PBC ANNUAL SESSION - 2017

Partnerships for Financing for Peace

Friday 30 June 2017

Background Note prepared by PBSO

<u>Section I</u>

Overview of financial flows to conflict-affected countries

Key messages

Conflict-affected countries require a predictable and sustained flow of financial resources to support their peacebuilding priorities. The composition of financial flows, however, is likely to change over time. This note is aimed at providing empirical data to inform the discussion at the PBC Annual Session and provide considerations for using Official Development Assistance (ODA) to unlock other financial flows to- and within conflict-affected countries.

- While ODA remains an important source of external finance for conflict-affected countries, particularly low-income countries, remittances to conflict-affected countries are growing on average twice as fast as ODA and Foreign Direct Investment (FDI), making remittances the largest single financial flow to conflict-affected countries.
- There is a great disparity with regard to financial inflows to conflict-affected countries. Countries like Colombia and Lebanon, attract both FDI and remittance, others rely heavily on ODA, like Somalia and Liberia, and some receive hardly any ODA, remittances or FDI, like Guinea Bissau.
- The peacebuilding impact of ODA can be further enhanced if it contributes to the inflow of FDI, enables longer term investments from remittances and prioritizes institution building.

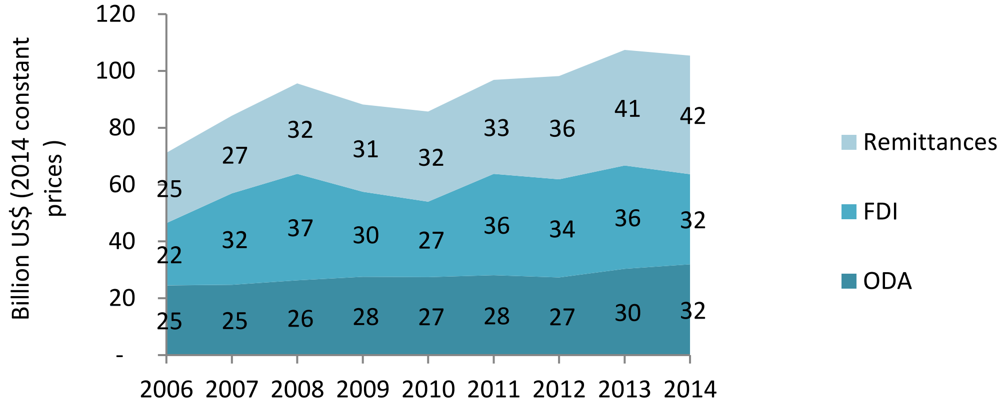
1. **Financial flows to 30 conflict-affected countries[1] have increased.** As shown in figure 1, total financial flows – which include ODA, FDI and remittances – to conflict-affected countries increased by 48 per cent in constant terms between 2006 and 2014. In the same period, remittances increased by 6 per cent per year on average, while FDI and ODA both increased by about 3 per cent per year on average. Remittances are now the largest source of external finance for conflict-affected countries. ODA's share of the total flows to conflict-affected countries fell from 34 to 30 per cent during this period.

2. **ODA is concentrated in a small subset of conflict-affected situations.** The top six aid recipients (Afghanistan, the Democratic Republic of Congo, Haiti, Iraq, the Sudan and the Syrian Arab Republic) received together 52 per cent of total ODA for 2010-2014. Afghanistan received 21 per cent of all ODA to conflict-affected countries. In contrast, Central African Republic, Chad, Guatemala, Guinea, Guinea-Bissau, Libya and Madagascar, received only a combined 8 per cent of ODA to conflict-affected countries. Similarly, ODA per capita varies

[1] Countries hosting Special Political Missions or multi-dimensional Peacekeeping Operations or eligible for the Secretary-General's Peacebuilding Fund.

significantly with Afghanistan, Haiti and Kosovo[2] receiving on average more than US$150 per capita per year in 2010-2014, while Myanmar, Colombia, Madagascar, Guatamala, and Sri Lanka all received less than US$25 per capita per year in 2010-2014 in ODA.

