OVERVIEW OF FINANCING SUSTAINABLE DEVELOPMENT IN THE ARAB REGION

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I. INTRODUCTION

The macro-fiscal policies in the Arab region have been largely unsuccessful in promoting structural transformation and labour mobility toward high-end manufacturing or services sectors, resulting in low paid, low quality and low productivity jobs. Socio-economic challenges were compounded by crises and political instability in many parts of the region, resulting in more inequality and poverty and a significant erosion of the middle class.

From a welfare perspective, rising temperatures and increased volatility in precipitation levels coupled with a low level of disaster preparedness can have a big negative impact on the social welfare of citizens. From a financial point of view, the cost of inaction at this stage outweighs the benefits of continuing with business as usual.

Delivering the 2030 Agenda requires bold, evidence-based policies and decisions carried out through a coherent process, which take into consideration the multiple dimensions of development. The process is as important as the outcome and targets set in the 2030 Agenda. However, progressing toward such integrated development is not easy, though not impossible. One of the key issues for developing countries is to raise fiscal space, among others, for financing the development deficits, at the scale that the Agenda demands.

The Third International Conference on Financing for Development (FFD) marked the inception of the new global framework (‘the Addis Agenda’) to finance the 2030 Agenda for Sustainable Development (‘the 2030 Agenda’), which includes the 17 Sustainable Development Goals and its 169 Targets. The framework seeks to combine financial and non-financial means (i.e., trade, technology, capacity building and systematic issues) as well as their delivery channels (public and private; domestic and international; bilateral and multilateral; traditional and innovative) to create the fiscal space needed by governments to manage a sustainable path to development. The United Nations Secretary-General convened the Inter-Agency Task Force (IATF) on Financing for Development in December 2015 with the aim of monitoring progress in implementing commitments in the Addis Agenda and the Sustainable Development Goals (SDGs). The IATF has produced two annual monitoring reports in assessing global progress on implementation of the 17 SDGs, which have been discussed at the high level political forum of the Economic and Social Council (ECOSOC). However, global progress reports are often not able to capture the regional specificities in greater detail. Hence, there is a need to look into the region-specific challenges and options.

II. THE CURRENT FINANCING LANDSCAPE

Given the above framework of financing options, this section provides an overview of the financing landscape of Arab countries by public finance, private finance, public and private finance (blended finance), and climate finance.

A. Public Finance

To analyze fiscal situations, Arab countries can be broadly grouped into three country clusters based on their major sources of revenue collection and state of development challenges: 1) from oil and gas sectors, which is generally known as hydrocarbon-based resources – we call this group the “oil-rich” countries; 2) from a mixture of sources of revenue collection but mainly taxes – we refer to this group as “oil-poor” countries; and 3) those with huge development challenges such as the low-income countries.

There is a large disparity in average revenue (excluding grants) to GDP share between oil-rich and oil-poor countries, albeit low-income countries are at the bottom of the ladder in terms of their fiscal space. The revenue-to-GDP share is low in the oil-poor countries and has experienced a declining trend since 2008. The average revenue-to-GDP share of Arab oil-poor countries was only 20 percent in 2014 – lower than that of other developing regions. For the oil-rich countries, the revenue-to-GDP share is high: around 37 percent in 2014. For some countries, the revenue to GDP share has reached 70 percent, depending on oil wealth.

i. Oil-rich countries: Oil as an unpredictable source of revenue for financing

The oil-rich countries rely heavily on resources from the oil and gas sector for mobilising...
revenue. Being dependent on oil revenues, they are vulnerable to international oil price changes. In fact, economic growth tracks closely to fluctuations in oil prices (Figure 1A). Since the plunge in oil price in 2014, the fiscal and current account balances of oil-rich countries have been adversely affected, as shown in Figure 1B. Negative primary balance has been reported in Saudi Arabia and Oman since 2014, and in Kuwait and the United Arab Emirates since 2015. In recent months, oil prices have gone up suddenly; however, the projections to the future show a lower new normal oil price level (Figure 2). In this scenario, the prospects of harnessing revenues from oil sources remains bleak for the long run.
ii. Oil-poor countries: Tax revenues are far below potential and inequitable

In oil-poor countries, taxes constitute the major source of revenue. The share of taxes to GDP is much lower for oil-poor countries than the global average. It has been largely stagnant in most countries over the past ten years, except in Mauritania, Morocco and Tunisia, which witnessed a slight increase in the trend during the same period.

Indirect tax constitutes the main source of tax in the oil-poor countries. The share of income tax in total tax revenue on the other hand remained either stagnant or declined over the years between 2005 and 2014. Wealth tax constitutes a negligible share of total tax revenue in most countries in the region. The major contribution to tax revenue in all four countries has come from taxes on goods and services, which tend to be more regressive in nature than is the case with direct taxes. In general, Arab countries are below their potential in raising taxes and many Arab countries have the potential capacity to mobilize additional revenue through tax reforms, in particular by improving progressivity, compliance and broadening tax bases while taking into account equity.7

iii. Illicit financial flows constitute a significant drain of resources

Developing countries lost USD 7.8 trillion in 2015 due to the cross-border movement of illicit financial flows (IFFs).8 Trade misinvoicing, a method for moving money illicitly across borders which involves deliberately misreporting the value of a commercial transaction on an invoice submitted to customs, is considered the primary tool for transferring IFFs, accounting for 83.4 percent of all measurable illicit outflows between 2004 and 2013. Estimates of other types of IFFs are hard to capture, given the complexities involved in tracking the movement of other types of illicit finance activities such as bulk cash transfers, corruption, organized crime and money laundering. The Illicit financial flows in the Arab Region is primarily concerned with providing a conservative estimate of the magnitude of trade fraud or trade-based money laundering in the region, as it remains the lowest hanging fruit by which to mobilize additional domestic resources to finance sustainable development.

The Arab region witnessed high growth rates in trade misinvoicing in non-oil trade amounting to USD 482.7 billion on aggregate between 2008 and 20159 (Figure 3). More than 74 percent of illicit outflows between 2011 and 2015 were associated with trade misinvoicing (Gross Excluding Reversals).10 This loss of revenues severely undermines the importance of trade as a key pillar of growth and sustainable development, as recognised in the Addis Ababa Action Agenda (AAAA). ESCWA estimates suggest that the

![FIGURE 3 TOTAL TRADE MISINVOICING IN THE ARAB REGION](source: UNESCWA)
The region’s average outflows from trade misinvoicing (import under-invoicing and export-over misinvoicing) amounted on average to USD 42.8 billion per year between 2011 and 2015. However, when estimating the gross volume of trade misinvoicing arising from import and export over/under-invoicing, the situation reveals that between 2008 and 2015, trade misinvoicing averaged 8.2 percent of total non-oil trade with the world or an annual average of USD 60.3 billion. Since 2014, illicit financial outflows have outstripped the combined aggregate of total ODA and FDI inflows into the region (Figure 4).

**iv. Rising debt constrains fiscal space for development financing**

The ability to manage public budgets to support economic and social investments varies...
significantly across the oil-rich and oil-poor countries. Particularly the public budgets of middle-income and low-income countries of the region are pressed significantly. In the oil-poor middle-income countries, debt, as a share of GDP, has risen continuously since the global economic crisis in 2008 (Figure 5A). Debt-to-GDP has reached 143 percent in Lebanon, 95 percent in Jordan and 97 percent in Egypt in 2016. A lax approach to fiscal policy rules and discretionary increases in government expenditures are major drivers to rising fiscal deficits and debt in the region. Fiscal deficits increased from around 4 percent to 9 percent of GDP between 2008 and 2016. Further concerns have arisen from the deterioration of the current account deficit, financed through borrowing in foreign currency. On average, the current account deficit of oil-poor middle-income countries increased from 4 percent to 9 percent of GDP over the same period (Figure 5B). This situation has forced middle-income countries such as Egypt, Jordan, Morocco and Tunisia to borrow from the IMF under the Special Borrowing Arrangement, and thereafter the Extended Fund Facility in 2016.

v. Concessional external debt and ODA are shrinking
Increasing external debt and debt services
In addition to high and rising general government gross debt, the external borrowing part of the debt stock and associated debt servicing, poses further challenges for most Arab countries. For the oil-poor middle-income countries, the weighted average of total external debt-to-GDP has increased from about 28 percent in 2011 to 31 percent in 2015, as per the latest available data. The increase is mainly led by the long-term PPG external debt-to-GDP, which increased from 21 to 22 percent, on average, during the same period. In fact, about 72 percent of the total external debt in the oil-poor middle-income countries is public and publicly guaranteed external debt. For the low-income countries, the average external debt-to-GDP was about 26.7 in 2015, and the PPG part of it is about 21 percent of GDP.

The increasing external debt share of GDP has consequently led to an increasing share of debt services to GDP in recent years. In 2016, the share of total debt service against total external debt was about 12 percent of the export earnings of the oil-poor middle-income countries, while a majority of that, 10.5 percent, was for servicing the public and publicly guaranteed external debt (Figure 6). The low-income countries have also witnessed a rise in external debt services to GDP during the period 2014-15.

Rising non-concessional external debt
The concessional part of external debt is minimal for middle-income countries...
(Figure 7). With the exception of Tunisia, countries have reported a consistent decline in concessional external debts. For instance, in Jordan concessional loans as a share of GDP declined from 16 percent in 2008 to less than 10 percent in 2016. A similar decline occurred in Egypt. Since concessional funds are not easily available to middle-income countries anymore, governments have relied on non-concessional external loans. Between 2012 and 2016, long-term public and publicly guaranteed external debt as a share of GDP increased in Egypt, Jordan, Morocco and Tunisia.

For low-income countries, the concern is that about 80 percent of the total external debt stock in 2015 was in the form of public and publicly guaranteed debt. In Mauritania, this was around 90 percent. As a share of GDP, it was about 70 percent in Djibouti and 67 percent in Mauritania (Figure 7). However, the average share of public and publicly guaranteed external debt to GDP declined from 25 percent in 2012 to 21 percent in 2015, largely due to debt relief extended to Comoros in 2013. The debt relief to Comoros brought its external debt down from 40.5 percent of GDP in 2012 to 18.5 percent in 2013. No other country in recent years has received debt relief, although Sudan is eligible for it. The public external debt is closely associated with financing the current liabilities and implicit subsidies incurred by large public sector and state-trading enterprises. The high share of external debt in PPG also indicates that the capacity of the private sector in leveraging external financing is limited or negligible.

**ODA remains volatile, but increased to conflict affected countries**

Arab donors have historically accounted for most of official development assistance (ODA) granted by non-Development Assistance Committee (DAC) countries. Between 1970 and 2016, Arab ODA outflows represented on average 83 percent of non-DAC ODA and 11 percent of total DAC-ODA. The cumulative aggregate of Arab bilateral ODA between 1970 and 2016 reached USD 216.2 billion, according to the AMF (2017). In 2016, total bilateral ODA provided by Arab countries amounted to USD 13.54 billion (USD 4.6 billion provided to Arab countries). Five GCC countries provide nearly all of the bilateral aid: Saudi Arabia, Kuwait, the United Arab Emirates, Oman and Qatar. As a share of gross national income (GNI), GCC-ODA amounted to 1 percent in 2016, surpassing the UN target of 0.7 percent.

In addition, total Arab ODA provided by Arab Development Funds amounted to USD 19.99 billion in 2016 (53 percent of which are outflows to regions other than the Arab region). Between 1970 and 2016 the cumulative aggregate ODA provided by Arab development funds amounted to USD 184.2 billion, and Arab countries received 54 percent or USD 99.46 billion. According to an estimate of the State of 

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**FIGURE 7**

EXTERNAL DEBT PROFILE (% OF GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Egypt</th>
<th>Jordan</th>
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Source: UNESCA 2017c, based on World Bank’s International Debt Statistics data; See more details in Sarangi and El-Ahmadieh 2017.
Financing Development in the Arab Region report, for every USD 1 the region received in ODA inflows, 65 cents were returned or lost in ODA out of the Arab region, between 2011 and 2016.27

Total ODA provided to Arab countries (excluding Arab donors), has steadily increased since 2011, following years of sharp decline during 2008-2010. In 2016, total ODA increased to USD 22.3 billion, reaching its maximum in the past decade (OECD, 2016b). The total ODA received by Arab countries from all sources is 14 percent of total ODA extended to developing countries in 2016.28

However, the increase in ODA in 2016 was at a time when donor countries spent 11 percent of their ODA on in-country "refugee" costs29 (which should not have otherwise been counted as part of ODA delivered for development programmes). This percentage rose to more than 15 percent on average for EU countries in 2016.30

In addition, the increasing trend of ODA to the region is largely influenced by humanitarian aid channelled to the countries affected by conflicts (Figure 9). ODA to Syria has increased significantly since 2012, but around 90 percent of it was humanitarian aid. Among the LDCs, Somalia and Yemen received a higher inflow of ODA in the past five years, a large part of which was humanitarian aid. In contrast, ODA to Sudan has declined significantly during the past decade. ODA to the middle-income countries of the region, including Egypt, Jordan, Morocco and Tunisia, appears to have increased during the past five years compared to the period 2010-2011, but aid flow remained volatile, fluctuating from one year to another. The inconsistency in the flow of ODA remains a major concern, in addition to the fact that developed countries need to keep their commitment of 0.7 percent of GNI to disburse as ODA to developing countries.

