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**FINANCING FOR DEVELOPMENT: PROGRESS ACHIEVED IN IMPLEMENTING
THE MONTERREY CONSENSUS AND MITIGATING THE IMPACT OF THE
GLOBAL FINANCIAL AND ECONOMIC CRISIS ON DEVELOPMENT
IN ESCWA MEMBER COUNTRIES***

Summary

Member countries of the Economic and Social Commission for Western Asia (ESCWA) have achieved unequal progress with regards to issues included in the Monterrey Consensus. Several countries sought to: modernize legislative and regulatory frameworks of the banking sector in order to enable it to play an active role in financing for development; establish stock markets in order to provide a better channel to mobilize local savings for development; improve the business climate and facilitate administrative transactions in order to enhance the flow of foreign investments; and improve tax administration in order to increase government revenues. Some member countries made progress in the field of trade liberalization in order to meet their commitments under international and regional agreements, which led to an increase in the foreign trade to Gross Domestic Product (GDP) ratio. Progress made was also reflected in the reduction of external debt, owing to agreements reached between debtor countries and the creditors or as a result of high economic growth rates in these countries, which led to lower debt servicing cost and lower cost to GDP ratio.

However, despite the progress made, member countries still face many challenges, including the compensation for losses incurred in financial markets due to the global financial and economic crisis, restoring foreign direct investment (FDI) flows which started declining since 2008, and strengthening foreign trade affected by the implications of the impact of the crisis on oil prices. In support of financial and technical cooperation for development, the Gulf Cooperation Council (GCC) countries continued to provide official development aid to developing countries through bilateral aid and regional development institutions.

* This report is a summary of ESCWA report on progress achieved by ESCWA member countries towards implementing the Monterrey Consensus, issued in July 2010 (E/ESCWA/EDGD/2010/2), with data updated to include available figures for the years 2009 and 2010.

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Introduction

1. This report reviews the progress made by member countries of the Economic and Social Commission for Western Asia (ESCWA) in implementing the Monterrey Consensus, which was adopted by the United Nations Conference on Financing for Development held in Monterrey, Mexico in 2002, and efforts exerted by these countries to mitigate the impact of the global economic and financial crisis on development.
2. The overview was based on the report issued by ESCWA in 2010 on the progress made in ESCWA member countries towards implementing the Monterrey Consensus (E/ESCWA/EDGD/2010/2), with updated data to include the years 2009 and 2010.
3. The review covered progress made in the six leading actions called for by the Monterrey Consensus namely: mobilizing domestic financial resources for development; mobilizing international resources for development in particular foreign direct investment (FDI); international trade as an engine for development; increasing international financial and technical cooperation for development; external debt; and addressing systemic issues by enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

I. PROGRESS MADE IN MOBILIZING DOMESTIC FINANCIAL RESOURCES FOR DEVELOPMENT

A. THE BANKING SECTOR

4. Member countries made remarkable progress during the period 2002-2009 in mobilizing domestic financial resources for development. The banking sector witnessed a rapid growth, in particular in major oil-exporting countries, due to the surge in oil prices especially during the years 2007 and 2008. In fact, the price of the barrel increased from approximately US\$50 in January 2007 to US\$140 in July 2008, which enabled the banking sector to play an important role in financing development in those countries. Measures adopted by member countries to reform the legislative and regulatory framework of the banking sector also helped in improving its performance, which was positively reflected on its role in development. Deposits increased by 40 per cent from US\$746 billion in 2007 to US\$1,042 billion in 2009. At the national level, deposits of commercial banks in the United Arab Emirates increased by 37 per cent from about US\$178 billion in 2007 to around US\$244 billion in 2009. In Saudi Arabia, deposits increased from US\$191 billion to US\$251 billion during the same period. Deposits in Saudi Arabia and the United Arab Emirates reached around 47 per cent of total deposits in commercial banks located in member countries.
5. The value of loans and credits offered by commercial banks increased by 41 per cent from US\$715 billion in 2007 to US\$1,007 billion in 2009. In 2009, the share of the private sector in these loans reached its highest in Kuwait (93 per cent), Oman (92 per cent), Qatar (78 per cent), the United Arab Emirates (76 per cent), Iraq (53 per cent) and Yemen (43 per cent). The private sector average share in the overall loans and credits reached around 72.6 per cent between 2007 and 2009.
6. The loan to deposit ratio increased from 94 per cent in 2004 to 97 per cent in 2009. Financial markets which had made unprecedented progress prior to the global financial crisis, reaching a market value of US\$1,258 billion in 2007, experienced a decrease by 45 per cent to around US\$697 billion in 2008. These markets have offset part of their losses in 2009 and 2010, with a market value increase by 18 per cent in 2009 reaching US\$820 billion, and 11 per cent in 2010 reaching US\$908 billion. At the national level, the sharpest decline caused by the global financial crisis between 2007 and 2008 occurred in the markets of Dubai (54 per cent), Saudi Arabia (53 per cent) and Kuwait (48 per cent).