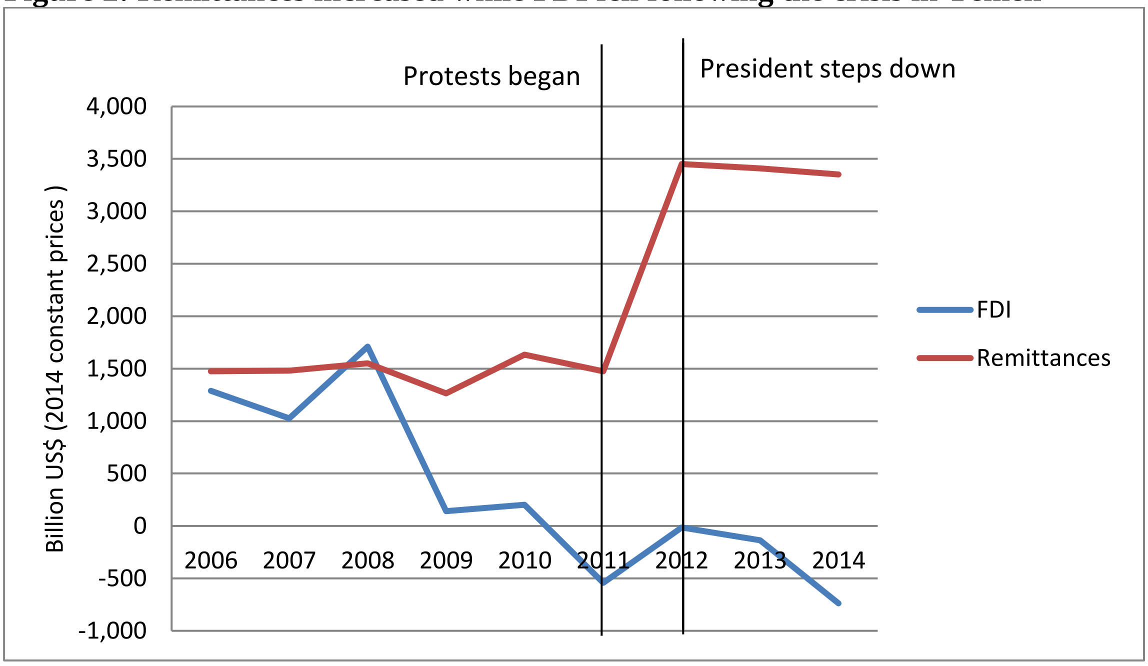
Figure 1: Remittances form an increasing share of financial flows to 30 conflict-affected countries



Sources: FDI and Remittances data from World Bank. ODA from OECD International Development

3. **For 30 conflict-affected countries, FDI and ODA as percentage of Gross National Income (GNI) are declining while remittances as a share of GNI are growing.** In some cases during and in the direct aftermath of crises, remittances remain relatively stable or tend to increase (as diaspora family members respond to increased needs), while FDI sharply declines. Yemen is a case in point as shown in figure 2.

Figure 2: Remittances increased while FDI fell following the crisis in Yemen

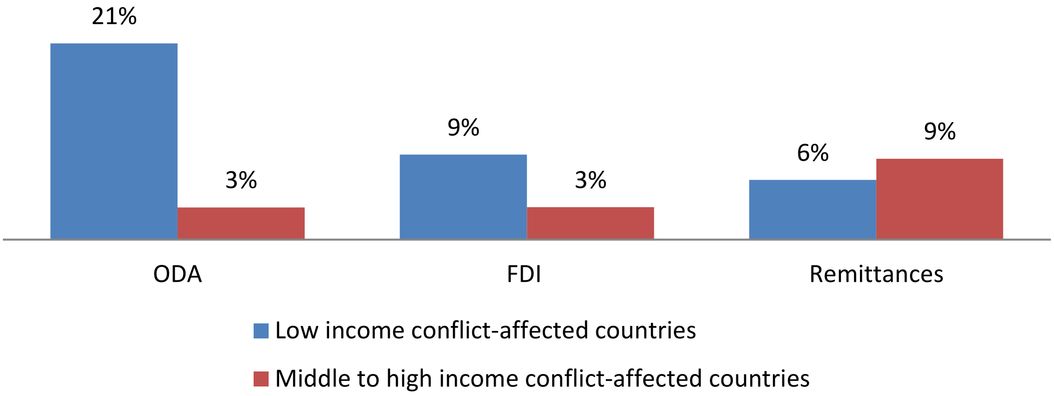


Sources: FDI and Remittances data from World Bank. ODA from OECD International Development Statistics

[2] All reference to "Kosovo", whether to the territory, institutions or population, should be understood in full compliance with Security Council resolution 1244 (1999) and without prejudice to the status of Kosovo.