Furthermore, sector-wise distribution of ODA to the region shows that the share of ODA to the education sector has declined over the years. The share of ODA to the health and water supply and sanitation sectors remains negligent, declining to 2 percent and 4 percent, respectively, in 2016 (Figure 10). ODA share to the production sector declined over the years as well. These trends are worrisome and can hamper the progress of several SDGs of the region, considering that significant resources are needed in these sectors to improve the quality of public services and improve access to the poor in order to make the societies more inclusive and sustainable.

B. Private finance

i. Private savings

Sustaining investment requires raising capital either from domestic sources or from foreign borrowing. Given the constraint of international flow of capital, limited foreign borrowings by the private sector31 (the public sector is the major borrower from foreign sources in Arab countries) and shrinking aid finance and concessional finance, the private sector will have to rely more on domestic savings.32
The gross savings rate of the Arab region marks significant disparity between the oil-rich and oil-poor countries, with the former having a higher savings rate than the oil-poor group of countries. Most countries in the region have a low gross savings per capita as compared to other countries with similar levels of per capita GDP (Figure 11). The low savings rate in the oil-poor middle-income countries certainly shows that the domestic capital accumulation process is insufficient to support a development transformation required for these countries.

**Figure 9**

**Humanitarian Aid as Percentage of Total ODA Disbursed (Largest 10 Arab Recipients from All Donors)**

Source: OECD 2018b.

**Figure 10**

**ODA Disbursements (Percentage Distribution) from All Donors to Arab Countries, by Sectors**

Source: OECD 2018b.
Furthermore, savings rates of most countries have declined significantly over the last five years, as noted from the trends in Egypt, Lebanon, Morocco and Tunisia.

**ii. Foreign direct investment**

The Arab region received USD 32.4 billion in foreign direct investment (FDI) inflows in 2016 (4.8 percent of total FDI to developing countries), down from USD 88.5 billion in 2008, following the global economic downturn and conflicts in several parts of the region. The region also witnessed USD 36.2 billion in FDI outflows by the end of 2016. FDI inflows into the region remain volatile with the primary catalyst being the downside risks associated with continued
decline in commodity prices, especially for crude oil, metals and minerals. FDI patterns into the region are yet to be aligned to realize SDG aspirations (Figure 12). This situation is well reflected by the fact that the region witnessed inflows of foreign direct investment, portfolio investments, and other official flows averaging USD 44 billion annually. In turn, the region witnessed outflows of FDI and repatriated profits averaging USD 70 billion per year. Profits repatriated on FDI outside the Arab region averaged USD 39.95 billion per year between 2011 and 2015. On average, oil-rich Arab economies generated 69 percent of the total profits repatriated by foreign nationals. In 2015, repatriated profits (return on investments, interest and income on equity) amounted to USD 26.26 billion and while the region received USD 25.7 billion in FDI inflows, it was responsible for generating USD 37.25 billion in investment outflows, rendering a net FDI outflow of approximately USD 11.56 billion in 2015. Moreover, when primary income is factored, as estimated by the State of Financing Development in the Arab Region report, the region appears to have witnessed negative outflows on FDI’s and has effectively become a net exporter of capital as for every dollar received as FDI, approximately USD 1.8 dollars is effectively re-invested abroad.

As FDI became more volatile and risk-averse, national efforts to ensure a sustained inward flow for such resources gave way to regional beggar-thy-neighbor investment tendencies. However, contrary to this situation sovereign wealth funds (SWFs) became beneficiaries of fiscal incentives designed to encourage investment in rich economies. The capital stock of SWFs is said to have amounted to USD 3.5 trillion by mid-2016. These outflows nonetheless remain “relatively modest in size in relation to much larger pools of money managed by leading foreign financial institutions, insurance companies and pension funds.” To frustrate matters, cross-border deposits of Arab clients with main international banks outside the region (liabilities) have been persistently higher that the corresponding borrowings of Arab clients from these banks (claims). The region remains a lender to international banks with a net total stock of outflows amounting to USD 223.4 billion by 2016 (Figure 13).

**FDI inflows have limited impact on diversification**

Major FDI inflows into the Arab region are directed towards the oil and petrochemical sector, followed by the construction and real estate sector. Given the concentration in these two major sectors, the degree to which FDI contributes to economic diversification, employment generation, know-how and technology transfer is limited. The United Arab Emirates, Saudi Arabia and Egypt constituted 78 percent of total FDI inflows into the region, and in Egypt the...
FDI inflows were driven by increased investments in the hydrocarbon sector following the discovery of new gas reserves in the Western Desert and Egypt’s Mediterranean continental shelf (Figure 14). FDI to other countries in the region was negligible. Low-income countries are still underperforming in terms of FDI inflows, relying on ODA and remittances as the main sources of external financing.

iii. Remittances
Traditionally, the Arab region has been both a source and destination for migrant remittances. Arab migrant remittances steadily increased in three alternate directions. First, inter-regional cross border remittance inflows reached USD 21.4 billion in 2016, representing 5 percent of the total remittances sent to developing countries. Second, intra-regional remittances rose (USD 27.1 billion in 2016), but are discounted from the calculations as they do not traverse boundaries. Third, extra-regional remittance outflows – sent by all foreign nationals residing in the region to their home countries of origin or to third country nationals in non-Arab countries – have decreased from USD 60.4 billion to USD 54.3 billion in 2016 and 2017, respectively (Figure 15). These patterns suggest that the Arab region is a net remittance exporter. Between 2011 and 2016, for every USD 1 of remittances generated, the Arab region repatriates on average USD 2.8 dollars to other regions, as per an estimate of the report on the State of Financing Development in the Arab Region.

It is generally held that remittances constitute important channels to finance development. Traditionally however, the vast majority of remittance inflows to the Arab region have been used to finance consumption, including household expenditure on food, education, and health services. Only a small percentage of remittances in the Arab region are channeled as investments. The influence of remittances on output growth has therefore come under scrutiny as empirical analysis continues to provide mixed assessments. Considerable heterogeneity exists in the region with respect to the remittances-growth correlation, which in the case of Egypt, Djibouti, Jordan, Lebanon, Morocco, Oman and Sudan was found positive to varying intensities depending on the rate of remittances invested. Nevertheless, the role of remittances in reducing poverty, improving investment in education and health, with long term effects on economic growth, cannot be ignored.

The cost of repatriating remittances in the Arab region remains a structural problem and accounts for large development finance leakages. For example, the total cost of sending remittances from Saudi Arabia to Egypt averaged 14.57 percent during the fourth quarter of 2016, whereas if the same amount were repatriated to Nepal it would have cost only 1.45 percent. Had remittance costs been reduced as mandated by both the Addis Agenda and SDG-10 to ensure that financial services are more affordable to migrants, the Arab region would have saved up to USD 10 billion worth of additional development finance between 2011 and 2016.

iv. Public and private partnership (PPP)
Compared to other parts of the world, the Arab region has shown a relatively poor performance in mobilizing private capital for financing larger infrastructure projects. Out of a world total of USD 2.5 trillion by 2014, private participation
FIGURE 15  REMITTANCES IN THE ARAB REGION

![Remittances in the Arab Region](chart15)

Source: UNESCWA 2018b, based on the World Bank (remittances and migration data)

FIGURE 16  DISTRIBUTION OF PPP PROJECT VALUE IN ARAB COUNTRIES (1990-2013)

![Distribution of PPP Project Value](chart16)

Source: ESCWA 2015, based on Public-Private Infrastructure Advisory Facility (PPIAF), Private Participation in Infrastructure Database.
in infrastructure in the Arab region reached only USD 113.5 billion between 1990 and 2014 – less than 5 percent of global PPP activity. It may be noted that the region shows a nascent recovery trend for infrastructure PPP, with a relatively larger share of greenfield projects (Figure 16). However, these projects have taken off only in a handful of countries. Arab countries with the largest private participation in public projects are Morocco (with a 28 percent share in the region’s PPP activities, followed by 23 percent in the case of Egypt, Algeria (13 percent), Iraq (9 percent), Jordan (9 percent) and Tunisia (6 percent).

The pattern of PPP investments in the Arab countries reveals a certain bias towards the use of PPP in less strategic and less regulated sectors that may be more profitable for the private sector. For instance, the energy and transport sectors are preferred by the private sector over any other sectors. Between 1990 and 2013, 63 percent of project value of private sector participation went into the energy sector and 26 percent into the transport sector. By comparison, private sector participation in the water and sewage sectors is limited: only 4 percent of the total value. The main bottlenecks that hamper the spread of public-private partnerships are grouped as political, regulatory and institutional in addition to capacity, funding and public opinion related issues.

v. Climate financing: The Green Climate Fund (GCF)
While the Doha Declaration on Financing for Development recognized the mounting concerns of climate change and the costs of adaptation and mitigation in 2008, it was until 2015 that the Addis Ababa Action Agenda on Financing for Development addressed the issue of climate financing. The Agenda reiterates developed countries’ commitments to jointly mobilize USD 100 billion per year by 2020 to meet climate financing needs of developing countries and stresses the need to separate climate financing from official development assistance budgets. The Agenda welcomes the efforts of the Green Climate Fund to support developing countries with adaptation and mitigation to climate change.

In 2015, the Paris Agreement on Climate Change called upon developed countries to scale-up previous efforts in mobilizing financial resources to assist developing countries, with respect to mitigation and adaptation to climate change. The Agreement stresses on the responsibility of developed countries to mobilize climate finance from all sources, to report on their climate financing contributions every two years and welcomes voluntary contributions from developing countries. Furthermore, the Agreement has entrusted the Financial Mechanism of the United Nations Framework
Convention on Climate Change (UNFCCC) and its operating entities with the financial mechanisms, while calling upon them to balance between adaptation and mitigation financing. The Green Climate Fund (GCF), the Global Environment Facility (GEF) – including its two specialized funds, namely the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) – and the Adaptation Fund were entrusted to support developing countries vulnerable to climate change, based on their needs and priorities.

GCF, the largest climate fund, was established in 2010 by UNFCCC to finance mitigation and adaptation projects in developing countries. It wasn’t until 2015 that the GCF gained more importance, following the adoption of the Paris Agreement to support the goal of keeping climate change well below 2 degrees Celsius. In 2014, GCF launched its initial resource mobilization and gathered pledges worth USD 10.3 billion from 43 countries, including 9 developing countries and one city: Paris.

GCF funds are accessed by accredited entity, whether national, regional or international, to implement any national project. GCF provides financing in the form of grants, concessional loans, guarantees or equity. By March 2018, the GCF portfolio consisted of 76 projects and programmes amounting to USD 3.9 billion – 41 percent in the form of grants and 41 percent in the form of concessional loans. It is clear that energy-related projects are attracting the largest share of funds, particularly loans, while water and sanitation are lagging behind. The same concerns apply to other sectors that are vulnerable to climate change. The current financial resources mobilized by the climate-dedicated funds are still insufficient to meet the requirements of developing countries to harness the implications of climate change and to honor their commitment by 2020.

**GCF financing – higher share of mitigation rather than adaptation projects**

Since its inception, the GCF aims to ensure a
balance between adaptation and mitigation. This objective has not materialized yet. While adaptation is a priority for developing countries, only 28 percent of total funds were allocated to adaptation, while mitigation projects received 45 percent of total funds. The corresponding amount in the Arab countries is 33 percent for adaptation and 54 percent for mitigation (which is one project in Egypt) and the rest are for mixed projects of adaptation-mitigation. It may be noted that the grant element in adaptation projects is significantly high – around 93 percent – whereas the loan element is significantly high in mitigation projects – around 56 percent – and it is balanced in adaptation-mitigation projects – 42 percent grant and 52 percent loan (Figure 17). The pattern of financing shows that the high share of grant element projects, such as those for adaptation, are less attractive and have therefore not taken off by the GCF.

In total, the GCF has approved five national projects in two countries in the Arab region – three in Morocco and two in Egypt – with total financing of USD 281 million; the equivalent of 7 percent of total GCF financing to date. GCF also financed two multi-country projects with a total financing of USD 634 million, equivalent to 16 percent of total GCF financing to date. Even though the GCF aims to ensure equitable distribution of financing among regions, there is not a clear plan of how to ensure this objective. Funds are mostly concentrated in particular regions and countries. Complex project proposals and procedures, the accreditation requirements, and preference of mitigation over adaptation projects makes the process implicitly biased against most developing countries.

**GCF financing – Accreditation bias**

Furthermore, the allocation of funds by the GCF has a clear preference to internationally accredited institutions rather than nationally accredited entities. Globally, only 8 percent of funds are disbursed through national direct access entities while 51 percent are disbursed through international institutions. The corresponding numbers for the Arab region are

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**ARAB FINANCING FOR DEVELOPMENT SCORECARD PROVIDES A UNIQUE ASSESSMENT OF MONITORING THE IMPLEMENTATION OF FINANCING FOR DEVELOPMENT**

The Arab Financing for Development Scorecard (the “Arab Scorecard”) is designed to serve a dual purpose: as a regional tool-box and analytical compendium to monitor FfD implementation and, although not explicit, it inherently tests the malleability of the global framework and arising global FfD commitments against Arab regional contexts and realities.

