

2018 Report of the Arab Forum for Environment and Development

FINANCING SUSTAINABLE DEVELOPMENT IN ARAB COUNTRIES

EDITED BY:
NAJIB SAAB
ABDUL-KARIM SADIK



المنتدى العربي للبيئة والتنمية
ARAB FORUM FOR
ENVIRONMENT AND DEVELOPMENT



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2018 REPORT OF THE ARAB FORUM FOR ENVIRONMENT AND DEVELOPMENT

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Preface

Financing Sustainable Development in Arab Countries is the topic of the 2018 Annual report of Arab Forum for Environment and Development (AFED). It identifies financing needs, gaps, options and mechanisms, while focusing on sources and addressing enhancement of their roles.

Since 2008, AFED annual reports on the state of Arab environment have highlighted environmental challenges and recommended solutions. One main challenge underscored in all reports was how to finance the recommended changes. AFED's 2011 report on *Green Economy in a Changing Arab World* introduced the concept at the regional level. However, the endorsement of the Sustainable Development Goals (SDGs) in 2015, combined with the provisions of the Paris climate agreement which followed in the same year, demand a new perspective to identify the requirements of financing sustainable development.

AFED's first annual report in 2008, entitled *Arab Environment: Future Challenges*, became a major reference in its field and was the launching pad for the reports which followed, covering nine topics: *Climate Change* (2009), *Water* (2010), *Green Economy* (2011), *Ecological Footprint* (2012), *Sustainable Energy* (2013), *Food Security* (2014), *Sustainable Consumption* (2015), *Sustainable Development in a Changing Arab Climate* (2016) and *Arab Environment in 10 Years* (2017).

The current report has found that Arab countries would need a minimum of USD 230 billion annually to support the achievement of the SDGs. The financing gap in Arab countries with deficit has been estimated at over USD 100 billion annually, comprising a cumulative total of over USD 1.5 trillion through 2030. This does not only call for new funding requirements but also the greening of budgets and the redirecting of existing budgetary allocations from conventional investments to sustainable ones, including addressing climate change concerns. However, the report warns that the price tag is expected to rise much more, taking into account the losses in economic activity due to wars and conflicts in the region since 2011, and the implications of ongoing instability across the region on the implementation of sustainable development goals.

Arab countries need to develop their financing strategies and action plans to support the implementation of the 2030 Agenda. Beyond identifying prospective sources of financing, this implies putting in place adequate laws, policies and regulations to stimulate investments in the right direction. While international cooperation commitments need to be honored, cooperation within the region should be enhanced at all levels. Greater efforts need to be exerted to tap private finance for implementing the SDGs, mainly by creating a sound business environment and implanting confidence in the governance of the development process, under the rule of law and political stability.

The report highlights the need to take immediate action to reverse the current trend in the degradation of natural resources, and adopt policies to maintain their bio-capacity to regenerate their services and support sustainable development.

Apart from securing additional financial resources, the focus should be on the mobilization and the redirection of existing local financial outlays, both public and private, towards supporting sustainable development programs, plans, and activities, which should be executed in a more efficient manner. Corruption should be eradicated, coherent policies enacted, and investor-friendly conditions established. It does not make any economic sense to maintain conventional investment options while at the same time aiming to channel funds to support new and innovative environment-friendly sustainable development path.

AFED wishes to thank all institutional partners who made this report possible: Experts of the UN Economic and Social Commission for West Asia (UN-ESCWA) contributed the overview section, containing the most current data from the Arab region. Other institutions contributed case studies and papers illustrating their work in supporting financing sustainable development in the Arab region, including the World Bank, Islamic Development Bank, UNEP Finance Initiative, OECD, EBRD, OFID and SwitchMed. Special thanks go to the sponsors who supported the production of the report and the annual conference, mainly OPEC Fund for International Development (OFID), Kuwait Foundation for the Advancement of Sciences (KFAS), Food and Agriculture Organization (FAO), Kuwait Fund, and Bank Audi, alongside media partners.

AFED has always stressed the urgent need to invest in people-centered development, which fosters human rights into the sustainable development agenda. Those include the right to development and the principles of genuine public participation, accountability and transparency.

It is hoped that this report will assist in developing adequate policies and plans which help secure the needed financial resources for the efficient implementation of sustainable development goals in the Arab region, based on those principles..

Beirut, 8 November 2018

Najib Saab
Secretary General
Arab Forum for Environment and Development (AFED)

INTRODUCTION

FINANCING SUSTAINABLE DEVELOPMENT IN ARAB COUNTRIES

2018 Report of the Arab Forum for Environment and Development (AFED)

The adoption of the sustainable development goals (SDGs) and the Paris climate change agreement in 2015 symbolized a defining moment in international cooperation. They both implied radical changes in the way development is perceived and realized.

In the 2030 Agenda, the world leaders agreed on 17 goals, which embodied an integrated approach to development. The goals, to be realized by 2030, included far-reaching pledges designed to achieve human dignity and better quality of life, while protecting the environment and securing sustainable economic development.

The Paris Agreement established for the first time specific targets to reduce carbon emissions contributing to climate change, inducing a shift to renewable energy and energy efficiency and a change in consumption and production patterns. The agreement also identified milestones to be achieved by 2050. Although the Agreement has its own financing mechanisms, implementation is often intertwined with the SDGs.

Climate change poses a big challenge to Arab countries. The region is among those most affected by the impacts of climate change, particularly sea level rise and drought, which have dire consequences on food production. Equally, Arabs have a vested interest in the implementation of the sustainable development goals; in particular those that help them deal with the interlinked water-energy-food challenges, and goals that foster social and human development in general.

Addressing climate change and meeting the SDGs require major shifts in policy design and implementation, alongside vast investments and non-conventional and innovative financing mechanisms. The gradual shifting and channeling of existing financial outlays to implement the SDGs and address climate change is of prime importance.

It has been estimated that USD 5-7 trillion is needed each year until 2030 to meet the SDGs worldwide. In developing countries alone, the shortfall, or investment gap, is estimated at USD 2.5 trillion per year. The Arab countries would need a minimum of USD 230 billion annually to support the achievement of the SDGs. The financing gap in Arab countries with deficit has been estimated at over USD 100 billion annually, comprising a cumulative total of over USD 1.5 trillion through 2030. This does not only call for new funding requirements but also the greening of budgets and the redirecting of existing budgetary allocations from conventional investments to fund sustainable development, including addressing climate change concerns. Besides this, losses in economic activity due to wars

and conflicts in the region since 2011 have been estimated at over USD 900 billion. Considering the implications of ongoing instability across the region on the implementation of sustainable development goals, the price tag is expected to rise much more.

Public and private financing sources in the Arab region are constrained, and certainly are not at the level of the trillions needed to implement the SDGs. The situation is compounded by the growing political pressure on the transfer of resources from developed to developing countries. In the region itself, disparities govern financing opportunities and challenges among different countries: For the oil-rich countries, financing through oil revenues remains volatile and unpredictable. The budgets of oil-poor middle-income countries that largely depend on taxation revenues are tightly pressed. The tax-to-GDP share of most countries is low, while development priorities regarding sustaining the middle class, poverty reduction and social justice are more pressing than at any other time. Low-income countries have huge development challenges and their baseline is already low given that they have failed in achieving most of the Millennium Development Goals (MDGs). Conflict-torn countries have other challenges related to reconstruction and restoring peace and security, besides achieving the SDGs.

A major obstacle to financing sustainable development is that the Arab region is a net exporter of capital, according to the United Nations Economic and Social Commission for West Asia (ESCWA). For every dollar that enters the region through foreign direct investment (FDI) inflows, approximately USD 1.8 dollars are effectively re-invested abroad, either through FDI outflows or through repatriation of profits earned by investors. At the same time, the region remains a lender to international banks located abroad, as deposits of Arab clients (liabilities) with main international banks outside the region have been persistently higher than the corresponding borrowings of Arab clients from these banks (claims). FDI inflows to the Arab region remain volatile and are concentrated in a few countries and selected sectors, mainly related to the oil industry sector, with negligible inflows to low-income countries.

The Arab region is also a net remittance-exporter; it is both a source and destination for migrant remittances. For every dollar of remittances generated between 2011 and 2016, Arab countries repatriated on average USD 2.8 to other regions. The increased cost of repatriating remittances from and within the Arab region creates significant development finance leakages.

The trillions needed to deliver the SDGs in Arab countries require mobilizing various types of financing instruments. At the public national level, those include investing in priority areas beyond infrastructure, such as human and natural capital, alongside governance as a necessary prerequisite for achieving sustainable development.

Measures that need to be introduced to influence consumption and production patterns to a more sustainable path, while generating income, include the reforming of fiscal policies. This entails reforming the tax system, and introducing subsidy reform package and other incentives that aim at promoting the efficient allocation and use of resources and the equitable distribution of wealth. It also includes designing trade policies that support the achievement of the SDGs.



Foreign financing sources need to be harnessed as well, including official development assistance (ODA) and foreign direct investment (FDI). The United Nations, also comprising funding mechanisms associated to some international conventions, offers another potential source. This report provides a close look into such organizations and conventions, including the World Bank, OPEC Fund for International Development (OFID), Global Environment Facility (GEF), European Bank for Reconstruction and Development (EBRD), and Islamic Development Bank (IsDB). The report also includes an overview of the Multilateral Fund of Montreal Protocol, which represents a unique success story of a global financing mechanism that led to concrete results.

DEVELOPMENT ASSISTANCE

Arab state donors and their national and regional development institutions have been playing an active role in development cooperation, as an expression of solidarity with other developing nations. Arab bilateral assistance totaled USD 216 billion between 1970-2016, with the bulk of it provided by four countries (Saudi Arabia, Kuwait, the United Arab Emirates and Qatar). The contribution of those countries to development assistance was over 1 percent of their gross national income, which surpasses the target of 0.7 percent set by the UN as level of assistance from developed to developing countries. In 2016, total bilateral assistance provided by Arab countries amounted to USD 13.54 billion, of which one-third went to other Arab countries. In the context of Arab aid, Arab development institutions channeled development assistance to developing countries with a cumulative amount of USD 204 billion as of the end of 2017, 54 percent of which went to Arab countries.

At USD 146 billion worldwide in 2017, Official Development Assistance (ODA) represented a significant, yet small portion of the development requirements. Figures show that total ODA provided to Arab countries from sources outside the Arab region has steadily increased since 2011, following a sharp decline between

2008 and 2010. This resulted in an increase in total ODA to Arab countries in 2016 to USD 22.3 billion, the highest in a decade, and representing a good portion of the global total. However, this numerical increase conceals the fact that up to 15 percent was dedicated to refugee and humanitarian assistance, which is not actually part of development programs.

ODA increased significantly to Syria since 2012, but around 90 percent of it was humanitarian aid. Among the LDCs, Somalia and Yemen received higher inflows of ODA in the past five years, a large part of which was humanitarian aid while 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, increased over the last five years, but aid flow remained volatile, highly 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 maintain their commitment of 0.7 percent of their national income as assistance to developing countries.

Furthermore, distribution of ODA to the region by sector shows that the share of ODA to education has declined, while the share to health and water supply and sanitation remains negligible at 2-4 percent. ODA share to the production sector declined over the years as well. These trends are worrisome and can hamper the progress of several SDGs in 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.

Stable and reliable funding is a critical and indispensable resource for the implementation of the SDGs. In this regard, Arab development institutions are well positioned to extend support to the implementation of the SDGs in Arab countries, within the global partnership reinforced by SDG17, which is the thread that weaves all SDGs together, as it calls for revitalizing the global partnership for sustainable development. Arab development institutions have the leverage to mobilize additional resources for financing the SDGs through co-financing with other development providers. However, for better mobilization of resources, Arab countries need to fully recognize the interconnectedness and complexity of the SDGs, their synergies and tradeoffs, and design integrated strategies with clear and sequenced SDG priorities according to a defined implementation schedule, supported by well-prepared project feasibility studies and sources of financing. This has to be coupled by sound governance and an adequate regulatory framework to create donor confidence.

PRIVATE FINANCE

Mobilizing the private sector is crucial for addressing the trillions of dollars in investments needed globally to implement the Sustainable Development Goals. Arab countries are not different, as a large share of the financing requirements for supporting sustainable development can only come from the private sector.

Traditionally, the capital markets, and the banking and finance industry in general, have facilitated activities that had a negative impact in the social and environmental context. As evidence of the detrimental impact of climate change grows, the challenges of resource depletion have been laid bare and environmental degradation and social issues have increased, such an approach ceded to be an option. This entails major implications for the financial system.

UNION OF ARAB BANKS RECOMMENDS TRANSITION TO GREEN BANKING

Arab bankers and representatives of central banks pledged at a forum they convened on 26-29 July 2018 in Hurgada, Egypt, to work together to develop a regulatory framework to encourage the Arab financial sector to actively contribute to financing sustainable development projects. The meeting, organized by Union of Arab Banks (UAB), in cooperation with the Central Bank of Egypt, was held under the topic: Green Banking- the Road to Sustainable Development. AFED presented to the meeting draft of its report on Financing Sustainable Development in Arab Countries, and held consultations on its findings, which were reflected in the recommendations. Here are the full recommendations of UAB Forum:

- Urge central banks to start preparing a regulatory framework for banks operating in the Arab region to take into account the objectives of sustainable development and green banking while practicing various banking activities, with a specific timetable for implementation according to international best practices and standards.
- Form a working group whose members are responsible for the green banking and sustainable development of their institutions and members of the Union of Arab Banks and the associations of local banks to meet periodically to discuss what has been achieved in the field of green banking and sustainable development, as well as identify challenges and share experiences and prepare strategies and future goals.
- Adopt the goal of a shift towards green banking within Arab banks strategic objectives and establish an independent department for sustainable development in each bank.
- Urge Arab banks to develop a training plan to raise awareness among employees about green banking and environmentally-friendly practices in order to encourage them to apply these practices.
- Adopt a mechanism to develop and introduce green products within the Arab Bank's current portfolio, with emphasis on supporting green SMEs as part of the Bank's target groups.
- Encourage Arab banks to support renewable energy projects and environmentally-friendly technologies, and to fully change lighting in all their branches to energy-saving lighting systems, and support the spread of solar-generated electricity systems and encourage institutions and individuals to shift to renewable energy through the provision of funding.
- Urge the Arab banks to continue the efforts in the field of financial inclusion, due to its vital role in the transition to green banking and achieving sustainability.
- Integrate the objectives and policies among banks and other stakeholders in such a way that contributes to achieving the goals of sustainable development 2030.

Nonetheless, challenges for achieving the SDGs and bridging the financing gap can be transformed into a business opportunity: to create new businesses, to cut the cost of impact delivery and to generate economic, environmental and social benefits to society. This is a fertile ground for defining a new set of valuable economic interactions between the public and private sector. The UNEP Finance Initiative calls this an impact-based economy. Moreover, UNEP's Green Economy Initiative advocates a sustainable path for development based on emphasizing investments in human and natural resource capital as the core for achieving human welfare and securing the continuity of growth. UNEP believes that a global transition towards a green economy will require substantial redirection of investments to increase the current level of public and private sector flows to key priority areas, the bulk of which will need to be mobilized through financial markets. Recent years witnessed the start of a shift in the behavior of investors, who are increasingly moving from responsible investment based on a passive do-no-harm approach, to sustainable investment based on actively investing in solutions to sustainability challenges.

It is worth noting that foreign direct investment (FDI) inflows to the Arab region decreased to USD 32.4 billion in 2016, from USD 88.5 billion in 2008. FDI inflows to the region remain volatile, associated with fluctuations in oil prices and political instability. Moreover, profits repatriated by foreign investors and Arab direct investments abroad outbalance the inflows, making the region a net exporter of capital. Reversing this trend requires a regulatory framework that generates confidence and is capable of attracting investors and mobilizing private savings towards supporting sustainable growth.

There is an increasingly exciting array of financing options on the market, from green bonds to blended finance tools. Globally, there has been a 14-fold increase in annual green bond issuing, from USD 11 billion in 2013 to over USD 155 billion in 2017. But while growing rapidly, they are still far from the USD 2.5 trillion dollar annual SDG price tag in developing countries, and certainly very far from the global bond market of around USD 100 trillion. Although green bonds in the Arab countries are still in their infancy, they have started to gain momentum. In 2013, the African Development Bank issued green bonds whose proceeds were partially used to fund two projects in Tunisia and Egypt. In 2017, the National Bank of Abu Dhabi initiated the first green bond issuance in the region for USD 587 million, due in 2022. Blended finance is another innovative form of financing development, based on leveraging development assistance to mobilize additional private finance.

Besides green bonds, Arab countries have started to adopt other forms of innovative mechanisms of financing development, such as results-based financing, used by the World Bank to support the compliance of Egyptian industries to environmental laws. A debt-for-development swap has been used in Egypt, Morocco, Jordan and Yemen. The carbon market, in which carbon emission allowances are traded globally to encourage countries and companies to limit emissions, has been embraced by six Arab countries that indicated national plans to price carbon, but Arab carbon trading activities have not effectively kicked off yet. Five national projects in Egypt and Morocco benefited from financing of USD 281 million from the Green Climate Fund (GCF), dedicated to investments in climate-resilient initiatives. Other Arab states were part of two multi-country projects that received USD 634 million from GCF. Public-private partnership (PPP) has shown poor performance in the Arab region, as private participation in infrastructure amounted to only USD 113.5 billion between 1990 and 2014, which represents a mere 5 percent of the world total of USD 2.5 trillion during the same period.

Tapping the potential of Islamic financing through sukuk (Sharia-compliant bonds) has big potential to fund infrastructure, clean and renewable energy and climate change projects. Another area is to design financial products tailored for expats that can harness remittances into more investment.

POLICY AND REGULATORY FRAMEWORK

Adopting integrated sustainable development policies is necessary to generate sufficient funding for sustainable development activities. This should be supported by a package of regulatory and market-based measures in order to ensure that the proposed policies, plans and programs are economically and socially equitable, and environmentally acceptable. Regulations that are equally applied to all should not be overwhelmed by restraints and disincentives,

but should also provide incentives to promote sustainable activities and investments. Adopting a transparent, accountable, and participatory approach is necessary for achieving this end. Policies to be adopted include good governance, adequate fiscal space, countercyclical fiscal policies, and measures to combat corruption.

One of the challenges facing several Arab countries is illicit finance flows and money laundering. Efforts should be made to reduce and eventually eliminate these practices, including combating tax evasion by national and transnational corporations. The AFED report suggests that proceeds from fighting corruption in Arab countries would generate up to USD 100 billion annually – enough to bridge the financial gap in investments needed to implement sustainable development goals. As stipulated in the Declaration of the Finance for Development Conference held in Addis Ababa in July 2015, Arab countries should be encouraged to ratify and accede to the United Nations Convention Against Corruption as a means to detect, deter, prevent and counter corruption and bribery, and recover stolen assets to the country of origin. Efforts should be made to introduce regulatory frameworks that increase transparency and accountability of private companies and financial institutions, as well as the public sector.

The Organization for Economic Cooperation and Development (OECD) has developed a range of policy tools to help governments mobilize private finance in support of development objectives and the SDGs. They stipulate that the obstacles facing private investments in development need to be removed, and call for adopting an integrated approach to promote policy coherence. All too often policy objectives are undermined when the actions of different ministries run at cross-purposes, while all public policies, including those covering trade, investment, taxes, competition and development, need to be aligned in support of promoting investment for sustainable development. Even while considering scaling up the volume of finance from billions to trillions, utmost attention needs to be paid to the quality of the investment generated. This is why governments have an important role in establishing good labor, social, and environmental policies, and in promoting responsible business conduct and helping multinationals keep their international value chains clean. This would also ensure that programs and projects are implemented more efficiently, and with greater transparency and accountability.

PREPARING THE FINANCIAL SECTOR FOR ENVIRONMENTAL RISKS AND OPPORTUNITIES

Climate and environmental risks will have important implications on financial stability. Policy measures to bring down global emissions of greenhouse gases are needed to restrain climate change and curb the risks associated with it. However, a future where energy is based on alternative sources besides fossil fuels brings an end to many investments and affects valuations. Since large parts of the economy are based on fossil fuels, consequences of the transition could be dramatic, particularly for economies that are heavily dependent on exporting fossil fuels such as the Arab oil countries. However, maintaining the status quo entails larger risks to financial stability. Fortunately, programs to diversify economies have been initiated across Arab oil-exporting countries, accompanied by large investments in renewable energy and energy efficiency as in Saudi Arabia and the United Arab Emirates.

While bank credit provides a big portion of financing, only a small part is explicitly classified as 'green'. According to the European Banking Federation, "lack of clarity as to what constitutes Green Finance activities and products, such as green loans and green assets, represents an obstacle for classification of green assets as well as for identification of further opportunities for green investing." The Federation calls for the adoption of minimum standards and a disclosure framework on green finance. The duty of banks should go beyond reducing the environmental and social impacts of their activities and investments, to providing financial solutions for environmentally-sound projects and programs.

A meeting of the Union of Arab Banks, held in Egypt in July 2018, called for a regulatory framework to encourage the Arab financial sector to actively contribute to financing sustainable development projects. It pledged a shift towards green banking and called upon all Arab banks to establish an independent department for sustainable development, and to introduce green products within their portfolios.

Banking regulators should work with banks to adopt good practices in the management of human, natural and financial resources. Fostering long-term finance is currently constrained by regulatory requirements, challenges to perform sustainability assessment on the long-term, or demand for higher risk and liquidity premiums, thus making projects less viable from an economic and finance perspective. Some of these constraints can be addressed by targeted regulatory or policy decisions which provide incentives to long-term sustainability finance. The clarity and stability of the regulatory environment and public policies are essential for banks to engage in long-term business models and decision-making.

Public entities have to share risks with commercial banks for certain projects that are important for achieving sustainability, while they might not be commercially viable. Incentives, in the form of tax benefits and subsidized funding conditions have to be introduced, simultaneously with phasing-out market distorting subsidies. Monetary policy measures are also necessary, such as accepting certain green assets as collateral for central bank loans.

CONCLUSION

Arab countries need to develop their financing strategies and action plans to support the implementation of the 2030 Agenda. This implies setting priorities and estimating investment costs and identifying prospective sources of financing, as well as putting in place laws, policies and regulations needed to make available the financing requirements in the short, medium and long term to support sustainable development. For the oil-rich countries, diversification toward non-oil sectors is essential for reducing volatility in revenues and sustaining long term growth. For the oil-poor countries, low tax-to-GDP ratio and the inequity in tax burdens indicate potential for introducing corrective measures in taxation systems, but they need to be rooted in promoting equity and justice as well as supporting sustainable development.

Fiscal reforms in social investments are necessary and, at the same time, countries need to establish fiscal rules that support economic diversification, debt sustainability and long-term stability in growth and revenue collection.

The design of the fiscal system, including the tax system, needs to be geared towards influencing consumption and production patterns towards sustainable development. It needs to be simple and transparent in order to prevent tax evasion and avoidance, and conducive to corruption. Curbing illicit financial flows by better tax administration and cross-border cooperation on taxation is another imperative to improve fiscal space.

International cooperation commitments need to be honored, aid flows need to be kept consistent, and humanitarian aid to refugees should not be deducted from development assistance packages. Cooperation within the region should be enhanced at all levels, including securing inter-regional investments and development aid to finance regional projects, especially in the infrastructure domain where the World Bank estimates that USD 100 billion needs to be invested annually.

Greater efforts need to be exerted to tap private finance as a large pool of resources for implementing the SDGs. Mobilizing savings through better design of financial instruments – that can specifically attract remittances, develop financial markets, attract foreign direct investment by promoting confidence building measures and incentives, and more importantly, reverse the FDI outflows from the region – can contribute significant resources. In addition, countries also need to consider suitable modalities where blended finance such as public-private partnership or other innovative financing mechanisms can deliver public goods and services more efficiently to all.

It is equally important to take action to reverse the current trend in the degradation of natural resources, and adopt policies to maintain their bio-capacity to regenerate their services and support sustainable development. Nonetheless, creating a sound business environment and implanting confidence in the governance of a country's development process, under the rule of law and political stability, are critical elements on the road towards the SDGs.

Apart from securing additional financial resources, the focus should be on the mobilization and the redirection of existing local financial outlays, both public and private, towards supporting sustainable development programs, plans, and activities, which should be executed in a more efficient manner. Corruption should be eradicated, coherent policies enacted, and investor-friendly conditions established. It does not make any economic sense to maintain conventional investment options while at the same time aiming to channel funds to support new and innovative environment-friendly sustainable development options.



OVERVIEW OF FINANCING SUSTAINABLE DEVELOPMENT IN THE ARAB REGION

NIRANJAN SARANGI, HISHAM TAHA, SOURAYA ZEIN AND ANGELIC SALHA



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.¹ 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')² 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

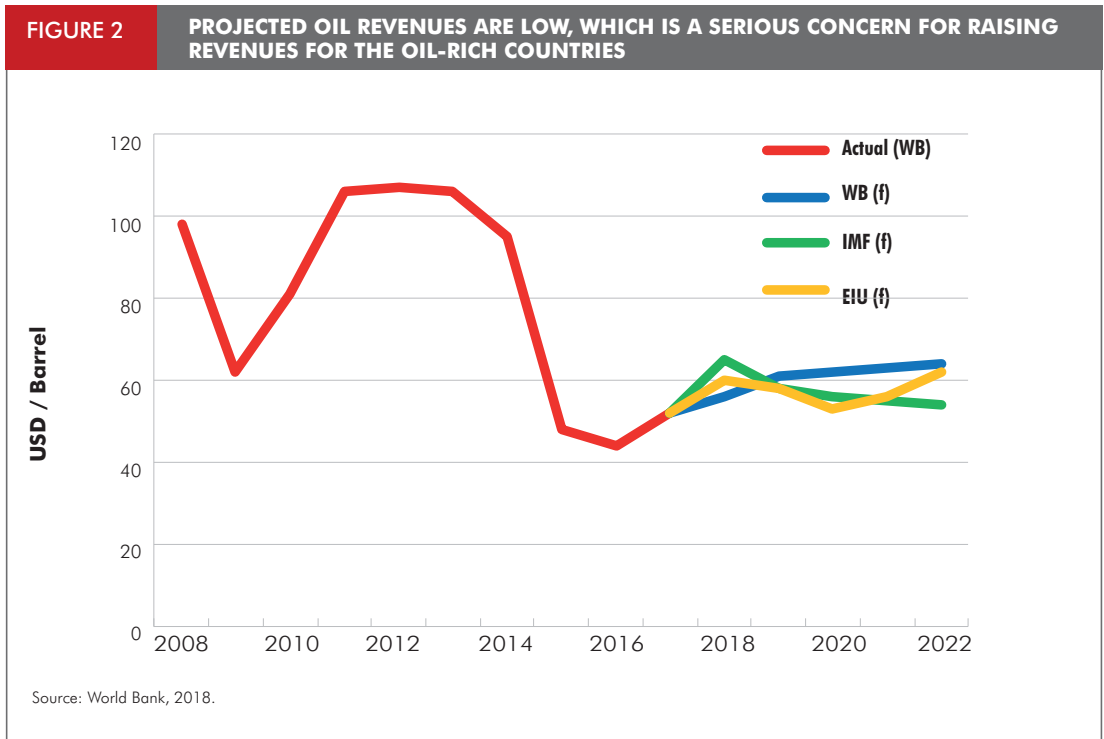
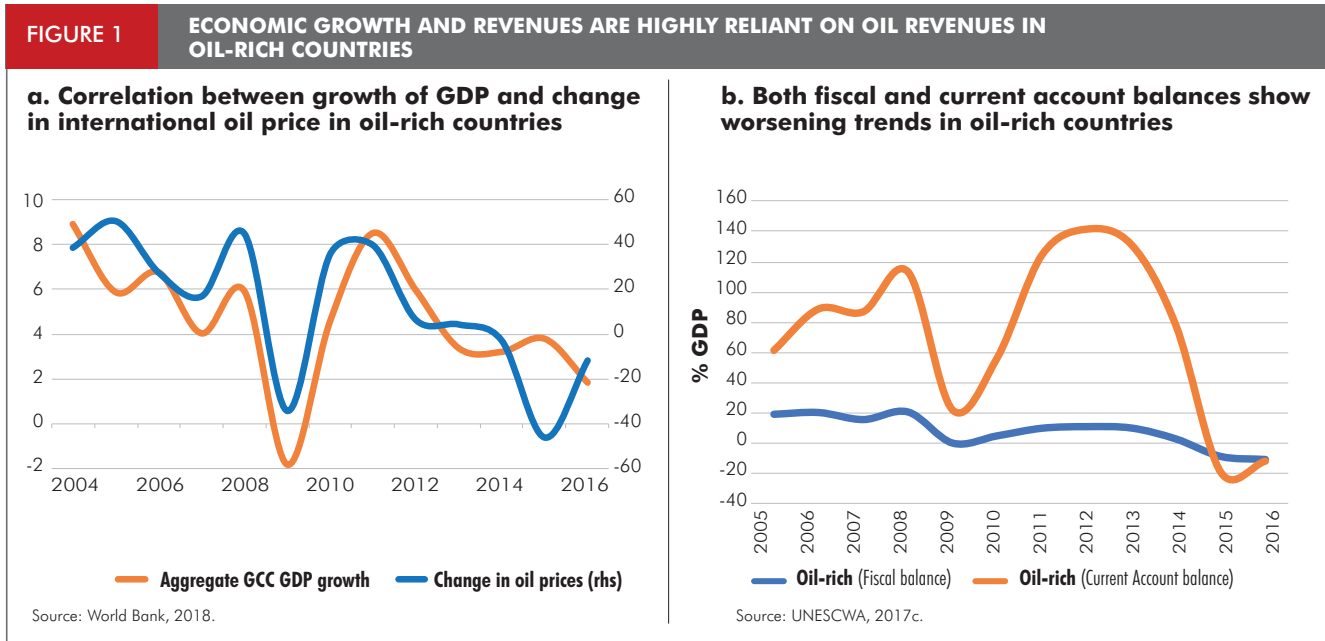
To analyze fiscal situations, Arab countries can be broadly grouped into three country clusters based on their major sources of revenue collection and state of development challenges: 1) from oil and gas sectors, which is generally known as hydrocarbon-based resources – we call this group the “oil-rich” countries³; 2) from a mixture of sources of revenue collection but mainly taxes – we refer to this group as “oil-poor” countries⁴; and 3) those with huge development challenges such as the low-income countries.⁵

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

* 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 Arab financing for development scorecard results that are drawn from ESCWA’s first of its kind publication on “The State of Financing Development in the Arab Region” (2018). In addition, several other reports and assessments from the region pertaining to different sectors have informed the analysis.



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).⁶ 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

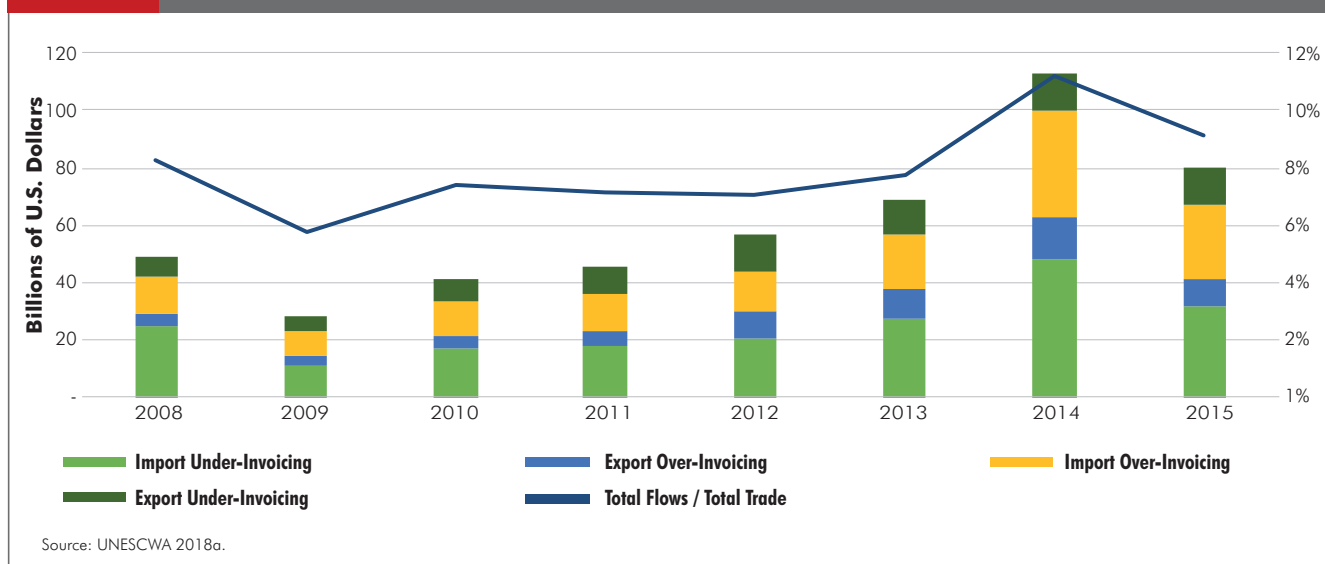
iii. Illicit financial flows constitute a significant drain of resources

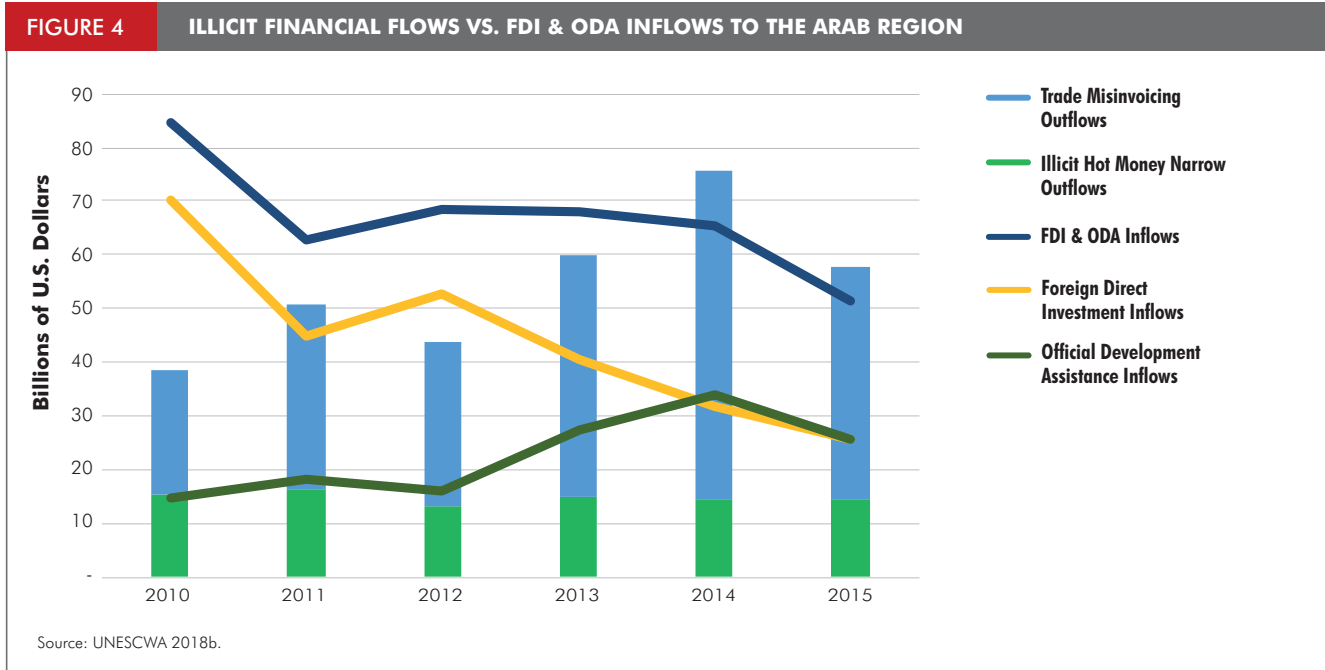
Developing countries lost USD 7.8 trillion in

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



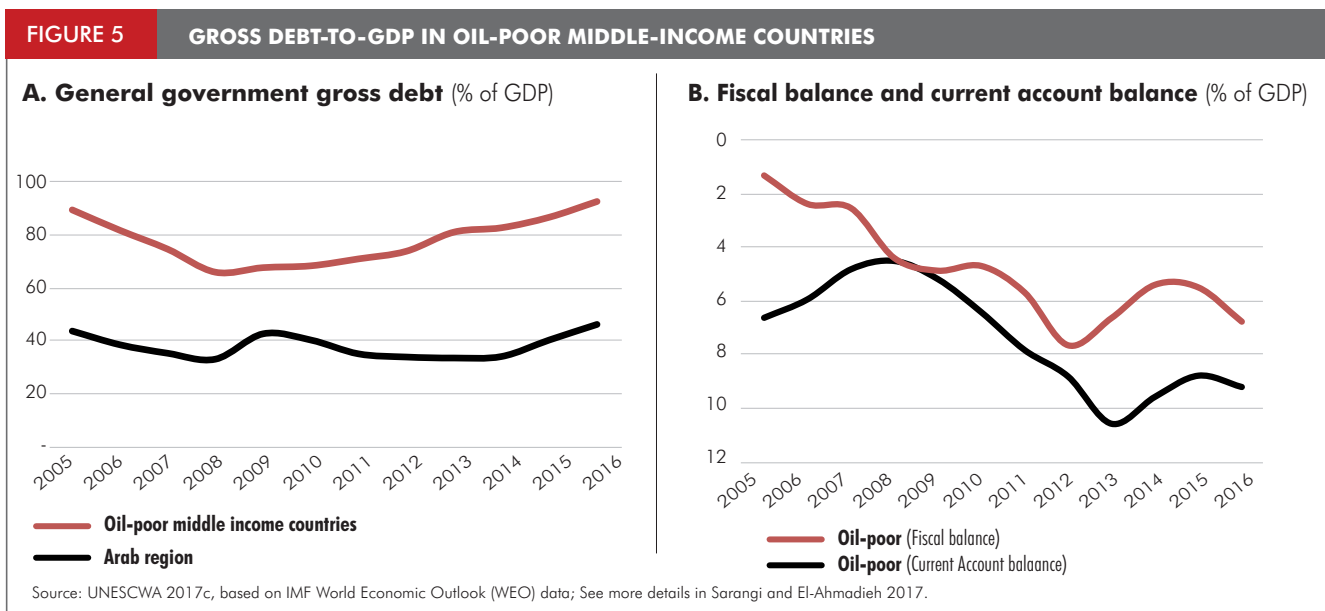


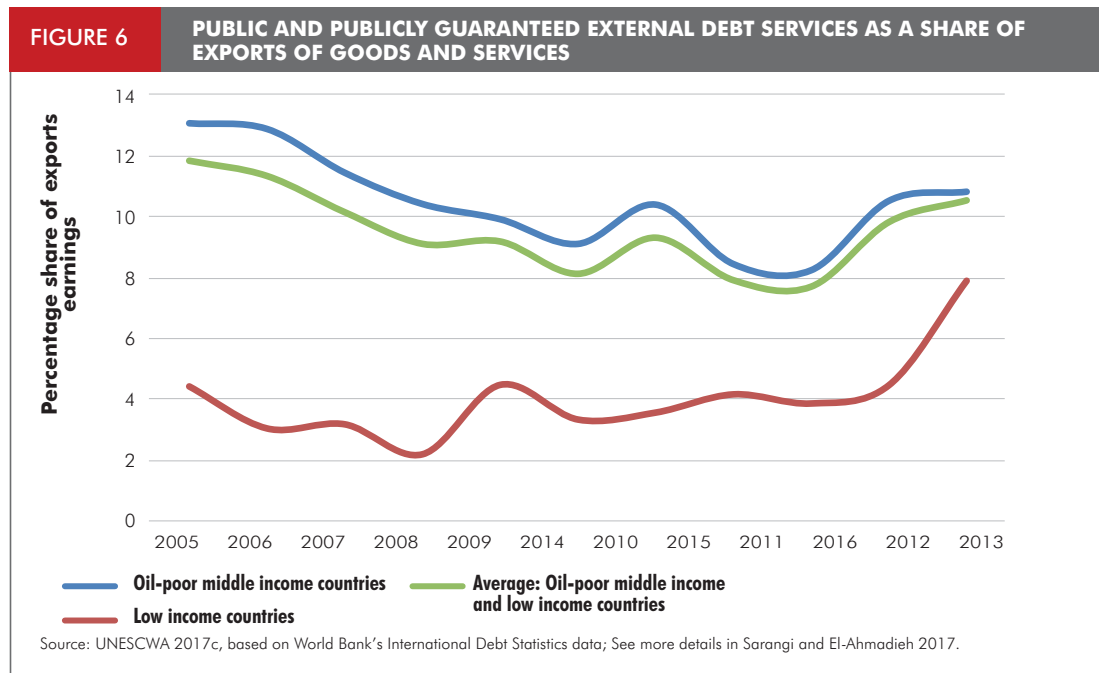
region’s average outflows from trade misinvoicing (import under-invoicing and export-over misinvoicing) amounted on average to USD 42.8 billion per year between 2011 and 2015.¹¹ However, when estimating the gross volume of trade misinvoicing arising from import and export over/under-invoicing, the situation 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).¹²

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.¹³ 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 about 7 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 debt¹⁴-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-GDP¹⁵, 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 countries¹⁶ 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 service¹⁷ 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).¹⁸ 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 concessional¹⁹ 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.²⁰

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.²¹ 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.²² The public external debt is closely associated with financing the current liabilities and implicit subsidies incurred by large public sector and state-trading enterprises.²³ 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 billion²⁴ (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 Funds²⁵ 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.²⁶

According to an estimate of the State of

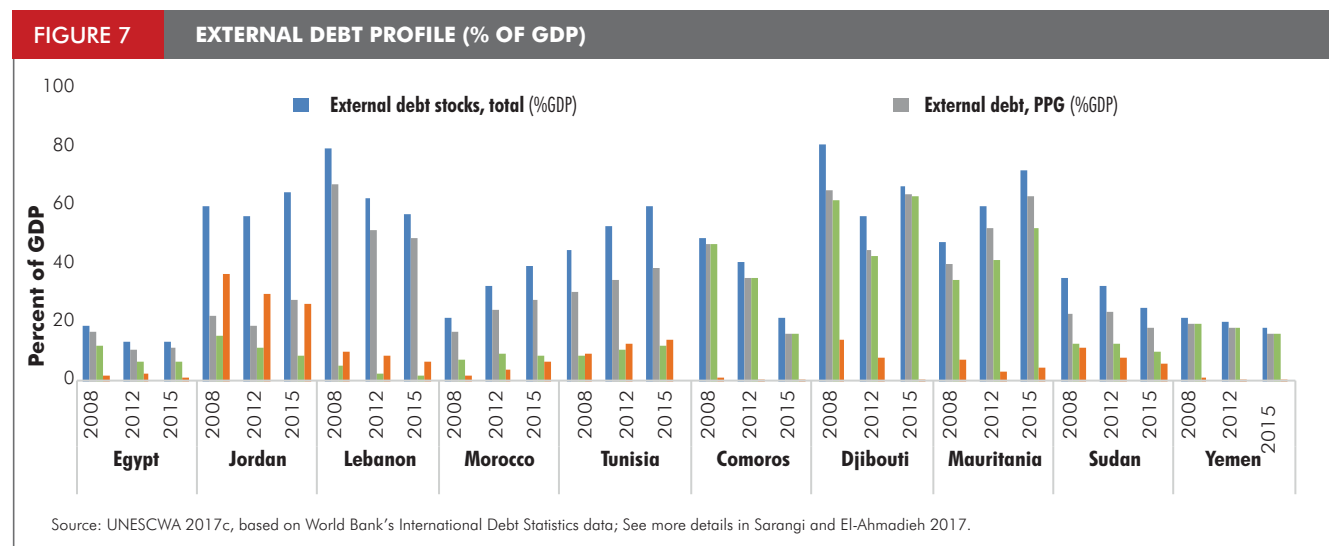
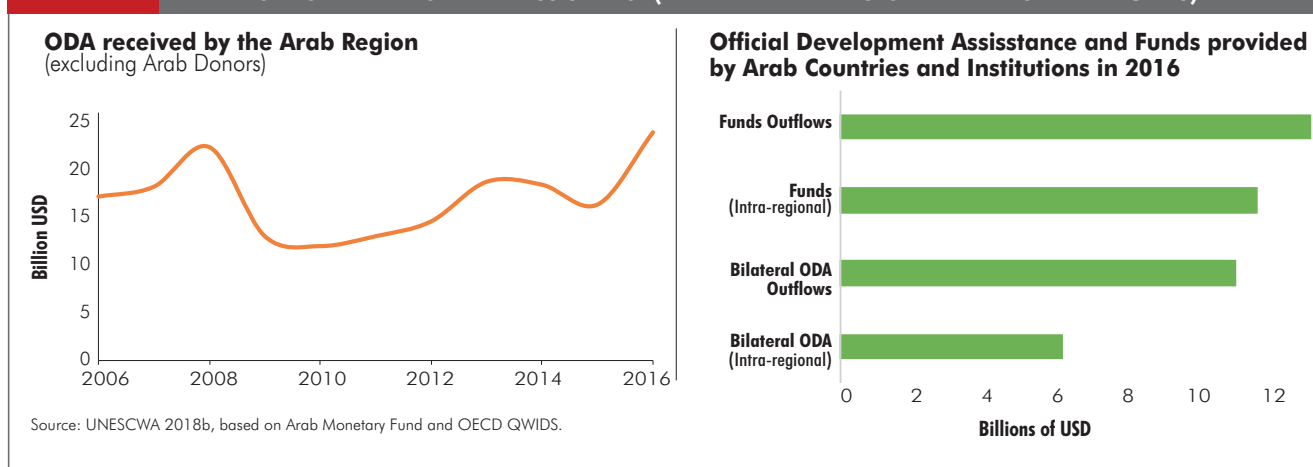


FIGURE 8 ARAB OFFICIAL DEVELOPMENT ASSISTANCE (BILATERAL AND REGIONAL DEVELOPMENT FUNDS)



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

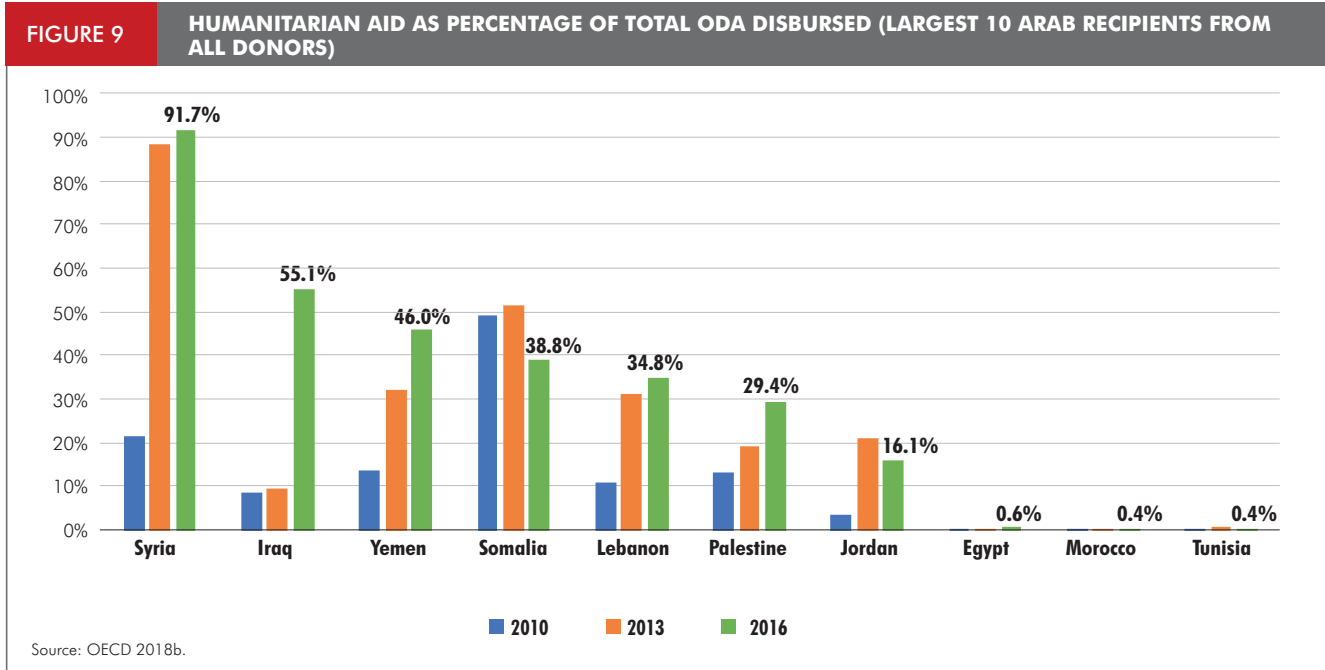
the past five years compared to the period 2010-2011, but aid flow remained volatile, fluctuating from one year to another. The inconsistency in the flow of ODA remains a major concern, in addition to the fact that developed countries need to keep their commitment of 0.7 percent of GNI to disburse as 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.³³ 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.