4. **For low-income conflict-affected countries, ODA remains the main source of inflows, while middle, and high-income conflict-affected countries can rely more on FDI and remittances.** FDI in low-income conflict-affected countries is typically concentrated in the extractive industries, which is capital intensive and provides generally only limited job opportunities. FDI inflows to conflict-affected countries is furthermore concentrated in a few middle- and high-income conflict affected-countries with 65 per cent of total FDI to conflict-affected countries going to Colombia, Iraq, Lebanon and the Sudan.[3]

Figure 3: Average share of GNI for ODA, FDI and remittances



Source: FDI and Remittances data from World Bank. ODA from OECD International Development Statistics

5. **Remittances could be used in innovative ways to support investment.** Remittances contribute to development in many ways, including through enhancing food security, education, health, housing and investments in small- and medium-sized enterprises. Migrants are often overlooked as potential investors with 73 per cent of migrants planning to return to the country of origin and 15 per cent of migrant earnings being sent back to the country of origin on average.[4] In conflict-affected countries with large diaspora populations, there remains a large opportunity for shifting remittance payments from consumption to investments, or leveraging remittance payments in innovative ways to support sustainable development outcomes in conflict-affected situations.

6. **FDI inflows can be supported by ODA if it is used to strengthen the business infrastructure, or de-risking investments in conflict-affected settings by offering currency and investment guarantees.** The private sector often overestimates the risk of investing in conflict-affected countries because of the lack of information. Closer engagement between the private sector, development partners and the International Financial Institutions (IFIs) can provide more transparency about the conflict dynamics and peacebuilding investments, which could reduce perceived risk. However, linking ODA to private sector development can result in overemphasis on countries with more effective governments and functioning markets – where private sector investments are more likely to yield returns – while overlooking countries most in need of peacebuilding support. Furthermore, certain key peacebuilding priorities, such as strengthening democratic processes, human rights and inclusion do not directly translate into business opportunities in the short term.

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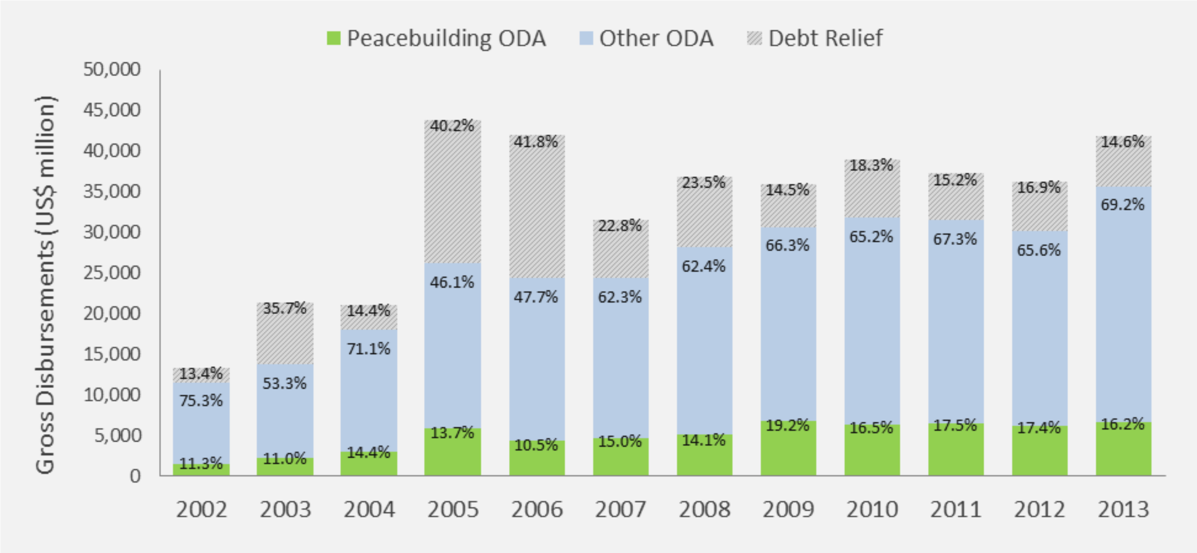
[3] Sources: FDI and remittances data from World Bank. ODA from OECD International Development Statistics
[4] International Day of Family Remittances, Event, Conference room 3, UN HQ, 16 June 2017

7. **Of all ODA to conflict-affected countries between 2002 and 2013, only 15 per cent was directed towards peacebuilding.**[5] These expenditures vary significantly on a year-to-year basis and are highly unevenly distributed among countries, with Afghanistan and Iraq taking up the bulk of ODA-funded peacebuilding expenditures.

