Challenges facing the effectiveness of development financing:

What role for CSOs in the Arab countries?

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List of Acronyms

AIDA	Association of International Development Agencies
CDR	Council for Development and Reconstruction
CSOs	Civil Society Organisations
DAC	Development Assistance Committee
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IFI	International Financial Institutions
IMF	International Monetary Fund
MDG	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PPP	Public Private Partnership
SDG	Sustainable Development Goals
UAE	United Arab Emirates
UN	United Nations

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Introduction

Development cooperation and the development finance landscape have been evolving over the past decades to include new funding options and engage additional stakeholders beyond typical donors and traditional official assistance. Historically, the global development agendas relied on richer countries providing resources to poorer countries. The last decade's Millennium Development Goals (MDGs) framed development cooperation as encompassing foreign aid, trade gains, debt financing, and technology transfers the developing countries.

While these flows have been the main sources for development financing, reliance on developing countries' domestic resources and the private sector's funding has been recently increasing as reflected in the discussions since the Fourth High Level Forum on Aid Effectiveness (the Busan meeting that took place in 2011), the 2015 Addis Ababa Action Agenda conference and the post2015- agenda and its outcome; the Sustainable Development Goals (SDGs). In parallel, official aid from developed countries' donors has been decreasing.

This report considers Arab countries development financing conditions in light of theabove-mentioned changes.

It provides an overview of the development financing mechanisms in Arab countries and highlights the constraints to their effectiveness, starting with the inherent shortcomings of the prevailing international development cooperation system that shapes development financing.

The report aims to inform a broad non-technical audience, specifically civil society organizations on development financing effectiveness in the region. The analysis is based on desk research and secondary sources essentially. Most figures are from international organisations databases, given the limitations of data availability in the region. The report concludes with some basic action suggestions for civil society organizations to improve development aid effectiveness.

Box: "Development effectiveness" or "aid effectiveness"?

Aid can be traced back to colonial times, even though it took different forms with time, as new development ideas and norms emerged and as the global political and economic systems changed. The last decade's global agenda further pinned down the aid concept under the Millennium Development Goals and framed aid as the developed countries' commitment and responsibility to support developing countries through trade, investments and direct financial aid in a partnership form, but with a clear responsibility assigned to the developed countries. This allocation of responsibilities faded under the post 2015 Sustainable Development Goals and gave way to a focus on domestic resource mobilization as being the main development financing source.

In parallel, the international development narrative has been shying away from using the terms "aid effectiveness" when discussing development assistance performance. The expression "development effectiveness" replaced "aid effectiveness", following the Fourth High Level Forum on Aid Effectiveness in 2011. The shift turns attention from considering aid and its delivery mechanisms in its strict traditional definition onto a wider range of non-aid specific policies and actions with impact on development, like poverty alleviation, good governance policies and others. This clearly reflects the complexities of the development process and interrelatedness of development challenges, but at the same time, questions the order of responsibilities under the prevailing international system, whereby the development financing becomes more of a duty of the developing countries' governments, as the focus turns towards domestic resource mobilization, rather than official development assistance. The developed countries responsibility is alleviated, justifying a cut in donor countries' aid budgets.

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The international development cooperation system limitations

The international development cooperation system and the two global development agendas (MDGs and SDGs) have gathered momentum on a set of development priorities, mobilised financial resources, and have been constantly improving principles and mechanisms of delivery. However, this global framework has inherent problems that limit its effectiveness, starting with the fact that it is based on voluntary commitment of countries, with no legally binding frame.

The global development agendas, whether the SDGs or their predecessors, also address development problems without delving into the root causes of the issues. For example, when considering the SDGs on debt and environment, problems of power relations and historical circumstances that shape responsibility and outcomes are downplayed[1]. Fulfilling the development agenda becomes a technical policymaking and financial resources' mobilization processes. The SDGs particularly have increasingly moved towards a greater reliance on private sector and domestic financing resources, that relax the developed countries from the unfulfilled financial responsibility, as previously set under the MDGs, notwithstanding that the developing world is going through its largest humanitarian crisis[2].

Another problem stems from the prevailing international financial architecture and forces of globalisation. Many developing countries, including Arab countries, lose policy space within an increasing financial openness globally, whereby capital accounts are free and a country's monetary authority has to respond to external flows from developed countries. The latter have been driving their economic growth from liquidity and financialization over the last decade. This resulted in short-term speculative investments flowing into developing countries rather than productive investments. At the same time, the international financial institutions, essentially the International Monetary Fund, bail-out prescriptions limit the role of fiscal policy and subject it to succumb to private sectors interests. These conditions, combined, lock the developing countries in an unfavourable position. The UNCTAD Trade and Development Report 2015 considered that "the present international monetary system has acquired its own pyromaniac tendencies, by promoting policy interventions that have frequently exacerbated recessions, instead of softening them, and by placing all the burden of adjustment too heavily on the debtors and deficit countries… All of this discourages both the growth of robust aggregate demand and the deepening of productive capacity"[3].

1 Magdalena Bexell and Kristina Jönsson, 'Responsibility and the United Nations' Sustainable Development Goals', Forum for Development Studies, 44.1 (2017), 13–29 <https://doi.org/10.1080/08039410.2016.1252424>.

2 AP News Agency, 'Famine "Largest Humanitarian Crisis in History of UN"', Al Jazeera, 11 March 2017 <http://www.aljazeera.com/news/2017/03/famine-united-nations-170310234132946.html> [accessed 24 March 2017].

3 Making the International Financial Architecture Work for Development, ed. by UNCTAD, Trade and Development Report, 2015 (New York, NY: United Nations, 2015).

3

Overview of trends and challenges in development financing

Under these global conditions, Arab countries have been tapping into different local and international financial resources, yet their development achievements remain mixed, while instability and conflicts have increased across the region. This section sketches Arab countries' main development financing resources and the related challenges to their effectiveness in development.

Public Debt

Government borrow when their spending exceeds their revenues. Borrowing accumulates to form public debt. Debt financing is a traditional mechanism, used in any typical strategy for an economy to progress. In the Arab region, non-oil exporting countries depend on debt financing to fund their budget deficits, while the Gulf Cooperation Council countries (GCC) occasionally resort to it, due their ample resources from oil. In some countries, like Lebanon, Jordan, Egypt and Mauritania, public debt has increased to hover at close to %90 of gross domestic product (GDP) for the latter three, and exceed %130 for Lebanon recently[4]. Other Arab countries have more manageable public debt ratios (Figure 1).

Public debt remains manageable as long as governments can pay its service and principal. International financial institutions [5] (IFI), namely the World Bank and International Monetary Fund (IMF), assess its (un)sustainability based on a framework that looks into criteria such as country's economic growth rate, external trade conditions, and availability of external financial resources to pay back. Accordingly, they advocate policies to manage these variables, notwithstanding their impact on the human welfare and social needs in the country[6].

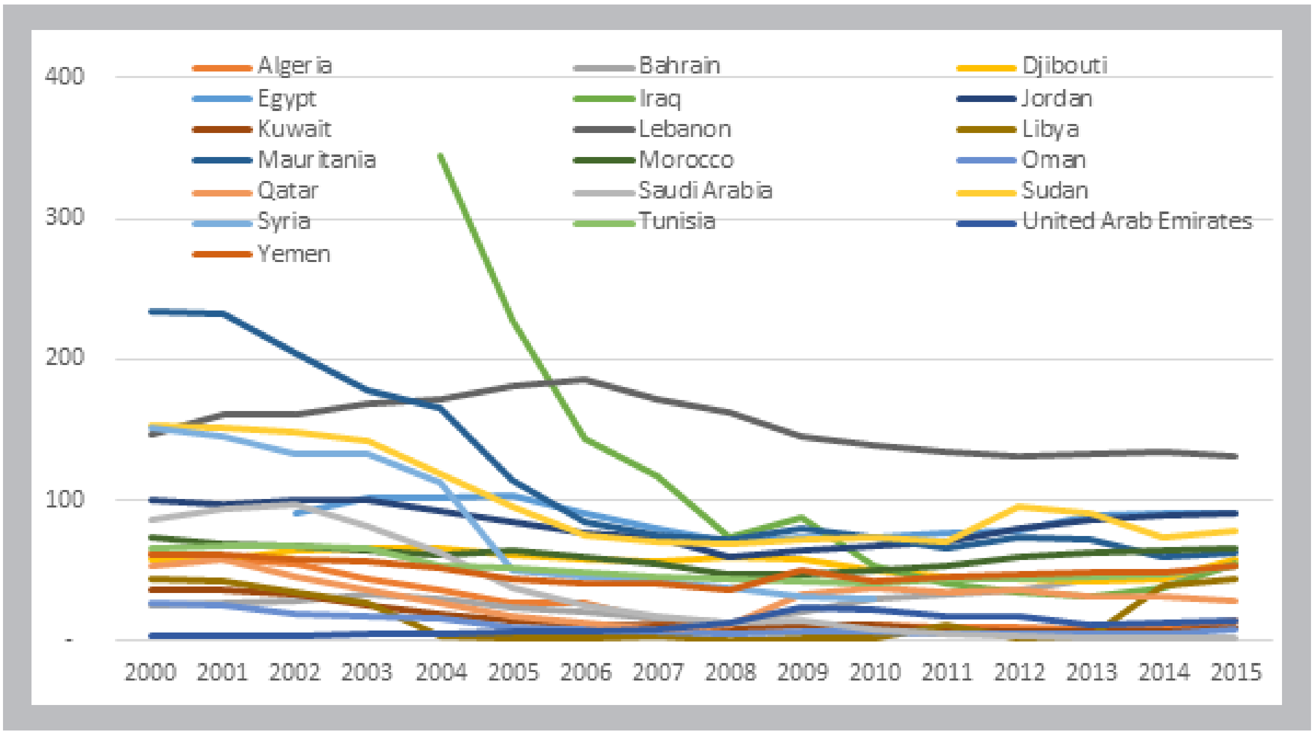
Public debt accumulates as a result of domestic and international factors. Country's specificities and historical evolution and development trajectory are key domestic factors. The structural features of Arab economies, the reliance on rentier economic activities and weaknesses of domestic productive sectors are other related contributing domestic factors. Such problems reflect public policies' failure to effect the required structural changes for economic development, generate the balance between resources and needs over time, and buffer the economy from shocks. The architecture of the international financial system that favours flows away from developing countries to the developed world (see section 2) and the proliferation of conflicts in the region with high costs on the economy and society are also major drivers of public debt accumulation. Under such conditions, economic and fiscal vulnerabilities increase; public debt dynamics deteriorate and ultimately lead to the reshuffling of government priorities, at the expense of development objectives.

4 International Monetary Fund, 'Report for Selected Countries and Subjects', World Economic Outlook Database, October 2016, 2016 <https://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?sy=2010&ey=2016&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=83&pr1.y=8&c=512%2C682%2C612%2C686%2C419%2C449%2C611%2C564%2C469%2C453%2C456%2C433%2C732%2C439%2C463%2C443%2C744%2C446%2C466%2C672%2C474&s=GGXWDG_NGDP&grp=0&a=#download> [accessed 27 March 2017].

5 The International Financial Institutions are generally the global development banks, like the World Bank and the International Monetary Fund (IMF) and regional development banks. The IMF and the World Bank are an influential source of development knowledge that are adopted by other IFIs. In this report, referring to IFI is generally targeting the Fund and the Bank in their role as donor institutions that frame the development agenda.

6 Realizing the Right to Development: Essays in Commemoration of 25 Years of the United Nations Declaration on the Right to Development (United Nations, 2013) <https://doi.org/10.18356/49006c2a-en>.