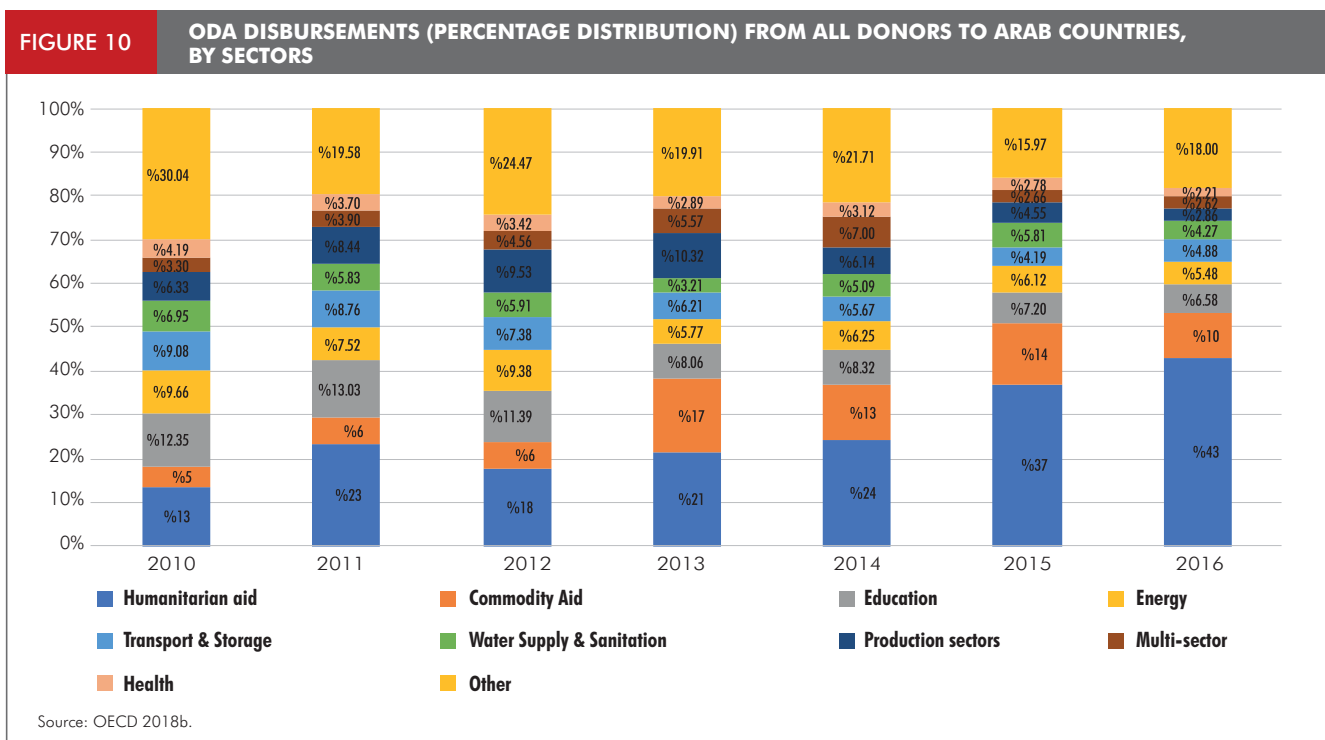
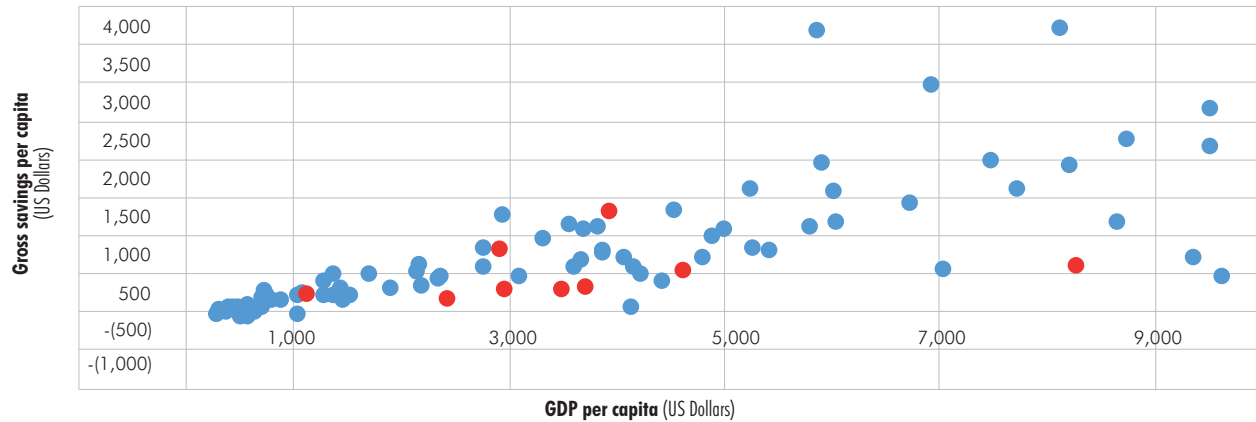


FIGURE 11 MOST ARAB COUNTRIES SHOW LOW GROSS SAVINGS PER CAPITA IN COMPARISON TO THEIR GDP PER CAPITA ACROSS COUNTRIES



Note: The red dots show position of Arab countries. The blue dots are other countries around the world for which data is reported.
Source: Based on data from the World Bank, 2017a.

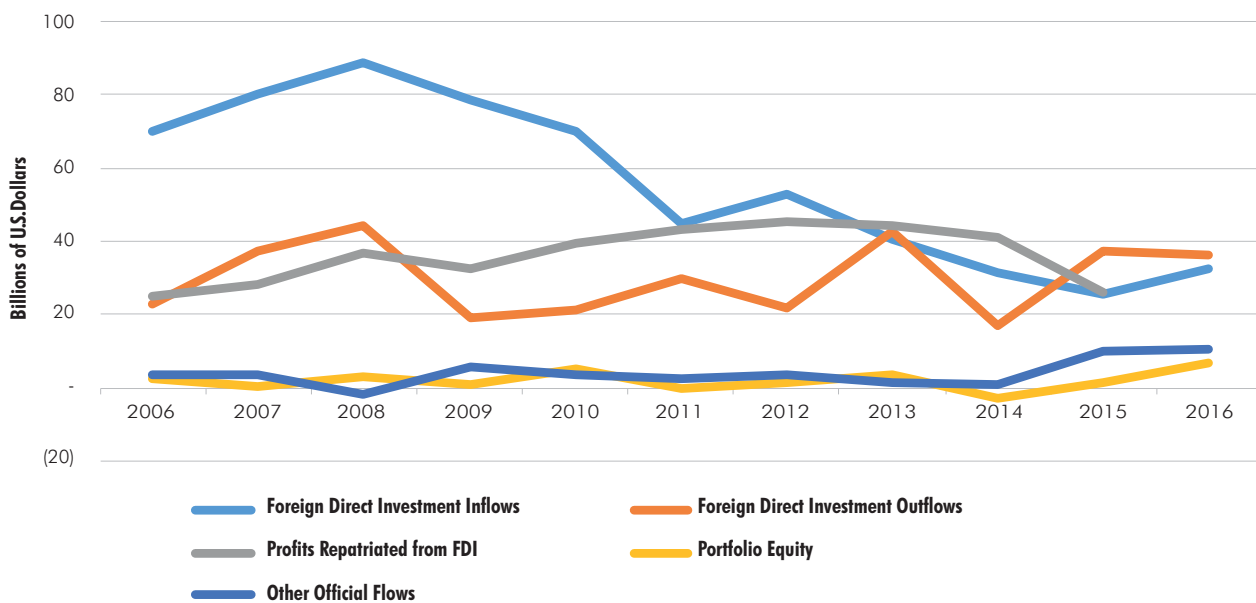
Furthermore, savings rates of most countries have declined significantly over the last five years, as noted from the trends in Egypt, Lebanon, Morocco and Tunisia.

ii. Foreign direct investment

The Arab region received USD 32.4 billion in foreign direct investment (FDI) inflows in

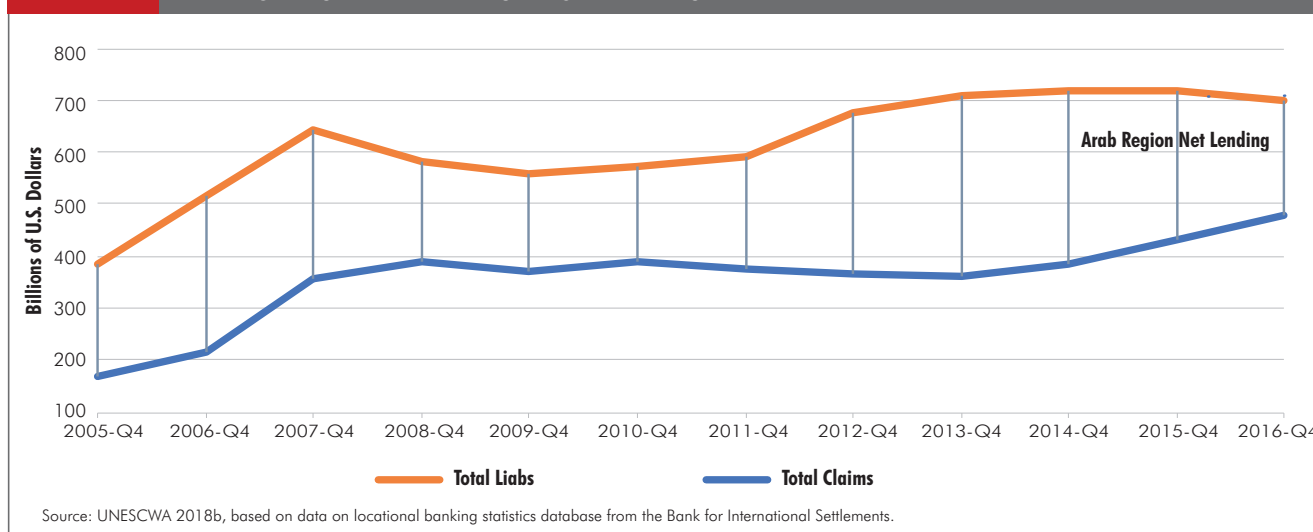
2016 (4.8 percent of total FDI to developing countries), down from USD 88.5 billion in 2008, following the global economic downturn and conflicts in several parts of the region. The region also witnessed USD 36.2 billion in FDI outflows by the end of 2016.³⁴ FDI inflows into the region remain volatile with the primary catalyst being the downside risks associated with continued

FIGURE 12 THE STATE OF INVESTMENT IN THE ARAB REGION



Source: UNESCWA 2018b, based on UNCTAD, WDI in the World Bank, OECD.Stat, and IMF BOP.

FIGURE 13 ARAB CLAIMS AND LIABILITIES REPORTED BY BIS



decline in commodity prices, especially for crude oil, metals and minerals³⁵. FDI patterns into the region are yet to be aligned to realize SDG aspirations³⁶ (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 2015.³⁷ 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 2015.³⁸ 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.³⁹

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-neighbor⁴⁰ 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-2016.⁴¹ 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”⁴². To frustrate matters, cross-border deposits of Arab clients with main international banks outside the region (liabilities) have been persistently higher than 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.⁴³ 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 shelf⁴⁴ (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.⁴⁵ 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.⁴⁶ 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

2011 and 2016, respectively (Figure 15).⁴⁷ 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.⁴⁸

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.⁴⁹ 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.⁵⁰ 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 percent⁵¹. 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 2016.⁵²

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

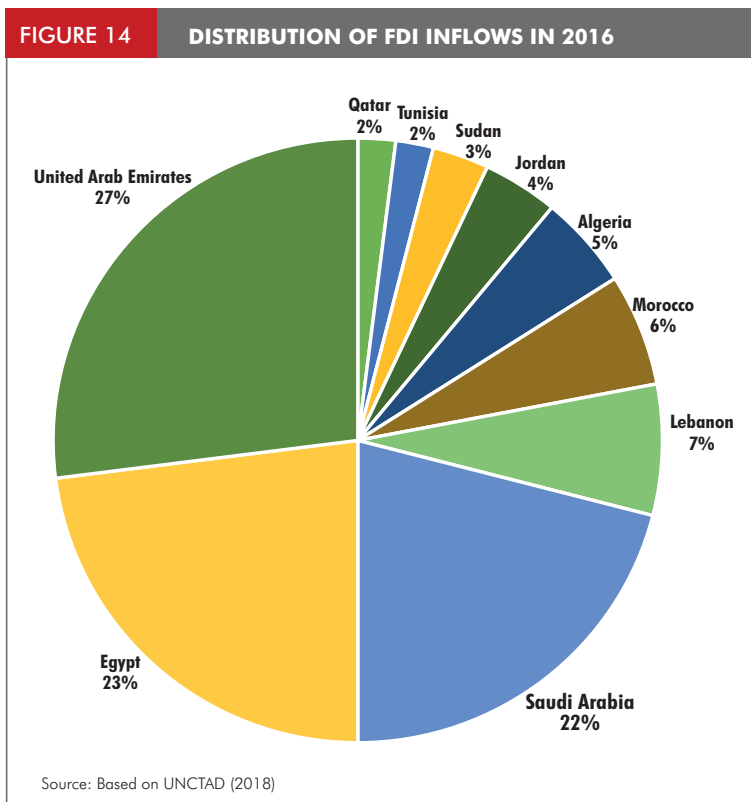


FIGURE 15 REMITTANCES IN THE ARAB REGION

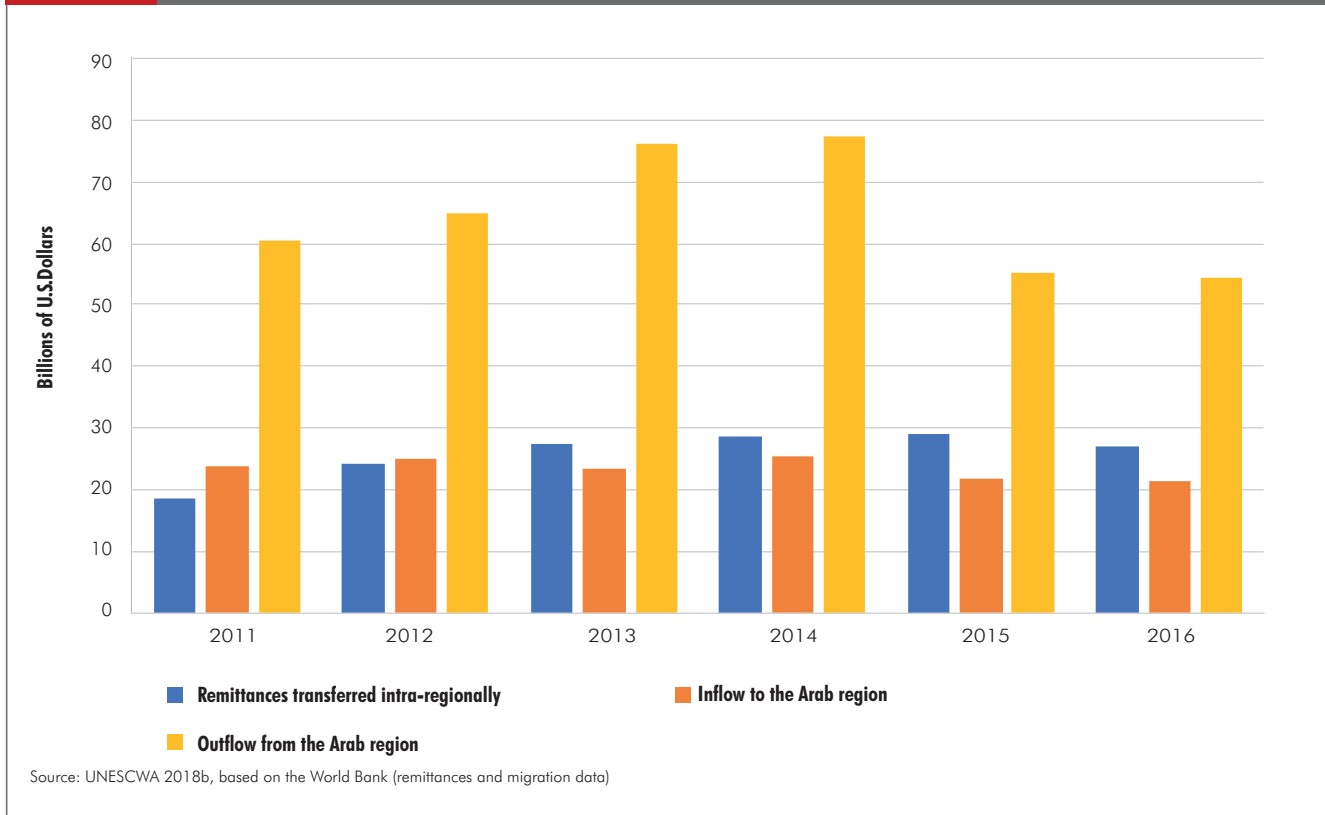
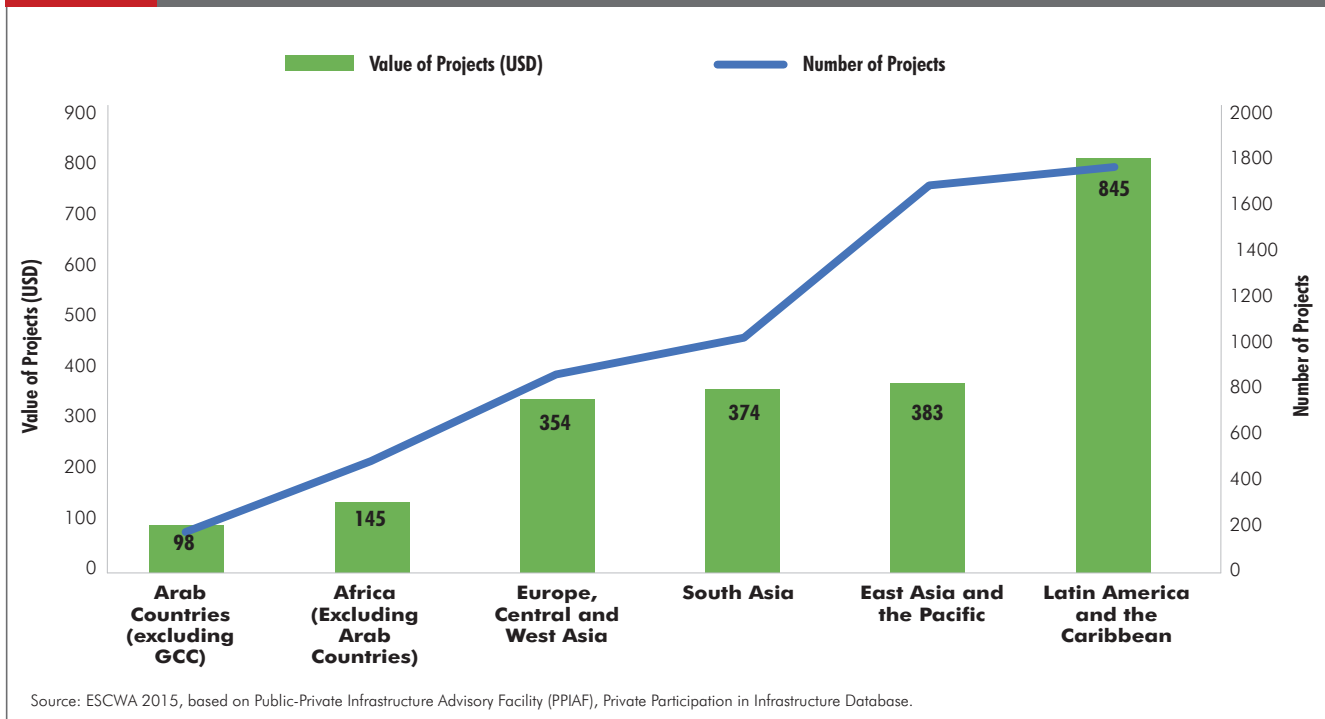


FIGURE 16 DISTRIBUTION OF PPP PROJECT VALUE IN ARAB COUNTRIES (1990-2013)



in infrastructure in the Arab region⁵³ 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).

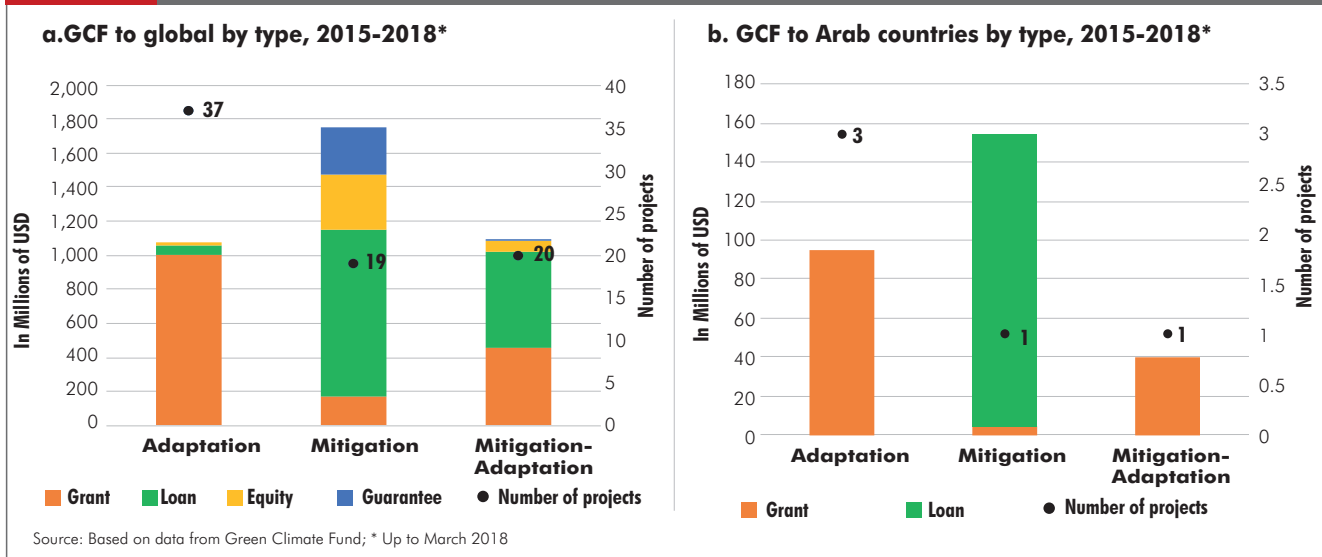
The pattern of PPP investments in the Arab countries reveals a certain bias towards the use of PPP in less strategic and less regulated sectors that may be more profitable for the private sector. For instance, the energy and transport sectors are preferred by the private sector over any other sectors. 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.⁵⁴ 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.⁵⁵ Furthermore, the Agreement has entrusted the Financial Mechanism of the United Nations Framework

FIGURE 17 GCF FINANCING FOR THE GLOBAL AND ARAB REGION



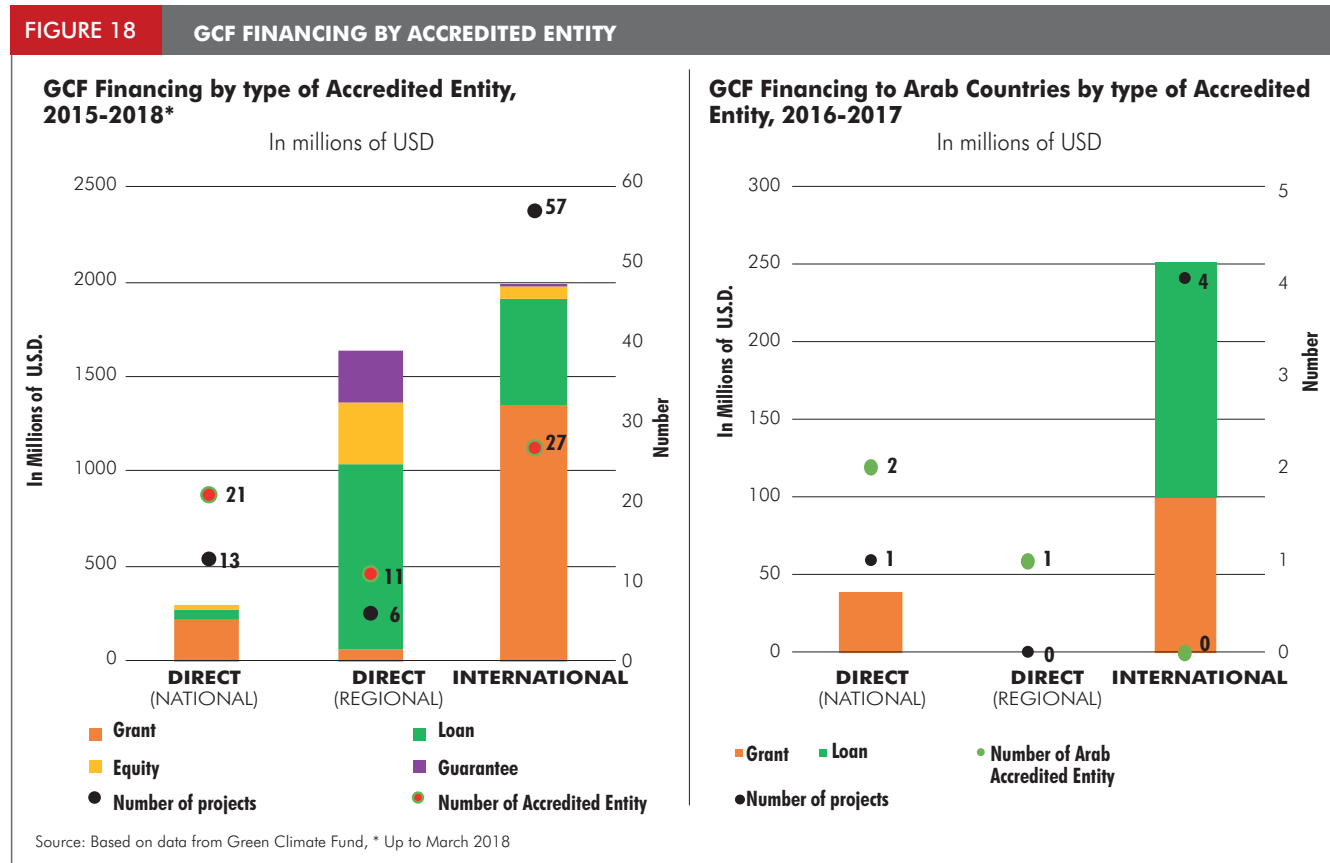
Convention on Climate Change (UNFCCC) and its operating entities with the financial mechanisms, while calling upon them to balance between adaptation and mitigation financing. The Green Climate Fund (GCF), the Global Environment Facility (GEF)⁵⁶ – including its two specialized funds, namely the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) – and the Adaptation Fund⁵⁷ were entrusted to support developing countries vulnerable to climate change, based on their needs and priorities.⁵⁸

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

BOX

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 FfD inflows⁶³, including economically relevant financial flows⁶⁴ available to the region and eleven corresponding outflow channels.⁶⁵ 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 FfD 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.⁵⁹ 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 2016.⁶⁰ 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 2016⁶¹ which amounts to about USD 752 billion between 2011 and 2015.⁶² 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).

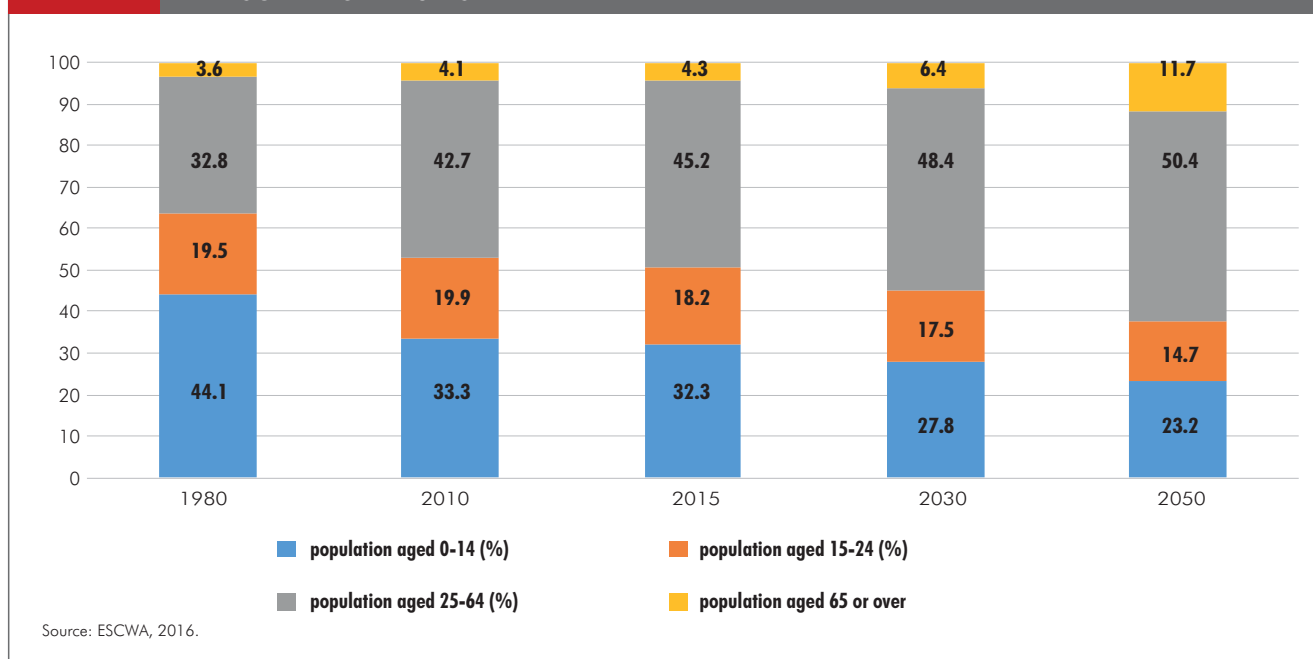
As is the case of the Addis Agenda, the Arab Scorecard remains cognizant that global geo-political and economic risks impinge on national and regional capacities to achieve the 2030 Agenda. It factors global risks and their regional spillover implications in so far as they frustrate the flow and sustainability 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).

FIGURE 19 DEMOGRAPHIC TRANSITION



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 2050.⁶⁶ 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.⁶⁷ 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

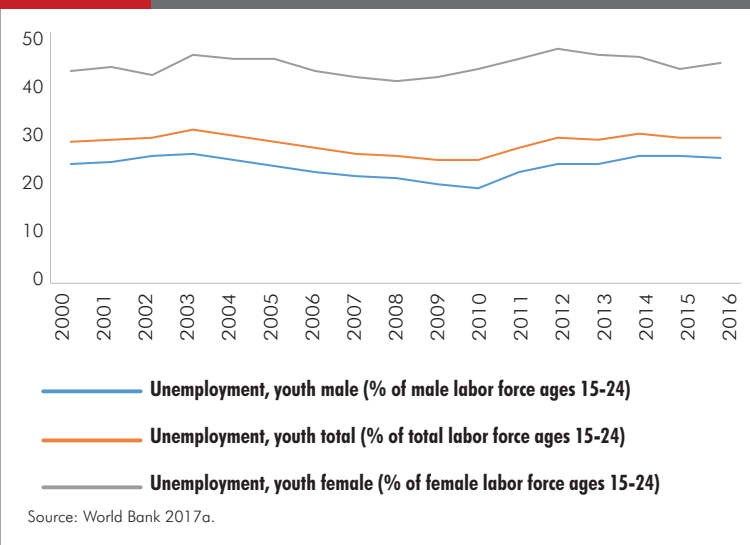
Conflict and political confrontation in several parts of the region have exacerbated the economic growth trends, particularly since 2010. Most recently, the ongoing crisis in Syria has not only resulted in a huge loss of capital stock but also reversed decades’ worth of development gains, adding greater 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 population⁷⁴, 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)⁷⁵, the opportunity

FIGURE 20

HIGH YOUTH UNEMPLOYMENT RATE IN THE ARAB REGION



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.

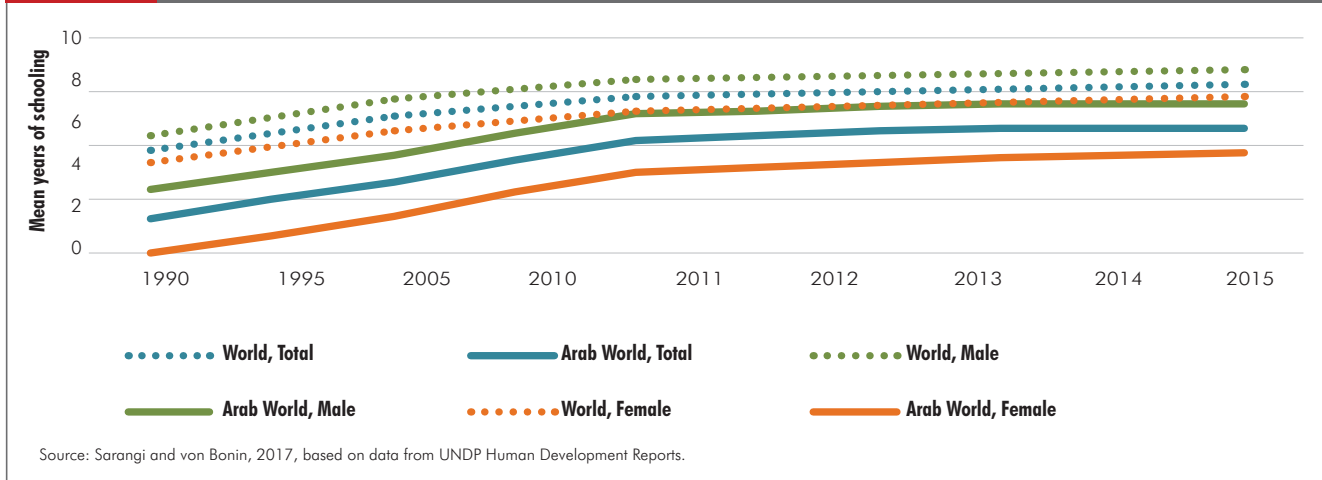
ESCWA had estimated the cost of conflict in the Arab region at USD 613.8 billion in forgone GDP⁷⁶. The Arab Scorecard basis its estimates of the opportunity lost associated with conflict – USD 752 billion between 2011 and 2015 – on the 2016 methodology published by IMF staff (Rother et al.) in 2016⁷⁷. 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 increase 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

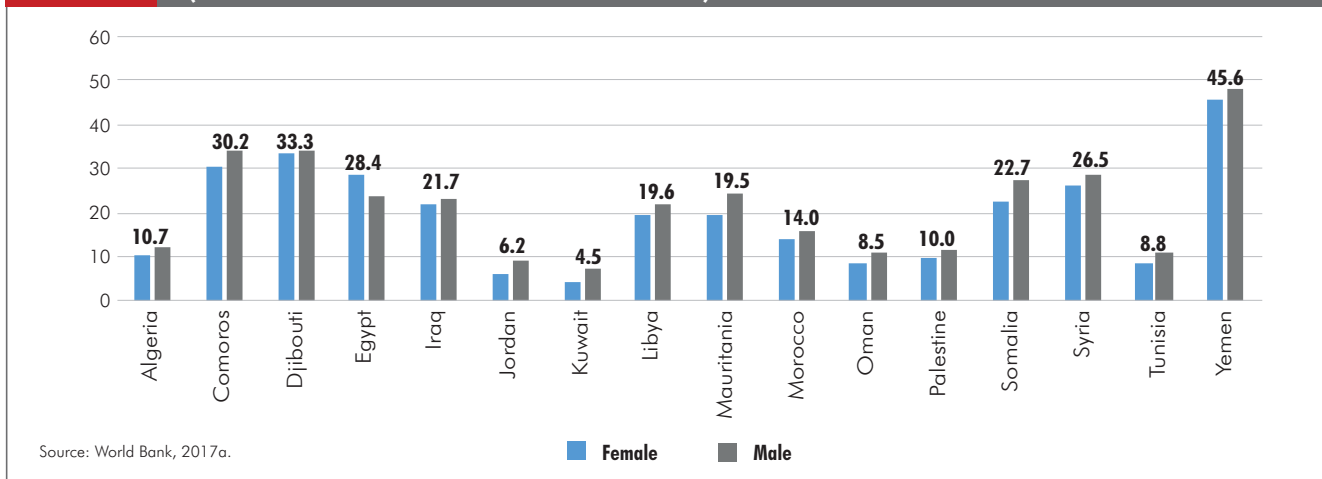
FIGURE 21 EDUCATION ACHIEVEMENTS IN ARAB WORLD LAGGED BEHIND THAT OF THE WORLD (MEAN YEARS OF SCHOOLING)



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.⁷⁹ 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 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.⁸⁰

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).⁸¹ 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.⁸² 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.⁸³

FIGURE 23 SOCIAL SPENDING HAS DECLINED AS PUBLIC BUDGETS HAVE DECREASED (PERCENTAGE OF GDP)

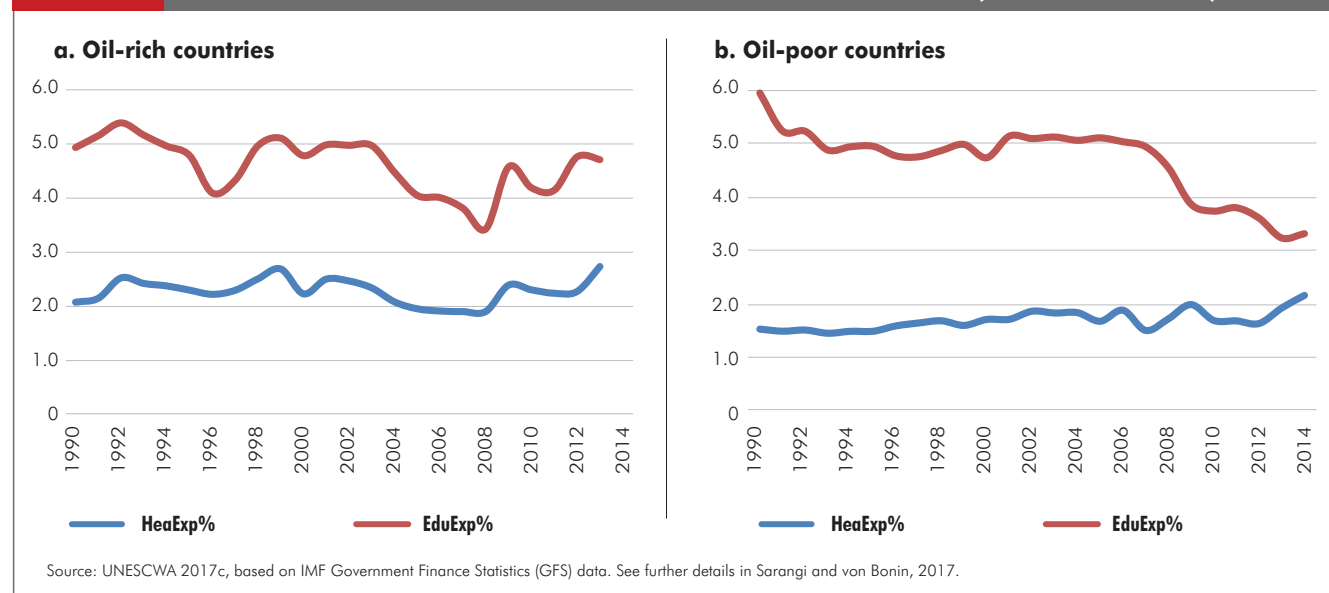
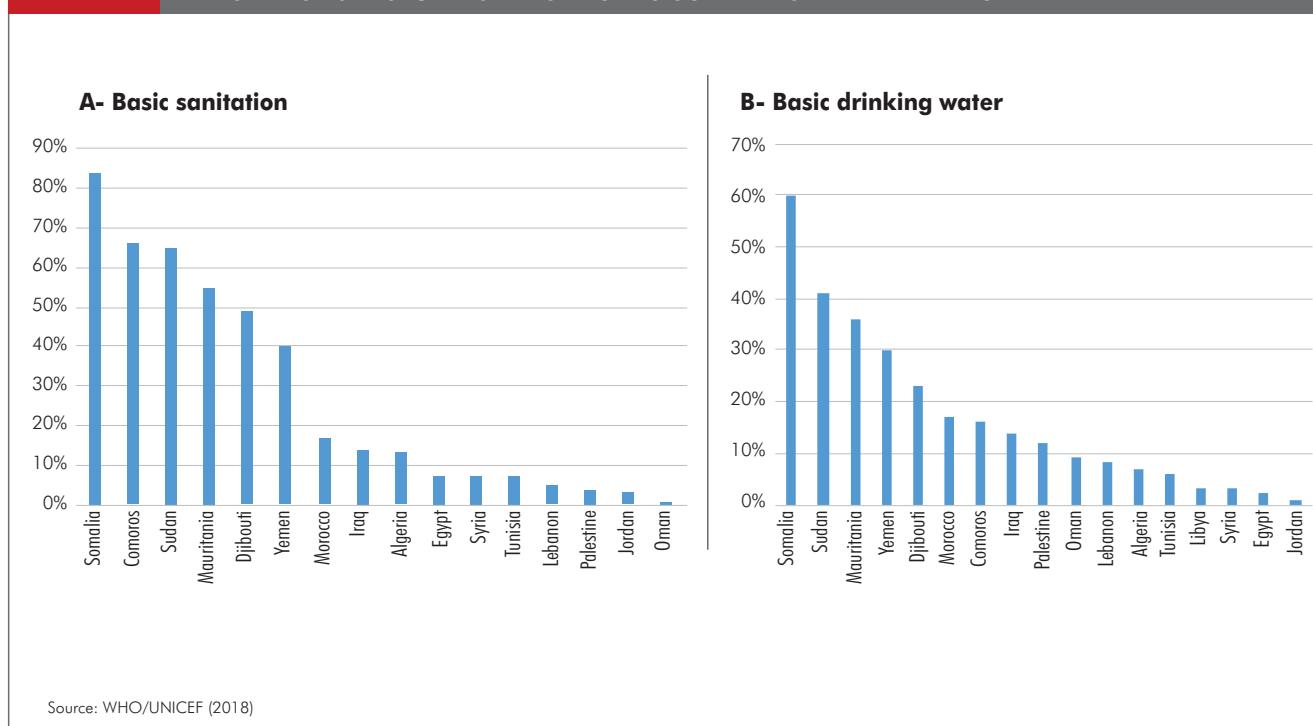


FIGURE 24 PERCENTAGE OF POPULATION LACKING BASIC SANITATION AND DRINKING WATER



The water sector also suffers from insufficient investments and ongoing conflicts and concerns over shared water resources: two-thirds of available fresh water resources in the Arab region are shared waters, including inter-Arab shared waters.⁸⁴ Financing needs for the water and sanitation sectors are estimated to be significant. At the global level, the World Bank estimates the need for USD 114 billion per year until 2030 to secure safe water and sanitation for all.⁸⁵ In the Arab region, as a result of population growth and rapid urbanization, financial resources are needed to upgrade and expand available infrastructure, including regular investments for the operation and maintenance of available structures to ensure proper and continuous delivery of services. Furthermore, significant investments are needed in conflict-affected areas in the Arab region to rebuild the destroyed infrastructure and/or to cater for internally displaced or refugees' needs.

E. Energy

Ensuring affordable, reliable, sustainable and modern energy for all is a priority for sustainable development and growth. Although Arab countries have taken some important leaps in

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”⁸⁶ 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

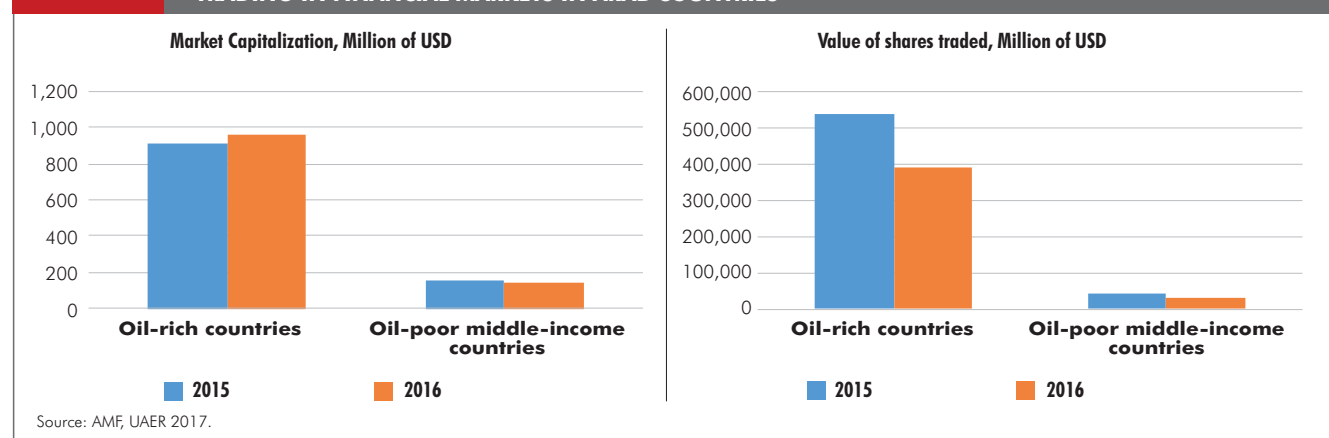
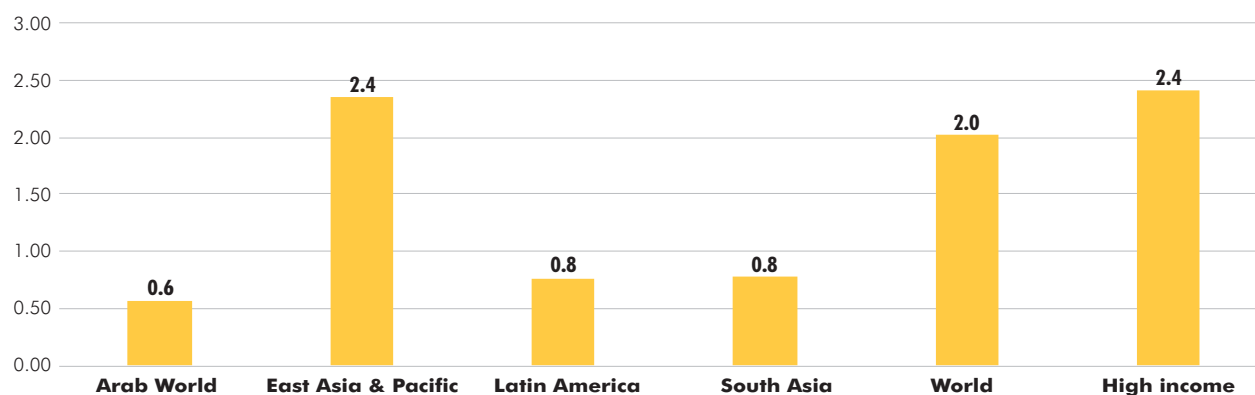


FIGURE 26

THE REGION HAS THE WORLD'S LOWEST RATE OF EXPENDITURE ON RESEARCH AND DEVELOPMENT, PERCENTAGE OF GDP, 2011



Source: ESCWA 2017c.

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.⁸⁷ 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.⁸⁸ 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

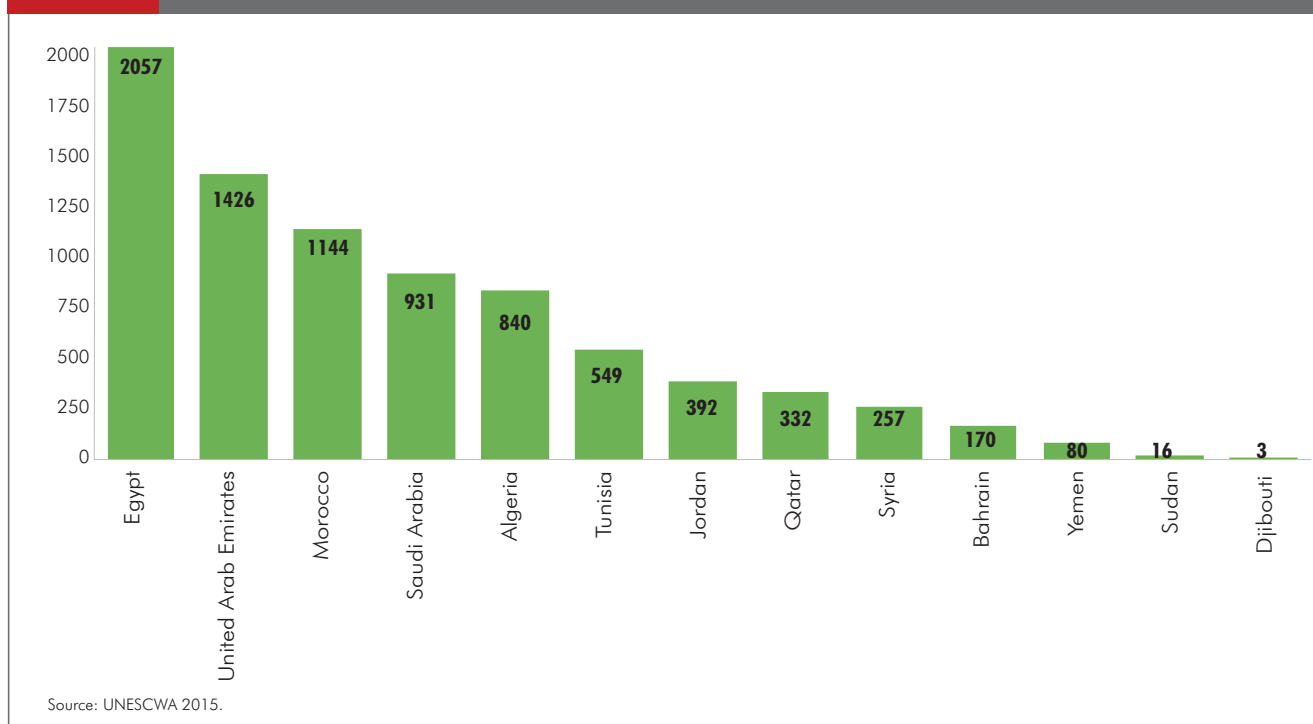
difference between pre- and post-tax income narrows by moving up the income distribution, with the difference being almost non-existent at the top end.⁸⁹

Corporate income tax across the region also suffers from widespread exemptions.⁹⁰ 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.⁹¹ 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-

FIGURE 27 PATENT APPLICATIONS FILED IN SELECTED ARAB COUNTRIES



broadening and improved compliance might increase by up to 2 percent of GDP.⁹² 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.⁹³

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.⁹⁴ 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,

OPINION

MOBILIZING FINANCE TO ACHIEVE SUSTAINABLE DEVELOPMENT GOALS

UNEP FINANCE INITIATIVE'S PERSPECTIVE

Eric Usher

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

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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 barrier¹.

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

ABOUT UNEP FINANCE INITIATIVE

The United Nations Environment Programme Finance Initiative² 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

1. ESCWA, Arab Sustainable Development Report, Prototype Edition, Technical Summary, 2015 https://www.preventionweb.net/files/45335_arabsustainabledevelopmentreport.pdf
2. UNEP Finance Initiative website: Changing Finance, Financing Change <http://www.unepfi.org/>

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'.⁹⁵

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.⁹⁶ 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,



trade tax revenues accrued hovered around USD 24.2 billion between 2011 and 2016.

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.¹¹⁰ 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 trade continues to provide marginal growth, as 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.¹¹¹

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/ffd/wp-content/uploads/2017/02/Illicit-financial-flows-conceptual-paper_FfDO-working-paper.pdf for the concept of IFF.

