Making Financing for Development work in Fragile and Conflict affected countries

Format: Statements by the co-hosts (Sierra-Leone, Timor-Leste and USA) followed by moderated panel discussion and intervention from the floor. 10:00 – 12:30, 14 July 2015, Conference Hall, Jupiter International Hotel, Addis Ababa.

Participants: Ministers and diplomats from g7+ and non-g7+ countries, officials from multi-lateral organizations, civil society, private sector and think-tanks.

Summary:

1. Several fragile and conflict-affected countries (FCAS) have demonstrated resilience despite being in hardship due to conflict, outbreaks of pandemics or extreme poverty. Country leadership and ownership has played an important role in successful transitions out of fragility. Some FCAS have made record economic growth despite limited resources and significant challenges. However, fragility is self-reinforcing and over the time the resilience of these countries is tested by shocks of nature such as Ebola or re-emergence of conflicts. While development partners have played an important role in the transition of these countries from fragility toward resilience, more often these countries get what is negotiated rather than what is needed.

FCAS country representatives present made the case that this was a negotiation process with the developed world, in which new priorities for aid would have to be explored. Quick fixes rather than sustainable solutions have been offered without attention to the context. Thus context should be the starting point, with a strong understanding of the background and origin of the problems in FCAS. The audience generally placed emphasis on genuine "partnership" between FCAS and donors focused on working through host government systems, putting more effort helping build effective institutions, and undertaking anti-corruption measures, and expanding domestic resource mobilization. As the Chair of the g7+ stated, "don't wean our countries yet from ODA, because our institutions are still weak and are still unable to cope". Working as partners, mindful of the local context – including paying attention to the Political-Economy of FCAS, and to increasing Conflict Sensitive approaches. In addition many FCAS highlighted the need for ODA to support reconciliation and disarmament (DDR) initiatives while focusing simultaneously on inclusive state building.

While SDGs will open another chapter in the global development arena, goal number 16 (Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels) of the same framework is a pre-requisite for achieving the post 2015 development agenda. The New Deal for Engagement in Fragile States provides a set of Peacebuilding and State-building goals, which serves as the foundation for a country to be set on the development track. These goals are the better alternative to quick-fix approaches. We need to make sure that fragile and conflict affected countries are not left behind. General consensus was noted between FCAS countries and donor countries that the commitment to the New Deal must be renewed and strengthened as underpinning the success of the draft FFD Agreement and SDGs.

2. While the final outcomes of the Addis Ababa Third International Conference on Financing for Development (FFD) are yet to be agreed, it is imperative that the framework responds to the needs of the FCAS in a tailored manner which references concrete and actionable commitments to the FCAS. For this reason, the audience generally felt strongly that the New Deal must be more strongly articulated in the draft FFD Agreement, and committed to by the global community in support of FCAS states. Furthermore, discussion on the implementation of the global framework of financing for development should start at the country-level, but follow a generally agreed upon set of principles for assistance to FCAS in line with the New Deal. While ODA and other forms of assistance alone will not be enough to eradicate extreme poverty in FCAS, it plays a catalytic role if provided in an effective and equitable way. The quality of financing for development is as important as the quantity. In particular, there is a need for strong partnerships underpinned by mutual trust and mutual accountability. Together we can save lives and can, in the next 15 years, make the aspirations represented under the SGDs a reality. Given the large extent of poverty in FCAS, there is a need to renew the commitment of the 0.7% target for ODA. To date, only a few donor countries have met this target. In addition, ODA is often based on vested geopolitical/strategic interests instead of actual need, leaving less strategically significant FCAS countries mired in recurring extreme poverty and instability. Some in the audience (particularly from conflict affected FCASs) felt that conditioning of ODA can do more harm than good and sometimes biasing donors to one side of the conflict. Most felt that ODA needs to be integrated with the principles of "do-no harm" as this applies to conflict mitigation and reconciliation. ODA is a strategically important resource, thus it should be used in the smartest possible manner and coupled with other sources of growth; from equitable

trade to increased domestic revenue flows to the development of the private sector in FCAS countries. FCAS countries present felt that ODA has in the past created parallel and duplicate structures at the expense of local governments/economies.