Figure 1: General government gross debt/GDP (%)



Source: International Monetary Fund, World Economic Outlook Database, April 2015

The composition of public debt in the Arab countries shows historically a greater reliance on government borrowing, bilateral or multilateral parties and less on international investors and markets that are more volatile and risky [7]. Recently, however, GCC countries resorted to external debt through international debt markets. Qatar, the United Arab Emirates and Saudi Arabia hit, in 2016, international markets with huge borrowing deals of 9$ billion, 5$ billion and $ 10 billion (syndicated loan) respectively. The GCC countries have sizeable financial savings to draw on, but they are diversifying their deficit funding from various sources, following the drop in oil prices[8].

The choice between external debt, or more precisely foreign currency denominated debt and the relatively less volatile domestic debt relates to the cost of borrowing and development of the domestic financial system mainly. External debt is generally considered a riskier component of debt, but should not be problematic as long, as it is coupled with productive investments in the local economy and it is associated with currency management and debt maturities' balanced scheduling. Among other Arab middle-income economies, it is mainly Lebanon, Jordan, and more recently Tunisia that have a larger share of external borrowing[9].

7 Roberto Rezende Rocha, Zsófia Árvai, and Subika Farazi, Financial Access and Stability: A Road Map for the Middle East and North Africa, MENA Development Report (Washington, D.C: World Bank, 2011).

8 International Monetary Fund, Regional Economic Outlook. October 2016, October 2016, 2016 <http://public.eblib.com/choice/PublicFullRecord.aspx?p=4745317> [accessed 27 March 2017].

9 'World Development Indicators | DataBank' <http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GNS.ICTR.ZS&country=#> [accessed 30 March 2017].

The case of Lebanon specifically raises the question on the definition of external borrowing and how risky is this form of debt. Most of Lebanon's external debt is actually foreign currency debt that domestic financial institutions hold and that are familiar with the local conditions and more resilient to pressure[10] . Indeed, understanding what is being considered as external debt is essential to assess the implications of external debt risks, whether it is debt issued in foreign currency, debt held by non-residents, or debt governed by a foreign country's legislation. In most cases, external debt becomes challenging, when a country runs regular balance of payment deficits, draws heavily on foreign exchanges of the country and consequently reaches the risk of insolvency.

Insolvency, nevertheless, rarely materializes. International financial institutions, namely the IMF, jump in before reaching this stage, as soon as the foreign exchange risk rises, especially that sovereign insolvency and bankruptcies courts and laws do not exist for the international financial system to resolve debt crises in a fair and sustainable manner and in a short time. Instead, the IMF has been mandated to ensure the stability of the international system ensuring that default does not happen. It places strict fiscal discipline on the debtor country with very specific targets and indicators to ensure contractual debt obligations are met, regardless of the social implications and with no similarly stringent commitments for the protection of basic needs, human rights, or sustainable development. Within this context, the country at risk loses on independent decision making.

Four Arab countries (Tunisia, Morocco, Jordan, and Egypt) faced this situation. They followed the IMF's policy prescription in the 1990s and 2000s that commended them for being "successful reformers." The 2011 uprisings in Tunisia and Egypt, the Moroccan demonstrations, and the quick Jordanian government initiatives to adopt a reformist agenda are flagrant indicators of the applied policies' failures in ensuring sustainable economic and social development and fulfilment of basic human rights. After the Arab uprisings, the IMF redirected its rhetoric and policy advice in these countries towards long term social objectives, along with monetary stability, yet this was not mirrored in practice[11]. Its primary policy objective remained essentially the repayment of external debt.

Once again, the four countries were short on funding and had accumulated high debt stocks. Between 2011 and 2015, Tunisia, Morocco, Jordan, Egypt, Iraq and Yemen had borrowed almost 60$ billion from IFIs and went back to the same old typical austerity policy requested by the IMF, even though they had experiences this approach in the eighties and nineties and did not succeed to whither shocks[13] .

The Egypt case study shows how a combination of unwise country authorities' foreign borrowing, along with the IMF policy mix and conditionality still fail to deal with the economy's development structural problems and deliver human development outcomes.

10 International Monetary Fund, Lebanon 2016 Article IV Consultation (Washington, D.C.: International Monetary Fund, January 2017).

11 Mohammed Mossallem, The IMF in the Arab World: Lessons Unlearnt (Bretton Woods Project, December 2015).

12 For example see: Hamed El Said and Jane Harrigan, 'Economic Reform, Social Welfare, and Instability: Jordan, Egypt, Morocco, and Tunisia, 1983–2004', The Middle East Journal, 68.1 (2014), 99–121. And Mohammed Said Al-Saadi, 'Impact of IMF Austerity Policies on Social Protection', in Social Protection in the Arab World: The Crisis of the State Exposed (Beirut: Arab NGO Network for Development, 2014), PART 2 <http://www.annd.org/data/item/cd/aw2014/pdf/english/two3.pdf>.

13 Bessan Kassab, 'Mapping IMF Intervention in the Arab World | MadaMasr', MadaMasr, 2016 <http://www.madamasr.com/en/2016/11/09/feature/economy/mapping-imf-intervention-in-the-arab-world/> [accessed 22 March 2017].

Case study 1 | Is Egypt borrowing wisely?
By Salma Hussein

At the end of the 1980s, Egypt was suffering from a devastating economic recession and, like many developing countries at the time, had great difficulty paying back its foreign debt obligations. The situation remained critical until 1990, when the United States sought to recruit Egypt into an international military coalition. Egypt agreed to the deal, and half of its external debt was erased. Egypt also signed structural adjustment agreements with the International Monetary Fund and the World Bank, which led to a three-year recession, whereby average growth between 1990-92 was between -0.1% and -0.2%[14]. This also led to a rise in unemployment and a rise in the poverty rate, which was attributed to three factors: 1) floatation of the Egyptian pound, which led to higher prices, 2) falling household income, and 3) reduction in government spending on public services[15] .

Egypt's experience taught it not to rely on foreign assistance. The country's external debt to GDP ratio stabilized. In contrast, domestic borrowing grew dramatically. After 2011, this trend was reversed again and policymakers became increasingly open to external borrowing and grants. Egypt's 1990s structural adjustment conditions were to happen again two decades later. Over the following six years, public domestic and external debt increased again (Figure 2), while public oversight and transparency in government spending weakened[16] . Egypt begun a new era of reliance on foreign aid, under the rubric of the new international "partnership" framework, which theoretically recognizes that aid has rarely been effective historically because it is subjected to the terms of the donor or lending country[17] . While this model might appear as an improvement from its predecessor, its implementation in Egypt shows that it effectively boiled down to the reapplication of the International Monetary Fund programs, because it is based on the same old premises: the primacy of economic growth and not its quality and the focus on public expenditures' reduction even if at the expense of health and education. The new form of aid is directed at supporting the state budget (referred to as "Budget Support"), that is, funds flow into various parts of the budget to close the deficit, which satisfies a fiscal objective rather than a developmental one.

In addition, recently, the Egyptian Ministry of Finance published a document outlining it medium-term strategy, declaring that it intends to exchange part of it domestic debt with foreign loans while recognizing recognizes the dangers inherent in such a step: "Subjecting the exchange rate between the pound and foreign currencies by increasing the amount foreign currency may not be the ideal solution, even if current (US Treasury) interest rates may be encouraging." This decision was considered a necessity more than a choice, because of declining sources of dollars that Egypt traditionally relied on.

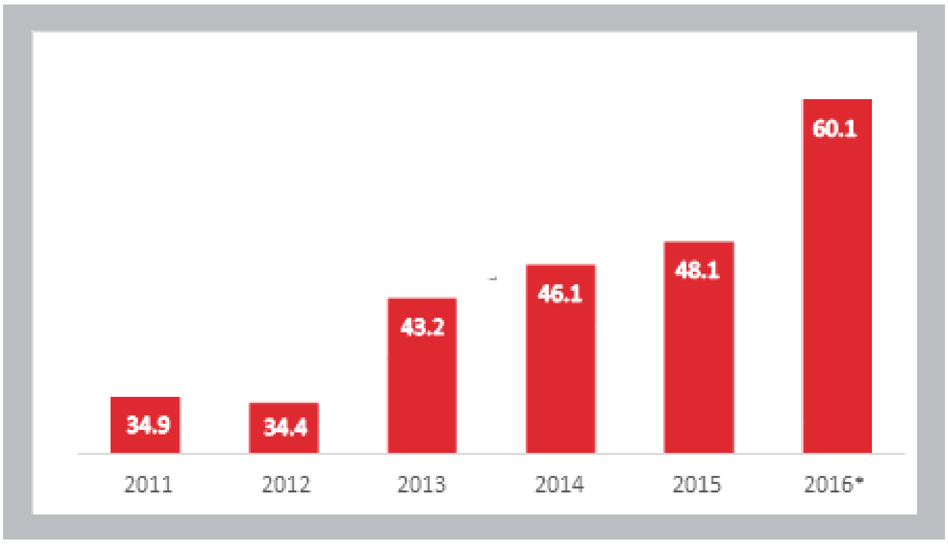
14 Karima Korayem, Egypt's Economic Reform and Structural Adjustment (Cairo: Egyptian Center for Economic Studies, 1997).

15 Karima Korayem.

16 For details, look at Egypt's ranking in the open budget index published on the International Budget Partnership website.

17 This approach is elaborated in the Paris Declaration on the Effectiveness of Debt in 2005 and involves the following five requirement: 1) that the general approach reflect the views of the government receiving aid, 2) that those providing aid agree with local development strategies and institutions, 3) that donors coordinate the various aid programs, 4) that the framework be result-oriented, 5) that there be mutual accountability with regard to the results between providers and recipients alike. Source: Roberts, Chris W J. «Resnick, Danielle and Nicholas van de Walle, eds., 'Democratic Trajectories in Africa: Unravelling the Impact of Foreign Aid', Journal of Retracing Africa, 2.1 (2013), 108–10.

Figure 2: Post 2011 external debt in Egypt ($ billion)



Source: Egypt Ministry of Finance, Egypt Central Bank. Years refer to the end of fiscal year (2011=June 2011)
*The first quarter of 2016.

One of the most important factors for the decline in dollar reserves of the past six years in Egypt has been arguably the absence of effective capital controls, even at a time of political and economic turbulence, thus leading to capital flight on a large scale . Much of it flowed out legally as profits and investments, but a good part also exited illegally, either by forging import-exports receipts, or smuggling it as "hot money," which was estimated to be around $4-5 billion in the years after the revolution by Global Financial Integrity in 2015[19] .

In addition, the Central Bank was borrowing from abroad without regular coordination with the government. Borrowing came from diverse creditors, with varying conditions and payment schedules, which could be viewed positively, yet the lack of coordination and the absence of a comprehensive development plan, not to mention growing dependency on medium- and short-term loans, were harmful. The government's share of the debt stock fell from 88% before the revolution in 2011 to 50% only in March 2016 according to the Central Bank of Egypt. In contrast, the Central Bank's share of external debt soared to 37%[20] .

18 Salma Hussein, Three Myths About Floating the Pound (Egyptian Initiative for Personal Rights, Cairo, 2016).

19 Global Financial Integrity, Illicit Financial Flows from Developing Countries: 2004-2013 (Washington, D.C: Global Financial Integrity, December 2015) <http://www.gfintegrity.org/wp-content/uploads/2015/12/IFF-Update_2015-Final-1.pdf>.

