Finance for Peace

Interpeace
INTERNATIONAL ORGANIZATION FOR PEACEBUILDING

Input Paper to the New Agenda for Peace

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Key Points

- **Improving conflict prevention requires increased resources and financing for peace but also requires change in the modalities for allocating existing precious peacebuilding resources.**
- **The scale of the conflict prevention challenge requires a serious rethink of 'standard models' of prevention which currently largely neglect the role of key parts of the Global Financial Architecture, including Multilateral Development Banks and the private sector – on peace and conflict dynamics.**
- **The Finance for Peace Initiative is a multistakeholder initiative to engage key parts of the Global Financial Architecture to co-develop new standards, principles, and guidance to establish a market for peace enhancing finance.**

Introduction

1. The prevention emphasis of the New Agenda for Peace is a welcome continuation of a progressive and evolving multilateral and UN consensus[1] on the need to shift resources and capacities towards better investing in preventative actions that build resilience to conflict. The specific emphasis on investing in peacebuilding and prevention and scaling-up financing for peacebuilding in particular, is critical to realising any wider conflict prevention agenda.

2. It is further recognised that the connected HLAB process on Effective Multilateralism and the thematic track on the Global Financial Architecture as a Global Public Good (GPG), as well as fifth statement of the Board on the six transformational shifts and specific focus on "*Ensuring abundant and sustainable finance that delivers for all,*"[2] cannot be disconnected from this objective. The HLAB Secretariat paper's conclusions on the challenges facing the Global Financial Architecture are salient to any discussion on investing in prevention and peacebuilding.

3. This input brief outlines two key points: (1) why "investing in prevention" requires not only an increase of financing for peacebuilding but also a reform of current modalities for allocating existing peacebuilding resources, and (2) because of the sheer scale of the financing challenges, the manner in which public and private investment is leveraged for peacebuilding outcomes – or not – is critical to prevention. Through developing market enabling norms, standards, principles, and guidance, as well as innovative financial structures through new partnerships, it may be possible to redress both of these challenges and establish a wider market for what is referred to as peace enhancing investment.

4. As a consequence, and given these shared goals and challenges, it would be a significant missed opportunity for the New Agenda for Peace and related HLAB recommendations to not inform each other.

Improving conflict prevention is about increasing resources and financing for peace but also requires change in the modalities for allocating existing precious peacebuilding resources.

5. Intentional peacebuilding work is not financed at the scale needed to meaningfully prevent conflicts,[3] despite the clear evidence showcased in the UN-World Bank *Pathways for Peace* report on the significant cost-benefit ratio of investing in prevention. Since the publication of the report in 2018, resources for peacebuilding have largely stagnated, despite conflict increasing.[4]

6. Calls to increase funding to the UN Peacebuilding Fund (PBF) and shift to assessed contributions are welcome, but it should be acknowledged these funds are only a part of the overall share for intentional peacebuilding work. Most

[1] As evidenced by key policy documents in the interceding years since 1992 – notably, the *World Development Report on Conflict, Security and Development*, 2011 and UN-World Bank *Pathways for Peace* report, 2018.
[2] See: https://highleveladvisoryboard.org/fifth-statement-by-the-co-chairs-six-transformational-shifts/.
[3] See: http://ods.ceipaz.org/wp-content/uploads/2018/06/Measuring-Peacebuilding_WEB.pdf.
[4] See: https://app.powerbi.com/view?r=eyJrIjoiOTM1NTFhNTAtZGUyZC00ZmIwLWIwZjQtYjM2MjViYzEzMzkzIiwidCI6IjBmOWUzNWRiLTU0NGYtNGY2MC1iZGNjLTVlYTQxNmU2ZGM3MCIsImMiOjh9.

intentional peacebuilding work is financed bilaterally to peacebuilding/peacemaking NGOs or local civil society organisations, outside of the United Nations.

7. The modalities for allocating peacebuilding financing, largely through grants issued by donors, are not fit-for-purpose. Resources are allocated in a top-down and often politically compromised manner, and most peacebuilding efforts are too small-scale and short-term. On average, peacebuilding programmes are estimated to be between USD 1-1.5M, with a time horizon of less than 18 months. Peacebuilders are often expected to effect long-term, society-wide changes in just a year or two. Rules and regulations often exclude many local civil society organisations that may be key to effective and principled implementation. Results-Based Management (RBM) systems often act as a barrier to the flexibility and adaptability required for operating in a fast-changing peacebuilding context. Funding processes are often rushed, with pressure to "push-out" funds, and local organisations/actors are frequently not engaged in the critical design phase of programming. In many countries, donor peacebuilding portfolios often do not add up to a strategic or collective vision for what they are seeking to achieve – a problem that has been repeatedly identified since at least 2004.[5] Finally, programmatic mistakes are repeated because of a chronic lack of investment in Design, Monitoring, Evaluation and Learning (DMEL). Good learning often exists, but information and knowledge asymmetries between donors and practitioners prevent good work from being financed.[6]