Figure 4: Peacebuilding categories as share of total ODA including debt relief in 31 conflict-affected countries in 2002-2013



Source: Institute for Economics and Peace & Peacebuilding Support Office, *Stocktaking of Peacebuilding Expenditures 2002-2013*, 2017.

8. **To build and sustain peace the development of institutions is critical, including to mitigate conflict so that it does not escalate into violence.** This includes political, security and justice institutions and core government functions, such as, executive decision-making, public financial management, public administration and local governance. Institution-building is a long-term endeavor and typically takes 20-40 years to reach a certain level of "good enough" institutional development. Despite its critical importance, institution-building receives very little ODA. For 50 fragile and conflict-affected states in 2012, 4.0 per cent of ODA was allocated to inclusive politics, 1.4 per cent to security and 3.1 per cent to justice.[6]

9. **Maintaining financial flows before, during and after violent conflict is fundamental to mitigate the impact of the conflict. This is currently not happening.** In a stylized example, during and in the early post-conflict period, grant-based ODA is likely to dominate, probably complemented by remittances and perhaps a limited amount of private investments concentrated on natural resources. Over time, when the economy improves and risks decline, other forms of ODA, including loans, increase, domestic revenues might rise and private domestic and international finance might become more important. At a later stage, domestic resources, including through taxation, should increase, and international commercial loans might emerge as a possibility. To accompany conflict-affected countries through these archetypical phases, collaboration and strategic partnerships with IFIs are essential, particularly for those countries undergoing transitions as peacekeeping or special political missions depart

[5] Institute for Economics and Peace & Peacebuilding Support Office, *Stocktaking of Peacebuilding Expenditures, 2002-2013*, 2017.
[6] OECD, *States of Fragility 2015: Meeting Post-2015 ambitions*, (Paris: OECD), 2015.

and ODA often decreases, and domestic revenue generation, private finance and effective financial management and tax administration assume greater importance.

10. **Philanthropic financing from private individuals, foundations and other organizations to developing countries is on the rise**, with an estimated total value of US$60 billion in 2013. A significant share of these funds is directed to global sectoral funds, like the Global Fund to fight Aids Tuberculosis and Malaria and GAVI, the Vaccine Alliance. Such a large-scale financing platform for peace, which includes the private sector and civil society, does not yet exist and viability could be further explored. There are around 290 foundations globally which are investing in peace and security with an estimated total value in donations of US$357 million in 2014. The biggest share comes from foundations based in the United States, with the Carnegie Corporation of New York, Open Society Foundations and Howard G. Buffett Foundation in the top three donating US$90 million in 2014.[7]

11. **Illicit flows pose a challenge.** Global estimates indicate that illicit financial flows (IFFs) are substantial and growing. IFFs[8] undermine the ability of countries to increase domestic revenues around the world, particularly in conflict-affected countries. Corruption, organized crime, illegal exploitation of natural resources, fraud in international trade invoicing and tax evasion all contribute to the diversion of money from public priorities. Moreover, IFFs often erode the integrity of a country's economic financial institutions and its political and justice systems.

12. **In the least developed countries, 90 per cent of credit lines are short-term, three-month loans while for middle and high-income countries short-term credit makes up 40-60 per cent.**[9] In conflict-affected settings, even shorter time horizons guide investment and spending decisions**.** IFIs and ODA could focus on further deepening local financial and capital markets, through guarantees, credit extension and de-risking private sector engagement in conflict-settings. This can increase the loan period and enable longer term investment. Close collaboration with IFIs can also enhance the confidence of the private sector, support public-private partnerships and risk management. Through policy advice, technical assistance, capacity and support to institution building, IFIs support governments to develop the policy environments to attract and manage greater financial flows and spend them effectively. Enabling IFIs to have a conflict-sensitive approach to promoting business opportunities is key to have development interventions support peace.

13. **The World Bank's International Development Association has in its recent 18th replenishment round doubled the World Bank's allocations to situations affected by fragility, conflict and violence from US$7.2 billion to US$14.4 billion – to be allocated in the period 2017-2020.** Delivery of these investments will benefit from the strengthened partnership with the United Nations. The partnership is based on strong complementarities and synergies with the UN's mediation and convening capacities, security and humanitarian operations, field presence and logistical capacities and the Bank's expertise, private sector engagement and financial resources.

