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Sound public financial management in fragile and conflict-affected settings to eradicate poverty in all its forms

Note by the Secretariat

The Secretariat has the honour to transmit to the Committee of Experts on Public Administration the paper prepared by Committee member Lamia Moubayed Bissat, in collaboration with fellow Committee members Paul Jackson and Katarina Ott.

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Summary

Eradicating poverty in all its forms is crucial for sustainable development and for keeping the promise of leaving no one behind. However, accelerating progress towards ending poverty has been difficult, and related efforts continue to be hampered by multiple ongoing crises. Conflicts have a devastating impact on poverty eradication efforts, and their fallout, such as displacement, radicalization and foreign intervention, as well as conflict recurrence, can roll back years or decades of progress.

In the present paper, the authors examine the mutually reinforcing relationship between poverty and conflict, which originates in, and is often reinforced by, poor governance, weak institutions and deficient public financial management, thereby increasing inequalities and marginalization, trapping people in poverty and sometimes even leading to new conflicts and additional poverty.

The authors argue that action geared towards reducing poverty in fragile and conflict-affected settings first needs to address public financial management deficiencies. Accountability, transparency and efficiency too often take a backseat, and the use of public expenditure to reduce poverty can lead to deficit spending, high debt, currency devaluation and aid dependency traps. This can threaten long-term stability and roll back any short-term gains for the poor and vulnerable, sometimes even leading to new conflicts.

The authors explain that even well-intentioned public financial management measures aimed at reducing poverty can bear risks, as illustrated by selected examples, such as inefficient and inflationary pro-poor budgeting, the risks of "buying" peace and increasing aid dependency.

In closing, the authors recommend key strategies for reducing poverty in fragile and conflict-affected settings through sounder public financial management.

I. Background

1. The present paper builds on the previous work of the Committee of Experts on Public Administration on building strong institutions in fragile and conflict-affected settings to reinforce the 2030 Agenda for Sustainable Development. It covers poverty eradication prospects through institution-building with a focus on sound public financial management as a lever to reduce poverty. The paper will use the World Bank classification of fragile and conflict-affected settings, namely: (a) countries with high levels of institutional and social fragility, identified on the basis of indicators that measure the quality of policy and institutions, and manifestations of fragility; and (b) countries affected by violent conflict, identified on the basis of a threshold number of conflict-related deaths relative to the population.

2. Eradicating poverty in all its forms, including extreme poverty, is an indispensable requirement for sustainable development. Sustainable Development Goal 1 is aimed at ending poverty in all its forms everywhere and covers several measures to reduce poverty, such as social protection systems, resilience-building and sounder policy frameworks based on pro-poor and gender-sensitive development strategies, in order to leave no one behind. Its target 1.4 is aimed at ensuring that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources by 2030, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance. This is particularly important as, according to the United Nations Development Programme *Human Development Report 2021/2022*, at least 1.3 billion people lived in multidimensional poverty in 2022, half of them children.

3. Safeguarding and accelerating progress towards ending poverty has been an ongoing battle. The fallout of the coronavirus disease (COVID-19) pandemic, multiple global crises and ongoing wars and conflicts worldwide have further exacerbated the situation, negatively affecting efforts to achieve Sustainable Development Goal 1. In the wake of the pandemic, an additional 110 million to 150 million people may have been pushed into extreme poverty, adding to the 689 million people worldwide surviving on less than $1.90 a day in 2018. In the *Sustainable Development Goals Report 2023*, it is noted that, unless the current trend is reversed, slow and uneven progress on poverty reduction may leave hundreds of millions in extreme poverty by 2030, with 575 million still living in extreme poverty and only one third of countries having halved their national poverty levels.

4. Conflicts have a devastating impact on inclusive development and poverty reduction, and their fallout, such as displacement, radicalization and foreign intervention, as well as conflict recurrence, can roll back years or decades of progress. Developing countries are particularly affected. At a joint meeting of the Economic and Social Council and the Peacebuilding Commission on 29 June 2023, the centrality of the Sustainable Development Goals in linking peace and development on the ground was reiterated against a backdrop of increased global uncertainty. Member States stressed the importance of addressing the root causes of conflict and strengthening prevention efforts to achieve the 2030 Agenda.

