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Arab Financing for Development Scorecard**The state of financing sustainable development
in the Arab region: top-line scorecard findings****Summary**

The Arab Financing for Development Scorecard, endorsed at the first session of the Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia (ESCWA), held in Amman on 11 and 12 December 2019, offers an analytical framework to monitor and evaluate the state of financing in the Arab region. The Scorecard employs a robust set of quantitative metrics associated with a range of financing channels, and provides a holistic diagnostic of the financing health of Arab economies and of progress achieved in addressing the region's financing rifts, including financing inequalities, fiscal space constraints, funding shortfalls and debt-financing vulnerabilities.

In its latest assessment, the Scorecard found that, on average, for every dollar gained or mobilized in financing for development, the Arab region concurrently lost or recorded \$1.1 in financing outflows. The Scorecard also found that debt-financing and associated repayments continued to represent a massive lost opportunity. Overall, the region witnessed a financing reflux, with lost opportunities in financing running as high as \$100 billion on average between 2011-2021. Exploiting those opportunities to achieve fiscal equalization and capitalize on untapped financing potentials holds evident implications for the region's trajectory and its prospects of achieving the Sustainable Development Goals (SDGs) and, more broadly, fostering inclusive growth and sustained development financing.

The present document showcases the evidence drawn from the Scorecard, delineating the purpose, methods and metrics employed to analyse 24 prime financing channels. The Committee is invited to review the findings and reflect on the Arab collective action needed to promote joint investments and overcome financing inequalities, fiscal space constraints, financing rifts and funding shortfalls.

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Introduction

1. The Arab Financing for Development Scorecard offers an analytical framework to assess the state of financing in the Arab region, and furnishes a consistent set of comparable metrics to capture the aggregate measure of available financial resources for promoting sustainable development. The Scorecard follows an intuitive approach designed to trace, track and monitor the behaviour of all cross-border financing channels encapsulated in the global financing for development framework with the aim of deriving a holistic assessment of the region's propensities in relation to financing its own sustainable development priorities, and its contribution to delivering international public goods.

2. The Scorecard also offers a means to identify national strengths and weaknesses related to financing for development. It offers a detailed analytical dissection of the Arab financing landscape following the global financing for development framework. It also captures the dynamics driving the region's financing exposures and cross-border flows beyond those offered through the Total Official Support for Sustainable Development (TOSSD).

I. Arab Scorecard: purpose, methods and metrics

3. The Arab Scorecard is grounded on a regional statistical data framework adopted at the twelfth session of the Committee on Liberalization of Foreign Trade, Economic Globalization and Financing for Development, held in Beirut on 4 and 5 December 2017. The Scorecard aims to ensure a coherent, comparable and unified system of metrics to track the performance of the Arab region in financing the Sustainable Development Goals (SDGs), and is designed to assess and evaluate the performance and progress of Arab countries in financing sustainable development. The Scorecard supports the measurement and tracking of the effectiveness of financing, and has been key in informing global workstreams of financing for development, including advancing the SDG transition pathways. At the regional level, the Scorecard has supported development planning efforts, the monitoring of SDG financing and the assessment of lost financing opportunities.

4. The Scorecard provides a comparative analysis, highlighting disparities and variations in financial performance and development outcomes across the Arab region. It has served as a benchmarking tool, encouraging Governments to adopt best practices, enhance financial governance, and promote sustainable development. The Scorecard has thus far fulfilled three objectives. First, it functions as a regional tool and analytical compendium, facilitating the monitoring of financing sustainable development both intra and extra-regionally. Second, the Scorecard analyses and evaluates the cross-border movement of financing and its degree of alignment with the global framework on financing for development, capturing the unique contexts and realities of the Arab region. As such, the Scorecard helps identify strengths, weaknesses and areas of improvement, thereby guiding policy decisions, resource allocation and financial strategies. Third, the Scorecard serves as an instrument to assess the contribution of the Arab region to the financing for development discourse. Going forward, the analysis drawn from the Scorecard will be developed into a financing index to track financing propensities and contributions to advance SDG financing at the national, regional and global levels.