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[7] Foundation Center and the Peace and Security Funders Group, *Peace and Security Funding Index 2017*.

[8] The PBC Annual Sessions in 2014 and 2015 also considered illicit financial flows and domestic resource mobilization as challenges of countries in their efforts to lay the foundations for sustainable peace and development.

[9] Kangni Kpodar and Kodzo Gbenyo, "Short- Versus Long-Term Credit and Economic Performance: Evidence from the WAEMU", Working Paper No. WP/10/115 (Washington, D.C., IMF, May 2010).

14. **The recent UN-World Bank Partnership Framework for Crisis-Affected Situations signed by the Secretary-General and World Bank President on 22 April 2017 outlines joint commitments of our institutions.** The framework is a key deliverable of the sustaining peace resolutions (A/RES/70/262 and S/RES/2282) and commits our institutions to aligning and leveraging financial resources, jointly building, prioritizing and financing operational responses.

Section II

Financing for Gender-Responsive Peacebuilding

1. **Despite widespread acknowledgement of the positive impact of women's participation on sustaining peace outcomes, financing for gender-responsive remains woefully inadequate.** Research commissioned for the 2015 Global Study on 1325 found that only two per cent of official development assistance targeted at peace and security and fragility go towards gender equality objectives.

2. **The need to increase finance for gender-responsive peacebuilding is stressed in the sustaining peace resolutions.** Operational paragraph 27 of the resolutions on the review of the United Nations' peacebuilding architecture (A/RES/70/262 and S/RES/2282) calls for "enhancing the mobilization of resources for initiatives that address the particular needs of women in peacebuilding contexts, advance gender equality, and empower women."

3. **In October 2010, the Secretary-General's Policy Committee endorsed targets set out in the Secretary-General's Seven-Point Action Plan on Gender-Responsive Peacebuilding (7PAP).** The 7PAP commits relevant UN entities work towards ensuring at least 15 per cent of UN-managed funds in support of peacebuilding is dedicated to projects whose principal objective is to address women's specific needs, advance gender equality or empower women (A/65/354-S/2010/466).

4. **In 2015, the Peacebuilding Fund reached the fifteen per cent target for the first time and exceeded the target in 2016 reaching 19.2 per cent.** These results were achieved through a combination of increasing focus on gender equality within the overall portfolio and special Gender Promotion Initiatives held in 2011, 2014 and 2016 (See graph below).

5. **Strategic Action 7 of the Peacebuilding Commission Gender Strategy encourages PBC members to "advocate with UN, Member States, donors and international financial institutions for subsequent allocations to gender-responsive peacebuilding needs."**

6. As PBC members prepare for the 2017 Annual Session the following points could be considered on gender-responsive peacebuilding:

    a. As demonstrated with the Peacebuilding Fund, the best results are achieved through a **combination of targeted special measures and gender mainstreaming**.

