Ambassador Gamal Al-Bayoumi, Secretary-General of the Arab Investors Union; Mr. Samir Hammoud, Chairman of the Banking Control Commission of Lebanon; H.E. Mr. Wissam Fattouh, Secretary-General of the Union of Arab Banks; and Mr. Hisham Taha, Economic Adviser in charge of the financing development office at ESCWA. Ms. Sabine Oueiss, Business and Political Editor at An-Nahar Newspaper, chaired the panel. The discussion revolved around the objectives set out in document E/ESCWA/EDID/2017/IG.2/6/Panel. They discussed the causes of illicit financial flows that impeded the achievement of sustainable development, drained foreign reserves, and resulted in significant losses for developing countries.

23. Mr. Nicolas Tueni said that illicit financial flows in the region were the result of weak central government control over resources because of the political instability and challenges that weakened government capacity to protect its citizens from illegal speculation in economics and politics. He said that such financial flows were small in Lebanon compared with other countries worldwide because Lebanon applied all global financial instruments and related United Nations conventions. He highlighted the effective role of the Lebanese banking system in that field, especially in closely monitoring all banking transactions exceeding 1 million Lebanese lira (around $666), and the role of the cabinet in taking measures that prevented trade misinvoicing.

24. Mr. Gamal Al-Bayoumi listed the sources of illicit financial flows, including money laundering, terrorism financing, drug smuggling and illegal migration. He warned that some banks intentionally ignored illicit financial flows because of their need to attract investments. He discussed trade misinvoicing carried out by importers and exporters to avoid taxes and custom duties, and stressed the importance of single markets and free trade zones in simplifying customs processes and stimulating trade.
25. Mr. Samir Hammoud considered the new definition of money laundering, which now included fraud, terrorism and tax avoidance. He stressed the need to strengthen banking systems in Arab countries against illicit financial flows by enhancing customer oversight and monitoring suspect transactions to avoid penalizing the whole financial system by preventing it from using global payment methods.

26. Mr. Wissam Fattouh discussed the resilience of banks in the Arab region and their application of due diligence standards regarding the know-your-customer and the know-your-customer's-customers requirements because of fear of losing ties with correspondent banks and facing sanctions. He stressed the importance of monitoring money transfer companies as well as banks.

27. Mr. Hisham Taha emphasized that banks were not a source of illicit financial flows but rather a tool to avoid custom duties and taxes. Banks were governed by strict regulations, whose violation would lead to severed ties with correspondent banks. Illicit financial flows resulted from economic factors, such as base erosion and profit shifting and aggressive tax planning practices as well as from banking restrictions and trade restrictions on exports; political factors relating to economic governance and the absence of settlement mechanisms for trade and investment disputes; environmental factors including weak environmental oversight; and social factors such as inequality. He mentioned the challenges impeding the monitoring of bribery and money laundering through accurate data and estimates, as proposed by some international organizations. He focused on trade misinvoicing and preferential and non-preferential contracts, indicating that trade misinvoicing was particularly rife for non-oil goods. He considered the changing trade patterns in the Arab region that had begun witnessing online commercial exchanges, which complicated the tracking of illicit financial flows.

28. Regarding tackling all types of illicit financial flows from all sources, Mr. Al-Bayoumi indicated methods to determine the true value of invoices and avoid misinvoicing. He said that the decision to reduce customs duties in Arab, European and African regions had limited trade misinvoicing. He added that Arab investments were mostly concentrated in the services sector (over 80 per cent) given the ease of tax avoidance in that sector compared with the agriculture and industry sectors.

29. Mr. Hammoud said that a political deterrent against such practices was the sound application of laws, including bank secrecy laws. Lifting bank secrecy in Lebanon had negatively affected investments, so it was vital not to eliminate it other than in suspicious cases where customers’ account movements did not reflect their economic status. To tackle the movement of funds outside the banking system and cross-border flows, he proposed strengthening collaboration between security, judicial and banking apparatuses.

30. In the ensuing discussion, the representative of Iraq considered the rampant corruption in the region and the inability of national authorities to control borders, combat money laundering and terrorism financing, and end oil smuggling, the theft of public funds and the drug trade. Today, Iraq was witnessing alliances that encouraged corruption and terrorism, and hampered development projects. He stressed that the current Iraqi Government was working hard to combat corruption, restore the State’s prestige, and prevent corrupt officials from gaining power in the upcoming elections.