20 External Position of the Egyptian Economy (Cairo: Central Bank of Egypt, 16 December 2015) <http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx>. External Position of the Egyptian Economy (Cairo: Central Bank of Egypt, 16 March 2015) <http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx>. Also for more information on external debt indicators, see: سلمى حسين (٢٠١٦)، بواعث القلق: الدين الخارجي في مصر، المبادرة المصرية للحقوق الشخصية، القاهرة-.
https://eipr.org/publications/%D8%A8%D9%88%D8%A7%D8%B9%D8%AB-%D8%A7%D9%84%D9%82%D9%84%D9%82-%D8%A7%D9%84%D8%AF%D9%8A%D9%86-%D8%A7%D9%84%D8%AE%D8%A7%D8%B1%D8%AC%D9%8A-%D9%81%D9%8A-%D9%85%D8%B5%D8%B1

As such, Egypt's external borrowing deviated completely from developmental objectives. The effectiveness of this form of financing has been entirely undermined, mainly because of the following reasons:

1) Conditionality of loans

In addition to the loans that the Central Bank resorted to, the Egyptian government signed two types of agreements: the first with the World Bank and the IMF, and the second was a loan from Russia. The first was a Development Policy Loan from the World Bank, and this kind of loan is very similar to an IMF loan in the sense that it is not linked to a specific project, but is disbursed to the government in three payments. In return, the state is obliged to implement a set of conditions that have been agreed upon that further cemented the contractionary policy direction the authorities had taken. The most important of these conditions was to increase energy prices and implement a value-added tax, which are likely to lead to inflation and economic stagnation (stagflation), not to mention their impact on the disposable income of the lower income classes. As a result, poverty is expected to rise due to raising electricity prices by 15% (and this is only one of the terms that the government must fulfil) to reach 35% of the population, compared to 28% before the implementation of these conditions[21].

Another example of how such conditionality affected development outcomes is based on a recent study by the Bank Information Center that found that the World Bank loan program does not distinguish between clean energy and fossil fuels in Egypt. Raising natural gas prices led to the import and use of coal, which is twice as dirty as natural gas, and this is in a country in which each individual's share in CO_2 emissions is already high[22].

As for the IMF loan, of which Egypt received the first disbursement, it stipulates that the government completely floats the pound against the dollar, despite the negative balance of payments that is expected to last for years to come, without introducing any controls on movement of capital.

The agreement signed with Russia, stipulates that the loan funds Russian companies that are building Egypt's four nuclear reactors, in addition to importing the necessary equipment from Russia along with the maintenance services. Also, Egypt agreed to buy its nuclear fuel needs from Russia[23] .

21 'هبة الليثى مستشارة «المركزي للإحصاء» في حوار مع «الشروق»: انخفاض مستوى التعليم أكثر العوامل ارتباطا بالفقر في مصر والمشروعات القومية لن تحسن أحوال الفقراء - بوابة الشروق' <http://www.shorouknews.com/news/view.aspx?cdate=12122016&id=7b103c03-872a-4902-a38f-c1fc70d9bb2e> [accessed 31 March 2017].

22 Heike Mainhard, World Bank Development Policy Finance Props Up Fossil Fuels and Exacerbates Climate Change: Findings from Peru, Indonesia, Egypt, and Mozambique (Bank Information Center, January 2017).

23 'مشروع اتفاقية قرض المفاعل النووي', Official Gazette, 2016.

2) Shifting away resources from poverty reduction, education and health programs

The focus and primacy of channelling government spending for debt repayment diverts resources away from poverty reduction and spending on infrastructure, particularly in areas that benefit the poor, such as drinking water, sewage networks, and roads in rural areas. In particular, the government could not spend on education and healthcare. Payments on foreign debts in 2015-16 reached $12.5 billion dollars[24], an amount that exceeds what the government was constitutionally bound to spend on the health and education sectors, and failed to do so[25].

3) Lack of transparency

There is a lack of transparency on both sides, the debtor and creditor. For example, the World Bank violated its own transparency guidelines, which require it to respect the borrowing country's constitutional obligations, where two-thirds of the amount was spent without the agreement of parliament [26]. The IMF similarly failed to publish the schedules and programs, as well as additional documents that should have been made public within 14-28 days after it had approved a loan. It only published the documents after this period. In addition, the IMF disbursed the first payment without waiting for parliament's approval. From Egypt's end, borrowing was taking place without the parliament's agreement and despite the objection of members of the Egyptian parliament's Planning and Economy Committees [27].

In conclusion, under the above-mentioned conditions and based on its experience with foreign debt cycles, the outlook for Egypt does not seem promising. Without debt forgiveness or a radical structural transformation of the economy in the aim of meeting people's basic needs, Egypt would be only responding to foreign creditors' interests, rather than embarking on a national human development trajectory [28] .

24 External Position of the Egyptian Economy.

25 Salma Hussein, 'مشروع الموازنة مخالف للدستور | المبادرة المصرية للحقوق الشخصية' (Egyptian Initiative for Personal Rights (Beta) logo Egyptian Initiative for Personal Rights (Beta), 2016) <https://eipr.org/publications/%D9%85%D8%B4%D8%B1%D9%88%D8%B9-%D8%A7%D9%84%D9%85%D9%88%D8%A7%D8%B2%D9%86%D8%A9-%D9%85%D8%AE%D8%A7%D9%84%D9%81-%D9%84%D9%84%D8%AF%D8%B3%D8%AA%D9%88%D8%B1> [accessed 29 May 2017].

26 Salma Hussein, 'خمسة اعتراضات: ما هي المشكلة مع قرض البنك الدولي؟ | المبادرة المصرية للحقوق الشخصية (بث تجريبي)', 2016 <https://eipr.org/press/2016/02/%D8%AE%D9%85%D8%B3%D8%A9-%D8%A7%D8%B9%D8%AA%D8%B1%D8%A7%D8%B6%D8%A7%D8%AA-%D9%85%D8%A7-%D9%87%D9%8A-%D8%A7%D9%84%D9%85%D8%B4%D9%83%D9%84%D8%A9-%D9%85%D8%B9-%D9%82%D8%B1%D8%B6-%D8%A7%D9%84%D8%A8%D9%86%D9%83-%D8%A7%D9%84%D8%AF%D9%88%D9%84%D9%8A%D8%9F> [accessed 22 September 2017].

27 Sameh Lasheen, '"خطة النواب" تشن هجومًا على الحكومة بسبب عدم عرض قرض صندوق النقد.. ونائب: تأخذها العزة بالإثم - بوابة الأهرام"', 2016 <http://gate.ahram.org.eg/NewsContentPrint/1/70/1299268.aspx> [accessed 31 March 2017].

28 'مشروع اتفاقية قرض المفاعل النووي'. Official Gazette 2016

Taxation

Taxation could be a source of sustainable funding for governments to spend on public investments and social services and decrease aid dependency. It has an economic role in the allocation of the economy's resources and a primary political and social role in shaping the relation between the state and citizens and ensuring social justice. Taxation, when fair and transparent, also increases governments' accountability towards its citizens, by allowing the latter to ask how their money is spent.

In the Arab region, oil importing countries rely on taxation as a domestic resource for budget financing (Figure 3). The majority of oil exporting countries covers their government expenditures from oil revenues while non-oil tax revenues are very low by international standards not exceeding %3 of non-oil GDP, and around %4 of total revenues (2015-2012). This compares to non-oil tax revenue of non-oil GDP of around %13 on average for a sample of non-Arab comparable oil-exporting countries over the same period [29].

Recently, the reduction in oil prices and ensuing pressure on public finance prompted GCC countries to reconsider their taxation systems [30]. The first decision taken in that respect is the adoption of an indirect excise tax. In 2018, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates are expected to implement a %5 value-added tax following a joint signed GCC agreement [31].

The non-oil exporting Arab countries face greater challenges in mobilizing this source of financing, with Arab Maghreb countries (Morocco, Tunisia and Algeria) faring better than others in collecting revenues through taxes [32].

Most Arab non-oil exporting countries, had relatively unchanged tax to GDP ratios over the last decade, and have been relying on indirect taxes [33]. Around half of the government revenues in non-oil exporting Arab countries, on average, comes from indirect taxes [34].

29 International Monetary Fund, Diversifying Government Revenue in the GCC: Next Steps; October 26, 2016, Riyadh, Saudi Arabia - 102616.pdf (Riyadh, Saudi Arabia: International Monetary Fund, 26 October 2016) <https://www.imf.org/external/np/pp/eng/2016/102616.pdf> [accessed 15 March 2017].

30 Mario Mansour, IMF Working Paper Fiscal Affairs Tax Policy in MENA Countries: Looking Back and Forward (Washington, D.C.: International Monetary Fund, May 2015).

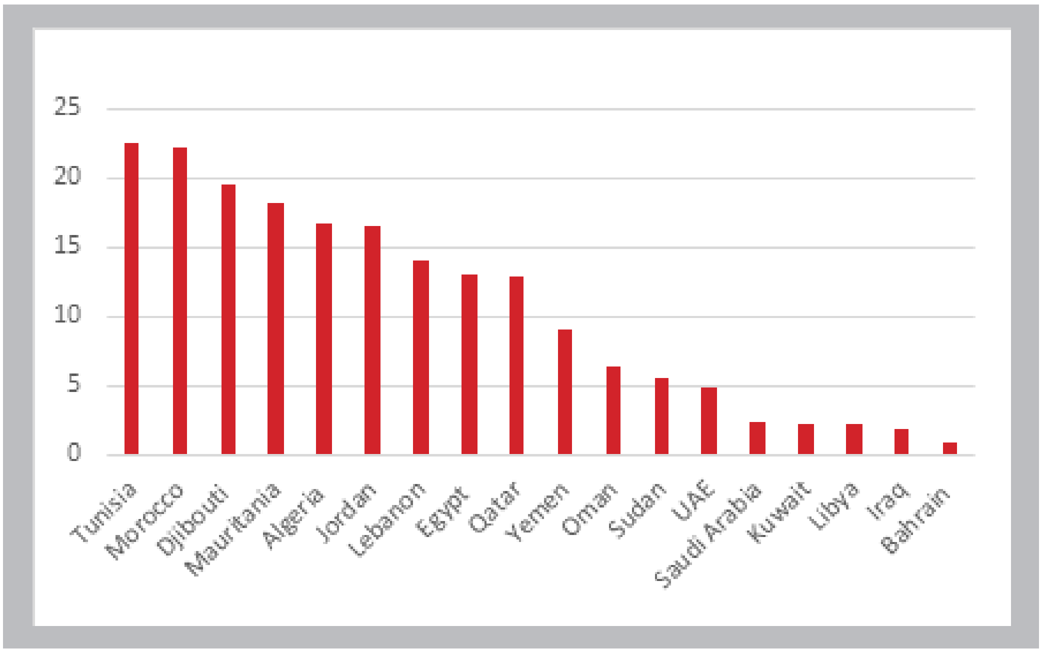
31 Reuters News Agency, 'GCC Nations Look to Adopt VAT "within a Year"', Al Jazeera, 12 February 2017 <http://www.aljazeera.com/news/2017/02/gcc-nations-adopt-vat-year-170212102959635.html> [accessed 29 May 2017].

32 International Monetary Fund, Diversifying Government Revenue in the GCC: Next Steps; October 26, 2016, Riyadh, Saudi Arabia - 102616.pdf.

33 Indirect tax is a type of tax collected by an intermediary from the person who bears the ultimate economic burden of the tax. Indirect tax has the effect to raising the price of the products on which they are imposed. Customs duty, central excise, service tax and value added tax are examples of indirect tax.

34 Firas Jaber and Iyad Al Riahi, دراسة مقارنة: الأنظمة الضريبية في ست دول عربية (Beirut: Arab NGO Network for Development ANND, 2014).