B. TAX REVENUES

7. Tax revenues registered rapid increase in several member countries between 2007 and 2009. In Jordan, the tax revenues increased by around 21 per cent in 2008 compared to 2007. Despite the approximate 4 per cent decline in the growth of these revenues in 2009, the average growth rate remained higher than the one registered in 2007.

8. In Lebanon, tax revenues were on an upward trend between 2007 and 2009, as they registered a 30 per cent increase from US\$3.7 billion in 2007 to around US\$4.8 billion in 2008, and a 25 per cent increase in 2009 reaching around US\$6 billion.

9. In Oman, tax revenues registered a 6 per cent increase from around US\$1.4 billion in 2007 to around US\$1.8 billion in 2008, and increased again to US\$2 billion in 2009.

10. In Kuwait, tax revenues registered a 4 per cent increase from US\$1.25 billion in 2007 to US\$1.3 billion in 2008. However, this value declined by 7.5 per cent reaching US\$1.2 billion in 2009.

11. In more diversified economies, tax revenues constituted a considerable part of total government revenues and had an important role. These countries sought to broaden their tax basis, improve tax collection and conduct institutional reform. Tax revenues represent a high share of the GDP, estimated at around 18 per cent in Egypt and 17 per cent in Lebanon, whereas those revenues constitute a small share of GDP in GCC countries varying between 3 per cent in Bahrain, around 7 per cent in Saudi Arabia and 12 per cent in Qatar. This share does not exceed 1.2 per cent in Kuwait. It can thus be concluded that tax revenues in more diversified economies play a more important role in financing economic development.

12. The improvement in tax revenues led to an increase in overall revenues between 2007 and 2009 from US\$31.5 billion to US\$51 billion in Egypt, from US\$9.2 billion to US\$11.3 billion in the Syrian Arabic Republic, from US\$6 billion to around US\$8 billion in Lebanon, and from US\$9.2 billion to around US\$11.5 billion in the Sudan, whereas it led to a 12.5 per cent decrease from US\$7.2 billion to US\$6.3 in Yemen, due to the decline in oil revenues resulting from lower prices caused by the global financial crisis.

C. FINANCIAL MARKETS

13. Arab financial markets did not play a significant role in financing development, in particular in more diversified economies, due to the fragility of these markets and the limited number of companies. Therefore, these markets were unable to attract considerable savings, since a limited number of companies control and influence their performance. The global financial crisis largely affected the performance of these markets in a number of member countries, which undermined their capacity to assume a role in development. In addition, a number of these markets are still very young and have not yet reached full growth and maturity therefore still lacking the capacity to attract savings and finance development.

II. PROGRESS MADE IN MOBILIZING INTERNATIONAL RESOURCES

A. FOREIGN DIRECT INVESTMENT

14. FDI plays an important role in financing development in all countries, in particular in developing countries. This role stems from the fact that FDI is not limited to its financial aspect, despite its importance, but also encompasses transfer of new technology and improved production and management methods. Therefore, FDI contributes to improving the quality of products and reducing production costs, which boosts the competitiveness of developing countries in global markets. FDI companies help open new exporting markets, contributing thus to reinforcing the exports of FDI hosting countries. Given the importance of this kind of investment, different countries compete to offer facilitations and incentives to increase their share of international FDI flow.

15. ESCWA member countries, like other developing countries, adopted over the past years measures to enhance the FDI flow. Many countries sought to privatize some public companies and sell them to foreign companies, issue new laws to encourage FDI flows, improve the business climate by facilitating company registration measures, and open new sectors that would benefit from FDI. It should be noted in this regard, that Oman, Qatar and Saudi Arabia made progress in improving the business climate, which led to an increase in FDI flow matching pre-crisis rates.

16. Several member countries adopted measures to reduce corruption and enhance transparency and good governance, namely through issuing laws and establishing institutions specialized in fighting corruption and illegitimate profit in order to improve the investment climate and support efforts to increase FDI flow. However, more efforts need to be made in this regard, while unemployment still constitutes one of the main problems affecting the investment climate in most of these countries. The Corruption Perception Index issued by Transparency International in 2010 indicated that member countries made uneven progress in fighting corruption and enhancing transparency. In fact, Qatar ranked first in the Arab World and 19th at the global level, followed by the United Arab Emirates second in the Arab World and 28th at the global level, and then Oman third in the Arab World and 41th at the global level. Bahrain came 48th at the global level, Jordan and Saudi Arabia came 50th, whereas the Sudan, Iraq and Yemen came 146th, 172th, and 175th respectively. These rankings are considered very low and highlight the need for more measures to fight corruption and increase transparency in order to improve the investment climate in those countries and increase their share of FDI. Such countries can make use of the experiences of those that have achieved important progress in the field of fighting financial and administrative corruption.

17. The share of member countries in international FDI flow increased from US\$39 billion in 2005 to around US\$59 billion in 2006, US\$70 billion in 2007 and US\$84 billion in 2008 and then decreased to US\$72 billion in 2009. International FDI flow decreased as well to US\$57 billion in 2010 as a result of the global financial crisis. On the other hand, FDI flow is still mainly directed to the oil and real-estate sectors, whereas the share of other important economic sectors such as agriculture and industry remains limited, which reduced the positive impact that FDI would have had on the economies of member countries.

