INTERNATIONAL DIALOGUE
ON PEACEBUILDING & STATEBUILDING

Financing for Development: g7+ Information Note

Document 06

INTERNATIONAL DIALOGUE STEERING GROUP MEETING
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Financing for Development - g7+ information note

Background

Fragile states were not specifically considered in the Monterrey Financing for Development conference. Fragile states have found it the hardest to make progress in achieving the MDGs. Two thirds of poor people will be in fragile states by 2030. Fragile states are therefore critical to ensuring that the Financing for Development conference paves the way for a successful summit on the Sustainable Development Goals.

The g7+ group is a voluntary association of the world's poorest countries affected by conflict and fragility. It includes LDCs and LLDCs that have had a UN peacekeeping /peacebuilding/political mission within the last five years with the exception of Mali[1]. And the first time the UN Security Council ever met to consider a health issue – Ebola – all three countries involved were members of the g7+. The views of the g7+ members should therefore be welcomed and be given careful consideration.

The g7+ is concerned that conflict-affected states have been relatively neglected in the discussions so far on the preparations for the Addis Ababa Financing for Development (FFD) conference. The ten page "elements" paper issued in January 2015 had just two sentences that recognised the needs of conflict affected states in general terms. None of the 200 detailed policy ideas directly related to the challenges of conflict affected states.

The g7+ welcomed the zero draft of the Addis Ababa Accord for highlighting some vital areas of concern to us such as strengthening domestic resource mobilisation, tackling illicit flows, supporting contract negotiations, increasing private sector engagement, reducing the costs of remittance transfers and increasing access to climate finance. We were also pleased to see several general references to the special needs of fragile and conflict affected states.

The g7+ is however deeply concerned by the lack of concrete proposals regarding conflict-affected states. The only specific proposal in all the 114 paragraphs is a call to

[1] Twelve g7+ members with UN peacekeeping/peacebuilding missions that ended within the last five years are Afghanistan, CAR, Chad, Cote D'Ivoire, DRC, Guinea Bissau, Haiti, Liberia, Sierra Leone, Somalia, South Sudan, and Timor Leste. If regionally authorised missions are also included Comoros, Guinea and Solomon Islands might also be considered. If the cut-off is extended to last ten years then Burundi and possibly Ethiopia and Eritrea would also be included

strengthen and scale up the Global Partnership for Education to enable it to ensure no child is left behind. While this is an important issue this clearly is not the only issue of concern in our countries.

The g7+ is also concerned there also seems to a general assumption that "one size fits all", which would seem contrary to all that we have learnt about development in the last fifteen years. For example there are no explicit references to the need to prioritise peacebuilding and statebuilding goals in the immediate aftermath of a conflict.

The g7+ also welcomes the recognition of the need for adequate resources for conflict-affected countries. We would further highlight the importance of a long term, stable and predictable flow of financing in order to reduce the inherent problems that are associated with uncertain financial or short term financial flows. Furthermore, we also believe that *how* these resources are delivered is just as important. We don't believe the priority need is for any more "new ideas" in terms of financing or financial modalities. What is needed is better ways to operationalise these ideas on the ground, considering the contextual realities. As the Ebola crisis has shown, the costs of a slow response and failing to work with countries and support the development of their own systems are very high. The challenge is therefore to provide *better aid* as well as more aid.

We propose that FFD discussions should cover the following eight key elements in the final outcome document. We have also included suggested in italics some concrete actions that would have a transformational impact.

1. Support domestic tax resource mobilization

Our overriding long term financing for development need is to rebuild and enable our own state institutions to raise revenues and meet the financing needs of our development. This is a key element of statebuilding and the path to long term peace. There have been some successful examples in our countries of building domestic revenue institutions. We welcome the long term revenue target of 20% of GDP in the zero draft but note progress towards this will depend on maintaining peace and making broader progress with statebuilding. Progress will also dependent on combating illicit flows/tax evasion. This will require much greater international cooperation. Specific concrete commitments/actions that that would have a transformational impact include:

a) *Commitment to providing additional finance for supporting major contract negotiations, recognising the urgency of some requests and the need for longer term support to build national systems.*
b) *Commitment to localise technical assistance within national institutions for tax collection, in order to better support and address illicit financial flows and build national capacity for domestic revenue collection*
c) *Abolition of the requirement that conflict-affected states must provide tax information before benefitting from automatic exchange of information (AEOI) on the overseas incomes of resident companies and citizens. Support should also be provided to enable countries to make full use of this information*