9. ESCWA, 2018a.
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).
13. Sarangi and El-Ahmadieh 2017.
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.
16. They include Egypt, Jordan, Lebanon, Morocco and Tunisia. See Sarangi and El-Ahmadieh 2017.
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.
18. See Sarangi and El-Ahmadieh 2017; UNESCWA 2017b.
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.
21. Sarangi and El-Ahmadieh 2017.
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.
23. Abed and Davoodi (2003)
24. AMF, 2016.
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.
26. AMF, 2016, p. 544.
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 UNESCWA 2018b.
28. OECD, 2016b.
29. Seek Development (2016).
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
32. Roy et al. 2011.
33. Savings in oil-rich countries show low investment propensity in non-oil sectors and, in more recent times, these countries are channelling less oil wealth to consumption and more to SWFs and/or public investment.
34. UNCTAD, 2018.
35. UNCTAD, 2018.
36. United Nations, 2017, p. 79.
37. Data extracted from IMF statistics database based on primary income. The data is missing for the following countries: Qatar, Mauritania, Somalia and UAE. Other countries have missing data for few years, which are: Algeria (2004), Bahrain (2015), Comoros (2013-15), Kuwait (2004-08), Libya (2014-15), Syria (2011-15), West Bank and Gaza (2007), and Yemen (2004).
38. UNCTAD, 2018.
39. UNESCWA 2018b.
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.
42. Khouri, 2008.
43. Assessing the Financial Gap in the Arab Region, ESCWA, 2017
44. (UNCATD 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.
48. ESCWA 2018b. The State of Financing Development in the Arab Region.
49. UNDP, 2011.
50. Ben Mim Sami and Ben Ali Mohamed S., 2012.
51. World Bank, 2017a.
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.
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55. UNFCCC. (2015). Paris Agreement on Climate Change. http://unfccc.int/files/essential_background/convention/

- application/pdf/english_paris_agreement.pdf
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, Lebanon, Mauritania, Morocco) benefited from the AF: in food security, rural development, and agriculture, amounting to a total of USD56 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, 2015a and ESCWA, 2015b.
 60. ESCWA, 2016b.
 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 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).
 62. UNESCWA 2018b. The State of Financing Development in the Arab Region.
 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.
 67. ESCWA and others. 2017a. Arab Multidimensional Poverty Report.
 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. UCDDP, 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 (Ouliaris, 2012).
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94. See Alvaredo and Picketty 2014.
95. AMF, IMF, World Bank, 2016.
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.
99. Chatham House, 2005.
100. WTO, n.d.
101. Sindico Francesco, 2005.
102. Lydgate Emile B., (2012).
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.
106. WTO, 2013.
107. Estevadeordal and Suominen, 2008.
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.
110. Karam Fida and Zaki Chahir, 2014.
111. Based on a regression analysis 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.

OPINION

SUSTAINABLE FINANCE IN THE UAE**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 (MOCCA) 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, MOCCA 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

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finance into their regular operations, due to the lack of adequate enforcement, high risk of green projects, long payback period, etc.

Subsequently, MOCCAIE 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. MOCCAIE 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.

OVERVIEW

THE ROLE OF THE WORLD BANK GROUP IN IMPLEMENTING SDGs IN ARAB COUNTRIES

Mahmoud Mohieldin

Introduction

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 poverty¹ dropped from 36 percent in 1990 to 11 percent in 2013², accounting to 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 (SDGs) 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-

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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 prices³. 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.

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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

OVERVIEW

EBRD'S EXPERIENCE IN FINANCING THE SUSTAINABLE DEVELOPMENT GOALS IN SOUTHERN AND EASTERN MEDITERRANEAN (SEMED)

Mattia Romani

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 m³ 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 Jordan, 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 Euro 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.

THE ROLE OF ARAB DEVELOPMENT INSTITUTIONS IN FINANCING SUSTAINABLE DEVELOPMENT

ABDUL-KARIM SADIK



صندوق أبوظبي للتنمية
ABU DHABI FUND FOR DEVELOPMENT



ARAB FUND FOR ECONOMIC
& SOCIAL DEVELOPMENT



الصندوق الكويتي للتنمية
Kuwait Fund For Development



ARAB MONETARY FUND



QATAR FUND
FOR DEVELOPMENT
صندوق قطر للتنمية



Uniting against Poverty



الصندوق السعودي للتنمية
The Saudi Fund for Development

I. INTRODUCTION

For the very first time, the international community unanimously agreed in 2015 to adopt an indivisible and integrated sustainable development agenda, comprising the economic, social and environmental dimensions. It is an ambitious agenda, embodying 17 goals and 169 targets aiming at eradicating poverty in all its forms, promoting prosperity and well-being for all people, protecting the integrity of the planet, establishing peace, and pledging that no one will be left behind. Achieving these goals at the national, regional and global levels is a challenging endeavor for which SDG 17¹, is the thread that weaves all SDGs together, as it calls for revitalizing the global partnership for sustainable development (UNGA, 2015).

As global partners in development cooperation, the Arab development institutions have since their inception been actively involved in delivering development assistance to Arab and other developing countries. Following the adoption of the sustainable development goals (SDGs) by the United Nations General Assembly (UNGA) in September 2015, the Arab development institutions declared their support for the SDGs and for fostering further cooperation towards promoting sustainable development in developing country partners.

II. ARAB AID

Arab aid has been delivered to other developing countries including Arab states directly by governments of Arab donors and their national development institutions, and indirectly by making contributions to the capital resources of regional and international financing institutions involved in channeling development assistance to developing countries.

In 1970, the UNGA adopted a resolution including that: “In recognition of the special importance of the role which can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance”, and: “Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum amount of 0.7 percent of its gross national product by the middle of the Decade” (UNGA, 1970). In this respect, adoption of official development assistance (ODA) by Arab donors – developing countries themselves – reveals a sense of belonging and an expression of solidarity among developing nations, as well as fostering South-South development cooperation.

TABLE 1 ARAB DONORS' NET ODA TO DEVELOPING COUNTRIES (1970-2015) (USD MILLION)

	1970-1989	1990-2014	2015 **	Total	(%) of Total
All Arab Donors	87,822	102,774	12,088	202,684	100.00
GCC Donors	81,022	102,535	12,088	195,645	96.53
Kuwait	13,639	12,509	1,517	27,665	13.65
Oman	204	671	20	896	0.44
Saudi Arabia*	56,284	71,645	8,258	136,188	67.19
Qatar	2,075	10,662	460	13,197	6.51
United Arab Emirates	8,820	7,049	1,833	17,697	8.73
Other Arab Donors	6,800	239	-	7,039	3.47
Algeria	1,138	45	-	1,183	0.58
Iraq	3,045	76	-	3,121	1.54
Libya	2,617	118	-	2,735	1.35

* Data for the years (1990-2015) are from the Saudi Ministry of Finance, they represent total development aid.
 ** Data for the year 2015 is actual except UAE and Qatar are estimated
 - Unavailable.
 Source: AMF, 2016

Cumulative net ODA from Arab donors to Arab and other developing country recipients amounted to about USD 203 billion over the period 1970-2015, as shown in Table 1.

In the context of development cooperation, Table 1 shows that four Arab donors (Saudi Arabia, Kuwait, United Arab Emirates, and Qatar) have over the last 46 years provided the bulk of Arab aid, with a share of over 96 percent of total net ODA disbursements. These Arab donors have also ranked among the top international donors in terms of their ODA/GNP ratio, which for example, averaged 1.14 percent and 0.86 percent in 2014 and 2015, respectively for three GCC countries, namely Kuwait, Saudi Arabia, and the United Arab Emirates (AMF, 2016). Those ratios exceeded by far the ODA/GNI² target of 0.7 percent set by the UN for developed countries, and are way above the averages attained by the DAC/OECD donors amounting to 0.30 percent in 2014 and 2015 (OECD).

III. AID TO ARAB COUNTRIES

Net ODA received by Arab countries from all sources amounted to about USD 300 billion over the period 1990-2014, equivalent to 13.8 percent of total net ODA received by developing countries amounting to about USD 2,177 billion over the same period (AMF, 2016). The share of 14 Arab recipient countries from total net ODA delivered to all Arab countries amounted to over 98 percent, as shown in Table 2.

Thus, as shown in Table 2, net ODA from all sources to Arab countries averaged about USD 12 billion annually over 25 years, from 1990 to 2014, representing about 4.72 percent of total net ODA to all developing countries. The main beneficiaries of this aid include six Arab country recipients (Egypt, Iraq, Jordan, Morocco, Palestine, and Sudan), with a share of about 74 percent. On the other hand, a major part of Arab donors' aid goes to other Arab recipient countries, reflecting the significance of the role of Arab donors in aiding development efforts in the Arab region, including aid delivered by Arab development institutions.

TABLE 2 ARAB COUNTRY RECIPIENTS OF NET ODA FROM ALL SOURCES (1990-2014)

Country	US\$ (Million)	Percentage (%)
Algeria	7,021	2.34
Djibouti	2,813	0.94
Egypt	52,832	17.65
Iraq	70,629	23.59
Jordan	18,441	6.16
Lebanon	10,146	3.39
Mauritania	6,938	2.32
Morocco	23,913	7.99
Palestine	30,239	10.10
Somalia	11,342	3.79
Sudan	24,948	8.39
Syria	14,547	4.86
Tunisia	9,894	3.30
Yemen	10,700	3.57
Sub total	294,403	98.33
Others	5,005	1.67
Total	299,408	100.00

Source: AMF, 2016.

IV. ARAB DEVELOPMENT INSTITUTIONS

With the aim of institutionalizing and streamlining development cooperation and making it more efficient and effective, Arab donors have launched the establishment of a number of Arab national and regional development institutions to channel, administer, supervise, and follow up on development assistance delivered to Arab and other developing countries.

Following the establishment of the Kuwait Fund for Arab Economic Development in 1961, a number of other Arab national and regional development institutions³ were created mostly during the first half of the 1970s. In addition, two other regional development institutions were created – the Islamic Development Bank and the OPEC Fund for International Development – with major contribution to their capital from Arab countries.

Considering the partnership aspects of development cooperation between aid donors and recipients and the requirements for addressing

and resolving issues related to preparation, implementation and operation of development projects, the Arab development institutions were staffed with professional expertise to consult with and provide advice to developing country partners, to ensure the expected benefits through effective development.

To strengthen the impact of their development assistance, the Arab development institutions realized at an early stage the need to coordinate their activities to ensure optimization of the available resources. They also saw value in mobilizing resources for financing development operations, especially for large projects, with capital costs beyond the means of one donor. To this end, they formed the Coordination Group (CG) in 1975, which has become known as the Arab Coordination Group (ACG), with a Coordination Secretariat at the Arab Fund for Economic and Social Development,

A. AGG's Development Operations

The Arab Coordination Group (ACG) institutions have expanded their development cooperation with Arab and other developing country partners to cover regions and countries across the globe. The list of ACG's recipients included 146 countries by the end of 2017, with cumulative commitments of about USD 204 billion for financing 9,454 development operations, as shown in Table 3.

In addition to the wide geographical coverage, an important feature of ACG's development

operations relates to their sectoral diversity, including both the infrastructure sectors, the productive sectors, as well as other sectors, as seen in Table 4.

The ACG institutions have played an important role in the development efforts in the Arab region, as demonstrated by a share of about 53 percent of cumulative funding commitments to Arab countries, as presented in Table 3 above. The sectoral distribution of project financing in Arab countries shown in Figure 1 reflect the priorities of the recipients, with a share of nearly one-third of total commitments to meet the growing demand for energy, particularly electricity.

Besides providing development assistance, the ACG institutions avail developing country partners their advisory services and consultation with them concerning all matters related to the preparation, implementation and operation of the supported projects. This includes assisting partner beneficiaries through advice and consultation, in resolving problems confronting the orderly and timely completion of development projects and programs. In the same vein, technical assistance is an integral part of ACG's aid activities designed to help recipients enhance their capabilities in owning and leading the execution of their development activities.

B. AGG's Policies And Procedures

As development institutions founded by Southern countries to foster solidarity with other Southern developing countries, the ACG's development

TABLE 3 GEOGRAPHICAL DISTRIBUTION OF ACG'S AID RECIPIENTS (AS OF END 2017)

Region	No. of Countries	No. of Operations	Amount (USD M)*	(%)
Arab Countries	22	3,512	107,992	52.9
African Countries	44	3,187	34,141	16.7
Asian Countries	35	1,918	53,524	26.2
Latin American Countries	26	374	3,755	1.8
Other Countries	19	145	4,648	1.8
Institutions and Organizations	-	317	958	0.5
Grand Total	146	9,454	204,017	100.0

* Rounded to the nearest 1 million
Source: Secretariat of the Coordination Group, Arab Fund for Economic and Social Development.

operations are shaped by common features, including the following:

- (a) Diversity of financing mechanisms, including loans, equity participation, foreign trade financing, leasing, profit sharing and instalment sale, in addition to grants and technical assistance.
- (b) Diversity of developing country partners across different world regions.
- (c) Development cooperation based on mutual respect.
- (d) Respect for the development priorities of partner countries.
- (e) Periodic review of coordination activities.
- (f) Flexible policies and procedures.
- (g) Facilitating co-financing through the use of country systems.
- (h) Mostly concessional loans and untied financing.
- (i) Mobilizing resources for development operations through co-financing with other donors, especially for large size projects.

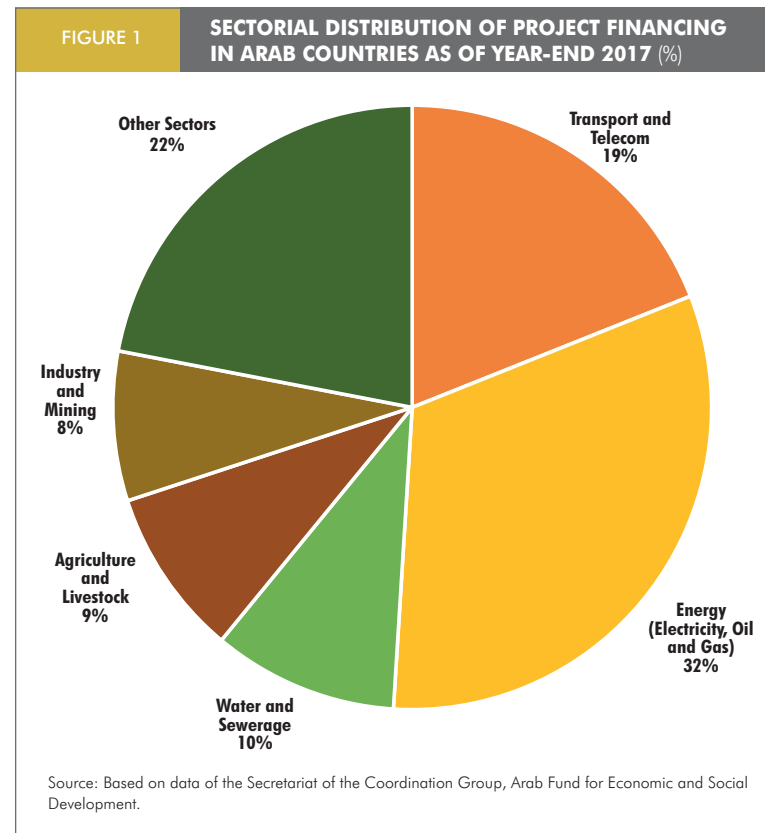
In addition to the above enumerated features of their development financing operations, the ACG institutions have prepared a number of documents, as shown in Table 5, to serve as a common procedure in their development cooperation with partner countries.

V. FINANCING SUSTAINABLE DEVELOPMENT IN ARAB COUNTRIES

Arab countries stand at different levels of development with Gross National Income (GNI) per capita ranging between USD 770 for the Comoros and USD 75,750 for Qatar with an average GNI per capita for the Arab region of USD 6,584, compared to an average of USD 10,308 for the world (World Bank). Prospects for making progress on achieving the 2030 Development Agenda and the related SDGs

Sector	Amount (US\$ M)**	(%)
Transport and Telecom	43,116	21.2
Energy (Electricity, oil and Gas)	60,213	29.5
Water and Sewerage	16,742	8.2
Agriculture and Livestock	21,152	10.4
Industry and Mining	12,691	6.2
Other Sectors***	49,982	24.5
Grand Total	203,896	100.00

* Commitments of donors' institutions
** Rounded to the nearest 1 million
*** Other sectors Include financing operations for national development institutions, health, education, training, housing, and balance of payments support.
Source: Secretariat of the Coordination Group, 2017.



depend on a number of factors including: the extent of progress made by each Arab country on the MDGs; the state of natural resources – especially land and water – and their capacity to contribute to the attainment of the SDGs; and the size of development assistance that could be mobilized from various sources, including Arab and other donors, the ACG development

institutions, other regional and international financing institutions, and the private sector, in addition to domestic sources.

The UNGA adopted, in September 2015, an all inclusive, universal Agenda on sustainable development premised on the integrated economic, social and environmental dimensions, with 17 goals and 169 targets to be achieved by 2030, while building upon the progress of the expiring MDGs, which have been replaced by the broader and more ambitious SDGs. As already pointed out, the Arab countries have been the major recipients of development assistance delivered by the ACG, who made concerted efforts to assist them and other developing countries in achieving the MDGs adopted by the UNGA at the turn of the century in September 2000.

Following the adoption of the 2030 development Agenda, the ACG institutions pledged their support and commitment to the SDGs through their declaration in January 2016, reflecting their keen position to help developing country partners in their endeavors to achieve the SDGs and associated targets. The declaration stresses, *inter alia*, “the principle of ownership which makes countries solely responsible for their development”. However, it notes that “the success of the SDGs is predicated on a partnership between developed and developing countries that goes beyond a mere transfer of financial resources and embraces all the means of implementation of the 2030 development agenda” (CG, 2016).

The Arab countries have subscribed to the SDGs and expressed strong commitment to their implementation. On the other hand, the ACG institutions as development providers have reiterated their firm commitment to the SDGs, which go further to complete the unfinished business of the MDGs and promote prosperity, while protecting the environment.

A. Prospects For Financing And Achieving The Arab SDGs

The universal and visionary SDGs to be achieved over a 15-year period, with a deadline in 2030, are ambitious, aspirational, broad-based, and interrelated. They aim, among others, to eradicate poverty and hunger and leave no country or person behind, while underlining the interconnectedness and interlinkages between the social, economic and environmental dimensions of sustainable development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987).

In this regard, achieving the SDGs in Arab countries is a challenging endeavor, with compounding difficulties arising from lack of progress on the MDGs in most Arab countries, relatively high population growth rates, with increasing demand on available natural resources, particularly limited land and scarce water resources, in addition to environmental degradation.

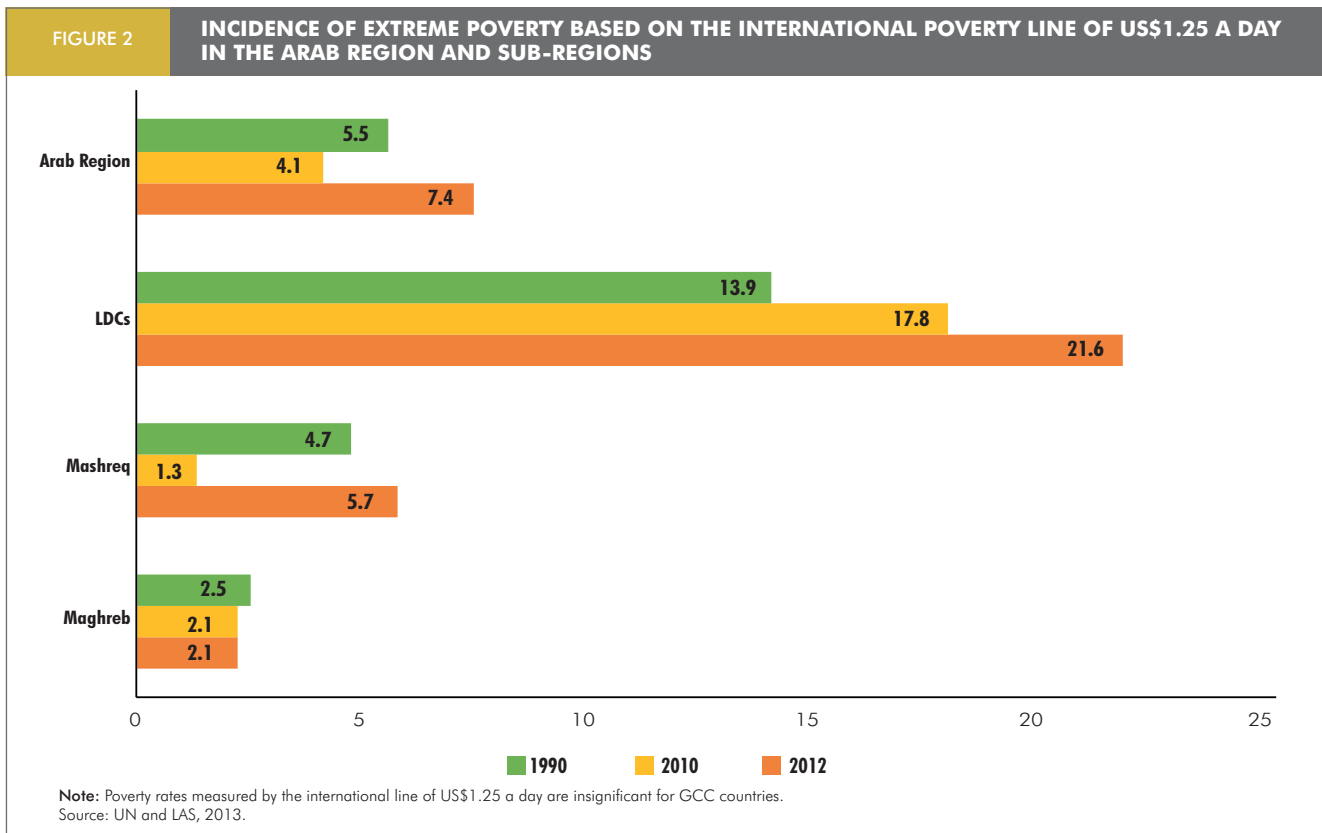
Progress made towards the MDGs in Arab countries determines the extent of efforts and size

TABLE 5

ACG'S COMMON PROCEDURE DOCUMENTS

- Guidelines for the Use of Consultants.
- Model Agreement for Consulting Services (Design and Supervision of Construction of Civil Engineering Works/Electrical and Mechanical Works).
- Model Agreement for Consulting Services (feasibility studies).
- The Guidelines for the Procurement of Goods and Contracting for the Execution of Works.
- The Standard Tender Documents – Procurement of Goods.
- Standard Registration Form for Consulting Firms.
- Standard Introductions to Tenderers and Conditions of Contract for the Procurement of Works of Civil Engineering Construction.
- Guidelines to Environmental Requirements for Development Projects

Source: <http://www.arabfund.org/Default.aspx?PageId=603>.



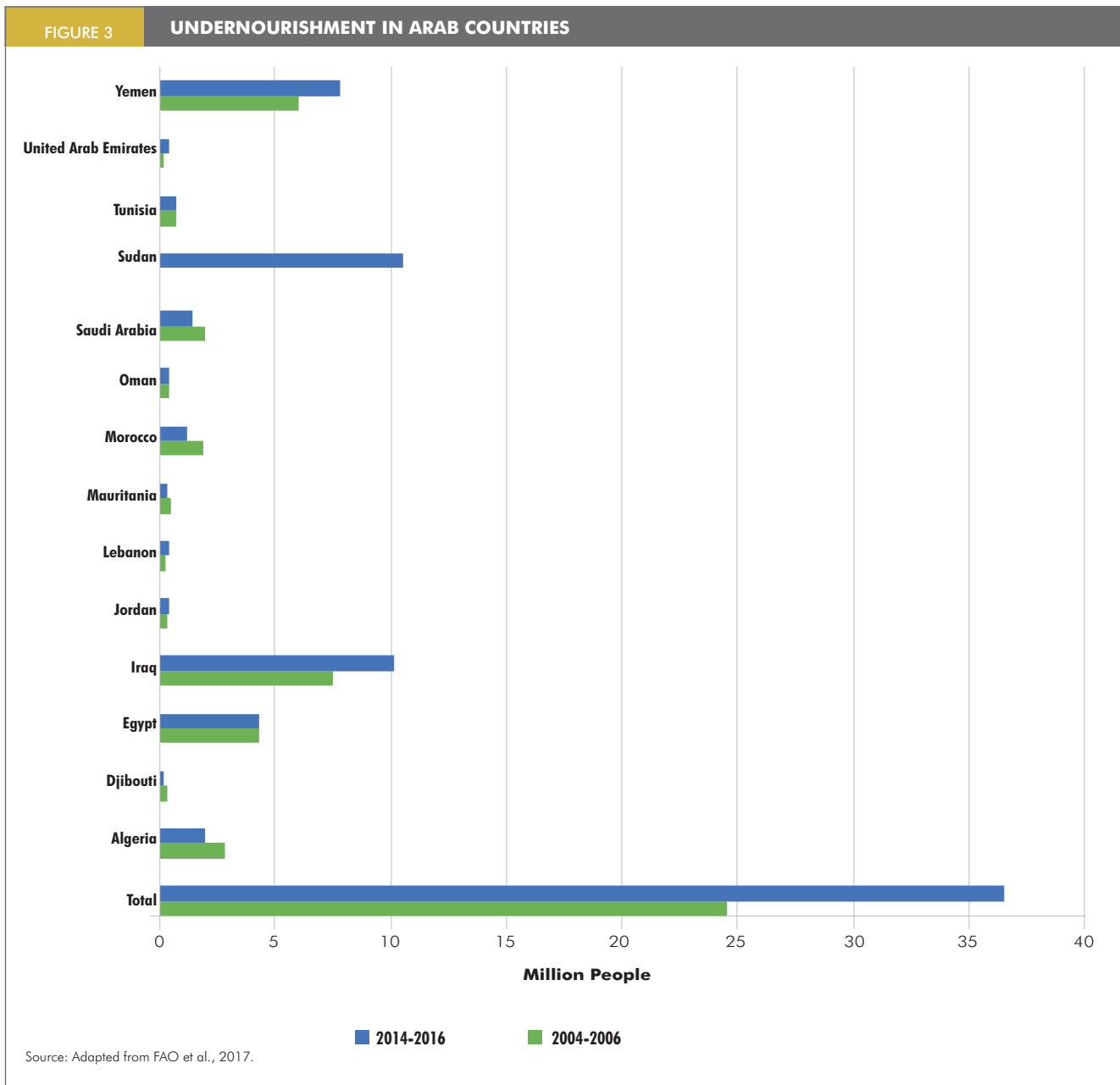
of resources to be deployed in the implementation of the SDGs, which build on the progress of the MDGs, and go further to address the challenges of the more inclusive concept of sustainable development.

Two years prior to the 2015 expiry deadline for the MDGs, a progress report on the MDGs for the Arab region was released in 2013, which showed progress made towards the MDGs over the period 1990-2012. Despite the impressive progress made towards some MDGs, the achievements were below aspirations and uneven. The report shows that “the region lags behind on some important targets, particularly those related to combating hunger. Political, social and economic transitions since 2010 have had significant impacts including halting or reversing MDG gains in some countries of the region. Least developed countries (LDCs) remain behind on many fronts” (UN and LAS, 2013).

Considering the overarching MDG on eradicating extreme poverty and hunger, the target of this goal in the Arab region declined considerably from 5.5 percent in 1990 to 4.1 percent in 2010. However,

the ratio rebounded again to reach 7.4 percent in 2012, as indicated in Figure 2.

Figure 2 shows that extreme poverty in the Arab region⁴, the LDCs and the Mashreq sub-regions went up from 5.5 percent, 13.9 percent and 4.7 percent in 1990 to 7.4 percent, 21.6 percent, and 5.7 percent in 2012, respectively, while in the Maghreb it improved slightly from 2.5 percent to 2.2 percent over the same period. The trend of progress at the Arab regional level and in the Mashreq between 1990 and 2010 was reversed due to political transition and conflicts. For example, extreme poverty in Syria was estimated at 7.9 percent in 1997 and declined to 0.3 percent in 2007, but rose again to 7.2 percent between 2012 and 2013 (UN and LAS, 2013). Related aspects to extreme poverty in the Arab countries include hunger, food security, and sustainable agriculture. Combating hunger in Arab countries lagged behind, and while undernourishment affected about 27 million people in 2004-2006, it increased to about 39 million people in 2014-2016, but it remained flat in Egypt, Oman, Tunisia, and went up in Iraq, Jordan, Lebanon,



United Arab Emirates and Yemen, as shown in Figure 3.

In its report *Sustainable Development in a Changing Arab Environment*, the Arab Forum for Environment and Development (AFED) concludes: “Boosting the prospects of making steady progress towards the SDGs in the Arab countries will depend largely on adopting national development strategies with full recognition of the inseparable links between the social, economic, and environmental dimensions of sustainable development, including

giving due consideration to unlocking the developmental benefits of cooperation and regional integration. Arab conflict countries, however, need to exert extraordinary concerted efforts for peace building and restoration of political stability in order to establish a post-conflict environment conducive to the implementation of the post-2015 development Agenda and the achievement of the SDGs” (AFED, 2016).

The report points out that past strategies in Arab countries lacked the holistic and inclusive

approach to development, and that even if conflicts and wars can end immediately, the Arab countries cannot achieve the SDGs by 2030 while pursuing traditional methods. They need to reinstate a new approach to sustainable development to address a series of challenges facing them, especially those countries whose prospects for achieving the SDGs by 2030 have been decimated by the devastating and disastrous conflicts and wars in the past years. Consequently, hopes of these countries have largely faded away to no more than reinstating the status quo which prevailed in 2010, rather than achieving the SDGs by 2030 (AFED, 2016).

Furthermore, in 2017, AFED reviewed the state of 'Arab environment in 10 years' based on the annual reports it produced since 2008, addressing major development issues in the Arab region including water, food security, energy, green economy, ecological footprints, sustainable consumption, and climate change. It found that disparities characterized the state of environment in Arab countries, reflected in continued deterioration in many aspects and progress on some fronts. Countries facing political unrest and instability, in particular, lacked improvement, while others have made strides by adopting adequate policies towards shifting to a more suitable path of development, enabled by financing more investment in environment infrastructure (AFED, 2017).

This situation has been further accentuated by the severe damage and destruction of economic and social infrastructure, in addition to huge loss of lives, displacement of people and migration caused by the conflicts and wars that flared in recent years in some Arab countries. The repercussions of these events have far-reaching

implications on the prospects of sustainable development in the conflict countries, and will impact their development strategies and policies which will shape the post-conflict period, and the size of resources required for reconstruction and development, as well as for the implementation of the SDGs. Establishing permanent peace and stability is an indispensable prerequisite for creating an environment conducive to sustainable development and effective development cooperation.

VI. EFFECTIVE PARTNERSHIPS FOR THE IMPLEMENTATION OF THE ARAB 2030 AGENDA

The ACG institutions are well positioned to deliver effective development assistance to Arab and other developing countries in the context of SDG 17 and its targets. In this respect, they can play an important role in the implementation of the Arab 2030 Agenda within the wider global partnerships among development providers, while developing country partners take the responsibility of owning and leading the implementation of the Sustainable Development Agenda. The ACG institutions can rely on their resourcefulness in terms of their long-standing development cooperation marked by experience, lessons learned, coordination among the group members, cooperation with other development providers, flexible policies, best practices and procedures consistent with country systems to ensure results-oriented and effective development operations. In this context, they have endorsed the international declarations adopted by several High-Level Forums such as the Paris Declaration in 2005 on aid effectiveness,

TABLE 6

PARIS DECLARATION PRINCIPLES ON AID EFFECTIVENESS

1. OWNERSHIP: Developing countries set their own development strategies, improve their institutions and tackle corruption.
2. ALIGNMENT: Donor countries and organizations bring their support in line with these strategies and use local systems.
3. HARMONIZATION: Donor countries and organizations co-ordinate their actions, simplify procedures and share information to avoid duplications.
4. MANAGING FOR RESULTS: Developing countries and donors focus on producing, and measuring, results.
5. MUTUAL ACCOUNTABILITY: Donors and developing countries are accountable for development results.

Source: OECD. www.oecd.org/dac/effectiveness/45827300.pdf.

OVERVIEW

THE ROLE OF THE ISLAMIC DEVELOPMENT BANK (ISDB) GROUP IN FINANCING SUSTAINABLE DEVELOPMENT GOALS

Rami Ahmad

In 2015, the international development community and the governments of 193 countries signed on a new agenda – the 2030 Agenda – for comprehensive and sustainable human development. The new Agenda aspires to achieve 17 high level Sustainable Development Goals (SDGs) and 169 specific targets, encompassing the social, economic and environment dimensions of development. The difference in the SDGs is not only the comprehensiveness of the goals that encompass all dimensions of development, but also the innovative framework for the implementation of SDGs with heavy emphasis on multi-stakeholder partnerships as one of the main ways for successful implementation. Moreover, unlike the Millennium Development Goals (MDGs), the SDGs were consulted over a period of three years with more than seven million consultations from both developing and developed countries.

At the Islamic Development Bank (IsDB) Group, we are fully committed to helping our member achieve the SDGs. Our commitment stems from the fact that all our member countries have signed and committed to achieve the SDGs. Moreover, our motivation to participate in achieving the SDGs not only comes from our dedication to solving the development challenges of our member countries, but is also motivated by our convictions embodied within the principles and objectives of the Islamic Shariah. Such an aspiration for human dignity and leaving no one behind is fully in line with the principles and objectives of development from an Islamic perspective (Maqasid Al-Shariah).

Our commitment to the SDGs is being manifested inside our organization through what we call the “4As” – Awareness, Alignment, Advocacy and Adaptation – within the realm of the SDGs. We are creating professionals’ networks and platforms to share experiences and expertise among our staff, both horizontally and vertically, in order to ensure that best practices in achieving the SDGs are quickly and efficiently mainstreamed within the bank’s activities and across global practice complex (e.g. environment & climate, energy, youth, etc.). We have established a dedicated Community of Practice (CoP) for the SDGs at the IsDB Group. The CoP was

launched in mid-2017 to spread awareness and develop core expertise, generate knowledge and provide an intellectual environment to discuss innovative solutions for MCs to achieve SDGs. The CoP implemented and participated in many internal and external events, and publishes a quarterly newsletter: “The SDGs Digest”.

Regarding the role of the IsDB Group in financing the sustainable development goals, we will focus on three strategies/techniques, all of which related to the Islamic Finance.

1- Promoting Islamic finance as a way of reducing the funding gap for the SDGs

It is important to understand the context in which Islamic finance must have special emphasis in order to achieve the SDGs. It is estimated that achieving the SDGs requires USD 2-3 trillion annually until 2030, out of the international GDP of approximately USD 115 Trillion¹. However, the amount of Official Development Assistance (ODA) is merely around USD 143 Billion annually², and total financing by multilateral developments banks (MDBs) is about USD 127 billion annually³. Clearly, and regardless of the accuracy and variations in the estimates, there is a huge financing gap that needs to be resolved if the development community is serious about achieving the SDGs. In order to reduce this gap, many creative initiatives will have to come alive and enhanced partnerships that are smarter and more substantial will need to be forged.

There is a great potential for Islamic Finance to help bridge this financing gap. Since 23 percent of the world’s population embraces Islam, the deployment of Islamic Finance solutions could attract millions of those who voluntarily have withdrawn from the financial system for religious reasons. According to OIC reports, 11 percent of the population in Organization of Islamic Conference Member Countries (OIC MCs) list religion as a reason not to participate. Moreover, the total assets for Islamic Finance are reaching USD 2.3 trillion, with an annual growth exceeding 15 percent globally. This growth appears to be not only because of religion but because it is proving to be a viable and more stable financial model that brings new dimension to the global financial system. Therefore, the deployment of Islamic Finance solutions,

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which is one of the main IsDB Group's mandates, has the potential to play a very important role in achieving the SDGs.

2- Role of Islamic Capital Markets in Achieving SDGs

In the wake of challenges faced by global financial landscape in today's world, the global financial order could benefit from a new banking and finance paradigm – one that is built on the principles of economic and social justice, risk sharing and direct linkages with real economy and avoidance of excessive speculation. Islamic finance is inherently structured to service this new paradigm, as highlighted by the 2017 Global Report on Islamic Finance co-authored by the IsDB and the World Bank. It could thus help to address the environmental, social and governance (ESG) issues central to sustainable growth and development and support the timely implementation of the Sustainable Development Goals in the IsDB member countries.

The Islamic finance industry has grown at a double-digit rate and grew to around USD 2.3 trillion in 2016 and is expected to reach somewhere between USD 3 and

4.3 trillion by 2020. While the Islamic finance industry continues to be dominated by the banking sector assets, which comprise nearly 75 percent of the overall industry, capital markets, at around 20 percent, remain a critical segment in the industry. Within the Islamic capital market, sukuk, or Islamic bonds, are becoming vital instruments used by both sovereigns and corporates for resource mobilization.

The IsDB itself has been issuing sukuk since 2003, using the market mobilized funding to complement its own equity. To date, we have raised a total of USD 21 billion through sukuk to finance development projects in our member countries. Recent trends in the issuance of sukuk are very optimistic. More specifically, total international sukuk issuances stood at around USD 95 billion by the end of 2017, after more than USD 85 billion in 2016. Of this, more than USD 50 billion worth of sukuk were issued by sovereigns, amounting to 70 percent of the total in 2017, compared to about 45.5 percent in 2016.

Although the sukuk market is still in its formative stages and is only a fraction of global fixed income market, it has developed at a significant pace and holds good potential for further development. IsDB is not the only development institution utilizing sukuk to raise funds for development; other MDBs such as the World Bank and International Finance Corporation (IFC) have tapped Islamic capital markets to mobilize funds. It is worth noting that Global Alliance for Vaccine and Immunization (GAVI) issued a sukuk that raised over USD 700 million to help protect tens of millions of children against preventable diseases. This is truly a social impact investment on a grand scale. There are so many more innovative and creative instruments, from green sukuk to FinTech, Socially Responsible Investments (SRIs) and Ethical Investment funds, which can be utilized to achieve SDGs.

3- From Financing to Empowerment: IsDB Inclusive Economic Empowerment Finance Facility (IEEF)

At the IsDB we believe that throwing money at the poor will not solve their problems, and may make the problem worse by transforming the poor into the indebted poor. In fact, whilst the number of poor has reduced, this is mainly because of two countries: China and India. The absolute number of the poor has risen in Sub-Saharan Africa. The Islamic world therefore needs to shift from financing to empowerment. IsDB emphasizes that access to finance is necessary but not enough, as a shift is needed towards empowering- which ensures moving from finance for

development to empowerment for development. This gives empowerment tools to poor people, besides providing the finance.

One way to achieve this empowerment is what we call “IsDB Inclusive Economic Empowerment Finance Facility” (IEEF), which is an innovative Poverty Alleviation and Economic Insertion Program tailored to promote investment partnership, foster development and promote wealth with potentially active poor and economically disadvantaged people and communities. The IEEF strategy is to promote economic empowerment of this group through access to adequate financial and business development services, enabling them to grow from striving for self-subsistence and employment, to self-employment through entrepreneurship in viable and consistent investment opportunities.

An example of IEEF achievements in our member countries is the project of helping microfinance institutions in Sudan. The main beneficiaries of that project were over 80 microfinance institutions and bank branches, as well as 200,000 micro-entrepreneurs in Sudan and more than one million of their family members.

Finally, as part of the ongoing effort to align the bank’s delivery capability with its corporate goals, several new measures are currently under consideration to increase its leverage capacity and to crowd in private investment and mobilize resources through smart partnerships. A pertinent illustration of unlocking market resources

– through a multilateral financial intermediary – with donor funding is the recently established bank-administered Lives & Livelihoods Fund (LLF). LLF is a USD 2.5 billion blending facility launched in late 2016 in partnership with the Bill & Melinda Gates Foundation and with the generous support of the Islamic Solidarity Fund for Development (ISFD), KSA, Qatar and the UAE. It addresses poverty and disease in member countries, not by only access to finance, but also by empowerment for development.

In conclusion, it is through innovative Shariah-compliant financing mechanisms and mobilizing resources through smart partnerships that the IsDB will be able to continue participating in financing sustainable development goals (SDGs), by addressing the impact and root causes of poverty and enhancing the economic and social resilience of member countries and communities.

NOTES:

1. Hendrik du Toit, Aniket Shah and Mark Wilson, Ideas for Action for a Long-Term and Sustainable Financial System, a paper commissioned by the Business and Sustainable Development Commission, January 2017.
2. OECD, Development aid rises again in 2016, OECD – Paris, 11 April 2017
3. Inter-Agency Task Force on Financing for Development, Multilateral Development Banks (MDBs): Issue Brief Series from the World Bank, August 2016.

and later the Busan Declaration on development effectiveness in 2011.

The Paris Declaration encompasses five principles that make aid more effective by tackling issues that have undermined development efforts over the past decades. These principles and their implementation are described in Table 6.

While development partners – both developing countries and donors – acknowledged the adoption of the Paris Declaration principles, their consequent experiences in development cooperation, particularly regarding progress on the MDGs, demonstrated the need to shift the focus from aid effectiveness into the broader concept of development effectiveness, which incorporates

all other factors such as policies, measures, the business environment, and governance that have an impact on the achievement of the desired development goals and the well-being of people.

The shift to the development effectiveness paradigm was proclaimed in the Busan Declaration and the creation of the Global Partnership for Effective Development Cooperation (GPEDC) in 2011. As a multi-stakeholder platform, its mandate was “to advance the effectiveness of development efforts by all actors, to deliver results that are long-lasting and contribute to the achievement of the Sustainable Development Goals (SDGs)” (GPEDC). A steering committee comprising membership of diverse development stakeholders, including the

ACG institutions represented by OPEC Fund for International Development (OFID), was established as a multi stakeholder governing body to guide the work of the Global Partnership and ensure its transparency.

By endorsing and adopting the principles of aid and development effectiveness and occupying a constituency seat on the Steering Committee of the GPEDC, the ACG institutions have been unanimously acknowledged as a peer stakeholder in global development cooperation.

In addition to playing an active role in strengthening and streamlining the discourse on development cooperation, the ACG engages in dialogue with major development partners such as, for example, the Development Assistance Committee (DAC), and the World Bank to promote the facilitation of working together towards the achievement of the SDGs. Thus, the ACG institutions' global partnership outreach on development cooperation broadens the landscape of their co-financing operations and the enhancement of their effectiveness. It is each Arab country's own responsibility to be well prepared to fulfill the requirements for the implementation of its 2030 Agenda and the SDGs with due consideration and adherence to the principles of effective and sustainable development.

VII. IMPLEMENTATION OF ARAB SDGs

Implementation of the SDGs in Arab and other developing countries is a challenging endeavor due to the multiple goals and their wide-ranging and interrelated targets.

Financing is a core and an indispensable requirement for the realization of the SDGs. Indicative financing requirements for eight selected Arab countries⁵ are estimated at about USD 3.6 trillion, with a financing gap of USD 2.9 trillion, exhibiting great variability across countries. This gap represents the lower band of the estimates, as they do not take into account the cost of environmental degradation amounting to an additional 5 percent of GDP in the region (ESCWA, 2015).

In view of the huge financing gap, Arab countries need to exert concerted efforts to mobilize

resources for the implementation of their SDGs. In this respect, both domestic and foreign sources of capital need to be tapped. However, mobilization of domestic resources requires the adoption of implementable policies and measures for fair, equitable, and efficient tax revenue systems. On the other hand, considering that ODA resources are limited, and debt financing is constrained by debt sustainability indicators, a greater role of the domestic and foreign private sector is envisaged in financing the SDGs. To this end, Arab countries need to boost confidence in the business climate to attract funding for the SDGs. Moreover, they need to broaden the scope of financing methods to include all feasible innovative financing mechanisms.

The ACG institutions, through their coordination among themselves and in cooperation with other development providers and stakeholders, can play an important role in supporting the implementation of the SDGs in Arab countries, albeit with the leadership and ownership of a country for its Development Agenda. In this respect, progress on and achievement of the SDGs require each Arab country, in addition to mobilization of resources, to work and act in tandem with the conditions underpinning successful implementation of the 2030 Development Agenda, particularly the following:

- Full recognition and understanding of the universality, complexity, diversity, inclusiveness, and interdependence of the SDGs, which render their implementation a challenging and daunting task, requiring continued and concerted efforts.
- Each country needs to develop and adopt a clear strategic action plan, which takes into account its specific circumstances, and embraces the economic, social, and environmental dimensions of sustainable development.
- Prioritization of the SDGs and sequencing them for implementation with due consideration to their linkages and synergetic benefits and tradeoffs.

The UN Declaration on the 2030 Agenda and its SDGs recognizes and stresses the interconnectedness of the SDGs and their entire

implementation as indispensable for achieving sustainable development. Therefore, the role of each SDG and its impact on sustainable development needs to be carefully assessed in the process of prioritization and sequencing for implementation.

Within the framework of the post-2015 development Agenda, the preamble Transforming our World: The 2030 Agenda for Sustainable Development emphasizes that “eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development” (UNGA, 2015). As such, ending poverty is a top priority goal for achieving sustainable development. In this respect, SDG 1: End poverty in all its forms everywhere; and SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture, are interlinked and their targets are intertwined not only with each other, but also with other SDGs and targets.

Arab countries have long been pursuing a target of higher food self-sufficiency ratio, but achieving progress on this goal remained beyond reach. The goal neither kept pace with population growth, nor was it sufficient to reduce reliance on food imports. Arab countries today remain largely net importers of food, especially cereals, which constitute the main staple food commodity in the region. This heavy reliance on food imports exposes Arab countries to the vulnerability of food supply chains and volatility of food prices, as was evidenced by the events and consequences of the sudden eruption of the 2007-2008 global food crisis.

In this regard, Arab countries have endorsed the SDGs and pledged commitment to their implementation, giving high priority to food security as underlined in SDG 2. In pursuing the implementation of this goal and other SDGs, they need to respond to an array of complex challenges, including the interlinkages and interactions among SDGs, particularly SDGs relating to food security and sustainable agriculture. The implementation of SDG 2 as a priority goal by Arab countries is highlighted as an example of the interlinkages and interactions among the SDGs, and the need to unlock their synergetic effects, while recognizing the trade-offs that have to be made.

With regard to the implementation of SDG 2, its target (2.4) stipulates: “By 2030, ensure sustainable food production systems and implement resilient practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality”. Furthermore, target (2.a) of SDG 2 recognizes the need to: “Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries” (UNGA, 2015).

In its 2017 review on the status of progress on the SDGs, the High-Level Political Forum (HLPF) on Sustainable Development points out that “agriculture plays a key and direct role in achieving SDG 2, but it is also central to achieving SDG 1 on eradicating extreme poverty, and several other targets, especially those related to health, biodiversity, sustainable energy, and climate change” (HLPF, 2017).

In line with this review, the report of the Arab High-Level Political Forum on Sustainable Development transmitted to the HLPF contains key messages on sustainable development. On eradicating poverty and promoting prosperity, a number of messages are highlighted, including the adoption of “a broad conceptual approach to social and poverty eradication policies within the framework of comprehensive plans”, and promoting food security through policies and actions to:

- Reduce reliance on food imports by investing in the development of technology to ensure sustainability of food production and reduce pressure on national resources.
- Grant priority to developing agriculture to help boost the economy, promote food security and reduce poverty, particularly by creating jobs in sectors that will safeguard the environmental and natural resources.
- Curb food waste in order to reduce the food security gap (UN ECOSOC, 2017).

On their part, the ACG institutions encourage developing country partners, especially Arab and other food deficit countries to invest in feasible agricultural projects to enhance food security and the well-being of agricultural-based communities. For example, the Kuwait Fund lending terms to finance agricultural projects are more concessional compared to other sectoral projects, and are at par with education and health projects, due to their impact on alleviating poverty, hunger, and undernourishment.

Despite the precarious state of agricultural sustainability and the deficit in the self-sufficiency of food security, Arab countries still have options to enhance food self-sufficiency and make progress on other fronts of the SDGs by implementing the 2030 Agenda, with due consideration, among others, to the following:

- There is no one-size-fits-all approach to the implementation of the 2030 Agenda and associated SDGs.
- Countries assume the responsibility for owning and leading the implementation of the 2030 and its associated targets.
- Countries need to approach the implementation of the SDGs with full understanding of their universality, diversity, complexity, interconnectedness and interactions.
- Interlinkages among the SDGs embody synergies and trade-offs that require identification and sorting out to maximize the beneficial impact of their interactions. For example, the water-energy-food (land) nexus is central to sustainable development. The inextricable linkages between these resources require practical planning and an integrated approach to their production and consumption.
- A nexus approach requires a shift from the narrow sectoral approach to the wider, cross-sectoral approach that embraces cooperation and coordination among the various concerned ministries to examine the links between sectors and analyze the policy options relating to their synergies and trade-offs.
- Adoption of an inclusive and holistic Development Agenda, reflecting the

interdependence of the economic, social and environmental dimensions of sustainable development.

- Mobilizing sufficient resources for the implementation of the Development Agenda from all potential sources, including official development assistance (ODA), private sector, non-governmental organizations (NGOs) and philanthropic organizations, in addition to domestic sources.
- Introducing necessary legislation and adopting policies for improving the investment climate and doing business.
- Establishing processes and introducing measures for follow-up on implementation, and ensuring availability of data, well-trained data analysts, and competent evaluators of the progress towards the SDGs and the next steps to be undertaken.

Recognizing that the implementation of SDG 17 is critically important for developing countries in their quest to achieve the SDGs, ACG's partnership for effective development is guided, among others, by the following policies and actions

- Respect for the development priorities of partner countries. However, such priorities need to be backed by well-prepared feasibility studies, and approval for their financing will be subjected to thorough appraisal by the ACG institutions to confirm their eligibility for financing.
- Provision of advice to recipient countries and consulting with them on matters related to the preparation, implementation, and operation of supported projects.
- Use of country procurement systems in ACG development operations.
- In line with the principles of solidarity with developing countries and South-South cooperation, ACG institutions' policies encourage consultants, contractors and suppliers from Arab and other developing countries to participate in the implementation of the development projects and operations supported by them.

VIII. CONCLUSION AND RECOMMENDATIONS

In conclusion, the ACG institutions have endorsed the revised concept of sustainable development encompassing the social, economic and environmental dimensions, and have pledged their commitment to assist partner countries in the implementation of the 2030 Agenda and the associated SDGs.

To enhance development effectiveness through cooperation with ACG institutions and other development providers, each Arab country needs to design a strategy and prepare an action plan according to its circumstances, with defined and sequenced priorities for the implementation of the SDGs. These need to be set out with due consideration to regional cooperation, underpinned by economic integration and coherent policies to exploit the comparative advantage of resources. Planning for mobilizing adequate resources from all development stakeholders, in addition to domestic sources, is critically important and indispensable for financing the SDGs.

