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Recovery and resilience

Forum arabe pour le développement durable
Reprise et résilience

المنتدى العربي للتنمية المستدامة
التعافي والمنعة

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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 present background note was initially prepared for AFSD-2021 and updated for AFSD-2022 by ESCWA and UNDP.

The Arab region faced critical SDG financing challenges prior to the COVID-19 pandemic. Before the outbreak, the gross financing needs for the Arab region amounted to $6 trillion to meet national implied demand for SDG financing requirements.[1] 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 limited fiscal space, high reliance on non-productive sectors, inefficiencies in tax systems and domestic resource mobilization capacity, and high levels of debt servicing. Moreover, the region has witnessed an alarming trend of increasing non-concessional borrowing, and a reduction in the grant element of official development assistance (ODA).

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 so as 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 potential economic gains across the region.[2] Arab capital markets lost nearly a quarter of their capitalization in just three months following the outbreak of the pandemic. ESCWA estimated that the crisis pushed about 18 million people into poverty, swelling the poverty headcount to 119 million, equivalent to 27 per cent of the Arab region's population.[3] The region's unemployment increased to 12.5 per cent in 2021, an increase of 0.5 percentage point compared to 2020, with one of the highest rates of youth and female unemployment among all regions.[4] Moreover, fiscal revenues were estimated to have lost nearly $20 billion in 2020 owing to COVID-19: $5 billion in import tariffs and $15 billion in other indirect taxes, including value added tax and specific consumption taxes.[5]

More productive capacities are expected to slip into informality, particularly small and medium enterprises (SMEs) that are not likely to return to formality without targeted policy interventions. According to recent estimates, the region's average general government revenue-to-GDP ratio dropped from 31.9 per cent in 2019 to 28.9 per cent in 2020, with the largest decline observed in Libya (a drop of approximately 19 percentage points).[6]

Increasing debts are projected to make things worse. Responding to the pandemic has further increased fiscal deficits from an average of 2.8 per cent of GDP in 2019 to around 9.2 per cent in 2020.[7] Arab oil producers, notably the Gulf Cooperation Council (GCC) economies, have

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 ESCWA, Survey of Economic and Social Developments: Realities and Prospects in the Arab Region, 2020-2021.
4 ESCWA projections based on the World Economic Forecasting Model. The comparison was based on ILO modelled estimates for the other regions.
5 United Nations, Policy brief: The impact of COVID-19 on the Arab region: An opportunity to build back better, 2020.
6 IMF, Regional Economic Outlook: Middle East and Central Asia, 2021.
7 Ibid.

lost significant revenues, which led to the deterioration of the primary balance from -2.3 per cent of GDP in 2019 to -11 per cent in 2020.[8] The gap between expenditures and revenues widened in Arab middle-income countries (MICs) and least developed countries (LDCs), reaching -3 per cent and -11 per cent of GDP, respectively, in 2020. These deficits were financed by increased borrowing and rollover of debt stocks, which caused the region's public debt to reach a historic high of $1.4 trillion, or about 60 per cent of GDP in 2020, up from 46 per cent of GDP in 2019. The debt-to GDP ratio increased by more than 10 percentage points in GCC countries, reaching about 41 per cent in 2020. The ratio for Arab MICs rose to 91 per cent, up from 79 per cent in 2019, which puts some MICs and GCC countries at high risk of debt vulnerability.[9]

Foreign direct investments (FDI) were expected to plunge by an unprecedented 45 per cent.[10] Latest estimates for 2020 reveal a significant drop in FDI inflows for some Arab countries. For instance, between 2019 and 2020, FDI inflows fell by 35 per cent in Egypt.[11] On the other hand, remittance inflows into the region have proven relatively resilient, growing by 3 per cent in 2020 compared with 3.8 per cent in 2019, but relatively lower than the compounded annual growth rate of 5.9 per cent that occurred over the past decade.[12]

COVID-19 financing needs

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.

Source: IMF, Transcript of Press Briefing by Kristalina Georgieva following a Conference Call of the International Monetary and Financial Committee, 2020.

Measures taken by Arab Governments

1. The region's economic stimulus packages to counter the impact of the pandemic have fallen short. Collectively, Arab economies' stimulus represented 4 per cent of their GDP, which is significantly lower than the global average of 23 per cent.[13] 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 and businesses, labour market measures, financial policy 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 have been asymmetric, uncoordinated 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. 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.

