

PBC Ambassadorial-level meeting
Virtual Meeting on Macroeconomic Responses to Conflict Settings:
Briefing by the International Monetary Fund (IMF)

16 July 2021

Chair's summary

1. On 16 July 2021, the Peacebuilding Commission (PBC) held an Ambassadorial-level virtual meeting convened by the Chair, H.E. Mr. Mohamed Edrees (Egypt), to discuss macroeconomic responses to conflict-affected settings and hear a briefing by Mr. Franck Bousquet, Deputy Director, International Monetary Fund (IMF) on the Fund's first Fragility and Conflict-Affected States (FCS) Strategy.
2. The Chair opened the meeting recalling the important convening role of the PBC and stressed that deepening and expanding partnerships between the Commission and international financial institutions, is a priority, particularly in the context of the COVID-19 response and recovery in peacebuilding settings. In that regard, he welcomed the opportunity to hear a briefing by the IMF on its FCS Strategy. He called for the PBC and IMF to explore ways to strengthen their collaboration in peacebuilding settings and noted that this meeting was relevant in the context of ongoing discussions on financing for peacebuilding which will generate inputs to the General Assembly High-level meeting on financing scheduled for 2022. He recalled the consultations the Commission had with the World Bank (WB) in 2019 during the development of the Bank's Fragility, Conflict and Violence Strategy (FCV), which has proven to be a useful tool from which some countries under the PBC consideration have benefited. The Chair expressed his hopes that the IMF's FCS strategy would be equally important and offer additional and complementary tool that can contribute positively to peacebuilding.
3. Mr. Bousquet welcomed the opportunity to brief the PBC, in particular at a time when state fragility continues to be one of the biggest challenges we are facing. He noted a rise in violent events, growing gender inequality, climate change, and illicit trafficking. He said that the economies of fragile and conflict-affected states were hard hit by the COVID-19 pandemic, with the real output contracting by 5.6% last year while debt and inflation are rising (according to preliminary estimates). He also noted that COVID-19 exacerbated a divergence in growth and recovery between FCS and non-FCS. In order to address the multifaceted challenges faced by FCS, the IMF is planning for a concrete and differentiated Strategy which takes into account a number of characteristics that are common to FCS, such as weak institutional capacities, instability, and weaker economic performance. He underscored that fragility and conflict are macro-critical issues which negatively impact

balance of payments (BOP) and disrupt financial flows, and that peace, stability and macroeconomics are intertwined: fragility and conflict undermine macroeconomics stability, and macroeconomics policies can have an impact on social cohesion. He also stressed that, while good macroeconomic policies are only one component of what FCS need, strong national institutions that implement sound fiscal, monetary, and financial sector policies can play a critical role in preventing fragility from turning into failure. Mr. Bousquet recalled the core areas of work of the IMF and its comparative advantage, in particular in relation to promoting macroeconomic stability, providing financial assistance, strengthening institutional capacity, and catalyzing donor assistance. He explained that the vision of the FCS Strategy, anchored in a longer-term engagement and on the centrality of partnerships with all relevant stakeholders, in particular the World Bank, is to support FCS to exit fragility, reach macroeconomic stability, and sustainable and inclusive economic growth. In conclusion, he underscored that the IMF will officially launch consultations on the FCS Strategy with the PBC being the first external entity to have been briefed.