While financing is a core and indispensable requirement for the implementation of the SDGs, Arab countries are confronted with a huge indicative financing gap, which calls for concerted efforts to mobilize adequate resources from various sources for financing the SDs, including in particular the following sources:

- (a) Generating revenues from public and private sources within a framework of implementable policies, underlined by fair, equitable and efficient tax revenue systems.
- (b) Boosting confidence in the domestic investment climate and doing business through transparent and enforceable rules and regulations to facilitate the mobilization of private local and foreign capital for financing the SDGs.
- (c) Leveraging private sector resources with public funds to mitigate the exposure of the private sector to anticipated risks, and enhance the realization of its objectives.
- (d) Exploring new concessional financing sources,

including feasible innovative financing mechanisms.

- (e) Facilitating mobilization of ODA and other official financing flows from various sources, including Arab and other bilateral, regional and international financing institutions through well prepared, feasible and viable development projects for sustainable development.
- (f) Promoting Arab intra-regional flows of capital for direct and joint investments, as well as strengthening development corporation among Arab countries, based on comparative advantage in natural and financial resources.

However, conflicts, wars, and instability in Arab affected countries impose a heavy toll on the efforts to mobilize resources for sustainable development, and make progress towards the SDGs. The need to end hostilities cannot be overemphasized. Peace and development are inseparable, and one cannot survive without the other.

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in 1993 as a result of revising the System of National Accounts. Therefore, the target of 0.7 percent is now shown in terms of ODA/GNI ratio.

3. The Arab national and regional development institutions include 4 national institutions: Abu Dhabi Fund for Development (ADFD), Kuwait Fund for Arab Economic Development (KFAED), Qatar Development Fund (QDF), Saudi Fund for Development (SFD), and six regional institutions: Arab Gulf Programme for Development (AGFUND), Arab Bank for Economic Development in Africa (BADEA), Arab Fund for Economic and Social Development (AFESD), Arab Monetary Fund (AMF), Islamic Development Bank (IsDB), and OPEC Fund for International Development (OFID).
4. The Arab region is divided into four sub-regions according to similarities in their characteristics and in accordance with previous Arab MDG reports. Mashref, Egypt, Iraq, Jordan, Lebanon, Palestine and the Syrian Arab Republic). Maghreb: (Algeria, Libya, Morocco and Tunisia). The Cooperation Council for the Arab States of the Gulf (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Least Developed countries (LCDs): The Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.
5. These countries are: Egypt, Jordan, Lebanon, Morocco, Sudan, Syrian Arab Republic, Tunisia, and Yemen.

NOTES

1. SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development. It is underlined by five targets concerning the financing of the SDGs, including target 17.3 to "Mobilize additional financial resources for developing countries from multiple sources".
2. Gross National Product (GNP) was replaced by Gross National Income (GNI)

OPINION

OFID FINANCING SUSTAINABLE DEVELOPMENT GOALS IN ARAB COUNTRIES**Suleiman Al Herbish****Financing the SDGs**

The 2030 Agenda for Sustainable Development aims to address social, economic and environmental challenges and requires considerable investments to do so. The Addis Ababa Action Agenda of the third International Conference on Financing for Development highlighted that implementation must be based on frameworks for international cooperation, economic and technical support for poor countries.

While Partner Countries have primary responsibility for achieving the SDGs, they can't achieve the Goals alone. Donor countries and Development Finance Institutions (DFIs), therefore, would have a particularly important role to play in supporting a global partnership for development. Partner Countries must set their own economic, social and environmental objectives and measure their own progress. By doing this, they can optimise their own domestic resources as well as the public and private resources of the international community.

However, the development needs are in trillions, rather than billions of dollars. According to UNCTAD the current SDGs-related investments in developing countries by the public and private sector combined are in the order of USD 1.4 trillion per year, and the total annual investment needed to achieve the SDGs by 2030 are over USD 5 trillion. This leaves an annual gap of over USD 3.6 trillion. This is why all available means and resources must be mobilized to meet the challenges of this ambitious agenda. "Business as usual" is no longer appropriate. There must be partnerships and policy cohesion among all stakeholders.

The public sector alone cannot fill this gap, in particular in low-income countries, and therefore private sector investment, including foreign direct investment, should be mobilized for SDG-related projects. The "financial inclusion"¹ is another tool to boost access to finance for low-income individuals and small businesses in developing countries.

The role of OFID in financing the SDGs

At the OPEC Fund for International Development (OFID), we have already recognised how crucial financial inclusion is in delivering equitable opportunities for all, reducing poverty and driving sustainable growth. Today, however, two billion adults across the globe still don't have access to formal financial services. We provide financial inclusion through our public sector, private sector and trade finance windows.

We help the governments of partner countries to launch and sustain their own microfinance programs and support small and medium-sized enterprises (SMEs) in both the formal and informal sector. For example, we have worked with the UN (UNRWA) to extend micro- and SME-related financial services to poor Palestinians in the West Bank and Gaza.

Through private sector lending, we channel resources through commercial and microfinance banks around the world, strengthening local financial institutions and increasing their capacity to lend on and expand. The Microfinance Enhancement Facility, for example, supported by OFID and other DFIs, is recognized as efficient and responsible, providing funding and stability to the microfinance market.

However, government lending is the main pillar of OFID's operations, with the public sector window accounting for more than two thirds of our cumulative commitments since inception. The private sector window is another complementary means of providing assistance to partner countries by supporting the activities of their private investors.

By the end of last year, OFID's total commitments since inception reached USD 21 billion to support more than 3,600 development operations in 134 countries in Africa, Asia, Latin America and the Caribbean, the Middle East and Europe. The Arab world has been allocated 20 percent of these commitments, or more than USD 4 billion. More than 30 percent of this, or USD 1.26 billion, has been provided to 11 Arab countries through OFID's Private Sector Window since its inception in 1998. Examples include the following:

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- In Sudan, OFID contributed USD 3 million to fund a USD 30 million capital in the newly established Arab Leasing and Investment Company. The company's main activity is providing leasing and other short-term financing facilities to customers in Sudan, and it has since grown to be a strong and reliable player in the financial sector in Sudan, promoting financial inclusion and access.
- In the Republic of Djibouti, OFID provided USD 15 million financing (in Islamic finance compliant) as part of a debt package of USD 400 million for the construction of the new Doraleh Container Terminal. It was the first ever PPP style financing in the country and the new terminal has helped to improve the efficiency of the port and relieve vital capacity constraints while also generating local employment and revenue.
- In Mauritania, OFID has provided financing and invested equity totalling USD 13 million in Mauritania Leasing (now known as Banque Populaire de Mauritanie). OFID thus participated in successfully establishing the first leasing company in Mauritania, which has played a major role in funding SMEs.

These examples are a small part of our operations in supporting the private sector in the Arab world, especially SMEs.

Energy Key to Implementing the SDGs in Arab World

Access to modern energy services is a vital precondition to achieving sustainable development, including the industrialization of developing countries. Indeed, the benefits of achieving universal access to modern energy services are transformational: lighting for schools and health clinics, pumps for water and sanitation, and more income-generating opportunities.

Despite very positive developments in electricity access since the 1990s, some significant gaps in access to energy remain in the Arab region. Overall, access to electricity is close to universal in cities across the Arab region but remains fixed at approximately 80 percent in rural areas, with a total of around 36 million Arabs who did not have any access to electricity in 2014, primarily in the Arab least developed countries (LDCs), and small numbers of people without electricity access in North Africa and the Mashreq. Planned and unplanned service disruptions, on the other hand, are a challenge for electricity users, irrespective of the urban-rural divide.

OFID is an early pioneer and champion of energy poverty eradication in developing countries. This year marks the tenth anniversary of OFID's Energy for the Poor Initiative, financed through a revolving fund of

USD 1 billion pledged by our Ministerial Council in June 2012. This commitment originates from a mandate from the heads of state of our Member Countries in 2007. Our actions are based on a strategy with three pillars: Advocacy, expanding operations on the ground, and partnerships.

OFID advocated strongly in international forums to include combating energy poverty in the Post-2015 Development Agenda, and was among those whose efforts culminated in placing energy as SDG 7 in the 2030 Agenda.

On the operations level, over the last decade, OFID has committed more than USD 3.5 billion to energy operations, representing around 27 percent of the total value of all our commitments in that period. This amount supports more than 240 operations worldwide, leveraging a total of over USD 35 billion. Arab countries accounted for approximately 45 percent of OFID's total contribution to energy, or more than USD 1.5 billion, to finance 14 traditional energy projects, as well as 15 renewable energy projects, in a number of countries including Egypt, Sudan, Jordan, Yemen, Tunisia, Morocco, and Palestine. Recognizing the era of energy transition, our operations are technology neutral.

For example, in Jordan, OFID provided a USD 20 million loan to build the 117 MW Tafila Wind Farm in 2013. It was the country's first renewable energy project and first private wind energy project to reach financial close in the MENA region outside of Morocco. At completion, the Tafila Wind Farm's generated electricity accounted for 6.5 percent of Jordan's renewable energy target of 1,800 MW by 2020, generating an estimated annual 400 gigawatt hours.

In Morocco, we provided a USD 39 million loan to expand Quneitra power plant facilities to overcome the power shortage, to meet the growing demand for electricity and to deliver modern energy to the poor. We also assisted the government in supporting the Rural Electrification Program, which combines electricity generation through the construction of wind farms, two hydropower plants and transmission and distribution lines, by contributing a USD 60 million loan.

Our strategy recognizes that energy poverty is a difficult challenge that needs to be overcome through strategic partnerships.

An example of this partnership is the Oil and Gas



Industry Energy Access Platform (EAP), which is collaboration between OFID, the WPC, TOTAL, SHELL, Saudi Aramco, OMV, Schlumberger, IGU, GLPG, BCG and other strategic partners like the Shell Foundation. The EAP aims to leverage the oil and gas industry's capabilities and is open to all companies within the oil and gas industry, as well as to other stakeholders, including development funds and business developers.

In conclusion, OFID's full commitment to supporting sustainable development plans in Arab countries, particularly energy projects, should be emphasized. OFID's vision includes a key role for the private sector in this field, especially in achieving the SDGs in general. Therefore, we are ready to work with partner Arab countries and with investors to finance projects in the Arab world in various economic fields, especially energy, in order to achieve economic integration among the Arab countries. We are also interested in financing projects for local industries and to provide services, as well as providing credit lines through local banks to finance the SMEs.

NOTE

1. According to the World Bank Group: "Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."

OVERVIEW

THE GLOBAL ENVIRONMENT FACILITY AND THE SDGs IN THE ARAB WORLD**Herbert Acquay**

The Middle East and North Africa (MENA) is a priority region for the Global Environment Facility (GEF) as it partners with developing countries to protect the environment and promote sustainable management of natural resources. More than two decades after the Rio Conventions came into force, the global community is still grappling with the challenge of balancing environment and development goals. This challenge is particularly true in the production sectors, which depend on land and other natural resources to safeguard the lives and livelihoods of billions of people.

Environmental degradation is one of the greatest risks to sustainable development in the Arab region, particularly affecting local communities that depend on natural resources for their livelihood. It also poses a serious threat to regional security: national-level environmental challenges can lead to instability and conflict and result in migration that threatens the security of neighboring countries. GEF investments are helping countries reduce threats to the environment that are specifically associated with the multilateral environmental agreements it serves, while addressing issues such as poverty reduction, gender equality, and good governance. The GEF is looking for holistic approaches that create those benefits and that simultaneously benefit local communities and other stakeholders.

The GEF's engagement, therefore, is based on two overarching principles: environmental security, and food security for peace in a fragile region. Conservation of the natural environment and diversification of income sources improve the well-being of communities and help to reverse migration patterns towards urban areas and abroad. The GEF's role and commitment to sustainable land management (SLM) is now well established through its Land Degradation Focal Area, which focuses on helping countries avoid or minimize desertification and deforestation through the removal of economic, policy, knowledge, and institutional barriers.

Serving as the financing mechanism of the Rio Conventions, the GEF has been a major catalyst for innovation in sustainable land management in the Arab world. It supports country efforts across multiple, interlinked global environmental domains that are closely aligned with the

Sustainable Development Goals (SDGs). Between 2012 and 2018, GEF committed more than USD 100 million in grants, which leveraged more than a billion dollars in co-financing.

Examples of recently approved projects approved by the GEF in the Arab region include the following:

- A USD 3.9 million GEF/FAO project in Iraq on Sustainable Land Management for Improved Livelihoods in Degraded Areas. The project seeks to sustainably manage globally significant ecosystems, combat land degradation and conserve marshland ecosystems for improved livelihoods and ecosystem resilience and services. The key interventions in support of these objectives are: (i) strengthening the enabling environment to support SLM and conservation agriculture (CA) in degraded marshland ecosystems in Iraq; (ii) targeted land-based interventions to rehabilitate degraded productive land through sustainable land management and conservation agriculture practices and restoring and implementing sustainable management of marshland ecosystems through SLM, CA and the development of local communities' livelihoods; and (iii) raising awareness of the importance of agriculture for SLM and food security. The target is to reach 500 vulnerable smallholder households (20,000-30,000 inhabitants) in five locations across 4,000 hectares of marshlands and 6,000 hectares of degraded land close to marshlands.
- A USD 4.8 million GEF/FAO project in Morocco on Revitalizing Oasis Agro-ecosystems through a Sustainable, Integrated and Landscape Approach in the Draâ-Tafilalet Region. The aim of this project is to revitalize oasis agro-ecosystems to make them productive, healthy, and more resilient to the livelihoods of the local communities. The project has three main technical components: (i) supporting policy dialogue on the sustainable management of oasis agro-ecosystems; (ii) improving natural resource management and sustainable production intensification planning and monitoring; and (iii) demonstrating that Oasis agro-ecosystems are restored, safeguarded and sustainably managed through an integrated landscape approach. A fourth component focuses on monitoring, evaluation, and knowledge management.

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- A USD 2.8 million GEF/FAO project in Algeria on Rehabilitation and Integrated Sustainable Development of Algerian Cork Oak Forest Production Landscapes. The overall objective of the project is to promote sustainable management and utilization of the cork oak forest ecosystems to generate an integrated and diverse set of economic, environmental and social goods and services, while at the same time preserving the globally significant biodiversity. The three main aims of the project are: (i) piloting sustainable management, conservation and sustainable harvesting of Algeria's globally significant cork oak forest ecosystems; (ii) sustainably creating value from cork oak ecosystem products, goods and services; and (iii) replicating and up-scaling successful forest management practices.

GEF's work in the region also involves helping countries address the challenge of chemical and waste contamination. In its role as the financial mechanism to implement both the Stockholm Convention on Persistent Organic Pollutants and the Minamata Convention on Mercury, the GEF is a catalyst to help governments and the private sector tackle the problem of chemical and waste pollution. The GEF also plays an important complementary role in achieving the objectives of the Montreal Protocol on Substances that Deplete the Ozone Layer. Recent projects on Persistent Organic Pollutants (POPs) that have been approved for the Arab region are being implemented in Iraq, Jordan, and Morocco.

Another area of focus for the GEF is on innovation, green jobs, and sustainable cities. A notable example in the Arab region is the USD 1 million GEF/UNIDO project, Programme for Cleantech Innovation and Green Jobs in Morocco. This project is part of the GEF/UNIDO Global Cleantech Programme for SMEs. The programme is fostering clean technology innovation for climate change mitigation through a process of mentoring, training, and support. The technologies being promoted during the early phases of the project are related to energy efficiency, renewable energy, waste to energy, and water efficiency. The project specifically consists of the following components: (i) National Cleantech Platform to promote clean technology innovations; (ii) institutional capacity building for the organization of the competition and accelerator programme; and (iii) strengthening of policy and regulatory framework for the development of a supportive local innovation ecosystem. The Morocco project offers a strong potential for sustainability and scaling up by identifying and providing early support for innovators, which increases their ability to attract finance and achieve commercial success.

The GEF is also helping countries set voluntary targets under the UN Convention to Combat Desertification (UNCCD) and its key organizing principle of land degradation neutrality (LDN). LDN, which is an important goal in the Arab region, is defined as "a state whereby the amount and quality of land resources necessary to support ecosystem functions and services and enhance food security, remains stable or increases within specified temporal and spatial scales and ecosystems" (UNCCD, 2016).

For example, Lebanon, with assistance from the GEF (USD 4.6 million of GEF grants and USD 17.2 million co-financing), has developed a project to achieve LDN in the country's mountainous landscapes. The project is helping Lebanon revise existing policies and programs to ensure sustainability and rehabilitate land in pilot sites. Similarly, Jordan and Egypt are joining efforts to develop a USD 4 million GEF-funded project on sustainable rangeland management for biodiversity conservation and climate change. Working together, these two countries aim to halt and reverse land degradation, restore degraded ecosystems and sustainably manage their land resources.

In addition to its governments and local community partners, the GEF is also working in partnership with the private sector in the Arab region, which is the dominant driver of global economic activity and a vital player in the fight against climate change. For example, one of the private-public partnerships (PPP) the GEF is funding is the European Bank for Reconstruction and Development's (EBRD) South Eastern Mediterranean Energy Efficiency Platform (USD 15 million of GEF funding plus USD 150 million in co-financing). This project is helping to establish an innovative financing facility to serve four countries in the Southern Mediterranean: Egypt, Jordan, Morocco, and Tunisia. The project aims to support the emergence of a market for energy efficiency, which would not have materialized without the GEF's assistance.

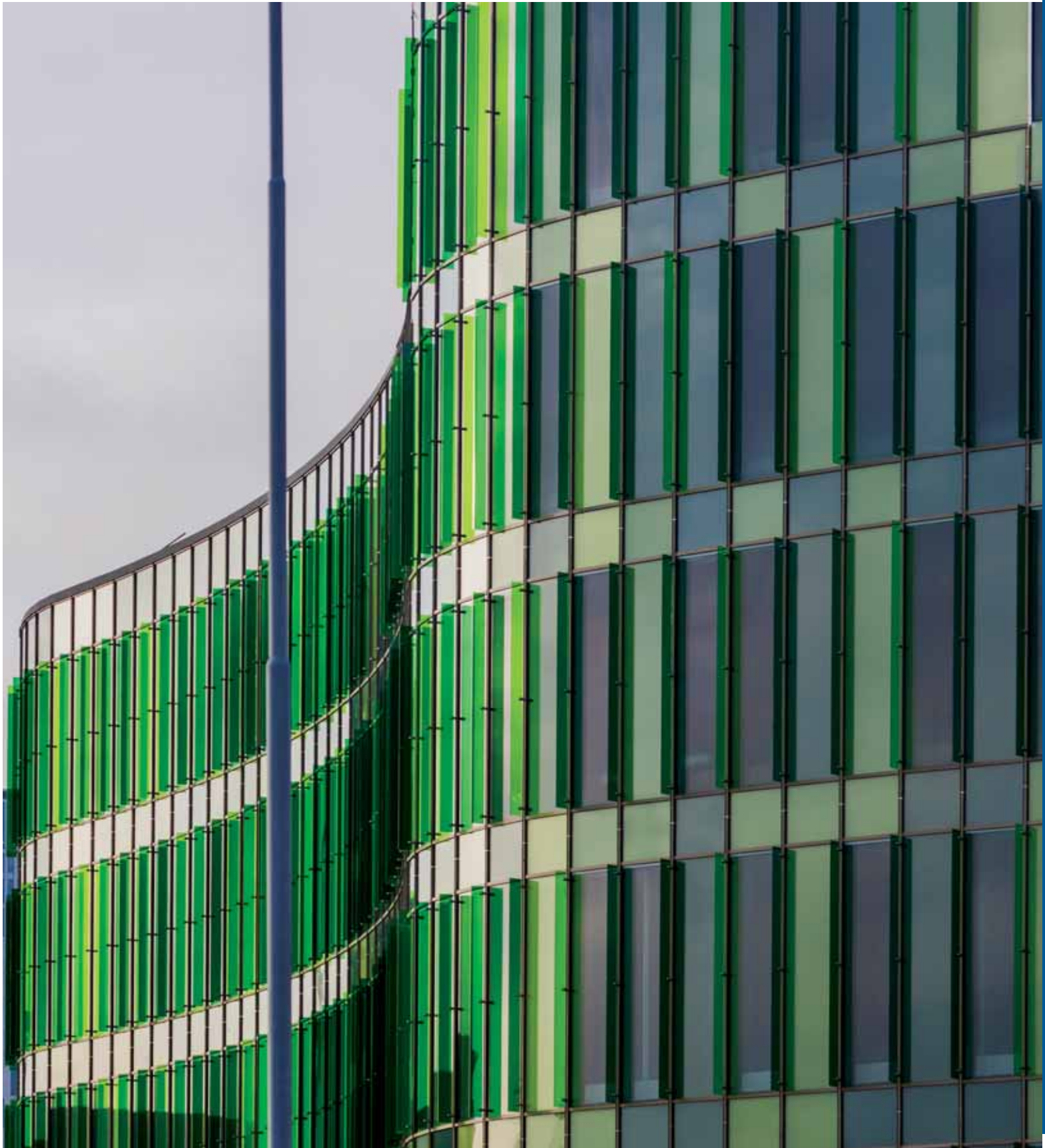
To expand its work, the GEF launched a non-grant financial instrument in 2014 to facilitate the participation of the private sector in the Arab region and other parts of the world in addressing global environmental challenges.

Sources:

Report of the Conference of the Parties on its twelfth session, held in Ankara from 12 to 23 October 2015. Part two: Actions. ICCD/COP(12)/20/Add.1. United Nations Convention to Combat Desertification (UNCCD), Bonn (2016) Retrieved from: <http://www.unccd.int/Lists/OfficialDocuments/cop12/20add1eng.pdf>

INNOVATIVE FINANCING

IBRAHIM ABDEL GELIL



I. INTRODUCTION

'Innovative financing' is a term used to describe financing approaches addressing development issues that are insufficiently addressed by traditional aid flows and which may try to leverage additional financing and/or attempt to provide financing more quickly, efficiently and with more reliable and greater impact (see Box 1 for different definitions of innovative financing by leading institutions). Innovative financing includes a range of models or approaches such as social enterprise, impact investment, transaction taxes and levies on goods and services (Future Humanitarian Financing). The idea of innovative financing mechanisms was launched in 2002 at the Monterrey conference on financing for development, which aimed at reaching an agreement on how to boost global growth in order to achieve the Millennium Development Goals (MDGs). This chapter reviews the different forms of innovative financing with emphasis on those related to the Arab countries.

II. RESULTS-BASED FINANCE

Results-based financing (RBF) is widely used to support development objectives. It is a well-established approach that has been used successfully in many fields, particularly in the delivery of climate finance, healthcare and education. It is a form of finance where funds are disbursed by the provider of finance to the recipient upon achievement of a pre-agreed set of results. These results are typically defined at the output or outcome levels such as supporting the development of specific low-carbon technologies, achieving specified emission reductions or encouraging renewable electricity generation. This approach is based on linking financing more directly with outputs and outcomes, rather than inputs and processes, in order to increase accountability and improve effectiveness.

It is important here to distinguish between RBF, where payments are provided to service providers (who may be in the public or private sector) upon achievement of results, and the

BOX 1

DEFINITIONS OF INNOVATIVE FINANCING FROM LEADING INSTITUTIONS

World Bank

"Innovative financing involves non-traditional applications of solidarity, public private partnerships, and catalytic mechanisms that (i) support fundraising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground."

- World Bank (2009), *Innovating Development Finance: From Financing Sources to Financial Solutions*.

Organization for Economic Co-operation and Development (OECD)

"Innovative financing comprises mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as: 1) new approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries;

2) new revenue streams (e.g., a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis; and 3) new incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities."

- OECD (2009), *Innovative Financing to Fund Development: Progress and Prospects*.

Leading Group on Innovative Financing for Development

"An innovative development financing mechanism is a mechanism for raising funds for development. The mechanisms are complementary to Official Development Assistance. They are also predictable and stable. They are closely linked to the idea of global public goods and aimed at correcting the negative effects of globalization."

- Leading Group on Innovative Financing for Development (2012), *FAQs: Innovative Financing*

results-based approach (RBA). The latter refers to government-to-government transfers of resources upon delivery of particular results, which became preferred to the conventional delivery of official development assistance.

For these mechanisms to work, the recipient must trust that payment will be disbursed according to the agreed payment schedules, and must also accept the possibility of not receiving payment in case of insufficient performance. Agreed targets should be specific, realistic and measurable. An example of RBA is the performance-based contracts (PBCs), referring to contracts or grant agreements where payments are disbursed upon accomplishment of predetermined results. These arrangements are principally between funders and implementers or service providers, but can also be between funders and recipient governments, which then subcontract service provision. This approach was used in Egypt in 1999, when an agreement was signed with the US government to implement the Egyptian Environmental Policy Program (EEPP). It was a multi-year program to support policy, institutional, and regulatory reforms in the environmental sector of Egypt, addressing economic and institutional constraints, energy efficiency, air pollution, and waste management. The program was characterized by a cash transfer of USD 110 million upon the accomplishment of a series of several environmental policy reforms over a five-year period (EEAA, 2016).

Results-based finance is also recognized in the Paris Agreement on climate change by encouraging parties to implement the REDD+ framework already established under the UNFCCC. The REDD+ framework aims to reduce emissions from deforestation and forest degradation and enhance conservation, sustainable management of forests and forest carbon stocks in developing countries. Developing countries may be financially rewarded for such efforts, and the Paris COP Decision¹ highlights the importance of such results-based payments.

In the health sector, the Health Results Innovation Trust Fund, launched in 2007, was created to support results-based financing (RBF) approaches in the health sector. This fund has since committed USD 396 million for 36 results-based financing programs in 30 African

countries, with the aim of improving maternal and child health around the world. It is supported by the governments of Norway and the United Kingdom and is administered by the World Bank (Bertha Center for Social Innovation and Entrepreneurship, 2012).

III. PERFORMANCE-BASED CONTRACTING

Another form of results-based financing is performance-based contracting. This is widely used by Energy Service Companies (ESCOs) to provide sustainable energy products and services. ESCOs provide integrated solutions for achieving energy saving and other cost reductions, and their overall compensation is linked to the performance of the implemented solution. ESCOs act as energy efficiency project developers as they integrate the project's design, financing, installation and operational elements.

Two basic ESCO business models can be distinguished, which provide either useful energy (Energy Supply Contracting) or energy savings (Energy Performance Contracting) to the end users. In addition to the two basic models, a hybrid model labeled as Integrated Energy Contracting was introduced and is being piloted in Austria and Germany to combine useful energy supply, preferably from renewable sources with energy efficiency measures in the entire facility. Typically, an Energy Service Company (ESCO) acts as a general contractor and implements a customized service package consisting of components such as design, installation, (co-)financing, operation and maintenance, optimization, and fuel purchase.

In the case of performance-based contracting, ESCO's remuneration is based on the measured outputs as opposed to the inputs consumed. It guarantees the outcome and all-inclusive costs of the contracts, and takes over commercial as well as technical and operational risks over the project life cycle. Performance-based contracting would accelerate the uptake of sustainable energy solutions because ESCOs have an inherent interest to reduce life cycle costs.

The ESCO market is in the early stages of development in Arab countries. This is due to several factors, including lack of national

energy strategies and policy framework in some countries, low subsidized energy prices, a barrier that is currently addressed by many countries in the region, and the lack of capacity in financial institutions and other market players.

In Egypt, several ESCOs were established in the 2000s but were deterred by the then low-priced subsidized energy and lack of policy framework. On the other hand, in Tunisia, the ESCO concept has been supported by a strong policy framework to provide energy efficiency services to industrial facilities. Tunisia passed its first energy efficiency law in 2004, setting the framework for ESCOs to undertake energy audits and achieve savings for industry (MED-ENEC, 2014).

One of the 14 initiatives of the National Energy Efficiency Action Plan (NEEAP) of Lebanon (2011-2016) was entitled Paving the Way for Energy Audit and ESCO Business. It aims to support the development of ESCOs working in the energy audit business and provide them with the needed financial and technical incentives (L.C.E.C., 2018).

Dubai had established a Super ESCO (Al Etihad Energy Services Company- Etihad ESCO) in 2013, an initiative by the Dubai Electricity and Water Authority (DEWA) under the leadership of the Dubai Supreme Council of Energy (DSCE) to create a viable market for building energy efficiency services.² Within the framework of the Dubai Demand Side Management Plan (DSM), Etihad ESCO aims to provide energy efficiency services to the existing 30,000 public buildings to generate 1.7 TWh of energy savings, and one million tons of CO₂ emission reduction by 2030 (Etihad Energy Service Company, 2014). Etihad ESCO will apply the business model of performance-based contracting.

The Public Investment Fund (PIF) of Saudi Arabia had also established an energy service company, a Super ESCO, in 2017. It was designed to improve energy efficiency across government and public buildings. The company was established to stimulate the growth of the Kingdom's energy efficiency industry, in line with the objectives of Vision 2030 to diversify the economy and drive environmental sustainability. The company was established with a capitalization of SAR 1.9 billion (USD 507 million) and will fund and

manage the retrofit of government and public buildings, which represent over 70 percent of overall energy efficiency potential in the building sector, estimated at nearly USD 11 billion. These projects will help reduce government spending on the electricity sector, which will in turn reduce natural resource consumption while rationalizing capital investments otherwise needed to expand the electricity supply infrastructure. All government bodies are mandated to contract the new entity on an exclusive basis as per a royal decree (Graves, 2017).

The World Bank used the performance-based results investment to support the compliance of the Egyptian industries to the environmental law. In collaboration with the Egyptian Environmental Affairs Agency (EEAA) and the National Bank of Egypt, it has since 1997 successfully developed a financing scheme for industrial air pollution abatement (see Box 2).

IV. IMPACT INVESTMENT

Impact investments are investments made with the intention of generating social and environmental impact, alongside a financial return (GIIN, 2017). Impact investors range from banks and institutions, to foundations. According to GIIN (2017), new impact investment flows totaled USD 22 billion in 2016, and were anticipated to rise to USD 25.9 billion in 2017.

Green bonds are a good example of impact investments debt instruments issued to raise capital to fund specific clean power projects or projects aimed at reducing climate change risk such as wind farms, solar parks, energy efficient technologies, smart grid installations, electric vehicles and infrastructure, and green building systems. The World Bank pioneered green bonds in 2008 to tap into the large global pool of assets allocated to fixed-income investment held by pension funds and sovereign wealth funds. Others, including the European Investment Bank, US government agencies, the International Finance Corporation and the Asian Development Bank, have since issued various bonds.

According to Reuters, global green bond issuance hit a record USD 155.5 billion in 2017 and could reach USD 250-300 billion in 2018. The

BOX 2

EGYPTIAN POLLUTION ABATEMENT PROGRAMME (EPAP)

In collaboration with the World Bank, EEAA and the National Bank of Egypt has successfully developed since 1997, a financing scheme for industrial air pollution abatement under EPAP I. Under EPAP II, the market-based mechanism was scaled up and involved the financing and collaboration of the European Investment Bank, the Japan International Cooperation Agency, and the Agence Française de Développement, for an estimated level of funding of USD 185 million. EPAP II is to help reduce industrial air pollution by providing attractive financing to industrial companies, in the hot spot areas

of Greater Cairo and Alexandria. EPAP II has allowed leveraging funds that could be borrowed by polluting companies through the National Bank of Egypt (NBE) and other participating commercial banks and used for pollution abatement. If satisfactory implementation is assessed by EEAA, beneficiary company repays 80 percent of the loan to the commercial bank (NBE or participating bank) - thus 20 percent can be considered as a performance-based grant. This mechanism serves as a strong incentive for polluting companies to comply and meet their pollution targets.

Source: IFG, 2017

United States, China and France accounted for 56 percent of total issuance in 2017. There were ten new entrants to the market last year: Argentina, Chile, Fiji, Lithuania, Malaysia, Nigeria, Singapore, Slovenia, Switzerland and the United Arab Emirates (Chestney, 2018).

Investors of green bonds range from pension funds with environmental mandates to socially responsible investment-focused retail investors such as the Swedish National Pension Funds and the New York State Common Retirement Fund (Latham & Watkins, 2011). The comparable risk-adjusted financial returns of green bonds with non-green bonds, and the broad eligible issuer base can in part explain the growth of this market.

The Green Bond Principles were issued in New York in 2014 by a number of leading commercial banks but there are still concerns about the absence of a standardized definition for what exactly a “green bond” is. Green bonds currently account for significantly less than 0.5 percent of the total bond market so a standard set of market benchmarks and practices are badly needed in order for them to become both more liquid and also more efficiently priced. Green bond market development committees, involving market actors and public-sector players in Brazil, California, Canada, China, India, Mexico and Turkey, are developing country- and state-specific definitions and standards. Global cooperation between the committees is critical for international comparability and consistency. Ultimately, green

bonds may need specific securities regulation to protect consumers, but initial experimentation and development of standards is critical. China, for example, is due to produce the world’s first state-developed green bonds guidance. This could then provide the basis for providing fiscal advantages in the form of tax relief, as well as possibly some penalties for misuse of proceeds (UNEP, 2015).

Use of green bonds is rare in the Arab countries. In October 2013, the African Development Bank issued green bonds whose proceeds were partially used to fund two projects in Tunisia and Egypt. (ESCWA, 2015). In 2017, the National Bank of Abu Dhabi (NBAD), now First Abu Dhabi Bank (FAB), issued the first green bond in the Arab region. The five-year green bond of USD 587 million is due on 30 March 2022. Together with the UAE Ministry of Climate Change and Environment, NBAD was one of the original signatories to the Dubai Declaration, which requires the financial sector to enable a climate-resilient, inclusive green economy (NBAD, 2018).

V. SOCIAL IMPACT INVESTMENTS

Social investing generally refers to investments that consider social and environmental issues. It includes investments made with the intention of having positive social and/or environmental impact. There are many initiatives worldwide that represent social impact investments such as “Generation”, co-founded in 2004 by former U.S. Vice President



Al Gore and former head of Goldman Sachs asset management David Blood as an investment firm that integrates sustainability factors into its fundamental investment analysis (Monitor Institute, 2009). Its investment approach is based on the idea that sustainability criteria – economic, environmental, social, and governance – will drive a company's returns over the long term. The company invests in renewable energy and energy efficiency alongside carbon markets and climate-related financial services.

Another example of vehicles for social investing is the social impact bond. This is a type of impact investment that brings investment capital from socially motivated private sources (philanthropic and for-profit investors) to address development problems with the promise of a return on the investment from governments if the intervention achieves pre-agreed social and/ or environmental outcomes.

DEBT2HEALTH

The Debt2Health initiative was envisaged to

help relieve developing countries' burden on financial resources by converting portions of old debts into domestic investments in health. Under individually negotiated agreements, creditors abandon a part of their rights to re-payment of loans on the condition that the beneficiary country invests the freed-up resources into approved Global Fund programs³. The Debt2Health mechanism is an opportunity to create partnerships between creditors and debtors in the joint pursuit of better health and improved quality of life for people most affected by diseases. It is a simple and effective win-win proposition for all parties involved. Debt2Health was launched in Germany in 2007, when Germany was the pioneering creditor in Debt2Health by committing to make available EUR 200 million from debt-to-health conversions until 2010. The first swap agreement was signed between Germany and Indonesia for EUR 50 million to finance urgent and lifesaving investments in HIV-services and public health interventions (The I-8 group, 2009).

VI. DEBT-FOR-DEVELOPMENT SWAP

The “debt-for-development swap” is a transaction in which the government or organization of a creditor country retires a fraction of a developing country’s external debt, in exchange for a commitment by the debtor government to invest local currency in designated initiatives. It is a voluntary transaction whereby the donor revokes the debt owned by a developing country’s government. The savings from the reduced debt service are invested in environmental projects.

Debt-for-development swaps are based on the successful experiences of debt-for-nature swaps during the ‘90s. Canada and the USA were the pioneers with a focus on nature conservation-based transactions. European countries including Germany, France, Spain, Italy, Norway and Switzerland have used this instrument more often with the objective of increasing their official development assistance.

The donor landscape is largely dominated by the USA, which alone was responsible for over half of the debt being swapped (53 percent). Switzerland (16 percent) and Germany (13 percent) follow. Other contributors include Belgium, Finland, France, Italy, the Netherlands, Norway and Sweden. Thirty-nine countries benefited from these transactions, half of which are in the Latin America and Caribbean region. Debt-for-development swap is also practiced in Egypt, Morocco, Jordan, and Yemen.

A. Debt-for-development swap: The case of Egypt

Egypt serves a good example of an Arab middle-income country which has largely benefited from the debt-for-development swap scheme. Egypt has negotiated four bilateral debt swap agreements, with the governments of France (1994), Switzerland (1995), Germany and Italy (2001) (Ministry of Investments and International Cooperation, 2018).

Egypt had signed a debt swap agreement with France early in 1994. The agreement stipulated that Egypt will be exempted from the settlement of due installments, provided that its equivalent in local currency is provided to the Social Development Fund (SDF) on their due dates for

financing development projects in Egypt. The second debt transfer agreement was signed between Egypt and France in 1995, whereby France transferred part of the debts due on Egypt worth the equivalent of EUR 45 million for supporting French investments in Egypt.

In the same year, Egypt signed a debt swap agreement with Switzerland covering CHF 150 million. The purpose of signing the agreement was to lessen the debt burden and push forward economic and social development by financing development projects implemented by civil society organizations in different fields, such as job creation, poverty alleviation, environmental protection, education, and improving public health.

Egypt had also signed a debt swap agreement with Germany in 2001 covering EUR 204.5 million, representing part of the debt service fees due on Egypt to Germany between 2002 and the end of 2015. According to the agreement, the equivalent amount in local currency would be used for financing the following:

- 50 percent for financing projects serving poverty reduction, environment protection and basic education development.
- 50 percent allocated to the Ministry of Finance for supporting the state budget.

Additionally, within the framework of cooperation between Egypt and Italy three debt swap agreements were signed between both governments to offset part of the installments and interests due on Egypt to Italy:

1. Signed in 2001, covering a sum of USD 149.09 million.
2. Signed 2007, covering a sum of USD 100 million.
3. Signed in 2012, covering a sum of USD 100 million.

As per the debt swap agreements, the government of Egypt has to deposit the equivalent of each installment in local currency on its due date to be used in financing priority development projects negotiated between Egypt and Italy. Those projects mainly dealt with human development, poverty alleviation and environment protection.

OVERVIEW

THE SWITCHERS FUND: IMPACT CHALLENGE FUND FOR GREEN START-UPS IN THE MEDITERRANEAN

Burcu Tunçer and Claudia Pani

Over 500 green start-ups waiting to scale up in the Mediterranean

Launching a green business in the Mediterranean region is no easy feat. It means a new way of doing business putting the environment first providing exciting employment opportunities for young people and an inspiring example for others to follow. The combination of existing environmental challenges in the Mediterranean, high youth unemployment figures and migratory pressures make investing in green start-ups a logical step to tackle all these challenges at once.

In the last two years, the UN Environment Regional Activity Centre for Sustainable Consumption and Production (SCP/RAC) and the European Federation of Ethical and Alternative Banks (FEBEA) have been working to improve access to finance for green entrepreneurs in the Mediterranean¹. They have organized seminars with green entrepreneurs, interviewed dozens of investors, discussed with bankers and microfinance organizations, understood the role of incubators and entrepreneurship support programmes, engaged with private foundations and listened to governments.

All of these stakeholders are dealing with the issue of entrepreneurship in their own way, mostly by tackling only a part of the problem. But they all agree that a comprehensive approach is needed to take a young entrepreneur from the idea stage to being ready for private investment. This is a long and perilous voyage that many do not even get to start or one that they abandon halfway.

One of the main issues identified in this process has been that green entrepreneurship has little visibility and many financiers do not quite understand it, which makes them hesitant to support it. Furthermore, micro-financing instruments often fall short of responding to entrepreneurs' needs – early-stage businesses do not yet have a track record to present, for example. Another key issue is that when there are funds and mechanisms to support start-ups they are generally focused on high-tech companies with high risk and high financial return potential. In contrast,

investors perceive green start-ups as risky and insufficiently profitable. Indeed, these findings were confirmed by the mapping of financial instruments done in six MENA countries, concluding that there is a financing gap and difficulty of accessing to finance ranging from EUR 15,000 till EUR 150,000 depending on the country and the project.

Yet, circular economy, green energy production and water efficiency systems, short agricultural circuits, ecotourism and other social innovations have great potential for development in many Mediterranean countries. They can contribute to generating economic growth, create job opportunities and a better environment for everyone. For example, according to the Better Business Better MENA report published by the Business and Sustainable Development Commission, companies pursuing eco-innovative strategies might create USD 637 billion of economic value by 2030².

For this reason, the SCP/RAC and FEBEA have established "The Switchers Fund" as a tool to provide and facilitate direct finance and business support services to existing and future green entrepreneurs, and to mobilize local investors and enterprise support programmes as well as European resources.

Investment strategy: Impact first for investors, patient capital for green entrepreneurs

The Switchers Fund relies on the network of "Switchers" supported by SCP/RAC³, allowing the fund to have a continuous flow of projects. The Switchers are a community of inspiring green entrepreneurs and change makers in the Mediterranean region. Switchers are individuals, enterprises or civil society organizations implementing innovative and ecological solutions that contribute to sustainable and fair consumption and production models. They are active in a variety of fields, such as organic farming, green tourism, renewable energy, or waste management.

The Switchers Support Programme is coordinated by the SCP/RAC, whose mission is to promote production and consumption of more sustainable products and services in the Mediterranean Region. Its mandate is aligned with the UN Environment Mediterranean Action Plan.

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Results of the Surveys Done Among Switchers in 2017

According to the survey conducted with 540 green entrepreneurs, about 80 percent required support for accessing to finance. A majority of 73 percent of the Switchers consider access to finance the top challenge, and 56 percent declare that they have challenges in accessing finance. More than 80 percent are currently seeking investments, mainly for business expansion (46 percent) and working capital (55 percent). Among them, 70 percent are asking for grants, 61 percent for equity, and 37 percent for loans.

On the one hand, the Switchers Fund wants to bring seed finance through a mix of grants, loans and equity participations, as a way of strengthening start-up projects and creating a stepping-stone towards raising additional funds in their countries. The Switchers Fund officially launched its activities in 2017 with a first call for grants where six green entrepreneurs received EUR 15,000 each to implement their green businesses.

In March 2017, Yara Yassin of Up-fuse, a brand that promotes an eco-conscious lifestyle by designing and producing upcycled bags from discarded plastic waste in Egypt, became one of the first grantees of the Switchers Fund and received EUR 15,000 to internationalize her green and social business.

The business support services of the Switchers Fund also provide technical assistance to green businesses to further develop their products. Engagement with partners (policy-makers, business intermediaries, and financing institutions) that are working to create enabling

ecosystem for those businesses is also facilitated. The technical assistance includes access to finance services such as “Green Start-ups Meet Investors”, crowdfunding campaign support and the access to a financial self-help toolkit.

Following a vote by the jury and the audience during the Green Start-ups Meet Investors event in Lebanon, Cubex was announced as the winner of the pitch and was offered a USD 2,500 grant to kick-start its green business. The start-up offers a home scale wastewater and solid waste treatment system that allows households to process all of their organic waste on site effortlessly. Marc Aoun, Cubex’s business developer, said then that he believes that if you have the right idea, many people will want to invest in you. He added that young people should develop their own green business ideas and make them feasible through financing models and incubation programmes.

NOTES

1. For more information please visit this link: <http://www.switchmed.eu/en/corners/impact-investors>
2. <http://www.eg.undp.org/content/egypt/en/home/presscenter/pressreleases/2017/12/04/shift-toward-sustainable-business-models-in-middle-east-north-africa-could-unlock-more-than-us-600-billion-by-2030-.html>
3. Almost 4,000 green entrepreneurs from eight Mediterranean countries have submitted an application to receive support and more than 1,600 have been selected and received intensive training. Twenty-five of them have been awarded with an incubation service. The number will reach 40 at the end of 2018.

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B. Debt-for-development swap: The case of Jordan

Debt swaps are well embedded in Jordan's national development strategies, with the local currency funds being used in sectors of priority to achieve national goals. Germany has carried out eight debt swaps with Jordan since 1992 – in the water, environmental, and education sectors. The total volume of the debt swaps agreed on is nearly EUR 214 million. Measured in terms of their volume, Germany is Jordan's leading provider of debt swaps (Berensmann, 2007).

In 1999, Jordan and France signed a debt for development swap agreement of 2.2 million Jordanian Dinars to fund development projects including water desalination, sanitation, agriculture and public finance (Petra, 2018). In 2000, Jordan agreed with Italy to swap USD 68 million of public debt into funds to finance development programs in the fields of irrigation, health, education and agriculture. Another agreement with Italy was signed in 2011 to swap the value of EUR 16 million to promote socio-economic sustainable development in Jordan, focusing on rural development, poverty alleviation and education, in a context of environmentally sustainable resource use (The Italian Embassy

in Amman, 2011). Over the past years, Jordan signed agreements with a number of other creditor countries including Germany, Spain and the United States, to convert part of its debt into development projects or other investments.

VII. CLIMATE FINANCE

Climate finance is the public and private financing provided to investments intended to advance low carbon, climate resilient development. The carbon market is a market in which carbon emission allowances are traded. It encourages countries and companies to limit their carbon emissions. Emission trading enables entities that can reduce emissions at lower cost, to be paid to do so by higher-cost emitters, thus lowering the economic cost of mitigating climate change.

The Kyoto Protocol, which was signed in 1997 and became legally binding in 2005, seeks to reduce GHG emissions by 5.2 percent compared to 1990 levels. One of the Kyoto Protocol flexibility mechanisms is the Clean Development Mechanism (CDM), intended to offer developed countries an efficient market mechanism to achieve some of their emission-reduction obligations at a lower cost, by transferring green technology to developing countries. Since the Kyoto Protocol

GREEN BONDS MAY NOT BE SO "GREEN" AFTER ALL

The definition of "green bonds" is so unclear that environmentally minded investors could accidentally be funding fossil fuel power stations.

Green bonds, which are securities that help fund renewable power projects and energy efficiency programs, are becoming wildly popular. Issuance of these bonds increased from USD10 billion in 2013 to USD161 billion last year.

But they are not all the same. The Climate Bonds Initiative, a London-based watchdog group, has excluded hundreds of bonds labeled as green or eco-friendly from its portfolio. It rejected a total of USD24.5 billion out of USD114.2 billion in issuance this year.

The watchdog group has rejected bonds for not giving enough information about how proceeds will be

distributed, as well as for failing to advance the Paris Agreement target of keeping temperatures less than 2 degrees Celsius above preindustrial levels.

Critics say the worst offenders in the green bonds world are in China and other developing countries. The Climate Bonds Initiative said Taiwan Power Co., a state-owned electricity provider, has egregiously marketed USD271 million in bond deals as "green," even though proceeds would go to gas and coal power station upgrades.

"We really need to improve the definition of what it means to be a green bond as right now, even a dirty-brown corporate can carve out a deal that looks green," said Andrew Jackson, head of fixed income at Hermes Investment Management in London.

(Bird/Dalal, Wall Street Journal, 19 August 2018)

came into force in 2005, more than 8000 projects have been registered (UNFCCC, 2018).

To initiate ways of keeping these commitments, governments developed a carbon market. Today, there are many regulated and voluntary carbon markets around the world, though none have yet emerged in the Arab region. The European Union Emissions Trading System (EU ETS) is a good example of such a market. It is the world's first major carbon market and remains the biggest one. It is a cornerstone of the EU's climate policy and it is a major measure for economically mitigating climate change.

The trading system operates in 31 countries (28 EU member states plus Iceland, Liechtenstein, and Norway). The system puts a cap on CO₂ emissions from 11,000 participating installations, which is reduced each year. These installations include power stations and manufacturing plants, as well as aviation activities in Europe. In total, around 45 percent of total EU greenhouse gas emissions are regulated by the EU ETS. With this cap, companies can trade allowances as needed. This approach gives companies the flexibility to achieve their emission reduction targets in most effectively.

By putting limit on overall Green House Gas emissions, the EU creates a system of incentives for developing efficient climate-friendly technologies.

Participating companies in the EU ETS can also use credit generated by certain types of emission-reduction projects in developing countries to cover part of their emissions. These projects must be recognized under the Kyoto Protocol's CDM or Joint Implementation mechanism (JI). By allowing companies to buy international credits, the EU ETS is channeling substantial amounts of investment to promote clean technologies and low-carbon development in developing countries and economies in transition. The EU ETS is an important building block for developing an international carbon market. National or regional systems are already operating in China, South Korea, Canada, Japan, New Zealand, Switzerland, and the United States (EU, 2016).

Putting a price on carbon has long been regarded as an efficient way to internalize the external costs associated with carbon emissions from energy use, thus helping mitigate the threat of climate change,

TABLE 1 Intended use of carbon pricing in the Arab countries' NDCs

Country	International carbon pricing	National carbon Pricing
1 Egypt	X	X
2 Jordan	X	
3 Morocco	X	
4 Sudan	X	
5 Tunisia	X	
6 West Bank and Gaza	X	

Source: World Bank, State and Trends of Carbon Pricing 2017, NDCs as of September 1, 2017

and to encourage a faster transition to low-carbon economies. In developing sustainable energy, an adequate price on GHG emissions helps mobilize the financial investments required to support diverse actions such as renewable energy deployment, adoption of energy efficiency measures, and use of low-carbon technologies in industry.

These initiatives include emission trading systems, carbon taxes, offset mechanisms, and results-based finance linked directly to GHG emissions that result in an explicit valuation of carbon dioxide emissions. A carbon price also makes fossil fuels more expensive to use, so it promotes greater energy efficiency in energy supply and use.

The annual World Bank "snapshot" of carbon markets released in May 2018 showed that 70 national and subnational governments around the world price carbon including China, which launched the largest carbon market in the world in 2017 (World Bank, 2018). At least 88 members of the Paris Climate Agreement, including six Arab countries, have indicated that they plan on pricing carbon (Table 1). It also showed that state and local markets raised USD 33 billion in revenue in 2017, up 50 percent from 2016. Opportunities exist to expand carbon pricing to new jurisdictions, and to continue to refine and enhance the effectiveness of existing schemes.

VIII. SPECIAL ENERGY AND/OR ENVIRONMENTAL FUNDS

To achieve objectives of energy and environment policies, substantial investments are needed,

BOX 3

EGYPTIAN ENVIRONMENTAL PROTECTION FUND (EPF)

The EPF was established shortly after the Environment Law and its Executive Regulations came into effect in 1995. Law 9 in 2009 amended the reporting of EPF to the Minister of State for Environment.