8 ESCWA, Liquidity shortage and debt: Obstacles to recovery in the Arab region, 2021.
9 Ibid.
10 ESCWA, The impact of COVID-19 on Arab economies: trade and foreign direct investment, 2020.
11 UNCTAD, World Investment Report, 2021.
12 World Bank Group, World Bank staff estimates based on IMF balance of payments data.
13 United Nations, COVID-19 social protection and economic policy responses of Governments, 2021.

High-level Event on Financing for Development in the Era of COVID-19 and Beyond

In an attempt to develop a global systemic 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 for Sustainable Development.

The menu of financing for development policy options presented at the High-level Event can be considered 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 by the G20, the Basel Committee, OECD and IMF.

Source: www.un.org/en/coronavirus/hle-financing-development.

In the Arab region, there was no regional coordination or high-level meeting to discuss stimulus packages and COVID-19 response plans. The lack of coordination on the size and timing of the stimulus packages dampened potential multiplier effects and reduced their impact on economic growth and employment. In addition, the lack of coordination among Arab countries has weakened the stimulus effect, and placed Arab low- and middle-income countries at a disadvantage compared with high-income countries globally, given that 90 per cent of global stimulus is run by high-income countries.

Figure 1. Distribution of fiscal support across policy category (percentage)

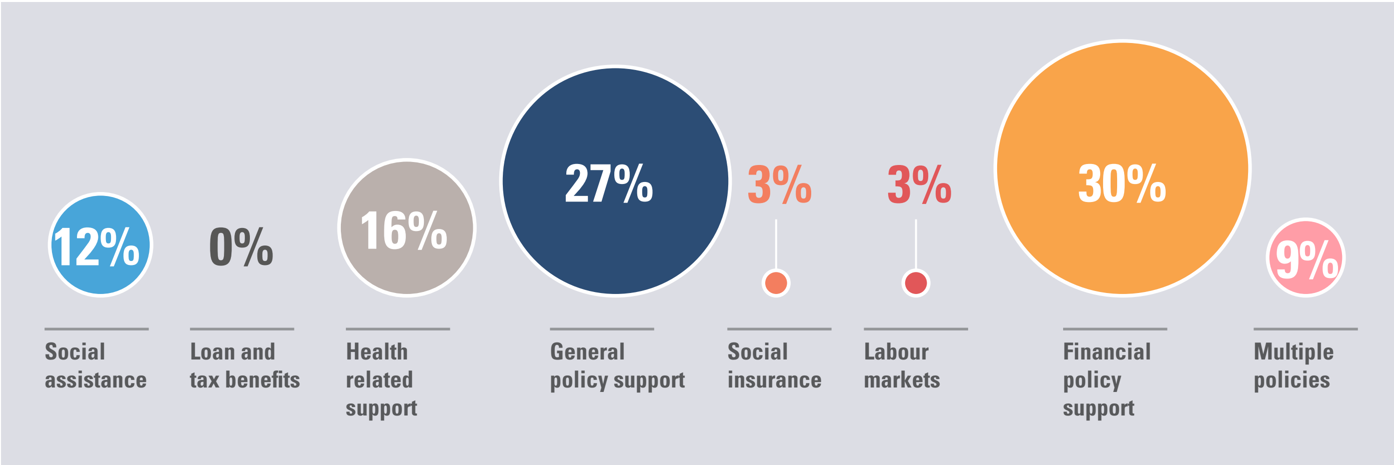
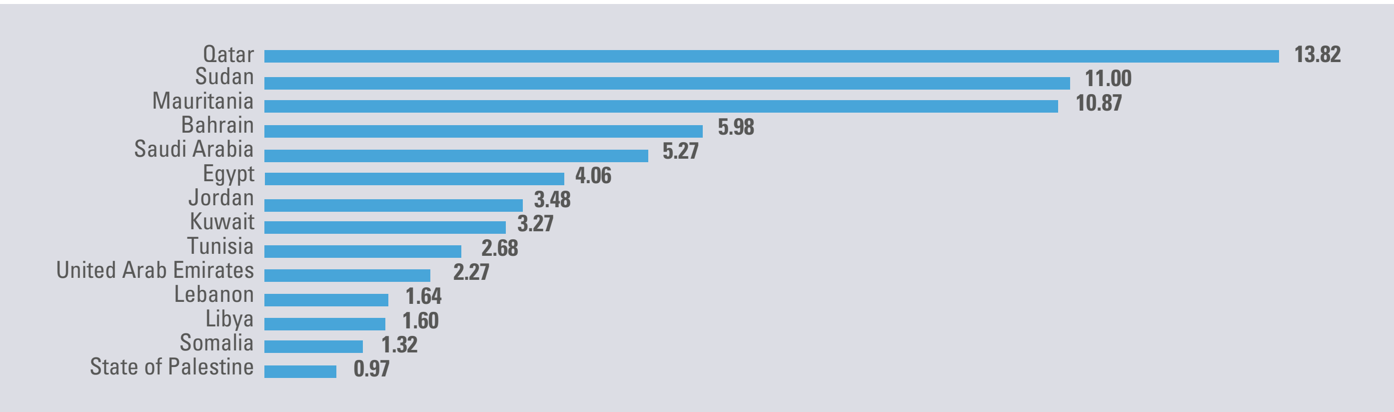