5. Member States, in the political declaration adopted at the high-level political forum on sustainable development under the auspices of the General Assembly, in September 2023, recognized that in many parts of the world armed conflicts and instability have persisted or intensified, causing untold human suffering and undermining the realization of the Sustainable Development Goals. They acknowledged that their efforts to prevent and resolve conflicts and foster peaceful, just and inclusive societies had often been fragmented and insufficient and had been

hindered in the current global context. The number of people living within a 60 km radius of at least 25 conflict-related deaths, for example, has almost doubled since 2007.[1] The implementation of the Third United Nations Decade for the Eradication of Poverty (2018–2027) will therefore urgently have to be accelerated to reach a world without poverty.

6. Poverty and conflict entertain a mutually reinforcing relationship originating in and reinforced by poor governance, weak institutions and deficient public financial management, including the inefficient, unaccountable and non-transparent allocation of public resources. Distorted public financial management and governance practices undermine peace by increasing inequalities and marginalization, which are precursors to conflict and a path to descending into more poverty. Action geared towards reducing poverty in fragile and conflict-affected settings therefore first needs to address public financial management deficiencies.

7. Since its seventeenth session, the Committee has emphasized the importance of linking pathways out of conflict with good public administration. It is, however, very difficult for public administrations to function within complex conflict situations in which there may be contested sovereignty and a paucity of human and financial resources. Nevertheless, they do play a critical role in balancing short-term security needs with longer-term development strategies that affect the underlying causes of conflict and the well-being of local populations. In order to fulfil this role, there is a need for sound financial management in terms of both generating resources and managing them fairly and without corrupt practices.

II. Poverty and conflict: a mutually reinforcing relationship

8. The mutually reinforcing relationship between poverty and conflict is not straightforward. Conflict is often discussed as a driver of poverty and an independent variable exacerbating it, owing to the long-term costs that it entails. This approach makes it possible to assess the impact of war and conflict on domestic and regional economies, but does not address the reinforcing linkages.[2]

9. Conflicts trap people in a cycle of despair and displacement that often leads to increasing poverty rates and the rollback of progress achieved in poverty reduction. A large body of knowledge has explored the relationship between poverty and conflict, and poverty has been established as endogenous to the onset of civil conflict.[3] Nuance is required, however, as it seems that such a causal link is mostly visible when compounded with other factors, such as exclusion and discrimination. The United Nations Development Group, which developed a conflict and development analysis tool to provide guidance on conducting conflict analysis and applying findings for a range of purposes in conflict-affected settings, also underlines that poverty as a result of exclusion or marginalization is particularly conducive to conflict.[4]

10. The case of Gaza is illustrative of these points. Prior to the Israel-Hamas war, 61 per cent of the population of Gaza lived in poverty, acute or moderate food insecurity affected 62.9 per cent of households, daily water consumption was lower

[1] World Bank Group, *Fragility and Conflict: On the Front Lines of the Fight Against Poverty* (Washington, D.C., 2020).

[2] See, for example, World Bank Group, *The Fallout of War: The Regional Consequences of the Conflict in Syria* (Washington, D.C., 2020).

[3] See, for example, Alex Braithwaite, Niheer Dasandi and David Hudson, "Does poverty cause conflict? Isolating the origins of the conflict trap", *Conflict Management and Peace Science*, vol. 33, No. 1 (February 2016).

[4] United Nations Development Group, *Conducting a Conflict and Development Analysis* (2016).

than the 100 litres per day recommended by the World Health Organization and unemployment affected 46 per cent of the population.[5] It is worth looking further at such conditions, which when compounded with marginalization and historical grievances[6] may play a consequential role in driving radicalization and foreign involvement, thereby leading to conflict.