2. Support domestic natural resource mobilization

Many g7+ countries have sufficient natural resources to be able to finance their development needs. However, the political economy of the extractive industries means that often the returns to the state are limited or non-existent. Specific concrete commitments/actions that would help our countries to increase revenues and self-financing our development include:

a) *Commitment to providing additional finance for supporting initiatives that help developing countries to better identify and manage their natural resources*
b) *Commitment to develop measures of contract management and resource rent capture that focus on maximising income to national actors*

3. "Leave no fragile state behind"

We concur with the observation in the elements paper that any FFD settlement should ensure aid is allocated to the countries in most need, such as poor conflict-affected states. We are therefore concerned that in last few years aid flows to conflict affected states have stagnated/declined and the issue of 'aid orphans' such as CAR persists[2]. Conflict affected states are also likely to struggle to access other sources of finance such as private flows, given rule of law and associated credit worthiness tends to be weaker. What is missing is a "Leave no fragile state behind" financing policy and a coordinated approach to meeting the financing needs of all states.

Furthermore, there is a need for the financing options to be tailored to a country's ability to raise revenues. For example loans, even concessional loans, no matter how high the economic return of the project they are invested in – are often difficult or impossible to repay in a post conflict country because the means to collect taxation and foreign income (with which to repay those loans) is limited. Therefore, for g7+ countries there should be a greater emphasis on grants than on loans in terms of the types of financial assistance.

Specific concrete commitments/actions that that would have a transformational impact include:

a) *Recognition that peaceful societies are both a pre-requisite and enabler for attracting, mobilising and applying all forms of finance.*
b) *Creation of global monitoring of proportion of external flows and support going to poor conflict affected states, to ensure that proportion is increasing (or at least not falling back further) including aid, foreign direct investment and technical assistance*.
c) *Set timetable for delivery of 0.7% GNI aid target*

[2] The OECD fragile state reports in 2014 showed aid fell to fragile states in both 2010 and 2011. ODI analysis of ODA disbursements to g7+ reveal rapid growth in 2000s, stagnating levels in 2010-2012 and then steep 40% fall in 2013. This in part because aid in 2012 was boosted by one off debt relief to Cote D'Ivoire suggesting the real decline began in 2012.

d) *Set target for severely conflict affected LDCs' share of aid (possibly within proposed overall target for 50% of aid to go to LDCs) – which would also allow for conflict affected LDC's to be entitled to a greater portion of grant support as opposed to concessional lending*

4. Recognise need to prioritise peace and statebuilding in fragile states

In the past, international support has focused on the Millennium Development Goals (MDGs). However, conflict-affected states have struggled to achieve the MDGs. This has driven the emerging recognition by all the g7+ countries, all the UN development agencies, most international financial institutions and many bilateral development agencies that in such countries the focus needs to be on the Peacebuilding and Statebuilding Goals (PSGs), as set out in the *New Deal for engagement in fragile states*. But international support for the PSGs has not changed much over last 15 years. For example, only 3% of aid is spent on support for legitimate politics and the same on security and not much more on justice. Support for critical economic infrastructure foundations also remains too low. For example the failure to develop a national road network, essential to reducing the sense of marginalisation, has aggravated the political challenges in South Sudan. The international community should:

a) *Introduce a system for tracking expenditure on peace and statebuilding, as none exists currently. This would include supporting the UN PRIAI initiative.*
b) *To focus financing towards support for:*
    a. *Statebuilding and in particular institutional capacity building within the public sector;*
    b. *Inclusive initiatives that focus on political, social and economic connectivity in particular, examining both the level of effort and the modality of delivery.*