31. Participants in the discussion panel raised the issue of fines for banks in the Arab region for money laundering offences compared with other regions. They agreed that the penalties imposed on offending banks in foreign countries were less severe than those imposed against banks in Arab countries, which could sometimes entail banning them for practising banking and completely severing ties with correspondent banks. Representatives also discussed financial flows from trade misinvoicing used in investment and consumption at the domestic level, thus rendering them a financing development tool. They confirmed that it was difficult to accurately track such flows. They stressed the importance enhancing judges’ knowledge of new issues, concepts and terms in modern trading and banking. They also acknowledged the need to abide by laws and ethical principles, standardize the definitions of transparency and citizenship, and rely on a strong political will to support the empowerment and protection of Arab citizens and the inflow of investments.
2. Arab Financing for Development Scorecard: domestic public resources

32. With reference to document E/ESCWA/EDID/2017/IG.2/5(Part II), the representative of the secretariat gave a presentation on domestic public resources, which constituted the first pillar of the new global framework for financing development (the other four pillars were discussed under agenda item 6). He set out the following four ways to strengthen resource mobilization in the Arab region: increasing financial transparency by reducing tax avoidance, since countries that prevented tax avoidance collected revenues exceeding those received from increasing taxes; improving spending through various methods, such as limiting energy subsidies; establishing a regional bank for financing development to mobilize resources, since commercial banks could not meet such needs; and ending illicit financial flows from trade misinvoicing, corruption and money laundering.

E. Feasibility of an Arab Forum on Financing for Development
   (Agenda item 8)

33. With reference to document E/ESCWA/EDID/2017/IG.2/7, the representative of the secretariat gave a presentation on the quantitative challenges impeding financing development, such as the high cost of achieving the SDGs and carrying out reconstruction; and qualitative challenges including financial outflows from the region benefiting non-Arab countries. He said that the new global framework for financing development assisted in overcoming those challenges by including all stakeholders from Governments, the business sector and civil society organizations. In view of the numerous international and regional forums on development issues and the complex financing processes they proposed, it was necessary to establish a forum to consider proposals and processes for financing development in line with the region’s needs. He presented the experiences of some United Nations regional commissions in that regard, such as the Forum of the Countries of Latin America and the Caribbean on Sustainable Development of the Economic Commission for Latin America and the Caribbean and the High-Level Dialogue on Financing for Development in Asia and the Pacific. He invited representatives to comment on an appropriate format for an Arab forum on financing for development.

34. Representatives discussed two formats for the forum. The first was an independent forum comprising Governments, civil society organizations, central banks and Arab development funds, among others. The second was a parallel or auxiliary forum servicing the Arab Forum on Sustainable Development. They proposed developing a roadmap and presenting it to member States. They stressed the importance of benefiting from public-private partnerships to broaden participation in the forum, and of applying selective standards when choosing partners. The representative of the secretariat said that ESCWA applied the standards of the Economic and Social Council when selecting bodies for forum membership, to ensure they possessed expertise and knowledge in that area. Representatives considered the forum’s mandate that was expected to include political discussions and follow-up on financing development, and stressed the need to assign great importance to the forum and ensure transparency in allocating funds to projects.

F. Proposed Programme of Work for the Biennium 2018-2019 in the Field of Financing for Development
   (Agenda item 9)

35. With reference to document E/ESCWA/EDID/2017/IG.2/8, the representative of the secretariat gave a presentation on the activities and outcomes set out in the proposed programme of work for the biennium 2018-2019 in the field of financing for development under subprogramme 3, which fell under the remit of the ESCWA Economic Development and Integration Division and its four sections: the Economic Development and Poverty Section, the Economic Governance and Planning Section, the Modelling and Forecasting Section and the Regional Integration Section, in addition to the Financing Development Office. She summarized the main objective of subprogramme 3, which was to achieve a decent standard of living for all people in member
States through sustained and more inclusive economic development within a more integrated region; and set out the expected accomplishments and their indicators of achievement.

G. DATE AND VENUE OF THE THIRTEENTH SESSION OF THE COMMITTEE
   (Agenda item 10)

36. The thirteenth session of the Committee will be held at the ESCWA headquarters in Beirut in 2019 if no other member State submits a request to host the session.