11. Reports confirm that compounded factors, including socioeconomic and geographical exclusion, can ultimately contribute to conflicts.[7] World Bank findings have also affirmed that, while poverty alone is insufficient as a stand-alone variable in the explanation of conflict, the breakdown of social mobility due to exclusion and discrimination acts as a catalyst that can lead to the outbreak of violence.[8]

12. Consequently, poverty may interact with conflict as both a cause and a consequence. Displacement, foreign intervention and involvement, and recurrence of conflict often appear when domestic factors have led to the tipping point towards conflict being reached, with poverty becoming catalysed by widespread inequalities, exclusion and discrimination. The number of violent conflicts worldwide has tripled since 2001 and almost half recur, with almost 20 per cent recurring more than three times.[9] This puts a burden on the Governments and communities directly involved, but also on the international community more broadly, with around 8 out of every 10 USD of humanitarian funding going to conflict-affected areas.[10]

13. Conflict represents a harmful and persistent source of underdevelopment for large numbers of people. Governments can play a critical role in breaking this cycle of conflict and poverty, even in situations in which poor governance has been a key underlying cause of conflict itself. At its seventeenth session, the Committee expressed the view that the implementation of the principles of effective governance for sustainable development were critical in the re-establishment of good governance in conflict-affected areas. Sound financial management is one of the commonly used strategies linked to these principles, while also being a key area for both the delivery of services and the establishment of State legitimacy in support of peace and development.

III. Ineffective financial governance as a systemic cause of poverty and conflict

14. For the poor and other vulnerable groups, such as women, children and young people, older persons, persons with disabilities, minorities, migrants, refugees and displaced persons, the way in which Governments manage their financial affairs has profound reverberations. The inability to efficiently finance and manage basic services such as health care and education or enforce security in an impartial fashion, for example, is often a matter of life and death. Similarly, the inability of

[5] United Nations Development Programme (UNDP) and Economic and Social Commission for Western Asia (ESCWA), "Gaza war: expected socioeconomic impacts on the State of Palestine – preliminary estimations until 5 November 2023" (2023).

[6] For example, no more than 1 per cent of the population of Gaza was permitted to work in Israel. See Reuters, "Israel sends back thousands of cross-border Palestinian workers back to Gaza", 3 November 2023.

[7] See for example, UNDP, *Leaving No One Behind: Towards Inclusive Citizenship in Arab Countries* (New York, 2019).

[8] See for example, World Bank Group, *Eruptions of Popular Anger: The Economics of the Arab Spring and Its Aftermath* (Washington, D.C., 2017).

[9] United Nations and World Bank, *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict* (Washington, D.C., 2018).

[10] High-level Panel on Humanitarian Financing, "Too important to fail: addressing the humanitarian financing gap", January 2016.

Governments to levy taxes to finance strategic public investments can hamper economic growth and prevent people from lifting themselves out of poverty. Ultimately, this can contribute to trapping countries and people in aid dependency, which is not conducive to long-term stabilization.

15. While difficult to achieve in fragile and conflict-affected settings, budget credibility and predictability are fundamental in mitigating policy biases that may erode inclusiveness, weaponize poverty and lead to violent contestation. Budget deviations can have catastrophic consequences on the most vulnerable and threaten progress on the Sustainable Development Goals. The tracking of how public finances are allocated is an essential component for safeguarding horizontal inclusiveness and disallowing the erosion of citizen-State relations. Policy announcements, backed by fiscal rules and frameworks, can reduce the space left for budget spending "black boxes".[11]

16. Given the difficulties in implementing such approaches in fragile and conflict-affected settings, it is important to emphasize that what is often required is nothing complicated, but rather the reconstruction of the basic building blocks of running finances and keeping track of them, such as through simple bookkeeping. There is a tendency to emphasize especially complicated systems that need highly qualified people to run them while forgetting that practical solutions are required and even basic levels of training or budgetary understanding are often lacking.

17. The establishment of sound bookkeeping is essential for the transition from a line- or items-based budget to a more objectives-based budget that can integrate the targets of Sustainable Development Goal 1. This is essential in fragile and conflict-affected settings in which trust in Governments is often undermined by the opacity of the resource allocation processes. Trust is further eroded when corruption ("abuse of public office for private gain") is tolerated, in particular when it is perceived as benefiting one social or ethnic group over another. In 2017, the International Monetary Fund reported that 1 in 4 people in developing countries had reported paying a bribe. In addition, weak external scrutiny allows for corruption and for informal networks to thrive, which can hamper private sector development and job creation. This can lead to the resumption of the ongoing trend of financing poverty reduction strictly though public expenditure, leading to greater long-term fragility of countries rather than less.

