IISP Model G20 Study Guide

<u>Peace, Security and Economic Resilience Commission</u>

(Finance Track)

Agenda: The Peace, Security & Economic Resilience Commission (PSERC) will examine the economic, humanitarian, and security challenges arising from conflict-affected states, with a focus on Sudan, Eastern Africa, and MENA border chokepoints. Delegates will explore frameworks for reconstruction finance, supply-chain resilience, and conflict-sensitive economic recovery.

Letter from the Executive Board

Dear Delegates,

It is with great pleasure that we welcome you to the Peace, Security and Economic Resilience Commission (PSERC) at this year's IISPMG20. As members of the Executive Board, we are honoured to guide you through a topic of profound urgency and complexity - the economic destabilization arising from conflicts, and the global frameworks needed to support recovery and resilience.

This year's focus on Sudan, Eastern Africa, and the MENA borders could not be more timely. The ongoing conflict in Sudan and the disruption of maritime corridors in the Red Sea and Suez Canal have underlined the interconnectedness of peace, security, and economic stability. Millions of lives, livelihoods, and global supply chains depend on effective responses to these crises.

This study guide has been prepared to equip you with the necessary context, analysis, and policy options to draft innovative, actionable solutions. We encourage you to read it carefully, conduct further research, and arrive with a clear sense of your country's priorities.

We are excited to see the ideas you will develop and debate. Together, we can craft a resolution that not only addresses the immediate needs of conflict-affected communities but also strengthens global economic resilience.

We welcome you to a challenging, dynamic, and rewarding committee!

Sincerely,
Ishaan Gite & Eva Naik

Executive Board

Peace, Security & Economic Resilience Commission (PSERC)

Introduction & Rationale

The 2023 outbreak of large-scale conflict in Sudan has triggered a humanitarian, political, and economic crisis whose effects ripple far beyond its borders. In a region already facing structural vulnerabilities, the intersection of war, displacement, and logistical chokepoints in maritime trade corridors presents a unique set of challenges to peace, security, and economic resilience.

The G20's Peace, Security & Economic Resilience Commission (PSERC) is uniquely positioned to propose durable global frameworks that mitigate economic decline in conflict zones, channel reconstruction funding efficiently, and preserve supply chains vital to food and energy security.

This document aims to provide delegates with deeper analytical grounding and policy options, tailored to Sudan, neighbouring Eastern Africa states, and the MENA border context (especially Red Sea / Suez chokepoints). The guiding question is: **What global frameworks can reduce the economic fallout of conflicts like Sudan while enabling recovery, resilience, and stability?**

Regional & Country Context

1. Sudan: Economic shock and state fragility

Sudan's economy has suffered a catastrophic collapse under conflict. According to IFPRI modelling, the country's GDP may shrink by up to **42% by 2025**, falling from USD 56.3 billion (2022) to USD 32.4 billion. Industrial output could decline by over 50%, services by 40%, and agriculture by more than 35%. Job losses may reach 4.6 million - nearly half of total employment.

The World Bank's *2025 Sudan Economic Update* stresses that reconstruction needs are enormous and cannot be met domestically. Sudan already carried arrears to major financiers (IDA, IMF, AfDB), which blocked concessional lending even before the current conflict.

Displacement is massive: over **12.3 million people** have been uprooted, with ~8.8 million internally displaced and ~3.5 million fleeing to neighbouring states. Agriculture is devastated (60% of farmland out of service), export flows have collapsed, and informal sectors such as gold and livestock increasingly finance armed groups.

Sudan thus presents a volatile landscape: state collapse, war economy dominance, fiscal impossibility, and fragmented institutions.

2. Eastern Africa transit states & spillover risks

Sudan’s instability generates significant spillover effects:

- Refugee pressures on host states’ food, infrastructure, and services.
- Cross-border smuggling and illicit flows (fuel, arms, gold).
- Disrupted trade routes vital to landlocked neighbours.
- Border instability catalysing insurgencies and banditry.

These spillovers strain governance, increase debt burdens, and risk destabilizing the region.

3. MENA border chokepoints & Red Sea / Suez trade risks

The Red Sea, Bab el-Mandeb Strait, and Suez Canal are vital corridors, carrying ~**15% of global maritime trade**. Since 2023, Houthi attacks on shipping have forced rerouting around the Cape of Good Hope, adding 10+ days and significant costs. Container traffic has fallen ~75%.

This raises global freight prices, disrupts just-in-time supply chains, and pressures alternate African ports. For Egypt, Suez Canal tolls - a major source of state revenue - have plummeted. Thus, resilience frameworks must integrate maritime security and supply-chain redundancy.

Core Problem Areas & Risk Analysis

1. Economic collapse, fiscal crisis & revenue loss

- GDP contraction and tax base erosion.
- Collapse of monetary stability (inflation, currency depreciation).
- Destruction of central banking capacity.
- Breakdown of essential service delivery.

Framework implication: staged budget support, risk-sharing with multilaterals, and governance-linked disbursement plans.

2. Reconstruction finance gaps & debt distress

- Sudan’s arrears block access to concessional funds.
- Debt restructuring frameworks are too slow for conflict states.
- Private capital avoids unstable contexts.
- Coordination among creditors is lacking.

Framework implication: blended finance, debt swaps, accelerated creditor coordination, and frontloaded grants.

3. Disruption of food, energy, and supply chains

- Conflict and chokepoint disruptions cripple food/fuel flows.
- Insurance and freight costs skyrocket.
- African ports overstretched.

Framework implication: secure corridors, insurance guarantees, buffer stock strategies, and joint maritime protection.

4. Illicit finance, war economies & smuggling

- Resource extraction funds armed actors.
- Smuggling, money laundering, and sanctions evasion thrive.
- Informal economies distort incentives and weaken states.