H. OTHER MATTERS
   (Agenda item 11)

37. Mr. Karim Khalil, Secretary of the Commission, gave a presentation on the ESCWA intergovernmental committees, their role and conditions for participation therein. He focused on the different establishment phases of the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development, adding that financing development had been added to its functions in 2008. He indicated the motives for discussing financing development issues in an independent committee, which would hold its meetings biennially. Representatives proposed separating the Committee into two, and stressed the importance of maintaining coordination between them and discussing joint issues while avoiding duplication of efforts.

III. ADOPTION OF THE RECOMMENDATIONS MADE BY THE COMMITTEE AT ITS TWELFTH SESSION
   (Agenda item 12)

38. At the final meeting, the Committee adopted the recommendations made at its twelfth session.

IV. ORGANIZATION OF WORK

A. DATE AND VENUE OF THE MEETING

39. The Committee held its twelfth session in Beirut, on 4 and 5 December 2017.

B. OPENING OF THE SESSION

40. Mr. Abdul Razzak Ismail, the representative of the Syrian Arab Republic and Chair of the eleventh session, gave an opening statement in which he welcomed participants. He mentioned the support provided to ESCWA by member States, especially in preparing reports and studies on the cost of financing the SDGs, estimating the financing gap, illicit financial flows, and estimating the prospects of domestic and external financing. He stressed the supportive and motivating role of ESCWA in following up on financing processes, especially in view of the current developments in the Arab region and the high cost of achieving the SDGs and undertaking rebuilding efforts.

41. Ms. Khawla Mattar, ESCWA Deputy Executive Secretary for Programme Support, gave a statement on behalf of the secretariat. She said that the current session differed from previous sessions in form and contents because it provided an opportunity to focus on the complex processes of the new global framework for financing sustainable development. She added that the financing outlook was volatile for the Arab region. There was a dire need for financing, and there was stiff competition between countries to invest in the greatest amount of resources although there were many different sources of financing. As such, it was necessary to keep all channels open and to benefit from all opportunities to mobilize the necessary resources.

42. She stressed that traditional financing models were no longer sufficient for untraditional needs. She called for the development of a comprehensive Arab vision to stimulate financing channels, based on the following two pillars: continue monitoring and analysing domestic and international sources; and move from
analysis to implementation. She discussed the role of ESCWA in protecting Arab interests at international events, and in developing a common working foundation through its studies.

C. PARTICIPANTS

43. The twelfth session of the Committee was attended by representatives from 13 ESCWA member States, namely Egypt, Iraq, Lebanon, Mauritania, Oman, the State of Palestine, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen.

44. The session was also attended by representatives of several international, regional and civil society organizations, including the Union of Arab Banks, the American University of Beirut and the Development Association for Nurturing Arab Leadership and Innovation. Annex I to the present report contains the list of participants.

D. ELECTION OF OFFICERS

45. Pursuant to rule 18 of the rules of procedure of ESCWA, “member countries shall assume the chairmanship of the sessions of the subsidiary bodies of the Commission on a rotating basis, in the Arabic alphabetical order employed by the United Nations”. Ms. Fayza Ahmed Muhammad, the representative of the Sudan, was appointed Chair of the twelfth session of the Committee, after the representative of the Syrian Arab Republic, which chaired the previous session. As per the procedures followed at previous sessions, the Committee elected the representative of the Syrian Arab Republic, Mr. Abdul Razzak Ismail, and the representative of Iraq, Mr. Dahham Muhammad Dahham, as Vice-Chairs. Mr. Ali Abdullah al Amiri, the representative of Oman, was elected Rapporteur.

E. AGENDA AND ORGANIZATION OF WORK

46. At its opening meeting, the Committee adopted the provisional agenda, as set out in document E/ESCWA/EDID/2017/IG.2/L.1, after agreeing to include the issue of re-designating the Committee under agenda item 11 on other matters. The Committee also adopted the draft organization of work set out in document E/ESCWA/EDID/2017/IG.2/L.2. The agenda was adopted as follows:

1. Opening of the session.
2. Election of officers.
3. Adoption of the agenda and other organizational matters.
4. Actions taken in the field of financing for development:
   (a) Implementation of recommendations made by the Committee at its previous session;
   (b) Implementation of activities related to financing for development under the ESCWA programme of work since the previous session of the Committee.
5. Implementation mechanisms of the Addis Ababa Action Agenda: global commitments versus Arab priorities in the field of financing for development.
6. The Arab Financing for Development Scorecard:
   (a) Overall results;
   (b) Domestic and international private business and finance;
   (c) International development cooperation;
   (d) International trade as an engine for development;
   (e) Debt and debt sustainability.
7. Financing the 2030 Agenda for Sustainable Development in the Arab region:
   
   (a) Domestic resource mobilization by curbing illicit financial flows and trade misinvoicing (panel discussion);
   
   (b) The Arab Financing for Development Scorecard: domestic public resources.

8. Feasibility of an Arab forum on financing for development.


10. Date and venue of the next session (on financing for development) of the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development.

11. Other matters.

12. Adoption of the recommendations made by the Committee at its twelfth session.

F. DOCUMENTS

47. The documents considered by the Committee at its twelfth session are listed in annex II to the present report.
Annex I

LIST OF PARTICIPANTS

A. ESCWA MEMBER STATES

Egypt
Ms. Ghada Shawqi
Third Secretary
Embassy of Egypt in Lebanon

Ms. Nadia Mohtar
Office of Information
Embassy of Qatar in Beirut

Saudi Arabia

Iraq
Mr. Ali Abbas Bandar al-Amiri
Ambassador
Embassy of Iraq in Lebanon

Mr. Abdul Mohsen Khanin
Second Secretary
Department of Economic Affairs
Embassy of Saudi Arabia in Lebanon

Sudan

Mauritania
Mr. Aslam Mohamed Vall Asayed
Counsellor
Cabinet of the Minister
Ministry of Economy and Finance

Ms. Fayza Ahmed Muhammad
First Inspector
Department of International Relations and Organizations
Ministry of Trade

Syrian Arab Republic

Oman
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Human Resources Planning
Supreme Council for Planning

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United Arab Emirates

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Mr. Hassan Shashnieh
First Adviser
Media Adviser
Embassy of Palestine in Lebanon

Ms. Intisar Said Mourshid
General Director
Office of Planning and International Cooperation
Ministry of Planning and International Cooperation, Aden Office

Yemen

Qatar
Mr. Abdul Rahman Saud Nakadan Asayed
Third Secretary
International Cooperation Department
Ministry of Foreign Affairs
B. PARTICIPANTS IN THE PANEL DISCUSSION

Mr. Nicolas Tueni
Minister of State for Combating Corruption
Lebanon

Mr. Wissam Fattouh
Secretary General
Union of Arab Banks

Mr. Gamal Al-Bayoumi
Secretary General of the Arab Investors Union

Ms. Sabine Oueiss
Business and Political Editor
An-Nahar Newspaper

Mr. Samir Hammoud
Chairman of the Banking Control Commission of Lebanon

C. OBSERVERS

American University of Beirut

Mr. Said Elfakhani
Associate Dean and Professor
Suliman S. Olayan School of Business

Development Association for Nurturing Arab Leadership and Innovation

Mr. Ali Zbeeb
Founder President
Beirut
### Annex II

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THIRD INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

KEY PRIORITIES FOR THE ARAB REGION

1. In September 2015, the international community will adopt the post-2015 development agenda, including the sustainable development goals. It is a universal and inclusive agenda aimed at eradicating poverty and hunger and achieving economic growth and transformation, while protecting the environment, ensuring peace and realizing human rights. The successful implementation of such an ambitious agenda lies with member States, and hinges upon reaching consensus on policy, financing, technology transfer, capacity-building and systemic issues at the third International Conference on Financing for Development, to be held in Addis Ababa from 13 to 16 July 2015. The Conference builds on the Monterrey Consensus of the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, and the Doha Declaration issued by the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, held in Doha from 29 November to 2 December 2008.

2. Although the Arab region shares the concerns of other developing regions on financing for development issues, it has its own additional challenges and priorities. For example, it is beset by the Israeli occupation of Palestine and other Arab lands that has continued unabated for almost half a century in violation of international law, which not only deprives Palestinians of their inalienable and basic rights, including the right to development, but also negatively affects the stability of the whole region, thus arresting its development and jeopardizing global peace.