The Arab Scorecard thus employs a nuanced set of monetized modalities to quantify the means of implementation of the 2030 Agenda. It captures the dynamics (direct and indirect) associated with eleven main sources of cross-border FID inflows, including economically relevant financial flows available to the region and eleven corresponding outflow channels. It takes cues from the full array of officially supported financing channels that have been proposed to consolidate a measure of Total Official Support for Sustainable Development (TOSSD). It goes further to estimate the region’s FID dynamics, based on the net resource transfers (NRT) accruing from financial and non-financial means of implementation of the 2030 Agenda, as well as estimates of lost financing opportunities due to regional challenges, contexts and realities.

The underlying methodology of estimating net resource transfers has been employed by many international institutions (e.g.: OECD, UN, WB) and others, including Global Financial Integrity (GFI), European Network on Debt and Development (Eurodad) and Brookings Institute. Each has assigned different definitions and components to what falls within the ambit of NRTs, though. The Arab Scorecard builds on the broadest of these definitions and expands them by tallying, in addition to the above-mentioned financing channels, both non-financial means of implementation and the lost opportunity cost of mobilizing development finance (including those associated with conflict, humanitarian crisis, illicit finance, trade misinvoicing, losses associated with the erosion of the region’s excessive military expenditures and high cost of remittances).

Source: ESCWA 2018 (The State of Financing Development in the Arab Region, forthcoming)
14 percent and 87 percent respectively (Figure 18).

vi. Financing gap
Financing is important for the Arab region to progress toward achieving the 2030 Agenda for Sustainable Development, and in order to meet the immediate need of rebuilding the loss of capital stock in conflict-affected countries. The cumulative financing requirements for eight selected Arab countries with financial deficit to achieve sustained economic growth between 2015 and 2030, that would help finance the SDGs, was estimated at USD 3.6 trillion. The expected cumulative financing gap for these countries between 2015 and 2030 is the difference between expected financing requirements and inflows, which amounts to USD 2.9 trillion. However, the estimate will vary according to the methodology. For instance, by applying another methodology, ESCWA estimated that financing deficit for 2015 and 2016 would vary between USD 80 billion and USD 85 billion annually, which amounts to about USD 1.2 trillion until 2030 (ESCWA, 2015b). In any case, the actual financing requirements will be even larger if the cost related to environmental degradation, post-conflict reconstruction, addressing multi-dimensional poverty in the Arab regional context, meeting the needs of an older population and achieving equally high levels of development for the low- and middle-income countries are taken into account (ESCWA, 2015b). With the prolonged crises in Syria and some other parts of the region, the gap between the requirement and the existing financing availability are widening. For instance, conflicts in the region have led to a net loss of an estimated USD 614 billion in economic activity, and an aggregate fiscal deficit of USD 243 billion between 2011 and 2016. The Arab Scorecard bases its estimates of the opportunity lost due to conflict on the 2016 methodology published by IMF staff (Rother et al.) in 2016 which amounts to about USD 752 billion between 2011 and 2015. The first UNESCWA report on The State of Financing Development in the Arab Region presents interesting findings about the worsening situation of financing in the Arab region (Box 1).

As is the case of the Addis Agenda, the Arab Scorecard remains cognizant that global geo-political and economic risks impinge on national and regional capacities to achieve the 2030 Agenda. It factors global risks and their regional spillover implications in so far as they frustrate the flow and sustainability of the financing available to the Arab region. However, given the diverse range of methodologies employed to assess these risks, coupled with the lack of standardized data and assessments that capture how the different financing channels interact at the regional level, the attempt to draw detailed conclusions may not be free from inherent biases.

The Arab Scorecard is not intended to override the prospects of developing national and regional monitoring frameworks, which remain crucial to the fulfilment of many FfD outcomes. Rather, it is intended to complement global and regional follow-up exercises, as many of the Addis Agenda commitments are best evaluated within local contexts. On the other hand, the enforcement of other FfD commitments are particularly suited for regional dialogue as they concern the sharing of best practices, peer learning and beggar-thy-neighbor implications. This refers to policies through which one country attempts to solve its economic problems, but harms the economy of neighbouring countries.

The findings of The State of Financing Development in the Arab Region depict how poor cross-border financing inflows to the Arab region are in comparison to the magnitude of resources flowing, or leaked, out of the region. The traditional financing for development narrative has witnessed a reflux in the case of the Arab region, as for every dollar in FfD the Arab region gained/mobilized, it lost USD 2.5 dollars that could have otherwise been harnessed to finance the region’s sustainable development. The implications of these findings are profound, as previous estimates for the region to achieve the SDG’s (USD 3.6 trillion) seem to have discounted the substantial financial and capital outflows from the region, which in effect has raised the overall bill associated with achieving the Goals. To give a crude account of the implications arising from this situation, if the current trends of net cross-border financing transfers are maintained, the Arab region would need an additional USD 2.3 trillion by 2030 to finance the SDG’s (under the average constant prices and costing conditions of 2011-2016).
III. INCREASING NEEDS TO FINANCE SUSTAINABLE DEVELOPMENT

A. The demographic transition

The region is in a relatively early stage of demographic transition, but the share of elderly people is going to increase significantly by 2050 (Figure 19). A rise in the old-age dependency ratio is expected to increase from 7 in 2015 to 10 in 2030 and to 18 by 2050. Social protection expenditure for the elderly is therefore also expected to increase.

B. Poverty, unemployment and conflicts

Multidimensional poverty is a pressing concern for all Arab countries, not only the least developed countries. According to the Arab Multidimensional Poverty Report (2017), 40.6 percent of the population in the ten countries covered are multidimensionally poor, i.e., deprived from access to health and education services, deprived from nutrition, and deprived from assets including information, mobility and livelihood. In addition, more than two thirds of the Arab population are either poor or vulnerable to poverty. These estimations are tailored for the region and are different from that based on the global Multi-dimensional Poverty Index (global MPI), as reported in the global human development reports. The Arab Multidimensional Poverty Report argues that the global MPI underestimates multi-dimensional poverty in the Arab region by overlooking some specific deprivations typical to the region.

Middle-income countries may have a lower average incidence of poverty while a larger share of their population is vulnerable to poverty. The incidence of extreme poverty varies across these countries, from less than 1 percent of the population in Algeria, Jordan and Tunisia to 8 percent in Iraq and Morocco. Moderate poverty in middle-income countries is much more visible and affects one quarter of the population. The least developed countries are in a more challenging situation since they carry a triple burden of acute poverty (49 percent), poverty (23 percent) and vulnerability (16 percent).

Another major challenge affecting many Arab countries is high unemployment rates, particularly among the youth. Limited opportunities for skilled labour in the region often results in the educated groups having the highest levels of unemployment, especially among youth.
females (Figure 20). In fact, it is reported that 30 percent of qualified youth are unemployed and an estimated 60 million young people will be searching for economic opportunities in the next 30 years.68 This “youth bulge” cannot be solved without innovation, entrepreneurship and new models of industry that can be created to employ these generations. Morocco and Tunisia, for example, need to generate three to eight times as many jobs as they have been doing in recent years.69

Conflict and political confrontation in several parts of the region have exacerbated the economic growth trends, particularly since 2010. Most recently, the ongoing crisis in Syria has not only resulted in a huge loss of capital stock but also reversed decades’ worth of development gains, adding greater misery to human insecurity. It has been estimated that by 2016, 83.4 percent of Syrians lived below the upper (moderate) poverty line applied by the Syrian government, a dramatic increase from 28 percent in 2010. A large share of the employed population may thus be considered as the working poor. Ending conflict and occupation is a major development challenge of the region.

UNHCR figures reveal compelling evidence that by 2016 the forcibly displaced population reached 65.6 million, 40.3 million were internally displaced, 22.5 million acquired/maintained refugee status (including 5.3 million Palestinians registered by UNRWA), 2.8 million sought asylum and 10 million remained stateless.70

Between 1946 and 2016, the region witnessed 59 episodes of conflict with the ensuing peace in almost half of them lasting less than 10 years.71 Today, the region accounts for 40 percent of global battle-related deaths since 1946.72 More so, by the end of 2016 the region became host to 41 percent73 of the world’s internally displaced and 37 percent of the global refugee population1, where 58 percent of the world’s refugees originate from Arab countries. The Arab region continues to maintain by far the highest ratios of refugees to total population in the world. Moreover, assuming that the cost of hosting refugees in the region in 2016 were half those incurred by DAC countries as in-donor refugee costs (excluding Palestinian refugees registered by UNRWA)73, the opportunity cost of improving fiscal space would amount to USD 18.6 billion. The true costs are obscured nonetheless amid failure to account for crowding-effects and the already strained delivery of public services.

ESCWA had estimated the cost of conflict in the Arab region at USD 613.8 billion in forgone GDP76. The Arab Scorecard basis its estimates of the opportunity lost associated with conflict – USD 752 billion between 2011 and 2015 – on the 2016 methodology published by IMF staff (Rother et al.) in 201677. The methodology employed, unlike previous estimates, covers the direct costs incurred by four conflict-afflicted countries (Iraq, Libya, Syria and Yemen) and the indirect costs or spillover effects on neighbouring economies.78

Geopolitical and security risks facing the region place considerable strains on its ability to advance the 2030 Agenda. The risks continue to undermine financial autonomy, restrict fiscal space and increases military expenditures. The average military expenditure in the Arab region is about 5 percent of GDP (during 2011 through 2016), which is more than double the global average of about 2 percent of GDP.

C. Education and health

Indicators of education in the region show
progress, but much needs to be done to catch-up with global education levels. For instance, mean years of schooling in Arab countries is 6.6 years against the world average of 8.4 years in 2015 (Figure 21). The two averages have shown a tendency to converge, but at a very slow rate over the past 25 years. Similarly, the proportion of the Arab population that has achieved at least secondary education is only about 38 percent, against a world average of about 58 percent. The gender gap in education still remains wider than the global average. In addition, the quality of education in the Arab countries lags behind international averages, as noted from performance on international assessments.

Progress in reducing the child mortality rate and infant mortality rate has been made in the Arab region, but it is slow and uneven across countries and the achievements fall short of the MDGs targets. Persistent health inequities are prevalent, with adverse health outcomes higher among the poorest income quintiles. Several countries are facing increasing infant, child and overall mortality rates due to armed conflict. A high rate of stunting, which results from long-term nutritional deprivation, is another indicator of health concern. Yemen has the highest rates of stunting, followed by Djibouti, Somalia, Mauritania and the Comoros (Figure 22). Unlike in the other countries, stunting in Egypt is more common among girls than boys.

![Figure 21](image1)

**Figure 21** Education achievements in Arab World lagged behind that of the world (mean years of schooling)

Source: Sarangi and von Bonin, 2017, based on data from UNDP Human Development Reports.

![Figure 22](image2)

**Figure 22** Stunting remains high in some countries, and is slightly more common among boys (percentage of children under age of five)

Public expenditure has not responded well to address these shortfalls in education and health. In fact, public expenditure on education, as a share of GDP, registered a continuous decline from around 5 percent in 2007 to 3 percent in 2014, and average health expenditure stagnated at around 2 percent between 2000 and 2014 (Figure 23). This is in contrast to OECD countries, where health and education expenditure shares accounted for 6 percent and 5 percent of GDP, respectively, in 2013.

Improving education and health requires more investment in these sectors. A simulation exercise indicates that an increase of public expenditure on education by 0.5 percent of GDP could raise the mean years of schooling of the Arab region to the world’s average by 2026. A 1 percent increase could achieve the same result in six years; and by 2030, the mean would nearly converge with the OECD average.

D. Water and sanitation

Ensuring access of water and sanitation services for all is a human rights issue and a target that extends beyond the water resources sector and affects welfare and development at large. Water is a scarce and fragile resource in the Arab region, with disparities both at the regional level and within each country. In 2015, 51 million people in the Arab region lacked a basic drinking water service in 2015, 73 percent of whom live in rural areas. A clear disparity can be seen in access to basic sanitation: 90 percent of the urban Arab population has basic sanitation, in contrast with 68 of the rural population (Figure 24). Although progress has been achieved in increasing the availability of water and sanitation, more progress is needed to ensure regularity, quality or affordability of these services.

The Arab region is facing major challenges affecting the ability of individual countries to ensure the sustainable management of water resources and the delivery of water services for all, including freshwater scarcity, population growth, urbanization, conflicts, climate change and climate variability, and increased frequency and intensity of natural disasters. Annual precipitation levels in the region vary between 0 mm and 650 mm on average (reaching 900 mm in some areas), while average evaporation rates exceed 2,000 mm/yr (in most areas), making the climate of the Arab region arid or semi-arid. Furthermore, water scarcity is expected to worsen with climate change as precipitation levels will likely decrease across the Arab region. These challenges are impacting the health and welfare of all citizens and are affecting the ability of the region to ensure food security and to address other socio-economic and environmental challenges.

this direction, significant challenges remain in order to progress toward achieving SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all. Key challenges in this respect are improving energy efficiency, speeding the transition to renewable energy, and extending affordable modern, renewable energy access to all, which all require significant financial resources.