The objectives toward which the EPF may allocate its financial resources are broadly defined in the Environment Law's Executive Regulations as:

- Addressing environmental disasters.
- Carrying out demonstration projects aimed at protecting natural capital and safeguarding the environment from pollution.
- Transferring proven, low-cost environmentally sound technologies.
- Financing the manufacture of innovative technologies and pollution abatement facilities.
- Establishing and operating environmental monitoring networks.
- Establishing and administering protected areas.
- Combating pollution from unknown sources.
- Financing research that supports environmental programs.
- Assessing environmental impacts and developing environmental standards.
- Participating in financing environmental protection projects undertaken by local administrative agencies and grassroots organizations.
- Providing awards for outstanding achievements in the field of environmental protection.
- Supporting EEAA infrastructure and initiatives.
- Carrying out other activities aimed at protecting and managing the environment as approved by the EEAA Board of Directors.

Revenue Sources

The Environment Law and its Executive Regulations defines the EPF's potential revenue sources as:

- Amounts allocated in the state budget to the

Fund.

- Grants and donations presented by national and foreign organizations for the purpose of protecting the environment and which are accepted by the Board of Directors of the EEAA.
- Fines levied and legal or agreed-upon compensation for any damage caused to the environment.
- The financial resources of the Nature Conservation Fund, as provided for in Law 102/1983.
- The EEAA's share – not less than one-half – of the proceeds generated by a 25 percent tax imposed on air travel tickets issued in Egypt in Egyptian currency (pursuant to Article 1, Law 5/1986 and Prime Ministerial Decree 697/1986).
- Financial returns from projects undertaken by the EEAA.
- Amounts collected by the EEAA for services rendered to third parties.
- Fees for licenses issued by the EEAA.

Characteristics

The EPF has the following important characteristics:

- The EEAA itself was created by Law 4/1994 as an independent agency reporting to the Prime Minister, and is affiliated with the Ministry of State for Environmental Affairs.
- The EPF was established as a special account within the Egyptian Environmental Affairs Agency (EEAA).
- The EPF's fiscal year coincides with that of the EEAA.
- The EPF's financial resources are considered public funds.
- Any outstanding balances in one year are carried over and utilized in the following years.
- The EPF's activities and financial transactions are subject to the control of the Central Auditing Agency.

not only for the energy and environmental agencies, but also for all other economic sectors. To facilitate the flow of such investments and catalyze the flow of private investments, establishing a special "energy fund" or "environmental protection fund" could be an option.

A. Environmental Protection Fund

Environmental funds are increasingly popular environmental financing mechanisms in developing economies. The failure of governments to tackle environmental problems by putting in place sound environmental management policy framework

and enforced regulations, as well as failures of the financial and capital markets to provide access to financing at reasonable terms, are typically the underlying reasons why special environmental funds are established. Three main categories of environmental funds can be distinguished: earmarked tax funds (ETFs), directed credit funds (DCF), and green funds (GFs). Governments that designate environmental taxes, charges, and other, mainly environment-related levies for special funds, create ETFs. Several countries have attempted to set up a charge system to compensate for environmental damage and create incentives to change polluter behavior. The Egyptian Environmental Protection Fund, established by the environmental Law No. 4 in 1994 is an example to explore (see Box 3). Direct credit funds may be established as financial intermediaries by either donor organizations such as the World Bank or national governments. They are designed to finance pollution abatement projects by avoiding the transaction cost of direct financing. The recipient government sometimes supplements donor lending or other sources in order to soften on lending terms through grant elements, technical assistance, or better-than-market interest rates. An example in the Arab region is the Egyptian Pollution Abatement Program (EPAP) (see Box 2). Green funds fall in the third category of environmental funds. These are typically initiated by one-time donor contributions or debt-for-nature swaps to finance expenditures in nature conservation, most often providing grants to cover the recurrent costs of operating national parks and small community-based programs (see Section 8: Debt-for-Development Swap) (World Bank, 1998)

B. ENERGY FUNDS

Several Arab countries have established dedicated special funds to promote energy efficiency and/or renewable energy, raise public awareness in these areas, reduce operating costs, and encourage competitiveness. Sources of financing those funds include taxation (Algeria and Tunisia), public budget allocations (Jordan, Syria), bilateral and multilateral donors (Egypt, Lebanon, Morocco, Jordan), and funds saved due to energy efficiency (Tunisia, Palestine).

IX. CONCLUSION

The adoption of the 2030 Agenda and the

Sustainable Development Goals (SDGs) has raised the question of financing. Several thousand billion dollars a year will be needed to achieve the SDGs. Given that official development assistance (ODA) is far from sufficient to finance the SDGs in full, an innovative approach needs to be taken, in order to implement mechanisms that can be used to direct the resources available towards sustainable development. Innovative finance mechanisms launched in 2002 at the international conference on financing for development to complement traditional international resource flows – such as aid, foreign direct investment, and remittances – to mobilize additional resources for development and address specific market failures and institutional barriers. In practice, there is a wide range of so-called innovative financing mechanisms. Some are designed to increase the resources available to support development policies such as taxes on plane tickets, and carbon emissions trading. Others, which are more complex and more recent, associate additional funding with the notion of outcomes, such as result-based finance and green bonds. Several Arab countries are benefiting from some innovative financing mechanisms such as debt for development swap, climate finance, and result based finance, while others are planning to do so.

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diseases. The Global Fund raises and invests nearly US\$4 billion a year to support programs run by local experts in countries and communities most in need (The Global Fund, 2018).

NOTES

1. UNFCCC 1/CP.21
2. Dilip R. Limaye, senior advisor at the World Bank defines a Super ESCO as "an entity that is established by the Government and serves as an ESCO for the large untapped public sector (hospitals, schools, municipalities, government buildings and other public facilities). It supports capacity development and activities of other ESCOs and facilitates access to project financing".
3. The Global Fund is a partnership organization designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics. Founded in 2002, the Global Fund is a partnership between governments, civil society, the private sector and people affected by the

OPINION

MONTREAL OZONE PROTOCOL A SUCCESS STORY MULTILATERAL FUND AND ARAB COUNTRIES

Eduardo Ganem

The Montreal Protocol on Substances that Deplete the Ozone Layer was designed to reduce the production and consumption of ozone depleting substances in order to reduce their abundance in the atmosphere, and thereby protect the Earth's fragile ozone layer. The original Montreal Protocol was agreed on 16 September 1987 and entered into force on 1 January 1989. Article 10 of the Protocol relates to the establishment of a mechanism for the purposes of providing financial and technical co-operation, including the transfer of technologies to developing countries (referred as Article 5 countries under the Montreal Protocol) to enable their compliance with the control measures set out in the Protocol. The financial mechanism is financed by contributions from developed countries (referred as non-Article 5 countries).

The Montreal Protocol is widely considered as the most successful environmental agreement. The Multilateral Fund for the Implementation of the Montreal Protocol (Multilateral Fund) is the first financial mechanism created under an international treaty based on scientific evidence of the depletion of the ozone layer, and established by a decision of the Second Meeting of the Parties to the Montreal Protocol (London, June 1990). The Multilateral Fund is managed by an Executive Committee consisting of seven developing country Parties and seven developed country Parties to the Montreal Protocol, and is assisted in discharging its functions by the Fund Secretariat, located in Montreal, Canada. The Secretariat's first Chief Officer was Dr. Omar El Arini, an Egyptian national, who served in the role from 1991 to 2003.

The Multilateral Fund began its operation in 1991 to assist developing countries, whose annual level of consumption of the ozone depleting substances (ODS) CFCs and halons was less than 0.3 kilograms per capita, to meet their Montreal Protocol commitments through provision of technical and financial assistance. Projects and activities supported by the Multilateral Fund are implemented by four

international implementing agencies, namely the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Organization (UNIDO) and the International Bank for Reconstruction and Development (World Bank), and a few bilateral agencies. The separation for implementation responsibilities allows the Fund to conduct an objective and rigorous project review procedure and an impartial monitoring and evaluation system to identify problems in implementation and to find solutions to them.

Since the inception of the Multilateral Fund, the Executive Committee has held 80 meetings. Representatives from Arab League countries have attended each of these meetings as Executive Committee members, and have contributed to advancing policies of the Multilateral Fund and the approval of projects for beneficiary countries. Arab League countries have also undertaken prominent roles in the Committee as demonstrated when Tunisia acted as the Vice Chair of the Executive Committee in 2001; Syrian Arab Republic as the Vice Chair in 2005, and the Chair in 2006; and Lebanon as Vice Chair in 2017, and as the Chair in 2018.

Of the 22 Arab League countries, all but two¹ have received funding from the Multilateral Fund. In 2011, all developing countries were in compliance with the 2010 control targets of the Montreal Protocol, and in 2016, almost all (including all Arab League countries) were in compliance with the 2015 control targets.

The Multilateral Fund has been replenished ten times. The total budget for the 2018-2020 triennium is USD 540 million. As of November 2017, of the total pledged contributions to the Multilateral Fund of USD 3.65 billion, USD 3.48 billion had been paid. The Executive Committee has approved the expenditure of approximately USD 3.53 billion for the implementation of 7,874 projects including industrial conversion, technical assistance, training and capacity building that will result in the phase-out of 469,870 ODP tonnes of controlled substances once

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all these projects have been implemented. By the end of December 2016, 488,909 ODP tonnes² had already been phased out. As ozone depleting substances (ODS) are also very potent greenhouse gases, reducing emissions of ODS through these projects has also contributed to the protection of the climate.

Since the inception of the Multilateral Fund, Arab League countries have received funding for implementation of 985 projects (172 of which are ongoing) amounting to over USD 269 million to phase out 23,224 ODP tonnes in consumption. This level of funding includes assistance for institutional strengthening support for coordinating national and international efforts aimed at the speedy ODS phase-out, implementation of individual investment projects in various sectors and national phase-out plans, with technical assistance including projects to demonstrate new technologies.

With regard to institutional strengthening support, it was recognized that implementing the Montreal Protocol is ultimately the responsibility of national governments. The Multilateral Fund has therefore provided funding to establish 145 national ozone units within the governments of each recipient developing country to enable them to take ownership of their national ozone protection programme. As of May 2018, funding amounting to USD 19 million has been provided to the 20 Arab League countries for this purpose. In addition, funding has been provided to UNEP's Compliance Assistance Programme (CAP) to operate 10 regional/sub-regional networks to provide a forum to discuss regional issues, tap the expertise of peers, disseminate information and gather feedback on policies of the Multilateral Fund. Arab League countries are members of either the regional network for West Asia or of Africa.

The Multilateral Fund provides financing for the

incremental costs of the phase-out of substances controlled by the Montreal Protocol to enable each of the Article 5 countries to achieve compliance with the Montreal Protocol's phase-out schedules. The funding approved for a country not only takes into account the amount of ODS to be addressed but also the particular situation of a country, for example whether it is a small country that consumes low volumes of controlled substances, or whether it is a country whose economy is based on a multitude of small-and-medium-sized enterprises. Currently, 143 countries³ are implementing HCFC phase-out management plans (HPMPs) to phase out approximately 60 percent of the aggregated HCFC baseline for compliance. These HPMPs are governed by performance-based multi-year agreements between individual governments and the Executive Committee with each government committing to a series of specific time-bound reductions in HCFCs in return for the Executive Committee's commitment to provide long-term funding. Governments are granted some flexibility in the use of funding to promote national ownership but there is also a requirement to verify the reductions in HCFCs with the possibility of penalties in case of non-compliance with the agreement.

Although ODS substitutes do not deplete the ozone layer, some are greenhouse gases and contribute to climate change. Noting the need to demonstrate climate-friendly and energy-efficient alternative technologies to HCFCs, the Executive Committee decided to consider proposals for demonstration projects for lowGWP alternatives to HCFCs, and established a funding window of USD 10 million and funding criteria. Subsequently, three feasibility studies for district cooling (two of which in Egypt and Kuwait) and 17 demonstration projects were approved: eight projects in the refrigeration and air-conditioning and assembly subsector (five of which from Arab League countries/region (one from Kuwait, two from Saudi Arabia, a global (with a component in Tunisia) and a West Asia⁴ regional project); six in the foam sector (three of which from Egypt, Morocco and Saudi Arabia); and three in the refrigeration servicing sector (one of which a global project (with an Eastern Africa component to be implemented in Egypt)). The funding approved for these projects in Arab League countries amounts to nearly USD 4.5 million.

With regard to information on HFC consumption and production, at its 80th meeting, the Executive Committee considered the overall analysis of the results of the surveys of ODS alternatives in 119 countries⁵ including

12 Arab League countries (namely, Bahrain, Comoros, Djibouti, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Saudi Arabia, Sudan and Tunisia).

At the 80th meeting, the Executive Committee approved USD 8,848,900 for the implementation of enabling activities for the phase-down of HFCs in 59 Article 5 countries, including four Arab League countries (namely, Lebanon, Somalia, Sudan and Tunisia), funded from the additional contributions to the Multilateral Fund. At the 81st meeting, the Executive Committee will further consider submission of enabling activities in 60 countries including 11 Arab League countries (namely, Bahrain, Comoros, Djibouti, Egypt, Iraq, Kuwait, Libya, Mauritania, Morocco, Oman and Saudi Arabia). With regard to the preparation of national implementation plans to meet initial reduction obligations for the HFC phase-down, funding could be provided, at the earliest, five years prior to those obligations after a country has ratified the Kigali Amendment, and on the basis of the guideline to be approved.

At the 80th meeting, the Executive Committee approved USD 3,350,823 for implementation of an investment project to phase out 230.6 metric tonnes (329,801 CO₂-eq tonnes) of HFCs in one country in the domestic refrigeration sector. At the 81st meeting, the Executive Committee will further consider 13 projects including those submitted by Egypt, Jordan, and Lebanon.

The continued progress in developing the most appropriate costs guidelines, the advance in technologies, the strengthening of national stakeholders, and fast actions and determined efforts by all countries and Multilateral Fund institutions will contribute to the continued success of the Multilateral Fund and the Montreal Protocol.

NOTES

1. The State of Palestine due to its status as non-Party to the Montreal Protocol. United Arab Emirates was urged not to request funding from the Multilateral Fund for the phase-out of their ODS consumption.
2. 284,720 ODP tonnes of consumption and 204,189 ODP tonnes of production.
3. Instead of 144 (Croatia has become a non-Article 5 Party).
4. The demonstration project in West Asia on promoting refrigerant alternatives for high-ambient-temperature countries referred to as PRAHA-II.
5. Of the 127 countries funded.

OPINION

ALIGNING THE FINANCIAL SYSTEM WITH SUSTAINABLE DEVELOPMENT**Simon Zadek**

The UN Environment Inquiry into Design Options for a Sustainable Financial System was launched in 2014 with a mandate to improve the financial system's effectiveness in mobilising capital towards a green and inclusive economy.

Our starting hypothesis was that many of the solutions to mobilise the trillions for sustainable development lay in the workings of the global financial system itself, and so could not be resolved at the necessary scale through action downstream in specific mobilisation initiatives. The focus was therefore on the 'rules of the game' and the task was to stimulate practices in advancing such rule change.

Over the first phase, the Inquiry reviewed innovative actions across dozens of countries, exploring the practice of advancing aspects of sustainable development in financial market development. Key was extensive and intensive engagement with financial policy-makers, regulators and standard-setters, as well as market-based rule setters such as stock exchanges and rating agencies, and of course financial market stakeholders themselves.

Quiet Revolution

From the beginning, there was a focus on the practices of developing countries, not least because of their lead in advancing innovative approaches to financial inclusion. There was a particular focus on two countries, China and the UK, in seeking to learn from and harness their respective leadership in (very different) aspects of sustainable finance. What the Inquiry found was that many parts of the world were not organised according to such convention. Particularly in developing countries from South Africa to Indonesia and Bangladesh, and from the China to Peru, we found a 'quiet revolution' in progress in shaping financial market according to diverse policy priorities, from financial inclusion, to air pollution, to black economic empowerment, and to climate.

Birth of a New Narrative

On 8 October 2015, the Inquiry launched its first global report, "The Financial System We Need: Aligning the

Financial System with Sustainable Development", at the International Monetary Fund/World Bank Group Annual Meetings in Lima, Peru. It was the first time that the UN, let alone the UN agency responsible for environmental issues, had chaired a panel of central bank governors to talk not about the environment, but the future of the financial system. It was evident that we had crossed an invisible threshold. A new, or perhaps revived, narrative was being established making the matter of environment, climate and sustainable development the business of financial policy-makers and regulators. Reinforcing this was the announcement by China during this pivotal discussion that it would not only take the topic of green finance into the G20 finance track during its Presidency in 2016, co-chaired with the Bank of England, but that it was asking UN Environment to manage this work stream on its behalf.

A Noisier Revolution

Today, it would be hard for any central bank governor to dismiss the relevance of sustainable development to his or her work. Such a shift in such a short time period is remarkable in itself, and a testimony to the work of many and the early impacts of the universal embrace of the 2030 Agenda and the Paris Agreement on climate. Although there is much to be done in translating this movement into tangible, ambitious action, we also see a growing proportion of bankers, investors, stock exchanges and insurance firms making commitments to align their operations with climate change and broader sustainable development objectives.

Considering market practice, for example, there has been a fourteen-fold increase in labelled green bond annual issuance from just USD 11 billion in issuance in 2013 to USD 155 billion in 2017, including emblematic cases such as Nigeria's issuance of the world's first, fully-certified, sovereign green bond. Yet, such progress needs to be set against the scale of the global bond market of around USD 100 trillion. Similarly, there has been an increase in divestments in carbon-intensive assets to an estimated USD 5 trillion in 2016, although this equally needs to be set this against investments in coal, oil and gas over the same period of around USD 710 billion.

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National action is critical, and there are a growing number of examples of ambitious roadmaps in development and implementation, many of which the Inquiry has supported. Notable examples include:

China: Agreed by China's State Council in August 2016, the "Guidelines for Establishing a Green Financial System" are the world's most comprehensive set of national commitments, covering a range of priorities from banking to capital markets and insurance. This built on the work of the China Green Finance Task Force co-convened by the People's Bank of China and the Inquiry on behalf of the UN Environment.

European Union: Building on developments across a number of member states the European Union set up the High-Level Expert Group on Sustainable Finance (HLEG) in 2016 to map out options for community-wide action. This has laid the foundations for a comprehensive action plan on sustainable finance proposed by the European Commission released in early 2018. The Inquiry has tracked the global number and range of policy measures to advance aspects of sustainable finance. At the end of 2013, 139 subnational, national-level and international policy and regulatory measures were in place across 44 jurisdictions. Most of these were first-generation efforts to improve disclosure in securities markets and by pension funds. Four years on, the number of measures has not only doubled – to 300 in 54 jurisdictions – but the pattern of activity has changed fundamentally, with a substantial rise in system-level initiatives, which now account for a quarter of the total (see Figure 2). These initiatives include the growth in national level roadmaps for green and

sustainable finance in countries, across such diverse cases as Indonesia, Italy, Morocco and Singapore. Specialised sustainable finance regulations and guidelines have also been developed. Bangladesh, China, Vietnam and Pakistan have developed guidance for banks to include environmental and social factors into risk management.

Momentum to Transformation

Despite the impressive momentum achieved, progress remains insufficient to deliver the financing required for the 2030 Agenda or the Paris Agreement. Indeed, the vital signs of sustainable development give strong reasons to be highly concerned, whether in terms of ecosystem decline, widening social fractures due to high carbon-trapped economic development and unrealised economic potential. Finance is not the only factor at work, but is a keystone in shaping tomorrow's economy and its impacts.

Progress to date should not discourage more transformative ambition to reshape finance, given the challenges we face and the opportunities that this finance could realise. There is certainly a need for more of both to get to where we need to be. While the job is clearly not done, many stakeholders can and will take the agenda of sustainable finance forward, within national governments, civil society, international organisations, financial institutions and across the UN system.

Aligning the financial system with the 2030 Agenda is not just a matter of more of the same, but of harnessing major change opportunities, given the complexity and dynamism of this system. For example:

- Financial crises offer major opportunities to reshape aspects of the financial system, as has the recent one, albeit with mixed results.
- International political agreements offer opportunities to shape systemic outcomes, such as the Paris Agreement which has helped to system-level initiatives to advance climate considerations across the financial system.
- Digitalisation will transform the financial system and its relationship with the real economy, creating many new opportunities for advancing financing for sustainable development.
- Major investment programs such as China’s Belt and Road initiative, provide opportunities to influence the alignment of major investment flows.

- Coalitions for Action: Three coalitions have been established, each involving UN Environment, to advance aspects of our work:

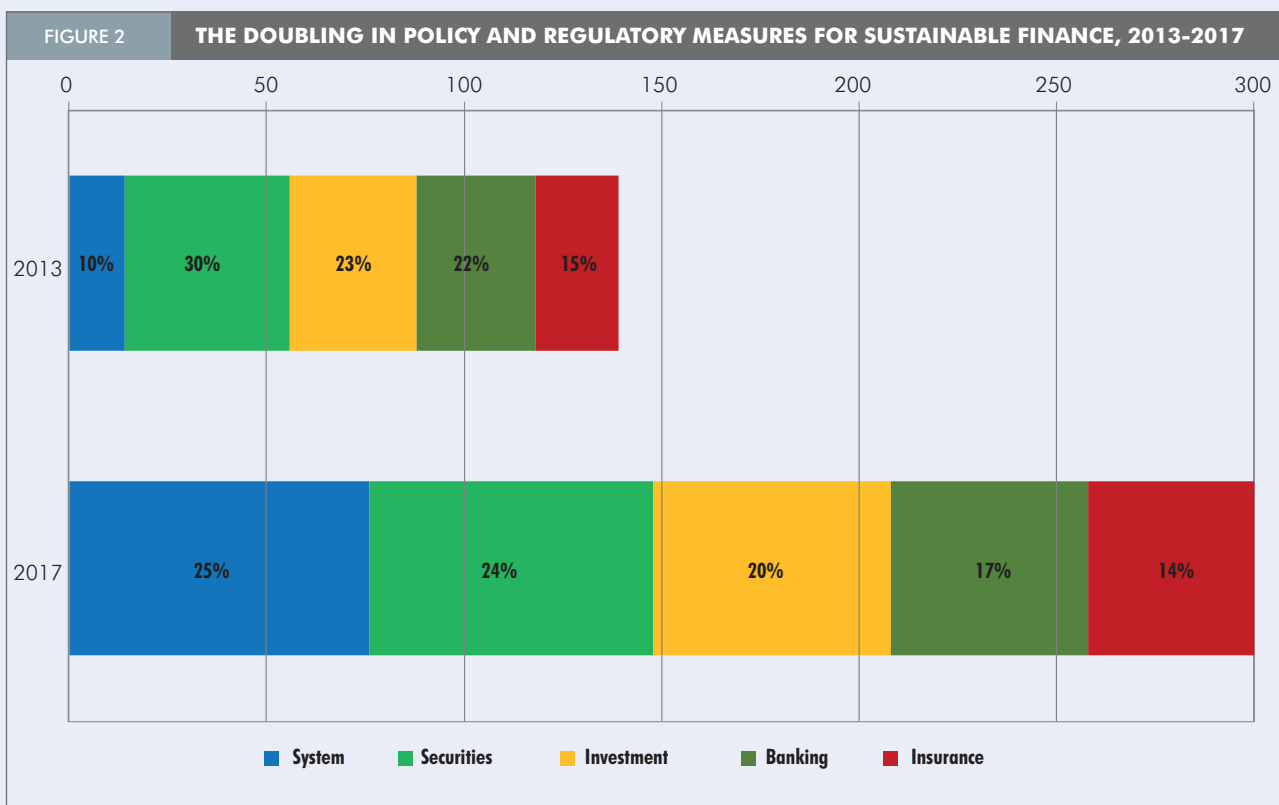
Network of Financial Centres for Sustainability: Launched in Casablanca in September 2017, the network gathers financial centres committed to harness their financial expertise to drive action on climate change and sustainable development (<http://unepinquiry.org/publication/accelerating-financial-centre-action-on-sustainable-development/>).

Sustainable Digital Finance Alliance: Co-founded by UN Environment and Ant Financial Services, and established as a Swiss-based, non-profit, public-private partnership, its goal is to catalyse the more effective harnessing of the digitalisation of finance to meet the needs of sustainable development (<https://www.sustainabledigitalfinance.org/>).

The opportunity lies in harnessing such transformational waves. The Inquiry, although having completed its 50-month journey, has spawned and supported the emergence of many on-going initiatives, including:

Sustainable Insurance Forum: A network of leading insurance supervisors and regulators seeking to strengthen their understanding of, and responses to, sustainability issues for the business of insurance. It is a global platform for knowledge-sharing, research and collective action (<http://unepinquiry.org/sif/>).

- Sustainable Finance at the G20: UN Environment will continue to advance sustainable finance under the Argentinian G20 Presidency, notably the Sustainable Finance Study Group.





Roadmaps for Sustainable Finance: a growing number of organisations are now stepping in to support countries and regions in developing roadmaps, such as the IFC's Sustainable Banking Network. Further development work is, however, still required, in the development of tools, ways to link these roadmaps to other planning processes such as green economy planning and climate-related National Development Contributions.

UN Environment's Inquiry as Catalyst

The Inquiry's added value, beyond being in the right place at the right time, was to uncover the many relevant innovative initiatives created by extraordinary champions from around the world, connect these initiatives through the exchange of experience across its partners, and to shape an overarching narrative that validates the ambition to align global finance with sustainable development.

- The Inquiry has been a catalyst for change, not an underlying driver. Its work leveraged three, historic drivers:
- The aftermath of the financial crisis, which created

an opening for fresh thinking about the role of the financial system, and strengthened the resolve for policy action on finance.

- The growing importance of developing countries with new ideas about how finance and development should work together.
- The global negotiation and agreement of the Sustainable Development Goals (SDGs) and the Paris Agreement on climate change.

In addition, especially in its latter phase, the Inquiry has increasingly emphasised the potential to harness the digitalisation of finance in realising the 2030 Agenda and the Paris Agreement goals. This is work-in-progress, and currently includes active engagement on the topic through Argentina's G20 Presidency, and the decision by the UN Secretary General to champion a Task Force on Digital Finance and the SDGs.

Note

The Inquiry's complete knowledge base of over 120 reports can be downloaded at: <http://unepinquiry.org/>.

OVERVIEW

DELOITTE RESPONDS TO SDGs IN THE MIDDLE EAST**Rana Ghandour Salhab**

The Sustainable Development Goals (SDGs), launched in 2015 after the success of the Millennium Development Goals, set out the framework for businesses to drive growth and productivity, ultimately contributing to a better world envisioned by the 2030 Agenda for Sustainable Development. While the SDGs are an opportunity for businesses to galvanise on the promise of sustainable and inclusive development and attend to social and environmental challenges, there is a gap between the level of interest and the delivery, and between the opportunity and the actions.

As a leading global professional services firm, Deloitte has long been a contributor to addressing complex global development challenges and reaching thousands of community members through its social work. In line with this tradition, Deloitte Middle East's programs, whether they are employability and leadership skills-building programs or pro bono work supporting NGOs, non-profit, and other community organizations, have been driving societal reform and effecting positive change around the Middle East.

In view of the 2030 Agenda, Deloitte has launched a number of initiatives to help finance these goals and offer concrete results. Foremost among these are Deloitte Accelerator for Social Innovation in the Middle East (DASI) which aims to help address the region's most pressing social and environmental challenges by empowering and supporting innovative social enterprises that operate with a social or environmental purpose; and WorldClass, which aims to empower 50 million future lives by 2030 through education, skills development, and access to various opportunities, in addition to other programs delivered through our partners and select NGOs.

Innovation and the SDGs

The DASI program in the Middle East, launched in early 2018, is tailored to innovative social enterprises that are at the early growth level and in need of longer-term acceleration and support programs that will allow them to scale their impact. DASI attends to a need in the social entrepreneurship ecosystem, where support for

social enterprises in the Middle East is still embryonic, limited to incubation initiatives that are short-term in nature and targeting social enterprises that are still at the idea stage.

DASI aims to help address the region's most pressing social and environmental challenges by empowering and supporting small and medium social enterprises that operate with a social or environmental purpose. These companies or NGOs should have a viable business model and sustainable revenue stream. DASI captures key SDG themes, including education and skills-building, gender equality, health and well-being, environmental sustainability and humanitarian goals. It is designed as an accelerator platform whose components include a regional competition across 14 countries in the Middle East to identify two winning innovative social enterprises that will receive customized Deloitte support packs of advisory services, mentorship, networking opportunities, and skills-development valued at over USD 100,000.

Criteria include scalability, economic viability, sound business strategies and plans as well as inclusion and diversity in ownership and management teams. The program further supports gender parity by encouraging applications from social enterprises that are fully or partially owned by women. The aim is to positively impact the greatest number of people in Middle East communities through Deloitte's core expertise.

WorldClass - 50 million lives prepared for a world of opportunity

Deloitte's global WorldClass initiative aims to empower 50 million future lives by 2030, in line with the time frame for achieving the SDGs. Through WorldClass, Deloitte is applying its core skills, experience, and global reach to empower more people through education, skills development, and access to various opportunities.

WorldClass supports the goals focused on inclusive and equitable education and lifelong learning (SDG 4), as well as sustained economic growth and decent work for all (SDG 8). In the Middle East, Deloitte is delivering programs and initiatives that support the WorldClass ambition. The Digital Youth Program (DYP), launched

DASI: The four stages

1. **Competition**
A competition targeting Middle East-based social enterprises at the early-stage level.
2. **Advisory services**
Winning organizations will be eligible to receive customized acceleration advisory Deloitte services
3. **Mentorship**
Winning organizations will be matched with Deloitte and/or Ashoka mentors for the duration of the program
4. **Networking, regional and international exposure.** The winning organizations will get access to networking opportunities/ events and access to Deloitte's wide network as relevant and appropriate.

in 2012, is part of Deloitte's commitment to bridging the digital divide, together with non-profit organizations and educational institutions. The program has donated hundreds of pre-owned computers between 2014 and 2017 and has impacted over 4,000 children in the Middle East. More than 400 Deloitte professionals have engaged in the digital training process and volunteered over 650 hours of skills-based teaching and training. The program's mission is to supplement the school curriculum (ages 5-12) and help less-privileged children master the basics of reading, science, personal health, math, technology and foreign languages by providing Deloitte computers and access to quality online best-in-class courseware that can support and reinforce these essential skills.

Other than the DYP, Deloitte volunteers across the region have also reached thousands of students through delivering leadership, entrepreneurial, employability and general skill-building courses in schools, colleges, NGOs, orphanages and refugee camps. One such course is the financial accounting and employability skills-building program, delivered to 17-25-year-old refugees by Deloitte volunteers in refugee camps. The program aims at equipping refugees with the basic bookkeeping skills to improve their work opportunities. The course material was developed and delivered by Deloitte's own audit team, aiming to make the content as relevant as possible for the students, 50 percent of whom were women.

**Together for a better world: Public-private partnerships and SDGs**

In line with SDG 17 (partnerships for the goals) Deloitte collaborates with, and supports, select NGOs whose goals align with the SDGs. One such NGO is a regional non-profit organization dedicated to inspiring a culture of entrepreneurship, financial literacy, and business innovation among Arab youth through a range of programs.

To provide the e-learning software for its Digital Youth Program, Deloitte partnered with E-Learning for Kids, a global, non-profit foundation dedicated to learning on the Internet for children aged 5 to 12 years.

Similarly, for DASI, Deloitte is collaborating with Ashoka Arab World, a platform for social entrepreneurship across the Middle East and North Africa with over 3,600 leading social entrepreneurs in over 90 countries.

Conclusion

The SDGs provide a comprehensive framework for the world to work together to create a better future by 2030. Businesses can make a huge impact towards the achievement of these goals. But despite many organizations' interest and commitment to the SDGs,

most in the Middle East have yet to embrace this new purpose.

Deloitte's corporate responsibility and sustainability begins with its core business strategy and extends to the way it interacts with clients, its people and the communities it connects with. It is committed to creating opportunities for those less fortunate through collaborations with businesses, governments and educators to transform learning and enable individuals to access the skills they need to meet future job demands.

ENABLING CONDITIONS FOR FINANCING SUSTAINABLE DEVELOPMENT GOALS

HUSSEIN ABAZA



I. INTRODUCTION

A change in the mindset and culture of designing development strategies, policies, and plans, and their monitoring and assessment is essential if Arab countries are to achieve the SDGs and address climate change concerns. Adopting an integrated approach to policy making is necessary to ensure policy coherence. This should be supported by a package of regulatory and market-based measures, in order to ensure that the proposed policies, plans, and programs are economically viable, socially equitable, and environmentally acceptable. Adopting a transparent, accountable, and participatory approach is a prerequisite for achieving this end. Building human capacity is one of the key requirements needed to make a qualitative shift towards sustainable development. It is recommended to reform the current institutional arrangements at the regional as well as national levels, such as establishing “High Councils for Sustainable Development”. This would ensure integrated policy formulation, adequate cooperation and coordination among different government entities, and between the government and non-state stakeholders. The Councils would also be responsible for overseeing and assessing the implementation of the proposed strategies, suggest remedial actions as may be required, and ensure adequate communication between the government, the general public, the private sector and civil society.

The financial system as currently designed is not geared to supporting sustainable development. However, ensuring the financial sustainability of policies, plans and programs is key to achieving the SDGs.

Apart from securing additional financial resources, focus should be on the mobilization and the redirection of existing local financial resources, both public and private. Emphasis should also be made on securing additional financial resources through the integration of the informal sector in the economies of Arab countries, encouraging public-private partnership projects, tax and subsidy reform policies, philanthropic institutions, remittances of workers working abroad, and private sector investments.

A pre-requisite to attract external assistance is to mobilize local resources through policy and

subsidy reforms and tax collection measures, alongside promoting transparency and public participation.

II. REQUIREMENTS TO IMPLEMENT SDGS

Some necessary requirements are needed for achieving the SDGs in Arab countries, covering strategies, policies, planning and governance. Those include:

A. Long-term Strategies and Medium-term Plans

Developing a long-term strategy with a clear vision, action plan, and indicators is an essential requirement for achieving sustainable development. Water, energy and food security continue to be among the main challenges facing Arab countries. This is further aggravated by rapid population growth, increased rates of poverty and the widening gap between the rich and poor, combined with increased levels of unemployment, illiteracy and poor educational and health services, particularly for low income groups, the poor and underprivileged communities.

SDG1 “End poverty in all forms everywhere”
SDG2 “End hunger, achieve food security and improved nutrition and promote sustainable agriculture”
SDG6 “Ensure availability and sustainable management of water and sanitation for all”
SDG7 “Ensure access to affordable, reliable sustainable and modern energy for all”

The outbreak of revolutions in several Arab countries since 2011 was mainly attributed to deteriorating social and economic conditions in these countries. Social injustice, reflected in inequitable distribution of wealth and social services, including sanitary and health facilities, education, and access to job opportunities were among the main causes for the Arab uprising, and they continue to be the main challenges facing these countries.

It should be emphasized that a necessary requirement for achieving sustainable development is a secure, stable, and predictable

**This chapter is based on Sections 4 and 5 of AFED 2016 annual report “Sustainable Development in a Changing Arab Climate.”*

macro-economic environment. Conflicts and wars in some Arab countries, particularly in Syria, Libya, and Yemen have claimed a heavy toll on their MDG gains. Launching action plans for the implementation of the SDGs requires first and foremost restoring political stability and the rule of law. Some other Arab countries are still grappling with political governance issues that need to be resolved to prevent sparking further uprisings and unrest.

B. Good Governance, Transparency and Accountability

Good governance represented mainly in national institutions that function in an effective and efficient, transparent and accountable manner are necessary for achieving sustainable development. These are lacking in most Arab countries, thus requiring corrective actions and reform in the existing institutional set-ups of governments. Lack of public participation, transparency and accountability represent some of the main constraints for the development and implementation of strategies, policies, and action plans. Adopting more transparent, accountable, and participatory approaches in the formulation and implementation of policies enhances the confidence of the public in the government and creates a sense of ownership on the part of citizens, thus contributing to a more positive attitude towards the government. This ultimately contributes to increased productivity and a more efficient use of resources. Good governance may therefore be regarded as a requirement for and an outcome of sustainable development policies.

SDG16 “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”

SDG17 “Strengthen the means of implementation and revitalize the global partnership for sustainable development”

Public participation is key in achieving sustainable development. Effective actual engagement of different stakeholders in the formulation, development, and implementation of strategies, policies, and plans is a necessary prerequisite for the successful realization of SDGs. Public participation ensures that priorities and concerns



of different segments of the population are taken into account in the formulation of policies, plans and programs. It also promotes transparency, accountability, and the empowerment and effective engagement of different stakeholders, and consequently the successful implementation of proposed policies, plans and programs. Adopting a top-down approach to development has proven its shortcomings, as this fails to reflect local priorities and concerns and the involvement of different stakeholders in the implementation process and the successful achievement of set targets and goals. Public participation may take different forms, including public policy dialogues, public hearings, surveys and questionnaires. What is also important is that governments should make the public aware of the status of implementation of the proposed programs, including successes, failures, bottlenecks and proposed measures for corrective actions.

C. Integrated Policymaking

Policy development and implementation in most Arab countries lacks integration of social, environmental, and economic aspects. In many instances, emphasis is mainly laid on economic

considerations without giving due attention to social and environmental considerations. Government policies may not only neglect these two dimensions, but may also result in negative implications on them. Adopting an integrated approach in policy development is therefore crucial in achieving sustainable development. Integrated policies that ensure complementarities and supportiveness of the three dimensions of sustainability should be developed. There is a need to depart from the assumption that there is always a tradeoff between the three dimensions of sustainability – this may still be the case at some point, but should not be the starting point in the policy formulation process. Starting from this premise is apt to render environmental and social considerations a low priority as compared to the economic aspects. Adopting the proposed approach requires full understanding of the interlinkages and feedback loop between the three dimensions of sustainability. It will also benefit from the use of a modeling exercise that clearly shows the implications of the different weights and priorities given to specific goals on other parameters and objectives. It has been proven that countries following an integrated approach in policy formulation have been better able to achieve sustainable economic development that is inclusive and socially acceptable, while at the same time ensuring the integrity of the environment. The Netherlands, Finland, Norway, and Denmark are good examples from Europe, while in Asia countries like Singapore, Malaysia, Indonesia, and South Korea achieved significant results in greening their economy. Arab countries starting to adopt Green Economy policies include UAE, Jordan, and Morocco, while the revised Sustainable Development Strategy in Egypt has adopted an integrated approach, with concrete results still to be seen.

Integrated policymaking is not only meant to ensure the integration of social, environmental, and economic aspects in policy design, but is also intended to ensure the integration and coherence between different sectoral policies. This is particularly relevant when addressing the water-energy-food nexus and the close relationship and interlinkages between them. It is therefore essential that the design of a long-term vision and strategy for water, energy, and food considers those linkages and implications closely in order to optimize the outcome of the proposed policies,

plans and programs, including the developmental and social component associated with them.

The general practice in most Arab countries is to develop policies in an isolated manner without proper coordination and integration between different sectors. This has resulted in a lack of coherence, coupled with shortsighted and deficient policies. It is therefore imperative that a mechanism is put in place to ensure proper coordination and integration of policies across sectors. Moreover, the increased number of ministries with unclear and sometimes overlapping responsibilities in most Arab countries further aggravates the situation. In almost all countries of the region, ministries of environment are the least budgeted with a restricted mandate confined to deal mainly with pollution related issues in isolation from mainstream economic sectors.

Since the Arab world faces a water, energy, and food challenge, priority should be given to addressing these challenges with a focus on how integrated policymaking will help achieve water, energy and food security for the region. Emphasis in policy design should also be laid on how the proposed policy would help revitalize and diversify the economies of Arab countries, promote resource efficiency, enhance competitiveness and market access, create jobs, reduce poverty and improve human welfare of the population.

D. Policy Coherence

Regulations supported by market-based incentives, if properly designed, can be quite effective in realizing sustainable development objectives. However, the general practice in most Arab countries is the development of regulations and market incentives, as well as trade and finance policies along sectoral lines without taking into account the implications of one policy tool on the other and their implications across sectors. Moreover, the full social, economic and environmental implications of the proposed policy package is not properly assessed and analyzed. That is to say regulations related to buildings and new communities do not necessarily take into account their social, economic, and environmental considerations and in most cases their implications on resource consumption and on other sectors such as, for example, roads and transportation. It is therefore essential that the



different policy tools are developed in such a way to ensure their supportiveness and coherence, and consequently their effectiveness in achieving sustainable development objectives.

Promoting tools and concepts such as the ecosystem approach, full lifecycle assessment, producers' responsibility, as well as consumers' responsibility can go a long way in promoting resource efficiency and reducing waste by producers and consumers. Adopting such approaches in the building and construction sector, for example, will necessitate that the full social and environmental together with the economic aspects are taken into account in the construction of buildings. This includes accounting for the carbon footprint resulting from the production of building material, the construction and operation processes, as well as the demolition phase. Social factors to be considered include the number of decent jobs created and the health implications resulting from the building and construction process.

Moreover, other necessary enabling conditions such as research and development, education,

public awareness, and capacity development policies should all be designed to support the overall strategic vision and direction of the country.

E. High Council for Sustainable Development

In order to ensure proper integration of policies and coordination between sectoral policies, policy coherence, as well as monitoring and follow up, it is proposed that a High Council for Sustainable Development attached to either the Head of State or the Prime Minister is established. It is proposed that such an entity includes the membership of all ministries. This body should function in tandem with another entity that represents the private sector, industry, academia and civil society, and minority groups. The main mandate of this institution will be to ensure integrated policy formulation, adequate cooperation and coordination between different government entities, and between the government and all other stakeholders in the country. It will also be responsible for overseeing and assessing the

OVERVIEW

THE ROLE OF OECD IN FINANCING SUSTAINABLE DEVELOPMENT**Kumi Kitamori**

The Addis Ababa Action Agenda clearly reaffirms the need to mobilise all available funding – public and private – to achieve the ambitious 2030 Agenda for Sustainable Development. The scale of required financing to realise the Sustainable Development Goals (SDGs) is unprecedented. In developing countries alone, the frequently cited estimate by UNCTAD puts the shortfall, or investment gap, at around USD 2.5 trillion per year.

What would it take to get to the trillions needed for financing the SDGs? No single financing instrument will deliver the SDGs. Official development assistance (ODA), private finance, as well as domestic fiscal revenues all play important roles. At USD 146.6 billion in 2017, according to the latest OECD Development Assistance Committee (DAC) figures, ODA forms a significant, yet small part of an ever-growing pie.

Official development finance

The OECD is exploring ways to better understand today's increasingly diverse and complex international financial architecture. To do this, new statistical methodologies and measures to better capture financing trends are being established, providing analysis to increase the transparency of finance available to developing countries. A new measure has been proposed and is provisionally entitled: Total official support for sustainable development (TOSSD). Going forward, the OECD will do its part to support international collaboration to shape and operationalise the TOSSD measurement framework.

The OECD is cooperating with the United Arab Emirates (UAE)¹ on broadening development finance. The UAE has significantly stepped up its development co-operation efforts in recent years. Its ODA, measured as a share of gross national income, reached 1.34 percent in 2013 and 1.17 percent in 2014 – well above the UN target of 0.7 percent and higher than that of all members of the OECD DAC. Many other policies beyond the scope of ODA but with an impact on development are carried out by the UAE. To get a better overview of all its official support for development, the UAE has completed a pilot exercise with the OECD, which identified three main areas of official support for development beyond ODA: (i) global public goods, (ii) financial instruments and (iii)

private finance mobilised by official sector interventions. This pilot will also contribute to the current discussion of what a broader measure of international development finance should look like. Such a measure should incentivise public financing in support of the SDGs and mobilise private resources for that purpose.

Mobilising private finance

Mobilising the private sector in the SDG agenda is crucial for addressing developing countries' annual USD 2.5 trillion investment gap, and also for bringing the innovation needed to address social, economic and environmental challenges. The OECD has developed a range of policy tools to help governments mobilise private finance in support of their development objectives and the SDGs. Based upon the experience gained through the application of these tools in countries at all levels of development, three general lessons stand out.

First, the obstacles facing private investors need to be removed by putting in place sound policy frameworks that support this type of investment. It might seem obvious, but in many cases the easiest way to promote private investment in the SDGs is to remove policy impediments that are not serving some other important social or development objectives.

Second, thinking horizontally across a government is key in order to promote policy coherence. All too often policy objectives are undermined when the actions of different ministries run at cross-purposes. Trade policies, investment policies, tax policies, competition policies, development policies – they all need to be aligned in support of promoting investment for sustainable development. This will also mean moving away from business as usual to harness integrated responses to economic, social and environmental issues.

Third, even while considering scaling up the volume of finance from billions to trillions, utmost attention needs to be paid to the quality of the investment generated. This is why governments have such an important role to play in establishing good labour, social, and environmental policies, and in promoting responsible business conduct and helping multinationals keep their international value chains clean. This would also ensure that programmes and projects are implemented more efficiently and with greater transparency and accountability.

Kumi Kitamori is Head of Green Growth and Global Relations, the Organization for Economic Co-operation and Development (OECD).



Blended finance: Leveraging ODA to attract private finance

The strategic use of official development finance for the mobilisation of additional private finance towards sustainable development in developing countries – i.e. blended finance – is an emerging frontier and growing priority for development finance stakeholders as well as philanthropic actors.

The collaborative approach between development and commercial actors will require a culture change, especially among development finance providers. Established roles and mandates differ among development and commercial actors, as do working modalities.

To ensure that blended finance is deployed to mobilise additional capital effectively and to deliver inclusive development outcomes and impact, DAC members have endorsed the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals. Moreover, the G7 ministers recently agreed to broaden awareness of these Principles in an effort to help advance the use of innovative financing to increase the flow of capital into emerging markets.

Domestic tax revenues

In addition to ODA and private finance, much of the financing to reach the SDGs will have to be generated domestically, based on effective taxation and good financial management. The OECD has developed a range

of tools that enable countries to better track, manage and reform their systems to eliminate inefficiencies and generate more resources.

For example, the OECD Revenue Statistics have been expanded to over 80 countries, providing high-quality, internationally comparable statistics; the joint OECD-UNDP Tax Inspectors Without Borders has already realized USD 328 million in revenues to-date.

In addition, the OECD work to prevent base erosion and profit shifting (BEPS)² and the Automatic Exchange of Tax Information standards have helped countries raise 85 billion euros in unplanned additional revenues. The joint OECD, IMF, UN, and World Bank Platform for Collaboration on Tax goes further by supporting developing countries' implementation of BEPS measures and by increasing capacity support.

The OECD's Global Outlook on Financing for Development addresses these and other financing instruments that contribute to achieving SDGs. It captures and presents data on ODA, tax revenue statistics, foreign direct investment, remittances and philanthropy.

Green Finance and Investment

Given the long lifespan of infrastructure, the investment decisions made now will determine the likelihood of meeting the SDGs and the goals of the Paris Agreement. As the OECD report Investing in Climate, Investing

in Growth shows, around USD 6.3 trillion a year of investment in infrastructure is required between 2016 and 2030 to meet development needs globally. The good news is that making these investments climate compatible would amount to less than 10 percent additional investment costs per year.

Governments have a pivotal role in mobilising green finance and investment, in particular by: i) strengthening the enabling conditions for investment by aligning policy action across the economy; ii) providing investors with a pipeline of bankable and sustainable projects; iii) unlocking the supply of finance through innovative domestic institutions (e.g. green banks) and financing instruments (e.g. green bonds); and (iv) encouraging fuller disclosure and reporting of climate impacts and risks. The recommendations of the Task Force on Climate-related Financial Disclosures are providing impetus in this direction. National and international development banks and development finance institutions also have a key role to play, for instance by de-risking private sector investments.

The OECD Action Plan on SDGs

However, mobilising more finance is only a means to an end. We need impactful and targeted policies that

can help deliver the world we want in 2030. To bring together its contributions on policy, measurement and mobilisation of financing, the OECD adopted in 2016 an Action Plan on the SDGs. It recognises our collective responsibility, and the important role of the OECD in supporting our member and partner countries and the international community more broadly as we all work on the implementation of the SDGs.

NOTES

1. The UAE became the first non-member country participant in the OECD Development Assistance Committee in 2014. In 2015, the UAE provided its bilateral co-operation mostly to Egypt, Yemen, Jordan, Iraq, Morocco, Sudan and Pakistan. The main sectors of the UAE's bilateral disbursements were programme assistance, economic infrastructure (energy and transport) and humanitarian aid. The UAE provides its bilateral programme mostly in the form of grants.
2. As of July 2018, from the Middle East and North Africa region, Egypt and the UAE are signatories of to the Multilateral Convention to Implement Tax Treaty Related to Prevent Base Erosion and Profit Shifting (BEPS).

implementation of the proposed overall strategy, and related action plans and programs, suggest corrective or remedial actions as may be required, and ensure adequate communication between the government, the general public, the private sector and civil society.

F. Follow-up, Monitoring and Implementation

Though most Arab countries do not lack development plans, the main flaw lies in the lack of the sustainability element. In many instances this is in addition to lack of implementation, follow up, and an assessment mechanism as an integral part of the plan. In many countries of the region proposed strategies, plans and programs are mainly associated with a specific cabinet or minister which are not necessarily subject to being seen through by subsequent cabinets and ministries. This practice has led to a waste in the use of resources, and the disruption and delay

in achieving the set government objectives. This practice should be discontinued, with successive cabinets and ministers building on previous set strategies, plans, and programs and introducing necessary corrective actions as appropriate to address changing circumstances and emerging issues. Adopting such an approach will save scarce resources, ensures continuity and consistency of strategies, plans, and programs, and will promote building and capitalizing on success stories and learning from mistakes.

An important requirement for sound decision-making, follow-up, monitoring and implementation is the availability of high-quality reliable qualitative and quantitative data. This should be supported by adequate national capacities for data gathering, analysis and interpretation. Though the role of data gathering and dissemination is normally assigned to national statistical systems, close collaboration should be maintained between them and other

government institutions, including academia, the private sector, and civil society (Third International Conference, 2015).

G. Human Resource Development

Investing in human capital is one of the key requirements needed to make a qualitative shift towards sustainable development. Apart from a few countries in the region giving high priority to education, most countries in the region give education a low priority.

SDG 4 “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all”

Investing in human resources includes reforming the education system in Arab countries to produce a future generation of highly qualified scientists, researchers, policymakers, practitioners and skilled workers needed to support sustainable development efforts. This requires an education system that encourages innovative thinking, research and development and that ensures the integration of sustainability considerations (environmental and social) across sectors. The education system needs to result in the production of calibers that are capable of supporting a transition to a green economy as a tool to achieve sustainable development. Particular attention should be given to vocational training to generate a caliber of skilled labor capable of introducing and applying resource efficient techniques, and handling new innovative environmentally friendly technologies. This new generation should include policymakers and practitioners that would be able to support integrated policy making across sectors (agriculture, industry, tourism, housing and construction, and transportation), in addition to water and energy efficient policies, the use of renewable water and energy resources, and integrated waste management.