18. Sound accounting and reporting on both revenue and expenditure require functioning fiscal institutions, including well-trained civil servants, and the ability to harness data sets on both expenditure and revenue. These two pillars, data and human capital, necessitate greater attention in the scope of fragile and conflict-affected or conflict-prone settings, since building fiscal institutions is a long and human and financial capital-intensive process.

19. Reestablishing core government functions and establishing sounder public financial management in fragile and conflict-affected settings plays a central role in preventing socioeconomic tensions from reaching a tipping point, targeting multidimensional poverty and preventing more people from falling into poverty. Various findings, including in relation to the Middle East and North Africa, confirm this assessment.[12] A more coherent achievement of fiscal outcomes can improve State legitimacy[13] and allow for greater gains in total productivity across the private sector.

[11] International Monetary Fund (IMF), "Trust what you hear: policy communication, expectations, and fiscal credibility", working paper, February 2022.

[12] See for example, World Bank Group, *Eruptions of Popular Anger: The Economics of the Arab Spring and Its Aftermath*.

[13] See, for example, World Bank Group, *PEFA, Public Financial Management, and Good Governance* (Washington, D.C., 2019)

Moreover, more coherent public financial management practices have been shown to reduce the risk of conflict relapse.[14] On the other hand, poor financial management, in particular when resulting in benefits for a specific subgroup or when involving corruption or bias, may add to underlying causes of conflict and undermine State legitimacy.

20. The Public Expenditure and Financial Accountability framework allows countries to evaluate how their action in key areas of public financial management can foster the achievement of Sustainable Development Goal 1, in particular target 1.4. It assesses a country's public financial management and reports on its strengths and weaknesses. Four of its indicators overlap with the principles of effective governance, elaborated by the Committee and endorsed by the Economic and Social Council in 2018, namely: "policy-based fiscal strategy and budgeting" and "predictability and control in budget execution" overlap with the principle of efficiency, "external scrutiny and audit" overlaps with the principle of accountability, and "accounting and reporting" overlaps with the principle of transparency.

21. Recognizing the difficulties and challenges of implementing sound public financial management and establishing or re-establishing its core building blocks in fragile and conflict-affected settings is a crucial first step in order to determine the right strategy as well as the support required.

IV. Risks of public financial management measures to reduce poverty

22. Even well-intentioned public financial management measures aimed at reducing or eradicating poverty can bear risks, as explained in the examples below.

Pro-poor budgeting: inflationary and inefficient?

23. Public budgets play a fundamental role in the resumption of public services that fulfil basic needs. Public budgeting can act as a lever for poverty reduction if designed through a forecast-based and objectives-oriented medium-term framework.[15] Moreover, policy-based budgeting, when undertaken through a participatory approach, allows for the identification of needs at the grass-roots level. This is essential to avoid exclusionary tendencies that can weaponize poverty.[16]

24. Policy-based budgeting requires integrating six key concepts: fiscal discipline, fiscal space, a medium-term budget perspective, the separation of existing and new policy, systemic evaluation to drive continuous improvement and the rolling forward of estimates for better budgeting. All these concepts imply the integration of performance targets,[17] allowing for the integration of targets specific to Sustainable Development Goal 1.[18]

25. Pro-poor budgeting constitutes the main form of policy-based budgeting used to achieve poverty reduction through public expenditure, and its use is increasing worldwide. This trend originated in the late 1990s, with the international community

[14] See, for example, International Budget Partnership, "Making and keeping promises: why budget credibility matters", July 2018.

[15] See also Department of Economic and Social Affairs, "CEPA strategy guidance note on strategic planning and foresight", February 2021.

[16] See also Department of Economic and Social Affairs, "CEPA strategy guidance note on participatory budgeting", January 2022.

[17] Institute for State Effectiveness, "Performance and policy-based budgeting: how to spot the fakes", January 2019.

[18] UNDP, "Budgeting for the SDGs: origins and practices" (New York, 2022).

making poverty eradication its main objective and public expenditure considered a key lever for channelling finances towards services for the poor.

