A pilot facility for peace-positive investment in conflict-affected regions

Noting the persistent lack of adequate resources to meet peacebuilding needs, the **UN Secretary-General has called for a significant increase in peacebuilding financing**. This has led to an intensive debate of available options in the UN General Assembly. One such option is using innovative financing tools in the service of UN peacebuilding programmes and priorities.

Following the call of the UNSG, the German Federal Foreign Office and its Stabilisation Platform (SPF), in partnership with the UN Peacebuilding Support Office (PBSO), launched the **Investing for Peace (I4P) initiative** in 2020. The initiative has investigated concrete options to increase peace-positive investment in conflict-affected and fragile contexts, working with an interdisciplinary group of investment managers, Development Finance Institutions (DFIs), and peacebuilding experts. The main findings are summarised below.

The Rationale

More resources needed for peacebuilding

Proactive and sustained support for peacebuilding is a major challenge of our time. The last few years have seen the incidence of armed conflict reach its highest-ever level since World War II, along with a new record in the number of people displaced by violence.

Alongside this is an increasing coincidence of armed conflict, political fragility, and extreme poverty. OECD-DAC estimates that 76.5% of people currently living in extreme poverty are found in fragile and conflict-affected states. At the same time, the share of ODA in conflict-affected countries that is devoted to peacebuilding has decreased over the last decade.

Importance of private sector contributions to peace

Within this broader context, inclusive private sector development is essential to address some of the most important structural drivers of conflict. The corollary proposition—that the wrong kinds of private sector activity can be peace-negative—is also well-established. It would be key therefore to harness the potential of inclusive private sector development while mitigating any negative effects.

What holds back investment?

The data is clear that most conflict-affected regions receive very little development finance or impact investment, with capital flows concentrated in a small number of middle-income contexts, and countries of perceived strategic importance.

The challenges of the investment climate in conflict-affected and fragile contexts are well documented. A non-exhaustive list includes gaps in critical infrastructure, macroeconomic instability, foreign exchange risk, unpredictable regulatory environments, weak property/land rights, and perceived reputational risks.

Furthermore, the I4P initiative found that **DFIs face additional operational challenges when operating in conflict settings**. These include the need to deploy large volumes of capital with relatively small numbers of staff; limited “in-country” presence; and fiduciary requirements that apply in the same way across global investment portfolios. All these factors lead investment teams to focus on larger single investments and larger and better-regulated markets.

Need for innovative approaches

There is growing momentum to find models to overcome these challenges. Many multilateral and bilateral DFIs have already made policy commitments to increase their portfolios in least-developed and fragile contexts.

In addition, there is **growing use of blended finance models, which use grant funding to incentivise important public goods linked to investment**.

However, a **missing piece in this discussion, up until now, has been peace impact**. Investment decision-making “prices in” the risks of conflict, but not opportunities for peace impact.

With this in mind, the I4P initiative aimed to develop an approach to increase the flow of private sector investment that contributes positively to peace.

Federal Foreign Office

STABILISATION PLATFORM

Commercial prospects / Peace impact	-	/	+
Viable			2
Viable with blending			1
Not viable			

The Proposed Model

The I4P initiative found that **grant funding/concessional resources can effectively mitigate the constraints that DFIs face in these contexts**.

This will require a new kind of partnership between donors and DFIs. The goal of this is summarised in the figure above, where blending opens up a greater range of investment opportunities in conflict-affected contexts, and positively incentivises peace impact (Box 1). Over time, this will build a pipeline for direct DFI investment according to normal modalities (Box 2).

It is important to emphasise that the goal of grant funding here is not to subsidise individual investments, but rather to incentivise critical public goods. This is likely to include market development; capacity building for good business practices; and incentives for peace impact.

The pilot facility for peace-positive investment

The proposed model is thus **a new capital fund designed from the ground up to meet the specific challenges of investment in conflict-affected regions.** Its initial remit would be to target 2–3 countries/regions, with the key features as follows:

- Support (or incubate) impact-incentivised investment managers at country level, providing capital injections up to an indicative maximum of USD 20–30m.
- Apply a peace impact framework (discussed below) to identify thematic/geographic investment priorities; assess transactions; and monitor results at portfolio level.
- Build local partnerships to develop a context-responsive investment strategy, and support peace-positive business practices during the life cycle of investments.
- Manage a pool of grant funding to develop markets; incentivise peace impact; and support peace-positive business practices.

At a practical level this would require a specialised investment vehicle, with a legal structure that can manage both returnable investment capital and a grant/technical assistance facility. It would be managed by a light team including specialist expertise in both (i) investment management in frontier markets, and (ii) peacebuilding and the private sector.

The Peace Impact Framework

As noted above, existing appraisal frameworks for the outcomes of development finance do not capture effects on conflict dynamics. In general, this is addressed only through "negative screens" once investments have already been identified.

The Peace Impact Framework defines a pragmatic approach to integrating peace impact into private sector investment strategies. It moves beyond negative 'do no harm' screens to focus on positive peace impact in line with national and UN peacebuilding strategies. The framework includes four steps:

1. Context-specific conflict and private sector analysis, drawing on the best available evidence and supplementary research where needed.
2. Peace-positive investment strategy that identifies high-potential sectors and regions. This will specifically define the "theory of change" for how private sector development can address known conflict drivers.
3. Transaction diligence and structuring, having regard to both commercial viability and peace impact, and identifying appropriate uses of grant funding/blending.
4. Post-investment support and accountability, including partnerships to reinforce peace-positive business practices, monitoring of business-level key performance indicators, and peace impact evaluation at portfolio level.

Next steps

Building on the recommendations of the report, efforts are underway to support the operationalization of the proposed investment vehicle. The GFFO is also working with Interpeace to further support the development of necessary frameworks and connected standards, strengthen networks and partnerships, and generate knowledge required to scale peace-positive finance.

For More Information

Key products developed as part of the I4P initiative can be found on https://investingforpeace.org/