



# Financing for Development (FfD): The Fragility Question/Ambitions for Addis: Summary of Informal Meeting, March 20<sup>th</sup>, Paris

*Document 05*

INTERNATIONAL DIALOGUE STEERING GROUP MEETING  
25 May 2015, Abidjan, Côte d'Ivoire



## Financing for Development (FfD): The Fragility Question/Ambitions for Addis:

### Informal Meeting

20 March 2015, Paris

#### A Summary Report

### Introduction

By 2030, 2/3 of world's poor will be living in Fragile and Conflict Affected Situations. Experience tells us that FfD will need to be far better adapted to have an impact in such environments. Conflict can be a disincentive to leveraging all sources of finance and finance itself can have be conflict inducing. At the same time, it can also make an important contribution to peace. Negotiations over the SDGs are well underway and the [Third International Conference on Financing for Development](#) is scheduled to take place in Addis Ababa from 13 to 16 July 2015, where Finance Ministers will agree on financing arrangements needed to support the implementation of the post-2015 development agenda. The draft outcome document prepared for the FfD Conference, makes a few references to conflict, fragility and peace, but does not amount to a significant consideration of the particular needs of FCAS and of conflict and fragility as the new operating environment for the fight against poverty. Like the Monterrey discussions before them, one size will not fit all – there is a danger that peace, conflict and fragility could be relegated to the status of an 'enabler' with no robust commitments made to ensure that FfD commitments address challenges faced by fragile environments. This is a huge omission, reflecting the absence of g7+ political weight or voice in the negotiations that led to the zero draft. Few in the FCAS community have articulated clear positions on how fragility and conflict are considered in the FfD discussions.

The International Dialogue (IDPS) in close collaboration with the INCAF and International Alert, on 20<sup>th</sup> March, hosted an informal half day meeting at OECD headquarters in Paris. **Building on the paper by International Alert 'Fragile and conflict-affected states: the new norm in development finance - recommendations for negotiators', the purpose of the meeting was to enable participants to share and formulate their ideas on the change they would like to see in Addis**, to ensure that FCAS were not left out of the discussions, but in ways that do not undermine the chances of securing goal 16.

There was general agreement on two broad issues:-

1. More financing was needed for FCAS
2. More careful thought was needed about exactly what that financing was used for

Out of this, two broad objectives for the FfD agenda emerged:

- 1) Ensure that FCAS receive sufficient and necessary financing in order to meet their development needs and are not left behind
- 2) Ensure that finance, both public and private, is *adapted* to Fragile and Conflict-Affected Situations in order to minimise risk of exacerbating conflict and capitalise on opportunities for it to promote peaceful societies

Views were expressed on how these might be achieved roughly falling into four possible approaches to ensure that the outcomes Addis reflect the interest of FCAS and the future operating context of fragility in which the quest for sustainable development and fight against poverty, is likely to take place.

1. Integrated approach: Modifying the drafts' treatment of thematic issues to render them more FCAS-friendly (DRM, tax, private sector investment, national finance strategies etc.) – *(This could meet both objective 1 and 2).*
2. Focus on quantity ODA: Focusing on poverty NOT fragility criteria up front to ensure additional financing :Basic Social Package' *(This would meet objective 1)*
3. Shaping the Focus of ODA: special vertical funds for Peacebuilding and Statebuilding relevant issues like inclusion/justice for all countries in need *(This would meet objective 1).*
4. Framing paragraph: Ensuring that the treatment of peaceful societies conforms with the treatment of other emerging SDG goals in the zero draft. Ensuring that references to peaceful societies are framed in terms of the quality and suitability of (all) finance and the opportunity for finance to actively reinforce peace. *(This would meet objective 2)*