Several financing solutions have been demonstrated to drive clean energy deployment. These include: microcredits that often supported the off-grid segment; specific energy efficiency measures; international sources of funding, with an increase in initiatives linked to clean energy development in developing countries; and locally oriented, national policies and financial instruments specific to each country. However, the financing gap is huge. Globally, the overall financing requirement to meet SDG 7 is estimated at USD 1,058 to 1,266 billion per year until 2030. While progress is being made to scale up financing, the annual financing gap is in the range of USD 500 to 750 billion per year. Investment is not spread equally, with developed countries and some middle-income countries...
accessing finance, but many developing countries left out. (For more on this topic, see Chapter 5 on Investing in Sustainable Energy)

IV. POTENTIAL OF RAISING FISCAL SPACE FOR SUSTAINABLE DEVELOPMENT

Raising fiscal space for financing sustainable development is crucial for all countries in the region. Given the plunge in oil price in 2014 and its new normal low level in recent years, the declining oil revenues pushed the oil-rich countries to plan for other sustainable options of improving finance, such as moving towards diversifying their economies.

The oil-poor countries are also exploring options for improving revenues, mainly through taxation reforms albeit there is need for connecting taxation reforms to improving public service delivery rooted in equity and justice. The private sector can play a bigger role in financing sustainable development if harnessed through appropriate policy, which would require improving governance systems, building confidence, public private partnerships and innovative financing options. Commitment to financing and non-financing channels such as aid, trade and technology are important issues where international development cooperation can support significantly in financing sustainable development. The discussion in this section reflects the potential of these issues in raising finance, with a focus on harnessing domestic public resources.

A. Harnessing domestic public resources

i. Diversifying the economy, diversifying revenue sources

Economic growth in the region has started recovering in recent years but it is still low. Overcoming the “low productivity trap” is a priority to accelerate growth, and countries need to establish well-designed expenditure and tax policies to support economic transformation and generation of formal employment. Doing so, it can bring long-term stability and generate sustained revenues. For the oil-poor countries, promoting high value-added sectors to encourage deeper structural transformation and increase productivity is critical for boosting growth and for improving formalisation of the informal sector activities. In addition, bringing the large informal sector to the formal economy is important for increasing government revenues.

In oil-rich countries, creating non-oil and modern economic sectors is essential for sustaining growth and revenues, given the low oil price at its new normal level. There is also a need for transforming the growth process in the context of the depletion of the oil and gas resources. Fiscal measures, including tax and non-tax incentives, can support this transformation and these countries can draw upon their sovereign wealth fund to strategize investment in non-oil sectors. A well-designed corporate tax system and its implementation can also incentivise diversification of industries toward non-oil sectors and it can support private sector funding to crowd-in.

FIGURE 25 TRADING IN FINANCIAL MARKETS IN ARAB COUNTRIES

ii. Optimising taxation, improving fairness and equity

The region masks wide inequalities, including in income, wealth, education, housing and living standards. Tax systems have mostly relied on indirect taxes, including the adoption of value-added tax (VAT) to raise revenues. However, by design, indirect taxes tend to be regressive and so the burden of taxes tends to be higher on the middle and lower class than on the rich, since the former constitute the largest sections of consumers in the Arab countries. Exempting basic food items and other products mainly consumed by the poor can reduce, but not eliminate, the level of regressive VAT.

The direct taxes themselves do little to correct high-income inequality. Evidence from Jordan shows that the tax burden lies less on the top rich than that on the middle deciles. Some of the distortionary practices in the region’s tax systems include lack of progressivity in personal income taxes that often results from low top tier rates and exclusion of non-wage earnings. In Lebanon, for instance, income is highly concentrated at the top end, with 0.01 percent of the income distribution accounting for over 3 percent of the total income. The scheduler form of the Lebanese personal income tax and the complexity of the tax laws tend to disproportionately benefit the rich, partly because they leave room for tax evasion at the top. Furthermore, estimates indicate that the difference between pre- and post-tax income narrows by moving up the income distribution, with the difference being almost non-existent at the top end.

Corporate income tax across the region also suffers from widespread exemptions. Exemptions and multiple tax rates often create complications in administering the tax, creating opportunities for tax avoidance. The complex systems in corporate income taxes not only erode revenues to the government but also have an adverse impact on the ‘doing business’ environment and increases resorting to profit shifting practices.

Property tax is low or absent in many countries across the region. The marginal effectiveness of property tax would be high as these taxes are low and largely evaded across all countries in the region. Poor tax records and complex wealth tax procedures in certain countries make analyzing tax fairness challenging.

Given this context, ESCWA’s Rethinking Fiscal policy for the Arab Region report argues that there is a high potential to mobilise tax revenues and reduce inequalities by improving the fairness and progressivity of tax systems as well as by improving tax compliance. By improving progressivity, direct tax collection could increase by 2 to 4 percent of GDP, even among the lower-income countries. In addition, while VAT performance is lowest in these countries, base-
broadening and improved compliance might increase by up to 2 percent of GDP. The optimal income tax and VAT rate may vary from country to country and requires further research. Evidence from other countries suggests that fiscal policy that promotes progressive taxation and social benefits is consistently associated with lower inequality for disposable income.

iii. Curbing illicit financial flows, improving cross-border tax cooperation

A global standard for information exchange needs to be adopted to encourage information exchange between government entities, to tackle illicit financial flows. The international initiative led by the G20/OECD to address base erosion and profit shifting (BEPS) and to exchange information for tax purposes are important efforts. The ongoing joint initiative by the IMF, OECD, United Nations and the World Bank Group under the Platform for Collaboration on Tax (PCT), strives to enhance their cooperation and improve the support and assistance they provide to governments. Developing countries can benefit from these advances if these rules are adjusted for their circumstances and priorities and they reform their domestic tax systems accordingly.

Domestically, tax administration needs to be simple and transparent in order to prevent tax evasion and tax avoidance. There is need to improve fiscal records and their consistent reporting over time, not only for monitoring tax revenues but also for tax analysis, including analysing top incomes and inequality-related issues. Unfortunately, poor tax records and complex tax procedures across the region make tax compliance and tax fairness analysis more complicated. Tax compliance can be enhanced by improving tax and customs administration, simplifying coding and regulation, and investing in technology and human resources.

iv. Creating strong financial markets

Portfolio investments in the Arab region did not realize their full potential. Market capitalization is comparatively higher in the oil-rich countries than the oil-poor countries of the region. However, the traded value of shares declined between 2015 and 2016. The overall low market capitalization and the declining pattern of trading value of shares highlight concerns that affect the development of the capital market in the oil-rich countries. These concerns include capital flight to stock markets outside the region,
Finance, in any of its forms, may be deployed to support activities that have a positive or negative impact in the social and environmental context. Historically, with limited exceptions, the capital markets and the banking and finance industry have allocated finance without active consideration of these impacts and without pricing in the cost of externalities. As evidence of the detrimental impact of climate change grows, and the challenges from environmental degradation and social issues increase, such “business as usual” is no longer an option. This has major implications for the global financial system.

Since 2015, the role of the financial industry has been front and centre when discussing how to deliver the Sustainable Development Goals. The world’s governments approved the 17 goals and agreed that all resources need to be mobilized to achieve the SDGs, including a hefty contribution from the private finance sector.

Investors, banks and insurers are the major channels of private financing for sustainable development. Relying only on the public sector for financing means that solutions to sustainable development will not only be expensive, but ultimately also incomplete. A global transition towards a green economy will require substantial redirection of investment to increase the current level of public and private sector flows to key priority areas, the bulk of which will need to be mobilised through financial markets. In recent years, we are seeing a shift in the behaviour of investors who are increasingly moving from responsible investment (“do no harm”) to sustainable investment (“invest in solutions to sustainability challenges”).

The roles of lending, investment, insurance and public finance all remain critical in greening different economic sectors and establishing more resource-efficient societies. We live in a time where the financial sector cannot operate in isolation from the rest of society, where issues like climate change or social unrest affect or threaten the development of countries and will eventually have an impact on the financial institution itself. Climate change, for example, presents real risks and opportunities to investors and financial institutions across all asset classes. Decisions made by private sector Investors and by financial institutions will have a major influence on how society responds to climate change.

At UNEP Finance Initiative (UNEP FI), we recognize that financing sustainable development is the collective responsibility of governments, businesses and individuals and together with our members, we are committed to working collectively toward common sustainability goals. For many years, we have focused on equipping our members with the tools and expertise to assess and manage these kinds of environmental, social and governance risks. The Drought Stress Testing Tool, which launched in April 2017, allows banks to assess the vulnerability of their loan portfolios to the impacts of drought. This tool can be modified and used by banks in the Arab region. In April of this year, we launched the first in a two-part series of methodologies that help banks disclose the risks to, and the opportunities for, their business presented by climate change based on the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures. Similar work on climate disclosure is now also underway with our investment and insurance members.

It is becoming increasingly clear that the financial sector as a whole must change its mind-set as it integrates environmental, social and governance considerations. Our response needs to change gears, and look towards forward-looking risk management approaches that can address the transition risks associated with a shift to sustainable, low-carbon and climate-resilient economies. We should also look beyond risks, towards opportunities, and focus on growing the pool of finance available to deliver positive impacts.

With the Sustainable Development Goals agreed, financiers will increasingly need to take a more holistic approach to extra-financial analysis, appraising both positive and negative impacts and doing so across the three pillars of sustainable development: integrating economic development, social inclusion, and environmental sustainability. By doing this, we are preparing for an economy where impacts will become much more central, and developing a common language for all actors to identify truly positive impact, SDG-serving, business and finance. In January 2017, UNEP FI launched the Principles for Positive Impact Finance, which will help
identify products, services and ways of working that will deliver positive impact. Nineteen of UNEP FI’s members, including two from the Arab region, are working with the Positive Impact team and in 2018 will deliver guidance for the delivery of Positive Impact products and programmes.

**Scaling up**

To meet the huge investment needs of the UN 2030 sustainable development agenda, we need to collectively work to unlock financing, provide stronger policy guidance, and build capacity in order to create the investment necessary to achieving the SDGs.

What has been distilled from previous discussions about sustainable development in the Arab region over the years are the following needs:

- **Policy innovation** which will spearhead capacity-building and regulatory reform in capital markets;
- **Institutional innovations** within the finance sector to scale up portfolio investments and mobilize savings towards supporting sustainable growth in the Arab countries. In the region on average, portfolio investment to the SDGs currently accounts for less than 1 percent of GDP and low loan to GDP ratios. The potential for change is huge if we can cross this 1 percent barrier.

Finally, the need to come up with a new measurement framework beyond GDP to define and measure performance in areas such as employment, health and sustainability. This new set of metrics should also be used in framing national economic planning and development policy.

For there to be a more comprehensive, systemic take-up of sustainable finance, what is now needed is to create a bridge from the macro level, the global “trillion-dollar funding gap”, to the institutions in the finance sector. This should be broken down into country-specific funding plans that are consistent with national climate commitments, the so-called Nationally Determined Contributions (NDCs), and specific green or circular economy plans where they exist. Such a breakdown would clearly identify priority areas for investment (and divestment) and map the associated mix of funding sources needed to meet the commitments.

The available funding mix will clearly differ by country or region – economies with very small or non-existent capital markets will look to leverage Multilateral Development

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ABOUT UNEP FINANCE INITIATIVE

The United Nations Environment Programme Finance Initiative is a strategic public-private partnership between UN Environment and the global financial sector, established in the context of the 1992 Earth Summit. It is the United Nations’ only dedicated partnership with the financial sector.

Its mission is to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations. It has produced cutting-edge practical tools and training to enable practitioners to undertake the fundamental changes required to transition to a green economy. UNEP FI has further acted as a standard-setter, giving birth to both the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI).

We work closely with more than 200 financial institutions that are signatories to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, and a range of partner organizations, to develop and promote linkages between sustainability and financial performance.

The Middle East and North Africa coordinator within UNEP FI works to support and expand sustainable finance practices in both the African and the Middle Eastern regions. A top regional priority is to create a critical mass of signatories in the Arab region that are able to exchange ideas and best practices as well as learn about worldwide developments in the field via the UNEP FI-facilitated network.

The UNEP Finance Initiative welcomes members from any country in the world. It particularly welcomes financial institutions from the emerging markets.
Bank (MDB) support, public funding and the banking sector, and others will be able to look to a broader mix of private sector investors via the capital markets with for example green bonds looking to play an ever increasing role. The funding plan would also address incentives, fiscal measures and other policy and regulatory initiatives to support the plan on a jurisdictional or regional level.

Even if country-funding plans have not yet been developed, there are nevertheless actions that the financial sector’s actors can take on climate such as:

- In the industry sector (banking, investment, insurance) and at the institutional level, develop practice guidelines that integrate environmental, social and governance factors in core operations and develop the capacity to implement these across the business and at depth, i.e. with integrity.
- Support the call for global action by governments, regulators and policy makers to set sustainability standards and price in the associated externalities.
- Identify existing financial support for carbon-intensive activities and define a transition plan to reduce exposure.
- No longer finance additional capacity in the worst performing carbon-intensive industries.
- Allocate new financing to activities that support the Nationally Determined Contributions (NDCs), i.e. that support energy efficient, low-carbon production and consumption companies and processes.
- Identify new technologies, create centres of excellence that understand how to finance these initiatives and set targets for levels of investment and finance.
- Develop public-private partnerships with MDBs and other public sector funding agencies.

