

Background Note

The Role of the PBC in Marshalling Resources for Countries on its Agenda

26 May 2010

I. Introduction

Marshalling resources for post conflict countries is one of the important responsibilities entrusted to the PBC and one which has grown with the increasing demands of the countries on its agenda. The PBC resource mobilisation efforts are meant to play a catalytic role in meeting the critical peacebuilding needs of the countries on its agenda. PBC's focus would be to support the peacebuilding priorities agreed between the PBC and the country concerned.

Marshalling resources is a multi-faceted task that encompasses a range of measures, which can benefit from the partnerships the PBC, is forging with other organizations, in particular the international and regional financial institutions.

The financing needs of post conflict countries - where every programme or activity is regarded either as a priority or urgent or both - are usually high relative to the available financial resources due to the growing expectations of the people and the lack of critical structures. And yet, adequate financial support is, in many important respects, the glue that holds together various strands of post-conflict peacebuilding efforts and forms a strong foundation for sustainable peace through speedy recovery efforts.

Just as the financial needs of post-conflict countries are huge, there are many potential sources of funding. These can be classified into two categories: traditional and innovative. In the former category may be included debt relief programmes; official development assistance including financial support by international organizations; and commercial borrowing. The innovative sources would include private investments; donations from private foundations, philanthropic organizations and individual contributions; remittances by diaspora; micro-finance and south-south cooperation.

As there has been an increasing call for ensuring predictable sustained and enhanced level of resource flow to post conflict countries, this paper focuses on official development assistance (ODA), private investments and donations from private foundations, philanthropic organizations individual contributions and the south-south cooperation.

The remainder of this note therefore offers some insights in mobilizing resources gleaned from the experiences of post conflict countries and other practical proposals.

1. Marshalling ODA for peacebuilding

Official Development Assistance (ODA) plays an especially important role in post-conflict or fragile states. According to OECD data, ODA to fragile states has risen by almost 7.5% since 2008 to \$34.6

billion and now accounts for about 31% of ODA flows to developing countries¹. However, much of this aid is still concentrated on just a few countries with about 51 % of ODA (2008) targeted at fragile states going to just six countries with Afghanistan and Iraq accounting for the largest share. Many post-conflict or fragile countries also tend to rely on just a few donors. While there maybe benefits to this, states that rely largely on just one or two big donors may be especially vulnerable if donors decide to change their aid priorities.

OECD data also shows that international support to peacebuilding, security and state-building has risen sharply since 2004. Peacekeeping expenditures are at a historic high, reaching US\$7.3 billion in 2008. ODA-related security activities have also witnessed a considerable increase over the 2007 to 2008 period, rising from US\$947 million to US\$1.5 billion, an increase of 61%. The bulk of this went to peacebuilding and conflict prevention and resolution activities. While this is an encouraging development, ODA-eligible funding for security related activities and peacebuilding in general is still small compared to peacekeeping expenditures and non-ODA eligible spending on security.

In terms of transition financing, donors provide significant amounts of humanitarian and development aid to post-conflict countries. However, much of this support is based on the assumption of a linear transition out of conflict, involving gradual increase in development assistance as humanitarian and peacekeeping expenditures decline. In fact, data shows that this scenario is the exception rather than the rule. Overall, about 50 % of humanitarian aid is actually long-term (more than eight years) and goes to large countries in crisis such as Sudan, Iraq, Democratic Republic of Congo or Afghanistan. These countries have also moved in and out of conflict over the past decades, suggesting that the existing aid architecture – with rigid compartments for “humanitarian” and “development” aid that are governed by different principles, rules and regulations, and often managed by different departments of the same donor agency – is not adequately configured to match the challenges of such countries. As a result, funding for peacebuilding activities has remained relatively small compared to humanitarian, peacekeeping and development activities. Since conflict is often a major constraint to development in post conflict countries, there is need to accord high priority to the peace building efforts in terms of resource allocation as well.