18. Most member countries achieved progress in improving the investment climate, but a number of these countries did not succeed in achieving the desired increase in their share of FDI. In Yemen, the FDI flow was unstable due to the activity of oil companies. In Kuwait and in the Syrian Arab Republic it was below the capacity of the State, despite the improvements carried out in the period 2007-2009.

19. FDI flow targeted a limited number of countries, namely Egypt, Qatar, Saudi Arabia and the United Arab Emirates, which acquire more than 76 per cent of the total FDI flow to member countries. The share of the two least developed countries, namely the Sudan and Yemen, did not exceed 5 per cent of the total FDI flow to member countries in 2008 and 4 per cent in 2009, while both countries depend largely and more than other countries on external resources to finance development, and thus are in a bigger need to increase their share of FDI flow. On the other hand, the share of GCC countries reached around 71 per cent in 2008 and 2009, a rate higher than the international average of 12 per cent in 2008. FDI plays therefore an important role in the formation of the fixed capital of GCC countries and thus in financing development.

20. Many member countries accumulated significant balances from FDI over recent years. The ratio of those balances to GDP exceeded 98 per cent in Lebanon and reached 81 per cent in Jordan. Both rates are higher than the 2009 world average of approximately 31 per cent.

21. Lebanon had the highest FDI to total fixed capital formation ratio of 69 per cent in 2009, followed by Saudi Arabia with a ratio of 44 per cent and Jordan with a ratio of 29 per cent. However, the financing role of FDI flow in member countries remains limited, as it is concentrated in the oil and service sectors and diminishes in agriculture and industry.

B. REMITTANCES

22. In a number of labour-exporting countries, workers' remittances constitute a major external source of financing for development and securing foreign currency to partly cover imports cost. Total remittances increased considerably over recent years in Egypt, Jordan, Lebanon, the Sudan, the Syrian Arab republic and Yemen. However, most of these remittances were dedicated to household consumption such as housing, education and consumption goods, thus limiting their role in development and undermining their importance as an external source of financing for development. Since a large part of these remittances is made through in-kind transfers, the value of remittances transferred through the banking sector is less than the actual value of remittances.

23. The lack of trust in the banking system and the high costs of bank transactions are major factors that encourage migrants to transfer their remittances through informal channels, thereby depriving the banking sector of an important source of foreign currency supply.

24. Remittances gain additional importance in some countries such as Jordan and Yemen, where their size is larger than the FDI flow, which makes them the main external source of financing for development. Egypt ranked first among member countries receiving remittances, as these remittances reached around US\$9.5 billion in 2008, amounting to 41 per cent of total remittances to member countries. Lebanon ranked second with US\$6 billion amounting to 26 per cent of total remittances, and Jordan ranked third with US\$3.7 billion amounting to 16 per cent of total remittances. While those three countries accumulated around 73 per cent of total remittances to member countries in 2008, the share of the two least developed countries, namely the Sudan and Yemen, amounted to only 14 per cent of total remittances to member countries consisting of US\$3.3 billion.

25. In terms of remittances to GDP ratio, Lebanon ranked first with 21 per cent in 2008 compared to 24 per cent in 2007. This decrease was due to a GDP growth rate that exceeded the remittances growth rate. Remittances to GDP reached around 6 per cent in Egypt, 5 per cent in Yemen, and 3 per cent in the Sudan.

26. In 2009, remittances to Yemen decreased to around US\$1.1 billion, an 18 per cent drop compared to 2008. The remittances to GDP ratio dropped to 3.7 per cent in 2009 from 5 per cent in 2008. Workers' remittances continued to decrease in 2010 to reach US\$1 billion, a 10 per cent drop compared to 2009, which brought the remittances to GDP ratio down to 3 per cent. In Jordan, remittances decreased by 1.2 in 2009, while they increased by 25 per cent in Egypt to around US\$9.8 billion in the financial year 2009-2010 compared to 2008-2009. Furthermore, remittances to Egypt during the financial year 2009-2010 constituted around 89 per cent of the FDI flow. It can be concluded then that these remittances were not affected by the global financial crisis, as opposed to the case of Yemen, for which preliminary figures show a continuing decline in 2010.

27. It is worth noting again that the figures presented above are less than the actual amount of remittances, due to the fact that part of these remittances is not transferred through the banking sector but in the form of goods.

28. The role of remittances in financing development is still very limited, since the largest share is spent on consumption goods and services such as education and health. Their role is thus concentrated in alleviating poverty in labour-exporting countries. They also contribute to the revitalization of the housing and real estate sectors as is the case in Jordan and Lebanon. In order for remittances to effectively contribute to financing development, it is necessary for financial institutions in remittance-recipient countries to adopt certain measures and establish financial mechanisms capable of convincing migrant workers to transfer their money through the banking system, and find appropriate investment opportunities while securing guaranties against expropriation and other non-financial risks. Such countries also need to expand the activities of the banking sector to cover rural areas, facilitate banking transactions, and expand corporate and small enterprise activities in order to encourage migrants to invest in such activities. Financial institutions, in particular

banks, should also reduce the cost of money transfer to encourage migrants to send remittances through the banking system.