These are by no means comprehensive but they would constitute a very significant first step.

**Conclusion**

Since 1972, the United Nations Environment Programme has been engaging with countries around the world in its role as advocate for the global environment. As the world continues to be impacted by the effects of climate change and resource depletion, the need to promote sustainable development as a response is becoming more acute by the day. The challenge for UN Environment therefore is to engage globally while at the same time providing a tailored response to the specific needs and nuances of each region and country.

There is still a long road ahead until we achieve a sustainable and resilient global economy supported by a sustainable financial system. In the future, progress will be achieved when there is a full-scale institutional realignment with sustainable development. Achieving the two-degree economy will necessitate scaling up the green, but also turning down the grey, and having the leadership, the management, the products and value chains in place to turn the ship. UNEP FI has been supporting its members in navigating this transition to integrating sustainability as a value creation driver and contributing to the UN Sustainable Development Goals. In 2017, we started work on the Sustainability Dashboard, which will enable our members to assess their progress towards these goals and assess where they need to improve. The aggregated results will help UNEP FI determine its own progress in its work, which will be delivered at the Global Roundtable 2018 in Paris, three years after the historic eponymous climate agreement.

We hope to see more Middle East-based financial institutions joining UNEP FI and look forward to supporting them to become regional champions of sustainable finance and green economy financing.

**NOTES**

and lack of a healthy savings and liquidity situation due to the impact of recent oil price plunge. In addition, the foreign investments have decreased by around 26 percent in 2016, affected mainly by geopolitical instability in the region (Figure 25). The market capitalization value and the value of shares traded in the markets of oil-poor countries are significantly low, relative to their economic development. In the low-income countries, the region has the lowest use of formal financial institutions for household savings.

More disturbing, however, is that roughly 39 percent of Arab banks have witnessed some form of de-risking. Between 2012 and 2015, a significant decline in the scale and breadth of Arab Correspondent Banking Relationships (CBRs) has been recorded. The number of accounts closures has increased, with 63 percent of Arab banks reporting the closure of CBR accounts in 2015. The main cause has been attributed to foreign financial institutions’ decisions to terminate/restrict CBRs in the region which in turn was associated with an overall risk-averse appetite of foreign financial institutions, changes to legal, regulatory or supervisory requirements in foreign financial institutions’, lack of profitability of certain CBR services, and products and sovereign credit risk rating in Arab countries.’

G. International development cooperation

Delivering ODA commitments: There has been an increase in official development assistance (ODA) to the region since 2011, largely due to a rise in humanitarian aid channelled to the countries affected by conflicts. Sector-wise distribution of ODA to the region shows worrisome trends: aid flow to education, health and water supply and sanitation sectors is losing its significance. Significant resources are needed in these sectors in the region to improve quality public services and to extend the services to provide access to the poor. In addition to keeping ODA steady and with a long-term approach, the sectors that have crucial interaction with several SDGs should be given priority for channelling the ODA.

Fostering global and regional partnerships in technology: The region is experiencing low productivity, where moving across sectors from agriculture to services has resulted in lowering labour productivity growth. Evidence suggests that Arab countries invest little in research and development. Arab countries average 0.6 percent of their annual government budgets to R&D, in contrast to, about 2-3 percent for other regions leading industrialization in recent years (Figure 26). There is a strong need for Arab countries to invest in technologies that contribute to higher productivity, diversification toward higher-end non-oil industries, and at the same time they should take into consideration environmental sustainability. The region needs to move away from high reliance on fossil based subsidized energy consumption technologies to more climate friendly technologies.

Around 7,800 scientific and technical journal articles were published in 2011 in the Arab region, amounting to 1.3 percent of the world’s total. On average, 22 articles were published per million inhabitants, compared with a global rate of 117. Similarly, 5,765 patent applications were filed in 2013 in 13 Arab countries, representing a mere 0.2 percent of world applications (Figure 27).

Progress on the transfer of environmentally sound technology has fallen short of the commitments made by the global community in the wake of the 1992 Rio Declaration on Environment and Development. Persistent struggles such as IP protection, compulsory licensing, and high cost of technology remain. To address this shortfall, the 2015 Addis Ababa Action Agenda provides for the establishment of a “technology facilitation mechanism” in order to enhance global cooperation on, and access to, science, technology and innovation and to support the sustainable development goals. Moreover, the SDGs include targets regarding the said mechanism and the creation of a technology bank for LDCs, in order to enhance science, technology and innovation cooperation.

While there is a need to leverage global mechanisms for greater access to technology that is affordable, regional cooperation in the field of technology can help countries tackle common challenges (especially those related to environmental degradation and natural resource
scarcity) with fewer resources. However, the lack of regional cooperation between researchers is a serious handicap. Egypt, Jordan and Saudi Arabia maintain research partnerships between themselves and with countries outside the region, but other Arab countries appear to have done little to develop such partnerships.97

Trade as an engine of growth: Promoting an inclusive, non-discriminatory and equitable multilateral trading system was considered a prime means by which the Addis Agenda qualified the trade-growth nexus to serve the SDGs. To date, only 13 Arab countries were granted WTO membership with several membership requests pending since 1987. The State of Palestine was barred from being granted permanent observer status, albeit the Paris Protocol availed the Palestinians a separate customs envelope upon which to exercise trade autonomy.98 On the other hand, the Addis Agenda called for the redoubling of efforts to conclude the Doha Development Round (DDA).

Trade impacts sustainable development in two opposite ways. It can help spread efficient and less polluting technologies, and it can generate the wealth to pay for it.99 However, sustainable development does not have a large role in the WTO rulebook. At most it is dealt with obliquely and does not seem to pose a binding legal rule.100 The WTO Agreements do not provide legal grounds to promote sustainable development.101 For example, the legality of imposing border carbon adjustments or taxing imports on their embodied carbon may be contestable under the WTO since emissions result from a non-product specific production process that is not found in the physical traded commodity. Equally, multilateral trade agreements on Subsidies and Countervailing Measures and Trade-Related Intellectual Property Rights (TRIPs) may pose limitations to subsidize and export environmental goods, or even to develop nascent environmentally friendly technologies. By the WTO’s own logic, inconsistencies can arise between non-discriminatory multilateral trade practices and promoting sustainable development.102

By 2015, the Arab region turned into a net importer of goods. The decline in commodity prices led most Arab economies to experience account deficits, even though export in terms may well have increased in absolute terms. Total merchandise exports amounted to USD 649.13 billion (USD 351.74 billion, or 54 percent of which were attributed to oil revenues), whereas the total Arab import bill amounted to USD 778.56 billion for the same year.103 The net value of exports (deficit) was USD 129.43 billion in 2016. Between 2011 and 2016, the Arab region witnessed a drop of USD 97.57 billion due to the worsening terms of trade104, which in turn explains the declines in foreign reserves and the rise in external debt trends.105

In the case of the Arab region, the effect of changes in import prices has been more radical than the effect of changes in export prices. The results are intuitive as the region’s terms of trade (ToT) eroded between 2006 and 2008 (due to the decline in global demand and associated trade finance crunch) and between 2010 and 2014 (due to political turmoil along with falling oil prices). The ToT during these periods exemplified unfavorable trading conditions and/or unfavorable trade-related market access driven by several factors, namely: structural difficulties, protectionism, lack of meaningful trade liberalization opportunities and SDT erosion both within and outside regional trade agreements.

The alternative to progress the multilateral trade agenda has been seen from the continued proliferation of bilateral, regional and interregional free trade and investment agreement. The indiscriminate reliance on extra-regional regional trade arrangements (RTA’s) stifled Arab export competitiveness106 as they superimpose detailed rules of origin that did not necessarily account for sustainable development imperatives. In some cases, the cost of compliance with such rules exceeded the benefits offered by these RTA’s themselves107 as they failed to factor the level of industrial sophistication in the region and how industries tend to source intermediate inputs.108 As such, the composition of trade partners and the nature of trade connections have been deemed to hold evident implications to the advancement of the trade-growth nexus.109 Trade tax revenues have therefore declined as a direct consequence of these trade liberalization initiatives. On average,
An alternate source of trade-led growth has been sought through deepening Arab trade integration. Estimates show that between 1960 and 2011 intra-regional trade had a positive influence on the GDP growth performance of the Arab region, with the overall effect of trade in goods on GDP higher than that of trade in services. This is attributed to the relatively high restrictiveness facing trade in services. For the trade-growth nexus to realize its full potential in influencing growth, regulatory and structural reforms that reduce trade barriers and/or services liberalization are encouraged. As it stands, empirical estimates suggest that for every 10 percent increase in intra-regional trade, GDP grew by 0.08 percentage points on average, except for the period between 2011 and 2015 where the influence of political turmoil adversely affected the trade-growth nexus.

One conclusion drawn from the ESCWA Arab Development Outlook: Vision 2030 report that holds considerable implications for trade-growth trajectory, is that by 2030 the Arab region will become host to trade preferences granted to at least 110 countries from across five continents. By that time a substantial share, if not all, imports would be in free circulation within the region, following the establishment of the Arab Custom Union (ACU) by 2021 (or at least receive some form of border and beyond the border preferences). Under these conditions, the narrow tariff window to raise trade taxes – whether in the form of tariffs, quotas, tariff-rate quotas, para-tariffs and/or fiscal charges to mobilize FfD or promote nascent technologies/industries as envisaged by the Addis Agenda – would be further eroded.
V. CONCLUSION

The challenge of financing sustainable development in the Arab region is enormous, considering the economic disparities between countries, their sources of revenue, development challenges and the regional economic outlook. The chapter provides an overview of the financing landscape in the Arab region, primarily guided by the Addis Ababa Action Agenda (AAAA) framework. In addition, the narrative goes beyond the AAAA to better understand an assessment of the increasing financing needs of the region in crucial areas that affect progress of the SDGs such as conflicts, poverty, health and education, water and sanitation and energy infrastructure. By no means is the assessment of financing needs holistic, but it reflects the challenges of financing sustainable development at the scale that the Agenda 2030 demands. The analysis largely draws upon recent flagship reports of ESCWA, including Rethinking Fiscal Policy for the Arab Region (2017), Arab Region Progress in Sustainable Energy (2017), Illicit Financial Flows in the Arab Region (2018), and the results of the Arab Financing for Development Scorecard that are drawn from ESCWA’s first of its kind publication, The State of Financing Development in the Arab Region (2018). The paper finally discusses the potential of raising fiscal space in the regional context.

According to the latest estimate by the ESCWA report on The State of Financing Development in the Arab Region (2018), the financing gap in the Arab region could be higher by a magnitude of USD 2.3 trillion, on top of the earlier ESCWA estimate of USD 3.6 trillion that is required to achieve sustained economic growth between 2015 and 2030. The higher estimate takes into account the negative net financial transfers that continued to leak out of the region over the course of the past decades. According to the report, for every dollar the Arab region gained/mobilized in financing for development, as per the AAAA monitoring areas, it correspondingly lost USD 2.5 dollars. In other words, at the prevalent net resource transfers levels, the region is effectively being squeezed out of the possibility of attaining its own sustainable development imperatives. Beyond these estimates, the financing needs could be higher when taking into account the emerging needs for sustainable development such as costs related to environmental degradation and conflicts, eradicating multi-dimensional poverty in the Arab regional context, and meeting the needs of rising old-age dependency population.

All countries need to consider preparing their financing strategies and action plans for implementing the 2030 Agenda, setting priorities and estimating investment costs, and identifying prospective sources of financing, as well as putting in place the laws, policies and regulations needed to attain the financing requirements in short, medium and long run perspectives. Furthermore, access to finance and non-finance means of implementation – e.g., trade and technology by leveraging global initiatives – needs to be stepped up. Regional cooperation on financing regional projects such as energy, transport, agriculture and others are essential for promoting sustainable development. While countries need to work seriously towards seeing the benefits of global and regional cooperation, real progress, on the scale that the 2030 Agenda demands, depends on economic structural transformation and broader economic governance reforms geared towards financing sustainable development.
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NOTES

1. UNESCWA (2017c).

2. The new global financing for development framework embodies seven action areas (domestic public resources; domestic & international private business finance; international development cooperation; international trade as an engine for growth; debt sustainability; systemic issues; and science, technology, innovation and capacity-building).

3. They are the Gulf Cooperation Council (GCC) countries along with Algeria, Iraq and Libya, whose major source of revenue is the oil and gas sector. For instance, the share of oil and gas revenue in Saudi Arabia is around 90 per cent of the total revenue. Except for Algeria and United Arab Emirates, the share of tax component of the revenues is small and is mainly from corporations related to oil and gas sector. See UNESCWA 2017c.

4. These countries typically face more constraints on fiscal space than the ‘oil-rich’ countries, although some of them are in the middle and upper middle income category such as Tunisia, Jordan, Morocco and Egypt. These countries have been facing significant development challenges in recent years to tackle high unemployment, increasing poverty, lack of adequate social protection and so on. See UNESCWA 2017c.

5. Such as Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen. See UNESCWA 2017c.

6. The correlation coefficient between growth and changes in oil prices between 1990 and 2015 is high and significant statistically (around 0.5).