4. The Assistant-Secretary-General for Peacebuilding Support, Mr. Oscar Fernandez-Taranco, welcomed the decision of the IMF to come to the PBC at the preliminary stages of consultations on the FCS Strategy. He noted that the FCS Strategy is being prepared at an historical juncture, when the implications of the COVID-19 pandemic have negatively impacted people and economies around the world. He praised the IMF for being at the forefront of the international response to the pandemic, supporting global vaccination efforts as well as sustainable, more resilient, and more inclusive recovery. He stressed that these exceptional times require increased coherence between economic and political engagement, and noted that multidimensional approaches are crucial for a strong multilateral response and recovery. He also noted that careful macroeconomic management is also a tool for prevention. Therefore, noting PBSO's support for the FCS Strategy, he underscored the importance of applying a prevention lens to sustainable and inclusive recovery planning with a strong focus on national ownership. He echoed Mr. Bousquet's emphasis on partnerships and recalled the Secretary-General's ask to UN entities to work towards more systematic engagement with the IMF in the context of complex risks arising from COVID-19. In this connection, he informed of a number of initiatives already taken by PBSO, including: expanding the terms of reference of the Humanitarian, Development and Peacebuilding and Partnership Facility (HDPP Facility) with a view to supporting the partnership with the IMF; facilitating exchanges and promoting more strategic collaboration at the country level, for example encouraging Resident Coordinators to engage more the IMF; supporting UN-IMF dialogues under 'multi-dimensional risk analysis' in UN mechanisms to discuss specific country situations and thematic issues, including sub-Saharan Africa's macroeconomic challenges and the pressures on fiscal space emerging from security expenditures.
5. Member States welcomed the presentations by the briefers and raised the following points:
 - The IMF plays a critical, catalytic, role in supporting conflict-affected states by restoring macroeconomic stability and strengthening local institutions responsible for fiscal, monetary, and financial sector policies.

- Political, social, and economic grievances are closely interlinked. Addressing them in a coherent manner is essential. The IMF FCS Strategy is a welcomed step towards strengthening the IMF focus on working with partners in peacebuilding settings and in countries at risk of conflicts.
 - More efforts need to be done, by the UN but also by Member States, to strengthen cooperation and partnerships between the UN and the Bretton Woods Institutions, particularly at a time when the COVID-19 pandemic is becoming an economic crisis in many countries. The PBC can play an important convening role and provide a space where different parts of the UN, the IMF and the World Bank come together to discuss how to foster greater coherence in peacebuilding and sustaining peace. The Commission may also consider visiting Washington D.C. to discuss ways to strengthen its cooperation with the IMF.
 - PBC and IMF should continue this dialogue focusing on a case study and potentially conducting joint analyses aimed at identifying drivers of fragility as a first step towards a shared understanding of risks and more strategic collaboration.
 - Partnerships, with regional and subregional organizations, with regional financial institutions, with Resident Coordinators and with the private sector are critical to ensure coherent support to conflict-affected states – including through promoting gender equality and women empowerment.
6. In response to questions from the floor, Mr. Bousquet noted that the IMF played an important catalytic role, for example in the area of debt relief initiatives and strengthening private sector involvement in FCS through the signaling role of its engagement, denoting country ownership and commitment to building a track record of reforms. Looking more deeply at the country-level, he noted that the IMF has carried out pilot Country Engagement Strategies (CES) in a number of FCS looking at drivers of fragility and conflict. The FCS Strategy under preparation envisions rolling out CES more systematically, something which offers greater opportunities to tap into partners' expertise. CES are also an opportunity to take advantage of partners' greater field footprint, especially in high-threat environments. Mr. Bousquet noted that partnerships are essential and the priority is to leverage the comparative advantage of each actor.
 7. Mr. Fernandez-Taranco noted that the linkages between peace, state capacity, macroeconomic stability and growth create opportunities for partnerships such as for instance, UN political and technical support accompanying the Heavily Indebted Poor Countries (HIPC) initiative in Sudan and Somalia recently. He noted that joint analytical exercises are also a central element if we want to respond to the specific needs of each country during different phases of the peace continuum. He noted that there is an increasing recognition to factor in the leaving no one behind approach, which requires investing in joint vulnerability assessments. How do we factor in the region, the local communities, women and youth, challenges posed by climate change? All these issues, as well as the fiscal impact of security expenditures (especially in the Sahel) have to be considered when we assess the macro-critical policies of countries.

8. In closing the meeting, the Chair noted the efficiency of this first meeting, both in terms of substance and timing. He indicated that the PBC would consider a visit to Washington DC to continue exchanges with the IMF on the FCS Strategy.