At the country-level, various opportunities exists for the PBC, in coordination with other partners such as the African Development Bank (ADB) the World Bank (WB) and the United Nations Development Programme (UNDP), to establish peacebuilding priorities, work at getting peacebuilding issues on the agenda for coordination meetings and to promote a vision shared by all relevant actors of the peacebuilding specific priorities and gaps requiring focused assistance. At the global level, the PBC through strengthened advocacy and partnership with international and regional institutions can contribute to influencing policy and approaches on increased ODA and financing for peacebuilding. Similarly, as the ODA constitutes the single largest share of their resources; their level, predictability and effective use often become the major factor for stability and progress in these countries.

¹ OECD/DAC/INFAC (Feb. 2010)

2. Role of the Private Sector in resource mobilization

Past PBC discussions² have concluded that working in closer collaboration with the private sector could be a promising avenue for resource mobilization in countries on the agenda of the PBC. However, lessons from most immediate post-conflict situations highlight the lack of private investment during these fragile times and show that mobilizing the private sector is a complex undertaking, requiring initiatives and reforms that increase profit-making opportunities. This section offers some specific lessons on how that goal can be realized.

Critical legal and regulatory reforms can help trigger large Foreign Direct Investment (FDI) inflows in post-conflict environments. Rwanda was successful in attracting FDI in the last decade and by 2000, its FDI was exceeding pre-1994 data. FDI flows into Rwanda increased from \$16 million in 2006 to \$103 million in 2008. Partly, this is because Rwanda adopted the proper regulations and systems to attract FDI, in a joint effort with international financial institutions³; ODA was an important source of early support to fund these legal and regulatory reforms. Especially in countries where investments in extractive industries make up the bulk of FDI, such reforms⁴ are critical in ensuring that governance is strong enough to accompany inflows of investors' money and ensure decent conditions of work for employees.

Support to rebuild, deepen and improve financial markets is critical in mobilizing and leveraging private resources. In Nepal, Bank of Kathmandu managed to build a complete set of financial services while developing its corporate social responsibility⁵. In Côte d'Ivoire, uncertainties in the political environment did not stop private microfinance actors from growing the local financial market: this includes the development of Microcred, an international commercial microfinance company that benefited from support by the African Development Bank and foreign banks to fund small and medium enterprise development⁶. Regional funds can also be set up to support the financial sector and boost available resources.

Foundations, locally and internationally, can contribute to resource mobilization through funding, research and technical assistance. Some foundations, which can be private or funded by donors, provide capacity building to facilitate private sector development, such as the African Capacity Building Foundation, based in Zimbabwe. Others provide direct funding – such as in Bosnia the Partner Microcredit Foundation, created by Mercy Corps in 1997. Organized philanthropy, by connecting nonprofits and grant-makers, can also contribute to mobilizing resources, such as the Foundation Center, supported by 550 foundations and developing a focus on post-conflict countries. Other foundations can provide substantive views and policy analysis in support of resource mobilization, such as the Trudeau Foundation or the Stanley Foundation⁷.

² See Outcome of the PBC Strategy and Policy Task Force on Private Sector, 7/1/2009

³ UNU Post-Conflict Countries and Foreign Investment. Policy Brief #8, 2008

⁴ Reforms can be achieved through initiatives such as the International Extractive Transparency Initiative, reforms supported by the Organization for the Harmonization of Business Law in Africa, implementation of the provisions of key OECD Guidelines including for Multinational Enterprises, and Public Financial Management (PFM) reforms.