III. PROGRESS MADE IN STRENGTHENING THE ROLE OF TRADE AS AN ENGINE FOR DEVELOPMENT

A. TRADE LIBERALIZATION

29. Member countries adopted a number of measures aimed to liberalize trade as an important step to economic reform implemented over the past years. In fact, a number of these countries were seeking accession to the World Trade Organization. Many countries are characterized with trade openness, as foreign trade constitutes a high share of their GDP. In 2008, the foreign trade to GDP ratio was around 168 per cent in the United Arab Emirates, 154 per cent in Bahrain, 110 per cent in Jordan, 101 per cent in Oman, and 90 per cent in Saudi Arabia. Lebanon and the Syrian Arab Republic were lagging behind with a foreign trade to GDP ratio of 67 per cent, Egypt with a ratio of 53 per cent and the Sudan with a ratio not exceeding 36 per cent.

30. According to these figures, GCC countries rank first in terms of trade openness reflected in the foreign trade to GDP ratio. Exports play a prominent role in this regard, in particular oil exports which increased significantly over the past years. In the United Arab Emirates, re-export contributes considerably to the increase of the foreign trade to GDP ratio. Figures concerning more diversified economies show that the increase in the volume of foreign trade is directly proportional to the increase of economic growth, which reflects the importance of foreign trade as a driver of growth, and implies that the liberalization of trade led to increased exports and thus to an improvement of economic growth in these countries. In GCC countries, figures show that the fluctuation of foreign trade is directly linked to oil price fluctuation, which reflects the strong link between oil and the volume of foreign trade. These countries thus urgently need to exert more efforts to diversify their economies in order to reduce the dominance of oil on foreign trade.

31. The liberalization of trade in member countries led to a somehow specialized production and thus to specialized exports. The comparison between the products of these countries showed that the liberalization of trade included four sectors, namely: agricultural products, food products, chemical industries, and mineral industries. Despite this diversity, the oil sector still dominates foreign trade of GCC countries.

32. The agreement to establish the Greater Arab Free Trade Area (GAFTA) (1997) helped increase efforts for trade liberalization in member countries, in particular with regard to exemption of customs duties on products bearing the certificate of origin from Arab countries. However, despite those efforts, several factors still diminish the advantages of liberalizing foreign trade, including administrative problems such as time needed for business transactions, high cost of transport, and non-customs related restraints in particular with regard to certificates of origin.

33. The non-activation of trade in services between Arab countries continues to hinder the expansion of foreign trade which in turn would promote the economic growth of these countries. The activation of trade in services requires several procedures, namely improving infrastructure, governmental services and financial services, which contributes to boosting exports, increasing growth and eventually to economic development.

B. THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON FOREIGN TRADE

34. The global financial crisis affected foreign trade of member countries reducing it by 30 per cent from US\$1 387 billion in 2008 to US\$974 billion in 2009. The main reason of this decrease was the decreasing oil prices as of the second half of 2008 with the outbreak of the global financial crisis. The value of overall exports of these countries dropped by 37 per cent from US\$826 billion in 2008 to US\$521 billion in 2009, due to the sharp decline in the exports of Saudi Arabia (43 per cent), Kuwait (40 per cent), and the United Arab Emirates (39 per cent). Exports of the more diversified economies also dropped but in lesser degrees,

12 per cent in Egypt, 17 per cent in Jordan, and 31 per cent in the Syrian Arab Republic. In the two least developed countries, namely Yemen and the Sudan, the decrease reached higher rates (44 per cent and 42 per cent respectively), due to lower oil prices and revenues.

35. The drop of imports was lesser than that of exports in 2009, as imports decreased 19 per cent from US\$561 billion in 2008 to US\$454 billion. Those figures underline the strong link between foreign trade in member countries and developments taking place in international oil markets. Foreign trade fluctuates as a result of oil price fluctuations, causing instability of export revenues which reduces the contribution of those revenues in economic growth. A limited number of member countries carry out the largest part of exports and foreign trade in the region. In fact, exports of the United Arab Emirates, Kuwait and Saudi Arabia formed around 65 per cent of the total value of exports carried out by all member countries in 2009, whereas the share of Saudi Arabia alone was around 33 per cent of the total value of these exports.

36. Intraregional trade is considered weak despite the implementation of the GAFTA agreement in 2005, with a rate that still stands at 11 per cent of overall foreign trade of member countries. The low rate of intraregional trade is not caused by customs duties only but also by other obstacles in the field of production on the one hand and the lack of economic diversification on the other. Oil accounts for more than 70 per cent of overall exports and most of it is exported to non-member countries, which is considered a main factor keeping intraregional trade at a low level. With regards to trade liberalization, the products of member countries face strong competition by products from other countries in particular in East and South Asia, which underlines the necessity to improve quality and reduce production costs in order to enhance the competitiveness of Arab products not only in Arab markets but also in international markets. This in turn requires focusing the policy of economic diversification on the comparative advantage available in member countries while adopting feasible production and marketing means.