3. The Arab region also faces many socioeconomic challenges, notably persisting poverty, high unemployment, particularly among women and young people, limited social protection coverage, rising inequalities and increasing indebtedness; as well as complex environmental challenges, such as water scarcity, air and water pollution, climate change, biodiversity erosion, aridity, land degradation, desertification and natural disasters, which impact development and threaten water, energy and food security.

4. Moreover, the increasing numbers of conflicts in the region are negatively affecting the ability of some Arab States to achieve the Millennium Development Goals, and huge financial requirements, estimated at 650 billion United States dollars ($), are needed to reconstruct conflict-affected countries.

5. There is a great need to finance sustainable development, mobilize and effectively use all sources of finance (public and private, domestic and international) and develop a renewed and strengthened global partnership for sustainable development, taking into consideration the economic, social and environmental dimensions of the process and the need to respect national priorities.

6. At the national level, the public and private sectors have different, but complementary, roles that are essential to successfully implementing the new development agenda, which will require an enabling domestic environment, including good governance, sound economic policies, solid democratic institutions responsive to people’s needs, improved infrastructure, rule of law and the adoption of national sustainable development financing strategies. Although there is a need to mobilize both public and private finance to achieve the sustainable development goals, private finance is not a perfect substitute for public finance, but rather complementary to it.

7. Clean and environmentally sound technologies can play an important role in addressing sustainable development challenges; gender mainstreaming is essential for the successful formulation and implementation of financing for development policies; and data, monitoring and follow-up are vital to the implementation process.
8. Based on the need for developing countries in general, and Arab countries in particular, to make an effective contribution to the preparations for and activities of the third International Conference on Financing for Development, and on the basis of intensive consultations between ministers, high-level government representatives, experts and specialists at the Technical Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development in the Countries of the ESCWA Region, held in Amman on 7 and 8 April 2015, the following key messages should guide the position of Arab States on the Addis Ababa outcome document.

I. DOMESTIC PUBLIC FINANCE

(a) Public finance is vital to implementing the post-2015 development agenda, notably in terms of agriculture; food security; research and development; social protection; health; education; investment in sustainable development infrastructure, particularly in rural areas; capacity-building; and promoting equity, with the participation of all social groups to achieve sustainable development;

(b) Fighting corruption is fundamental to the mobilization of financial resources; efforts should continue to combat financial and administrative corruption and the misuse of domestic resources; an empowered system of accountability needs to be put in place within public systems; international cooperation in the area of repatriation of stolen assets must be strengthened through the adoption of a more proactive approach, especially in terms of the efforts of developed countries; and public expenditure must be well-allocated and more transparent;

(c) Tax administration requires continuous reforms to enhance fairness and effectiveness; widening the tax base must be accompanied by pro-poor tax policies and measures to reduce the fiscal burden on the poor; supporting institutional capacities and national judicial systems and strengthening law enforcement are required to effectively deal with tax evasion and tax avoidance; a transparent and effective communication system is needed to enhance trust and, subsequently, ensure compliance with procedures; and double taxation agreements should be reviewed;

(d) There is a need to enhance the exchange of information between different government entities, both at the national and international levels, to fight tax evasion and illicit financial flows that continue to drain the economies of developing countries;

(e) Increased investment in capacity-building for tax administration is a necessity; the role of the United Nations Committee of Experts on International Cooperation in Tax Matters should be strengthened;

(f) Countries relying on natural resource extraction should adopt fiscal stabilization funds or other policies to stabilize the flow of government revenues;

(g) The lack of progress in establishing a world trading system and related regulations detrimentally impacts the capacity of the private sector to expand in developing countries, which in turn negatively affects their efforts to mobilize domestic resources.

II. DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE

(a) Domestic and international finance should not be assigned equal importance;

(b) The private sector is a driver of growth and a major partner for development financing; increased investments in productive sectors with high job creation potential is essential, while respecting private sector privacy;

(c) Improving the investment climate by enhancing the business and regulatory environment is necessary for maximizing the role of the private sector, repatriating some of the Arab investments abroad and
enhancing foreign direct investment that acts, not only as an external source of financing for development, but also as a conduit for the transfer of modern technology and sophisticated production and management methods, and which significantly contributes to labour force training; in this regard, foreign direct investment that follows social and environmental standards and supports sustainable industrialization and the creation of decent jobs should be promoted;