Figure 3: Tax revenues/non-oil GDP, latest available (%)



Source: Jewell et a. 2015 [35]

The Arab countries' tax systems carry three fundamental problems. First, the tax systems are not performing a redistributive role to reduce inequality, because of weak progressivity in income taxes, heavy reliance on indirect taxes and certain tax exemptions. Second, the limited reliance on taxation limits the potential for public pressure and holding governments accountable. Third, tax systems have not been conducive to economic diversification and industrial development, in both oil exporting and non-oil exporting Arab countries. This could also be attributed to weak political will and not just technical failures in genuinely adopting diversification policymaking [36] .

In addition, like many developing countries' regions, Arab countries are subject to potential losses in tax revenues either from illicit financial flows [37], being money that has been "illegally earned, transferred or used", or from tax breaks on corporate income taxes.

Around 730$ billion were estimated to have fled Arab countries [38] between 2003 and 2012 as illicit financial flows, with an average increase in these flows of %24 annually during the ten-year period; the fastest in the world. These losses are equivalent to six times the volume of official development assistance to the region and account for almost %4 of GDP [39].

35 Andrew Jewell, Mario Mansour, Pritha Mitra, and Carlo Sdralevich, Fair Taxation in the Middle East and Northern Africa (International Monetary Fund, September 2015).

36 Adil Maleek, Diversification of Middle Eastern Economies Is More a Political than an Economic Challenge (Beirut: Lebanese Centre for Policy Studies (LCPS), March 2016).

37 Global Financial Integrity (GFI), a Washington based advisory and research organisation estimates illicit financial flows globally and defines them as "illegal movements of money or capital from one country to another. GFI classifies this movement as an illicit flow when the funds are illegally earned, transferred, and/or utilized. <http://www.gfintegrity.org/about/> [accessed 28 March 2017].".

38 This is based on the World Bank classification of Arab countries under its classification of the Middle East and North Africa group which includes Arabia, Syria, Tunisia, United Arab Emirates, Yemen, in addition to Iran.

39 Dev Kar and Joseph Spanjers, Illicit Financial Flows from Developing Countries: 2003-2012 (Washington, DC: Global Financial Integrity, December 2014).

On the other hand, research has been pointing to a problem of corporate tax incentives globally. Such incentives are not necessarily detrimental to a local economy, but there is increasing evidence that resulting competition between countries to lure international investments is happening, as countries are racing in slashing tax rates, consequently leading many countries to lose more than benefit. In the Arab region, this situation has not been thoroughly investigated, yet, in 2013 ActionAid estimated that developing countries could be losing around %24 of their corporate income taxes by taking these measures with doubts of their effectiveness [40] .

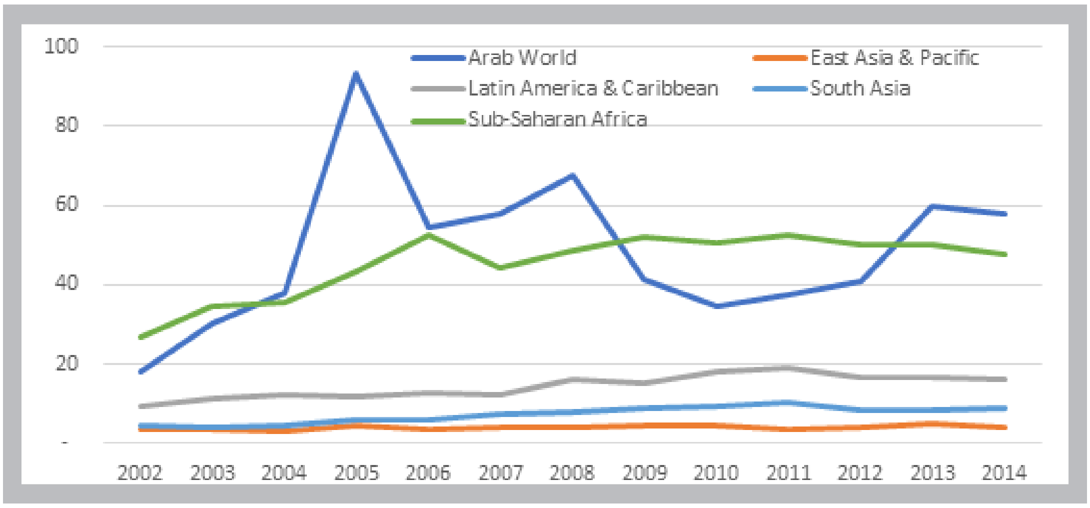
Official development assistance [41]

Official development assistance (ODA) or 'aid' is the most researched and most sizeable international public financing resource. In the Arab region, middle and lower income countries have traditionally relied on ODA to bridge their financing gaps despite the dwindling trends. At the same time, Arab high income countries, namely the Gulf countries, have become major donors of aid not only in the region but across a wider coverage.

Aid recipients

According to the latest available statistics, the region received in 2013 and 2014 the highest volume of aid per capita. The Arab countries formed also the second developing countries' region in the world, after sub-Saharan Africa, in terms of official aid received in nominal terms. Aid inflows registered an increase since the 2000s, until the 2008-2007 financial crisis. They only picked up again, following the crises that swept the region (Figures 4 and 5).

Figure 4: Net ODA received per capita by region ($)

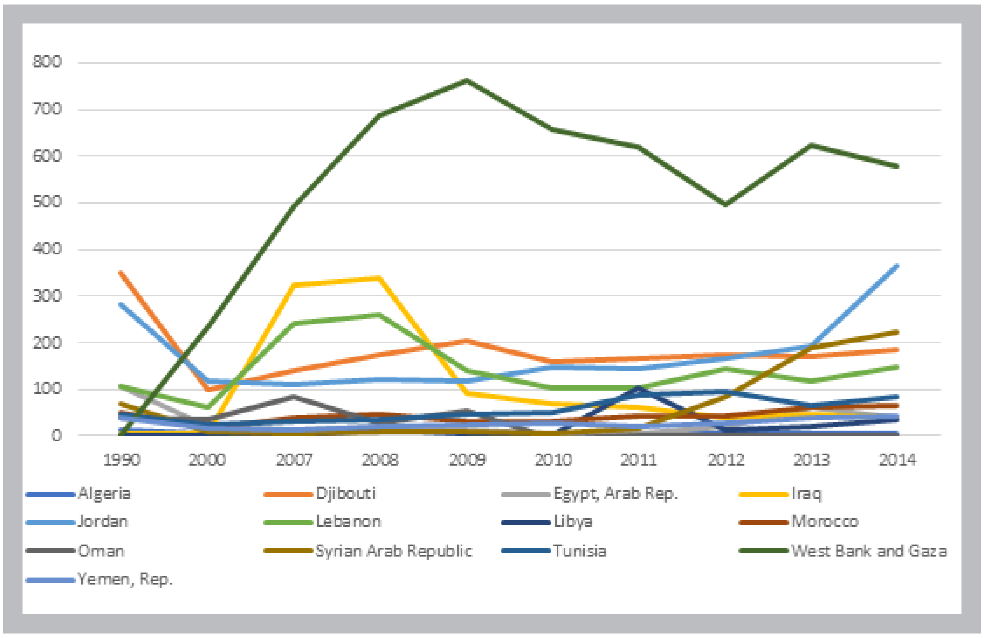


Source: World Development Indicators

40 ActionAid, Give Us a Break: How Big Companies Are Getting Tax-Free Deals (Johannesburg: ActionAid, June 2013).

41 ODA consists of "flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and that is administered with the promotion of the economic development and welfare of developing countries as its main objective; and that is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10%).

Figure 5: Net ODA received per capita in Arab countries ($)



Source: World Development Indicators

ODA is being directed to the emergencies in the region recently, and thus becoming more and more humanitarian in nature, with less focus on long term development needs. Globally, the share of humanitarian aid out of total net ODA went up from around a third in 2011-2013 to more than a half in 2014-2015.[42] Arab countries in crisis (Syria, as Yemen, Iraq and Sudan) with South Sudan took effectively more than half the international humanitarian aid in 2015 [43]. This is naturally the result of the wave of crises spreading in the region and the historical occupation of the Palestinian territories. The increase in humanitarian funding was mainly from Arab donors.

Historically, political determinants and donors' strategic interest determined aid such as in Iraq, Jordan, Palestine, Egypt and other Arab non-African countries [44].Palestine is a typical case of politically-driven aid, with donors completely disregarding the impact of being under occupation on its effectiveness.

ODA, in most other Arab countries, faces challenges related to local governance and political conditions, especially when development planning is weak and local institutions have limited coordination and accountability, such as the case of Lebanon (case study 2). The monitoring indicators used under the Global Partnership for Effective Development platform for tracking effectiveness,[45] show unfavourable results in terms of mutual accountability between the different stakeholders in Yemen, Mauritania, Somalia, Comoros, Egypt and Sudan. On meeting recipient countries' priorities, the indicators are positive only on alignment with country's priorities at large, but without delving any further below general issues. The majority of aid projects in these countries responded to broad development objectives, yet the use of country frameworks in that respect is less obvious. The national development strategies, where they exist, and national frameworks remain disconnected, while sustainability after assistance was also considered a challenge.

42 'Official Development Assistance (ODA) - ODA by Sector - OECD Data' <https://data.oecd.org/oda/oda-by-sector.htm#indicator-chart> [accessed 6 March 2017].

43 Development Initiatives, Global Humanitarian Assistance Report 2016 (Bristol, UK, 2016).

44 See for example: Jane Harrigan, The Political Economy of Aid Flows to North Africa (Helsinki: WIDER, 2011) <http://hdl.handle.net/10419/54002> [accessed 29 March 2017].

45 'Explore Country and Territory Progress – Global Partnership for Effective Development Co-Operation' <http://effectivecooperation.org/monitoring-country-progress/explore-country-and-territory-progress/> [accessed 17 March 2017].

Case study 2 | Development effectiveness challenges in Lebanon

Development financing in Lebanon has been constrained. A growing fiscal deficit consumed public resources. More than two thirds of the public finance budget go to pay interest on public debt, wages, and the public electricity bill, while capital spending has been squeezed to no more than one percent of GDP; a very low ratio comparatively. Within this context, public debt spiralled up (Table 1). Domestic commercial banks hold the bulk of public debt[46]. Social expenditures have been squeezed to a minimum.

Table 1: Selected economic indicators for Lebanon

	2013	2014	2015
GDP (nominal US$ billion)	47.6	49.9	50.9
Real GDP growth (%)	2.5	2	1
Current account deficit /GDP (%)	25.9	25.3	18.2
Budget deficit/GDP (%)	8.8	6	7.3
Public debt/GDP (%)	133	133	138

Source: IMF Lebanon Article IV report

At the time of the writing of this report, a budget draft law for 2017 had been under discussion proposing significant tax hikes, relying on indirect taxes that account already for around %70 of taxes and hit disproportionately informal workers and lower income classes[47]. In line with the IMF's recommendation, fiscal consolidation has been the name of the game for years now, even though tax evasion and corruption prevail widely.

Development financing in Lebanon depends on external financial resources, namely remittances and foreign investments. While these financial flows reduced the funding gap; their developmental impact has been questionable. Remittances have been supporting many Lebanese households' consumption spending, especially in health and education. However, remittances' impact on economic development and the structural economic problems might not necessarily be favourable, because they have an inflationary effect and are associated with a brain drain and limited job creation for skilled workers. The more stable private foreign investment has been generally channelled into real estate more than productive sectors and thus did not contribute to economic development.

Public investment remains a prerequisite for development, but has been limited in size in Lebanon and is also dependent on foreign aid, given the government budget constraints. In terms of official development assistance, Lebanon received since the end of the civil war emergency assistance and programmable aid. Aid came from a wide range of donors, bilateral like Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) countries or Arab and Middle Eastern countries, multilateral donors like UN agencies, international financial institutions and international non-governmental organizations.