IV. INCREASING INTERNATIONAL FINANCIAL AND TECHNICAL COOPERATION FOR DEVELOPMENT: OFFICIAL DEVELOPMENT AID

37. With regard to financial cooperation, member countries are divided into two groups: the first includes donor countries providing such aid whether to other member countries or to developing countries in general; the second group includes countries recipient of such aid whether from member countries or other donor countries.

38. Donor member countries, in particular Kuwait, Saudi Arabia and the United Arab Emirates, offered significant aid to other member countries and developing countries in general, with an accumulated value of around US\$137 billion between 1970 and 2009. The share of Saudi Arabia in that amount was around 71 per cent, whereas the share of the United Arab Emirates was around 20 per cent.

39. Although such aid has dropped from the 1970s, it is still considered valuable. Its value almost doubled in 2008 compared to 2007 as it increased from US\$3.5 billion to around US\$7 billion, then dropped to US\$5.1 billion in 2009. Saudi Arabia ranks first between donor member countries as its share of overall aid given to member countries was around 78 per cent in 2009. Therefore, the value of aid provided by member countries as a group has reached the rate of official development aid (ODA) determined by the United Nations at 0.7 per cent of GDP. Saudi Arabia ranked first as well on the global scale as the rate of its ODA to Arab developing countries reached around 1.1 per cent of GDP in 2009, whereas Sweden ODA was around 1 per cent of its GDP, a rate considered to be the highest reached by the countries offering ODA.

40. Statistics show that donor countries member of the Organisation for Economic Co-operation and Development fell short of fulfilling their commitment to achieve, as a group, the target of allocating 0.7 per cent of their GDP to ODA in developing countries, although the G8 had pledged during its Thirty-first Summit held in Scotland in 2005, to increase ODA to US\$130 billion by 2010. This is due to several factors, including austerity measures adopted by these countries to reduce the impact of the global crisis, which was negatively reflected on the efforts of developing countries to achieve development and reduce the impact of

the global financial and economic crisis. All the above would hamper the efforts of developing countries to achieve the Millennium Development Goals by 2015, in particular since the decline in ODA is associated with a significant decrease in FDI flow caused by the global financial crisis.

41. It is worth noting that ESCWA member countries that offer ODA are developing countries heavily dependent on the export of oil, a good that is depleting. Therefore, these countries still need significant investment in their economies to catch up with developed countries. ODA provided by member countries falls within solidarity efforts with the rest of member countries and other developing countries in Africa, Asia and Latin America. It is also of a long-term nature, at low cost and unconditional. ODA provided by member countries is mostly spent on infrastructure and governmental services such as health and education, and recipient countries enjoy the flexibility of using it according to their development priorities, whereas a large part of aid provided by developed countries is conditional and does not allow such flexibility.

42. ODA recipient countries include countries with fiscal deficit or investment gap. This group of countries received ODA over past years from ESCWA member countries and developed countries. Such aid increased by 15 per cent from approximately US\$16 billion in 2007 to US\$18.5 billion in 2009, and then dropped to US\$11.4 billion in 2009 due to the global financial crises. The distribution of aid shows that Iraq ranked first in 2008, with a share of around 53 per cent of total aid provided, whereas Palestine ranked first in 2009 with a share of about 27 per cent.

43. Most of the ODA provided to the Sudan and Iraq is for humanitarian and debt reduction needs, while the rest is directed to infrastructure and social services. The share of Yemen of the total ODA provided to member countries over past years was low and did not exceed 4 per cent in 2009, despite its need for foreign assistance, in particular with falling crude oil production and slowing remittances. Such decline will inevitably affect the efforts geared towards expanding governmental services, in particular to rural areas, and reducing unemployment and poverty.

44. Palestine ranked first in terms of ODA to GDP ratio which reached around 50 per cent in 2009. The ratio for Egypt was less than 1 per cent and for Lebanon around 3.6 per cent. In general, ODA flow is limited to a specific number of countries namely Iraq, Palestine and the Sudan. In the case of Iraq, part of this aid was humanitarian assistance or aimed to debt reduction, rather than to achieve development. The share of Yemen was very low not only as compared to other member countries but also to the average aid provided to the least developed countries, as the statistics for 2008 show that ODA per capita was less than US\$13 in Yemen whereas the average ODA per capita in least developed countries was around US\$34. ODA increased in countries afflicted by political or security problems, which means that the increase was not linked to economic needs to achieve development but rather to political and humanitarian circumstances.

45. ODA in recipient countries is required to be dedicated to poverty reduction rather than improving infrastructure despite the importance of such improvement.