H. Investing in the Environment

Investing in environmental and natural resources with a view of how such investments would support economic and social development should be the main guiding principle in developing national development strategies and action plans in the Arab region.

There is a need to depart from the conventional belief that environmental considerations represent a constraint and an impediment to development, to perceiving investment in the environment as an opportunity for achieving inclusive and equitable sustainable development.

I. Physical Infrastructure Development

An efficient physical infrastructure is necessary to support sustainable development. Priority should be given to electricity and water networks and services, road networks, transportation systems, wastewater treatment and sewage facilities with emphasis given to the construction of biogas production units in villages and remote communities. Investments should be done in renewable sources of energy and water, including water recycling and desalination using renewable sources of energy. This should be supported by a package of regulations and incentive measures that encourage the shift towards sustainable production and consumption patterns, thus promoting efficiency in the use of water, energy, food, and other factor inputs, and a shift towards renewable water and energy sources and integrated waste management techniques and practices.

SDG12 “Ensure sustainable consumption and production patterns”

Emphasis in the design of road and transportation systems should be on the development of environmental friendly public transport systems vis-à-vis private car ownership. Apart from reducing CO₂ emissions, this will also contribute to promoting social justice by catering for the needs of middle- and low-income families. This can be further achieved by prioritizing road construction and transportation systems for rural and remote areas, thus providing access to economic and job opportunities and markets for these communities.

J. Research and Development

Innovative approaches and environmentally sound technologies are key in achieving sustainable development objectives and addressing climate change concerns. There is a need for a clear long-term research strategy

to support the realization of sustainable development objectives. Such a strategy, which should be socially acceptable, environmentally sound, and economically viable is thus significantly important for realizing sustainable development and human welfare.

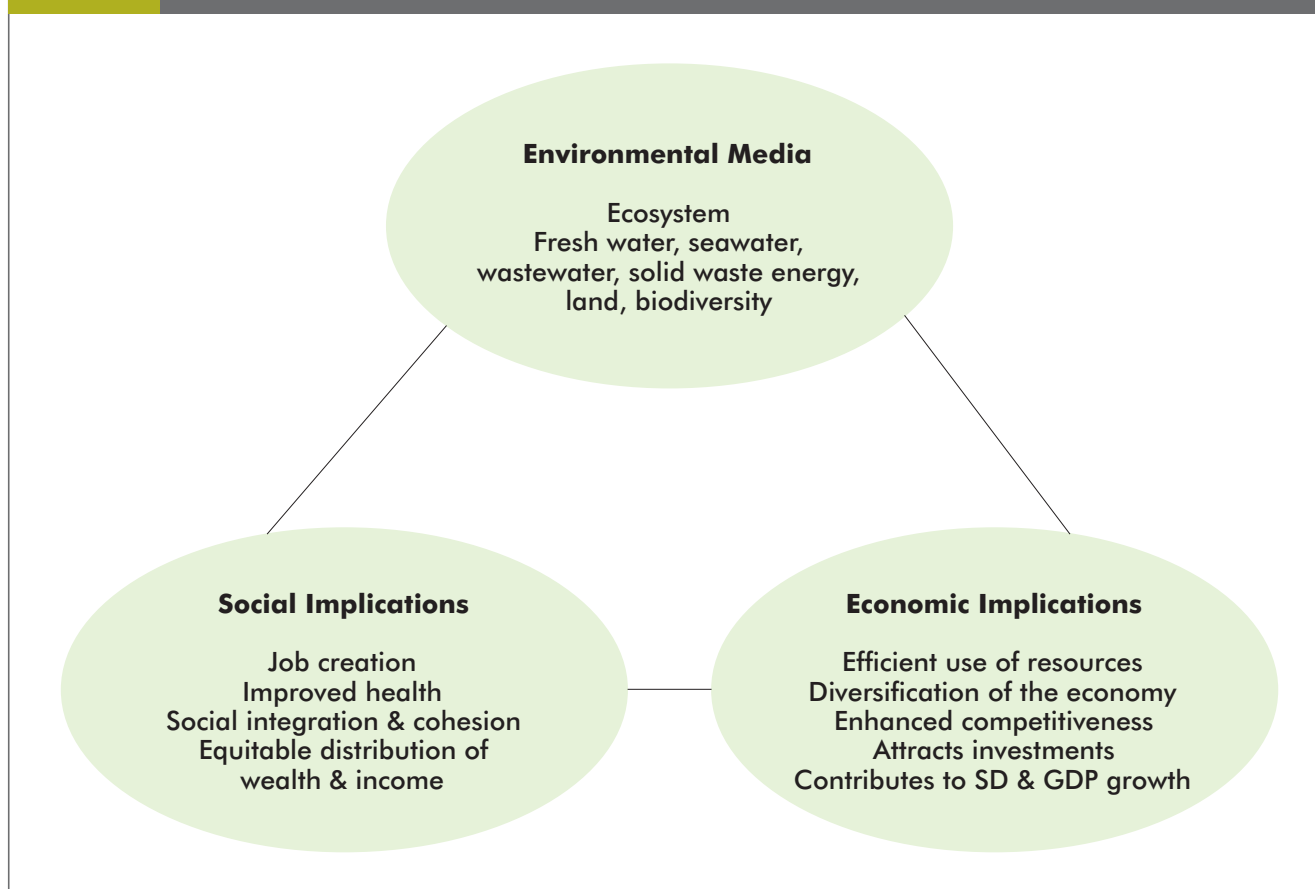
SDG13 “Take urgent action to combat climate change and its impacts”

Areas of research may include innovative technologies for renewable sources of water and energy, the use of renewable sources of energy for water desalination, waste to energy, environment friendly public transport systems, water saving and efficient crops, building and construction material and techniques, green industrial technologies, and waste recycling equipment. The potential of industry and the private sector, academia, and national research institutions should be tapped into and close linkages between them established.

K. Methodological Approaches and Tools

Transitioning into a green economy is one of the most effective tools to achieve sustainable development. The concept was launched by UNEP in October 2008 in response to the financial and economic crisis facing the world. It emphasizes investing in environmental resources as a means to improve human well-being and social equity. It also emphasizes investing in human capital as a necessary requirement for shifting to a sustainable development. Rather than considering the environment as a constraint to development, it should be viewed as an opportunity for achieving sound and sustainable development. Adopting a green economy approach promotes the revitalization and diversification of economies, efficiency in the use of natural resources and factor inputs, reduces waste, promotes innovation, enhances competitiveness and market access, creates new jobs, and improves health and human welfare.

FIGURE 1 INVESTING IN THE ENVIRONMENT



“A green economy is one that results in improved human well-being and social equity while significantly reducing environmental risks and ecological scarcities” (UNEP 2010)

Promoting sustainable consumption and production patterns is essential in enhancing resource efficiency and reducing waste. It is estimated that about one third of produced food is wasted worldwide. This figure is expected to be higher in the Arab world, given their current consumption practices. Wasteful food, water, and energy consumption in Arab countries is attributed to cultural and traditional considerations, as well as to the low price level of these resources. Subsidies provided by most Arab countries for water, energy and food induce wasteful consumption of these resources. However, a number of countries in the region have already started taking steps to phase out subsidies on these resources. These include Egypt, Kuwait, Qatar, and Saudi Arabia (AFED, 2015).

The main tool for measuring economic performance continues to be the system of national accounts (SNA). It is used by governments to provide an indicator for the performance of an economy. It was introduced in the 1930s mainly to measure the value of goods and services produced in a country. However, the SNA is not a correct indicator for measuring sustainable development and human welfare. It does not reflect the depletion and degradation of resources and provides a distorted picture regarding the performance of the economy. For instance, it reflects damage, and the cost of selling natural assets such as oil and natural gas as an income. Attempts to provide an alternative measurement or indicator started in the early 1980s when UNEP, together with the World Bank, started off an initiative exploring the introduction of environmental accounting as a genuine measure for the real performance of an economy.

Since the early eighties a great deal of work has gone into the development of methodologies for green and environmental accounting or what is referred to by the Statistics Division of the United Nations Division of Economic and Social Affairs (DESA) as “Integrated Environmental and Economic Accounting”. The need to go beyond



the GDP has been further stressed in the Stiglitz Commission Report on the Measurement of Economic Performance and Social Progress established in 2008 to identify the limits of GDP as an indicator for human wellbeing. The proposed system for green accounting is reflected in The Handbook of National Accounting: Integrated Environmental and Economic Accounting 2003. The Handbook brings together economic and environmental information in a common framework to measure the impact of the economy on the environment and vice versa. This has been followed by the preparation by the United Nations Department of Economic and Social Affairs (DESA) of a revised version of the System of Environmental and Economic Accounting (SEEA). The final version of the SEEA Central Framework was published in February 2014.

Apart from several developed countries who have established green accounting systems such as the Netherlands, Germany, and France, developing countries introducing the system include China, Indonesia, and the Philippines (Sustainable and Green Growth for Egypt, 2011). There is little or no evidence that Arab countries have taken steps towards introducing environmental or green accounting as an indicator for achieving sustainable development.

III. THE ROLE OF DIFFERENT STAKEHOLDERS

Achieving sustainable development requires the concerted efforts of different stakeholders in a coordinated manner. The role of governments should continue to be mainly regulatory and supervisory, and should provide the enabling and facilitating environment for different entities to contribute to sustainable development. One of the main roles of governments, as stated earlier, is to provide the right kind of institutions that function in an efficient, transparent and accountable manner. They should provide a predictable and secure macroeconomic environment that encourages and attracts local and external investment. A stable macroeconomic environment is represented in stable and predictable fiscal policies, including exchange rates, policies related to investment requirements, the registration and creation of new companies, laws governing the allocation of land, transfer of funds, and import of technologies and equipment required for investment projects. Governments also play a critical role in the design of policy packages that promote sustainable production and consumption and the transition to a green economy, and consequently the achievement of sustainable development objectives.

A. The private sector

Governments alone cannot address the challenges facing the realization of the sustainable development goals. The private sector has an important role to play in the implementation of proposed strategies and the achievement of sustainable development. Characterized by more efficient and accountable operating structures, qualified technical and operating staff and efficient and flexible administrative structures, technical and financial capabilities,

the private sector can play an effective role in supporting governments in achieving sustainable development. Governments need, though, to provide the necessary enabling environment to encourage private sector engagement. Public-Private-Partnership (PPP) provides an effective arrangement for utilizing the potential of the private sector in investing in different sectors, including the housing sector, transportation, water, energy, agriculture, industry and tourism. PPP should therefore be promoted, where governments would – apart from providing the necessary enabling conditions for the private sector to operate in different sectors – provide the framework and guiding principles for the different sectors to ensure that the development component is taken into account in the implementation their operations.

B. Research institutions

The development of a long-term research and development (R&D) strategy to support the implementation of sustainable development, achieve SDGs and address climate change concerns is essential. In order to develop an effective R&D strategy, there should be close collaboration between research institutions, academia, and the private sector. Research institutions and universities should be fully aware of government policy directions as well as the needs of the different sectors in order to direct their research accordingly. Close coordination between relevant institutions should therefore be maintained to ensure that R&D is consistent with government policies and is designed to support sustainable development objectives.

C. Civil society

Civil society has an important role to play in promoting and implementing sustainable development. This is mainly due to their knowledge of realities on the ground, priorities, concerns and actual needs of local communities. Moreover, civil society organizations through effective stakeholders' engagement have gained the confidence and trust of local communities, and consequently have greater potential in implementing sustainable development programs, plans and projects. Governments should therefore capitalize on the potential of civil society organizations by providing the necessary enabling

conditions for their effective engagement. This may be achieved by facilitating the registration and creation of civil society organizations, reducing cumbersome and complicated registration requirements, encouraging their involvement in the implementation of sustainable development plans, programs, and projects by assigning them specific activities in support of government efforts in the various sectors. Specific activities that civil society organizations would be most effective in undertaking include the following:

- Designing and implementing public awareness campaigns, including the development of communication packages targeting different stakeholders.
- Undertaking a needs assessment for capacity building requirements for the different target groups, including policy and decision makers, practitioners, and skilled labour needed to support the transition to green economy and sustainable development.
- Organizing and conducting national workshops and seminars aimed at promoting sustainable development in different sectors.
- Conducting training and sensitization courses and sessions for different target groups aimed at enhancing local capacities in achieving SDGs and implementing sustainable development policies, plans and programs.
- Implementing projects on the ground, which may include capacity building and public awareness related projects, training the trainers programs. Other activities may include the implementation of sustainable development related projects such as organic and sustainable agricultural projects, cleaner production related activities, integrated solid waste, including waste to energy, and the production of compost from municipal solid waste and agricultural waste.

D. Media

The role of the media in awareness raising and communicating the benefits of greening national economies and transitioning to a green economy and a sustainable development path cannot be ignored. The potential of media in reaching out to the different segments of the population with their different backgrounds, levels of education, priorities and concerns should be adequately

utilized to support the transitioning to a green economy and the achievement of the SDGs. The media also has the potential of reaching out to the general public in different geographic locations and in remote areas. There is a great need, in the first instance, to communicate and make explicitly clear what is behind the different concepts and approaches – what are their implications, advantages, and what actions are needed to achieve the desired outcomes? For many, the term sustainable development for example is still an ambiguous term that has different meanings for different people. It is therefore essential that there is a common understanding at the national level of the meanings of the different concepts and approaches. The media should have a thorough understanding of the terminology and should be fully versed and updated about the main issues concerning sustainable development on the international agenda.

Lack of knowledge and understanding by media is likely to result in communicating the wrong message with negative implications, including failure to mobilize stakeholders to support sustainable development efforts. It is therefore essential that the media is properly briefed about the main concepts, issues involved and their implications for the different stakeholders and the country as a whole. It should be emphasized that the sensitization of media should not be confined only to those responsible for the environment portfolio, but should be extended to those covering economic and development matters due to the interconnectedness of the issues. This will also allow for a broader coverage and outreach.

E. Development institutions and donor agencies

Development and donor funding can play an important role in supporting sustainable development activities if properly utilized. However, the lack of adequate coordination of activities by development and donor institutions at the national level can sometimes result in the duplication of efforts and the inefficient use of donor funding, and consequently the ineffectiveness of donor funded activities. Though attempts have been and continue to be made by donors to properly coordinate their activities at the national level, a great deal is yet to be achieved. It should be emphasized, however,

that coordination of donor funding and activities should be the role of governments. It is essential that proper coordination is maintained between activities supported by development institutions and donor agencies in order to avoid the duplication of efforts, ensure the supportiveness and complementarities of activities and enhance the effectiveness of efforts at the national level.

F. Financial Institutions

Making available the needed financial resources is necessary to support the implementation of sustainable development activities, including achieving the SDGs and addressing climate change concerns. Financial institutions should be directed towards providing funds and soft loans for supporting sustainable development activities. Emphasis should be given to providing soft loans to support priority areas including water, energy, and food production for small and medium-sized enterprises (SMEs). Priority should also be given to funding activities contributing to capacity development and education, health, and public awareness. Seeking loans from international financial institutions and donor agencies to meet public deficits, payment of subsidies and salaries should be avoided to the maximum extent possible. Such loans are not directed towards investment projects in productive sectors that will

result in financial gains to enable the repayment of loans and the servicing of the debt, hence placing additional financial burdens on current and future generations.

IV. CONCLUSION

Adopting sustainable development policies, if properly designed and implemented, is likely to generate sufficient funding to support sustainable development activities. Domestic resource mobilization supported by public policies are key for achieving sustainable development. These policies include good governance, adequate fiscal space, countercyclical fiscal policies, and measures to combat corruption.

Apart from securing additional financial resources, focus should be on the mobilization and the redirection of existing local financial resources, both public and private, towards supporting sustainable development activities. Policy coherence and harmonization will go a long way towards achieving this objective. It does not make any economic sense to maintain conventional investment options, while at the same time aiming to channel funds to support new and innovative environment-friendly sustainable investments.

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CORRUPTION HINDERS FINANCING SUSTAINABLE DEVELOPMENT

AYMAN ALGUBARI



INTRODUCTION

Over the last decade the path to sustainable development has taken an unexpected turn. While the world's economies have become closely linked through the free flow of international capital, digital economics, e-commerce and the internet, this has been accompanied by growing rates of corruption.¹ Corruption has become a global issue for the major industrialized countries, with tremendous damaging impact on both developing and transitional economies. Corruption prevents these economies from addressing the challenges of development, undermines financial accountability and impedes the flow of foreign investment. Moreover, corruption weakens their economic performance, reduces confidence in legal and judicial systems and strains the ability to retain highly qualified staff, resources and funds. The cost of corruption is estimated to be more than 5 percent of global GDP or USD 2.6 trillion (OECD, 2014) with more than USD 1 trillion being paid around the world annually as bribes (World Bank, 2017).

Evolution of Corruption

Corruption has evolved to encompass organized entities threatening global development. As corruption erodes the capital base of countries, it has placed economies on an unsustainable path. Corruption has become one of the main obstacles for achieving the sustainable development goals, as it wanes the process and deprives people from their right to receive a fair share of the benefits, as well as jeopardizing individual freedoms and justice, and thus imperiling prospects for future generations. Moreover, it stalls countries from the formulation of various policies and development plans, hindering their participation in making critical decisions relating to their future.

According to the International Monetary Fund and Transparency International, the costs of corruption can be divided into four main categories: economic, environmental, political and social. The impact can be summarized as decrease in the effectiveness of aid; greater susceptibility of these countries to monetary crises; increase in the rates of poverty; loss of legitimacy; loss of public confidence; reduction in investment (including foreign direct investment); depletion of natural resources; destruction of ecosystems; reduction of

economic growth; a shift in government spending from more productive activities to less productive activities.

In the case of Arab countries, Transparency International's annual report for 2016 showed that they slipped in anti-corruption measures: 90 percent of these countries achieved less than 50 (in an index of 0 to 100, where 0 is the most corrupt).² However, both the UAE and Qatar remained above the world average. The 2017 Transparency International annual report demonstrated that Arab countries had witnessed a decrease in the implementation of anti-corruption measures. The 2017 Corruption Perception Index confirmed this result, as it found that, out of 21 Arab countries, 19 have obtained less than 50 degrees.³

These indicators reveal that corruption continues to prevail in Arab countries and there is a significant shortage of effective mechanisms to combat it. The main prevailing reason for corruption in Arab societies seems to be that those involved in it feel secure, protected and safe. This has evolved in the absence of adequate regulatory systems and strict job responsibility descriptions for senior officials, and the inability to properly assess risk. This is in addition to weak governance systems, lower ethical standards and ineffective mechanisms of accountability, as well as a decrease in the integrity of the criteria that are used in the selection of high-level employees.

It is noted that all Arab countries achieved less than 50 percent in relation to the following questions, with the exception of the UAE, which scored 57 in the last question: What is the extent of bribery in companies regarding transactions such as those connected to import and export; how accountable are corrupt officials; and how successful are governments in containing corruption.⁴

Impact of Economic Trends

From 2009 to 2016, Arab countries were affected by a number of factors. There was a weak rate of global economic growth due to the impact of the global financial crisis. This negatively affected the growth of Arab countries' GDP, owing to the decline in production and deteriorating revenue in foreign currencies in some of the main income-

OVERVIEW

FINANCING DEVELOPMENT BY FIGHTING CORRUPTION**Najib Saab**

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 streamlining 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 show 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

stable, confident and strong state institutions that are capable of enacting and implementing fair legislation abiding by the rule of law. This is, also, accomplished through responsible legislative and executive bodies that are accountable to the public and capable of sound democratic change. This can only be achieved through free and fair media and civil society organizations, which play a key role in exposing corruption and mobilizing society against perpetrators. They are also determined by whether people are aware of the impacts of corruption on the future of their countries.

Roadmap for Effective Financing of Sustainable Development Projects

Arab countries need to maximize the benefits of all forms of financing for sustainable development in light of prevailing challenges, which are mostly linked to the growing levels of corruption. A roadmap to reduce the growth of corruption and promote the development of adequate governance systems capable of achieving sustainability is necessary, comprising major measures:

- Ensure effective political will to meet international contractual obligations to combat corruption. Take appropriate action to promote transparency and integrity, alongside accountability in the management of public funds, as stipulated in the United Nations Convention Against Corruption (UNCAC).
- Properly plan projects related to the implementation of the approved goals of the development plans, in terms of how to finance them, the most appropriate areas of funding taking into account cost and repayment period, and the development of criteria for projects to be financed through loans, reflecting the size of the public debt of the country as a percentage of its national GDP.
- Develop a clear and professional vision for sustainable development projects according to the priorities of each country until 2030. Ensure this is co-drafted by the legislature, with special emphasis on integrated approach, which combines financing methods with economic, environmental and social feasibility.
- Governance can reduce corruption when financing sustainable development plans, through strict adoption of internationally stable governance principles. This covers all aspects of management, including internal audit, risk assessment, disclosure and reduction of conflicts of interest. These principles should be implemented by both the public and the private sectors, through binding legislation. Governance is one of the main determinants in the evaluation of the performance of the public sector and one of the evaluation criteria for companies when contracting them to implement projects.
- Adopt funding programs for sustainable development projects⁷ with a goal of achieving pre-estimated results and clear criteria for the measurement, monitoring and accountability. This will link disbursement of funding to results, thus enhancing the capacity of Arab countries to reduce corruption associated with such projects.
- Review tender laws and procedures related to Arab countries (in light of the UNCAC) to ensure the promotion of the principles of transparency, fairness, competition, and open procedures. Make evaluation criteria clear, particularly technical ones, and have a code of ethics for those responsible for the public tenders. The conditions of the tender should be subject to internal audit and public scrutiny. Also, use modern methods in making qualifications for the tenders and awarding them, as well as contracting, employing various electronic methods. The judicial departments should be empowered to resolve complaints and appeals of all decisions regarding qualification and awarding processes, in addition to all allegations of corruption. This has to be combined with the creation of strict penalties for conflict of interest, collusion and fraud among those directly or indirectly involved in tenders, taking into account the protection of whistleblowers on corruption.
- Prepare periodic reports on the status of the projects, their costs and how they are

financed, be it from the state's budget or through partnership with the private sector. Those should be transparent and easily accessible to civil society organizations.

- Provide support to increase the efficiency of the internal control systems in all branches of the public sector, which are responsible for implementing sustainable development projects. Provide periodic reports on the safety and efficiency of these systems. Urge the public sector to develop these systems continuously in light of the best practices and the development and diversification of anti-corruption methods.
- Enact standards of professional conduct to bind relevant parties from the public and private sectors, especially in the areas of disclosure of negative bribery, conflict of interest, professionalism and independence. These are important for reducing corruption, especially when financing large projects such as those related to sustainable development. Standards of professional conduct that include accountability are important for maintaining the confidence of investors, finance and the society in general.
- Projects that involve partnerships for financing require governments, the private sector and international organizations to have clear and specific legislation that enables efficient implementation with appropriate costs. This should match the expected benefits and the cost of similar projects. Conflict of interest has to be barred to enhance confidence and cut waste.
- Re-examine the role of supervisory agencies in the protection of public funds and the implementation of development goals in an efficient manner and at the required level. It is no longer sufficient that the Organization of Supreme Audit Institutions (INTOSAI) issues its anti-corruption control manuals. There needs to be a partnership between the INTOSAI, the United Nations and the world's leading anti-corruption organizations. They have to focus on the implementation of institutional programs for combating corruption in the execution of development plans. In addition, work needs to be done to strengthen accountability and reform administrative systems to increase their efficiency. The regulatory bodies at the level of the Arab Organization of Supreme Audit Institutions (ARABOSAI) must cooperate in combating corruption, which is often present across more than one country.
- Support freedom of expression and independent media, especially in the field of economic journalism and civil society organizations. This should be done when analyzing technical issues related to the implementation of the sustainable development plans and how they are financed, and their impact on public debt.
- Encourage civil society organizations to develop mechanisms to monitor corruption, using internationally agreed indicators. This should be conducted by qualified staff, and appropriate mechanisms will be needed to publish the results of any subsequent follow-ups.
- Support mechanisms that ensure integrity and proper conduct in the selection of those who work in the public sector, particularly those in leadership roles, through the development and application of the code of ethics within the scope of institutional and legal systems.
- An independent third party is necessary to monitor projects or purchases related to the implementation of sustainable development projects, covering all phases, from the contractual terms to the completion and delivery process. This will apply to all types of projects, whether financed through multilateral development banks or other sources of foreign aid (especially in green economy, including renewable energy). This requires that the recipient government agrees to the designation of a third party to monitor and report on such projects and purchases, including other projects financed through loans. The third party monitoring is not limited to the above, but extends to ensuring that there are no dubious payments and that the techniques used, their efficiency, quality of goods, services and other contractual obligations are compliant with the contracted specifications.

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4. Measurement Sources: Global Insight Country Risk Ratings, Bertelsmann Foundation Transformation Index.
 5. Arab Consolidated Economic Report, Arab Monetary Fund, 2016, p. 195.
 6. Expanding how to move to a sustainable financial system: World Bank Group, Sustainable Financial System, November 2017.
 7. Including the mobilization of local resources, those related to the state budget, national or regional development banks, the national banking system, or the private sector through direct investment or partnership with the public sector.

NOTES

1. Transparency International has defined corruption as an abuse of public power for private gain.
2. The Corruption Perception Index (CPI) was launched in 1995 and has become one of the most important publications of Transparency International and the most important global indicators to assess the spread of corruption in the public sector. The index gives an annual overview of the relative degree of corruption spread by ranking countries around the world.
3. This indicator, which provides an overview of the perceived levels of corruption in a country's public sector does not reflect the full and diverse picture of corruption. The

INVESTING IN SUSTAINABLE ENERGY

AHMED BADR, RANA EL GUINDY, LAURA WIEHLER AND RAWAD RIZK



I. INTRODUCTION

Most Arab countries are characterized by high energy consumptions per capita and an immense dependence on fossil fuels. As such, both managing energy demand (particularly through energy efficiency (EE)), and increasing the deployment of renewable energy (RE), are vital for the improvement of energy productivity in Arab countries and the support of national, regional and international goals for economic development, poverty alleviation, improved health and education, improved standards of living and ensuring sustainable development of cities and communities.

Various countries still lack sufficient access to energy, which is in turn exacerbating poverty, hunger and education levels. The heavy reliance on fossil fuel-based technologies has rendered many major Arab cities among the most air-polluted globally. Further, the heavy dependence on energy to secure access to clean water resources (e.g. desalination processes) in the world's most water-scarce region has interlinked efforts to attain energy and water security, and combating the impacts of climate change, whilst also seeking to decouple energy demand from economic growth. As such it is important for Arab countries

to develop more effective political, institutional and regulatory frameworks to enable a wider access to international climate change and sustainable energy funds, as well as to mobilize the private sector's financial resources in the sustainable energy markets.

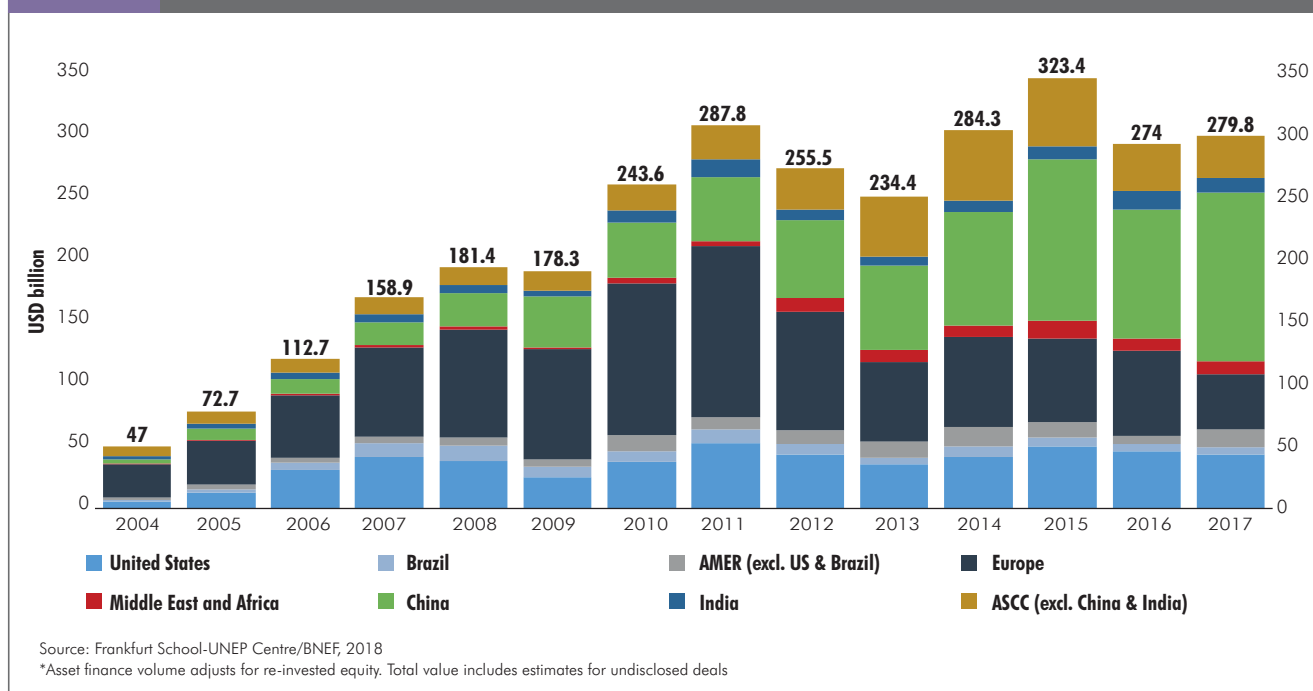
This chapter emphasizes the role of effective, sustainable and adequate funding, policies and measures that seek to attain a sustainable growth of the energy sector in which economic growth and social development are decoupled from rising energy demand. First, we will look at international and regional trends and case studies in financing sustainable energy. In the second part, we will tackle the importance of long-term policies, incentives and other enabling conditions for the expansion of the sustainable energy markets.

II. FINANCING SUSTAINABLE ENERGY

A. International Trends

Investments in RE have an almost fivefold increase between 2004 and 2017, reaching a total of USD 279.8 billion in 2017, with 157 GW of RE installed capacity added during that year (excluding large hydro). Private equity accounted

FIGURE 1 GLOBAL NEW INVESTMENT IN RE BY REGION 2004-2017 IN USD BILLION *

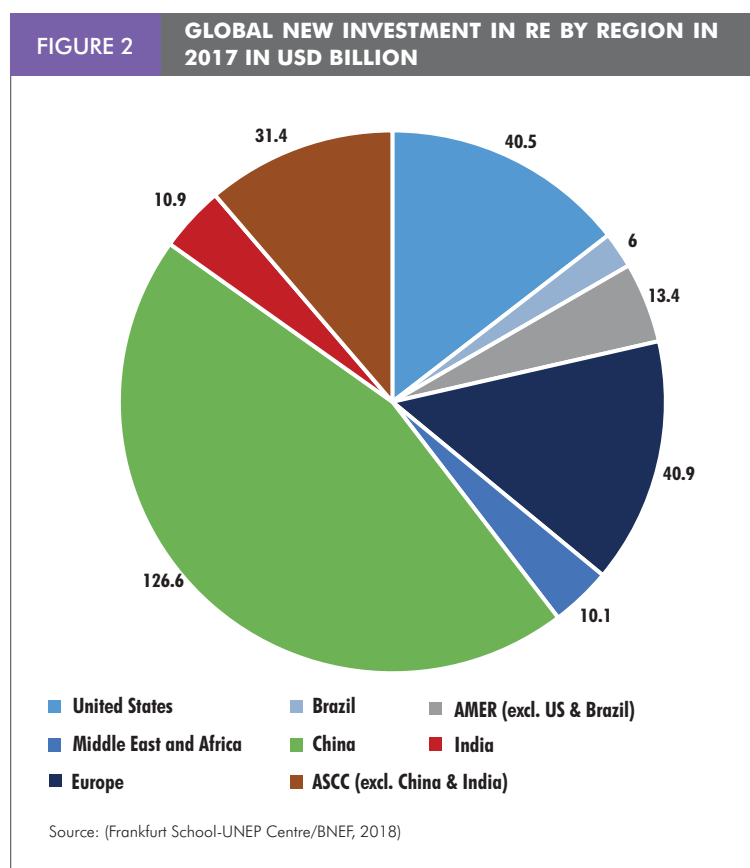


for only USD 780 million, which is the lowest since 2004 while asset finance grew from USD 215.6 billion in 2016 to USD 216.1 billion in 2017 with distributed solar energy adding another USD 49.4 billion. RE excluding large hydro represented 61 percent of total electrical power capacity added in 2017. China alone accounted for 45 percent of global investment in RE in 2017. Furthermore, the sale of electric vehicles increased by 57 percent in 2017 (Frankfurt School-UNEP Centre/BNEF, 2018). The Middle East and Africa contributed to 3.6 percent of total investment in RE in 2017, as seen in figure 2.

The Arab region is responsible for a significant share of the 30 percent predicted global increase in energy demand. In an effort to keep global temperature rise below 2°C in accordance with the Paris Agreement, investing in RE and low carbon technologies will not be enough. Reducing global demand on energy through investment in EE measures and technologies will play the most important role in cutting down on greenhouse gases while maintaining sustainable growth in global economies and social development. In 2016, global investment in EE reached USD 232 billion up from USD 213 billion the previous year (IEA, 2017).

Nonetheless, SE4ALL, a global initiative led by the United Nations to achieve universal energy access, improve EE, and increase the use of RE, estimates that investments of USD 650 billion for RE and USD 560 billion for EE are required annually during the period 2010-2030 to achieve SDG7 (Leone, 2016).

Public finance institutions have an important role to play in mobilizing private financing sources to the sustainable energy market by mitigating investment risks and barriers. There are different types of public finance institutions such as international financial institutions, which provide funds and de-risking instruments. These institutions include the World Bank Group and the European Bank for Reconstruction and Development (EBRD). Development finance institutions include mostly bilateral development agencies such as the French Development Agency (AFD). Export credit agencies supply government-backed loans, guarantees, and insurance to corporations doing business in developing countries. Finally, climate finance



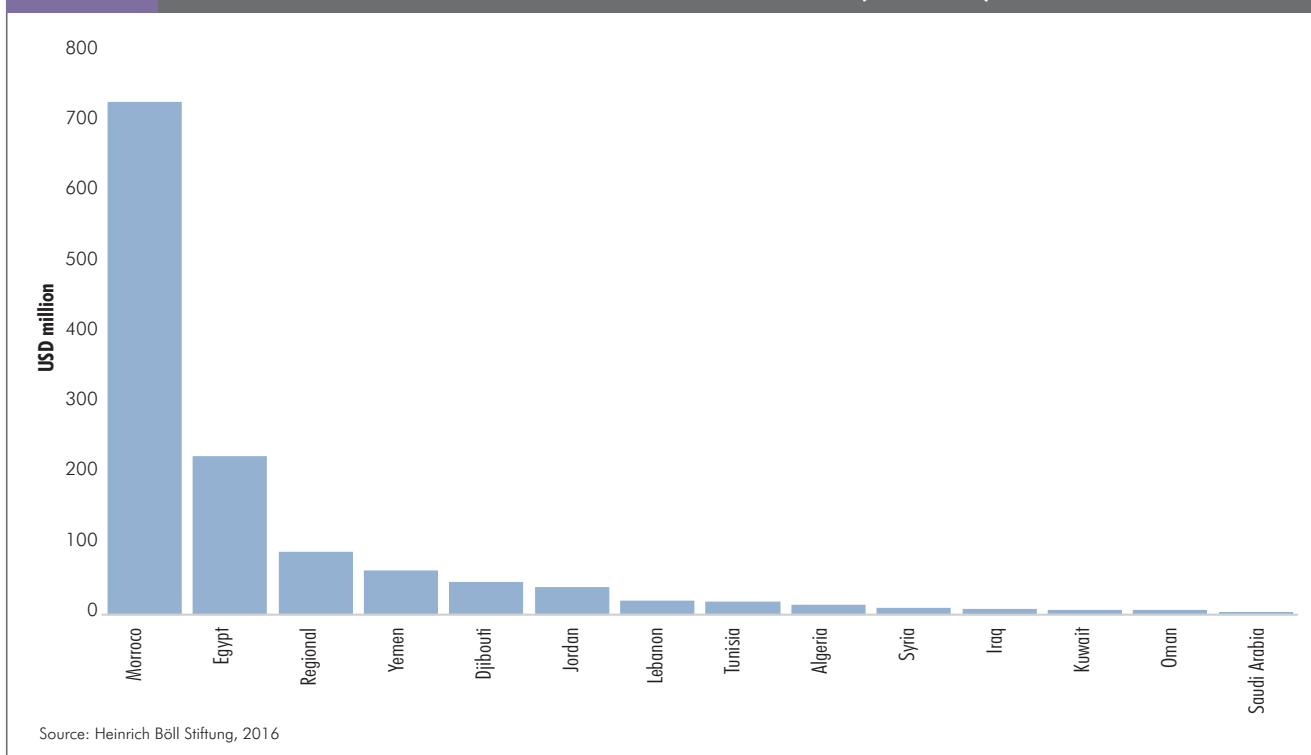
institutions include international climate funds aimed at financing climate change mitigation and adaptation projects such as the Global Environment Facility (GEF) and Green Climate Fund (GCF).

B. Regional Trends

Despite the fact that the MENA region is considered one of the most affected by the severe impacts of climate change, it hardly receives international and regional climate funding (Climate Policy Initiative, 2017). Between 2003 and 2016 the MENA region received USD 1.2 billion for 94 approved projects. Out of this total investment, over three quarters (USD 949.44 million) was dedicated to 50 mitigation projects while the smaller share (USD 175.87 million) was directed towards adaptation projects (Heinrich Böll Stiftung, 2016). In total, USD 375 million was given in the form of grants while USD 800 million in the form of concessional loans.

As seen in Figure 3, Morocco and Egypt received the bulk of financing in 2016 and they are the

FIGURE 3 AMOUNT OF CLIMATE FUNDS RECEIVED BY MENA COUNTRIES (2003-2016)



only countries that received more than the regional average. Concentrated solar power and large-scale wind projects received 84 percent of the funding while about 12 percent was dedicated to sustainable transportation and agriculture, and EE projects. Table 1 further illustrates the sources of climate funds dedicated to the MENA region between 2003 and 2016.

Among the Arab countries, Morocco received the highest amount of climate financing from climate funds and international financing institutions in 2016, totaling USD 960 million (UFM, 2017). Egypt came second receiving USD 680 million, followed by Jordan and Tunisia, as seen in Figure 4.

When leveraging finances, the important factors are well-designed RE and EE policies, the availability of creditworthy off-takers and engineering, procurement and construction contractors, a stable and supporting financial infrastructure, as well as guaranteed access to the grid (Oxford Institute for Energy Studies, 2017). Nonetheless, within the Arab region, access to sustainable energy financing is also linked to the countries' oil and gas reserves and exporting

capacity. The level of a country's fossil fuel reserves has an impact on its financing structures and the willingness of investors to finance sustainable energy projects. Oil-exporting countries, namely in the GCC region, have better credit ratings than non-oil exporting countries. The strong investment climate in the GCC region is also bound to its political stability, stable currency, and project-pipelines which altogether allow easier access to commercial debt financing and private equity (Squire Sanders, 2016).

The UAE, for example, has a credit rating of "AA", which is attractive for investors. The latest success story is the procurement of solar electricity through auctioning for the third phase of the Sheikh Al Maktoum solar park, which resulted in an auction bid of USD 2.99 cents/kWh for 800 MW, cutting the previous world record (USD 5.98 cents/kWh) by half. Besides the well-structured auction procurement system, it was the combination of a debt-to-equity ratio of 86 percent and a low 4 percent interest rate for a 27-year term loan that allowed for the record bidding price (Oxford Institute for Energy Studies, 2017).

TABLE 1 CLIMATE FUNDS IN THE MENA REGION (2003-2016)

Funds	Amount approved	Projects approved
Clean Technology Fund (CTF)	816.05	9
Global Environment Facility (GEF4)	55.57	15
Special Climate Change Fund (SCCF)	48.01	9
Global Environment Facility (GEF5)	31.85	14
Adaptation Fund (AF)	38.62	5
Germany's International Climate Initiative	37.65	8
Least Developed Countries Fund (LDCF)	39.64	9
Green Climate Fund (GCF)	39.3	1
Adaptation for Smallholder Agriculture Programme (ASAP)	23	4
Pilot Program for Climate Resilience (PPCR)	19	1
MDG Achievement Fund	7.6	2
Strategic Priority on Adaptation (SPA) (from GEF4)	6.02	3
Partnership for Market Readiness	4.05	4
Global Climate Change Alliance (GCCA)	3.36	1
Global Environment Facility (GEF6)	13.99	11

Source: (Heinrich Böll Stiftung, 2016)

Multilateral investors and export credit agencies that are willing to invest in RE projects have increasingly supported countries with low credit ratings such as Jordan and Morocco. An example is the Tafila wind project in Jordan (117 MW), for which over USD 190 million in loans were approved in 2013 by the European Investment Bank and the International Finance Corporation (Squire Sanders, 2016).

Green bonds dedicated to energy have been initiated in the region in 2017, with Abu Dhabi issuing USD 587 for climate change and Morocco issuing USD 118 for a 170 MW PV plant as part of the NOOR project (Bloomberg, 2017 & Chestney, 2017).

III. POLICIES AND ENABLING CONDITIONS

In order to promote RE & EE and make it more attractive for investors, Arab countries have set a number of strategies and targets over the past years, and have adopted different mechanisms, pricing policies and fiscal incentives for RE and EE including:

A. RE and EE targets and strategies

Almost all Arab countries have RE targets except for Qatar. These targets differ from country to country according to the already existing RE share in their energy mix (AFEX, Arab Future Energy Index - Renewable Energy, 2016). As for EE, almost all countries have set ambitious targets to reduce their energy consumption in the different sectors by 2020 and 2030 (AFEX, 2017).

With regards to the national plans, 15 Arab countries have adopted and are already implementing their first or second National Energy Efficiency Action Plan. As for the National Renewable Energy Action Plans (NREAP), three countries – Lebanon, Bahrain and Sudan – have led the process in drafting and consolidating their NREAPs. Other countries such as Palestine and Tunisia have their final drafts and are expected to start with the implementation and adoption soon.

B. Auctions

Despite the fact that they are relatively new,

OPINION

USING AID FOR ENERGY SAVINGS TO GENERATE DEVELOPMENT WINS IN JORDAN

Glada Lahn

Opportunities for financing energy access and other SDGs have opened up for some Arab countries as a result of humanitarian aid. With some changes in the way that electricity savings are accounted for and redistributed, governments could harness these to transform their building stock and in turn contribute to health and education as well as energy access goals.

Mass unplanned migration due to various conflicts in the Arab region has put additional stress on neighbouring countries' energy, water and other services, and nominally increased energy poverty. But it has also given way to international attention and new funding streams. In Jordan, as of 2014, the government has specified how aid should be channeled through the Jordan Response Plan – meeting both refugee needs and national development priorities. Energy sits alongside other priorities, with its own taskforce composed of government, NGO and UN parties to set out on a rolling basis where aid should be channeled. The 2018 – 2020 plan seeks USD 172 million for energy interventions with a focus on “utilizing RE&EE technologies and solutions to houses, private and public building, including schools and hospitals, as well as to provide adequate, secure and affordable energy to refugees and host communities.” (more info available on <http://www.jrpsc.org>)

This approach has brought largescale legacy investments such as the solar power plants at Azraq and Zaatari refugee camps, funded by IKEA Foundation and German development bank, KfW respectively. It also attracts new urban approaches. The Norwegian Refugee Council accessed EU funding to install solar panels on 23 schools which have doubled their teaching time, and therefore utility costs, to accommodate Jordanian and Syrian pupils on a two-shift system.

Likewise, hospitals often face high diesel and electricity bills for basic needs such as hot water. The Moving Energy Initiative, funded by the UK Department for International Development (DFID), has upgraded Al Mafraq hospital's water system. Jordanian company Millennium Energy Industries has developed a solar thermal system to do



so, which is expected to save around 32,000 Jordanian dinar (USD 45,133) each year. Water was previously heated with diesel and the hospital manager is now able to redistribute the diesel budget. This money can be used to improve urgently needed health care facilities – the hospital has gone from taking 75 patients per day to over 130 since the refugee crisis and is desperately in need of more funds. Targeted humanitarian grant funding could radically reduce diesel use across all hospitals under pressure from the additional population whilst increasing health care for vulnerable people.

The problem of utilities deficit is one that weighs heavily on the Jordanian government's economic health. At the end of 2017, the debts of the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ), reached JD 7.2 billion – around 2.6 percent of total public debt. Unlike diesel, public sector bills may go unpaid by ministries, which means that while energy savings are great, they only reduce a deficit, rather than making a financial saving.

If year-on-year electricity savings were to be accounted for and ring-fenced either at the ministerial or municipal level (in view of Jordan's shift to decentralization), this money could target development priorities as well as vesting the interest in increasing energy efficiencies. In theory, the

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some JD 10 million that the Ministry of Education spends on electricity each year could be reinvested to help schools cope with their additional intake. The Norwegian Refugee Council (NRC) programme savings totalled JD 93,516 (USD 131,898) over 9 months. The incentive for public investment is clear: the average payback period for each school would be just three years.

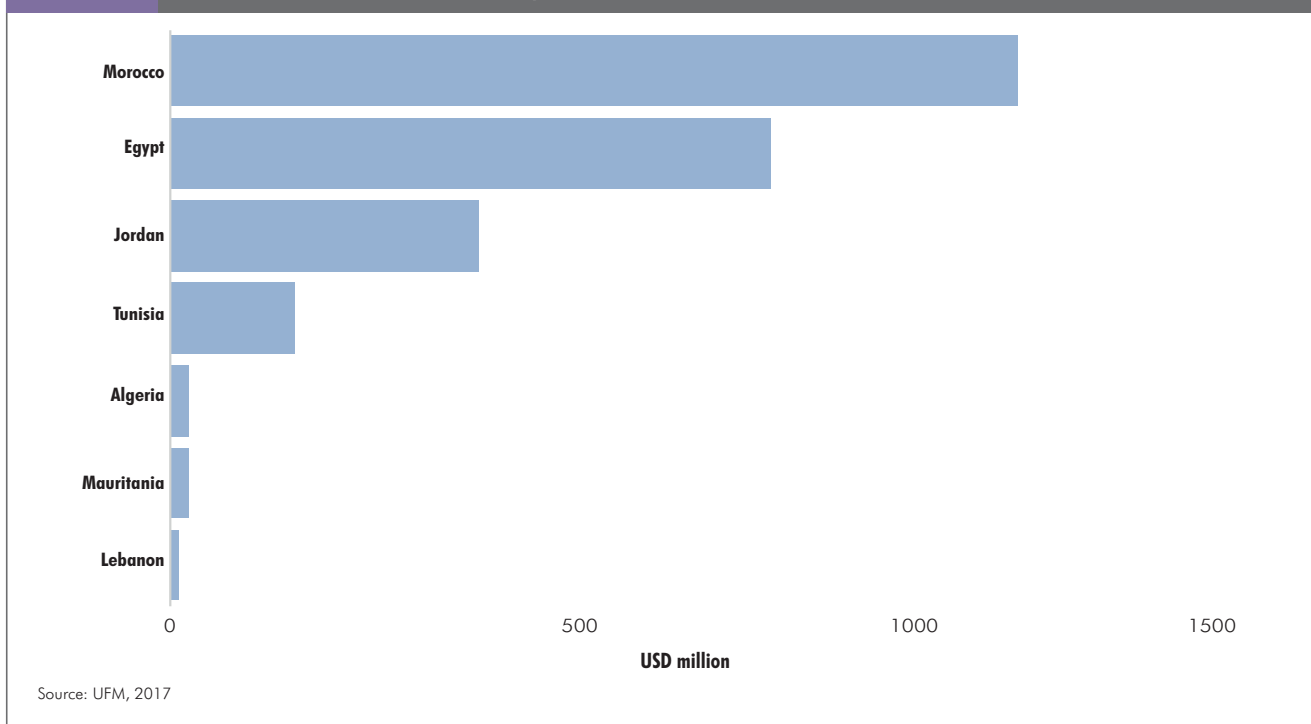
The Jordan Renewable Energy and Energy Efficiency Fund (JREEFF) is one existing government vehicle which can help galvanize these virtuous circles of transformation in public buildings. It is currently building on pilots done on schools to improve classroom conditions and heating. The Princess Alia Foundation and the NRC both continue to work on achieving workable models in the absence of payment for excess generation of solar electricity (at present net metering is the main option for public buildings). Two stumbling blocks to national level scale-up are the unclear costs and process for grid connection for solar systems, and an effective mechanism for redistributing at least some of the savings to the facility, thereby generating engagement and interest at the municipality and community user level.

If done sensitively with the needs of local people in mind, investment in public buildings on a national scale can galvanize a country's transition to sustainable energy future as well as reaping rewards for the fiscal balance.

Many energy investments are feasible with the current tariff for public buildings so incentives to enable scale up should be explored. In the case of houses of worship which are responsible for their own bills, a project by the Jordanian NGO, Future Pioneers for Empowering Communities (FPEC) showed huge benefits if the mosques and churches could access local soft capital. A USAID pilot project has shown that investments in efficiency retrofits for public buildings are generally recuperated within one year. The Ministry of Information and Communication Technology has invested in some of the recommended actions, including renewable energy, from its own budget. Since the baseline measurements were conducted, it reduced its electricity bill by 20 percent in the first year – a saving of over USD 55,000. At this rate, the efficiency interventions paid back on initial investment in eight months. This will take four years for the solar PV system.

With Jordan's strong legal framework for energy and tariffs systems, there is an opportunity for the government to work with donors and multilateral banks now focusing on economic resilience to provide and unlock soft loans for public and non-profit entities – including the large humanitarian and development offices that sit in Amman – to make initial capital investments. They can also help to build revolving loans for sustainable energy investments at the municipal level.

FIGURE 4 CLIMATE FINANCE BY RECIPIENT, 2016



RE auctions have become a popular policy instrument, jumping from 9 to over 44 countries adopting them between 2009 and 2013 (IRENA, 2013). The most common types of auctions are sealed-bid and multi-round descending-clock auctions. At sealed-bid auctions, developers submit their bids with an undisclosed offer of the price at which the electricity would be sold under a power purchase agreement (PPA). An auctioneer then ranks and awards projects until the sum of the quantities offered covers the volume of energy being auctioned. At a multi-round descending-clock auction the auctioneer offers a price in an initial round, and developers bid with offers of the quantity they would provide at that price. The auctioneer then progressively lowers the offered price in successive rounds until the quantity in a bid matches the quantity to be procured (IRENA, 2013).