46 International Monetary Fund, Lebanon 2016 Article IV Consultation.

47 American University of Beirut, مشاورة وطنية حول العدالة الضريبية في لبنان, ٢٠١٧ <https://www.youtube.com/watch?v=N-3d2ov9MfM&t=165s> [accessed 1 March 2017].

A history of official aid…

During the 1990s, aid was directed towards the post-war reconstruction. Then, over the following decade, aid turned essentially to meet financial and monetary stabilization requirements. Lebanon, during this period, managed to gather substantial funding through two major international donor conferences in 2002 (Paris II) and in 2007 (Paris III) that resulted in pledges of approximately 7.6$ billion. The latter conference came after the 2006 Israeli war on Lebanon and was paired with an economic and fiscal reform plan and a social action plan that Lebanese authorities prepared in line with the international financial institutions' recommendations. Most of the funds received were to restructure public debt. A number of selected social reforms were to be implemented. However, the post-Paris III reform process was short lived because of political divisions that reached a deadlock. After the Syrian crisis and the heavy refugees' influx, external donors shifted attention towards emergency assistance and humanitarian aid. By 2016, Lebanon sought again the assistance of the international community to deal with the refugee crisis and hosting communities. In the donors' 2016 London Conference, Lebanon asked for an additional 11$ billion in aid over 20-2016, out of which 6$ billion are in loans and the rest in grants, for a broad spectrum of purposes from budget support to social sectors[48]. Year after year and decade after decade, Lebanon continues to rely on aid.

… And a history of development effectiveness challenges

The most consistent source of information on aid in Lebanon remains the OECD DAC databases along with some occasional official reports, such as the recent Lebanon's Syrian crisis response program documents. The OECD DAC figures show that net ODA per capita ratio did not change from a %2-1 range, except after specific crisis (Table 2).

Table 2: ODA post 2006 ($ million)

	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net ODA and official aid received ($ million)	200	979	1,070	580	448	476	712	622	821	975
Net ODA received (% of GNI)	1.2	3.9	3.7	1.7	1.2	1.2	1.6	1.4	1.8	2.0
Net ODA received per capita (current $)	62	240	260	139	103	104	144			

Source: OECD DAC Aid at a Glance by Recipient [49]

48 International Monetary Fund, Lebanon 2016 Article IV Consultation.

49 'OECD DAC Aid at a Glance by Recipient_new', Tableau Software <https://public.tableau.com/viewsOECDDACAidataglancebyrecipient_new/Recipients?:embed=y&:display_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no> [accessed 1 March 2017].

OECD DAC aid breakdown shows that it is mainly financing in the form of grants[50] . When resorting to data on financing of public infrastructure projects it appears that concessional lending constitutes the main type of financing, rather than grants[51] .

The data also shows that pledged aid lags behind or does not necessarily materialize. Of more than $2 billion pledged after the 2006 war in Lebanon, 62% were received at end 2012. Of the 2007 funds, $7.6 billion pledged under the Paris III conference, 56% were received in the following six years [52] .

The figure reported in the Lebanon Crisis Response Plan 2015-2016 (LCRP), based on UNHCR data, states that also, over 2015 and 2016 no more than half of the amounts requested have been received ($ 1 billion per year)[53] , similar to the OECD DAC net ODA figures. In addition, it is assumed that a significant volume of aid comes to Lebanon from non-western countries and goes unrecorded[54] .

Despite the reliance on aid and recurrence of crises, Lebanon failed to build aid effectiveness mechanisms.

1) Irregular and fragmented tracking

Lebanon lacks a centralized tracking system that consolidates different flows of official assistance. After the 2007 donor conference, one of the Ministry of Finance's reforms was the setting a donor coordination and cash management department that would engage in aid reporting and develop a monitoring system, yet the latter did not materialize until 2017 and is still not fully operational. At the same time, the Council for Development and Reconstruction (CDR) - the official body responsible for project reconstruction and development - has its own records of investment financing.

Again, under the pressure of the Syrian refugees' crisis and the resulting international humanitarian assistance the Lebanese government attempted to improve tracking. Notwithstanding these efforts, the 2015-2016 Lebanon Crisis Response Plan (LCRP) [55] concluded that "specific stabilization contributions to Lebanon through government and response partners are not currently systematically captured. However, the CDR, jointly with the UN, is still working with the relevant government institutions to support an integrated financial tracking system to improve management of LCRP and bilateral funds received in Lebanon."

50 'AidFlows' <http://www.aidflows.org/> [accessed 29 March 2017].

51 Council for Development and Reconstruction (CDR), Progress Report 2015 (Beirut: Council for Development and Reconstruction (CDR), October 2016).

52 Ministry of Finance, Lebanon Country Profile 2014 (Beirut, December 2014).

53 United Nations High Commissioner for Refugees (UNHCR), Inter-Agency Update – Lebanon – November 2016 United (Beirut).

54 Mac Ginty, R., & Hamieh, C. S. (2010). Lebanon case study. In: Harmer, A., & Martin, E. (2010). Diversity in Donorship: Field Lessons. ODI, Humanitarian Policy Group, Report 30, 39-48.

55 Government of Lebanon and the United Nations, Lebanon Crisis Response Plan 2015-2016 (Beirut: Government of Lebanon and the United Nations, December 2015).

2) Minimal coordination and absence of a vision

Few ministries have sectoral plans strategies or short to medium term action plan, with no cross sectoral planning. Official assistance is generally secured on a project-by-project basis at the sub-sector level. The common justification for the lack of a broader strategic plan is the frequent instability episodes and regular political bickering.

The country lacks a sustainable development vision and strategy that integrates economic, social and environmental dimensions. Social inclusion remains a secondary issue, dissociated from economic policies and there seems to be no political will to embark on developmental changes. Sporadic attempts were made to align economic and social agendas, particularly after the international donors' conference in 2007 (Paris III). As a result, a social development strategy was drafted in 2011, yet follow up and implementation were narrowed down to project-level interventions rather than implementing a wider policy framework, amidst local political bickering. Earlier in 2007, an inter-ministerial committee was also established as part of the Paris III donor conference to improve this situation at least ensuring a certain level of coordination across sectors, especially the social and economic. It was halted a few years later, for the same reasons: political bickering.

On another front, the CDR produced also a National Physical Master Plan of the Lebanese Territories that was approved in 2009 as a directive national plan on managing the usage of territory for all areas in Lebanon and equitable regional economic development. The plan provides a guiding framework, yet has not been rigorously pursued, because it still needs laws and policy instruments to implement it in urban planning and as an integrated regional development strategy[56]. The public finance budget, a key element of the country system, could have served to give strategic direction, connect the different ministries plans, based on a set of development priorities. Its absence for more than a decade now meant that coherence in sectoral objectives and country priorities are not set. The recent budget discussions for 2017 confirm that whatever budget is approved, it defeats its planning objective and is rather a mere collection of revenues to pay for the heavy expenditures list.

3) Limited ownership

Few ministries have strategies yet do not necessarily publish them. The strategies are rarely time-bound with measureable targets. A review of these ministerial, sectoral or other policy documents issued since 2005 showed that some minimal consideration has been taken by policymakers to consult with stakeholders. In fact, dialogue between policymakers, civil society organizations and the private sector on social and economic national issues has been weakened throughout the past decade [57].

The role of the private sector in achieving development objectives in Lebanon remains also questionable, despite its relative importance in the economy, because of the absence of a platform that links it to the more traditional development stakeholder, and because it lacks policy guidance and the oversight under a detailed legal framework and its enforcement.

56 Jana El-Baba, The Sustainable Development Framework in Lebanon A National Assessment (Beirut: UN-ESCWA, 2015).

57 Jana El-Baba.

For example, after the Paris III donors' conference, there was a clear direction towards reliance on public private partnership (PPP) as a development financing instrument, as recommended by international donors. Yet, more than ten years later, there is still no law that governs this mechanism, with only drafted suggestions still to be considered. Lebanon is among the very few countries (two of 82 countries surveyed by the World Bank) in the world that lacks oversight on PPPs. It does not require any assessments to be done before contracting the private sector, in order to inform the structure of the PPP project and its various risks, particularly socioeconomic impact assessments. Only one important dimension of such assessment has been ratified as a ministerial decree and that is the requirement of environmental impact assessments for certain key projects and investments affecting large areas or complete sectors [58].

On another front, dialogue between different development stakeholders has been more active within the context of humanitarian aid for the Syrian refugee crisis in Lebanon. UN organizations leading this process and ensuring coordination and ownership between partners and with the Lebanese government. However, this process faces limitations when considering that amongst development actors in the field, there are community-based organizations and confession-based organizations that remain outside this coordination process, on ideological grounds.

4) Weak accountability

Accountability that is a key principle in ensuring development effectiveness is among the weakest elements of effectiveness in the Lebanese context, even though the country's constitution guarantees freedom of expression, has a vibrant civil society, and recently legislated the access to information law early in 2017. The same structural reasons mentioned previously, essentially the absence of strategic planning, no public finance budget for more than a decade now, and political deadlock limit accountability of the government towards society and its donors. This is aggravated by widespread clientelism and corruption. More than %90 of people in Lebanon think that corruption increased in Lebanon in 2015. The weak enforcement of accountability measures has further led Lebanese to be the most pessimistic in the Middle East and North Africa thinking nothing can be done to change [59].

The 2017 law that represents a breakthrough in increasing transparency; a prerequisite for accountability, has been advocated by civil society organizations and supported by some parliamentarians. Its ratification took around eight years. The law allows any moral or natural person to access information from public administrations and required the latter to abide by transparency principle and publish electronically their documents, yet it excluded publishing information that would jeopardize the economic and financial situation of the country and the stability of the local currency. The main advantage of the new law is that it included private companies contracted by the government in delivery and management of a public service. However, the challenge remains in enforcement. The access to information law lacks specifically a complaint mechanism and relies on a public entity that was not established and that needs another law for its creation. [60]

58 World Bank, Benchmarking Public-Private Partnerships Procurement 2017 Assessing Government Capability to Prepare, Procure, and Manage PPPs (World Bank, 2016).

59 Coralie Pring and Transparency International, People and Corruption: Middle East & North Africa Survey 2016, 2016 <http://files.transparency.org/content/download/1995/12992/file/2016_GCB_MENA_EN.pdf> [accessed 27 February 2017].

60 'Legal Agenda' <http://www.legal-agenda.com/article.php?id=3496> [accessed 27 February 2017].

As to accountability of international partners and foreign donors, two main issues emerge in addition to the previously mentioned delays in disbursements of pledges. One is the rigidity of procedures and donors' agenda versus national priorities and challenges. The other relates to numerous layers that aid goes through, before reaching beneficiaries. This reduces the volume of aid and effectiveness [61] . In contrast, the upside of resorting to foreign donors and meeting their conditions is reflected to a certain extent in greater transparency in public finance reporting. After the Paris III donor conference reporting and publishing on the fiscal situation and funding through external aid was regular and extensive yet, with time, the effort diminished.

Aid donors

Arab donors, namely GCC countries, like Saudi Arabia and the United Arab Emirates, have been gaining importance over the last couple of decades, and more so recently in light of the crises erupting in Arab countries. Arab donors provide the majority of non-DAC aid in the Arab region are key players in South-South Cooperation.

Indeed, historically Arab donors were described as being among the "most generous [donors] in the world, with ODA averaging %1.5 of their combined gross national income during the period 2008 - 1973, more than twice the United Nations target of %0.7 and five times the average of the OECD-DAC countries." They offer bilateral aid as well as multilateral through the well-developed development institutions they established and that have the potential to grow and expand their assistance scope [62].