8. Stabilisation missions offer a good example: from Afghanistan to Iraq and Mali, there is significant evidence that highly securitised approaches to stabilisation have consistently failed at laying the structural foundations for lasting stability and peace. Nevertheless, these missions have been financed on a much greater scale than peacebuilding approaches – often in the same contexts, severely undermining peacebuilding effectiveness.[7] These very recent experiences demonstrate that barriers to effective international conflict prevention are largely about how resources are allocated rather than availability of resources.

9. While the New Agenda for Peace is considering investments in better foresight, proactive measures to prevent conflict cannot be redressed without tackling these institutional, structural and system incentive challenges.

The scale of the prevention challenge requires a serious rethink of 'standard models' of prevention which currently largely exclude the enormous role of public investment and the private sector on peace and conflict dynamics.

10. At least 1.8 billion people, and 80% of the world's extreme poor, live in 57 conflict-affected countries. Due to conflict, instability, and violence, none of these countries are on track to achieve the Sustainable Development Goals (SDGs). In the vast majority of these fragile settings, remittances and Foreign Direct Investment (FDI) are larger financial flows than Official Development Assistance (ODA) and often play a significant role in peace and conflict dynamics.

11. Sustainable development requires investment, but public and private investment cannot make its way to conflict-affected areas due to a set of peace-related risks, whether real or perceived. This leaves some of the world's most significant development needs under-financed, perpetuating vicious cycles of fragility and underdevelopment.

12. It is essential to recognise that this trend has likely been getting worse in recent years. Between 2012 and 2018, the share of private financial flows (FDI) to fragile and conflict-affected places declined by 50%.[8] This decline was further compounded by the COVID-19 pandemic, whose economic fallout resulted in new FDI inflows retreating to levels not seen for 25 years, leaving a significant gap in investment.[9] Existing blended finance approaches are not filling the gap, and the least developed countries have only attracted 6% of all the private finance that ODA has mobilised.[10]

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[5] See Smith, D https://www.prio.org/publications/153.
[6] See: Some Credible Evidence, Perceptions about the evidence base in the peacebuilding field, One Earth Future (OEF) and Alliance for Peacebuilding (AfP), 2021 https://static1.squarespace.com/static/5db70e83fc0a966cf4cc42ea/t/609c021a20af0466a7b6110c/1620836895036/Some_Credible_Evidence_0.pdf.
[7] In the case of stabilisation missions, See: https://www.interpeace.org/wp-content/uploads/2023/02/2022-Rethinking-Stability-Challenges-Paper-Web-spread.pdf and See: https://www.sigar.mil/interactive-reports/stabilization/index.html.
[8] https://ieg.worldbankgroup.org/evaluations/ifcs-and-migas-support-private-investment-fragile-and-conflict-affected-situations-1.
[9] See:https://www.brookings.edu/blog/future-development/2021/06/03/declining-foreign-direct-investment-cant-contribute-much-to-sustainable-development/.
[10] OECD/UNCDF (2020), Blended Finance in the Least Developed Countries 2020: Supporting a Resilient COVID-19 Recovery, OECD Publishing, Paris, https://doi.org/10.1787/57620d04-en.

13. The inability of blended finance approaches to reach scale in low-income fragile settings is increasingly understood. DFIs and MDBs often lack adequate local networks, knowledge, contextual understanding, and approaches to actively mitigate peace and conflict risks.[11] Investments are thus made that crowd-out other private finance, are not made at all, or at worst, exacerbate conflict dynamics and undermine sustainable development.

14. There is widespread evidence that key pillars of the Global Financial Architecture inadvertently cause harm and exacerbate peace and conflict dynamics.[12] This includes the Global Financial System and private investors, Multilateral Development Banks such as the World Bank and the International Monetary Fund (IMF) through concessional investment and/or structural readjustment programs, and International Public Finance through bilateral development finance institutions. Conflict sensitivity is often not properly mainstreamed into the delivery of large publicly supported investments, let alone private investments, and investments are rarely designed with peace impacts in mind – even if such efforts can help investors and business de-risk their own investments.

