

## المنتدى العربي للتنمية المستدامة

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**17** PARTNERSHIPS  
FOR THE GOALS



# SDG 17

## PARTNERSHIPS FOR THE GOALS

Strengthen the means of implementation  
and revitalize the global partnership  
for sustainable development: financing

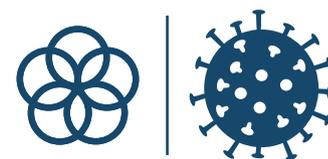
The Arab region faced critical SDG financing challenges prior to the COVID-19 pandemic. Before the outbreak, the gross financing needs of high- and middle-income Arab economies amounted to \$6 trillion to meet their national implied demand for SDG financing.<sup>1</sup> The COVID-19 crisis has further exposed low levels of investment in health, education and social protection, weakened fiscal and external balances, exacerbated health and humanitarian emergencies, and amplified existing inequalities. The pandemic's impact on SDG financing in the region has also been aggravated by pre-existing factors, including inefficient fiscal policies, high reliance on non-productive sectors, and limited fiscal space owing to inefficiencies in tax systems and domestic resource mobilization capacities and high levels of debt servicing. Moreover, the region has witnessed an alarming trend in non-concessional lending, and in reducing the grant element of official development assistance.

It is necessary to create the fiscal space to sustain urgently needed health and social

spending; reduce debt-financing overhangs; tap liquidity lines to avoid insolvency; and ensure social cohesion by safeguarding overall economic, fiscal, monetary and financial stability. Affirmative action is needed to enhance the targeting and efficiency of public spending, and to pursue fiscal equalization and systemic approaches to mobilize all strands of financing (public, private, domestic, international, plurilateral, multilateral, innovative and traditional). Affirmative action is also needed to sustain investments (domestic and foreign) through a rights-based and gender responsive lens, so as to mitigate imminent health hazards and the socioeconomic impact of the pandemic.

In addition to the pressing challenges facing Arab countries in securing necessary financing at the national level, global economic structures must also adapt through a stronger implementation of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

## Impact of COVID-19 on SDG financing in the Arab region



The pandemic hit the region amid multiple financing challenges, including financing insolvencies, funding shortfalls, fiscal space constraints, debt-financing overhangs; and severe financing inequalities.

**Fiscal and external balances weakened across the region as poverty and unemployment rose.** In 2020, the pandemic wiped out \$152 billion in economic gains across the region.<sup>2</sup> Arab capital markets lost nearly a quarter of their capitalization in just three months following the outbreak of the pandemic. The crisis threatens to push more than 14.3 million people into poverty, swelling the poverty headcount in the region to 115 million, equivalent

to slightly more than 32 per cent of the population of Arab middle-income and least developed countries. In a region where 14.3 million people were already unemployed, the International Labour Organization estimates losses equivalent to 17 million full-time jobs in the second quarter of 2020.<sup>3</sup> Fiscal revenues are expected to lose nearly \$20 billion in indirect taxes: \$5 billion in import tariffs and \$15 billion in other indirect taxes, including value added tax and specific consumption taxes. More productive capacities are expected to slip into informality, particularly small and medium enterprises which are not likely to return to formality without targeted policy interventions.

1 ESCWA, SDG-Financing Dashboard, Integrated National Diagnostic and Financing Frameworks Project (forthcoming).

2 United Nations, Policy brief: The impact of COVID-19 on the Arab region: An opportunity to build back better, 2020.

3 International Labour Organization, ILO Monitor: COVID-19 and the world of work, fourth edition, 27 May 2020.

### **Increasing debts are projected to make things worse.**

Responding to the pandemic will further increase fiscal deficits from an average of 2.8 per cent in 2018 to over 10 per cent of GDP in 2020.<sup>4</sup> Arab oil producers, notably the Gulf Cooperation Council (GCC) economies, are expected to endure the greatest losses. These deficits are more likely to be financed by increased borrowing, adding more debt stocks to the region's existing debt of \$1.3 trillion in 2019, with debt reaching unsustainable levels of 151 per cent and 212 per cent of GDP in Lebanon and the Sudan, respectively.

**Foreign direct investments are expected to plunge** by an unprecedented 45 per cent, with a 10 per cent probability that foreign direct investment (FDI) inflows to the region may drop by at least \$17 billion in 2020, based on a value-at-risk financial analysis.<sup>5</sup> Moreover, remittance inflows, which grew at a rate of 7 per cent over the past decade, reaching a high of \$62.1 billion in 2018, are estimated to fall by \$8.3 billion in 2020.

