Session 2
Financing for Development: Assessing Progress, Emerging Threats & Opportunities

Financing for Development Office
Economic Development & Integration Division
Financing Agenda 2030 in the Arab World: Means and Challenges

November 2018
The Good News and the Bad News

A positive Global momentum

Growth of world gross product, 2011-2019

Challenging Regional Context

Output Gap in the Arab World (trillion)

Estimated SDG Financing Gap in the Arab World

Source: UN/DESA.
A Region with a promising Potential

![Map showing solar potential and energy targets in RCREEE Countries]

### Renewable Energy Targets in RCREEE Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>RE Share (%)</th>
<th>By</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>42%</td>
<td>2020</td>
<td>Electricity</td>
</tr>
<tr>
<td>Tunisia</td>
<td>40%</td>
<td>2030</td>
<td>Electricity</td>
</tr>
<tr>
<td>Algeria</td>
<td>40%</td>
<td>2030</td>
<td>Electricity</td>
</tr>
<tr>
<td>Palestine</td>
<td>25%</td>
<td>2020</td>
<td>Energy</td>
</tr>
<tr>
<td>Egypt</td>
<td>20%</td>
<td>2020</td>
<td>Electricity</td>
</tr>
<tr>
<td>Yemen</td>
<td>15%</td>
<td>2025</td>
<td>Electricity</td>
</tr>
<tr>
<td>Lebanon</td>
<td>12%</td>
<td>2020</td>
<td>Electricity</td>
</tr>
<tr>
<td>Sudan</td>
<td>10%</td>
<td>2016</td>
<td>Electric</td>
</tr>
<tr>
<td>Libya</td>
<td>10%</td>
<td>2025</td>
<td>Electricity</td>
</tr>
<tr>
<td>Jordan</td>
<td>10%</td>
<td>2025</td>
<td>P.E.</td>
</tr>
<tr>
<td>Syria</td>
<td>4%</td>
<td>2030</td>
<td>P.E.</td>
</tr>
<tr>
<td>Iraq</td>
<td>2%</td>
<td>2030</td>
<td>Electricity</td>
</tr>
</tbody>
</table>

*Maghed Mahmoud, Regional Center for Renewable Energy and Energy Efficiency, 2013*
Commitment to Progress

- Submission of VNRs
- Regional support
- scorecard

2016
- Egypt
- Morocco

2017
- Jordan
- Qatar

2018
- Bahrain
- Egypt
- Lebanon
- Qatar
- Saudi Arabia
- Sudan
- State of Palestine
- The United Arab Emirates

2019
- Algeria
- Iraq
- Kuwait
- Mauritania
- Oman
- Tunisia

...
Losing money to development

For every $1 the Arab region gained in development finance, the region lost $2.9 in direct financing (ESCWA, 2017)

- ODA to Arab Countries
  $27 billion in 2016

- FDI inflows
  $42.6B (2011-2015) but limited to some sectors and countries

- Private Philanthropy
  $630M (2015)

- Remittances inflows
  $20B (2015)

- Outflows

- Cost of Conflict
  Loss $613.8B in economic activity (since 2011)

- Military expenditure
  17.5% of total expenditure (2016)

- Redirecting ODA
  15% to refugees and humanitarian aid

- Illicit Financial Flows
  IFF > ODA+FDI (since 2014)

- FDI outflows
  $69B (2011-2015)

- Remittances Outflows
  $54B (2015)

Source: UN ESCWA, The Arab Scorecard
Addressing the Peace Gap

600 billion USD lost due to conflict since 2016.

The cost of environmental degradation is estimated at 5% of countries’ GDP

Globally:
- 17% increase since 2007 in costs arising from violence driven primarily by wars and conflicts in the MENA region (IEP, 2018)
- forced displacement and refugee migration into other countries
Decline in government revenues due to losses in tax and natural resource revenues

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenue Losses (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq</td>
<td>More than 30</td>
</tr>
<tr>
<td>Syria</td>
<td>More than 15</td>
</tr>
<tr>
<td>Libya</td>
<td>Almost 35</td>
</tr>
<tr>
<td>Yemen</td>
<td>More than 10</td>
</tr>
</tbody>
</table>

The cost of conflict is more than 2% of foregone GDP for a year of internal conflict.
The grand vision of the SDGs is rooted in expectations that domestic resource mobilization and private finance would provide the bulk of the funding needed.