7. UNESCWA 2014b.

8. See Financial Transparency Coalition, 2016. There is no agreed definition of the concept of illicit financial flows (IFFs), but it is generally used to convey three different sources of IFFs: the proceeds of commercial tax evasion and aggressive tax practices, revenues from criminal activities, and public corruption. See http://www.un.org/esa/tfd/wp-content/uploads/2017/02/Illicit-financial-flows-conceptual-paper_FFD0-working-paper.pdf for the concept of IFF.

10. Gross Excluding Reversals (GER) is the sum of over-invoicing of imports and under-invoicing of exports. GER inflows include under-invoicing imports and over-invoicing exports, but they are not included in the estimation of illicit financial outflows.

11. Building on the methodology employed by ECA, ECLAC, and GFI, average of trade misinvoicing in merchandise excluding fuel USD 33.7. The average of misinvoicing including fuel is USD 42.8.

12. In this figure, total ODA and FDI inflows are received by Arab countries from all the sources (including Arab countries).


14. External debt total refers to debt owed to non-residents repayable in currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt.

15. External debt stock, public and publicly guaranteed debt, refers to long-term external obligations of public debtors, including the national government, political subdivisions (or an agency of either), and autonomous public bodies, and external obligations of private debtors that are guaranteed for repayment by a public entity.


17. Total debt service is the sum of principal repayments and interest actually paid in currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments to the IMF.


19. Concessional debt is defined as loans with an original grant element of 25 per cent or more. Concessional external debt conveys information about the borrower’s receipt of aid from official lenders at concessional terms as defined by the Development Assistance Committee (DAC) of the OECD (World Bank, 2017a).

20. Long-term external debt is defined as debt that has an original or extended maturity of more than one year and that is owed to non-residents and repayable in currency, goods or services.


22. Sudan is eligible for the Highly Indebted Poor Countries (HIPC) Initiative assistance, but still has to meet certain requirements to reach the Decision Point.


25. The Coordination Group currently consists of ten institutions, four of which are national institutions including the Kuwait Fund for Arab Economic Development, the Saudi Fund for Development, the Abu Dhabi Fund for Development, the Qatar Development Fund, and six regional organizations consisting of the Arab Fund for Economic and Social Development, Islamic Development Bank, OPEC Fund for International Development, the Arab Bank for Economic Development in Africa, the Arab Gulf Program for United Nations Development Organizations (AGFUND) as well as the Arab Monetary Fund.


27. The estimate is based on extra-regional ODA inflows received by Arab countries vs. ODA outflows and institutional commitments sent from the Arab region to the rest of the world. See ESCWA 2018b.

28. OECD, 2016b.


30. OECD, 2018a.

31. Financing by foreign borrowing will impact balance of payments, particularly current account deficits and that impact on debt sustainability. We acknowledge this constraint but treat it as exogenous within the scope of this paper.


33. Savings in oil-rich countries show low investment propensity in non-oil sectors and, in more recent times, these countries are channeling less oil wealth to consumption and more to SWFs and/or public investment.

34. UNCTAD, 2018.

35. UNCTAD, 2018.


38. UNCTAD, 2018.

39. ESCWA, 2016b.

40. Beggar-thy-neighbor is a notion-term used to denoting a race to provide tax breaks and incentives to galvanize FDIs. Beggar thy neighbour is a term for policies that a country enacts to address its economic woes that, in turn, actually worsens the economic problems of other countries. The term comes from the policy’s impact, as it makes a beggar out of neighboring countries.

41. Yet there are estimates suggesting that should oil prices average USD56/barrel, the GCC would liquidate USD203 billion of their overseas assets (USD2.3 trillion or 10 percent of their sovereign fund holdings). Goldman Sachs predicts that if oil price falls to USD20/barrel, the GCC may well sell USD494 billion, to make up for budgetary shortfalls. At that rate of investment their funds would be drained entirely by 2020.


43. Assessing the Financial Gap in the Arab Region, ESCWA, 2017

44. (UNCTAD 2017)

45. World Bank, 2015a.

46. World Bank, 2015b.

47. Remittances paid are filtered to include only bilateral remittances flowing from Arab countries to non-Arab countries.


49. UNDP, 2011.


52. World Development Indicators Data is missing for the following countries: Bahrain, Libya, Mauritania, Somalia, and UAE.

53. Excludes high income countries such as Bahrain, United Arab Emirates, Saudi Arabia, Qatar, Kuwait and Oman.

54. ESCWA, 2015.

56. The GEF was established in 1991 to address global environmental issues as an operating entity of the financial mechanism for the UNFCCC. Since then it has funded USD310 million for 92 projects in 15 Arab countries through GEF Trust Fund and its specialized funds (Source: The GEF, https://www.thegef.org/projects).

57. Since 2010, the Fund has helped 73 projects in 57 countries to adapt to climate change, total grants amounting to USD477 million, 36 per cent were disbursed. 7 Arab countries (Djibouti, Egypt, Iraq, Jordan, Mauritania, Morocco) benefited from the AF: in food security, rural development, and agriculture, amounting to a total of USD356 million, 31 per cent were disbursed.

58. UNFCCC, “Adoption of the Paris Agreement”, FCCC/CP/2015/L.9/ Rev.1, 12 December 2015

59. ESCWA, 2015c and ESCWA, 2015b.

60. ESCWA, 2016.

61. Based on a technical report, published by IMF staff, on the Economic Impact of Conflicts and the Refugee Crisis in the Middle East and North Africa (Rothers and others, 2016), countries in conflict in the region are said to be susceptible to a reduction of 5.2 percent in real GDP growth and 1.7 percent for affected neighboring countries. The net loss in economic activity for the entire Arab region amounts to USD 747 billion between 2011 and 2015 (USD 346.9 billion for conflicted afflicted, including Iraq, Libya, the Syrian Arab Republic, and Yemen; USD 162.1 billion in eight affected neighboring countries, and USD 338 billion in GDP growth of GCC countries).


63. These sources capture the prime financing for development inflow channels accessible to the region, including traditional sources such as foreign direct investments, portfolio equity, remittances, bilateral and multilateral official development assistance, net changes external debt stocks, innovative means of financing, Islamic debt financing tools, international trade and humanitarian related financing, claims and liabilities of the Bank of International Settlements (BIS), philanthropic financing, debt and interest relief etc.

64. UN, 2015a, para. 126.

65. These sources capture the main financing for development outflow and delivery channels, including remittances, illicit financial flows (hot money narrows) and trade misinvoicing, profits repatriated by foreign investor, official development assistance, principal on public and publicly guaranteed long-term debt and IMF credits, interest payments on foreign debt (short, long term and privately guaranteed), humanitarian aid, excessive military expenditures, cost of remittances, and total liabilities as declared by the BIS etc.

66. ESCWA 2016.


68. ESCWA 2014. Arab middle class -Measurement and role in driving change

69. The estimates are based on an assumption of 5 per cent natural rate of unemployment.

70. UNHCR, 2017.

71. Rothers and others, 2016.

72. UCDP, 2016.

73. Based on IDMC (2016), there are 16.3 million IDPs in the Arab region and 40.3 in the world, of which 41 percent of IDPs are from the Arab region.

74. Based on UNHCR (2017), total refugees in the world total up to 17.2 million (plus 5.3 million Palestinians), while refugees in the Arab countries amount to 3.1 million, in addition to 5.3 million Palestinian refugees registered by the UNRWA.

75. According to OECD (2016a), and assuming that half of the average cost of hosting refugees in DAC countries are incurred in the Arab region.

76. ESCWA, 2016b.

77. Based on a technical report, published by IMF staff, on the Economic Impact of Conflicts and the Refugee Crisis in the Middle East and North Africa (Rothers and others, 2016), countries in conflict in the region are said to be susceptible to a reduction of 5.2 percent in real GDP growth and 1.7 percent for affected neighboring countries. The net loss in economic activity for the entire Arab region amounts to USD 747 billion between 2011 and 2015 (USD 246.9 billion for conflicted afflicted, including Iraq, Libya, the Syrian Arab Republic, and Yemen; USD 162.1 billion in eight affected neighboring countries, and USD 338 billion in GDP growth of GCC countries).

78. Quantitative assessments, no matter how complicated, provide subjective approximations, employ different methodologies, assumptions, datasets and geographical denotations, thereby frustrating the attempt to establish comparability or even draw generalized conclusions. In fact, the IMF concedes that model predictions and quantitative assessments are tempered by the randomness of the underlying data it seeks to explain and by the validity of the theories used to derive its equations and no economic model can be a perfect description of reality (Oulliaris, 2012).

79. UN and LAS 2013.

80. See Sarangi and von Bonin 2017; ESCWA 2017c.


83. Ibid

84. ESCWA, “Arab cooperation on shared water resources”, E/ESCWA/SDPD/2017/RICCAR/1.4, 6 February 2017


86. See an elaborate discussion on the issue of structural transformation challenges in the Arab region in ESCWA 2017c.


88. Assouad 2015.

89. Also see a critical review of tax systems in Lebanon by Nabil Abdo, Arab NGO Network for Development (Abdo 2017).

90. Jewel et al. 2015.

91. Jewel et al., 2015.
performed by ESCWA (founded on Younes (2010)) on two data samples, there is a significant and positive relation between intra-regional trade of goods and GDP growth between 1995 and 2010. Whereas in the second sample, when we introduce the period 2011-2015 to the sample, the results show that there is no significant relation between the two indicators. The data is extracted from the WITS database in the World Bank.

92. IMF 2011.
94. See Alvaredo and Picketty 2014.
96. ESCWA 2017c.
97. ESCWA 2015.
98. The Paris Protocol provided a basis for the State of Palestine to exercise its legal autonomy over foreign trade policy, including by concluding a series of preferential RTA’s with the EU, the European Free Trade Area, MERCOSUR, US, Canada, and Turkey.
100. WTO, n.d.
103. IMF DOTS database and UN COMTRADE.
104. Zafar (2004) asserts that the terms of trade effect is the effect of import price change minus the effect of export price change from t-1 to t. Zafar explains that when import price changes, it has a greater effect than does the export price change, in turn, the terms of trade effect is positive, and thus there is an unfavorable shock.
105. ESCWA, 2016b, page 29.
108. Brenton and Özden (2009) argue that strict rules of origin are “often supported by the argument that they are necessary to encourage substantial value-added activities in developing countries and as a mechanism for encouraging the development of integrated production structures within individual developing countries, or within regional groups of countries through cumulation mechanisms, to maximize the impact on employment and to ensure that it is not just low value-added activities that are undertaken in the developing countries there is no evidence that strict rules of origin over the past 30 years have done anything to stimulate the development of integrated production structures in developing countries”.
109. Torre, Augusto, and others, 2015.
111. Based on a regression analysis
Thani bin Ahmed Al Zeyoudi

As we look domestically and internationally, financing for sustainable development is a critical matter, particularly in meeting the ambitious sustainability agenda set forth under the UN 2030 Agenda for Sustainable Development as well as the Paris Agreement on climate change adopted in 2015. The UAE is at the forefront of taking proactive sustainability measures such as the deployment of clean energy, the introduction of building codes and appliance standards to increase energy and water efficiency, and the enhancement of climate-resilient infrastructures and transport systems. This is because we are committed to the shared global vision for sustainable development, but also because we are working to meet domestic strategic objectives to diversify its economy and to pursue green growth. This, however, cannot materialize without adequate financing, particularly from the private sector.

The UAE government is promoting public-private partnerships whereby the private sector can benefit from participating in, or financing, mega projects. The most successful area of green investment is renewable energy, where Power Purchase Agreements (PPA) between developers and the government have been progressively introduced as a new model of financing. Several local banks have already taken part in providing loans to finance such projects, which will be repaid through meeting long-term agreements.

A good example is Dubai’s Mohammed bin Rashid Al Maktoum Solar Park. Developed in multiple phases, it will become the world’s largest single plot solar park with a total capacity of 5,000 MW – enough to power 800,000 homes – when completed in 2030. As a flagship project of the Dubai Electricity and Water Authority (DEWA) requiring about AED 50 billion (USD 13.6 billion) in investment, the project has been receiving record-breaking tariff bids. In 2015, the second phase project of a 200 MW PV installation was awarded the then world’s lowest price at 5.6 US cents per kWh to a consortium of ACWA Power and TSK. The price of PV technologies further halved in 2016 when the bid by a Masdar-led consortium for the third phase of the 800 MW PV installation recorded 2.99 US cents per kWh.

Similarly, in 2017, the Abu Dhabi Water and Electricity Authority (ADWEA) signed a 25-year PPA with the JinkoSolar and Marubeni Corporation consortium for developing the 1,177 MW Noor Abu Dhabi PV power plant for 2.42 US cents per kWh, which was also the lowest at the time. It is clear from these examples that the long-term PPA model works for renewable energy financing in the region and is driving down technology costs dramatically without relying on subsidies.

Attracting private sector financing and investment in green projects and businesses is in fact a decisive factor to ensure sustainable growth of the UAE economy in the long term. An earlier estimate indicates that green growth efforts would result in 4 to 5.5 percent higher GDP growth and creating 160,000 new jobs by 2030, while accelerating the country’s economic diversification efforts and mitigating a substantial portion of carbon emissions. However, to materialize such economic and social gains, the investment of 1 to 2 percent of total GDP in green businesses and projects is required for the next 15 years.