## 1. Summary of Discussions

- Participants agreed that FfD was an important moment for fragile states
- This is not just about ODA, as FfD will focus on the big picture/beyond aid agenda. Any FCAS/FfD agenda must say more than just 'more and better aid'.
- This is not just about how Goal 16 will be financed, but about how FfD can deliver and finance all 17 SDGs with key financial commitments to guarantee FCAS are not left out
- Latest draft of the FfD outcome document stresses key issues of importance to all countries and to g7+ in particular – e.g. domestic resource mobilisation (DRM), principles for better private sector engagement, SMEs and remittances.
- But specific issues of FCAS were largely missing so far. Early versions of the draft outcome document had no references to FCAS. While there are now eight references to conflict and three to fragility they are largely token.
- Yet there are potential entry points: The idea of a basic social package for all people (i.e. minimum income) as a criteria for prioritised financing and vertical additional funds and through the national finance strategies and effectiveness language proposed in the text

## 2. Optimal Outcomes for Addis: More than Financing Goal 16

Participants broadly agreed that **a key priority should be securing robust commitments for financing for 'peaceful societies'**, rather than passing references to conflict and fragility, as presently contained in the zero draft. This would mean a focus on both improving the quality of all forms of finance to FCAS and the quantity of finance to 'aid-dependent fragile countries' where poverty per capita is highest. It would also extend to additional quality investments / funds to address the underlying causes of fragility (justice, security, inclusion) and ensuring that commitments to using ODA to leverage other sources of finance also benefits FCAS in a way that it conflict sensitive

### 3. The problem:

The first approach would be easier to achieve, whilst the second two would require more intense lobbying at international level to ensure broader buy in. The fourth approach may fall somewhere in the middle. The 'special treatment' approach has long been challenged by the G77 group for distracting attention from the LDC group as a whole, or from MICs who are increasingly keen to raise awareness of the particular poverty challenges facing them. The latest FfD draft actually dropped the idea of 50% of aid going to LDCs so having target for total spend in FCAS may not gain traction. Also the **problem arises of which countries should qualify.**

### 4. Solutions: Making the FCAS case less contentious:

- Creating allies by building bridges with MICs to temper G77 group resistance by advocating additional vertical funds both for MICs and for FCAS.
- Framing the messages in language that is more palatable to the G77 group is critical. 'What would it take to finance Goal 16' can be the headline even if FfD/FCAS ambition goes beyond that.
- Use of terminology such as quality, sustainability, effectiveness and finance resilience could help.
- Linguistic tweaking/downplaying specific references to conflict, the g7+/New Deal principles in the text, matched by much more robust advocacy of FCAS case by g7+ group internationally, tempered by bridge building strategies aimed at the MICs (to temper the G77 resistance).

This would mean:

- Stepping up the voice of g7+ group as advocate of the FCAS case internationally
- De-branding the New Deal/g7+ altogether on international stage and instead opting UN sanctioned criteria for fragility (either UN list/eligibility criteria for special facility for addressing complex development problems – e.g. violence)
- Beefing up proposals in the zero draft in ways which de facto favour FCAS group, without explicitly making the case for FCAS (letting the maths do the work)
- Minimalist tweaking of the zero draft to make broad thematic priorities FCAS-friendly

### 5. Threats

- Basing FCAS on the New Deal is risky without clear evidence of its effectiveness as a model and given the persistent credibility issues it faces within the G77 group.
- Low hanging fruit (focusing on DRM, remittances, IFFs and corporate taxation) may appear to be more consensual, but addressing issues of private sector threats to conflict/fragility, if not paired with the opportunities that private sector investment may bring, could create resistance
- No sign yet that donors are actually offering anything new through this process (e.g. additional funds), meaning we should perhaps lower expectations. This will also mean that there is a 'zero-sum' dynamic between ODA recipients.
- New non-ODA development finance flows are expected to make up the difference (which is of less help to FCAS which find it harder to access other flows)
- Lack of ODA for FCAS is often not the only issue. Often FCAS lack the ability to absorb more aid and the necessary leadership. So can't just throw more money at these countries without improving absorptive capacity.