5. The Scorecard encompasses the full array of key performance indicators (KPIs) associated with the various cross-border means and channels of financing that have been proposed to measure the total official support for sustainable development. The Scorecard estimates financing for development dynamics in the region based on net resource transfers (NRTs) accruing from financial and nonfinancial flows. The underlying methodology of estimating financing exposures based on the calculation of NRTs has been employed by many international institutions (such as the Organisation for Economic Co-operation and Development, the United Nations and the World Bank) and others, including the European Network on Debt and Development and Brookings Institute, though each assigns different definitions and components to what falls within the ambit of the NRT (box).

Net Resource Transfer methodology

The Net Resource Transfer (NRT) methodology is a framework used to measure the net financial flows between different entities or regions. It provides a means to assess the net cross-border transfer of financial resources, including investments of all kinds, development assistance, remittances, and debt repayments, from within and beyond the Arab region.

The NRT methodology typically involves the following steps:

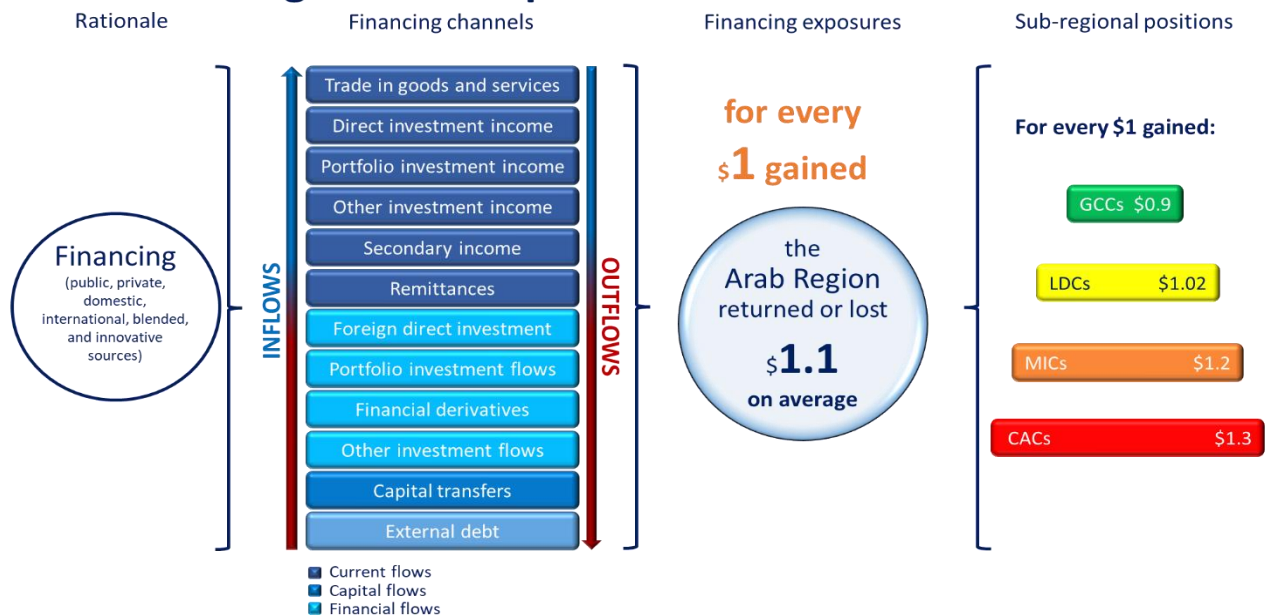
- **Identification of relevant financial flows:** The methodology identifies and categorizes the different types of cross-border financial flows that are considered in the analysis. This includes foreign direct investment (FDI), remittances, grants, loans, debt repayments, and other sources of financial inflows or outflows.
- **Data collection:** Accurate and comprehensive data are collected for each financial flow category from government records and national published sources, including ministries of finance, international cooperation and central banks, and are supplemented by approved United Nations statistical datasets.
- **Calculation of inflows and outflows:** The methodology calculates the total inflows and outflows for each financial flow category. Inflows refer to the financial resources received by a particular entity or covered country, while outflows represent the resources sent or transferred to other entities or regions.
- **Analysis and interpretation:** The results obtained from the NRT calculation are analysed and interpreted to assess the financial dynamics and relationships at both the national and regional levels. The findings provide insights into the patterns of financial flows, the dependency on external resources, and the contribution of a country to financing sustainable development, both within the region and beyond. Additionally, the results evaluate the impact of financial transfers on economic development and sustainability while identifying areas of vulnerability or interdependence in relation to specific cross-border financing flows. This assessment supports the formulation of investment and regional integration strategies, as well as the diversification of investment and financing to reduce risk-vulnerabilities.