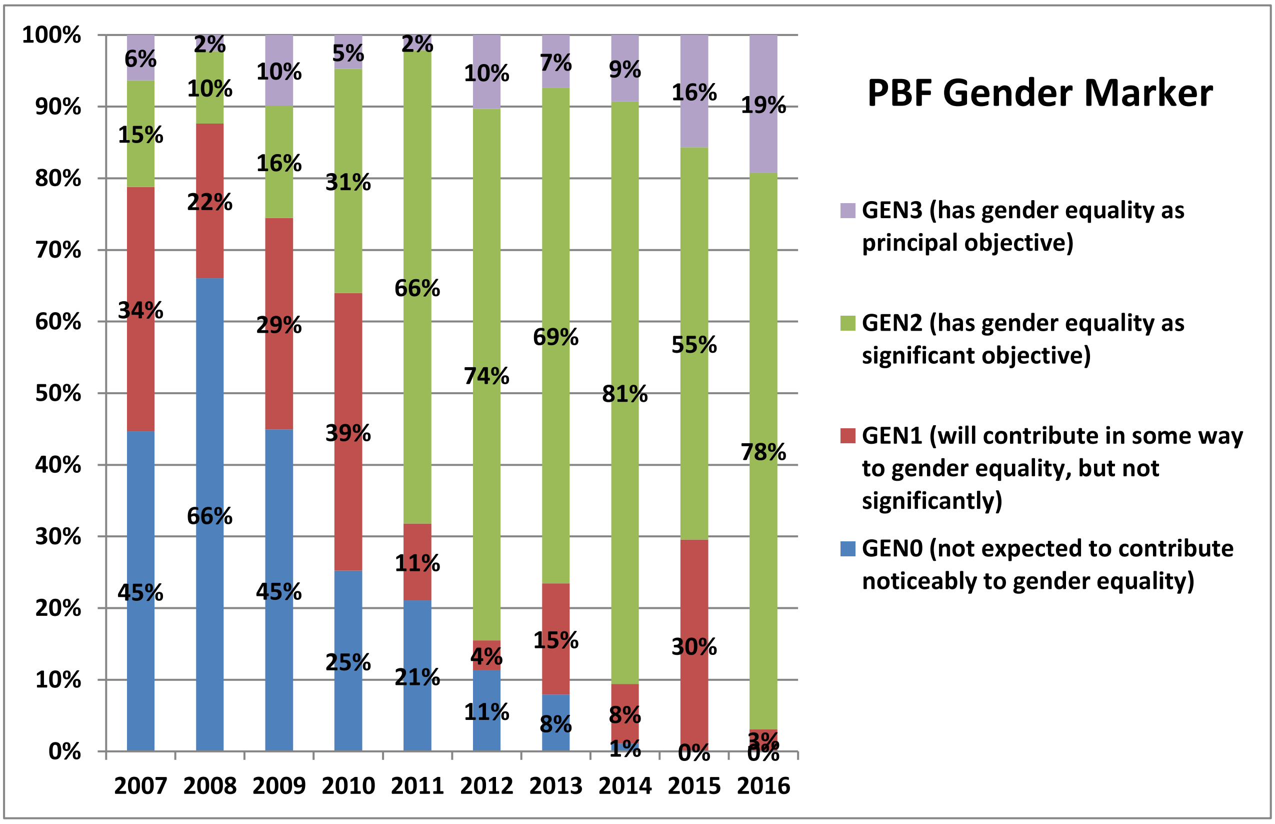
    b. Regardless of the source or method of financing, **establishing specific targets** for allocations to gender equality is essential to ensure adequate resourcing as well as incentivize gender-responsive planning and implementation.

c. The good practice of the Peacebuilding Fund should be incorporated into any new financing methods or tools that will be developed to implement the resolutions on the review of the United Nations' peacebuilding architecture. In particular, the **fifteen per cent target** should be extrapolated to all relevant financing mechanisms and should be viewed as a floor not a ceiling.

d. The Peacebuilding Fund has been a leader and innovator in financing for gender-responsive peacebuilding, including through opening up to civil society organizations in 2016 for the first time through the Gender and Youth Promotion Initiatives. Funding women's organization and youth constituencies directly and indirectly through UN partners offers the opportunity to support **vital constituencies and invest in capacities** for peace.

Annex I

Summary of percentage of Peacebuilding Fund allocations to gender equality 2007 to 2016:



Sources: Peacebuilding Support Office, Multi-Partner Trust Fund Office

Section III

Guiding Questions for Working Sessions

Working session 1: The United Nations partnering with key stakeholders to build and sustain peace: Good practices and lessons learned to provide sustainable, high-quality and long-term financing. Concrete examples for collaboration between United Nations, IFIs, and other stakeholders in support of Member States' efforts to mobilize funding for sustaining peace.

Questions:

1. What role has the PBC played in bringing together key partners in support of financing peacebuilding?
2. How can the role of the PBC throughout varies transitions be enhanced?
3. What are the success stories of countries being supported to leverage and multiply resources and impact? What lessons can be drawn from these examples?
4. What partnerships are needed to fight illicit financial flows and corruption and increase domestic resource mobilization?

Working session 2: Redefining partnership: The potential for increased collaboration in effective resource mobilization between the United Nations and other stakeholders. Recent policy developments and new tools for expanded collaboration with key stakeholders, such as IFIs; the PBC's role in convening and facilitating regular dialogue between the United Nations and its Member States, IFIs, the private sector, and other stakeholders in ensuring predictable financing for sustaining peace.

Questions:

1. What potential is there to build on efforts to date and work with a broad range of partners in support of financing peacebuilding?
2. How are the UN and World Bank working together in support of sustaining peace?
3. What role is there for regional development banks, the private sector and others, in support of sustaining peace?
4. How can we make better use of the PBC as a partnership platform?