15. For instance, a recent study by the CGIAR[13] reviewed 22 multilateral climate funds and their respective USD 28.3 billion financial allocations and found significant gaps in conflict sensitivity. In a detailed review of 37 fragile and conflict-affected country contexts and USD 4.47 billion of related climate financing, only USD 181 million, or 4% of that financing, featured projects that had active conflict sensitivity analysis or measures.

16. The consequences of this cannot be understated, considering the magnitude of two key pillars of the Global Financial Architecture which include: (1) the multilateral development system and (2) the Global Financial System of private investment. In relation to the multilateral development system, while precise numbers are unavailable, at least 25-35% of the world's USD 166 Billion of ODA is allocated by DFIs and MDBs such as the IMF and World Bank, with the majority of it still in loans. Meanwhile, excluding the recent downward trend from 2015 in Foreign Direct Investment (FDI) into fragile and conflict-affected settings, historically, FDI has been a larger financial flow than ODA. Remittances have steadily increased to become the largest source of external finance for conflict-affected countries.[14]

It is a major blind spot in the Global Financial Architecture that evidence suggests the majority of public concessional finance is committed without dedicated or adequate conflict sensitivity diligence.

17. A publicly available mapping by the *Finance for Peace Initiative*[15] shows that existing DFI and MDB Due Diligence and investment process frameworks, as well as ESG frameworks, largely do not feature peace and conflict considerations at all or only partially consider elements of what could be aspects of conflict sensitivity (e.g. Indigenous rights and stakeholder engagement), which are a part of the widely used IFC performance standards.[16]

18. There is evidence suggesting that private sector investment in low-income fragile settings can exacerbate conflict dynamics by altering access to land, livelihoods, and other resources. For example, a recent study by Sonno and Zufacchi[17] showed, through a large-N quantitative study of multinational business activity in Africa, a positive causal link between the activities of multinational enterprises and violent conflicts on the continent. This relationship was particularly statistically strong in capital and especially land-intensive sectors. This is supported by a large array of qualitative literature documenting how private sector investment can create inequalities between various groups and regions. Large project finance has been found to repeatedly disrupt local political economies, creating incentives for resource capture and corruption that reinforce existing conflict dynamics.

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[11] See: Investing for Peace report.
[12] See "Peace Impact of Private Investments: Evidence from Multinationals Investments in Africa" by Tommaso Sonno and Davide Zufacchi (2022); Muggah, R. (2004). "World Bank and conflict: The missing link". Stability: International Journal of Security and Development, 3(1), 1-16.; De Coning, C. (2013). "The World Bank's contribution to conflict prevention: A review of its experience". Conflict, Security & Development, 13(5), 511-532.
[13] https://cgspace.cgiar.org/bitstream/handle/10568/127580/KR56%20-%20Integrated%20Climate_January%202023.pdf?sequence=1
[14] See: Financing for Peacebuilding: A Primer, UN PBSO, 2021 https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/financing_for_peacebuilding.primer.211103.for_pbc77.pdf.
[15] See: https://financeforpeace.org/
[16] "The Rationale for a Peace Finance Impact Framework", Finance for Peace (2022), forthcoming; "Mapping of existing ESG, SDG and (Peace) Impact frameworks in support of a new Peace Finance Investment Framework", Finance for Peace (2022), forthcoming.
[17] See "Peace Impact of Private Investments: Evidence from Multinationals Investments in Africa" by Tommaso Sonno and Davide Zufacchi (2022); Breuer, A., & Hänggi, H. (2017). The World Bank and violent conflict: Some lessons learned. Swisspeace Working Paper, 2/2017; "Roads to Nowhere: How Corruption in Public Investments Hurts Growth", IMF (1998). Available at https://www.imf.org/external/pubs/ft/Issues12/Index.htm.

19. The increasing risk of a debt crisis in various fragile and conflict-affected settings[18] in current global macroeconomic conditions further underscores the crucial role of the IMF and its approach to structural adjustment and debt relief.[19] How these approaches are crafted, the degree to which they are legitimate in the eyes of impacted communities, how they reinforce political instability and conflict dynamics as well as their respective fairness, have major implications for the preservation of peace and security and yet are rarely considered as relevant to the formal international peace and security architecture.