- Financing in FCAS should be front-loaded (i.e. more spent sooner) to enable development gains to be 'compounded' over time. But most donors are resource-constrained at present
- Sendai saw no commitments on finance, no numerical targets, no conflict mention). 'Fragility/conflict' might still be an unwelcome issue for some countries

## 6. Opportunities

- Use lessons from the New Deal Monitoring Report and emerging lessons from TOR drafting process for Independent Review to frame some big messages about New Deal as 'aid effectiveness' in FCAS guide
- Donors have not yet articulated a clear position on what they will bring to the table in Addis. This can be an opportunity to push for clear financial commitments and vertical funds idea but to avoid 'peace as an enabler' option, which increases likelihood of NO financing attached to it
- Complex challenge of conflict sensitivity and private sector. Use IFI work already underway to make this case, build alliances and rework these parts of the zero draft
- Addis will be dominated by Ministers of Finance, not Ministers of Foreign Affairs (as with post 2015), this creates more scope for g7+ voices to be heard
- Time is tight, with Busan precedent where side meetings secured the New Deal, means that targeted advocacy, with international backing could be effective

## 7. Plan of Action: Next steps

- A. Develop **4 Big Asks for zero draft for approaches 1, 2, 3 and 4 (all or selectively) and create a primer** (learning tool) on the key issues
- B. Engage global champions to take forward messages
- C. Create opportunities to support and strengthen g7+ voice in FfD discussions

### A. Asks and Tasks for Addis

#### 1. ODA quantity and evenness of ODA (i.e. preventing aid orphans).

Fragile states, despite special needs, have not seen per capita increases in flows (e.g. arguably underfunding for health and other sectors in Sierra Leone and Guinea - 'aid orphans' underpinned Ebola crises). Allocation to and between fragile states is the problem. Higher volumes of aid are still proportionally going to richer countries (even among fragile states).

*Build on current proposal in FfD draft for minimum spend per person for basic services. This automatically leads to minimum aid per person given that revenue per person is insufficient in poorest countries, many of which are g7+.*

#### Tasks

- Set up reference group to explore Approach 2 – Basic Social Package – putting figures to it (ODI/IDPS) by **April 3**.
- **ODI**: launching their flagship report first week of April with event in May, Fragile states and Aid effectiveness, focussing on four key areas which **new aid effectiveness agreement** should have in it (?) – will follow up for concrete FfD elements for FCAS to insert
- Develop 1 pager outlining key messages (by April 10)
- Lead (ODI?)

## 2. ODA quality

**Smart Aid in FCAS must be channelled towards quality improvements**, without which improved quantity will have negative effects on conflict and fragility. FfD must invest in inclusion (competing political elites, women, youth), checks and balances (justice) and reinforcing visible signs of political commitment to such (political will).

**Smart aid with effectiveness:** If aid is to be smarter, more targeted and more prioritised to be effective, it must also prioritise country ownership and the use of adaptive, risk sharing, flexible and speedy instruments favouring long term approaches which put governments in the driving seat. Aid effectiveness is vital for addressing fragility as a global phenomenon and for making aid stretch further in progress in fragile environments. FfD agenda (zero draft) does not integrate aid/development effectiveness agenda.

*Add New Deal TRUST principles into new aid effectiveness agreement, plus advocate for making more use of multilaterals and global funds to enable more risk taking). Prioritising the PSG areas. Suggest new global funds in underfunded PSG areas such as inclusive politics, conflict prevention and justice. This should also include measures to improve absorptive capacity.*

### Tasks

- Set up reference group on Approach 3– **vertical funds (Global Fund for Justice/Inclusion) by April 3**
- Develop 1 pager out of which key message could be drawn for insertion into zero draft on both Approach 3 and 4 (April 10<sup>th</sup>)
- SIPRI also organising Stockholm Forum on Security and Development – May 12 and 13<sup>th</sup> – Day workshop 11<sup>th</sup> – Financing for Development.
- SIPRI has two publications of use: Projections of Poverty - 2030 – numbers, Mapping GIS – where are pockets that no-body is getting to.

## 3. Non-ODA flows (remittances, climate finance, using IFIs to support private sector, tax reform in rich countries).

**Smart aid means prioritisation:** Use ODA in smart ways to leverage other sources of finance, notably private sector finance, where poverty is most glaring, in low income aid dependent FCAS. This means not just minimising risks for private sector investment, but minimising the conflict /fragility risks induced by private sector.