(d) The development of financial systems in Arab countries by promoting sound banking practices and expanding debt and equity markets and other financial institutions, including the insurance industry, is a priority; enhancing the capital market infrastructure is vital for attracting long-term investments, including pension fund investments, at the regional and national levels;

(e) More support should be given to the integration of the informal sector into the real economy to increase public revenues and bolster social inclusion;

(f) Ensuring financial inclusion through innovative tools, such as digitized payments and mobile banking, eliminating gender-based financial discrimination and empowering small and medium enterprises, constitutes a strong base for generating employment and economic growth; promoting financial literacy, increasing microfinance, providing access to credit for all and granting technical assistance to small and medium enterprises is therefore essential;

(g) Remittances are not a replacement for public finance; however, supporting remittances for development and enhancing coordination between different government entities dealing with migrants and their remittances is important for developing complementary alternatives to public finance, including financial products tailored to the needs and priorities of migrants; furthermore, reducing the cost of remittances and eliminating all disguised charges is necessary to encourage the transfer of remittances through official channels, while respecting the confidentiality of such transfers and not considering them as a source for financing sustainable development without undertaking studies on the implications of the steady rise in food and fuel prices on the allocation of remittances and the amounts used for covering living expenses and those earmarked for investment;

(h) Exploring other forms of innovative financing and the promotion of blended finance, in particular the development of new models for public-private partnerships, should be encouraged; however, public-private partnerships are not equally suitable for all sectors and should therefore not been seen as a perfect substitute for the role and responsibilities of the public sector, but rather as complementary to it; other forms of financing should be identified, including tobacco, financial transaction and bank transaction taxes; and carbon, shipping and commercial taxes should be rejected because of their repercussions on the comparative advantage of Arab goods; international consensus on innovative financing for development should be reached without negatively affecting the resources of developing countries, requiring them to shoulder additional burdens or exempting developed countries from their commitments.

III. INTERNATIONAL PUBLIC FINANCE

(a) Strengthened global partnerships are crucial for the implementation of the post-2015 development agenda;

(b) Official development assistance will continue to play a central role in development financing for developing and least developed countries;

(c) The generous assistance of Arab development financing institutions is commendable, and they should continue extending financial and technical assistance to Arab countries;

(d) All developed countries should increase their commitment to official development assistance to 1 per cent of their gross national income by 2020 and should agree on timetables to meet official development
assistance commitments needed to support sustainable development, especially in least developed countries, small island developing States, conflict-affected countries, middle-income countries and countries in transition; developed countries should allocate more official development assistance, in addition to humanitarian aid, to Arab conflict-affected countries;

(e) An increased proportion of official development assistance should be predictable and disbursed as planned, take the form of grants or soft loans and be untied from donors’ restrictions of use and development priorities;

(f) Any effort to redefine official development assistance should be done in an open and transparent manner, allowing for an exchange of views between donor and recipient countries;

(g) South-South and triangular cooperation, which are essential components of international cooperation, are becoming increasingly important, particularly in terms of technical cooperation, but they must not substitute North-South cooperation;

(h) Official development assistance can be used to strengthen the domestic regulatory environment, including through strengthening tax administration;

(i) Climate financing should be complementary and separate from official development assistance budgets; developed countries have committed themselves to meeting the goal of jointly mobilizing $100 billion per year by 2020 to meet the climate financing needs of developing countries; a readiness programme for climate financing in the Arab region should be initiated through the Green Climate Fund with the involvement of ESCWA.

IV. INTERNATIONAL TRADE FOR SUSTAINABLE DEVELOPMENT

(a) Trade barriers, trade subsidies and other trade distorting measures (domestic production subsidies) and their repercussions, particularly in sectors of special interest to Arab countries, including agriculture, affect Arab countries’ capacity to benefit from their commercial potential to support development;

(b) Opening up the markets of developed countries to the products of developing countries, reducing barriers to trade and implementing the principles of differential treatment towards developing countries, including Arab countries, is vital;

(c) Regional cooperation in trade is a fundamental tool for achieving sustainable development; multilateral and regional agreements should be promoted, including the establishment of an Arab customs union;

(d) Enforcing aid-for-trade commitments is crucial for promoting a fairer global trade system; this should not, however, come at the expense of aid to other crucial sectors;