20. Similarly, seemingly benign and technical issues – like how the Global Financial System prices investment risk through the Country Risk Premium (CRP) are usually not regarded as relevant to peace and security when there is increasing evidence they are a fundamental barrier to enabling fragile and conflict-affected countries to attract private or concessional investment.[20]

21. Trends in fixed income bond markets in fragile, conflict-affected and emerging markets are important to note. Private and sovereign bond issuances have significantly grown in emerging and fragile markets in recent years, alongside the growth of green, social, and sustainability or sustainability-linked bonds. According to the World Bank, "emerging market issuers issued USD 182 billion in green, social, and sustainability or sustainability-linked bonds in 2021, more than triple the amount issued in 2020. Moreover, the share of such bonds issued by emerging market governments has grown in recent years, with 18 (total issuance of USD 70 billion) of the 40 sovereign borrowers that have issued between December 2016 and September 2022 coming from low and middle-income countries."[21] How these use-of-proceeds bonds allocate resources, conduct due diligence with established standards, include or don't include key groups or marginalised communities have significant potential impact on peace and conflict just by virtue of their scale.

22. At the same time, it is important to acknowledge the shift toward more rigorous sustainability and ESG reporting as well as investee and investor demand for more rigorous social impact and reporting. These positive market trends are a bright spot toward greater accountability, transparency and positive social impact. It is worth noting that these have largely been driven by market-based norms, and in many cases, state-based regulation is playing 'catch-up' and/or responding to industry demands for more clarity in market rules.

23. This is one reason why the *Finance for Peace initiative* is working with private and public financial partners to systematise a market for a new category of sustainable investment specifically in relation to Peace Bonds and Peace Equity financial structures. This category of peace aligned investment has significant potential to fill the investment gap in peacebuilding and prevention. If only 1% of the USD 1.6 Trillion green, social and sustainability-linked bond market became peace aligned, USD 16 billion of financing seeking intentional peace impacts could be leveraged – approximately 16 times the ODA allocated to civilian peacebuilding, conflict prevention and resolution.[22]

24. Considering the facts outlined above, and what is known about the respective roles and impacts of major areas of the Global Financial Architecture on peace and conflict dynamics,[23] it should be a critical consideration in the New Agenda for Peace and within the overall agenda of the Summit for the Future.

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[18] A recent Independent Evaluation Group blog on an Early-Stage Evaluation of the Sustainable Development Finance Policy of IDA, the World Bank's fund for the poorest countries, highlighted that between 2013 and 2021, the number of IDA-eligible countries which either moved to high risk of debt distress or fell into debt distress tripled, from 13 to 36. Perhaps even more importantly, the speed at which countries moved into debt distress was alarmingly high: one third of the countries experiencing a deterioration in their debt distress risk level experienced a two-level increase (from low to high, or from moderate to in debt distress) in the span of fewer than three years.

[19] https://blogs.worldbank.org/voices/are-we-ready-coming-spate-debt-crises.

[20] A growing body of evidence points to how Country Risk Premiums (CRP) which are fundamental to pricing investment risks and thus critical for wider investment and economic growth are not accurately measuring risk especially in low income settings. See: "Country Risk Premiums: What we know and why they are not working well" by Jérémy Boccanfuso, Tommaso Sonno, Vincenzo Scrutinio, Davide Zufacchi (2023), forthcoming.

[21] See: https://www.worldbank.org/en/news/press-release/2022/11/07/sovereign-green-social-and-sustainability-bonds-set-to-grow-as-emerging-markets-focus-on-sustainability.

[22] Based on OECD DAC CRS code 15220, See: http://ods.ceipaz.org/wp-content/uploads/2018/06/Measuring-Peacebuilding_WEB.pdf.

[23] Using the definition from the HLAB secretariat paper on the Global Financial Architecture - Including (1) the Multilateral Branch (IMF, World Bank, MDBs etc), (2) Global Financial System (Private investors, credit rating agencies, banks etc.) and (3) International Public Finance (ODA through bilateral and multilateral agencies) and (4) Trade and Investment (GATT/WTO etc.).

The Finance for Peace Initiative – a multistakeholder initiative to engage key parts of the Global Financial Architecture to develop new approaches that realise peace impact – what many are now calling "Peace Finance".

25. The *Finance for Peace initiative*, with the support of a range of private and government partners, is an independent multistakeholder initiative launched by Interpeace[24] to create systemic change in the way private and public investment supports peace and security. The initiative aims to create a market for peace-enhancing finance through developing standards, principles, guidance, market intelligence and partnerships between private and public sectors. It is a platform approach through which traditional UN, civil society and conflict prevention actors can engage, work-with and partner for influence with key pillars of the Global Financial Architecture, including DFIs, MDBs and private sector businesses and investors to co-design innovative solutions that can realise peace impacts through private and public investments.