V. PROGRESS MADE IN EXTERNAL DEBT AND DEBT MANAGEMENT

46. Reducing the burden of external debt frees additional funds to be spent on financing development. Therefore, measures adopted by member countries to improve the management of public debt and reach agreements with creditor countries to reduce debts, are fundamental in providing the necessary resources for spending on development. Such measures are particularly important for the least developed countries lacking financial resources, and thus any debt reduction arrangements made by these countries in collaboration with creditor countries would be positively reflected on their efforts to provide additional resources to finance economic and social development.

47. External debt figures in member countries over the past years show that some countries made progress in reducing external public debt. In Jordan, total external debt dropped from around US\$7.4 billion in 2007 to US\$5.1 billion in 2008. Then it increased in 2009 to around US\$5.4 billion, nevertheless remaining less

than the level reached in 2007. The Syrian Arab Republic managed to reduce the external debt from US\$5.6 billion in 2007 to around US\$5.4 billion in 2008, and then to around US\$4.7 billion in 2009. In Egypt, external debt decreased from US\$32.8 billion in 2007 to US\$32.1 billion in 2008, and then increased to US\$33.3 billion in 2009, perhaps due to the impact of the financial crisis on the Egyptian economy and the need for external borrowing to face its repercussions.

48. In Yemen, total external debt increased to around US\$6 billion in 2009 compared to US\$5.8 billion in 2007. The highest increase in public external debt was in the Sudan, from US\$31.9 billion in 2007 to US\$35.8 billion in 2009. In Lebanon, total external debt remained constant at around US\$30 billion over the last three years. Those figures show that Egypt, Lebanon and the Sudan, are the most indebted countries to external creditors.

49. In terms of external debt to GDP ratio, Lebanon ranks first with around 63 per cent in 2009, followed by the Sudan with 56 per cent, Jordan with 24 per cent and Yemen with 20 per cent.

50. An important indicator used to measure external debt burden is the ratio of debt service to total exports in goods and services. In that regard, Lebanon ranks first with an approximate 27.5 per cent, whereas this ratio is less than 20 per cent in other member countries with large external debt, namely Egypt, Jordan, the Sudan, and Yemen. This indicates that these countries do not have a problem servicing external public debt. In general, except for Iraq and the Sudan that lack precise figures on external public debt, as well as Lebanon where external debt to GDP ratio exceeds 50 per cent, external debt do not constitute a burden on the revenues generated from exporting goods and services, and national economies can bear debt servicing. Certainly, any additional debt reduction will spare additional foreign currency that can be used to increase financial resources dedicated to financing development.

VI. ENHANCING THE COHERENCE AND CONSISTENCY OF THE INTERNATIONAL MONETARY, FINANCIAL AND TRADING SYSTEMS

51. The global economy is still largely managed by developed countries, despite the number of reforms carried out by the International Monetary Fund (IMF) and the World Bank to expand the participation of developing countries in its management. The reform efforts remained limited and confined to few developing countries also known as emerging countries, such as China, South Korea and Turkey. Some emerging countries such as Brazil, India and Turkey achieved greater economic growth than developed countries over the past years, but their participation in the management of global economy did not increase proportionally with their participation in world production.

52. With regards to ESCWA member countries, Saudi Arabia became member in the Group of Twenty (G20), which increased its role in the management of global economy, particularly in the aftermath of the global financial crisis. Egypt chaired the International Monetary and Financial Committee of the IMF, which deliberates on the principal policy issues facing the IMF. Some member countries, namely Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates, are considered among the main capital-exporting countries, since their sovereign wealth funds have placed investments in different countries of the world, especially developed ones. Those member countries contributed to restoring stability to the global economy deeply impacted by the global financial crisis in 2008.

53. The United Nations Conference on the World Financial and Economic Crisis and its Impact on Development (New York, 24-26 June 2009), had called for a continued reform of the international financial institutions, in particular the IMF and the World Bank, to better enable them to respond to the financial challenges and the needs of Member States. In fact, the good management of international financial institutions contributes to establishing international financial and monetary stability and thus financial and monetary stability at the national level. It also contributes to ensuring an appropriate international climate for development through the provision of adequate financial resources to developing countries to finance

development and achieve the Millennium Development Goals. The Conference also called for increased and fair representation of developing countries in international financial institutions.

54. However, these measures were insufficient since developing countries, including ESCWA member countries, were unable to achieve coordination and cooperation among national institutions in charge of managing local financial, monetary and trade policies, which undermined efforts to increase the efficiency of these institutions and save time and efforts needed to solve development problems. It is still necessary to reform national institutions and fight financial and administrative corruption in order for these institutions to undertake their role in an efficient and transparent manner. This would help provide additional financial resources to be used in financing development. It is also essential to enhance cooperation and coordination between national and international institutions.

