OVERVIEW

FINANCING DEVELOPMENT BY FIGHTING CORRUPTION

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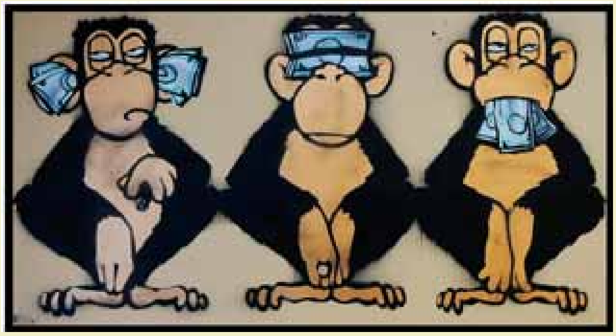

Achieving the Sustainable Development Goals (SDGs) in Arab countries requires filling a USD 100 billion financing gap annually until 2030, according to Arab Forum for Environment and Development (AFED). Countries had agreed on the 2030 deadline to achieve ambitious goals set by the United Nations, including eradicating poverty and hunger, ensuring health care, education, clean water and energy, and providing appropriate housing for all.

Traditional sources of financing sustainable development in developing countries are international institutions, multilateral and bi-lateral funds and foreign direct investment. However, regardless of the importance of securing additional external financial resources, emphasis should be placed on mobilizing and reorienting existing domestic and public financial resources, such as integration among non-official sectors in Arab economies, public-private partnerships, tax reforms and adjustment of price support systems, charities, remittances, and private investments.

Over the past several decades, national and regional development institutions have played an important role in providing development and humanitarian assistance to Arab and other developing countries. Currently, the Coordination Group for Financing for Development includes eight national and regional Arab development institutions, in addition to the Islamic Development Bank and OPEC Fund for International Development (OFID). These institutions have substantially contributed to the financing of the Millennium Development Goals and have made a strong commitment to providing assistance to finance the SDGs. Arab recipient countries can attract more funding for their sustainable development objectives from development financing institutions in the region by streaming their strategies towards the sustainable development goals. They should also prioritize their agenda accordingly and

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generating sectors. In addition, there was a decline in global oil prices from mid-2014, and by the end of 2016, oil had lost about 60 percent of its value in accordance with OPEC's benchmark. This led to a significant decline in Arab countries' growth rates, which averaged 3.3 percent in that period, as compared to 5 percent during the period 2000-2008. This was combined with a rise in inflation rates, which resulted in increasing prices of commodities in some Arab countries in the beginning of 2011. This reflected negatively in Arab financial balances, and thus diminished financial discipline in those countries, leading to high levels of deficit. In contrast with the surplus recorded in the public balance of Arab countries, which reached 4.1 percent of the GDP during the period from 2000 to 2008, a deficit of 1.2 percent of GDP developed during the period 2009-2016. Many Arab countries had to borrow, and that led to a huge rise in the public debt, which reached USD 654 billion in 2016. The internal debt increased from USD 235 billion in 2008 to USD 416 billion in 2016. This increase undoubtedly affected the credit granted to the private sector according to crowding out effect.[5]

It is expected that the Arab countries will continue to be affected by a number of factors. Most notably, the developments in the global economic environment, especially with regard to the world oil markets, will negatively affect the growth of GDP at a constant value in most Arab oil countries. On the other hand, the impact of the non-oil sectors in these countries will continue with measures to control the fiscal situation in light of the relatively high level of deficits in the public balances, which rose in relation to GDP in Arab countries, reaching in a sequential manner on the basis of well-developed and implementable development processes and projects.

But attracting regional and foreign aid, as well as attracting private sector funding, depends on policy reforms, the reorganization of price support practices and tax collection, in addition to enhanced transparency and public participation in decision-making. Although many Arab countries have already begun to shift in this direction, serious action in the fight against corruption is still slow, especially in poorer countries and those facing wars and conflicts.

Figures of the Corruption Perceptions Index, produced by Transparency International are alarming. They shows that only five Arab countries ranked above the global average score: the UAE, Qatar, Saudi Arabia, Jordan and Oman. All remaining Arab countries achieved very low scores, among which five countries that ranked the worst. It is worth mentioning that the most corrupt countries were also the poorest.

According to reports by the World Bank and the World Economic Forum, the world's combined losses from bribes and theft of public funds were estimated at between USD 1.5-2 trillion last year, representing 2-3 percent of the world's GDP. This exceeds ten times the amount spent annually on external development assistance to developing countries.

According to a group of economists working on a new AFED report on financing sustainable development in the Arab world, the cost of corruption in Arab countries ranges between 2-3 percent of the GDP. This means that between USD 60 and USD 90 billion a year is lost as a result of corruption and bribery. In other words, fighting corruption alone can save most of what Arab countries need to fill the gap in the additional funds needed to achieve sustainable development goals.

It will not be possible to eliminate corruption completely or to save money from corruption immediately. That is why there is a continuing need for support from external sources, whether from international organizations or development funds. Most importantly, there needs to be a rapid launch of serious anti-corruption programs, as this is a prerequisite for attracting international support and foreign investment. The private sector will also be deterred by corruption and the lack of transparency. Only serious reforms will provide confidence to invest in projects that lead to sustainable development, especially in the energy, food and water sectors.

Achieving sustainable development and enhancing environmental protection in the Arab region begins with fighting corruption. Although it does not end there, the road ahead will become easier when this goal is achieved.

10.5 percent in 2016. In addition to the above, some Arab countries, whether in the group of exporting or importing oil, are still affected by the internal developments witnessed since 2011, and their effects extend to neighboring countries. Such developments have affected the growth paths of Arab countries and their ability to attract the international investment and financing flows needed to support development levels and achieve sustainable development goals (Arab Monetary Fund, 2017).

As a result of these important factors and their negative implications on the development process, a strong trend has emerged in Arab countries. It is a trend towards reforming the structural imbalances in the development model to provide a decent life for future generations with the transformation of a sustainable financial system, especially through market-based national and international initiatives.[6] In view of achieving sustainability, most Arab countries adopted goals until 2030 consistent with the SDGs. However, achieving these goals and maximizing the benefits, as well as meeting long-term huge financial commitments and easing their burden on future generations, depends on the ability to fight corruption during the implementation phase, including strict controls on all aspects of the financing process.

Definitions and Control of Corruption

The control of corruption and addressing its impacts on sustainable development goals in Arab countries is part of a broad process to establish good governance and transparency. This requires