So far, only Morocco and Egypt have implemented the auction scheme. Morocco's auction schemes is more developed and generally runs in two phases: the pre-qualification phase and the evaluation phase and they are usually technology and site-specific auctions (IRENA, 2013).

C. Competitive Bidding

Competitive bidding offers the flexibility of achieving true market prices of renewable energy technologies (RET) and adapting to the dropping RE prices as it reflects current market conditions and investment climate. Pricing under this scheme reflects the economic, financial, political, and social risks in the country as well as the conditions and terms offered in the PPA and the off-takers' credit worthiness.

In the region, at least ten countries (Algeria, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestine, Syria, UAE and Yemen) have adopted the scheme. Despite its success in many countries, the tendering process has been delayed or interrupted for various reasons including political instability in some of the countries.

D. Direct Proposal Submission

The direct proposal submission process is usually faster and even more direct than other schemes since it requires less preparatory work from the government. It allows developers to submit unsolicited applications to the government and

then allows for a PPA to be signed based on the initiative of the developer.

Despite it being a simple and speedy process, in our region only three countries – Egypt, Jordan and Palestine – allow direct proposal submission. The level of guidance rather differs in these three countries based on the political stability.

E. Feed in Tariff

Feed-in Tariff (FiT) is considered the best market instrument to use while focusing on increasing investment security for RETs, given the fact that it aims at enabling RE prices to be competitive in the market. Around five countries, Algeria, Egypt, Jordan, Palestine and Syria have tried to apply a fixed rate¹ for FiT. This fixation of rates provides certainty for the different investors who know beforehand how much support they will be getting during the lifetime of their investments.

Egypt launched its FiT in 2014 with the goal of installing 4300 MW in two years through the scheme. The PPAs were set at 25 years for PV and 20 years for wind. Although only three 50 MW projects were completed under the first round, the second round witnessed a total of 1500 MW contracted PV projects as of September 2017 due to adjustments in tariff pricing and exchange rates.

On the other hand, the Algerian FiT mechanism is based on a premium price received on top of the market price, rather than a fixed price for the electricity produced. The premium paid under this scheme is guaranteed for the lifetime of the project and does not impose a limit on its capacity. Nonetheless, the government does not offer any priority access to the grid for electricity produced by RE and payments are made in local currency, which poses a significant risk to investors.

F. Net Metering

The net metering mechanism is essentially used to encourage residential or small-scale businesses to install RE technologies (particularly solar PV), primarily for self-consumption.

This scheme allows prosumers² to sell the excess electricity generated from their RE systems to the



government, by feeding this excess to the grid to offset utility electricity consumption. Hence, it usually places the economic burden on the utility itself and at the same time is less costly for the state. This process is mainly achieved through the use of a bidirectional meter that tracks both the electricity consumed from the national grid and the electricity the consumer feeds into the grid from the RE source. This mechanism is an important incentive for countries to increase electricity prices and reduce energy subsidies.

In the region, eight countries, (Bahrain, Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia, UAE and Syria) have adopted net metering policies. However, only a few of them have implemented it in practice.

Introducing the net metering scheme in Palestine was a particularly important incentive for the development of the RE market, as the electricity prices in the country are among the highest in the region. Projects under the Palestinian net metering scheme have a capacity limit of 1 MW and any excess electricity at the end of each year (March 31st) are transferred to one additional year.

OVERVIEW

RENEWABLE ENERGY ATTRACTS MORE PRIVATE FINANCE

The last couple of years have been of high importance to the private financing of renewable energy projects in the MENA region, especially in mega photovoltaic (PV) projects. Typically, more mature markets and technologies are financed with private finance on commercial terms, whereas grants and concessional finance are often used to stimulate investment in previously untested countries. In the Middle East and Africa region, the total investments in renewable energy reached USD 7.7 billion in 2016, with over 90 percent from private sources.

Globally, private sources accounted for around 87 percent of total renewable energy finance between 2013 and 2016, averaging USD 223 billion annually between 2013 and 2014 and USD 270 billion annually between 2015 and 2016, peaking at almost USD 300 billion in 2015 according to figures published by the International Renewable Energy Agency (IRENA) in 2018.

Commercial financial institutions accounted for an average of 23 percent of the investment share between 2014 and 2016 (up from 14 percent in 2013), hitting a high of USD 69 billion in 2015.

More money was invested in solar power in 2017 than in coal, gas and nuclear power combined, according to a report for the United Nations Environment Programme (UNEP). The report said that global investment in solar rose 18 percent to USD 160.8 billion, driven by the Chinese market, which was responsible for more than half of the world's 98 gigawatts (GW) of new solar capacity. Solar power made up 57 percent of last year's total for all renewables (excluding large hydro) of USD 279.8 billion, and it towered above new investment in coal and gas generation capacity at an estimated USD 103 billion.

Investment reached a comparable milestone in 2015, when renewable power technologies for the first time attracted more finance than non-renewable power technologies – a trend that is expected to continue, according to Buchner et al. (2017).

In March 2018, Saudi Arabia and SoftBank Group Corporation signed a memorandum of understanding to build a USD 200 billion solar power development that is exponentially larger than any other project. At 200 GW, the SoftBank project planned for the Saudi desert would be about a hundred times larger than the next biggest

proposed development and more than double what the global photovoltaic industry supplied in 2017, according to data compiled by Bloomberg New Energy Finance (BNEF). If built, the development would almost triple Saudi Arabia's electricity generation capacity, which stood at 77 GW in 2016, according to BNEF data.

This was the latest in a number of announcements from Saudi Arabia promising to scale up its access to renewables. While the Kingdom has for years sought to get a foothold in clean energy, it was only in 2017 that the government moved forward with the first projects, collecting bids for a 300-megawatt plant in October.

SoftBank is also planning to invest as much as USD 25 billion in Saudi Arabia over the next three to four years. This will be a boost for the Vision 2030 campaign to diversify the Saudi economy away from oil. SoftBank is aiming to deploy as much as USD 15 billion in a new city called Neom, to be built on the Red Sea coast. The Japanese company's Vision Fund will also invest as much as USD 10 billion in state-controlled Saudi Electricity Company as part of efforts to diversify the utility into renewables and solar energy.

In February 2018, ACWA Power, the Saudi global leader in developing, constructing and operating power generation and desalination water plants in 11 countries won the first-ever utility scale renewable energy project in Saudi Arabia. ACWA Power had been selected as the most competitive compliant offer from submissions made by consortiums of eight local and international bidders.

Skaka plant, located at a site on Al Jouf spanning over six square kilometers, will generate 300 MW at an investment of USD 302 million. The 25-year Power Purchase Agreement (PPA) contract was awarded at a new world record tariff of US Cents 2.3417/kWh.

Paddy Padmanathan, president and CEO of ACWA Power, charted the vision of his company on the future of renewable energy in a piece he wrote for the AFED 2017 report: "The coming years will see a large-scale rollout of renewable power plants that will be supplying power around the clock using thermal and battery storage, making them base load plants." He noted that while finding financing for development projects was volatile over the past decade, the situation has changed dramatically, with local and international funding increasingly embracing



the Equator Principles as a benchmark for environmentally and socially responsible lending. Padmanathan said that more companies now comply with the World Bank and International Finance Corporation's Environmental and Social Performance Standards, adding: "This is pushing the region and the supply chain to meet common international standards for financing projects. In addition, in recent years these standards have been included as a minimum requirement in requests for proposals from national utilities. This gradual maturation of environmental and social performance is another notable change that is welcomed as it has win-win benefits for all parties and stakeholders."

In September 2017, the UAE announced the world's largest Concentrated Solar Power (CSP) plant, a milestone in the emirate's ambition to generate 75 percent of its energy needs from renewable sources by 2050. The target will be met by securing private investments and forging public-private partnerships (PPP). In March 2018, ACWA Power signed the Engineering, Procurement and Construction (EPC) agreement with the Chinese Shanghai Electric Generation Group (SEGC) for the execution of the 700 MW CSP plant. The project is the fourth phase of the Mohamed bin Rashid Solar Park, the largest thermo-solar power plant in the world. Under the terms of the contract, the new plant will deliver energy at 7.3 US cents per kilowatt-hour (kWh). The project will have the world's tallest solar tower, measuring 260 meters.

The price of 7.3 cents per kWh for the fourth phase of the solar complex comes in as more expensive on paper than phases 2 and 3 of the project, which delivered prices of 5.84 cents and 2.99 cents respectively using solar photovoltaic (PV) technology. However, the new CSP plant will have the significant advantage of being able to store energy for when the sun has gone down, something which needs extra storage batteries via PV technology.

In 2016, ACWA Power Extended Africa's Renewable Energy Capacity with a PV Facility in Morocco. The NOOR PV I Programme, signed during COP22 in Marrakech, consists of three projects: NOOR Ouarzazate IV with a capacity of around 70 MW, NOOR Laayoune, 80 MW and NOOR Boujdour of 20 MW. ACWA Power submitted the lowest tariff price for the project at 4.8 cents per kWh with a total installed capacity of 170 MW. In collaboration with the Chint Group, Sterling & Wilson and Shapoorji Pallonji, ACWA Power undertook the NOOR PV I Programme, launched by the Moroccan Agency for Sustainable Energy (Masen) under a 20-year build-own-operate-transfer (BOOT) scheme. Masen has entered into a power purchase agreement (PPA) to off-take the output generated electricity and will also act as a shareholder, in addition to sole lender. The NOOR Solar Program aims to deliver 2 gigawatts by 2020.

As part of the finance structure for the NOOR Laayoune and NOOR Boujdour projects, Masen has issued the first sovereign-guaranteed “green bond” in Morocco for the financing of a sustainable energy project. German bank Kreditanstalt für Wiederaufbau will fund the NOOR Ouarzazate IV project.

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Furthermore, in Lebanon the scheme was introduced in 2011. Unlike Jordan, which allows the consumer to sell the excess electricity remaining in his balance at the end of the calendar year, the Lebanese net metering does not allow the sale or transfer of any remaining electricity credits at the end of the year (LCEC, 2016).

G. Energy Funds and Fiscal Incentives

The success and effective implementation of RE and EE measures and initiatives depend on the availability of sustainable and adequate funding mechanisms, as mentioned earlier. Around nine countries in the Arab region have established RE funds, the status of which can be seen in Table 2.

Fiscal incentives are usually implemented to encourage investment in RE and EE by reducing the costs of the overall projects. It usually comes in the form of tax credits, tax reduction, tax exemption and other kinds of preferential treatment in taxation for products that are usually used in the value chain of RE and EE technologies.

Despite the fact that internationally many countries have offered fiscal incentives for RE and EE investments, few countries in the MENA region offer such incentives. Examples include the NEEREA in Lebanon and the Revolving Fund in Palestine, which have played important roles in the development of sustainable energy projects in both countries (RCREEE, 2014).

Other financial support includes fiscal incentives such as VAT and income tax exemptions, import duty concessions, and tax rebates on RE and EE equipment. Some of the countries, such as Jordan, exempt RE & EE equipment from all customs duties and sales taxes (MEMR, 2012).

As for EE, only five countries in the region offer tax incentives: Algeria, Egypt, Jordan, Palestine and Tunisia.

H. Energy Service Companies (ESCOs)

This mechanism is the most well defined third party financing for EE worldwide. It usually finances the EE projects without any up-front investment costs for the local authority, where

TABLE 2 STATUS OF ENERGY EFFICIENCY FUNDS

Country	EE fund	Source of Financing
Algeria	FNME with annual capital of €57 million	<ul style="list-style-type: none"> • Taxes on natural gas (AD 0.0015/btu) and electricity (AD 0.02/kWh) • Initial government contribution of AD 100 million (€1.15 million)
	EU fund of €40 million to support Algeria diversify its economy and improve business climate, €10 millions of which is earmarked for RE and EE projects	EU
Egypt	Green Environment Financing Facility (GEFF) with a €140 million investment	<ul style="list-style-type: none"> • European Bank for Reconstruction and Development (EBRD) • Agence Française de Développement (AFD) • European Investment Bank (EIB)
Jordan	Jordanian Renewable Energy and Energy Efficiency Fund (JREEEF) established by Law on Renewable Energy and Energy Efficiency (2012)	<ul style="list-style-type: none"> • Annual budget allocations • Return on investment from the • Fund's own investment
	Second Programmatic Energy and Water Sector Reforms DPL - USD250 Million loan for a policy program that aims to (i) improve the financial viability of the electricity and water sectors, and (ii) increase efficiency gains in the energy and water sectors	<ul style="list-style-type: none"> • World Bank
Lebanon	National Energy Efficiency and Renewable Energy Action (NEEREA)	<ul style="list-style-type: none"> • Central Bank of Lebanon (BDL) • 15 million EUR from an EU grant for RE projects (2011 - 2014)
	Lebanon Energy Efficiency Global Loan.	<ul style="list-style-type: none"> • European Commission
Morocco	Energy Development Fund (EDF) with a total capital of one billion USD	<ul style="list-style-type: none"> • USD 200 million from Hassan II fund • USD 300 million from UAE • USD 500 million from Saudi Arabia
Palestine	Revolving Fund for EE projects established in 2012	<ul style="list-style-type: none"> • Start-up capital from donor institutions • Funds saved through EE projects
Syria	Fund for residential solar water heaters	<ul style="list-style-type: none"> • Fund provided by the Ministry of Electricity
Tunisia	National Fund for Energy Management (FNME) established by Law 2005-82 (2005) and Law 2005- 106 (2005)	<ul style="list-style-type: none"> • Revenues from taxes on the first registration of cars and import or manufacturing of air conditioners, according to the Law No 2005- 2234 (2005) • Financial savings achieved as a result of EE activities • Private donations
UAE	Dubai Green Fund with AED 100 billion	Founding investors from Dubai, with additional investment from the private sector, international banks and large investment companies

Source: (AFEX, Arab Future Energy Index - Energy Efficiency, 2017)

the energy savings achieved during the project duration cover the initial investment costs and serve to generate profits. It is worth mentioning that they usually provide performance guarantees that can take different forms (JRC, 2010).

Although the ESCO market is still underdeveloped in most Arab countries, the UAE is leading in the region. With the establishment of the Etihad Super ESCO, Dubai targets 1.7 TWh of electricity savings in more than 30,000 buildings and 1 million tons of CO₂ emissions avoided annually by 2030 (Econoler, 2016). (See Chapter 3 paragraph III).

IV. CHALLENGES AND BARRIERS

Sustainable energy in the region still faces various barriers hindering the development of an investment friendly climate that would catalyze the growth of the sustainable energy market. These barriers include:

A. Strategies, Policies, and Regulations

Although most countries in the region have adopted long- and short-term RE & EE strategies, the targets under these strategies are still not legally binding. Furthermore, various strategies lack comprehensive or clear mechanisms to achieve these targets and the measures and initiatives proposed are not always supported or enforced by laws and by-laws. In the eyes of investors, this fact indicates a low degree of commitment from governments to drive and expand their sustainable energy markets, and is hence an investment risk.

B. Funding and Fiscal Incentives

Lack of access to sustainable, reliable and dedicated RE & EE financing sources is considered a major barrier to stimulating the sustainable energy market in the region as well as implementing the various measures and programs proposed under actions plans and strategies. This is mainly due to the high investment risks in the region on the one hand, and the lack of experience in green financing in local banks, not yet familiar with financing EE and RE projects, on the other hand. Even if local banks showed more understanding and willingness to invest, companies have failed to present profitable projects.

C. Energy Market Governance and Institutional Capacity

The existence of effective and dedicated RE & EE governing bodies is essential to successfully developing sustainable energy markets and attracting private investments. Regulatory bodies must have well defined and clear responsibilities to enforce and implement policies, regulation, initiatives and programs. Many Arab countries still lack dedicated EE & RE agencies and sustainable energy units within different ministries as well as cooperation between existing ministries and agencies. Further, most energy markets in the region still witness a high degree of state ownership, monopoly, and vertical integration.

D. Energy Market Risks

Various economic, social, political and environmental risks in the region have rendered sustainable energy projects unprofitable, thus reducing private investments in the market. These risks include the absence of a regulatory body and a transparent mechanism for the sale of electricity and the auctioning process. Low country and electricity off-taker credit ratings reduce the reliability of the electricity buyer. The political instability, economic turmoil, and fluctuating currency faced by multiple Arab countries have diminished opportunities to attract foreign investors. Finally, the unreliability of the electricity grid has created a technical challenge to connect RE projects to a country's transmission and distribution lines.

E. Energy Subsidies

The energy market in the region remains one of the most subsidized globally, reaching USD 92 billion in 2015, which is equivalent to 28 percent of world energy subsidies (IMF, 2015). These subsidies have resulted in having energy prices that do not reflect the true price of production. Although the region recently underwent an unprecedented wave of energy subsidy reforms mainly driven by the drop of oil prices in 2014, energy prices remain well below the world average in most of the region. These extremely low prices render energy production from fossil fuels more attractive and hence have reduced incentives to invest in RE&EE technologies and measures that tend to have high capital costs.



V. CONCLUSION AND RECOMMENDATIONS

It is vital for Arab countries to improve and increase their institutional capacity in order to push for the implementation of policies and improve the monitoring and evaluation process. Further, to decrease the lack of suitable funding for their sustainable energy projects, governments should set stricter regulatory frameworks to avoid technical and regulatory difficulties occurring through the otherwise favorable opening of the markets. In order to put improved laws and legislative regulatory frameworks into action, innovative “implementation accelerators” need to be created. These include operational tools or mechanisms similar to the Green Financing Facility in Egypt, Lebanon, and Morocco for SMEs RE projects, as well as the GCF’s Framework Program for Egypt. Consequently, unlocking finances requires developing the knowledge and skills to design projects that blend different financing sources and financial instruments.

Furthermore, it is necessary for countries to mainstream sustainable energy actions and finance into the different sectors’ strategies and action plans, in order to build and mobilize the required capacities and financial sources on the international as well as the domestic level. In 2017, USD 10.1 billion was invested in the Middle East and Africa, which constituted as little as 3.6 percent of global investments.

Despite the fact that the Arab countries have similar geographic and climatic conditions and are to a certain extent similarly affected by the impacts of climate change, some of them have successfully managed to access climate funds whereas other countries still have difficulty attracting such funds. Cooperation between countries that have better technical and financial infrastructures and governance frameworks – such as Morocco and Egypt – can initiate and improve regional cooperation by organizing knowledge exchange missions and capacity building activities.

Moreover, it is imperative for the Arab region to implement extensive reform to their energy

subsidy systems and to render energy prices more reflective of the true price of supply. Nonetheless, as the aim of energy subsidies is to improve the welfare of low-income communities, reforms must be effectively implemented by establishing social safety nets in order to minimize any negative impacts on these communities. Increasing energy prices, as well as implementing well targeted and effective awareness campaigns on the benefits of RE & EE, would help customers reduce their energy bills and support the government to reduce its spending on expanding electricity capacity.

Furthermore, governments must establish policies to promote and catalyze the use of RET and assure their integration to the national energy market such as guaranteed access to the country's national grid and priority dispatch of

electricity originating from RE sources. As there are still many Arabs with no or low access to the grid, governments must promote the use of decentralized RET to ensure the quality of living and economic development for this part of the population.

Finally, providing additional funding and support for universities and research centers is necessary to develop the region's local technical expertise and to establish a local market for the manufacturing and development of RE & EE. Governments should introduce fiscal incentives to reduce the price of investing in sustainable energy, which is important for establishing a net metering mechanism for Arab countries that have significantly low electricity tariffs which make it unprofitable to invest in RE.

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NOTES

1. Depending on the type of scheme and technology, some of these fixed rates are revised during the programs, but always according to pre-defined price levels and not according to market fluctuations (except with the FOREX rate fluctuations)
2. A prosumer is a person who consumes and produces a product at the same time

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ACRONYMS AND ABBREVIATIONS

10YFP	Ten Year Framework of Programmes on Sustainable Consumption and Production	AMU	Arab Maghreb Union
AAAID	Arab Authority for Agricultural Investment and Development	ANME	National Agency for Energy Management
ABSP	Agricultural Biotechnology Support Programme	AoA	Agreement on Agriculture (WTO Uruguay Round)
AC	Air-Conditioning	AOAD	Arab Organization for Agricultural Development
AC	Alternating Current	AP	Advanced Passive reactor
ACG	Arab Coordination Group	AP	Additional Protocol
ACSAD	Arabic Centre for the Studies of Arid Zones and Drylands	API	Arab Planning Institute
ACU	Arab Custom Union	APR	Advanced Power Reactor
ADA	Arriyadh Development Authority (Riyadh)	APRUE	National Agency for the Promotion and Rationalization of Use of Energy
ADCO	Abu Dhabi Company for Onshore Oil Operations	AREE	Aqaba Residence Energy Efficiency
ADEREE	The National Agency for Energy Efficiency and the Development of Renewable Energy	ARWR	Actual Renewable Water Resources
ADFD	Abu Dhabi Fund for Development	ASABE	American Society of Agricultural and Biological Engineers
ADR	Alternative Disputes Resolution	ASDRR	Arab Strategy for Disaster Risk Reduction
ADSG	Abu Dhabi Sustainability Group	ASFSD	Arab Strategic Framework for Sustainable Development
ADWEA	Abu Dhabi Water & Electricity Authority	ASR	Aquifer Storage and Recovery
AED	United Arab Emirates Dirham	AU	African Union
AEPC	African Environmental Protection Commission	AUB	American University of Beirut
AEPS	Arctic Environmental Protection Strategy	AUM	American University of Madaba (Jordan)
AEWA	African-Eurasian Waterbird Agreement	AVL	Automatic Vehicle Location
AFED	Arab Forum for Environment and Development	AWA	Arab Water Academy
AFESD	Arab Fund for Economic and Social Development	AWC	Arab Water Council
AG	Associated Gas	AWCUA	Arab Water Countries Utilities Association
AGDP	Agricultural Gross Domestic Product	b/d	Barrels per Day
AGERI	Agricultural Genetic Engineering Institute	BADEA	Arab Bank for Economic Development in Africa
AGP	Arab Gas Pipeline	BAU	Business as Usual
AGU	Arabian Gulf University	Bbl	Oil Barrel
AHD	Aswan High Dam	BCH	Biosafety Clearing House
AHDR	Arab Human Development Report	Bcm	Billion cubic meters
AIA	Advance Informed Agreement	BCWUA	Branch Canal Water User Association
AIDS	Acquired Immunodeficiency Syndrome	BDB	Beyond Design Basis
AIECGC	Arab Investment and Export Credit Guarantee Corporation	BDL	Central Bank of Lebanon
AKTC	Aga Khan Trust for Culture	BEPS	Base Erosion And Profit Shifting
Al	Aluminum	BGR	German Geological Survey
ALBA	Aluminium Bahrain	BMP	Best Management Practices
ALECSO	Arab League Educational, Cultural, and Scientific Organization	BMZ	German Federal Ministry of Economic Cooperation and Development
ALMEE	Lebanese Association for Energy Saving & Environment	BNEF	Bloomberg New Energy Finance
ALOA	Association for Lebanese Organic Agriculture	BOD	Biological Oxygen Demand
AMCEN	African Ministerial Conference on the Environment	boe	Barrels of Oil Equivalent
AMF	Arab Monetary Fund	BOO	Build-Own-Operate
		BOOT	Build Own Operate Transfer
		BOT	Build Operate Transfer
		BP	British Petroleum

BREEAM	Building Research Establishment Environmental Assessment Method	CLO	Compost-Like-Output
BRO	Brackish Water Reverse Osmosis	CLRTAP	Convention on Long-Range Transboundary Air Pollution
BRS	ARZ Building Rating System		
BSI	Biome Solar Industry	CM	Carbon Management
BU	Boston University	CMI	Community Marketing, Inc.
C&D	Construction and Demolition	CMS	Convention on the Conservation of Migratory Species of Wild Animals
C&I	Commercial and Industrial		
CA	Conservation Agriculture	CNA	Competent National Authority
CAB	Centre for Agriculture and Biosciences	CNCA	Public Agricultural Bank
CAGR	Compound Annual Growth Rate	CNG (CNS)	Compressed Natural Gas
CAIP	Cairo Air Improvement Project	CO	Carbon Monoxide
CAMP	Coastal Area Management Project	CO ₂	Carbon Dioxide
CAMRE	Council of Arab Ministers Responsible for the Environment	CO _{2e/eq}	CO ₂ equivalent
CAN	Competent National Authority	COD	Chemical Oxygen Demand
CAP	Compliance Assistance Programme	COP	Conference of the Parties
CAPEX	Capital Expenditures	CoP	Community of Practice
CBC	Community-Based Conservation	CPB	Cartagena Protocol on Biosafety
CBD	Convention on Biological Diversity	CPC	Calcined Petroleum Coke
CBO	Community-Based Organization	CRS	Center for Remote Sensing
CBSE	Center for the Study of the Built Environment (Jordan)	CSA	City Strategic Agenda
CCA	Climate Change Adaptation	CSD	UN Commission on Sustainable Development
CCAP	Climate Change Action Plan	CSEM	Centre Suisse d'Electronique et de Microtechnique
CCGT	Combined Cycle Gas Turbine	CSO	Civil society organizations
CCS	Carbon Capture and Sequestration	CSP	Concentrated Solar Power
CCS	Carbon Capture and Storage	CSR	Corporate Social Responsibility
CCS CO ₂	Capture and Storage	CTAB	Technical Center of Organic Agriculture
CCUS	Carbon Capture, Usage and Storage	cum	Cubic meters
CD	Compact Disk	CZIMP	Coastal Zone Integrated Management Plan
CDM	Clean Development Mechanism	DAC	Development Assistance Committee
CDRs	Certified Emissions Reductions	DALYs	Disability-Adjusted Life Years
CEDARE	Centre for Environment and Development for the Arab Region and Europe	DBFO	Design Build Finance Operate
CEDRO	Country Energy Efficiency and Renewable Energy Demonstration Project for the Recovery of Lebanon	DBO	Design-Build-Operate
CEIT	Countries with Economies in Transition	DC	Direct current
CEO	Chief Executive Officer	DAC	Development Assistance Committee
CEP	Coefficient of Performance	DED	Dubai Economic Department
CERES	Coalition for Environmentally Responsible Economics	DASI	Deloitte Accelerator for Social Innovation in the Middle East
CERs	Credits		
CFA	Cooperative Framework Agreement	DCFs	Directed Credit Funds
CFC	Chloro-Fluoro-Carbon	DEFRA	Department for Environment, Food and Rural Affairs (UK)
CFL	Compact Fluorescent Light	DEM	Digital Elevation Model
CFL	Compact Fluorescent Lamp	DESA	Department of Economic and Social Affairs
CG	Coordination Groups	DEWA	Dubai Electricity and Water Authority
CGE	Computable General Equilibrium	DFID	UK Department for International Development
CGIAR	Consultative Group on International Agricultural Research	DHW	Domestic Hot Water
CH ₄	Methane	DII	DESERTEC Industrial Initiative
CHN	Centre Hospitalier du Nord -Lebanon	DMN	Moroccan National Meteorological Office
CHP	Combined Heat and Power	DNE	Daily News Egypt
CILSS	Permanent Interstate Committee for Drought Control in the Sahel	DOE	United States Department of Energy
CIRAD	Agricultural Research for Development	DRM	Disaster Risk Management
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	DRR	Disaster Risk Reduction
CIWM	Chartered Institution of Wastes Management	DSIRE	Database of State Incentives for Renewables & Efficiency
CIHEAM	International Centre for Advanced Mediterranean Agronomic Studies	DTC	Dubai Transport Corporation
		DTCM	Dubai Department for Tourism and Commerce Marketing
		DTIE	UNEP Division of Technology, Industry, and Economics
		DTO	Dublin Transportation Office

DUBAL	Dubai Aluminum Company Limited	EWRA	Egyptian Water Regulatory Agency
E3G	Third Generation Environmentalism	EWS	Emirates Wildlife Society
EAD	Environment Agency Abu Dhabi	FACE	Free Air Carbon Enrichment
EBRD	European Bank for Reconstruction and Development	FANR	The Federal Authority for Nuclear Regulation (UAE)
ECA	Economic Commission for Africa	FAO	Food and Agriculture Organization of the United Nations
ECAs	Energy Conversion Agreements	FDI	Foreign Direct Investment
ECE	Economic Commission for Europe	FEBEA	European Federation of Ethical and Alternative Banks
ED	Electrodialysis	FEMIP	Facility for Euro-Mediterranean Investment and Partnership
EDCO	Electricity Distribution Company	FFEM	French Fund for Global Environment
EDF	Environmental Defense Fund	FIBL	Research Institute of Organic Agriculture
EDL	Électricité du Liban	FIFA	Fédération Internationale de Football Association
EDM	Al- BiaWal- Tanmia - Environment & Development magazine	FIT	Feed-in-Tariff
EE	Energy Efficiency	FL&W	Food Lost and Wasted
EEAA	Egyptian Environmental Affairs Agency	FOEME	Friends of the Earth Middle East
EEHC	Egyptian Electricity Holding Company	FPEC	Future Pioneers for Empowering Communities
EEPP	Egyptian Environmental Policy Program	FSP	Food Security Program
EF	Ecological Footprint	FSU	Former Soviet Union
EGBC	Egyptian Green Building Council	F-T	Fischer-Tropsch process
EGPC	Egyptian General Petroleum Corporation	FTE	Full Time Equivalent
EGS	Environmental Goods and Services	FTIAB	Packaging and Newspaper Collection Service (Sweden)
EIA	Energy Information Administration	G7	Group of Seven: Canada, France, Germany, Italy, Japan, United Kingdom, United States
EIA	Environmental Impact Assessment	G8	Group of Eight: Canada, France, Germany, Italy, Japan, Russian Federation, United Kingdom, United States
EITI	Extractive Industries Transparency Initiative	GAM	Greater Amman Municipality
EIU	Economist Intelligence Unit	GAP	Good Agricultural Practices
EJ	Electro Joules	GAPs	Good Agricultural Practices
EMA	Europe, the Middle East, and Africa	GAS	Guarani Aquifer System
EMAL	Emirates Aluminium Company Limited	GATT	General Agreement on Tariffs and Trade
EMAS	Eco-Management and Audit Scheme	GAVI	Global Alliance for Vaccine and Immunization
EMR	Eastern Mediterranean Region	GBC	Green Building Council
EMRO	WHO Regional Office for the Eastern Mediterranean	GBIF	Global Biodiversity Information Facility
EMS	Environmental Management System	GCC	Gulf Cooperation Council
ENEC	Emirates Nuclear Energy Corporation	GCF	Green Climate Fund
ENPI	European Neighborhood and Partnership Instrument	GCM	General Circulation Model
ENSO	El Niño-Southern Oscillation	GCOS	Global Climate Observing System
EOR	Enhanced Oil Recovery	GDP	Gross Domestic Product
EPA	US Environmental Protection Agency	GE	General Electric
EPC	Engineering Procurement and Construction	GEFCF	Gas Exporting Countries Forum
EPD	European Patent Office	GEF	Global Environment Facility
EPDRB	Environmental Program for the Danube River Basin	GEMS	Global Environment Monitoring System
EPI	Environment Performance Index	GEO	Global Environment Outlook
EPSA	Exploration and Production Sharing Agreement	GERD	Gross Domestic Expenditure on Research and Development
ESAUN	Department of Economic and Social Affairs	GFEI	Global Fuel Economy Initiative
ESBM	Ecosystem-Based Management	GFs	Green Funds
ESCO	Energy Service Companies	GFU	Global Facilitation Unit for Underutilized Species
ESCOs	Energy Service Companies	GGGI	Global Green Growth Institute
ESCWA	United Nations Economic and Social Commission for Western Asia	Gha	Global hectare
ESG	Environmental, Social and Governance	GHGs	Greenhouse Gases
ESDU	Environment and Sustainable Development Unit	GIPB	Global Partnership Initiative for Plant Breeding Capacity Building
ESI	Environment Sustainability Index	GIS	Geographical Information Systems
ESMAP	World Bank Energy Sector Management Assistance Program	GIWA	Global International Waters Assessment
ETFs	Earmarked Tax Funds	GJ	GigaJoule
ETM	Enhanced Thematic Mapper	GLASOD	Global Assessment of Soil Degradation
EU	European Union	GLCA	Global Leadership for Climate Action
EU ETS	European Union Emission Trading System		
EVI	Environmental Vulnerability Index		

GM	Genetically Modified	ICT	Information and Communication Technology
GME	Gazoduc Maghreb Europe	ICZM	Integrated Coastal Zone Management
GMEF	Global Ministerial Environment Forum	IDA	International Desalination Association
GMO	Genetically Modified Organism	IDB	Islamic Development Bank
GMP	Green Moroccan Plan	IDECO	Irbid District Electricity Company
GNI	Gross National Income	IDP	Internally Displaced Persons
GNP	Gross National Product	IDRC	International Development Research Center
GPC	Green petroleum Coke	IDSC	Information and Decision Support Center
GPEDC	Global Partnership for Effective Development Cooperation	IEA	International Energy Agency
GPS	Global Positioning System	IEADSM	International Energy Agency Demand-side Management
GPRS	Green Pyramid Rating System	IEEE	Institute of Electrical and Electronic Engineers
GRI	Global Reporting Initiative	IEEF	Inclusive Economic Empowerment Finance Facility
GRID	Global Resource Information Database	IFA	International Fertilizer Industry Association
GSDP	General Secretariat for Development planning-Qatar	IFAD	International Fund for Agricultural Development
GSI IISD	Global Subsidies Initiative	IFC	International Finance Corporation
GSLAS	General Secretariat of League of Arab States	IFOAM	International Federation of Organic Agriculture Movements
GSR	Global Status Report	IFPRI	International Food Policy Research Institute
Gt	Gigaton	IGCC	Integrated Gasifier Combined Cycle
GTZ	German Technical Cooperation (Gesellschaft für Technische Zusamm)	IHP	International Hydrology Program
GVC	Civil Volunteers' Group (Italy)	IIED	International Institute for Environment and Development
GW	Gigawatt	IIIEE	Lund University International Institute for Industrial Environmental Economics
GW	Greywater	IIP	Integrated Irrigation Improvement Project
GW _e	Gigawatt electrical	IIP	Irrigation Improvement Project
GW _i	Global Water Intelligence	IISD	International Institute for Sustainable Development
GWP	Global Warming Potential	ILO	International Labour Organization
GWP	Global Water Partnership	ILW	Intermediate Level waste
GW _{th}	Gigawatt-thermal	IMC	Istituto Mediterraneo Di Certificazione
ha	Hectares	IMF	International Monetary Fund
HACCP	Hazardous Analysis and Critical Control Points	IMO	International Maritime Organization
HCFC	hydrochlorofluorocarbons	INDC	Intended Nationally Determined Contributions
HDI	Human Development Index	InWEnt	Capacity Building International-Germany
HFA	Hyogo Framework for Action	IO	Input-Output
HFCs	Hydrofluorocarbons	IOC	International Oil Companies
HFO	Heavy Fuel Oil	IPCC	Intergovernmental Panel on Climate Change
HICs	High-Income Countries	IPF	Intergovernmental Panel on Forests
HIV	Human Immunodeficiency Virus	IPM	Integrated Pest Management
HLW	High Level Waste	IPNS	Integrated Plant Nutrient System
HNWI	High Net Worth Individuals	IPP	Independent Power Producer
HPMPs	HCFC phase-out management plans	IPR	Intellectual Property Rights
HVAC	Heating, Ventilation, and Air-Conditioning	IPTRID	International Program for Technology and Research in Irrigation and Drainage
I/M	Inspection and Maintenance	IRENA	International Renewable Energy Agency
IAASTD	International Assessment of Agricultural Knowledge Science and Technology for Development	IRESEN	Institut de Recherche en Energie Solaire et en Energies Nouvelles
IAEA	International Atomic Energy Agency	IRR	Internal Rate Of Return
IAS	Irrigation Advisory Service	ISCC	Integrated Solar Combined Cycle
IC	Irrigation Council	IsDB	Islamic Development Bank
ICAM	Integrated Coastal Area Management	ISESCO	Islamic Educational, Scientific, and Cultural Organization
ICARDA	International Center for Agricultural Research in Dry Areas	ISIC	UN International Standard Industrial Classification
ICBA	International Center for Biosaline Agriculture	ISO	International Organization for Standardization
ICC	International Chamber of Commerce	ISWM	Integrated Solid Waste Management
ICGEB	International Center for Genetic Engineering and Biotechnology	ITC	Integrated Tourism Centers
ICLDC	Imperial College London Diabetes Centre	ITC	International Trade Center
ICM	Integrated Coastal Management	ITSAM	Integrated Transport System in the Arab Mashreq
ICPDR	International Commission for the Protection of the Danube River		

IUCN	International Union for Conservation of Nature	LRA	Litani River Authority
IUCN	World Conservation Union (International Union for the Conservation of Nature and Natural Resources)	LV	Low Voltage
IWMI	International Water Management Institute	MAAR	Syrian Ministry of Agriculture and Agrarian Reform
IWPP	Independent Water And Power Producer	MAD	Moroccan Dirham
IWRB	International Waterfowl and Wetlands Research Bureau	MALR	Ministry of Agriculture and Land Reclamation
IWRM	Integrated Water Resources Management	MAP	UNEP Mediterranean Action Plan
JAEC	Jordan Atomic Energy Commission	MARPOL	International Convention for the Prevention of Pollution from Ships
JBAW	Jordan Business Alliance on Water	MASEN	Moroccan Agency for Solar Electricity
JCEDARE	Joint Committee on Environment and Development in the Arab Region	mb/d	million barrels per day
JD	Jordanian Dinar	MBT	Mechanical-biological treatment
JEPCO	Jordan Electric Power Company	MCM	Million Cubic Meters
JI	Joint Implementation	MD	Membrane Distillation
JMWI	Jordan Ministry for Water and Irrigation	MDGs	Millennium Development Goals
JNRC	Jordan Nuclear Regulatory Commission	MEA	Multilateral Environmental Agreement
JREEEF	Jordan Renewable Energy and Energy Efficiency Fund	MECTAT	Middle East Centre for the Transfer of Appropriate Technology
JVA	Jordan Valley Authority	MED	Multiple-Effect Distillation
KA-CARE	King Abdullah City for Atomic and Renewable Energy	MED WWR WG	Mediterranean Wastewater Reuse Working Group
KACST	King Abdulaziz City for Science and Technology	MED-ENEK	Energy Efficiency in the Construction Sector in the Mediterranean
KAHRAMAA	Qatar General Electricity and Water Corporation	MEES	Middle East Economic Survey
KAUST	King Abdullah University of Science and Technology	MEMAC	Marine Emergency Mutual Aid Centre
KEPCO	Korea Electric Power Corporation	MENA	Middle East and North Africa
KFAED	Kuwait Fund for Arab Economic Development	MEPS	Minimum Energy Performance Standards
KFUPM	King Fahd University of Petroleum and Minerals	METAP	UNEP Mediterranean Environmental Technical Assistance Program
KfW	German Development Bank	MEW	Lebanese Ministry of Energy and Water
KISR	Kuwait Institute for Scientific Research	MGD	Million Gallon per Day
KSA	Kingdom of Saudi Arabia	MHT	Mechanical Heat Treatment
KW	Kilowatt	MICE	Meetings, Incentives, Conferences, And Events
kWh	Kilowatt-hour	MICs	Middle-Income Countries
LADA	Land Degradation Assessment of Drylands	MIGA	Multilateral Investment Guarantee Agency
LAS	League of Arab States	MJ	Mega Joule
LATA	Lebanese Appropriate Technology Association	MIST	Masdar Institute of Science and Technology
LAU	Lebanese American University	MMBTU	One Million British Thermal Units
LBNL	Lawrence Berkeley National Laboratory	MMCP	Making the Most of Commodities Programme
LCC	Life Cycle Costing	MNA	Multinational Approaches
LCEC	Lebanese Center for Energy Conservation	MoCCE	Ministry of Climate Change and Environment
LCOE	Levelized Costs of Electricity	MOQ	Maersk Oil Qatar
LDCs	Least Developed Countries	MOU	Memorandum of Understanding
LDN	Land degradation neutrality	MOX	Mixed-Oxide
LED	Light-Emitted Diode	MPA	Marine Protected Area
LEED	Leadership in Environmental Design	MPAP	Multi-Stakeholder Policy Formulation and Action Planning
LEMA	Suez Lyonnaise des Eaux, Montgomery Watson and Arabtech Jardaneh	MPAR	Ministry of Planning and Administrative Reform
LEU	Low-enriched Uranium	MSF	Multi-Stage Flash
LGBC	Lebanon Green Building Council	MSF	Multi-Stakeholder Forum
LLF	Lives & Livelihoods Fund	MSP	Mediterranean Solar Plan
LICs	Low-Income Countries	MSW	Municipal Solid Waste
LLW	Low Level Waste	Mt	Metric tons
LMBAs	Land and Marine Based Activities	MT	Million ton
LMEs	Large Marine Ecosystems	Mt	Megatons
LMG	Like Minded Group	MtCO ₂	Million tons of CO ₂
LMICs	Low Middle-Income Countries	Mtoe	Million tons of oil equivalent
LMO	Living Modified Organism	MTPY	Metric Tons Per Year
LNG	Liquefied Natural Gas	MV	Medium Voltage
LowCVP	Low Carbon Vehicle Partnership	MW	Megawatt
LPG	Liquefied Petroleum Gas	MW _h	Megawatt-hour

MW _p	Megawatt-peak	OA	Organic Agriculture
MWRi	Ministry of Water Resources and Irrigation	O&M	Operation and Maintenance
MW _{th}	Megawatt-thermal	OAPEC	Organization of Arab Petroleum Exporting Countries
MVR	Measurement, Reporting and Verification	OAU	Organization for African Unity
N ₂ O	Nitrous Oxide	ODA	Official Development Assistance
NAMA	Nationally Appropriate Mitigation Actions	ODP	Ozone Depletion Potential
NARI	National Agricultural Research Institutes	ODS	Ozone-Depleting Substance
NARES	National Agricultural Research and Extension Systems	OECD	Organization for Economic Co-operation and Development
NASA	National Aeronautics and Space Administration	OFID	OPEC Fund for International Development
NBC	National Biosafety Committee	OIC MCs	Organization of Islamic Conference Member Countries
NBDF	Nile Basin Discourse Forum	OIES	Oxford Institute for Energy Studies
NBF	National Biosafety Framework	OME	Observatoire Méditerranéen de l'Energie
NBI	Nile Basin Initiative	OMW	Olive Mills Wastewater
NBM	Nile Basin Management	ONA	Omnium Nord-Africain
NC	National Communication	ONE	National Electricity Office
NDC	Nationally Determined Contributions	ONEP	National Office of Potable Water
NEPCO	National Electric Power Company	OPEC	Organization of Petroleum Exporting Countries
NCSR	Lebanese National Council of Scientific Research	OPEX	Operational Expenditures
ND	Neighborhood Development	OSS	Sahara and Sahel Observatory (Observatoire du Sahara et du Sahel)
NDW	Moroccan National Drought Watch	OWG	Open Working Group
NEA	Nuclear Energy Agency	PACD	Plan of Action to Combat Desertification
NEAP	National Environmental Action Plan	PARC	Pan Arab Research Centre
NEEAP	National Energy Efficiency Action Plan	PBCs	Performance-Based Contracts
NEEP	National Energy Efficiency Program	PC	Personal Computer
NEEREA	National Energy Efficiency and Renewable Energy Action (Lebanon)	PCB	Polychlorinated Biphenyls
NERC	National Energy Research Centre	PCFPI	Per Capita Food Production Index
NF	Nano-Filtration	PCFV	Partnership for Clean Fuels and Vehicles
NFC	Nile Forecast Center	PEA	Palestinian Energy and Natural Resources Authority
NFP	National Focal Point	PERG	Global Rural Electrification Program
NGCCs	Natural-Gas-Fired Combined Cycles	PERSGA	Protection of the Environment of the Red Sea and Gulf of Aden
NGGP	National Green Growth Plan	PFCs	Perfluorocarbons
NGO	Non-Governmental Organization	PICs	Pacific Island Countries
NGV	Natural Gas Vehicles	PIF	Public Investment Fund
NGWA	Northern Governorates Water Authority (Jordan)	PIM	Participatory Irrigation Management
NIF	Neighborhood Investment Facility	PJ	Peta Joule
NMC	Northern Mediterranean countries	PM	Particulate Matter
NMVC	Non-Methane Volatile Compounds	PMU	Program Management Unit
NOAA	National Oceanic and Atmospheric Administration	PNA	Palestinian National Authority
NOC	National Oil Company	PNEEI	Tunisian National Program of Irrigation Water Conservation
NOEC	Net Oil Exporting Countries	POPs	Persistent Organic Pollutants
NOGA	National Oil and Gas Authority (Bahrain)	PPA	Power Purchase Agreement
NOIC	Net Oil Importing Countries	PPIAF	Public-Private Infrastructure Advisory Facility
NORDEN	Nordic Council of Ministers	PPM	Parts Per Million
NOx	Nitrogen Oxides	PPM	Process and Production Methods
NPK	Nitrogen, Phosphates and Potash	PPP	Public-Private Partnership
NPP	Nuclear Power Plant	PPP	Purchasing Power Parity
NPP	Net Primary Productivity	PPP	Public-Private Partnership
NPPA	Nuclear Power Plant Authority	PRM	Persons with Reduced Mobility
NPT	Non-Proliferation treaty of nuclear weapons	PRY	Potential Researcher Year
NRC	National Research Council	PTSs	Persistent Toxic Substances
NREL	National Renewable Energy Laboratory	PV	Photovoltaic
NREAP	National Renewable Energy Action Plans	PWA	Palestinian Water Authority
NRW	Non-Revenue Water	QNFSF	Qatar National Food Security Programme
NSAS	Nubian Sandstone Aquifer System	QP	Qatar Petroleum
NSR	North-South Railway project	QSAS	Qatar Sustainable Assessment System
NUS	Neglected and underutilized species		
NWRC	National Water Research Center (Egypt)		
NWSAS	North Western Sahara Aquifer System		

R&D	Research and Development	SMS	Short Messaging Service
RA	Risk Assessment	SNA	System Of National Accounts
RADEEMA	Régie autonome de distribution de l'eau et de l'électricité de Marrakech	SoE	State of the Environment
RB	Raised Bed	SONEDE	Société Nationale d'Exploitation et de Distribution des Eaux
RBA	Results-Based Approach	SOx	Sulfur Oxides
RBF	Results-based financing	SPD	Sozialdemokratische Partei Deutschlands
RBO	River Basin Organization	SPM	Suspended Particulate Matter
RBP	Restrictive Business Practices	SRES	Special Report on Emission Scenarios
RCM	Regional Circulation Model	SRTM	Shuttle Radar Topography Mission
RCREEE	Regional Center for Renewable Energy and Energy Efficiency	SSA	Sub-Saharan Africa
RDF	Refuse Derived Fuel	SSR	Self-Sufficiency Ratio
RE	Renewable Energy	SRI	Socially Responsible Investments
REC	Renewable Energy Credits	STI	Science, Technology and Innovation
REMPEC	Regional Marine Pollution Emergency Response Centre for the Mediterranean Sea	SWCC	Saline Water Conversion Corporation
REN21	Renewable Energy Policy Network for the 21st Century	SWH	Solar Water Heating
Rep	Republic	SWRO	Seawater Reverse Osmosis
RET	Renewable Energy Technologies	T&D	Transmission and Distribution
RISE	Regulatory Indicators for Sustainable Energy	TAC	Technical Advisory Committee
RM	Risk Management	TAR	Third Assessment Report
RO	Reverse Osmosis	Tcm	Trillion cubic meters
ROPME	Regional Organization for the Protection of the Marine Environment of the sea area surrounded by Bahrain, I.R. Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates	TDM	Transportation Demand Management
RPS	Renewable Portfolio Standard	TDS	Total Dissolved Solids
RSA	ROPME Sea Area	TES	Thermal Energy Storage
RSC	Royal Society of Chemistry (UK)	TFP	Total Factor Productivity
RSCN	Royal Society for the Conservation of Nature	TFEC	Total Final Energy Consumption
RSGA	Red Sea and Gulf of Aden	TIES	The International Ecotourism Society
RUAF	Resource Centers Network on Urban Agriculture and Food Security	TII	Thermal Insulation Implementation
S&T	Science and Technology	Toe	Tons of Oil Equivalent
SAIC	Science Applications International Corporation	TOSSD	Total official support for sustainable development
SAP	Strategic Action Program	TPES	Total Primary Energy Supply
SASO	Saudi Standards, Quality and Metrology Organization	TRAFFIC	Trade Records Analysis for Flora and Fauna in International Commerce
SCP	Sustainable Consumption and Production	TRI	Toxics Release Inventory
SCPI	Sustainable Crop Production Intensification	TRIPs	Trade-Related Aspects of International Property Rights
SCP/RAC	Regional Activity Centre for Sustainable Consumption and Production	TRMM	Tropical Rainfall Measuring Mission
SD	Sustainable Development	tU	tones of Uranium
SDGs	Sustainable Development Goals	TWh	Terawatt-hour
SDIAR	Sustainable Development Initiative in the Arab region	UA	Urban Agriculture
SEA	Strategic Environmental Assessment	UAB	Union of Arab Banks
SEEA	System of Environmental and Economic Accounting	UAE	United Arab Emirates
SEEC	Saudi Energy Efficiency Cen	UCLA	University of California at Los Angeles
SEGC	Chinese Shanghai Electric Generation Group	UCS	Union of Concerned Scientists
SEMC	Southern and Eastern Mediterranean Countries	UF	Ultrafiltration
SFD	Saudi Fund for Development	UFM	Union for the Mediterranean
SHS	Solar Home System	UHCPV	Ultra-High Concentration Photovoltaic
SIR	Shuttle Imaging Radar	UHI	Urban Heat Island
SIWI	Stockholm International Water Institute	UIS	UNESCO Institute for Statistics
SL	Syrian Pound	UK	United Kingdom
SLM	Sustainable Land Management	UMA	Union du Maghreb Arabe (Arab Maghreb Union)
SLR	Sea Level Rise	UMICs	Upper Middle-Income Countries
SME	Small and Medium-Size Enterprises	UN	United Nations
		UNCBD	United Nations Convention on Biological Diversity
		UNCCD	United Nations Convention to Combat Desertification
		UNCED	United Nations Conference on Environment and Development
		UNCHS	United Nations Centre for Human Settlements (now UN-Habitat)

UNCLOS	United Nations Convention on the Law of the Sea	WFP	World Food Programme
UNCOD	United Nations Conference on Desertification	WGP-AS	Water Governance Program in the Arab States
UNCTAD	United Nations Conference on Trade and Development	WGEO	World Green Economy Organization
UNDAF	United Nations Development Assistance Framework	WHC	World Heritage Convention
UNDP	United Nations Development Programme	WHO	World Health Organization
UNEP	United Nations Environment Programme	WIPP	Waste Isolation Pilot Plant
UNESCO	United Nations Educational, Scientific and Cultural Organization	WMO	World Meteorological Organization
UNESCO-ROSTAS	UNESCO Regional Office for Science and Technology for the Arab States	WNA	World Nuclear Association
UNFCCC	United Nations Framework Convention on Climate Change	Wp	Watt-peak
UNFPA	United Nations Population Fund	WRI	World Resources Institute
UNHCR	United Nations High Commission for Refugees	WSSCC	Water Supply and Sanitation Collaborative Council
UNICE	United Nations Children's Fund	WSSD	World Summit on Sustainable Development
UNIDO	United Nations Industrial Development Organization	WTO	World Trade Organization
UNISDR	United Nations International Strategy for Disaster Reduction	WTTC	World Travel and Tourism Council
UNWTO	United Nations World Tourism Organization	WUA	Water User Association
UPC	Abu Dhabi Urban Planning Council	WUE	WUE Water Use Efficiency
UPI	United Press International	WWAP	World Water Assessment Program
USA	United States of America	WWC	World Water Council
USAID	United States Agency for International Development	WWF	World Wide Fund for Nature
USCCSP	United States Climate Change Science Program	WWF	World Water Forum
USEK	Université Saint-Esprit De Kaslik	WWI	First World War
USEPA	United States Environmental Protection Agency	WWII	Second World War
USJ	Saint Joseph University	YASAD	Yemenite Association for Sustainable Agriculture and Development
USPTO	United States Patent and Trademark Office	YR	Year
UV	Ultraviolet (A and B)	ZT/CA	Conservation Agriculture/Zero Tillage
VAT	Value-Added Tax		
VC	Vapor Compression		
VCM	Volatile Combustible Matter		
VMT	Vehicle Miles Traveled		
VOC	Volatile Organic Compound		
VRS	Vapor Recovery System		
WACC	Weighted Average Cost of Capital		
WaDImena	Water Demand Initiative for the Middle East and North Africa		
WAJ	Water Authority of Jordan		
WALIR	Water Law and Indigenous Rights		
WANA	West Asia and North Africa Region		
WB	West Bank		
WBCSD	World Business Council for Sustainable Development		
WBG	World Bank Group		
WBGU	German Advisory Council on Global Change		
WCD	World Commission on Dams		
WCED	World Commission on Environment and Development		
WCMC	UNEP World Conservation Monitoring Center		
WCP	World Climate Programme		
WCS	World Conservation Strategy		
WDM	Water Demand Management		
WDPA	World Database on Protected Areas		
WEEE	Waste of Electronic and Electrical Equipment		
WEF	World Economic Forum		
WEF	Water-Energy-Food		
WEI	Water Exploitation Index		
WETC	Wind Energy Technology Centre		
WF	Water Footprint		
WFN	Water Footprint Network		

State of Arab Environment Series

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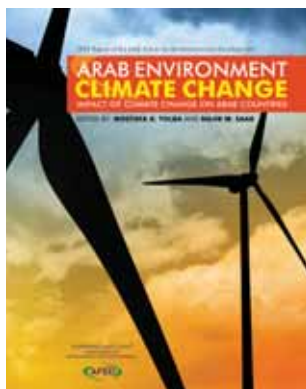
Arab Environment: Future Challenges

2008 Report of the Arab Forum for Environment and Development

For the first time, a comprehensive independent expert report on Arab environment is released for public debate.