55. The outcome of the Conference included a number of recommendations on the various issues related to reducing the impact of the global crisis, the role of countries as well as of regional and international financial institutions in that regard, and the role of the United Nations in managing the global economy. Recommendations stressed the importance of cooperation between countries in adopting financial and economic measures, each country according to its capabilities, in order to avoid the recurrence of such a crisis in the future. Countries capable of adopting measures to refresh the financial sector were encouraged to do so as long as they can ensure financial sustainability in the long term. Recommendations underlined as well the importance of good governance, and invited countries that have not yet ratified the United Nations Convention against Corruption and those that have not yet acceded to it, to do so. They pointed to the importance of fostering cooperation and partnership between the United Nations Development Programme, regional development banks and the World Bank.

56. Recommendations emphasized the need to accelerate the fulfilment of commitments related to ODA to developing countries, and called upon donors to honour their commitments regarding bilateral and multilateral ODA, including the pledge by developed countries to allocate 0.7 per cent of their GNP as ODA to developing countries by 2015.

57. The management of global economy is thus in the hands of developed countries, whereas the role of developing countries is still limited and ineffective, although a number of developing countries is playing an important role in world investment and production. This situation could lead to continued instability. Therefore, a balanced country representation in international trade, monetary and financial institutions should be restored in order to increase transparency in decision-making in the framework of global economy.

VII. IMPACT OF THE FINANCIAL CRISIS ON THE EFFORTS OF MEMBER COUNTRIES IN FINANCING DEVELOPMENT

58. The global financial and economic crisis that hit the global economy in 2008 mainly impacted countries most open to the global economy as well as main crude oil-exporting countries. At first, the crisis affected capital markets, in particular the ones most open to foreign participation such as Dubai and Abu Dhabi markets. It also affected markets where construction and real estate companies, as well as oil companies directly related to the oil sector and banks make up most of the general market movement indicator. Therefore, the financial sector was the first sector to be affected by the global financial crisis. The impact of the crisis then moved to the trade sector, in particular in countries that rely on oil exports, where the fast and sharp drop in oil prices led to a sharp drop in their exports. At a later stage, these countries, in particular the main FDI-recipient countries were affected by the global drop in FDI flow.

59. In Egypt, FDI flow decreased from US\$8.1 billion in the financial year 2008-2009 to around US\$6.8 billion in the financial year 2009-2010. In Saudi Arabia, FDI flow decreased 7.6 per cent, from around US\$39.5 billion in 2008 to US\$36.5 billion in 2009. In Jordan, the flow decreased around 14 per cent in 2009, and 32 per cent in the first half of 2010 compared to the second half of 2009. Thus, the preliminary FDI figures for 2010 in a number of member countries indicate a continuing decline, which negatively

affects the ability of these countries to implement the Monterrey Consensus, and the Doha Declaration on Financing for Development issued by the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (Doha, 29 November-2 December 2008).

60. The global financial crisis affected as well workers' remittances, which are a major source of foreign currency in a number of member countries. In Jordan, remittances decreased by 1.2 per cent in 2009 and 4.4 per cent in the first half of 2010. In Egypt, remittances increased 2 per cent in 2009 compared with 2008, and 68 per cent in the first quarter of 2010 compared with the first quarter of 2009. Therefore, remittances in Egypt overcame the impact of the global financial crisis, at least for 2009 and the first quarter of 2010.

61. The impact of the financial crisis on stock markets in member countries was intense, in particular during the first months, where the market value of these markets dropped 44 per cent. Despite the market value increase in 2010, it remained around 30 per cent less than in 2007, signalling that these markets did not offset the losses incurred in 2008 as a result of the global financial crisis.

62. The global financial crisis also affected economic growth rates in member countries, where the average growth rate of these countries as a group dropped to 2 per cent in 2009 compared to 6.4 per cent in 2008. Major oil-exporting countries, namely Kuwait, Saudi Arabia and the United Arab Emirates, were the most affected in terms of economic growth, where the United Arab Emirates and Kuwait recorded a negative growth rate (-4.6 per cent).

63. In order to face the crisis and limit its impact on the economy, member countries adopted many stimulating measures to enhance economic growth, immediately after the outbreak of the crisis and before the International Conference. Egypt, Kuwait, and Saudi Arabia implemented national plans to stimulate domestic demand in order to compensate for external demand contraction due to austerity measures adopted by several developed countries in their attempt to reduce the impact of the crisis on their economies. Saudi Arabia put a five-year plan to stimulate investment worth around US\$400 billion, Kuwait increased public expenditure for the period 2010-2014 by US\$104 billion, whereas Egypt adopted a plan to stimulate economy for which it allocated around US\$6 billion in 2009.

64. Several member countries are still burdened with high indebtedness, which is limiting their ability to take additional fiscal measures to reduce the impact of the global financial crisis. The public debt to GDP ratio reached high levels in Iraq, Lebanon, the Sudan and Yemen. These countries need therefore assistance from creditor countries in the form of debt service reduction or partial debt remission which would spare financial resources to be used in mitigating the impact of the crisis. The United Nations Conference on the World Financial and Economic Crisis and its Impact on Development held in 2009 reaffirmed the need to assist over in debted countries through debt relief, taking into account the ability to bear the debt burden. These countries, except Iraq, did not benefit from debt relief plans implemented over the past years.