26. The trend also drew support from the Heavily Indebted Poor Country Initiative, which made a link between debt relief and the ability to direct public finances towards poverty reduction. This is important as the United Nations has acknowledged the link between stalled progress in areas central to the achievement of the Sustainable Development Goals owing to dwindling public financial transfers. A recent study by the Economic and Social Commission for Western Asia affirms the need to redirect public finances across the Middle East and North Africa region towards sectors facing unpredictable expenditure.[19]

27. While the evidence of the impact of pro-poor budgeting remains sparse and continues to be a matter of debate, existing findings have demonstrated that government spending can act as a lever for the achievement of progress in key areas such as primary education and health care, in which spending tends to be progressive.[20] While many studies have found a causal relationship between government spending and poverty reduction, a more recent meta-regression analysis has found no clear evidence that government spending has resulted in a reduction of income poverty. This is consistent with the view that fiscal policy tends to play a smaller redistributive role than previously believed. The study affirms that the significance of the relationship may be exaggerated by publication bias and the underreporting of estimates when increased spending correlates with poverty increases. In fact, just under half of the 169 estimates of 19 cross-country econometric studies show that no significant relationship exists at all. It was also found that spending in sectors that are seen as pro-poor can often end up benefiting the richer quintiles of the population. In Indonesia, for example, 80 per cent of the benefits of subsidized gasoline are absorbed by the top half of income earners in the country.[21] Nevertheless, the evidence is not universally clear, which points to a need for open dialogue on the meaning of pro-poor budgeting rather than labelling policies as pro-poor when the outcome is unclear.

28. Pro-poor budgeting and driving poverty relief through expenditure in fragile and conflict-affected settings are also likely to have ramifications, such as increased indebtedness, in the long run. This is due to the fact that imbalances may occur when expenditure increases while redistributive fiscal policies on the revenue side (e.g. progressive income tax) are ineffective or lag behind in cash-strapped, low-income contexts.

29. Moreover, research has pointed out that insufficient economic growth rates, lack of infrastructure and an impaired private sector can render pro-poor expenditure and efforts redundant. An example would be financial expenditure to achieve greater secondary and higher education completion rates without the existence of a labour market capable of absorbing such a higher skilled workforce.[22] This can even lead to the growth of an "unhappy development syndrome", which can in turn fuel conflict.

"Buying peace" at the cost of accountability

30. The United Nations Development Programme notes that the resumption of public services and core public administrative functions are immediate objectives in the aftermath of a conflict. In that regard, public sector recruitment is a central

[19] ESCWA, *Rethinking Fiscal Policy in the Arab Region* (Beirut, 2018).

[20] Overseas Development Institute, "Following the money: examining the evidence on pro-poor budgeting", background note, June 2012.

[21] Edward Anderson and others, "Does government spending affect income poverty? A meta-regression analysis", *World Development*, vol. 103, issue C (2018).

[22] ESCWA, *Rethinking Fiscal Policy in the Arab Region*.

component of post-conflict stabilization. Evidence suggests that civil service recruitment ought to be complemented with reward and incentive structures, labour specialization, merit-based schemes, fiscal and political decentralization and the roll-out of salary and wage reforms.[23]

31. In fragile and conflict-affected settings, however, public sector recruitment is often disguised as a social ladder and poverty mitigation mechanism. This is particularly true in some Arab States, where a social contract has been established on the notion of "no taxation without representation" and, in exchange for benefits, political compliance is secured.[24] In Tunisia, for example, the social benefits and wage grid of the public sector surpass those of the private sector, making civil service employment the most attractive in a country marked by fragility and widespread unemployment.[25]

32. These practices cannot be considered substitutes for fiscal consensus on the one hand and the development of an efficient private sector and labour market on the other. Public sector recruitment and training in both civil and military service should, however, not constitute a way of "buying peace", as this carries significant long-term political and macroeconomic risks.[26] One risk is a rise in rent-seeking behaviour (e.g. lobbying and bribery) and State capture, which can erode several pillars of poverty reduction, including inclusiveness and accountability.[27] Corruption ultimately hikes the costs of public contracts and can contribute to excessive borrowing, leading to high debt and high inflation. Inflation ultimately undoes any short-term gains that employment in the public sector may have on poverty reduction by eroding the purchasing power of the poor. In addition, when such policies are not accompanied with the adequate creation of revenue streams, short-term gains may be undone by long-term political and macroeconomic stressors. At the same time, it remains a truism that the surest way to prevent people from joining armed groups is to employ them.