3. Emphasis was placed and consensus reached on the importance of domestic resource mobilization (through measures to support more sustained growth and better taxation), governance, and state building, for building local capacity and creating sustainable development. For example, the new multidonor, FCAS supported "tax initiative" is a step in the right direction and received a great deal of support from attendees. FCAS like all other countries, aim at self-reliance. Initiatives that enhance domestic resource mobilization – which build capacity and allow countries to "own" their own development agendas - are therefore, indispensable. While there is a need of broadening the tax base in these countries, there also exists the need to address the issues of *administering* domestic resource mobilization, including addressing the lack of citizen input/participation in taxation policy processes, tax evasion, weak local private sectors, complicated tax administration systems, corruption, weak systems/human capacity and the illicit flow of finances. These problems should be tackled with the help of localized support for systems and institutions and with ODA. Several FCAS have achieved double digit growth, but it will be distortionary if there is not also focus on strengthening governance systems, including tax policy/collection systems, and building the capacity of the executive and oversight institutions to have the necessary capital and to transparently and effectively manage their development and growth. For example, tax exemption granted through treaties with some developed countries cost the FCAS loses in the billions of dollars every year. Some countries are re-negotiating these treaties, which is a good initiative and FCAS countries should demand such re-negotiation. Most significantly FCAS countries still only raise taxes at 15% of GDP. They need to raise this low rate to at least 20-25% to be able to take the lead to sustain their own development needs.

4. Many Fragile and conflict affected countries are bestowed with abundant natural resources which are enough for them to meet their development needs - if managed well. Several of these countries are, unfortunately, stuck with the "resource curse" resulting from contractual obligations with extractive companies that were not negotiated properly due to weak institutional capacity that influenced the content of contracts. Furthermore some members felt that some multi-lateral institutions have supported negotiations in which companies got the better deal while developing countries were disadvantaged. g7+ countries can benefit by coming together and working with FCAS to manage their natural resources better (including

support for negotiations with extractive industries, taxation and the development of transparent oversight mechanisms). Since several FCAS are new democracies. The development community needs to engage closely with these countries to build their institutions and make sure necessary capacity is in place to manage their huge potential wealth in a way that benefits (ie; helps to finance) their development agendas. While Extractive Industry Transparency Initiative (EITI) finding show some FCAS countries are not performing well in regulating, monitoring and enforcing contracts with the private extractive sector, others felt that the development community and the multi-national companies should stop being paternalistic and thus make a greater effort at cooperation. For example, greater emphasis to work with FCAS countries to set up public-private alliances for the responsible management and trade of the natural resources would be a step in the right direction.

5. Financial inclusion is necessary to achieve sustainable gains in reducing extreme poverty. A focus on long-term diversity (meaning not focused on one industry, or a few champion businesses) in private sector development in FCAS countries remains crucial for providing employment, putting the country on the path for sustained growth and for creating a source for domestic revenue generation. Broad, inclusive employment also builds resilience against conflict and instability. Efforts that promote the mainstreaming of Small and Medium Enterprises, the creation of local investment funds, unlocking local financing at preferential interests rates, and which work with FCAS governments to manage financial risk, will support the development of a vibrant and sustainable private sector over the long-term an outcome that is critical due to the stability that a healthy vibrant sector brings.. In several FCAS, the private sector is in infancy and constrained by corruption, the lack of financing and capital, the lack of enforceable, property rights, unnecessary bureaucracy and uneven and unpredictable regulation. In addition, governments sometimes keep poorly run or inefficient private sector enterprises afloat through service contracts and tenders, rather than investing in the institutions and people. FCAS lie at the bottom of the "doing business" ranking and thus there is a need of support to address those barriers such as complicated and bureaucratic arrangement, market irregularity, and accountability. enabling environment. Initiatives to facilitate trade in FCAS by providing access to markets, financing and infrastructure and human capacity can also help to build this enabling environment.