6. The Arab Scorecard builds on the broadest of these definitions and expands them by tallying both non-financial means of implementation and the lost-opportunity cost of mobilizing development finance, in addition to the abovementioned financing channels. In its first version, the Scorecard also captured the lost opportunities arising from conflict, humanitarian crises, illicit finance, trade misinvoicing, and other financing costs associated with excessive military expenditures and the high cost of remittances. In fact, the region has witnessed several forms of lost opportunities in financing arising from excessive military expenditures (\$78 billion per year on average above global averages; excessive provision of tax incentives (\$5 billion), high-cost corridors for the transfer of remittances (\$1.8 billion), and \$17 billion worth of unmet official development assistance (ODA) commitments).

7. The Arab Scorecard considers a diverse range of financing channels and associated dynamics related to 24 prime cross-border financing flows (direct and indirect), including capital equity, export receipts (goods and services), return on investments and reinvested profits (direct, portfolio investments and others), capital transfers, FDI inflows, indirect investment inflows, other international private flows, including remittances, net changes in external debt stocks and reported claims of Arab countries as reported by the Bank of International Settlements (BIS). The Scorecard also captures the corresponding outflow of each of the aforementioned flows (figure).

Arab Financing for Development Scorecard: rationale, financing channels, financing exposures and sub-regional positions

Arab Financing for Development Scorecard



Source: ESCWA, based on data from the International Monetary Fund balance of payments.

Note: GCCs refers to Gulf Cooperation Council countries; LDCs refers to least-developed countries; MICs refers to middle-income countries; CACs refers to conflict-affected countries.

8. In tandem, the Scorecard captures the corresponding outflow of financing from the region through several channels, including remittances outflows; hot money narrows; primary income transfers, profits repatriated by foreign investors; ODA provided by Arab donors; debt arrear repayments of principals and interest on public and publicly guaranteed debt foreign debt (short and long-term); and humanitarian aid.

II. Arab Scorecard regional findings

9. The Arab Financing for Development Scorecard findings reveal two discernible economic scenarios facing the region: one associated with import-driven economies that accumulate foreign liabilities due to higher spending on imports and outflows of foreign investment income, and the other related to export-driven economies that accumulate foreign assets and rely on hydrocarbon exports and other receipts from international sources.

- Main findings: On average, for every dollar gained or mobilized in financing for development, the Arab region lost \$1.1. Arab middle-income countries¹ lost \$1.2, Gulf Cooperation Council countries lost \$0.9, conflict-affected countries² lost \$1.3, and least developed countries³ lost \$1.02. These lost funds could have otherwise been harnessed to finance the region's estimated \$6.35 trillion or more worth of SDGs.
- For every dollar earned from trading goods and services, 82.5 cents (¢) were spent and returned abroad to import foreign goods and services.

¹ Arab middle-income countries include Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.

² Conflict-affected countries include Libya, the State of Palestine, the Sudan and Yemen.

³ Least developed countries include Comoros, Djibouti, Mauritania and Somalia.

- For every dollar the region earned from its direct investment income,⁴ \$2.07 left the region in the form of foreign direct investment income.
- For every dollar gained in indirect foreign investment, 21¢ were returned as income on the portfolios held by foreign investors.
- For every dollar gained from other investment income,⁵ 88¢ were paid back.
- For every dollar gained from current transfers (excluding personal transfers), \$1.1 were paid as current transfers abroad.
- For every dollar gained from capital transfer, 61¢ flowed out as capital transfers paid abroad.
- For every dollar gained from FDI inflows (excluding receipts of direct investment income), 86¢ flowed out of the Arab region.
- For every dollar of portfolio investment, \$2.8 were invested out of the region.
- For every dollar gained from other investments, \$1.75 were correspondingly invested abroad.
- For every dollar of remittances received, \$2.01 flowed out of the Arab region.
- For every dollar gained from FDI inflow (including receipts of direct investment income), \$1.3 were paid as FDI outflow (including payments of direct investment income), of which 6.5¢ were reinvested earnings.

⁴ Direct investment income includes dividends and withdrawals from income of quasi-corporations, reinvested earnings and interest.

⁵ Other investment mainly comprises debt instruments.