### Tasks

- Set up reference group on 'low hanging fruit' (IA, IDPS, CSPPS and Donata Garrasi)
- *Produce A one page brief on each, setting out adjustments needed to take into account context in g7+ (y 10 April)*
- IA to report back on planned Civil society WB /.NY consultation 8-9 April

**B. Engage global champions to take forward messages**

- Circulate main messages (this doc) to different constituencies like INCAF members, IFIs, Global Partnership, OECD colleagues (immediately)
- Focus on – Sweden, Netherlands, and US as leaders
- IDPS to collaborate with Netherlands: Preparation of World Bank Conference in Rotterdam – April 21/23rd – closed meeting for Bank – they will send more information next week. Netherlands willing to be a visible supporter, looking for a small group of countries to take the lead on these issues in EU.
- Netherlands to explore mobilising the Global Partnership on this issue as its co-Chair, now FCAS risen up the agenda
- Global Partnership in coordination with civil society committee – 9/10 April – 8th UN pre meeting of Addis session by invitation

**C. Create opportunities to support and strengthen g7+ voice in FfD discussions – government and civil society**

- ODI to follow up with g7+ immediately – conveying core outcome
- IDPS to engage g7+ (30, 31 March meeting Brussels)
- IDPS and g7+ co-Chair at 1st April at Global Forum for Development – begin to introduce and share ideas FfD/FCAS
- April 17-19: 1st formal negotiation of outcome document will be discussed by Finance Minister in Washington WB spring meetings: Organise Minister of Finance g7+ side event / technical meeting
- May 2015 25, 26th: IDPS Sec organise side technical meeting in Abidjan back to back of ID Steering Group for all g7+
- IDPS Sec to plan Side Event Addis (plan to follow by 1 April)
- CSPPS: Preparing side event in Steering Group Abidjan – with IA colleague from Ethiopia
- CSPPS attendance at ID panel World Bank spring meetings – could use to take FfD/FCAS forward

## **ANNEX 1: OPTIONS IN DETAIL**

### **WHAT? CONTENT**

#### **Approach 1: Tweaking the zero draft to ensure treatment of thematic issues in more fragile states friendly way**

Tweaking the zero draft by modifying its treatment of thematic issues to render them more FCAS-friendly. It includes highlighting ways in which themes of interest to all developing country contexts could be modified to better take account of the specific interests of FCAS. These include national finance strategies, DRM, remittances, BEPs, IFFs, conflict sensitivity amongst IFI and private sector investment, were deemed to be 'low hanging fruit' that could be easily modified.

Some issues however in this broad group may be more complicated to achieve. The use of public sector finance to leverage other forms of finance articulated in the draft would need to be extended to FCAS in conjunction with seeing how ODA can be used in smart ways to offset and address risks caused by private sector investments, notably through shaping national business enabling regulation safeguards legislation and enforcement capacity. While many FCAS continue to be aid dependent, and do not currently attract large sources of FDI, integrating FCAS concerns into these broader discussions would necessarily have to be about ensuring that where private finance was leveraged, or already present, it did not undermine peacebuilding and statebuilding goals/does no harm and where possible actively contributes to peace

Add on private sector: fragile sensitive impact investment funds – to provide finance to SMEs and entrepreneurs – suffering from lack of funds. Main problem in FCAS is 'lack of economic foundations' – jobs and skills entrepreneurship is really a big problem.

Smart aid focus: leveraging aid for better results – e.g. IFFs, Domestic Revenue Mobilisation. If ODA is to be used to leverage other sources of finance, smart aid, then private sector, then different tools needed to ensure investments do not harm in fragile states.

Incentivising business: Creating incentives for conflict sensitive business practice and encouraging the integration of peace consideration as well as sustainable development into corporate strategies. This was something, in so far as it referenced sustainable development, that was in the original elements paper but did not make it to the zero draft.