1. **The confidence gap** arising from weaker security (objective conditions and subjective perceptions);

2. **The eroding macroeconomic and business climate** that keeps the economy uncompetitive oligopolistic and exclusive;

3. **The eroding institutional quality** that complicate policymaking and erodes trust.
"Redirect resources away from military spending – more than three times the global average - to socioeconomic development, and reversing environmental degradation can result in a **3% increase in GDP**

ESCWA Scorecard
Illicit Financial flows vs FDI & ODA to the Arab Region

Terrorist groups feed their budgets through cross border transactions

“for every $1 the Arab region gained in financing, it correspondingly lost $1.05 as illicit financial outflows”

ESCWA Scorecard

Source: UN ESCWA, The Arab Scorecard
Source: ESCWA calculations based on GEL report (2017), UNCTAD, & OECD QWIDS database.

Source: ISIS Financing 2015
This is the time to transform means of production, consumption & distribution of resources.

Performance of the Arab world and OECD average along the 12 pillars of competitiveness:

- Policies to diversify the economy
- A competitive and well-regulated financial sector
- Invest in innovation and harness young talent
- Improving public financial management
- Redesign taxation system

Key:
- Resource rich
- Resource poor
- OECD average

Source: Calculations based on the results of the Global Competitiveness Index 2017-2018.
This is the time to discuss taxation from a regional perspective.

- Domestic resource mobilization through prudent tax collection and efficiency
- Improving the equity of tax systems
- Enhancing accountability mechanism
- Finding the optimal tax effort balance between center and local
- Improving fiscal frameworks
- Ensuring the rule of Law
The State

This is the time to discuss institutions

Government is the main employer (up to 18% of total employment)

The highest civil service wage bill in the world (standing at a 9.8% of GDP compared to a world average of 5.4%)

Inflated civil service (benefits from wages that are on average 30% higher than private sector wages, while on a worldwide scale, public wages are 20% lower than those of the private sector)
2 Sustainable Public Procurement

Ensure sound resources management, promote efficient practices, and build institutional capacities

Promote transparent and accountable practices in public procurement, promote ethics and engage concerned stakeholders

Encourage competition and the development of market and raise the importance of making business with the Government and create partnerships

Integrate sustainable public procurement in the legal framework and across practices

4 pillars & 4 goals
END WARS and VIOLENCE

Institutionalizing the political settlement, and reconciling different interests in core public domains

Redirect public expenditure to where it is needed the most

COMPETITIVE INCLUSIVE ECONOMY

Align Economic policies with measures to reverse root causes of socioeconomic crisis

PERFORMING INCLUSIVE STATE

Build strong, fair and inclusive institutions able to spur job creation and strengthen social cohesion

A renewed social contract based on trust and respect of rights and human dignity

DATA REVOLUTION

Capitalize on Data and the 4th Industrial revolution and on Human Capital
If peace entrepreneurs were able to mobilize as much money as war entrepreneurs, every child would be enrolled in school, every teacher would be celebrated as a hero, and every refugee would be living in dignity in a place that is not a “Capharnaum”.
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Financing for Development Office
Economic Development & Integration Division
Conference on Financing Sustainable Development

*Curbing Illicit Financial Flows*

Session 2: Financing for Development: Assessing Progress, Emerging Threats & Opportunities

Amr Nour, Director
Regional Commissions NY Office
Beirut, 28 November 2018
Global Context

Rising uncertainty

➢ **Growing global economic and non-economic risks**
  (tightened global financial conditions - trade tensions, rising debt vulnerabilities, capital flow volatility; climate change; inequality, conflict)

➢ **Threats to multilateralism** hindering strong international policy response to address these risks
Financing Sustainable Development
Structural global impediments to domestic resource mobilization

➢ **Rising Debt** (higher borrowing costs and tightened access to capital markets with risks for investments and economic growth)

➢ **Tax Evasion and Avoidance** (lost revenues for needed public investments incl in health, education, social protection and others)

➢ **Illicit Financial Flows** (lost revenues and undermining of public institutions and good governance)
Total debt, external debt and debt service are on the rise again

SOURCE: Based on IMF 2018
Debt stocks

Figure 9. Total Debt: World and G20
(Weighted average; percent of GDP)

SOURCE: IMF Global Debt base
External Debt Stock of Low- and Middle- income Countries

SOURCE: World bank
External Debt Stocks – Regional Trends

SOURCE: World Bank
## Tax Evasion and Avoidance

<table>
<thead>
<tr>
<th>Estimate provider</th>
<th>Date of publication</th>
<th>Volume of tax loss</th>
<th>Underlying data</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD Economics Department Working Paper (Johansson, Skeie, Sorbe, &amp; Menon)</td>
<td>2017</td>
<td>$100 billion – $240 billion in 2014</td>
<td>Firm-level corporate financial information databases</td>
</tr>
<tr>
<td>WIDER Working Paper (Cobham &amp; Jansky)</td>
<td>2017</td>
<td>$500 billion annually</td>
<td>Country-level statutory tax rates and corporate income tax revenues</td>
</tr>
<tr>
<td>IES Working Paper (Jansky, &amp; Palanský)</td>
<td>2017</td>
<td>$150 billion – $188 billion annually</td>
<td>Foreign direct investment data and reported rates of return</td>
</tr>
</tbody>
</table>