The latest available aggregate statistics show that while international donors' ODA dropped by an average of almost %8 annually during 2012-2005, Arab development assistance was rising by an average of more than %4 every year over the same period. The main Arab contributors are Saudi Arabia and the United Arab Emirates (UAE). Qatar and the UAE have actually become participants in the OECD-DAC contributing to discussions on key development issues and benefitting from DAC members' experiences.

The Gulf Cooperation Council (GCC) countries have been pioneering in forming national and regional development funds, that are specialized in development assistance since more than four decades. Examples of national funds are the Kuwait's Fund for Arab Economic Development, Saudi Arabia's Saudi Fund for Development and the United Arab Emirates' Abu Dhabi Fund for Development. Also, major multilateral agencies were established: Arab Fund for Economic and Social Development, Arab Gulf Program for United Nations Development Organizations, the Islamic Development Bank and OPEC Fund for International Development and others.

61 Chaden El Daif, 'The State of Development Cooperation, CSO Enabling Environment and CSO Development Effectiveness Case of Lebanon' (Arab NGO Network for Development, 2015).

62 World Bank, Arab Development Assistance Four Decades of Cooperation Middle East and North Africa, June 2010.

Available data shows that for example the Kuwait Fund for Arab Economic Development's net ODA was reported at $305 million in 2015, representing an increase of 10% over 2014 and this is only one part of Kuwait's total involvement in development co-operation as other Kuwaiti institutions are not reported. In contrast, the UAE's ODA was reported at $4.4 billion in 2015, down by 13% from the previous year [63]. Qatar's latest estimate of development cooperation reached $ 1.3 billion in 2013 more than double the $544 million in 2012 and $734 million in 2011. In addition, Qatar contributed more than $ 50 million through multilateral organisations in 2014 .[64]
Saudi Arabia released a full report in 2014, stating that the Kingdom's gross ODA amounted to $14.5 billion, making it "the fourth gross provider of ODA in 2014 and seventh as provider of humanitarian assistance and tenth largest provider of ODA between 2005-2014" [65].

In addition to aid, GCC have sizeable sovereign wealth funds (SWF) [66], such as the Abu Dhabi investment Authority, the Saudi SAMA and Kuwait Investment Authority that manage fund sizes of around $600-800 billion globally (in 2017) making them among the top five sovereign wealth funds of the world [67]. While most SWF are profit-driven and take place in developed countries' financial markets, they are increasingly shifting financing strategies towards investments and development in the region and thus being considered as another potential development financing source in their own countries and other Arab countries. This shift's impact and success hinges upon SWF's improved governance and transparency; two conditions that have generally been weak.
Arab aid differs from its western counterpart in terms of relatively less stringent economic conditionality. However, while it generally does not tie assistance to specific economic policy requirements, it associates it with political motives[68]. Arab donors choose recipients in harmony with their political models or leverage their economic power for political influence [69] and/or economic and businesses interest.

Yemen's experience with Saudi aid, just like Lebanon, shows that assistance comes in substantial size and relatively quickly for political allies. In both countries aid from Saudi Arabia has been substantial, yet was more targeted as budget support, in-kind fuel donations and funding for infrastructure projects. Little has been done for government capacity building, unlike the typical DAC aid. Likewise, in Egypt, Gulf countries, protected their political interests with economic incentives, including significant aid and investments by their SWF [70].

63 'Aid at a Glance Charts - OECD' <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm> [accessed 6 March 2017].

64 The Sustainable Development Goals as Business Opportunities, ed. by OECD, Development Co-Operation Report, 2016 (Paris: OECD Publishing, 2016).

65 'Saudi Arabia Lead Provider of ODA in 2014 with 1.9% of Gross National Income | UNDP in Saudi Arabia' <http://www.sa.undp.org/content/saudi_arabia/en/home/presscenter/pressreleases/2016/05/15/partnership-in-development-and-south-south-cooperation.html> [accessed 6 March 2017].

66 Sovereign wealth funds are investment funds owned by a central government that preserves its savings for future generations by investing the state surplus resources, in different markets, like real estate and financial markets in order to ensure country resources sustainability. These funds are also used to stabilise government fiscal and foreign exchange revenues.

67 'Sovereign Wealth Fund Rankings | SWFI - Sovereign Wealth Fund Institute' <http://www.swfinstitute.org/sovereign-wealth-fund-rankings/> [accessed 30 March 2017].

68 'Middle East Centre – The New Politics of Gulf Arab State Foreign Aid and Investment' <http://blogs.lse.ac.uk/mec/2015/11/25/the-new-politics-of-gulf-arab-state-foreign-aid-and-investment/> [accessed 6 March 2017].

69 Sebastian Sons and Inken Wiese, The Engagement of Arab Gulf States in Egypt and Tunisia since 2011 Rationale and Impact (Berlin: German Council on Foreign Relations (DGAP), October 2015).

70 Ibid

Arab donors do not report consistently on their aid. Transparency and coordination remains weaker generally than OECD-DAC aid. This is however improving, especially among Arab multilateral aid institutions that have set up coordination mechanisms. The UAE started publishing on its bilateral aid in 2010 and Saudi Arabia published the above-mentioned report in 2014. Both UAE and Qatar are becoming participants in the OECD-DAC. Transparency remains yet irregular and subject to the government discretion.

Private flows

Development cooperation has increasingly recognised the significance of the private sector in funding development as an equal partner along with governments and aid donors. The role of private sector in development cooperation is historical, but came to the forefront after the Busan high level meeting.

Development financing from the private sector includes international and domestic financial resources. The latter are typically domestic investments of national savings channelled through the financial sector. The most relevant international financial resources for the region are foreign direct investment (FDI), and remittances.

This section will focus on remittances and private investments that include in addition to domestic investments and FDI, a new hybrid form that combines private and public sector elements in the investment.

Investments

Although consistent data on investment conditions in Arab countries is limited, most research point to moderate rates of private domestic and foreign investment rates, in comparison to other developing countries, especially in non-GCCs.

Savings that are to be channelled through the financial sector into investment are relatively low in Arab countries. Gross savings to national income for almost all Arab countries stood at %33 in 2014 (the latest available figure) and compare fairly to the average rate of middle income countries globally. However, when excluding Arab GCC countries, the rate goes down to near that of low income countries globally [71].

Likewise, domestic credit to the private sector in the Arab countries to GDP average estimated at %53 in 2015, compared to a much higher %96 for low and middle-income countries [72], possibly indicating weak financial intermediation in general.

As to international investments, most important of which is FDI because in theory, it could positively impact economic development more than other forms of international investments, especially that it is long-term by nature. FDI could lead to productivity gains, technology transfers, employment of resources, and adoption of new management skills with domestic labour and inputs, if well directed.

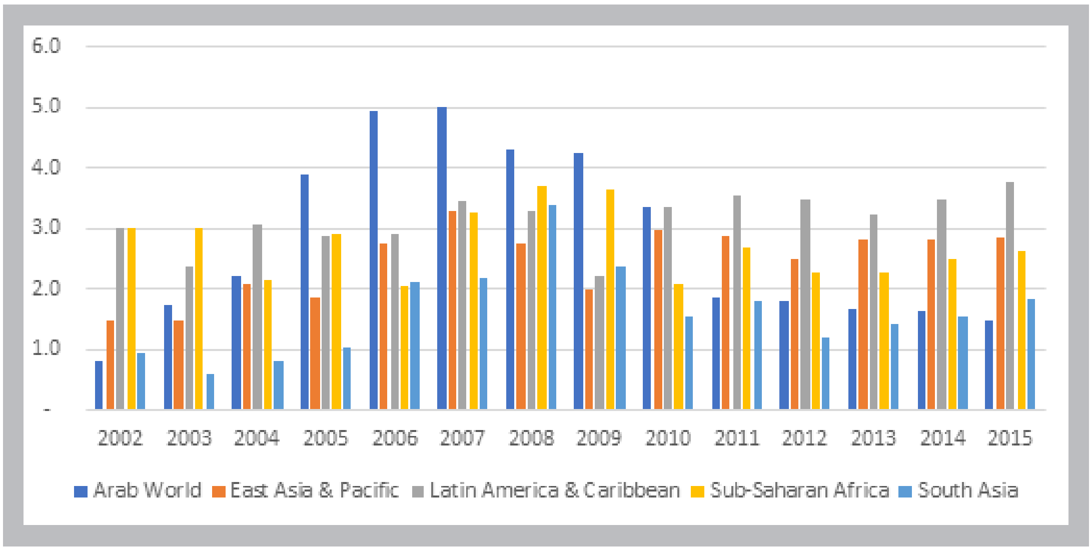
However, FDI inflows as compared to GDP in the region remain the lowest in contrast to what other developing countries' region report (Figure 6). The region captured no more than %1.6 of the world's FDI inflows in 2015 and 2016. According to the World Investment Report 2017, FDI flows are strongly that are strongly driven by oil prices and political instability and conflicts in this part of the world received a hit over the last five years [73].

71 'World Development Indicators | DataBank'.

72 'World Development Indicators | DataBank' <http://databank.worldbank.org/data/reports.aspx?source=2&series=FS.AST.PRVT.GD.ZS&country=#> [accessed 10 March 2017].

73 Investment and the Digital Economy, ed. by UNCTAD, World Investment Report, 2017 (New York and Geneva: United Nations, 2017).

Figure 6: Foreign direct investment inflows (% of GDP)



Source: World Development Indicators

The ratio of Arab countries FDI inflows to GDP was high in the second half of the last decade (2000s), in line with high oil prices, and slowed down, post 2011 due to political instability. A simple average of the share of Arab FDI inflows of developing world inflows, is estimated at 7% in 2011-2015 versus 14% for the previous five years. Most of this FDI has gone to countries like Saudi Arabia and the UAE's hydrocarbon sectors. The GCC FDI inflows accounted for around half the Arab volume and this share was close to 60% over the previous years [74]. Other countries as Morocco attracted FDI into industries in telecommunication, real estate and financial services. The least developed Arab countries remain the weakest in attracting this type of long-term investment.

Studies on FDI inflows to the region show it had minimal productivity gains and job creation potential, and thus little impact on economic development [75]. Literature on the ability of the FDI to crowd in or out domestic investment is also inconclusive. The effect of FDI on domestic investment is subject to domestic policies determining the linkages between the two. In a study covering seven Arab countries (Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon and Syria), for example, it was found that FDI was crowding out domestic investment [76].

Private investment's limited impact on development in the region is attributed to the nature of this investment that has not been able to create sufficient jobs and growth in the region, because it is concentrated in highly capitalised sectors or in low productivity sectors like construction and real estate. The business sector has not been very dynamic over the past decade (2001-2012) [77].

74 'World Development Indicators | DataBank' [accessed 10 March 2017].

75 For more info see: Khaled Elmawazini, 'FDI Spillovers, Efficiency Change and Host Country Labor Productivity: Evidence from GCC Countries', Atlantic Economic Journal, 42.4 (2014), 399–411 <https://doi.org/10.1007/s11293-014-9428-0>. And Souraya Zein, 'Trends in Foreign Direct Investment in the Arab Region Regional Seminar on Investment Policies toward Sustainable Development and Inclusive Growth' (presented at the Regional Seminar on Investment Policies toward Sustainable Development and Inclusive Growth, UN Economic and Social Commission for Western Asia, Rabat, Morocco, 2013).MENA and -OECD Investment Programme, 'MENA-OECD Investment Programme Draft Background Note: Recent FDI Trends in the MENA Region' (presented at the LAS-OECD Regional Conference and MENA-OECD Regional Investment Working Group, Cairo, Egypt, 2014).