33. When combined, pro-poor budgeting and the expansion of public sector recruitment can compound long-term macroeconomic stressors by increasing the debt burden, the risk of insolvency and the risk of currency devaluation. When such trends are not phased out after the establishment of peaceful settlements so as to allow for the growth of the private sector, they end up being maintained by expansionist monetary policies that effectively disguise fragilities at the expense of people's savings and purchasing power. This was, for example, an essential characteristic of the Lebanese financial crisis of 2019, which effectively wiped out more than 30 years of poverty reduction efforts and brought 80 per cent of Lebanese below the poverty line.[28]

Risk of aid dependency

34. The global practice of supporting development and governance in fragile and conflict-affected settings has demonstrated that official development assistance (ODA) is essential to compensate for low or even negative growth rates and revenue

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[23] See also UNDP, *Restore or Reform: UN Support to Core Government Functions in the Aftermath of Conflict* (New York, 2015).

[24] See Rolf Schwarz, "The political economy of state-formation in the Arab Middle East: rentier states, economic reform, and democratization", *Review of International Political Economy*, vol. 15, No. 4 (2008).

[25] IMF, "Why is Tunisia's unemployment so high? Evidence from policy factors", October 2023.

[26] See also World Bank Group, "Public sector size and performance management: a case study of post-revolution Tunisia", Policy Research Working Paper 7159, January 2015.

[27] IMF, "Governance for inclusive growth", Working Paper 2021/098, February 2021.

[28] European Union, Directorate-General for Neighbourhood and Enlargement Negotiations, "Lebanon: €60 million in humanitarian aid for the most vulnerable", 30 March 2023.

losses that ensue in the fallout of war and conflict. Consequently, ODA can act as a catalyst for poverty reduction by shoring up core government functions and enabling the implementation of reforms that are conducive to sounder public financial management, which needs to be given due importance in ODA disbursement.

35. Rolling out ODA in fragile and post-conflict settings should be directed at domestic structures that support long-term poverty reduction and make Governments more responsive to the demands of their constituencies. The design of interventions should privilege participatory approaches and coordination among various actors.[29] Poorly designed interventions can suppress local innovation and encourage rent-seeking behaviour.

36. In addition, evidence shows that in fragile and conflict-affected settings remittances play an important role in poverty alleviation. Funds received from family members abroad have, for example, lowered poverty by nearly 11 per cent in Uganda and, between 1995 and 2004, by at least 5 per cent in Nepal, at a time of political unrest and fragility. In Somalia, remittances accounted for more than 70 per cent of gross domestic product. Lebanon is the highest per capita receiver of remittances in the Middle East and North Africa region.

37. Nevertheless, remittances come at a cost. Recipient countries may face an appreciation of their real exchange rates, which may make their fragile and post-conflict economies less competitive internationally. Large remittances can also reduce work incentives and create dependencies that hamper the development of a domestic private sector.[30]

38. Regarding poverty reduction in fragile and conflict-affected settings, some early findings have affirmed that dependency on humanitarian aid is less than what has been assumed, but that it undermines initiative. Recent studies have further criticized the notion of the existence of aid dependency as a behaviour-altering factor.[31] Consequently, given the fact that rolling back such aid may be detrimental to people who are in desperate need, humanitarian aid, however, ought not be withheld without evidence that the needs that have prompted it in the first place have been met.[32]

39. It is also essential to avoid labelling all forms of external aid as prone to having only negative impacts. While ODA, for example, carries risks, it can also be geared towards reinforcing evaluative approaches and can be conditioned to link pro-poor budgeting or public sector employment to economic growth-related and measurable performance-based objectives.