5. Mainstream "New Deal" aid effectiveness principles for conflict-affected countries

The piloting of the New Deal has confirmed the importance of the five 'TRUST' aid-effectiveness principles in providing support to conflict-affected states. For example, the Ebola crisis has shown that aid can be provided in a much more timely way. The Ebola crisis has also underscored the importance of using country systems in order to build national systems. But as the review of the New Deal showed it is this aspect– and the principle of effective capacity building – which development partners are failing to deliver the most. While ownership and leadership of the recipient countries is recognised in theory as critical, it is still too often been overlooked in practice. While there has been progress, a much more realistic approach to risk in conflict-affected countries and a willingness to share these risks needs to be systematically applied. To ensure these principles are put into effect:

a) *DAC donors should reconfirm their commitment to abide by TRUST principles (i.e. promote Transparency, Risk sharing, Use of country systems, Support to capacity building and Timely provision).*
b) *Emerging donors and other providers of external support should explicitly state how their support will reflect TRUST principles to the maximum extent that is appropriate and possible.*

6. Develop and engage the private sector

A private sector that contributes to sustainable development of the country as a whole is critical for the long term development of our countries, in particular for job creation and infrastructure development. However, in many conflict-affected countries the domestic private sector is incapable of driving the economy, and it is often heavily reliant on the public sector for its income so there is an *a-priori* need to capacity build and develop a domestic private sector capability. Yet these contexts present unique challenges to private sector actors. As such, the policy and regulatory frameworks sometimes adopted from more advanced nations can be unsuitable to a post-conflict context. The private sector can also do harm in fragile settings, especially but not exclusively in the natural resources sector. Private sector development and private investment in fragile settings requires public sector support and guarantees that go beyond the usual focus on reforms to the regulatory environment and PPPs. To overcome these obstacles:

a) *Multilateral and international financial institutions should jointly review the extent to which they collectively catalyse and incentivise a faster return by the private sector, including a review of the extent to which their current set of instruments (e.g. investment insurance, support for PPPs) are appropriate in post conflict poor country contexts, with a view to recommending reforms and identifying possible new instruments.*
b) *For fragile states more emphasis should be placed on developing the capacity and size of the domestic private sector to be able to compete both locally and internationally.*
c) *Physical infrastructure (roads, energy and water) and soft infrastructure (technology, skills and higher education) are the necessary enablers of private sector development, and help generate a vibrant economy. Thus development finance (grants, concessional loans) should be raised and allocated to infrastructure projects, which often require heavy investment.*
d) *Global standards for business practice in conflict-affected and fragile settings should be established and endorsed. These standards could include issues like conflict and fragility assessments, transparency and governance standards, community dispute resolution mechanisms, transfer of capacity, and taxation commitments.*

7. Improve access to Climate Finance

Improving access to climate finance is critical in support of national development goals. Poor conflict affected states are often the most vulnerable to climate change and in most need of support. Ensuring they can access climate funds so they can have fair share is an imperative. In order to achieve this:

a) *Climate finance needs to be separate from and additional to Official Development Assistance.*
b) *Any target for adaptation climate finance going to LDCs should include a specific sub-target for conflict-affected states.*
c) *Multinational funds that provide adaptation finance must develop appropriate instruments for conflict affected states and until countries have deeper institutional capacity should consider in the interim period funding programmes that build resilience of the poorest*.[3]

8. Do no harm

The minimum test of any engagement in fragile and conflict-affected countries must remain the "do no harm" principle. Despite this there are many examples of development and financing policies that unintentionally harm conflict-affected states, including incoherent international approaches to remittances and trade, excessive reliance on foreign contractors and NGOs, ill-conceived short term security interventions, imposition of foreign models of governance that are not owned and seen as legitimate by the county. Early public identification of these instances would accelerate taking necessary corrective action. The international community should:

a) *Ensure the voice of conflict affected states is heard in all relevant global economic governance and institution reforms.*
b) *Call for stronger global attention to conflict prevention and early action at times when risks of violence and fragility appear to be increasing.*
    a. One way would be to examine ways to better manage and track labour mobility both within and between countries.
c) *Institute an annual "Do no harm" report to give an opportunity to reveal and highlight aspects of policy or practice where this principle is being violated and where opportunities to prevent conflict have not been taken.*

[3] For example through country led programmes such as Ethiopian Productive Safety nets and the Sahel Adaptive Social Protection programme.