76 Nadia Selmi, 'FDI-Local Investment Nexus: Evidence from MENA Region', International Journal of Economics and Finance, 8.7 (2016), 123 <https://doi.org/10.5539/ijef.v8n7p123>.

77 International Monetary Fund (IMF), Investment and Growth in the Arab World A Scoping Note (Manama, Bahrain, April 2016).

Blended finance

In light of their shrinking fiscal space and aid budgets, donor countries and international financial institutions are advocating to find new ways in leveraging the resources of the private sector in offering solutions to development challenges. The idea is to combine development finance or philanthropic funds with private capital for a "win-win" situation for the private sector and the developing countries. Blended finance pairs a concessional financial component with a non-concessional component and pools resources of the public and private sector.

Reporting and measuring the size of these financing resources is problematic because there is no universal definition and unique formula of blending. As this form of finance is gaining importance, attempts to set a tracking system are underway and estimates indicate that the size of blended financing assistance doubled globally between 2010 and 2015 [78].

Blended finance varies between the typical arrangements of public-private partnerships (PPP) to more innovative and sophisticated financial products, including loan guarantees offered through development finance institutions and structured finances where the public sector covers any potential losses if it materializes. In the Arab region, PPPs also include variety forms of arrangements between the public and private sectors. PPPs are chosen, by the public sector to benefit from expertise of the private sector and to facilitate securing the funding for projects especially large infrastructural projects. The private sector expects such investments to offer a lucrative risk-reward balance.

Available information in the three non-GCC countries in the region (Morocco, Egypt and Jordan) estimated infrastructure investments under PPP arrangements at $2.3 billion in 2015, down from $2.9 billion the previous year [79]. The vast majority of these investments received multilateral and bilateral debt mainly from development financing institutions that accounted for 65% of the investment commitments, versus 29% through private sector resources and only 5% coming from the public sector [80].
Other sources indicate the importance and substantial size of PPPs in the GCC, given their diversification plans and infrastructure development, especially recently under financial squeeze due to the drop-in oil prices. It is expected that PPP projects in the sub-region exceed a hundred billion dollars [81].

The effectiveness of PPP as a development financing tool in the Arab region has not been studied. The existing international literature warns against problems related to the cost and risks associated with PPPs for the public sector, low transparency and unclear systems of public scrutiny, monitoring and accountability, and limited contribution to poverty reduction and development at large, with harmful consequences on the environment. For example, a survey of blending facilities cases from the European Commission in 2013 warned from the same above mentioned risks associated with PPPs, in addition to the problem of underestimating the opportunity costs when providing aid to support the private sector to combine its resources with a public-sector financing [82].

78 Javier Pereira, Blended Finance What It Is, How It Works and How It Is Used (Oxfam and European Network on Debt and Development (Eurodad), February 2017).

79 Jenny Chao and Ghady Njeim, 2015 Middle East and North Africa (MNA) PPI1 Update (World Bank Public-Private Partnership, 2015).

80 Jenny Chao and Deblina Saha, Sources of Financing for Public-Private Partnership Investments in 2015 (World Bank Public-Private Partnership, 2015).

81 Ed Clowes Reporter Staff, 'Projects Spending in 2017 Is Likely to Grow after Last Year's Poor Showing', GulfNews, 2017 <http://gulfnews.com/business/sectors/construction/projects-spending-in-2017-is-likely-to-grow-after-last-year-s-poor-showing-1.1968026> [accessed 12 March 2017].

82 Maria Jose Romero, A Dangerous Blend? The EU's Agenda to 'blend' Public Development Finance with Private Finance (Brussels: European Network on Debt and Development EURODAD, 2013).

Blended financial instruments could waste scarce volumes of ODA, especially when financial resources are limited or financed projects fail. Financial resources go to support private investment instead of using them directly into public investment in areas where there is a greater need such as in health and education. Moreover, the role of the private sector in this form of financing, especially the engaged financial institutions, has not responded to the effectiveness transparency and accountability criteria. A review of a number of European blended projects - even though not comprehensive due to information limitations - reflects these weaknesses. EU projects using blended finance are mainly focused on large infrastructure projects like transport and energy with limited direct social impact on poverty alleviation, have unclear monitoring and evaluation, and limited transparency and accountability [83]. Finally, blended finance contains a debt component that should not be ignored especially because it could become a public liability on the state if the project fails.

Remittances

Remittances generally support households' consumption, and could be spent on health and education. However, their impact on broader developmental objectives is not evident, since they are confined within households increased personal consumption choices, based on individual decisions. Remittances' contribution to development remains complementary and limited to the household scale, while its implications as a national instrument for development is debatable.

In the Arab region, remittances account for more than 2% of GDP with the GCC countries being typically sender countries and the lower income countries being recipient. For countries like Lebanon, Jordan, Yemen and Morocco, where the shares go up to 16%, 15%, 9% and 7% of GDP respectively (Table 3), remittances are an important source of finance and have become a structural component of these countries external financial flows like FDI and ODA. For example, in Yemen a year before the war (2014), remittances were considered "the most significant source of financing, representing 70% of total international inflows". This was equivalent to four times ODA[84].

Table 3: **Personal remittances received for major Arab recipient /GDP (%)**

	2008	2009	2010	2011	2012	2013	2014	2015
Lebanon	24.9	21.5	18.2	17.2	15.4	17.1	15.7	15.9
Jordan	16.0	14.5	13.7	12.8	12.4	15.9	17.8	14.3
West Bank and Gaza	11.1	10.4	10.4	10.9	15.4	12.0	14.2	13.2
Yemen	5.2	4.6	4.9	4.3	9.5	8.3	7.8	8.9
Morocco	7.5	6.7	6.9	7.2	6.6	6.4	7.4	6.9
Egypt	5.3	3.8	5.7	6.1	7.0	6.2	6.5	5.5
Tunisia	4.4	4.5	4.7	4.4	5.0	5.0	4.9	4.6
Djibouti	3.0	3.1	2.9	2.6	2.5	2.4	2.2	3.7
Algeria	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Iraq	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2

Source: **World Development Indicators**

83 Maria Jose Romero.

84 Development Initiatives.

Remittances could support economies counter-cyclically sometimes and, in certain cases, trigger a brain gain in their originating countries, as they provide the means for households to raise education levels.

However, this form of financing has also its social and economic costs. Emigration is a selective process. Usually, it is the most skilled labour and entrepreneurs that leave, draining their home country from talent. Thus, emigration's rewards might not be equally distributed, reaching less of the poorest communities. Relying on remittances could also conceal economic problems and have negative social effects in terms of gender relations. In addition, remittances could target financing non-productive investments, like real estate, if there is no enabling environment to channel this form of funding investments. The absence of policies to deal with remittances as a major financial flow for development is one reason for the limited role it could have.

Main conclusions

The previous section overviewed the most important development financing resources and the challenges to their effectiveness in Arab countries. The ensuing general conclusions are:

• Some Arab countries are still caught in public debt, with an external debt tied to international financial institutions' conditionality. The same policy instruments applied decades ago re-applied again and failing to achieve economic advancement and sustainable development.

• Taxation for domestic development financing is limited and problematic for the vast majority of Arab countries, because tax policies shy away from fighting inequality and driving social development and focus only on fiscal consolidation targets.

• Many Arab countries, as portrayed in the case of Lebanon and Egypt, lack an inclusive developmental agenda with the required economic policies, geared towards incentivizing productive and economic sectors and achieving a steady economic development process.

• Arab countries generally rely on official development aid, which is increasingly turning into humanitarian assistance because of the spread of crises. Domestic political and governance conditions are key challenges to development effectiveness.

• GCC countries are donors that complement or replace the traditional western donors, notwithstanding the recent oil prices' drop. They offer aid with almost no economic conditionality, but for favour political alliances.

• Of the private sector development financing, remittances inflows are quite important for low and middle income Arab countries, while FDIs and private investments, at large, are not fulfilling their potential in development financing.

• Not much information is available on blended finance, except for some sporadic statistics on the traditional PPPs without an assessment of their impact on development.

The limitations of development financing in Arab countries indicate that no mechanism clearly supersedes the other. Within the prevailing global conditions, Arab countries, like developing countries, need to strike the right mix to balance between different options in order to limit the drawbacks and diversify risks. Domestic financing methods can be more sustainable with lower risks than external resources but, in the region, they are not fulfilling their social and economic roles. At the same time, given countries' structural deficit and funding gaps, borrowing is inevitable and might not necessarily be harmful, if well targeted into productive sectors and not merely for debt repayment, and if conditionality is avoided. The reliance on the private sector would be a riskier endeavour especially, if not closely monitored and directed by solid regulation.

Finally, it is important to highlight that aid and development effectiveness cannot be addressed in Arab countries without considering the dynamics and impact of protracted conflicts in the region. A typical example is aid under the historical occupation of Palestinian territories (case study 3).

Conflicts and crises require significant increases in volumes of humanitarian and development aid in the form of grants and not loans. Effectiveness of humanitarian assistance is beyond the scope of this report, but it is important to point that the nature of crises and their spill overs in the region, particularly the Syrian crisis and refugees' influx, are now driving donors' development aid agendas.

Early in 2016, the OECD moved to include in ODA additional security-related items to "countering violent extremism." The implication for this situation might lead to using aid into a tool that justifies political coercion for security, such as what happened in Iraq over the last decade [85].

At the same time, the spread of the region's conflicts to reach donor countries' neighbouring borders and rise in nationalism in developed countries are influencing foreign aid policies to look inwards. OECD funds spent on hosting or processing refugees in donor countries doubled from 4.8% of total ODA in 2014 to 9.1% of ODA in 2015[86]. Some countries are prioritising their national security and, accordingly, reshuffling their programs to fend their countries from the repercussions of crises. In March 2017, the US administration announced it will slash its international assistance budget to increase military spending [87].

Case study 3| Palestine: Aid under occupation

Palestine is heavily dependent on aid with official development assistance accounting for 20% of its national income. It is the largest recipient in the Arab region. Despite this significant assistance, development indicators show poor performance. Unemployment remains high. The poverty rate exceeds 25% and Palestinians have been getting poorer for the last three years [88].

Development effectiveness is compromised because of the Israeli occupation. In "Development as Struggle: Confronting the Reality of Power in Palestine" Adam Hanieh [89] provides the reasons as follows:

- Donor-driven development practice focuses on individual's empowerment and presumes free engagement in a market system. In effect, this is fragmenting collective identity; an approach the Israelis have been using with the Palestinians throughout history and donors have adopted in their assistance programs.

85 Oxfam, Whose Aid Is It Anyway?: Politicizing Aid in Conflicts and Crises (Oxford: Oxfam International, 2011) <http://www.oxfam.org/sites/www.oxfam.org/files/bp145-whose-aid-anyway-100211-en_0.pdf> [accessed 20 March 2017].

86 'Development Aid Rises Again in 2015, Spending on Refugees Doubles - OECD' <http://www.oecd.org/development/development-aid-rises-again-in-2015-spending-on-refugees-doubles.htm> [accessed 24 March 2017].

87 Richard Cowan and Roberta Rampton, 'Trump's Budget Cuts to Domestic, Aid Programs Draw Republican Scorn | Reuters', Reuters (Washington, D.C., 17 March 2017) <http://www.reuters.com/article/us-usa-trump-budget-idUSKBN16M1DO> [accessed 24 March 2017].