V. Recommendations

40. **Good governance is clearly linked to emergence from conflict and is particularly important in post-conflict contexts in which resource management may be challenging. Financial management sits at the heart of the ability of Governments to undertake meaningful and effective interventions, and financial approaches outlined in the principles of effective governance for sustainable development may contribute to sounder public financial management to reduce poverty in fragile and conflict-affected settings. This will allow States to build**

[29] World Bank Group, *(Re)Building Core Government Functions in Fragile and Conflict-Affected Settings* (Washington, D.C., 2017).
[30] IMF, “Remittances: funds for the folks back home”, 2023.
[31] See, for example, Peter Little, “Food aid dependency in northeastern Ethiopia: myth or reality”, *World Development*, vol. 38, No. 5 (2008).
[32] Overseas Development Institute, *Dependency and Humanitarian Relief: A Critical Analysis* (London, 2005).

legitimacy while keeping a long-term perspective and acknowledging and managing long-term stressors so that short-term and medium-term gains can be secured and deepened.

41. **Acknowledging the links between the principles of effective governance, the Public Expenditure and Financial Accountability framework and Sustainable Development Goal 1 (in particular target 1.4) constitutes an essential step in bridging the divide between theory and practice. It allows for the design of poverty reduction strategies that take into consideration the implications of poor governance and public financial management deficits on achieving Goal 1. An important point to make is that, while the context may vary considerably, in particular in post-conflict environments, the importance of the principles of effective governance remains the same.**

42. **Ineffective financial governance is a systemic cause of poverty and conflict. In fragile and conflict-affected settings, sounder public financial management practices and improved capacities, including greater budget credibility, while difficult to implement, are essential to prevent socioeconomic tensions from reaching a tipping point, target multidimensional poverty and prevent more people from falling into poverty.**

43. **Poverty reduction expenditure initiatives, in particular pro-poor budgeting, ought to be consistently evaluated. It is essential to recognize the role that economic growth-enhancing investments, such as in infrastructure, agriculture and private sector development, can play in poverty reduction and in offsetting increases in expenditure that carry with them long-term stressors such as inflation and debt financing.**

44. **Recognizing pro-poor budgeting as a tool that carries macroeconomic risks, in particular in relation to the long-term allocation of public resources and the efficiency-related impact of such allocations on private sector development, does not mean that the financing of key areas such as education and health care ought to be curtailed. Instead, linking short-term targets to economic growth-enhancing strategies may yield a greater return on investment. An example would be linking education financing to current job market needs.**

45. **Often pro-poor budgeting and peace- and resilience-building initiatives are accompanied by the expansion of the public sector workforce as a "quick-fix" strategy to reduce poverty. This, however, comes with large-scale and long-term political and economic risks. To mitigate such risks, it is essential to link public sector employment to objectives and performance indicators and to the 11 governance principles and related strategies on public sector recruitment.**

46. **Donors and multilateral development banks should opt for conditional ODA to ensure that recruitment is merit-based and performance-driven, so as to curtail the possibility of State capture and the erosion of inclusiveness, a catalyst for the politicization of poverty. Transparent reporting regarding monetary policy and performance is also an essential precondition.**

47. **Remittances will unarguably continue to play a role in fragile and conflict-affected settings, and reducing long-term dependency on remittances begins with acknowledging the importance of adopting a public financial management agenda conducive to economic growth, job creation and capacity-building rather than being solely dedicated to the reduction of poverty through expenditure.**

48. **It is worth noting that scaling back humanitarian aid directed at the poorest and most vulnerable cannot be considered as a dependency-avoidance strategy given the direct negative impacts on their livelihoods and well-being. Instead, a participatory approach, essential for improving inclusiveness, remains central to**

evaluating the actual needs of vulnerable population groups. Until economic growth strategies drive job creation in the private sector and needs are met through the generation of new subsistence and revenue flows, it is less risky to pursue humanitarian relief than to curtail it on the grounds that it may deepen aid dependency. Progressively scaling back public expenditure for public sector employment while redirecting financing towards infrastructure development, lifelong learning to facilitate the acquisition of market-adapted skills and the establishment of voluntary exit strategies would avoid deepening such dependencies.

49. **Lastly, acknowledging the difficulties and challenges of implementing sound public financial management in fragile and conflict-affected settings is a crucial first step in deciding on the right strategy as well as the support required by countries to reinforce the 2030 Agenda and reduce poverty for all.**