Since sustainable finance is still a relatively new concept, the UAE Ministry of Climate Change and Environment (MOCCAE) is leading the efforts of the federal government to raise awareness and build capacity of the UAE private sector. This effort is essential to the implementation of the UAE Green Agenda 2030 as well as the National Climate Change Plan 2050, which aim to shift the UAE into a more climate-resilient, low-carbon green development path, led by the ambitious 27 percent national clean energy target by 2021, and 50 percent by 2050.

As a first step in understanding the status of sustainable finance in the UAE better, MOCCAE conducted a survey of around 80 financial institutions in 2015, in cooperation with the Central Bank of the UAE and UN Environment Finance Initiative (UNEP FI). The survey found that nearly half of the institutions were already providing sustainable finance products or services and were investing in a total of 75 domestic green projects at the time, half of which in energy and water projects. On the other hand, many institutions indicated that they were facing barriers and challenges to integrating sustainable
finance into their regular operations, due to the lack of adequate enforcement, high risk of green projects, long payback period, etc.

Subsequently, MOCCAE formed a steering group consisting of several leading financial institutions and the Central Bank with the aim to identify best practices, exchange knowledge, and identify innovative ways to overcome the barriers. This led to the creation of the Dubai Declaration on Sustainable Finance, which was launched at the UNEP Fi Global Roundtable held in Dubai in 2016 with 11 initial signatories from UAE financial institutions committing to support the UAE Green Agenda, the 2030 Agenda for Sustainable Development and the Paris Agreement. To date, 32 institutions have signed the Dubai Declaration, which is a clear indication that UAE financial institutions are well aware of their role in realizing sustainable development.

There is already a sign of progress among UAE financial institutions for increasing investment in sustainable projects and businesses through product innovation. For example, in January 2016 First Abu Dhabi Bank (FAB), formerly National Bank of Abu Dhabi (NBAD) announced its commitment to lend, invest, and facilitate a total of USD 10 billion (AED 36.7 billion) of financing within the next ten years to environmentally and socially sound business activities, defined in accordance with the Green Bond Principles. In March 2017, FAB announced the launch of the first green bond from a Middle East issuer. This USD 587 million 5-year Green Bond due on 30 March 2022, had been priced at a spread of 98 basis points over mid-swaps and pays a coupon of 3 percent per annum.

In the transport field, Emirates NBD launched a Green Auto Loan in January 2017 to promote electric and hybrid cars in response to the growing interest from residents to support a green economy in the UAE. Customers interested in investing in greener cars sold by approved auto dealers in the UAE are eligible to apply for this loan, which offers a 0.05 percent discount on applicable reducing rates. As an introductory offer, the bank is also waiving the full processing fee. HSBC Middle East started a similar scheme, both of which particularly target Tesla customers.

One of the most encouraging signs of sustainable finance in the UAE is the establishment of the AED 100 billion (USD 27 billion) Dubai Green Fund by DEWA. The fund is intended to stimulate investment in clean energy and other green projects by providing seed financing, a de-risking facility, and by facilitating crowdfunding. The plan includes the development of the Dubai Green Zone dedicated to attracting mature and emerging cleantech companies, as well as the creation of a research and development center. National Bonds Corporation, a Dubai Declaration signatory, agreed in October 2017 to finance AED 2.4 billion (USD 650 million) as the first investor. This is a promising start to the Fund, which has great potential to stimulate investments to meet our sustainable development objectives.

Achieving ambitious clean energy and green economy targets in the UAE is not an easy undertaking. We are making good progress as presented above, however, a larger number of private sector-led projects will need to be implemented. For this to materialize, close collaboration between the government and the financial sector is critical. MOCCAE is currently engaging the Dubai Declaration signatories in three work streams for best practice sharing and knowledge development: 1) innovation in green investment products, including green bonds; 2) integration of environmental, social and governance risks into evaluation; and 3) promotion of internal sustainability management, including disclosure and reporting. It is hoped that such activities could encourage the UAE’s financial sector to further take up sustainable investment practices and to make green projects bankable. Such activities will also help identify policy and market barriers to sustainable investment and explore areas where the government can intervene through new policies and initiatives.

The UAE believes that sustainable development is a collective global agenda, and hence, is not only concerned about domestic financing issues. On the commercial front, the UAE has invested around USD 2.7 billion in commercial renewable energy projects such as the UK’s London Array and Dudgeon offshore wind farms. The UAE has also been providing support to developing countries with the deployment of renewable energy through grants and soft loans totaling around USD 1 billion in over 30 countries to date, including Egypt, Jordan and Oman. In addition to mitigation benefits, renewable energy deployment brings considerable socio-economic benefits such as better education, health and employment opportunities in those countries, thus getting us closer to meeting the 2030 Agenda for Sustainable Development. The UAE is doing its part in all fronts to meet the global goals, and invites others to follow suit towards realizing a sustainable future.
The world has made major strides in improving social, economic, and human development in recent decades, but progress has been uneven. The share of people living in extreme poverty dropped from 36 percent in 1990 to 11 percent in 2013, accounting for over 1 billion fewer people. Moreover, the share of children out of school halved, from 18 percent in 1990 to 9 percent in 2016, and access to electricity increased from 71 percent in 1990 to 87 percent in 2016. But despite significant progress, many countries are lagging and several goals have seen less improvement than anticipated.

Looking ahead, several global trends may pose challenges to development efforts: inequality is high; the traditional model of growth is being reconsidered due to changes in technology; demographic change, urbanization, climate change, conflicts, and other forces continue to create pressing needs and influence the migration of people; and public and private debt levels have affected many countries’ ability to react to crises and invest in their futures. Much remains to be done at the local, country, regional, and global level if we want to meet the ambitious Sustainable Development Goals that countries committed to meeting by 2030.

The SDGs are cross-cutting, which means they take into account the complexity and interconnectedness of the challenges countries face. Each national and local government must define their SDG implementation plans based on their circumstances. It is equally important for them to devise corresponding financial plans and budgets.

Given their integrated nature, SDG targets address a specific goal while also reaching across others. Progress on one target, such as SDG 9.1 on infrastructure, would enable progress on others, such as improving access to quality education, health, water, and sanitation, among others. The complexity and interconnectedness of challenges confronting Arab countries requires alignment of national development plans to the integrated SDG framework or its equivalent.

Regional Context

The Arab world is comprised of a diverse set of countries. The region includes some countries with the highest per capita incomes in the world as well as some of the poorest. While some countries are trying to manage the economic effects of persistently low oil prices, high public debt and sluggish growth, others are tackling the effects of fragility, conflict, and violence, or a multitude of other challenges.

However, the past year has also seen several positive developments in the region. Iraq has begun to focus on recovery and reconstruction; major economic and social reforms have continued in countries ranging from Egypt to Saudi Arabia; Syrian refugees and host communities in Lebanon and Jordan – with support from the international community – have continued to show resilience; and Libya has seen a renewed push for solutions to its crisis. These challenges will impact Arab countries’ ability to achieve the SDGs. In 2015, the World Bank Group (WBG) developed a strategy to foster economic and social inclusion in support of regional peace and stability in the region. As discussed in the AFED Annual Report 2016 chapter, this strategy is comprised of four pillars. The first two address the underlying causes of violence and conflict – they focus on improving governance and inclusion, and enhancing regional cooperation. The latter two tackle the urgent consequences by strengthening resilience to shocks caused by forced migration and increasing recovery and reconstruction work.

The areas of focus for this chapter are 1) economic challenges and opportunities; and 2) fragility, conflict, and violence. To mitigate and balance their effects, while implementing the extensive workplan needed to meet the SDGs, will require a significant increase in finance, particularly from the private sector.

Economic Challenges and Opportunities

Short-term economic prospects in the region are brighter than they appeared a year ago. Fiscal and energy pricing reforms are gaining momentum as countries consider new sources of revenue. Remittances and tourism are expected to grow and some conflict-
affected countries are slowly recovering. In this context, economic recovery is expected to continue. The positive outlook reflects improved prospects for fiscal and external account positions, reconstruction efforts, structural reforms, and stronger global growth.

However, refugees and people displaced by conflict still face significant challenges and strain the resources of their host communities. Job growth will remain weak and many countries in the region have suffered from persistently low oil prices. For many oil-exporters, the price decline has turned fiscal and current account surpluses into deficits. Even though the positive effects of reforms have begun to be felt, growth is still slow and challenges posed by the forced displacement crisis weigh heavy on the short-term. Thus, effective reconstruction and reform are essential to sustaining growth and creating jobs, both of which depend significantly on how Arab countries respond to their challenges.

Economic concerns are exacerbated by rising youth unemployment, public debt levels, and the effects of major conflict. To address lower oil prices, many Arab countries have undertaken bold reforms such as eliminating fuel subsidies, cutting capital and current expenditures, and introducing revenue-generating measures such as value-added taxes. These measures have helped stabilize their economies by reducing deficits and have even moved some countries back to small surpluses.

While stabilization policies have helped countries adjust in recent years, a second phase of transformative reforms is needed if the region is to reach its potential. In the medium-run, oil exporters need to create the conditions to foster risk-taking and entrepreneurship in the private and public sector to absorb the 100 million young people who will enter the labor market in coming decades.

The traditional path to diversification in developing countries—investment and growth in manufacturing—has not happened in the Arab world. Studies have shown that the gap between Arab economies and others experiencing faster growth is due to the performance
of the services sector. Rapid technological change provides new opportunities for boosting private-sector-led growth through the enhancement of high-tech jobs in the services sector. Several Arab countries have developed strategies to transform their economies and take advantage of disruptive technology, but more action is needed to capture the opportunity.

The Arab world has a fast-growing pool of university graduates and is seeing increased penetration of social media and smartphones. GSMA estimates that by 2020 the region will have 463 million smartphones, up from 319 million in 2017. Combining improvements in education and technology could serve as the foundation of a digital sector that could create much-needed private sector jobs for youth over the next decade.

**Fragility, Conflict, and Violence**

Sustainable growth will not be possible without addressing the tensions and conflicts spilling across borders which have a devastating impact on human lives and physical infrastructure. Parts of the region risk losing a whole generation of out-of-school children. These conflicts also prevent investment in a country’s people and economy, and impose a heavy financial burden.

A testament of our commitment to improving the trajectory of the region will be our ability to mitigate against and manage the consequences of fragility, conflict, and violence. Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict is a joint study of the UN and the World Bank Group which originates from the idea that the international community’s attention needs to be urgently refocused on prevention and early action, with the SDGs being at the core of this approach. Growth and poverty alleviation are crucial but will not suffice to sustain peace. Prevention is cost-effective, saves lives, and safeguards development gains, but it requires departing from traditional economic and social policies when risks are high or growing. The best way to prevent societies from descending into crisis is to ensure that they are resilient through investment in inclusive and sustainable development.

It is critical for countries to seek inclusive solutions through dialogue, adapted macroeconomic policies, institutional reform in core state functions, and redistributive policies. The involvement of young people as well as of the organizations, movements, and networks that represent them is also crucial. When women participate meaningfully in all aspects of peace and security, including in peace processes, agreements have been shown to be more sustainable.

The interconnectedness between peace and development is explicitly recognized by the SDGs, in particular through SDG 16 on peace, justice and strong institutions. Considering the cross-cutting nature of these challenges and their impact, the global community has to work together towards meeting the SDGs. The World Bank Group has been actively engaged through financing, data and analytics, and operations, working in complementary ways with the UN agency for refugees (UNHCR) and humanitarian-development partners.

More and better financing is needed to enhance effectiveness in the most insecure environments. For middle-income countries for example, the Global Concessional Financing Facility, launched in partnership between the World Bank Group, the UN, and the Islamic Development Bank, has unlocked USD 1.4 billion in concessional financing for Jordan and Lebanon, promoting job creation and expanding vital public services and infrastructure for refugees.

In Yemen, the World Bank Group mobilized USD 1.3 billion in emergency grants from IDA (its fund for the poorest nations), and partnered with UN agencies to help the 75 percent of the population in need of assistance. To respond to the risk of famine, the World Bank Group partnered with UNICEF and private actors to implement a USD 200 million emergency cash transfer program. The delivery of cash transfers has been rolled-out nationally in all 333 districts in Yemen, and has so far reached 1.33 million poor and vulnerable households, of which 44 percent of the direct recipients are women.

Harnessing the potential of digitization will have a major impact on our ability to respond to and address fragility, conflict, and violence. For example, the Government of Iraq, with support from the World Bank Group, used social media and satellite imagery for a Damage and Needs Assessment, which estimated the cost of reconstruction and recovery in affected governorates to be around USD 88 billion. In Syria and Yemen, the World Bank Group uses similar methods to continue to monitor developments on the ground.

**Finance**

Meeting the SDGs will require a change in how Arab
countries finance their development and complementary efforts to mitigate the risks of external shocks. It will also require putting in place a comprehensive SDG financing framework. Public-private partnerships can play an important role, not only in providing an alternative source of financing but in helping change the role of the state from the main provider of employment to a facilitator of private sector activity.