Framework implication: FATF-aligned safeguards, anti-smuggling task forces, and incentives for formalization.

5. Humanitarian funding deficits & coordination

- Appeals underfunded, rigid donor restrictions.
- Overlapping actors waste resources.
- Poorly coordinated transition from relief to recovery.

Framework implication: pooled funding, flexible financing, inclusive planning, and HDP (humanitarian-development-peace) alignment.

Principles & Strategic Framing

1. Do No Harm (conflict-sensitive approaches).
2. Adaptive, phased disbursement.
3. Risk-sharing and guarantees.
4. Local ownership and inclusivity.
5. Transparency and accountability.
6. Regional coordination.
7. Relief–recovery–development nexus.
8. Flexibility and contingency planning.

Proposed Global & Regional Instruments

1. Conflict-Sensitive Investment Framework

- Conflict risk assessment tools.
- Political risk insurance, performance bonds, escrow mechanisms.
- Community consultation, oversight, and grievance redress.
- Local participation and contract transparency.

2. Reconstruction Finance Toolkit

- Blended finance vehicles.
- Trigger-based disbursements.
- Debt-for-infrastructure swaps and fast-track debt relief.
- Reconstruction and resilience bonds.
- Social protection and reintegration funding.
- G20 Creditor Coordination Forum.

3. Supply-Chain Protection & Resilience Guidelines

- Essential goods categorization.
- Secure transit corridors and naval escorts.
- Alternate routing and buffer stocks.
- Subsidized insurance and trade facilitation.
- Real-time monitoring and private sector partnerships.

4. Humanitarian Financing Principles

- Multi-year, predictable pledges.
- Reduced earmarking, pooled funds.
- Transition funding windows (relief → recovery).
- Local participation, transparency, and anti-fraud measures.

Sample Operative Clauses for Commission Output

1. Establishment of G20 Post-Conflict Reconstruction & Resilience Facility (PCRRF).
2. Creation of a Creditor Coordination Forum.
3. Secured transit corridors for essential goods.
4. Expansion of pooled humanitarian funds.
5. Adoption of conflict-sensitive anti-illicit finance safeguards.

Topics for Research

- Local conflict hotspot analysis.
- Beneficial ownership data in Sudan and neighbours.
- Trade and rerouting cost models.
- Logistics insurance modelling.
- Case studies of Bosnia, Iraq, Afghanistan.
- Comparative debt relief frameworks.
- Institutional capacity assessments.
- Risks of elite capture and militarization.

Key Questions for Discussion

1. How can the G20 mitigate the economic fallout of conflicts like Sudan while promoting recovery and resilience?
2. What mechanisms can ensure effective reconstruction finance, blending concessional, donor, and private funding?
3. How can supply chains for essential goods (food, energy, medicine) be secured across conflict-affected regions and maritime chokepoints?
4. What safeguards and oversight measures can prevent illicit finance, smuggling, and war-economy dynamics from undermining reconstruction?
5. How can humanitarian financing be made flexible, predictable, and aligned with the HDP (humanitarian-development-peace) nexus?
6. What regional coordination frameworks can support cross-border economic stability and manage spillover risks in Eastern Africa and MENA?
7. How can budget support, debt relief, and risk-sharing instruments be structured to maintain core services and state legitimacy?
8. Which lessons from past post-conflict recovery (e.g., Afghanistan, Bosnia, Iraq) can be adapted to fragile states like Sudan?
9. How can local institutions, civil society, and marginalized communities be meaningfully included in reconstruction and recovery frameworks?
10. What are the key metrics to track progress, ensure accountability, and monitor economic stabilization in conflict-affected areas?

For Further Reading

Macroeconomic & Fiscal Fragility

- **OECD - States of Fragility Reports**
  Focus: Fiscal fragility, conflict risks, and stabilization in fragile states.
- **African Development Bank (AfDB) - African Economic Outlook Reports**
  Focus: Regional instability, resilience policies, and fragile economy recovery.
- **UNDP - Human Development Reports in Fragile/Conflict Contexts**
  Focus: Governance, poverty, and resilience-building in post-conflict societies.

Conflict, Security, and Illicit Economies

- **ACLED (Armed Conflict Location & Event Data Project)**
  Focus: Conflict hotspots, security spillovers, and risk mapping for fragile states.
- **Global Initiative Against Transnational Organized Crime (GI-TOC)**
  Focus: War economies, smuggling, illicit flows financing conflict.
- **Financial Action Task Force (FATF) - Conflict Zone Guidance**
  Focus: Anti-money laundering, countering terrorism finance, illicit trade oversight.

Humanitarian-Development-Peace Nexus

- **OCHA - Humanitarian Response Plans (HRPs) for Sudan/Eastern Africa**
  Focus: Crisis financing gaps, nexus approaches, and humanitarian-development coordination.
- **World Food Programme (WFP) - Food Security & Logistics Reports**
  Focus: Conflict-induced hunger, supply chain resilience, and humanitarian corridors.
- **International Crisis Group (ICG) - Sudan & Red Sea Region Reports**
  Focus: Conflict dynamics, peacebuilding strategies, and economic-security interdependence.

Trade, Spillovers & Regional Resilience

- **UNCTAD - Trade & Development Reports (Conflict Contexts)**
  Focus: Maritime chokepoints, Red Sea trade disruptions, alternative routing strategies.
- **UNECA & UN ESCWA - Regional Integration & Security Reports**
  Focus: Cross-border spillovers, trade fragility, and regional recovery coordination.
- **World Bank - Conflict & Fragility Economic Updates (Sudan, Horn of Africa)**
  Focus: Spillover impacts of war on trade, migration, and regional economic resilience.