26. A market for peace-enhancing finance requires a supporting infrastructure of principles, standards, and guidance for investors to benchmark the peace impact of their investments to be effective and prevent "peacewashing."[25] Finance for Peace has already collaborated with a wide number of finance-sector, government, norm-setting and regulatory entities, as well as development institutions to co-develop the first versions of a Peace Finance Impact Framework (PFIF) and related Peace Financing Standard (PFS).[26]

27. The PFIF is a voluntary framework that allows investors to plan and align their investment and business activities to certify and report on the achievement of peace impacts. The PFIF is also an investment process that guides investors through development of participatory design processes alongside partners with clear theories of change toward peace impact. These impacts may range from improved safety and security to social peace and political peace impacts according to a widely agreed taxonomy. Depending on the asset class and sector of investment, it is envisaged that investors who align with the PFIF will be able to benefit from a reduction in the risk premium and borrowing costs at the project level due to peacebuilding actions called peace-enhancing mechanisms embedded in the financial structure. The specific standard adopted by the investor will depend on the asset class and on whether it is a peace bond or peace equity structure.

28. Building on feasibility study on a Peace Bond structure,[27] Finance for Peace is working with different private and public actors to develop market intelligence and scoping for different peace bond structures in low-income and fragile settings. Through market intelligence, partnerships, and joint approaches to standards, it seeks to scale a global market for peace bonds. The market for green bonds has grown from zero to over one trillion dollars in 10 years. We believe that a similar outcome is possible for peace-enhanced finance, but it will require a collective effort.

29. By developing innovative financial structures and establishing a market for peace-enhancing finance with new norms, standards, principles, and guidance, Finance for Peace aims to enable new operational approach to private and public investments in emerging markets. This is a critical and long-overdue reform of current modalities for allocating existing peacebuilding and development resources in fragile and conflict-affected areas.

The Role of the United Nations in Peace Finance.

30. United Nations organizations and Member States have a crucial role to play in supporting the development of a wider market for Peace Finance. Different UN agencies have different roles to play leveraging their distinct mandates and capacities. In the context of the New Agenda for Peace and the reform of the global financial architecture, there are a myriad of opportunities, including and not limited to:

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[24] Finance for Peace is incubated by Interpeace, an international peacebuilding organization that has worked on conflict resolution and peacebuilding throughout Africa, the Middle East, Asia, Europe and Latin America for over 27 years.
[25] "Peace washing" refers to a misleading or deceptive publicity disseminated by an organization so as to present a peace contributing, responsible public image.
[26] Website publication forthcoming, available on request, please contact hyslop@interpeace.org
[27] See: Interpeace and SEB (2022), Peace Bonds - Feasibility study. Assessing the potential of a new asset class that can lower risk and enhance peace. Edition 1, January 2022, Geneva. Available at https://financeforpeace.org/.

- The United Nations and its Member States should aspire to become champions of Peace Finance by enabling systemic change that Finance for Peace and its partners seek to achieve, including through the adoption, use, and iteration of Peace Finance Impact Framework (PFIF) and Peace Financing Standards (PFS) to realize peace impact.
- UN agencies with a specific mandate to mobilize finance in the Least Developed Countries (LDCs), like the UN Capital Development Fund, should ensure that the capital deployed for development is conflict-sensitive and does not exacerbate existing tensions. This can start through simple modifications to investment approaches that are aligned or informed by the Peace Finance Impact Framework (PFIF).
- The UN Peacebuilding Fund (PBF) would be ideally positioned to use its catalytic potential to fund origination and market intelligence for peace-aligned investments in fragile and conflict-affected places, working with peacebuilding and local civil and private partners to identify peace impact financing ideas at small and large scales.
- Specialised development agencies, such as the UN Development Programme (UNDP), UNICEF and the Food and Agriculture Organisation (FAO), have deep technical and programmatic experience with key sectors central to peace finance – whether in food, agriculture, WASH, or community infrastructure – and could better mainstream joint approaches with DFIs and private partners to help public and private investment become more intentional at seeking positive peace impact and dual materiality[28] in their investment approaches.
- UN private sector engagement initiatives including the United Nations Sustainable Stock Exchanges (SSE) initiative, United Nations Conference on Trade and Development (UNCTAD), the United Nations Environment Programme Finance Initiative (UNEP-FI), and the UN Global Compact are already active to varying degrees on peace finance related issues and have a variety of roles in convening, technical assistance, mainstreaming peace finance into existing normative frameworks and leveraging their extensive networks.
- UN Resident Coordinators (RCs) can more actively participate in partnership-building, awareness, and convening toward the local ownership of peace finance approaches that can create more sustainable and resilience-oriented strategies that involve the private sector.

[28] By dual materiality, we mean that development agencies should attentively consider not only the impact of conflict and fragility on their activities, but also the impact of their activities on conflict and fragility within communities.