Infrastructure needs in the region are large, with an estimated cost of USD 100 billion annually. Most of the needs are in electricity generation and transportation, followed by water and sanitation, and information and communication technology. Infrastructure is traditionally financed and managed by governments with little private sector involvement. Because of tighter budgets, there will likely be underinvestment in maintenance of infrastructure that is publicly owned and operated. This is what led to privatization of infrastructure in several countries in the 1980s.

Countries’ resource needs surpass their own budgets and available donor funding, but there is potential to expand the range of options, which has resulted in a global push among countries, international organizations, and the private sector to work together to shift development finance. The World Bank Group’s Maximizing Finance for Development (MFD) framework proposes a method for multilateral development banks to help countries systematically leverage all sources of finance, expertise, and solutions for development.

The MFD approach entails assessing the financing needs of each development project and asking the following questions: “Is there a sustainable private sector solution that limits public debt and contingent liabilities?” If the answer is ‘yes’, then promote these solutions. If the answer is ‘no’, then ask whether it is because of policy or regulatory gaps or weaknesses? Is it because of the risk profile? If so, seek support for policy and regulatory reforms, or consider risk mitigation instruments and tools”. If none of these options are possible, then public funding should be pursued. While every country has unique needs, the right mix of public and private funding can be identified to meet their objectives. Egypt, Iraq and Jordan have been identified as pilots for this approach.

There are three main advantages to this approach: The first is the potential efficiency gains associated with involving the private sector. Many governments have a poor track record of delivering and managing public utilities, so the private sector can potentially step in if the right incentives are in place. The second advantage is the ability of governments to share some of the risks associated with implementing projects; the third is that it addresses rising borrowing costs in Arab countries.

**Conclusion**

With mixed progress on key development indicators, a diverse set of challenges to overcome, and a range of opportunities to capitalize on, the Arab world must make transformative changes to successfully implement the ambitious SDGs. The World Bank Group is supporting countries in their efforts to foster economic and social inclusion in support of regional peace and stability. Arab countries can capitalize on these opportunities and mitigate risks by using the SDG framework, as long as implementation is country-driven, evidence-based, and focused on results at the local level.

**REFERENCES**


**NOTES**

1. Defined as living under USD 1.90 a day
2. Latest poverty data available is for 2013
3. Which are at about half of 2014 levels
EBRD’s Transition Mandate
Since its creation in 1991, the European Bank for Reconstruction and Development (EBRD) has been committed to furthering the transition towards market-oriented economies and the promotion of private and entrepreneurial initiatives. This transition remains EBRD’s guiding mission in a context of emerging global challenges and, in particular, of the challenges in the Southern and Eastern Mediterranean (SEMED), EBRD’s latest region of operation.

In 2017, EBRD reviewed what it means by transition. Twenty-five years after its founding, it became evident that markets per se are not always capable of delivering desirable outcomes. The kind of markets EBRD wants to support should be competitive, resilient and integrated, but also inclusive, well governed, and green. By promoting these six transition qualities in building markets through its investments and policy engagements, the Bank supports the SDGs in its countries of operation, including SEMED.

EBRD in SEMED
EBRD’s expansion into SEMED began in May 2011, in the aftermath of the Arab uprisings. Under the Deauville Partnership, the international community requested EBRD’s support in SEMED, building on the Bank’s unique work in Central and Eastern Europe. Currently, the Bank has seven regional offices in Cairo and Alexandria (Egypt), Amman (Jordan), Casablanca and Tangiers (Morocco), and Tunis and Sfax (Tunisia), and is in the process of establishing an office in Beirut (Lebanon). Moreover, in May 2017, EBRD’s Board of Governors approved its engagement in the West Bank and Gaza through two trust funds and has since launched its first investment there. As of April 2018, EBRD invested almost EUR6.8 billion in about 180 projects in SEMED, with 73 percent of investments going to the private sector. The largest share, 40 percent, was invested in financial institutions, followed by 24 percent in energy, 21 percent in infrastructure, and 15 percent in industry, commerce, and agribusiness sectors. In addition, EBRD provided over EUR250 million in technical assistance funded by its donors and shareholders.

EBRD and SDGs
EBRD’s six qualities of transition, and the Bank’s focus on building sustainable markets, place the institution as a strong tool to deliver the SDGs. As such, EBRD is in a unique position to contribute to the SDGs through concrete support for market economies where the private sector and the state work together. In all the projects it finances, EBRD aims to build markets that improve the living conditions of populations, contribute to generating growth and reducing poverty, and help build greener economies. The examples below show how the Bank’s operations contribute to the SDGs in practice.

SDG 2: Zero Hunger
EBRD promotes sustainable agriculture and food security. In Egypt, thanks to EBRD’s investment in a local dairy company, farmers received technical training on sustainable agricultural practices and improvements in quality management, health, and safety. Moreover, EBRD collaborated with the United Nations Food and Agriculture Organisation (FAO) and large commodity traders in establishing the Egyptian Grain Suppliers Association to facilitate public-private sector dialogue, enhance the policy environment, remove barriers to trade, increase resilience to price volatility, boost the competitiveness of the sector, and improve Egypt’s food security. Overall, EBRD invested EUR327 million in 25 agribusiness projects since 2012 in the SEMED region.

SDGs 5 and 10: Gender Equality and Reduced Inequalities
EBRD contributes to ensuring equal access to reliable and safe transport. In Egypt, EBRD supported the Egyptian National Railways (ENR) to enhance the economic inclusion of women and their safety on public trains and to close the gender gap in the access to public transport services. The Bank worked with ENR to implement a focused awareness campaign to combat sexual harassment in railway transport, complementing a number of other new safety measures.

EBRD also provides credit lines and tailored advisory to women-led SMEs. In Egypt, the Women in Business (WiB) programme promotes women’s entrepreneurship and their participation in the economy. The programme combines dedicated financing and technical assistance for capacity building.

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SDG 6: Clean Water and Sanitation
EBRD invests in improving water and wastewater connections and irrigation systems. In Morocco, EBRD supported the Saïss Water Conservation Project to deliver over 100 million m\(^3\) of water to the Saïss plain each year, improve access to irrigation, and revitalise commercial agriculture, thereby improving water capacity for 1.8 million Moroccans. The investment was accompanied by technical cooperation to improve the economic opportunities for, and increase the number of, women entrepreneurs in sustainable agriculture. EBRD also financed the provision of drinking water supply to three medium-sized cities and 260 rural communities in three less developed regions, benefitting 480,000 inhabitants.

In Egypt, EBRD financed the Fayoum Wastewater Expansion Programme that will provide first time sanitation to 806,000 inhabitants in 83 villages and will also contribute to the depollution of Lake Qarun and restore and enhance local employment opportunities in agriculture and fishery, leading to the creation of 30,000 new jobs. EBRD also financed the Kafr El Sheikh Wastewater Expansion Programme.

As part of its wider engagement with the Water Authority of Jordan aimed at upgrading Jordan’s wastewater system, EBRD financed the construction of a wastewater network in 15 towns in West Irbid, providing first time sanitation to 105,000 residents and generating employment for both host and refugee communities, as part of EBRD’s refugee crisis response programme. The activities were complemented by an awareness campaign on responsible water use. EBRD also financed the construction of a new wastewater pipeline from East Zarqa, a landfill gas recovery system at Al Ghabawi landfill of Amman, and a new wastewater conveyor from the Ain Ghazal treatment plant.

In Tunisia, EBRD financed an environmental clean-up project for Lake Bizerte to improve wastewater services to 400,000 inhabitants and alleviate contamination.

SDGs 4 and 8: Quality Education, Decent Work, and Economic Growth
EBRD is working to address the high unemployment rates and skills mismatch persistent across the SEMED region, which are more pronounced for certain groups. For this reason, EBRD works with clients across several sectors to develop work-based training and employment programmes, support the creation of skills and employment opportunities, and provide pathways into jobs for women, youth, refugees, and employees from less-developed regions.

In Morocco and Tunisia, EBRD supports the capacity expansion of a leading supplier of aero-structures and high precision metal parts that will create new employment and training opportunities for young technicians and engineering students to acquire valuable transferable skills and professional experience, through quality internship and apprenticeship programmes implemented in partnership with local education institutions.

In Egypt, jointly with Aqaba Special Economic Zone Authority, EBRD supported the regeneration and repositioning of Ayla Oasis into a prime tourist destination, incorporating advanced sustainability standards in hotels and entertainment facilities along with high quality local training for youth. This included technical assistance for the development of a youth inclusion model and national and regional policy dialogue to promote inclusive employment practices in the tourism sector, as well as the establishment of a vocational training and testing centre. Moreover, EBRD has supported the Abdali Mall Recruitment and Training Centre in Amman since 2013, which led to the creation of a Sector Skills Council in the hospitality and tourism sector. Driven by our private sector clients, the Council brings together employers and education authorities to reform and improve national skills standards and apprenticeship models in line with industry requirements and international best practices. EBRD’s existing collaboration with its clients created numerous employment and training opportunities for young Jordanians and refugees from Syria.

EBRD also supports the introduction of inclusive public procurement practices to provide underserved groups with work experience and exposure to potential employers. In Egypt, EBRD provided technical support to the National Authority for Tunnels to introduce a new requirement into the procurement process that encourages private sector suppliers to offer on-site training opportunities to youth and supports the development of vocational training curricula in relevant disciplines.

SDGs 7, 12, and 13: Affordable and Clean Energy, Responsible Resource Consumption and Production, and Climate Action
EBRD’s commitment to promote environmentally sound and sustainable development and to sustainable energy was made explicit since the founding of the Bank. More recently, its Green Economy Transition approach made climate finance a key measure of EBRD’s performance. This is guided by the Bank’s Environmental and Social Policy (ESP) that incorporates performance requirements,
to be met by all projects that it finances to minimise the adverse impacts of these projects on the environment.

In Egypt, EBRD advised on the development of a bankable power purchase agreement for solar energy and financed 16 projects within the framework for private renewable energy production under the governments feed-in-tariff programme. The supported projects – the first private utility-scale renewable projects in a sector otherwise dominated by the use of hydrocarbons – will reduce carbon dioxide emissions by 900,000 tonnes a year, bring significant investment to the region where they are built in Upper Egypt, and contribute to job creation and poverty alleviation.

EBRD extends Sustainable Energy Financing Facilities (SEFF) to financial institutions in Egypt, Jordan, and Morocco, for on-lending to eligible private sub-borrowers to finance sustainable energy investments. SEFF promotes the penetration of energy efficient and renewable energy technologies by stimulating demand and raising awareness of the benefits of such technologies.

In the SEMED region, EBRD invested EUR1.1 billion in 34 power and energy projects since 2012, and EUR 570 million in 13 natural resources projects since 2013.

**SDG 9: Industry, Innovation, and Infrastructure**

EBRD supports the inclusion of the SEMED region in global value chains and the transfer of innovative practices by promoting global traders in agricultural commodities. EBRD financed the increase in the volume of dried onions exported from a firm in Egypt, while also transferring expertise to its suppliers from the firm’s operations abroad. Moreover, EBRD financed the subsidiary of a global manufacturer of yeast and yeast extract in Egypt to build new production facilities in an area with high levels of poverty and unemployment, thereby supporting Egypt’s efforts to attract foreign direct investment in the agribusiness sector.

In Jordan, EBRD increases small businesses’ access to finance and knowledge through a USD 60 million micro, small and medium enterprises (MSME) framework to promote growth and competitiveness. Thousands of MSMEs in various sectors benefit from this credit line, established in partnership with four local banks and the non-profit company Microfund for Women.

In the SEMED region, EBRD invested EUR270 million in 17 manufacturing and services projects and EUR30 million in two information and communication technologies projects since 2013.

**SDG 11: Sustainable Cities and Communities**

EBRD invests in infrastructure through municipal and environmental infrastructure and transport projects to upgrade road networks that substantially enhance connectivity of populations. In Morocco, EBRD financed the construction of the infrastructure of the Nador West Med Port, which contributes to the reduction of regional disparities, supports the economic development of the Oriental Region, and improves regional access to infrastructure. In Tunisia, EBRD financed the Société Nationale des Chemins de Fer Tunisiens (SNCFT) to double, electrify, upgrade, and realign two rail lines, and purchase electric multiple units to enhance the network’s capacity, performance, reliability, and safety. EBRD invested EUR817 million in six transport projects in the SEMED region since 2014 and EUR649 million in 15 municipal and environmental infrastructure projects since 2012.

EBRD fosters innovation and knowledge economy development in the SEMED region. In Tunisia, EBRD financed a local banking and insurance software developer’s acquisition of a leading global provider of integrated regulatory reporting and collateral management solutions, and supported its growth strategy of consolidating its global reach while reinforcing its local research and development capabilities.

In Egypt, EBRD supports the regeneration of downtown Cairo through investment and technical support. EBRD is financing the refurbishment, regeneration, and revitalisation of a number of historic buildings located in Downtown Cairo to meet improved sustainable building standards while preserving the historic architecture and period features and increasing the availability of high quality modern commercial space. EBRD also engaged in consultant services to analyse the state of urban regeneration measures in Cairo, develop recommendations for an integrated and sustainable regeneration of Downtown Cairo, and work with public and private stakeholders to promote improved sustainability standards of the built environment and urban regeneration.

In Jordan, EBRD finances the medicine production of a leading pharmaceutical group through the acquisition of intellectual property rights, which are important for the development of sophisticated medicines at affordable prices.