*Source:* Inter-agency Task Force on Financing for Development, UN/DESA.
Tax Evasion and Avoidance

Figure 4: Revenue loss estimates over time, US$ billion, by income group

(a) IMF

SOURCE: UNU WIDER 2017 WP
Tax Evasion and Avoidance

Figure 5: Revenue loss estimates over time, % of GDP, by income group

(a) IMF

SOURCE: UNU WIDER 2017 WP
Illicit financial flows

Estimated Illicit Financial Outflows 2004-2014
(Percent of total trade)

SOURCE: the Global Financial Integrity Report 2018
Illicit financial flows

Estimated Illicit Financial Outflows 2004-2014
(Percent of region’s total trade)

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Average annual percent change since 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aisa</td>
<td>5.6</td>
<td>5.3</td>
<td>4.9</td>
<td>4.7</td>
<td>5.9</td>
<td>5.3</td>
<td>3.2</td>
<td>4.4</td>
<td>4.1</td>
<td>4.8</td>
<td>9.5</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>11.2</td>
<td>11.7</td>
<td>12</td>
<td>12.3</td>
<td>16.3</td>
<td>7.6</td>
<td>6.5</td>
<td>6.5</td>
<td>9.2</td>
<td>7.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Developing Europe</td>
<td>7.7</td>
<td>7</td>
<td>7.6</td>
<td>7.5</td>
<td>10.1</td>
<td>9.1</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>6.3</td>
<td>6.4</td>
</tr>
<tr>
<td>MENA+AP</td>
<td>3.9</td>
<td>4.3</td>
<td>4.6</td>
<td>5</td>
<td>5.4</td>
<td>4.3</td>
<td>4.7</td>
<td>4.6</td>
<td>4.2</td>
<td>4</td>
<td>10.4</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>9</td>
<td>7.3</td>
<td>7.1</td>
<td>7.2</td>
<td>7.7</td>
<td>8.1</td>
<td>6.9</td>
<td>7.4</td>
<td>7.8</td>
<td>7.4</td>
<td>5.8</td>
</tr>
<tr>
<td>All Developing Countries</td>
<td>6.6</td>
<td>6.1</td>
<td>6.1</td>
<td>6.1</td>
<td>7.4</td>
<td>6.4</td>
<td>5.3</td>
<td>5.5</td>
<td>5.4</td>
<td>5.4</td>
<td>7.7</td>
</tr>
</tbody>
</table>

SOURCE: the Global Financial Integrity Report 2018
Figure 8
Asia-Pacific regional goods trade mis-invoicing, 2016
(Billions of United States dollars)

Source: ESCAP calculations.
Note: Chart shows the aggregated bilateral differences between export and import values at product level (Harmonized System six-digit codes) for 86 percent of export lines and 75 percent of import lines where matching was possible for 31 jurisdictions within ESCAP Member States. Special administrative regions of China are treated as separate jurisdictions.

Figure 9
Estimates of gross outflows from goods trade mis-invoicing, Latin America and the Caribbean, 2000–2015
(Billions of United States dollars)

Source: ECLAC calculations.
Note: Chart shows the aggregated gross outflows for bilateral differences between export and import values at product level (Harmonized System six-digit code) for 33 ECLAC Member States. Results are inversely weighted for differences in volume of goods to correct for inadvertent misreporting.

Figure 10
(Billions of United States dollars)

Source: UN/ECA calculations.
Note: Chart shows the aggregated net outflows for bilateral differences between export and import values at sector level (Global Trade Analysis Project 57 sectors) for 49 jurisdictions within ECA Member States, in 2016 prices. The Southern African Customs Union is treated as a single entity.
Investments needed to implement the SDGs

It is estimated that globally, investments of US$ 5 - 7 trillion are needed each year to implement the Goals. (UNSG, 24 Sept HLM on Financing the 2030 Agenda)

Additional spending needs in LICs amount to about US$520 billion a year to meet the SDGs. (IMF estimate)
Global and regional efforts are required to enable countries capacities to mobilize domestic resources

- DRM is not isolated from the global issues – it is not only about national efforts
- Regional Cooperation can play an important role in supporting DRM efforts including through development of capital markets, on taxation and combatting IFF, among others
- Global solutions through international cooperation remain much needed to ultimately address global structural impediments to DRM in LICs and MICs
Three key areas identified in the SG Strategy, namely:
(1) Aligning global financial and economic policies with the 2030 Agenda;
(2) Enhancing sustainable financing strategies and investments at the regional and country levels; and
(3) Seizing the potential of financial innovations, new technologies and digitalization to provide equitable access to finance.
Thank you

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