65. Some countries, including the United Arab Emirates, provided guarantees for bank deposits in order to ensure the stability of the banking system. Kuwait cut its discount rate and injected liquidity in the banking system. Saudi Arabia lowered the repo and reduced the required reserve rate from 13 to 10 per cent. It also allocated around US\$40 billion to help banks if needed. In Qatar, the sovereign wealth fund bought a share of the banks' capital to enhance trust in the banking system. In Egypt, the central bank decided to guarantee all bank deposits.

66. While GCC countries, in particular Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, can still pursue an expansionary fiscal policy, the ability of other countries in this regard remains tied to their limited financial resources, and implementing an expansionary fiscal policy would aggravate their budget deficit and have negative impact on their economy. Some countries have already a high budget deficit, which may compel them to increase their debt or issue additional treasury bonds to finance this deficit. This highlights the difficulty faced by for these countries if they continue to adopt the same financial policy for longer periods despite their need to so.

67. Several member countries increased expenditure, in particular in the field of social services and poverty reduction, by raising salaries, including retirement pensions, and reducing taxes on a number of goods to alleviate the effects of rising prices and thus improving the purchasing power of the poor.

68. A number of countries in the region underwent political changes in 2011, resulting in reduced economic activities and a decline in FDI flow and tourism, which led to an economic crisis that was one of the causes of the popular movements in these countries. Those changes had negative impact on growth in 2011 or at least during the first half of it, according to figures issued by some countries. This economic downturn aggravated the impacts of the global financial crisis.

69. Several member countries adopted measures to reduce poverty and unemployment rates, such as establishing social funds to offer financial and technical assistance to the poor in order to improve their economic conditions through the establishment of small investment projects or providing direct financial aid. Other countries offered direct financial aid in the form of subsidies to improve the conditions of the poor, or by increasing salaries and retirement pensions for the same purpose, or implementing projects to reduce youth unemployment, in particular among higher education graduates.

70. Member countries consider regional integration a high priority. Early attempts to promote this integration can be traced back to the 1950s, with the establishment of a number of institutions that aim to organize and manage regional cooperation, namely the Council of Arab Economic Unity and the Economic and Social Council of the League of Arab States, as well as a number of development funds, such as the Arab Fund for Economic and Social Development, and the Arab Monetary Fund. It was also agreed to establish GAFTA with the goal of promoting trade between the countries of the region. A number of specialized organizations were also established in order to foster regional cooperation and integration, such as the Arab Industrial Development and Mining Organization and the Arab Organization for Agricultural Development of the League of Arab States, and the Organization of Arab Petroleum Exporting Countries.

71. The Arab Economic, Social and Development Summit held two sessions to discuss ways to reduce the effects of the global financial crisis. In the first session (Kuwait, 19-20 January 2009), the Summit called for the adoption of measures aimed at reducing the impact of the global financial crisis on the economies of the Arab countries, such as offering aid to national financial institutions in order to restore the monetary and financial stability in these countries. It also called for strengthening the role of Arab financial institutions in coordinating financial policies between member countries, enhancing control over the banking sector and developing laws governing such control. In the field of investment, the Summit called for creating the appropriate environment for FDI flow and encouraging investment in the real economy, such as agriculture and industry as well as increasing investment in infrastructure.

72. At its second session, the Arab Economic, Social and Development Summit (Sharm al-Sheikh, Egypt, 19 January 2011), called for pursuing efforts aimed to mitigate the impact of the global financial and economic crisis, and for an active participation in supporting international efforts to restore the stability of global economy. The Summit decided that financial resources should be provided for small and medium-sized enterprises in the Arab region. The overall contribution of the Arab countries amounted to US\$1,393 million, including US\$500 million from Kuwait. The Summit called upon the Arab Fund for Economic and Social Development to finance private sector is small and medium-sized enterprises.

73. In general, member countries made considerable efforts to reduce the impact of the global financial crisis and achieved varying levels of success in that regard. However, the economic effects of this crisis have not faded away yet, economic growth is still below the planned level, unemployment rates are still high, and FDI flow is still below its level before the crisis in many of these countries. A number of member countries were also economically affected by political developments unfolding during the first half of 2011. These developments led to capital flight from financial markets, which negatively impacted economic growth during that period.

74. Fiscal deficit soared in several countries, where fiscal deficit to GDP ratio increased, including in Egypt by more than 8 per cent, Lebanon by more than 10 per cent and Jordan by 5.3 per cent. Budget deficit to GDP ratio was estimated at 7 per cent in Yemen, 5 per cent in the Sudan, and around 6.5 per cent in the Syrian Arab Republic before the current events. Such deficits limit the ability of these countries to increase public expenditure in order to stimulate the economy.

75. Therefore, and in order to finance deficit, these countries need to resort either to external borrowing thereby aggravating the debt burden, or to issuing government bonds thereby triggering the absorption of private sector liquidity and negatively affecting domestic demand. This in turn adversely affects the performance of economy, in particular with the continuing decrease of FDI flow, and the ability of these countries to reduce unemployment, which may aggravate existing social problems.