*The United Nations and the International Monetary Fund (IMF) estimate that developing countries need an additional **\$2.5 trillion to cope with the COVID-19 crisis**. To date, advanced economies have responded to the pandemic through robust-counter-cyclical measures, accounting for 88 per cent of global interventions, financed mainly through debt-financing fiscal and monetary expansion measures by central banks. In contrast, developing countries have been unable to mobilize equivalent domestic resources, or to tap capital markets under the same terms, conditions and spreads.*

**Economic losses are shrinking economies.** With few exceptions, Arab countries will experience economic contractions that will reach double digits in some cases. The estimated overall economic losses are \$152 billion, more than the combined value of the stimulus packages announced by Arab countries in 2020.<sup>6</sup>

## **Measures taken by Arab Governments**

- 1.** Economic stimulus packages in the region have fallen short. Collectively, Arab economies' stimulus represented 4 per cent of their GDP, which is significantly lower than the global average of 11 per cent.<sup>7</sup> According to the COVID-19 stimulus tracker, the enacted measures fall into seven broad categories, namely social assistance, social insurance, health-related support, loans and tax benefits for individuals, the labour market, financial support for SMEs and other enterprises, and general policy support including fiscal expansion and expenditures mainly related to research and development and ICT digital solutions.
- 2.** Most measures were varied, less coordinated and less effective given the limited fiscal space that has long inhibited sustainable development efforts in the region. While most Arab countries have used available resources to implement fiscal stimulus packages, some, such as Algeria, have resorted to austerity to adjust to the new low oil price environment that coincided with the outbreak, while others, including Saudi Arabia, have increased taxes after setting out a large fiscal stimulus. In some instances, response measures have been slanted towards supporting

markets and loosening monetary conditions to boost the health sector, support businesses, and assist households and individuals. In other cases, fiscal measures and special funds/vehicles have been established to mobilize voluntary contributions, including in Algeria, the Comoros, Kuwait, Lebanon, Mauritania, Morocco and the State of Palestine.

*In an attempt to develop a systemic and coordinated response to the pandemic, several Arab countries took part in the **High-level Event on Financing for Development in the Era of Covid-19 and Beyond**, the largest gathering of world leaders in the context of COVID-19, to respond to the pandemic and maintain momentum towards financing the 2030 Agenda. The menu of financing for development (FfD) policy options could be construed as a needed addendum to the 2015 Addis Ababa Action Agenda. Several proposals remain highly contingent on decisions to be taken outside the realm of the United Nations, including the G20, the Basel Committee, OECD, the United Nations Tax Committee, and IMF.*

4 ESCWA, Survey of Economic and Social Developments in the Arab Region, Ch. 4, 2020.

5 ESCWA, The impact of COVID-19 on Arab economies: trade and foreign direct investment, 2020.

6 Ibid.

7 United Nations, Policy brief : The impact of COVID-19 on the Arab region: An opportunity to build back better, 2020.

At the regional level, there was no regional coordination or high-level meeting to discuss stimulus packages and the response. The lack of coordination on the size and timing of the stimulus packages limit multiplier effects, and can reduce their impact on economic growth and employment.

In addition, the lack of coordination among Arab countries weakens the effect of the response and recovery packages, and renders the region at a disadvantage compared with developed countries, given that 80 per cent of global stimulus is run by developed countries.



## Policy recommendations to ensure an inclusive recovery and effective SDG financing for the Arab region

It is critical that Arab countries and the international community move forward with the Addis Ababa Action Agenda, and take into account corrective measures that enhance its recommendations. Arab countries also need to strengthen domestic resource mobilization, given the expected shortfall in external finance. Tax avoidance, evasion, havens, and aggressive tax planning practices diminish national revenues and lead to the erosion of the tax base, while corruption and financial crime

divert resources away from investment in sustainable development. These abuses offset the positive impact of public and private investment and international assistance. Tackling them is a priority for the region and can reduce inequalities, positively impact trust in institutions and strengthen social and political stability.