Entitled *Arab Environment: Future Challenges*, this ground-breaking report has been commissioned by Arab Forum for Environment and Development (AFED), and written by some of the most prominent Arab experts, including authors, researchers and

reviewers. Beyond appraising the state of the environment, based on the most recent data, the policy-oriented report also evaluates the progress towards the realization of sustainable development targets, assesses current policies and examines Arab contribution to global environmental endeavors. Ultimately, the report proposes alternative policies and remedial action.

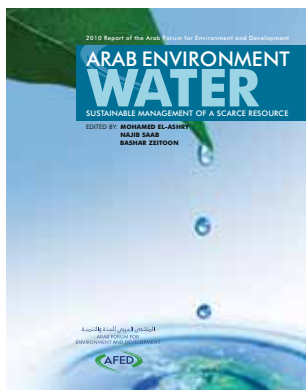


Arab Environment: Climate Change

2009 Report of the Arab Forum for Environment and Development

Impact of Climate Change on the Arab Countries is the second of a series of annual reports produced by the Arab Forum for Environment and Development (AFED). The report has been designed to provide information to governments, business, academia and the public about the impact of climate change on the Arab countries, and encourage concrete action to face the challenge. The report analyzes the Arab

response to the urgent need for adaptation measures, and uses the latest research findings to describe the vulnerabilities of natural and human systems in the Arab world to climate change and the impacts on different sectors. In an attempt to help shape adequate policies, the report discusses options for a post-Kyoto regime and outlines the state of international negotiations in this regard.



Arab Environment: Water

2010 Report of the Arab Forum for Environment and Development

Water: Sustainable Management of a Scarce Resource is the third of a series of annual reports produced by the Arab Forum for Environment and Development (AFED). It follows the publication of two reports, Arab Environment: Future Challenges in 2008 and Impact of Climate Change on Arab countries in 2009. The 2010 report is designed to contribute to the discourse on the sustainable management of water resources in the Arab world and provides critical understanding of

water in the region without being overly technical or academic in nature. The unifying theme is presenting reforms in policies and management to develop a sustainable water sector in Arab countries. Case studies, with stories of successes and failures, are highlighted to disseminate learning. This report contributes to the ongoing dialogue on the future of water and catalyzes institutional reforms, leading to determined action for sustainable water policies in Arab countries.



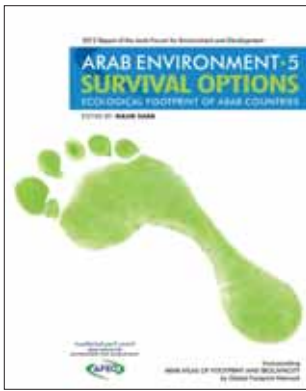
Arab Environment: Green Economy

2011 Report of the Arab Forum for Environment and Development

Green Economy: Sustainable Transition in a Changing Arab World is the fourth of a series of annual reports on the state of Arab environment, produced by the Arab Forum for Environment and Development (AFED). This report on options of green economy in Arab countries represents the first phase of the AFED green economy initiative. Over one hundred experts have contributed to the report, and discussed its drafts in a

series of consultation meetings. The report is intended to motivate and assist governments and businesses in making a transition to the green economy.

It articulates enabling public policies, business models, green investment opportunities, innovative approaches, and case studies, and addresses eight sectors: agriculture, water, energy, industry, cities and buildings, transportation, tourism, and waste management.

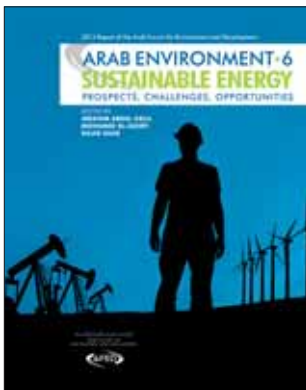


Arab Environment: Survival Options

2012 Report of the Arab Forum for Environment and Development

Survival Options - Ecological Footprint of Arab Countries is the fifth in the series of annual reports produced by the Arab Forum for Environment and Development (AFED) on the state of the Arab environment. It examines sustainability choices in Arab countries, based on a survey of people's demand of natural capital and available supply. The report discusses potential paths to sustainability based on ecological constraints. As a basis for the analysis, AFED has commissioned the Global Footprint Network, the world leader in this field, to produce an Arab Ecological Footprint and Biocapacity

Atlas using the most recent data available. The Atlas covers the 22 members of the League of Arab States, as region, sub-regions and individual countries. The analysis focuses on the challenges posed by the state of food security, water and energy, while considering main drivers such as population and patterns of production and consumption. Ultimately, it prescribes regional cooperation and sound management of resources as the main options for survival in a region characterized by stark variations in ecological footprint, natural resources and income.

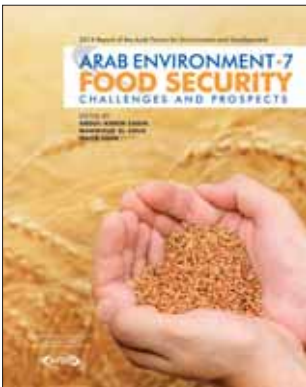


Arab Environment: Sustainable Energy

2013 Report of the Arab Forum for Environment and Development

Sustainable Energy is the sixth in the series of annual reports produced by the Arab Forum for Environment and Development (AFED) on the state of Arab environment. The report highlights the need for more efficient management of the energy sector, in view of enhancing its contribution to sustainable development in the Arab region. The AFED 2013 report aims at: presenting a situational analysis of the current state of energy in the Arab region, shedding light on major challenges, discussing different

policy options and, ultimately, recommending alternative courses of action to help facilitate the transition to a sustainable energy future. To achieve its goals, the AFED 2013 report addresses the following issues: oil and beyond, natural gas as a transition fuel to cleaner energy, renewable energy prospects, the nuclear option, energy efficiency, the energy-water-food nexus, mitigation options of climate change, resilience of the energy sector to climate risk, and the role of the private sector in financing sustainable energy.

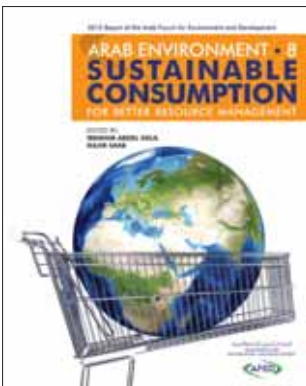


Arab Environment: Food Security

2014 Report of the Arab Forum for Environment and Development

Food Security is the seventh in the series of annual reports on the state of Arab environment, produced by the Arab Forum for Environment and Development (AFED). The report highlights the need for more efficient management of the agriculture and water sectors, in view of enhancing the prospects of food security. *Food security* is of great concern to Arab countries. They have been pursuing a target of higher food self-sufficiency rate, but achieving this goal remained beyond reach. While they have limited cultivable land and

scarce water resources, they did not use their agricultural endowments in an effective and efficient manner. Lack of appropriate agricultural policies and practices led to diminishing the bio-capacity of the resources to regenerate their services and threatened agricultural sustainability. AFED hopes that its report on Food Security will help Arab countries adopt the right policies and commit to long-term investments, allowing them to secure a sustainable supply of food to meet ever-growing needs.



Arab Environment: Sustainable Consumption

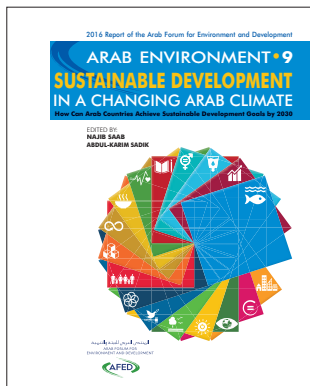
2015 Report of the Arab Forum for Environment and Development

Increasing production alone cannot solve the need of food for hungry people and water for thirsty people, nor will it provide power to dark villages. Equally, solely building more waste dumps and incinerators cannot solve the trash crisis. Inadequate consumption patterns are at the core of the problem, and any feasible solution requires a fundamental change in the way we consume resources and produce waste. Thus, the 2015 AFED Annual Report, *Sustainable Consumption for Better Resource Management*, discusses how changing consumption patterns can help preserve resources and protect the environment, ultimately leading

to sustainable development. While it is true that changing consumption patterns requires adequate policies based on expert studies, the support of consumers is a prerequisite for successful implementation. In view of tracking how people perceive consumption and to what extent they are ready for positive change, AFED carried out a wide-ranging public opinion survey, which drew over 31,000 participants from 22 countries. The survey, which has been incorporated in the report, found that the Arab public is ready to pay more for energy and water and to change their consumption patterns if this will help preserve resources and protect the environment.

Arab Environment: Sustainable Development in a Changing Arab Climate

2016 Report of the Arab Forum for Environment and Development



This AFED report on “*Sustainable Development in a Changing Arab Climate*” highlights the policy options available for the Arab countries to realize the Sustainable Development Goals by the 2030 target set by the United Nations, in light of the new political, economic, and social developments.

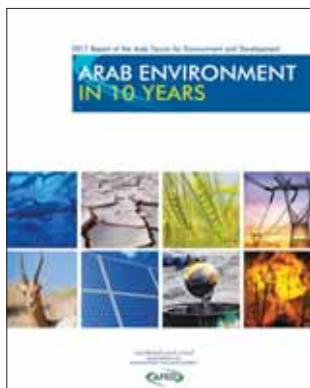
The report recommends an alternative approach, based on integrating sustainable development principles within the anticipated rebuilding efforts. It calls upon local, regional, and international aid organizations not to limit their efforts to providing safety and basic necessities to those affected, but rather

to use the relief plans as a launch pad for promoting new approaches to development, rooted in a transition to green economy.

This report, on prospects and challenges along the path towards achieving the SDGs, builds on the previous eight reports on the state of Arab environment, produced by the Arab Forum for Environment and Development (AFED) since 2008. AFED annual reports have so far addressed major development issues in the Arab region, including Water, Food Security, Energy, Green Economy, Ecological Footprint, Sustainable Consumption, and Climate Change.

Arab Environment In 10 Years

2017 Report of the Arab Forum for Environment and Development



Arab Environment In 10 Years crowns a decade of the series of annual reports produced by the Arab Forum for Environment and Development (AFED) on the state of Arab environment. It tracks and analyzes changes focusing on policies and governance, including level of response and engagement in international environmental treaties. It also highlights developments in six selected priority areas, namely water, energy, air, food, green economy and environmental scientific research.

This report found that the state of environment in the Arab countries over the past ten years has been characterized by disparities. While progress was slow and the situation deteriorated in many aspects, there were advances in others, especially regarding matters related to governance and commitment to international treaties, particularly regarding climate change. Despite the lack of real progress in several countries, mainly those which are

facing political unrest and instability, others have made strides towards shifting to a more sustainable path, with more financial resources directed towards investments in environmental infrastructure.

Despite slow progress, we noted with satisfaction that what AFED called for in its reports has become prime driver for policy reforms in many Arab countries. AFED continues to engage many regional players, including public policy officials, corporations, academia, NGOs, and the media, in a meaningful debate.

As part of the 2017 report, AFED carried out a public opinion survey cross the Arab countries to track environmental perceptions and attitudes. Results showed that a majority of 80 percent thought that the environmental situation deteriorated or did not improve, while 95 percent found that their country is not doing enough to tackle environmental challenges.

المتوقعة وتحديد مصادر التمويل الممكنة في المدى القريب والمتوسط والبعيد. وفي ما خص الدول النفطية، يبقى تنويع الاقتصاد نحو قطاعات منتجة غير بترولية وإعادة النظر في أنظمة دعم الأسعار أمرين ضروريين لمواجهة آثار تقلبات الأسعار على الدخل وتحقيق نمو طويل الأمد.

أما الدول ذات الدخل المتوسط، فلا بد لها من تعديل الأنظمة الضريبية بحيث ترتفع نسبة الدخل من الضرائب مقارنة بالنتائج المحلي الإجمالي، مع تأمين العدالة وفق شرائح الدخل والثروة. وهناك حاجة ملحة إلى إصلاحات مالية لتشجيع الاستثمارات ذات البعد الاجتماعي، إلى جانب التدابير المالية القادرة على دعم تنويع الاقتصاد وإدارة الديون والاستقرار البعيد الأمد في النمو وتحصيل الإيرادات. والمطلوب أن تكون الإدارة الضريبية مبسطة وشفافة لتجنب التهرب الضريبي والرشى التي يتسبب فيها عدم الوضوح. ومن أساسيات تحسين النظام المالي وضع حد للتدفق غير الشرعي للأموال، عن طريق تحسين الإدارة الضريبية والتعاون في المراقبة العابرة للحدود.

من ناحية أخرى، ينبغي احترام التعهدات الدولية حول تمويل التنمية، وعدم خلطها بالمساعدات الطارئة للاجئين. والمطلوب أيضاً تعزيز التعاون بين دول المنطقة العربية في جميع المجالات، بما فيها الاستثمارات الإقليمية في ما بينها وزيادة المساعدات الإنمائية العربية لتمويل المشاريع في المنطقة، خاصة في مجال البنى التحتية، التي تحتاج وحدها إلى 100 بليون دولار سنوياً وفقاً لتقديرات البنك الدولي.

أما التمويل من القطاع الخاص فيحتاج إلى جهود أكبر لاستقطابه في مشاريع التنمية المستدامة. ومن هذا تشجيع استثمار المدخرات، خصوصاً عن طريق أدوات مالية تستطيع اجتذاب التحويلات، وتطوير الأسواق المالية، واستقطاب الاستثمارات الخارجية المباشرة عن طريق سياسات وحوافز تمنح الثقة للمستثمرين. وهذا يساهم في عكس اتجاه الاستثمارات الخاصة، العربية والأجنبية، إلى الأسواق العربية، ما يؤمن زيادة معتبرة في الموارد المالية. وعلى الدول تطوير آليات تشجع التمويل المختلط، مثل الشراكات بين القطاعين الخاص والعام، واستخدام القروض من المؤسسات المانحة وصناديق التنمية كضمانات للحصول على قروض إضافية من القطاع الخاص. وهذا كله يزيد من فعالية التمويل وكفاءته.

ومن الضروري، في الوقت عينه، العمل على عكس الاتجاه الراهن في تدمير الموارد الطبيعية، واعتماد سياسات توقف الهدر وتخفف من البصمة البيئية، بما يضمن الاستمرار في تأمين خدمات الموارد الطبيعية المطلوبة للأجيال المقبلة ويكفي لتحقيق حاجات التنمية المستدامة. لكن خلق بيئة ملائمة للاستثمار وتوفير الثقة في خطط التنمية وآلياتها، تحت راية القانون والعدالة والاستقرار السياسي، شرطان ضروريان على طريق تحقيق أهداف التنمية المستدامة كما نصت عليها أجندة 2030.

لا شك أن الموارد الإضافية، من جميع المصادر الداخلية والإقليمية والدولية المتوافرة، ضرورية لتمكين البلدان العربية من تحقيق أهداف التنمية المستدامة والتصدي للتغير المناخي. لكن إلى جانب تأمين مصادر جديدة للتمويل، يجب التركيز على كفاءة استخدام الموارد المالية المتوافرة، من القطاعين العام والخاص، وتغيير وجهتها، حيث يلزم الأمر، وفق جدول أولويات، لدعم المشاريع والبرامج الكفيلة بتحقيق أهداف التنمية المستدامة. كما لا بد من القضاء على الفساد والهدر، ووضع سياسات متكاملة، واعتماد شروط صديقة للاستثمار. فليس من المنطق الاقتصادي السليم الاستمرار في خيارات الاستثمار التقليدية القديمة، في موازاة العمل على استقطاب الموارد المالية وتحويلها لدعم استثمارات مبتكرة صديقة للبيئة، تقوم على مفاهيم ومقاييس جديدة. هذا التقرير يدعو إلى الاستثمار في تنمية يكون محورها الناس، تعزز دمج حقوق الإنسان، بما في ذلك الحق في التنمية، ومبادئ المشاركة الشعبية الحقيقية والمساءلة والشفافية وعدم التمييز، في أجندة التنمية.

الدول العربية النفطية. وفي حين يشكل التحول إلى أنواع بديلة من الطاقة خطراً على الاستقرار المالي، فمخاطر الامتناع عن التحول الاقتصادي لمواكبة المتغيرات تبقى أكبر كثيراً. ومن البوادر الإيجابية أن برامج طموحة لتنويع الاقتصاد بدأت في الدول العربية المصدرة للبترو، وتواكبها استثمارات ضخمة في الطاقة المتجددة وكفاءة الطاقة، كما يحصل في السعودية والإمارات.

وفي حين يغطي القطاع المصرفي جزءاً ضخماً من تمويل مشاريع التنمية، فإن جزءاً صغيراً جداً يمكن تصنيفه على أنه «تمويل أخضر». ويرى الاتحاد المصرفي الأوروبي أن عدم الوضوح في تحديد عناصر «التمويل الأخضر»، مثل «القروض الخضراء» و«الأصول الخضراء»، يشكل عائقاً أمام تصنيف هذه العناصر، وبالتالي تطوير فرص إضافية للتمويل الأخضر. هناك حاجة، إن شاء الله، إلى وضع حد أدنى من القواعد للافصاح عن مكونات التمويل الأخضر، بما يسمح بإتاحة الموارد المالية للمشاريع الخضراء وتقوية الأصول، وتحليل أوضاع السوق والمخاطر، وتطوير منتجات مالية جديدة يمكن تقديمها على أسس خاصة للمقارنة مع منتجات أخرى. وإذا كان يتوجب على المصارف التخفيف من الأثر المباشر على البيئة الناتج من النشاطات والاستثمارات التي تقوم بها، لكن مساهمة المصارف الرئيسية في دعم التنمية المستدامة تكمن في توفير الدعم والحلول التمويلية للمشاريع والشركات الصديقة للبيئة.

وقد دعا اتحاد المصارف العربية، في اجتماع عقده في مصر في تموز (يوليو) 2018، إلى اعتماد إطار تنظيمي لتشجيع القطاع المالي العربي على المشاركة الفاعلة في تمويل مشاريع التنمية المستدامة. كما تعهد المصرفيون العرب التحول إلى أنظمة مصرفية خضراء، وإنشاء إدارات مستقلة مختصة بالتنمية المستدامة في نطاق كل مصرف، وبإدخال منتجات مالية خضراء ضمن لائحة الخدمات المصرفية.

على الهيئات التنظيمية والرقابية العمل مع المصارف لاعتماد أفضل الممارسات في إدارة المسائل المرتبطة بالبيئة. فما يزال تأمين تمويل طويل الأجل لمشاريع ذات طابع بيئي مقيداً بشروط معقدة وتحديات مضاعفة لتقييم المخاطر لفترة طويلة، أو فرض تقديم ضمانات مالية أعلى، مما يجعل المشاريع أقل جدوى من الناحية الاقتصادية والمالية. ويمكن معالجة بعض هذه العوائق باعتماد تدابير تنظيمية وسياسات موجهة نحو إعطاء تسهيلات وحوافز للتمويل الطويل الأجل للمشاريع التي تقع في خانة تحقيق أهداف التنمية المستدامة.

إن وضوح واستقرار الإطار التنظيمي والرقابي والسياسات المالية العامة عوامل ضرورية لتشجيع المصارف على اعتماد خطط بعيدة المدى وقواعد مستقرة لصنع القرار في ما يخص التمويل الأخضر. وهذا يستدعي أن تشارك المؤسسات العامة، المحلية والدولية، في تحمل مخاطر بعض أنواع التمويل مع المصارف التجارية ومصادر التمويل من القطاع الخاص. فبعض هذه المشاريع ضرورية لتحقيق أهداف التنمية، بينما قد لا تكون ذات جدوى تجارية بحتة. ولا بد من إعطاء حوافز، على شكل تسهيلات ضريبية وشروط تمويل مدعومة، جنباً إلى جنب مع الإلغاء التدريجي لتدابير الدعم المالي غير الملائمة لتحقيق التنمية القابلة للاستمرار. كما أن السياسات النقدية الملائمة ضرورية لتشجيع التمويل الأخضر، على شكل حوافز من البنوك الوطنية المركزية، مثل قبول بعض الأصول الخضراء كضمانات للقروض.

خلاصة وتوصيات

على البلدان العربية تهيئة الاستراتيجيات وخطط العمل الملائمة لتحقيق أجندة التنمية المستدامة لسنة 2030 ومواجهة تحديات التغير المناخي. وهذا يستدعي تحديد الأولويات وتقدير التكاليف

مجال آخر هو تصميم المنتجات المالية التي تناسب المغتربين والتي يمكنها تسخير التحويلات في مزيد من الاستثمار الإنمائي.

السياسات والإطار التنظيمي

إن اعتماد سياسات متكاملة للتنمية المستدامة أمر ضروري لاستقطاب التمويل الكافي للأنشطة الكفيلة بتحقيق أهدافها. وينبغي دعم ذلك بمجموعة من التدابير التنظيمية والقائمة على «اقتصاد السوق» (market-based) لضمان أن تكون السياسات والخطط والبرامج المقترحة عادلة اقتصادياً واجتماعياً ومقبولة بيئياً. ولا يجوز للقوانين، التي ينبغي تطبيقها بالتساوي على الجميع، أن تقتصر على القيود والقيود فحسب، بل يجب أن توفر أيضاً حوافز لتشجيع الأنشطة والاستثمارات المستدامة. وعلاوة على ذلك، فإن اعتماد نهج شفاف وقابل للمساءلة وقائم على المشاركة هو مطلب ضروري لتحقيق هذه الغاية.

أحد التحديات التي تواجه العديد من الدول العربية هو التدفقات المالية غير المشروعة وغسيل الأموال وسرقة الأموال العامة وهدرها. وينبغي بذل الجهود للحد من هذه الممارسات والقضاء عليها في نهاية المطاف، بما في ذلك مكافحة التهرب الضريبي من جانب الشركات الوطنية والعابرة للحدود. يشير تقرير «أفد» إلى أن عائدات مكافحة الفساد في الدول العربية ستولد ما يصل إلى 100 بليون دولار أميركي سنوياً، وهو ما يكفي لسد معظم الفجوة المالية في الاستثمارات اللازمة لتنفيذ أهداف التنمية المستدامة. ووفقاً لإعلان مؤتمر التمويل من أجل التنمية الذي عقد في أديس أبابا في تموز (يوليو) 2015، ينبغي تشجيع الدول العربية للتصديق على إتفاقية الأمم المتحدة لمكافحة الفساد والانضمام إليها كوسيلة لكشف وردع ومنع الفساد والرشوة، واستعادة الأصول المسروقة إلى بلد المنشأ. وينبغي بذل الجهود لإدخال أطر تنظيمية تزيد الشفافية والمساءلة للشركات الخاصة والمؤسسات المالية، وكذلك القطاع العام.

وقد وضعت منظمة التعاون الاقتصادي والتنمية (OECD) مجموعة من السياسات لمساعدة الحكومات على جمع التمويل الخاص لدعم تحقيق أهداف التنمية المستدامة. وهي تنص على ضرورة إزالة العقبات التي تواجه الاستثمارات الخاصة في التنمية، وتدعو إلى اعتماد نهج متكامل لتعزيز تماسك السياسات. في كثير من الأحيان يتم تقويض أهداف السياسات عندما يتعارض عمل الوزارات المختلفة، في حين أن جميع السياسات العامة، بما في ذلك تلك التي تشمل التجارة والاستثمار والضرائب والمنافسة والتنمية، تحتاج إلى المواءمة دعماً لتشجيع الاستثمار من أجل التنمية المستدامة. حتى أثناء التفكير في زيادة حجم التمويل من البلايين إلى التريليونات، يجب إيلاء اهتمام كبير لجودة الاستثمار المتولد. هذا هو السبب في أن الحكومات لها دور مهم في وضع سياسات عمالية واجتماعية وبيئية جيدة، وفي تعزيز سلوك الأعمال المسؤول. وهذا من شأنه أيضاً أن يضمن تنفيذ البرامج والمشاريع بمزيد من الفعالية، وبقدر أكبر من الشفافية والمساءلة.

تحضير القطاع المالي للمخاطر البيئية

للتحديات والمخاطر البيئية والمناخية انعكاسات مهمة على الاستقرار المالي. لا شك أن الإجراءات الفعالة لتخفيض انبعاثات ثاني أكسيد الكربون المسببة للاحتباس الحراري ضرورية، لكن آثارها على الاقتصاد كبيرة. فالتحول نحو مصادر بديلة للطاقة إلى جانب الوقود الأحفوري في المستقبل سيشكل نهاية لبعض أنواع الاستثمارات ويؤثر على تقييم العديد من الأصول. ولما كانت قطاعات اقتصادية ضخمة تعتمد على الوقود الأحفوري، فالمضاعفات من التحول كبيرة، خصوصاً على الاقتصادات التي تعتمد بشكل أساسي على تصدير هذا النوع من الوقود، كما في

يتعيّن تعبئة الجزء الأكبر منها من خلال الأسواق المالية. وقد شهدت السنوات الأخيرة بداية تحول في سلوك المستثمرين، الذين ينتقلون بشكل متزايد من الاستثمار القائم على نهج سلبي لا يسبب الضرر، إلى المفهوم المالي المستدام القائم على الاستثمار الفعّال في حلول لتحديات الاستدامة وفق الأجندة التي حدتها «أهداف التنمية المستدامة» الـ17.

من الجدير بالذكر أن تدفقات الاستثمار الأجنبي المباشر إلى المنطقة العربية انخفضت إلى 32,4 بليون دولار في عام 2016، من 88,5 بليون دولار في عام 2008. ولا تزال تدفقات الاستثمار الأجنبي المباشر إلى المنطقة متقلبة ومرتبطة بتقلبات أسعار النفط وعدم الاستقرار السياسي. ومع ذلك، فإن الأرباح التي يعيدها المستثمرون الأجانب إلى الخارج، والاستثمارات العربية المباشرة في الخارج، تؤدي إلى عدم توازن في التدفقات، مما يجعل المنطقة مصدرًا صافياً لرأس المال. ويتطلب عكس هذا الاتجاه وجود إطار تنظيمي يولد الثقة القادرة على جذب المستثمرين وتعبئة المدخرات الخاصة نحو دعم النمو المستدام.

هناك مجموعة متزايدة من حلول التمويل المثيرة للاهتمام في السوق، من السندات الخضراء إلى أدوات التمويل المختلطة (blended). على الصعيد العالمي، حدثت زيادة سنوية بمقدار 14 ضعفاً في إصدار السندات الخضراء السنوية، من 11 بليون دولار في عام 2013، إلى أكثر من 155 بليون دولار في عام 2017. ولكن رغم نموها السريع، فإنها لا تزال بعيدة عن الكلفة السنوية لتحقيق أهداف التنمية المستدامة، التي تبلغ 2,5 تريليون دولار أميركي، وبالتأكيد بعيدة جداً عن سوق السندات العالمية المقدرة بحوالي 100 تريليون دولار. وعلى الرغم من أن السندات الخضراء في الدول العربية لا تزال في مهدها، إلا أنها بدأت في اكتساب الزخم. في عام 2013، أصدر بنك التنمية الأفريقي سندات صديقة للبيئة استخدمت عائداتها جزئياً لتمويل مشروعين في تونس ومصر. وفي عام 2017، أطلق بنك أبو ظبي الوطني أول إصدار لسندات صديقة للبيئة في المنطقة العربية بقيمة 587 مليون دولار أميركي، تستحق في عام 2022. ويعد التمويل المختلط شكلاً مبتكراً آخر لتمويل التنمية، وذلك بالاستفادة من المساعدة الإنمائية لاستقطاب تمويل إضافي من القطاع الخاص.

وإلى جانب السندات الخضراء، بدأت الدول العربية تتبنى أشكالاً أخرى من الآليات المبتكرة لتمويل التنمية، مثل التمويل المستند إلى النتائج (result – based financing)، الذي استخدمه البنك الدولي لدعم امتثال الصناعات المصرية للقوانين البيئية. وتم استخدام مقايضة الديون مقابل التنمية (debt-for-development swap) في مصر والمغرب والأردن واليمن. كما تم تبني سوق الكربون، الذي يحصل فيه تبادل علاوات انبعاثات الكربون عالمياً لتشجيع الدول والشركات على الحد من الانبعاثات، من قبل 6 دول عربية أشارت إلى وجود خطط وطنية لتخفيض سعر الكربون. لكن أنشطة تجارة الكربون العربية لم يتم إطلاقها فعلياً بعد. واستفادت خمسة مشاريع وطنية في مصر والمغرب من تمويل قدره 281 مليون دولار أميركي من صندوق المناخ الأخضر، المخصص للاستثمارات في المبادرات المرنة للمناخ. وكانت دول عربية أخرى جزءاً من مشروعين متعددي الدول حصلوا على 634 مليون دولار من صندوق المناخ الأخضر أيضاً. وقد أظهرت الشراكة بين القطاعين العام والخاص أداءً ضعيفاً في المنطقة العربية، حيث بلغت مشاركة القطاع الخاص في البنية التحتية 113,5 بليون دولار فقط بين 1990-2014، وهو ما يمثل 5 في المئة فقط من الإجمالي العالمي البالغ 2,5 تريليون دولار خلال الفترة نفسها.

ويحمل استغلال إمكانات التمويل الإسلامي من خلال الصكوك (السندات المتوافقة مع الشريعة) فرصاً كبيرة لتمويل البنية التحتية، ومشاريع الطاقة النظيفة والمتجددة وتغيير المناخ.

وغير مستقر من سنة إلى أخرى. ويبقى عدم الاتساق في تدفق المساعدة الإنمائية الرسمية شاغلاً رئيسياً، بالإضافة إلى حقيقة أن البلدان المتقدمة بحاجة إلى الإبقاء على التزامها بنسبة 0,7 في المئة من الدخل القومي الإجمالي لتوزيعها كمساعدة إنمائية رسمية للبلدان النامية.

إضافةً إلى ذلك، فإن توزيع المساعدة الإنمائية الرسمية على المنطقة حسب القطاعات يبين أن حصة المساعدة الإنمائية الرسمية المقدمة للتعليم قد انخفضت، في حين أن حصة الصحة وإمدادات المياه والمرافق الصحية لا تزال مهمة بنسبة تراوح بين 2 و4 في المئة. كما انخفضت حصة المساعدة الإنمائية الرسمية المخصصة لقطاع الإنتاج على مر السنين أيضاً. هذه الاتجاهات مثيرة للقلق، ويمكن أن تعرقل تقدّم العديد من أهداف التنمية المستدامة في المنطقة، مع الأخذ في الاعتبار أن هناك حاجة إلى موارد كبيرة في هذه القطاعات لتحسين الخدمات العامة ذات الجودة وتحسين وصولها إلى الفقراء، بهدف جعل المجتمعات أكثر عدالة واستدامة.

يعتبر التمويل المناسب، من حيث الكمية والنوعية، مورداً حيوياً لا غنى عنه لتنفيذ أهداف التنمية المستدامة. وفي هذا الصدد، فإن مؤسسات التنمية العربية في وضع جيد يتيح لها تقديم الدعم لتنفيذ أهداف التنمية المستدامة في البلدان العربية، في إطار الشراكة العالمية التي يركز عليها الهدف 17، وهي الخيط الذي ينسج جميع أهداف التنمية المستدامة معاً، لأنه يدعو إلى إحياء الشراكة العالمية من أجل التنمية المستدامة. لدى مؤسسات التنمية العربية القدرة على تعبئة موارد إضافية لتمويل أهداف التنمية المستدامة من خلال التمويل المشترك مع المصادر الأخرى لتمويل التنمية. ومع ذلك، ومن أجل تحسين تعبئة الموارد، تحتاج الدول العربية إلى الاعتراف الكامل بترابط وتعقيدات أهداف التنمية المستدامة، ووضع استراتيجيات وخطط متكاملة، مع تحديد أولويات واضحة ومتسلسلة لأهداف التنمية المستدامة على المستوى المحلي، وفقاً لجدول زمني محدد للتنفيذ، مدعوم بدراسات جدوى معدة بشكل جيد ومصادر للتمويل. ويجب أن يقترن ذلك بالحكم السليم والإطار التنظيمي الملائم مما يخلق ثقة الجهات المانحة.

التمويل من القطاع الخاص

إن تعبئة القطاع الخاص أمر حاسم لدعم الاستثمار السنوي بتربليونات الدولارات المطلوب عالمياً لتنفيذ أهداف التنمية المستدامة. والبلدان العربية ليست مختلفة، لأن جزءاً كبيراً من فجوة تمويل التنمية لا يمكن أن يأتي إلا من القطاع الخاص.

تقليدياً، سهلت أسواق رأس المال، والصناعة المصرفية والمالية بشكل عام، الأنشطة التي كان لها تأثير سلبي في السياق الاجتماعي والبيئي. ومع تزايد الأدلة على التأثير الضار لتغير المناخ، والتحديات الناشئة عن استنفاد الموارد، وتدهور البيئة والقضايا الاجتماعية، فقد بدأ التخلي سريعاً عن هذا النهج. وهذا ينطوي على آثار كبيرة على النظام المالي.

ولكن مع ذلك، يمكن تحويل فجوة التمويل إلى فرص عمل، تتمثل في خلق أعمال تجارية جديدة، وخفض تكلفة تنفيذ التأثيرات، وخلق منافع اقتصادية وبيئية واجتماعية للمجتمع المعني. هذه أرض خصبة لتحديد مجموعة جديدة من التفاعلات الاقتصادية القيمة بين القطاعين العام والخاص. وقد كان برنامج الأمم المتحدة للبيئة رائداً في إدخال الاقتصاد الأخضر كبديل مستدام، يضمن النمو الاقتصادي، وفي الوقت نفسه يحمي الأصول الطبيعية والاجتماعية، التي تضمن كرامة الإنسان، وفي النهاية استمرارية النمو. ويرى برنامج الأمم المتحدة للبيئة أن الانتقال العالمي نحو الاقتصاد الأخضر سيتطلب إعادة توجيه للاستثمار لزيادة المستوى الحالي لتدفقات القطاعين العام والخاص إلى المجالات الرئيسية ذات الأولوية، والتي

النظام الضريبي وإعطاء حوافز وتسهيلات لتشجيع استخدام الموارد بكفاءة وتوزيع الثروة على نحو عادل. كما لا بد من تصميم سياسات تجارية تدعم تحقيق أهداف التنمية المستدامة.

ولما كانت المصادر المحلية غير كافية، في معظم الحالات، كان لا بد من استقطاب مصادر تمويل خارجية أيضاً، بما فيها مساعدات التنمية الرسمية من الدول (ODA)، والاستثمارات الخارجية المباشرة (FDI). كما توفر مؤسسات التنمية الإقليمية والدولية والأمم المتحدة والصناديق الخاصة بالمعاهدات الدولية، مثل المناخ والأوزون، مصدراً إضافياً للتمويل. وفي هذا التقرير عرض مفصّل لبعض هذه المصادر، ومنها مجموعة البنك الدولي وصندوق الأوبك للتنمية الدولية ومرفق البيئة العالمي والبنك الأوروبي للتعمير والتنمية والبنك الإسلامي للتنمية. كما يتضمن التقرير شرحاً لنشاطات الصندوق المتعدد الأطراف لبروتوكول مونتريال حول الأوزون، الذي يمثل تجربة ناجحة في التعاون التمويلي الدولي لتحقيق هدف مشترك.

إلى ذلك، ينبغي التأكيد على أنه بصرف النظر عن تأمين موارد مالية إضافية، ينبغي أن يصبّ التركيز على تعبئة وإعادة توجيه الموارد المالية المحلية القائمة، العامة منها والخاصة، من أجل دعم أنشطة التنمية المستدامة. ثم إن تماسك السياسات وتنسيقها سيقطعان شوطاً طويلاً نحو تحقيق هذا الهدف، إن لا معنى اقتصادياً للتمسك بخيارات الاستثمار التقليدية، في حين أن الهدف توجيه الأموال لدعم الاستثمارات المستدامة الجديدة والمبتكرة، الصديقة للبيئة.

المساعدات الإنمائية

تلعب الدول العربية المانحة للمساعدات ومؤسساتها الإنمائية الوطنية والإقليمية دوراً نشطاً في التعاون الإنمائي، كتعبير عن التضامن مع الدول النامية الأخرى. فقد بلغ حجم المساعدات الإنمائية العربية الرسمية الثنائية 216 بليون دولار بين 1970 و2016، قدّم الجزء الأكبر منها أربعة بلدان هي السعودية والكويت والإمارات وقطر. وكانت مساهمة تلك البلدان في المساعدة الإنمائية أكثر من 1 في المئة من إجمالي دخلها القومي، وهو ما يتجاوز هدف الأمم المتحدة البالغ 0,7 في المئة. في عام 2016، بلغ إجمالي المساعدات الثنائية المقدمة من الدول العربية 13,54 بليون دولار، ذهب ثلثها إلى دول عربية أخرى. وقد قدمت صناديق التنمية العربية ما مجموعه 204 بليون دولار حتى نهاية 2017، ذهب 54 في المئة منها إلى الدول العربية.

بلغ مجموع المساعدات الإنمائية الرسمية (ODA) حول العالم 146 بليون دولار في 2017، وهذا يبقى جزءاً صغيراً من مجمل متطلبات التنمية. وتُظهر الأرقام أن إجمالي المساعدات الإنمائية الرسمية المقدمة إلى البلدان العربية من مصادر خارجها ازدادت باطراد منذ عام 2011، في أعقاب الانخفاض الحاد بين 2008-2010. وقد أدى ذلك إلى زيادة إجمالي المساعدات الإنمائية الرسمية المقدمة إلى البلدان العربية في عام 2016 إلى 22,3 بليون دولار، ليصل إلى حده الأقصى خلال عقد من الزمن، وهو ما يمثل جزءاً كبيراً من الإجمالي العالمي. ومع ذلك، فإن هذه الزيادة الرقمية تخفي حقيقة أن ما يصل إلى 15 في المئة كان مخصصاً لمساعدة اللاجئين والمعونات الإنسانية، والتي هي في الواقع ليست جزءاً من برامج التنمية. فقد زادت المساعدات الإنمائية الرسمية إلى سورية بشكل كبير منذ عام 2012، لكن نحو 90 في المئة منها كانت مساعدات إنسانية. ومن بين أقل البلدان نمواً، حصل الصومال واليمن على مقدار أكبر من تدفق المساعدة الإنمائية الرسمية في السنوات الخمس الماضية، كان جزء كبير منها للمعونات الإنسانية. وانخفضت المساعدة الإنمائية الرسمية إلى السودان بشكل ملحوظ خلال العقد الماضي، فيما زادت المساعدة الإنمائية الرسمية المقدمة إلى البلدان المتوسطة الدخل في المنطقة، بما في ذلك مصر والأردن والمغرب وتونس، خلال السنوات الخمس الماضية. لكن تدفق المعونة ظل متقلباً

المستدامة. لكن من المتوقع أن ترتفع الكلفة أكثر، نظراً إلى آثار عدم الاستقرار في جميع أنحاء المنطقة على تنفيذ أهداف التنمية المستدامة. وفي هذا المجال، تشير التقديرات إلى أن الخسائر في النشاط الاقتصادي بسبب الحروب والصراعات في المنطقة منذ عام 2011 قد تجاوزت 900 بليون دولار.

تشهد مصادر التمويل العامة والخاصة في المنطقة العربية انحساراً، وهي ليست على مستوى التريليونات اللازمة لتنفيذ أهداف التنمية المستدامة. ويتفاقم الوضع بسبب الضغط السياسي المتزايد على حركة المساعدات ونقل الموارد من البلدان المتقدمة إلى البلدان النامية. ففي المنطقة نفسها، يحكم التباين فرص التمويل والتحديات بين البلدان المختلفة: بالنسبة إلى البلدان الغنية بالنفط، لا يزال التمويل من خلال عائدات النفط متقلباً وغير قابل للتنبؤ. أما ميزانيات البلدان المتوسطة الدخل، والتي تعتمد إلى حد كبير على إيرادات الضرائب، فإنها تخضع لضغط شديد، إذ إن نسبة الضريبة إلى الناتج المحلي الإجمالي في معظم البلدان منخفضة، في حين أن الأولويات الإنمائية في ما يتعلق بالحفاظ على الطبقة الوسطى والحد من الفقر والعدالة الاجتماعية هي اليوم أكثر إلحاحاً من أي وقت مضى. أما البلدان ذات الدخل المنخفض فهي تواجه تحديات إنمائية ضخمة، نظراً إلى أنها أخفقت في تحقيق معظم الأهداف الإنمائية للألفية. كما تواجه البلدان المتأثرة بالصراعات تحديات إعادة البناء، ناهيك عن تحقيق أهداف التنمية المستدامة.

ووفق اللجنة الاقتصادية والاجتماعية لغرب آسيا (إسكوا)، فمن العقبان الرئيسية التي تحول دون تمويل التنمية المستدامة أن المنطقة العربية مصدر صاف لرأس المال. ففي مقابل كل دولار يدخل المنطقة من خلال تدفقات الاستثمار الأجنبي المباشر (FDI)، يتم إعادة استثمار نحو 1,8 دولار فعلياً في الخارج، إما بواسطة تدفقات الاستثمار المباشر إلى الخارج، أو من خلال تحويل الأرباح التي يحققها المستثمرون الأجانب. وفي الوقت نفسه، تظل المنطقة مقرضة للبنوك الدولية الموجودة في الخارج، حيث كانت ودائع العملاء العرب لدى البنوك الدولية الرئيسية أعلى باستمرار من القروض المقابلة للعملاء العرب من هذه البنوك. ولا تزال تدفقات الاستثمار الأجنبي المباشر إلى المنطقة العربية متقلبة، وهي تتركز في عدد قليل من البلدان والقطاعات المختارة، التي تتعلق أساساً بصناعة النفط، مع تدفقات لا تذكر إلى البلدان المنخفضة الدخل.

تُعتبر المنطقة العربية مصدرًا صافياً للتحويلات. فهي مصدر ووجهة لتحويلات المهاجرين في أن معاً. بين عامي 2011 و2016، وفي مقابل كل دولار تم تحويله إلى المنطقة العربية، أعادت المنطقة في المتوسط 2,8 دولارات إلى مناطق أخرى. وتؤدي الكلفة المرتفعة لإعادة التحويلات إلى الوطن من وداخل المنطقة العربية إلى حدوث تسريبات كبيرة في التمويل الإنمائي.

إن تريليونات الدولارات اللازمة لتحقيق أهداف التنمية المستدامة في الدول العربية تحتاج إلى تعبئة جميع أدوات التمويل. وإلى جانب العائدات المالية المحلية، تشمل مصادر التمويل المساعدات الإنمائية الرسمية الدولية والعربية والتمويل الخاص. ويحتاج تأمين آلاف بلايين الدولارات التي يتطلبها تحقيق أهداف التنمية المستدامة في الدول العربية إلى استقطاب أدوات متنوعة للتمويل. فالمطلوب، على الصعيد المحلي الحكومي، الاستثمار في أولويات مثل تطوير الموارد البشرية والطبيعية، وتعديل أنظمة دعم الأسعار كأداة لإدارة الموارد الطبيعية بكفاءة، خاصة الطاقة والمياه، وتطوير أنظمة الضرائب لتعزيز مصادر الدخل مع تأمين توزيع عادل للثروة، وتصميم سياسات تجارية تؤدي إلى زيادة الإنتاج وبالتالي زيادة الدخل من تصدير البضائع والخدمات.

ويأتي إصلاح السياسات المالية في رأس التدابير المطلوبة للتأثير في تحويل الأنماط الاستهلاكية والإنتاجية نحو مسار أكثر استدامة، مع الاستمرار في تحقيق الدخل. وهذا يتضمن إصلاح

ملخص تنفيذي

تمويل التنمية المستدامة في البلدان العربية

التقرير السنوي للمنتدى العربي للبيئة والتنمية 2018

شكّل اعتماد أهداف التنمية المستدامة (SDGs) واتفاق باريس بشأن تغير المناخ في عام 2015 لحظة حاسمة في مسار التعاون الدولي. فكلّهما ينطوي على تغييرات جذرية في النظرة إلى التنمية ومتطلبات تحقيقها.

اتفق قادة العالم على 17 هدفاً في أجندة 2030، تجسّد نهجاً متكاملًا للتنمية. وتضمنت الأهداف تعهدات قوية ومحددة، مصممة لصون كرامة الإنسان وتحسين نوعية الحياة، مع حماية البيئة وتأمين النمو الاقتصادي المستدام. أما اتفاقية باريس، فنصت للمرة الأولى على أهداف محددة لخفض انبعاثات الكربون التي تساهم في تغير المناخ، بما في ذلك التحول إلى الطاقة المتجددة وكفاءة استخدام الطاقة وتعديل أنماط الاستهلاك. وحددت الاتفاقية مواعيد لمراجعة التقدم في التنفيذ، وصولاً إلى سنة 2050. وعلى الرغم من أن لاتفاقية المناخ آليات تمويل خاصة بها، فإن التنفيذ غالباً ما يتشابك مع أهداف التنمية المستدامة.

ويمثل التغير المناخي تهديداً كبيراً للبلدان العربية، التي تقع في منطقة هي من الأكثر تأثراً بنتائجها، يتجلى على وجه الخصوص في ارتفاع مستويات البحار وندرة المياه العذبة، وانعكاسات هذه على الإنتاج الغذائي. كما أن للعرب مصلحة في تحقيق أهداف التنمية المستدامة، خاصة تلك التي تساعد في مواجهة التحديات المترابطة بين المياه والطاقة والغذاء، إلى جانب تحديات التنمية الاجتماعية والبشرية عامة.

تستدعي متطلبات الالتزام باتفاقية باريس المناخية وتحقيق أهداف التنمية المستدامة استثمارات ضخمة، تحتاج بدورها إلى آليات تمويل مبتكرة. ونظراً إلى أن الحكومات وحدها لا تستطيع تلبية كل الاحتياجات، فإن منظمات العون وصناديق التنمية والشركات والقطاع المصرفي مدعوة بشكل متزايد إلى المساهمة.

لقد تم تقدير الاحتياجات لتلبية أهداف التنمية المستدامة في جميع أنحاء العالم بمبلغ يتراوح ما بين 5 إلى 7 تريليون دولار كل عام حتى سنة 2030. وفي البلدان النامية وحدها، يقدر العجز، أو الفجوة الاستثمارية، بمبلغ 2,5 تريليون دولار في السنة. وتحتاج المنطقة العربية إلى أكثر من 230 بليون دولار أميركي سنوياً مخصصة لتحقيق أهداف التنمية المستدامة. أما الفجوة التمويلية في الدول العربية التي تعاني العجز فقدّرت بأكثر من 100 بليون دولار سنوياً، مع مجموع تراكمي بمقدار 1,5 تريليون دولار حتى عام 2030. وتجدر الإشارة إلى أن التمويل المطلوب ليس كله مبالغ إضافية جديدة، إذ إن قسماً كبيراً منه يأتي من تحويل جزء من الالتزامات المالية التقليدية في الموازنات الحالية إلى مشاريع تدعم تحقيق أهداف التنمية