#### **Approach 2: Quantity first**

Instead of explicitly making the case for a greater share, the politically savvy option would be to use the concepts already in the zero draft, to ensure that it becomes a marker for determining volume levels. FfD as guaranteeing a basic social package – introduce thresholds of per capita income to ensure that FCAS are included...This would let the maths speak for itself, rather than making an explicit case for FCAS by using FfD to guarantee a 'basic social package' for individuals below a minimum 300 USD per capita threshold. This would necessarily include all g7+ and other FCAS, where poverty is highest. This builds on reference in the zero draft to 'basic social package' but based on per capita not aggregate figures. Has the advantage of leading to a radical discussion of aid volumes and prioritisation, without actually front loading the FCAS case but could potentially be an entry point for securing higher commitments to FCAS.

#### **Approach 3: Quality financing with: special vertical funds for justice and inclusion**

Builds on proposals in the zero draft, but applies principles to FCAS group. This would reduce resistance potentially from G77 by reducing competition over big development pie through concept of additional funds for FCAS and MICs. Special pots of money would reduce competition and potentially temper G77 resistance, and bring MIC voices into the discussion, rather than defending FCAS alone. MICs needs are already differentiated in zero draft. Create strategy with MICs to push for special considerations. Graduation criteria and access to concessional loans still needed.

*The approach has much merit but how realistic is it, given climate financing is already occupied this space? It's needed however, as a necessary precondition for making the case for more volumes or/and specifically earmarked funds for justice, inclusion and security.*

#### **Approach 4: Framing paragraph: Bring peaceful societies into conformity with the treatment of other goals**

Using the language of sustainability, quality and effectiveness as it applies to all finance, recognise peace is essential to the sustainability of finance investments (e.g. impact of deterioration or relapse into conflict) and promoting an environment conducive to mobilisation. Also recognise the quality of finance investments determines the positive or negative impact finance has on peace. This then makes the case for some form of commitment to peaceful societies if not specific funding. Such language is not alien to the draft as it stands. In the public finance section there is text that speaks to effectiveness. It is currently under developed and does not, as it stands meet objective 2 as outlined previously. It is a starting point though. Relocating this and then framing it in a way that is applicable to all finance, when paired with the language of effectiveness and sustainability could be a possibility. The risk is that if such text is driven towards identifying specific funding priorities this could be divisive.

#### **HOW? STRATEGY**

##### **Bridge building between all countries facing fragility/violence?**

Not either G77 friendly or g7+ friendly solution; either/or prevents building consensus around alternative platforms that could create buy in from both. If you can convince people that violence is an issue – with funds to address it – could you get G77 to come on board with violence prevention as a public good? Many countries would not sign up to a fragile states facility – but a special facility for complex development systems ('fragile systems') – e.g. Mexico might engage with it. Enables you to deal with areas without the country reacting negatively about being put in a particular category – facilitates learning between countries with similar challenges Afghanistan/Colombia.

***Participants support:** Broad support for this as 'way to go' in the longer term, but in the context of negotiations, there is very little room for nuance in the FfD – it comes down to counting political orientation, based on number of mentions of a given group or constituency in the document*

##### **Rebranding: Dropping New Deal/g7+ as unhelpful brand and replacing it with a new list?**

To get around the opposition within the UN system to FCAS/New Deal group, a proposal made for a new UN list of low income conflict affected countries – of LDCs which have had a peacekeeping mission in the last 10 years, 12 countries which would include all g7+, would create UN ownership of the political problem

and generate scope for special consideration proposal within the FfD agenda. But this does not include funds for prevention even if the cost of reconstruction are higher than prevention.

Yet UN definition excludes a focus on prevention and long term instability, and structural violence are not captured by presence of UN peacekeeping mission; how to justify more financing for both?

**Participant support:** *Not much support a new, list seen as unhelpful in long term and time too tight for UN to take on*

**No Debranding: Advocating on g7+ platform and legitimate right to self-selection**

**Participant support: Considerable,** even if considered problematic in context of post-2015 discussions, yet