The following are key policy areas to enhance financing for sustainable development in the Arab region:

Enhance the delivery of public goods and services targeting both the revenue and expenditure sides of national budgets, through improved efficiency in public social expenditure and public investment. In parallel, improve equity and progressivity in taxation, tax administration, and compliance to curb tax-based illicit financial flows and increase tax revenue collection

Develop integrated national financing frameworks to capture and exploit all sources/methods of financing the SDGs, including mobilizing public and private finance from domestic and foreign sources, and reassessing tax expenditures; and developing capital account guidance to limit speculative inflows and currency mismatches in times of economic boom and bust, and minimize outflows during crises

Align fiscal policies and State budgets with integrated national financing frameworks, medium-term revenue strategies, and medium-term expenditure frameworks

Change public incentives in multiple areas, such as energy and fossil fuels, climate change, and food systems, to shape and accelerate the transition towards sustainable consumption patterns and ensure the necessary fiscal space for social spending towards SDG-centric accountable budgets

Consider debt swap as an innovative financing instrument to free up fiscal space for meeting essential expenditures. This approach is also useful in the context of accelerating a green and inclusive recovery from the pandemic, when rising external debt and debt service across the region has reduced expenditure on climate action and achieving the SDGs

Develop the necessary upstream policy and regulatory frameworks to create the right incentives for businesses and crowd-in private investment, including scaling frameworks that drive the shift to health, education, and other SDG-oriented investment

Develop an integral regional road map to provide anti-corruption and anti-money laundering solutions to protect the efficacy of stimulus measures, and the transparency and integrity of public procurement in combatting illicit financial flows and other fraudulent activities, including by sharing information on beneficial ownership information; combatting tax abuses and aggressive tax planning; doubling international tax cooperation and capacity-building; and ensuring the recovery of stolen assets, as presented by the FACTI Panel, in addition to addressing the tax implications arising from digitization



# Key Facts on SDG 17 - Financing

## Financing reflux

The region's financing exposures are further undermined as it continues to sustain a financing reflux amounting to \$2.5 on average for every dollar gained in cross-border financing, as demonstrated by analysis of these exposures for the period 2011-2016.<sup>8</sup>

## Illicit financial flows

The region has sustained an estimated \$77 billion in annual losses associated with illicit finance between 2008 and 2015.<sup>9</sup>

## Tax revenue to GDP

Ratios of tax revenue to GDP vary between oil-rich and oil-poor countries in the Arab region. For example, the ratio stood at 2.95 per cent and 4.86 per cent in Iraq and Qatar, respectively, in 2017, compared with 21.82 per cent and 21.92 per cent in Morocco and Tunisia, respectively.<sup>10</sup>

## Indiscriminate de-risking

Several conditions have led to indiscriminate de-risking in the region, with 35 per cent of Arab banks reporting a decline in their correspondent banking relations over the period 2012-2015.<sup>11</sup>

## Non-concessional lending as a share of ODA

The share of non-concessional lending has been growing, which puts into question whether ODA itself has been a contributing factor to the region's debt build-up over the period 2010-2017. ODA to health, education and sanitation remain negligent.<sup>12</sup>

## High transaction costs of remittances

Remittance transfers cost on average more than 7.5 per cent in 2020. The high cost of remittance corridors affects the lives of more than 26 million migrant families in the region.<sup>13,14</sup>

<sup>8</sup> ESCWA, The State of Financing for Development Report, 2018.

<sup>9</sup> ESCWA, Illicit Financial Flows in the Arab Region, 2018.

<sup>10</sup> ESCWA, Arab Sustainable Development Report, 2020.

<sup>11</sup> Arab Monetary Fund, Withdrawal of correspondent banking relationships (CBRs) in the Arab region: recent trends and thoughts for policy debate, 2016.

<sup>12</sup> ESCWA, The Arab Financing for Development Scorecard: International Development Cooperation, 2019.

<sup>13</sup> ESCWA, The State of Financing Development in the Arab Region, 2018.

<sup>14</sup> United Nations, Policy brief: The impact of COVID-19 on the Arab region an opportunity to build back better, 2020.

## ARAB REGION

## WORLD

### Personal remittances received as a proportion of GDP<sup>15</sup>



**2%** of GDP was personal remittances received in 2019  
**-1% since 2005**

**1%** of GDP was personal remittances received in 2019  
**+2% since 2005**

### Intra-Arab Trade

The share of intra-Arab trade in goods was around 13 per cent in 2017, but remains well below the share of intraregional trade in the European Union (64 per cent) and the Association of Southeast Asian Nations (24 per cent).<sup>16</sup>

<sup>15</sup> ESCWA Arab SDG Monitor.

<sup>16</sup> ESCWA, Arab Sustainable Development Report, 2020.