Figure 2. Government fiscal support in Arab countries since the start of the pandemic (percentage of GDP)



Source: United Nations COVID-19 Stimulus Tracker.

Note: "Multiple policies" implies that the disaggregated amount of support for each policy measure is not available. For further information, see the Q&A section of the COVID-19 Stimulus Tracker.

Policy recommendations on financing for ensuring an inclusive recovery and achieving SDG 17 by 2030

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 and 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 investments in sustainable development. These abuses offset the positive impact of public and private investment and international assistance.[14] Tackling them is a priority for the region to reduce inequalities, positively impact trust in institutions, and strengthen social and political stability.

The following are key policy recommendations to enhance financing for sustainable development in the Arab region:[15]

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.

Establish 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 develop capital account guidance to limit speculative inflows and currency mismatches in times of economic boom and bust, and to minimize outflows during crises.

Align fiscal policies and State budgets with integrated national financing frameworks, medium-term revenue strategies and medium-term expenditure frameworks with an overall commitment to improving public financial management.

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 to 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.[16] 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 suitable 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 challenges arising from digitization.

14 ESCWA, Survey of Economic and Social Developments: Realities and Prospects in the Arab Region, 2020-2021.

15 Further information is available in the SDG 17 chapter of the ESCWA, Arab Sustainable Development Report, 2020.

16 One mechanism being operationalized in pilot countries is the ESCWA Climate/SDGs Debt Swap Donor Nexus Initiative (see ESCWA, Climate/SDGs Debt Swap Mechanism, 2021).

Key facts on SDG 17 - Financing

Financing reflux

The Arab region 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 2012-2016.[17]

Illicit financial flows

The region has sustained an estimated $77 billion in annual losses associated with illicit finance between 2008 and 2015.[18]

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.[19]

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.[20]

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.[21]

High transaction costs of remittances

Remittance transfers cost on average more than 7.1 per cent in 2020, 0.5 percentage points higher than the global average. The high cost of remittance corridors affects the lives of more than 26 million migrant families in the region.[22, 23]

17 ESCWA, The State of Financing for Development Report, 2018.
18 ESCWA, Illicit Financial Flows in the Arab Region, 2018.
19 ESCWA, Arab Sustainable Development Report, 2020.
20 Arab Monetary Fund, Withdrawal of correspondent banking relationships (CBRs) in the Arab region: recent trends and thoughts for policy debate, 2016.
21 ESCWA, The Arab Financing for Development Scorecard: International Development Cooperation, 2019.
22 ESCWA, The State of Financing Development in the Arab Region, 2018.
23 The World Bank, Remittance Prices Worldwide.

	Arab region	World

Personal remittances received as a proportion of GDP[24]

Arab region	World
2.5 per cent of GDP was personal remittances received in 2019	**0.8** per cent of GDP was personal remittances received in 2019
-1 per cent since 2005	**+2 per cent since 2005**

Intra-Arab trade

The share of intra-Arab trade in goods traditionally hovers around 13 per cent, 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).[25]

24 Arab SDG Monitor.

25 ESCWA, Arab Sustainable Development Report, 2020.

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