88 'Palestinians Getting Poorer for Third Year in a Row– World Bank Report Calls for Urgent Measures to Reverse Trend', World Bank <http://www.worldbank.org/en/news/press-release/2015/09/27/palestinians-getting-poorer-for-third-year-in-a-row> [accessed 17 March 2017].

89 Adam Hanieh, 'Development as Struggle: Confronting the Reality of Power in Palestine', Journal of Palestine Studies, 45.4 (2016), 32–47<https://doi.org/10.1525/jps.2016.45.4.32>.

- Aid for Palestinian's economic development is structured without consideration that the Palestinian economy is in an exploitative relationship under Israel's dominance. Instead, international donors' economic recommendation presumes that the Israeli and Palestinian are in a balanced mutually beneficial power relation, while the reality is rather a colonial power relation. The World Bank's recommendation to the Palestinian state, for example, considers the different facets of trade imbalance as a technical matter of operations that can be managed without challenging the obstruction of Israel to the sovereignty of the Palestinians.

- Also, aid to the Palestinian state has been also conditional on implementing a neoliberal economic model. This assumes market operations under the power structure of the occupation would still result in best outcomes for the population, ignoring that the inherent power structure will shape these outcomes to the interest of the more powerful.

To face this situation rather than adapt to it, Joana Springer, in "Assessing Donor-driven Reforms in the Palestinian Authority: Building the State or Sustaining Status Quo?" [90] suggests for donors to assess the effects of occupation on their projects. For example, the Association of International Development Agencies (AIDA) - an association representing more than 80 international development agencies - published in 2011 a report on the impact of Israeli occupation on humanitarian and development programming, focusing on restrictions to movement of aid workers and humanitarian goods. AIDA conservatively estimated the direct cost at an extra $4.5 million every year, as a result only of movement restrictions of its member organizations only. Development effectiveness in the Palestinian context thus cannot be achieved, as long as occupation exists because it is fundamentally obstructing any development initiative.

90 Joanna E. Springer, 'Assessing Donor-Driven Reforms in the Palestinian Authority: Building the State or Sustaining Status Quo?', Journal of Peacebuilding & Development, 2015 <https://doi.org/10.1080/15423166.2015.1050796>.

4

The role of civil society organisations

The Fourth High Level Forum on aid effectiveness in Busan placed civil society organisations (CSOs) at the heart of the development cooperation framework as an equal partner with the donor community, recipient countries, and the private sector. The CSOs' presence led to the adoption of a new set of principles -Istanbul principles- for development and aid effectiveness. CSOs however managed to raise their voice and push for six key asks from development actors [91]. Among these is addressing the challenges and fulfilling commitments on effectiveness principles.

For this purpose, and based on the overview of development financing conditions in the region, CSOs engaged in advocacy can have a role in pushing policymakers to fulfil the effectiveness commitment. The report concludes with two general suggestions and some specific development financing mechanisms in that respect.

Act as the watchdog

The main role that CSOs should maintain and strengthen is the monitoring role, with regards to the different development financing mechanisms and policymaking. The review of available information shows that data on development financing is not consistent and not all state institutions publish regularly development financing reports. International organisations databases, such as the World Bank offer globally comparable information, yet are not comprehensive of all forms of development financing activities. In addition, there is a need for more assessments on the impact of financing mechanisms on development goals, particularly those related to private sector interventions, like FDI or PPP projects.

Foster a genuine dialogue

CSOs need to engage in dialogue with other development financing stakeholders namely the government, the private sector, donors, and other CSOs to constantly redirect any development financing action towards the primacy of a developmental vision that fulfils people's social and economic rights. The dialogue should be based on understanding differences in interests and motives, respect of interests, mutual accountability and the protection of a more equitable policy space based on the right to self-determination and the right to development.
In addition, CSOs advocacy agenda dealing with each specific development financing mechanism could start with the following options.

Keep debt under scrutiny

CSOs could raise awareness on the importance of linking borrowing to developmental objectives. For example, they can raise awareness and lobby for the adoption of internationally set guidelines and instruments in this respect, like the UN Guiding Principles on Debt and Human Rights[92] or the UNCTAD Principles on Promoting Responsible Lending and Borrowing[93].CSOs could push for voluntarily adopting such principles or even integrating them in national legislation. This could also be coupled with awareness raising on the implications of policy conditionality and the importance of borrowing countries' negotiation abilities.
In parallel, CSOs could promote and engage across the public at large, the idea of public debt audits to review and evaluate the reasons behind borrowing and lending and the justification behind resources allocation inquire about debt legitimacy, transparency, and its impact on developmental goals.

91 The key asks are: 1) support an enabling environment for CSOs to realize their potential, 2) bring private sector-driven processes in line with all development effectiveness principles, 3) build inclusive partnerships for the new SDGs, 4) address challenges and implement commitments on aid for development effectiveness, 5) put human-rights at the heart of development, 6) promote inclusive development in all development processes. Source:
CSO Partnership for Development Effectiveness (CPDE), CSO KEY ASKS for a Transformative Global Development Agenda (Philippines: CSO Partnership for Development Effectiveness (CPDE), 2014).

92 'Draft General Guidelines on Foreign Debt and Human Rights' <http://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/DraftGuidelines.aspx> [accessed 31 March 2017].

93 UNCTAD, Principles on Promoting Responsible Sovereign Lending and Borrowing - gdsddf2012misc1_en.pdf (Geneva, 10 January 2012) <http://unctad.org/en/PublicationsLibrary/gdsddf2012misc1_en.pdf> [accessed 31 March 2017].

Make tax work for development

Raising citizens' awareness to the importance of accountability between state and citizens through taxation is another area for CSOs' intervention, while advocating for governments to fulfil their responsibilities in allowing public access to fiscal information. Investigating tax collection and spending avenues with a focus on the importance of the redistributive social role and economic diversification function could be a starting evidence-based tool for increasing the sense of government accountability. The exercise could begin with estimating the size and details of tax revenues, their progressivity results, and the costs of tax evasion among others. These tools should be used to lobby with other influencer groups to implement progressive tax systems that reduce inequalities, support productive sectors rather than rentiers sectors, and ensure a sustainable stream of revenues.

Put development effectiveness to real practice

The globally set principles on development effectiveness (the Paris Declaration, Accra Agenda for Action, and the Busan Partnership for Effective Development) are not being considered as commitments. Many CSOs are not aware of the Istanbul principles, even if they might be implementing them either as part of their principles and bylaws or based on donor conditionality[94]. Advocacy agendas should start specifically by pushing for having integrated national development planning and implementation with all policy tools and aid flows feeding these plans while ensuring that CSOs have a role with policymakers in that respect. This role should not be an ad hoc arrangement but well established and institutionalised, allowing them to regularly monitor policymaking and discuss development effectiveness principles.

CSOs also have a role in warning policymakers on the implications of, and risks from, shifting aid towards including security and military assistance, and in highlighting the role of aid in conflict and the impact of conflict dynamics on limiting development effectiveness.

Direct private financing for development

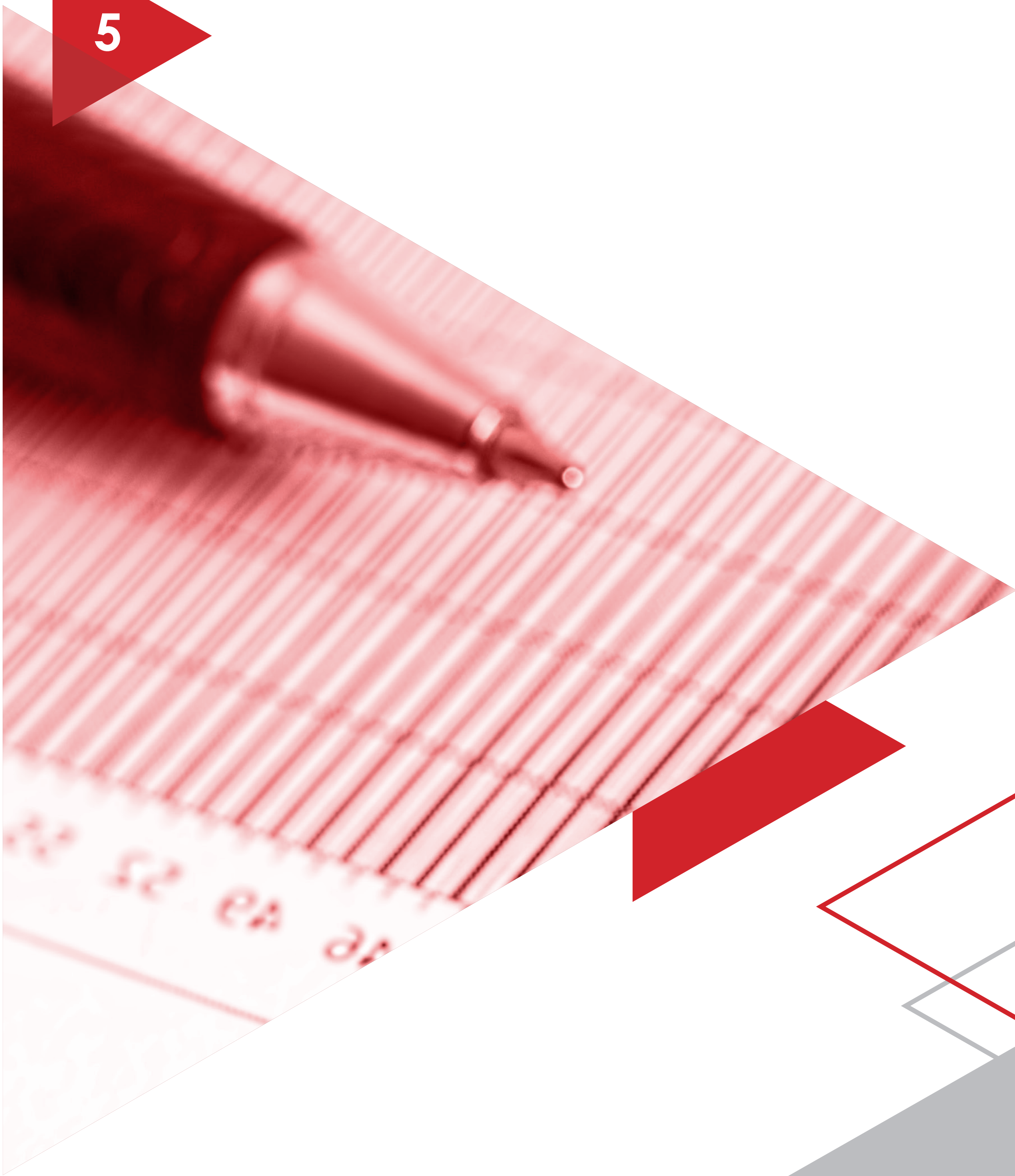
CSOs have a role in redirecting the discussions on the fundamental developmental role of private investments in generating value added, economic growth and productivity, and creating decent jobs, before any other role. At the same time, it is important to assess the relationship between private investment and public investment and the ability of the latter to stimulate the former to achieve developmental objectives.

CSOs could for example, have a say in private sector projects by participating in the implementation of social, economic and environmental impact assessments while ensuring the terms and conditions are fair, and the process is legal and transparent; and monitoring these projects through a transparent cooperation between the governments, private sector and CSOs.

On the other hand, as remittances form another important private financial flow in many Arab countries, it is necessary to investigate their real impact beyond the household level, as to whether they have a positive or negative effect on macro level development objectives.

94 For example, during the Coordination and Strategic Meeting for Development Cooperation- Arab NGO Network for Development (ANND) and CSO Partnership for Effective Development held on 18 November 2016 in Beirut, a presentation on Egyptian non-governmental organizations reviewed the practices of a sample of organizations and showed that some of the Istanbul principles were being adhered to.

5



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