⁵ The bank is nominated for the 2010 Sustainable Banking Awards (Financial Times / World Bank IFC)

⁶ Microcred founders were invited to present their concept to a PBC working group upon creation in 2007

⁷ See for instance "Domestic Resource Mobilization: A Neglected Factor in Development Strategy", Stanley Foundation Background paper, 30/4/2010

Development of local business in post-conflict contexts which impact on employment and growth should be viewed as a source of resource mobilization for economic recovery. Cases to consider include the rebuilding of pre-war value-chains that are rich in employment and profitable - in Côte d'Ivoire, Sofrecap Company contributed to rebuilding the cotton industry by establishing, after the end of the conflict, a plant in Bouaké, employing local staff⁸. Other cases include the role and impact of grass-root initiatives: in Rwanda, with early support by USAID, Gahaya Links was created to provide employment to hundreds of weavers and now manages to export around the world. Finally, approaches that bridge the divide between local civil society and the private sector should also be considered – Cobati⁹, in Uganda, illustrates this type of resource mobilization: it was created in 1998 to empower local people for rural tourism through the development of small homestead enterprises.

International private companies can provide direct philanthropic support. This tends to be geared to existing funds, including complementing country or global multi-donor trust funds. In some cases, depending on tax requirements and opportunities, private companies can be a direct source of funding for foundations (Clinton Foundation) or development organizations (Aga Khan Development Network) in fragile states. In some country contexts, the private sector provides in-kind support, but it tends to focus heavily on humanitarian situations or sector-specific priorities (mainly health and education).

3. South-south cooperation and non-traditional donors

Emerging economies around the world have experienced high economic growth rates over the past decades. According to some measures, Brazil, Russia, India and China together account for about 15 percent of the world economy¹⁰ and hold 40 percent of the world's foreign exchange reserves (the majority of which is held by the People's Republic of China). This growing economic clout is also reflected in new consultation arrangements between major emerging economies, such as the IBSA (India-Brazil-South Africa Dialogue Forum) and the BRIC (Brazil, Russia, India and China).

The absence of comprehensive statistics and differences in reporting practices make the quantification of South-South cooperation very difficult. Nevertheless, several examples suggest that non-traditional donors are an important and growing factor in marshalling resources for development and peacebuilding. The Secretary-General's report on the state of South-South cooperation (A/64/321) from August 2009 notes the continued 'surge' in South-South cooperation, led by emerging economies such as China, India, Saudi Arabia and Venezuela, which each spend more than 1 billion US dollars per year on development activities. Other countries, such as Brazil, Nigeria and South Africa provide aid through multilateral institutions and technical assistance.

Of the different forms that South-South cooperation has taken, technical assistance has been the most common. Although many technical assistance projects focus on economic and social development, countries in the Global South have also developed specialized capacities in post-conflict peacebuilding. The Task Team on South-South Cooperation, hosted at the OECD, has gathered 110 case studies of South-South cooperation, of which 9 involve peacebuilding in post-

⁸ With support by international business organizations OSCI and MEDEF International

⁹ COBATI was a nominee of the CBC- African Business Awards 2008 in the category of Social Innovation.

¹⁰ See Jim O'Neill, Financial times, 26 September 2007, p. 28.

conflict or fragile countries. South Africa's effort to 'export' the truth commission model to other countries is a notable example of technical assistance in peacebuilding.

Triangular cooperation is a variation of technical assistance that introduces a third party, often a traditional donor, to support a South-South cooperation project. This form of cooperation has also been utilized in peacebuilding. For example, Brazil has conducted triangular cooperation with Norway to strengthen public administration in Angola and Guinea-Bissau, as well as cooperated with the United States to strengthen Guinea-Bissau's National Popular Assembly.

Many emerging economies are also becoming important contributors of financial resources for development and peacebuilding. One indication of this can be seen in the Peacebuilding Fund, which has received donations from non-traditional donors that amount to a total of 3,9 percent of the total deposits to the Fund to date. The IBSA Trust Fund, which receives 1 million US dollars per year from India, Brazil and South Africa, has financed projects in such conflict-affected places as Guinea-Bissau, Haiti and the Palestinian Territories. When discussing financial contributions from non-traditional donors it is also important to note that some emerging economies also provide substantial resources to post-conflict countries in the form of commercial loans and debt relief. All this suggests that south-south cooperation can be important source of funding for peacebuilding.

PBSO
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