(e) There is a need for capacity-building for trade mechanism reviews with the World Trade Organization and free trade agreement assessments at the national level;

(f) Flexibilities in the Agreement on Trade-Related Aspects of Intellectual Property Rights are necessary in sectors vital for sustainable development, including public health;

(g) International investment agreements are important as is the need to review investment treaties, especially investor-State dispute settlement clauses, to protect Arab countries and support their sustainable development strategies.
V. DEBT AND DEBT SUSTAINABILITY

(a) There is a need to increase efforts to alleviate the debt burden of developing countries, including lower-middle-income countries, and call for debt relief and cancellation for countries in economic and political transition and for debt-to-investment swaps to fund investments in infrastructure and development; debt continues to prevent some countries, including some Arab countries, from investing in development, given that debt servicing consumes financial resources that could have been allocated to investment projects;

(b) Developed countries are called upon to commit themselves to allocating additional resources for debt relief, other than those allocated for official development assistance budgets;

(c) Technical assistance provided by developed countries and international and regional organizations to developing countries should be increased to improve their debt management, plan, monitor and manage external liabilities and reduce vulnerabilities;

(d) Strengthening national debt management strategies remains crucial, especially in conflict-affected Arab countries where debt burdens have increased significantly in recent years;

(e) Adhering to the Principles on Promoting Responsible Sovereign Lending and Borrowing of the United Nations Conference on Trade and Development is recommended, and the efforts undertaken by the United Nations to develop a multilateral legal framework for debt restructuring should be commended;

(f) There is a need to establish an international debt resolution mechanism to guarantee fair and equivalent treatment for both creditors and debtors, in line with the principle of shared responsibility for both debtors and creditors.

VI. SYSTEMIC ISSUES

(a) Development funds should consider contributing to the reconstruction of conflict-affected countries;

(b) Measures should be taken at the international level to reduce the externalities of economic and financial crises, such as those that arose from the 2008 financial turmoil, and their repercussions on developing countries in particular;

(c) Regulatory reforms of the financial sector are central to preventing financial downturns similar to the 2008 crisis, which started in developed countries and is still affecting the most vulnerable developing countries;

(d) There is a need to increase the participation of developing countries, including Arab countries, in the management of international monetary, regulatory and financial institutions whose decisions affect their economies; it is also necessary to adopt an open, transparent, gender-balanced and merit-based strategy for selecting their directors and to implement the 2010 International Monetary Fund reforms regarding its quota and governance;

(e) The rights of migrant workers should be protected, in compliance with the International Labour Organization’s fundamental conventions; well-managed migration has positively contributed to inclusive growth and sustainable development.

VII. TECHNOLOGY, INNOVATION AND CAPACITY-BUILDING

(a) Establishing a mechanism to enable developing countries to build up, transfer and implement appropriate and environmentally sound technologies to facilitate green economy transitions and achieve
sustainable development is vital; information and communications technologies can greatly assist in achieving sustainable development;

(b) Supporting research and development, increasing investment in human capital and enhancing the education system are important factors for the achievement of the sustainable development goals;

(c) Promoting official development assistance for science and innovation should be pushed forward;

(d) Setting up funds to support entrepreneurship, innovative enterprises and capacity development is essential for the expansion of the technology sector;

(e) There are limited investments of private capital in innovation and technologies because of the associated risks and uncertain returns, hence an increase in public financing for research and development and international cooperation is necessary in this regard;

(f) United Nations specialized agencies with technology mandates should be encouraged to promote technology transfer and development;

(g) Developed countries play a vital role in technology and information transfer to developing countries; additional attention should be given to knowledge transfer as well as information and technology transfer from developed countries to developing countries.

VIII. DATA, MONITORING AND FOLLOW-UP

(a) Strengthening national capacity to monitor and publish flows of funds is a prerequisite for an effective monitoring process;

(b) Improving the availability of disaggregated and gender-sensitive financial data remains crucial;

(c) There is a need to support developing countries and build their capacity to increase the availability of high-quality, timely and reliable data;

(d) The Group of Twenty should annually assess and report on the implementation of financing for development commitments by its members, while respecting State sovereignty;

(e) Monitoring national progress towards financing for development is important;

(f) Efforts of regional organizations regarding the follow-up process for financing for development must be strengthened and the regional commissions requested to provide them with technical support.